EXPERT FEATURE

Accounting for making a difference

Social accounting and social return on investment have become a part of the social enterprise lexicon, but what do we really know about the pros and cons of these competing processes? **Mike Gordon** gives us his views

The object of social valuation and impact measurement for the third sector is to understand (in social, environmental and economic terms) what difference an organisation's activities make to the world and to communicate that value to the organisation itself (to improve) and to its stakeholders (to prove).

A central problem is that social organisations make their difference in ways that often involve 'externalities' – unpriced, non-market effects which are inherently difficult to measure. Social, environmental and community impacts frequently do not translate readily into numbers. The long history of attempts to incorporate externalities within economic calculations includes Pigou's *Economics of Welfare* (1920), cost-benefit analysis (1950s), Environmental Impact Assessment and environmental economics (1980s).

The current leading processes for attempting to account for and measure the impacts and added value of third sector organisations are Social Accounting and Audit (SAA) and Social Return on Investment (SROI).

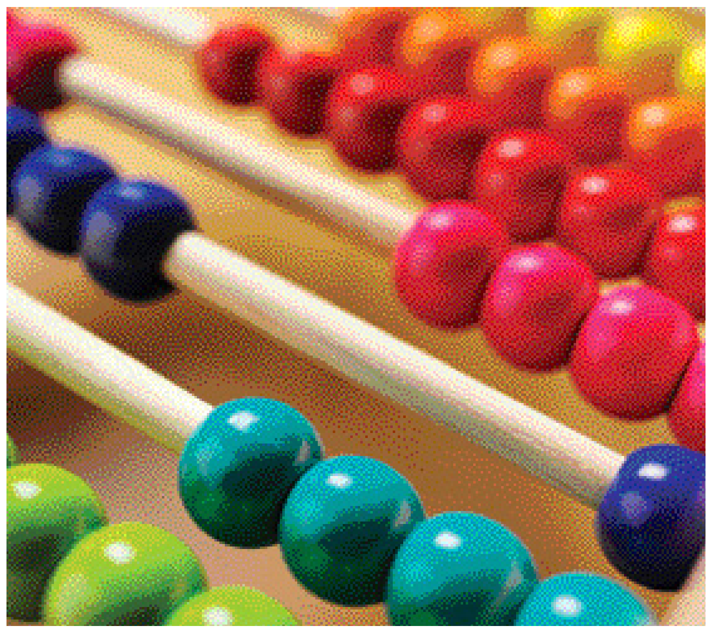
SAA is more qualitative. It involves clarification of the purposes of an organisation, a decision on the scope of the social accounts (including choice of stakeholders for consultation), establishment of indicators and social bookkeeping systems to collect relevant quantitative and qualitative data to enable the organisation to report on performance against its values and objectives, and production of draft social accounts, which are then audited and the information verified by an independent panel. Social Audit Network (SAN) research on SAA (2007-8) resulted in various improvements and modifications in April 2009 to strengthen the process.

SROI is more quantitative. Outcomes are identified using an 'impact map', and indicators chosen to provide data on the outcomes. Where exact measures are unobtainable, SROI places financial values on outcomes using approximations of value ('proxies'). Allowance is then made for 'deadweight' (what would have happened anyway), 'displacement' (of other outcomes), 'attribution' (outcomes caused by others), and 'drop off' (decrease in impact of the organisation over more than one year), and the results are discounted to calculate the present day value of future benefits, so that the return on £1 of investment can be indicated (the SROI ratio).

COMMON FOUNDATIONS

There is much common ground between the two processes and there are ongoing efforts to bring them even closer together. They share most underpinning principles and each has borrowed from the other. Both involve forms of stakeholder analysis and engagement, each seeks to determine what is material and therefore to be included, each supports benchmarking and transparency. Both can be time-consuming and resource-intensive; they are voluntary activities, which may be sidelined when other matters take priority.

Certain differences and weaknesses in both processes remain. Unlike the emphasis given to it in SROI, SAA does not require the monetisation of value through the use of financial proxies (although there is nothing to prevent SROI being used within an SAA framework), but additional quantitative data would improve many draft social accounts. However, the choice of proxies in SROI is subjective, and the rationale for each needs to be clear – some proxies can be very useful while others are weak. Moreover, some uses of proxies to impute value can be highly questionable, such as when dealing with soft outcomes and distance travelled (eg increased happiness or confidence).



The SAN research recognised that the reporting of environmental and economic impacts was often weak, and SAA has been strengthened to address this. SAA has a greater stress on embedding the process in the life cycle of the organisation; the research found that this happened in only 20 per cent of organisations interviewed, which SAN hopes will increase following the recent improvements to SAA. However, a growing number of organisations have continued with SAA year on year, integrating social accounting into their business planning cycles with beneficial results. Currently, SROI tends to produce one-off snapshots for a specific point in time. SAA has a well-established independent audit procedure for verification, while SROI is still being developed, as is SROI methodology in general, which is not being implemented uniformly, so results between organisations are not necessarily comparable.

The SROI ratio is both a strength and a weakness. While very simple and clear, it can be seductive for policy-makers and investors, because of the danger of reducing everything to a facile and potentially misleading headline; it can lead to false comparisons between quite different organisations or sectors and should be treated with great care.

A QUESTION OF COST

From the early 1990s, SAA was explicitly developed to enable voluntary and community sector organisations to get started and learn to do it for themselves; organisations can take up to three years to produce a full set of social accounts. Although SAA does require resources, it is much cheaper than SROI, whose cost is rarely highlighted. A December 2008 North Lanarkshire Council invitation to tender for four SROI case studies in the health and employability field had an estimated total contract value of £60,000. NEF Consulting (private communication) suggests £19-25,000 for larger SROI projects (nearer £40,000 for multiple organisations or broader national coverage), and a budget of around £12-15,000 for smaller projects, to ensure the correct statistical and methodological rigour. The Cambridge Centre for Housing and Planning Research undertook cost-benefit analyses (closely related to SROIs) for Emmaus communities in Cambridge (2003-4) and Carlton (2007-8), respectively costing £25,624 and £30,850.

An organisation undertaking SAA could expect to spend around £2-3,000, including the cost of verification (currently £1,200 for an audit panel), plus varying amounts of staff time, dependent on the scope of the accounts, the data available, and the size of the organisation. SAN has pioneered SAA 'clusters' (geographical groups of mutually-supportive organisations learning and applying SAA), offering savings through economies of scale.

The SROI process is technical and usually relies on expert professional input, so it can be difficult for organisations to undertake SROI for themselves. NEF Consulting says that, if organisations wish to undertake their own evaluations, it would be sensible to set aside the cost of a full 20-25 days' work, training costs (about £500), and perhaps the cost of external practitioner advisory support to verify the main SROI stages.

The cost and technical impediments to widespread use of SROI have led to huge public investment in developing the process. The indicative contract price for the OTS SROI project (2008-11) was up to £350,000, while the contract price for the complementary Scottish government project (2009-11) was £500-600,000. Broadly, these projects are about increasing awareness, cost-effectiveness, accessibility and use of a standardised SROI approach, and support to funders and commissioners in their investment and purchasing decisions. The OTS project has already produced a standard SROI practice guide. The Scottish project (in which SAN has some involvement) looks to take 'on board the best of other impact measurement methodologies, such as social accounting', and also includes a major engagement programme, interactive website, indicator bank, and training programme.

FUTURE FANTASTIC?

If a standardised, more accessible and cost-effective version of SROI did emerge from the two government projects, would it work? Would it be widely used and produce meaningful evaluations, or be so dumbed down as to be almost useless? Will social enterprises and the voluntary and community sector have time and resources to apply it in DIY fashion, plucking standard indicators from an indicator bank, and what will be the quality, reliability and comparability of the calculations which result? Alternatively, will SROI remain too costly and inaccessible for most third sector organisations?

In the meantime, SAN continues (with rather more limited resources) both to contribute to the ongoing developments in SROI, and to encourage and assist social enterprises and voluntary and community organisations to do what they can to consider the difference they make, using SAA.

SAA and SROI each have considerable strengths, but also a number of weaknesses; in theory, a merger of the two processes into a new approach combining the best features of both may prove beneficial, but it is not yet clear whether this will be achieved. ■

Mike Gordon writes in a personal capacity. An approved social auditor with the SAN Network and a board member of SAN, he is also a member of the SROI Network and has undertaken the SROI Network practitioner training, plus training in environmental impact assessment and accounting and finance. He is writing up his doctoral thesis on social enterprise in South Yorkshire and is a self-employed economic development and regeneration consultant.

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