Proving and Improving

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If social enterprises claim to be operating for the common good then it is essential that we can see clearly what benefits they deliver, that they transparently report their performance and that the process of gathering information in order to report contributes to improving future operation: *proving the value and improving performance*.

The five stage social accounting process which has been evolving in the social and community enterprise sector has been well documented and has now been tested by a range of organisations, large and small, around the UK and in Europe, New Zealand, Australia and India. The process derives from early pioneering work by the community business movement in Scotland and by Traidcraft working with the New Economics Foundation a decade ago. The process and the key principles which underpin it are fully described in the *Social Audit Manual* (with CD and Workbook) published by CBS Network and Merseyside Social Enterprise Network in 2001 and in *Social Enterprise in Anytown* published by the Calouste Gulbenkian Foundation in 2003.

My purpose today is to reflect on some of the important issues and themes which have emerged from more than ten years practical experience of social accounting and audit with social and community enterprises. I have identified ten headline points.

1. Framework and Tools

Social accounting is a process through which an organisation monitors and evaluates its work, reports honestly on its achievements – and failings – and improves its performance through more informed planning and better management. The five stage social accounting process is a step by step framework designed to make what might at first seem to be a daunting task more manageable and “do-able”.

As a framework it builds on rather than replaces existing reporting systems and the various compliance and quality standards which may already be in place. As a framework it must be capable of being customised to the needs of each organisation and be flexible enough to be used by a wide range of different organisations.

Most importantly the framework allows an organisation to work through, step by step, the three ingredients which are key to any social accounting system:

a. What are the Values which underpin the way the organisation behaves? which fundamentally influence both what it does and how?
b. What are the Objectives? and what does the organisation do in order to achieve these objectives?
c. Who are the people whom the organisation seeks to affect? and, who are those who also happen to be affected by what the organisation does? and, who are capable of affecting it?

Without clarity about Values, Objectives and Stakeholders it is impossible to proceed to the next stage of identifying appropriate indicators. Yet, often people will seek to start by identifying indicators without being clear just what it is they aim to achieve.

At all stages of the social accounting process a variety of tools are required: *process* tools to help clarify Values and Objectives, to prepare a stakeholder analysis; *systems* to record necessary information; and *techniques* to consult stakeholders in effective, participatory, but inexpensive, ways. There is much to be done to develop effective tools, a process which is now getting underway and encouraged by the Quality and Impact Project of the GB Social Enterprise Partnership.

However, it is important to recognise the distinction between the framework of the social accounting process and the various tools which are be needed to successfully use it and to avoid the danger of seeing the tools as a substitute for the overarching framework.

2. Process and Product

The final product of the social accounting process – the glossy publication which summarises the findings – is an invaluable tool for reporting to a wide audience and for purposes of publicity and raising profile. However, for many if not most social enterprises it is the process which is most valuable, not the final product. It is the process through which:

- The acknowledge their Values – and tell others what they are.
- They clarify Objectives and Activities.
- They recognise the importance of previously unheralded elements of their work.
- They acknowledge the diverse range of Stakeholders whom they affect.
- They engage in dialogue with those stakeholders in a range of ways.
- They identify the information they should be gathering and ensure workable systems are in place to do it.
- They discover that they in fact have much of the information they require for their social accounts but do not collate it systematically.
- They pull together accounts about the wide range of their work and behaviour.
- They identify and tackle issues as they arise.

- They discuss this work and performance with the independent members of the social audit panel.

Some organisations do not complete the whole process through to having their completed social accounts audited, but nonetheless report how valuable it has been to have engaged with the process, especially with clarifying Values and Objectives & Activities and with acknowledging Stakeholders.

Process is arguably more important that the finished product, especially as social accounting merges with the enterprise planning and strategic review processes.

3. Quantitative and Qualitative

For social enterprises it is important to report fully both on what has been done – with good descriptive material backed up by relevant facts and figures – and on what people think about what has been done – perceptions of impact, of value, of appropriateness. Social accounts must therefore include hard, quantitative data as well as the softer, qualitative views of stakeholders.

Often – and curiously – in the social accounts that I audit it is the hard information which lacking or which is under-reported. As New Zealand colleagues have shown, there can be a “rush to survey” and a tendency to overlook the obvious facts and figures which are nevertheless so important to giving a comprehensive account.

4. Environmental and Social

Social accounts must include accounting for environmental impact. No organisation can today be socially responsible without being environmentally responsible.

In recent years there has been a regrettable tendency to see social accounting and environmental accounting as two separate strands. Increasingly they are now coming together as part of that “triple bottom line” approach with which an organisation reports on its social, environmental and financial performance – and on the inter-relation between all three.

The five stage social accounting process advocates the inclusion of a section on environmental impact in the social accounts, even if the organisation has not identified a value or objective specifically to do with minimising environmental impact and “living lightly”. Likewise we advocate the inclusion of at least a summary financial report within the social accounts.

It is possible to discern a trend now of social enterprises, on the one hand, adopting an environmental policy and thereby overtly stating their commitment to minimising adverse environmental practices and, on the other, adopting as a social accounting objective the requirement for the enterprise to be sustainable, financially as well as ecologically.

5. Trustworthiness through Verification

Verification of the social accounts is a crucial stage. It is through independent verification that stakeholders and the wider community may know that what they read is trustworthy, that the text presents a fair and balanced interpretation of information that has been competently and reliably collected, that they can base their judgements of the enterprise on the social accounts.

There are probably three key issues for consideration: one is to do with objectivity and impartiality and therefore credibility; another is to do with cost; and a third is to do with professionalism.

The verification method described as part of the five stage process builds on early experience of Traidcraft and the New Economics Foundation. It uses an independent panel of between three and five persons, chaired by someone with experience and preferably from the register of approved social auditors maintained by the Social Audit Network. The merits of this panel process are twofold. First, the panel is independent and objective and can bring to bear a range of understandings of both context and work of the organisation whose social accounts are being verified. Second, the expense is restricted to one day's intensive discussion and examination, a process which those who have experienced it report as rigorous and tough, but also creative and constructive.

The Social Audit Network is committed to developing quality control systems to ensure that those who chair social audit panels do undergo basic and regular refresher training, that they undertake a minimum number of audits each year and that the organisations audited have the opportunity to feedback. However SAN also believes that social auditors should be rooted in the practice of social accounting as well as audit and does not envisage, at least for the moment, the establishment of a profession of social auditors whose primary job is undertaking social audits.

6. Social accounting and business planning

Organisations which engage with social accounting have reported how the process becomes the natural framework for managing the thrust and direction of their work. They talk about having regular social management accounts to consider alongside the financial management accounts. They talk of acting on the findings from stakeholder consultations as they become apparent. They recognise how the regular review of performance – and of objectives and values – is effectively synonymous with the process of business reviewing or strategic planning. In short social accounting becomes the way the enterprise in managed.

That in turn reinforces the idea of a *social enterprise plan* being a more important model for social enterprises than a business plan. The social enterprise plan would start from the assumption that there are social and environmental objectives to be achieved through undertaking forms of business. Therefore the plan must show both how the business elements will work and how the social objectives will be achieved. It is not enough to have a viable business if it is not delivering the social benefit. Equally there will be no social benefit if the enterprise is not sustainable. The accounts – social and financial – must show how achieving the social purpose and the business practice can be kept in some form of harmonious balance.

7. Why now and not before?

Perhaps the real surprise is that it has taken so long for interest in social accounting to emerge. Social enterprises have been slow to understand the importance of demonstrating they can deliver what they claim, of being accountable to their stakeholders and of being honest about what they can and what they cannot achieve.

Even more surprising has been the failure of those who have funded social enterprises to require – until recently – any real evidence of social benefit and impact, evidence of social return on investment. Too often the concern has been only whether social enterprises are succeeding as businesses. That rather black and white approach has meant that social enterprises which can deliver the community benefit dividend but cannot be continuously viable in the commercial sense have a serious struggle to survive and may be written off as “lame ducks”. The adoption of rigorous and effective social accounting can allow us to take a much more sophisticated and subtle view of “success” and of value-added. Commercial success alone does not mean the social purpose is being achieved. Nor does a good social result of itself mean an enterprise is being run efficiently and cost-effectively.

8. Our and their objectives

Social accounting has generally been based on the Values and Objectives of the individual enterprise. One of the strengths of the process has been that it is driven by the organisation and that each tailors its social accounting to suit its own needs.

However it is necessary also to recognise that society may have legitimate expectations of social enterprises, especially where they are undertaking contracts to achieve objectives set down by wider society as represented by a public body. In such situations the two parties require to agree what the objectives are, what will be done to achieve them and what indicators will demonstrate if the objectives are being achieved. That may then be incorporated into the enterprise’s wider social accounting plan, and appropriate data collected and stakeholders consulted.

In other words social accounts should be able to embrace both the social enterprise’s own values and objectives as well as those which have been set down by and agreed with a public or other body. However, if there is a clear and irreconcilable clash of values and objectives then it should seriously call into question whether of any contract can be agreed.

Where a public body accepts reporting through social accounting it will not only be able to judge if it is getting the results it expected but at the same time it will also be able to understand the full range of work and performance of the social enterprise. Where more than one enterprise is undertaking similar work, then comparisons may also be made.

In a recent trans-national EU action-research project exploring social capital two standard social capital objectives were adopted by eight social enterprises as part of their social accounting alongside their own unique objectives. All gathered data and reported in similar fashion. In this way comparisons about the use and creation of social capital could be drawn from the social accounts across the eight enterprises while at the same time they reported on their performance on their own objectives and values.

9. Layers and Ripples

Although the five stage social accounting process has been used effectively by both small, voluntary organisations with no paid staff and by quite complex social enterprises with substantial resources, the process may still be perceived as daunting, especially where an enterprise seeks to carry it through without the benefit of a facilitated training and support programme. The Social Audit Network, with support from the SEP’s Quality and Impact Project, is beginning to explore two variant approaches.

The “*layered*” approach recognises that an organisation may start by undertaking only part of the process in year one and will slowly build a full set of social accounts covering all objectives and all key stakeholders over a cycle of a few years. In this way consultation and reporting is managed so as to do what is realistic and practical each year without omitting, over time, any important dimensions.

The “*ripple*” approach will recognise that small, focussed organisations with modest resources and capacity cannot be expected to produce social accounts of the scope and complexity which may be expected of one with significant numbers of staff, wider objectives and a more widespread impact. The trick will be to specify social accounting proportionate to resources and capacity without seeming to suggest that quality and rigour is in any way compromised, not unlike the concept of “reduced” financial accounts for small businesses.

10. Voluntary or Mandatory

For the moment social accounting remains a voluntary endeavour although there are increasing signs that public bodies are beginning to ask social enterprises for some for of social accounts.

I would argue in favour of social accounting being adopted as the accepted and acceptable way in which social enterprises demonstrate not only their social added-value but also that they are bona fide social enterprises. Mandatory social accounting could be linked to a form of regulation for social enterprises which allows us not only to know which enterprises are genuine social enterprises but, as importantly, which are not. Regulation and social accounting thus become the quid pro quo of fiscal and other benefits which we might expect from a Government committed to encouraging the growth and development of social enterprises as part of a third system within our national mixed economy.

There is nothing fearful about mandatory social accounting if it happens within such a positive framework to grow the social economy. But if it is just about exerting control over social enterprises then it will be something to be concerned about.

Social accounting is a fast-moving field, open to experimentation and innovation. No one can say categorically: “This is how you do it”. That is why it is fun – because week by week people find different, imaginative and improved ways of going about the job. But the foundation questions remain constant: What are the Values? What are the Objectives? Who are the Stakeholders?

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He has considerable experience of practical community development work at local level, especially participatory community planning techniques. He has developed a methodology for social accounting and audit which permits community sector enterprises and organisations to measure and report on their social and environmental impacts. His latest Social Audit Manual (with CDrom and Workbook) was published in November 2001.

Other publications include *At the Heart of the Community Economy* (1993), *Centres for Curiosity and Imagination: when is a museum not a museum?* (1996) and, most recently, *Social Enterprise in Anytown* (2003) all published by the Calouste Gulbenkian.

John currently co-ordinates the UK Social Audit Network and is also engaged in a social audit programme in Scotland. He has just completed work on a transnational action-research project examining social capital and the role it plays in the formation of social enterprises and in strengthening the local social economy. He also co-ordinates the work of CBSN with two community enterprise development initiatives and other projects in India. He has managed social audit initiatives in the City of Liverpool and in New Zealand and offers training in social accounting and auditing in the UK and overseas.