Developments in social impact measurement in the third sector: scaling up or dumbing down?

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Abstract

This paper outlines the merits of two approaches to social impact measurement that are currently the subject of debate within the third sector: Social Accounting & Audit (SAA) and Social Return On Investment (SROI). Although there are significant similarities between the methods, a number of important differences remain. In particular, while SAA involves a more 'conventional' mix of narrative and quantitative disclosures, SROI outcomes are more explicitly quantitative and reductive. This is most evident in the production of the 'SROI ratio', which calculates a monetised 'return' on a notional £1 of investment. In the UK, with available resources becoming increasingly scarce, the third sector is facing demands for increased accountability as well as being encouraged to 'scale up' in preparation for assuming greater responsibility for public service delivery. In this context, it is easy to see why the simplicity and clarity of SROI is attractive to policy-makers, fundraisers and investors, who are keen to quantify and express social value creation and thus make comparative assessments of social value. However, this apparent simplicity also risks reducing the measurement of social impact to a potentially meaningless, or even misleading headline figure, and should therefore be treated with caution. This is especially so where exact measures are unobtainable, and approximations, or so-called 'financial proxies' are used. The use of such proxies is highly subjective, especially when dealing with 'softer' outcomes. There is nothing to prevent SROI being used within an SAA framework: indeed a greater emphasis on quantitative data could improve many social accounts. Nevertheless, we conclude that current efforts to promote SROI adoption, to the likely detriment of SAA, may ultimately promote a one-dimensional funder and investor-driven approach to social impact measurement in the third sector.

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1. Introduction

Most people within the third sector and beyond would endorse the view that “social economy organisations should report on what they do and how they work for the common good, and we, as society, should require such reporting” (Pearce, 2009:32). On a practical level, however, the basis of such reporting is perhaps less immediately obvious. The most well-known approaches to social reporting, including AA1000 and the GRI guidelines, may appear excessively complex, costly and better suited to large corporate settings, rather than smaller values based enterprises. More generally, it has been argued that the CSR agenda for large organisations may not always be applicable or easily transferable to either an SME (Jenkins, 2004, 2006; Spence, 2004) or a community enterprise setting, where impacts may involve externalities that are inherently difficult to measure.

The objective of social valuation and impact measurement in 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 and to its stakeholders (nef, 2009). Over the last two decades, the search for evaluation methods relevant to values based organisations has led to a range of alternative tools being developed and made available to social enterprise organisations. Such diversity may be welcome, but this has now created a situation in which best practice in social enterprise reporting, and the underlying reasons for such reporting, remain a matter of some dispute. To reach agreement on a common reporting framework that is acceptable to organisations, investors and funders has been the ‘holy grail’ of the social economy for the last twenty years (Pearce & Kay, 2008). This search has parallels with the difficulties faced in the search for a triple bottom line reporting framework that could adequately include the social, environmental and economic (Gray & Milne, 2004). The authors of this current paper have a particular interest in the search for a common framework, since both have research experience of practical experimentation with SAA in values-based organisations (Dey, *et al*., 1995; Gray, *et al.*, 1997; Dey, 2007; Gibbon & Affleck, 2008; Gibbon, 2010).

Of the ten social impact measurement tools currently available (nef, 2009), the two methods that are generally recognised to be most likely to be developed towards a common reporting framework, and which have been most widely used in practice over the last decade, are social accounting & auditing (SAA) (Pearce, 2001) and social return on investment (SROI) (Nicholls, *et al.*, 2009). While SAA has a longer history of innovation and use in the UK, it has been to some extent eclipsed by the importing and development of the American SROI approach, which has been supported by recent UK and Scottish government initiatives (Nicholls, *et al*., 2009).

The remainder of this paper examines the two most widely favoured methods, SAA and SROI. We firstly outline the details of how these techniques work in practice, and the similarities and differences between them. The paper then discusses the main difference, and area of controversy, between the two methods: the use of financial proxies. This is an aspect of SROI that is unlikely to be included within the SAA framework. The paper argues that the recent push from within the UK Government, as well as from other influential parts of the third sector, to embrace SROI rather than SAA may reflect both greater demands for financial accountability amongst the voluntary sector and charities, as well as a concern to make social enterprises more 'investment-ready' in order to 'scale up' their potential to grow and assume responsibility for some areas of public service delivery. However, we conclude that the emphasis in SROI on focussed reports for funders/investors may lead to a one-dimensional and arguably 'dumbed-down' portrayal of the organisation's activities. To be genuinely empowering and transformative, any social impact reporting framework should be firstly owned by the organisation and driven from an internal reporting requirement (Pearce & Kay, 2006). From this perspective, SAA may be argued to possess greater potential.

2. Social Accounting & Auditing (SAA)

The SAA methodology (Pearce, 2001; Pearce & Kay, 2005; Pearce & Kay, 2008) is specifically designed for small, values driven organisations working within the social economy and was first developed in the UK during the early 1990s. It was pioneered through the work of Pearce (1993, 1996, 2001, 2003), who defines social accounting as:

> "a framework which allows an organisation to build on existing documentation and reporting and develop a process whereby it can **account** for its social performance, **report** on that performance and draw up an action plan to improve on that performance, and through which it can understand its **impact** on the community and be **accountable** to its key stakeholders" (Pearce, 2001:9 emphasis in the original).

The terms 'social accounting' and 'social audit' refer to component parts of the process, but are often confusingly used interchangeably for the whole process. The internal data collection and analysis procedures (social accounting) are followed by an independent audit of the results (social auditing) before finally disseminating the outcome more widely (reporting).

In the UK the actions of community based organisations in their various forms are strongly linked to stakeholders (Pearce, 1996, 2001). Their primary purpose is to achieve a specific community benefit and the second is to achieve this whilst operating in a way that is beneficial both to people, planet and the local economy (Pearce, 2009). The primary purpose is also underpinned by five other principles: caring for human resources, good governance and accountability, 'asset lock', and the use of profits, co-operation and subsidiarity (Pearce & Kay, 2008).

The original SAA manual developed by Pearce has been gradually developed by the Social Audit Network to simplify the approach and encourage increased usage of the technique (Pearce & Kay, 2008). The manual states that the approach “can be adopted and adapted to suit a wide range of community organisations, large and small.” (Pearce, 2001:6). The current three step process (see Fig. 1 below) includes a preliminary ‘getting ready to take the three steps’ section, which provides helpful as guidance with the first phase of preparing to do SAA. As a reporting framework within which social impact assessment can fit, SAA offers many potential benefits, including the possibility of increased transparency and accountability. Social accounting is argued to provide a social economy organisation with a way of knowing that “it is achieving its objectives, if it is living up to its **values** and if those objectives and values are relevant and appropriate.” (Pearce, 2001:9 emphasis in the original). SAA advances the democratic ideals of stakeholder representation and influence

Getting Ready…to take the Three Steps

Understanding social accounting and audit
What does your organisation already do?
Commitment within your organisation
Making it manageable and being clear about who does the work
Finding the resources and paying for it
Making the decision

Step One: Social, Environmental and Economic Planning

Mission
Values
Objectives
Activities
Stakeholders
Key stakeholders

Step Two: Social, Environmental and Economic Accounting

Deciding and managing the scope
Agreeing indicators
Collecting quantitative and qualitative data
Reporting on environmental and economic impacts
Social Accounting Plan
Implementing the Social Accounting Plan

Step Three: Social, Environmental and Economic Reporting and Audit

Drafting the Social Accounts
Social Audit Panel
Process of the Social Audit Panel meeting
Social Audit statement
Using the Social Accounts
Disclosure

Figure 1: A three step framework for developing a SAA (Pearce & Kay, 2005)

by enabling the reader to see how the organisation has made an impact within its community. The benefits could also include the focus on organisational learning (Gond & Herrbach, 2006), the embedding of organisational information systems and the systematic improvement of stakeholder dialogue (e.g. Pay, 2001; Thomson & Bebbington, 2005; Zadek & Raynard, 2002).

For example in the UK and Ireland, it is important to acknowledge, however, that SAA has been the subject of some criticism, not least by academics who have themselves experimented with the approach. O'Dwyer's (2005) work exposed the contradictions, tensions and obstacles within the complex nature of SAA processes, which he concluded were "emasculated by management and designed to serve organisational as opposed to broad stakeholder interests" (O'Dwyer, 2005:292). Dey's (2007) study of social accounting at Traidcraft found that "a formal, calculative social bookkeeping became a useful asset in the [company's] attempts to justify a radical strategic shift, away from 'behaving like a charity' and towards 'commercial Christianity'" (Dey, 2007:443). The longitudinal study by Gibbon (2010) developing SAA with a social enterprise found accountability to be more fluid and complex when developed in practice. The forms of accountability developed in practice are often are multiple and developed through a multitude of responses by third sector organisations when accountability is being demanded within the public sphere. The reality of accountability in practice is not a neutral or unproblematic concept and there are many practical implications played out such as resistance, fear, confusion and uncertainty (Gibbon, 2010). In all these studies, social accounts were used to support more formal and narrow (individualistic or hierarchical) models of accountability rather than informal and broader (communitarian or socializing) models of accountability, even though the latter might be the expected model within values based organisations with a strong mission of social justice.

3. Social Return on Investment (SROI)

Rather like SAA, SROI aims to understand and manage the impacts of a project, organisation or a policy, and is based on the recognition of a wide range of stakeholders. Crucially, however, SROI seeks to place a financial value on important impacts that do not have market values as identified by the stakeholders. The aim is to include the value of people excluded from traditional market valuation, in order to provide a voice to those excluded in any resource allocation decisions. The SROI framework enables an understanding that, in effect, is intended to provide both a 'story' (that explains how value was created) and a 'number' (that demonstrates how much value was created). SROI is different from cost benefit analysis because it is designed as a practical management tool for both small and large organisations. Whereas cost benefit analysis is based upon the Green Book, a guidance framework for the core principles upon which all UK Government public sector economic assessment is made. The framework is used by the UK Government appraises and evaluates policies, programmes and projects at the level of UK society. Both techniques use financial proxies to measure costs and benefits arising from an investment, activity or policy (Nicholls, *et al.*, 2009:95).

The use of monetised social value within a SROI was originally developed by the Roberts Enterprise Development Fund (REDF) in the US and based upon traditional cost-benefit analysis. The REDF model was constructed upon a 'blended value' model (Lingane & Olsen, 2004) where organisations could achieve both economic success and maximize social benefits. The REDF model was also designed for a particular sector of social enterprise, one that provided market driven goods and services to customers whilst providing a supportive work environment for those who wish to improve their lives (Flockhart, 2005). The original work was developed and adapted for use in the UK by the new economics foundation using a ten stage approach (nef, 2004, 2005; Rotheroe & Richards, 2007). The current SROI guide published by the Cabinet Office (Nicholls, *et al.,* 2009) has refined this to six stages as set out in figure 2.

Stage 1	Establishing scope, identifying stakeholders and deciding how to involve stakeholders *It is important to have clear boundaries about what the SROI analysis will cover, who will be involved in the process and how*
Stage 2	Mapping outcomes: Starting on the impact map Identifying inputs Valuing inputs Clarifying inputs Describing outcomes *Engaging with stakeholders will develop an impact map, or theory of change, which shows the relationship between inputs, outputs and outcomes*
Stage 3	Evidencing outcomes and giving them a value Developing outcome indicators Collecting outcomes data Establishing how long outcomes last Putting a value on the outcome *This stage involves finding data to show whether outcomes have happened and then valuing them*
Stage 4	Establishing impact Deadweight and displacement Attribution Drop off Calculating your impact *Having collected evidence on outcomes and monetised them, those aspects of change that would have happened anyway or are a result of other factors are eliminated from consideratic*
Stage 5	Calculating the SROI Projecting into the future Calculating the net present value Calculating the ratio Sensitivity analysis Payback period *This stage involves adding up all the benefits, subtracting any negatives and comparing the result to the investment. This is also where the sensitivity of the results can be tested*
Stage 6	Reporting, using and embedding Reporting to stakeholders Using the results Assurance *The last step involves sharing findings with stakeholders and responding to them, embedding good outcomes processes and verification of the report*

Figure 2: The six stages in SROI (Nicholls *et al*., 2009:4-5 & 9-10 (*itals*))

In the UK, the Office of the Third Sector (OTS) within the Cabinet Office has sponsored the Measuring Social Value project (2008-2011). The aim of the OTS project is to promote, facilitate and standardize the use of social impact measurement tools among the third sector, with particular emphasis on SROI. In addition, a complementary project funded by the Scottish Government's Third Sector Division is responsible for developing an SROI portal and training materials for practitioners.

The benefits claimed for SROI include: a consistent and clear approach to understanding and reporting on the changes caused by an organisation; improved strategies, systems and accountability; better ability to manage risk, identify opportunity and raise the finance required to achieve their mission (nef, 2009). At the same time, however, there are four major underlying issues and limitations of SROI that need to be acknowledged. First, social impact can be a viewed from either a personal perspective or used as a political measure. These two differing perspectives can thus be open to interpretation depending upon the view of social impact being taken. The use of positive or negative impact within a SROI calculation is open to manipulation depending upon those doing the calculating. Second, there are some unresolved issues around quantification within SROI. The quality and availability of data, the underlying measurement issues, causality and correlation and the timeframe used; are all factors that should lead to users of SROI being cautious when making comparisons between organisations. Third, if the use of SROI is to raise investment opportunities through aligning investors and enterprises, then in the absence of SROI and social impact data from a large number of organisations, those seeking to understand the context of their investment will be unable to do so. Finally, SROI is just one of many measurement and reporting tools available and should not be the sole indicator of social performance in much the same way that a single return on investment (ROI) would not be used in the context of financial decision making (Lingane & Olsen, 2004).

The current guide to SROI sets out the specific methodological approaches to calculating financial proxies. The guide is 95 pages long and this is indicative of the lengthy and resource intensive process of stages that developing a SROI ratio involves. The use of financial values underpins the end of stage 3 and within stages 4 & 5 of the SROI calculation. The subjectivity of valuation is acknowledged, in stage 3, and the methods state that there are some items that are easily monetised, like cost savings of interventions or increased income, whereas the more challenging valuations use techniques like contingent valuation, revealed preferences, the travel cost method and average household spending (Nicholls, *et al.*, 2009:47). The problem with each of these valuation techniques is also acknowledged, as there are multiple approaches to how all these values can be calculated. Thus adding to the uncertainty and possible confusion as to how a final value has been arrived at. In stage 4, see Fig. 2, of SROI the focus of calculation is to acknowledge and calculate deadweight, displacement, attribution and drop-off. The calculation of value needs to acknowledge issues of deadweight (the outcomes that would have happened anyway), displacement (did one outcome displace another outcome), attribution (how much of an outcome is attributable to other people or organisations) and, if applicable, drop-off where an outcome lasts longer than can be claimed for the investment, for example, more than a year. The valuation and calculations in stages 3 & 4 are then developed further in the 'optional' stage 5, where the calculations are projected into the future through the use of net present values, sensitivity analysis and payback periods (Nicholls, *et al.*, 2009:65). The current guide to SROI acknowledges these future projections are controversial with a risk that these techniques can focus on short-term measures by discounting the future and the use of payback (Nicholls, *et al.*, 2009:67).

4. Discussion

Both approaches, briefly outlined in this paper, seek to measure the creation of social value. Indeed, those involved in the development of SROI have acknowledged that it is much easier to accomplish if built on the foundations of a good set of social accounts (Nicholls, *et al*., 2009:95). Equally, representatives of SAA, in the UK, have argued that "this shouldn't be about one or the other. The two models can work together… Where there are impacts that can be easily 'financialised', like people moving off benefits into work, by all means use SROI. But there will always be impacts which are difficult to attribute reasonably in this way. In these cases how people think and feel is important and social audit methods will be more appropriate.” (Pearce in Parker, 2008:19). Whilst there are differences and contested areas between the two methods, there are also several common principles and these and other points of differentiation are outlined in figure 3.

Principle	**Definition**
Stakeholder engagement	Engaging with and consulting stakeholders is central to the process of social accounting in order to understand what impact an organisation is having
Scope and materiality	Acknowledge and articulate all the values, objectives and stakeholders of the organisation before agreeing which aspects are to be included in the social accounting process; and then determine what must be included in the account such that stakeholders and others can draw conclusions about the performance and impact of the organisation
Understanding change	Articulate clearly how activities work to achieve the stated objectives of an organisation and its stakeholders and evaluate this through evidence gathered
Comparative	Make comparisons of performance and impact using appropriate benchmarks, annual targets and external standards
Transparency	Demonstrate the basis on which the findings may be considered accurate and honest; and show that they will be reported to and discussed where appropriate and feasible, with stakeholders
Verification	Ensure appropriate independent verification of the social accounts for example, through a robust social audit panel process (SAA only – two levels of verification optional in SROI)
Embedded **(SAA only)**	Ensure that the process of social accounting and audit becomes embedded in the life cycle and practices of the organisation
Financial proxies **(SROI only)**	Use financial proxies as indicators in order to include the values of those excluded from markets in the same terms as used in markets

Figure 3: Principles of SAA and SROI (Pearce and Kay, 2008:16)

Despite the apparent large overlap between SAA and SROI, important differences remain. In addition to the financial proxy calculation, which is unique to SROI, the method focuses on the perspective of expected or actual change to different stakeholders as a result of activity, while SAA starts from the organisation's stated social objectives. There is an explicit requirement for assurance and audit in SAA, while some degree of verification is only a recommendation in SROI. A further key difference is in core objectives. SAA aims to prove and improve the organisational objectives through social disclosure (nef, 2009), and has a greater emphasis on 'embedding' itself in the life cycle of the organisation. In contrast, current experimentation with SROI has tended to produce one-off snapshots for a specific point in time. Whereas the purpose of calculating a SROI is to reduce inequality, environmental degradation and improve wellbeing through the incorporation of social, environmental and economic costs and benefits (Nicholls *et al.*, 2009) these aims are unlikely to be achieved through a one off snapshot in time.

However in the UK, there are those within the third sector who fear that SROI, through the use of financial proxies and the calculation of the benefit into the simple common unit of money, adds unintentional support to a current dominant business case perspective. A more corporate view is likely to give a one dimensional focus on funder and investor-driven approaches to social value measurement and financial accountability rather than achieving a broader stakeholder accountability. Thus the simple headline of a financial proxy could further provide evidence for "powerful elites steering society 'in a direction which solidifies their own dominance' (Welford, 1998, p.9; see also Gray, *et al*., 1997; Owen, *et al.*, 2000; O'Dwyer, 2003)" (Brown & Fraser, 2006). The funder and investor perspective is also supported by the UK Government, where the forward to the latest SROI guide contains a statement from the previous Minister for the Cabinet Office and the Minister for the third sector who state that SROI

> "will help third sector organisations to communicate better their impact to customers, government and the public, through measuring social and environmental value with confidence, in a standardised way that is easy for all to understand…..also underpin the

thinking of commissioners and investors. For the public sector, it will help show us what really matters to the people who use public services and who benefit from third sector activity" (Liam Byrne & Kevin Brennan in Nicholls, *et al.,* 2009:3).

The concern is that the UK and Scottish governments' enthusiastic support for SROI, that assumes all impacts can be financialized, will result in a controlling rather than supportive view of social economy organisations that gives investing stakeholders priority over other stakeholders (Pearce, 2009).

Within the UK, beyond the practitioner-led debates currently going on within the third sector, there is (to the best of our knowledge) a dearth of academic (and critical) views on SROI. In the absence of any specific studies, it is perhaps still helpful to draw on prior empirical studies in social accounting (see, for example, O'Dwyer, 2005; Gray, *et al.,* 1997; Dey, 2007; O'Dwyer, 2007), which have emphasised the substantial difficulties involved in social impact assessment and reporting in values-based organisations. While those criticisms were largely directed at forms of accounting similar to SAA, we would contend that the features of SROI are only likely to further magnify the risk of outcomes such as managerial capture occurring. Likewise, the use of an SROI model based upon financial proxy plays out all the same tensions raised when aiming to achieve triple bottom line (TBL) reporting that can include the social, environmental and economic. The tensions remain in place where "the TBL report remains something of a mirage, and will continue to do so as long as the debate about, and the practice of, social and environmental reporting continue to owe more to rhetoric and ignorance than to practice and transparency" (Gray & Milne, 2004:76)

5. Conclusions

In deciding on which method of reporting is the most appropriate a social economy organisation needs to be clear about whether they are making an external business case to funders or investors, or trying to achieve stakeholder accountability. In seeking to achieve both the business case and stakeholder accountability, organisations may risk falling somewhere in between and not realize anything through the reporting process (Tinker *et al*., 1991). Social reporting for social economy organisations may be viewed as making too many claims to solve complex problems (O'Dwyer, 2007) and being open to the risk of political hijacking. If the financial is privileged over the social or environmental within a social economy setting, it goes against the "old co-operative adage that members should control capital and not vice versa." (Pearce, 2009:32). The principles and methodology of SROI need to be able to satisfy the demands of a TBL for the social, environmental and economic, that goes beyond "public relations puff" (Gray & Milne, 2004:75) and provides an honest and complete report whilst overcoming the tensions that arise when the financial dominates.

The social economy provides a rich source for future research within social and environmental accounting, where the development of improved understandings at the practice-theory interface or praxis is enacted. The practice of social reporting needs more rigorous approaches to theory development, as much current work is practitioner led and the support of academics who understand practice based research is needed. Also, the considerable body of work within both the accounting and the SEA academy needs to be recognised and added to these debates. We finish with a call for more detailed critical studies of practice on social impact measurement and reporting with social economy organisations…..now where have we heard that before?

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