

# Making it count

A social enterprise guide  
to accounting for value



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The SROI Network promotes the use and development of the Social Return On Investment framework and principles internationally.

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**The SROI Network**  
Accounting for Value

Buzzacott's charity and not-for-profit team is valued by its clients for its empathy with their work and its understanding of the legal and accounting framework with which they operate.

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# Foreword

By Nick Hurd, Minister for Civil Society

I'm delighted to introduce this publication, which sheds some light on the myths that surround impact measurement and which brings to life the realities of what measuring social and environmental value actually means on the ground.

Understanding, measuring and reporting on the social and environmental impact created by organisations underpins a dynamic and transparent social sector. It also enables a flourishing marketplace of investment in and commissioning from voluntary and community organisations and social enterprises.

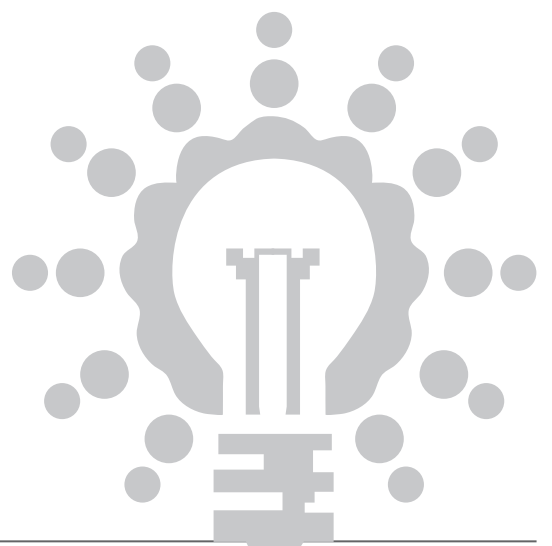
Impact measurement has developed significantly over the past few years. With consensus around key methodologies, such as Social Return on Investment, and with more networks emerging, both here and abroad, now is a good time to take stock of where we've got to and see how we can progress impact measurement together.

I want to see the practice of measuring social impact become a routine part of doing business for organisations delivering social goods and services; just as a focus on the bottom line – measuring profit and loss – is core to the activities of any mainstream business.

Social investors and donors should also understand if their interventions create a positive change in society to inform future investment or giving decisions. And government should assess whether public spending and purchasing decisions are having a positive social impact, focusing on the right things that provide the most value to society in the long term.

I hope that by bringing together leading figures on impact measurement this publication will raise awareness of the importance of these issues and will motivate more investors, commissioners and organisations to understand and measure the impact their actions have on society.

**I want to see the practice of measuring social impact become a routine part of doing business for organisations delivering social goods and services**



# Creating more value with what we have

With dozens of different approaches and as many opinions around social accounting, it's difficult to see the wood for the trees. **Jeremy Nicholls**, CEO of the SROI Network, introduces some of the key players and principles, and suggests how to find a clearer route through the forest

The last couple of years have seen a rapid increase in interest in social and environmental accounting. Questions of how we know we are making a difference and what sort of difference was it anyway are recognised as fundamental. This is all to the good.

Not so good is that, while organisations and their investors are recognising they probably should be doing something more, they are not sure what. There seems to be a profusion of approaches and arguments over which approach is best.

A UK-based think-tank, the New Economics Foundation, has published a guide listing 20 different quality and social impact frameworks for civil society organisations. Meanwhile, a database called TRASI (Tools and Resources for Assessing Social Impact), developed by the US' Foundation Center with McKinsey&Co, lists more than 150 tools and approaches.

Of course, not all these approaches try to do the same thing. It's also clear that some sort of classification scheme – what academics call a 'taxonomy' – is needed. Yet the idea of a taxonomy is perhaps even less engaging to most of us than the idea of measuring impact. So we must be careful that any work in this area does not become a dry academic exercise but is related to a mission and to a story of positive change.

Just look at financial accounting. We all know we have to have financial accounts. Some of us can read them but most of us are relieved we aren't tasked with preparing them. And they become more relevant to us when we understand them as a management tool for building better business.

In the civil society sector in the UK, social accounting and accountability have had a long history and, more recently, social return on investment (SROI) has gained support. In the 'for profit' arena, organisations such as the International Integrated Reporting Committee (IIRC) and Global Reporting Initiative (GRI) have been centre stage both in the UK and around the globe. More recently GIIRS (Global Impact Investing Rating System) and IRIS (Impact Reporting and Investment Standards) have generated interest amongst 'impact investors' – itself a relatively new term.

The challenge must be to arrive at a more standardised approach, one which allows us to communicate the value we create in a reasonable way.

In an attempt to work through this challenge, the SROI Network has argued for an approach to what we call 'accounting for value', which answers a series of questions within a framework. The questions become principles and the advantage should be that the debate could move to what is the minimum set of questions that should be answered and then on to how those principles should be applied. This approach remains flexible and recognises that value will be different for different people in different circumstances – so there is no absolute list of indicators – and can be used for different purposes and different audiences by organisations of different sizes.

To some extent this approach has been lost in preconceptions of SROI. So far the brand name and its history have been stronger than the message. And various myths abound (which we

address in the 'myth busting' section later in this document). Another challenge is that it still seems that we are waiting for a way to know objective answers. SROI argues that applying these principles will require judgements, subjective inevitably, where what are accepted as good judgements will develop over time from the bottom up. No different to financial accounting.

The good news is that over the last couple of years more organisations and their investors have moved from a focus on outputs to outcomes, and are recognising the importance of involving stakeholders in determining outcomes. They also understand better the need to know how valuable these outcomes are, and to consider what might have happened anyway (in other words, how much people's lives or a particular service might have improved naturally, without a particular intervention taking place). These questions are surely fundamental to all our endeavours, and we hope that leaders in the social business arena – such as the social investment wholesaler Big Society Capital in particular – will find ways to ensure that those organisations receiving investment can answer these questions.

And the principles can also help us to develop a more dynamic, practical taxonomy. For example, the tool LM3 (Local Multiplier 3, which allows you to calculate the economic contribution your organisation makes to a local area) can be seen as a way of measuring a specific outcome. IRIS and SROI Network have recently documented the relationship between their two approaches. SAN (the Social Audit Network) and the SROI Network have done the same. The principles of including what is important has drawn on work by AccountAbility. In drawing up the current Guide to SROI, staff from the Green Book team in UK Treasury, who set out the framework for evaluating all government policies, were involved, and guidance on using SROI in commissioning was also shown to the Treasury's Office.

All these interrelations are challenging but below the surface there is more and more convergence. It is becoming possible to differentiate, for example, between approaches that focus on accounting for value, approaches that seek to understand the relationship between inputs, activities and outputs, and approaches to develop indicators and tools to measure specific outcomes.

This document draws together some of the current thinking and practice around accounting for value. It explores some of the challenges and myths, and provides insight into why and how investors, commissioners and intermediary organisations are assessing the value created by the organisations they fund and support. Importantly, it also spotlights some examples of accounting for value in action – based on a range of case studies written up for the SROI Network.

*The SROI Network:* [thesroinetwork.org](http://thesroinetwork.org)

*SROI Guide:* [thesroinetwork.org/sroi-analysis/the-sroi-guide](http://thesroinetwork.org/sroi-analysis/the-sroi-guide)

*The SROI Network VOIS database:* [thesroinetwork.org/vois-database](http://thesroinetwork.org/vois-database)

*McKinsey&Company Learning for Social Impact white paper:* [lsi.mckinsey.com/Our\\_Perspective\\_on\\_Impact\\_Assessment/What\\_foundations\\_can\\_do.aspx](http://lsi.mckinsey.com/Our_Perspective_on_Impact_Assessment/What_foundations_can_do.aspx)

*TRASI (Tools and Resources for Assessing Social Impact) database developed by the Foundation Center and McKinsey:* [trasi.foundationcenter.org](http://trasi.foundationcenter.org)

*New Economics Foundation guide to over 20 different quality and social impact frameworks:* [neweconomics.org/publications/tools-you](http://neweconomics.org/publications/tools-you)

*IRIS (Impact Reporting & Investment Standards):* [iris.thegiin.org](http://iris.thegiin.org)

*GRI (Global Reporting Initiative):* [globalreporting.org](http://globalreporting.org)

*International Integrated Reporting Committee (IIRC):* [theiirc.org](http://theiirc.org)

*LM3 (Local Multiplier 3):* [lm3online.org](http://lm3online.org)

*SAN (Social Audit Network):* [socialauditnetwork.org.uk](http://socialauditnetwork.org.uk)



# Taking the first steps

Whether or not we like a particular organisation or the service it provides, we shouldn't be spending scarce resources if it doesn't make a positive difference for people in need. **Sally Cupitt**, senior consultant at Charities Evaluation Services, advises on some key steps to take to help this happen

It is no longer sufficient for civil society organisations – charities, social enterprises and many others – simply to show that they have spent money and offered services, or even that people like those services. After all, someone could like a service without it doing them any good, and just because a service seems like a good idea doesn't mean it is making a difference. We should not be using scarce funds to offer services – often to the most vulnerable people in society – without having evidence that these services are making lives better.

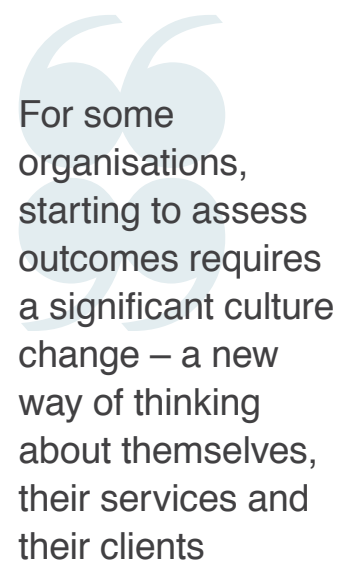
Being able to evidence the impact of your work can help you maximise effectiveness and ensure good use of funds. In the current climate, demonstrating impact is also an essential way to stay competitive and convince funders, commissioners and investors that their limited funds would be well spent with you.

This article is not about tools for measuring change.<sup>1</sup> It is a common mistake when looking to assess outcomes to rush to collect data, without thinking through what you want to collect data on, and how. This can quickly lead to under-used, poor quality data. This article highlights key issues to think about in three areas: planning, clarifying what you do and being realistic. It is

based on the learning from a wide group of organisations that have gone through a process to evaluate their impact, including Social Return on Investment (SROI) and other approaches.

## The groundwork is about planning:

- *Get your staff team on board.* For some organisations, starting to assess outcomes and then using the findings requires a significant culture change, a new way of thinking about themselves, their services and their clients.
- *Clarify what you want to evaluate.* Are you looking at all your work, or just part of it? A whole-organisation approach can be powerful and bring about real change but is resource-intensive. Starting small with one project is easier and allows more time for learning but will take longer to work through the whole organisation.
- *Think about how you are going to use the findings.* Ultimately, are you just after some good PR? Marketing is important, but if this is all you need, then undertaking 'proper' self-evaluation could be an expensive and inefficient route to that. However, if you are serious about organisational development, then it is worth investing in good systems and tools.
- *Look at what skills you have.* Self-evaluation can be fairly simple and straightforward.<sup>2</sup> However, without an additional budget to buy in training or external support, the skills in your staff team will dictate what you can do. Consultancy is not a necessity for effective outcomes systems, but it helps. Consider buying some in as a cost effective way of ensuring you get it right.
- *Consider your current outcomes monitoring.* If you already have good outcomes systems in place, then you will find it much easier to take on some of the more rigorous self-evaluation approaches, like Social Return on Investment.<sup>3</sup>



For some organisations, starting to assess outcomes requires a significant culture change – a new way of thinking about themselves, their services and their clients

- *Consider the IT issue.* Much data collected by civil society organisations is underused due to inadequate IT systems. Even a basic outcomes monitoring system will need software to support it. A range of software options – from cheap to very expensive – has emerged over the last few years, designed specifically for recording and measuring outcomes. However, make sure you establish a strong outcomes framework before making your choice. For more information on outcomes and IT, see our IT WebPages.<sup>4</sup>

### The next stage is about clarifying what you do:

- *Establish clear aims and objectives.* Over the last 20 years Charities Evaluation Services has worked with thousands of civil society organisations, helping them sort out their monitoring and evaluation systems.<sup>5</sup> We have found that for some organisations, there is preparatory work to be done in clarifying aims and objectives. It is hard to evaluate a project if it is not clear what it is supposed to be doing and where it is heading. Once aims and objectives are clear, identifying outcomes is easier.
- *Clarify your outcomes.* Almost all outcome-focused self-evaluation systems involve the same core process: identify outputs and outcomes, then collect evidence about whether they are taking place. Remember that your work could have positive and negative outcomes, for a range of stakeholders. You should also consider involving service users – and perhaps other stakeholders – in identifying your outcomes.
- *Develop your theory of change.*<sup>6</sup> The current focus on outcomes has arguably taken our attention away from the importance of context, including process. Outcomes data alone cannot help develop services if it cannot explain who is helped by an intervention, how, under what circumstances and why. Exploring the role of other variables – especially other agencies – in achieving outcomes will help you be honest about your achievements and not over-claim.

### Self-evaluation can rapidly become time-consuming. To help keep it in proportion:

- *Start small.* If you are new to outcomes, then it is often helpful to start small. Identifying and collecting evidence on a handful of key outcomes, and using that data for making good decisions, is a big step for some organisations.
- *Be realistic about what you can achieve.* For many organisations, particularly those starting out in outcomes assessment, it is not appropriate to be thinking of scientific approaches to establish cause and effect. It is often sufficient to be able to make a plausible connection between the change or benefits and your intervention, rather than to 'prove' cause and effect.
- *Consider how you want to treat the concept of 'impact'.* In SROI, the difference between 'outcome' and 'impact' relates to the fact that some outcomes would have happened anyway, so cannot truly be claimed as an impact of the service provided. The SROI process allows organisations to remove these outcomes from the calculation – and so get closer to the real 'impact' of the service. This short article is not the place to discuss definitions of impact in depth. In some cases the distinction between outcome and impact doesn't matter<sup>7</sup> but it becomes more relevant when thinking about methods, as impact is harder to assess. For many organisations we argue that outcomes should be the focus of their self-evaluation, at least initially. Some organisations may also be too small, or not work with sufficient numbers of clients, to be able to demonstrate their impact.
- *Keep it in proportion.* Self-evaluation, while vital, must be kept in proportion. A small project will usually require less evaluation, unless it is a pilot or is particularly innovative. You need to collect just enough information to help you show what you achieve and to enable you to make good decisions about your work. And no more!

Demonstrating the changes brought about as a result of services and activities should now be a central activity of any organisation. By putting the basics in place you can ensure that your hard work in this area is effective as it can be. This, in turn, will enable you to maximise the effectiveness of your work and demonstrate that effectiveness to others.

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1 To help you assess change, and to choose tools to do so, have a look at *Assessing change: developing and using outcomes monitoring tools*: [www.ces-vol.org.uk/assessingchange](http://www.ces-vol.org.uk/assessingchange)

2 See our latest publication, *Monitoring and Evaluation on a Shoestring*: [www.ces-vol.org.uk/shoestring](http://www.ces-vol.org.uk/shoestring)

3 See the SROI Network website for more information on this approach: [www.sroi-uk.org/](http://www.sroi-uk.org/)

4 For further information on IT, see: [www.ces-vol.org.uk/itforoutcomes](http://www.ces-vol.org.uk/itforoutcomes)

5 The CES planning triangle is a simple tool that organisations have found very useful in getting clarity about aims and objectives. See the CES website for case examples and other resources showing how this tool can be used: [www.ces-vol.org.uk](http://www.ces-vol.org.uk)

6 See our new publication on this, *Making Connections: Using a Theory of Change to Develop Planning and Evaluation*: [www.ces-vol.org.uk/index.cfm?pg=766](http://www.ces-vol.org.uk/index.cfm?pg=766)

7 See our *Assessing Impact* discussion paper for more on this: [www.ces-vol.org.uk/index.cfm?pg=157](http://www.ces-vol.org.uk/index.cfm?pg=157)



## Hoxton Trust: How a little bit of SROI can go a long way

For many organisations using SROI, the ability to put a price or value on their impact is a key initial objective. But being able to describe your organisation in ‘impact terms’ is itself of huge value. In this case study, the Hoxton Trust has used SROI to help develop a theory of change for their work. It has helped them improve their services and to communicate better the impact they have

### What does the organisation do?

Hoxton Trust delivers community-based projects which put community at the heart of Hoxton and Hoxton at the heart of the community.

Located in north east London, in the Borough of Hackney, the Hoxton Trust is a small charity helping improve the lives of the community in Hoxton. The non-profit organisation offers a legal advice service, which sees around 200 new and existing clients a month, helping with debt, consumer rights, housing, welfare benefits and employment law.

Its second core project is a gardening course which leads to a City & Guilds Level 2 Diploma in Work Based Horticulture. Students and the Trust staff maintain a community garden and work on local green spaces in the community, with large groups of local and corporate volunteers. When funds are available the Trust puts on

English as a Second Language (ESOL) classes targeting mature women. These are in high demand. The Trust also supports a local traders and retailers network, holding its bank account and raising funds for promotional community based events.

### Why are you using SROI and what was the scope of the exercise?

The Hoxton Trust began to use the principles of SROI to investigate predicted and unpredicted outcomes in order to demonstrate, explain and justify the real impact of their work. The intention was to use the results to help maximise the impact on all clients. Initially, the Trust was not so confident at putting costings against the findings.

The Trust chose to keep the scope small, focusing primarily on trainees doing the horticultural training course and



Photo: iStock ©whiteray

ESOL classes but also interviewing volunteers on the legal advice service. The Trust asked its American interns to carry out the interviews, as they were considered to be unbiased. They were taught good interview techniques to enable them to carry out the interviews.

Trainees of the gardening course were interviewed at the end or both at the beginning and end of their classes. All the ESOL women were interviewed twice during one year and current volunteers were interviewed.

#### **What did the organisation learn – and what has changed as a result?**

The Trust has learnt a lot about the impact of its work from the client perspective; it has ‘discovered the other story’.

The Trust found that trainees gained not only a City & Guilds Diploma and employment opportunities but, more importantly to them, they gained confidence in themselves as a result of their time with the Trust. This came about because they made friends, had to once again work as part of a team and enjoyed it, and began to take more pride in their work, themselves and their appearance. The Trust also found that trainees developed a strategy for the future by the end of their time with the Trust, involving further training/work experience in areas that were complementary to the work they had done with the Trust.

The Hoxton Trust has learned the ‘building blocks’ of how it can help improve someone’s career, and what trainees need to do to plan for the future, and is now better able to guide new students to pursue their learning and plan their careers most effectively.

Karina Van Der Merwe, Director of Hoxton Trust, found these results very enlightening. It gave her a ‘trainee language’ and quotes that she could use when marketing the course or reporting on the Trust’s work in letters or articles. It has also helped the structure of the communications strategy that the Trust has been developing over the last two years.

The Trust is now more confident in talking about SROI as it now has a lexicon to describe the impact its work delivers. Van Der Merwe says it has increased her knowledge about the broader and more important experiences that clients, trainees and volunteers have while learning or working with the Trust – all were clearly interested in more than just taking classes or gaining work experience and, more than anything else, valued how their time with the Trust helped them to develop their self-confidence, make friends and feel less isolated.

Karina says Hoxton Trust will continue to trace old clients’ pathways for a few years to prove that their time with Hoxton Trust enables clients to become more focused and in the end find a pathway to work that does not lead them back to the benefits system.

# The value of social impact measurement for me: Leah McPherson, Cultivate London

Cultivate London is an urban agriculture start-up business that converts derelict land into food growing space and provides training and employment for young people. Founder and managing director **Leah McPherson** explains why, despite being in the busy launch phase, measuring impact has been one of her top priorities





I launched my business in March 2011, having spent a year on planning and securing funding. You can imagine the madness of each day and week as I worked to move Cultivate London from an idea on paper to reality.

If something isn't needed tomorrow or next week, it is pushed to the bottom of my To Do list. But the one exception to this is social impact measurement, specifically forecasting the likely impact Cultivate London will have on its beneficiaries in one, two and five years' time. I spent equal amounts of time developing a social impact measurement process for Cultivate London during the three months leading to launch as I did filing documents with Companies House, getting quotes for equipment and finalising partnerships.

Last year, I heard John Montague, CEO of The TREES Group, speak at an event organised by the School for Social Entrepreneurs and PricewaterhouseCoopers. He gave a powerful account of The TREES Group – one of the largest social enterprises in the East Midlands – and how its business activities affected a particularly deprived and derelict estate in Leicester. John's account was powerful because he used statistics, photos and personal stories to tell his story. Even though I was sitting in a corporate board room in central London in 2010, John's vivid story made me feel and connect to changes made on that estate five years earlier.

I want to be able to tell a similarly powerful story for Cultivate London. To do this, I needed to spend time before the company began operating, thinking through what and how we were going to measure in terms of social and environmental changes.

There are three simple reasons why impact measurement is essential for me:

1. It is a way for me to test my own ideas and business model. I need to know if my predications for change are accurate and my interventions effective. If so, great. If not, I will have rich data from beneficiaries to help me to understand why things aren't working as expected and where I can modify Cultivate London activities so we move into our next year of operations more confident and effective.
2. I intend to submit social impact accounts each year alongside my financial accounts. As a committed social enterprise, both aspects of Cultivate London's business are equally important and collecting impact data from the beginning is as essential as opening a bank account and keeping income and expenditure records.
3. I will collect a rich and varied source of data that I can use to tell a compelling, powerful and true story of change over time. This will be my best chance of attracting funders and partners to expand Cultivate London and generate more opportunities for young people to break the cycle of welfare dependency.

I'm excited by the data, information and stories I will collect over time. In all honesty, developing a system to measure and forecast Cultivate London's impact has been difficult and slow. I've had to make hard decisions about what to measure and what to omit. But the process itself has made me focus on the core activities and outcomes I hope Cultivate London will achieve. It meant I entered the first year of operations clear about what I need to achieve – and that's a pretty good foot to start out on.

*Cultivate London:* [cultivatelondon.org](http://cultivatelondon.org)

*TREES Group:* [thetreesgroup.org.uk](http://thetreesgroup.org.uk)



Most social purpose organisations appear to spend more time and money on their financial accounting (the means to the end) than on managing the value they create (the end).

# Myth busting on SROI

There are several methods for measuring social impact. SROI – Social Return on Investment – is probably the most prominent in the UK, having won development funding from both the UK and Scottish governments. Yet commentators have criticised SROI for being time consuming, complicated and impenetrable. Here, **Tim West**, editor of SocialEnterpriselive.com challenges SROI Network CEO **Jeremy Nicholls** on some of the big issues around SROI

**TW:** *What does social return on investment – or SROI – actually mean?*

**JN:** Broadly, it means understanding the value of changes that other people experience as a result of your work. SROI helps you understand, manage and communicate the value that your work creates in a clear and consistent way with, for example, customers, beneficiaries and funders. It is based on seven principles that help organisations work with stakeholders to decide how to value what matters, and how to be accurate, honest and transparent. There's a lot more information on the principles on our website ([thesroinetwork.org](http://thesroinetwork.org)).

**TW:** *People have told us that they have considered SROI but that it seems expensive and time-consuming. Can you give us a basic idea of what sort of budget and time we would need?*

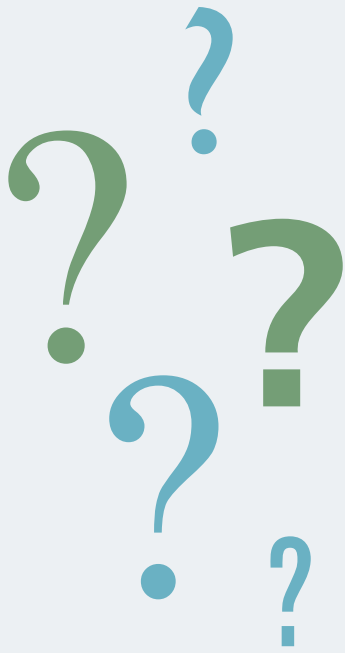
**JN:** This is a bit like asking how much it would cost to produce a company's accounts without knowing the size of the organisation and whether it already has an accounting system and anyone with accounting expertise. So I'm afraid it depends. It is important that we think about the expected benefits before starting out. It's also worth pointing out that most social

purpose organisations appear to spend more time and money on their financial accounting (the means to the end) than on managing the value they create (the end).

**TW:** *Nevertheless, isn't SROI the Rolls Royce approach to impact measurement? Surely there are cheaper, easier, less complex and less time consuming options?*

**JN:** How cheap, easy or complex it is depends on several things including what you are going to use your analysis for and who is going to use it. The variables that will inform how much an SROI analysis will cost include:

- whether the analysis is for internal management purposes or intended for public distribution
- the size of the organisation and the activity under consideration
- the timescale over which material outcomes occur
- whether you are considering a forecast or an evaluation
- the existence of information on relevant outcomes and research that provides evidence of outcomes
- the level of existing staff skills



The cost could also cover:

- both external support and internal staff
- the cost of implementing any changes that are proposed following an SROI analysis

What I would emphasise is that it is always useful to think through the issues that the SROI principles raise. Our point is that SROI principles are the basic principles that should be considered, and if just one is left out, then the risk that you are not making the difference you think you are increases.

**TW:** *What real use or meaning is there to knowing that your organisation delivers, say, £4 of social value for every £1 of money you have invested?*

**JN:** Here, you are referring to the SROI ratio. This is a comparison of the financial value of an investment with the financial value of the social costs and benefits. It represents the penultimate stage in the SROI process (the last stage being reporting and embedding the results to improve future performance). However, although the ratio is often the headline of an SROI evaluation, it is actually a starting point for ongoing discussion. And it is still important in its own right – if, as a social venture, you have used up resources to create value for others, it is important that we can talk about how much value has or will be created for different people.

**TW:** *But doesn't the focus on bland numbers completely ignore the human or community story behind social impact?*

**JN:** If you read the case study stories in this document, I think you would change your mind about this. As I said before, the numbers are part of an ongoing discussion and they come alive when you start to see how they inform very real changes in the way that a business operates. SROI is a framework to structure thinking and understanding. It's very much a story – not a number. The story should show how you understand the value created, manage it and can prove it. I would also argue that all

the values we consider in the SROI process are quite subjective. If you think about it, company balance sheets also need all sorts of subjective judgements but we live with the implications of these judgements on, for example, prices all the time. Financial accounting requires professional judgements and I think that, if the way in which we account for the wider value of our work is going to develop, we need to recognise that we will also have to make professional judgments – and that this is a good thing.

**TW:** *If an organisation already has strong evidence of the value it creates through the stories of the people's lives that it changes, how would SROI offer added value?*

**JN:** It would be interesting to know who this evidence was relevant to and whether it influenced their decisions. So I am talking about stakeholders here and whether they have been consulted on the evidence that is collected. It would also be interesting to know whether they shared the same understanding of the value being represented. If you have a range of information, from qualitative through to quantitative value – albeit framed within a powerful narrative – you will be able to use this to meet different needs and influence more decisions. You will also be able to set out an approach to discuss and share a common basis for discussing the value being created.

**TW:** *Different organisations do such different things – is it really possible to compare the social return of one organisation with another with any certainty?*

**JN:** It depends on the purpose of the comparison and what you are comparing. If you are comparing the analysis and how judgments have been made then yes, and it will be useful. In fact it is relatively easy to do so because of the basic framework and standards for applying the principles of SROI. But not if you are comparing the ratio [the figure that is calculated for the value of social impact by £ for every £1 spent]. As I alluded to earlier, many



of the criticisms of SROI confuse the comparison of an SROI ratio with a comparison of the analysis. Once you have worked through and come up with values of the material outcomes experienced by your stakeholders there are a variety of ways to present this. The ratio is useful as it maintains the link with the investment – but the value can also be presented, for example, as a pie chart showing a wide range of benefits.

**TW:** *Even if you can achieve consistency, aren't there far too many, competing ways to measure your impact, and no consistent standards?*

**JN:** This is an important point. In encouraging consistency of models, the SROI Network is in discussion with practitioners who use related tools to see if principles can be aligned and agreement established on measuring social impact. Therefore, the SROI principles and how they are expressed may well be refined and revised. However, there is a very important difference between the tools used to determine, measure and value outcomes, and the framework and standards within which these are used. SROI is the framework and principles, with standards for how these are used – standards that are constantly

developing but based on user experience and discussion. Different tools will then be needed to help involve stakeholders, measure outcomes and so on. It would be useful to assess other frameworks or methods to account for value against the SROI principles but this must be differentiated from the tools used to measure aspects of impact.

**TW:** *But isn't it a pointless exercise in any case – once you've got your SROI figure, neither investors nor commissioners know what it actually means, so you're much better off forgetting about it and focusing on running your business?*

**JN:** In addition to the case study stories in this publication, I would have a look at the section on our website ([thesroinetwork.org](http://thesroinetwork.org)) called 'How SROI helped me'. It shows that SROI has proved its use for internal improvements, resulting in changes to services, management systems and governance as well as for talking to funders. I would add that a seller needs to talk the language of their customer, and the analysis will help organisations clarify the overlap between what outcomes (value or impact) they create and what their customers (users, commissioners) want.



# CAN Mezzanine: Helping customers achieve their social mission

If you take office space with CAN Mezzanine you get added value by being with like-minded neighbours. That's the theory – here, CAN's head of business development, Kirstin Ross, explains how and why they set about proving it



## What does the organisation do?

CAN is a social enterprise that supports social enterprise and other civil society organisations. It offers a range of business support services and grants through its venture philanthropy programme, CAN Breakthrough. It also provides high-quality, low-cost office space through CAN Mezzanine, to date housing 120+ charities and social enterprises. With partners from the civil society, public and private sector, CAN aims to support a thriving social enterprise marketplace. It's CAN Mezzanine that was the focus of CAN's SROI study.

## Why are you using SROI and has it been useful?

Too often there's a danger of measuring what's easy and missing what is important to customers or stakeholders. We wanted to know what change customers said we had on their organisations and ensure that the findings sat at the heart of CAN's Mezzanine's growth strategy. In order to develop our core offering and services, it was essential to understand what our customers valued. How are we helping (or hindering!) the growth of their organisations by them being part of the CAN Mezzanine community? It was also essential for our investors and funders to see how CAN performs a social enterprise, meeting both its financial and social targets.

We conduct regular surveys and forums with CAN Mezzanine customers, so the SROI survey process gave us a great opportunity to engage with them in a different format. The findings have also proved really useful for

marketing campaigns - what's more compelling than existing customers talking about the value of your business to them?

Have you changed anything as a result of SROI? Two key findings from the survey have significantly shaped CAN Mezzanine's support for its customers. The study found that smaller organisations (five desks or smaller) felt they benefited most significantly from the networking and inter-trading opportunities within CAN Mezzanine. Secondly the opportunity to collaborate with like-minded organisations is increasingly valued by customers across the board: For some customers this is their primary reason in choosing CAN Mezzanine over other office providers.

We are always looking for new ways to support our customers through events, internal communications, services and offers. The findings are massively informing how we can encourage, support, facilitate and inform our CAN Mezzanine community of the benefits of collaboration in a hands-off, unobtrusive way.

## What else did you learn?

The SROI study gave us real confirmation that being part of CAN Mezzanine has absolute social and economic value for our customers. As the business grows we can measure our business performance and social mission against the findings.



For the CAN team, it is massively rewarding to see how they are individually and collectively contributing to our mission. That's important and is great for business in itself.

Don't underestimate the value your SROI findings will have for your key stakeholders as well as your beneficiaries. The findings can be a powerful endorsement of their relationship with your organisation. For CAN's government partners (CAN is a strategic partner of the Cabinet Office, promoting social entrepreneurship) and corporate network, being able to quantify, forecast and strategically plan for impact speaks volumes about the professionalism of your business and commitment to your mission.

#### Are you embedding it or repeating it?

SROI is now a core part of how CAN manages its business and importantly how it grows its social impact, alongside our key performance indicators, annual audits, surveys and forums. For social enterprises like CAN, we must be transparent about the value we say we create – warts and all. With increasing public awareness and demand for social enterprises, transparency through tools like SROI is one way to build trust, loyalty and commitment to businesses like ours. If we say we do things differently, then we have to be able to prove it. SROI lets our stakeholders hold us to account.

#### What would you do differently next time?

Expectation played a big part in embedding SROI. Beforehand, the team was nervous that the process would be arduous and time consuming. In reality the findings have been so 'business critical' that it's the team driving efforts to embed SROI further. For management teams considering SROI, I'd recommend selling its benefits rather than explaining the process to your team. And cheap technology can also make a difference. CAN uses Salesforce, which can be really cost effective for charities and means we know so much more about our customer base. This really helped the SROI process. CAN is also looking at online software for the SROI process.

#### Highlights from CAN's SROI:

- £1.30 for every £1 invested – So for every £1 spent by CAN customers they receive £1 of office space and £1.30 in additional social and economic value.
- Over two-thirds of customers say their organisations have improved since moving into CAN Mezzanine including;
- New business opportunities (31%)
- Cost savings (23%)
- Increased staff morale (23%)

# The bigger picture on accounting for impact

Social enterprise ‘does not have a right to exist’, says leading charity accountant **Eddie Finch**. It competes for resources and so must make the case for those resources. But is there an accounting framework that can help make the arguments more clearly?

The financial accounts produced by most social enterprises tell us little if anything about the success of the organisation in meeting its objectives. Reviewing the published accounts of shortlisted finalists for this year’s RBS SE100 index awards reinforced this belief.

I really should emphasise here that this doesn’t reflect any neglect on the part of the enterprises themselves. Many of the organisations presented accounts that complied very well with the legal requirements for small company accounting. Most also set targets and monitored outcomes for social impact alongside the financial measures used to run their businesses, but this is not presented as part of their directors’ reports.

The fact is that small company accounts are prepared for very limited compliance purposes and only address one dimension of a business’s performance. Drawing together and summarising information about social and environmental impact for an external audience is very often perceived as a “nice to have” rather than an essential part of an organisation’s governance.

Elsewhere in this publication, the case for planning and measuring social and environmental outcomes and impacts to: power continual improvement; engage and motivate workers and other partners in delivery;

and to inform investors and commissioners has been set out. You may wonder why, other than the vested interest of my profession, I am advocating that social enterprise organisations should provide a standardised template of external reporting, alongside statutory accounts, which summarises and draws out highlights of that measurement.

## A narrative to explain the figures

It is a common feature in annual reporting across all sectors that the financial statements alone cannot be expected to give a full picture of an organisation’s achievements. Even where the organisational goal appears easily understood and is expressed in the language of accounts – ie pounds and pence – some narrative description explaining new ventures entered into, or business lines curtailed and other context enhancing details are required. Where objectives are not wholly financial, and the pounds and pence are the means to but not necessarily the end in themselves, a narrative understanding is essential to give the accounts meaning.

The requirements for the board of a “small” company which is not a charity or a Community Interest Company to make public any narrative information about the company’s activities are far from extensive and the report itself need not even be placed on public record.



More substantial companies are required to provide a “business review” as part of their annual directors’ report though those which are considered “medium” in the terms of the legislation need only address financial matters in that review.

This is all reasonable until we consider that under the Companies Act 2006, from which the requirements hail, a £6.4 million turnover business with 49 employees is considered small and a £25 million turnover company employing 249 people medium. The reduced disclosure requirements applied to small and medium companies are generally appropriate for privately controlled commercial businesses and reflect the typical lack of external interests in those companies’ affairs. Where those companies are seeking external investment or contracting with public authorities, accounting information will be required and, without the context of a narrative, may not be telling the full story.

Discussing this with the winner of one of the 2011 RBS SE100 awards, a familiar story emerged. The value of adding some narrative to explain the social objectives, set out achievements and outcomes against those and set the finances in context had been discussed but had not made it to the top of the priority list.

### What makes social entrepreneurs different from SMEs?

Why, other than to make my life as an occasional reviewer of social enterprise accounts easier, do I believe that social entrepreneurs should be expected to give more than other SMEs? It is because social enterprise holds itself out as a better way of doing business. A recognisable shop window will better enable social enterprises to sell the added value, and values, that come bundled with their goods and services.

Social enterprise does not have a right to exist. It competes for resources – whether from consumers of goods and services, public sector commissioners or investors of finance – that could equally rationally be spent or invested without any ethical context required or indeed given away philanthropically with little regard for economic efficiency.

All the while, there are plenty of “straight” businesses that can make plausible claims to be sustainable and fair business practices, and charities that assert they make efficient use of resources to achieve the greatest possible impact.

In this context, it is incumbent on every social enterprise to articulate both success in business and the social impact that it is able to achieve. If social enterprise is to be accepted more widely outside the circles of the already converted, then a vocabulary which shows clearly how both of these dimensions are planned and achieved – and, where possible, how each supports the other – is needed.

This goes beyond the necessary mechanisms to satisfy the needs of payment by results commissioners or social investors and into the heart of what makes social enterprise a better way of doing business. And here is a good point to emphasise that the relationship between profits and good cuts both ways. Whilst the simplest published accounts of small companies tell us nothing of the social impact, even those that excellently set out impact and outcomes rarely if ever clearly show how these are achieved within a business – where do the resources to achieve impact come from?

One of the difficulties that colleagues unfamiliar with social enterprise have in forming an understanding of it lies in the notion that social enterprise can sustainably deliver both commercial standard returns and social good. Is it possible for a social enterprise model to emerge that offers the same profitability as competing, non-social businesses?

It is, but this is not sustainable. If a business can achieve the same commercial effect with better social and environmental outcomes then competitors will follow – only a malevolent organisation would deliberately choose not to do so and we would all hope that regulatory or consumer pressure would eventually provide the “nudge” that those slow to change might need.

In short, let’s say for now that a social enterprise is a business that aims to create social value that other businesses do not. And let’s also accept that this social value has a cost – whether that is borne by owners or investors in a reduced or riskier return, by consumers in premium pricing, by the business itself in reduced profitability or (whisper it) through external subsidy. It sounds a little like a blended return.

This is borne out in this quote from the 2009 report of the charitable social enterprise, GLL: *“GLL is not perfect in everything it does, but we do strive to be the perfect partner for local authorities who seek to have a ‘depth’ in what they do. We may not be cheapest in raw price terms, but if accountants were able to*

It is a common feature in annual reporting across all sectors that the financial statements alone cannot be expected to give a full picture of an organisation’s achievements





# HCT Group

HCT has produced social impact reports since 2008 and these have evolved greatly over that time (for the latest report, see [www.hctgroup.org](http://www.hctgroup.org))

During 2010/11, HCT Group has established a programme of Social Enterprise Champions. This cadre of staff – which is candid given that prior to the programme some did not know that their employer was a social enterprise, or indeed what a social enterprise is – will be involved in setting the agenda for future impact.

**Speaking with Chief Executive, Dai Powell OBE, a number of interesting observations came out:**

1. The 2007-8 report was very much focused on user experience – bottom up but anecdotal. By 2011, while still making extensive use of case studies and

- personal testimonials, the report had a far greater focus on planned and measured outputs and outcomes, including progress year on year.
2. HCT Group includes in its audited accounts a measure of the proportion of profits from commercial activity, which is re-invested in subsidised community-based work.
  3. Impact reporting was deliberately kept outside the statutory accounts, which were felt to be sterile – until the statutory report began to draw from the impact report. The Board, however, now feels that bringing the two reports together will ensure that public benefit is fully addressed in the statutory report.

Social enterprise holds itself out as a better way of doing business. A recognisable shop window will better enable social enterprises to sell the values that come bundled with their goods and services

*properly quantify the 'social added value' of our work we are confident we would always be best value."*

The challenge is the same when, for example, demonstrating the added value of ethically traded or produced goods; when attempting to value the social impact achieved by reinvesting profits in a care business; or in absorbing the costs of supported employment in a social firm.

There is no necessary reason for financial and social impact reporting to be confined to the annual report and accounts. However, a framework for providing broadly consistent information in summarised form for external consumption would greatly enhance comparability across the sector – as well as the accessibility of high level information for cross sector analysis.

There is a strong case for social enterprise developing its own language and templates for annual reporting that is effective in bringing annual accounts into context. If many enterprises' reports remain opaque, there is a greater risk that public sector commissioners and others may require reporting that is onerous.

Where should we look for inspiration? As many social enterprises operate under charity status or as Community Interest Companies,

the reporting requirements that apply to these are a good place to begin.

Charities have long had to work within a reporting framework that places at least equal emphasis on narrative reporting as the form and content of the financial accounts. The Statement of Recommended Practice (SORP), Accounting and Reporting by Charities, is founded on the principle that tables of financial figures alone are very unlikely to give a rounded understanding of a charity's work.

In its latest (2005, updated 2008) incarnation, the charity SORP provides a clear template for narrative reporting based on a framework that in principle sets out:

- what a charity aims to achieve, and for whom;
- what it has done in pursuit of those aims;
- an evaluation of its achievements through those activities;
- a linkage to the resources made available and used – ie relating the narrative to the accounts; and
- what it plans to do in future to further the aims.

Alongside the development of SORP based annual reporting, the charity sector has also been developing a separate discipline of impact reporting outside the statutory framework. Many leading charities, including those that self identify



4. The social impact scorecard is based on measures that were requested by Bridges Ventures, the summary output from this is used in monthly management meetings.
5. A Board sub-committee, including senior officers of HCT and investor representatives, undertakes targeting of future trends in the impact measures.
6. Although the Group has a 33% target for re-investment of profits in social impact, the actual amount expended is greater as the “commercial” activities have social value and the business model creates social value through, for example, training and employment opportunities for those furthest from the job market (including a very high proportion of women drivers trained).
7. The Group uses statistics regarding self reported life experience measures (eg “70% of respondents said that travelling together with our service helps build a sense of community”) but feels measuring well-being is impossible.
8. So far monetising impact or adopting measures based on monetising have been avoided – partly because management is wary of making a number a target and partly because there is not yet only one accepted measure.
9. Measures include specific attention to community benefit in the intended areas – eg “how much is spent with the poorest 20%” and “how much is spent within a mile of the depot”.
10. Although HCT Group is a charity, broader social responsibility considerations are considered important to its branding with existing and potential staff, suppliers and customers/commissioners. Specific spending decisions around, for example, procuring fair trade cotton uniforms have been supported by the Board.
11. Going forward, HCT’s social enterprise champions will be engaged in the impact planning and reporting process.

as social enterprises, produce an annual impact report. Contrary to the expectations that the other pieces collected here might create, many of these reports are largely anecdotal and case study driven and, where they become quantitative, focus on outputs more consistently than outcomes.

As described in the case study of HCT Group, whose report does include outcome data, alongside outputs and case studies (see box), there is a very good case for integrating impact reporting into the main Annual Report. The evaluation of outcomes and impact is central to demonstrating public benefit and a Trustees' Annual Report shorn of this dimension (even at the anecdotal level) is very likely to come across as a sterile, compliance-focused document. There is extensive support for organisations wishing to develop impact reporting. The reports described in the following paragraphs, as well as the impACT Coalition established under the umbrella of charity leadership body ACEVO (the Association of Chief Executives of Voluntary Organisations) provide extensive resources free of charge.

The 2008 update of the SORP was made specifically to integrate the legal requirement for charities to report on the public benefit they deliver into the main reporting framework. A recent review of compliance with the public

benefit reporting requirements ([http://www.charitycommission.gov.uk/Charity\\_requirements\\_guidance/Charity\\_essentials/Public\\_benefit/default.aspx](http://www.charitycommission.gov.uk/Charity_requirements_guidance/Charity_essentials/Public_benefit/default.aspx)) showed that while charities' current quality of reporting is variable, the SORP provides a template for reporting which is structured to support impact reporting.

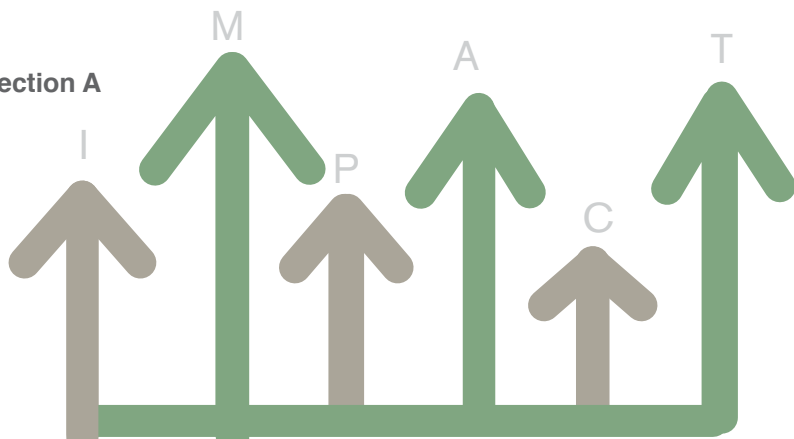
The findings from this research are consistent with that from two other very useful primers on impact reporting published earlier this year by New Philanthropy Capital (NPC) and the Charity Finance Directors' Group (CFDG) respectively.

The NPC document ([http://www.philanthropycapital.org/publications/improving\\_the\\_sector/improving\\_charities/talking\\_about\\_results.aspx](http://www.philanthropycapital.org/publications/improving_the_sector/improving_charities/talking_about_results.aspx)) establishes a five-point plan to reporting impact that echoes very closely the narrative flow required by the SORP as set out above. NPC found, perhaps not surprisingly, that reporting of the easier elements such as who benefits and how was more prevalent than difficult aspects such as attribution of changes to the charities' efforts and measurement of outcomes.

Among the chief conclusions from the CFDG research (<http://www.cfdg.org.uk/resources/~media/Files/Resources/Impact%20Reporting%20in%20the%20>



## Section A



UK%20Charity%20Sector.ashx) is that – as highlighted above for non-charitable social enterprises – there is a gap between the number of organisations believing that impact reporting is beneficial and those who have been able systematically to implement it.

The following quote from the CFDG response to the research findings highlights a key concern shared across all sectors – a one-size-fits-all model, particularly one requiring an extensive support structure to deliver, will not be right for all circumstances:

*“Charities clearly have a responsibility to demonstrate public benefit and impact reporting can be part of this, but developing clear and simple reporting techniques in general should be a priority. In many cases simpler reporting of outputs and outcomes may well suffice.”*

Whilst in terms of narrative reporting on outcomes and impact, the charity SORP does provide a useful starting point, there are two barriers to its application wholesale by social enterprises. The first, relatively obviously, applies to the large numbers of social enterprises that have not taken on charity status (and to broader social impact achieved by charities and their trading operations incidentally to their direct charitable aims). The narrative established under the charity SORP relates to the aims and activities of a charity pursuing its legal objects – a social enterprise impact report may be less constrained by “hard wired” objects but nonetheless focus on planned outcomes mainly.

The second returns to a point made above, that accounting devices to clearly identify how resources are generated by business activities and absorbed by social impact delivery – whether within the costs of the business or by subsidy of social costs from trading profits – are not well developed. This is particularly accentuated in the accounting model established under the charity SORP, which sharply distinguishes between “generating funds” and “charitable activities”.

Early attempts have been made by some social enterprises to show the effect of investing profits from trading activity in social impact areas (for example, see HCT Group <http://www.hctgroup.org/index>

<http://www.hctgroup.org/index.php?type=ARTICLE&articleid=82> ). Perhaps the best articulations of this come from the fair trade sector, though, where the analysis of the impact of fair trade premiums on input prices and the allocation of profits to community projects can be relatively straightforwardly separated from general trading costs.

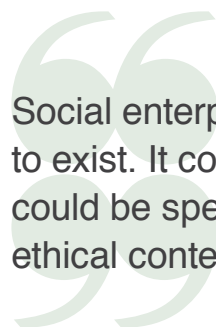
The requirements on Community Interest Companies (CICs) are, in keeping with the overall intentions that CICs should benefit from a light touch regulation, relatively few. In addition to the Companies Act directors’ report, a CIC is required to submit a Community Interest Report to the CIC Regulator along with its statutory financial statements.

This report, made up following the form CIC 34, contains one significant section of information pertinent to impact reporting that is not required for charities. Part 1 of the report specifically addresses impact, although in very high-level terms. A “fair and accurate” account of activities including how they have benefitted the community is required but based on examples posted by the CIC Regulator, this is not anticipated to be complex.

More interestingly Part 2 requests information regarding who the stakeholders are, how (if at all) they have been consulted and what changes have arisen from any consultation. This provides an explicit cue that social enterprise should engage with the communities it looks to serve. The remainder of the form deals with disclosure points designed to facilitate the Regulator’s work over areas such as the asset lock, dividend and interest caps, etc.

The example reports on the Regulator’s website are revealing in that they are brief but also that they state that where social accounting and audit have been carried out, cross reference to those reports will be enough to discharge the reporting requirements.

That neatly draws us towards our conclusion. The final point to make is that there is an increasingly direct analogy to be drawn between accounting and impact assessment. All businesses require financial records of some sort. Simple, owner-managed businesses may retain no more information than is needed to discharge obligations to the tax authorities from time to time. More complex and dynamic



## Social enterprise does not have a right to exist. It competes for resources that could be spent or invested without any ethical context required

businesses will generate internal data that correlates non-financial and financial trends, evaluates relationships like pay back periods and internal rates of return (IRR) on investment. There may well be specific, tailored information required by banks, investors or trading partners.

A financial reporting system will be developed to capture, aggregate and analyse financial data to meet these requirements. In the first case, this may be as simple as the traditional carrier bag delivered to the accountants, in most it will be a sophisticated accounting system capable of complex reporting and data manipulation.

Whatever the internal and specific external information needs and systems deployed to meet these, all businesses produce periodic (usually at least annual) financial statements for compliance purposes. The specific content of these will vary but the general building blocks will be familiar. As anticipated for social reporting, the degree of complexity and volume of information varies. Also there is scope to produce very detailed documents for some audiences and highlight summaries for others.

Much of the work described in these pages is a call for developing effective equivalents to an accounting system to capture, aggregate and present for management, customer and investor purposes information about outcomes and impact. This discussion has sought to make the case for a commitment to periodic public impact reporting to a shared general framework.

Because many social enterprises are registered as charities or CICs, it would be sensible to adopt a framework for narrative reporting that is compatible with the requirements of those regulated entities.

### What might an ideal social enterprise annual report and financial statements contain?

1. A clear explanation of the constitution, governance and stakeholder relationships of the enterprise – including involvement of “beneficiaries” in governance, decision making and impact assessment

2. An analysis of how the business is structured including external investments, trading activities and the planned applications of profit – returns to investors, costs of social impacts delivered, etc.
3. A clear narrative that explains social impact aims, activities, measured outputs and outcomes benchmarked against plans where possible (and if used internally expressed in monetised terms such as SROI measures)
4. A financial analysis that gives information on trading performance (for example, profitability adjusting for social costs) and the application of profits to delivering social impact – with amounts drawn from or reconciled to the financial statements
5. Learning from the above and plans for future periods for trading and business development and social impact
6. Financial statements drawn up to enable a clear understanding of trading performance – adjusted where necessary for social impact costs absorbed in trading costs – and resources applied to achieve social impact; and financial position including amounts committed to future social impact activities
7. Assurance reports attesting the integrity and fair presentation of the financial statements and any social accounting/ monetised social impact information

For organisations that already produce audited Social Accounts using recognised standards, this report could be a summary of that document. For charity and CIC regulated entities, it could integrate with reports already produced.

The proposed outline above doesn't seem an onerous requirement for a self aware business. Perhaps making it a baseline standard for assessments such as the RBS SE100 would encourage at least this minimal level of external reporting?

**Eddie Finch** is a partner at Buzzacott Accountants, leading charity and social enterprise accountants.



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## A fork in the road for public sector procurement

The pressure is on to squeeze more value out of public services. But new policies, innovative providers and tight budgets could lead us in two very different directions. **Miia Chambers**, director of development at P3 Charity and Social Enterprise, considers the road ahead

This will be a time of great opportunity or potential collective failure for public service reform.

Out of the current chaos some brilliance will emerge. Some fantastic new services will be co-produced and redesigned, and some will achieve outstanding outcomes and impact.

But will these be isolated examples of excellent practice, never to be shared?

This is how what I call 'outcomes based commissioning and measurement' has been operating until now. Even in pioneering organisations, progressing from an outstanding example of a service to actually changing how a service is structured and provided – real 'system change' – has been slow or non-existent. The wider adoption of innovative good practice has for the most part not even been supported by those that funded the new developments in the first place. And much of the time, the impetus for wider learning from new programmes never achieves the attention that the launching of new policies and pilots do.

Stretched capacity across the public and civil society sectors makes it tough to focus enough attention on effective measurement and reporting systems. Unfortunately, all this means that investments are constantly made on the back of impressive presentations of great promises. However, organisations can no longer afford to ignore the need for improvement. If they do, public or private investments will continue to be spent on experimentation and wishful thinking.

Providers need to prove their impact and value for money to secure funding. Funders want to invest their scarce resources in things that work. In the current economic climate, there is now even greater urgency for wide reform, with a system that works across sectors.

### What the public sector does and doesn't measure

All public sector bodies have had to decide where they must make savings due to current pressures on the public purse. They have been assessing their policy options across all departments. Instead of salami slicing, one would like to think that knowledge of what has worked and which providers have had the greatest impact would form key criteria for decisions on savings and further investments.

Unfortunately, this level of understanding of provider performance is often lacking. Much of what constitutes 'contract management' in the public sector focuses on the activities that providers carry out and not on the actual outcomes they achieve.

After all, counting outputs is easier than measuring outcomes. Often, neither commissioners nor providers have either the

knowledge or tools for meaningful outcome measurement and reporting. Meanwhile, there are no agreed standards for measuring services; this results in providers developing their own, different approaches that commissioners and funders can't compare.

So a collective effort is needed to move performance measurement away from compliance, input and process towards outcomes and impact. We also need a consensus on the metrics that commissioning organisations can draw on.

### What commissioners are trained to do

Commissioners and contract officers have tried to measure meaningfully for a very long time and some are further in their endeavours than others.

Commissioners themselves are part of a wider group of public sector professionals involved in the process of service procurement. While commissioners work to design the services that are needed, it is often others in the group who are responsible for contract monitoring. This in itself is not a problem, except that there are often conflicting views between the two groups of professionals about what would yield the most relevant data and analysis. Both groups should want to understand what works, and the impact and return that the public investment is making in addressing the need that the service has been commissioned to address. However, most procurement officers and commissioners haven't been trained in outcome and social value measurement and have very little support to know where to start.

Providers and suppliers collect and submit an enormous amount of data that could provide understanding of their impact if only those gathering and those receiving the information had the time and ability to analyse all the data submitted. Most of the time, however, this data is received by the public sector more for the purposes of an audit trail and is not fully utilised for understanding the impact of the service.

Despite some very well-intentioned programmes, such as the National Programme for Third Sector Commissioning, the majority of officers in public bodies have a very limited understanding of the impact and value that the 'third sector' (as it was labelled by the previous Labour government) or 'civil society sector' (the Coalition government's name for the sector) creates.

There is also a significant time lag between government policy intentions being announced and being implemented at the local level. Moreover, little change takes place unless authorities are legally obliged to change policy. For example, in my experience council

If ignored, public or private investments will continue to be spent on experimentation and wishful thinking

We need to show commissioners the value of alternative models that deliver more bang for the buck, increased social value and local economic impact

procurement officers have little or no knowledge of the government's Modernising Commissioning Green Paper.

#### What commissioners don't but can ask for

The fact that commissioners might not ask for wider social returns doesn't mean that they can't. Commissioners and procurement officers can ask for more than just cost effective services – they can and should ask for the greatest return for their investment. The powers of well-being and local community strategies are two frameworks within which local authorities can ask for outcomes relevant to their communities. The overarching strategic objectives can be reflected in contracts – but often only the narrowest requirements are specified. The new Localism Bill and its General Power of Competence will hopefully encourage local authorities to focus on whether any given provider will improve the social, economic and environmental well-being of its area.

It is often feared that focusing on wider impacts would require increasing contract value and dilute from the specific service requirements. This is a false economy – and even the Treasury definition of value for money advises public sector bodies to take account of the whole-life costs of a contract.

In these leaner times it is in the interests of funders and commissioners to allow and encourage organisations to express and report the widest range of outcomes that it achieves through the service. Value for money is about getting the most from that money.

Those that understand how to do this are often in the minority and can be reluctant to attempt to change things, since adoption of new models is a major challenge in these bureaucracies. Limited knowledge and lack of good examples also stands in the way of outcomes and social value based commissioning becoming common practice.

#### Why no sector can claim the high ground

Public money should go to a provider from any sector that will maximise social, economic and environmental value. No provider should expect their services to be commissioned unless they can prove that they do that, including social enterprises and other civil society organisations.

Nor can any one sector claim to have the monopoly on expertise and innovation. This is going on across the sectors and will need to be 'extracted' and brought together in joint solutions. Organisations need to work collaboratively across the sectors to pool their knowledge. So-called 'co-production' involving relevant stakeholders is a must. Partnerships built on shared objectives can create a climate

of success. Sometimes organisations locally can influence better joined-up delivery.

For example, my organisation, P3 – a charity and social enterprise – co-produced a service involving a range of stakeholders for people with complex and multiple needs in Sandwell, a borough in the West Midlands. The service targets the 'hardest cases in town', working with people who have been in and out of secure units, criminal justice or addiction services. The joint efforts to develop new solutions across the sectors have led to an accommodation-based Complex Needs service using a model called Link Worker Plus. The new service is contributing valuable learning across the sectors that not only delivers positive change for end users but also behaviour and system change across the agencies involved.

After 15 months, the service underwent an independent Social Return on Investment (SROI) assessment, which found it was delivering £9 of savings to the public purse for every £1 spent (NB: the report is going through the SROI external validation process at the moment and the findings could change).

Organisations able to present evidence such as SROI will be in a much stronger position to argue for their right to provide and retain funding and services. We know that proven models of delivery can save in human and financial terms – but we need to show commissioners the value of alternative models that deliver more bang for the buck, increased social value and local economic impact.

Despite the bureaucracy of the public sector, most commissioners are open and willing to hear about effective new approaches, so social enterprises and other civil society organisations will need to bring attention to the impact and savings that they generate.

Effective measures and incentives to drive performance can be best developed if stakeholders understand the service model that determines their capability to deliver change and impact (often called the 'theory of change'). Setting relevant measures and incentives to drive the delivery of desired outcomes and behaviours is vital, especially in new models that focus on what is generally being called 'payment by results', such as the recently developed social impact bond.

#### Better measurement to stop short-term thinking

There is a danger that the savings agenda means that high end need and last resort services are prioritised so much by commissioners that little room is left for focusing on preventative approaches. Everybody knows that this will lead to

increased costs further down the line across a range of public services.

But to argue the cases for early intervention, organisations need better ways to measure and account for the value they create through their work. Evidence of change over time and the savings generated should be the basis for future investment decisions.

The new Social Value Bill introduced in 2010 by Chris White MP, which proposes that public sector contracts include provisions relating to social outcomes and social value, will provide encouragement and levers for those commissioners seeking to maximize social value from public investments.

In addition, the lack of joined-up services is a major source of duplication – and frustration – to both the end user and the commissioning body. We need to explore approaches to place-based budgeting that integrate budgets and commissioning for a particular population or geographical area. The merging of commissioning budgets and extending Community Budgets could help this by focusing on needs and outcomes and deploying resources more effectively. There have been difficulties with joint commissioning but hopefully the community budgeting pilots in family services – bringing together all local priorities and public money – will provide some valuable learning.

### A reality check for providers and procurers

Organisations across civil society need to be in a position not only to deliver services, but to bid for them. That means they need to understand the commissioning and procurement process and be able to deal with the paperwork required. They must be large enough for the contract size and if they aren't, they need to join others to bid, or to sub-contract.

For their part, public sector colleagues need to become much more proactive at knowing the market and identifying and encouraging new entrants, such as social enterprises. Instead of using standard procurement processes for convenience, they must seek to reduce the red tape wherever possible. It is worth pointing out that although European procurement rules are often thought to be a bureaucratic barrier, much social enterprise activity actually falls within 'Part B' of the EU procurement directives, for which the requirements are much less onerous.

The public sector should also consider incentivising staff to promote behaviours that are open and enthusiastic to customer service, partnership working and continuous improvement. Too many officers hide behind the status quo without engaging in how to generate value out of all contracting relationships. Increased dialogue and investment in

understanding and developing their supply chains should be a key part of the way the performance of procurement staff is measured.

Most public servants are busy people trying to get important things done. But only a fraction appear to pay attention to new policy initiatives, support bodies, recent innovations, etc. So proactiveness in interpreting, informing and implementing new policy should also be encouraged.

Decision-making and political processes can act as a barrier as well. Even the most proactive colleagues find it a real challenge convincing senior officers and elected members of the expedience of new approaches. And, in this time of austerity, unless the financial savings generated have already been tested and can be evidenced, new approaches will always struggle to get through.

The repetition of commissioning cycles and the default position to re-commission services also needs to be challenged. If statutory agencies had better comparative data on which providers delivered impact and value, the constant and costly rounds of tendering could give way to a constructive and collaborative process of continuous learning and maximisation of real value.

Linking all of this together, of course, is an urgent need for better and universally recognised, comparable social measurement and accounting methods. Cross-sector efforts and sharing of best practice are needed to move this forward.

Colleagues across the sectors shouldn't wait to be told what to do but should proactively develop metrics, solutions and partnerships able to deliver in the future.

The opportunity for positive reform is there. Success or failure is now in our hands.

**Miia Chambers** is director of development at P3 Charity and Social Enterprise. She was previously at NESTA (the National Endowment for Science, Technology and the Arts) working on public service innovation and before that worked for Camden Council's Communities and Third Sector team.

P3: [p3charity.com](http://p3charity.com)

NESTA: [nesta.org.uk](http://nesta.org.uk)

*Modernising Commissioning Green Paper:*  
[cabinetoffice.gov.uk/resource-library/modernising-commissioning-green-paper](http://cabinetoffice.gov.uk/resource-library/modernising-commissioning-green-paper)

*Localism Bill and General Power of Competence:*  
[communities.gov.uk/publications/localgovernment/localismcompetence](http://communities.gov.uk/publications/localgovernment/localismcompetence)

*Public Services (Social Enterprise and Social Value) Bill:* [publications.parliament.uk/pa/cm201011/cmbills/006/11006.i-i.html](http://publications.parliament.uk/pa/cm201011/cmbills/006/11006.i-i.html)

*National Programme for Third Sector Commissioning:*  
[idea.gov.uk/idk/core/page.do?pagelId=6583598](http://idea.gov.uk/idk/core/page.do?pagelId=6583598)



## Workwise: Getting better at showing how you care

With the onset of the 'personalisation' agenda and the use of direct payments for care services, Suffolk-based Workwise turned to SROI to show its impact, as training coordinator Mandy Turner explains

### What does the organisation do?

Workwise is a specialist training organisation based in Bury St Edmunds that helps people with mental health illnesses access work and further education across Suffolk and south Norfolk. It runs a training facility with multi-activity workshop and craft areas, leading to the selling of some of their products and services – from textiles, signs and corporate embroidery to a quilting service and CAD/CNC cutting service. Its employment services offer support towards employment with workshops and one-to-one help. Workwise provides work-based rehabilitation in a supportive but realistic work environment to enable trainees to regain the direction of their lives through employment and community participation.

### Why are you using SROI and has it been useful?

We use SROI because we want to show what we do and how effective what we do is from a point of view of funding. Now we are using direct payments, which means people apply to come to us, and this makes SROI even more valuable.

When we realised personalisation and direct payments was going to happen, we realised we needed something that would prove the value of what we did. SROI seemed like a good exercise to show our impact. It was 2008 when we heard about these new policies and that's when we started our first SROI. Now we're doing another one. We're maintaining it and getting better responses this time round. It's much easier second time round too - we have a different way of thinking now. We found it hard at first, and didn't understand the ethos behind it, but now we have it and we're pleased with our results. It had never occurred to us that we had been doing quite so much with the money that came to us. People have reacted well to it. I wouldn't say we've had much of an increase in investment, but we have definitely had more interest.

### Have you changed anything in your business as a result of SROI?

We have realised that our products are very important. Retail used to be a small part of Workwise, but we have discovered our trainees get a lot of satisfaction from the sales of items they have been involved with. We hadn't appreciated how that had helped them move forward. However, it can also be the problem, as is showing up this time around, in that many clients aren't ready for social enterprise from the start and it can be daunting to

join the organisation and only see quality production in operation. We are aware of the need to build people's confidence slowly with little beginnings.

We also didn't realise the value of communication. We were keen to get out there and say 'this is what we do', but we didn't know how and to whom. We found out that not as many people know about us as we thought. The SROI helped us prove that we needed someone in the organisation to help us with marketing and personalised budgets for clients. We are getting underway with both now, and have a communications strategy. SROI helped us to be more specific in what we offer to people.

### What did you learn?

So much. It wasn't a surprise – it just helps you face up to things!

### What would you do differently next time?

Now we're working on updating our SROI as we're now working directly with direct payments and personal budgets. We want to make sure we're doing it effectively. The changes we have made have not been huge, but have made a world of difference. They have made us more aware of what our staff and service users are doing and how long it takes them. It makes us more cost effective. These subtle changes have actually been forming a strategy for future SROI.

Where the SROI has been really important is that it's given us confidence to move forward. We never thought we'd embed it into our culture so well, but now it's just part of what we do. It's an awful lot of work, but we want to do it and do it regularly. Getting it accredited adds even more value for us, but in these difficult times it is a financial burden that we have to know is worth it.

We thought we would do everything differently second time around, but then we realised it would be difficult to compare the studies so we're trying to do something similar to the first one but with some tweaks. Last time, we didn't have enough stakeholders involved. This second exercise has been a more comprehensive survey – we've sent out more than 100 and expect 80 per cent back – which makes the SROI stronger.

### Workwise's SROI ratio:

£3 for every £1 invested

# Getting beyond the finances



**Becky Malby**, Director of the Centre for Innovation in Health Management, argues that social value, as well as money, should be a key part of the national conversation on improving services

It may seem as if the only topic of conversation these days is the drain on public finances.

It is not just the cuts that make funding an issue. As the world gets more complex, social problems also get more complex and, therefore, more expensive to solve. But is this narrow monetary focus closing off more fertile avenues of thought about public services?

The Centre for Innovation in Health Management (CIHM) has been working with an international network to generate original solutions that do not necessarily cost more. The network, Shaping Health Systems, has members from Europe, China, India, the US and Africa. It includes social entrepreneurs, community activists and managers. This diversity gives us a unique ability to break free from established thinking.

When we met for the first time, we found we all shared a frustration with the endless conversation about money. Apart from anything else, this placed too much influence in the power of the people who fund services, rather than the people who use them.

We wanted to know why some organisations do so much more than others with exactly the same funds. The answer seemed to lie in a whole range of extra impacts, which in turn emerge from the somewhat intangible realm of how people feel, how hopeful and confident they are. It is hard to explain what is different about these organisations, and so this effect is often chalked up to charismatic leadership.

An example is Open Door in Grimsby, set up to cater to the thousand or so residents who could not or would use conventional health and social care. One of its clients is Tony, who used to get arrested and put in custody on average once a fortnight. When it turned out he was to become a father, everyone assumed the baby would go straight into care. After his engagement with Open Door, Tony no longer gets arrested, he still has his child and is a very

good father. A social return on investment (SROI) analysis found that while this cost Open Door £140 a year, it saved the state £48,000.

As Lance Gardner, non-executive director of Open Door, points out, Tony isn't particular interested in the fact that he's saving the state £48k a year. "His reason for behaving is that he's a really good father to his son, who was going into care but is now not even on the at-risk register. His child is not going to have the life he had."

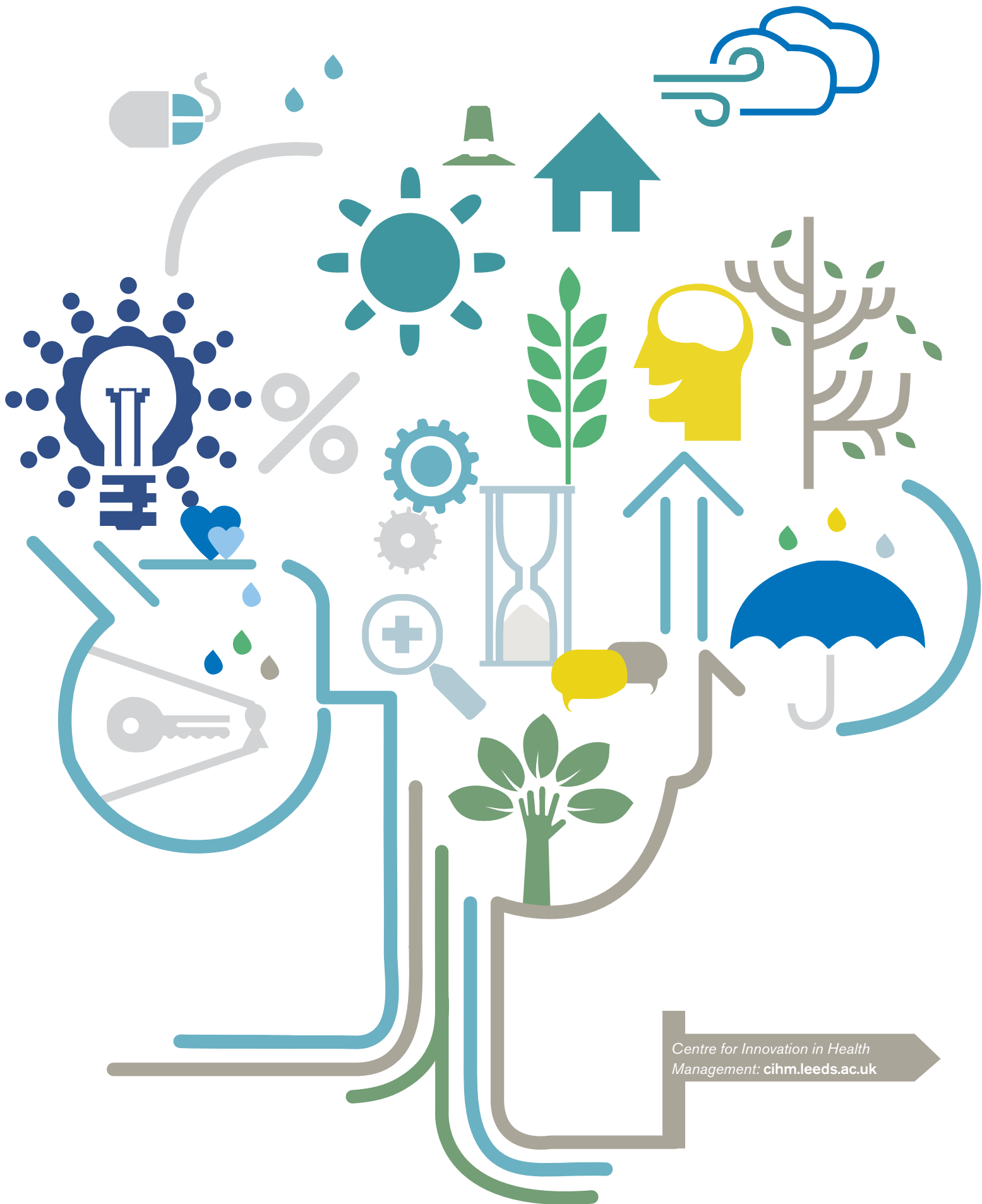
The point here is the other element that SROI draws out – that is the social value. It saves money, so it could not be more relevant. But you will not create it by thinking purely about spending.

CIHM has devised a toolkit, the Fair Chance Approach to Social Value, which gives all organisations the potential to generate social value. Fair Chance is not the only way to approach social value and, as the title suggests, it is not a panacea. Success is not a given – you must have a fit and flexible organisational culture, for example. But we believe social value is no mystery and is within the grasp of many more organisations than are currently delivering it.

One of the main tenets – and the first step – of Fair Chance is co-production. Open Door, for example, was devised by a thousand residents in partnership with the Design Trust. From the start, you must have everybody who has a stake in the project "in the room" to discuss what it is you want to achieve. It is critical to involve those who find it hard to speak up, no matter how much effort this requires.

Why is this important? Because if you get these early stages right, you are creating social value before you have even fired the starting gun for your project or programme.

If social value becomes part of the national conversation as well as money we can keep on improving services – even in an era of financial austerity.



Centre for Innovation in Health  
Management: [cihm.leeds.ac.uk](http://cihm.leeds.ac.uk)

# Youth Net: Assessing the value of a guide to life for young people

Informing young people on everything from sex to consumer rights is a big responsibility. Here, YouthNet's Impact Measurement and Evaluation Executive, Elena Di Antonio, explains the value and challenges of SROI in helping the organisation achieve its aims

## What does the organisation do?

YouthNet is the UK's first exclusively online charity. It provides advice, support and information to young people aged 16-25 and gives them a helping hand into exciting volunteering opportunities. All of its services are instant and available 24-hours a day, making sure they are there whenever and wherever young people need them.

YouthNet runs two online services: Do-it, the national volunteering database, and TheSite.org, a guide to life for young people, covering everything from advice

about sex to consumer rights. TheSite.org features an online question and answer service called askTheSite, and this was picked as the subject for YouthNet's first SROI project.

## Why did you use SROI?

The main reason was to demonstrate the value of askTheSite in a language our funders would understand. We knew we were making an impact, but we didn't have a way of showing the true value of what we do – SROI gave us a way of doing that.



Photo: iStock © franc reporter

We were running a confidential service online, so it was difficult to track the impact of that service. A lot of our service users were people in crisis, so we didn't want to start asking them too many questions about their circumstances; furthermore, the fact that people tend to ask a question through askTheSite, get their answer, then disappear made it very difficult to track the service's long-term effectiveness.

We were asked to be part of an SROI pilot with the Corporate Citizenship Company, commissioned by Vodafone, which brought a lot of charities together to thrash out the idea of SROI. We applied the SROI process to evaluate askTheSite and, because of that pilot, YouthNet has ended up a bit of a pioneer. We're always looking for new ways to explore things.

### Have you changed anything as a result of SROI?

We have definitely learned from the process. Exploring the impact of a service like askTheSite is such a challenge, so we were forced to think creatively about how we applied SROI principles. We used a complex mix of quantitative and qualitative research techniques to gather information about users' experiences, and then used this data to develop a series of case studies. We used these case studies to identify and monetarise the outcomes for young people of askTheSite.

The process involved us looking at our data in a way that we hadn't before, looking at trends, and really getting to grips with the impact askTheSite has on young people's lives.

### What else did you learn?

We learned that measuring impact and reporting it in a certain language is very important and that most people in our organisation believe in it. We were trying to put a value on things that we found difficult to put a value on, like someone's happiness. This gave us a method to do it.

We also learned that it's a very powerful thing to measure the value in monetary terms. Sometimes case studies aren't enough.

In terms of the process, we learned that it is hard work and takes a long time – it's not easy and sometimes it needs a leap of faith. It's worth it, but it's challenging. If I had to have it as a separate project it would have also been quite expensive because it's so time sensitive, but luckily it was part of my role.

### Are you embedding it or repeating it?

We'll definitely be doing it again. Our last project was a few years ago now, so we need to do an updated version of our askTheSite SROI. We're also looking at doing an SROI analysis of a section of our volunteering website, Do-it. The impact of that service is huge, so we know it will be worth it. So far we've started exploring a way to monetise the impact of Do-it on society; it's hard to find the time to do something every year, but we're definitely dedicated.

### What would you do differently next time?

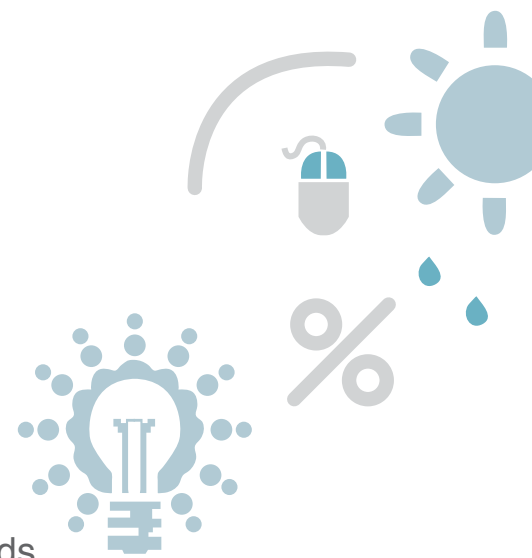
When we did our SROI we took a different approach than others because the methodology was still being developed. Now there's more support available and more tools in place for consistency so when we use SROI in the future we'll definitely utilise these.

### YouthNet's SROI ratio:

£7.38 for every £1 invested



# IRIS: A global focus on standardised impact reporting



**Sarah Gelfand**, Impact Reporting & Investment Standards (IRIS) Director at the Global Impact Investing Network, introduces a global initiative that seeks, among other aims, to help impact investors measure diverse investment opportunities in a consistent way

Recently, impact investors Lisa and Charly Kleissner encountered a common challenge while considering investment in two social enterprises that both provide clean drinking water to rural parts of India. These businesses were right on target for investment from the Kleissners' family foundation, the KL Felicitas Foundation, which was established in 2000 to enable growth among social enterprises, especially those that reach rural communities. However, when they looked to compare the size, scale, and relative impact of the two companies, the Kleissners found that each had a different way of reporting the 'total number served' by the organisations' respective systems. One company reported each person who had come into contact with a water purification system during a calendar year; the other reported how many users were supported daily, double-counting repeat users and users from the same family.

As the importance of social and environmental performance reporting has become increasingly evident to social businesses, many entrepreneurs have developed bespoke performance metrics to communicate social impact to stakeholders. While the commitment to measuring performance evidenced by these custom systems is important, the resulting fragmentation has led to the problem faced by the Kleissners. Furthermore, duplicative development of such reporting systems is inefficient and can put undue pressure on the precious capital and human resources of small and growing social businesses.

To help solve for these problems, the Kleissners and other impact investors – including more than 80 impact investment funds – are working with their portfolio companies to begin using IRIS, the Impact Reporting and Investment Standards. IRIS is a library of commonly-used impact reporting terms and metrics with corresponding standardised definitions.

## What is IRIS?

IRIS is an initiative developed in the US in 2008 by global social venture investor the Acumen Fund, the pioneering Rockefeller Foundation, and non-profit business innovator B Lab, with the support of an interested community of impact investors.

By providing a set of free, publicly available, standardised performance measures, IRIS enables the diverse impact investing community – including social enterprises receiving impact investment capital – to speak in consistent terms when describing the operational, financial, environmental, and social elements of their work. The IRIS standards also enable meaningful comparisons, aggregation, and benchmarking.

IRIS is designed to work across investments made in various geographies and sectors including those that provide access to financial services, education, and renewable energy, among others. Working groups of industry and sector experts develop the IRIS standards and work to ensure that IRIS is aligned with established reporting systems wherever possible. IRIS is also updated

## Using IRIS and SROI (Social Return on Investment) together

Although IRIS provides a set of standardised social and environmental reporting terms, IRIS does not dictate which aspects of performance mission-driven organizations should measure. Determining which performance indicators best capture the intended benefits of an organisation's activities requires the organisation to clearly delineate their intended objectives. The SROI method guides a process, which begins with social enterprises identifying different stakeholders and soliciting their perceptions of important outcomes. Social entrepreneurs and impact investors following the SROI method are encouraged to reference IRIS to identify the standardised IRIS social and environmental performance metrics that capture the information important to the business model and stakeholders. Both SROI and IRIS are intended to help account for the social, environmental and economic value of an organisation's outcomes, and the two tools can be used in tandem to achieve this goal.

regularly based on stakeholder feedback, user experience, and evolving ideas among the impact investing community.

Entrepreneurs choosing to adopt IRIS are not expected to report data for every IRIS performance indicator. Instead, they can look to IRIS as a source of standard definitions for the information they are already collecting, or to identify performance indicators that may be relevant to the specific goals of their organisation. Furthermore, aligning some data with IRIS does not prevent an organisation from tracking and reporting additional metrics outside of IRIS; it only requires that they are named differently from the standard metrics.

## Investors are looking to IRIS

Increasingly, investors like the Kleissners are working with their investees to identify a set of IRIS performance indicators to use across their portfolio so that they can better understand the comprehensive social, environmental, and financial performance of their investments. Other investors who have already developed customised performance metrics and reporting systems, like the Grassroots Business Fund, are working to align their proprietary systems with IRIS because the utility of customised systems is limited to a single investor. As a credible, third-party metrics system, IRIS enables greater coordination among investors, especially co-investors, into a single social enterprise, which can help to reduce the reporting burden for mission-driven businesses.

## Advancing impact investing industry intelligence

In addition to the value that IRIS provides to social enterprises and their investors, IRIS also enables increased industry-wide coordination. As use of IRIS grows, related service providers such as impact ratings agencies and performance auditors can leverage this common language and bring further rigour and credibility to the impact investing market.

To this end, the IRIS initiative has partnered with several organisations to develop the first-ever impact investing performance benchmarks. Working with the Aspen Network of Development Entrepreneurs

(ANDE), the Microfinance Information Exchange (MIX), the Global Impact Investing Ratings System (GIIRS), and a social and environmental performance management system called Pulse, several thousand geographically diverse companies across socially and environmentally-focused sectors are contributing anonymous performance data to the IRIS initiative. Using IRIS data reported by these organisations, the IRIS initiative is aggregating and analysing performance across these impact investments. The resulting benchmarks will allow organisations and investors to better understand their performance relative to this broader set of mission-driven organisations.

## Driving capital to effective impact investments

Just as standardised performance reporting and broad market analysis stimulate activity in the traditional financial markets, IRIS was developed to help channel more resources into enterprises tackling social and environmental challenges. The mission-driven enterprises adopting IRIS for their performance reporting are empowering impact investors to invest more confidently, which can ultimately play a valuable role in the large-scale positive social and environmental change we are all working towards.

**Sarah Gelfand** is Impact Reporting & Investment Standards (IRIS) Director at the Global Impact Investing Network

*IRIS:* [iris.thegiin.org](http://iris.thegiin.org)

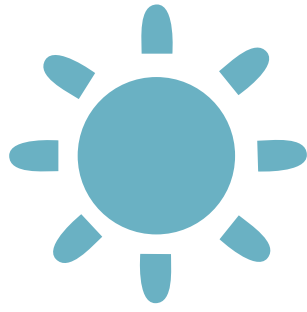
*KL Felicitas Foundation:*  
[klfelicitasfoundation.org](http://klfelicitasfoundation.org)

*Acumen Fund:* [acumenfund.org](http://acumenfund.org)

*Rockefeller Foundation:*  
[rockefellerfoundation.org](http://rockefellerfoundation.org)

*B Lab:* [giirs.org/powered-by-b-lab](http://giirs.org/powered-by-b-lab)

*Grassroots Business Fund:*  
[gbfund.org](http://gbfund.org)



# What investors are looking for

**Sarah Forster**, director of development at the pioneering social finance provider Big Issue Invest, takes us through their due diligence process – and explains how nurturing deeper relationships with investees and investors delivers greater impact and success

Big Issue Invest (BII) is a leading provider of finance to social enterprises that offer innovative business solutions to social problems. BII's investment objective is to maximize impact while delivering sustainable returns to investors,

which include institutions, foundations and high net-worth individuals (HNWIs).

Social and financial performance are assessed at all stages of the investment process:



**Screening: is the investment opportunity eligible?**

BII's investment team considers the potential for social value creation during an initial screening to assess the eligibility of the investment opportunity. This screening focuses on three questions related to social performance:

- Is the *core purpose* of the business to deliver a measurable social outcome and public benefit, as opposed to something which is additional or accidental?
- Is the social mission clearly conceived and tackling an important social need?
- Does the social mission achieve public benefit in line with the Charity Commission's definition – this is a requirement as some of BII's investors are investing using the Charity Commission's definition of social investment.

In addition, the business has to meet three other basic investment criteria:

- A business model which is either scalable or replicable
- A strong management team with proven capability to deliver
- A history of positive cash generation or a clear near term path to cash and surplus generation and ability to achieve financial return target

**Due diligence: will the investment deliver high social returns?**

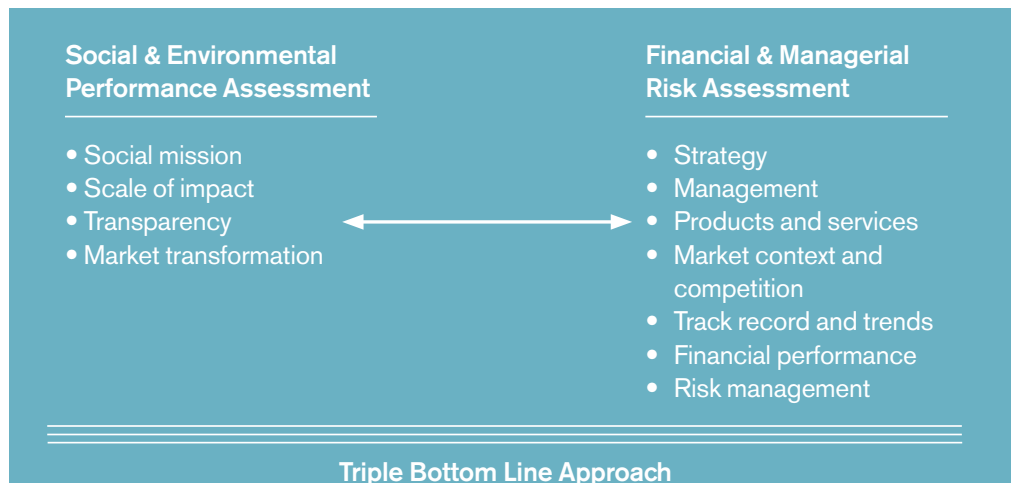
The investment team carries out an in-depth appraisal of the social performance of the business and its potential for high social impact during due diligence which also looks at the enterprise's management capacity, robustness of the business model and financial performance. The social and financial due diligence is part of an integrated process. This is known as a "double" or "triple bottom line approach" – aiming to deliver financial, social and/or environmental returns, i.e. blended returns.

During the due diligence process, the BII Investment Team develops a close working relationship with the management team and would typically visit two to three times.

BII's financial due diligence comprises an in-depth assessment of the robustness of the social enterprise's business model, the market context and competition, its track record and financial performance. Detailed financial projections are prepared as part of this.

For its social due diligence, BII uses a Social Rating Tool (its "Social Impact Index") which enables BII to assess the potential for social impact of each potential investment in a standardized manner. Impact is assessed from four dimensions. Each dimension is assessed using a series of standardised quantitative and qualitative indicators, which are scored to contribute to an overall score or rating. The four dimensions are:

- Potential for significant social impact – the extent to which the social enterprise is addressing a critical social need, is tackling the root causes of the problem being addressed and has measures in place to protect against mission drift.
- Potential for scale – the extent to which the enterprise has the potential to grow by an order of magnitude and have a material impact on the problem it is trying to solve on a long-term, sustainable basis. Both the breadth (scale) and depth (significance of change) of impact are taken into account.
- Transparency – the extent to which the enterprise has systems in place to measure, assess and report on its social impact in a rigorous and meaningful way.
- Market transformation – the extent to which the enterprise is testing, developing and refining an innovative business model that is capable of roll-out or replication, boosting



awareness and understanding of its stakeholder group amongst the public, within business or within government.

- Eligible investments have to meet a minimum impact rating to qualify for investment. If the enterprise is approved for investment, BII and the social enterprise will agree social impact indicators and both social and financial performance targets against which the enterprise is expected to deliver during the period of investment.

Tracking and reporting upon appropriate indicators is critical to impact measurement. Indicators are tailored to the specific social mission and operating contexts of individual organisations. However, BII aims to have each enterprise in its five, core investment areas report on two to three common indicators, such that performance can be analysed and reported on at a sector level:

- **Jobs, Education and Training** – increased access to education, training and sustainable employment for disadvantaged groups
- **Health and Social Care** – innovation and improvement in health and social care services to the vulnerable and people with disabilities with measurable improvements related to health and well-being.
- **Environment** – community-driven renewable energy and recycling businesses that produce business and job opportunities for local people, particularly in lower-income areas.
- **Financial Inclusion** – the provision of access to financial services to those excluded from mainstream provision.
- **Community Development** – acquiring, regenerating and developing community owned assets, including land and property, that benefit local people in deprived urban and rural communities.

BII uses the Social Impact Index as an entry point for an ongoing dialogue with the social enterprise about its impact and measurement of that impact. The rating is reviewed and updated on an annual basis and provides a framework to track social performance over time.

**Investment decision: making sure social performance is locked-in.**

BII aims through its financial structuring to provide incentives to management to focus on managing the achievement of both financial and social objectives. Hence, social performance

targets are also linked into “social covenants” in the financing agreement e.g. the right of the Fund to recall the loan in the event of failure to meet social targets. This integration of social performance conditions into legal covenants in the financing agreements is a pioneering feature of BII’s investment approach.

**Governance and aftercare: how can we help maximize social value creation?**

BII aims to be an active investor and seeks to support investee businesses to achieve both their social and financial targets. This is done by:

- Sharing its knowledge of successful social enterprise business models
- Sharing its network of contacts in the business, finance and social enterprise communities, as well as in government, for the benefit of investee businesses
- Linking businesses with potential partners that could help the business increase its financial performance and social value
- Placing well-qualified, non-executive directors on the Boards of investee companies where BII has an equity-like investment.
- Recommending new personnel, consulting or mentoring support, as appropriate.

**Social performance reporting: understanding and communicating social returns**

For all investors in BII, the decision to invest is partly socially motivated. Hence, it is critical that BII reports on social performance in a clear and robust manner.

BII has a close relationship with its investors and finds out what they want to know and keeps them informed of new developments with the Social Impact Index. In certain cases, such as the Esmée Fairbairn Foundation, we are actively involved in joint efforts to develop core common standards of social reporting across the social investment industry in the UK.

BII’s long-term vision is to create a social merchant bank that is “for social entrepreneurs, by entrepreneurs”. Relationships are critical to us. We are a committed investor that will support investee enterprises during both good and bad times. The due diligence process is one during which we get to know each other and is fundamental to future shared success. Our Social Impact Index provides a framework for deepening client relationships and focusing on delivering social impact.



# Banking on added value

**Duncan Sloan**, Head of Community Banking at RBS, explains how the long-term vision of the bank, and the initiatives it encourages and supports – such as the RBS SE100 Index – must incorporate the ability to demonstrate real value

Supporting social enterprises is a real priority for RBS. In fact RBS has been committed to the social enterprise market in the UK for over a decade and has worked hard to help create business opportunities for all sections of society.

RBS' approach is a simple one. Focus on our customers' needs, operate with integrity and openness, and be part of the community we serve. This means we play a strong part in trying to address society's challenges.

We therefore recognise that supporting enterprise is not just about providing banking products and services to our business customers. Sustainable support for enterprise means taking a long-term view of how we look after our customers and communities to help them become more successful, and create lasting value. This also means being committed to helping our customers and communities embrace opportunities for enterprise. To achieve this, we involve ourselves with partners in community finance, social finance, microfinance and business education to help those that we cannot bank get access to the skills, learning or finance they need.

We also seek to inform and broaden out understanding of the sector. That's why in June 2010, RBS launched the first Social Enterprise 100 Data Report. It contained more than 60 pages of statistics and case studies on the growth and social impact of social enterprises in different markets and regions throughout the UK. This new initiative set out to put the facts and figures behind the great stories of social business and was a showcase for the exciting new ideas being developed by some of the most innovative social entrepreneurs in the country. It was followed up this year by the second RBS SE100 Data Report, which showed an increase in the growth rate of UK social businesses, and also included important data on areas such as profitability and the number of women in senior management positions in the sector.

The figures in both Data Reports reveal a sector that is ambitious for success both financially and in terms of the social and

environmental change it generates. However, in a world where people care even more about what they are investing in, social business has a great story to tell – but one that needs to be backed up by robust information on both financial and social returns.

Consumers and procurers of goods and services are becoming more aware that price by itself doesn't give them all the information they need to make a judgement on value. In the world of finance, too, an increasing number of banks and financial organisations are starting to apply a wider set of values to how they invest. At RBS, the role we play in society comes with a number of important responsibilities. In the latest RBS Corporate Sustainability report published in April 2011, Stephen Hester, RBS Group CEO, said: "We are building strength and value in the new RBS whilst also supporting the economies and communities in which we operate. Getting this balance right is the key to a sustainable future for our business."

The Community Banking Team at RBS is dedicated to working in partnership with other, third party organisations and has formed strategic relationships with organisations across the UK to ensure support and investment can be accessed by more and more enterprises with a social purpose. These organisations include trade associations and community development finance institutions. Supporting such organisations is an important part of the strategy to strengthen particular sectors – whether social enterprises, charities, businesses in deprived neighbourhoods or enterprises providing opportunities to people living with disabilities. These bodies give their sectors a voice, ensuring their interests are championed at the highest levels. This way of working also allows me and my team to unearth and support innovative ideas that deliver sustainable social impact. By using our specialist knowledge, we can create partnerships and programmes that have measureable outputs, can demonstrate added value and deliver real value for customers and society.



# Create: Gaining the knowledge and confidence to prove and improve

Doing an SROI involves consulting a range of stakeholders. It can be time-consuming but – as CREATE’s partnerships and contract manager, Liz Riley, explains – the process can really help you learn about your organisation, and can bring a number of other benefits to the business

## What does the organisation do?

Create Foundation CIC is a social enterprise which currently runs outside catering business in Leeds, Sunderland, Liverpool and Doncaster and a restaurant in Leeds to provide employment opportunities for vulnerable and formerly homeless people. It also runs Create Potential, an academy supporting trainees looking for employment. This offers a 12-week course preparing clients for work. About 10 people go through the programme each month.

It is this academy that has been the subject of Create’s first SROI programme. Create already collected some ad hoc individual outcomes data, but it wanted a more robust approach that would also help the organisation report on the overall impact of its work. Having had a go at two in-house SROIs, Create decided to undertake a full, forecast SROI and has now begun a further evaluative one.

## Why are you using SROI and how did you go about it?

Create uses SROI because we’re not a charity and we need to prove the added value we are creating,” says Liz Riley. “We’re a business with social aims and having SROI means we can prove our impact. It’s auditable and transparent too, which is really important.”

## Stakeholders

Create identified a range of key stakeholders, consulting about 30 to help create its impact map. Create also included a few additional questions about people’s views on services to inform good practice. To involve stakeholders, Create:

- spoke to trainees through group interviews
- did individual interviews with representative staff in Create
- sent a questionnaire to external agencies including a partner agency
- sent questionnaires and did interviews with a small number of government agencies.



Developing the impact map, including interviewing and writing up, took about seven days. More days were needed to get the work to the right quality for assurance. However, although the process was very labour intensive in the short term, the organisation feels it is a worthwhile long-term investment.

## Proxies

In order to measure the difference that a specific activity of an organisation makes to people’s lives, the SROI process uses financial comparators or ‘proxies’ to give a

financial value to the impact made. Create identified a number of proxies, informed by its stakeholders. For example, Create's business managers hoped that the trainees would provide extra capacity (valued as extra staff working three days per week at minimum wage) but also feared that working with trainees would be time consuming as trainees would need more support to train and manage (valued at 30% of each manager's time). Create's trainees explained that an outcome for them would be improved confidence. They said they could have got that outcome elsewhere by doing a course. Create used this to develop a proxy based on the cost of a local training course on assertiveness and self esteem.

Create found that some stakeholders found the idea of proxies hard to grasp. This was about individuals, not roles; some organisations struggled with the idea, whereas some students understood it. Create reports that in future it might try asking questions about proxies in different ways.

### What have you learned – and has anything changed as a result?

"Absolutely!" says Liz Riley. "It has been really helpful in several ways. The first SROI interviews highlighted that there were things in the business that weren't happening and that there were expectations in our training academy that weren't being met. Now we have developed an improvement grid, which is monitored to make the changes we need.

"And we now discuss things like improving communications within the business and whether we have the right people in the right places. The forecast shows that we need to recruit people for their specific skills to help the organisation grow.

"It's been of particular interest to non-traditional investors," Liz Riley adds. "Ever since we had our initial figures, we have got more investment interest and it's been easier to show hard-nosed businessmen and local authorities what impact we have."

Create also reports that its students identified a wider range of outcomes than it expected. Although getting a job was important, other outcomes were also important to them, including getting back in touch with their families, getting off benefits and becoming financially independent. As a result of students telling Create they valued getting off benefits, Create brought in someone to do 'in-work' benefit calculations for students early on in the course. Although this was something Create had considered before, the stakeholder involvement was the catalyst for getting it done. One unexpected outcome for an external agency working with Create was that its staff learnt more about working with homeless people. So Create's team has sought more contact with the staff of that agency to maximise those outcomes.

As a result of carrying out the SROI exercise, Create has made some specific changes to the way the organisation works:

1. Staff had experienced problems with the behaviour of a few students, exacerbated by a lack of clarity on who was responsible for discipline. This has been clarified and a contract is in place with students.
2. Communications between the academy and Create have been improved by changes to job descriptions.
3. Create has made its monitoring and evaluation systems more systematic, and will include measures of the things of importance to trainees.

### Were there any other key areas of learning?

"I have learned that, while I treated each stakeholder and outcome as the same, they're actually very different and diverse," reports Liz Riley. "That's been really interesting and it's helped me learn who my stakeholders really are. The learning has also been around being more systematic in what we do. Our systems need to be more robust, especially when it comes to training for the different businesses.

### How will you be using SROI in the organisation going forward?

"I have found that organisations which have an understanding of their social impact have a unique selling point, so we're definitely embedding it," says Liz Riley. "We are currently doing an SROI study for the academy and will think about how we can apply SROI principles to the whole business. The intention is to try and develop monitoring to support SROI indicators. It would then be much easier to do."

### What would you do differently next time?

"There would be little tweaks to the questions, but broadly the way we set it up was fine," says Liz Riley. "And I think we have done the right thing, doing it in stages. Doing it in one go would have been too complicated."

She reports that Create would consider reducing the number of stakeholders included next time, as this was time consuming and some external agencies were less material to the SROI. "I would better estimate the time it takes to engage with and interview stakeholders, which I found was very time-consuming, and I would allocate more time to it overall," she says, adding that next time not only will staff hopefully have learnt how to do the process more quickly, but they will need to spend less time explaining SROI to their stakeholders.

### Our SROI ratio:

The forecast SROI shows that the social impact value for the Academy in its first year is likely to be between £2.10 and £10.70 for every pound invested.

# Investing in transformation

Social investment intermediary Resonance has been using a tool called the ‘Transformational Index’ – but whatever approach one uses, say **Daniel Brewer** and **Andy Schofield**, having a strategy and a budget for measurement is a sound investment for social enterprises and impact investors alike

Measurement is all around us. It pervades almost all aspects of life. Babies are compared based on how heavy they are; athletes compete to see who can run fastest or throw furthest; students’ grades affect their options for further study.

These measurements are not neutral: on the contrary, measuring sets us on a route to comparison, which leads to judgements. How healthy is the baby? Which athlete is the winner? How bright is the student? Like it or not, measurement influences and reflects implicit judgements of value. And these are important to how decisions get made: more reason, then, to make sure that our measuring devices match the ends and means which we believe to be important.

Complexity increases as one moves from measures related to individuals to those for organisations. The National Health Service is a high profile example in this regard. How does one measure whether a hospital is doing a good job? A colleague and former NHS project manager pointed out that the best performing health establishments have no patients and no doctors – no fatalities and no waiting lists. Arguably, the NHS is a victim of the fixation with measuring, where the desire for ever greater swathes of information looks more like a symptom than a cure.

The dilemma for social enterprises and social investors alike is similar. How does either group know that a business is performing well when it comes to meeting its social outcomes? Cash flow and profit are important for social enterprises, but you could liken them to the fuel

tank or speed gauge of a vehicle – useful, but certainly no substitute for knowing where one is going. Growth is not good; good growth is good. But how do we spot it? Scale may increase social impact but can also dilute it.

At Resonance, we are very careful to match enterprises and investors based on their values, so that a willingness to make or receive investment does not lead to tensions later.

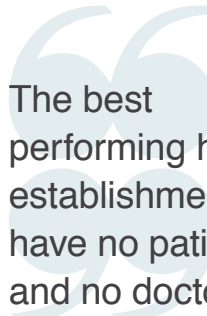
It is interesting that our experience has led us to see successful investor/investee matches as

being one part cooking and one part chemistry. Whilst we deal with the mechanics of deals, it is the people and their values that matter – both for the management team and for the investor, and equally for the recipients of services and products provided.

In such a context, any tool has to have a fair degree of nuance. It should not be encyclopaedic because resources do not enable us to measure

everything: even if we wanted to, we would spend a long time filtering out the noise of data which is interesting but not important. Generic audits offer a valuable outlook but they are fundamentally different to an entrepreneur’s view of impact. Getting to the heart of that focus is what our preferred tool for identifying impact, the Transformational Index, seeks to do.

Developed by Matryoshka Haus, an American non-profit, the Transformational Index helps social enterprises and investors to describe their impact and set a measurement framework. Running workshops with senior



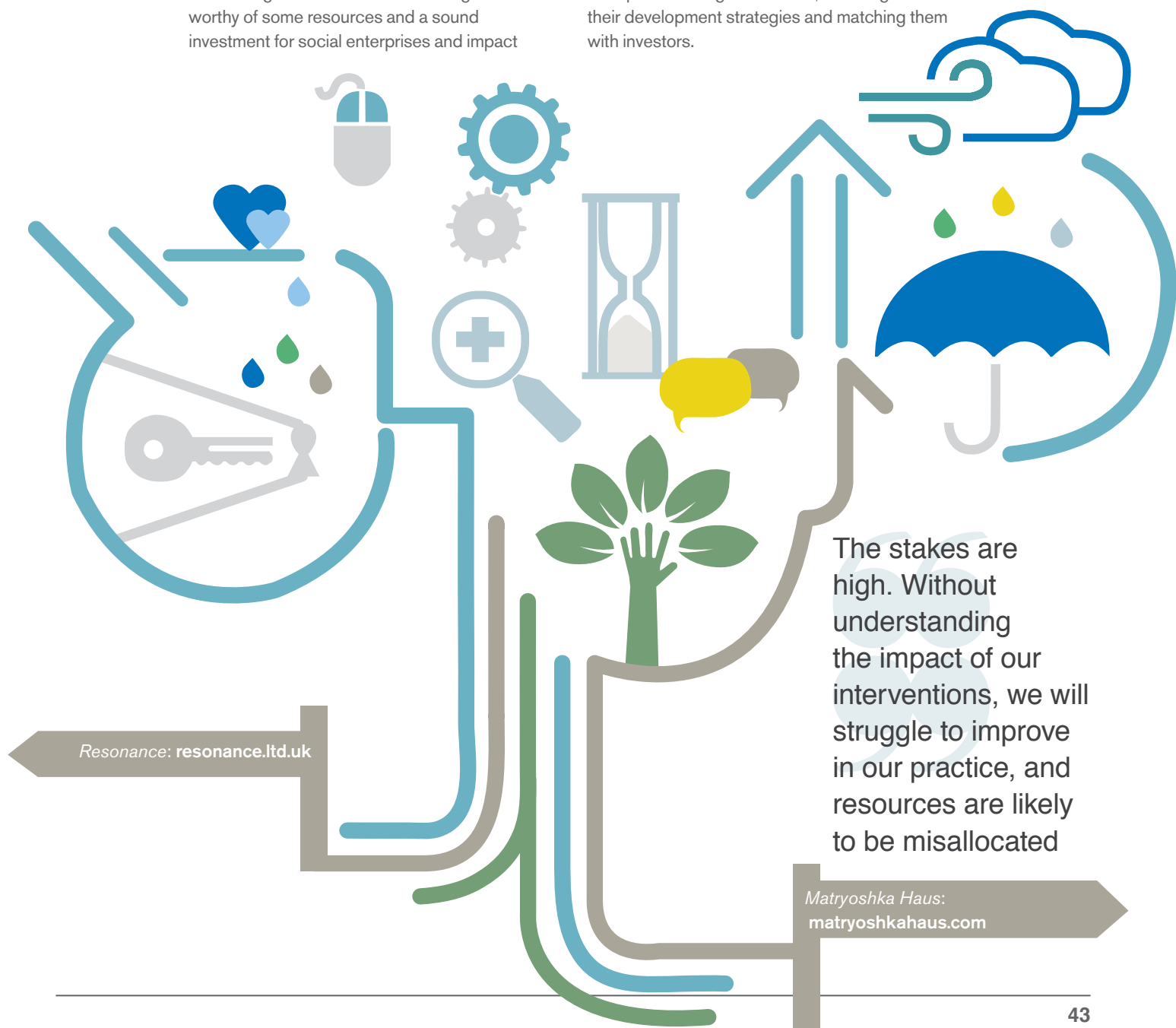
The best performing health establishments have no patients and no doctors – no fatalities and no waiting lists

staff, we have been able to gain rapid insight into organisations' theory of change by focusing on how they make a difference. Selecting from a pre-defined set of indicators means that the output is bespoke to each organisation, and yet is derived from a common lexicon describing different aspects of transformation. It is first and foremost a management tool for enterprises, but it is also proving a valuable tool for investors in determining the focus of their mission related investments. It helps avoid both mission drift and the temptation to report all impacts with no consideration as to how those measurements are important to the goal of achieving a set of desired changes.

Ultimately, whatever tool one uses, addressing measurement as a strategic issue is worthy of some resources and a sound investment for social enterprises and impact

investors alike. The stakes are high. Without understanding the intention and impact of our interventions, we cannot claim to know that something has worked at all, never mind if or how it worked well. And from this flow two consequences: we will struggle to learn and improve in our practice, and resources are likely to be misallocated. Resonance is one of many organisations trying to find better ways to address this key issue, in the hope that social enterprises and social investors will achieve more of the good that they originally set out to achieve.

**Daniel Brewer** is director and **Andy Schofield** senior consultant at Resonance, a specialist financial intermediary which works with social enterprises throughout the UK, assisting them in their development strategies and matching them with investors.



The stakes are high. Without understanding the impact of our interventions, we will struggle to improve in our practice, and resources are likely to be misallocated

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