

Questions, questions

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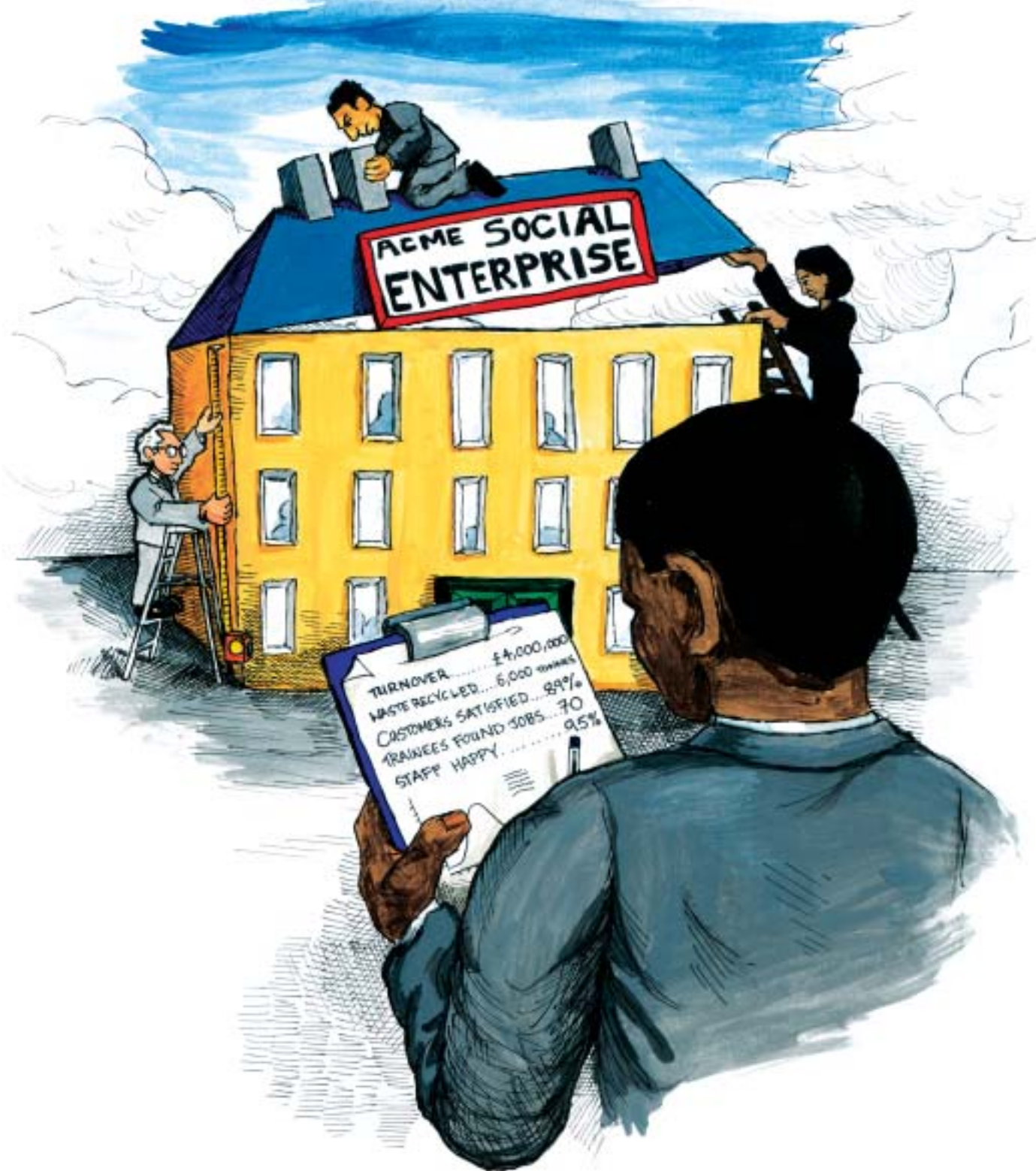
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SocialAudit

A Social Enterprise special report, in partnership with The Cat's Pyjamas and the DTI Social Enterprise Unit



SocialAudit

Social Audit is a special report from *Social Enterprise* magazine, produced in partnership with the Cat's Pyjamas, supported by the Department of Trade and Industry's Social Enterprise Unit, and in association with AccountAbility, the Social Audit Network, and the Social Enterprise Partnership (funded by the European Equal programme). For a sample copy of *Social Enterprise* or information on subscribing, please email: subs@socialenterprisemag.co.uk.

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Foreword

Stephen Timms
 Minister for e-Commerce and Competitiveness



In my role as minister for social enterprise, I've enjoyed visiting social enterprises across the UK that are working in a wide cross-section of fields, from childcare, construction and leisure services to transport, recycling and IT training.

I've seen first hand the distinctive contributions that social enterprises are making, through their entrepreneurial thinking, in improving the lives of people across the UK. But how can social enterprises capture the true value of their achievements and demonstrate them tangibly to financiers and local authorities, and, perhaps most importantly, to their local communities and to themselves?

Although social audit tools have been around for a while, too few social enterprises know about them or feel able to assess which are the most appropriate for their use. Which tools will really enable them to measure objectively their social and economic impacts and demonstrate the depth of their productivity, drive, dynamism and entrepreneurialism in contributing to the local community and the wider economy?

I want to see this change. As part of the government's *Social Enterprise: a strategy for success*, the DTI is supporting research into these tools, including the Social Enterprise Partnership work funded by the European Equal programme. We want to ensure that the most effective approaches are known and are readily available. That is why we are supporting this special supplement and the conference, 'imPROVE it – social auditing to win business', on 29 April, as a way of introducing social audit to the wider audience it deserves. This is an important opportunity for social enterprises to learn how beneficial social audit can be to their organisations. Enterprises that are serious about growing and improving their performance need to know how effective they really are. Their customers, those who lend them money, or contract with them, will have greater confidence that social objectives are being achieved if they have firm evidence in the form of regular social audits.

I hope that through this work, we can together raise the profile of social audit, and encourage further research into the use of effective impact-evaluation tools. Organisations across the board from social enterprises to small mainstream businesses to large corporates can benefit from using such tools to measure their social as well as their economic achievements. By using appropriate mechanisms, all businesses should be better able to evaluate their impact and improve their performance – but for social enterprises, driven by their social objectives, such evidence is even more important if they are to prove to everyone that they are achieving as much as so many of us already know them to be.

improve it Social auditing to win business

A one-day event for people working in, and with, social enterprises to explain how social audits can help grow your organisation.

New Connaught Rooms, London. Tuesday 29 April 2003.

Organised by The Cat's Pyjamas and Social Enterprise, supported by the DTI Social Enterprise Unit. There are a number of free delegate places sponsored by the DTI. For booking and programme information visit www.newstartmag.co.uk/socialaudit.

Jeremy Nicholls
 Director, Cat's Pyjamas



Ever since Monty Python sent up accountants, the profession has struggled with its image. After Enron, and other cases of overstated profits, that image has probably changed – but not for the better.

Yet there is a growing call by legislators and customers for businesses to be more accountable for their impact on society and the environment. A much wider account than can be gained from financial reports, to a much wider group than the businesses' owners. At the same time, the debate about corporate social responsibility (CSR) has questioned the role of business in changing social conditions and the extent to which businesses responding to opportunities can reinforce social inequality.

Legislation designed to hold businesses to account for their impact continues to develop. The European Commission has issued a CSR white paper. In France, social reporting has

become mandatory. In the UK, the Company Law Review is recommending an increase in the requirements for some businesses to report on social and environmental issues. An international standard on CSR is being considered.

And business is responding. Almost half the Global Fortune 250 – the world's 250 largest corporations – produce some form of sustainability report. The organisation AccountAbility is developing standards to help organisations respond consistently to different stakeholder needs and aspirations.

But how much more important this must be for social enterprises, which have a primary social purpose. It is fundamental that social enterprises should be able to account for their impact and respond to the needs of stakeholders.

Social enterprises often have complex ownership structures allowing a wide range of stakeholders to influence the enterprise.

John Sabapathy
 Senior research manager, AccountAbility



3M, BP, BT, Safeway, Unilever, AstraZeneca. These are just some of the organisations that came top of a new survey of leading responsible businesses. None of them are small, or even medium-sized. None are not-for-profits, charities, or social enterprises (the closest you'll get is probably the Co-op Group). And none of them belong to the public sector (although there are some privatised utilities).

So are good employee relations and working conditions, economical use of resources, environmental standards and good relations with locals just for the corporate big boys?

By no means. But, to date, attention, profile and support have focused on large companies with reputations to lose, while social enterprises have quietly pursued their visions of economic growth and social welfare. As a result, both the responsible practice and impacts of social enterprises remain hard to see.

Yet we know that social enterprises are among the best-placed groups to

capitalise on responsible business agendas, in part because they do so much as a matter of course. The 'Inner City 100' index of leading urban entrepreneurs in the UK shows how these companies address expectations of social, environmental and community responsibility – even when these are neither formalised nor systematic. And while these groups are not exclusively social enterprises, they are often driven by values that social enterprises will recognise.

So why have social enterprises and advocates of responsible business largely passed each other like ships in the night?

Many barriers appear when smaller organisations look at how larger companies handle these issues. They see expensive, complex management systems, lists of indicators, strange jargon and innumerable brands from which to choose. The assumption that you have to be a 'corporate' to be involved in 'corporate social responsibility' doesn't help either. But the basic issues about organisational responsibility remain the same.

Responding to stakeholders' needs is critical. Stakeholders are often customers buying specific social outcomes – so there are clearly contractual and commercial reasons to account for performance on these. After all, social enterprises often have financial advantages over other forms of business – if they are charities they do not pay corporation tax, for example. Such advantages need to be justified if they are to be retained.

There is also a competitive advantage to be gained: the ability to prove social outcomes, though additional to the main contract, may be enough to swing the deal.

Financial accounting grew up so that business managers could allocate resources to meet objectives, assess progress and change if necessary. It helps businesses improve. It would be difficult to imagine a successful business without this system, yet many social enterprises do not have social accounting systems to provide the bedrock for their improvements.

We all know that it can help to have someone

else cast an eye over what we do, to see the wood not the trees and pick up small errors we have missed. The same is true for social accounting. It adds value and, if you want to stand up and make bold claims, provides you with much more credibility.

In the late 19th century, company legislation began to require businesses to deposit an audited balance sheet with the Registrar of Companies. The top 50 companies on the stock market were then worth £150m. A commentator stated this would be the end of the joint stock company. But accounting and auditing have continued to develop and the top 100 businesses on the UK stock market are now worth about £750bn.

Perhaps accountability for organisations' social and environmental impact can release the same scale of change as was achieved by a combination of the joint stock company and financial audits. Social accounting and auditing are critical processes for improving the work of social enterprises.

Everyone needs to understand their impacts on key groups. Everyone needs to prioritise how they manage them. And everyone needs to be responsive to these groups, even if it's only to say 'Sorry, no can do'. Furthermore, although legal and institutional forms vary widely, social enterprises tend to understand the value of being inclusive in their working practices, and be more accommodating of groups affected by their activities.

So that's the good news: social enterprises will probably already be undertaking activities that demonstrate their social, environmental and economic responsibility.

But just because we are social enterprises doesn't mean we'd automatically get straight 'A' ratings from suppliers, partners, employees and communities if we asked them what they thought of us. Parliament may languish at the bottom of surveys of trust, while NGOs and the armed forces bask at the top (ask Mori). But who's most accountable? Parliament. Who's least? NGOs and the armed forces.

Clearly the more we trust people, the less we require them to prove

they're trustworthy. But social enterprises, charities and other non-profit groups can't draw on boundless reserves of goodwill. We have all heard horror stories about staff treatment or dodgy practices in supposedly reputable organisations. Sooner or later someone will ask you a probing question. You won't be expected to provide an exhaustive four-volume report, but you will need to reply. And it must be credible.

This is wholly achievable for small organisations, non-profit or for profit. Just ask the Furniture Resource Centre, the Liverpool-based social enterprise whose 35-page report has just pipped British American Tobacco and Co-operative Insurance Services in this year's ACCA awards for social reporting.

All the small organisations which were praised looked at international best practice, took its spirit, and adjusted recognised tools to suit their size and dynamism. Which tells us that there's every good reason for social enterprises to make the most of their existing responsible business practices, and every bad reason to avoid doing so.

Questions, questions...

Ultimate answers may be hard to find, but that doesn't mean we should refrain from asking just what our enterprises are doing to society and the environment, argues

John Pearce

In Douglas Adams' sci-fi comedy *The Hitch-Hiker's Guide to the Galaxy*, the supercomputer Deep Thought spends seven-and-a-half million years pondering the answer to the Ultimate Question of Life, The Universe and Everything before famously stating that it is '42'. As it then points out to its dissatisfied audience, if you want useful answers, you must be sure to ask the right questions.

Social accounting and auditing represent a less ambitious, but hopefully more productive, attempt to pose questions and provide answers to reveal the true impacts of organisations on the environments and communities in which they operate.

Social accounting is a process whereby an organisation may monitor and evaluate its work, report honestly on its achievements (and failings) and improve its performance through more informed planning and better management. Social accounting engages the stakeholders of an organisation, involving them in the process of assessment and recognising accountability to them.

Like any accounting system, to be effective social accounting must be customised to the needs of each organisation – one size does not fit all. Starting from stated values and objectives, social accounting is a framework which builds on the existing reporting, compliance and quality standards organisations already have, spotting the gaps to be filled.



Slartibartfast (Richard Vernon, left) discusses life, the universe and everything with Arthur Dent (Simon Jones) in the BBC TV series *The Hitch-Hiker's Guide to the Galaxy*

The five-stage social accounting process (see facing page) is a step-by-step approach which seeks to make manageable what may seem at first sight to be a daunting task. It is founded on the six key principles which are generally recognised as underpinning social accounting (see page 6).

Three points require emphasis. First, social accounting must include accounting for environmental impact. No organisation can be socially responsible without being environmentally responsible – and vice versa. So, when we talk about 'social accounts' we should expect to see in them an account of an

organisation's environmental policies, practices and impact. It is unfortunate that the term 'social accounting' has led some to perceive it as separate from environmental accounting, rather than another aspect of the same thing.

Second, it is important to be clear that social accounting is about the process of recording, consulting, analysing and then reporting the findings. Social audit is the way in which these social accounts are verified. In our 'short-handling' of the language, 'social auditing' is often used to mean both the process of preparing social accounts and having

them verified – but these are two distinct tasks, calling for different skills.

Third, social accounts report both what has been done (quantitative data: facts and figures), and also what people *think* about what has been done (qualitative data: perceptions of impact and value). For social enterprises this mixture of 'hard' and 'soft' information is especially important in getting across their message.

The social economy sector was quick to develop a workable methodology for social accounting and audit. In Scotland, Strathclyde Community Business recognised the need to understand, account for and report on the

Five stages to social accounting

Stage One:

Introducing social accounting and audit

- What is it?
- Why do a social audit?
- Benefits and snags.
- What are the key principles?
- The language of social accounting: understanding the jargon.
- What do we already do? Towards a social audit.
- History and current practice in different sectors.
- Do we want to do it?
- Managing the social audit.
- The cost of the social audit.

Stage Two:

The foundations

- Clarify the social objectives and the activities undertaken to achieve them.
- State the values that underpin the purpose and work of the organisation.
- Prepare a stakeholder map of the organisation.
- Identify the key stakeholders.
- Determine the scope of the social audit.

Stage Three:

The nuts and bolts – social book-keeping

- Agree the indicators which will allow performance to be assessed.
- Identify which existing records can be used.
- Decide what new, additional data will be collected and how.
- Agree how and when to consult which stakeholders, and about what.

- Organise the resources needed to carry out the social book-keeping and stakeholder consultation.
- Produce a social accounting plan and timetable.
- Implement the plan and monitor progress.

Stage Four:

Preparing and using the social accounts

- Draft the social accounts using existing information, the data collected and the views of the stakeholders.
- Identify the key issues on which the organisation should act.
- Review the objectives, activities and values.
- Set targets for the future.
- Review the social accounting process and make necessary adjustments.
- Plan dialogue and discussion with stakeholders.
- Plan how to disseminate the social accounts.

Stage Five:

The social audit

- Appoint members to the social audit panel.
- Present the social accounts to the audit panel.
- The panel arranges to verify a sample of the data used, assesses the interpretations given in the accounts, and comments on the quality of the social accounting and reporting.
- The social accounts are revised in accordance with the panel's recommendations, and the social audit statement is issued.
- Publish (a summary of) the audited accounts to all stakeholders.
- Begin the next cycle of social accounting.

social benefits of the community businesses which were being established in the 1980s. SCB's thinking and experimentation led to what became known as 'the Scottish model' which, blended with the experience of the New Economics Foundation working with the fair trade organisation Traidcraft, has evolved into the five-stage process described on this page.

Developments in social accounting and audit are moving fast in the social enterprise sector. No one can yet claim: 'This is how it should be done.' Experience is becoming richer and more diverse all the time, challenging those involved to ensure that lessons learned are

shared and that common standards are relevant and appropriate.

The core business of community and social enterprises, and of community organisations, is to achieve some form of social, community or environmental benefit. Financial profitability is essential to achieving that benefit, but secondary to it. The organisation – and all the people associated with it or affected by it – need to know if it is achieving its objectives, what impact it is having on society and on the environment, if it is living up to its values, and if the objectives and values remain relevant and appropriate. Social accounting facilitates this, ►

► and social accounts which have been audited by an independent 'social audit panel' will have credibility.

The real surprise is that it took so long for interest in social accounting to emerge. Social enterprises have been slow to understand the importance of measuring impact so that they can report on performance, account to stakeholders, and make the case for continued investment in their work. Even more surprising, perhaps, has been the failure of the backers of social enterprises to require real evidence of social impact and benefit. So often their concern has been whether they are succeeding as businesses, without seeking information about the intended 'social added value'. Changes are clearly under way and for social enterprises the challenge is to take the lead in developing ways of reporting which are appropriate to them and reflect their values.

The social audit model has been used in a variety of circumstances and with organisations of differing size and complexity. In Scotland, a heritage centre in Burntisland which is entirely run by volunteers, completed its first social accounts last summer. It used the process to help refocus its future strategy and to demonstrate the substantial added value achieved through the enormous voluntary input.

The Rural Environmental Action Project (Reap) based in Keith (pictured above) has been pioneering social accounting in the community sector for over three years. Not only has Reap completed two cycles and is now starting on its third, but it has been co-ordinating a social audit programme in Moray and Aberdeenshire, in association with the Community Business Scotland Network (CBS Network), introducing clusters of organisations to social accounting, training social accountants, and supporting and facilitating the production of their first sets of social accounts. Social accounting is becoming the accepted method of measuring and reporting impact.

In the Croxteth neighbourhood of Liverpool, another community organisation, Supported Independent Living Project Homes (Silph) has recently published its fifth set of social accounts, having been one of the first organisations in the city to engage in the process. Silph is a small organisation, with 12 staff providing 24-hour care for people with learning disabilities, so that they can live in their own homes in the community. For Silph, social accounting has become the main way it reviews its work each year – consulting with stakeholders and making recommendations for its board to consider. The social audit report is the main annual report to stakeholders.

The five-stage process appears capable of adaptation by social enterprises large and small and users comment on the value of the step-by-step approach. Nevertheless it can appear a somewhat daunting and complex prospect at the start – and there seems to be no way



The Reap project in Keith, Scotland has pioneered social accounting in the community sector



around that other than giving it a try! Getting organisations to work together as a cluster is one approach that works well. Not only is it cheaper, but sharing problems and learning together makes the whole process more attractive. Group learning also applies useful peer group pressure to meeting deadlines!

Social accounting should be 'embedded' in an organisation and not overly dependent on one or two determined individuals. Considerable personal benefits are reported, such as changed ways of working ('less intuitive and more organised, disciplined and planned') and improved record-keeping ('systemised the anecdotal evidence and made it demonstrable, reportable...').

An organisation should have sufficient time to prepare itself before embarking on a social audit cycle: to assess the time and resources required and agree internal arrangements for managing the process. Social accounting should be written into job descriptions and not just added to existing workloads.

It is important not to be overly ambitious in the scope of a first set of social accounts. That, in turn, may mean prioritising objectives to focus on those considered most important. And, like I said at the start, it is also important to be clear about what questions to ask.

Information from social accounts will be used in a number of different ways: in the annual report, applications for funds, and publicity documents, for example. But it is the *process* of preparing the social accounts which is more important than the production of a final, glossy report.

When social enterprises engage with social accounting and audit, other strategic planning and organisational review processes seem to be absorbed by it. They fuse together as one continuous exercise which allows the organisation to better manage itself, monitor its performance and its impact, report fully and so account to stakeholders. As one Liverpool organisation commented: 'We do it because it is what we do.'

John Pearce is the author of *Social Enterprise in Anytown* and a director of the Community Business Scotland Network. Further information on the audit and the Five stages to social accounting is available on the Community Business Scotland Network website: www.cbs-network.org.uk.

The principles of social accounting

Multiperspective

To ensure that the voices of all the key stakeholders are heard (and where they are not, to ensure that all omissions are explained satisfactorily).

Comprehensive

To ensure that the social accounts report on all aspects of an organisation's work, rather than just a selective sample. This requires clarity – and openness – about values, about the objectives, and about what is actually done in order to achieve the objectives.

Regular

To ensure that social accounts are prepared regularly (year-on-year or maybe biennially) so that social accounting becomes embedded within the culture and systems of the organisation, contributing to:

- Management of performance.
- The ability to report effectively on what has been done.
- Accountability to stakeholders.
- Creating recognised channels through which stakeholders are empowered to influence the organisation.

Comparative

To ensure that the organisation makes year-on-year comparisons of performance and relates the performance to appropriate benchmarks and other external standards; and also to allow other stakeholders to make comparisons (and therefore choices) between organisations.

Verification

To ensure that the social accounts are checked and approved by an independent auditor or panel.

Disclosure

To ensure that the findings of the social accounts are reported to stakeholders and to the wider community in the interests of accountability and transparency and to develop dialogue with stakeholders about the issues raised.

Andrew Robinson

Head of community development banking, NatWest/Royal Bank of Scotland

Creating trust



Decades of work and reflection on the part of business-people (mostly men), academics

and policy-makers has resulted in baseline standards for accounting and valuation of businesses. A host of operating and financial ratios have emerged to measure performance. In a paper called *Creating Value*, Harvard Business School guru Michael Porter wrote: 'The most basic premise of corporate strategy is violated if performance is not measured.'

But, as John Pearce says in his new book, *Social Enterprise in Anytown*, where a business is in business for a wider set of goals than financial profitability (and where social objectives aren't amenable to quantification in monetary form), what's a social enterprise to do?

The inadequacies of such metrics for social enterprises do create real and perceived barriers to access to commercial finance. The allocation of capital is determined by politics, presentation and persuasion.

Some do argue, despite the absence of market standards and the ability to prove 'social return on investment', the social economy 'works' quite well – many people benefit in a host of ways from the existence and activities of many social organisations.

But for banks, increasingly being asked to consider providing more than transactional accounts to this market

(namely loan finance, rather than traditional philanthropy or marketing budget), this attitude exacerbates the problem.

In the context of this article, the market could be said to appear highly inefficient. That is, not maximising the potential 'social value' organisations active within it seek to create.

So the answer from the banks is usually: 'No!'

Cultural assumptions and behaviours relating to the business/charity divide also exacerbate the problem.

Business people make excuses for the poor performance of non-profit-distributing entities, saying 'they are trying to do good' and therefore shouldn't be held to the same financial or managerial disciplines as their for-profit counterparts. In another Harvard Business School paper, *The Nature of Returns*, a very successful capitalist says: 'It really didn't matter that a particular social enterprise was fairly ill-conceived and had little chance of success, since the social goal of the organisation was so laudable.' The writer observes that this individual would never approach an investment or ongoing management situation in his day-job on those terms, yet somehow in a 'social' context it becomes okay to ignore critical signals of potential failure or marginal performance.

In the same paper, a voluntary sector manager is accused of knowing that some of his projects for which funding is being sought will only have a marginal return compared to resources used. Social auditing will challenge those who seek to justify such bids and programmes on the basis of perceived social intent, confusing programmatic intent with documented social impact.

This is why I like the choice of words heading the section on social audit, impact evaluation,

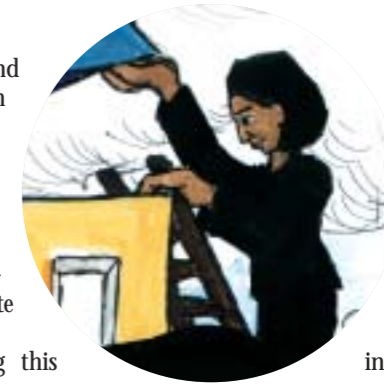
quality and accreditation in the DTI Social Enterprise Unit's *Strategy for Success* document: 'Create Trust.'

Achieving this trust will be a necessary part of the process of creating the conditions for increased investment flows into the social enterprise sector. It is the equivalent of 'investor certainty'.

Most small businesses only ever do a business plan to get the funding, then it goes in a drawer. Who are they for? How much do they cost? Who's going to pay for it? How can we trust the auditors?

Community development finance institutions (CDFIs) and social investors are beginning to develop a level of sophistication regarding the idiosyncratic, opaque, ambiguous way capital is allocated in the social sector. Finding ways to cut through the 'market hype', as well as managing the real tensions that exist between market-cost capital and community-based need, is key.

Social Enterprise in Anytown contends that there has been a failure of financiers of social enterprises to require real evidence of social impact and benefit. So often their concern is whether enterprises are succeeding as businesses,



without taking into account the intended social value.

This is true... up to a point. Certainly social audits aren't being used in any meaningful way to inform the due diligence process of banks and

CDFIs. But those in the emerging social audit consultancy industry probably haven't been learning from the experience of those who have been developing expertise at successfully investing in social enterprises. More work needs to be done, particularly if this type of reporting is to be seen as more than just an extension of the 'politics, persuasion and perception' (aka marketing) related to attracting funding.

A commercial banker at The Royal Bank of Scotland, responding to the notion of social auditing, commented recently: 'Social audits might be useful secondary material to support an application, in the sense that the balance sheets of these organisations don't give any feel for the success and capacity of a social enterprise.' But he expressed concern about overburdening social enterprises with unnecessary processes and costs.

'Most small businesses only ever do a business plan to get the funding, then it goes in a drawer,' he said. 'Who are they for?' he also asked of social audits. 'How much do they cost?' And: 'Who's going to pay for it?' He grimaced when I quoted the £4,000 figure mentioned in *Social Enterprise in Anytown*.

Interestingly, he also asked: 'How can we trust the auditors?'

As a community development banker, I believe that social reporting could become a valuable management tool. Better social businesses will inevitably lead to increasing investor confidence. In reality, the core nature of investment and return is never really a trade-off between social and financial interests.

As to whether an appropriate system of reporting, that integrates and validates the maximisation of social and economic value and makes sense to all stakeholders, can ever be achieved, well... Let's just say there's a lot of work still to do.

They've just beaten off competition from the likes of John Lewis, BP and GlaxoSmithKline to win a prestigious national award for social reporting. So why does FRC Group set so much store by its social accounting?

Alison Ball explains



Since launching in June 2000, FRC Group's Bulky Bob's business has completed more than 100,000 collections of bulky household waste in Liverpool, exceeding the council's expectations

PHOTO: DIFFERENT ANGLE

On report

How important is it that your organisation understands its impact on your stakeholders? On the environment? And can you prove it? How important is it that you can measure this and use it to improve performance? How important is it that you are transparent about this? This is the thinking behind social and environmental accounting.

Publishing social accounts allows all stakeholders – employees, customers, suppliers, and tenants – to understand if an organisation is achieving its objectives and living up to its values, and to judge if those objectives and values are relevant.

The FRC Group is highly committed to social auditing. The process has offered us some profound and challenging insights into the scope and quality of the impact that we claim we have as a social enterprise. It has shown areas where we are right on the button, exceeding our targets. It has also revealed where we have missed the mark and where it is still difficult to tell.

This year we will publish our fifth social report; we are now seen, in the social enterprise sector, to be one of the leaders in this field. More and more we refer to the findings of our social accounting to articulate the impacts of our work, particularly in our discussions with customers about our goods and services. We can prove both qualitatively and quantitatively the benefits of the training that we offer; we have feedback from tenants about the value of the furnished accommodation for which we have provided the furniture; and we are attempting to measure the extent to which our lobbying work is changing social economy policy.

So how did we begin to do all of this? Back in the mid-1990s, Liverpool City Council's community-based economic development team started a social audit training initiative for organisations it was funding, and we were invited to take part. We quickly realised the value of social accounting and were keen to embed this in our culture.

We started by defining our social and environmental objectives. What were we trying

to achieve through running a social business? For example, the provision of furniture to low-income households, giving employment and training opportunities to the long-term unemployed, the re-use, refurbishment and recycling of household items from the bulky household waste stream, and the creation of a culture based on a fair and empowering working environment for employees. These are just four of our seven social objectives.

We then mapped out all the activities the business undertakes to achieve these objectives. So, to provide furniture to enable disadvantaged people access to accommodation: we offer a one-stop furnishing service to registered social landlords; we sell low-cost furniture through a high-street store, and we offer discounts to people on benefits who want to buy this furniture.

In doing all of this, we defined our values: we are passionate about what we do, we're professional, we're creative and we're brave.

We also identified our stakeholders, the people and the organisations whose lives and businesses our work impacts – 11 groups, from

different customers to suppliers, staff, decision-makers and influencers.

Next, we determined the scope of the audit: exactly how much did we want to report on? What was the time frame? Now we report annually on the activities that have taken place from 1 April until 31 March.

We also agreed on a set of indicators to reflect our activities. For example, the number of properties we furnish, the tonnage of furniture we re-use, the number of trainees who leave us to get a full-time job, the number and type of qualifications each of them gains.

We were collecting a lot of this data already, but social accounting book-keeping helped identify the gaps. It made us look at the quality of the data and ask what we were using it for, who was collecting it and what we were doing with it. Over the five years we have become more sophisticated and much more focused. It's very easy to go mad and get data overload but much better to collect what is really illustrative and therefore far more useful, saving time and effort.

Once a year, we write up a summary of our accounts in a *Social Report*. We identify the key issues to act on over the forthcoming year and set priorities and targets to do this in relation to each of our objectives. We also review the accounting process. We then make the report available to all of our stakeholders.

It's been easy to capture the quantitative data but what about the qualitative feedback, the anecdotal? How can this be made demonstrable and reportable? We have collected much of this through annual questionnaires and focus groups. We ask customers in our store to tell us

what they think of our aims products and services. We ask our staff about pay and conditions. We have explored issues like how well the business performs on our values through focus groups. But there are other consultation methods that can be used with stakeholders, such as evaluation forms, workshops and face-to-face interviews.

When we first started social accounting we were pulling data together once a year. Now – as a substantially larger organisation – we are working towards monthly reporting on many of our indicators to make the use of this invaluable data part of our everyday business practice. This has required a commitment from all our team leaders, who now prepare the data on a monthly basis. To some, this may just seem to be obvious good business practice. You may already be collecting similar information to satisfy funders. When we started, however, in many areas we were unsystematic, inaccurate and inconsistent. Social accounting has greatly improved our methods.

We are lucky enough to have an intranet in the business, so we are aiming to have data, charts, graphs, and quotes from customers on it – updated on a monthly basis so that staff and visitors can see how we are doing. Building accounts throughout the year should make producing the annual report a lot easier.

We designated one person as the 'social accountant' – although social accounting was only part of her job. We were lucky to use



student placements to analyse the hundreds of questionnaires sent out to stakeholders

Once the report is complete, it needs to be audited. We now employ consultants to do this, but an external panel can also carry it out. Some social businesses recruit a panel of individuals from other social businesses, local authorities or the private sector to verify the data.

They assess the interpretations given in the accounts and comment on the quality of the data, producing a short report with recommendations. The audit report, or a summary, is then published to all stakeholders.

We cannot emphasise enough how useful social accounting is to our business. It has helped us measure our impacts and assess the extent to which our values have been embraced by our staff. We can now see areas where we want to use it to win contracts. In our work with local authorities and social landlords, we can prove the impacts of our work on the community and the local environment. We are also encouraging our customers to think in this way where they are using, say, Neighbourhood Renewal funding or the Housing Market Renewal Initiative to buy in our services.

Alison Ball is head of people and learning at the FRC Group, a social business providing furnishing, removal, recycling and cleaning services, as well as training and work opportunities. It employs 78 staff and trainees; this year its turnover will be £5m. The group's social report, *Proving It?*, can be found on the web at: www.frcgroup.co.uk.

Viewpoint

Kim Griffiths-Parry

Social Economy Team Manager, Liverpool City Council



Liverpool City Council began supporting social auditing in 1996 when the Liverpool Social Audit Initiative was commissioned. We have continued to work with the social economy sector to promote social auditing as a tool for measuring and improving quality, performance and impact.

Liverpool, then, is probably more advanced than many authorities in understanding how social auditing can demonstrate 'best value' and 'added value' in the delivery of services. This, together with political will (nationally and locally) to promote social enterprises, has

community and the environment through social accounting. We can see that this solution to service delivery has the potential to address multiple priorities.

So why haven't many more opportunities opened up for those enterprises which can demonstrate this added value? It obviously makes good economic sense and hits all the right 'community empowerment' buttons.

Part of the problem is a lack of understanding of social enterprise and its potential. Liverpool has had a strong and dynamic social economy for many years and the sector has earned the respect of local politicians and council officers. They have a voice and will be heard – they have got their act together.

There is no argument about the need to take action on procurement,

but progress will in part depend upon how proactive social enterprises are. They must encourage authorities to involve them in developing performance indicators which demonstrate the sector's added value – as well as ensuring, of course, that the minimum standards of contract delivery can be satisfied cost-effectively.

There is still a need for a great deal of training and sharing of good practice before social enterprises are viewed as preferred delivery agents. However, it seems that the ability of an enterprise to demonstrate its impact and 'added value' must be the key to winning contracts. Social auditing is clearly a way to do this and therefore – from a local authority point of view – can only be viewed positively.

Tools for the job



Every job requires its own set of tools, and social accounting is no different. **Hetan Shah** explains what is available to organisations embarking on this process, and who they should ask for help

I've got a business to run and social outcomes to work towards. Why on earth should I waste my time with impact measurement?

Using quality or impact tools usually requires up-front resources, but so do your office equipment and staffing budgets. You recognise, however, that if used correctly these can generate financial and social returns. Using quality and impact tools can be seen in the same way – as an investment decision.

A wide range of tools and processes can help social enterprises improve – and prove – their impact. The question to ask is: 'How can these tools add strategically to my business and social aims?' There are many potential benefits: the ability to strengthen organisational capacity and vision; improving relationships with your stakeholders; strengthening the quality of your work; becoming accountable and proving your worth to those you contract with or who fund you.

It is important to be clear about what you are seeking to achieve before you decide which tool to use. Social auditing is an excellent framework, allowing you to consider your objectives and strategy, engage with your stakeholders and account for your impacts. It is particularly appropriate for social enterprises, as it allows you to report on your financial and social performance in a single set of accounts. Social audit can also be used to provide a

framework for other tools, such as key performance indicators (see 'Find out more' on page 12).

Nevertheless, there may be times when an organisation decides not to do a social audit, but to pick out a particular tool and use it alone. For instance, if you wanted to demonstrate your economic impact to someone you contract with, you could use LM3 (see toolbox, facing page). Or if you felt happy about your mission but wanted to strengthen the quality processes in your organisation, perhaps PQASSO or another quality system would be best (see toolbox).

Capacity is an important issue. Take your time and don't try to do everything at once. Talk to other organisations which have used the tools you are considering. Find out if these will meet your needs. The Social Enterprise Partnership's Quality and Impact Programme (see right) intends to build a guide through the maze of tools for social enterprise and case studies, but in the meantime do the best research you can.

I have two lessons to share with you about how to use the different systems available. First, any system needs to be embedded into an organisation if it is to be used successfully. Rob Paton, professor of social enterprise at the Open University Business School, has shown in his recent book, *Managing and measuring*

social enterprises, that the most successful use of tools occurs when they are modified to suit an organisation's existing practices. So consider how anything new you embark on will add to existing procedures.

Also, make time to tell staff about your plans, so that they 'buy in' to your approach.

The second lesson is that working with other organisations can yield dividends. Experience shows that organisations working together in clusters can support one another. The Social Audit Network (info@cbs-network.org.uk) can put you in touch with activity in your area. Otherwise you can use your contacts to start your own network.

Although every social enterprise is busy running day-to-day operations, proving and improving performance is an investment well worth making. Whilst social enterprise is sexy we have the chance for a few years to prove the added social value the sector brings, and improve the quality of our practice and impacts. So let's measure up before the window of opportunity closes.

Hetan Shah is a director of the Social Enterprise Partnership and runs the Quality and Impact Programme at the New Economics Foundation.

The toolbox

LM3: Economic impact and money flows

The New Economics Foundation has produced a tool to help organisations measure their impact on local economies. The tool – LM3 – examines how the income of an organisation or initiative is spent and re-spent in a local economy. The purpose of tracking and measuring this spending is to identify opportunities to strengthen linkages in more disadvantaged local economies so that efforts can be made to keep more of the money entering these neighbourhoods circulating locally.

For instance, the Foundation worked with Eden Community Outdoors (ECO), a youth development organisation based in Appleby, Cumbria, using the LM3 tool. ECO was inspired to look more closely at its supplier list and found many businesses were, in fact, not local – even though their trading names suggested otherwise. LM3 also inspired ECO to set up a group with other organisations in Appleby to find ways to improve their spending decisions, stressing local purchasing.

LM3 helps social enterprises not only determine how well they are achieving their objectives, but also demonstrate to funders and local government the economic value of their work. There is a useful workbook – *The Money Trail – Measuring your impact on the local economy through LM3* – which shows how to use the tool. It can be ordered from Central Books (0845 458 9910) or downloaded free from the NEF website (www.neweconomics.org).

Quality tools

These include the Excellence Model, Investors in People, Charter Mark, ISO 9000:2000, the Big Picture and PQASSO. Data on these systems is easy to obtain. A good overview (aimed primarily at government departments) can be found at www.scotland.gov.uk/library5/finance/pesg-00.asp. This shows the different strengths of the systems.

PQASSO

Whilst it may have certain limitations for the business side of social enterprises, this tool is appropriate for smaller organisations which wish to understand and improve quality. PQASSO focuses on 12 quality areas, including governance, training, managing money and monitoring and evaluation. It is very user-friendly and is based on self-assessment rather than external certification. It is available from the Charities Evaluation Service (enquiries@ces-vol.org.uk).

Sigma

Sigma is a sustainability management system. It brings together a large number of tools, including social reporting/AA1000, GRI indicators and a version of the balanced scorecard (the sustainability scorecard). The system is being piloted, and it is not yet clear how it has worked with smaller organisations. Nevertheless, it is a useful reference point for any organisation which wishes to really improve quality and impact and contains many useful resources. The draft guidelines are available for free download from the website www.projectsigma.com. But be warned – this is a large document!

The Social Enterprise Partnership

One of the most exciting developments in social enterprise is that organisations are beginning to work together and actually consider themselves part of a 'sector'. One of the prime examples of this is the work being undertaken by the Social Enterprise Partnership (GB) Limited. This brings together Social Firms UK, the Development Trusts Association, Co-operatives UK (formerly the Co-operative Union), the New Economics Foundation, and Social Enterprise London. These organisations are driving the process forward nationally and through regional networks. The partnership has £1.9m funding from the European Social Fund (ESF) under the 'Equal' programme.

The aims of the partnership are:

- To improve the quality of, and to measure, prove and improve the impact of the social enterprise sector.
- To improve business development and support across the sector. Work under this programme includes a consultants' register, a report into how the benefits system discourages people from finding jobs, and a focus on training for business advisers and social enterprise.

It is increasingly recognised that measuring, proving and improving the quality and impact of social enterprises is crucial for the sector's future. Doing this will provide social enterprises with access to more work, more finance and more support, encouraging an upward spiral of success. Measuring and reporting on impacts also allows social enterprises to make themselves accountable to their stakeholders.

Another crucial aspect of this agenda is that social enterprises need to continuously improve their performance. It is only possible for them to do this by finding out what works and adapting their activities and processes in this light. Many social enterprises see impact measurement as a burden, rather than a source of competitive advantage or a useful management tool. There are, however, gaps in the ability of existing tools to measure certain kinds of impact and prove the 'added value' social enterprises give.

The partnership's Quality and Impact programme is designed to help meet some of the needs of the sector. The aim is to allow social enterprises to prove their added value, and

to continuously improve their performance. This will be achieved through giving social enterprises better access to appropriate tools and support.

A 'toolkit' will be created to guide enterprises through the huge selection of possible tools and match them up with the most appropriate methodologies. Resources to support the use of tools will be created, including case studies. New tools will be produced, including a 'Healthcheck' initially aimed at Development Trusts and 'key performance indicators' for the co-operative sector, which are likely to have application to other social enterprises. The project will also seek to promote the value of quality and impact tools to those organisations which have not yet got involved.

The partnership is also a member of two European networks of similar organisations, and leads a working group on quality and impact across both of them. European partners will share their experience of quality and impact tools. A European bulletin board on quality and impact tools will be facilitated by this project. A European conference on quality and impact is planned to be held in London in spring 2004.

To join the Quality and Impact project's mailing list, email Hetan Shah: hetan.shah@neweconomics.org.

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University for the People



Find out more

Social auditing

Social auditing is a framework to help organisations engage with stakeholders and assess social and environmental impacts, in order to improve performance and increase accountability.

The CBS Network website (www.cbs-network.org.uk/SocAuditing.html) contains a useful introduction to social accounting and audit by John Pearce called *What is it?* Other useful guides to social auditing include the New Economics Foundation's *Social Audit Workbook* (order from Central books, tel: 0845 458 9910) and the CBS Network/Social Enterprise Network's *Social Audit and Accounting Manual* (which can be ordered from the abovementioned website). Both are aimed at smaller organisations.

The Institute of Social and Ethical Accountability (usually known as AccountAbility) has created a standard for social and ethical accounting called AA1000. The details of this can be downloaded for free from their website (www.accountability.org.uk). It can be useful when working through one of the social audit workbooks above to supplement with AA1000.

Ethical Explorer is an online tool which is being developed to help organisations engage with their stakeholders and practice social reporting. To receive more information about Ethical Explorer, you can add your email address to the mailing list at www.ethicalexplorer.org.

Social Audit Network (see CBS Network website), Cat's Pyjamas (www.the-cats-pyjamas.com) and AccountAbility can provide details about training for social auditing. Regional support organisations such as Social Enterprise London (www.sel.org.uk) and Business Links (www.businesslink.org) may also be able to provide information on training.

Indicators

There is an infinite number of indicators on which an organisation might choose to report. The Global Reporting Initiative provides a useful set of indicators on economic, environmental and social effects. Whilst many of these are aimed at larger companies, they form a useful pool from

which to draw. *Sustainability Reporting Guidelines* is available free from www.globalreporting.org.

An organisation should select the indicators most relevant to its own practice. These can be chosen with stakeholders, as outlined in the social auditing framework. Sector-wide indicators may be appropriate – eg as part of the Social Enterprise Partnership's Quality and Impact project (see p11), the UK co-operative sector is developing a set of 'key performance indicators'.

One way of bringing together a useful but manageable set of indicators is to use a 'balanced scorecard' approach. This is an effective strategic tool to help organisations consider the range of perspectives that are important. Four perspectives are considered – typically that of financial, customer, learning and growth, and internal business processes.

There are a number of websites dealing with this subject (eg www.balancedscorecard.org), but most of these seem to be aimed at the corporate sector. Nevertheless, it is not too difficult to get the basic idea and change what you need to make it work for you. Rob Paton's book, *Managing and measuring social enterprises* (Sage Publications, www.sagepub.com), details a variation of this approach – a 'balanced dashboard'.

Measuring social capital is a tricky area. The New Economics Foundation's *Prove It* kit provides some methods for doing this. A less intensive '*Prove it Lite*' is in the works. See the NEF website, www.neweconomics.org, under publications for *Prove It*. The NEF is also developing a methodology to help organisations measure their 'social return' on investment. We know financial returns do not capture the social benefits of projects, so social return is a way of capturing those returns capable of being given a financial value (eg reduction in welfare spend or increases in taxes raised through increasing employment). If successful, this will be a clear way of proving the added value of social enterprise.



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