SOCIAL VALUE

QUICK GUIDE

The SROI Network
Accounting for Value

A PUBLICATION BY:

Pioneers Post

WHAT ARE THE QUICK GUIDES?

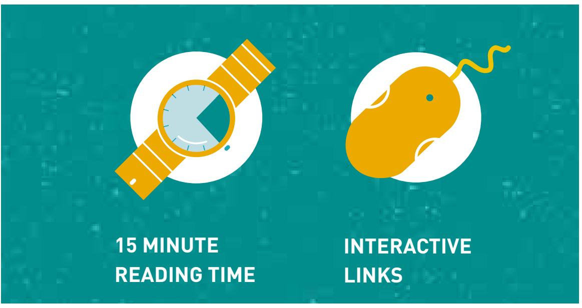
Welcome to this Pioneers Post Quick Guide – one of an ongoing series that we are developing with expert partners across the social innovation space.

The Pioneers Post Quick Guides provide a quick and easy digest to key topics in social innovation. They are a distillation rather than a comprehensive guide – you can read them in 10-15 minutes, get a good idea of the essential issues and find signposts for where to go for more information.

The guides are written by experts in their fields, and supported by a number of partners in the social innovation marketplace. If you'd be interested in writing or supporting a Quick Guide, please get in touch with us via email or phone: publications@pioneerspost.com, 020 8533 8892

Other guides in the series include A Quick Guide to Public Service Mutuals.

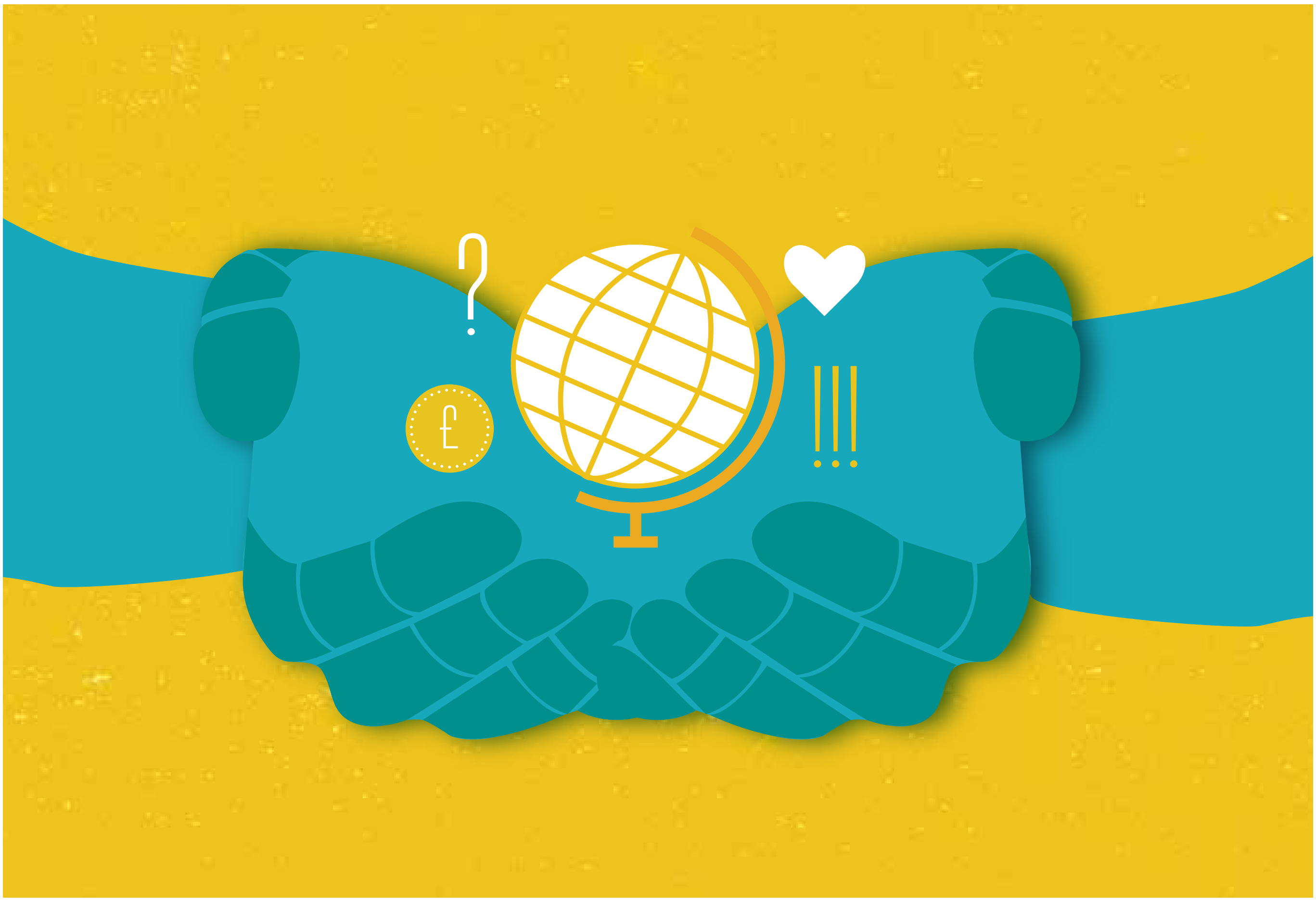
WHAT IS SOCIAL VALUE AND HOW DO WE ACCOUNT FOR IT?



Social value is one of those ideas that is easy to talk about – after all, it must be a good thing – but it is surprisingly hard to be clear about it – try and define it and it starts to slip away.

The first problem is defining what we mean by 'value'. According to oxforddictionaries.com it is:

"The regard that something is held to deserve; the importance, worth, or usefulness of something."

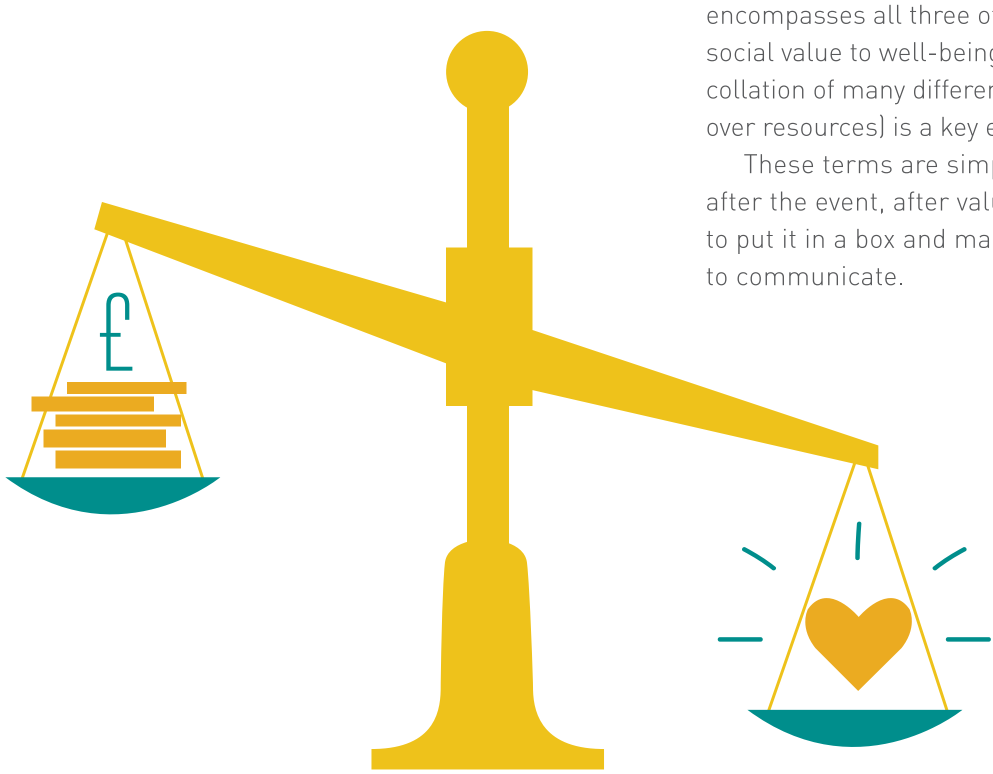


IT'S ALL RELATIVE

What this misses is that value only exists by comparison. It is, unfortunately, relative. Something is more or less valuable than something else. If something is valuable by itself it doesn't really tell us very much. It just gives a clue that it will be more valuable than many other things. Lots of things are valuable and yet many people consider the same things to be of different values. So value is a way of thinking about relative importance, the relative worth, of different things.

To have meaning, for something to be *'social'* value it has to different to other sorts of value. For some it means *'societal'* value – of value to society in general or of value to people in society – and can be compared to environmental and economic value.

Economics is the science of allocating limited resources between competing objectives. What about things that are of value but not dependent on limited resources – that sunset, the love for our friends? True, but we still have to choose how much time we spend with different loved ones, how much time we spend with that sunset. We are still making decisions to allocate resources to competing objectives.



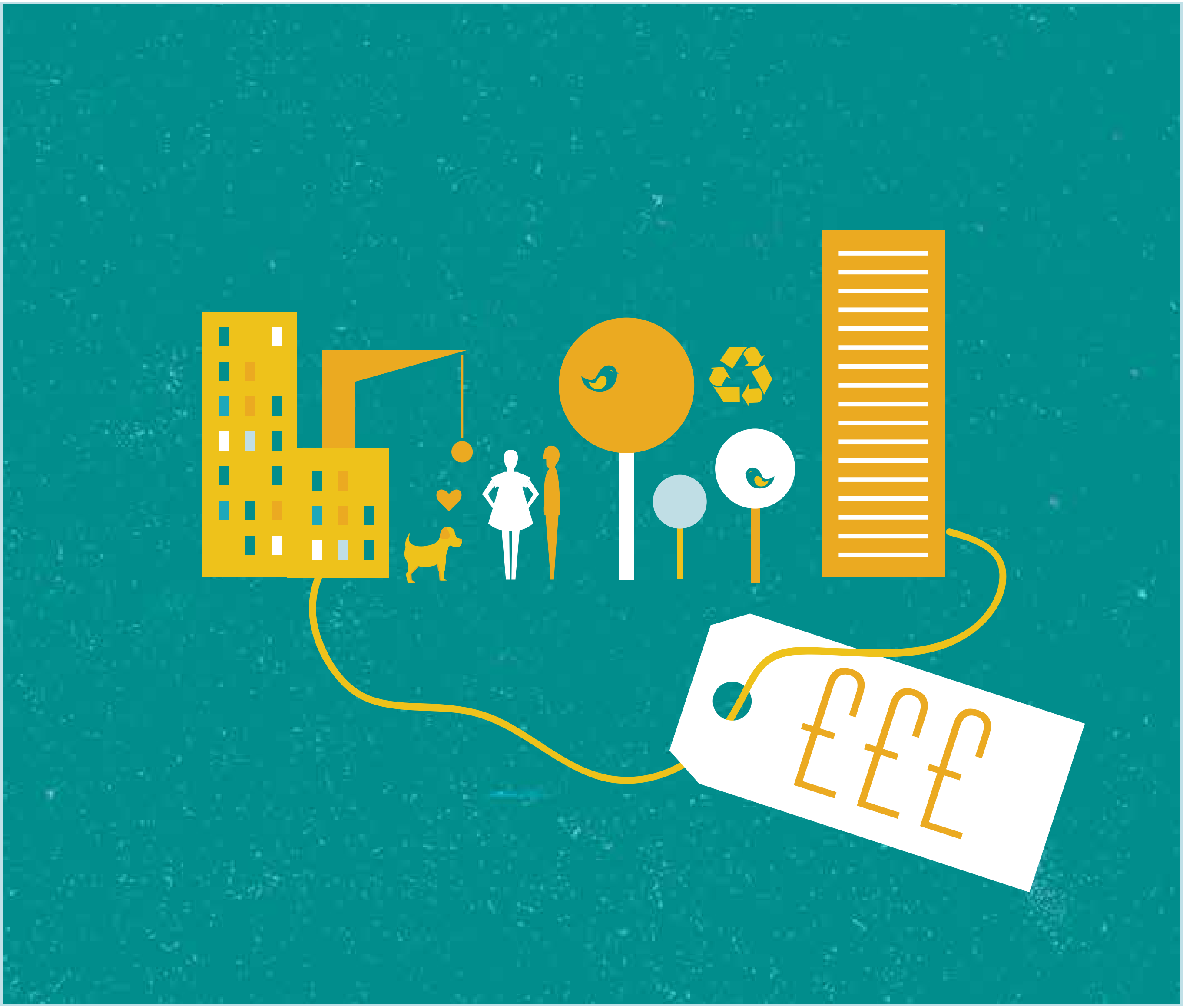
And what about environmental value? For some, the value of the environment is its value to current and future people. So it is still a social value – just one that now takes into account future generations. For others it is the intrinsic value of the environment, independent of whether there were human beings or not. Fair enough. And a clear difference with social value since no people need be involved.

For others it refers to non financial value, value that isn't being reflected in financial accounts or in Gross Domestic Product. Financial markets are a way of allocating resources and so reveal some of the economic value but not all of it. Both social and economic value cover more value than is defined or captured by financial accounting.

So, economic and financial are not the same, economic and social are actually pretty much the same and social value is some of environmental value.

Not convinced? This is where it seems the Public Services (Social Value) Act landed. It refers to the need for public authorities to have regard to economic, social and environmental well-being. Social value encompasses all three of these types of value and links social value to well-being. Of course, well-being is a collation of many different things, and income (control over resources) is a key element.

These terms are simply ways of analysing value after the event, after value has been identified, in order to put it in a box and make it easier, at least in theory, to communicate.

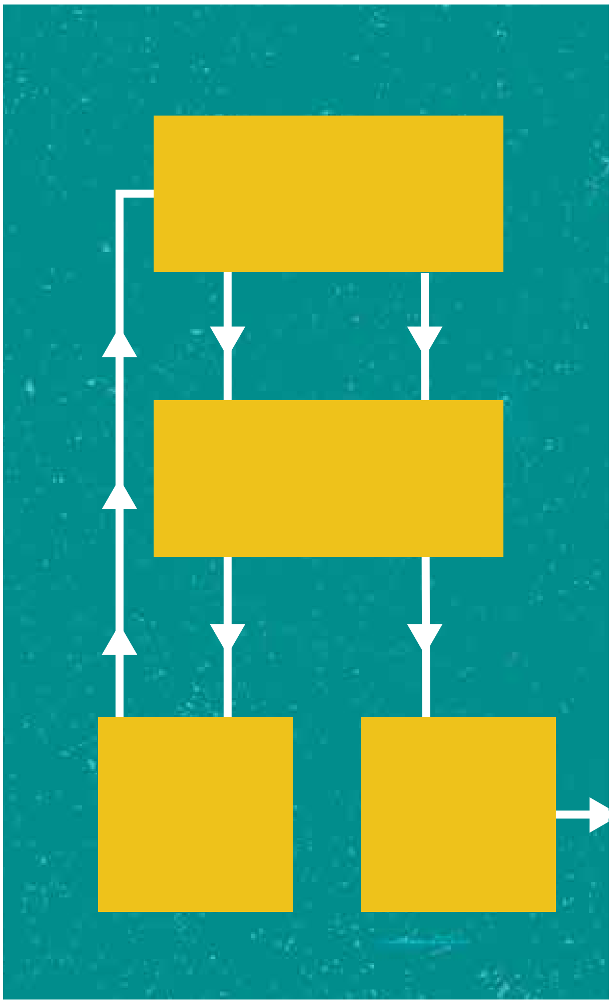


If social value relates to people then the main way we currently use it to describe relative importance of different things is by comparing how much people are willing to pay to have something – recorded for us to make a comparison possible by financial accounting. The choices we make in trading, mainly our labour, for a range of different things reveal the relative value we ascribe to these different things. Add in money as a way of making trading easier and we have a way of measuring relative value of things that are being exchanged. There are a few big assumptions in all this but, hey, we have been using this approach to make decisions for hundreds of years.

Whatever the limitations of this approach, it is still a way of revealing a certain type of social value. But the social value we are talking about is the relative importance of things where the value hasn't been defined in ways used by financial accounting.

So it is back to social value being value that is not being reflected in prices that emerge from trading activity between individuals, private businesses and the public sector.

WHY DO WE NEED TO KNOW?



Social value is the recognition that financial value does not provide us with enough information to make decisions that maximise benefits to all people. This has two sides.

Firstly it recognises that value is missed out and this results in decisions that have not taken into account the effects of those decisions on some people.

Secondly it recognises that only those that have resources can take part in exchange and so only their values are recognised.

Go a bit further and it means that the values of those with fewer resources are less important in determining relative value than those who have more resources. Or power determines value. Accounting for social value is a way of balancing out power.

Social value is about effects on people: effects that mean people have changed in some way. And yet the value of this change hasn't been recognised, in full or in part. And it is about people influencing what effects will happen.

This is probably not a win-win situation forall. Balancing out power is only a euphemism for transferring power from those that have to those that don't. Changing investment flows so that investment does not increase inequality and environmental degradation will have winners and losers.

WHAT DO WE NEED TO KNOW?

To know whether our decisions are creating more or less social value as a result of our decisions, we have to be able to measure it. Just because it is relative doesn't mean that it doesn't have a measure. Or that it doesn't relate to control over resources and the decisions on how these resources are used.

Social value is about changing choices we make so that allocation of resources is more accountable to those affected. It must have a common yardstick to make choices between different outcomes. Some decisions can be made based on discussions about qualities, some can be based on quantities of specific things. Some need a common yardstick.

There is a concern that any common yardstick will be misused, not least because the value is relative and by trying to 'fix' it as an absolute, different views are no longer recognised. However, so long as the value recognises the views of different groups, and the relative values of different groups are understood and transparent, then an aggregated measure of social value can be used to guide decisions. So long as those involved in the decisions understand the social value, they can have a debate about how resources should be allocated which starts from a shared or common understanding. Of course this doesn't resolve all the challenges of relative value and power but it means that decisions will be more informed by value that has been missing than otherwise.

A measure of well-being provides a common yardstick – not measures of the constituent parts of well-being but a way of measuring aggregated well-being. If the main way we currently use to describe relative importance of different things is by comparing how much people are willing to pay to have something then we can compare how much different people are willing to give up for one aspect of well-being in exchange for another aspect of wellbeing.

We can use what we call 'financial proxies' as this common measure, so long as we remember it is a proxy for these relative preferences. It is also useful because it allows us a way of starting the discussion on allocating resources that can be related back to the costs incurred. Most importantly, it is useful because it gives a voice to those who have been excluded that is in the same language as used by those who are not (or at least are less) excluded.

This approach to well-being valuation will help make decisions and it is one way of aggregating different outcomes using financial proxies. The argument that in making choices we need to aggregate and that financial proxies are currently the best way of doing this only leads to a choice of how to do this.

If you want to influence government policy then, yes, well-being valuation is a great approach. But if this isn't available, then different tools will be required. If the decision is being made by a management team then approaches which are less rigorous but more cost effective may be good enough. What they will all share, though, is a way of aggregating using financial proxies and a recognition that valuation is always relative and changing, and the best that can be expected is that better decisions are being made than otherwise.

HOW DO WE ACCOUNT FOR IT?

The real challenge is determining first what it is that we will aggregate. What are the effects of our activities and who (and how) should be involved in answering these questions? The concept of Social Return on Investment is as much about this question as it is about valuation.

We need to know what effects an activity has on people and (realising that there will be many) have some way of deciding how important they all are. In part so we don't try and do everything and in part so we can consider the relative value of different effects – which we need if we are choosing between options or making changes to create more value.

Of course we could just go on making decisions based on anecdotes and on who can argue their case most strongly (which will generally undervalue the view of those who cannot argue their case for whatever reason).

WHERE IS THIS HAPPENING?

Social enterprise started up as a way of organising to create value that private and public sectors could not achieve, a way of turning need into demand.

There is no doubt that social enterprise is gathering pace. And yet social enterprise has struggled to show the value that is being created. Not surprising, when a social enterprise has to operate using approaches to measuring value that do not recognise the value that social enterprise creates. No surprise when there is no common way of measuring this value, a way which needs to be flexible enough for different audiences and purposes, which needs to be rigorous for accounts of value to be credible, to be useful in making decision – a way which allows recognition and aggregation of very different outcomes.

Social enterprise is at the forefront of new ways of organising business but has also, more quietly perhaps, been on the cutting edge of developing new ways of accounting for value – practically exploring ways in which this can be done. The interest in social value has increased alongside the interest in social enterprise. As social enterprise practice is informing mainstream business so social value accounting is starting to influence mainstream financial accounting.

Measurement of social impact, as part of impact assessments or as part of corporate social responsibility (CSR) strategy, or of social benefit, as part of social cost benefit analysis, is not new.

Social value is closely related. The difference is the link to new ways of doing business. This is much more radical than often considered. If the aim is to reduce inequality and environmental degradation and we need new ways of accounting for value to achieve this, we also have to question our existing approaches.

To quote a few people who know about this, 'Whether it is "our willing suspension of disbelief", or that "the most potent weapon of the oppressor is the mind of the oppressed", we have to question the imbalance in power and the inequality that results (which just keeps on increasing) and question whether our current accounting systems contribute to this.

The concepts of 'social investing' and/or 'impact investing' have developed as ways of providing finance to social enterprise and much of the work on social value focuses on external reporting and is being supported by investors. Not surprisingly, those who are the beneficiaries of social enterprise and related activity are less able to finance and influence the direction of these developments. Reporting on social value does not need the value to be aggregated unless investors were going to use the information to choose between investments. Most are not. The few that are interested in aggregation see a different use. An organisation that has aggregated its value is likely to have had to consider, and answer, a number of questions. The ability to answer these at least suggests that the management understand and are able to account for this wider value, they will have had to make choices and need some way of informing those choices.

However, the understanding of social value is increasing and there is more recognition by social enterprises and their stakeholders that it is not enough to report on value. Information is needed so that the organisation can assess whether it is creating as much value as it can, given the resources at its disposal. And to this it needs to aggregate different outcomes in a single yardstick and compare this with the cost of creating those outcomes.

WHERE IS IT GOING?

The goal is not to only to identify social value as separate to financial value but to recognise that financial value is a type of social value – but flawed. If we can change it and make it better it will capture a wider and better understanding of value. There is a transfer from social value back into financial value – and then more research and experience. But this is not a scientific process, it is about people striving, learning and sharing experience.

There are a few barriers to increasing understanding and to the use of social value in decision making. We need to share more examples, which is why we started **wikiVOIS**. We need more debate – but debate which moves forward, which is why we stuck out our necks and went for an assurance process. Thinking of social value as separate from financial value as opposed to financial value being part of social value is a barrier, which is why we started **www.accountingforvalue.org**.

The lack of approaches to accounting for social value is a problem, but there are already a range of initiatives, platforms and tools addressing these problems, for example:

- **Social Return on Investment (SROI)**, in providing principles and a framework
- Tools likes **Value Game** and **Well-being Valuation** and **this** in helping work out non traded valuations
- Ways of thinking through outcomes like **Outcome Star**
- standardised indicators as maintained by **IRIS**
- and platforms like **Social E-valuator**

CONCLUSION

Understanding social value is a means to an end, to reducing inequality and environmental degradation. This is the challenge: to create enough consistency so new ways of understanding value are useful and credible but without depending on (though using) tools and methods that contribute to increasing inequality in the first place.

ABOUT THE SROI NETWORK

The SROI Network promotes the use and development of the Social Return on Investment methodology internationally, encouraging a community of practice along the way. The SROI Network is a membership organisation and a company limited by guarantee. Its objectives are:

- To ensure the principles and standards of SROI are adhered to
- To develop the methodology
- To disseminate information on indicators and proxies for use in SROI analyses
- To train SROI practitioners and provide peer support.

www.thesroinetwork.org

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Pioneers Post is an ambitious new online newspaper and communications platform for everyone doing brilliant business to drive positive social change, across sectors and across the globe.

Reaching well over 30,000 people every month through its website, e-newsletter and social media, the platform offers news, views, debates, analysis and advice from brilliant innovators, entrepreneurs, investors and thought leaders across the social innovation space – as well as a dedicated TV channel (Pioneers Post TV), a venture platform to pitch investment and business ideas, and the Pioneers Post Business School to help spread learning and good practice.

Pioneers Post builds on a decade of specialist reporting and knowledge – and many thousands of articles and videos – through its predecessors Social Enterprise magazine and SocialEnterpriseLive.com.
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