

The Role of Blended Value Accounting in the Evaluation of Socio-Economic Impact of Social Enterprises

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Abstract Social enterprise has become a key phenomenon in providing public services in many developed countries. The debate on the evaluation of the socio-economic impact generated by this kind of organization has gone hand in hand with the growth of social entrepreneurship. This study provides an exploratory analysis of the emerging practice of measuring the socio-economic impact of social enterprises using the theoretic construct called “Blended Value Accounting” (BVA). Among the models and tools proposed by BVA, we examine in particular the Social Return on Investment (SROI)—an instrument of causal contribution analysis—conducting a literature review on its application to the evaluation of socio-economic impact of social enterprises and on its implications for BVA. Finally, we reach a conclusion as to the role that these tools of mixed accounting and assessment might play—particularly the one examined—with respect to the positivist, critical, and interpretative theories of accounting, thus identifying the areas for further research.

Résumé L’entreprise sociale est devenue un acteur clé de l’offre en matière de services publics dans de nombreux pays développés. Le débat sur l’évaluation de l’impact socio-économique généré par ce type d’organisation est allé de pair avec une croissance de l’entrepreneuriat social. Cette étude offre une analyse exploratoire de la pratique émergente consistant à mesurer l’impact socio-économique des entreprises sociales en utilisant la construction théorique connue sous le nom de « Comptabilité de Valeur Mixte » (CVM). Parmi les modèles et les outils proposés par la CVM, nous examinons en particulier le Retour Social sur Investissement (RSSI)—un instrument d’analyse de la contribution causale—en passant en revue la littérature portant sur son application à l’évaluation de l’impact socio-économique

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des entreprises sociales et de ses conséquences pour la CVM. Enfin, nous offrons une conclusion sur le rôle que ces outils de comptabilité et d'évaluation mixte—en particulier celui examiné ici—pourraient jouer en relation aux théories positiviste, critique et interprétative de la comptabilité, identifiant ainsi des domaines susceptibles de faire l'objet de plus amples recherches.

Zusammenfassung In zahlreichen Industrieländern spielen Sozialunternehmen inzwischen eine wichtige Rolle bei der Bereitstellung öffentlicher Dienstleistungen. Die Diskussion über die Bewertung der sozioökonomischen Auswirkungen seitens dieser Organisationen geht Hand in Hand mit dem Wachstum des sozialen Unternehmertums. Unter Anwendung des theoretischen Konstrukts „Blended Value Accounting (BVA)“—die buchhalterische Erfassung des gemischten Wertes—stellt die vorliegende Studie eine exploratorische Analyse der zunehmenden Praxis der Messung sozioökonomischer Auswirkungen auf Sozialunternehmen bereit. Von den im Rahmen des BVA vorgeschlagenen Modellen und Werkzeugen untersuchen wir insbesondere die Sozialrendite—ein Instrument der kausalen Beitragsanalyse—und führen eine Literaturlauswertung hinsichtlich seiner Anwendung bei der Bewertung sozioökonomischer Auswirkungen der Sozialunternehmen und hinsichtlich der Konsequenzen für das BVA durch. Abschließend gelangen wir zu einer Schlussfolgerung über die Rolle, die die Instrumente verschiedener Buchhaltungs- und Bewertungskonzepte, insbesondere das näher untersuchte Instrument, mit Hinblick auf die positivistischen, kritischen und interpretativen Buchhaltungstheorien gegebenenfalls spielen und identifizieren so Bereiche für weitere Forschungen.

Resumen La empresa social se ha convertido en un fenómeno clave proporcionando servicios públicos en muchos países desarrollados. El debate sobre la evaluación del impacto socioeconómico generado por este tipo de organización ha ido mano a mano con el crecimiento del espíritu emprendedor social. El presente estudio proporciona un análisis exploratorio de la práctica emergente de medición del impacto socioeconómico de las empresas sociales utilizando el constructo teórico denominado “Contabilidad del Valor Combinado” (BVA, del inglés Blended Value Accounting). Entre los modelos y herramientas propuestos por BVA, examinamos en particular la Rentabilidad Social de la Inversión (SROI, del inglés Social Return on Investment)—un instrumento de análisis causal de las contribuciones—realizando una revisión del material publicado sobre su aplicación a la evaluación del impacto socioeconómico de las empresas sociales y sobre sus implicaciones para BVA. Finalmente, llegamos a una conclusión en cuanto al papel que estas herramientas de contabilidad y evaluación mixtas pueden desempeñar—en particular la examinada—con respecto a las teorías positivistas, críticas e interpretativas de la contabilidad, identificando de este modo áreas de investigación futura.

Keywords Blended value accounting · Social Enterprise · Impact · SROI · Measurement

Introduction

In the past 20 years, social enterprise (SE) has become a key phenomenon—especially in Europe—in providing public services (Defourny and Nyssens 2008, p. 5; Economist 2006, 2009; Nicholls 2006, 2008, 2009), mainly socio-sanitary ones, due to contracting out by central and local government (Angroff and McGuire 2003). More specifically, in the 1980s and in the 1990s, the wave of reforms known under the name of “New Public Management” (NPM) has specifically influenced the growth of SEs in the developed countries. This movement, inspired by the ideal of neo-liberalism, has taken the specific forms of deregulation and privatization, through the introduction of “market” mechanisms within the public administration itself (Hood 1998; Vickers and Wright 1988) on the basis that private organizations (not only enterprises and corporations but also non-profit organizations-NPOs) are more effective and efficient in providing public services than public administrations (Clarke 2004). Consequently SEs have grown significantly in number, influence, and politico-economic importance, as numerous studies and publications on the subject demonstrate (Bornstein 2004; Drayton 2002; Harding 2004; Nicholls 2008). Both in Europe and in North America, SE has affirmed its role as provider of public services, frequently taking over public authority functions of assisting citizens.

In social sciences literature, the expression “social enterprise” usually indicates an organization whose mission is to pursue an ideal by producing goods or services for the social sector (Borzaga and Defourny 2001; Borzaga and Galera 2009; Nyssens 2006, Kerlin 2006; Salamon and Anheier 1997). Within the third sector, the special characteristic of this organization is the large amount of income of commercial nature in socially useful sectors to the detriment of non-reciprocal transfers such as donations and subscriptions. Any aim of making a profit may be forbidden, but this is not, on an international level, an essential characteristic of a SE (Young 2006; Lewis 2004).

Evaluation of the quality of service in SEs is influenced by the prevalence of production over funding or, in other terms, by the prevalence of their entrepreneurial nature at the expense of their charity or membership aspect. This phenomenon affects the type of economic and social impact generated and, consequently, the obligations for accountability and transparency (Bagnoli and Megali 2011). As a result, SEs began to experiment with certain accounting practices that measured not only economic performance but also social results achieved using various indicators of outcome and impact. Many of these attempts relied heavily upon voluntary information regarding quality to the detriment of quantitative and monetary assessment. In recent years, however, accountancy has made several attempts to create and implement quantitative-monetary measuring tools which can measure in monetary terms the social and economic output of, not to mention the impact generated by, all kinds of organizations (Blended Value Accounting, or BVA for short). The logic of a blended value analysis suggests that, first, all organizations create both financial and social value, and that, second, the two types of value creation are intrinsically connected rather than being in opposition in a zero sum equation (i.e., to generate more social value an organization must sacrifice its financial performance) (Emerson 2003). In other words, generating increased social

wealth does not necessarily imply a sacrifice in terms of economic-financial results, as both elements contribute, in a holistic approach, to creating value.

Social results have been traditionally represented and assessed using mainly qualitative indicators, while economic and financial ones use almost entirely quantitative measurements. BVA strives to create rational and, if possible, objective measurements of value created. Wherever possible and appropriate, it adopts monetary measurement to define both economic and social performance. This is the reason why the application of methods and techniques of BVA are more suitable and fitting for SEs than for traditional NPOs. In fact, on one hand, NPOs encounter more difficulties in monetizing some types of outputs and outcomes related to their services and activities, while, on the other, they are funded primarily by members, donors, and volunteers (Mook et al. 2007, p. 82). The BVA argument is based on the assumption that the information supplied voluntarily by any kind of organization is not likely to be impartial and objective (Hopwood 1978, 1983). On the contrary, according to Power (1997, 2003), the information supplied is strongly influenced by the characteristics of the organization and by complex decisional processes at managerial level.

In the light of the above premises, the aim of this paper is to analyze the role of BVA in the evaluation of socio-economic impact of SEs with particular reference to the measurement model denominated “SROI analysis”.

In the following sections, therefore, we will go on to

- describe the role of reporting in the third sector according to the accounting literature;
- define the concept of effectiveness and impact evaluation of an organization in the international literature and praxis with particular reference to causal contribution analysis;
- conduct a literature review on a specific tool of BVA—SROI analysis—to evaluate the strong and weak points of its application to evaluating impact of SEs;
- reach a conclusion as to the role that these tools of mixed accounting and assessment—particularly the one examined,—might have, with respect to the positivist, critical, and interpretative theories of accounting, thus identifying areas for further research.

The Role of Reporting in Third Sector Organizations

A detailed attempt to describe the function and effects of reporting in the third sector has been carried out by Palmer and Vinten (1998). In their opinion, the significance of reporting changes, depending whether the approach is

- positivist, according to which data contained in the report attempts to fairly describe the situation (Whittington 1986);
- critical, that is to say, the accounting carries out a fundamental function of internal control and, from an organizational point-of-view, is a

- powerful operating mechanism (Chua 1986, Power and Laughlin 1996, Lukes 1974);
- interpretative, where accounting and reporting is seen as a fundamental tool for dialog between companies and their stakeholders, to stimulate social change (Gambling et al. 1993; Ryan et al. 2002).

BVA approaches and techniques, although working from a theoretically positivist viewpoint (the attempt of measuring generated impact), tend to concentrate attention on involving stakeholders in order to strengthen the legitimacy and credibility of the organization (interpretative theory) and on the strategic and organizational control levers that can be activated to improve effectiveness and efficiency (critical theory).

This is because, according to the positivist theory of accounting, SEs use reporting systems to represent rationally management performance and, consequently, to improve levels of process efficiency and effectiveness, as well as overall performance (Nicholls and Cho 2006). It follows that, if the tool used does not result in a true and fair view of the situation to be described, then its use might lead to wrong or counterproductive behavior.

Under the critical approach, modifications in the type and ways of using resources (input) can result in increased demand for impact evaluation tools. Consider, for example, the growing recourse to fund-raising by third sector organizations, where the lender requests a detailed financial report that clearly shows not only the use made of resources given but also the impact generated by programs and activities (Anheier and Leat 2006; Bernholz 2004; Bishop and Green 2008). It is primarily the new models of “venture philanthropy” (financial support of NPO and SE start-ups) that want increased attention toward evaluating the impact generated, as well as to certain management systems to be used in the organization funded (John 2006). Moreover, scarcity of own resources has encouraged third sector organizations to carry out an increasingly large volume of their activities in return for reciprocal services (commercial activities), stimulating the growth of SEs (Boschee 1995; Boschee and McClurg 2003). Over time, this phenomenon has created an ever-greater demand for social and economic tools for blended accounting and reporting and “contamination” from typically corporate models is also accepted (Nicholls 2009, p. 756).

Finally, under the interpretative theory, reporting enables the strengthening of relations between the organization and its stakeholder by means of a “social-constructivist” vision of the impact and social influence of third sector organizations (Dart 2004; Gray 2002; Kendall and Knapp 2000). Best reporting practices based on dialog with corporation and stakeholders strengthen the legitimacy and credibility of SEs. At the same time, reporting allows assertion of claims by stakeholders who, through their interest, give SEs both a mandate to operate and legitimacy (Jepson 2005; Suchman 1995). In this sense, growing stakeholder attention toward accountability and disclosure instruments reflects the changed institutional context in which third sector organizations find themselves operating. On one hand, stakeholders demand accounting and reporting practices similar to corporate ones to justify the third sector organizations’ growing propensity for reciprocal or

commercial activities. On the other, they insist on interactive forms of reporting that involve them more (Jacobs 2006).

The interpretative perspective assumes that social practice, including management accounting and control, is not a natural phenomenon, but a socially constructed one (Covaleski et al. 1996; Ryan et al. 2002).

The proponents of critical and interpretative perspectives look into the relationship between the organization and the social, economic, and historic context using other social sciences such as sociology, history, political science, anthropology, and others.

Laughlin (1999) argues that there are at least four important characteristics of critical and interpretative accounting theories. These theories:

- are always contextual, since they recognize that accounting has social, political, and economic consequences;
- seek engagement, meaning that they are always undertaken to improve the practice of accounting;
- are concerned with both micro- (individuals and organizations) and macro- (societal and professional) levels;
- are interdisciplinary in that they engage with and borrow from other disciplines.

The above premises indicate that evaluation of the socio-economic impact of SEs can be based on methods and techniques of BVA using the three accounting approaches mentioned above (positivist, critical and interpretative) (Nicholls 2009). Primarily, BVA instruments that focus more strongly on quantification of socio-economic impact generated are held to be coherent with the critical and interpretative approaches, less so with the positivist one. This thesis is confirmed by the difficulty of objectively measuring socio-economic outcomes produced by SEs in delivering services. In other words, we strongly believe that BVA has been conceived by its authors as an instrument of “positivist” representation of reality, but its practical implementation by the organizations, and especially by SEs, leads to more interesting organizational benefits and outcomes as an internal control system and as a mechanism of stakeholder engagement. This is because SEs should create a truly participatory system for sharing information and ideas about organizations’ activities and services. In the following sections, we will enlarge on this statement by introducing the strengths and weaknesses of a particularly relevant instrument of BVA, SROI analysis, as highlighted in the literature.

Impact Analysis for Social Enterprises

The monitoring and the measurement of effectiveness, understood as the ability to achieve goals and realize strategies while using resources in a responsible way, are key elements in assessing the success of SEs.

While financial data certainly play an important role for SEs, its effectiveness fundamentally implies its meeting the social needs it has been designed to address, thereby pursuing its mission (Bagnoli and Megali 2011). However, scholars recognize the complexity of factors that should be taken into the account for rational

appraisal of effectiveness of SE activities and services (Lecy et al. 2012) since they are “notoriously intangible and difficult to measure” (Kanter Moss and Summers 1987, p. 154).

The very expression “effectiveness” can be interpreted with different slants:

- in relation to a standard (quality);
- as the gap between actual service provided and the end-user’s perception of its quality (external effectiveness);
- as correlation of results achieved with those expected (internal effectiveness);
- in comparison with services provided by alternative agents (relative effectiveness);
- by measurement against the situation that would have occurred if services had not been provided (impact).

In this research, we focus on impact because this includes evaluation of the entire range of results obtained by SEs in carrying out their services and activities (Mohr 1995) and estimation of the degree to which planned objectives are reached. This is possible using a retrospective examination of results achieved with respect to aims, building a system of internal control that allows management to evaluate the organizational effectiveness in a very broad sense. Impact evaluation is also useful to demonstrate to the opponents or doubters in social entrepreneurship the importance of SEs in providing public services and in creating socio-economic value.

The expression “impact” typically refers to the final level of a causal chain. According to the Development Assistance Committee (DAC) of the OECD, impact is: “*the positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended. These effects can be economic, socio-cultural, institutional, environmental, technological or of other types.*”

The Network of Network on Impact Evaluation (NONIE) (Potter 2006, pp. 415–417) identifies two main types of causal analysis of impact:

- analysis of causal attribution (ACA), using experimental or quasi-experimental designs, and incorporating an explicit counterfactual;
- analysis of causal contribution (ACC), using iterative theory-building and testing, using critical comparisons and predictions.

The ACA determines how outcomes would have changed if the intervention had not been undertaken (White 2010). This involves counterfactual analysis, that is, “*a comparison between what actually happened and what would have happened in the absence of the intervention*” (White 2009). According to experimental design, causal attribution is based on being able to create, locate, or simulate a counterfactual (NONIE 2008, p. 21).

When causal attribution is not possible or appropriate, analysis of causal contribution is needed instead. This is because when interventions are complicated (consisting of many components, all of which are needed to produce the impacts) or complex (evolving and emergent), it is not possible or appropriate to develop an explicit counterfactual. Attribution is particularly difficult in cases where

development interventions take place in complicated situations, such as those characterized by multi-site, multi-agency, integrated programs.

Causal contribution involves a linear causality between input, output, and impact to achieve a clear goal (which should preferably be stated in the published program), and impact can be attributed to the whole intervention (“treatment”). At the same time, the ACC assumes that the context is the same, remaining constant, or not affecting the results, wherever the intervention is applied. In other terms, the intervention works in isolation from other interventions, being implemented exactly as planned and being uniform across all project settings.

The logic of contribution and causality of an intervention generally consists of several complementary activities that together produce intermediate outcomes, which are then expected to lead to impact according to the following schema (Table 1):

Table 1 The logic of casual contribution for an intervention

Inputs	→	Outputs	→	Outcome	→	Impact
The human, organizational, financial and material resources contributed to a project	→	The immediate product of project actions	→	An intermediate result brought about by producing outputs	→	The ultimate result of a combination of outcomes contributed by the project

Source Our adaption from NONIE (2008, p. 52)

Other types of interventions make a causal contribution to specific impacts when there is also a contribution from other factors, including complementary interventions and favorable implementation contexts. In such cases it is not possible to attribute impact to a single cause and it is necessary to look for multiple, alternative explanations and contextual factors.

For impact evaluation of the activities and interventions carried out by SEs, we believe that causal contribution analysis—characterized by many environmental contributions of different agents and factors—is the most appropriate because of the difficulties in applying an experimental or quasi-experimental design. More specifically, in causal contribution analysis, approaches based on stakeholder participation (Leeuw and Vaessen 2009) are particularly interesting since they are built on the assumption that stakeholders should be involved in all stages of evaluation, including determining objectives and impacts, identifying and selecting indicators, and participating in data collection and analysis. The stakeholder participation approach developed out of disillusionment with “external” and “scientific” evaluation (Hulme 2000; Iverson 2003) and has taken root following setbacks experienced in development initiatives, primarily by the World Bank, arising from the failure to understand and take into account social and cultural factors (Kottak 1985). This has been accompanied by the emergence of a more holistic view of development that includes the social and cultural, a recognition that a variety of stakeholders in civil society have a role to play, a more aggressive exploration and a more accessible presentation of the philosophy of knowledge, the

strengthening of qualitative research and the ability to analyze it, and the development of new approaches, including participatory approaches, and what might be called “designer” toolkits, each aimed at a specific issue (Salmen and Kane 2006).

In all these approaches, elaboration of the net impact permits the evaluator to measure in a rigorous manner the results achieved. Decision makers are then able to form an overall and detailed judgment of actions taken. Impact, therefore, is the fruit of total outcomes minus external effects unconnected with the action, which would have occurred regardless of intervention (Rossi et al. 2004, p. 120).

The present study analyzes a particular type of stakeholder participation approach to the causal contribution analysis of impact evaluation called Social Return on Investment Analysis (SROI analysis) using a literature review aimed at verifying the strong and weak points of its first implementations in SEs. SROI belongs to the field of BVA since it largely has recourse to hybrid instruments of accounting and reporting, involving stakeholders in defining outputs, outcomes, and monetary proxies for measuring the impact of the organization.

We believe that there is a lack in social sciences literature both on socio-economic impact analysis for interventions carried out by SEs and on the contextualization of impact analysis in accounting theory. This latter aspect appears poorly discussed by the doctrine, revealing a gap in knowledge that hinders the development of such studies and their empirical applications.

Methodology

An ISI web of knowledge and Scopus online literature search was conducted for the years 2002–2012 for articles and conference papers on SROI analysis and blended value accounting. Key words used included: “SROI,” “Social return on investment,” “Blended value accounting” in the subject area “Social Sciences.” We searched in all fields of the articles using the above-mentioned key words separately at the date of September 1st 2012.

We obtained the following results:

- 32 results for “SROI”;
- 60 results for “Social Return on Investment”;
- 7 results for “Blended value accounting”;

In addition, other files, published textbook chapters, practical guidance, position papers, and selected articles from “Google Scholar” were also checked and relevant documents included in the review. We decided to include also the non-academic papers and documents in our literature review since SROI is an instrument of impact evaluation that is much more debated in professional contexts than in the academic one. Where relevant to the discussion on suitable accounting theories, articles and papers based on the methodological approach of literature review (Jesson et al. 2011; Silverman 2010) were also added, given that the empirical studies and surveys are still limited, especially in the scientific literature.

Any relevant papers were examined and the important findings summarized and reported on. As this paper focuses on the impact measurement of SEs, only those with specific reference to SEs were selected. All in all, another 28 documents were added to the previous list, obtained by searching the Scopus and ISI databases.

After having read and compared all the abstracts of the 127 documents collected, only 33 documents have been selected on the basis of their relevance to the present research. In particular, with reference to the selection process, we verified the presence of the following characteristics in the papers (not necessarily at the same time):

- a discussion on SROI analysis application to one or more cases of NPOs or SEs;
- the presence of empirical evidence (gathered using qualitative or quantitative researches) on the utility of the SROI analysis for internal (management and employees) or external stakeholders (donors, customers and other categories);
- possible implications for BVA and, in a broader sense, for the positivist, critical and interpretative theories of accounting.

The final reference set is given in Table 2.

Table 2 Literature review on SROI analysis

Reference	Prevalent methodological approach
Alcock, P, R. Millar, K. Hall, F. Lyon, A. Nicholls and M. Gabriel (Alcock et al. 2012), <i>Start up and growth: National Evaluation of the Social Enterprise Investment Fund (SEIF)</i> . (Department of Health Policy Research Programme, London)	Survey-Case studies
Arvidson, M. (2009), <i>Impact and Evaluation in the UK Third Sector: Reviewing Literature and Exploring Ideas. Working Paper 27</i> . (Third Sector Research Centre, University of Birmingham, Birmingham)	Literature review
Arvidson, M., F. Lyon, S. McKay and D. Moro (2010), <i>The Ambitions and Challenges of SROI, Working Paper 49</i> . (Third Sector Research Centre, University of Birmingham, Birmingham)	Literature review
Bertotti, M, G. Leahy and K. Sheridan, K (2011), 'To what extent do social enterprises measure their social and environmental impact?', <i>British Journal of Healthcare Management</i> , Vol. 17 No 4, pp. 152–156	Discussion paper on the State of Social Enterprise Survey 2009 (UK)
Bull, M. (2007), 'Balance: The Development of a Social Enterprise Business Performance Tool', <i>Social Enterprise Journal</i> , Vol. 3 No 1, pp. 49–66	Case study
Emerson, J. and F. Twersky (1996), <i>New Social Entrepreneurs: The Success, Challenge and Lessons of Non-profit Enterprise Creation</i> . (The Roberts Foundation, San Francisco)	Literature review
Emerson, J., J. Wachowicz, and S. Chun (2000), <i>Social Return On Investment: Exploring Aspects of Value Creation in the Nonprofit Sector</i> . (REDF, San Francisco)	Exploratory analysis
Fazzi, L. (2012), 'Social Enterprises, Models of Governance and the Production of Welfare Services', <i>Public Management Review</i> , Vol. 14 No 3, pp. 359–376	Empirical study

Table 2 continued

Reference	Prevalent methodological approach
Flockhart, A. (2005), 'The Use of Social Return on Investment (SROI) and Investment Ready Tools (IRT) to Bridge the Financial Credibility Gap'. <i>Social Enterprise Journal</i> , Vol. 1 No 1, pp. 29–42	Empirical study
Gair, C. (2009), <i>SROI II: A Call to Action for Next Generation SROI</i> . (REDF, San Francisco CA)	Practical guidance –Position paper
Hart, T. and G. Houghton (2007), <i>Assessing the Economic and Social Impact of Social Enterprise: Feasibility Report</i> . (Centre for City and Regional Studies, University of Hull)	Feasibility Report
Lingane, A. and S. Olsen (2004), 'Guidelines for social return on investment', <i>California Management Review</i> , Vol. 46 No 3, pp. 116–135	Practical guidance & Position paper
Millar R. and K. Hall (2012), 'Social Return on Investment (SROI) and Performance Measurement', <i>Public Management Review</i> , First online, DOI: 10.1080/14719037.2012.698857	Literature review and case studies with interviews
Mook L., J. Quarter, B.J. Richmond (2007), <i>What Counts. Social Accounting for Nonprofits and Cooperatives</i> . (Sigel Press, Cambridge)	Critical literature review
Mook L., J. Quarter, S. Ryan (2012), <i>Business with a difference: balancing the social and the economic</i> . (Scholarly Publishing Division, University of Toronto, Toronto)	Literature review
New Economics Foundation (NEF) (2004), <i>Social Return on Investment: Valuing What Matters</i> . (New Economics Foundation, London)	Practical guidance & Position paper
New Philanthropy Capital (2010), <i>Social Return on Investment. Position Paper</i> . (New Philanthropy Capital, London)	Practical guidance
Nicholls, J. (2007), <i>Why Measuring and Communicating Social Value can help Social Enterprise become More Competitive</i> . (Cabinet Office, London)	Critical literature review and position paper
Office of the Third Sector (2009), <i>A Guide to Social Return on Investment</i> . (Cabinet Office, London)	Practical guidance
Olsen, S. and A. Lingane (2003), <i>Social return on investment: Standard guidelines</i> . (University of California, Berkeley CA)	Practical guidance
Paton, R. (2003) <i>Managing and Measuring Social Enterprises</i> . (Sage, London)	Literature review and Practical guidance
Peattie, K. and A. Morley (2008), <i>Social Enterprises: Diversity and Dynamics, Contexts and Contributions</i> . A Research Monograph. (ESRC Centre for Business Relationships, Cardiff)	Critical literature review
REDF-Roberts Enterprise Development Fund (2000), <i>SROI methodology</i> . (REDF, San Francisco CA)	Practical guidance
REDF-Roberts Enterprise Development Fund (2009), <i>SROI Act II: a call to action for next generation SROI</i> . (REDF, San Francisco CA)	Position paper

Table 2 continued

Reference	Prevalent methodological approach
Ridley Duff, R., P. Seamour and M. Bull (2011), 'Measuring Social Outcomes and Impacts' in R. Ridley Duff, and M. Bull (eds), <i>Understanding Social Enterprise: Theory and Practice</i> . (Sage, London)	Literature review
Rotheroe, N. and A. Richards (2007), 'Social Return on Investment and Social Enterprise: Transparent Accountability for Sustainable Development', <i>Social Enterprise Journal</i> , Vol. 3 No 1, pp. 31–48	Case Study
Ryan, P.W. and I. Lyne (2008), 'Social Enterprise and the Measurement of Social Value: Methodological Issues with the Calculation and Application of the Social Return on Investment'. <i>Education, Knowledge and Economy</i> , Vol. 2 No 3, pp. 223–237	Critical literature review
Scholten, P., J. Nicholls, S. Olsen, B. Galimidi (2006), <i>SROI. A guide to social return on investment</i> . (Lenthe Publishers, Amstelveen)	Literature review-Practical guidance
Social Enterprise Partnership UK (2003), <i>SEP Project Overview</i> . (Social Enterprise Partnership UK, London)	Working groups reports, case studies
Social Ventures Australia (SVA) Consulting. (2012) <i>Social Return on Investment, Lessons Learned in Australia, Investing in Impact Partnership</i> . (SVA Consulting, Sydney)	Literature review, case studies and interviews
SROI Network (2011) <i>Guide du retour social sur investissement (SROI)</i> . (Les Cahiers de l'Institut de l'Innovation et de l'Entrepreneuriat Social-ESSEC IIES, Cergy-Pontoise)	Practical guidance
Thomas, P. (2004), <i>Performance Measurement, Reporting and Accountability: Recent Trends and Future Directions. Public Policy Paper Series (23)</i> . (The Saskatchewan Institute of Public Policy, Saskatoon, SK)	Literature review
Zimmerman, J. and B. Stevens (2006), 'The Use of Performance Measurement in South Carolina Nonprofits', <i>Nonprofit Management and Leadership</i> , Vol. 16 No 3, pp. 315–227	Exploratory study

Source Our literature review using ISI, Scopus and Google Scholar database

The SROI Analysis: A Literature Review

SROI analysis evolved toward the end of the 1990s out of traditional cost-benefit analysis, from the work of the Roberts Enterprise Development Fund (REDF) in San Francisco (Emerson et al. 2000; Olsen and Lingane 2003), later modified and amplified by the same organization. The other main approach to SROI analysis is that proposed by the New Economics Foundation (NEF 2004, 2009) in London and applied to a set of SEs in the UK.

Over the past few years, many NPOs and corporations have adopted the SROI analysis to measure their socio-economic impact. Some well-known cases and “best practices” are the following:

- the social enterprises of the San Francisco Bay Area in California that have been following the REDF approach to SROI analysis since 1997;
- the Scottish Charity Wise Group that seeks job and training opportunities for people in the local community;
- and the multinational Dutch electronics corporation Philips.

Furthermore, in the UK, the government and policy makers have actively encouraged SEs to measure their socio-economic impact using SROI (Nicholls 2007), also establishing, starting from 2007, an investment fund for sustaining new SE initiatives (Alcock et al. 2012). Currently, SROI has become a global product, adopted in many countries worldwide and not limited to the US and UK since there are interesting experiences on its application in Europe and in Asia (SROI network 2011).

The main aim of SROI is to measure economic and social value generated by an organization (for—or not for—profit) in the local community where it operates to obtain a rational—though not strictly objective—quantification of impact generated. The logical premise of this analysis consists in the fact that the creation of value goes in three directions: economic, socio-economic, and social (Scholten et al. 2006). The end result of the process of implementation of SROI analysis is an indicator that represents the return in socio-economic terms for every monetary unit spent on the project and/or in the organization as a whole (REDF 2000, 2009).

SROI has been promoted as a way to enable the social enterprise sector to better understand the wider impacts of their services and activities and quantify the total value generated in monetary terms (Millar and Hall 2012). SROI is based upon the principles of positivist theory of accounting (through the explicit goal of monetizing the results obtained) and cost-benefit analysis since it aims at assigning a monetary value to social and economic returns to demonstrate wider value creation (Rotheroe and Richards 2007). In other terms, it indicates the value of socio-economic benefits created by an organization in relation to the costs sustained in achieving the institutional goals (Emerson and Twersky 1996). The final result is a ratio of monetized socio-economic value as follows (NEF 2004, 2009):

$$\text{SROI} = \frac{\text{Net Present Value of Benefits}}{\text{Net Present Value of Investment}}$$

Social return on investment uses elements of cost-benefit analysis as costs and benefits are quantified and compared to evaluate the desirability of a given intervention expressed in monetary units.

The literature on the use of SROI for SEs is not very wide, but there is some remarkable empirical evidence that demonstrates relevant strong and weak points in its application as an instrument for impact and effectiveness evaluation. The literature review has revealed some particularly interesting points that tend to be common to almost all the material analyzed.

Firstly, SROI differs from the traditional cost-benefit analysis for its focus on third sector organizations and for its constant engagement of stakeholders at all stages of the process (Arvidson et al. 2010). On this latter point, SROI is an important tool for dialog with stakeholders in accordance with the interpretative theory of accounting. Consequently, SROI is not only an opportunity for SEs to

demonstrate their effectiveness and positive impact on the territory but also an authentic means of social legitimization, especially where the evaluations are examined by public agencies in deciding to which third sector organizations they should contract out essential welfare services (Ryan and Lyne 2008). This is also true for potential investors and funders of SEs, who can have a tool that actively involves them in the evaluation process to judge in monetary terms the social return on their investment (Millar and Hall 2012, pp. 5–6). End users are also constantly involved in establishing the outcomes—and relative monetary proxies—of services supplied. As employees and volunteers are actively involved in the evaluation of impact process, this tool has, in accordance with the literature, a capacity for organizational learning by enabling employees and volunteers to analyze and improve their services and activities (Arvidson 2009; New Philanthropy Capital 2010), confirming the role of SROI and supporting the critical theory of accounting.

Empirical evidence also exists of a high level of satisfaction in some SEs, both in the United States and in Europe, who have adopted SROI as an evaluation instrument of their socio-economic impact and overall performance (Millar and Hall 2012), underlining its positive role in organizational learning. The benefits connected with SROI are especially based on enabling organizations to evaluate their own results and performance, discovering new opportunities to improve services for employees, volunteers, and customers or final users. Furthermore, SROI has been considered as an instrument for the internal identification of organization strong and weak points and for strategy improvement, as well as for reinforcing management and internal control systems (SVA Consulting 2012). Evidence exists, therefore, in the literature confirming the role of SROI analysis as a BVA tool for creating an effective channel of dialog and participation with stakeholders and contributing significantly to internal control, acting as an operating mechanism that stimulates reaching of strategic objectives.

However, these elements must face some limitations encountered by SROI in its concrete application within SEs. These limits emerge transversally for the empirical evidence hitherto discussed in the literature on the topic. In particular, the main difficulty reported by SEs is connected with the extraordinary complexity of the evaluation process, especially regarding resources of time and personnel required to carry out the analysis. In smaller organizations that rely heavily on volunteers, this limit becomes great as to actually prevent the tool from being used (Gair 2009; New Philanthropy Capital 2010; Social Enterprise Partnership UK, 2003). Here the SROI process becomes an obstacle rather than an opportunity for the organization to grow (Lingane and Olsen 2004; Ridley Duff et al. 2011; Zimmerman and Stevens 2006).

Even where there are sufficient resources, some authors ask whether it is right, from an ethical point-of-view too, to devolve considerable financial and human resources toward this complex evaluation process, when they might be more usefully invested in improving services (Millar and Hall 2012). And, even when it has been decided to carry out the evaluation using quantitative models like SROI, doubts remain as to the preparation of staff for this process. To this the difficulty found by SEs in measuring in monetary terms some intangible outcomes can be added, especially social and environmental, such as self-confidence built in users or wellbeing connected with a lifestyle rich in social interaction. The more subjective

are the monetary proxies chosen for these outcomes, the more this difficulty grows (Lingane and Olsen 2004; Thomas 2004; Bertotti et al. 2011). On this point, many SEs say that the constant attention of SROI analysis toward identifying monetary proxies for every outcome generated contrasts with the idealistic aims of many organizations, where the business structure is essential in fulfilling the statutory mission (Flockhart 2005). As a consequence, SROI analysis may challenge the very essence of these organizations (Hart and Houghton 2007).

Moreover, although SROI is one of the causal contribution analysis tools for evaluation of impact, in some cases a counterfactual analysis is need, to verify what would have happened in the absence of the intervention. Similar information is often not available in the smaller organization. This leads to errors in calculating the final indicator (New Philanthropy Capital 2010) and makes it impossible to compare SROI results of various organizations, even if from the same sector of activity and territory (Ryan and Lyne 2008).

Generally speaking, SROI results tend to underestimate the benefits actually produced by the organization, since not all outcomes can be easily monetized. For this reason, early applications of SROI were often limited “*to employment-related and revenue-generating programs where the financial outputs are clearer than they are for social organizations that have unearned revenues (government grants, donations) and that do not receive a payment from their clients*” (Mook et al. 2007, p. 82). This explains why the tool is more adaptable to SEs and social economy businesses in general (Mook et al. 2012, pp. 6–7) rather than to traditional NPOs or civil society organizations that are funded primarily by members, donors, and volunteers.

Other studies indicate the final reports containing SROI analysis are rarely utilized by funders and donors as decision making instruments to identify to which organizations they should contribute (Arvidson 2009). There are many motives, chiefly connected with the highly subjective nature of the process, the difficulty of spatial comparison of results (temporal comparison is more reliable) and the opinion that social value generated by SEs should not be measured in monetary terms (New Philanthropy Capital 2010). These limits, however, should take into account that, in some contexts—e.g., the UK—the development of SROI in SEs has been and is currently influenced by its being stipulated as a pre- or post-intervention evaluation tool by the local authorities or public agencies financing the projects or start-ups.

In this sense, orders from on high regarding control or monitoring instruments, especially if these are standardized as for SROI analysis, risk being counter-productive for the organization and having rather unreliable final results (Millar and Hall 2012). In the literature, some authors point out the measurement tools from “mainstream” management cannot automatically be adapted to SEs, which are so different (Hart and Houghton 2007) in terms of mission, strategy, internal organization, and activities carried out (Fazzi 2012). This confirms the fact that typically management accounting or strategic control business instruments are not a universal solution for all organizations (Paton 2003; Bull 2007).

Empirical research by Millar and Hall (2012) into British SEs operating in the health and social care sector show that

- a vast majority of SEs already uses performance evaluation tools;
- in about a third of the cases the tool used (because recommended by the public authorities) is SROI analysis;
- a large majority prefers to use customized tools.

As the author says “performance measurement tools and techniques were frequently tailored to the particular contextual features and dynamics of each SE” (Millar and Hall 2012, p. 9) and “on the basis of their appropriateness to organizational values, goals and working practices.”

Other doubts that have emerged from empirical studies so far concern a series of minor issues: the effective knowledge of the instrument of public stakeholders, SROI’s ability to generate returns on image to increase resources attracted or new clients/end users and its potential conflict with other instruments for evaluating performance or impact.

To these doubts as to the reliability of SROI, given the large number of subjective judgements, the near total absence of third party organizations capable of verifying the data elaborated and published by the SEs, and the problem of adapting the model to very different contexts and that of spatial comparison of data obtained are sometimes added (Paton 2003).

SEs who had freely and voluntarily adopted SROI analysis obtained significant benefits in terms of learning and growth, as well as improvements in internal processes and identification of problems in activities and processes (Millar and Hall 2012)

From our literature review so far, in short, it appears that there are still ideological and practical barriers hindering the adoption of impact measurement tools by SEs (Peattie and Morley 2008; Bertotti et al. 2011).

However, where SROI analysis is used on a completely voluntary basis or sometimes at the behest of local authorities or public agencies, as an instrument for measuring the socio-economic impact generated, there is evidence testifying to its usefulness in support of the critical and interpretative accounting theory. In other words, wherever a purely quantitative impact measurement model is adapted to the context of the single organization, its community and its stakeholders, significant benefits are produced in terms of internal control, organizational learning, and improved stakeholder relations (Office of the Third Sector 2009).

Conclusions

The main aim of the present study was to evaluate the strong and weak points of BVA in SEs, with specific reference to the model of SROI analysis, to reach a conclusion as to the role that these tools of mixed accounting and assessment might have with respect to the positivist, critical, and interpretative theories of accounting.

In the light of the study conducted, we can affirm that the SROI analysis model is an attempt to evaluate the socio-economic impact of SE that fits perfectly into current BVA research.

In general, BVA and among its instruments, SROI analysis, by means of a growing number of operative proposals, attempts to evaluate coherently and rationally overall organizational performance (positivist approach), acting contemporaneously as an instrument of internal control of results (critical approach) and as a communication mechanism with stakeholders to consolidate the body of consensus of the SE (interpretative approach).

Considering the above, and with particular reference to the numerous estimates and conjectures required by SROI analysis to reach a monetary quantification of impact, not all the above-mentioned objectives can be achieved.

With reference to the three approaches cited, we believe that SROI analysis merits similar considerations—in some ways, more radical ones—to those formulated for other BVA models. In particular, it fits perfectly into the critical and interpretative accounting theories, while it has numerous weak points in reference to the positivist approach. Quantification of outcomes, and subsequently of impact, by recourse to financial proxies, while not always objectively definable, stimulates use of dialog with stakeholders (interpretative current) to reach a shared evaluation. Such interaction is intrinsic to the methodology of SROI analysis and contributes to raising the level of legitimacy of the SE, as well as levels of materiality and relevance of information disclosed. Under the critical perspective, it should be noted that organizations who up to now have adopted SROI analysis have above all exploited its capacity as operative mechanism for evaluating and raising the organization's overall performance and consequently justifying their presence on the market (see, for example, Lingane and Olsen 2004). Sub-optimal management, found by instruments like SROI analysis, causes failures at an organizational and market level, for which SE management must answer (Zald and Davis 2005). To this, with specific reference to the critical approach, that SEs, considering the need to develop their fund-raising abilities, should look toward reporting systems capable of measuring impact generated, to inspire greater trust on behalf of the potential donor might be added (Anheier and Leat 2006; Bernholz 2004; Bishop and Green 2008).

Nonetheless, there are negative consequences of unconditional acceptance of BVA models (Dart 2004)—SROI analysis included—that also highlight some of the limits of the present study. Among these should be mentioned:

- the possibility of NPO and SE managers employing measurement models imported from large corporations, rather than developing personalized accountability forms;
- the risk of accepting externally imposed accounting and reporting instruments, based on explicit requests from government, financial lenders, or, more generally, from stakeholders, thus sterilizing their effect of innovation, self-learning, and growth (Dart 2004; DiMaggio and Anheier 1990; DiMaggio and Powell 1983; Power 2007).

Both borrowing management instruments and techniques from large corporations and external imposition of reporting models are more a reflection of socio-political infrastructure of the general environment than the internal processes of self-learning and growth of SE (Brunsson and Olsen 1993; Suchman 1995). Scholars of auditing

and accounting disciplines have pointed out the risk that accounting and reporting systems “often reflect larger power structures and normative social pressures rather than internal processes” (Nicholls 2009, p. 766).

It has also been widely argued that metrics and audit regimes are the product of a positivist conception of management control, reflecting socially constructed power relations, and regulatory fashion, rather than a means of capturing a rationalist “reality” (Power 1994a, b; Neely 1998; Nicholls 2009). This can lead SEs and, more in general, NPOs to increase the number of accountability tools used, regardless of their contribution to forming a “true and fair view” of reality or to improving company management (Neely 1998; LeGrand 2003). In this sense, one perceives the risk of “financialization” of instruments for measuring the social impact of third sector organizations—SROI analysis, for example, is an instrument designed to monetize impact in an almost business logic. While this quantification may appear interesting to clients and lenders, for the NPO it is undoubtedly more important to understand the levers of the process of creating socio-economic value, regardless of its monetization. Otherwise, even “mixed” instruments tend to suffer from the intrinsic defects of traditional measurement models of management control, perceived as unchangeable, preordained, and imposed from above.

In this perspective, a real development of BVA useful for organizations and stakeholders can, however, only take place if public agencies leave the beneficiary organizations freer to personalize and adapt, coherently with critical and interpretative accounting approaches, the tools for measuring, and reporting upon their own activities and the resulting impact.

Despite the limitations encountered by BVA—and in particular SROI analysis—in measuring socio-economic impact, some openings for research and operative repercussions for the future may be glimpsed.

First, this exploratory study has demonstrated that SROI analysis and, more generally, BVA are theoretic models to which many SEs have turned in pursuit of various strategic objectives. These include improving performance, broader access to resources and increased legitimacy, and credibility with stakeholders. Among BVA’s, most significant implications, we note, first of all, its ability to provide a group of instruments for multidimensional accountability, each of which can be studied and further researched (Bovaird and Loeffler 2003; Meyer and Scott 1992).

Second, SEs live in a situation of continuous negotiation with their stakeholders regarding the human, financial, and reputational resources on which their very existence depends. In this sense, BVA offers a range of dynamic and multilevel instruments for active management of this negotiation. In accordance with the interpretative approach, the way in which impact is evaluated can be changed and adapted to the needs of stakeholders, through continuous adjustments to measurement techniques, depending on the methodology in use. In this regard, local governments and public administration should avoid forcing the SEs supplying public services to adopt BVA techniques and practices. In our opinion, in fact, best results and outcomes of BVA practices can be achieved by SEs through wide recourse to stakeholder engagement and dialog (interpretative approach) setting up an effective system of management and “community” control over the organization (critical approach).

Possible future developments of the present study might include applying the SROI analysis model to a significant sample of SEs to monitor its usefulness as an operating mechanism and as a process for stakeholder dialog.

For these reasons, the present exploration is a starting point for a wider project aimed at understanding ways to evaluate the socio-economic impact of SEs by BVA techniques and approaches as drivers of stakeholder participation, innovation, self-learning, and growth.

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