The new social economy

Edward Finch and Hugh Swainson *(www.buzzacott.co.uk)*

There are a number of fronts on which the harsher impacts of an increasingly globalised and commodified world economy are being resisted and beaten back. From the wealthiest individuals acting through their philanthropy, via the major corporations (which can have greater influence than most nation states), to individuals making choices as consumers and employees, there is an increasing trend away from charity and voluntarism existing separately from the desire to use wealth to create a more sustainable and socially constructive economy[1].

The new philanthropists

There is an increasing feeling that the early decades of the 21st century are in some ways a reprisal of the early part of the 20th century. Economists, notably Thomas Piketty, highlight the return of significant concentrations of wealth and the potential for those concentrations to become entrenched. Governments, responding to the economic crisis which began in 2008 and has not yet fully passed, have slashed state spending on social programmes.

This has led to a resurgence of philanthropy as a vital component of the social order. Many of the world's wealthiest individuals and families have committed large parts of their fortunes to philanthropy – emulating the great names of the 19th and 20th centuries such as Getty, the Cadbury family and Wellcome. Facebook founder Mark Zuckerberg is only the most recent of the world's wealthiest people to follow the example of the Giving Pledge initiated by Warren Buffet and Bill and Melinda Gates.

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End of the enduring foundation?

Although there are similarities between the early 20th and 21st centuries, there are also important differences that affect the ways in which philanthropy is executed. Among the ultra-wealthy, there is a trend away from establishing enduring foundations towards lifetime giving. Among those with smaller and perhaps more volatile resources, there is also a trend towards providing returnable capital as an alternative to absolute gifts.

A common theme for both groups is an increasing demand for rigour in the design and implementation of social and environmental programmes. Many of the projects supported by philanthropists are 'high impact today' programmes delivering major environmentally-friendly infrastructure or addressing disease eradication or extreme poverty. Impact investors and active philanthropists will require detailed financial and operating plans that demonstrate business rigour in deploying funding. More importantly, they will be seeking evidence to demonstrate the social value created by the projects they support.

Care, act, quantify

Much has been written about the need for charities and other social purpose organisations to be able to demonstrate their impact. Equally, the pitfalls of 'commodifying' social and environmental interventions and driving out the intangible benefits of the caring ethos that brought most charities into existence are well rehearsed. In response to these arguments, a growing professional community has grown up around meeting the demand for data, as 'hard' as possible in the circumstances but which retains the primacy of social objectives.

The ambitions of those concerned with social value creation have been growing. Jeremy Nicholls is Chief Executive of *Social Value UK*, which spearheaded *Social Return on Investment* – one of the most widely adopted, and donor-accepted, methods of reporting social value. He also sits on a panel of the *Institute of Chartered Accountants in England and Wales*, exploring ways in which businesses might also account for their creation and use of natural and social capital.

Reporting social value

Nicholls and others are bringing consideration of social and environmental value into the mainstream. The integrated reporting initiative aims to bring awareness of social and environmental impact into large corporates' core accountability and governance processes. Pioneering work, such as the *'EP&L'* reporting by sportswear giant *Puma*, is leading the way in this direction. These methodologies look at both conscious creation of social value through good business practice and the management of potential destruction or, more kindly viewed, consumption of social value.

Where is the greatest potential for social value?

This broader view of social value takes the perceived monopoly on the creation of social value away from the third sector. There is huge potential for companies to create more social value or alternatively reduce their negative social value. Corporate social responsibility is already being driven by customer attitudes, government legislation and employees themselves. However, it is also accepted that corporates are only at the beginning of the journey of engaging with social responsibility.

This is in no small part down to the lack of information available in much of the corporate world. Whilst measures on profitability and risk are integrated into the fabric of every successful business, information on social value in most organisations remains scarce. It is scarce not only at a corporate level, but also at an individual level – few staff would have any clue as to the extent to which their actions were creating or consuming social value on any more than an anecdotal basis.

The third sector still struggles to operate at scale and to compete with the corporate sector. The blurring of the lines and the growth of social businesses such as HCT Group (red bus routes), Divine Chocolate or Belu Water show that socially minded businesses can go head-to-head with corporates and deliver goods and services in a more social way. Whilst it is unlikely that such 'social first' enterprises will ever grow to a scale which dominates the industries they compete within, they already act as exemplars and disruptors that can and do change the behaviour of the 'profit first' businesses around them.

What about me?

Traditionally the extent to which any individual creates or consumes social value has been described with reference to the balance of their interaction with the corporate or third sectors. The majority of people will work for organisations that are perceived to consume social value and seek to make up for it by paying money to charity or volunteering. As with 'the new philanthropists', this is people redressing the social balance on an individualised level.

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Only a very small percentage of people are willing to make the level of sacrifice that it takes in order to dedicate their lives wholly to social value creation. Many of the people that make the biggest difference to the third sector are inspiring, but rare. However, it does not follow that the vast majority of people are not interested in creating social value (or worse – that they want to destroy social value!). Most people would like to do something socially good on a regular basis, but without giving over their lives to it.

As highlighted above – pressure from the people within large corporate organisations drives a great potential for creating social value. It is with this huge majority of people who work within organisations who are now seeking opportunities to follow their natural instinct to make a good living and do it in a socially responsible way.

Back to the reporting

As those pushing for greater social accountability in the corporate sector recognise, requiring businesses to evaluate the extent to which they add to or draw down common resources would enable stakeholders to make more rounded decisions about consumption, employment and – in the case of governments – taxation or subsidy for business.

Social value reporting has always been about stakeholders. In the corporate world, three of the key stakeholders are shareholders, employees and customers. Information on social value needs to be available for each of these and then social value can be created in the following way:

- Social value for investors who are keen for a social return;
- Social value for customers who are willing to pay for a social product; and
- Social value for employees who will be more engaged with the business.

Creating this reporting is not easy. It is easy to have a CSR scheme or set up a charitable foundation with which the corporate sector can make claims of creating social value. However, integrating social value into the business requires proper systems; just as integrating the recording and reporting of shareholder value (profits) takes time and effort and requires an accounting system.

Back to the charity sector

Social value reporting is being driven through the third sector and by the need for trustees to understand the social value that a charity is creating and communicate this to stakeholders. Charities are becoming ever more aware of this and the 2015 versions of the charities' *Statement of Recommended Practice* encourage charities to talk more about impact and not just outputs.

Inevitably, systems and data will underpin any attempt to analyse social value and make use of it to create greater social value. Many of the charities that are best at doing this already are ones that are paid for the delivery of outputs and need the data to improve the output and run the charity's activities.

These approaches are becoming more mainstream and an increasing proportion of the sector is seeing the benefits of an evidence-driven approach.

'Tear down the wall'

The big potential for reporting social value is to bring down the barriers between the third sector and the corporate sector. If reporting social value can achieve this, it will disrupt the habit – which we see among the public, businesses and philanthropists – of thinking of social value as belonging to the realm of the third sector and shareholder value belonging to that of the corporate sector.

Political opinion will remain divided on the extent, if any, to which these energies should be 'nudged' in a desirable direction by government. It is clear, though, that the new philanthropy, responsible business and a shift of voluntarism and social action towards the workplace have the potential to bring to the global village a measure of the community values and mutual support that exist in human scale environments.

[1] *A shorter version of this article appeared in the Buzzacott magazine – Beyond the numbers.*

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He undertakes a variety of writing and speaking, including regular articles for Pioneers Post and other publications as well as contributing along with Amanda Francis and other members of the Buzzacott team to the Bloomsbury Professional Publishing's reference book 'Charity Accounting and Taxation'.

Edward has acted as trustee or board member for a number of social purpose organisations including a social finance intermediary and a local charity working with older people. In 2016 he will be taking on the chair of a charity managing innovative social finance products.

Hugh Swainson *joined Buzzacott Chartered Accountants in 2003 where he is an Associate Director within the Charity and Not-for-Profit team. He delivers audit and advisory services and strives to provide charities with a comprehensive service through focusing on clients' business needs and taking an active interest in the sub-sectors in which they work. He delivers training and information to clients including accounts workshops as well as risk management and governance guidance.*
Hugh works on the shortlisting and reviewing of the organisations which apply for the annual SE100 awards for exceptional social businesses. As someone who is keen advocate of businesses measuring social value, Hugh is SROI certified and has helped a number of charities think through their monitoring and decision making on a stakeholder impact basis.
As part of Buzzacott's volunteering programme, Hugh is taking part in a charitable incubator and mentoring programme with young social entrepreneurs.