

Editorial

Social enterprise, accountability and social accounting

Dr Hannele Mäkelä

School of Management
FI-33014 University of Tampere
hannele.makela(at)uta.fi
+358 40 554 5068

Dr Jane Gibbon

Newcastle University Business School

Dr Ericka Costa

Department of Economics and Management
University of Trento

There is a growing consensus that current social accounting measures are not adequate and need to support a more ethical approach towards social and ecological matters within business (Bebbington, Unerman & O'Dwyer, 2014). These measures are still anchored to a conventional accounting framework and thus primarily reflect the need of stockholders to be informed of the organization's economic and financial performance. Social accounting research shows that the current measures for accounting for sustainability build on the basis of the profit-maximising principle and therefore need to be profoundly rethought (Shearer, 2002; Bebbington et al., 2014).

In in this context, where business organizations still have difficulties to seriously face the challenge of the 'sustainability agenda', social enterprises can provide useful examples of a stronger basis for measuring, assessing, accounting and reporting on both economic and social performance simultaneously. These organisations face on a daily basis the tension between their mission and margin (Chetkovich and Frumkin, 2003) and can therefore assist other organisations in how to deal with the definition of metrics and measurement which combine the economic impact with the social (and societal) impact.

Social enterprise as a concept has various meanings, but in general it refers to a business organisation with a dual goal: a social goal as its primary purpose and a profit-making goal to remain financially viable (Defourny and Nyssen, 2010). Social enterprises and other values-based organisations are closely connected to the interests of their members, and often firmly rooted in the contexts in which they operate. The criteria (EMES, 2015) of a social enterprise include having a social (or ecological) purpose and an explicit profit distribution constraint, as well as the principles of transparency and democratic governance. Secondary criteria include employee engagement and measurement for social impact. The definition emphasises the business-like nature of these organisations and their competitiveness within a market. But,

more importantly, they have to create and demonstrate their societal value within the context they operate in.

Social enterprises and other value-based organisations are considered as the fastest growing category of organisations in Europe and in the United States (Anheier, 2009; Hulgård, 2010). The European Commission is promoting the importance of social enterprises and social economy in general in creating social innovation (EC, 2011). The increased significance of social enterprise and broadly value-based organisations has necessitated urgent attention be given to the transparency and accountability mechanisms that can be used to measure the impact of social enterprises' activities on society at large (Ball and Osborne, 2011, Luke, 2016). Indeed, among other business-organisations, social enterprises and other values-based businesses are facing the challenge of sustainable development and the need to account and report on their sustainability performance. There is a global pressure for values-based organisations to start accounting and reporting for their societal impact and for showing sustainable performance. So far there are no statutory requirements for social accounting and measurement of societal impact for these companies at large, but examples from some European countries such as Italy, UK and Scandinavian countries like Finland and Norway show reporting and measurement requirements either recently being introduced to legislation or discussed as future initiatives (Jardine and Whyte, 2013; Nordic Council of Ministers, 2015; EC, 2016).

The impact of values-based organisations, such as social enterprises and cooperatives have been widely neglected within the field of accounting research (Gibbon, 2012; Costa et al., 2014, Luke, 2016), and literature on accountability for social enterprise is found to be under-theorised and lacking rigorous conceptual framing (Ebrahim & Rangan, 2014). Simultaneously, there is a growing interest and publicly expressed need to develop means for accounting for and measuring the social impact of social enterprises (OECD, 2015; EC, 2011; Vik, 2017).

As the purpose of social enterprises is to create social impact as well as economic value, conventional accounting measures are often not suitable for their contexts social enterprises and may even distort these companies away from their purpose of social value (Nicholls, 2009; Gibbon & Dey, 2011; Andraus and Costa, 2014). Moreover, the adoption of traditional accounting principles and frameworks to social enterprises is misleading because economic and financial indicators fail to offer a comprehensive evaluation of organisational performance (Austin et al., 2006).

This tension between the social and financial mission makes social enterprises an interesting arena for research on social accounting and accountability. These two types of value creation (economic and social) are intrinsically connected rather than being in opposition in a zero sum equation (Emerson 2003) and as a consequence offer a space for empirical and theoretical investigation of a more complex, multidirectional, and multi-stakeholder accountability system (Ebrahim, 2005; Christensen and Ebrahim, 2006).

An accountability framework should be developed and implemented that enables and supports this dual goal whilst making visible the unique setting of value based organisations and their organising. As accounting and the accountability relationship also have a tendency to constitute and shape the institutional and organisational field that they are being operated in (Miller and Power, 2013), the question of the adaptation of the accountability framework comes with broader societal importance.

Due to social enterprises aim of maximising the well-being of society in general rather than that of a single stakeholder group, they can provide a fruitful basis for identifying, measuring and reporting broader impact on society; through the development of alternative understandings and theoretical constructions; and for more democratic accounting approaches to social sustainability.

The contents of the issue

This special issue consists of three original research articles plus two shorter commentaries. There are shared themes in these contributions related to traditional, often financially oriented measures of social accounting are based on a unified understanding of organisational accountability that does not do justice to the richness of the context that social enterprises and other value-based organisations work. All the articles and commentaries emphasise there is an urgent need to broaden our understanding of organisational accountability both theoretically and through accountability in practice.

The special issue starts (?) with a contribution by Vik (2017) who makes an important note on the prominence and appeal of the quantitative approaches in social accounting (see also Luke, 2016) and highlights the institutional pressure (mostly from investors) for calculative and comparative metrics of corporate impact. The article focuses on one of the most commonly used tools for social impact measurement, social return on investment (SROI) that quantifies, monetises and then compares the costs and benefits of the organisational activity to assess the profitability of an investment or project. When compared to a traditional cost-benefit analysis SROI puts emphasis on stakeholder involvement in the process. Vik offers a critique of the methodology of SROI when used in the microfinance industry and argues that there should be a greater recognition, of the limitations of this methodology and of the role of SROI in claiming symbolic legitimacy (see also Luke et al., 2013).

The commentary by Kay and McMullan (2017) from the Social Audit Network echoes the findings by Vik (2017). With their expertise as practitioners in conducting social accounting and auditing they highlight the contemporary challenges of the practice, whilst acknowledging that the majority of social enterprises are currently not keeping track of their social impact (see also Jardine and Whyte, 2013) - this contrasts with the institutional pressure to measure social impact. Kay and McMullan (2017) highlight four key challenges for organisations. Firstly, what is included in the social impact assessment should be considered from the organisational perspective on what is of importance to them and not just easily measurable; secondly, social accounting should be located in the core of the organisation and implemented throughout;

thirdly; to ensure trust and creditability of the measures any process should be independently audited; and fourthly, the implications of financialisation of the measures should be carefully considered.

The article by Aung, Bahramirad, Burga, Hayhoe, Huang and LeBlanc (2017) opens up a debate on understandings on accountability through examination of a political crisis due to the cancellation of power plants in Canada. The authors use netnography as a research method to analyse stakeholders' opinions on accountability through social media and find that there are differences in how stakeholders and the organisation in question perceive accountability. The work focusses on three aspects of accountability; the role of stakeholders; the nature of the public response the political crisis (emotional or reasoned) and the suggested actions and possible consequences of the crisis. Through bridging the gap between the analysis of private and public sector organisations the authors provide an important contribution to broaden the margins of our understandings and theoretical conceptualisation of accountability. This is becoming increasingly important as the organizational borders and logics between public and private organisations are becoming closer and perhaps blending as demonstrated in health care reforms all over Europe. The public-private boundary is a context where social enterprise is more commonly operating, and where accountability and social impact measurement practices are in urgent need.

Aung et al., (2017) highlight the need to reconceptualise accountability to include the dynamic nature of accountability relationships over time. Whilst they raise the issue of what happens and what sanctions might be in place if accountability is not fulfilled. Another element of their suggested future research agenda is the role of emotions within accountability. As the traditional understanding of accountability often at least implicitly emphasizes an objective, rational account of organizational performance (Bovens, 2010; Williams and Taylor, 2013), this understanding of accountability would recognise the humanity within an accountability relationship and the richness of emotions and stakeholder responses, thus respecting the multi-dimensionality of accountability (see also Roberts (2009) on the socializing forms of intellectual accountability).

Dillard and Pullman (2017) provide a detailed case study of a values based organization. The research is theorized using structuration theory and explores the multiple and complex accountability and governance structures of a US farming co-operative. The work is valuable as it provides an example of values based accountability in practice. The detailed and rich case study demonstrates the complex nature of the relationships that intertwine the social, environmental and economic within the co-operative. The case clearly articulates that the collective organization is viable only if the economic drivers work whilst providing an interesting and rich articulation of the social, environmental and economic interface that is held within a management information and accountability system that reinforces the organizational values.

The piece by Gibbon and Dey (2017) explores how citations of Gibbon and Dey (2011) have been used across a broad spectrum of research exploring the use of SROI, social accounting

and audit theory and practice within social enterprise and values based organisations. Their commentary provides a detailed analysis and critical summary of how their work has been used by both researchers and practitioners with a specific focus on alternative approaches and the difficulties of attempting to demonstrate social impact, accountability and performance. The issues around capturing, measuring and reporting social value raise further questions regarding choice of method and appropriate approach when using financial information, broader social narratives or a combination of both. The analysis provides a summary that clearly demonstrates how empirically-grounded research on social impact measurement is developing along with further constructive theoretical perspectives on both impact and accountability for values based organisations and social enterprise.

Concluding Comments

The special issue brings together an interesting and innovative range of work that includes perspectives from across a range of academic and practitioners. These works raise interesting and relevant issues regarding accountability and the practical implications of how to understand and explain different institutional logics within values based organisations. The practice of how to develop meaningful stakeholder engagement in practice and how to deal with conflicting interests involves complex and sensitive information systems and reporting. The collected papers within the special issue also raise more issues that are avenues for further research through stakeholder engagement, the role of emotion within accountability relationships whilst recognising the dynamic nature and characteristics of accountability.

Acknowledgements

We want to give our special thanks to Carlos Larrinaga and Matias Laine for inviting us to edit this special issue. We also thank all the anonymous referees who worked on papers supporting the publication of this special issue. Finally, thank you to all those who submitted a paper for consideration.

References

- Andreas, M., & Costa, E. (2014). Toward an integrated accountability model for nonprofit organizations. *Accountability and Social Accounting for Social and Non-profit Organizations (Advances in Public Interest Accounting)*. Redford: Emerald Group Publishing Limited, 153-176.
- Anheier, H. K. (2009). What kind of nonprofit sector, what kind of society? Comparative policy reflections. *American Behavioral Scientist*, 52(7), 1082-1094.
- Aung, M., Bahramirad, S., Burga, R., Hayhoe, M., Huang, S. and LeBlanc, J. (2017). Sense-making Accountability: Netnographic Study of an Online Public Perspective. *Social and Environmental Accountability Journal*, 37(1).
- Austin, J. E., Leonard, H., Reficco, E., & Wei-Skillern, J. (2006). Social entrepreneurship: it's for corporations too. *Social entrepreneurship: New models of sustainable social change*, 169-180.

- Osborne, S. P., & Ball, A. (Eds.). (2010). *Social accounting and public management: Accountability for the public good*. Routledge.
- Bebbington, J., Unerman, J., & O'Dwyer, B. (2014). *Sustainability accounting and accountability*. Routledge.
- Chetkovich, C., & Frumkin, P. (2003). Balancing margin and mission nonprofit competition in charitable versus fee-based programs. *Administration & Society*, 35(5), 564-596.
- Christensen, R. A., & Ebrahim, A. (2006). How does accountability affect mission? The case of a nonprofit serving immigrants and refugees. *Nonprofit Management and Leadership*, 17(2), 195-209.
- Costa, E., L. Parker, and M. Andreaus, eds. 2014. *Accountability and Social Accounting for Social and Non-Profit Organizations*, Advances in Public Interest Accounting. Bradford: Emerald Group.
- Defourny, J., and M. Nyssens. 2010. "Conceptions of Social Enterprise and Social Entrepreneurship in Europe and the United States: Convergences and Divergences." *Journal of Social Entrepreneurship* 1 (1): 32–53.
- Dillard, J. and Pullman, N. (2017). Cattle, Land, People, And Accountability Systems: The Makings Of A Values Based Organization. *Social and Environmental Accountability Journal*, 37(1).
- Ebrahim, A. 2003. "Making Sense of Accountability: Conceptual Perspectives for Northern and Southern Nonprofits." *Nonprofit Management & Leadership* 14 (2): 191–212.
- Ebrahim, A., and K. Rangan. 2014. "What Impact? A Framework for Measuring the Scale and Scope of Social Performance." *California Management Review* 56 (3): 118–141.
- European Commission, 2011. *Social Business Initiative: Creating a Favourable Climate for Social Enterprises, Key Stakeholders in the Social Economy and Innovation*. COM/2011/0682
- European Commission, Directorate-General for Employment, Social Affairs and Inclusion (2016): *Social Enterprises and their eco-systems: developments in Europe*. Authors: Carlo Borzaga and Giulia Galera
- Emerson, J. (2003). The blended value proposition: Integrating social and financial returns. *California management review*, 45(4), 35-51.
- Gibbon, J., and C. Dey. (2017). XXX. *Social and Environmental Accountability Journal*, 37(1).
- Gibbon, J., and C. Dey. 2011. "Developments in Social Impact Measurement in the Third Sector: Scaling up or Dumbing Down?" *Social and Environmental Accountability Journal* 31 (1): 63–72.
- Gibbon, J. 2012. "Understandings of accountability: an autoethnographic account using metaphor". *Critical Perspectives on Accounting* 23(3): 201-212.
- Hulgård, L. 2010. "Discourses of Social Entrepreneurship – Variations of the Same Theme?" EMES European Research Network Publications, WP no. 10/01.
- Jardine, C. & Whyte, B. (2013). Valuing Desistence? A Social Return on Investment Case Study of a Throughcare Project for Short-Term Prisoners, *Social and Environmental Accountability Journal*, 33:1, 20-32.
- Kay, A. and McMullan, K. (2017). Contemporary challenges facing social enterprises and community organisations seeking to understand their social value. *Social and Environmental Accountability Journal*, 37(1).

- Luke, B., J. Barraket, and R. Eversole. 2013. "Measurement as Legitimacy versus Legitimacy of Measures – Performance Evaluation of Social Enterprise." *Qualitative Research in Accounting & Management* 10 (3/4): 234–258.
- Luke, B. (2016) Measuring and Reporting on Social Performance: From Numbers and Narratives to a Useful Reporting Framework for Social Enterprises. *Social and Environmental Accountability Journal*, 36:2, 103-123.
- Miller, P. & Power, M. 2013. "Accounting, Organizing, and Economizing: Connecting Accounting Research and Organization Theory" *The Academy of Management Annals* 7(1): 557-605.
- Nicholls, A. 2009. "“We Do Good Things, Don’t We?”: ‘Blended Value Accounting’ in Social Entrepreneurship." *Accounting, Organizations and Society* 34: 755–769.
- Nordic Council of Ministers (2015). Sosialt entreprenørskap og sosial innovasjon: Kartlegging av innsatser for sosialt entreprenørskap og sosial innovasjon i Norden [Social entrepreneurship and social innovation in the Nordic Region]. TemaNord 2015:502
- Roberts (2009). "No-one is perfect: the limits of transparency and an ethic for ‘intelligent accountability’". *Accounting Organizations and Society* Vol. 34, pp. 957–70.
- Shearer (2002). "Ethics and accountability: from the for-itself to the for-the-other". *Accounting, Organizations and Society* Vol. 27, pp. 541–573.
- Vik, P. (2017): What’s So Social about Social Return on Investment? A Critique of Quantitative Social Accounting Approaches Drawing on Experiences of International Microfinance. *Social and Environmental Accountability Journal*, 37(1).