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Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Wednesday, 9th November 2011

Dear Secretary

Re: Senate Economics Committee - Finance for the not-for-profit sector

This supplementary submission to the Committee complements my earlier submission of the 5th October 2011. It presents additional material that includes discussion of measurement frameworks for measuring social impact, and our perspective on education and capacity building.

Thank you again for the comprehensiveness and thought driving the review.

Yours sincerely,

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PRELIMINARY COMMENTS ON MEASUREMENT FRAMEWORK

The previous submission gave an overview of some of the key research activity that we and others are undertaking. Specifically it reviewed the need to secure longitudinal and enterprise-level data, to focus on developing engaged partnerships and frameworks, and to gather understandings and insight for and from the sector. This submission is in response to resulting questions and presents early thoughts and preliminary findings with regards impact measurement at the macro- and micro- levels, and the associated development of a measurement framework. It also presents some additional information with regards enterprise teaching programmes.

Measuring Social Impact at the Macro-level

Turning first to the question of measurement at a macro-level, it might be pertinent to refer to the approach taken by the OECD-Eurostat EIP (Entrepreneurship Indicators Programme). In the context of social enterprise, a similar approach could deliver valuable 'measurement' insights.

Based on the principles of relevance and measurability, the OECD-Eurostat EIP recognises that entrepreneurship manifests itself in many ways and, as such, is "a multi-faceted phenomenon that cannot be measured with a solitary indicator" (Ahmad & Seymour, 2008 p. 11). The programme focusses on three separate, but inter-connected, flows that are important in the formulation, assessment and appraisal of policy measures: 1) determinants (a country's entrepreneurial performance depends on a myriad of underlying factors including market conditions, access to finance and regulatory frameworks, the personal attributes of entrepreneurs etc.); 2) performance (reflecting the execution or accomplishment of entrepreneurial acts and feats such as employer business birth rates, value-added share of young businesses, net business population growth etc.); and 3) impact (or the value resulting from entrepreneurial activity such as job creation, poverty reduction, formalisation of the informal sector, economic growth etc.).

Measures of entrepreneurial performance are not claimed to explicitly measure either entrepreneurship or entrepreneurs per se. The performance measures are important and measurable proxies that paint a picture of entrepreneurial activity, and should be considered in conjunction with the indicators of Determinants and Impacts of such activity. Policy measures introduced at the level of Determinants will stimulate the Performance measures and result in 'impact' on the ultimate policy objectives such as job creation and poverty reduction.

I raise this macro- framework with reference to the macro-level framework considered in the Productivity Commission report *Contribution of the Not-for-Profit Sector* (January 2010). It is noted that a framework could measure relevant inputs (such as funding, expenditures, volunteer time etc.), gather proxies for venture activity (an amalgamation of outputs and outcomes etc.) however may be chasing the wind to measure (resulting) impacts such as wellbeing at a community-level. One strong and immediate opinion is that any macro-level framework should (logically) also consider the mission of such activity (whether social, environmental, cultural etc.). At the enterprise-level, such considerations have been shown to be essential for all stakeholders (as well as researchers).

There is certainly more work to be done to conceptualise such a macro-level measurement framework, and I think that work would benefit from including the OECD and Eurostat.

Measuring Social Impact at the Firm-level

Attempts to measure social impact and understand enterprise value creation frequently fail. There are multiple approaches to measuring value, many of which are reviewed in the Ormiston & Seymour (2011) paper. It is worthwhile noting that some of these varying approaches highlight the tensions between the objective-subjective, economic-social, and individualistic-collective perspectives.

To highlight some of these issues, and at risk of 'radicalising' the approaches of the papers, I contrast two measurement frameworks with our own: 1) the impact mapping approach proposed by the Productivity Commission report 2010, and 2) the Integrated Reporting approach proposed by Adams & Simnett (2011). The following highlights some differences in our approach (one that is now being developed in conjunction with Social Enterprise Finance Australia (SEFA)):

- **Significance of Mission** - Our starting point for any measurement undertaking is the enterprise's mission. Social enterprises are mission-based, and to fail to include such initiative risks inviting a measurement independent of the very purpose of the enterprise. This can be contrasted with the two framework examples: Integrated Reporting (Adams & Simnett, 2011) is (in simplified terms) structured around a - 'capitals in' - 'business model magic' - 'capital out' - approach (as illustrated in their Figure 2 on page 297) ignoring the centrality of mission, the significance of (meaningful) engagement with the 'external factors' (a factor perhaps more appropriately named the community), and the flow of value (as opposed to stock of capital/value). Similarly, the Impact Mapping Approach considers in detail how to differentiate activities, outputs, outcomes and impacts without inclusion of mission.

- **Multiple Audiences & their Varied Expectations** - Integrated Reporting (Adams & Simnett, 2011) may consider that frameworks should satisfy multiple expectations including transparency, performance and measurement, and yet the proposed objectified corporate/economic perspective does not promise an easy application to, or reception from, different stakeholders and their subjectives. For example, measurement frameworks often aim to assist employees by creating an important management tool but end up being an onerous and restrictive reporting regime. Measurement frameworks often ignore the perspectives of clients, beneficiaries or participants, and end up presenting condescending or objectifying data. Measurement frameworks often promise supporters or funders transparency and rich information but end up being lists of comparative lists and rankings. We will endeavour to keep the measurements aligned with the interests (quantitative and objective as appropriate, qualitative and subjective as appropriate). The tensions between such data should be celebrated rather than ignored.

- **Tension Inherent in Objectifying Information that Should Live in a Subjective World** - We also note that measuring value objectively cannot be the (sole) appropriate concept for value enquiry, as such attempts usually end up measuring something other than value, usually 'price.' As a result we only

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attribute ‘value’ to those things that are appropriately ‘objectified.’ For example: We can (relatively simply) seek to objectively measure an enterprise’s inputs or resources (for example money, staff time, facilities, equipment etc.). We can also relatively easily seek to objectively measure the processes or activities that an organisation undertakes (for example the number of classes taught, or the number of students completing a programme of study with pass or credit etc.). But with regards impacts and indirect value creation, we are seeking to prioritise the subjective: We have questioned whether it can be appropriate or meaningful to objectify the impacts/outcomes such as ‘enhanced sense of self’ or ‘changed attitudes or values.’ Our framework considers that these would be better celebrated ‘subjectively’ and from the appropriate perspective (such as a beneficiary or participant). Furthermore, we think this is more aligned with the way employees, participants, beneficiaries, donors and other stakeholders engage and understand their purposeful activity and impact. There is much work to be done in this area, and we are currently collecting data from a range of enterprises across sectors and geographies in Australia and the region in an attempt to operationalise such a perspective.

- **Understanding Value Invites Holism Rather than Particularisation** - Value creation can simultaneously refer to output as well as process. We do not seek to ‘finely slice’ categories for measurement between activities, outputs, outcomes, impacts (in the case of the Impact Mapping Approach). For example, we can consider the value of education as indicated by students being awarded a pass for a unit of study (an output) but also as the interactions and undertakings during their units of study (the activity/outputs or process). It may be a mistake to consider ‘value creation’ solely by measuring quantifiable outputs such as number of units of study passed (outputs) rather than more holistic indicators that capture the process of learning such as the hours of face-to-face discussion, or reflective journal responses from students (focussing on the process) with reference back to the learning goals (the mission). In the context of social enterprise, a recurring theme is the need to focus on the action not just the fruits of action. I give two intriguing examples of this: 1) cultural capital does not wear out with *use* but rather with *disuse*, and 2) the use of social capital does not involve deliberate sacrifice of present or future benefit. It is the flow rather than the stock that is of value. It is critical that the appropriate contributions are measured.

- **The Paradox Associated with Measuring ‘Impact’** - Choosing what to measure has surprising implications on the performance of an enterprise. We describe some of these failures as resulting from a ‘mission measurement paradox’ suggesting that social entrepreneurs sometimes fail to evaluate (or measure) their social impact with sufficient regard to their social mission. In essence, our recent research has observed that if we are to understand ‘value creation’ it is important to align understandings of: a) mission & objectives, b) strategy, c) measuring impact, and d) entrepreneurial adjustment (Ormiston & Seymour, 2011). I wonder whether the measurement regimes such as that suggested by the Integrated Reporting will encourage such failures.

The above review gives some initial thoughts for consideration, it should not be considered as the conclusion of the research. We are working closely with a number of social enterprises, scholars, and SEFA (Social Enterprise Finance Australia) to actively refine and develop these ideas.

I should conclude with the recognition that there are many positive aspects associated with the approaches taken by the Productivity Commission report and Adams and Simnett (2011). Certainly both reports echo some of the points I have made above, even though I would argue their frameworks will not allow such recognition in practice. Multiple approaches are required at this stage of research, as no one group or approach has solved the problem of impact measurement. Any support for such research, whether in kind, access to enterprises, or resources will be much appreciated by all researchers in the field. I look forward to many discussions and debates that will develop each of the divergent approaches.

INTRODUCTORY COMMENTS ON EDUCATION & CAPACITY BUILDING

The previous submission stated a need to develop capacity in the sector, including a mix of programmes (such as Graduate Certificates, executive education, seminars and workshops) teaching capacity (including teaching case studies, local teaching expertise and a community of scholarship) and content (including managerial finance, strategic management and enterprise development). Addressing some of these in more detail...

Executive education is an important component of capacity building. The executives include those in the finance sectors (whether as advisors or funders), the social sectors (whether as managers or board members) as well as those outside the sector. Such short-form education could be managed by private institutions as well as the Universities, but should certainly involve the Universities with research-led-teaching and appropriate pedagogical approaches.

Such executive programmes should be supported by formal courses such as graduate certificates from the Universities. Current programmes in social work, education, sustainability etc. could be augmented by stapling an appropriate graduate certificate in (social) enterprise. It is important that such capacity building does not require that the 'real' expertise and learning is diluted with business or enterprise units. Any such learning should be 'above load' for these students, with an ideal situations being a graduate certificate being: stapled to a masters level programme; commenced after an undergraduate level programme is completed; or commenced after 3-5 years' experience have been gained on the job.

An interesting learning case could be the Commercialisation Training Scheme (CTS) that was offered to higher-research candidates such as PhD students at any University across Australia. Students were given top-up funding to allow them to extend their PhD studies by an additional 6 months and not be disadvantaged financially or otherwise. Although the programme was not well implemented at all Universities, it did demonstrate how enterprise learning and scholarship funding could encourage students to develop their expertise in commercialisation and innovation. Though the funding has now ceased, many Universities still enjoy the CTS-seeded capacity including the courses, units of study and other expertise. Furthermore, some of this existing expertise could be readily refined to also include social enterprise (in addition to the commercial enterprise contexts).

There are multiple lessons from the CTS and the existing teaching programmes focussed on social enterprise, and I would be happy to share these if the Committee would find it of interest. The most significant point to make is consistency of support - Any support requires multiple years' funding to engage with the University system: For example, Universities typically take at least a year before a new unit of study is approved, let alone the time required to publicise and develop a fine teaching and research programme.

Seeding and initially supporting a community of scholars, teaching programmes (whether executive or coursework), teaching material such as cases, and other elements of the 'ecosystem' would go a long way to developing the sectors' capacity in the short and long term.

IN CONCLUSION

In conclusion, and reiterating the conclusion from the earlier submission, building understanding and capacity in the sector requires an integrated and engaged approach. We have developed a strong platform of research, teaching and outreach at The University of Sydney Business School, and we look forward to participating in the growth and development of the sector.