Research in Progress
Balancing the double bottom line of social purpose enterprises: Lessons from the 100% Business Cost Recovery Metric

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Summary

The Social Economy Centre of the University of Toronto has partnered with the Toronto Enterprise Fund to test and develop a comprehensive tool for managers of social purpose enterprises to better understand and forecast business and social costs.

The term "social enterprise" refers to business ventures operated by non-profits, whether they are societies, charities, or co-operatives. These businesses sell goods or provide services in the market for the purpose of creating a blended return on investment, both financial and social. Their profits are returned to the business or to a social purpose, rather than maximizing profits to shareholders. (Enterprising non profits, http://www.enterprisingnonprofits.ca/about_social_enterprise/definitions)

This research focuses on a specific subset of social enterprises that have a social mission to employ people who are marginalized, homeless or at risk of homeless called “social purpose enterprises.”

As social purpose enterprises employ people who are marginalized or highly at risk, these businesses have costs related to the employment of the target population. The enterprise might offer daycare, life training skills, flexible work hours, English as a second language courses or other supports that help the employees integrate into the workplace. These “social costs” would not likely be incurred in a for profit business.

By using the business cost recovery tool, social enterprise managers and funders can track social costs separately from business related costs to budget accordingly and better manage their performance. By removing social costs from the equation, an enterprise’s net revenue can be used to compare performance with others in the industry.

Research Partners

The Social Economy Center of the University of Toronto

The centre promotes and disseminates multidisciplinary research and policy analysis on issues affecting the social economy. The Centre was established in 2005 as a unit of the Ontario Institute for Studies in Education of the University of Toronto.

The Centre is the lead researcher in the Community-University Research Alliance for Southern Ontario’s Social Economy is one of seven Canadian research alliances funded by the Social Sciences and Humanities Research Council of Canada (SSHRC) to study the social economy.

The Community – University Research Alliance views the social economy as "an overarching framework addressing the entire array of organizations with a social mission, ranging from market-based co-operatives, community economic development corporations, and other social enterprises to nonprofits in public service to the many nonprofit mutual associations." Our initial working definition of organizations with a social mission is that they either have explicit economic objectives, as is the case of market-based organizations, or create economic value through employing people and through providing services. (http://sec.oise.utoronto.ca/english/proj_intro.php)

The Toronto Enterprise Fund

The Toronto Enterprise Fund (TEF) is an organization that supports the establishment of social purpose enterprises that provide transitional or permanent employment for people who are homeless or at risk of homelessness in Toronto.

A social purpose enterprise is a business venture established by a not-for-profit organization that creates both community connections and real economic opportunities for homeless and at-risk populations by developing businesses that balance both revenue generation and a social mission – the "double-bottom line".

Through their employment with a social purpose enterprise, participants gain economic opportunities, work experience and related training, additional income, improved life skills and self-esteem, and better connections to their community and the labour force.

Between 2000 and 2007, a total of 1,613 homeless or those at risk of homelessness have received training and/or employment through enterprises funded by the Toronto Enterprise Fund (TEF 2007 Annual Report. p.11). TEF has funded thirty social purpose enterprises since April 2000, and has accumulated knowledge, resources and tools to share with organizations and funders with an interest in this sector. TEF has evolved to support the development of social purpose enterprises through direct investment in the enterprises, business development assistance and ongoing research and evaluation. By helping at-risk individuals improve their economic prospects and reduce poverty, the enterprises help prevent and reduce homelessness in Toronto.

The Business Cost Recovery Metric

Just like all organizations that receive funding, those assisted by the Toronto Enterprise Fund have a responsibility to account for funds and effectively employ resources. The Toronto Enterprise Fund requires that those applying for funding complete an initial feasibility study followed by a comprehensive business plan. An important component of the business plan is a financial plan or budget, which includes a sales forecast, cash flow forecast and three-year budget.

The Toronto Enterprise Fund also requires each of the social purpose enterprises that it funds to create a sustainability plan annually. This plan identifies the resources required for the ongoing operation of an enterprise and the strategies and actions to be used to attain, develop and maintain the resources.

A key part of the sustainability plan is to develop a financial plan for the enterprise. TEF defines financial sustainability as “the ability of an enterprise to continue operating by means of any or all of the following revenue sources: earned income, chartable and public sector contributions.” (Taken from the Toronto Enterprise Fund, www.torontoenterprisefund.ca/_bin/resources/Running/sustainability.cfm)

One of the first steps to developing a financial plan is to create a budget. In addition to listing all of business expenses, the social purpose enterprise manager must also budget for additional costs related to accommodating their employees who are homeless or very low income. Employees of social enterprises may need special training, flexible work hours, increased supervision, onsite daycare, etc. The social purpose enterprise might also have lower levels of productivity than other businesses operating in the same sector. These expenses that are over and above the regular business costs are called “social” or “human development” costs.

TEF has found that some of the enterprises funded by TEF are able to generate sufficient sales to cover their business costs. However, none of the enterprises funded by TEF have been able to cover their business costs and all their social costs. From this experience, the Toronto Enterprise Fund has concluded that social purpose enterprises that employ vulnerable people seem to require ongoing grants and donations to subsidize their social costs. TEF encourages social enterprise managers to run their businesses as efficiently as possible, as this reduces the subsidy needed and increases the sustainability of the enterprise.

By working closely with the social enterprise managers, the Toronto Enterprise Fund has developed a 100% Business Cost Recovery metric as a measure an enterprise’s financial sustainability. The Business Cost Recovery metric is calculated using a worksheet that helps the manager to separate out the business costs from the social costs.

“The separation of ‘social’ and ‘business’ costs enables managers to have a better understanding of exactly where specific costs are coming from and its required revenue mix (e.g. sales and grants.) Furthermore net income with social costs removed reflects true business costs, thereby enabling managers to compare their performance with others in the industry.” (Demonstrating Value, Framework and Tool Proposal, July 2007 p. 15)

TEF has found that social enterprise managers need more that a stand-alone worksheet to help them use the Business Cost Recovery tool to manage their enterprises. TEF also receives requests from groups across the country who are interested in learning how to use this metric, which has always been used by the TEF managers. A major question governing our work is: Is the 100% Business Cost Recovery Metric a useful and reliable tool for different organizations?

Purpose of the Research

1) This research aims to test the Business Cost Recovery tool across social enterprises, to determine its strengths and limitations, and the breadth of its application.

2) If the Business Cost Recovery Metric proves useful for social enterprises across the sector, we intend to develop a practical and accessible guide to help managers and funders of social purpose enterprises to better understand and forecast business and social costs.

Research question

Can the 100% Business Cost Recovery metric be used to consistently measure financial sustainability of different social purpose enterprises?

Methodology

1. Literature review on social accounting with a specific review of resources and materials available for financial planning for social purpose enterprises? How are other organizations defining social costs and business costs.
2. Scan of websites to find out what tools are used by social enterprise managers world wide to forecast business and social costs? Have any of these tools been tested and evaluated? What methodology was used to test the tools?
3. Define social and business costs operationally
4. Comparison of tools
5. Compile a list of criteria (reliability and validity) for testing the BCR metric
6. Look at TEF BCR reports. How are costs being divided?
7. Identify social enterprises located in Toronto that would be willing to participate in this research. Work in conjunction with staff of non-profits to train them in the use of the BCR Worksheet and ask them to create a budget using the 100% BCR worksheet using a case study. Compare results using criteria.
8. If the Business Cost Recovery Metric proves a useful tool for social enterprises across the sector, develop a practical, easy to use guide (could be a podcast, webinar, online guide etc) to help managers and funders of social purpose enterprises to better understand and forecast business and social costs.

Literature review

This section reviews the literature on social accounting generally, and then reviews and compares three tools used specifically for financial planning for social purpose enterprises.

Social Accounting Defined

A significant body of literature about social accounting exists in relation to profit-oriented businesses. However social accounting for enterprises with a social mission is a much newer and less developed field of research (Mook, Quarter, & Richmond, 2007).

As defined by Mook, Quarter, and Richmond, social accounting is “a systematic analysis of the effects of an organization on its communities of interest or stakeholders, with stakeholder input as part of the data that are analyzed for the accounting statement” (2007, p. 2).

A number of researchers have used variations on cost-benefit analyses in order to calculate the total social value of an organization (Estes, 1976; Linowes, 1972, 1973; Land, 1996). Estes (1976), for example, developed a Social Impact Statement to total the “social benefits” and “social costs” of an organization and to subtract one from the other to determine a “social surplus” or “deficit”. Similarly, the Social Return on Investment Model (SROI) developed in the 1990s generates measures for the economic value of a social enterprise (references).

It is valuable to broaden the scope of items included in financial statements for the purpose of social enterprises, merging social and business costs and determining social value. Financial sustainability supports the double or triple bottom line, in which financial, social, and often environmental returns on investment exist simultaneously. Prosperity of the social economy is rooted in the balance between economic and social priorities (Gray, Owen, & Adams, 1996; Hines, 1988; Morgan, 1988). Thus tools measuring social and business costs are useful to determine the value of social enterprises in economic terms, as well as practical for managers whose roles are to balance social and business costs in such organizations.

A Background on Social Accounting

According to Mook (2007), social accounting tends to incorporate economic, social, and environmental concerns. Economic concerns are those related to the production, distribution, and consumption of goods and services. Social components are those pertaining to society, and the welfare of individuals or groups within. Lastly, environmental concerns focus on the impact of an organization on the health and behaviour of the environment.

Social accounting is a distinct field, as traditional accounting focuses exclusively on financial aspects of economic decision-making. Traditional accounting concentrates on the reporting of quantitative financial information (American Institute of Certified Public Accountants (Accounting Principles Board), 1970, Section 1023). In contrast, social accounting incorporates a wider scope of considerations, including those that impact stakeholders other than the shareholders and the community at large (Mook, 2007). Mathews and Perera (1995) describe “social accounting” as “a comprehensive form of accounting which takes into account externalities” (p.364). Furthermore, social and ethical accounting is concerned with an organization’s impact on society and about its “relationship with an entire range of stakeholders

– all those groups who affect and/or are affected by the organization and its activities" (Institute of Social and Ethical Accountability, 2000, p. 1, as cited in Mook, 2007).

Mook (2007) separates social accounting endeavors into two broad categories: supplemental social accounting and integrated social accounting. The former utilizes qualitative data and descriptive statistics in order to determine the degree to which an organization fulfills its mission, meeting the needs of its stakeholders (New Economics Foundation, 1998; Sillanpaa, 1998, Zadek, 1998). Supplemental social accounting is frequently viewed as an addition to financial statements, receiving secondary consideration (Coupland, 2006). Accordingly, such qualitative accounting is often unacknowledged (Laufer, 2003; Owen & Shift, 2001).

The second category, integrated social accounting, incorporates social, environmental and economic data (Mook, 2007). Instead of supplementing financial reports, social and environmental dimensions are also integral components of the accounting statement. Integrated social accounting models therefore consider an organization's impact in all three areas, combining these performance measures in a single statement. In doing so, a monetary value is assigned to social and environmental performance in order to express the data in the accounting statement in common financial language.

The Evolution of Integrated Social Accounting

Integrated social accounting first appeared in the 1970s, disappeared in the 1980s, and then resurfaced in the 1990s (Mook, 2007). Here, its first appearance is referred to as the first wave of integrated social accounting. The re-emergence of integrated social accounting in the 1990s is described as the second wave.

The emergence of integrated social accounting in the 1970s was characterized by an increasing public demand for information about the social impact of for-profit organizations. During this time alternative models of accounting were employed in an attempt to measure expenditures and their associated social impacts (Dilley & Weygandt, 1973).

Linowes (1972) published the Socioeconomic Operating System, calculating the difference between a business' voluntary expenditures aimed at social improvement and social nonactions – those detrimental issues management chose to disregard. Linowes' monetization of social actions was seen as controversial, leading to its dismissal by most critics (Bauer, 1973; Burton 1973; Lewis, 1973; Mobley, 1973). However, Linowes's work provided a springboard for other models of social accounting.

Another early model of social accounting includes the Abt model (Abt & Association, 1971, as cited in Butcher, 1973). The Abt group modified previously existing accounting statements in an attempt to broaden the scope of items included. Although inclusive, this approach was believed to be too complicated and impractical for a method of accounting (Bauer & Fenn. 1973). Shortly after Estes (1976) created the Social Impact Statement, using social benefits and costs to determine a "social surplus" or "social deficit".

The first wave of integrated social accounting was followed by a period in which the field of research appeared untouched. However integrated social accounting one again became a priority in the early 1990s.

The triple bottom line approach proposed by Elkington in the early 1990's marked the return of integrated approaches to social accounting (Elkington, 2004). The concept of the triple bottom line refers to a union between social equity, environmental equity, and economic prosperity (Elkington, 2004).

Similarly, Bent and Richardson (2002) as cited in Mook (2007) put forward a financial sustainability accounting model. This model incorporates a Value Added Statement, an Environmental Financial Statement, and a Social Financial Statement, measuring an organization's performance and reporting on profit or loss. Bent and Richardson's profit and loss statement became the most extensive inclusion of environmental, social, and economic factors (Bent and Richardson, 2002, as cited in Mook, 2007).

The second wave accounting also brought about a rise of social accounting for organizations outside of the for-profit sector (Mook, 2007). Traditional accounting practices impractical for organizations within the social economy (nonprofits, co-operatives, and social enterprises) began to be replaced by models of social accounting (Mook, 2007).

Two Social Accounting Tools Used by Social Enterprises

After a review of the literature, the researchers could only identify one social accounting tool in addition to the Toronto Enterprise Fund's Business Cost Recovery metric that is used to determine social and business costs within social purpose enterprises. REDF, an organization that funds social purpose enterprises in the San Francisco Bay area, has developed the Social Cost Tool.

Social Cost Tool

REDF has developed a six-step methodology (refined through experience with REDF's portfolio) for identifying, quantifying, and tracking potential social costs within a social enterprise. The REDF Social Cost framework guides social enterprise managers through a process of determining what social costs are most relevant to their social enterprise. The first step involves understanding current enterprise costs and cost drivers (including all current revenues and costs) as well as the main drivers of costs. Examples of cost categories are: Direct Labour, Supplies, Management, Training, Fundraising, etc. Drivers of costs may include but are not limited to: wages and benefits for labour, employee productivity, administrative and fundraising needs, number of labour employees, costs of goods sold or produced, and marketing costs.

The second step of this methodology is to select the most relevant and substantial cost categories and drivers from those listed in step 1. In step 3, managers are to determine the percentage of cost (for each cost categpory) related to the enterprise's social mission. The fourth step involves totalling the percentage costs for each cost category in relation to the sum total social cost (percentage). The percentage cost is relative to the enterprise's total expenditures and therefore the total business cost can be determined by subtracting social costs from total enterprise costs. In step 5, the enterprise financial numbers are inserted into the Double-Bottom-Line Income Statement (as detailed in the comparison chart below), in order to determine the enterprise's financial performance. Step 6 is to continually review and revise social cost calcuations to ensure calculations reflet true financial performance. (Taken from REDF Social Costs Presentation 2008 http://www.redf.org/learn-from-redf/tools/695)

Business Cost Recovery Metric

The Toronto Enterprise Fund has developed the 100% Business Cost Recovery tool as a rubric of a social accounting framework that measures business cost recovery after social costs are removed from the equation. The 100% business cost recovery metric is a measure of enterprise financial stability, calculated using a worksheet that helps the manager to separate out the business costs from the social costs.

According to TEF (Demonstrating Value, Framework and Tool Proposal, July 2007) "the separation of social and business costs enables managers to have a better understanding of exactly where specific costs are coming from and its required revenue mix (e.g. sales and grants). Furthermore net income with social costs removes reflects true business costs, thereby enabling managers to compare their performance with others in the industry" (p.15). This tool has been used with staff of the enterprises that the fund assists but always in conjunction with the manager of the Toronto Enterprise Fund who has held this position for the past six years. However, its use has not yet been documented, nor has it been tested with other types of social enterprises.

Refer to Table 1 in Appendix for comparison of tools: REDF's Social Cost Tool and TEF's Business Cost Recovery Metric.

The researchers will test the Business Cost Recovery metric to determine its reliability and validity as a tool for social enterprise managers.

Reliability and Validity, Defined:

Reliability and validity are two measures that can be used to determine the value of a social accounting tool. Reliability, according to Knapp (2008), is when a measuring instrument yields consistent results. There are a number of different ways to measure reliability, including test-retest reliability, which exists if an instrument yields the same results on a retest as it did on the initial test. Another such measurement is parallel forms consistency, whereby the results from a tool are in agreement with those of another, similar tool intended to measure the same thing. Validity of a tool speaks to its relevance in measuring what it is intended to measure (Knapp, 2008). An instrument has internal validity if its results yield valid causal implications, and external validity if the results are generalizable. The validity of a social accounting tool is contingent upon the quality of the content of the tool, and the extent to which the obtained results align with theoretical expectations (Knapp, 2008). While both are important measures of the value of the tool being used, reliability and validity are independent of one another. For example, a tool can be reliable without being valid, and vice versa.

Reliability and Validity: An Evaluation of the BCR:

For the purpose of our work, reliability and validity of the Business Cost Recovery tool will be evaluated by working with three social purpose enterprises that are new to the TEF portfolio, approximately 12 entrepreneurs entering TEF's business plan competition, and several managers (both who are and are not yet familiar with the BCR). The validity of the BCR will be gauged by users' interpretations and understanding of the instrument. The BCR will prove itself valid if users' understandings of the tool align with what the tool is intended to measure. We also intend to investigate whether or not there are specific items that the managers using the tool are having particular trouble with. If so, how can these items be modified to be more comprehensive for all users? Reliability of the BCR will be determined by the consistency of its use. Is the BCR being used in the same way by the same user and among all users? Do two users from the same organization yield similar results?

The purpose of the Business Cost Recovery tool- to measure social and business costs in social purpose enterprises- is fairly simple. In reality, this task is complicated by a number of variables. This research aims to ensure the BCR is a reliable, valid, and comprehensive tool to assist social purpose enterprises in dividing social and business costs, recording expenditures and revenues, and budgeting for the future

Next Steps:

Thus far, our research has involved preparing for an in-depth testing of the BCR. A literature review on the social economy and social accounting has provided us with a background of knowledge in the field. Additionally, we have compared four social accounting tools (Social Return on Investment (SROI), Expanded Value Added Statement (EVAS), Social Cost Tool, and Business Cost Recovery (BCR)), and found the Social Cost Tool to be the most relevant comparison for the BCR.

In late May, we will be observing the introduction of three new social purpose enterprises to the BCR tool. These social purpose enterprises, under the guidance of TEF, are required to complete the BCR for their parent organization. Following the learning session, we plan to survey managers on the BCR and the method through which it is currently taught.

At the end of June, TEF is holding a workshop for individuals and teams entering the Business Plan contest. The winner of this contest will be the newest addition to the TEF portfolio. We will be sitting in on the workshop, observing people's first impressions and interpretations of the BCR. Again, we aim to survey workshop participants on the BCR and the methods through which it was taught to them.

Lastly, we plan to set up interviews with social purpose enterprise managers who are currently employing the tool. This was we will be able to determine the perception of those familiar with the tool.

Table 1: **A Comparison of Two Social Accounting Tools:**
REDF's Social Cost Tool and Double-Bottom-Line Income Statement and TEF's Business Cost Recovery

Tool	**Organization Affiliation**	**Description**	**Measures**	**Strengths**	**Weaknesses**
The Double-Bottom-Line Income Statemen	The Roberts Enterprise Development Fund (REDF), 2007	REDF developed the double-bottom-line approach to help social enterprise managers monitor business expenses and social costs and subsidies. Double-bottom-line income statements demonstrate business revenues per month and for the year to date, and business expenses per month and yearly to date Social costs are determined in the same way, as well as subsidies (foundation grants, government grants, etc.)	***Business Measures:*** *1. Revenue* *2. Cost of Goods Sold (including labour, etc.)*: Total business expenditures 3. *Net Margin:* Revenue- Business Expenses (before subsidies and social costs) ***Social Measures:*** ***1.*** *Total Social Costs:* Direct costs (training, support for target population) + Indirect Costs (productivity differential of target population) 2. *Total Subsidies:* Foundation grants + Government grants + Other grants 3. *Net Margin after Social Costs and Subsidies:* Net Business Margin + Subsidies – Social Costs * All measures are determined in $ for each month and for the current year-to date.	Well-known within the field of social accounting, this method is based on actual data for each social enterprise. It is a useful tool for social enterprise managers to track financial activity and to compare business performance with industry standards. The Double-Bottom-Line Income Statement is similar to the BCR in that it measures both business and social costs, and therefore the net revenue of a social enterprise.	The Double-bottom-line tool does not aid managers in projecting business expenses and social costs and developing a budget. It is therefore useful for tracking expenses and revenue, but not as a forecasting tool. The tool encourages managers to reevaluate their financial performance on a monthly basis. Although useful, this is not always a realistic goal.
Business Cost Recovery (BCR)	Toronto Enterprise Fund (TEF)	The Business cost recovery (BCR) tool determines the ratio of sales to business costs. TEF considers an enterprise to be sustainable once it reaches 100% BCR, when all business costs are covered by sales revenue. The social costs incurred represent the cost of providing social support to each social purpose enterprise.	*Social Costs*- Any cost incurred by a social enteprise (above and beyond ordinary business costs) in order to support its social mission *Business Costs*- Costs required to run and sustain business operations *100% Business Cost Recovery*- when sales revenue generated by the social purpose enterprise can cover all business costs.	The separation of social and business costs enables managers to have a better understanding of exactly where specific costs are coming from and its required revenue mix The BCR tool totals the cost of providing social support to each social purpose enterprise (rather than each employee as calculated by the SROI). The calculation of this value is less complicated and more relevant to a manager's budgeting needs A straightforward and comprehensive tool, which may be of value to social purpose enterprise managers who do not necessarily have a background in financial management.	The BCR tool is not as extensive as the above two tools. It is useful for basic management budgeting and for reporting on performance and funding needs to current and potential funders To date, the BCR tool has only been tested with social purpose enterprises, which exist under the parent organization, the Toronto Enterprise Fund.

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