

## CPA Australia Podcast

### Episode 39 - Transcript

- Intro: Hello and welcome to the CPA Australia Podcast, your source for business, leadership and public practise accounting information.
- Ram Subramanian: Hello and welcome. I'm Ram Subramanian, policy advisor in reporting at CPA Australia. Joining us for this podcast is David Shires, Director at Capacity International. David has extensive international experience working with not for profit organisations, particularly those involved in community development, civic participation, adult education and social change. Including here in Australia and a number of overseas jurisdictions.
- David is here today to talk to us about social enterprises, fairly new and innovation vehicle for the delivery of social services. Social enterprises combine the best features of for profits and not for profits into one organisational model. These are organisations with a social objective that also aim to provide a financial return to investors.
- David, welcome.
- David Shires: Thank you.
- Ram Subramanian: Could you give a brief overview of the changes you have seen over the past 35 years in the sector, involved in delivering social services and community development.
- David Shires: First of all I'll say that in the last 35 years one of the main changes is the growth of the third sector and not for profit sector. That growth has been due to a number of different circumstances. The first is the delivery of services that normally were given the government. These have been outsourced quite extensively to the not for profit sector. In terms of service delivery, that is the biggest change. That brings with it some benefits and some problems. One of the reasons when we get down to social enterprises is being that growth has led to a dependency very often on government grants as well as funding from the public.
- My experiences seeing that the growth has a positive outcome because it's know that the not for profit sector in general is very good at delivering those services because of the commitment. That's the biggest change that I've seen in the last few years, both internationally and in Australia.
- Ram Subramanian: Thank you for that David. For the benefit of the listeners, could you explain what social enterprise is?
- David Shires: Yes, I'll do this in a number of different ways. The first is to say that a social enterprise's starting point is what social issues, social justice or environmental

changes you want to see. It's starting point is to look at those issues in the community that need to be addressed, whether that be unemployment, and a whole range of different kinds of community development issues. That's the starting point. A social enterprise will have what you might call a mission statement that is very different from a not for profit and very different from the corporate sector.

Very often a social enterprise will have a mission that says, we want to, for example, look at unemployment amongst youth. It says, "This is the main issue that we want to address." It then looks at how it's going to do that by setting up a business. For example, Street, which is a café looks at the issue of homelessness or unemployment and then sets to actually make an impact and start to set up a business like a coffee shop and cafes and so forth. I will give you a few of the definitions that social traders use to put that all together.

Social traders say the following, in determining what is meant by the term social enterprise, a report given out two years ago said, "Social enterprises are led by economic, social, cultural, or environmental missions, consistent with a public or a community benefit." That's the first thing. Secondly, to trade to fulfil their mission. Thirdly, to derive a substantial portion of their income from trade and to reinvest a majority of their profit surplus in the fulfilment of their mission.

There are very different types of models around how social enterprises work. Some will look at making a profit and putting that profit into some not for profit. Some will combine that with supporting, for example in cases of restaurants or cafes might recruit those with health or learning disabilities to train them in how to run a café or a business. There's many combinations of ways in which social enterprise make an impact. They also have across all industries. They could be an educational social enterprise, they could be restaurants, all types of business that you'll find across all industries. That's roughly some of the issues that differ from a normal not for profit.

They also have something, which is called triple bottom line. This is what also makes it a bit more complex. They have obviously a business mission to make it sustainable. They need to be economical sustainable, they also need to make sure that their social mission is carried out according to their plans. They have a third one, which is the environmental issues. They have three different kinds of issues to tackle when setting up a social enterprise. This is one of the differences between a not for profit, and particularly in relation to the business side of things.

Ram Subramanian: Okay. Certain not for profits even now have a trading arm. They've got a shop, or they've got some other business initiative that provides profit, which is then pumped back into the not for profit itself to meet its objectives. How does that differ from what you categorise as a social enterprise?

David Shires: I'll answer that in this way. Social enterprise is something that has been coined in the last 10 or 20 years. In principle, the not for profits and cooperatives have

been a social enterprise for 100 years. This has been called a social enterprise. There are many organisations that what you might call income generating approaches. If you take for example opportunity shops, you take for example shops that sell overseas articles, all those kinds are to generate profits, which are a separate business. In one sense, there's always been a social entrepreneurial part of the not for profit sector. They are in principle, the same. When I looked in the history and I found in America for example, a business that was a social enterprise but not called, there are a lot of businesses out there that actually could be a social enterprise. In the terms of not for profit, that's completely correct.

Sometimes the not profit would not set up a separate company but would have an income generating project within the organisation. I've worked quite a lot with them, and because of their non-business skills, it's always been suggested that I work with them, that I separate the different companies. In principle, before the actual name, which is now very popular, social enterprises that's gone on. Corporate movement very often has been a social enterprise in all but name. That's the difference here.

Ram Subramanian: Thank you. We also often hear about the term, impact investing. Could you tell us what this means and how this relates to social enterprises.

David Shires: Yes, impact investing is called social impact investing. Basically, this has grown to be quite a significant amount of money. This is based on some of the principles that were set up in corporate social responsibility as one area. Social impact investors are people or organisations, individuals that not only want to invest to make a return, but also want to make a social impact, their contribution to the community. For example, there are maybe two or three different categories of social impact investors.

The first one might be a normal return on investment. They would say, "We want a social outcome but our returns will be a normal return, whatever that is." The second type of social impact investor will say, "My interest is to make the social change, and my returns would be significantly lower." The third type of social impact investor is having no return whatsoever. Social impact investors differ from other investors in social enterprise or entrepreneurial initiatives in the sense that they not only want to measure or to give a return on investment, measure how that's going, but they want you to also give a measurement of what social change you've made.

Social impact investors see that the important thing for them is the changes they make. Now, even family offices, which are quite big a beginning to talk about their role in the social impact investing. That's the difference between a normal investor. It's really the need to make a social change, which is the priority very often for social impact investors, given that those three different scenarios and depending on what they want to return.

Ram Subramanian: Could you perhaps now, give us some facts and figures around the growth of the social enterprise sector.

David Shires: Once again I'll use facts or figures that are given by social traders. 30% of all income in the not for profit sector is earned through trading activity, equating to \$22 billion p.a, more than comes from government. These are figures from social traders. It's estimated that social enterprise activity constitutes 2 to 3% of the GDP. There are estimated 20,000, that figure was in 2014, it's probably 25,000 or even more, operating in Australia. This number-

Ram Subramanian: These are individuals who are operating in the sector?

David Shires: This is social enterprise operating in-

Ram Subramanian: Oh, social enterprises themselves?

David Shires: Themselves, yes. 25,000. This number has grown at the rate of 37% in the past five years. 73% have been operating for at least five years. 62% are at least 10 years old, all markets from the local to the international, and all industrial sectors. To summarise the statistics around the growth of the social enterprise.

Ram Subramanian: In some respects, social enterprises, the model itself sounds too good to be true, but clearly there will be some opportunities here and some challenges too. Could you just in a nutshell give us a view on what these opportunities and challenges will be for social enterprises in the short term?

David Shires: Well, I think there's three; the short term, the medium term, and long term. In principle, some of the challenges I can summarise in this way. First of all, one of the biggest challenges facing social enterprise is what we call social missing drift. That is that as a small business, they are trying to make a profit. That means that sometimes the social mission can come in second place because they have to generate a profit. One of the biggest challenges, both short term, long term, is what we call the social missing drift, which means that the mission of making change becomes in some cases, or can be in some cases, difficult to keep up. Because there's so much involved in keeping the business running, with all the work that's going to be done to that.

Ram Subramanian: To put it in another way, are saying that there's a tension between maximising the social benefit, and at the same time trying to maximise a return to investors?

David Shires: Just a return to investors but the actual social mission, which is to say, we want to reduce unemployment by 20%, let's say that can be a mission. The question is that obviously they want to try and to reduce unemployment by 20%. That means that the time spent on how to do that, whatever the programmes are, occupies obviously, amounts of their resources; human resources, money and everything else. To be able to do that, the resources needed, including human

and other resources, needs obviously capital. They have to make that money unless they get some grants on top of what they do.

If you look at just from a trading perspective, then maybe saying, "We need to make sure we make money. The time in looking at social impact or that social change and the mission may come in second place." By the way, it's significant that very often the not for profits face the same problem but for different reasons because of grant reporting, administration and so forth. That's one of the challenges that social enterprises face in general, is this mission.

They also, as you pointed out, they have to also report back to the investors. That takes a lot of time and resources to actually report back. They've got to report back to the investors and whoever else is supporting them, not only on their social impact, reducing the unemployment and how they measure that in reports. They've also got to give reports back to the social impact investors or whoever is supporting them. They have quite a big task and that's also one of the challenges the social enterprises face. Also in general, that social enterprises face the same problem as any other business because obviously, every business is in competition.

One of the opportunities in that sense for a social enterprise, is social enterprises are supposed to be built on collaboration. Even if you say for example, there are 10 cafes in Melbourne, perhaps a collaboration in whatever form that may be would be one of the opportunities to make benefits. A, to make a bigger social impact and to collectively see that we can do this collectively. Secondly, things like business where for example, if 10 businesses got together, maybe they could make purchases at a cheaper rate because they could do it collectively. There's quite a few opportunities for social enterprise, because they are supposed to be built on a collaborative model. Of course, as businesses they are in some sense in competition with each other, whatever it is.

The other big opportunity, which has been highlighted is social procurement. Social procurement is now becoming one of the big opportunities for social enterprises. I'll talk a bit about the challenges for that. Social procurement just to very briefly, is where a council or a government, whether it be State or Federal, makes provisions for services can be delivered to the government, whatever that might be, they would look at favourably a social enterprise to deliver that service. For example, if you look at the State government here, some of the contracts made for example, level crossing development, some of that contract or money would have to be given to make sure the social enterprises are given to give some of the services to the company. Some percent in a contract might be given to a social enterprise to deliver catering or whatever that might be.

The opportunities in the social procurement space is a big opportunity where both State councils, Federal governments are looking quite often at that aspect. Because the challenges that you're in competition with other providers, which

means you got to deliver a good service. One of the challenges for quite a few social enterprises, not those that perhaps not newly started is the actual issue of putting in a tender for social enterprise, which they may have never done that before. With financial reporting, social impact reporting, as a whole reporting regime. There's opportunities but challenges with that social procurement.

In one sense, that's not new for the not for profit, because those are service delivery, they have to do the same work. It's not in one sense a new issue but it is an issue for those that are going into that space.

To summarise the challenges and opportunities is that, really the big issue is the business to make sure it's a sustainable business, but also how these organisations are going to continue with their social mission. These are the challenges. The opportunities I've just mentioned, are the opportunities in social procurement, and I would say also, that there are things called social entrepreneurs. Social entrepreneurs are people that work with innovation, they're actually individuals that can make great contributions to social enterprises. That's summarised.

Ram Subramanian: Clearly there have been a lot of changes in the sector and in particular, we know how relatively new type of optimization, social enterprises. Change is not something new to the accounting profession either. Technological innovation and digital disruption are forcing us to rethink our strategies on the way forward. Some traditional roles accounting professionals are used to, are being replaced by software and technology. Manual data entry for book keeping, some basic financial reporting functions, pass preparation enlargement, payroll and other compliance work are just some examples. To some degree automation is taking over.

Many accountants including our members are rising to the challenge of course. They are seeing other opportunities in advisory work, leadership roles, governance roles and those areas where there is a lot of professional judgement involved. These are the areas, which are coming to the floor with the introduction of technological innovation and automation.

Given this evolving that the accounting profession is in, what do you see as new opportunities for accounts in the social enterprises' sector and related activities?

David Shires: I start off with saying that we looked at the member and the sectors, which you're involved. We know that there are private practise, those accountants working in the corporate sector and those working in some way for the not for profit either in pro bono or working in not for profit organisation and retired members. We try to say, first of all, what are the contributions that accountant members can make.

I thought I would start off with the opportunities perhaps for the commercial side of CPA members work. First of all, because it's a grey market, because of what I mentioned in relation to the issues that social enterprises face and particularly in the financial side of their work. Because it's a very complex financial situation that social enterprises face. They have to decide on what ... For example, how much profit they want to make, do they want to break even, do they want to make certain projects 90% of profit and 10% of social change? All of those things need a financial modelling and so forth, in a sense that social enterprises are slightly different from the not for profits and from the profit side because they combine both.

We see opportunities for CPA members to be able to make a contribution and support them. That can be either a commercial arrangement in which the expertise of members in financial issues could be of great benefit. That's one of the opportunity. We see exactly the same opportunities for those that may be working in government, those that work in the corporate sector and the private sector for that matter, if they want to do pro bono work for social enterprises. The opportunities for them to make a contribution towards that sector are the same in the sense but one is for the not for profit, pro bono, and one is for a commercial arrangement.

In those opportunities, what we see, this is perhaps where we think maybe Capacity International can play a role, is that there are certain skills, if you want to put it that way, certain areas where accountants might not have those particular skills like impact investment and a whole range of things, which were new concepts in relation to social enterprises. What we see is the opportunities there, but we also see that perhaps there is a bit of up skilling for members to look at how they might make a contribution towards that, considering that particular kind of enterprise is very different from what they might have experienced in the not for profit and private.

We see in brief that it is a grey market, as we saw it is 22 billion, so commercially it's a great opportunity. Also, obviously, the opportunity to make social change. If they're working even for profit, as a commercial enterprise, they're actually making a contribution towards social change. That's where we see the opportunities here.

Ram Subramanian: Quite a lot if I remember, CPA Australia members are already involved in not for profit sector either as practitioners or directly working in the sector. It seems like a good convergence stride there. There's change that's creating opportunity for members and for those operating social enterprises as well. What are your thoughts on that?

David Shires: To summarise that, the contributions that accountants can make and your members can make is relation to the business side of social enterprises. We know from discussions within the not for profit sector that will actually want to set up social enterprises or those we know experience in business areas, knowledge and business acumen is the one area where there's lots of needs.

We know that from various meetings as a network of social enterprises. Recently we went to a conference where these were pointed out that it was their business side of social enterprises, which were the real weakness within a lot of social enterprises. That's not just those for not for profit, but people like social entrepreneurs that want to set up they have no business skills.

For example, if somebody in the arts or medical profession wanted to support or set up a social enterprise, they have no business experience and so this is where accountants can play a decisive role. Whatever areas, whether that be governance, financial modelling, all those things that accountants normally do. That summarises that in that way.

Ram Subramanian: That's great, thank you David. Clearly, social enterprises or enterprises that work in this space have some unique reporting needs. They not only have to report measure and report their impact on society, but they also have to report about their performance in financial terms to those who invest in them. Maybe there is also need for external auditors or other assurance providers to come in say, "Yes, these numbers or these statistics look okay. Tick if you wish." Where do you see accountants fitting into this space?

David Shires: To answer that question, I can answer in this way. First of all, that in terms of auditing and financial reporting, that's always been, in the not for profit sector, one of the biggest problems. Is people with commitment and even possibly working organisations that work real good in all sorts of senses, the financial reporting is one of the areas that's quite often the weakness. Why, which I say this, there is going to be new types of audits. Basically social audits, which probably accountants might not be involved in but internationally what we've seen is that the need to do social audits as well as financial audits and how they interface with each other is important. That's one of the areas where specifically a role can be played around the auditing issue.

Ram Subramanian: The accounting profession is involved in a number of different types of audits. Financial audits are ones that people probably easily associate accountants with, but there are non-financial audits. Performance audits that accountants do, which are also quite common particularly in the public sector, in the not for profit sector. I would say that although it's not necessarily a skill set that every accountant possesses or every auditor possesses. There are auditors and assurance providers out there who can do these kinds of social audits that you refer to.

That's a possibility. Perhaps you can just elaborate on that a little bit.

David Shires: Thank you for that. I think obviously that, those working for the not for profit sector probably wouldn't very much be involved in the social auditing because of the nature of the not for profit. Generally speaking, that the skills, which they come with is numerical skills. That is issue is that a lot of skill sets are there, and those that possibly have not been involved in social auditing. In that sense, that's an opportunity for those that may not have been involved in the social



auditing and other kind of financial auditing that is very specific to the social sector.

Ram Subramanian: Now, going back to my original question, one part of my question was, in the social enterprise space, reporting is not just about financial reporting. There's other types of measurement of social impact and other types of reporting, which will also come to the fore. Could you just elaborate on that as well.

David Shires: One of the things that we think that is important is that there are a number of tools that are ways in which perhaps, accountants may not be used to. Part of the things that we've looked at, particularly work in the not for profit sector, is the tools to actually do those measurements. Those tools are very much participatory tools that may be useful, they have been certainly useful in the community development sector.

For example, without going into details what they are, there's measurement tools but most significant change. There's measurement tools around evaluation called appreciative inquiry, outcome mapping. There are a lot of different tools, which could be useful for accountants in doing some of these audits, whether they be financial or social. In the end, it's those tools that are quite important, put into that mix.

Ram Subramanian: Thank you David. Just to wrap up our discussion, could you tell us where Capacity International will be going next, and what the organisation will be doing next.

David Shires: Generally speaking, our organisation is first of all specialising in social enterprises. Our mission in general is to develop social enterprises in Australia by building the capacity of those organisations. We see ourselves as a capacity building organisation, hence the name of course.

In terms of where we're going, we are where we're going in relation to our work with CPA members. We have created a website link that will provide resources your members around a whole range of different issues in relation to the social enterprise space. That is available now. The second is that now we're also looking at developing and designing some kits that might be self-help for accountants, or your members that want to actually work in that sector. We're developing also workshops. Over the next six or seven months, podcast like this, webinars, and possibly online. We're creating a number of different ways in which we can support your members.

We also are trying to develop what you might call a brokerage. We're trying to say that we will try to broker relationships between the private sector or pro bono, to social enterprises. That's what we're trying to do in the next year roughly speaking, is to develop materials, workshops, self-help kits or manuals, to be able to offer workshops that might support, whether working in the pro bono side or commercial. That's really our thinking in the next year.

Just to clarify, all the numbers that I've talked about in relation to both the figures of the growth and what our mission of our social enterprise come from social traders.

Ram Subramanian: David, thank you very much for some useful and interesting insights into an emerging sector. I'm sure we'll be watching this space closely, going forward. Thank you once again.

David Shires: Thank you for your time.

Ram Subramanian: All the reference material and other information that David has spoken about today in the podcast will be available on the same webpage where the podcast is also going to be available.

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