

Valuing Complex Third Sector Organisations

Max Weaver: Senior Visiting Research Fellow, Centre for Social Justice and Change

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max.weaver@btinternet.com

THE POLITICAL CLIMATE

Here are some commonplace slogans or popular themes: a hand up, not a hand out; always something for something; sort the deserving from the undeserving; something must be done; and, of course, payments by results. The demand is for simple answers to complex questions. Hence the plethora of sound bites and political initiatives, calculated to please the *Daily Mail* and to further their initiators' careers within time frames too short for any results of the initiatives to be known.

Supporting a third sector organisation (TSO) because it is worthy, trying hard and might just do some good is right out of fashion. The demand is for tangible *outcomes* or—adding some rhetorical force but little meaning—*impact*.

To survive in this world, TSOs must be able to convince policy makers, funders and actual and potential service-users of the *value* that they add. This fundamental issue has two analytically distinct but operationally connected components:

- what counts as *value*?
- was it the TSOs actions that added it?

The first goes to our conceptions of *value*—a philosophical matter. The second, goes to *causation*—a matter that mixes *factual* inquiry with *value*-based judgement. Both involve choices and judgements that require careful thought rather than simple slogans. These issues are particularly acute when we consider Community Anchors, locally-based multi-functional organisations that exist to respond to multifarious and changing local needs.

CONCEPTIONS OF 'VALUE'

We often agree that 'valuable' work should be supported. Given the level of abstraction of this proposition—higher than 'motherhood' or 'apple pie'—it is difficult to disagree. The proposition is almost tautologically true. However, *value* is a complex and contested concept—in Ronald Dworkin's terms, 'interpretive' (Dworkin, 2011, 123-156). A and B might warmly agree that *valuable* work should be supported. If their conceptions of *value* are strongly similar, their agreement will be real and will provide a solid basis for collaboration by way of contract or partnership. But if A and B have different conceptions of *value*, they will be simply 'talking past each other'. There will be no meeting of the minds. Their agreement will be apparent but not real. Consequently, there is a substantial risk that these

underlying disagreements will later surface and undermine the effectiveness of any contract or partnership in which—in the flush of seeming agreement—they might have engaged.

Several different *conceptions* of value are now explored briefly. The first few are easily expressed in monetary terms. Some of the other conceptions are difficult to monetise, but it does not follow that they are therefore *valued* less. It is possible, but not certain, that the value they capture is simply more difficult to quantify and express in a way that will appeal in the current climate. Money sums seem to spare us the trouble of moral judgements or thinking hard about the causal mechanisms by which outcomes can be achieved. But there is no reason to assume that money is necessarily the prime or a sufficiently comprehensive means of capturing and expressing value.

Commerce, economics, surveying and accountancy are dominated by *exchange-based* market values—the willingness of a buyer and seller to exchange goods, services or options at a price. A willing buyer might be prepared to pay £z to for a four week option to purchase Greenacre, locking out all other prospective purchasers for four weeks. A seller might or might not be willing to grant that option in exchange for £z.

Development value is the price a buyer would pay for land (or a patent) that can be exploited more fully than it is presently. If there is planning permission for a high-rise, high-quality residential development, the development value of Greenacre will be greater than if only two-storey affordable housing is permitted. Intelligent vendors and purchasers arrive at development value by estimating (a) the building's cost and (b) its likely value in the market place for sale or rent. The latter [(b)] will take account of accessibility, prominence, present and foreseeable demand and might also factor in architectural merit or beautiful views. The market price is a function of willingness to pay, which is itself a function of many factors—some hard and some soft, some permanent (e.g. the size of the plot) and some variable (e.g. changing local demand for that kind of space; the return on alternative investments, say, in gilts; or on architectural fashion).

Sometimes we relate value to *cost* (or to *inputs*). A TSO has raised funds and built a new building that has become part of that organisation's net worth or wealth. In so doing, the TSO *exchanged* £x for the design, materials and labour. If freehold, the building will be entered on the balance sheet at £x—its *historic cost*. These capital values are sometimes neglected, especially by TSOs that are dominated by the revenue budget and the perpetual effort to secure enough income to pay the staff and keep the services going. Furthermore—because there are few prospective purchasers that would want its bespoke features that might be expensive to remove—a bespoke facility might have high *use* value to one particular organisation but low *market* value. Following such principles, even negative value can

arise—a ‘purchaser’ might need paying to take on highly bespoke or neglected and dangerous premises and make them commercially useful. Historic cost is not a good indicator of market, use or development value. It might fit with our instincts but often cannot withstand serious examination. Whilst we are capable of thinking carefully to check and, if necessary, change our instinctive judgements, we might do this lazily. This kind of thinking sometimes takes more effort than we want to afford (see Kahneman 2011, 31-49 on ‘the lazy controller’ of human reasoning).

Similarly, we might regard the price just paid at auction for a painting as ‘the value’ of the painting. It was *determined* at the auction and thus seems *certain* (Dworkin, 2011, 90-96). But the buyer might not be able to sell tomorrow at the same price, and will have to accept tomorrow’s *certain* price, *determined* at another auction. Our paradigm sense of *value* tends to assume *determinability* and *certainty* even when we realise that—because markets fluctuate—the latter might be temporary. The value in ten years’ time is presently *uncertain* but is inherently *determinable* at an auction in ten years’ time.

If the painting is a portrait of David Beckham, its market price will be affected by his current popularity as a sports personality. The Beckham factor will add value beyond the artistic. The price in today’s market might well exceed that paid for a landscape painted by a young artist, whose exceptional work is currently not recognised widely, but which might be much sought after in ten years’ time. The relative market values of the two paintings might well change radically. In ten years’ time, it might be more clearly recognised—under the conventions of art experts—that the *aesthetic* value of the young artist’s work is greater than that of the competent portrait painter’s work.

As our example indicates, concentration on the *exchange* of money for goods can crowd out more subtle forms of value—such as *aesthetic* value. Neither does *exchange* enable us to determine whether a beautiful view should be preserved from HS2, nor whether bankers’ bonuses have been awarded justly. But, *within a particular domain of value*, there are often *substantially shared conceptions* of what is good and worth paying for. Whilst these conceptions ebb and flow with fashion, at any one time there will be a substantial consensus, for example, that Coldplay’s music is superior to that of Jedward.

Judgements within such domains influence *exchange* values—the original drawings for a Coldplay CD cover would command a higher price than one for a Jedward production. Nevertheless, it might have no greater *use* value. The pleasures of its possession are governed, not by use value but by aesthetics, scarcity and association with the musical performers. It is these factors that increase willingness to pay and hence market price. The resulting market value does not reflect *utility* any more than the does the

price of a designer mineral water that, in the *functional* terms of health, offers no advantage over tap water.

Early internal combustion engines were rated in horse power. A 12 horsepower engine could do the work of 12 horses. This is not simply a matter of *exchange* but also involves a notion of *substitution*. The market (and monetary) value of the engine would be driven by the cost of twelve horses over the period of the engine's likely use. *Use value* is the cost that would be incurred to *substitute* the result that the object being valued produces. Your reliable old car might have a market value of only £200 but the cost of the train fares and taxis that you would incur without a car might well exceed that each month. A more expensive car would have higher market value but similar *utility*—and might be less reliable. A similar *substitution* lies at the core of social return on investment (SROI) methods of valuation. If the cost of detaining a young offender in an institution is £1,000 a week and an intervention reduces offending in an area by preventing one offence that would have resulted in a custodial sentence of 26 weeks, it is worth paying up to £25,000 for the intervention. The intervention is *substituted* for the offence and generates a value—and funder's price for the intervention—that takes no account of the cost of the intervention. The TSO providing the intervention might incur costs of £50,000 but—because the only available funder imposes a ceiling of £25,000—might be tempted to take rather than leave the deal and struggle to raise funds for the remainder. The TSO's position improves if the funder agrees to pay a bonus for additional performance, but the TSO would have to gamble additional expenditure (and cash flow burdens) on its own ability to collect such bonuses eventually.

BEYOND THE EXCHANGE PARADIGM

TSOs will claim that the full value of their work cannot be evaluated properly by any of these mechanisms. They will feel that much of their work is *invaluable* or that it has *inherent value*. Even where the work relieves the public purse of estimable probable expenditure and has few displacement or negative side effects, they will be reluctant to accept—in their hearts of hearts—that social return on investment (SROI) captures all the value that they believe they add. Some of that value, they will continue to feel, is *invaluable* or *inherent* in their very *existence*. Are there other conceptions of *value* that might help their cause?

The civil law makes valuations when awarding damages. If you negligently damage my car, I can recover from you the cost of repair (or replacement with an equivalent if it is beyond repair). If there is consequential economic loss caused by the unavailability of the car or the disruption, that too is

recoverable. Such losses are easily monetised. But if the car is of particular *sentimental value* (it was my grandfather's) monetisation is more arbitrary, there being no established market for the surrender of such non-transferable sentiments (economists describe these as *consumer surpluses*).

If my limb is injured, causing me to suffer a loss of *amenity*, there is no relevant market but the courts create a tariff of values for the loss of such amenities. Damages for unlawful detention by the police are also covered by a judicially devised tariff (Thompson, 1997). If the right to limit one's family size is interfered with by virtue of a negligent and ineffective sterilisation operation, the courts will now make a 'conventional award' of £15,000 (Rees, 2003). This award is not compensation for a loss but simply *marks* the invasion of the *right*. It is not compensation for 'wrongful birth' since the common law deems every healthy child to be a blessing. As we move further away from the tangible, readily substitutable and market-related harms, the awards become more *symbolic* in much the same way as a wedding ring is a symbol of a marriage (Dancy 2004, 165).

TSOs face a double problem. First, funders want to pay only for *outcomes* and not to make more speculative unspecific investments in *organisations as such*: 'We do not pay for overheads or administration'. Second, to the extent that they cannot meet funders' expectations of specific outcomes, TSOs will need to demonstrate their value *qua* organisations. TSOs will want to argue that their *very existence* is a virtue and/or that their existence has *intrinsic* value. We shall see that the latter is a challenging task and that it may well be that TSOs are best advised to concentrate on demonstrating that investment in them *qua* organisations is worthwhile in terms of *outcomes* that relate to their mission and character.

INTRINSIC VALUE-A CHIMERA?

Sometimes people will pay to maintain an *option*. 'It would be shame if the CAB were to close. I've never used it but it's comforting to know that I could.' Sometimes they do not pay but would nevertheless have feelings of regret were it to close. Such feelings evidence value that is not easily captured in exchange terms. Sometimes people will pay to maintain the *existence* of someone or something. A donation to Oxfam might save a life in which the donor has no exchange-based interest. Nevertheless—as all effective fund-raisers recognise—the donor probably derives some personal fulfilment or satisfaction from making the donation. Lurking beneath the surface is the suggestion that there is something *intrinsically valuable* in the *very existence* of the CAB and Oxfam. It would certainly help TSOs

if funders and policy-makers were more aware that value varies in its determinability and that seeming certainty is sometimes illusory. But can funders be convinced of *intrinsic value*?

Jonathan Dancy distinguishes between (i) the value of the thing and (ii) the reasons that make it valuable. In that sense, *value is a consequence or result of those reasons* (Dancy 2004, 170-175). To find that the value of a TSO is *intrinsic*, we would have to find *intrinsic properties* in that TSO that constitute *reasons* that make it valuable. A TSO might argue that it is inherently associative and that association is a virtue. However, a gang of armed robbers or arsonists is also associative. Do we ascribe to them the same value that we ascribe to the TSO? It seems wrong to focus on ‘association’ and to ignore the overall context.

The better strategy is to show that there are extrinsic reasons to value the very existence of the TSO. The most promising will be demonstration that the TSO is a *means* to an *end*, such as the relief of poverty in Downsville. That will require some *causal* explanation (see Cartwright and Hardie, 2012, generally). After all, the point of TSOs is to provide benefits for their beneficiaries. Their value lies in their *consequences* for others—in *extrinsic outcomes*. Their problems are (a) to capture that value and (b) to demonstrate their causal connection to it. Khaneman’s laziness of thinking about appropriate conceptions of value exacerbates these problems. So too do the seemingly pervasive tendencies to *outcome bias* (Baron and Hershey, 1988) and *hindsight bias*—to value a process more highly simply because it had a good outcome without ensuring that the outcome was *causally connected* to the process. Bizarrely, to take a 1 in 10 chance of success and to succeed can be regarded as a *good* decision. Similarly, to take 9 in 10 chance of success and to fail can be regarded as a bad decision. Both outcomes lie in Adam Smith’s ‘empire of Fortune’ (Smith, 82). The antidote to these biases is careful examination of causal mechanisms, asking not only ‘did it happen?’ but ‘how did it happen?’ and to learn ‘to discriminate between fortune and wisdom or between misfortune and guilt’ (Arnauld, 1662, 285, cited in Baron and Hershey, 1988).

COMPLEXITY

TSOs vary in their complexity but community anchors—multi-functional locally responsive organisations serving areas of deprivation—are *complex* for the simple reason that the needs to which they have to respond are complex. If the task is drilling teeth, a dental drill is the best tool. But if the task could turn out to be anything and you can take only one tool, you might prefer the Swiss Army Knife, the standard model of which features: the main blade; a smaller second blade; tweezers; toothpick; corkscrew; can

opener; bottle opener; flat screwdriver; cross-head screwdriver; nail file; scissors; saw; file; hook; magnifying glass; ballpoint pen; fish scaler; hexagonal spanner; pliers; and key ring. The Swiss Army Knife is not better than a good screw driver for turning screws, but it is much better than a screw driver for scaling fish, reading small print and cutting paper. We might adapt H L Mencken's aphorism that 'for every complex problem there is an answer that is clear, simple, and wrong' (cited in Cartwright and Hardie, 2012, 146) to read: simple statements about complex TSOs might very well be clear but are mostly either wrong or too abstract to be useful.

The problem, of course, is that funders specialise and create silos. They want to fund only the best fish scaler because removing fish scales is their chosen priority. A TSO might have a single purpose—the relief of poverty in Downsville—but the achievement of such a purpose is a multi-faceted long haul and Downsville Council is also working on it. Hence, outcomes that will convince silo-funders are scarce. Nevertheless, the TSO has a case worth supporting if it is a demonstrably stable and responsive local presence, able to provide services that will further that purpose—legal advice, debt advice, lunch clubs, child care, pre-employment training, housing for the aged. In the short run, specialist legal advice providers might perform better on the indicators that legal advice funders utilise. Nevertheless, for the long term relief of poverty, might not the Swiss Army Knife be the better bet? Think of the Swiss Army Knife as the organisation that facilitates the adequate performance of a wide range of functions when required. Then add the virtue that the live organisation can add and subtract functions in response to local need without having to go back to the factory for modification.

FACTUAL EXPLANATION AND NORMATIVE ATTRIBUTION

We do not ascribe credit or blame to an agent who has done nothing (or omitted to do something) that *causes* a result. Even to *explain* an occurrence, rather than to *attribute* moral or legal (normative) responsibility for it, we must find its cause or causes.

It is often fairly easy to identify *necessary* conditions—factors without which the result would not have occurred—but the resulting causal *nexus* is vast. S steals my car. We say that he *caused* the loss of my car, but he could not have stolen it from me had I not bought it and had the manufacturer not made it, or the internal combustion engine not been invented.....and so on. There is no scientific test by which we can determine that S's conduct is the main or—in lawyers' terms—*proximate* cause. Nevertheless we find good reasons for choosing S. We might say that S had choices about how to act and that singles

S's action out as the cause. But that *seemingly explanatory* (and thus seemingly morally-neutral) judgement is, in essence, a *moral* (and *attributive*) one, based on our notion of individual responsibility. More obviously, as a matter of *normative attribution*, we might say: S showed disrespect for property rights; such conduct should be deterred; if it is ignored people will take the law into their own hands; there will be vigilantes and a threat to social order; the sum total of human happiness has been reduced; theft is a moral wrong.....and so on. S caused the harm as a matter of fact and there are good reasons that S *ought* to be punished and/or pay compensation for so doing.

If a TSO is to claim the credit for the *value* (however conceived) that it believes it can add or has added, it must show that it *caused* the improvement. The further away from the readily monetisable—and hence the more unusual to funders—the *kind of value* that the TSO claims to add, the greater will be the premium on showing the *causal mechanism* by which it is added. Indeed, it may be only by uncovering the relevant causal mechanisms that the funder or policy-maker can be persuaded to recognise the claimed value at all.

SROI is not always adequate to this task. It can be useful when the *causal nexus* is well defined and controlled for displacement (in our example above, the offenders simply move to another area or another form of crime) and for other causal variables (such as changes in policing policy, economic changes affecting employment levels, the introduction of new home security devices in newly built homes in the area, etc.). But many interventions cannot be controlled in these respects and this is especially true of the multi-functional—there-for-the-long-haul—community anchor when we consider that *organisation itself* as the intervention to be supported.

A multi-functional organisation can gather support by demonstrating that its particular projects add value. But it will often be in competition with more specialised providers of that particular service and may not be the silo-funder's choice. Furthermore, each silo-funder funds specific services rather than organisations *qua* organisations and so is not interested in the multi-functional organisation's *valuable* ability to perform adequately—but not outstandingly—in several silos at once (Weaver, 2009). Similarly, funders are often most impressed by randomized controlled trials (RCT). As Cartwright and Hardie (Cartwright and Hardie, 2012) argue, when the controls are rigorous, such trials are a reliable method of demonstrating that a particular intervention in a particular place is causally connected to a particular outcome. The findings are strengthened by replication in precisely similar circumstances. However, this tells us little about the transferability of the intervention to different circumstances. Effectiveness in circumstances C₁₋₄ is no guarantee of effectiveness in C₅₋₈, or even of effectiveness in C_{1, 2, 3, 5}. The possible solutions are: (i) the often impractical one of a new RCT in the different

circumstances; and (ii) unpacking the causal mechanism that produced the successful outcome in the original RCTs.

This causal unpacking (in (ii) above) entails the identification of the *support factors* without which the intervention would have been ineffective. These support factors are similar to the factors identified above as part of the causal *nexus*. They are *necessary* but not in themselves *sufficient* conditions of the intervention's effectiveness. It is also essential to identify other factors that might contribute in parallel. Our intervention with young potential offenders might be working well but some of the reductions in local crime might be attributable to an independent initiative in the local secondary school. This latter initiative might have significant capability to reduce the crime rate wholly independently of the TSO's separate intervention.

However, the emphasis on causal explanation is promising for multi-functional TSOs that need to demonstrate their value *qua* organisations. They will be swimming against a strong tide but can make headway by demonstrating the mechanisms of their responsiveness. Over and above the effectiveness of any specific intervention (such as starting a youth football club), there are some measurable factors, which will be difficult to monetise but can be shown to have a strongly probably connection with the community benefit flowing from the organisation's wide and flexible range of activities.

Alice Sampson and the author have argued elsewhere that a multi-functional organisation's capacity to *attract* people to come and seek support is a crucial attribute that is *causally connected* to its organisational effectiveness—and can be *measured* (Sampson and Weaver, 2010). How many people come? How long do they stay? What help do they seek? Do they come again? For the same kind of help? Do their friends and family members come?

We also argued that the multi-functional organisation's capacity to *connect* people constructively is *causally connected* to its organisational effectiveness—and can be measured. Does a visitor get connected to the appropriate service, whether provided by the TSO itself or by others? Do visitors come regularly and form associations with other visitors?

Social bricolage is also measurable. A multi-functional organisation's Swiss Army Knife capacity to make do, to refuse to be constrained by limitations, and to improvise (see Di Domenico *et al*, 2010) is observable by non-participants and recordable by participants. Such observations will be beyond normal monetisation but nevertheless constitute hard data.

Connection, *attraction* and *bricolage* are not substitutes for measures of performance within the various silos of service. A funder or policy-maker will not be keen to fund a multi-functional organisation that provides inadequate specific services. But a combination of (a) adequate performance within silos and

(b) sound evidence of connection, attraction and bricolage can constitute a strong case for supporting the organisation as such. It will challenge the current paradigm that narrows conceptions of value but is more likely to convince than is the unsupported assertion that the whole is greater than the sum of the parts.

CONCLUSION

Demonstrating the value of complex organisations can be hard work. It's rather like dragging a badly torn sack of bricks up a very steep hill.

Narrow exchange-based conceptions of value are so entrenched in the minds of some funders that the only option will be to try to play the game by that funder's rules, which tend to give specialist providers the edge. Nevertheless attention to causal mechanisms will help to strengthen the TSO's claim, especially if that supports a community anchor's claim to reach the parts that the specialists do not reach so often.

Some other funders might be sufficiently open-minded to see that there are useful conceptions of value that are not readily monetisable. They might even be convinced to support a Swiss army knife organisation if the case for support is well-organised and backed with hard evidence of successful *attraction, connection* and *bricolage*.

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