

**Social Enterprises: toward the definition of a system for measuring Social
Enterprises value**

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1. Introduction

This paper aims to develop a performance measurement system SE. In recent years, SE has been proposed as a potential response to some critical problems of our society, with relevant expected impact in term of social value creation (Borzaga 2003).

At the basis of SE, there is the idea of transforming the maximization of profit and wealth creation – the final goal in the classical theory - in the means by which the “social entrepreneur” fulfil unmet social needs. A second element of SE is the idea of transforming the social benefit which is the final goal for the non profit system – into a real “business idea” which needs to be exploited, managed and realized with some of the instruments of the classical theory.

The academic and professional literature provides several definitions of SE (UNDP, 2008; Perrini, 2007; Thompson, 2000; Schwab Foundation, 2002; Dart, 2004; Mort, 2003; Johnson, 2000; Department of Trade and Industry, UK, 2002; OECD, 2005), that refer to slightly different concepts and ideas (see Table 1.1). However, all these definitions entail some general concepts that can be used to characterize the essence of SE:

SEs are multi – objective systems

As previously discussed, at the basis of SE, there is the idea to transform the maximization of profit and wealth creation – the final goal in the classical theory - in the means by which the new social entrepreneurs achieve their business ideas to fulfill unmet social needs. Indeed, SE represents a hybrid form positioning itself somewhere in between the traditional non-profit and for-profit organizations (Alter, 2004). Compared to not for profit entities, SEs retain the purpose to achieve some social benefit, but their vision, organization and processes are quite different when compared to non-profits. They strive to achieve goals that meld socio-political, environmental, and financial objectives and, therefore, give them a major importance compared to profit organizations (Youssry 2007). Above all, SEs pursue a broad social goal (Pitta and Kucher 2009), they try to promote a new model of economic development, fostering a more democratic decision-making process (Campi, et al. 2006). From an economic standpoint, SEs need only to assure their economic sustainability: market oriented activities and fund rising are strictly “at the service” of the social goal. To meet these goals, SE mobilizes different kinds of market and non-market resources to sustain its mission toward a major public welfare (Borzaga 2008).

SEs are multi-stakeholders systems

Though most of organizations may be seen as multi-stakeholders systems, SEs are highly participative in nature and are characterized by a constant involvement of internal and external subjects in their strategic choices.

In particular:

- First, as previously discusses, SEs can be positioned somewhere in between profit and not for profit sectors (Dart 2004, p. 415). From one side, SEs have been increasingly recognised as a distinct sector, with a relevant portion of market oriented activities; from the other they often tend to be classified as a sub-set of the non-profit sector (Pearce, 2003; Dunn and Riley, 2004). This ambiguity is reflected in the development of a mixed governance structure too, that may be a hybrid combination of for-profit stewardship and non-profit democratic models.
- The second point is that in the context of SE, groups of citizens are regarded as agents of change of organizations and society, becoming active citizens (Emes 2008).
- Third, the level of participation of different stakeholders in the decision making processes is higher. Not only citizen but also local trade unions, associations, local banks, municipalities are

generally represented in the decision-making bodies and are integrated into all stages of the decision-making process (Borzaga, 2006). This kind of involvement is essential (i.e SE can't do without) to understand the real needs of the context and the great deal of knowledge of their markets and to be able to give an adequate long term response (Pättiniemi 2007). Furthermore, compared to profit organizations few actors (public administrations and local banks) can play a decisive role in the development and survival of SEs.

As a final consideration in this paragraph it may worth underlying that this high level of involvement of different stakeholders may lead to high governance costs and thus, can turn out to be also an element of inefficiency (Bull, 2007) and therefore need to be properly monitored, managed and control during the life time of the SE.

As we have highlighted, SE can represent a potential response to some critical problems of our society, however, at present, a performance measurement system (PMS) that allow to actually measure the results achieved by them, is not yet defined. On the one hand, the lack of a PMS limits the understanding of the actual contribution of SEs to socio-economic development. On the other hand this situation is in contrast with recent drivers towards market commercialization, which have stressed the need for SEs to prove efficiency and demonstrate accountability and transparency (Young 2001). Therefore, the first objective of this research is to investigate how SE results can be measured, (i.e. how a PMS for social enterprise can be developed) with respect to their social, environmental and economic impact, also enabling SEs to benchmark their performances against other businesses (profit and non profit). In this way, SEs could be able to show the value they add, to answer to their stakeholders expectations and also to limit some of the obstacles they face in accessing finance and competing for public sector contracts (Marks 2008).

Based on this consideration, the research objective is:

1) Define a method to measure the results of SE, in relation to social, environmental and economic performances and benchmarking their performances versus profit and non profit

To this extent it is necessary to:

1.1) identify the relevant dimensions against which SEs performances should be assessed

1.2) define the stakeholders to which this information is directed (i.e. reporting system)

1.3) implement a set of indicators to be monitored to provide a complete and reliable picture of SEs' performances

2. How can be measured the SE value

The literature review starts from the assumption that SEs are multi - objective organizations and have a multi-stakeholder Governance (Defourny 2008, Nyssens 2006, Weerawardena 2006).

2.1 PMS for multi-objs

The measurement of social value creation for social enterprises requires the consideration of a variety of objectives and outcomes for a heterogeneous set of stakeholders, often with contrasting interests (Kerlin 2006). For this reason the analysis start from the literature concerning the stakeholder theory and the main models proposed for measuring performances in the public sector considering the similarities between SEs and public sector. Indeed similarly to SEs, government's performance is difficult to measure because its outputs are very heterogeneous and the outcome is very difficult to quantified (Marks 2008).

In traditional for-private-profit businesses, any assessment of social and/or environmental value-added typically comes at the end of the production process and social and environmental goals are given subordinate status to the overriding profit motive.

For social enterprises, profits are created for stakeholders, and in this case the success story is told through a combination of social and financial impact indicators. Social enterprises occupy a unique space within the economy where, as businesses, they are driven by the need to be financially sustainable, but as 'more than private profit' organisations they use economic surpluses to drive social and environmental growth. Social goals and motivations must be identifiable inside the organisation, as an integral part of their culture. Further, social enterprises are distinguishable from other non-profits or charities because they trade in the competitive marketplace. (Somers 2005)

The important point to note is that because social enterprises use alternative inputs, or a modified production process, once a good or service is produced and sold to the marketplace, it ought to be possible to identify social and environmental profit in addition to economic profit. In practice, many social enterprise managers continuously make trade-offs between increasing productivity for financial gain versus increasing productivity for social gain (Ali B. Somers 2005).

Tools such as the balanced scorecard (Kaplan and Norton, 1992, 2004), the environmental and social reports (Bennett and James, 1999), the sustainability reports defined according to the triple bottom line (TBL) agenda (Elkington, 1994, 1997) and international standards such as the Sustainability Reporting Guidelines fostered by the Global Reporting Initiative and based on the TBL approach (GRI, 2002, 2006) are attempts to face the challenge represented by new information requirements for decision-making processes and communication policies (Wagner and Schaltegger, 2003; Schaltegger and Wagner, 2006).

Public sector organisations are differentiated in comparison with their commercial counterparts in the private sector. There is no profit maximising focus, little potential for income generation and, generally speaking, no bottom line against which performance can ultimately be measured. The vast majority of public sector organisations still generate most of their income from the State, and have to account to several stakeholders (Boland and Fowler 2000).

In considering public sector performance improvement, there are two important issues which need to be addressed: what is to be measured, and how should the information arising from the measurement process be used?

It is common practice in public sector performance management literature to talk about the three Es of:

1. Economy;
2. Efficiency; and
3. Effectiveness,

based upon a simple input, process and output model of organisations (Flynn, 1997; Rose, 1999; Carter et al., 1995). Input resources are generally thought of as physical, human (staff and clients/cases) and financial.

Azzone (2008) and all add:

4. Fairness
5. Impact
6. Resources quality

The Figure draws upon a systemic understanding of the terms efficiency, effectiveness and related terms (Boland and Fowler 2000).

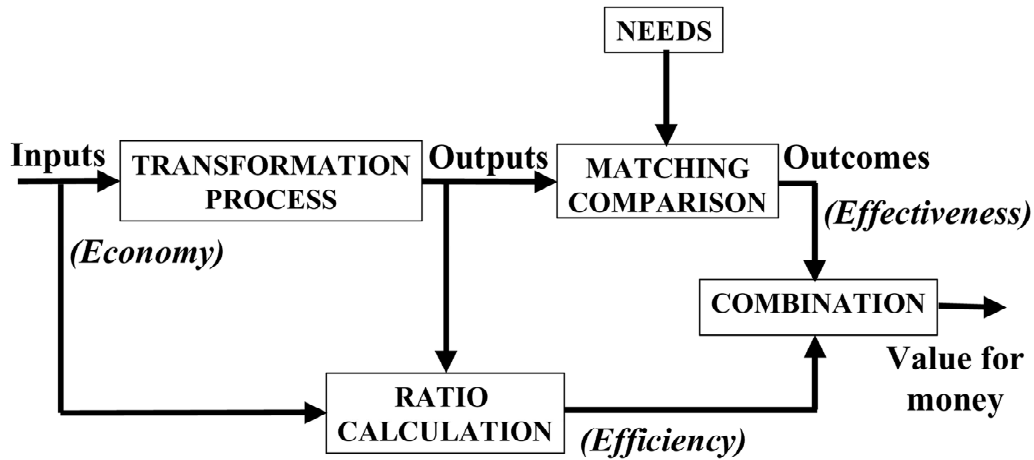


Fig.1 Relationships between alternative performance measures (Boland and Fowler 2000).

In this model, input-output-outcome model proposed by Azzone (2008), the creation of value is represented by the amount of output that produces a PA with available resources. The amount of output is the efficiency; the attention to long-term is measured at outcome stage through the impact.

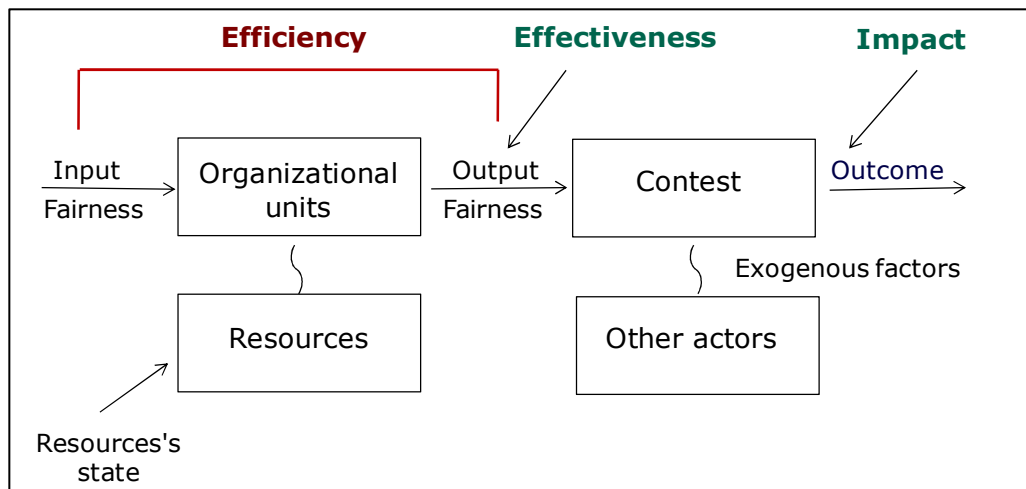


Fig.2 PMS at Public Administration (Azzone 2008)

2.2 PMS for multi- Stakeholders system

SEs have a multi-stakeholder governance, though most of organizations may be seen as multi-stakeholders systems, SEs are highly participative in nature and are characterized by a constant involvement of internal and external subjects in their strategic choices. The view of effective performance management systems as ‘negotiated outcomes’ raises the vital management issue of how to achieve stakeholder consensus on performance measures that recognize the views of stakeholder groups and relationships between them. The organization systems rationale for this is that incorporating stakeholder analysis within decision-making models is crucial where the viability

of the developed system is dependent on its acceptability to different stakeholder groups – or where decision quality or acceptability are likely to be enhanced by consideration of different stakeholder viewpoints. Appropriate performance measures are identified via a ‘consensus seeking process’. In outline, the process involves identifying key stakeholder groups, conducting structured.’ (Simmons, 2003). The Simmons’s model incorporates ethical and effectiveness considerations within a stakeholder systems model of performance management.

The Simmons’s model (Figure 3) delineates design, operation and evaluation system stages and their organizational justice dimensions within a stakeholder-accountable model of performance management. The model assumes a range of stakeholder perspectives and agendas in relation to performance management philosophy and process within an organization. The significance of particular stakeholder perspectives to the organization is determined via the concept of stakeholder saliency. This is a method of assessing the legitimacy, leverage and urgency of stakeholder claims (Mitchell et al., 1997). Overall operation of a performance management system can be evaluated by reference to a range of qualitative and quantitative measures (Williams, 2002). Qualitative assessments include its contribution to organization objectives, stakeholder satisfaction and perceptions of organization justice; These assessments can be combined with efficacy, efficiency and effectiveness measures from systems analysis that relate to process operation, resource utilization and organizational contribution – together with system equity – to produce an overall evaluation of the performance management process.

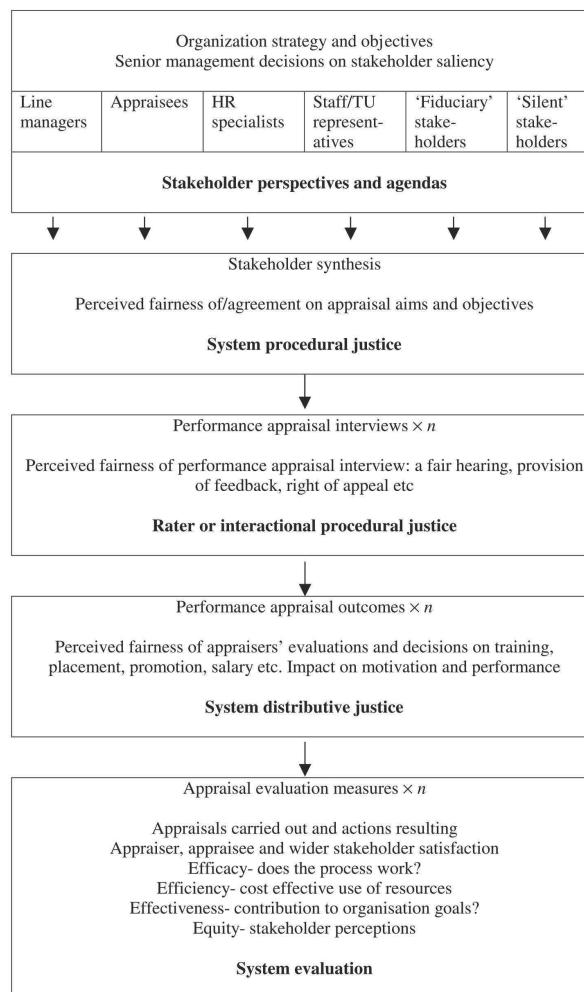


Fig.3 Organizational justice considerations within a stakeholder systems model of performance appraisal (Simmons, 2003)

Ali B. Somers (2005) amends the original Kaplan and Norton Balanced Scorecard for the Social Enterprise, he defines Social Enterprise Balance Scorecard (SEBC) introducing three changes : an additional layer was added in which social goals are articulated above the financial perspective; the financial perspective was broadened to focus on sustainability; and the customer perspective was widened to capture a larger number of stakeholder groups.

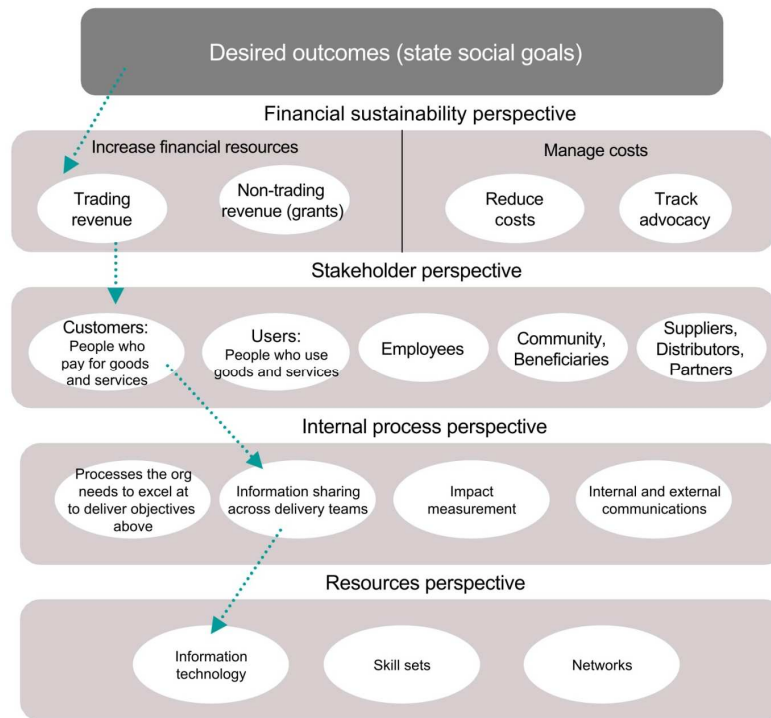


Fig.4 Social Enterprise Balanced Scorecard Model (Somers 2005)

In the SEBC model, social enterprises begin by stating their social goals as desired outcomes, and then move into the perspectives. In the financial sustainability perspective, each ‘bubble’ represents an objective. The SEBC appears more complex, and this reflects the hybrid nature of social enterprises that demands more complex management systems. This is best demonstrated through the stakeholder perspective, which has been widened from customers in the original model to distinguishing between those who pay for a service and those who consume it (donors, grant funders, employees, and the wider community).

The SEBC creates a space for social enterprises to articulate social goals. Social enterprises emphasise creating social and/or environmental value at all stages of their production process, as an intrinsic part of their identity

and Social enterprises seek surplus generation in order to achieve financial sustainability. The need to achieve financial sustainability is fundamental to social enterprises. The SEBC model provides a method for integrating SOCIAL AND FINANCIAL outcomes (Somers 2005).

In the model at the Figure 5, social enterprises begin by stating their social goals as desired outcomes, and then move into the perspectives. In the financial sustainability perspective, each ‘bubble’ represents an objective. The SEBC appears more complex, and this reflects the hybrid nature of social enterprises that demands more complex management systems. This is best demonstrated through the stakeholder perspective, which has been widened from customers in the original model to distinguishing between those who pay for a service and those who consume it (donors, grant funders, employees, and the wider community).

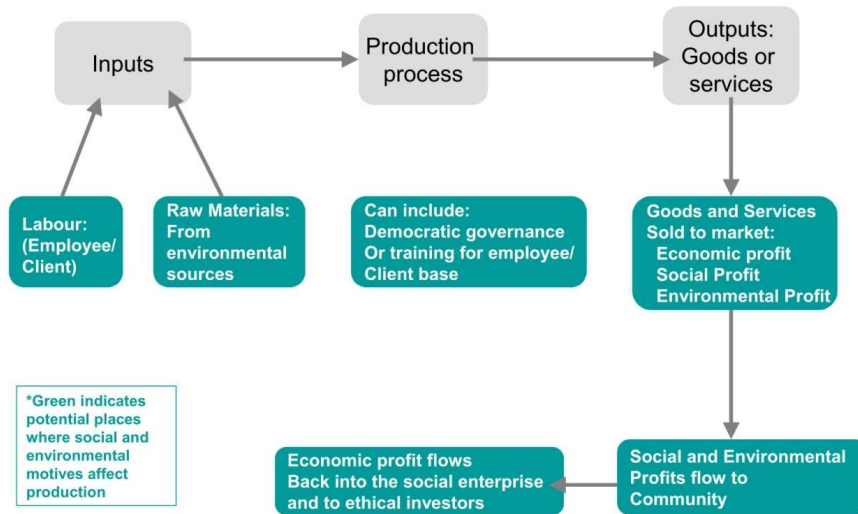


Fig.6 Social Enterprise production process (Somers 2005)

2.2.1 Limitations of the existing models

The Balanced Scorecard began the discussion about the importance of examining non-financial information when aiming to improve business performance and elevated the status of non-financial information. However, in its current state, it is limited in responding to the needs of social enterprises because it does not reconcile the tension that exists between generating additional social versus financial profit. The implications of this are that the Balanced Scorecard does not accurately reflect the aims and achievements of social enterprises. If only the profit motive is used to set the social enterprise story, social motives are overlooked and part of the organization’s story remains untold. The measurement of performance with respect to social and environmental outcomes would go unreported and the resource implications of these goals would remain hidden.

It’s necessary to amend the Balanced Scorecard to address the needs of social enterprises.

These models for public sector are useful contributions but don’t capture the three iso-priority objectives and multi-stakeholder system of SEs and the Simmons and Somers’s models don’t clearly claim central role of stakeholders, it’s necessary a new model where the perspective of stakeholders is central to the construction of performance measurement system

3. Approach to developing the PMS for SEs

The model proposed for measuring the performances and then the construction of indicators, consists of:

- The contingent variables that influence the specific configuration of SEs
- The relevant macro-performance
- The variables of control
- The relevant stakeholders, on which the performances and indicators are detailed and measured

3.1 The contingent variables that influence the specific configuration of SEs

The first element to considering in the model construction is represented by contingent factors that can inform the specific configuration of SE. These elements can vary from one organizations to the other and the choice made by each organization should be taken into account to develop a performance measure system

1. **Context:** SEs have been developed in PVS o PS.
2. **Domain:** SEs can originate from the profit sector, from the non-profit and public sector.
3. **Focus:** SEs can focus on different final goals. At present, there are three main streams, into which the focus of SEs is generally classified: Work integration, Personal services, Local development (Borzaga 2001).
4. **Company structure:** SEs are characterized by different organizational structure. In a few cases it is just a department, or profit center within a nonprofit or profit organization. In other cases it is a subsidiary of a profit or nonprofit company. In other cases, it is a stand-alone company (Alter 2006), and we decided to focus on this type of structure.
5. **Social needs:** finally SE are highly differentiated in relation to the social needs to which they answer. The range of field to which this organizational form has been applied is quite wide and includes activities such as: production or provision of goods and services in the sectors of social and health assistance, education and training, environmental protection, social tourism, cultural services or work integration of disadvantaged persons

3.2 The relevant macro performances at SE

The proposed model starts from an input-output-outcome model (Figure 7), where the Macro-Performances are defined considering, as previously discussed, SEs pursue social, environmental and economic goals, giving them the same relevance. Therefore, the performance measurement has to properly integrate information related to these different dimensions.

According to the literature review in this field, the relevant macro-performances in relation to the different stages (input-output-outcome) are:

- **Efficiency**, i.e. the ability of an operating unit to maximize the relationship between the inputs used in the activity and results
- **Effectiveness**, i.e. the ability to achieve goals and implement strategies while using resources in a socially responsible. It can be further
 - o Management effectiveness: it concerns the internal sphere the extent to which SE achieves management objectives defined in its strategic planning;
 - o Social effectiveness: it concerns the relationship between SE and the external environment, and measures the organization's ability to meet the needs of the community to which it is called upon to address through the production of goods and services

Given the peculiar characteristics of SE the concept of **social effectiveness**, it can be further specified into three other dimensions:

- **Fairness:** it represents the ability to ensure access to services to vulnerable people, disabled, elderly etc.
- **Involvement:** is the Capacity to involve stakeholders in decision making;
- **Communication and transparency:** it represents the ability to inform the stakeholders on the activity.

- **Impact:** Measurement of the direct or indirect, expected and not expected, long and medium term effects, in the community of reference

3.3 The variables of control

The control variables are included to ensure that there is consistency in the different phases of the model, in the particular case of social enterprises is critical that the mission, specific objectives and strategy are always considered and internalized in the different decision points.

Then at the **input stage** when are defined the resources needed to produce the good or service for which the company deals, have to check that this distribution is consistent with the mission of the business. At this stage the control variable is the **Consistency with the mission**.

In the output stage, when you assess the quality and the social value of goods or intermediate services, you must check for consistency with the strategic objectives defined in the planning stage. At this stage the control variable is the **Consistency with the objectives**.

Finally at **outcomes stage**, when assessed the ability of the final product or service to meet the needs for which the social enterprise operates, is necessary check that there is consistency with the overall strategy of the company. In the case the company has had a low impact, perhaps we should redefine the whole strategy from the stage of defining specific objectives. At this stage the control variable is the **Consistency with the strategy**.

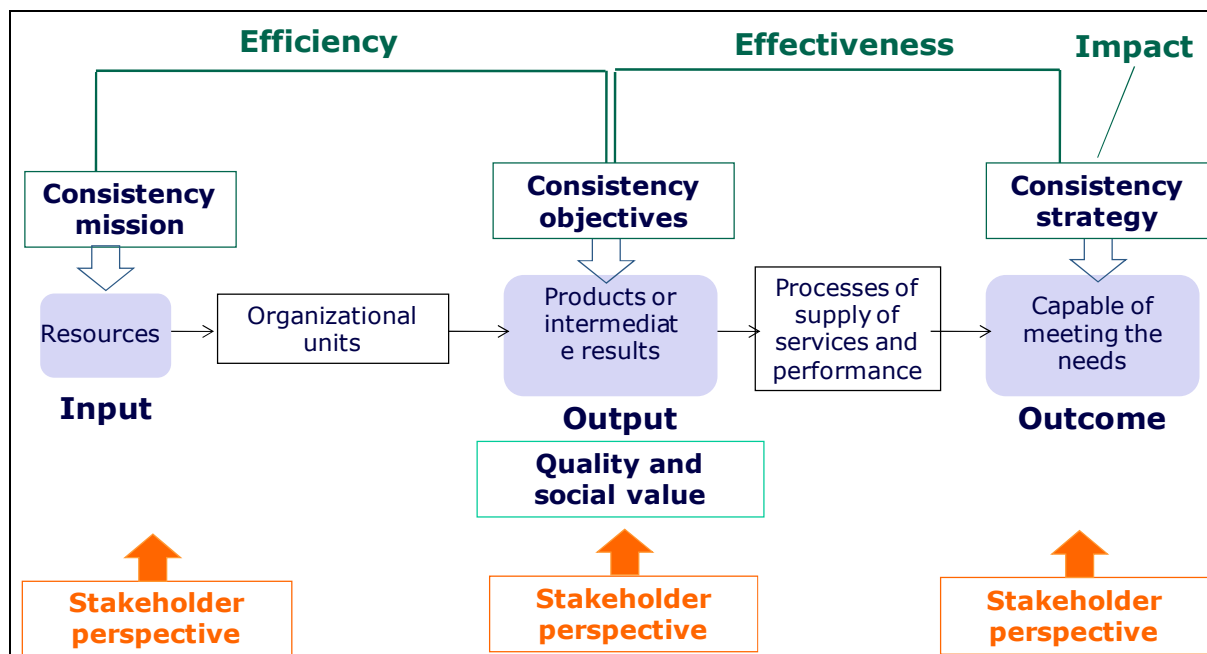


Fig.7 The performance measure model proposed

3.4 The relevant stakeholders at SE

This last part is the most important the whole model indeed relies on the assumption that social enterprises are a multi-stakeholder systems and that it's possible to measure the value of the business from the perspective of all stakeholders.

This perspective aims to capture all relevant dimensions and to be able to assess the social enterprise as a whole. It then must first identify all salient stakeholders starting from the literature analysis.

The participation of the local stakeholders in the board (Pearce 2003) is one of the most interesting issues as it is the local community that has to define the primary needs to be addressed by the social enterprise (the Italian ongoing debate on social enterprises is even focused on the stakeholder engagement in the boards). The multi-stakeholder model of governance of social enterprise is a way to foster the democratic participation and an higher involvement of different groups of workers, beneficiaries, funders, and so on, that are all participants to the effectiveness and efficiency of the business.

Post et al. (2002) define the stakeholders of a company as the “individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers.”

This recent perspective stresses:

- Crucial questions still are who the relevant stakeholders are and whether we are talking about stakeholders or relationships among stakeholders.
- Two sorts of stakeholder legitimacy have been postulated (Phillips, 2003):
 - (1) certain stakeholders are of crucial importance to the organisation and are therefore, at the least, legitimate (derivatively), but this legitimacy derives from the moral obligation owed to other (normative) stakeholders.
 - (2) stakeholder identity is critical as well, since stakeholders have different relationships to the organisation, most depending on the communities in which they operate (Dunham et al., 2006).

The literature suggests both quality and acceptability of decision making in stakeholder accountable organizations are enhanced by the incorporation of stakeholder perspectives (see e.g. Pettijohn et al., 2001; Thorpe and Homan, 2000) Stakeholder theory has three interrelated premises.

- First, organizations have a number of stakeholder groups that affect and are affected by them;
- Second, the process and outcome of these interactions impact on specific stakeholders and the organization, and
- Third, the perspectives of salient stakeholders have significance for organization strategy and operations. (Simmons 2003)

As this last point implies, most applications of the theory relate to stakeholder management. Stakeholders influence corporate strategy by affecting the viability of strategic options – in particular by the acceptability of particular options to salient stakeholder groups (Haberberg and Rieple, 2001)

We underline that in the Social Enterprise context the level of participation of different stakeholders in the decision making processes is higher (citizen, local trade unions, associations, local banks) municipalities are generally represented in the decision-making bodies and are integrated into all stages of the decision-making process (Borzaga, 2006).

The Stakeholders relevant to social enterprise are:

- Employees
- Investors
- Managers
- Suppliers
- Customers
- Trade associations
- Government
- Political Groups
- Community

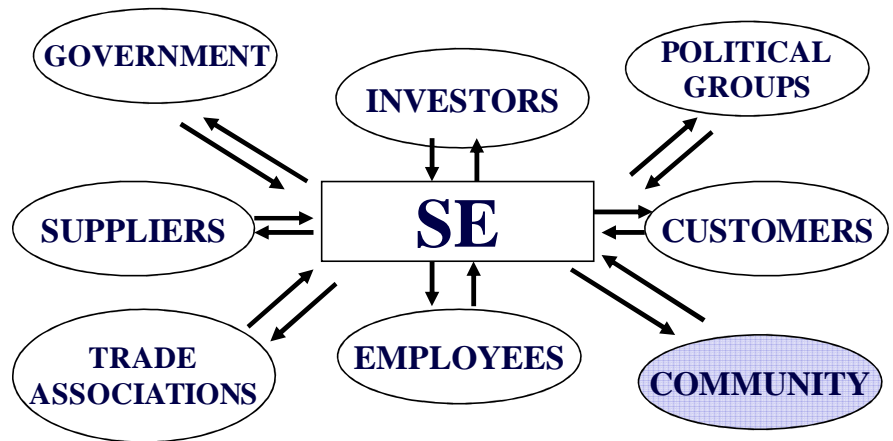


Fig. 8: The relevant stakeholder at SE

In general it is necessary to divide them among stakeholders in Internal, External, Direct, Indirect and detailed them base on the different social needs which meet the different social enterprises.

4. Auto select indicators for SEs

This step proposes a relationship between different components of the model and aims to create a set of indicators, each set of indicators refers to a stakeholder according to the stage (Input-Output-Outcome) where it is located.

Each stakeholder may be represented by using a tensor, performance may be measured based on the evaluation made by each stakeholder. For each tensor 3 axis may be associated. They represents:

- the main macro-performance
- the secondary macro-performance
- and the control variable, specific to that phase (Input-Output-Outcome).

**Stakeholder perspective in:
Input - Output - Outcome**

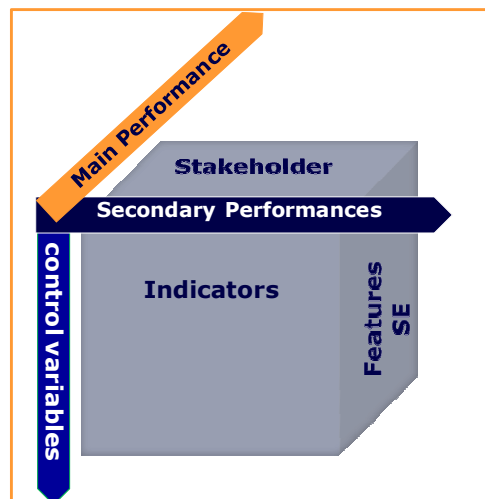


Fig.9: The tensor representing the stakeholder

The tensor drives the choice of indicators and, obviously, the system is dynamic and changes according to the characteristics of the business, the axes remain unchanged but the range of stakeholders and indicators vary depending on the social enterprise core objective.

In this way, according to stakeholders, the phase of the model, the macro-performance and the control variable, and of course the feature of SE a set of indicators is defined

For example, at the INPUT stage, the main macro-performance is the efficiency, the secondary macro-performance is the effectiveness and the control variable is the consistency with the mission, according to these three a set of indicators for each stakeholder is defined.

In this example we have 3 sets of indicators, one for customers, one for employees and one for investors. If the stakeholders considered are 10, the model should produce 10 set of indicators for the input phase.

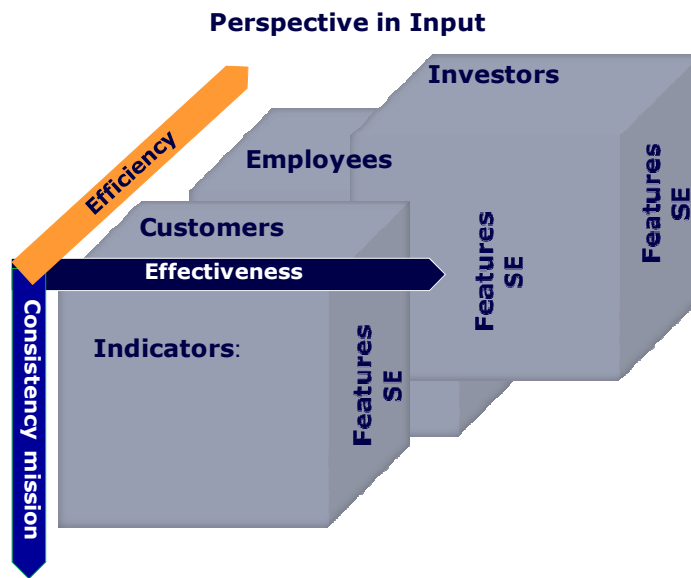


Fig.10: Stakeholders perspective in Input

At the OUTPUT stage, the main macro-performance is the effectiveness divided by Management effectiveness and Social effectiveness, the secondary macro-performance is the efficiency and the control variable is the consistency with the objectives, according to these three 2 set of indicators for each stakeholder are defined.

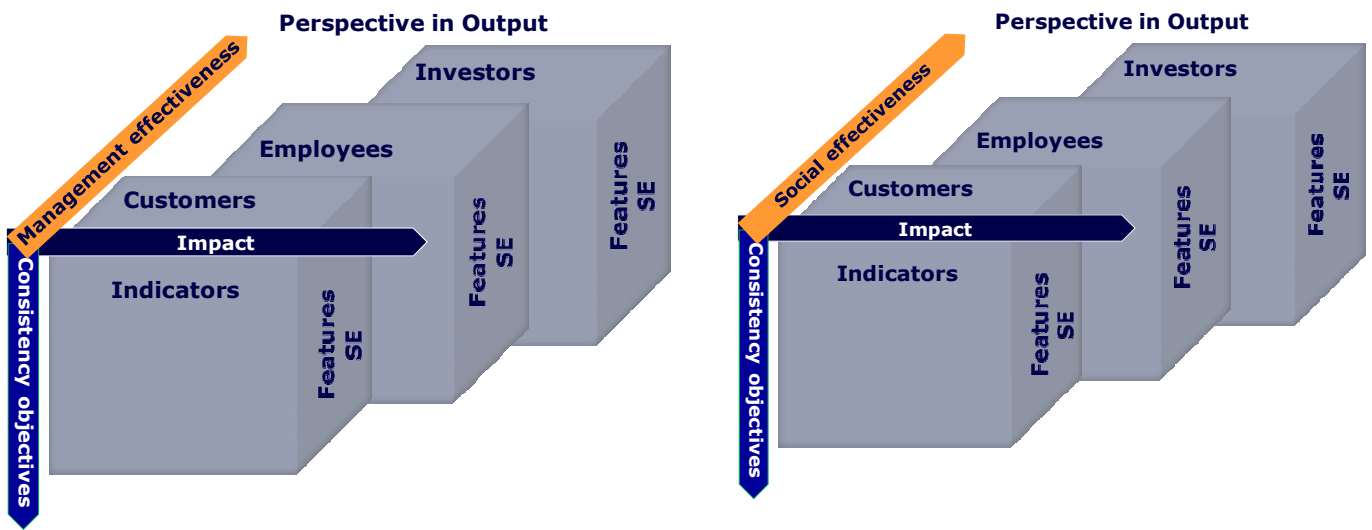


Fig.11: Stakeholders perspective in Output

At the OUTCOME stage, the main macro-performance is the impact, the secondary macro-performance is the Social effectiveness and the control variable is the consistency with the strategy, according to these three 1 set of indicators for each stakeholder is defined.

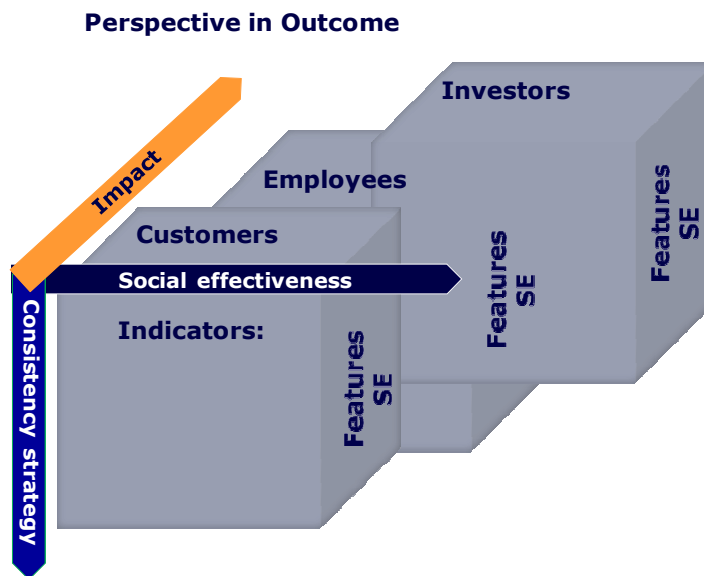


Fig.12: Stakeholders perspective in Outcome

5. Conclusion

From the initial assessment of performance measurement tools revealed that those currently being piloted for quality and impact measurement don't focus on stakeholder perspective. The study presented in this paper set up a tool for evaluating performances which show, in each stage, how stakeholders are satisfied, permits an assessment of overall performance, define a comprehensive set of indicators, considering all stakeholders and all stages, and thus measures the Social enterprise total value. Finally it presents an opportunity to build credibility among investors, funders, customers, and stakeholders.

Our proposal provides a tool for supporting enterprises in understanding stakeholder requirements and assess their own performance. This framework, through an integrated perspective, aims to define a method to measure the results of SE, in relation to their social, environmental and economic performances and benchmarking their performances versus profit and non profit, identifying:

- the relevant dimensions against which SEs performances should be assessed,
- the stakeholders to which this information is directed and map and monitor the entire set of a company's stakeholder relationships.

However, the implementation of the set of indicators to be monitored in order to provide a complete and reliable picture of SEs' performances has not been developed yet. Furthermore, the model need to be validated and it's necessary to understand the burden in economic and temporal terms of data collection and the real applicability of the model for the future phases.

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