



## Measuring Social Value for Social Enterprises: A Review of Current Methods

**Nnamdi Osakwe, D.Mgt, D.B.A.**

Associate Professor

Management Information Systems & Entrepreneurship

College of Business

Central State University

Wilberforce, OH 45384,

Office Phone: 937-376-6336

Email: [nosakwe@centralstate.edu](mailto:nosakwe@centralstate.edu)

USA

### Abstract

*For a long time, social enterprises and non-profits have relied purely on qualitative arguments about their impact, however, reliance on such arguments alone leave us unable to quantify the true impact and effectiveness of these organizations or compare the effectiveness between organizations. To address this problem, this paper aims to perform a review of several measurement tools and frameworks in the literature. This effort will include discussions of the strengths and weaknesses of the methods, as well as their relatedness to the questions often requiring answers from entrepreneurs by stakeholder's donors, foundations, volunteers, etc.*

*Similarities exist between social enterprises and traditional organizations, yet major challenges remain in determining what appropriate measurement tools to use for value created by these organizations. From mainly a theoretical perspective, this paper analyzed the generally recognized models and frameworks in the literature, highlighting their usefulness to social value measurement. However in-exhaustive, it effectively presents analysis of how social impacts are measured and what tools are best suited for social enterprises.*

**Keywords: Social Enterprises; Social Value, Impact, Enterprise, Measurement**

### 1. Introduction

Social entrepreneurship is a much newer concept than commercial or traditional entrepreneurship. It has been defined in several ways over the years. The variance in definitions remains substantial enough that one standard definition has not emerged.

Over the years, both researchers and practitioners have struggled to define social entrepreneurship, some group see all social entrepreneurship in the same category as not-for-profit initiatives, this assertion, perhaps is guided by the belief that social entrepreneurs are driven by the desire to make a social or economic impact.

A look at three successful cases of social entrepreneurship the Grameen Bank, which provides microloans to the poor, the Aravind Eye Hospital in India, and Sekem, an initiative for sustainable development in Egypt. While some argued that these social enterprises embody both social and economic impact, others maintain that their primary focus is or should remain social value creation.

Alex Nicholls (2009), defines social entrepreneurship as any innovative action that individuals, organizations, or networks conduct to enhance or reconfigure existing institutional arrangement to address the inadequate provision, or unequal distribution, of social and environmental goods.”

Recent decades have witnessed the rapid growth of social entrepreneurs and social enterprises across the globe, as is their influence and impact on communities, economies and public policy. (Nicholls and Young, 2008), in the US and UK, these organizations are increasingly seen as having major roles to play in welfare and environmental policy innovations, as well as facilitating the growth of economic activities. (Hutton and Schneider, 2008; Mair and Seelos 2007). As a result of their new levels of influence and importance on the public policy stage, there has been growing pressure on



social enterprises to become more transparent and to provide information on their enterprise operations and the ability to create social values and fulfill their mission.

Measuring their impact is a complicated process because they tend to have a 'double bottom line', (Brooks, 2008), they aim at making ends meet while at the same time seek to maximize their mission. It is inherently more challenging to measure the success of social enterprises than for-profit enterprises. The lack of a recognized accounting framework with credible indicators and metrics underscores the challenge and severely limits the capacity of social enterprises (Bengo et al. 2016) to compete and measure their values at different levels. For a long time, social enterprises and non-profits have relied purely on qualitative arguments about their impact, however, reliance on such arguments alone leave us unable to quantify the true impact and effectiveness of these organizations or compare the effectiveness between organizations. To address this problem, this paper aims to perform a review of several measurement tools and framework in the literature. This effort will include discussions of the strengths and weaknesses of the methods, as well as their relatedness to the questions often requiring answers from entrepreneurs by stakeholders – donors, foundations, volunteers, etc.

## **2. Value Measurement**

Value measurement consists of four components concepts: accountability, evaluation, outcomes, and effectiveness (Brooks, 2008).

**2.1 Accountability** is an obligation or willingness to accept responsibility for one's actions. It refers to the implicit or explicit social responsibility an enterprise assumes, (Brooks, 2008). For instance, if an enterprise embarks on a venture to provide housing for the homeless, and various entities, i.e., donors, foundations, pledge their support in financial donations, the enterprise would have implicitly or explicitly assumed responsibility to do just that provide housing for the homeless what was promised in their mission. According to Brooks, the concept of accountability has become critical across public and non- profit sectors, specifically to avoid the appearance of impropriety and the perception that red-tapes and a lack of stakeholder input can amount to irresponsible or wasteful behavior in these organizations.

Furthermore, accountability is a concept that flows from the acceptance of responsibilities. As responsibility is accepted, so is the duty to provide an account to inform those to whom it owes the responsibility (Unerman and O' Dwyer, 2007). (Tracey and Phillips, 2007), state that by their very nature, accountability for social enterprises is a complex issue. The purpose structurally of these organizations is a focus on the mission to serve more stakeholders than traditional enterprises; consequently, managing accountability presents new sets of challenges, i.e., developing effective strategies to meet the multiple social missions while striving to stay relevant (Pasi et al, 2015).

## **2.2 Evaluation**

As an evidence of accountability, social enterprises carry out evaluations of their activities. Evaluation involves decisions about what, how and when to measure; decisions that are based in part on values, beliefs, and mission. Stakeholder reliance on evaluation rests on the cost-effectiveness and whether it accurately measures social values-the fundamental intent of the exercise.

## **2.3 Outcomes and Effectiveness.**

A common practice in non-profit and public sector organizations is to measure inputs (e.g., the capital put into a project), activities (e.g., the number of programs), or outputs (e.g., the service volume per period). (Brooks, 2008) a look at inputs, activities, and output is especially critical as it relates to progress in the execution of a business plan, on the other hand, social value creation is the important focus for social enterprise. For social enterprises, to attain desirable outcomes and impact and do so appropriately is considered 'effective'. Accountability, evaluation and outcomes/effectiveness are all social impact measurements that help inform donors, clients and the public about the levels of effectiveness of social enterprises. These concepts are depicted in Figure 1.

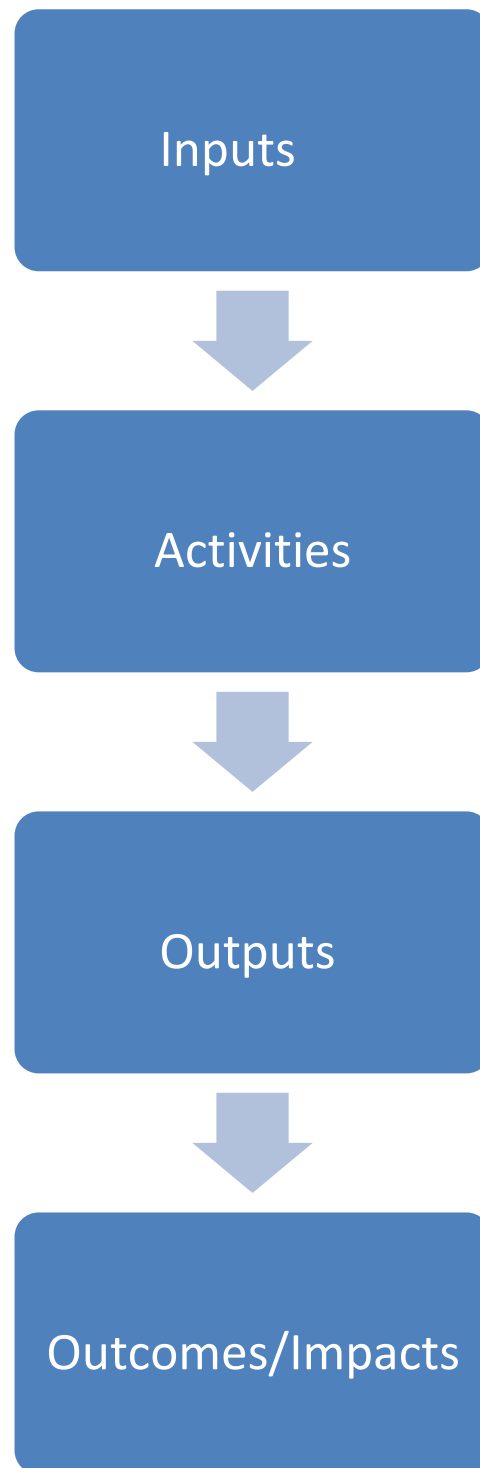


Figure 1: Targets for Measurement in a Social Enterprise

### 3. Social Accounting.

The early seventies witnessed a shift in the accounting of environmental and social issues (Bengo et al 2016) an indication of the growing concerns of the impact of organizations on the environment (Bebbington, Gray, and Owen 1999; Mathews 1997) and over time, the emphasis gradually shifted to a broader range of unsettling social concerns, leading to the start of a recent motivation to redefine social accounting as ‘a systematic analysis of the effects of an organization on its communities or stakeholders, with their input as a part of the data analyzed for accounting statements’. (Mook and Quarter, 2006).



Social accounting is the process of integrating the information needs of different stakeholders and balancing their different social and economic objectives (Gray 2002; Mathews 2004). (Gray 1997), states that stakeholders are considered as key players in the creation of social enterprises therefore, supportive of the argument of the social constructivist that social accounting reflects the ‘core values’ of the enterprise and the stakeholders (Nicholls, 2016), combining into a coherent sum, the views of different groups and balancing or negotiating between competing interests and expectations (Sefton, 2000).

Judging from this viewpoint, social accounting becomes an ad hoc tool for “public relations” adopted to secure the blessings and support of those stakeholders for who continued support is critical for the legitimacy of the social enterprise’s activities and mission (Bebbington, Unerman, and O’Dwyer 2014). Social enterprises, therefore, are seen as intent on addressing the interests of the most powerful in this supply chain (e.g., Dormant, Dominant and Dangerous), while marginalizing the interests of the less affluent (e.g., the Demanding, and the Discretionary, (Neck, 2016). One of the strengths of using social accounting as a social impact measurement tool stems from the coexistence of two issues in the social enterprise space. First, issues of multiple stakeholder orientation of social accounting (Bengo et al 2016). Through this lens, social accounting scholars see the need to empower and engage stakeholders. (O’Dwyer 2005); second, the divergence of stakeholder objectives and expectation, Wilson (2014), thus, the need to outline the interests, expectations, and objectives of various stakeholders such that cohesive sets of measures and metrics are realized (Fletcher et al 2003). The above issues seriously underscore the importance of identifying what measurement frameworks that is suitable to address specific social impact measurement questions.

Finally, social accounting is actually about examining the “social” environmental and economic” performance and impact of an organization, it can offer an organization a holistic method of examining the performance and the effect of its activities on people, communities and the environment. A comprehensive statement of the organization’s impact and performance resulting from the accounting adds credibility to the value measurement when reporting to donors, funders, and clients.

### 3.1 Social Return on Investment (SROI)

Amid the models in the literature, the most famous is Social Return on Investment (SROI) (Bengo et al 2016). SROI is an attempt to quantify the economic and socioeconomic impact of social enterprises. It is aimed at obtaining a more objective and comparable status measurement of social enterprises’ position and performance from a qualitative perspective. This model developed by the Roberts Enterprise Development Fund (REDF) and tested by the New Economics Foundation (NEF) in 2007 (Bengo et al) remains popular in the literature. SROI described as a form of adjusted cost-benefit analysis that includes in a more holistic way, several types of impacts that social enterprises’ activities may have on stakeholders and clients (Lawlor 2009), it breaks the benefits of social enterprises into two parts enterprise value and social purpose or mission values. A combination of these is called “blended value”. The main attraction for the use of SROI is the possibility of estimating social values of non-traded good by the use of financial proxies (Flockhart 2005).

**3.2 Return on Investment (ROI)** is the more traditional measure of financial success in for-profit organizations, generally calculated as revenue’s net of total expenditures, as a percentage of net assets. (ROI) compares investment gains to investment costs. Similarly, (SROI) compares the ratio of the net benefit of a project/program and the investment needed to gain that benefit, (Nicholls, 2009; Luke et al 2013). For example, “social cost savings might include items like welfare payments averted when a social enterprise moves a client to the workforce” (Brooks 2008), there are also “social operating costs” (e.g., fundraising and grant writing cost. SROI is express as follows:

$$\text{SROI} = \text{Net Present Value of Benefits} / \text{Net Present Value of Investment.}$$

The usefulness of the SROI strongly depends on the nature of the business and on the type of the enterprise’s social mission. Most social enterprises find the tool to be of great value; yet, others find it to be cumbersome and unsuitable for their purposes. If organizations’ enterprise activities are simple, and the social purpose clearly defined, the SROI would perhaps, not provide for management any new insights.



### **3.3 Balanced Scorecard.**

The Balanced Scorecard (BSC) is a widely utilized model. It is primarily intended to identify a set of indicators and metrics to cover different performance dimensions considered to represent the results of the social enterprise. BSC is a strategic management tool that when appropriately utilized, improves the chances of successful strategy implementation (Pasi et al, 2016). The purpose is to balance financial and non-financial, as well as balance the qualitative and quantitative success measures (Kaplan and Norton 1992, 1996, & 2001). The need to make the original model more adherent and adaptive to social enterprises prompted some modifications (Kaplan and Norton 2001; Somers 2005; Bull 2007). The outcome was an integrative and dimensional addition of performance areas, without any major shift from its original framework (e.g., balancing the financial and non-financial, short-term, and long-term deployment of strategic and operational objectives of an organization so as to capture how value is created (Brignall and Modell 2000).

Somers (2005), proposed changes that would adopt the original BSC model to the needs of social enterprise. The addition to the levels, incorporating social goals above the financial perspective, thereby, extending the financial to focus more on sustainability, and much larger numbers of stakeholder groups are evidenced. Bull (2007) further adaptation to the model provided for the accommodation of social enterprise to reflect on their multiple bottom-line; stakeholders' perspective; internal activities; and organizational learning to deal with training and knowledge management. BSC is generally considered both by academics and practitioners as an effective measure of sustainability (Epstein and Wisner 2001; Rohm and Montgomery 2011).

### **3.4 SIMPLE**

The Social IMPACT measurement for Local Economies (SIMPLE) McLoughlin et al (2009) an approach to social impact assessment is a framework rather than a tool ([www.nefconsulting.com](http://www.nefconsulting.com); retrieved 10/01/2018). The SIMPLE impact model presents a five-stage approach that an organization can use to identify measure and communicate the impact. Accordingly, the five steps help managers to bring a strategic perspective to impact measurement; it can also be used to improve the performance of social enterprises and third sector organizations, sufficiently and comprehensively adaptable to meet the needs of most social enterprises. Additionally, SIMPLE provides some criteria for defining a set of indicators to measure the impact generated by social enterprises.

## **4. Conclusion**

Social entrepreneurs are individuals, organizations and/or networks that participate in innovative actions aimed at reconfigurations of existing institutional arrangements to address the inadequate provisions, or unequal distributions of social and environmental goods (Nicholls, 2009). They are generally, interested not only in the immediate economic success of their ventures, but also the enduring social value created. How should the value created be measured?

This paper presents a theoretical and empirical analysis of value creation measurement models and frameworks in the literature for reporting social impact in the sector. Similarities exist between social enterprises and traditional organizations, yet major challenges remain in determining what appropriate measurement tools to use for value created by these organizations. Measurement of impact for organizations regardless of the forms, (i.e., traditional for profits, and not for profits is challenging, and has grown more daunting for social enterprises. Changes in recent times with new demands placed on social organizations by governments, resource providers (i.e., donors, foundations, and society generally have become consequential.

As stated previously, the notion of measurement of social value consists of accountability, evaluation, outcomes, and effectiveness (Brooks, 2008). These indicators and metrics inform the resource providers about how effective the enterprise's resources are used in value creation.

From mainly a theoretical perspective, this paper analyzed the generally recognized models and frameworks in the literature, highlighting their usefulness to social value measurement. However in-exhaustive, it effectively presents the analysis of how social impacts are measured and what tools are best suited for social enterprises.





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