

Performance measurement in social enterprises – a conceptual accounting approach

Pasi Syrjä
Helena Sjögrén
Anne Ilmarinen
Lappeenranta University of Technology
P.O. BOX
Fi-53851 Lappeenranta
Finland
pasi.syrja@lut.fi

Abstract Social enterprises need to start measuring their performances in a systemic way, in order to support decision making and ensure accountability towards their stakeholders. In order to be as effective and successful than profit-making organizations, social purpose organizations need to be highly innovative in creating reporting practices and measurement systems because they are not as developed and extensive than the measurement systems for financial reporting. But because of hybridity nature of social enterprises, performance measurement and reporting processes are very complex and challenging for them. This conceptual paper aims to contribute to the existing literature by exploring and clarifying the ideas and ways to measure and report social value creation, and try to propose framework for social SMEs to choose proper performance measurement tool for different purposes. A range of performance measurement tools have been introduced and utilized by social enterprises. In this paper the proposed approach consists of a balanced scorecard and SROI. Balanced scorecard is one of the widespread management tools that enable organizations to consider both hard and soft sides of businesses. SROI is accepted as an internationally recognized measurement tool for social enterprises. Our proposed framework is based on previous impact measurement literature and on four case examples. The information of three presented cases is collected from the secondary sources (The SROI Network 2014) and the information from one single case is gathered by interviewing the CEO of the social enterprise. The results of this paper indicates that evaluating the performance effectively and reporting the results transparently are the key activities. At present to this list can be attached social value creation and its efficient measurement.

Keywords: social entrepreneurship, value creation, performance measurement, SROI, Balanced Scorecard

1 Introduction

In recent years, there has been growing pressure on social enterprises to become more transparent and to provide information about their ability to create social value. This research focuses on finding ideas and ways to measure social value creation, and try to propose framework for small and medium sized social enterprises (further in this paper social SME) for choosing proper performance measurement tool for different purposes. In order to be as effective and successful than profit-making organizations need social purpose organizations be highly innovative in creating reporting practices and measurement systems as they are not as developed and extensive than the measurement systems for financial reporting. Because of hybridity nature of social enterprises performance measurement and reporting processes are much more complex and challenging for social enterprises than pure business enterprises.

New reporting innovations seek to consider both value creation approaches as equal in organizations' strategic planning (Nicholls 2009). Social entrepreneurship is "a process involving the innovative use and combination of resources to pursue opportunities to catalyze social change and/or address social needs" defined by Mair & Marti (2006). It is viewed as an attempt and a willingness to achieve change by combining resources differently. Social enterprises are driven by a social purpose and try to seek the balance between their social mission and business performance (Drayton 2002). The status of a social enterprise does not give necessarily any preferences in the competitive market and this is the reason why their financial and social objectives need to be in balance and they must be considered in an appropriate way (Luke et al. 2013). Furthermore Luke states that in order to establish financially sustainable operations, performance needs to be measured effectively. Additionally to dual functions of social enterprises they need to meet requirements for two groups of stakeholders, both external and

internal. The need for relevant and reliable information sets measuring performance to the important position. While external stakeholders expect assessments and reporting to be transparent and comparable, internal stakeholders demand information on which to base rational and strategic decisions.

Measuring only because of the need to measure is not enough but relevance and decision-usefulness of chosen measures need to be ensured (Haigh & Hoffman 2012; Luke et al. 2013; Tracey & Phillips 2007). The development of performance measurement systems is seen crucial, simply for the reason to be able to gain and maintain present and future stakeholders' interest towards social entrepreneurship (Volkman (Eds.) et al. 2012). Emerson's (2003) study holds a significant position within the topic "blended value." Emerson emphasized that the value of organizations cannot strictly be measured with financial indicators, it should be considered that return on investment does not serve only financial interest. It is rather a value proposition of both social and financial interest of which "the blended value proposition" results from. Thus, between two traditional perspectives falls the third perspective which takes a part from both surrounding perspectives; it is operating neither on a pure financial market nor pure social market but social capital market where "social return on investment" (SROI) is considered as much as is the financial metric "return on investment" (ROI).

Also the main stream enterprises have noticed the complexity of performance measurement. Balanced scorecard is one of the widespread management tools that enable organizations to consider also other aspects in entrepreneurship than just so called hard values. Success requires more: soft values are equally important. Balanced scorecard gives the possibility to consider both hard and soft sides of businesses (Kaplan & Norton 1996).

This conceptual paper focus on existing literature about performance measurement and reporting in social enterprises and propose a framework for social enterprises to choose suitable performance tools in different context.

2 Literature review

2.1 Performance measurement in social enterprises

Hudson et al. (2001) have listed critical characteristics that performance management tools for all SMEs should include. In order to implement it effectively and to achieve the maximum benefit it should be derived straight from the strategy and be clearly defined with an explicit purpose so that it would be simple to understand and use. It should provide fast and accurate feedback that helps to keep it relevant and easy to maintain. Additionally, it should link operations into strategic goals and, especially, stimulate continuous improvement. Social enterprises have the same need, they should also measure their performance in a systemic way, in order to support decision making and ensure accountability towards their stakeholders. But for social enterprises it is often challenge to define what to measure and to whom to report. Nicholls (2009) states when the clarification of what is to be measured is defined, the next step is to consider how to measure it. He states that there is a way to define the relationship between input factors and social impacts even though it may be challenging, especially when there are no clear measurement systems identified for social value creation. Social value cannot be calculated, actually there are not even units of measurement that could be defined. Nevertheless, one solution could be defining the value of a social good by figuring out how much value customers feel to get by receiving or using the good. Luke (2013) emphasizes that in social enterprises the used approach to performance evaluation and measurement needs to be identified carefully and implemented effectively. The decision-useful information is provided by this kind of successful measurement of social outcomes. The choice of suitable measurements and resource allocation also enable organizations to plan and implement their operations more effective.

Additionally Nicholls (2009) points out that the question of reporting is challenge for social enterprises. Organizations that aim at social purpose typically gain the trust from their stated social objectives and public missions though verifying achieved results and possible success is complex as the reporting systems are not developed. For profit-making organizations detailed reporting is a part of operations. They reduce the risk of frauds and material mistakes by applying internal control systems, and gain the trust of external stakeholders and government by having regulated audit procedures done by an independent third party. For social purpose organizations detailed performance reporting has typically

not had such a great impact. The reporting systems are not developed as the trust of external stakeholders, it has been gained already by having the statements of social mission. The nature of the organizations' purpose gives its legitimacy and the reporting has not played a relevant role because this organizational legitimacy brings pressures to behave expected way. An example of mentioned social statement could be the adoption of charitable status. Already this can be seen as a commitment to use donated money and government subsidies effectively. This concept of cognitive legitimacy surplus by society has enabled social enterprises to report within the framework of less demanding regulations than profit-making organizations.

Accountability is a concept that follows on from the acceptance of responsibilities. When an organization has a particular responsibility, it also has a duty to provide an account to inform those stakeholders to whom it owes this responsibility (Unerman & O'Dwyer, 2007). Tracey & Phillips (2007) state accountability to be a complex issue for social enterprises. As social entrepreneurs, due to the nature of their organizations' purpose, need to serve more stakeholders than traditional entrepreneurs, managing accountability poses new kinds of challenges. In addition to developing the strategy to meet the chosen social mission, social entrepreneurs also need to build a profitable business. Competitive products and services combined with social mission may not be straightforward. Managing the double bottom line causes similar issues; tensions are difficult to avoid completely as social and commercial objectives are both included in the companies' daily decision-making. Difficult decisions obviously need to be made in line with organizational priorities and investment strategies. However, these priorities and strategies may not be quite clear in social enterprises, especially if the double bottom line is not managed successfully. Managing social and commercial priorities at the same time is challenging; the conflict between them "is a central characteristic of social entrepreneurship".

Basically accounting in all firms has two simple tasks, to produce information for the decision making and different kind of reports for key stakeholders. Before social enterprises can decide how to report social enterprises have to recognize who their stakeholders are and what information is needed to provide for each stakeholder. Neely et al. (2002) propose that the Performance Prism of social enterprises starts with the question "Who are the organizations' stakeholders and what do they want and need?" Further they state that moving from this question, it covers different performance dimensions that respond to different stakeholders' interests, including aspects such as society and environment. According to Chemelik et al. (2015) study there seems to be overall three different categories of performance measurements that fulfil different purposes. Firstly, there are performance measurements that focus on internal evaluation of the social venture and are closely tied to decision-making and operations. The main focus of these measures are inputs and outputs of social value production and they often serve as means of achieving organizational control (Arvidson et al. 2013). Secondly, there are measures that focus on measuring social value creation and impact. Thirdly, there are metrics that have been created for impact investors who invest in businesses expecting not only financial return but also an SROI (Simon and Barmeier 2011).

Arena et al. (2014) report that there is an inherent difficulty in defining, which are the performance dimensions to be monitored in the case of a social enterprise. The construction of a performance measurement system (PMS) for a SE should include a diversified set of performances, able to cover its multiple objectives, in terms of economic, environmental, and social performance. Additionally Thomas (2004) note that social enterprises have a problem of resources. The design of a comprehensive and reliable PMS is potentially expensive, both in terms of generating data, staff time, and investments in information technology. Bull (2007) highlights that there is still little empirical evidence that performance measurement tools have any impact on the actual business practices or that benefits exceed invested resources. Furthermore, Bull (2007) states that many social enterprises see impact measurement as a burden, rather than a source of competitive advantage or a useful management tool. Especially social entrepreneurs see difficulties in the transferability of performance tools is how to include the measurement of social value, what it is, and indeed how to score or articulate social objectives in measurable and accountable ways. Chmelik (2015) sums up that the variance in missions of social enterprises and the fact that financial/wealth-creation-related goals of social ventures can vary widely makes measuring their performance both conceptually and practically difficult.

Social entrepreneurs face a similar problems than entrepreneurs of SMEs. One common theme is limited resources. Entrepreneurs usually have a poor understanding of their critical success factors, which results from practically non-existing strategic planning. Also therefore launching a management tool is essential; it would force a company to do strategic planning and to set against its current

performance and its objectives. (Garengo et al. 2005) Performance management system is important though complex to execute. Furthermore Garengo et al. (2005) point out that the use of a management tool in SME and its various obstacles in the implementation are classified. They point out in SMEs it is common that human resources and managerial capacity are inadequate. Additional activities, such as implementing a management tool, are impossible to realize because of limited human resources. Similarly a managerial culture in SMEs is often lacking and in consequence important managerial activities are neglected. SMEs much more limited capital resources compared to large companies set boundaries as well. Finally, SMEs often have misconceptions of performance measurements; the understanding of their benefits is incomplete and they are seen more like an obstacle than an advantage. It is common that SMEs do not use any kind of performance management tool, but if they do, it usually is implemented incorrectly. Even though the small enterprise and their needs are significantly different from the big company, there are very few models that have been developed directly for SMEs. The failure of the implementation is all due the fact that SMEs are trying to implement something that is not going to fit anyway. Either only some parts of a model are implemented or a model is modified without considering carefully the impact of the changes made. As social enterprises are mostly small to medium sized, the question of resource allocation is always current. The limited resources force them to consider carefully how to use them. The successful prioritization is one of the key factors on the way to fulfilling organization's social purpose. Hence, the used approach to performance evaluation and measurement needs to be identified carefully and implemented effectively. The decision-useful information is provided by this kind of successful measurement of social outcomes. The choice of suitable measurements and resource allocation also enable organizations to plan and implement their operations more effective. They allow them to find alternative opportunities to serve better their beneficiaries. The importance of the whole evaluation process cannot be overemphasized because the poor design can easily lead to the waste of already initially limited resources. (Luke et al., 2013; Volkmann (Eds.) et al., 2012)

For social enterprises there are limitations both in financial and human resources in instigating, analyzing and implementing performance targets (Thomas, 2004). There can be for example the time constraints of busy entrepreneurs, or lack of access to information that entrepreneurs need or simply lack of knowledge to handle and understand existing performance measurement information. Closely related to the time available, competing work commitments are seen as a huge barrier. As in small to medium sized enterprises there usually is one person to be responsible for several roles at a time it is obvious that daily business operations do not leave any time for social impact measurement. In addition, typical is that the evaluation project fails because of planning, which is seen either to be too complex or too limited. In some perspectives challenges that prevent planning and implementation of impact measurement process rises up to the level of organizational culture, which may not leave any room for evaluation discussions. (Barraket & Yousefpour 2013, 452-453) In all cases when planning strategies and making decisions between approaches to evaluate social impact the final question eventually is, as it is also for the profit-making organizations: "does the benefit outweigh the cost?" (Luke et al. 2013, 241)

2.2 Balanced Scorecard

The Balanced Scorecard (BSC) is a strategic management tool which usage improves probability to implement a strategy successfully. The purpose of BSC is to balance financial and non-financial, short-term and long-term, as well as qualitative and quantitative success measures (Kaplan & Norton, 1992, 1996, 2001). Specific cause-and-effect chains between strategic objectives, which are defined by each enterprise, are illustrated by strategy maps (Kaplan and Norton 2004; Neely et al. 2002). It is very likely that such a management approach with multiple dimensions and inter-linkages is more complex and requires management to deal explicitly with trade-offs among multiple objectives and to find ways to link the different goals with each other (Jensen, 2001). However, the additional effort of management provides a more comprehensive view of organizational performance, performance measurement and performance management.

Many environmental and social issues are non-financial and often influence an organization particularly over the long term. Both academics (e.g. Epstein and Wisner, 2001) and practitioners (e.g. Rohm and Montgomery 2011) consider the BSC an appropriate tool to account for sustainability issues. The Social BSC differs from the BSC in its architecture by explicitly recognizing sustainability-related objectives and performance measures. The social BSC allows management to address goals in all three dimensions of sustainability by integrating economic, environmental and social issues. Additionally the

social BSC integrates these three dimensions in a single integrated management system instead of requiring parallel systems for each dimensions. (Hanse and Schaltegger, 2014). Furthermore Hanse and Schaltegger highlight that the social BSC can be seen as a generic strategic performance management and measurement tool used at various organizational levels (e.g. business unit) within for-profit organizations with an architecture explicitly incorporating sustainability-related strategic objectives visualized with strategy maps.

2.3 SROI

In order to get more truthful and comparable status of social enterprises' position and performance, from a quantitative perspective, the concept of social return on investment (SROI) have been promoted to serve better the needs of performance evaluation than the balanced scorecard does. The concept of SROI not only makes the performance evaluation more efficient but also serves indicators to actually measure blended value creation. The better known measure adopted in accounting, Return on Investment (ROI), compares investment gains to investment costs. Similarly, social return on investment compares the ratio between the net benefits of a project and the investment required to gain that benefit. (Nicholls, 2009; Luke et al., 2013; Krlev et al., 2013; Rotheroe & Richards, 2007) However, there are doubts that have been emerged also with regard to the functioning of SROI concept. It is seen that all benefits simply cannot be meaningfully quantified which makes their measurement questionable in quantitative terms. As social enterprise aims to serve its social mission without any special financial goals it is questionable whether the value it creates is in a place to be monetized. Some benefits may be converted into a monetary value but as long as others' monetization is even slightly based on assumptions the whole performance evaluation turns out to be misleading. Additionally, even though a social enterprise manage to provide a reasonable calculation of SROI it may not bring any value when trying to figure out organization's position compared to competitors; between organizations the approach to measure and calculate SROI may vary a lot and this reduces the comparability of the results. In spite of all the critiques that the potential performance evaluation tools face, at least in some level they must be applied not just for the company's own purposes but also for stakeholders; funding expectations and requirements need to be satisfied. SROI method may not provide all-inclusive information and may not cover all the required areas but it provides both qualitative and quantitative information that already is a huge step towards better performance evaluation. (Luke et al. 2013)

2.4 SIMPLE

McLoughlin et al. (2009) present in their research paper holistic and flexible approach to social impact measurement and measurement tool called SIMPLE which is based on results of one specific research project. The SIMPLE impact model adopts a five stage approach to impact measurement. According to authors these five steps help SE managers to conceptualize the impact problem (SCOPE IT); identify and prioritize impacts for measurement (MAP IT); develop appropriate impact measures (TRACK IT); report impacts (TELL IT) and to integrate the results in management decision making and the culture of the organization (EMBED IT). Especially the SIMPLE model's five stage method is designed to break down the complexity of impact measurement into easily accessible parts for training and management purposes. McLoughlin et al. highlight that it is useful to view all stages as a fully integrated management tool which is best expressed holistically. The purpose of model is to categorize and embrace financial, economic, social and environmental impacts. The SCOPE IT stage of the SIMPLE impact model identifies four key impact drivers: mission, external, internal and stakeholder drivers and these drivers can be analyzed at different levels of depth depending on the intended use of the model. Furthermore the four drivers help to conceptualize the impact problem, identify impacts and trace how impact changes in organizations.

2.5 Blended value

The concept of Blended Value could be summarized simply in a form of both/and rather than either/or. This approach leads to the fact that the existing frameworks to the performance evaluation may be inadequate and invalid. However, building new frameworks in order to carry through Blended Value Proposition face some challenges. The diversity and complexity of today's operating environment require participants to have under their control an increasing amount of issues and demands. Thus first, organizations' managements need to be more capable to simultaneously control various fields; advancing the blended operating systems of the future cannot be forgotten under the pressure of making the best possible profit. Learning to live within a higher level of integration of both profit-making

and blended value aspects is the key issue. Secondly, in order to achieve the progress in creating blended operating systems information needs to be more easily available, thus, information systems need to be improved. The value creation in a new context stays unknown if not brought up. Finally, the most important challenge to face is to be able to constantly carry the Blended Value Proposition equally along with organization's other activities. Understanding of its positive impact on the greatest maximization of financial, social and environmental value is vital. (Emerson, 2003; Nicholls, 2009)

According to Emerson (2003) there are two core issues that need to be understood when internalizing the concept of Blended Value and integrating it to the organization's operations. Traditionally it is considered that organization's economic and social value have nothing to do with each other. However, the whole concept of Blended Value Proposition is based on the fact that the best success is achieved by considering them as a consistent aspect in the organization's value proposition. Thus, the first core issue is to recognize them as a combination instead of two separate aspects. The second core issue is the understanding of the transformative nature of an investment and the understanding that social and economic components are integrated. Against traditional beliefs the Blended Value Proposition represents the idea that both aspects need to be defined and evaluated as a consistent completeness in pursuance of the highest possible results in social and financial value creation. The integration of social and financial value creation serves also shareholder returns. When planning and implementing the Blended Value Proposition in social enterprise it demands innovations and willingness to change. A successful change in strategy requires always an effort of the whole organization but the management, in particular, must successfully internalize the new corporate vision and bring it out to the whole organization.

3 Developing performance measurement tool framework for social enterprises

The purpose of our study is to model a framework of choosing an impact measurement tool for social enterprises. Our proposed framework is based on previous impact measurement literature and on four case examples. The information of three presented cases (A,B,C) is collected from the secondary sources (The SROI Network 2014) and the information from one single case (D) is gathered by interviewing the CEO of the social enterprise.

The case A concentrate on improving the quality of life of people living in poverty and unemployment. Social change is pursued by providing those people the training and work experience opportunities in order to get the organization's ultimate purpose, the better quality of life, fulfilled. SROI analysis has given various benefits to the case A. The most significant benefit they mention to be the greater understanding of the ways to improve their performance and of the factors that are those to have the biggest influence on producing the best possible outcomes transparently for organization's stakeholders. The case B is a social enterprise which runs outside catering business to provide employment opportunities for vulnerable and formerly homeless people. In addition, they run an academy, targeting trainees looking for employment, with a purpose to prepare them for work. The case B emphasizes its position as a business with social aims that needs to prove its created added value unlike a charity. SROI has given a tool to prove that impact in auditable and transparent form. The Case C is a social enterprise that supports other social enterprises by providing high-quality, low-cost office space. The ultimate purpose of the organization is to support a thriving social enterprise marketplace with it partners from various sectors. The most significant thing for organization C is to support and improve its growth strategy and SROI analysis was seen to be the best tool to achieve this target. They wanted to avoid the danger of measuring what's easy and get the focus on things that matters to customers and stakeholders even though it would be more complex. SROI analysis gave tools to show stakeholders how both financial and social targets were met. Additionally SROI gives the opportunity to build trust, loyalty and commitment in the eyes of the stakeholders.

The case D of this research is a social enterprise that provides employment opportunities for the people suffering from visual disability. On the other words case D runs its business in order to provide employment and career opportunities to those people that otherwise would be marginalized in the labor market by reason of their disability. The organization was established in 2010 through a project which aimed to cover the gap left from the change of patient systems in health care. Word processing in health care used to be one of the traditional professions for visually impaired – until the electrification of patient systems carried with the millennium left them unemployed. As a response to this sudden unemployment the owner (foundation) of case D established a lettering service in 2001 which was in 2010 organized

to the limited company in order to enhance and simplify the business. Nowadays case D provides services in the sections of testing and consulting online services for use by visually impaired, lettering of research material, and demanding word processing in the areas of jurisprudence and health care. In the long term the organization possibly aims to expand the service field by developing different kinds of concepts where the visual disability can be turned into a strength. The CEO of case D summarizes their social mission as follows: *“For us the social purpose is kind of so clearly integrated into our organization – our main social value is employment. It is so transparent and concrete that there is no need to measure it.”*

At the moment case D provides employment for 18 people. All employees work full-time, half-time or 85 per cent of the time, as they prefer. Geographically the business is located throughout Finland as all employees work from their homes. This enables case D to provide employment all over the country, not just in the capital where the organization’s office is situated. This, in turn, gives better opportunities to meet growth objectives of case D. The essential thing is not to get more billable work but the priority is to increase the number of employees. Profits are pursued only to the extent where the business is economically reasonable and can cover the costs resulted from the organization’s activities. If the profit still remains after the cost recovery it is left to the growth. The CEO of case comments the role of owners as follows: *“The role of the owner does not need any measurement systems either. The business of the company has been profitable but the owner has not taken any dividends. All is used to develop this company.”*

During the existence of case D the organization has served numerous customers from various sectors. Clientele consists of universities, vocational high schools, research institutes, museums, researchers, authors, associations, law offices, authorities and various enterprises. In 2012 case D obtained the right to use the social enterprise mark that is an indication to the fact that the organization has a positive impact on society. The status of social enterprise is seen to increase the positive coverage in the market.

The most important stakeholder for case D is their employees. By running the business case D creates social value for employees; since without the employment opportunities offered by case D many of their employees would likely be unemployed. The services that case D offers would surely be available also elsewhere but nevertheless also the customers’ relationship to case D is close and stable. The customer loyalty is of great importance as a status of social enterprise is seen to have an added value. In addition employees and customers, the owner is remarkable stakeholder. For the owner the most important element is the high capability to provide employment, which can be achieved through the satisfaction of customers, their satisfaction assures the continuous employment and employees’ satisfaction enables the continuation and extension of the business. The high-quality of service is a guarantee of success.

Despite the fact that SROI process is a good way to verify the social value created, it loses its meaning when applied to case D. The purpose of SROI tool is to make organization’s processes more transparent and to improve their efficiency. The aim is to identify the factors that have an impact on creating social value and finally to measure the value created. However, in the case D the social purpose and the means to pursue it are already so transparent that implementing an SROI process would not bring any added value, more like needless growth of the costs. For all stakeholders, the substantial and pursued change resulting from operations of case D can be directly seen in daily activities. The CEO of case points out that case D operates in open markets: *“Apart from being a social enterprise we are also like any other business; we need to compete and provide high-quality services. We facilitate our customers’ lives by providing services that meet their requirements. The customer satisfaction increases also through the new kind of service concepts that we have managed to develop. In terms of social aspects, I assume that being a social enterprise is sort of a bonus to our customers. They buy high-quality services but at the same time, by making the purchase, they also produce social good as a bonus. The customer satisfaction can be seen concretely, therefore I would experience that there is no need to prove it by measuring it. I do not deny that it could be possible to find something new if social value creation was measured. But we do not have the need and there is no point to measure without the need.”*

The clarity and transparency of business operations in case D influence also the reporting to the stakeholders. The fact that the organization produce social good does not need to be verified with extensive reporting to several interest groups as the indicator of success in pursuing the social mission is the number of employees. There is no need to report the process behind the employment; the

appropriateness of the process and the fulfillment of the social purpose can be verified by observing that the employed person is disabled. However, for the owner it is important to know organization's activities more closely. According to the CEO formal reporting to the owner is not needed: *"Of course with the owner we communicate constantly, and in our board, there are the chairman, managing director and financial director of owner. There is a continuous intercourse between us and therefore they are highly aware of our situation. Through our operations and success we report constantly."*

In small enterprises the operations usually are not so wide-ranging that the measurement of organization's performance would have the highest priority. The performance evaluation is ignored mainly for two reasons: the lack of time and resources. However, even if there were enough time and available resources, developing a measurement system would be unlikely – measurement in small businesses is simply seen to be unnecessary. This is the fact also in the case D of this research. Organization's activities are so concrete and transparent that the measurement is not considered to be of benefit. The case the success of the social purpose by the number of employees and their satisfaction to work in the organization. The success of the service production is, in turn, defined by the satisfaction of their clients. The information of performance evaluation is therefore obtained mainly from the external sources as it is the case usually is in small businesses. Being aware of the fact that social entrepreneurs need to serve more stakeholders than traditional entrepreneurs and managing double bottom line is not straightforward, on the one hand it is surprising how little focus is used in case D on measuring performance. On the other hand, there would not even be a point to measure – activities are so transparent that the benefit gained from measuring performance would not outweigh the cost.

The measurement tool of SROI is one of the most widely used methods (Chmelik et al., 2015) among social enterprises. However, applying it requires organizations' to fulfill certain features – all types of businesses and activities do not benefit from implementing a pre-defined framework. A process that in detail proceeds step by step towards the results is often too heavy to implement in small businesses. If organizations' business operations are simple and the social purpose can be concretely defined, the process of SROI would probably not bring any new insights for the management to consider. Two main purposes to gain from implementing an SROI analysis are to involve stakeholders better and to be more transparent. However, the business in case D is integrated extremely strongly to their stakeholders, and this ensures the fact that in any case they cannot be ignored. Since organization's activity itself is transparent and concrete; therefore measuring it would not be meaningful.

The usefulness of the SROI process depends strongly on the nature of the business and on the type of the social mission. Other social enterprises find the process to be of great benefit while others see it to be too heavy and unsuitable for their purposes. In the three case examples of our paper the successful realization of the social purpose can partly be seen directly, but the most part of the created impact can only be seen in the long run. Therefore the measurement of the social value creation is reasonable and even essential considering to maximize organization's ability to improve their future operations. If the activity to achieve a social change is made at present but the exact change is realized until in the long term, it is necessary to measure it in order to verify the cause and effect relationship.

Among the three case examples the most important benefit gained from implementing the SROI process was the wider understanding of the impact they created. Achieved better understanding, in turn, enabled them to improve their performance and their ability to serve their stakeholders. Without exception each of them discovered the process to be worth to implement. However, the same conclusion could not be made for the case d. A different type of social purpose and divergent factors would make the process inaccurate. The feedback of performance in case D from all stakeholders is immediate; therefore it does not need to be proven by measuring it.

The aspects offered by the management tool of Balanced Scorecard are useful to consider also when measuring social value (Hansen & Schaltegger, 2013). As Balanced Scorecard's perspectives cover values also beyond financial value creation, the framework of it is valuable also for social enterprises if properly developed. Balanced Scorecard considers equally soft values and hard values, as it should be in social enterprises but also increasingly in traditional profit-making organizations. Nowadays companies are strongly required to be responsible and aware of environmental and social aspects – even if you weren't a social enterprise. For this reason Balanced Scorecard has got a greener aspect (Lämsiluoto & Järvenpää 2010) to further emphasize environmental issues. Due to environmental issues profitability may increase and costs may decrease though nothing happens if the causality between factors is not recognized. The balance between financial and non-financial measures is crucial to find,

and the framework of Balanced Scorecard with the greener perspective included would be of great benefit when balancing between these two types of measures. Unquestionably it would benefit social enterprises as much as financial driven organizations. The balance is extremely vital to find as financial success cannot be achieved without considering also the soft values and in consequence, social change cannot be made without a stable financial base.

Profit driven enterprises and social purpose driven enterprises are two different types of companies, others' priority is to maximize profits while others' main focus is on resolving social failures and problems, but very often they operate in the same business markets. Despite the type of an enterprise, the reporting is one of the most significant parts to consider. The significance of the social impact reporting is naturally emphasized in social enterprises, but also in financial reporting and accounting have a role in social enterprises as well.

Based on discussion above we propose the following framework for choosing performance measurement tools for different social enterprises.

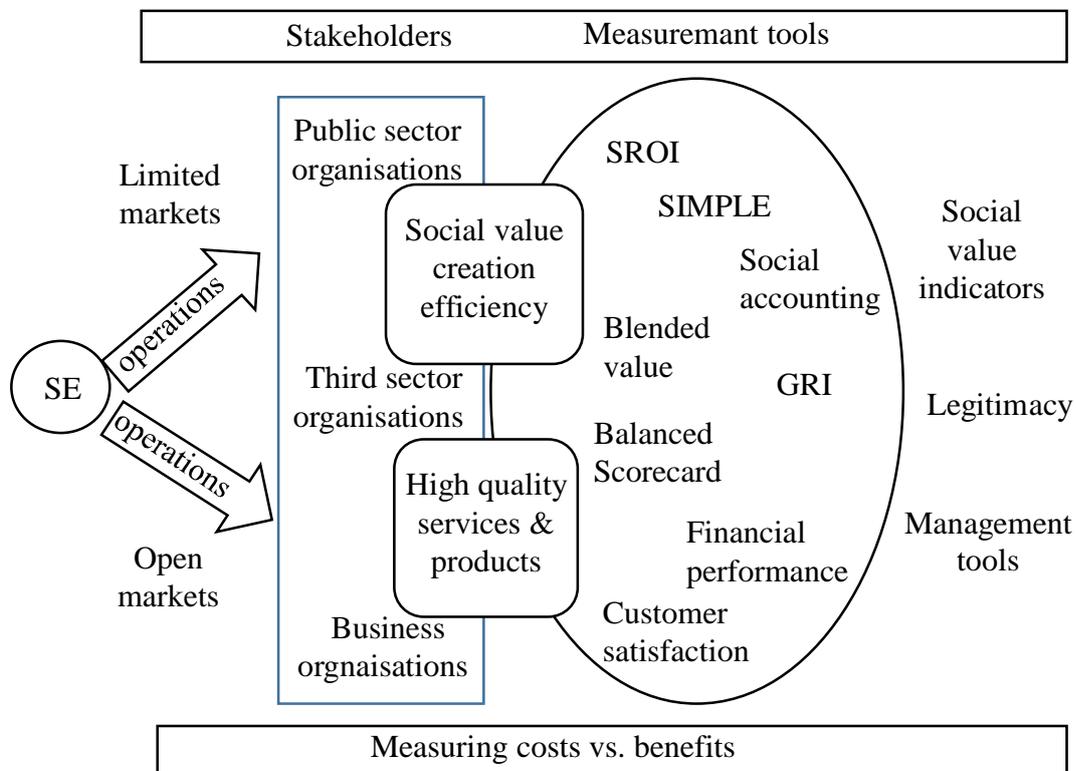


Figure 1. Measurement framework proposed for social enterprises

What kind of approach to performance evaluation and measurement is then appropriate for social enterprises? The question of the trade-off is not easily solvable. The purpose of our proposed framework is to be one tool for social enterprises for choosing an appropriate performance measurement tool in different contexts. When social enterprise choice a performance measurement tool it firstly have to identify the key stakeholders and whom it is responsible to report. For social enterprises which mainly operates closely to public sector organizations is more important to be able to show transparently their ability to generate social value than economical surplus. Secondly social enterprises have to weight up used performance measurement tool mainly for internal or external purpose. Thirdly social enterprises have to keep in minds that even though the process of calculating measures such as SROI unquestionably produce useful information for internal and external use, the financial costs of the calculation can turn the positive impact into the negative.

When social enterprise operate markets where public sector organizations dominate, it is essential for social enterprise demonstrate more generated social impact than financial performance. We propose that in these cases social enterprises concentrate to use measurement tools like SROI or SIMPLE. On the other hand in cases where social enterprises operates in highly competitive business markets traditional financial performance measurement tools might be more useful for them than social impact measurement tools. In cases where social enterprises operates mainly with third sector organization choosing an appropriate measurement tool is not an easy question to solve. The roles between third sector organizations and social enterprises can be mixed; e.g. third sector organization can be an owner, customer, beneficiary or donor of social enterprise. Our opinion is that in such cases it is impossible to propose any general how to choose performance, instead each organization have to carefully analyze what for it is necessary to measure and to whom they are responsible to report. When social enterprises use some specific measurement tool, then measurement itself is more transparent and formal. However, it is important to keep in mind that even if social enterprises do not use any tool

to measure impact or performance, they can be very well aware about their financial performance and created social value inside the organization.

In generally performance and/or impact measurement and management accounting is a challenge for all SMEs. The common obstacles are, for example, limited human and financial resources that in turn limit search and availability of data as well as other necessary component used in the measurement process. Also the time available sets the strict limits that do not allow organizations to use it in performance measurement, especially as it can be a waste of time if the measurement approach does not offer the required credibility and validity. Very often the lack of immediate benefit and concrete proof of indicators' effectiveness do not encourage organizations to use formal measurement tools. (Luke et al. 2013; Volkmann (Eds.) et al. 2012)

4 Discussion

Our paper try to fill the research gap in social enterprises' value creation, measurement tools and reporting practices. Social entrepreneurship has plenty of similarities with traditional entrepreneurship; foundation of the success is mainly based on the same things regardless of the business model. However, the navigation through the whole chain of business processes can require different kind of performance measurement tools in order to achieve the social and/or economical goals. Especially for social enterprises there can be found two particular stumbling blocks. The measurement of organization's social value creation is not as straightforward as it is for profit-making organizations. Creating measurement systems and tools requires specific innovativeness and desire to develop organization internally and demonstrate added value to the markets where each enterprise operates. The importance of the performance evaluation and the reporting of the results to their stakeholders cannot be overemphasized; but in many cases transparency in general is more important question to solve than which performance measurement tools is chosen for the use. Evaluating the performance effectively and reporting the results coming out of it transparently are the key activities to success. At present to this list can be attached social value creation and its efficient measurement – social aspect is no longer important only for the social enterprises but it has rapidly become a vital part in every business.

In each concept and framework, when considering if they should be applied or not, the question of resource allocation arises. As social enterprises mostly are small or medium sized, available resources are strictly limited. Therefore it is of vital importance that the resource allocation is made successfully. Further challenges arise from the question whether the resource allocation should be focused on improving daily operations or long term strategically questions. In all cases, evaluating the performance effectively and reporting the results coming out of it transparently are the key activities to success. At present to this list can be attached social value creation and its efficient measurement – social aspect is no longer important only for the social enterprises but it has rapidly become a vital part in every business. It needs to be a part of an organization's overall day-to-day management at all organizational levels.

Social enterprises can compete in same markets that traditional profit-making organizations. The rules and regulations are the same as the business field is the same. Therefore the pure economic side of an enterprise can never be ignored and the importance of finding the balance between financial and non-financial measures is emphasized. Social purpose cannot be achieved without a proper financial base. Both social and economic i.e. qualitative and quantitative aspects are significant and together they create a combination that serves organizations in a best possible manner.

There are numerous ways and measurement systems for profit-making organizations to use when evaluating their performance. When considering measuring and reporting for social issues the range of means gets a lot more restricted. Also the empirical research among this topic remains relatively low so far. There are various reasons and certain factors that explain the lack of specific and clear measurement and reporting practices for social issues, and especially three stumbling blocks arise: it is not known what should be measured and reported, how it should be done and finally, the whole thread of the process is missing. The social entrepreneurship has to face issues and overcome problems that do not concern the entrepreneurship driven just by the profits, and needless to say, measuring is challenging without proper means and sufficient awareness of the process. Even if performance measurement in social enterprises is essential, social entrepreneurs should keep in mind

that more important is social value creation itself, and how it is measured is secondary question and on the other hand by measuring created social value comes visible, and results of measures may vary depending on which measurement tool was used.

This paper provides conceptual framework for social enterprises for choosing appropriate performance measurement tool and contributes academic discussion about social impact measurement issues in social entrepreneurship context. More empirical research is needed especially about how certain measurement tools are chosen in social enterprises and how information that tools provide for enterprises is used in controlling daily operation and long-range strategic planning. Additionally interesting questions rises up when social and environmental issues becomes more and more important for all SMEs broadly, then academics could concentrate on research what kind of role social and environmental metrics will have in management accounting and external reporting.

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