

MIKE B&E

MSc. in Innovation, Knowledge and Entrepreneurial

# Social performance measurement and strategic management in social enterprises

Master thesis

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## ABSTRACT

This master thesis focuses on social performance measurement of social enterprises with employment orientation and how the chosen methods can enhance the strategic management in these certain enterprises. The research is conducted by committing semi-systematic literature review based on management, entrepreneurship, and innovation literature. This approach resulted in exploration of three distinct methods for social impact measurement: Blended Value Accounting, Social Value Construct and Social Impact Assessment. In addition, a strategic tool of SMART was used as a template to structure the methods for analysis, and the analysis is supplemented by stakeholder engagement theory and strategic management approach. The results indicate that the methods represent very distinct approaches to social impact measurement, and that the results of the measurement are dependent on the stakeholder engagement which is integrated to strategic management objectives of the social enterprise. Moreover, it was identified, that in the model of market-oriented businesses with employment orientation, beneficiaries play a key role regardless of the strategic objective of the management, because of their double-role in the enterprise as value creators and beneficiaries of the social impact.

**KEYWORDS: SOCIAL ENTERPRISE, PERFORMANCE AND SOCIAL IMPACT MEASUREMENT, STRATEGIC MANAGEMENT**

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## LIST OF ACRONYMS

BSC	balanced scorecard
BVA	blended value accounting
BVP	blended value proposition
DS	domain satisfaction
ESG	environmental, social, and governance performance
GRI	global reporting initiative
LS	global life-satisfaction
NGO	Non-governmental organization
SE	social enterprise
SIA	social impact assessment
SROI	social return on investment
SVC	social value construct
SWB	subjective well-being

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# 1 INTRODUCTION

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There has been an emerge of social enterprises in the recent years as in action of non-profit organisations launching market-oriented businesses with social initiatives and a rise of for-profit enterprises with social missions in addition to profit generation (Emerson, 2003). These novel enterprises are called social enterprises and they can be defined as nongovernmental businesses with market-oriented approach to tackle social issues. According to Rosenzweig (2004), most of the social enterprises are still evaluated by financial terms, even though their core activities and missions are in creating social impact and social benefits.

There are several methods for performance measurement of social enterprises reviewed in academic research (Dunlop et al., 2016: Vanclay, 2014: 2014, p. 17: Then et al., 2017: Millar & Hall, 2013: Mulgan, 2010) and classifications of different types of social enterprises (Saebi et al., 2019: Wilson & Post, 2013, Mair & Marti, 2006). Even though there are plenty of methods and approaches, it is not collectively agreed, which ones provide meaningful information to the managers of social enterprises. Social enterprises are managed in a similar manner than traditional commercial enterprises (Wronka-Pośpiech, 2016), but in addition to financial value, social value is created and emphasized. Social value refers to the inputs and activities which are operated by social enterprises to address social issues (Mair and Marti, 2006).

The interest of this research is in social impact measurement in regards with strategic management of social enterprises with employment-orientation. Social impact can be understood as an eventual outcome of enterprise's operations with social mission. It is a long-term outcome of social value creation, which can be demonstrated by measuring social performance of the enterprise. The study focuses on current state of knowledge regarding social enterprises and the social impact measurement from managerial perspective, which in this dissertation takes a positioning of social performance. Performance can also be referred as social effectiveness, which similarly focuses on the enterprises ability to influence its social missions (Bagnoli and Megali,2011).



It is arguable, if social impact measurement is achievable for an enterprise to operate and moreover, is it relevant, because of the long-term occurrence of the social impact versus operational and strategic decisions in enterprise management. However, in Europe, 10 % of businesses are labelled under the term social economy and they employ over 11 million people, which covers 6% of working population in EU (Arena, 2015). Social enterprises have several stakeholders and direct and indirect beneficiaries. Their ability to create social impact makes the measurement of social impact significant for broader audience and during long-term assessment, and therefore it is beneficial to measure the impact even though the measurement was not committed by the enterprise itself. This dissertation takes a place in economic theory of novelty creation in terms of innovation and entrepreneurship, strategic management and the discussion is committed in the context entrepreneurial strategy.

To explore social impact measurement from the perspective of a social enterprise management, three distinct methods drawn from the literature are considered: Blended Value Accounting (BVA), Social Value Construct (SVC) and Social Impact Assessment (SIA). These methods for social performance measurement represent different methodological approaches to demonstrate the social performance by social enterprises. The methods are analysed through the lens of managerial perspective and the framework of SMART is used to structure the analysis of methods. SMART is an analytical tool used to enrich the creation of strategic objectives of enterprises by evaluating five different attributes of the objectives to create achievable but motivating aims for the business operations. The principles of SMART are used in this dissertation as a criterion for exploring the methods. By applying this framework to the methods, it is aimed to evaluate, how the methods of BVA, SVC and SIA support managerial objectives to demonstrate social performance of a social enterprise.

## **1.1 PROBLEM FORMULATION**

This research is committed in relation to existing literature regarding social enterprises and their performance measurement. A literature search was done to familiarize with the current main-streams and issues among the literature of social enterprises and their abilities for social impact measurement and demonstration of it. It was identified that there are several tools, methods, and frameworks for social impact measurement, which is created by social enterprises, but the

means to do it vary a lot and therefore raises a question regarding their ability provide beneficial information from strategic management perspective.

Furthermore, it was recognized, that very few means for measuring social enterprises focus on the social impact created, even though the main driver for a social enterprise is defined as the creation of social impact. Therefore, social impact measurement was brought in focus of this dissertation. In addition, it was understood that social enterprises can be classified by their level on integration of social and economic missions. This typology (Saebi et al., 2019) is later described more in details. In the literature, the measurement of social impact is stated as a very challenging task because of the complexity and uniqueness of social impact in each context. By exploiting this classification, a specification of a research was made, to be able to focus on one type of social enterprise.

Social impact measurement is valuable for these enterprises because of several reasons, such as to improve operations, acquire resources, legitimacy enhancing or to fulfil regulative guidelines, and therefore it is justified to assess if these methods can provide results which can then be exploited by social enterprises. According to Melnyk et al. (2004), that regardless the business model (non-profit, for-profit or charity) one of the common tasks for managerial department is to convert abstract or intangible objectives and goals to measurable units so that the performance can be concretized. It also has it linkage of bringing enterprises strategy into real life and operations. From managerial perspective, the aim is to evaluate and control of the operations, communicate with internal and external stakeholders as well as identify for gaps for improvement.

It is chosen to draw attention into the need of measurement of social impact, which is created by social enterprises with employment-orientation. The outputs of this type of enterprises can be evaluated by the number of employed people or similar metrics, but the interest of social enterprise is in the final impact (such as, improved social inclusion), which cannot be articulated with such metrics. The need for measuring this social impact comes from the requisite of legitimacy within the community as well as self-legitimation of the company. Legitimacy, according to institutional theory, refers to the *"...means of obtaining and maintaining the resources as well as the aim to execute compliance with the expectations of the main stakeholders"* (Dart, 2004). It implies,

that managerial actions are attempts to react on environmental cues to fulfil the social expectations (Dart, 2004). In addition, it is argued, that in social enterprises social impact measurement and other performance measurements are used for innovation and strategic management, which is in the focus of this research (Melnyk et al., 2004).

In addition to enterprises own interests for self-legitimation, the requisition for applying impact metrics is coming from various stakeholder groups such as customers, employees, suppliers, shareholders, government, and local communities, which may have a very disparate idea of what and how to measure impact (Arvidson and Lyon, 2014). Stakeholders of social enterprise can be simply classified into two main groups: internal and external stakeholders, where former includes for example founders, managers, owners, and employees, while latter includes community, governmental agencies, and private investors.

In the literature, social impact is often referred as a social value and originally, the term value is borrowed from economics perspective: value is an indicator for transaction and exchange rate (Hadad & Gauca, 2014). In commercial markets, the value is evaluated by numerical determinants which is based on an evaluation system. The results can then be exploited by various stakeholders to gain an understanding of the performance of the certain company (Chatterji & Levine, 2006).

In management and entrepreneurship literature, measurement of the performance of an enterprise relies heavily on economic perspective. This suggests that the methods for social enterprise to demonstrate their performance success is likely to be done through tools for financial performance, which on the other hand is contradictory to the approach of going deeper into social impact metrics (Ormiston & Seymour, 2011). This statement is supported by Wronka-Pośpiech (2016): social enterprises are becoming equal competitors to commercial enterprises regarding customers and resources, which increases the execution of activities from commercial business segment (Wronka-Pośpiech, 2016). Additionally, strategic management literature has its stance on activities, which are used to create the value which is exhibited in the performance of an enterprise. This is considered as a resource-based view on strategic management (Ormiston & Seymour, 2011). A resource-based view of the firm moreover represents enterprise's ability to

compete over its industry peers by its unique interplay with human, organizational and physical resources (Hillman and Keim, 2001).

Based on the literature, important aspects of social impact measurement from management perspective were identified. These components are here described and later discussed in the analysis section. The topics of stakeholder engagement, legitimacy and strategic objectives are operations or actions which are carried out by strategic management and therefore they are included in this dissertation. Stakeholder engagement refers to the identification and involvement of salient stakeholders, which is a focal point in social enterprises. The distinguishing feature from commercial enterprises is that social enterprise is seen as a part of a community and it works within a community, while commercial enterprise is merely an external component from this perspective.

## 1.2 RESEARCH OBJECTIVES

In the emerging interest in social entrepreneurship and social value creation there is a variety of distinct methods represented how to measure social impact. We know how to measure the value of so-called traditional companies as well as non-profits, but how can methods for social impact measurement enhance strategic management in social enterprises? This indicates the observation and identification of improvement or adjustment in the enterprise's operations. Are the methods providing information about social impact creation and are they accurate? This question refers to the aspect of value adding (what would have happened anyway?).

By committing this research, it is aimed to enhance the development of research in social impact measurement from the business discipline perspective by collecting relevant material and committing a literature review and analyse the findings. In this dissertation, it is aimed to assess chosen methods for social impact measurement in social enterprises which apply market-oriented work model (Saebi et al., 2019). The point of interest is to examine if the chosen methods support social enterprise strategic management. These methods were chosen as a result of the literature review and they represent different approaches to social impact measurement. The different approach of the methods brings more depth to the exploration of the methods and therefore very distinct methods were selected.

The perspective in the dissertation is to look at these methods from the point of view of the social enterprise to explore deeper insight from this perspective of the methods. Detailed examination of the methods can reveal components or protocols which may possibly be criticized and adjusted in the future. The perspective of an entrepreneur or social enterprise manager is chosen because of the meaningfulness of performance measurement in regard to the success of the company (Poister et al., 2016). In addition, a success of a social enterprise has direct and indirect effects on societal level which may have a positive change in institutional or governmental level.

To be more precise, it is aimed to provide a discussion regarding a following question

1. How can social performance be demonstrated through the methods of blended value accounting, social value construct and social impact assessment to enhance strategic management of social enterprise with market-oriented work model?

The focus on this dissertation is on the model of market-oriented work model (Saebi et al., 2019), which refers to an integration of social and economic missions in the level of creating the revenue by selling a product or a service to customers representing a group, which does not experience social disadvantages (so-called regular paying customers) and the beneficiaries of the social impact are the employees of the enterprise. The decision to focus on this type of social enterprise is justified because of the prevalence of the type among social enterprises (Leung, 2019). Another argumentation to focus on types of social enterprises, where the revenue generation follows traditional approach reflected to commercial enterprises and that the social impact is created by employment is the nature of social impact regarding this type of social enterprise. Because the beneficiaries are simultaneously employees of the company, it increases their salience as stakeholders, and it differs from other forms social enterprises. Therefore, it is justified that the social performance of these types of social enterprises is here in the focus of the research.

### 1.3 STRUCTURE OF THESIS

The following figure represents the framework of the thesis. Outside of the framework are introductory section, methodology and concluding discussion. The thesis starts with conceptual framework, which is based on the literature collection and gathering. Following this conceptualization, the methods for analysis are presented: S.M.A.R.T and Stakeholder identification as a part of strategic management. Following this conceptualization, the methods for analysis are presented: S.M.A.R.T and Stakeholder identification as a part of strategic management.

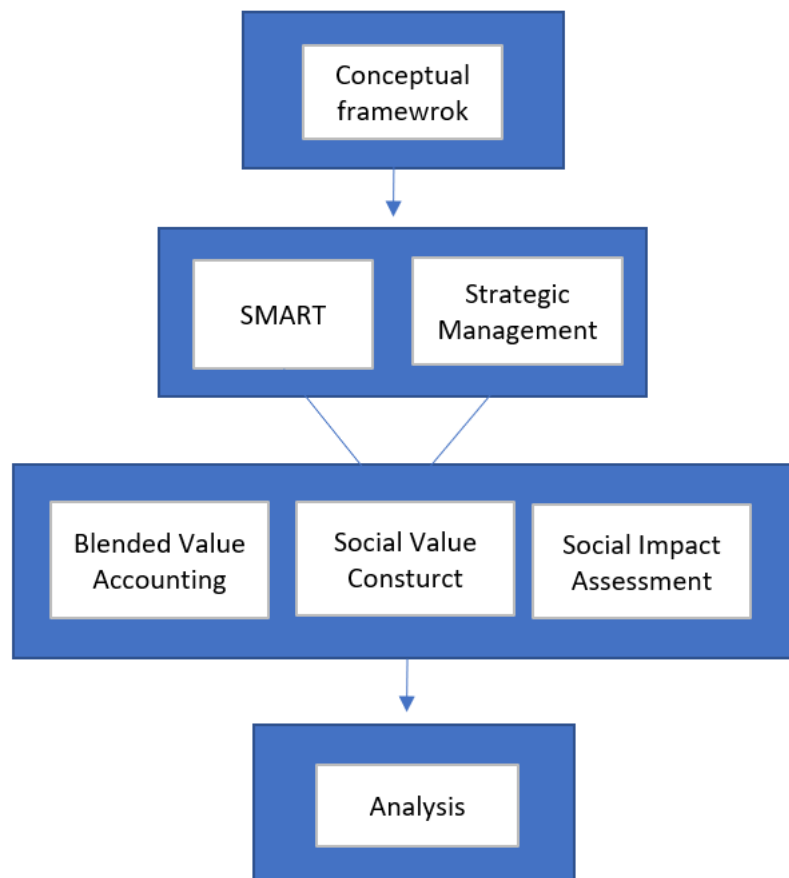


Figure 1. Framework of the dissertation.

After theoretical and methods explanation, the methods chosen for the dissertation are described. The main elements of the methods are considered as well as the approach and aims of the methods. From this descriptive section, the thesis moves towards analysis. The analysis is based on the literature and the material and knowledge gained of the methods of Blended Value Accounting, Social Value Construct and Social Impact Assessment. The findings from the analysis

are concluded in this section, and finally they are concluded and summarised in conclusive discussion.

## 2 RESEARCH DESIGN

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The aim for this research is to explore the methods for social enterprises by addressing the research question. To operationalize the problem statement, following techniques and methods were chosen for this dissertation.

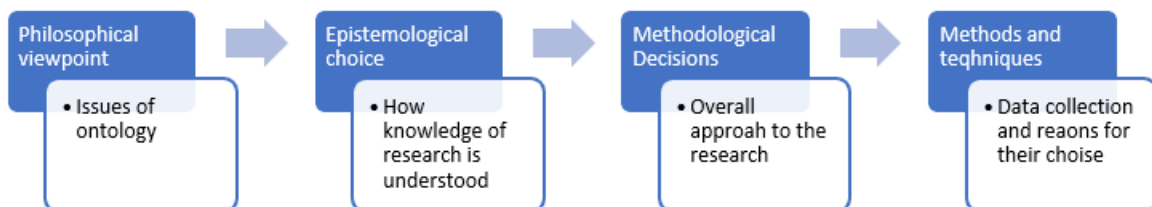


Figure 2. Four levels of research design (Kuada, 2012).

This chapter will follow the structure by Kuada (2012) of the phases of research design. It is aimed to explain the philosophical perspective (ontology) in which the dissertation is based on. In the following subchapters, epistemological aspect is considered. These beliefs will explain the decision regarding methodological choices of certain methods to address to problem which was is stated later in this section.

### 2.1 ONTOLOGY

Ontology reflects the nature of reality and existence (Easterby et al., 2015, p. 46). This demonstrates the meaning of perspective, which the research approaches from. Ontology is commonly debated from two major approaches, natural sciences, and social sciences. Because of the nature of this study and the discipline, it is focused on the ontology commonly used in social sciences.

There are two broad perspectives identified in social sciences. The first one sees the social world as real event and it to be external from human interactions. Other scholars that social world is created by each individual, and therefore it is different to each entity. In addition to perspective of social world, also relationship between humans and nature is related to ontology. Others believe that social environment is outside of an individual while the others take the view of social environments and humans interact together to determine each other (Kuada, 2012).

There are three main categories in social sciences: internal realism, relativism, and nominalism. The position of internal realist indicates that social phenomenon is independent from the researcher (it exists autonomously) and that the consequences can be observed. Relativism in ontology states that the same phenomenon is shaped by the people who experience it and it may appear in different ways to people's lives. This indicates that there is no single truth, but the reality can be observed from several perspectives and the results can also vary depending on the re-searcher. From a nominalist ontology, it is suggested that labels and names we give to experiences and events play a key role. According to this perspective, there is no truth (vs. several truths or a single truth) and that the facts are only created because of human creation (Easterby et al., 2015)

These types of ontologies of social sciences are explained, so that the research can be positioned appropriately regarding the classification.

## 2.2 EPISTEMOLOGY

Epistemology on the other hand reflects the theory of knowledge (Easterby et al., 2015, p.46). It also covers the issue of means of knowing, which reflects to the questions what we consider as a truth and how do we know what we do (Kuada, 2012). Similarly, to different ontologies, also epistemology is categorized based on the approaches. The main epistemologies in social sciences are positivism and social constructionism. Positivism stands at the other end of the scale of epistemologies and it indicates that social world exists independently from the researcher and that it can be measured with objective methods (Easterby, 2015). This means that the truth can be acquired by external observation (Kuada, 2012). The other paradigm, social constructionism, refers



to the reality which is constructed by social interactions of people in their daily life (Easterby, 2015). It indicates that the truth can be discovered only by experience or subjective experience of an individual actor who is being studied (Kuada, 2012).

Nevertheless, it must be acknowledged, that these are general attributes of both viewpoints and combination of these two is also possible which would likely lead to usage of mixed methods (Easterby, 2015). By this claim, it is emphasized that there is no absolute correct way of experiencing and understanding knowledge and reality.

### 2.3 METHODOLOGY

According to Kuada (2012), "*...methodology describes the reasons underlying the choice and use of specific methods in the research process*". This means, that based on the ontological and epistemological assumptions, the choices address the research problem are made. If the view of objectivist approach is assumed, then to observe social reality objectively, methodology focusing on relationship examination is adopted. Alternatively, if social world is seen to be discovered only by experiences by individuals in the setting, then the approach should adopt methodology which focuses on interpretations of individuals experiences of surrounding world (Kuada, 2012).

In this research, semi-systematic approach is chosen, because of the variety of conceptualizations and several researches representing different disciplinaries (Snyder, 2019).

### 2.4 METHODS

This section in research design describes the methods and techniques for data collection. Because of the nature of the project, in this dissertation data refers to literature. Literature for the dissertation is collected and gathered by two systematic approaches, which are explained more in details in the subchapters. Lastly the limitations of literature collection are presented.

This dissertation was committed by using only already existing material, so no empirical material or data was collected for the study. Primary data could be useful in the future studies, but with the starting point for the dissertation and acknowledging the time and resource restrictions, this reasoning of not committing empirical study was made. Grey literature (such as company and annual reports, government announcements) is limited to a minimum to maintain the legitimacy of the paper at an appropriate level. This level of validity is reached by using mainly peer-reviewed articles and some additional grey literature does not reduce the average of the quality of the papers significantly. Some grey literature was used out of necessity (such material from OECD), because of scarcity academic papers through the literature search.

The literature was collected through a semi-systematic literature review approach, which aims to collect relevant material of the topic in research (Snyder, 2019). This type of data collection was not conclusive for the topic to be researched, so the technique of data collection was supplemented with additional material collection technique. A commonly used method in sociological sciences was applied to this research: chain referral sampling or so-called snowball sampling. In this research, snowball sampling was conducted as a reverse process. This means, that core research was chosen, and the references used for the paper lead to more relevant articles and so forth.

As a combination of these techniques for data collection, the methods to be studied in the research were chosen: BVA, SVC and SIA. The methods were chosen because they represent social impact measurement from broad perspective. It means, that they deploy different variables and different approaches to measure impact and therefore they provide broad collection of variety of methods available for impact measurement for social enterprises.

#### 2.4.1 Literature search

In the beginning of the process of acquiring relevant literature, an electronic search was committed by using Aalborg University library. The library search uses search engine Primo, which includes the entire collection of printed books and most of the electronic material. Some of the resources acquire additional log-in, but the access is provided with AAU login credentials. Because of the variety of the terms in social impact studies, there were several keywords (social

entrepreneur and entrepreneurship, social innovation, social impact, and impact measurement) included in the search. The keywords for the research were chosen based on the assumption, that these words were likely to appear in papers which were essential and valuable for the dissertation.

The literature review aims to gather evidence-based and present research about social enterprises and the measurement of the created impact and therefore the results included several research approaches and perceptions. To improve the quality of the literature, only peer-reviewed journals were included. According to Tranfield *et al.* (2003), the decisions of which papers to include to a new research is fairly difficult and should be, at least partially, based on the quality of the subject. Referring to this statement, it is justified to use only peer-reviewed papers in order to increase the quality of the material. Also, to narrow down the breadth of the literature, it was chosen to use the literature produced during the last two decades (2000-2020). This decision causes a limitation too. Many significant theories are published before 2000s and this technique ignores original papers. On the other hand, the knowledge is well transferred through newer articles, and therefore this is not excluding feature towards this technique to be used.

Regarding the technique and its limitations, relevant material was collected. However, a lot of the articles were not relevant to discover answers to research questions, and the number of papers had to be reduced. These papers generally included social value creation, social performance, or social impact as an embedded core driver, but there was no perspective on measuring it. To complement the literature review, articles were searched also manually by reverse snowballing method.

#### 2.4.2 Chain referral sampling

The chain referral technique means, that core research is chosen, and the references used for the paper lead to more relevant articles and so forth. For the dissertation, the opening article is written by Rawhouser, Cummings, and Newbert (2019), Social Impact Measurement: Current Approaches and Future Directions for Social Entrepreneurship Research. This paper was identified through the literature search described above. The paper offers a very prevailing insight into approaches used in social impact measurement regarding social enterprises. It creates a report of

the state of research on social impact within the last two decades and it is focused on business discipline and how the several ways of treating social impact in both theoretical and empirical perspectives are used to capture the social impact. Although it is worthy of mentioning, that even though the article is supposed to be a summary of methods used for social impact measurement, the term is not used consistently, and part of the methods are actually not in particular for impact measurement. In addition, it raises a question of how to evaluate the measurement systems or methods.

From the first paper (Rawhouser et al., 2019), most relevant references were chosen to be used for the thesis. These papers were chosen by careful consideration regarding the titles of the papers. Due to the resource limitations for the dissertation, not all references used by Rawhouser et al. were read profoundly. These chosen papers were studied by reading and abstract and the summary, and if the paper still seems fit, it was collected for the second, so-called snowballing, round. The criteria to be chosen was that it had to include social impact measurement in the article, and it must have a social enterprise perspective. Surprisingly, a very few articles fit within the criteria boundaries, but the chain referral from these articles led to a successful gathering of relevant material. The existence of a limited number of papers about the specific subject in the bibliography implies the relevance of the research and that the knowledge gap certainly exists.

Reverse snowballing was used as a technique because of the novelty of the core article. Because the article *Social Impact Measurement: Current Approaches and Future Directions for Social Entrepreneurship Research* (Rawhouser et al., 2019) was published so recently, it was assumed that more relevant literature was found through backwards snowballing technique rather than looking for more recent ones published either in the year of 2019 or 2020, which would have limited the material even more and it would have been too narrow to commit a dissertation based on it.

### 2.4.3 Analytical tools

In addition to literature collection methods, an analytical tool for strategic management is described in this section to provide overall understanding of the outline of the research, but the tool will be explained in more details further in this paper.

SMART is a tool originally used for objective creation and specification. The ideology the tool is based on is that SMART objectives help the user to achieve the goals. The issue that SMART is aiming to alleviate is the problem with very general and vague objectives, which are often difficult to reach (Poister, Aristigueta, and Hall, 2016).

S	pecific
M	asurable
A	ttainable
R	ealistic
T	ime-sensitive

Figure 3. SMART template.

In the figure above, each of the letters of SMART are assigned an adjective which they represent. The tool is described more in detail in chapter 4.5. SMART is chosen for this research, because of its wide acknowledgement among business discipline (Shahin & Mahbod, 2007, p. 228-229). It is, for example, used in performance measurement of non-profit and public organizations. Performance measurement focuses merely on outcomes instead of impacts, but because of the similarity of the objects (a common feature of non-monetary objectives), it is applied to social enterprises and methods for their social performance measurement. Compared to the use in non-profit and governmental organizations, the distinguishing feature is the revenue generation which in social enterprises is generated by commercial operations instead of funds and charity incomes. Another attribute to consider is the nature of impact and outcome. The outcome is seen as a mid-term result of action while the impact is a long-term result. However, these differences are not seen as exclusive features for using the SMART as a framework to explore methods for social performance measurement, because social performance is seen as more immediate result of activities, but it indicates potential social impacts in the future,

Nevertheless, there are some deficiencies involved in the tool of SMART. To start with, even though the tool itself is widely known, there are several variations of it. This means, that each letter can have several different meanings. Most commonly it is stated that S refers to Specific

and M is for measurability, but then letter A has a variety of meanings, such as agreed, adaptable, ambitious, accountable, and attainable. This reduces the transferability of the tool because it is not used in a similar way in all the applications. It is not claimed that another set of attributes would provide better results (better objectives), rather than the attributes can vary. Therefore, SMART may generate different results even though the method used is the same.

Another deficiency is that this tool only observes very detailed attributes of each method. Therefore, using SMART for evaluation, it excludes other aspects of the methods out of the discussion. In order to supplement that void, additional theories are discussed considering the material.

Because SMART only assess the certain attributes of the methods, an additional theory is added to the research. A perspective from strategic management is included and a theory of stakeholder identification is applied. Throughout the literature, it was constantly and systematically stated, that stakeholder engagement plays an important role in social enterprises and therefore in social impact measurement of these social enterprises.

The significance of stakeholder engagement in the scope of this research endorses the usage of a detailed stakeholder identification theory. For this analysis, it was chosen to use theory by Mitchell et al. (1997), because it provides a comprehensive theory for stakeholder identification, which can then be utilized by the managers to identify essential stakeholders and choose correct actions for stakeholder engagement.

## 2.5 DISCUSSION OF METHODS

The purpose of this section is to critically review the methods and techniques used in this dissertation to indicate limitations and considerations of the research methods.

### 2.5.1 Reframing the methods

The findings of the research are limited, and these limitations must be acknowledged. Using three methods for social impact measurement examination does provide broad comprehension of the variety of the methods, but it also causes of inclusion of other more similar methods.

Concentrating on one type of method, or methods which can be grouped into sub-categories, may provide different findings. This is can be understood because of the similarity of methods and it enables to explore methods more in details.

Also regarding BVA - because it includes several different methods - it is analysed from the perspective only one of the tools (SROI) and perhaps more methods from BVA approach would provide more precise concept of the methods used. Moreover, the methods which are covered by the concept of BVA, may differ from each other and therefore the assessment of these methods could be more meaningful if more of them were studied, or that the focus would be only in BVA methods instead of including other approaches to the dissertation, such as SIA and SVC.

### 2.5.2 Material

The dissertation was done without gathering any empirical data, so it relies on already existing literature. To gain deeper understanding of the methods and their usability, empirical data would be useful to obtain insights from social enterprises and their managers. Hence, this dissertation only provides a conceptual study for the subjects in research, which might not reflect the experiments and experiences from real life.

### 2.5.3 Collecting methods

Also, collection of material creates its limitations to the project. Literature was gathered by committing to techniques for collection, a traditional literature review and then it was supplemented with chain-referral sampling. A traditional literature review did not provide predicted results and therefore additional technique was brought to gather relevant material. Material collected

through traditional literature review ended up having a role just as supportive literature, rather than being the main driver in the dissertation.



### 3 CONCEPTUAL FRAMEWORK

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This section of the dissertation is aimed to reflect the conceptual framework the research is based on. Conceptual framework makes assumptions, that the claims that are represented within the framework are true and that it reflects reality. In the following subchapters, the main assumptions and essential conceptualization is committed to produce working definitions for the research. This conceptual framework is based on the literature gathered for the research.

First, innovation and entrepreneurship are explained because they are the driving force of social enterprises and after that, distinguishing features of traditional for-profit enterprises, for-profit enterprises with CSR and philanthropic organizations are presented. Identification of social enterprises leads to classification of different types of social enterprises. Last sub-chapter of this section defines social impact and what does it reflect in this dissertation. The order of the topics to be explained is based on the assumption that social innovation and entrepreneurship is required to form a social enterprise. Classification of social enterprises emphasizes the type of enterprise which is studied in this research and furthermore the social impact which is created by these social enterprises is defined.

#### 3.1 INNOVATION AND ENTREPRENEURSHIP

It is argued that innovation and entrepreneurship are closely related, and that innovation is profoundly about entrepreneurship. This means, that innovation is seen as a method or a tool to execute and exploit opportunities by people with entrepreneurial characteristics (Drucker, 2014). Innovation is a crucial part of capitalism and markets. It means that the ongoing development and ability stay in the competition requires continuous and frequent improvements and adjustments. Innovation is executed in new products but as well as in new processes. (Tidd & Bessant, 2013, p. 8–13).

Competitive advantage in social enterprises is caused because of an innovation. Tidd and Bessant (2013) use the concept of innovation to describe the model of process of exploiting ideas and

value capturing. Process can be classified in four phases: searching, selecting (strategic choice), implementing and value capturing. In this research it is aimed to focus on the last phase of innovation: value capturing of social innovation and demonstration of it for managerial and legitimacy purposes.

Value capturing of an innovation relates to the social performance measurement of a social enterprise. This is justified because of the logic of value creation refers to created social value, and this social value can be articulated through social performance measurements.

### 3.1.1 Social innovation

A term of social innovation is explained in this section because social innovation is an important element in social entrepreneurship literature. It is defined as a process which introduces new products, processes or programs that fundamentally adjust the established routines and beliefs. (Antadze & Westley, 2012). It produces multi-layered effects on individuals and on societies (Von Jacobi & Chiappero-Martinetti, 2017). Following the concept of innovation in the previous paragraph, social innovation is similarly a process of exploiting and deploying new ideas, but it has the aim in social change.

It is also suggested that social innovation is not a part of radical innovation (e.g. newest technology) but rather tackling social issues as an incremental effect (van Der Have & Rubalcaba, 2016). This refers to the degree of novelty of the innovation. It indicates the level by considering if the innovation offers something completely new or is it just improved or adjusted version of already existing service or product. Regarding social enterprises, it is usually that these enterprises exploit available business models and revenue generation logics, but the social aspect is added as an equal driver to financial aims of the operations. It can be concluded that a social innovation is a core driver for social enterprises to create social impact according to the statements above.

In innovation studies it is examined how benefits from social innovation can be captured regarding financial and market performance (Tidd & Bessant, 2013, p. 565), but the level of social impact is left out of discussion. Social performance is equally excluded. This may be a result of the

novelty of the subject and moreover it is a megatrend, which is incrementally drawing attention from academic community and business representatives.

## 3.2 SOCIAL ENTERPRISE

A key term in this project is a social enterprise. Because it is in focus to research measurement approaches regarding social enterprises, the term is explained and described in detail. A definition to be applied in this dissertation is provided by the end of the section based on the literature. As mentioned in the introduction (Chapter 1), there are different types of social enterprises and therefore a variety of definitions. One of the early definitions for social entrepreneurship - which is also currently recognized - is provided by Dees already in 1998. As Dees (1998) explains, social entrepreneurship is not new phenomena, only the term is formed more recently. The term refers to entrepreneurial actions, where the social issues which are not solved by governmental and philanthropical initiatives are targeted by private actors. It is acknowledged, that the term social entrepreneurship is often associated with non-profit organizations, non-profit organizations who convert to revenue generation organizations or simply businesses with social responsibility operations (Dees, 1998). Mair and Marti (2006) is also frequently cited research paper providing definition to social enterprises. According to them, social enterprise is a mean of integrating both social and economic value creation into one company's core operations. Another author, who is being cited greatly in academic discussion regarding social enterprises, is Nicholls. Based on the definition set by Dees, (Nicholls, 2009) identifies social entrepreneurship as an innovative action committed by individuals, organizations or networks do to improve the circumstances of a particular social issue.

### 3.2.1 Social enterprise, CSR or non-profit?

Often when investigating social enterprises, traditional philanthropic non-profit organizations as well as businesses with CSR come up. Wilson and Post (2013) created a visualization in order to position different companies on two axes related to the economic value and social value. The distinguishing feature between social enterprises and for-profit enterprises with CSR is the emphasis on social value creation. Businesses with CSR are trying to compensate to a problem what they created by their operations, while social businesses target social issues which exist regardless of the business and its actions.

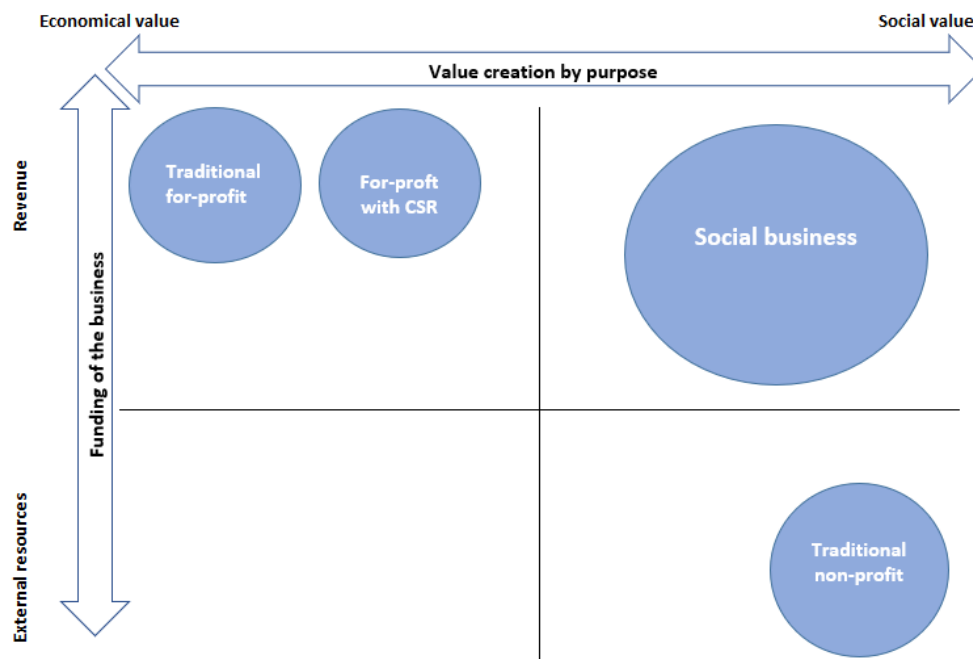


Figure 4. Four quadrants of businesses. (Wilson and Post, 2013).

The difference between completely philanthropical organizations and social businesses on the other hand is the revenue generation. Social businesses aim to be self-sustaining and economically competitive, while traditional non-profits rely on external resources in order to survive. From traditional for-company profit, social enterprises are separated by their double-mission (vs. one financial mission). For-profit companies and social enterprises are different in the sense that social enterprises are trying to cause an effect to an issue which already occurs, while for-profit companies with CSR are claimed to aim to solve the issues their operations are creating.

### 3.2.2 Models of social enterprises

Furthermore, a typology for social entrepreneurship is provided by Saebi, Foss, and Linder (2019). In their research, they established a simple matrix for four types of social enterprises, which helps to categorize different models behind the enterprises. This classification is mentioned previously in this dissertation, and this will be one of detailing aspects in this research. It is aimed to focus on the types of social enterprises with market-oriented work model, and the classification of different types is provided in this section.

		Social mission	
		For beneficiaries (recipient)	With beneficiaries (value creator)
Economic mission	Differentiated (commercial with social mission)	Two-sided value model (A)	Market-oriented work model (B)
	Integrated (beneficiaries paying customers)	One-sided value model (C)	Social-oriented work model (D)

Figure 5. A typology of social entrepreneurship. (Saebi et al., 2019).

The matrix proposed by Saebi et al. (2019), implies that there are four different types of social enterprises and they vary from their economical mission and social mission perspectives. Social mission refers to the targeted group of beneficiaries, meaning, are the beneficiaries only recipients of the social impact or are they value creators? The other aspect reflects the economic mission. Is the revenue model based on beneficiaries being paying customers or is the company generating revenue by selling to other than target groups and then aiding beneficiaries in some other way?

The distinguished feature by which these types of social enterprises can be classified is the perspective to social and economic mission. Four types of social enterprises are:

1. Two-sided value model
2. Market-oriented work model
3. One-sided value model
4. Social-oriented work model

Two-sided value model refers to a social enterprise, where the beneficiaries are the recipient of the service or product. For instance, the business model being “buy one bottle of water and an-

other bottle of water is supplied to the one's in need". In this type of social enterprise, the beneficiary does not participate in the operations as a customer or as an employer. The second, market-oriented work model, type of a social enterprise relies of the sales generated by so-called regular customers, who are not disadvantaged or do not represent a minority group. Market-oriented work model refers to an enterprise model, where the beneficiaries are value creators or part of the value creation process. An example would be an employment of a representant of a disadvantage group and the product or service is offered to regular paying customers. One-sided value model on the other hand relies to the business model, where the revenue is created through beneficiaries being the paying customers, such as people in developing countries. Lastly, social-oriented work model is including the beneficiaries both by in employment and as in customers.

To clarify the characteristics of the market-oriented work model, an example from Finland SE context is given.

### **Market-oriented work model (B)**

#### **Tampereen Sarka Oy (<https://tampereensarka.fi>)**

This Finnish SE declares in their vision, that the core driver for the enterprise is not maximization of monetary benefits of the owners of the company but in addition to generating profit, a social initiative which attempts to increase the rate of employment in a target group of people who have difficulties of finding employment for a reason or another. The aim of the enterprise is to provide employment to the target group members. The defining feature of market-oriented work model is therefore the employment of disadvantaged people while the revenue is generated by sales to regular-paying customers.

Disadvantaged target group may vary depending on the mission of the social enterprise. Missions on the other hand are likely to be related to the enterprises geographical and economic environment. In this dissertation, it will be studied market-oriented work models in developed countries, where the most crucial needs are already fulfilled, such as access to clean water. Moreover, target group can be classified also by the level of disadvantages, regarding the degree of support

needed. This refers to the variance between the groups of, for example, immigrants, people with mental issues or physical disabilities.

In this dissertation, social enterprise is defined as follows:

*An enterprise which simultaneously aims to create both economic and social value and that it obtains self-sustainability by either serving regular-paying target group, beneficiaries (disadvantaged) or both as customers and by committing social value creation it aims to make a social impact in a targeted audience.*

### 3.3 SOCIAL IMPACT

Generally social impact means the effectiveness of social value creation (Kroeger & Weber, 2014), but it is argued that it is necessary to provide a more specific definition, especially when the term is not used persistently, and therefore the more detailed clarification is presented.

By impact, it is meant that a change in an outcome was altered or improved. Because of action, there is an outcome. The impact is the added value to the outcome which would have had occurred regardless of the action of social value creation (Rosenzweig, 2004). Value impacts on target groups created by social enterprises are measured by methods of social impact measurement. The value is a consequence of an action, project, program or similar and it can both be negative or positive. The impact may also be caused by intentional or unintentional action and it can have both direct and indirect beneficiaries. Social impact can be understood as a cause of an action which creates a change in the target group's lives, such as in an increase of average income (financial term or variable) influences the life-satisfaction (social variable) of an individual. (Then et al., 2017). Social impacts can also be called as social effects and social consequences (Burdge, 2003). In this dissertation, social impact is understood by following the statement from Then et al. (2017): a cause of an intentional or unintentional action which either improves or reduces the quality of individual's life in a certain target group. In this project, it is assumed that the social objective for the enterprises is to intentionally act in a certain manner to improve one's quality of life in a particular target group.



Figure 6. A linear representation of the theory of change.

To achieve the situation of creating an impact, a theory of change explains how an action creates a change. The integration of inputs and activities create results: outputs, outcomes, and impact (Gugerty & Karlan, 2018). These results are divided into three groups depending on the occurrence of them on the timeline. Outputs are immediate results, which occur right after executing the activity. In social enterprises, where the social mission is in employment, immediate outcome would be a change in employment status from unemployed to employed. Outcomes are mid-term results, which cannot be seen immediately after a single action. Such as, after one month of employment a salary is paid to the employee which increases the monthly income of the beneficiary, an outcome is achieved. Action is taken after the output to create an outcome, which in this case is gaining financial benefit from working. Last implication of results is impact, which is considered as a long-term influence, which can occur even several years after the activity (Funds For NGOs, 2012) For example, if the output is created by a social enterprise to individuals (employment), it creates an change in employment status and increase in monthly incomes (outcome) and finally after employment, it is aimed to cause broader consequences, such as social inclusion and general improvement in subjective well-being.

### 3.3.1 Categorizing social impact

In addition to defining social impact, it can be categorized by main domains. From a social perspective, social impacts are usually considered as a broader framework than for example environmental impacts, to which they are commonly compared to. Frank Vanclay (2003) provides a comprehensive list of features (Figure 3), which can be covered by social impact. He also claims that any issues that have an influence on peoples' lives are rooted to social impacts. This suggests that basically everything has its connection with social impact.





Figure 7. Conceptualizing social impacts. (Vanclay, 2003).

Vanclay (2003) defines social impact by conceptualising it as changes in one or more of the squares in the above figure (Figure 3. Conceptualizing social impacts). The first of the eight squares of the social impacts considered, refers to the way people live, play, and work their daily lives by interaction with other people. The concept of culture indicates their mutual beliefs, languages, values, and customs. Then community considers the cohesion, stability, character, services, and facilities while the political system includes the possibilities to influence in the decisions regarding their lives and the resources and level of democratisation. The square for the environment ascribes the quality and the level of access to food, water, and air. It also includes proper sanitary capacity and physical safety. From another perspective, environment in this sense covers risks such as exposure to noise and dust. Health and wellbeing refer to complete wellbeing including physical, mental, and spiritual aspects, rather than the absence of disease. Personal and property rights and fears and aspirations imply the level of safety and perceived fairness both in economical and mental perspective. Following this conceptualisation of social impact, it can be concluded that social impact covers also environmental impact and has a collision with other impact measurements. Vanclay's (2003) categorization for social impact aspects is comprehensive and therefore it is used for this research as a template to look for improvements or reductions in certain parts of people's lives.

Because of the scope of this research, social impact is a long-term outcome of a social innovation. It is focused on measurement of social performance in social enterprises with market-oriented work model (Saebi et al., 2019). Because of the long-term occurrence of social impact, from

strategic management perspective it is more reasonable to measure social performance of the enterprise instead of the social impact. Social performance achieving social objectives of the enterprise indicates future social impact, such as in way of life, community, health, mental well-being and so forth.

## 4 STRATEGIC MANAGEMENT

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The basis for strategic management is to gain and maintain competitive advantage (Teece, Pisano and Shuen, 1997) to take control enterprise's future to sustain and grow in the hypercompetitive market (Doherty, 2009). Operational capabilities make it possible for the enterprise to earn a living (Helfat, 2007). According to the resource-based view, competitive advantage are capabilities of the enterprise, which are difficult to imitate (Teece at al., 1997).

Dynamic managerial capabilities are abilities to create, extend and modify the resource base of organization (Helfat, 2007). Executive management has several important roles and actions to react and proactively effect on to avoid so called market failures (Helfat, 2007). In early management studies, management of an enterprise had two aspects to comply with: limiting conflicts and effectuation of internal cooperation. These could be seen as functions of control, supervision and administration. These are functions which keep the organization running, but they exclude strategic functions that managers are aimed to perform (Helfat, 2007). The resource base of an enterprise is structured from tangible, intangible, and human assets.

Strategic management has several classifications regarding what they aim to do and by what means, but the common feature for distinguished definitions is an evaluation as a part of strategic management (Doherty, 2009; Karadag, 2015). Performance measurement is in the focus of this research, and therefore this aspect and supporting key components are described in this section. According to Doherty (2009), strategic management process can be visualized as shown in the Figure 8 below.

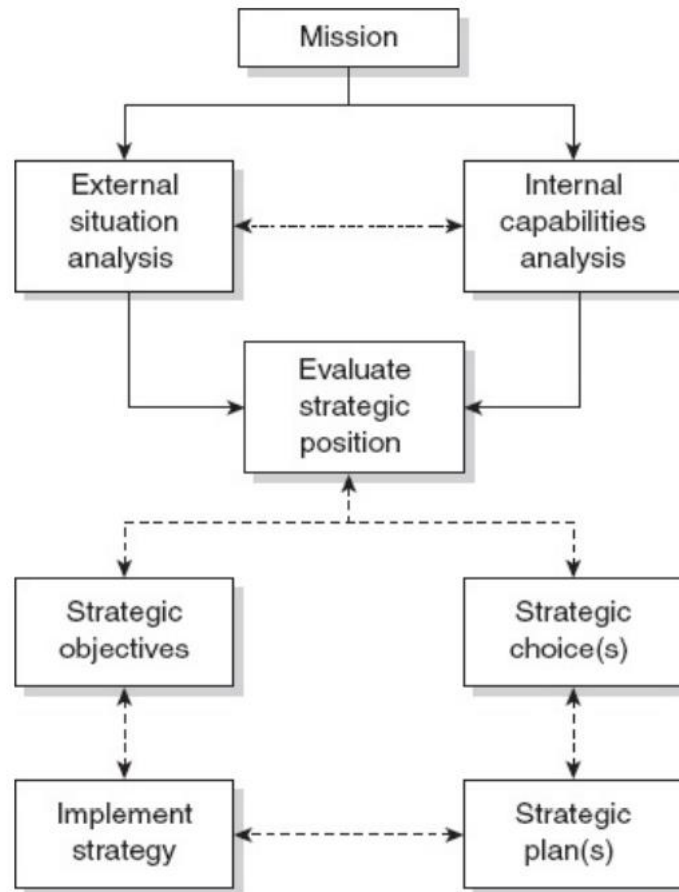


Figure 8. The strategy development process (Doherty, 2009).

This process represented in Fig 8. suggests, that the starting point for strategy planning is the definition of a mission. In social enterprises with market-oriented models, this mission includes the employment of disadvantaged target groups representatives in order to create long-term positive impact in the individual’s life. Second step in strategy process is the assessment of strategic position with the environment. This includes assessment of both internal (resources and capabilities) and external factors (operational requirements) and enables understanding of the strategic fit of the enterprise. In addition to the current positioning, it is also aimed to explore new opportunities and identify challenges and to recognize the requirements in enterprises capabilities and resources to respond to the events.

Resources of the enterprise refers to assets and supplies which are available for the enterprise – both owned and accessible through cooperatives. For example, following list covers some possible resources (internal context) of an enterprise: ”...*financial position, human resources, physical*

*assets and equipment and intangible assets, such as brands, social capital assets, stakeholder relationships*" (Doherty, 2009). Capabilities on the other hand covers management skills, organizational skills and differentiating attributes of the enterprise. In conclusion, resources refer to the available assets while strategic capabilities refer to the usage of them.

It is vital for the enterprise to determine its strategic positioning when aiming to create social impact with the resources available. This determination enables the management to identify key strategic issues. These matters must be converted into measurable strategies, plans and objectives to respond to the demand of its clients and customer groups. This part of the process leads to setting strategic objectives for the social enterprise.

Strategic management in social enterprises regarding strategic choices and plans can be divided into two major phases: efficiency and differentiation. Efficiency is merely linked to a survival of an enterprise by securing resources (new venture) and later differentiation is correlated to reputation building and legitimacy of the enterprise (long-term aspect) (Doherty, 2009). In the beginning of the life cycle of the social enterprise, efficiency can provide competitive advantage as for early adopters, but over time the differentiating efficiency will be lost when the implementation of the efficiency is executed by competitors. When strategic management is directed towards differentiation, and in social enterprises with market-oriented work models, the strategy is based on the social mission of the enterprise, the legitimacy is required. Legitimacy can be obtained by for example appropriateness and relevance of the social mission and social enterprise in the local community, and the importance of external stakeholders regarding legitimacy are emphasized.

In the following subchapters, some of the key components of strategic management of a social enterprise with market-oriented work model are described in more detail. These topics are stakeholder engagement, which is highly emphasized in social enterprises. Stakeholder engagement is seen as an internal resource, which is an important perspective in strategic positioning and evaluation of the social enterprise. Another key topic is strategic objectives, which are drawn from the results of strategic positioning. Strategic objectives can be both financial and social and they can be targeted either long- or mid-term. Lastly, legitimacy is seen as one of the core drivers of

social enterprises with social missions in employment of disadvantaged groups, and therefore legitimacy is considered separately in more detail in one of the following subchapters.

#### 4.1 STRATEGIC OBJECTIVES

The major issue with strategic objectives of social enterprises with market-oriented work model is the twofold nature of the mission. These objectives should guide and build focus for the activities of the enterprise to achieve both social and economic purposes.

Strategic objectives support the usage of social impact reporting system with the aim to reach social missions. It is also claimed that the reporting practices used by social enterprises are merely to be self-reflective to enhance the achievement in social mission rather than providing the information as a respond to external actors. The reporting practices are utilized by social entrepreneurs in a creative manner that they are used as tools to accomplish the strategic objectives of the enterprise (Nicholls, 2009, p. 756–757).

Two main objectives can be recognized among social enterprises: objective for performance (such as creating social value and making an impact) and accountability (such as financial reports and profitability). These are assumed to be the objectives guiding the enterprise in the process of reporting and measuring. It is worth of mentioning, that there is a third core objective, which has been recognized by Nicholls (2009), self-legitimization. Self-legitimization refers to the necessity of demonstrating the public good (positive social impact) which is created by the enterprise and as well as the establishment and improvement of ‘moral vocabulary’ to raise the awareness and acceptance of the discipline of social enterprises and the social impact what they can create.

#### 4.2 STAKEHOLDER ENGAGEMENT

What is remarkable about social performance measurement of a social enterprise - whichever method is used - is the requirement of involving the stakeholder community instead of purely the shareholders. It can be experienced as a challenging task because of the diversity of actors in the

stakeholder group and the interest of different stakeholder groups may have a broad disparity (Bagnoli and Megali, 2011). However, this is a significant aspect of management in social enterprises because the stakeholders play a key role in the operations and activities of the enterprise. The meaning of stakeholders is emphasized because of the double-mission of social enterprises with market-oriented work models. Compared to traditional and financially driven enterprises, social enterprises are expected to demonstrate the social performance in addition to financial reporting. To do so, social performance can only be demonstrated if the participants are involved.

It is claimed that social enterprises often prefer inclusive processes of developing strategy. The most well-known and common tools (such as, SWOT and PESTE) for strategic management do not include the beneficiary's perspective (Doherty, 2009) and therefore they tend to favour external stakeholders over the internal stakeholders, which in social enterprise with market-oriented model are considered one of the most important ones.

In this dissertation, stakeholder refers to an instant (such as an organization, an institution, an association, an individual or a group of individuals), who has a stake to say, or in other words, one participates in something. The term could be explained in a way, that an individual or group of individuals affect the enterprise, and the enterprise can similarly influence these persons or a group of individuals. The influencing relationship can be interdependent or just one way from an individual to the firm or vice-versa. For social enterprise, these stakeholder groups could be for example investors (e.g., impact investors, external resources) or consumers and employees, suppliers, civil society, or public authorities (internal contribution).

The task for the management of a social enterprise is to identify the indirect or third parties and decide how to cooperate with these groups. A following figure (Fig 9, p. 40) helps management to determine stakeholders, and especially, important stakeholders for the enterprise. Mitchell et al. (1997) propose a method for classification based on three questions (Bonnafous-Boucher & Rendtorff, 2016):

- What real or potential power do stakeholders have in society enabling them to impose their will on a corporation? (power)
- What kind of legitimacy do they possess? (legitimacy)
- How urgently does an organization have to respond to their demands? (urgency)

If stakeholders have attributes from all of the “groups” (power, legitimacy, and urgency) they are determined as definitive stakeholders. Those who have two of the attributes, urgency, and legitimacy, are referred as dependent stakeholder. If the attributes are power and urgency, are stakeholders known as dangerous stakeholders, while stakeholders with characteristics power and legitimacy are considered as dominant. If the stakeholder has only one attribute, they are characterized as follows: power attribute refers to dormant stakeholder, legitimacy to discretionary and urgency to demanding (Bonnafeus-Boucher & Rendtorff, 2016).

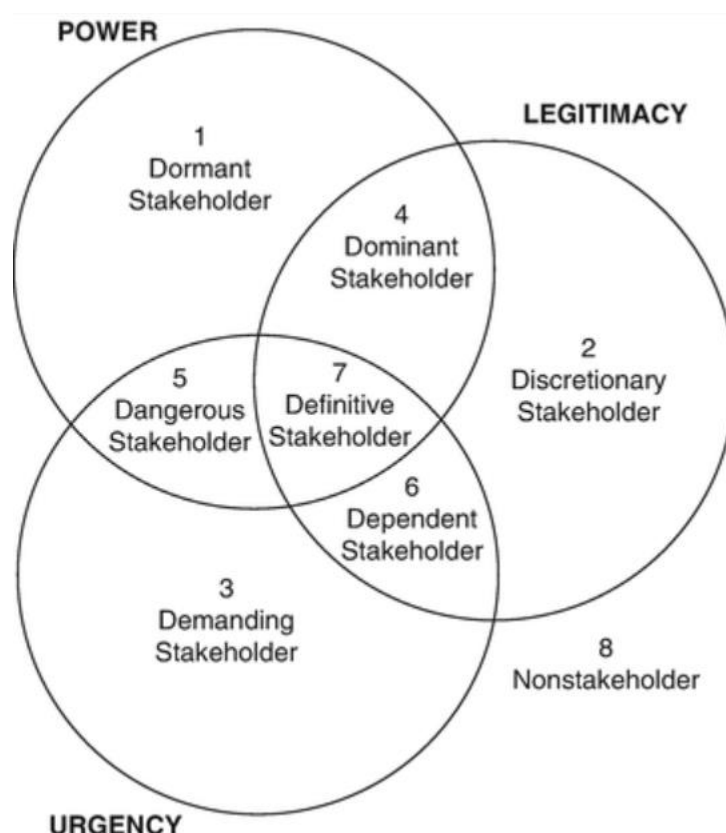


Figure 9. Stakeholder typology, (Bonnafeus-Boucher & Rendtorff, 2016).



It is stated by several authors, that the most important task for the manager in a firm is to lead the relationships between the firm and its' numerous stakeholders so that the value is created to all of them. These stakeholders represent different actors such as customers, employees, cooperatives, and institutions (Hall et al., 2015). To capture social impact most accurately, the stakeholders are suggested to be engaged in forming relevant data (Nicholls, 2008). Following the classification above, the meaningful and negotiable stakeholders can be determined and involved in the process of creating social impact metrics for the certain social enterprise.

The classification for stakeholders by Mitchell et al. (1997) is not unique typology for stakeholders, but it was selected for this dissertation because the several groups for classification and the approach to identify the relationship or the potential way of influencing the enterprise itself. Because of the complexity of social impact and the variety of different stakeholders, quite detailed approach is favoured (Bonnafeous-Boucher & Rendtorff, 2016).

### 4.3 LEGITIMACY

Since social enterprises are a novel term for enterprises with social initiatives and missions, but which are based on self-sustaining and for-profit business models, the need for legitimacy and accountability has risen. This movement has spurred especially after the market crash in 2000s', when the grants for purely philanthropic businesses had to be cut down (Nicholls, 2009, p. 757).

From economic-based and rationalist perspective, the existence of social non-profit organizations is explained with the assumption that the markets and governmental activities have failed to provide the service for a reason or another and that causes the demand of a non-profit organization. Correspondingly, it is presumed, that social enterprises have emerged as an outcome to a similar context (such as resource constraints and public sector funding). This reasoning has its issues. When this development is explained only by economic or strategic reasoning, it excludes cultural and political origins which may have influenced on the emergence of the new enterprises and the context they occur may be much more complex (Dart, 2004).

Institutional Theory (IT) can be used to interpret and describe the emergence of the phenomena of social enterprises. IT is based on the legitimacy of the company rather than effectiveness or efficiency as main drivers for organizational objectives. From the perspective of institutional theory, legitimacy reflects the means of obtaining and maintaining the resources as well as the aim to execute compliance with the expectations of the main stakeholders. Following this aspect, it is the managers who follow environmental cues to enable the organizations to comply with social expectations (Dart, 2004).

According to the sociological perspective, organisations are open systems interacting with their environment such as influencing and getting influenced by the norms, values and symbols in particular environment. This definition suggests that organizations reflect social values while they execute their operational tasks (Dart, 2004).

Schuman (1995) defines legitimacy as follows: "a generalized perception or assumption that the actions of an entity are socially desirable, proper or appropriate within some socially constructed system of norms, value, beliefs and definitions" (Dart, 2004, p. 416). This means, that in the case of SE, the operations by a social enterprise in particular environment are seeking to be approved and accompanied by local values. This definition of legitimacy can be divided further into two major approaches, the strategic and the institutional. These approaches distinguish from each other by the scope they include. The strategic approach is based on the perspective of gaining societal support by management's actions while institutional legitimacy covers wide scope out of organizations reach to have an influence on (Dart, 2004).

Following Schumann's approach (1995), legitimacy can be maintained, built, or repaired by different strategies. Starting with pragmatic legitimacy, it is based on presumption of certain action causing anticipated value to immediate stakeholders. Pragmatic legitimacy is gained if a benefit is obtained by a stakeholder group and it can be financial gain, social gain, or environmental gain. Pragmatic legitimacy can be considered as social acceptance by stakeholders who benefit from the activities of the social enterprise. Second strategy is known as moral legitimacy, which refers to evaluation of an action which is based on external norms. These norms are broadly accepted

norms in the socio-political nature. Third and last level of legitimacy is cognitive legitimacy. It refers to a legitimacy which exists automatically, and it is in a way norm itself. It indicates, that is based on preconscious and obvious assumptions of nature and social activities. According to Zucker (Dart, 2004), cognitive legitimacy is conceptualized as “for things to be otherwise would be literally unthinkable”.

#### 4.4 PERFORMANCE MEASUREMENT

Performance measurement and management is a multidisciplinary research which includes aspects from operations management, strategic management, and management accounting. It is classified to two main schools of thought: first one is focused on operations management and management accounting and the second one focuses on integrating research on different areas of interest, such as social, cultural, and behavioural influences of measurement (Beer and Micheli, 2018). The perspective of PMM is brought to the research to be able to commit the analysis from management perspective.

Strategic objectives are goals of an enterprise, which are addressed at managerial level of the enterprise. Strategic objectives guide the operations and activities that the enterprise decides to execute. Strategic management guides the operations and activities of social enterprise to achieve its strategic objectives, which in the case of social enterprise with market-oriented work model is creation of social impact, and in short-term it can be called as social value. Social value is added when a situation - which would have occurred regardless the enterprise’s activities – is influenced in a positive manner because of the operations of an enterprise. This value needs to be captured to reflect the social performance of the enterprise in addition to financial attributes. Measurement of social performance means the measurement of the social outcome, which is the outcome of inputs and outputs in societal level. This can be demonstrated by performance measurement. It is suggested that following characteristics is required to be determined to measure the performance of the social enterprise (Beer & Micheli, 2018):

- Purpose of the measure
- The time span of interest
- Level of analysis

- Type of measure

In the case of understanding the social performance of a social enterprise as a combination of financial metrics which can evidence the profitability and self-sustainability of the company, the purpose of the measure ought to be evaluation and demonstration of social performance (1.). The time span of interest is focused on long-term objectives within enterprise's reach (2.). The level of analysis depends on the perspective (3.) the performance is wished to be evaluated. The perspective can be determined for instance by the stakeholder engagement, which stakeholders are included and what do they need to know? Finally, fourth aspect deals with the type of the measurement, which refers to the units and variables of the measurement (4.), such as monetization of impact or qualitative impact such as global life-satisfaction or well-being (Beer & Micheli, 2018, p. 759).

#### 4.5 S.M.A.R.T

To explore methods for social performance of social enterprises with market-oriented work model, it is necessary to set out a criterion of how the methods are evaluated. In this dissertation, criteria of SMART will be applied as a framework to structure methods of analysis. SMART stands for Specific, Measurable, Attainable, Realistic and Time-sensitive. It is chosen to apply SMART criteria to this project, because of the common acknowledgment of the system and a wide usage in the business and management discipline (Shahin & Mahbod, 2007, p. 228-229).

S M A R T

First S, Specific, refers to the goal to be described as detailed as possible. This requires, that the terms in objectives are described and explained, such as, what does social impact mean in certain situation (Bjerke, 2017). Also, it is acquired that the objective clearly emphasizes what and to whom the objective represents (Chen, 2014). Measurability refers to the decision on indicators and it can be done with both in quantitative and qualitative approaches. There are certain levels of measurement, which are considered when exploring the methods: nominal, ordinal, interval and ratio. Nominal is the least precise from the levels of measurement. The variables are labelled

or categorized (such as men and women, like or dislike), and they do not carry numerical values, or they cannot be ranked in a preferable order. Ordinal is the second type of measurement levels, where variables are related to each other and they can be ranked (such as, smaller than, larger than), but the value between the variables is unknown. Moreover, interval scales are similar to ordinal values, but the distance from one variable to another can be valued. This level of measurement is more precise than the two previously described. Interval scale can be used for example in temperature and fiscal measurement. Lastly, ratio level of measurement includes all the attributes from the other ones, but it has a true zero value. Examples of ratio scale would be money, when the value is 0, there is an absence of money (Miller & Salkind, 2002).

The goal needs to be Attainable, which implies that the goal cannot be too ambiguous or and they should be in enterprise's reach. Regarding attainability, the goal needs to be realistic, which means that with the available resources and working environment, the goals is achievable to an extent. Lastly, T stands for Time-sensitivity. It means, that there is a time frame to complete the goals. This makes it possible to analyse and evaluate the progress. Time-sensitive goal is easier to reach because the limitations of time will help to produce an action plan to achieve the goal by, for instance, setting intermediate objectives and strategies how to progress (Shahin & Mahbod, 2007, p. 228-229).

The critic from social sector for social impact measurement with financial tools which are just converted to measure social value, has four main complaints. First of all, it is said that using these methods social impact is immeasurable. The data collection is highly resource-demanding and does not necessarily compensate the inputs, the results of measurement are insignificant for forecasting expected impacts and that the results do not support decision-making. Fourth criticism is towards identifying the linkage between inputs, outcomes, and social impact (Molecke & Pinkse, 2017, p. 551).

To fulfil the requirement of successful measuring in social enterprise regarding social impact creation, the measurement should provide results, which are valid and useful. The validity refers to the correspondence of theoretical methods and the perceived reality of social enterprise.

Usefulness on the other hand indicates to the extent which data and underlying theories can guide and support in decision-making (Molecke & Pinkse, 2017, p. 564).

## 5 CURRENT PRACTICES FOR IMPACT MEASUREMENT

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After defining the core concepts and measurement criteria, it is due to describe the current practices in social performance measurement from the perspective of social enterprises. Even though there are several methods for measuring the success of social enterprises, only a minor part of them is used for social impact measurement. Often “traditional” models, which are converted from financial measurement to be suitable for social impact measurement, are failing to capture the full impact. This is a result of the inappropriate variables and the unavailability of data. To avoid this friction, it is aimed to measure social performance which indicates future social impacts from the perspective of a social enterprise with market-oriented work model.

As mentioned in the paragraph above, there are several methods for measuring the performance of a social enterprise, and the methods selected for this project are presented in this chapter. While describing the methods, the benefits and possible challenges are pointed out and discussed. The methods are described as an intention to answer the question *how can social impact be captured* by using these certain methods. By describing the methods in detail, it will be possible to highlight the necessary resources to measure successfully and indicate the challenges of capturing value of the impact.

One of the initial attempts to broaden the scope of measurement of enterprises was Balanced Scorecard by Kaplan (1999), although it was not aimed to measure social impact, merely to reach to company’s long-term objectives into the current operating plans. This is widely known method for performance measurement in academic community. BSC is based on the ideology, where it is required to capture the whole picture of the company in order to gain information which is reliable and comprehensive enough. This method could be titled as a forerunner for the attempts occurred afterwards in aiming to capture social value created by social enterprises. What is significant with Kaplan’s method BSC, is that he suggested to pay attention to also performance measures rather than focusing only on financial measures. BSC as an assessment tool is highly interdependent on the enterprise’s strategy. Inspired by Kaplan’s BSC, I moved further to study more recent methods for measurement and strategy and these techniques are represented below.

For the dissertation, following methods were chosen to be studied:

- Blended Value Accounting and Blended Value Proposition (BVA and BVP)
- Social Value Construct
- Social Impact Assessment

These methods were chosen because of the genuine attempt of measuring the complete outcome (true value of SE) which is created by the enterprise. They also represent a different perspective to measure, and they are therefore representing of distinct school of thought. For example, Blended Value Accounting approaches social impact measurement from combination of qualitative and quantitative methods, which are often based on traditional financial methods to measure performance. Social value construct on the other hand is very theoretical and academic approach, and it follows quite positivistic ontology. Lastly, Social impact assessment has a constructivist approach, and it uses qualitative methods in measurement of social impact. These methods have strengths and weaknesses in different attributes of social impact measurement, and therefore examining these methods will provide a broad picture of distinct methods. In the following sub-chapters (6.1, 6.2, and 6.3), Blended Value Accounting, Social Value Construct and Social Impact Assessment are described.

## 5.1 BLENDED VALUE ACCOUNTING

The concept of Blended Value Accounting (BVA) was originally introduced by Emerson (2003) – quite soon after Kaplan’s BSC - as an attempt to integrate financial and social outputs and impacts in one reporting system (Figure 10, Blended Value by Emerson), known as Blended Value Proposition (BVP) (Nicholls, 2009). The core notion is that financial and social outputs and impacts are measured separately but the connection between them is identified. This is an alternative to the assumption of a zero-sum equation, which refers to a situation where improving on the other perspective means desisting on the other one (Nicholls, 2009). Zero-sum equation is used in traditional markets and it considers solely financial returns (Emerson, 2003).



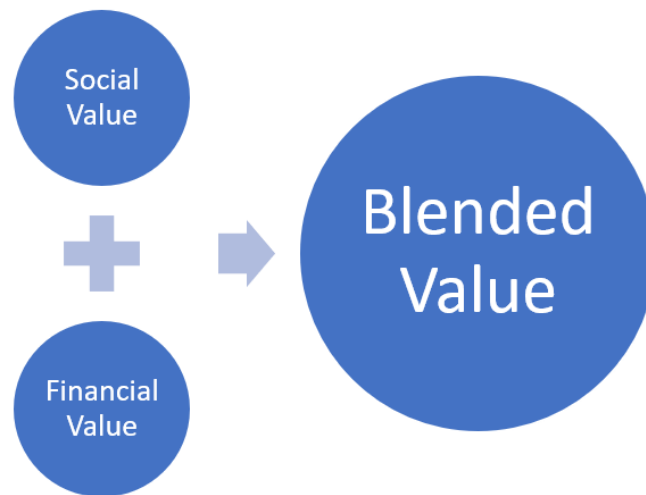


Figure 10. Blended Value by Emerson (2003).

To utilize Blended Value Accounting in social impact measurement, it is suggested that the enterprise can measure the performance in three different levels: *“the rationalist/positivist, critical theorist, and the interpretive/democratic”* (Nicholls, 2009, p. 765) Each of the conceptualizations correspond to a distinct strategic objective. Reporting practices that are following positivist approach are aimed to improve the operational performance and/or spur innovation, while critical theorist perspective supports resource acquisition. Lastly, to maintain and as well as build the organizational legitimacy, interpretive reporting approach is used. Because of the diversity in the strategic objectives among social enterprises, the methods used for a particular approach depends on the operative environment of the certain enterprise. As a result, several different BVA-templates (combinations of metrics) are formed as an attempt to provide credible and comparable data to a board audience of stakeholders and a meaningful strategic objective is organizational self-legitimation in social impact reporting. This term refers to *“a statement”* of a business-oriented and competitive approach which enhances both operational development and requirement of operations to be put in use in public (Nicholls, 2009, p. 765).

It is worth of noting, that there are significant similarities with the logic of Habermasian communicative rationality by Habermas, 1981 (Nicholls, 2009, p. 765). In contrast to traditional rationalist approach, communicative rationality refers to a strive within humans to obtain *“...a consensus on the common rules of discourse to create a democratic and transparent dialogue leading to*

*'emancipation' via the innate human capacity to deliberate and pursue rational interests.*" Opposed to rationalist theory, it is declared that the rationality is a result of interpersonal and interpretive communication of humans rather than externally given substance. This means, that there is a space for social enterprises to use these reporting practices to create social value which can be performed in the real world.

	Strategic function	Internal command and control	Stakeholder accountability
Positivist	Performance enhancement	Audited financial accounts Social return on investment	Enhanced social audit
Critical theorist	Resource acquisition	Audited financial accounts	Social return on investment
Interpretive	Organizational legitimacy	Enhanced social audit	Trustees' Report CIC34

Figure 11. Strategic functions of reporting in social entrepreneurship. Nicholls (2009, p. 765).

In the figure above, some examples of methods for measurement are presented. They are classified by the strategic purpose of the function and to which methodology perspective they respond. The four methods in the Figure 11 are Enhanced social audit, Social return on investment Trustees' Report and CIC34. These methods are explained briefly in the following sub-chapters. In addition to categorising these tools by the methodological approach, they are also divided in groups regarding the target audience. What can be seen from the table above, is that for example social return on investment (SROI) can serve both the strategic function of performance enhancement as well as resource acquisition, but it differs to who are the results targeted to. The same logic works with most of the measurement methods appearing in the table. The function is dependent on the audience and vice versa.

### 5.1.1 Social Return on Investment (SROI)

Social return on investment (SROI) is used to measure the added value produced by social acts. The model seeks for causal relationships in a particular project, programme or a plan which

creates the impact. When possible (and beneficial), the impact is converted to financial units to enable the measurement to be combined with financial inputs. The result of SROI indicates the relationship of invested amount and monetised impact. (Then et al., 2017).

Using SROI as an impact measurement is beneficial especially for social enterprises and companies with corporate social responsibility (CSR) as a part of their operations. (Then et al., 2017). The process of SROI can be conducted to only apply a specific aspect or a social value generated by the company. It can focus on evaluation and it can be either retrospective or predictive. (Millar & Hall, 2013).



Figure 12. SROI syntax.

SROI uses same elements than traditional cost-benefit analysis (CBA). Cost-benefit analysis (CBA) is an approach used for decision making and policy design to outline the costs and benefits (Johansson & Kriström, 2015, pp. 1–8). As in using SROI for measuring, also applying CBA requires a conversion of the input and the output to the comparable variables. These components are quantified and compared to enable evaluation of desirability of certain impact and if possible, converted into monetary units. Despite the similarities, the major distinguishing feature from CBA is SROI's attempt to involve stakeholders in order to assess the value experienced by them (Millar & Hall, 2013).

CBA is often used to evaluate goods which are not priced by the markets (Johansson & Kriström, 2015, pp. 1–8). The ground the analysis is based on is the willingness of the customer to pay for service or a good. The maximum the customer is willing to pay for a change is defined benefit. To accept the change, costs are measured by the minimum that the customer must receive. This

leads to a simple equation:  $B - C > 0$ . In other words, the benefit is gained when the cost of it is experienced in less value (Brent, 2014, p. 340).

One of the issues of using SROI is the discount rate used as in commercial ROI. It is assumed that a value of something is less in the future than it is today. It applies to monetary values because of the risk of the risks involved, but the same ideology cannot be operated on social values (Mulgan, 2010). Because CBA needs units converted into monetary variables, it also has its issues measuring social value.

### 5.1.2 Enhanced Social Audit

The principles of enhanced social audit broadly follow the principles of social accountability. Social accounting aims to broaden the scope of information provided by conventional accounting to a variety of stakeholders. Rather than focusing on traditional accounting figures, it is designed to present also social and environmental values (Mook, 2010). The social accounting is based on the same ground than cost-benefit analysis. The profit for social enterprises usually is a representation of means rather than ends, while for-profit organizations are focused on wealth creation by generation of revenue. Because of an alternative meaning for profit is different, both efficiency and effectiveness refer to other concepts than in for-profit organizations (Andreas, Costa & Parker, 2014). A definition by Mook (2010) for social accounting is as follows: *“a systematic analysis of the effects of an organization on its communities of interest or stakeholders, with stakeholder input as part of the data that are analyzed for the accounting statement”*. It implies that both financial and non-financial features are included, and stakeholders are engaged through their contribution and influence. In addition, the measurement for performance uses criteria with wider range including businesses surroundings from environmental and social perspective (Mook, 2010).

The information gained from enhanced social audit creates a narrative, which demonstrates the progress towards certain objectives through particular actions. Social auditing is considered to have a qualitative approach, which means that it aims to measure illustrative outcomes as a respond to certain strategic actions through accounting. These metrics are to interpret changes and developments at individual or community level, and they have organizational focus. Metrics

such as these qualitative examples are very individualistic and broadly insufficient for comparable studies. In social sector organizations, enhanced social audit is targeting to report the progress toward objectives within main activities. It is usually used as a long-term assessment regarding the internal performance and it is typically using descriptive metrics. Descriptive metrics are for example setting up a profile of a person in the target group or specifying characteristics seen in stakeholders. In addition to descriptive metrics, financial data is employed (Nicholls, 2009, p. 761).

### 5.1.3 The Community Interest Company, CIC34

The legal form of CIC (The Community Interest Company) was announced in summer 2005 in the UK. The principle strategic objective for the form was to provide a channel for social enterprises to campaign their true means and purposes to the target groups such as customers and investors. Regarding the financiers, CICs have a permission to offer equity and dividends in order to appeal to new investors (Nicholls, 2009).

CIC is ultimately a legal form of a business. It has legal requirements considering the reporting practices, such as an annual financial account which are relevant to the turnover as well as report CIC34 (Community Interest Company Report). The CIC34 report includes their core activities, how have the stakeholders been engaged throughout the year, detailed description of rewards to the directors, any movement in assets, dividend paid out and interest expenses. In the UK, these CICs are encountering 'light touch' reporting requirements, which is quite parallel with the requirements for charities. Until 2009 February, the number of registered CICs in the UK was over 2500, and the requirement of annual reports has been complied in very laudable level (up to 91%) (Nicholls, 2009).

### 5.1.4 Trustees' report

An annual Trustees' Report is obligatory report for every registered charity. The report includes the primary objectives of the organizations and the progress which has been made during the year to achieve these goals. It is also required to report organization's structure, management arrangements and governance. A financial review and future plans and aims can be included in

the report as well. The scope of reporting is dependent of the volume of the charity's turnover, reflecting that smaller organizations are submitting less comprehensive reports than larger charities with bigger turnover (classification from 10 000,00 pound or less to over 1 million pounds in turnover).

#### 5.1.5 Summary

These methods which are shown in the Fig 8 and explained in more details in the subchapters 6.1.1-6.1.4 are all methods to report and demonstrate performance of a social enterprise to access resources and appreciate the mission objectives with the main stakeholders. The system for measurement, BVA, includes an influential element of trial and error. Social enterprises have combined, adjusted, and improved reporting practices to find the measurement which responds to their strategic objective. BVA is not just predetermined set of rules and regulations to use for reporting, but to combine and exploit functional methods to explore the most suitable combination (Nicholls, 2009, p. 764).

Emerson encourages social enterprises to develop more comprehensive practises to represent the full value creation activities (Nicholls, 2009). This indication assumes, that social impact is measured by the activity which will in the future create the outcome. BVA can be understood as an innovative and exploitative template for reporting matters without predetermined set of logics or strict compliance report practices (Nicholls, 2008). This means, that the system of BVA gives more freedom to its users because of the flexibility of the method. On the other hand, this spectrum respects the two main pillars of quantitative, numerical and financial value creation and qualitative, non-quantified social value creation.

As it was stated in the beginning of the Chapter 3.1, different strategic objectives resemble to different conceptualized of functions. Positivist reporting practices are aiming to improve operational performance and spur innovation, while resource acquisition is endorsed by critical theorist and interpretive reporting practices are used to establish and maintain legitimacy of an organization. Because social enterprises are characterized by two very distinct strategic objectives: performance and accountability, these two and the three functions are to be combined for the purpose of a certain enterprise. Social auditing represents quantitative and positivist approach, for

example if the aim is to enhance stakeholder accountability. Meanwhile SROI is used to attract resource holders and suppliers and it has an approach of critical theorist conceptualization. CIC34 is aiming to prove and evidence the benefit which is created to the community by the enterprise's operations. This is typically valued in interpretive theoretical perspective and it is used to demonstrate the value to the main stakeholders, such as regulators.

## 5.2 UNIFORM SOCIAL VALUE CONSTRUCT

Based on social value creation and its' measurement, Kroeger and Weber (2014), developed a framework for the value creation aiming to tackle the issues of measurement unit, social element, and complexity of socioeconomic and institutional environment. The framework is grounded on indicators subjective well-being (SWB), global life-satisfaction (global LS) and domain satisfaction (DS). The approach SVC is related to are the studies in social value measurement (SVM), which is linked to multidisciplinary field of research, performance measure and management (Beer & Micheli, 2018, p.756).

SWB as an indicator is personal and internal perspective to one's well-being and it is distinguished from the judgement of external factors such as policymakers and researchers in the sense of what is important in individual's life. Kroeger and Weber (2014, p. 519) defend of using SWB as an indicator because of the considerably high reliability and the concept itself is well-studied and researched in terms of validity. It is emphasized, that the SWB gives the opportunity to the respondent to freely scale the values and outcomes in their personal judgement. This feature increases the response rate because of the subjective measures. In their study, means for influencing SWB are opportunities, which can cause either drop or a rise in the SWB depending on the negative or the positive effect experienced. The components of SWB are cognitive and emotional factors, where the latter includes both positive and negative effects.

Global LS is defined as an imbalance of one's endeavours and achievements perceived. This conception refers to three separate aspects of LS. To start with, LS is conceived very personal assessment. According to Kroeger and Weber (2014, p. 521), LS can be understood both socially constructed measurement as well as not. If it is seen as socially constructed, it refers to the situation,

where individual determines the level of LS based on the aspired level of need, which is an outcome of a social negotiation. In turn if LS is viewed as the imbalance between individual's endeavored and gained levels of need, the result is from one's own perceptions. Lastly, LS refers to the needs of human beings, which differentiates it from environmental factors. Moreover, environmental impacts are influencers of individual's perceived LS, such as the level of need for decreased air pollution increases one's well-being.

The third component of the Social Value Construct is DS which implies domain satisfaction. The link between the social initiative and the social outputs could be improved because the weak evidence between the influence of target group's needs and improved LS ratings. In order to solve the issue of this thin linkage, global LS is segmented into so-called divisions. These domains are similarly categorized as in the Figure 10. Conceptualizing social impacts. (Vanclay, 2003), "...mobility, safety, health, equality, community integration, and education" (Kroeger and Weber, 2014, p. 521).

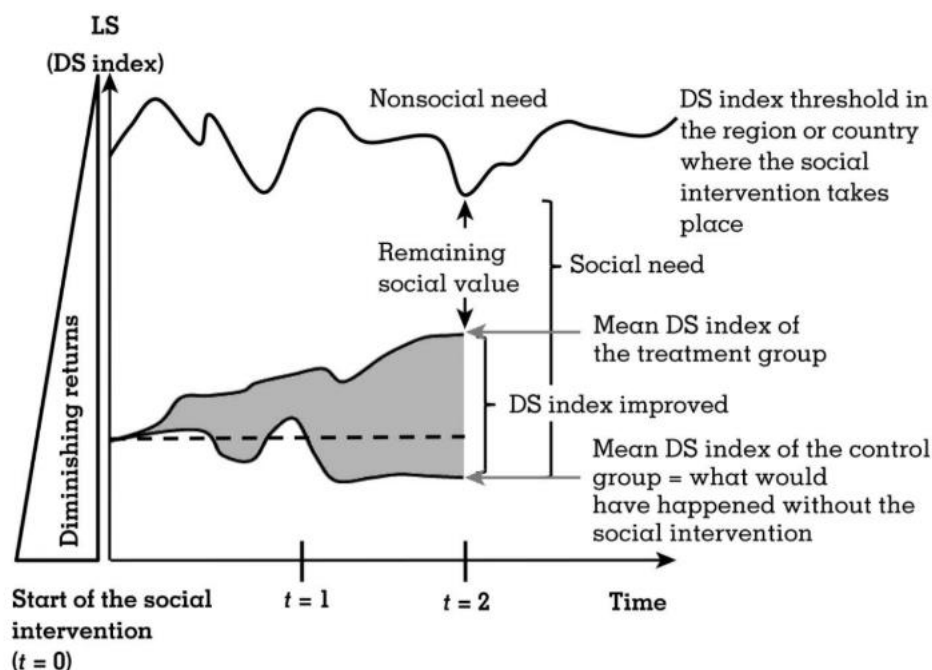


Figure 13. Framework for Comparing Social Value Creation. (Kroeger and & Weber, 2014).

To compare social value creation and non-social value creation, the distinguishing factors must be identified. According to organizational effectiveness theory social value is created if the social initiative creates benefits to the society through the output. The difference to the case if social



impact measurement is that social initiatives are rarely targeting the whole society, rather a group of a society. Therefore, in order to get reliable or valid information of the social innovation and its impact, the group should be considered by the number of the members these benefits are targeted to instead of the whole society (Kroeger and Weber, 2014, p. 523).

To be able to compare two independent social innovations it is also required to consider the control for socioeconomic and institutional contexts, as they might emerge in dynamic environment where the innovation (which over time creates social impact) follows nonlinear, uncertain, and unpredictable trajectory (Kroeger and Weber, 2014; Antadze and Westley, 2012, p. 134).

### 5.3 SOCIAL IMPACT ASSESSMENT

The roots of Social Impact Assessment (SIA) reach far back, as far as 1970s', when the development of the SIA was started. Despite the relatively long academic history of SIA, it started evolving drastically only after 2000s', when the interest in social impact assessment increased very rapidly. Over times, the general understanding on SIA has changed numerous times and it is likely to continue adjusting to the world in the future, but at the moment SIA is considered as a process to manage social issues with an intentional intervention, which can be for instance a project, programme, plan or a policy. The primary purpose for the SIA approach is to use it as a mechanism to prepare for and identify expected social inequalities which are tended to occur because of an execution of an intervention (*ex ante* approach). Determined issues can then be tackled by a change in the planned action or adjusting the management of the intervention. The other approach for SIA is *ex post* approach, which means to analyse the outcomes or impact after the activity has occurred (Vanclay, 2014). Latter approach has gained popularity in recent years and the purpose of SIA has changed to target a different audience, such key stakeholders. Because of the rise of non-governmental organizations (NGOs) and social entrepreneurs, the SIA is now utilized by the businesses themselves and it has become a valid part of a corporate management. (Vanclay, 2014).

Social impact assessment (SIA) is a process of managing and analysing a social issue related with a planned action, such as policy, project, program, or plan (Vanclay, 2014). SIA is often used for specific (development) projects or to assess the expected consequences of certain policies on a given community. (Dunlop et al., 2016). Becker (2003) identifies three types of SIAs: micro-, meso and macro-level SIAs. The classification is based on the predominant features. Micro-level SIAs refers to the individuals and their behaviour in the centre, meso-type of SIAs are focused on social networking and organizations and macro-SIAs include assessing the impacts in national and international level. When using a qualitative approach, is it more applied to micro- and meso-levels of SIA and surveys, interviews, case studies, participant observation are used as methods. If the social impact can be quantified, techniques such as computable general equilibrium models, partial equilibrium models, sectoral models, macro-econometric models and micromodels are likely to be applied. Number of these techniques with quantitative approaches are used with macro-level SIAs.

Even though SIA is meant to be adjusted to fit the purposes of the measurable action (such as social initiative), there are some variables, which seem to occur systematically in the SIA process. The general headings from the Interorganizational Committee on Guidelines and Principles for Social Impact Assessment as a recommendation are

- population characteristics
- community and institutional structures
- political and social resources
- individual and family changes
- community resources

Population characteristics refers to the change within the population which in the target group of an action. The second title means the size, structure, and level of organization in local government. Political and social resources refer to allocation of power authority, parties which are involved and influenced and the capacity for leadership. The fourth division includes values, attitudes, perceptions, and social networks. Lastly, community resources refers to indigenous people, services in the community and the way the land is used. This general categorization was published already in 1994, and ever since it has been expanding and it has been modified by the

users. A more recent study committed by European Union in 2010 (TEP-CEPS) declares that the five categories listed below are most often present within the application of SIA. Other emergent impacts are often subcategories of these main components (Dunlop and Radaelli, 2016, p. 110).

*(1) employment (including labour market standards and rights)*

*(2) income*

*(3) access to services such as education, social services and so on*

*(4) respect for fundamental rights (including equality and privacy)*

*(5) public health and safety.*

As in any comparative measurement, also SIA begins with the assumption of a baseline scenario, which means that the occurrence of a certain situation if there was no action taken. Because of the nature of the subject being measured, many of the committed SIAs are adopting qualitative approach. Another significant feature of the method of SIA is that the impact is seen as a cumulative effect, which means that the impact is actually aggregated cumulative effect of pre-existing policies and the occurred action. This refers to the SIA being as a process to manage the outcomes of an action such as a social initiative or a policy intervention (Dunlop and Radaelli, 2016, p. 117). It is claimed, that in the analysis it should be included the capability of the target group (community) to absorb the direct and indirect impacts.

SIA can be categorized by the impact which is intended to assess. These different types of SIAs are for example poverty IA, equality IA and gender IA. Gender impact assessment in Netherlands works here as an example to reflect the difficulty of the usage of IAs. 1994, the general guidelines for GIA were set in Netherlands and therefore they were seen as pioneers in the field of GIA. Nevertheless, only 21 gender impact assessments were committed within ten years after publishing the general guidelines. The very limited uptake of GIA was driven by variety of reasons: lack or a scarcity of an appropriate data, experienced complexity of the method GIA, limitation in resources, such as in time and the lack or insufficient level of disciplinary skills to produce material which would meet the general guidelines (Dunlop and Radaelli, 2016, p. 118).

The difficulties of SIA are similar to the other impact assessments, such as the complexity of the social impact and the significant importance on the effects which are often less measurable. The theoretical basis is also absent. Dunlop and Radaelli (2016, p. 120), identified five main issues with current SIA method:

- 1) *disciplinary, driven by 'scientific reductionism, disciplinary worldviews'*
- 2) *institutional and closely linked to disciplinary questions – these often materialize in the difficulty of communicating across disciplinary boundaries to develop new ideas and methodologies*
- 3) *organizational, which end up being reflected in financial and legal frameworks, sometimes even limiting access to funding for certain types of assessment*
- 4) *scarcity of resources (for example, access to data and proper baselines) and capacity*
- 5) *conceptual barriers.*

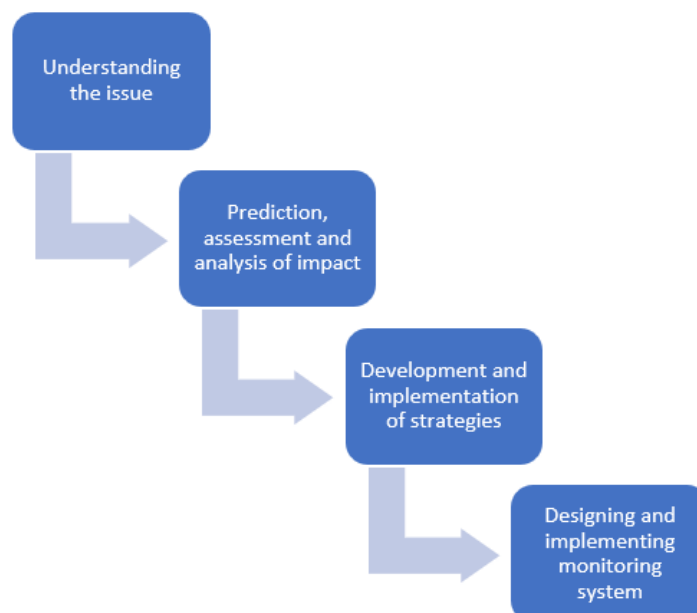


Figure 14. Phases of SIA application. (Vanclay et al., 2015).

The benefits of applying SIA to a particular project or initiative are evident. Applying SIA productively enhances the decision-making regarding on what it is to be the outcome and effects of a certain initiative in the sense of committing required actions in order to reduce and minimize possible disadvantageous outcomes and effects and maximalization of the anticipated benefits (Vanclay, 2003, p. 7). As a method, SIA includes several activities in the assessment. Step-by-step, there four main phases to take in order to commit SIA for a project or an initiative (Vanclay, Esteves, Aucamp and Franks, 2015).

## 6 ANALYSIS

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In this section, the analysis based on the literature is executed. The SMART criteria is applied to the methods described in previous section and theoretical stakeholder identification is committed. Finally, these findings are discussed regarding strategic management of SE perspective.

In social enterprises, the value is bound to two distinct aspects: social value and economic value. Economic value is universally agreed on (meaning that it is acknowledged what it is and how to measure it) and there are several templates and models to apply to demonstrate the value, such as growth in market share, profitability, or consumer satisfaction to some extent (Antadze and Westley, 2012, p. 134). Moreover, these methods for commercial measures can be applied to the enterprises in variety of industries and disciplines. Regarding the social value created, the task is not as straightforward because of the nature of social impact itself is always context dependent and unique (outcome of a social value creation) (Vanclay, 2002, p. 187-188).

To demonstrate the social performance of the SE for salient stakeholders, methods for performance measurement are applied. In the analysis section, methods BVA, SVC and SIA are explored from a SMART perspective. By doing this, a conclusion can be made based on the results of the assessment and to discuss about different perspectives to research objectives set in the beginning of the dissertation. In addition to the SMART perspective, also common requirements (essential perspectives) are considered. Because it is aimed to explore these methods from management perspective, a stakeholder identification, legitimacy, and strategic objectives are discussed in the analysis to supplement SMART aspect.

Because of the scope of this research, the analysis is started with expected outcomes of social initiatives of market-oriented work models. The aim of these types of social enterprises is to create social impact by employment and social inclusion, or controversially, reduce unemployment and social exclusion.

## 6.1 SOCIAL EFFECTS OF SEs WITH EMPLOYMENT ORIENTATION

Unemployment has several effects, which can be listed according to who or what institutional actor they have most influence on. On governmental level, unemployment creates lower taxation income, lower GDP, increased welfare costs, expenses on training and educating unemployed citizens. On enterprises level, unemployment means lower wage costs because there is no scarcity of labour and broader pool of labour, which means that the enterprise has more choices in who to employ and therefore they can only hire the most skilled and talented ones. On the other hand, the more there is unemployment, the less there is to consume which implies to lower demand for goods and services what the enterprises are providing. Controversially, it may spur the sales of inferior goods which benefits some enterprises. Lastly, even though the labour costs may decrease, increased unemployment rate may effect on the training costs of an enterprise, because of scarcity of a special skills or knowledge in the labour market or alternatively, training a new employee who has been unemployed for a long period of time will likely to be more time consuming and resource binding. On an individual level, unemployment may effect on the standard of living because of a loss of an income. Another loss for individuals is loss of skills. This means, that when a person is no longer in working life, he will start losing his skills because the skills are not in active use. One of the most severe effects are the effects on one's wellbeing both in mental and physical way. Becoming and staying unemployed may cause issues like lack of confidence or diseases like anxiety and depression.

These above-mentioned effects are negative effects even though in this research social impact is defined as a positive change in a social aspect of an individual's life. Therefore, it will be assumed, that opposite influences indicate positive changes, such as

### Governmental

- Increased tax incomes
- Increased GDP
- Decreased welfare costs
- Lower training and education expenses

### Enterprise

- Increased skills and talent
- Increased purchase power

## Individual

- Standard of living
- Mental and physical health
- Learning and sustaining skills

These are examples of possible outcomes of the social initiative of social enterprise with market-oriented work model. The list is not inclusive, but it does imply what sort of impact may be expected and aimed for by the operations of a social enterprise. In the following paragraphs, these outcomes are reflected when analysing methods for social impact demonstration through social performance measurement.

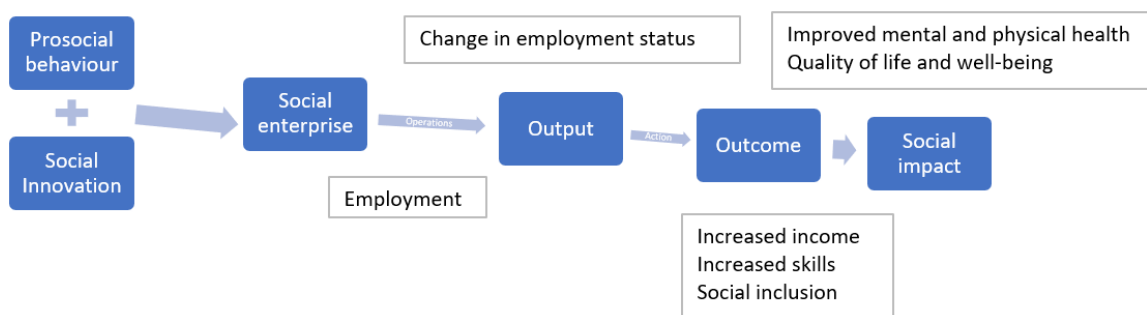


Figure 15. Suggested model for social impact created by social innovation.

In the figure 15, it is visualized how social impact is achieved by social enterprises with market-oriented work models. To put these expected impacts in the concept of definition of a social impact, it will be used a conceptualization from Vanclay (described in chapter 3.3.1 Categorizing social impact). According to this categorization, social impact can be classified into eight separate areas of interest: way of life (daily lives by interaction with other people), culture (beliefs, languages, values, and customs), community (cohesion, stability, character, services, and facilities), political system (the possibilities to influence), environment (access to clean food, water, and air, sanitary capacity and physical safety), health and wellbeing (physical, mental, and spiritual aspect), personal and property rights (fairness both in economical and mental perspective) and fears and aspirations (level of safety). It depends on the target group of the SE, but as an example, we will use a group of marginally disadvantaged individuals, such as long-term unemployment, low-education level, or benign mental illnesses. The reasons for being included in a disadvantaged



target group may vary, but the expected impacts are similar. In the following section, the methods for social impact measurement are explored by using SMART perspective.

## 6.2 SMART METHODS

In this section, each of the SMART attributes are analysed in sub-chapters regarding the three methods for social impact measurement, and eventually the findings from this section are summarized and visualized in a simple matrix. SMART criteria (specific, measurable, attainable, realistic and time-sensitive) are used as a framework for the analysis in the following segments.

### 6.2.1 Specific

To analyse blended value accounting (BVA) from the perspective of a market-oriented work model SE, it is required to choose some of the methods from the toolbox, because BVA represents a logic which several models for social enterprise measurement can agree with (such as, SROI, CIC34, Enhanced Social Auditing). In this analysis, it is chosen to use SROI, because a wide acknowledgement and usage of the model in the business discipline. SROI stands for social return on investment, which refers to the gain obtained from enterprise's investment. In other words, it measures the cost-and-benefit relation between the input and the output.

Regarding SMART criteria, the following can be concluded: criteria of S (specific) is fulfilled according to the SMART model, because of the aim of the method SROI is clearly defined. According to the literature, the aim is to measure the investment required to achieve a certain social outcome and which excludes financial ROI. To complete the requirement of being Specific, following clarification are requisite: What is the investment made and how much is it worth? How is the object achieved or what needs to happen so that the object is achieved? And lastly, what is the social impact which is aimed to achieve? To answer these questions regarding employment-oriented SE, it can be concluded that the criteria is met to certain extent. SROI as a method can be considered to meet the criterion of being specific, because of the explicable objective for the method, monetarisation of the social impact. The amount of investment should be recorded and archived and therefore it is demonstratable when committing the application of SROI. When analysing SROI to be used by SE with market-oriented work model, the consequences of operations

could be for example improvement in way of life (getting employed, change in employment status which represents immediate outcome), personal and property rights (experienced fairness both in economical and mental perspective, which represents mid-term outcomes) and wellbeing (increased self-confidence, which would indicate the eventual social impact).

In the case of SVC, the goal is to provide a framework for social creation while avoiding the issues of measurement unit, social element, and complexity of socioeconomic and institutional environment. To be more precise, the SVC aims to define social enterprise's effectiveness regarding the level of reduced need of social support in the target group. Again, to meet the criteria of Specific, certain terms need to be explained thoroughly. What does it mean to be an effective social enterprise? What does that regard to, to which attributes or operations? Also, a term of reduced need refers that the index of "need" is required to be defined as well as what is the social support and who are the members of the target group needs to be identified. According to the framework of SVC, effectiveness implies that the operations of the SE are integrated to the potential impacts which may occur. In the case of market-oriented work model, the target group is the potential employees of the enterprise and the support illustrates different supportive activities and financial help from municipality or from government.

When regarding the criteria of SMART, S for Specific, SIA appears to fulfil the principles appropriately. The aim of social impact assessment is to either predict future impacts by using a *ex ante*-approach or assess impact after their occurrence by using *ex post*- approach. To enhance the precision of the method, SIA can be defined further, such as in levels it can be executed: micro-, meso- and macro-level SIAs. Quantitative research methods are used in macro-level SIAs while qualitative methods are more common in micro- and meso-level SIAs. The type of research method does not necessarily increase the specificity of the method, but it clarifies the intentions and ideology and therefore it can support the statement of specific method. Furthermore, SIAs have sub-SIAs, which means that there are different approaches regarding what kind of social impact is in the interest, such as poverty IA, gender AI and so forth. The particular IA built for a certain social impact enhances the specificity of the method. In the case of market-oriented work model SEs, the aim is generally to help people who are in disadvantaged position for a reason or another into the labour market. Regarding the levels of SIA, it would depend on the target

audience, meaning if the measurement done by the enterprise is to enhance the operations within the company or is it to provide information and material of the SE to external stakeholders.

### 6.2.2 Measurable

M, measurability of SROI can be considered from two different perspectives. Such as, if SROI is used to measure SEs with market-oriented work model, where the beneficiaries are value creators, such as employees of the company, measurability could refer to the metrics which can be accessed by the entrepreneur or the manager (how many persons have they employed, what is the monetary benefit they are providing, for how long the employment has lasted and so forth) or experiences obtained from the beneficiaries through surveys or questionnaires. Often SEs with market-oriented work model aim to create social impact in categories such as way of life, health and wellbeing, property, and personal rights. These may include for example social inclusion, meaning and purpose for being and actions, increased financial situation and so forth. To conclude, measurability of SROI is considered to be relatively high, because of the numerical values and ratio scale, which are used in the measurement process such as number of employers, paid salaries and so forth. However, the conversion of social value to quantified variables can be challenging and resource consuming, if for example the experienced benefit is to be presented in numerical values instead of descriptive metrics. The level of measurability is highly reflected to the precision of the measures. Such as, nominal measures are least precise, while ordinal or interval and ratio measures provide more accurate information. When regarding social impacts, it is dependent on the subjective perception, ordinal measures are the best fit for the use. Monetary measures on the other hand are executed on the level of ratio, which is the most precise type of a measure, which increases the accuracy of the method from financial perspective.

SVC represents a quantitative approach of the method and it can be considered as relatively measurable (though these two do not necessarily correlate). In SVC, the variables are measured in social well-being, life satisfaction and domain satisfaction which are not naturally in numeric values. It is left to a respondent to convert the perceived emotion, attitude, or a value (or similar) to a scalable unit. The level of measurement is done through ordinal scales, where the results can be ranked but the distance between the values remain unknown. The eventual impact created by social enterprise with market-oriented work model can occur in each one of the aspects of social

impact. As an example, it is assumed, that the domain for employment would be in community integration. A scale, such as Likert scale (Easterby, 2015, p. 235) should be provided by the researcher, but the allocation of perceived experiences is left for the respondent. A respondent is likely to compare to other people and himself, but because the knowledge of other peoples' lives and especially well-being and life-satisfaction can be very limited, the estimation may vary a lot between respondents. It also rises the potential of error and leading the respondent to answer in a certain way, similarly, as mentioned in the case of SROI.

SIA is likely to be executed at micro-level because of the perspective of a social enterprise. Micro-level SIAs most commonly use qualitative methods and therefore it is concluded that in market-oriented work model case, qualitative approach is used. The next feature, measurability, refers to the units of the measurements. In SIA, it means measurability of for example gender equality or reduction in poverty or improvement in social inclusion. It is not determined, which kind of scale to use in measurement, but because of the qualitative approach, the scale is assumed to be something between nominal to ordinal variables. It is more challenging with SIA than BVA and SVC to provide measurable units because of the qualitative approach of the method. The data used for SIA is mostly descriptive and narrative, which does not fulfil the criteria of measurability. On the other hand, some of the data can be converted into quantified units and some of the data can be collected and gathered in numerical form. Nevertheless, descriptive data creates an issue with measurability of units.

### 6.2.3 Attainable

The attainability of SROI is dependent on the variables to be used. Using quantitative data which is easily accessible for the entrepreneur or the manager is highly attainable, but the experiences surveyed from the beneficiaries can be more challenging to obtain. It must be acknowledged, that surveys and questionnaires easily and unintentionally lead the respondents to certain direction in regards of answering and that the respondents may misevaluate the benefit they have gained because of personal experiences and interpretations. Using beneficiaries' experiences for measurement leaves opportunity for error, but then on the other hand, using metrics from manager's perspective might lead to measuring wrong outcomes.

The framework of SVC has not been applied by SEs as broadly as SROI, which can either indicate that it is not well-known yet because the novelty of the framework or to the fact that it has a low attainability. SVC does not have common guidebooks or websites to look for information, which makes it more difficult to execute because of the unavailability of benchmarking. It is represented mainly as an academic framework, which may influence the applicability of it. This influences the feature of realistic as well. It might not be realistic for a social entrepreneur to actually use this framework for social impact measurement because of the scarcity of the attributes mentioned. From managerial perspective, SVC could provide very valuable information of the impact the enterprise is creating, but because of the paucity of the guidance, it will require more academic skills from the manager to execute than for example SROI.

SIA is very well documented, and it has associations to promote and support the practice of it. There exist several step-by-step guidebooks, which are explained in detail so that the application of the method would be applicable for the users, such as social enterprise managers in this scope of interest. These factors increase the attainability of the method. However, the scarcity of data creates a challenge regarding data acquisition. Some of the data might be available as in secondary data, but it must be acknowledged, that the data collection and analysing might be time- and resource consuming.

#### 6.2.4 Realistic

Realistic is the fourth criteria in SMART model, which implies to the achievability of the subject, which in this case is execution of methods. This feature is parallel with attainability to some extent because a good attainability supports a realistic goal, as in, it cannot be realistic if it is not attainable. As SROI is one of the most used methods among social enterprises and performance measurement, it indicates that SROI fulfils the criteria of realism. On the contrary, is it realistic that a social impact can be converted into monetary units, such as dollars or euros? SROI seeks to find causal correlation between invested amount and social impact, which have utterly different properties.

Following the discussion of attainability, the realism of executing the framework of SVC is relatively low. In addition to low attainability, the realistic operationalization of the measurement

system may be out of entrepreneur's or manager's reach. This is justified because of the academic skills which are required in order to use the framework, as well as resources to study also focus group and acquire external data to compare the results.

SIA is realistic as a method to certain extent. Executability relies on the large society behind SIA and the availability of guidance as well as the number of cases assessed with SIA. Even though there are some features which support the realism of the method, there are also attributes which are supporting the opposite statement. For example, if the measurability of SIA is low, then it refers that the method is not likely to be easily applicable. This statement indicates that a lot of resources needs to be put in the measurement process, especially considering the qualitative data which is likely to be descriptive and narrative. If the data can be exploited, then the results might end being vague and not accurate because of the qualitative origin of the data.

#### 6.2.5 Time-sensitive

Lastly, there is the dimension of time-sensitivity. This refers to the time boundaries in measurement. SROI most likely is executed on a yearly basis, which creates clear time limits to its execution. If SROI is processed every year at the same time during the fiscal year, it can provide valuable information which can be used for example for comparison, which is found to be a very challenging task in social impact measurement.

SVC is executed for a certain period of time, but it can be applied to more periods as well: *"Degree of social value created for more than one period equals the difference between the degree of social value created at  $t + 1$  and the degree of social value created at  $t$ "* (Kroeger and Weber, 2014, p. 527). This refers to the fact that time-sensitivity is present in the framework. It is acknowledged that the social impact might occur later than other outcomes and therefore the option for using the framework for different periods of time is valuable feature in SE performance measurement. Especially in the case of market-oriented work model, when the output and outcome are short- and mid-term results, but the actual impact (e.g. mental well-being) is a long-term objective.

Regarding SIA, the timeline, or the timeframe for executing the assessment is not mentioned. Therefore, it cannot be evaluated based on the literature, and it will be scored at the lowest mark.

### 6.3 OUTLINE OF FINDINGS

The methods analysed above according to the criteria of SMART reveals that all of the methods have some of the features in them, but there are weaknesses and strengths in certain areas of each method. The summary of results is visualized in the Fig. 16 below.

**Measurement criteria based on SMART framework**

	Spe- cific	Measura- ble	Attaina- ble	Realis- tic	Time-sensitive
Blended Value Proposition	+++	+++	+++	++	+++
Social Value Construct	++	++	+	+	++
Social Impact Assessment	++	+	+++	++	+

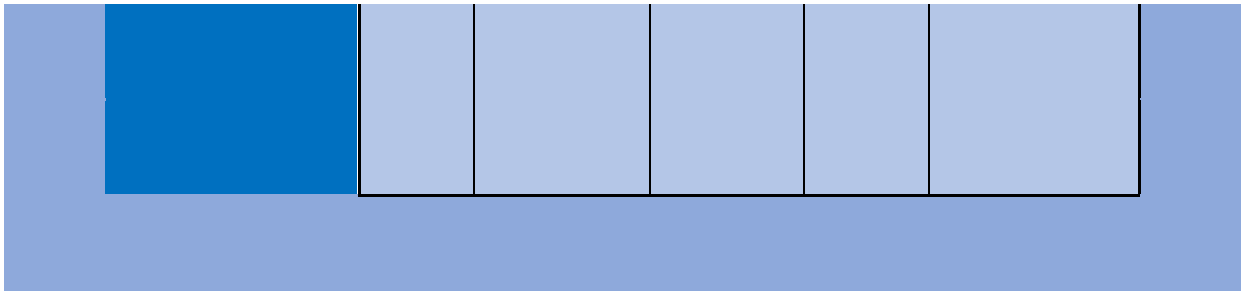


Figure 16. SMART criteria and social impact measurement.

SMART criteria and social impact measurement (Fig. 16) imply the strength of different attributes of methods for social impact measurement. The figure is two-dimensional, where the horizontal axis represents the criteria which was applied to the methods, and on the vertical axis the methods are listed. One marker in the square refers to the existence of the attribute, but it is fulfilled in a weak or improper manner. Two markers reflect that the criteria is met into a fair extent but could be improved. Three markers indicate that the criteria is fulfilled completely. To interpret this figure, some examples will be given. Considering the type of SE, where the value creators of the social impact are beneficiaries themselves and the perspective of the manager or an entrepreneur of the SE, some conclusions can be made based on the analysis in above paragraphs.

BVA and SROI are viewed greatly specific, and fairly measurable, attainable, realistic and time sensitive. SROI in this case can be demonstrated in following figures: investment in total during the time period in review, how many people have been employed during this time period and how have these people advanced after employment. The cost and the savings can then be calculated for stakeholder groups, such as targeted beneficiaries, government, relevant associations, and potential cooperating or supporting companies. SROI gives results in monetary value (currency).

SVC alternatively does not result in monetary units but in rates in changes (improvement or deterioration) of experienced social conditions. SVC gets high rate on specificity because of the detailed syntax which is used to demonstrate social value creation. Controversially, the realistic nature of the method is considered quite low, because of the difficultness, complexity, and theoretical level of the framework. From social entrepreneur's or manager's perspective, executability of



the framework may be out of reach because of the mentioned attributes. Regarding measurability, attainability and time-sensitivity, SVC rates well. Measurability of certain aspect of social impacts is risked because of the object in hand as well as in other methods presented in this analysis: how well can, for instance, way of life be measured? This risk of low measurability is decreased by offering scale to the respondents of the social value, but it does not eliminate the risk completely. Attainability is at a good level because of the availability of the data. In regards of market-oriented social model, the beneficiaries are assumably close to the enterprise, either geographically or culturally and therefore for example accessing the information and experiences of the beneficiaries is easier than for example in different types of SEs.

SIA is evaluated to fulfil the criterion of attainability. This is because of the worldwide spread of SIA method and supporting associations and organizations considering attainability. The SIA approach does not require unrealistic skills or knowledge from SE managers, and because of the society, the support for accomplishing SIA is present – at least theoretically. The access to the data is similar as in previously summed up regarding SVC.

In conclusion, none of the methods scored three marks in realistic- category regardless the research methods or ontological approach of them. Social impact is a complex and a moving target, which is difficult to evidence and categorize. Capturing social impact can be challenging from perspective of a manager of a market-oriented social model because of the high demand of resources and uncertainty of the usability of the results. One of challenging tasks, which can compromise successful impact measurement is the time of occurrence of the social impact. This refers to the fact, that a social impact does not occur as a linear event and the time for an outcome to turn into impact might take up to several years, even decades. Considering social enterprises, where the beneficiaries are value creators themselves (employees), the long-term measurement might not be meaningful for a single enterprise. From managers perspective, is it worth of investing all required resources in social impact measurement, if the results can be seen only after ten years of the outcome? This decreases the need of the SE itself to commit impact measurement and suggests, that impact measurement would be worth of executing at a societal or institutional level.

## 6.4 STAKEHOLDER IDENTIFICATION FOR MEASUREMENT

As it was discussed in previous sections in this research paper, stakeholder engagement is seen one of the crucial aspects of social enterprises performance measurement and therefore it is also part of strategic management of an SE. In this section of the analysis, stakeholder identification is applied by using the typology from Mitchell (1997).

### 6.4.1 Discrete stakeholders

To start with dormant stakeholders, they are stakeholders who have power according to the categorization, but because the lack of legitimacy and urgency considering the enterprise, the power is left unused. An example of this stakeholder group regarding SEs with social-oriented work model could be a media representative, who can draw attention to the enterprise even though the stakeholder himself does not have a direct relationship with the SE. Nevertheless, for the management it is important to identify these stakeholder groups because of their ability to acquire another attribute, which would then make them more salient and more relevant stakeholders for the SE.

Second group of latent stakeholders are discretionary stakeholders, who have the attribute of legitimacy, but they lack power and urgency. According to the theory, beneficiaries of the social initiatives belong into this group of stakeholders. It is justified by the fact, that the beneficiaries do not really possess any power or urgency over the company, but they have the legitimacy of being beneficiaries. This mainly refers to beneficiaries of SEs social impact when the operational model used is two-sided value model and one-sided value model. Both models have the beneficiaries solely receivers of the benefit rather than participating in creating it. Because the SEs with beneficiaries being also value creators, the employees should not be considered only discretionary stakeholders. Discretionary stakeholders in this case may be identified as potential employees of the company and as well as relatives or other close persons with close relationships with employees of the company. Direct beneficiaries of social enterprise with market-oriented work model are the employees of the company regarding the social value. They are also the recipients of social impact in the long-term. However, this social impact creates indirect beneficiaries, which can be detected in the long-term examination. One obvious group of indirect beneficiaries are discretionary stakeholders, who are identified in the latent stakeholder group.

The last group of latent stakeholders is demanding stakeholder, which means that the stakeholder obtains an urgency, but does not possess power either legitimacy over the SE. This may be an additional burden from managerial perspective.

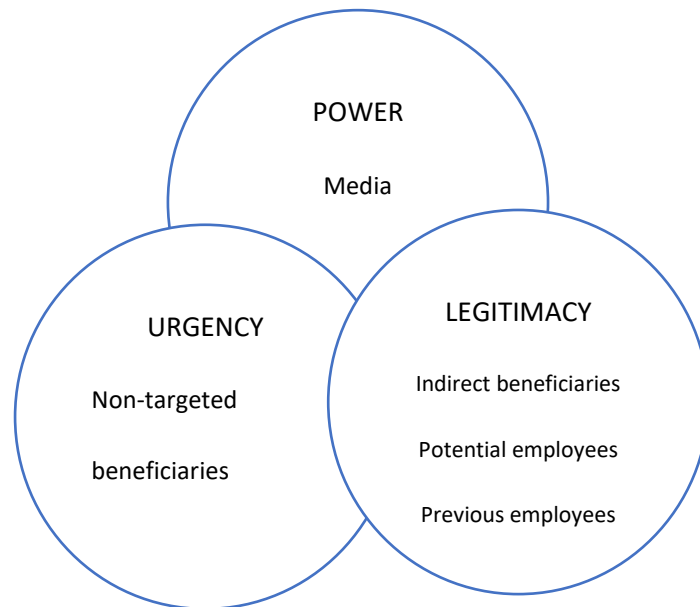
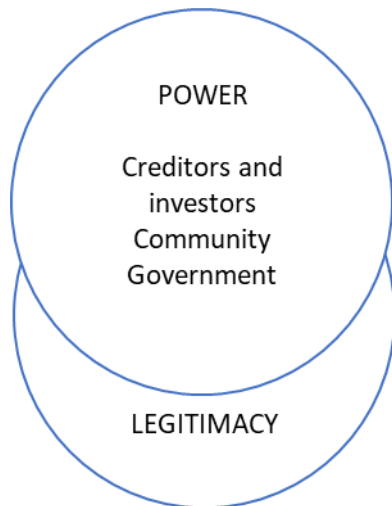


Figure 17. Discrete stakeholders of SE with market-oriented work model.

This means, that the noise and sensation does exist, but it does not affect on the SE. Examples of demanding stakeholders regarding work-oriented social model would be other disadvantaged groups, which could be included in the social initiative but are not and therefore they can experience exclusion and inequality and then express the need of being considered in the SE as well.

## 6.4.2 Anticipative stakeholders

Compared to latent stakeholders, anticipative stakeholders possess more saliency over the SE than latent stakeholders. The relationship to the company is also different as it can be considered that dependent stakeholders have expectations towards the SE. Dominant stakeholders (pos-



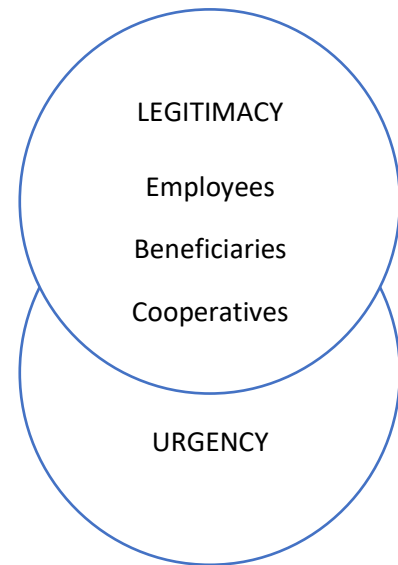
sessing attributes power and legitimacy) are identified as stakeholders who do matter to the firm because of the legitimacy of their claims and their ability to act on them – nevertheless, they might as well not to act on them, but the potential is there and that is why they are considered more salient to the SE. Regarding the SEs where the social impact is created by the beneficiaries themselves, such as being employees of the enterprise, employees can be considered as dominant stakeholders. This group of stakeholders also includes for example creditors and investors.

This stakeholder group consists a lot of different groups and therefore can be justified to be very relevant for SEs, but it needs to be recognized, that is should not be the only one included.

In the long-term, benefits from social initiative are becoming concrete in the community and also at governmental level. This means, for example, that the outcomes seen in short-term at governmental level are increased corporate taxation, taxes from payrolls and additional taxes from sales. At community level short-term outcomes can cause an increase in employment rate as well as in incomes and spending. However, overtime these outcomes start to create social impact.

As in the Figure 15. Suggested model for social impact created by social innovation (p. 63), it is stated that according to theory of change, output turn to outcome and eventually they create an impact. The social impact in the case of SEs with market-oriented work models are identified as improved mental and physical health, quality of life and general wellbeing. This changes in individual's life creates broader benefits at a societal level. This means, that individuals are less dependent on different supportive services, such as operational or financial benefits. Moreover, general wellbeing and increased health in a society reduces health care costs both in mental and physical sector. Individuals are likely to be more efficient and self-sustaining.

Another group in this classification of stakeholders is dependent stakeholders. This group represents stakeholder, who have both legitimate and urgent claims, but they lack the power to act on them. The dependency regarding this stakeholder group indicates the relationship with other stakeholder groups for the requirement of support, because this group of stakeholders cannot act without another stakeholder approval or assistance. If employees of SE are categorized as dependent stakeholders, then the assistance could be gained from the management of SE or other more powerful stakeholders, such as stakeholders from dominant stakeholder group (for example, managers). Another important aspect is, that the dependent stakeholder (employee) requires assistance, and in SEs case it is executed by voluntary operations of the management, such recruitment process and offering the opportunity of social inclusion. To sum up, the ideology of SE is based on the voluntary assistance and therefore It can be concluded that dependent stakeholders are supported merely by the SE itself.



Third group of these stakeholders are dangerous stakeholders, who possess the attributes both power and urgency. This might lead to coercive – even illegal - means because of the lack of legitimacy.



An extreme example of this kind of stakeholder group could be religious or political terrorism. To identify dangerous stakeholders is essential, because only then the level of preparedness can be improved, and potential risks recognized. In the case of work-oriented social model, dangerous stakeholders may for example target the employees of the company. Such as, if the social mission of the SE is to spur immigrant integration to local society by supportive employment, may differences of political perspectives arise regarding who is considered to be applicable for this sort of assistance by the SE.

### 6.4.3 Definitive stakeholders

When a stakeholder already holds power and legitimacy, he is considered as a dominant stakeholder. If this stakeholder gains the attribute of urgency, the stakeholder is moved to the next group of definitive stakeholders.

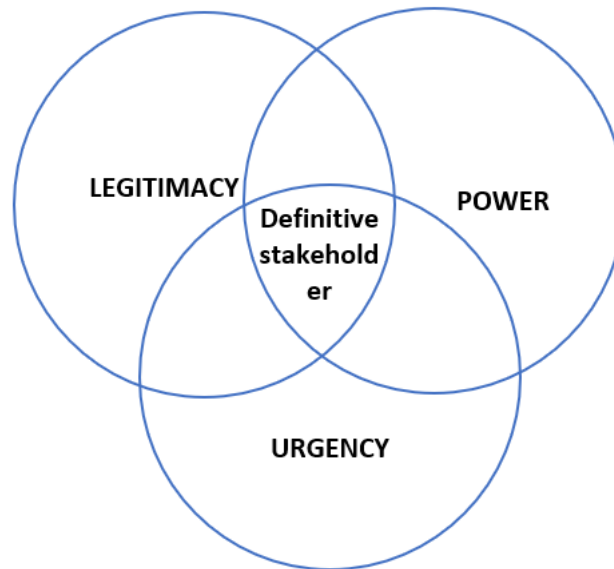


Figure 18. Definite stakeholders of SE with market-oriented work model.

As a definitive stakeholder in the case of SE with market-oriented work model, are the owners (and possibly the founders) of the enterprise. The owners have the power, legitimacy and urgency and they have the biggest control of the company over other stakeholders. To some extent, social enterprises employees and beneficiaries can be included in this group of stakeholders, because of the support from definitive stakeholders to gain the power, that the claims of them are acted of. Moreover, if there is no employees as value creators, there is no product to sell or impact to create.

## 6.5 FINDINGS FOR STAKEHOLDER IDENTIFICATION

This identification and categorization of stakeholders assumably increases the validity and accuracy of social impact measurement by SE because the stakeholders with salience are properly coalited and the level of stakeholder can be used to enhance strategic objectives.

All the methods for social impact measurement in this dissertation are emphasizing the meaning of stakeholders in the measurement process. Therefore, the categorization of stakeholders is here included in the analysis, because in addition to SMART criteria application and methods approach, the success of measurement is highly dependent on the stakeholder engagement. In the previous paragraphs, the stakeholders of different groups are identified regarding of social enterprise where the social initiative is committed by employment of disadvantaged individuals in certain target groups.

According to the stakeholder identification by Mitchell et al. (1997), salient stakeholders are identified and grouped in the above paragraphs. This classification follows three-dimensional base, which categorizes stakeholders to latent, anticipative, and definitive stakeholders. Latent stakeholders are less important to the enterprise while definitive stakeholders are the most important.

Latent group of stakeholders regarding SE with market-oriented work model includes media, previous employees, non-targeted beneficiaries, indirect beneficiaries, and potential employees. These groups of stakeholders do not have salience over the enterprise, but they should be acknowledged because of their possession of one of the attributes of the stakeholder identification.

Anticipative stakeholders revealed several important stakeholder groups, which should be considered when measuring social performance. These stakeholders are employees (beneficiaries), creditors and investors, managers, customers, cooperatives, community and governmental actors. These stakeholders enable to functioning of the enterprise or in other words, they create the environment where the social enterprise can operate and create social impact. This classification also reveals, that even though all of these groups carry the title of being dominant stakeholders, they represent very different perspectives. Such as, the owners of SEs are likely to anticipate different results and information of the social performance than external funders and creditors. For financial partners, short-term operations and outcomes are more relevant than long-term social impact. SE owners on the other hand are more likely to rely on the social mission as a

legitimate feature of the enterprise, and therefore their interest is to see if the social performance at the moment or in short-term will create an actual impact.

Cooperatives similarly (although depending on the type of the cooperation) expects to see results merely in short-term rather than long-term impacts. The environment where enterprises operate is often targeted and monitored in short-term regarding social impact perspective, which considers long-term effects up to ten years, while others in the same markets monitor events and performance from yearly quarters to five years. This causes an imbalance between different groups of stakeholders and the social enterprise's social impact measurement. In regards of cooperatives, such as an agency who represents disadvantaged group, for their operations it is likely to be more relevant to show performance within in a year than for example in ten years. These cooperatives may require reporting on how their actions have affected on the social enterprises performance and how can this influence be shown in their own operations.

Customers, another facilitating group of stakeholders is also very important and again, they have different interests than creditors and cooperatives. For customers (if they are interpreted correctly), the demonstration of social impact creation may be very rewarding and it can lead to a loyalty towards the enterprise, but it might not be very realistic. A person's timeframe as a customer to a certain enterprise might not last until ten years, and therefore demonstrating the social impact which may occur after several years of action may not serve the purpose. On the other hand, immediate outcomes are interesting for the customers, such as knowing that by making their purchases, they are enabling employment of an individual from a disadvantaged group. Regarding customers, it is mostly about emotional and abstractive support rather than requiring hard financial data of the operations. Therefore, narrative and qualitative demonstration of social enterprise may be relevant for this group of stakeholders.

Maybe the most important group of stakeholders for SEs with market-oriented work model are the employees – beneficiaries – of the enterprise. The employees enable the social enterprise to operate and create social impact. Employees interests in demonstration of social performance is in operational and strategic success. This means, that from the employee perspective, it is important to demonstrate that the aimed objectives are achieved by their input and effort. This



refers more to the operations of the business to serve the regular paying customers. For employees, most relevant figures for operations can be similar to what is required from financial partners, although usually the point of interests varies, because of as an employee, one is investing their time to the enterprise and the risk of not gaining benefit is fairly low, because of the guaranteed income in the form of a salary, while creditors and investors are taking considerably higher risk when investing resources to the company because it is treated as a own capital which is more prone to risks.

One group of dominant stakeholders are the stakeholders with urgency and power, but they lack the attribute of legitimacy and this makes them to be titled as dangerous stakeholders. This means, that this group of stakeholders may have opposite views of social enterprises aims and missions, and it may lead to even illegal actions by these stakeholders. According to the theory, these groups, even though they are considered as dominant, do not need to be considered in the social performance demonstration, but for the enterprise's success, it is needed to acknowledge these potentially dangerous stakeholders in order to prepare to possible conflicts.

Lastly, definitive stakeholders, owners and shareholders of the company have perspective in regard to measurement requirement and demonstration of social performance. Owners of the company are likely to be interested in seeing the profitability of the company and the level of social performance as well as the social impact in the long term. This creates requirements for three different aspects: monetary, performance and long-term impacts.

Therefore, the measurement of social enterprises is valuable at societal level and abovementioned features explain the possible benefits from social initiatives of social enterprises. By demonstrating social performance, government and other societal institutions can predict, support, and enhance occurring social impact which will bring benefits in the larger scale. This perspective is underlining mission in social enterprises, but as discussed, the long-term and broad impacts might be out of reach of a social enterprise and therefore measuring and demonstration of these impacts may be left for governmental agencies.

## 6.6 METHODS AND STRATEGIC MANAGEMENT

It was aimed to use this evaluation of methods in regards of strategic management to explore if these methods can enhance strategic management in social enterprises. In this section, the methods are discussed from the perspective of strategic management and the key point, legitimacy, stakeholder engagement and strategic objectives.

According to the analysis, none of the methods fulfils fully the criterion of SMART, but they all have strengths in different attributes than others. From management perspective, the methods for measurement are important because of the aims of the enterprise. Depending on the objectives, a certain method can be more applicable than another one and vice-versa. Also, stakeholder engagement is a driving force for the applicability of the methods. When regarding market-oriented work models, there are several stakeholders identified based on a theory by Mitchell (et al., 1997).

From legitimacy perspective - which is one of the key aspects in strategic management of social enterprises - the aim is to gain and maintain resources of the enterprise to survive and growth. Legitimacy can be either targeted to be self-legitimation, e.g., internal usage or to external stakeholders. When regarding the three methods for social impact measurement (BVA, SVC and SIA), the enhancement for strategic purposes comes from the aim to demonstrate the social performance which is an outcome of an activity executed by social enterprise in a certain community. The level on legitimacy within to community can be gained by managerial actions, and all of the methods aim to prove changes in a predetermined environment.

From stakeholder identification, it was discovered, that social enterprises with market-oriented work models have several potential stakeholder groups, but the most important ones were identified. These significant stakeholders are employees of the company and the beneficiaries. Owners and founders are understood as definitive stakeholders, so that they have the most control of the company. In addition, because of the double-mission of the company, possible creditors and investors are labelled as anticipative stakeholders and therefore salient for the enterprise. Lastly, society and community level representatives, such as municipality cooperation, associations and governmental actors are also significant part of the enterprises success and ability to operate.

Stakeholder engagement reflects management strategic and objectives. As identified in the previous chapter, different stakeholders require different information from social performance and the prioritization of stakeholders is dependent on the strategic objectives of the enterprise.

## 6.7 SUMMARY

Methods used for social impact measurement have different strengths as indicated in the Fig 16, (p.70). Social Value Construct is highly theoretical and quantitative, which increases the validity of it, but it is demanding to execute. Social Value Construct considers the social impact as in the rate of change and it compares social value creation to the baseline scenario. This approach serves the requirements of larger scale investigation, such as governmental and society-level actors and shareholders.

SROI on the other hand is very entrepreneurial friendly because it can be utilized at entrepreneurial (high attainability and realistic) level to provide information for example for investors and owners as well as cooperatives. It provides information of the social performance of the enterprise in financial figures, which is appreciated highly by these groups of stakeholders.

The third method in consideration, SIA, on the other hand provides qualitative information about the performance of the enterprise. This type of information serves stakeholders such as customers, maybe employees and other stakeholders, whose requirements for demonstration of social performance can be satisfied with narrative and descriptive metrics.

To relate these findings to the strategic approaches of SEs, it can be seen that strengths and weaknesses in the methods may serve another objective better than another one. Strategic objective is interdependent on the stakeholder engagement as well. If the managements objective is to demonstrate accountability of social performance, then the main stakeholders are stakeholders, who appreciate financial metrics.

## 7 DISCUSSION

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Strategic management in social enterprise with market-oriented work model is aiming to sustain and grow the company in a hypercompetitive market. In the emerging phase the most important task for the management is to keep the enterprise running (=efficiency). Further in the life cycle of the enterprise, in order to continue as a legit market operator, management needs to shift towards differentiation, managing dynamic capabilities of the company. Strategic management may target different strategic objectives, and depending on the objectives, the benefits from different methods for social performance measurement can be identified. Similarly, it can be pointed out, how some methods do not fit certain strategic management choices.

### **Blended Value Accounting (BVA)**

Blended Value Accounting utilizes both quantitative and qualitative approaches. Often enterprises are demonstrating their social performance with combined tools, such as Enhanced Social Audit and SROI. In the analysis, however, it was analysed only the method SROI because of the wide usage of the tool in business discipline.

When applying SROI for social performance measurement, financial figures are emphasized. This suggests, that SROI is most beneficial to dominant stakeholders. These stakeholders hold attributes of power and legitimacy, but they lack urgency from their claims. Dominant stakeholders of social enterprises with market-oriented work model are identified as different groups of funders, such as investors, venture capitalists and creditors. In addition to dominant stakeholders, SROI reporting provides information to shareholders and owners, who may require similar reporting documents than external funders.

From strategic management perspective, usage of SROI enhances the strategic objectives towards efficiency. This indicates that the results of SROI reporting can be used to demonstrate the capability of the enterprise to create social effects with the available resources.

Regarding the SMART framework used to explore the attributes of SROI, it was identified, that SROI scored quite well on specificity, attainability, and time-sensitivity. This moreover supports the strategic objectives emphasizing the interests of dominant and definitive stakeholders. It is assumed, that funders such as investors and creditors and shareholders are interested in short-term results (max yearly basis), which can be provided with SROI method. In addition, the specificity of SROI enhances the accuracy of the measurement, which is highly appreciated by these groups of stakeholders.

### **Social Value Construct (SVC)**

Social Value Construct on the other hand is academic framework, which has not been used as widely as SROI by social enterprises. From social enterprise with market-oriented work model perspective, SVC serves the aim to demonstrate the effects of social performance in broader scope. This means, that the performance measurement is shown at community, municipality, or society-level.

This framework for social performance measurement targets stakeholders with the interest in societal influences. These stakeholders are identified as anticipative stakeholders. In addition to anticipative stakeholders, also definitive stakeholders have their interest in the results of SVC measurement. With SVC, the strategic objectives of efficiency and differentiation can be monitored and used for improvement. SVC provides information about the achieved social improvement which implies the efficiency of the social enterprise. Secondly, the success in creating social outcomes and eventually impacts, enhances the legitimacy of the social enterprise. Legitimacy is gained by the improvement in social needs, but also it can be understood as gained moral legitimacy, because of the social mission of the enterprise, employment of disadvantaged groups.

The exploration of the method through SMART framework enables recognition of deficiencies in the framework. Even though the method may provide valuable information for several stakeholders, it is difficult to execute. It might be out of the reach of a social enterprise to run, but with the assistance of other stakeholders (such as governmental actors), the framework can provide informative results. In addition, the time-sensitivity of the framework is adjustable. From social enterprise perspective, the measurement period is likely to be short- or mid-term, while the

framework may produce more meaningful results if used in long-term assessment. This aspect suggests that this type of measurement is more favourable for long-term actors instead of social enterprises themselves.

### **Social Impact Assessment (SIA)**

Social impact assessment can be considered as a method to demonstrate social performance by social enterprise with market-oriented work model. From strategic management perspective, SIA is conducted at micro-level, referring to the enterprise level. This method relies mainly on qualitative approach, and the evaluation of social impact is done by descriptive and narrative methods. This method serves the strategic objective of self-legitimation, community legitimation and as well as operational improvement goals.

Legitimation objectives target for example customers, beneficiaries, and cooperatives, who are identified as dependent stakeholders.

According to SMART criteria, SIA scored better than SVC, because of its attainability. Attainability refers to executability of the method. SIA is seen more practical and therefore it is understood as an easier approach for social enterprises with market-oriented work model.

## 8 CONCLUSION

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To address the research question set in the introductory part of the dissertation, following discussion is conducted.

*How can social performance be demonstrated through the methods of blended value accounting, social value construct and social impact assessment to enhance strategic management of social enterprise?*

To enhance the strategic management of social enterprise, relevant stakeholder groups are identified, and their requirements for performance demonstration are acknowledged. Based on these preliminary actions, chosen methods for this dissertation were explored and analysed through the framework of SMART which was used to structure the analysis of methods. It was explored different attributes of the methods, which gives guidance of the weaknesses and strengths of each method and how they can be utilized in strategic management of a social enterprise.

The conclusion which is made based on the research is that, that the salient stakeholders play a key role in performance measurement. They define what is considered as meaningful information and how success of a social enterprise is identified. Regarding social enterprises with market-oriented work model, there are several salient stakeholders because of the nature of the enterprise. The enterprise exists as a part of the community, and therefore stakeholders play a more important role than for example in traditional, commercial enterprises. The notable difference in stakeholder engagement to traditional companies and other social enterprises is the importance of value creators and beneficiaries. Employees of the company are part of the internal stakeholder groups of other companies as well, but their meaning to the social enterprise is highlighted because of their double-role in creating and receiving social impact.

Depending on the strategic objectives, some stakeholders may have more salience than others, which is changing the aspect of social performance measurement and demonstration of it. Such

as, objectives regarding legitimacy and marketing, narrative metrics which are gained from social impact assessment may serve the purpose better than financial figures learned from application of SROI. SVC provides also means to demonstrate legitimacy through social performance, but to a different target group (society and governmental). To reflect on the application of SMART, these attributes were ranked and therefore they can be assigned to suit different managerial aims.

The dissertation raises other questions regarding social impact measurement. Social performance of the social enterprise can be demonstrated through these methods to some extent, but it does not provide measurement of the actual impact because of time and resource restrictions. On the other hand, relevant stakeholders such as local community and government, would benefit from long-term assessment, where the social impact would be demonstrated. However, the methods from enterprises management perspective are not realistic or achievable, and therefore the social performance is demonstrated by social enterprises instead of social impact.

The contribution of this research was to enhance the academic research regarding social enterprises and the impact measurement from managerial perspective. The findings of the research are supported by innovation and entrepreneurship and management literature, and therefore this research brings a new aspect of the methods explored in this research.

For the future studies and academic research, it would be beneficial to study other mainstream methods for social impact measurement for social enterprises to find out more relevant and applicable methods for demonstration of social performance. This is suggested because of the large pool of available methods, but there is a little known about their capabilities and applicability. In addition, empirical studies in cooperation of social enterprises would bring aspects from the individual and operational perspectives.

## 8.1 REFLECTIVE EVALUATION

In the end of this concluding discussion, some reflections are made towards the research and its findings. Following Kuada's (2012) criterion, trustworthiness and authenticity are reflected.



### 8.1.1 Trustworthiness

Trustworthiness can be classified to four main dimensions: credibility, transferability, dependability, and confirmability. Credibility refers the validation of the data gathered, which is also known as respondent validation. This term means that the respondents approve the data obtained so that the researcher has understood them correctly (Kuada, 2012). Because this research did not include any empirical data, credibility in this sense is not reflected.

Transferability calls for requirement of evidencing the context where the study has been executed. This means, that a similar research in different context would provide similar findings. Dependability means a requirement which entails the researcher to record all of the phases of the research, so that the manner the research has been committed can be objectively evaluated. Moreover, high dependability, supports the credibility and transferability. Dependability of this research can be reflected through the methods-section. In this research, it was used semi-systematic literature research, which is documented but executed with researcher's presumptions and perspectives of reality and knowledge, which may cause to different results in different context because of the personal aspects and knowledge. This statement also covers transferability of the study.

Confirmability ensures that the researcher commits the research by following good practices and that the aim is to discover the reality which is being investigated. In this dissertation, the aim was to investigate the reality by following the research design which is set in the beginning of the thesis. The steps which are used to commit the research, support the claim that the research is committed to the respect of confirmability.

### 8.1.2 Authenticity

Another main criterion for evaluation of the research is authenticity. This relates to the extent to how the research is fair, improves understanding and provides opportunity to understand with deeper insight compared to the baseline scenario.

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