

SOCIAL ENTERPRISES – FROM POTENTIAL TO IMPACT

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Abstract: Social economy is seen by many as the magical solution to the social and economic problems which came over time with each economic crisis. An important problem when dealing with social problems is however the need to find solutions which would work at large scale. As Lisbeth Schorr stated “We have learned to create the small exceptions that can change the lives of hundreds. But we have not learned how to make the exceptions the rule to change the lives of millions”. This not only rises the importance of social enterprises but also the necessity of a more strategic and systematic approach to the problem of spreading social innovation. The potential of a social enterprise, connected with the further assessment of its impact is an important correlation which needs further studies. It is one thing for social enterprises to exhibit a great potential, but it is another for that potential to be realized and to produce significant benefits for its target group. Even if the potential of social enterprises is generally known, and this is the reason for which social enterprises benefit from a lot of attention and support, within the literature existing on the social enterprises, the issue of its’ potential is not dealt sufficiently. On the other hand, impact assessment has been studied largely within the literature. This is maybe also because evaluation of social impact is a challenging endeavour for any person analysing a social enterprise, assessing subtle changes which are difficult to be measured, evaluated and traced back to specific events. The impact assessment, made through critical and interpretative accounting theories (which are contextual, seek for engagement, are concerned with micro and macro levels and are interdisciplinary), indicates that the evaluation of the social enterprises’ socio-economic impact can have a base on the positivist, critical and interpretative accounting approaches. However, despite the enthusiasm shown for assessments and metrics, which has been proved by the development of hundreds of different methods used for the calculation of social value, few people use the results in the decision making process. The present paper comes with the proposal to continue further studies on the potential of social enterprises, based on the fact that the correlation between the potential and the impact gives important information for the social enterprise’s general assessment.

Keywords: social economy, social enterprise, impact assessment, potential of social enterprise

JEL classification: D01; L31

1. Introduction

Social economy, when analysing the literature written in this field, is sometimes called the “third sector”, “non-profit sector” or “civil society sector”, and is defined as the interval joining the private sector economy, which generates revenue and the public sector, where economic activities are performed for social purposes. A part of the academics consider that a number of social economy actors are represented by social enterprises. Looking at the literature, it may be understood that social enterprises are generally viewed as organizations (businesses or non-profit organizations) that have income-generating activities, but they use their profits to support their objectives strictly on social, cultural and

environmental issues and which may be also the purpose of the organization.

An important problem when dealing with social problems is however the need to find solutions which would work at large scale. As Lisbeth Schorr stated (in Dees and Anderson, 2004) "We have learned to create the small exceptions that can change the lives of hundreds. But we have not learned how to make the exceptions the rule to change the lives of millions". This is the bases on which Dees and Andersons (2004), after many years of interviews of social entrepreneurs, foundation officers and other experts in the social sector, concluded that a more strategic and systematic approach to the problem of spreading social innovation has to be taken by policy makers, practitioners and other stakeholders. This strategic approach should take into consideration all the potential social enterprises can have for the community as a whole, beyond the problems of how the social innovation can be scaled up.

However, it is one thing for social enterprises to exhibit a great potential, but it is another for that potential to be realized and to produce significant benefits for its target group.

2. The potential of a social enterprise

Social enterprises, being a societal response to the austerity measures which always lead to cuts in the public funding, are given a more prominent role as innovative and community based solutions. Based on this, social enterprises could prove to be a response to social problems, with a potential for innovation and sustainability. Furthermore, all social enterprises can in different ways, impact different factors from income, goods, services, unequal distribution of power and many more (Roy et al., 2014). Even if the potential of social enterprises is generally known, and this is the reason for which social enterprises benefit from a lot of attention and support, within the literature existing on the social enterprises, the issue of its' potential is not dealt sufficiently. One institution that has shown interest to the potential of social enterprises is the European Union. It did so by including social enterprises in public policy on businesses, stimulating social investment, modernization of public funding, launching development programs for businesses and social organizations raising awareness and creating a spirit of trust in business social organizations (Rodert, 2011). The European Commission has included the social economy programs and strategies in its core, provided funding for the development of the field and created various support structures of the social economy.

3. The impact of a social enterprise and its' assessment

From the moment of their birth to beyond scaling-up, social enterprises target the increase of their social impact. For this process, there are involved different stakeholders like funders, citizens and clients, administration, which are being preoccupied of the transparency of how funds are being gathered and used by organizations, but also on the achievements of their activity. Not least, the founders especially are driven by a wish to know if their funds are bringing an impact or they should redirect their help to other causes (Ebrahim and Rangan, 2010).

The evaluation of social impact is a challenging endeavour for any person analysing a social enterprise (Ebrahim and Rangan, 2010), because it deals with assessing subtle changes which are difficult to be measured, evaluated and traced back to specific events. How can the increase of the self-esteem of a person with disabilities be measured? How can one connect that increase to a specific event (a series of counselling sessions, a training course, meeting a role model)?

This challenging process of measurement of social impact becomes even more difficult when entrepreneurs are pressured to mobilize support from external stakeholders like funders, partners, local or national governments (Andre' and Pache, 2014) In this context, they may need to produce scientific evaluations like experimental randomized protocols or

social return on investment (Mulgan, 2010). In sum, entrepreneurs may be tempted to shift their focus from their goal, and spend more time to demonstrate the evidence of their social performance and to produce estimations if not even real results of their social outcome. More than that, being pressured to provide evidence of their impact in change for the received support, representatives of social enterprises may be under the risk to overemphasize the outcome at the expense of process evaluation and to focus more on number and creating reports rather on the people the social enterprise addresses.

This brings in front the importance of impact assessment, which is an issue for any entrepreneur engaged in a development process. The assessment of social impact has been addressed in the literature and it has been stated that it is a prerequisite for scale (Bradach, 2003) but also an important tool for the process of monitoring the scale-up (Dees and Anderson, 2004). When taking into consideration the prerequisite for scale, the impact evaluation gives essential information regarding whether going to scale is pertinent or not: only when the initial program demonstrates that it has the capacity to produce positive social change it may be worth to engage in a process of scaling. On the other hand, once the scale-up process has already begun, it is important to evaluate the impact since this is a good performance tool for entrepreneurs to assess the achievement of their goals (Andre' and Pache, 2014).

The impact evaluation from socio-economic point of view, which is also a reporting activity, can have different significance depending on the approach chosen (Palmer and Vinten, 1998):

- Positivist, which is characterized by a fair description of the situation (Whittington, 1986);
- Critical, where the accounting which carries out a fundamental function of internal control becomes a powerful operating mechanism from an organizational point of view (Power and Laughlin, 1996);
- Interpretative, where a fundamental tool for dialogue between social enterprises and their stakeholders, which has as purpose the stimulation of social change, is the accounting and reporting (Gambling et al., 1993).

When translating these to social enterprises, we can see that social enterprises use reporting systems, from a positivist point of view, for representing rationally management performance and to improve the overall performance and the levels of process efficiency and effectiveness. This leads to the fact that when the used tools do not describe truly and with a fair view the situation, the behaviour might become wrong and counterproductive (Manetti, 2014).

From the critical point of view, any changes in the type and methods of using resources can lead to the increase of demand for tools of impact evaluation. This is, for example, the case of lenders for social enterprises who expect detailed financial reports which show the way the resources are used and also the impact made by the activities financed by the offered resources (Manetti, 2014). However, because social enterprises are expected to have a large volume of commercial activities, there can be seen a greater demand for social and economic tools of assessment. This means that there can be used also corporate models for measurements (Nicholls, 2009), in combination with social impact methods, in order to get a full perspective on the social enterprise's activity.

And finally, from the interpretative point of view, the dissemination of the assessment's results strengthens the relations between the social organizations and their stakeholders through "social-constructivism" over the impact and social influence they create (Dart, 2004). So, this social practice of management accounting and control is a socially constructed one rather than a natural phenomenon (Covaleski et al., 1996).

The impact assessment, made through critical and interpretative accounting theories, have several important characteristics (Laughlin, 1999) which indicate that the evaluation

of the social enterprises' socio-economic impact can have a base on the positivist, critical and interpretative accounting approaches (Nicholls, 2009):

- These theories are contextual, because they recognize the consequences of accounting on social, political and economic aspects;
- They seek for engagement, being undertaken for the improvement of accounting practices;
- They are concerned with micro and macro levels – from individuals or organizations to societal and processional levels;
- They are interdisciplinary because they use other disciplines in analysis.

Despite the enthusiasm shown for assessments and metrics, which has been proved by the development of hundreds of different methods used for the calculation of social value, few people use the results in the decision making process (Mulgan, 2010).

4. Discussion

In this article, we have tried to show the importance of thinking about the potential and the impact which social enterprises have on the community they act in. Even if the potential of social enterprises is considered to be generally known, this being also the reason for which institutions and other stakeholders try to promote and sustain this activity, there cannot be found any studies regarding this. On the other hand, the assessment of social enterprises' impact is largely studied, benefitting from interpretations and proposals from practitioners and academics. Sociologists and economists all together have started to address the social and economic impact of these promising organizations, taking into consideration their importance for different stakeholders: from the social entrepreneurs to clients and financing institutions.

Our proposal, which is not without limitations, is to continue further studies on the potential of social enterprises, based on the fact that the correlation between the potential and the impact gives important information for the social enterprise's general assessment.

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