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**TUULI PÄRENSON**

Social impact evaluation  
in social enterprises in Estonia:  
need, readiness and practices



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The Faculty of Economics and Business Administration, the University of Tartu, Estonia

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# THE LIST OF AUTHOR'S PUBLICATIONS AND CONFERENCE PRESENTATIONS

## I Chapters in monographs

**Pärenson, T.** (2012). Do the strategic objectives of not-for-profit organisation define the stakeholders in impact evaluation? In: G. Manville, R. Greatbanks (Eds), "Management and Finance in Not-for-profit and Social Enterprises." Gower.

## II Articles in international journals

1. **Pärenson, T.** (2011). The criteria for a solid impact evaluation in social entrepreneurship, *Society and Business Review*, 6 (1), pp. 39–48.
2. **Reisberg, T.<sup>1</sup>, Irs, R.** (2009). Towards Effective Educational Politics Through Improving the Performance Measurement System. Mäeltsemees, S.; Reiljan, J. (Toim.). *Discussions on Estonian Economic Policy XVII* (284–302). Berlin, Tallinn: Berliner Wissenschafts-Verlag, Mattimar
3. **Reisberg, T., Irs, R.** (2009). Efektiivse hariduspoliitika saavutamine läbi tegevustulemuslikkuse mõõtmise. In: *Eesti majanduspoliitilised väitlused XVII: Eesti majanduspoliitilised väitlused XVII*, Tartus ja Värskas 1.–3.07.2009. Tallinn\*Berlin: Berliner Wissenschafts-Verlag, Mattimar, 2009, 93–96.

## III Conference publications

1. **Reisberg, T., Irs, R.** (2009). Incorporating private sector management practices into the public sector: how to evaluate efficiency? In: IV International Conference "Management Theory and Practice: Synergy in Organizations." Proceedings: IV International Conference "Management Theory and Practice: Synergy in Organizations"; Tartu, Estonia; 3–4 April 2009, pp. 1–25.
2. **Kivipõld, K., Ahonen, M., Pärenson (Reisberg), T.** (2010). Attempt to Use Organizational Leadership Model for Measuring Job Satisfaction: The Case of IT Service Organization in Estonia. *Competing Values in an Uncertain Environment: Management the Paradox*. ISSWOV, pp. 576 – 583

## IV Conference presentations

1. **Reisberg, T.** The conceptual framework for constructing a solid impact evaluation method for social entrepreneurship, *The 6th International Critical Management Studies Conference*, 13–15 July 2009, Warwick, United Kingdom.
2. **Reisberg, T.; Irs, R.** Incorporating private sector management practices into the educational sector: how to evaluate effectiveness? *IV International Conference Management Theory and Practice: Synergy in Organizations*, 3–4 April 2009, Tartu, Estonia.

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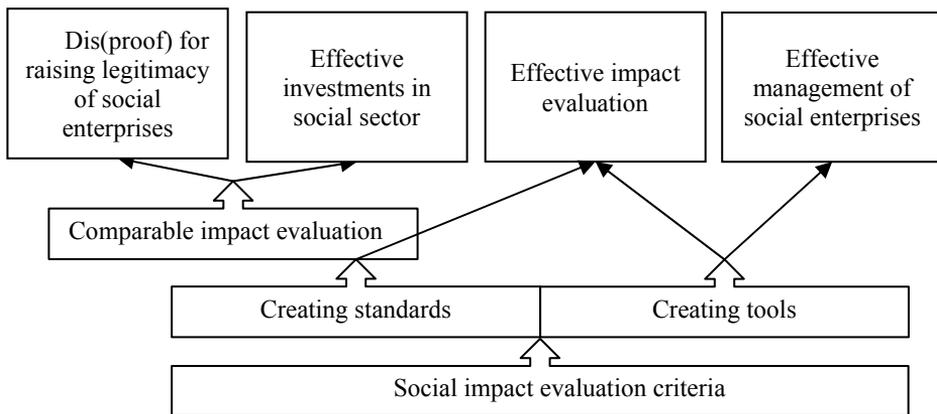
<sup>1</sup> Pärenson's maiden name is Reisberg.

# INTRODUCTION

## The importance of the topic

Social entrepreneurship is concerned with enterprise for a social purpose. It involves building organisations that have the capacity to be both commercially viable and socially constructive (e.g. Boschee, 2001; Oster *et al.*, 2004; Tracey and Phillips, 2007). The fundamental aim of social enterprises (SEs) is to create social value rather than personal and shareholder wealth (Achleitner *et al.*, 2009; Austin *et al.*, 2006b; Zadek and Thake, 1997; Wei-Skillern *et al.*, 2007). Despite this aim, there is a lack of knowledge about how to evaluate its achievement. Some say that if an organisation's social impact is not measured, it cannot be seen as its goal. Pearce (2003) maintains that accountability to the organisation's stakeholders and the wider community should be a fundamental principle of SEs, thus differentiating them from often-manipulative agendas of corporate social responsibility (Mulgan, 2008). Grimes (2010) also finds that organisations within the social sector employ performance measurement not just as a means of accountability but also as a tool for making sense of social entrepreneurship as a part of organisational identity.

The topic of this thesis is highly practical, for the following reasons. The relationship between these reasons is depicted in figure 1. The criteria for evaluating social impact gives grounds for establishing standards and provides tools for practical social evaluation and reporting. Using these criteria enables the evaluator to estimate if an SE's claims for support to increase its legitimacy are well founded. The evaluation will provide data that will lead to better business planning, by making the evaluation, internal management and investments in the social sector more effective.



**Figure 1.** The importance of the topic

Source: compiled by the author

To enhance their role and contribution, SEs need to demonstrate that they can create both commercial and social value (di Domenico *et al.*, 2009). While it remains difficult to evaluate the performance of SEs, developing mechanisms that help to alleviate this issue is an important task in establishing the legitimacy of social entrepreneurship as an area of academic inquiry (Cook *et al.*, 2003; Korosec and Berman, 2006; Mair and Marti', 2006). Mair and Marti' (2006) have addressed the field of social performance and impact assessment as one of the greatest challenges for practitioners, venture philanthropists and researchers in social entrepreneurship. The author would add nonprofits and the public sector in general to the list. From the investor's point of view, the point has been reached where giving money to not-for-profits (including nonprofits and SEs) is no longer seen as a donation but rather as an investment (e.g. Kingston and Bolton, 2004). A natural part of the investment process is measuring incomes and costs, as this enables investors to choose the most profitable project. It does not matter whether these investments are made by venture philanthropists or the public sector. Dees (2007) argues that evaluating the impact is necessary for raising the effectiveness of financing activities that add social value by making resource flows less dependent on sentiment, popular causes, personal charisma, and marketing skills. The desire to measure results would show a dual commitment to both learning how to improve the programmes of investees and how to make better investment decisions in the future (Frumkin, 2003). From the investee's point of view, there is an implicit demand for the development of an agreed set of quantifiable standards and targets (Miller *et al.*, 2007), which would help to communicate the success, benefits and impact of the SE, and the factors influencing it, to an external audience, including funding bodies (Byrne, 2002; Hynes, 2009). The external audience is not always interested in results. Wei-Skillern *et al.* (2007) and Paton (2003: 8) complain that there is a lack of interest by third parties; consequently, high performance is not readily awarded nor is poor performance readily punished.

Achleitner *et al.* (2009) suggest that a general reporting standard would enable investors to compare, to a certain degree, investment opportunities in social ventures and to aggregate these investments on a portfolio level. This would also increase the quality and quantity of investments in the social sector. More transparent and more comparable information about social impact would lead to lower capital costs and ultimately to a more efficient allocation of capital for social purposes (Achleitner *et al.*, 2009, Meehan *et al.*, 2004).

Not all academics agree about the need for standardisation. In the context of corporate social responsibility, Aras and Crowther (2008) have argued that the amount of information being reported has gradually increased and become more meaningful, without the need for any imposed standards; this is despite attempts from interested parties to colonise the standard-setting arena. Social impact reporting practices in social entrepreneurship attempt self-reflexively to enhance the social mission rather than to merely respond to regulation, convention, or other isomorphic pressures (Nicholls, 2009).

Some practitioners, such as Trelstad (2008) – the chief investment officer in the Acumen Fund – see the need and possibilities for reporting standards and they have taken the first steps towards it: “There are now enough organisations across the social sector that have taken the time to build measurement systems, with staff committed to solving this problem, with patient boards and leadership supportive of the work, and with donors prepared to reward proof of impact. The challenge facing those leading organisations is how to take the first step towards transparency, and how to invest the time in solutions that might benefit the sector and not just one organisation.” These practitioners have gone some way to discovering this area. For example, the Acumen Fund is developing a Portfolio Data Management System, in collaboration with Google, the Skoll Foundation, the Lodestar Foundation, and Salesforce.com. It remains hopeful that enough practitioners have built partial systems, so they can work together to build a sector-wide solution (Trelstad, 2008). Generating the criteria for a solid evaluation of social impact constitutes the first steps towards a generally accepted evaluation standard from the academic side.

Kanter and Summers (1987) described three main levels of performance in the nonprofit context: institutional (concerned with legitimacy in the eyes of major external stakeholders), managerial (concerned with the use of resources) and technical or professional (concerned with the quality of service and outcomes) (cited in Paton, 2003:44). Managerial and technical issues were discussed previously. What follows is the institutional aspect.

The lines between nonprofit and for-profit have become increasingly blurred, owing to the rise of hybrid organisations and SEs and the adoption of more business-like practices by nonprofits (Phillips and Hebb, 2010). Eikenberry and Kluver (2004) argue – based on institutional theory – that pressure from the government, demands from donors and a wish to remain legitimate are the reasons that nonprofit organisations have adopted the methods and values of the market (these trends are discussed in more detail in chapter 1.4). Organisations are being encouraged to become SEs, and SEs face greater challenges from rising needs and demands and expectations from policy makers (Shah, 2009; based on an example from the United Kingdom), before local authorities and others have understood and developed policies and procedures to support such an environment (Seanor and Meaton, 2008). The pressure on SEs to adopt increasingly entrepreneurial and “business-like” practices and language (Pepin, 2005; Seanor *et al.*, 2007; Seanor and Meaton, 2007), the blurring of sectors (Chand, 2009; Dees and Anderson, 2003; Pitta and Kucher, 2009; McBrearty, 2007; Roper and Cheney, 2005) and the pressure for nonprofits to become more like SEs is illustrated by Farruggia (2007): “The SE ‘train’ is moving along the track at a very strong pace and nonprofit organisations that wish to ‘keep their heads above water’ need to ‘purchase’ the correct ‘ticket’ so they will not be left at the station with a tattered suitcase from the last century.”

However, not all agree that a switch to SE-like practices would be a positive move. Schwartz and Austin (2009) studied literature on the management of

nonprofits in the United States and found much concern about SEs, in terms of negatively affecting donor revenues (Guo, 2006; Kingma, 1995), transforming the nature of the voluntary sector (Adams and Perlmutter, 1991; Dart, 2004; Perlmutter and Adams, 1990), sourcing unreliable revenue over time (Paarlberg *et al.*, 2005) and compromising the organisation's original mission and intent (La Barbera, 1991).

SEs are increasingly occupying their own separate organisational field (e.g. Harris *et al.*, 2009). Legally, however, they must still functionally straddle both the social service field and the business organisation field (Cooney, 2006) or be at the crossroads of the market, public policies and civil society (e.g. Defourny and Nyssens, 2010; Hulgård, 2010; Nyssens, 2006; Phillips and Hebb, 2010). Although the legal framework for SEs is developing in Europe (Kerlin, 2009), the concept of SE itself has not gained the same recognition in all European Union countries and it is even still poorly understood in several of them (Defourny and Nyssens, 2008a). Public policy towards SEs is never with problems nor can it be seen as finished business (Mulgan, 2008). The reality is that growth in the number of SEs is being experienced in most European Union countries (Defourny and Nyssens, 2008a). If there is reason to believe that social entrepreneurship is a promising instrument for addressing social needs, there is a need for added support in the form of legislation and other sorts of social policy (Peredo and McLean, 2006). Evaluating the social impact of SEs could tip the scales one way or another and increase (or decrease) the legitimacy of SEs.

## **The aim and research tasks**

The aim of the present thesis is to chart the criteria required for a valid evaluation of social impact and to make suggestions for improving the evaluation tools; this is based on an Estonian example. The suggestions are based on an analysis of three examples of social impact evaluation tools: social return on investment (SROI), the Acumen Fund Scorecard and an issue-based approach. Each tool refers to a different method of evaluating social impact. Even though the empirical data is based on Estonian organisations, the author believes that the results can be generalised and used to design further studies on other regions and on wider samples, taking into account the cultural and institutional differences. To achieve the aim, the following tasks were established:

1. Provide a theoretical overview of the concept and history of SEs and the evaluation of social impact.
2. Discuss the connections between evaluating social impact and measuring performance.
3. Analyse the current theoretical and practical tools used to evaluate social impact and choose some of them for comparison.

4. Define the criteria needed for a solid evaluation of social impact, based on the motivation of different stakeholders. This would include public interest in the evaluation of social impact in SEs, possibilities for standardisation of evaluation methods, lessons learned from incorporating private sector performance measurement practices in social enterprises, and managers' readiness to use existing evaluation tools.
5. Analyse the evaluation tools that have been chosen for the comparison, in the context of solid social impact evaluation criteria.
6. Theoretically advance the concept of social impact evaluation and make suggestions for improving the evaluation tools so that these will be effective in practice.

The author agrees that managers of SEs should not look for the one magic evaluation indicator. Instead, they need to think seriously about how performance evaluation might contribute to management methods (Behn, 2003). Only then can they select the measures with the characteristics necessary to help achieve each purpose (Behn, 2003). The following assumption and simplification is made in the dissertation: if there were no asymmetry in information, each organisation could construct a single performance and social impact evaluation model that would be suitable for each stakeholder and each activity. In practice, different parts of this model can be used for different purposes. Generating the criteria for a solid evaluation of social impact should provide the practitioners with guidelines about what to consider while constructing an evaluation model for a specific organisation and what aspects must be taken account when reporting to the different stakeholders. The current study focuses on the evaluation of direct impacts; indirectly influenced stakeholders are left out of the evaluation.

## **Originality of the research and its practical merit**

Although the first social enterprises (SEs) were named a few decades ago and many articles have been written on the topic of social entrepreneurship, academic literature on the evaluation of social impact in SEs is scarce (the classification of common topics in SEs is given in Appendix 1). Although many authors mention the importance of the evaluation of social impact in SEs (e.g. Allan, 2005; Bloom, 2009; Germak and Singh, 2010; Haugh, 2005; Lasprogata and Cotten, 2003; Lyon and Sepulveda, 2009; Neck *et al.*, 2009; Paton, 2003; Rhodes and Donnely-Cox, 2008; Somers, 2005; Trivedi and Stokols, 2011; Young, 2003; Zahra *et al.*, 2009), this field is still under researched. The main publishers on the topic are practitioners, mainly venture philanthropy funds<sup>2</sup>. As

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<sup>2</sup> For example: Sanfilippo *et al.* (2009) from the New Economics Foundation in the United Kingdom; Thornley *et al.* (2011) from the Rockefeller Foundation; Gair (2009) from REDF and Trelstad (2008) from the Acumen Fund in the United States.

the literature on social entrepreneurship is practitioner-driven, the academic literature (including the current thesis) is – and will probably continue to be – lagging behind. Fortunately, the evaluation of social impact in SEs has gained more attention in past few years and academic literature on the topic is growing. A novel aspect of the thesis concerns the theoretical conceptualisation of such evaluation in SEs, which creates a whole out of the fragmented pieces of studies implemented in the field.

Despite calls for literature on the social performance of social ventures, the focus is rather on economic performance; social dimensions have not been introduced into the mainstream literature on entrepreneurship (Cohen *et al.*, 2008) or public administration. For example, the main focus of policy analysis is still on economic performance, including the economic impact of education and the impact of development on income distribution, institutions and economic performance. Gilligan and Golden (2009) argue that there is a general lack of nomenclature and strong metrics to measure the progress and to unify the focus of addressing societal needs, benefits and issues. Some of the indicators for evaluating social welfare are known from development economics and policy analysis.

The underlying premise, on which policy analysis (and new public management) is built, states that an effective market leads to an effective allocation of goods, which maximises social surplus (Weimer and Vining, 2005). It means that efficiency is gained through the reallocation of factor inputs or final products. The maximisation of social surplus is based on aggregated individual utilities, which consist of consuming various quantities of all possible goods (Weimer and Vining, 2005). A SE's focus on social impact does not consider reallocation as a solution; rather, the solution lies in changing the utility functions of individuals. A change in the utility function means a change in behaviour. When social impact for SEs means changing the behaviour of individuals then “disillusionment with behavioural approach” is considered as a trend in policy analysis (Parsons, 1999).

The reallocation is not considered valid because for the maximisation equation of social surplus to be complete for SEs, the utility functions should include social values (like tolerance for inequality) as well as goods. Including social values in the utility function rejects the possibility of maximising the equation through reallocation. Reallocating refers to taking some input or output and giving it to someone else. Raising the importance of a specific social value does not mean it has to be taken away from anyone. The contradiction is that social values, which should be part of utility functions, cannot be reallocated because the amount of social value is not constant.

Returning to behavioural issues, in a similar way, the macro-level indicators of social welfare used in development economics have distanced social impact from individuals and from changes in their behaviour. Indicators and indexes

used in development economics (like the physical quality of life index<sup>3</sup> devised by the Organisation for Development Assistance or the human development index<sup>4</sup> constructed by the United Nations Development Program) do not consider that the behavioural choices an individual makes to improve his or her life. For example, an individual cannot change her or his life expectancy of birth (fixed moment), which is one of the indicators in human development index. Such analysis sways the responsibility from individual choices and behaviour to more abstract society. Analysing trends at the society level, if it not attached to an organisation's effects on individuals, has no value for SEs. It does not help with the design of the activities an organisation should perform in order to change the social well-being of its stakeholders.

The link between macro-level social welfare and organisation's part in it is still missing. Social entrepreneurs have been keen to develop the link between these macro-level and individual changes and an organisation's influence. In practice, though, it has been problematic and the evaluation of effectiveness has either been done poorly (e.g. conducting a one-dimensional assessment) or not been done at all (Johnson, 2003). One of the aims of the current study is to find solutions for overcoming these evaluation problems.

From the epistemological point of view, the research framework in the current study is more complex than the academic literature on the subject so far. The empirical proof has originated inductively from the assertion: "If there are any SEs that use the specific social impact evaluation tool, then the tool is considered valid" (more information in sub-chapter 1.5). When enough valid tools exist, then based on their intersection standards and criteria for social impact evaluation can be created. The current study is rather deductive and states: "When the criteria for social impact evaluation are agreed upon, then an infinite number of tools might be constructed that are all in accordance with these criteria and therefore considered valid".

The literature on performance measurement analyses the subject from the realistic point of view: the results of the measurement are objective; the errors in the results are caused by subjective measurement. The thesis has social-constructivist grounds, where the content of social impact is a construction based on the interactions between the internal and external stakeholders of SEs. In economics, the manager is often perceived as *homo oeconomicus*. In the empirical studies, it will be found that the managers of for-social-profits are more often driven by an emotional relationship with evaluations and measurements, know-how on qualitative and quantitative methods of analysis, and a readiness to face the results of the evaluation.

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<sup>3</sup> The physical quality of life index is based on a country's life expectancy, infant mortality rate, and literacy rate (Meier and Rauch, 2005).

<sup>4</sup> The human development index (HDI) is measured by life expectancy at birth, the combined primary, secondary and tertiary gross enrolment ratio and per capita GDP in US dollars.

To sum up, the novelty of the research lies in fresh and increasing research into the subject and the epistemological set up. The subject is differentiated from development economics and policy analysis by its focus on individuals' behavioral changes. Epistemologically, the deductive social-constructivist approach is chosen, which is not customary in performance measurement literature.

## **Research methodology**

Based on a review of the literature on social entrepreneurship, Short *et al.* (2009) reveal that research on social entrepreneurship remains in an embryonic state: conceptual articles outnumber empirical studies, and empirical efforts often lack formal hypotheses and rigorous methods. Therefore, in the current thesis, the criteria for a solid method of evaluating social impact will be constructed using different data collection and data analysis methods (see Table 1).

**Table 1.** Outline of the empirical study

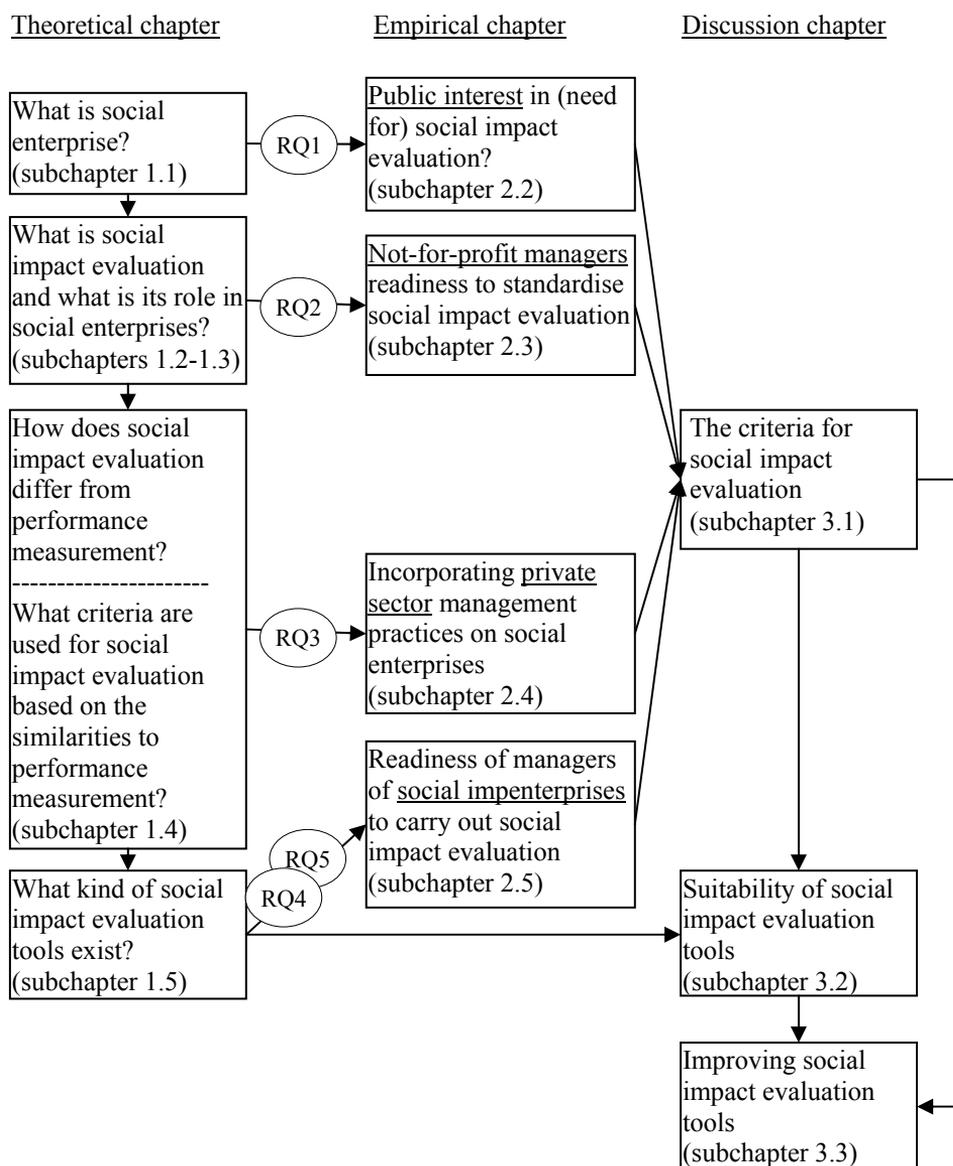
<b>Sub-chapter</b>	<b>Data</b>	<b>Viewpoint</b>
2.2	Academic articles on social entrepreneurship	Public interest
2.3	Impact maps + transcriptions of structured interviews	Managers of for-social-profits
2.4	Transcriptions of in-depth case-study interviews	Social enterprises using private sector practices
2.5	Transcriptions of workshops	Social enterprises

Source: compiled by the author

Several qualitative data collection approaches have been used: workshops, in-depth interviews, structured interviews, and texts in academic literature. Parts of the study – introduced in sub-chapters 2.2 and 2.5 – used grounded theory combined with parts of discourse analyses for data analysis. Sub-chapter 2.3 is based on the comparison of the accordance of qualitative data with presumptions. Sub-chapter 2.4 is based on three case studies and the qualitative data was compared with categories compound on for-profit performance measurement theory. Since a discussion of “social impact evaluation” requires a lot of background information, quantitative methods were not used to determine the criteria needed for a valid evaluation of social impact.

## The structure of the thesis

The present thesis consists of three chapters: theoretical, empirical and discussion. The overall structure of the thesis is presented in figure 2. The sub-chapters in the theoretical chapter are presented in the form of questions that the corresponding sub-chapters aim to answer.



**Figure 2.** The structure of the thesis

Source: compiled by the author

Note: RQ – research question

The theoretical chapter provides theoretical foundations for social entrepreneurship and the evaluation of social impact. The first sub-chapter provides an overview of the terms and nature of SEs and social entrepreneurship. It presents the stakeholders who are interested in the evaluation of social impact. The second sub-chapter looks at the history in more detail, while the third sub-chapter deals with the nature of evaluating social impact, the social impact value chain and its necessity for SEs. The fourth sub-chapter analyses the connections between such evaluation and performance measurement; the purpose here is to determine which conclusions (drawn from performance measurement) can be used to evaluate social impact. The fifth sub-chapter introduces evaluation tools in general and gives a short introduction to three tools that will be used to carry out the part of empirical study that is described in sub-chapter 2.5; it also makes suggestions for improving these evaluation methods (see sub-chapter 3.2).

The empirical part of the dissertation is divided into five sub-chapters. Sub-chapter 2.1 provides an overview of the research. The empirical study consists of four parts. The discourse and the need for the evaluation of the social impact of third parties are covered in sub-chapter 2.2. The criteria for a solid method of evaluating social impact are based on the discourse used in discussing the pros and cons of social entrepreneurship.

Sub-chapters 2.3 and 2.5 discover if the managers of for-social-profit organisations are ready to standardise and implement evaluation practices in the organisation and how that will be carried out. Sub-chapter 2.3 takes the first step towards finding ways to standardise the evaluation of social impact and to discover if the strategic objectives of for-social-profit organisations define the criteria for evaluating social impact. Sub-chapter 2.5 looks at why most SEs (at least in Estonia) do not seem to evaluate their impact.

While there are many examples of shortcomings in the process of designing measurement system and measuring an organisation's performance in the world, the author was interested in examining the situation in Estonia. Sub-chapter 2.4 analyses the possibilities for using private sector practices to evaluate social impact in SEs.

The third chapter of the thesis synthesizes the results of empirical study and is divided into three sub-chapters. The first sub-chapter provides a summary of the empirical findings. This is followed by a thorough discussion and the presentation of implications for the practitioners. The criteria for an evaluation of solid social impact are charted. The second sub-chapter analyses the correspondence between evaluation tools (introduced in the last sub-chapter of the theoretical chapter) and the criteria for evaluation. The third sub-chapter analyses theoretical opportunities for improving the tools used for evaluating social impact. Conclusions are drawn from previous sections, and are outlined in a separate chapter; this includes a discussion of the limitations of the study and it proposes some avenues for further research.

## Acknowledgements

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I have given my best in writing this dissertation and any mistakes and errors that remain are the sole responsibility of the author.

# I. FRAMEWORK OF SOCIAL IMPACT EVALUATION IN SOCIAL ENTERPRISES

## I.1. Defining social enterprise

In order to understand the relevance of evaluation social impact in social enterprises (SEs), “social entrepreneur”, “social enterprise” and “entrepreneurship” need to be defined. These terms are clearly linked but there are important distinctions (Thompson, 2008). Diochon and Anderson (2009) argue that there are three definitions of social enterprise, depending on whether the focus is on the economic entity, individuals or processes. The author maintains that these differences are in fact the differences between the above-mentioned terms. The author believes that social enterprise is always about economic entity or *organisation* (e.g. Phills *et al.*, 2008; Westley and Antadze, 2010). It takes a social entrepreneur to build an SE (Roper and Cheney, 2005), but a social entrepreneur can be active even without an organisation; the work could be project-based (e.g. Galera and Borzaga, 2009; Bloom and Chatterji, 2009). Social entrepreneurship includes the *activities* (processes) of SEs and social entrepreneurs. Some definitions that support such a division are given in table 2. The current dissertation focuses on evaluation social impact in SEs, meaning organisations with social entrepreneurial activities. Until recently, “social entrepreneur”, “social entrepreneurship” and “social enterprise” have been used interchangeably (Defourny and Nyssens, 2008a). Consequently, in the current paper, the terms are used in their original form when citing other authors.

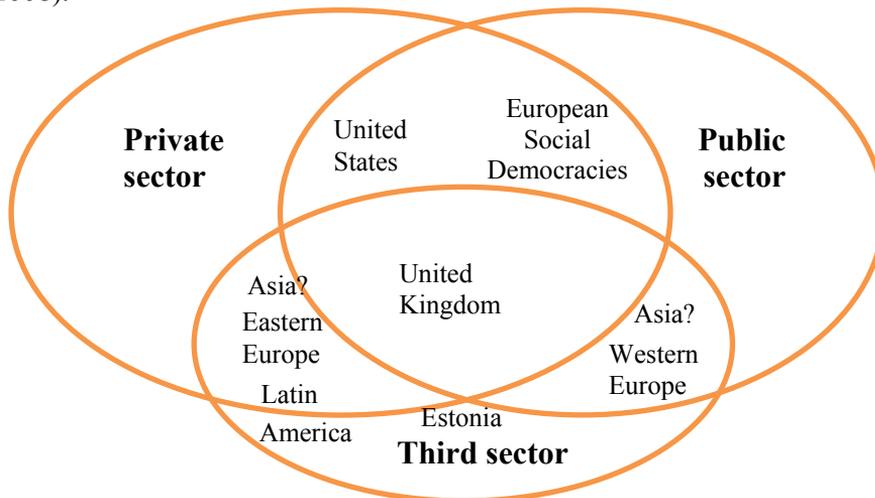
Among the first users “social enterprise” were Dholakia and Dholakia (1975); it meant ‘any enterprise owned and operated in the collective manner’. Drucker (1979) first introduced the concept of “social enterprise” while advocating the ethical responsibilities of corporations (based on Trivedi, 2010a). Banks (1972) first coined the term “social entrepreneur” in the context of the sociology of social movements. Munshi (2010) has listed some most famous early movers in the social entrepreneurship movement: Mohammed Yunus’s Grameen Bank (1976) in Bangladesh, Bill Drayton’s Ashoka: Innovators for the Public organisation (1980) in the United States, and Michael Young’s eponymously named The Young Foundation (2005) in the United Kingdom. The first listing of social entrepreneurship in academic literature appeared in 1994 and the number of listings increased rapidly from 2002 (Douglas, 2008). Desa (2007) searched the seven top-ranked academic management and business journals from 1985 to 2006, and found no articles on either social enterprise or social entrepreneurship.

**Table 2.** Definitions of social enterprise, social entrepreneurship and social entrepreneur.

<b>Term</b>	<b>Definition</b>	<b>Reference</b>
<b>Social enterprise</b>	Characteristics of SE: 1) Having a social (or environmental) purpose or purposes; 2) Achieving the social purpose by, at least in part, engaging in trade in the marketplace; 3) Not distributing profit to individuals; 4) Holding assets and wealth in trust for community benefit; 5) Democratically involving members of its constituency in the governance of the organisation; and 6) Being independent <i>organisations</i> accountable to a defined constituency and to the wider community.	Pearce, 2003: 31
	Three common characteristics of SE <i>organisations</i> : (1) Enterprise oriented – they are directly involved in the production of goods and the provision of services to a market. They seek to be viable trading concerns, making a surplus from trading; (2) Social aims – they have explicit social aims such as job creation, training and provision of local services. They are accountable to their members and the wider community for their social, environmental and economic impact; and (3) Social ownership – they are <i>autonomous organisations</i> with governance and ownership structures based on participation by stakeholder groups (users or clients, and local community groups etc.) or by trustees. Profits are distributed as profit sharing to stakeholders or used for the benefit of the community.	Allan, 2005
	... hybrid <i>organisation</i> , simultaneously having both economic and non-economic aims.	Overall <i>et al.</i> , 2010
<b>Social entrepreneur</b>	Social entrepreneurial leaders can be defined as <i>persons</i> who create and manage innovative entrepreneurial organisations or ventures whose primary mission is the social change and development of their client group.	Prabhu, 1999
	... a <i>pathbreaker</i> with a powerful idea, who combines visionary and real world problem-solving creativity, who has a strong ethical fibre and who is totally possessed by his or her vision for change.	Bornstein, 2004
	... <i>individual</i> who starts up and leads new <i>organisations or programmes</i> that are dedicated to mitigating or eliminating a social problem, deploying change strategies that differ from those that have been used to address the problem in the past.	Bloom and Chatterji, 2009
<b>Social entrepreneurship</b>	... is an innovative, social value-creating <i>activity</i> that can occur within or across the nonprofit, business, or government sector.	Wei-Skillern <i>et al.</i> , 2007: 4; Austin <i>et al.</i> , 2006b
	... any innovative <i>action</i> that individuals, organisations or networks conduct to enhance or reconfigure existing institutional arrangements to address the inadequate provision, or unequal distribution, of social and environmental goods.	Nicholls, 2009

In the preface to “Social Entrepreneurship” (Nicholls, 2008), Jeff Skoll argues that there was a particularly strong contrast between the North American view that typically prioritised business solutions to social problems (narrower concept) and thus focused largely on the SE part of the social entrepreneurship spectrum (e.g. Austin *et al.*, 2006a; Brincerhoff, 2000; Boschee and McGlurg, 2003; Dees *et al.*, 2001) and the European tradition of studying innovation in the broader social economy (social entrepreneurship in a wider sense), with a strong interest in co-operatives (Borzaga and Defourny, 2001; Spear and Bidet, 2005; Nyssens, 2006). In the wider (European) context, social entrepreneurship could be defined as follows: social entrepreneurship refers to innovative activity with a social objective in either the for-profit sector or the nonprofit sector, or across sectors, such as hybrid structural forms that mix for-profit and nonprofit approaches (e.g. Austin *et al.*, 2006b; Dees, 1998; Townsend and Hart, 2008). The narrower definition (used mainly in the United States) states that social entrepreneurship means the activity of SEs. Social entrepreneurship is concerned with enterprise for a social purpose and involves building organisations that have the capacity to be both commercially viable and socially constructive (e.g. Boschee, 2001; Oster *et al.*, 2004; Tracey and Phillips, 2007). This means that the purpose of social entrepreneurship is to solve or relieve social problems and that their activities are financed mainly through entrepreneurial actions on the market (Phillips, 2006; Pearce, 2003).

The differences between these two approaches are supported by Kerlin (2006 and 2009), who places the SE model in Europe between civil society and state, whilst the United States is more market-driven (figure 3). In Asia, authors disagree about whether it should be between the private sector and the third sector (Kerlin, 2009) or between the public sector and the third sector (Nicholls, 2008).



**Figure 3.** Regional positioning of social enterprises between traditional sectors

Source: adjusted from Nicholls, 2008:5 and Kerlin, 2009:191

Defourny and Nyssens (2008a) conclude that SEs are often established as associations in those countries where the legal form of association allows a significant degree of freedom in selling goods and services. In countries where associations are more limited, SEs are set up, more often under the legal form for co-operatives (Borzaga and Defourny, 2001; Defourny and Nyssens, 2008a). Kelley (2009) also mentions multiple-entity solutions, where a for-profit entity, which will carry out the revenue-generating aspects of the mission, and a related nonprofit tax-exempt organisation, which will house the social benefit activities, are established. The problem with multiple-entity solutions is that it should be possible to separate business and social activities. Mendell (2010) suggests dividing SEs into three categories: “unrelated to mission”, “mission centric” and “mission related”. Business activities and social activities can be separated only in the “unrelated to mission” category.

In Estonia, legislation for SEs does not exist and co-operatives are not common. Most of the SEs are in the third sector, as foundations or nonprofit associations. However, according to Estonian law, nonprofits are not allowed to earn income from economic activity as their main activity or objective<sup>5</sup> and legal restrictions may be placed on the economic activities of foundations<sup>6</sup>. These laws are similar to those in most East-Central European countries, which do not allow third-sector organisations to conduct economic activity as their primary activity (Les and Kolin, 2009). However, in the United States charitable nonprofits are allowed to conduct commercial activity (Kerlin, 2010). Nonprofit initiatives, adopting earned income strategies and a market-like discourse, are thus facing criticism and the threat of being perceived as illegitimate (Hervieux *et al.*, 2010).

Although a legal framework is developing for SEs in United States (“the emerging fourth sector”: Kelley, 2009; Mendell, 2010) and Europe (Kerlin, 2009), Les and Kolin (2009) admit that the existing legislation for third-sector organisations, co-operatives, and other types of organisations related to SEs in East-Central Europe is insufficient for the successful functioning, fundraising, and sustainability of SE programmes. It should be noted that the emerging legislation on SEs in Europe does not define any new legal form; rather it creates a tool like an official register for SEs (Defourny and Nyssens, 2008a). In some European countries, the concept of a SE is not part of the political agenda nor of academic discourse outside a very small circle of experts; this is particularly the case in Germany (Birkhölzer, 2008; Defourny and Nyssens, 2008b).

Three projects have influenced the term “social entrepreneurship” and the use of this term in Europe: The Emergence of Social Enterprise in Europe

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<sup>5</sup> Estonian Non-profit Associations Act § 1 (1): a non-profit association is a voluntary association of persons, the objective or main activity of which shall not be the earning of income from economic activity.

<sup>6</sup> Foundations Act § 2 (1): restrictions on the economic activities of foundations may be provided by law.

Project (the EMES<sup>7</sup>, the European Commission's Digestus Project<sup>8</sup> and the PERSE Project<sup>9</sup>). The first step for the EMES was to define a set of common criteria that would be used to identify SEs in each of the fifteen member states (Borzaga and Defourny, 2001). Criteria for the "ideal type" of social entrepreneurship were set in the EMES project for economic and social dimensions (Borzaga and Defourny, 2001). Economic and entrepreneurial criteria included continuous activity to produce goods and/or sell services; a high degree of autonomy; a significant level of economic risk; a minimum amount of paid work. Social criteria included the explicit aim to benefit the community; an initiative launched by a group of citizens; decision-making power that was not based on capital ownership; and a participatory nature, involving everyone affected by the activity.

The European Commission's Digestus Project and the PERSE Project have both significantly narrowed the concept of SEs. In 2002 Ducci *et al.* argued that the term "social enterprise" is thus a broad one and hard to reduce to a definition that would be applicable to the whole of Europe (Ducci *et al.*, 2002). A few authors (Nyssens, Kerlin, Defourny, Borzaga, Ducci) publish a great deal on the subject (relying on these two projects and on each other's work), focusing only on SEs that are operating with labour market issues. For example, the book "Social Enterprise" (Nyssens, 2006) focuses only on work integration SEs. As Kerlin (2006) states: "In Europe, with the exception of the United Kingdom, SE has generally come to mean a social co-operative or association formed to provide employment or specific care services in a participatory framework". The above-mentioned authors argue that SEs focus on labour market issues in Europe because of its history. The first SEs in East-Central Europe came into existence because of the fall of communism while those in Western Europe were inspired by a faltering economy, when governments resorted to retrenchment of their welfare states in reforms that could be characterised by decentralisation, privatisation and a reduction in services (Kerlin, 2009). They state that the SE movement was partly a response to the employment problems caused by these reforms.

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<sup>7</sup> The EMES (Emergence of Social Enterprise in Europe) Project began in 1996. It conducts research on SEs in European Union countries, using funds from the European Commission. It is the basis for the European EMES Network (Kerlin, 2010), which covers all fifteen countries that at the time comprised the European Union (Borzaga and Defourny, 2001).

<sup>8</sup> The European Commission's Digestus Project began in 1998. It proposes legal changes to member states, with the goal of promoting SEs along the Italian model of co-operative enterprise (Lindsay *et al.* 2003, cited in Nyssens, 2009).

<sup>9</sup> PERSE is the acronym for the name of the project in French; a translation of the project's full name would be The Socio-Economic Performance of SEs in the Field of Integration by Work. This research project was carried out from September 2001 to March 2004; it was undertaken within the framework of the Key Action Improving the Socio-economic Knowledge Base programme of the European Commission (Research DG, Fifth Framework Programme) (Defourny and Nyssens, 2006).

The author is convinced that the focus on labour market issues is constructed by the above-mentioned authors, who have defined SEs according to their legal form. Column two in table 3 indicates the legal forms these authors unfoundedly consider to be SEs. The author and many networks do not agree with such constraints. Not all co-operatives or community interest companies can be considered as SEs, and SEs can be found beyond these legal forms.

Mapping SEs is highly political and often context-dependent (Lyon and Sepulveda, 2009). Dart *et al.* (2010) discusses five possible mapping frames: 1) organisations that create both social and economic value; 2) organisations that deliberately cultivate both social and economic value; 3) organisations that have the creation of social and economic value as central to their organisational strategy; 4) organisations that identify themselves as “social enterprises”; 5) organisations that follow Emerson and Twersky (1996) exemplars, creating social and economic value by *employing* a group of marginalised or excluded people in *quasi bona fide* businesses constructed to train/employ clientele as well as be economically successful. O’Shaughnessy (2008) discusses three types of SEs, based on the example of Ireland: 1) community businesses, which are generally financed from trading income alone; 2) deficient-demand SEs, which tend to emerge when the demand for particular goods and services within a community is not matched by resources to pay for the provision of the demand, owing to issues such as local disadvantage or low-density population; 3) enterprises based on public-sector contracts. Mapping will always be a socially constructed process, with each mapping exercise having to include political decisions about what should be included or excluded, rather than being a technical issue (Lyon and Sepulveda, 2009). Reid and Griffith (2006) even suggest that the solution would be not to legislate social entrepreneurship, because this would always ultimately become a game of inclusion and exclusion, replacing one kind of isomorphism with one that is at least as unattractive.

The author believes that the narrowest definition of social enterprises considered to represent Europe is strongly affected by the above-mentioned projects and the short list of authors who first labelled these co-operatives (in Italy, France, Portugal and Greece) as SEs, although these are not considered to be “social enterprises” in law (Defourny and Nyssens, 2008b) and they would not conform to the definition of SEs constructed by the EMES project, for example. To be more precise, co-operatives could be a subset of SEs (e.g. Thomas, 2004).

**Table 3.** Legal forms of SE in Europe

Country	Name of the legal form	Short description
Belgium, 1996	Social purpose company	The company must define a profit allocation policy in accordance with its social purpose and provide for procedures allowing each employee to participate in the enterprise's governance through the ownership of capital shares.
Denmark	Self-owning institution	The legal status of a wide range of cultural, environmental, educational and social institutions and organisations providing various public goods under subcontract, especially within the field of welfare provision – day-care, cheap meals, work integration, rehabilitation, nursing homes, hostels, emergency centres, etc. – and within the private school sector.
Finland, 2003	Social enterprise	A market-oriented enterprise (whatever its legal status) created for employing people with disabilities or long-term unemployed
France, 2001	Co-operative societies of collective interest	<ul style="list-style-type: none"> <li>– At least three categories of members must be represented, users and employees always being among of them.</li> <li>– Must produce or provide socially useful products or services of collective interest.</li> <li>– Must integrate people with economic and/or social problems into the labour market.</li> </ul>
Greece, 1999	Limited liability social co-operative	For organisations targeting very specific groups of individuals with psycho-social disabilities and aiming at the socio-professional integration of the latter through a productive activity.
Italy, 1991/2005	A-type and B-type social co-operatives	According to the service delivery: A-type – social, health and educational services; B-type – work integration for disadvantaged people.
	Social enterprises	Organisation complied with the non-distribution constraint and involved certain categories of stakeholders, including workers and beneficiaries; production or exchanges of services in the sectors of social and health assistance, education and training, environmental protection, social tourism, cultural services or work integration of disadvantaged persons independently from the field of activity of the enterprise.
Lithuania	Social enterprise	Main purpose of social enterprise is the return of disadvantaged people to the normal labour market, their social integration and the reduction of social exclusion.
Poland, 2006	Social co-operatives	Selected hard-to-employ groups, including ex-convicts, the long-term unemployed, disabled persons, and former alcohol or drug addicts are allowed to establish social co-operatives.
Portugal, 1998	Social solidarity co-operative	Offering services with an objective to foster the integration of vulnerable groups, such as children, people with disabilities and socially disadvantaged families and communities
Spain, 1999	Social initiative co-operative	Any type of co-operative providing social services or developing an economic activity aimed at integrating the work of socially excluded persons.
United Kingdom, 2004	Community interest company	Businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.

Source: based on Defourny and Nyssens, 2008a; Ducci *et al.* 2002; Galera and Borzaga, 2009; Kerlin, 2010; Les and Kolin, 2009; Liveng, 2008; Nyssens, 2006; Nyssens, 2009.

Hervieux *et al.* (2010) compared discourses on the concept of SEs among practitioners and academics (in Europe and North America) and found consensus: an organisation that adopts a social mission and uses commercial and/or business means to sustain itself is, indeed, a social enterprise. Hervieux *et al.* (2010) did not reveal any regional differences in the discourse on social entrepreneurship. Several authors analysing discourses in different regions have come up with similar findings (e.g. Parkinson and Howorth, 2010 and Nicholls, 2010b in the United Kingdom; Hervieux *et al.*, 2010 in Canada; Corner and Ho, 2010 in New Zealand; Marshall, 2011 in the United States). Unfortunately, the narrowest approach is emerging in Europe and is now labelled as SE rather than co-operative (e.g. Finland).

The movement of the legal framework towards the narrowest definition of social entrepreneurship, including focusing only on the issue of active labour market policies, is causing concern, for three reasons. Firstly, the focus on these examples may sway the emerging legal frameworks in other European countries, where legislation does not yet exist. A focus on existing legal forms in Europe puts pressure on other countries to adopt these practices under the SE label. This may cause a gap to form between the legal framework and current practice in these countries. Although there approaches vary, with different definitions and politically driven interpretations of definitions (Lyon and Sepulveda, 2009), most of the academics in the United Kingdom use the definition produced by the Department of Trade and Industry<sup>10</sup> (Brown, 2006; Bull and Crompton, 2006; Mawson, 2010; Todres *et al.*, 2006; Wallace, 2005 etc.). Wallace (2005) used discursive engagement to analyse community-based SEs located in disadvantaged areas of the United Kingdom and found that although the SE meta-narrative followed orthodox business and embraced the values and ethos of the corporate sector, SE policy and rhetoric did not fit with the realities of building and developing SEs. Reid and Griffith (2006) have already discussed the possibility of reconnecting rhetoric with reality and Goldstein *et al.* (2008) asks for more partnership between social entrepreneurship practitioners and interested researchers and theorists in the area of complexity. The lack of a common understanding of SE should not be regarded as a limitation because such debate encourages a rethinking of the theoretical definition of enterprise and its legal structure (Galera and Borzaga, 2009). In order for the full spectrum and depth of SEs to be known and debated, further investigation is needed into the variety of forms that exist and could possibly exist (Hackett, 2010).

Secondly, such a narrow approach rather denies the existence of SEs in other European countries, where legal forms for social entrepreneurship do not exist; it might be quite different from the described “European model”. In Sweden, for

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<sup>10</sup> Social enterprise is a business with primarily social objectives. Its surpluses are principally reinvested in the business or in the community for that purpose. It is not driven by the need to maximise profit for shareholders and owners (DTI, 2002: 13).

example, social entrepreneurship (based on a discourse analyses of 59 interviews) can be seen as being influenced by the Anglo-American examples, while experimenting with new organisational forms, including forms generating profit and packaging social good into private offerings (Lundqvist and Williams Middleton, 2010). Tillmar (2009) uses the definition for SEs proposed by Austin *et al.* (2006b; United States) in the context of Sweden, whilst Stryjan and Pestoff (2008) – referring to Sweden in a unified layout (in Defourny and Nyssens, 2008b) – consider social entrepreneurship in the context of the reform of an active labour market policy. To clarify, in a separate study, Stryan (2006) does not restrict SEs to the context of the labour market. Social entrepreneurship is thus viewed as a category of entrepreneurship that is primarily engaged in by collective actors, and where the undertaking's mix of resources and socially embedded elements are central.

Thirdly, such a narrow concept might restrict SEs operating in other fields to use this label. As these legal framework practices undervalue the concept and the possibility of SEs being active in relieving a whole range of social problems, it could lead to a decline in SEs operating in other fields – e.g. there have been several studies on SEs offering micro-credit (Kabeer, 2003; Rosengard, 2004; Simanowitz, 2003) and health care (Cook, 2009; Davies, 2007; Farmer and Kilpatrick, 2009; Fawcett and South, 2005; McCray and Ward, 2009; Mooney, 2006; Neno, 2007; Prochaska, 1994; Scaife, 2008; Taylor, 2006; Tillmar, 2009) – or at least to a decline in the number of studies of these organisations. Such a claim is supported by path dependency (e.g. Hall and Taylor, 1996; Hay *et al.*, 2006) in the historical institutionalism approach (Skocpol, 1979; Katzenstein, 1978; Krasner, 1980; Skowronek, 1982), which relies most on empirical examples of all approaches to institutionalism (Thelen, 1999). The idea that organisations operating in the same organisational field are likely to become gradually more alike as they accommodate the same environmental expectations is a tenet of institutional theory (Paton, 2003). In the context of work integration SEs (WISE), Bode *et al.* (2006) found that there is no overall tendency towards isomorphism, understood to be an evolution in which WISEs lose their hybrid character. According to Scott and Meyer, within the institutional environment there are “rules and requirements to which individual organisations must conform if they are to receive support and legitimacy” (cited in Eikenberry and Kluver, 2004, according to Jaffee, 2001). In the United Kingdom, there is a clear division between SEs that identify themselves as businesses and those that identify themselves as community or voluntary organisations (Worth Media, 2004). Here, Chew (2010) found that charities have made a conscious strategic choice to establish community interest companies (see table 3); the decision had little to do with fulfilling the government's policy agenda of increasing public service delivery through SEs. Instead, leaders of charities were opportunistic, taking advantage of a timely development in public policy to advance their own organisational mission/goals in an increasingly competitive fundraising environment (Chew, 2010). The author

believes that when legislation moves towards supporting WISEs under the label of “support for SEs” then there might be a decline in the diverse nature of SEs and in the social fields in which they operate.

In Estonia, SEs do not focus on legal issues or narrowly on labour market issues. Using the division of institutional context constructed by Hulgård and Spear (2006), Estonia relies on self-labelling forms and networks rather than on new legal forms or new specific policies within structured public frameworks or ad hoc constructed contexts. In Estonia, as in the United States, the supportive institutional context consists largely of private organisations (e.g. the Venture Fund Initiative of the Rockefeller Foundation in the United States; the Heateo SA in Estonia) that provide financial support, education, training, and research and consulting services to the SE (Kerlin and Gagnaire, 2009). It could be argued that *ad hoc* constructed contexts, where each new SE is created by drawing on generalised institutional elements, such as public-private partnerships, etc. (Hulgård and Spear, 2006), exist in Estonia, but these are not seen as SEs.

In Estonia, the main drivers and image designers of SE come from the third sector itself; developments are not driven by legislation. SEs are not defined by specific legal forms or by organisational structures, but by their ethos and purpose (Marks and Hunter, 2007). The image of SEs in Estonia is built on the vision of Heateo SA (which started as the umbrella and advocacy organisation for social entrepreneurship in Estonia in 2005) and some good examples have been defined as SEs, mainly by Heateo SA. Similarly, Seelos and Mair (2005) have stated that most social entrepreneurs do not even recognise themselves as such until they receive an award or are recognised by organisations such as Ashoka or the Schwab Foundation. Heateo SA defines social entrepreneurship and SEs by their goals and activities (see table 4).

**Table 4.** Definitions for terms in social entrepreneurship by Heateo SA

<b>Term</b>	<b>Definition</b>
Social entrepreneurship...	... means new, innovative solutions to the long-term problems in society ... narrowly, social entrepreneurship means combining business activity with public goal
Social enterprise...	... can be business or nonprofit entity
Social entrepreneur...	... the purpose of social entrepreneurs is to impact society in positive direction ... tries to find a long-term solution, which could maintain itself and does everything to embody this solution

Source: Heateo SA webpage (2011)

The approach to social entrepreneurship introduced by Heateo SA is more in accordance with the approach taken in the United States and the United Kingdom than with the continental-European view. It can be said that the view on social entrepreneurship in Estonia is influenced by “*How to Change the World: Social Entrepreneurs and the Power of New Ideas*” (Bornstein, 2004), the first book about social entrepreneurship. It was translated into Estonian in 2005, in co-operation with Heateo SA, and it focuses mainly on social entrepreneurs. Maybe because of this book, SEs in Estonia have borrowed the concept of societal change and problem-based focus.<sup>11</sup> Since 2010 the public sector has also shown interest in SEs in Estonia. Kodanikuühiskonna Sihtkapital (The National Foundation of Civil Society<sup>12</sup>) granted 25 nonprofits<sup>13</sup> permission to conduct their business plans. Consequently, 18 of them implemented these plans (KYSK webpage, 2011).

SEs in Estonia emphasise the importance of using a business model (as in the United States) but they also accept donations from or contract with the public sector (as in the United Kingdom). Alter (2008) discusses different entrepreneurial models, showing how the target population and the market can be combined:

- Entrepreneurs support model (the SE sells business support and financial services to its target population, who then sell their services on the open market)
- Market intermediary model (the SE offers services and receives financing from the market by using the services of its target population)
- Employment model (the SE hires the target population to offer services on the market)
- Fee-for-service model (the SE offers services to the target population on the market and receives fees from the target population or a third party)
- Service subsidisation model (the SE offers services to the target population and the market, while receiving fees only from market)
- Market linkage model (the SE acts as a broker, connecting and managing trade relationships between the target population and an external market)
- Organisational support model (the SE’s business activities are separated from social programmes).

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<sup>11</sup> The book includes the Ashoka approach. “Ashoka is the global association of the world’s leading social entrepreneurs — men and women with system changing solutions for the world’s most urgent social problems” (<http://www.ashoka.com>).

<sup>12</sup> The founder of the National Foundation of Civil Society is the government of Estonia. The objective of the foundation is to contribute to enhancing the capacity of non-profit associations and foundations that are acting in the public interests of Estonia in the development of civil society and in the formation of an environment that is favourable for civic initiative (KYSK statute, 2011).

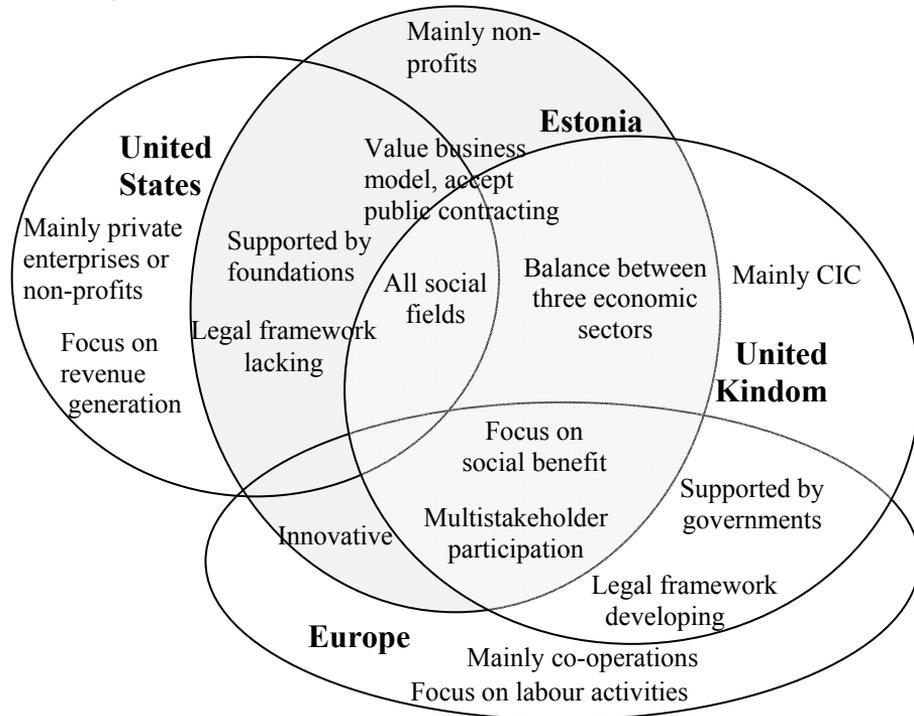
<sup>13</sup> Social entrepreneurship was seen as initiating Non-profit Associations to launch entrepreneurial activities and permanent earned income actions to gain desired social and environmental changes (for applying for this grant). (KYSK webpage, 2011).

The dominant model in Estonia seems to be the fee-for-service model, where resources are received from a third party. Some SEs in Estonia sell their services on the market and some of them are financed by the public sector (through contracts, where offering public goods is delegated to the third sector). For example, Terve Eesti SA sells HIV/AIDS training to employers and trains employees; MTÜ Convictus sells its services in the field of drug addiction and HIV/AIDS to the public sector by contracting out. Examples can also be found in other market-linkage models and mixed models. An example of the service subsidisation model would be MTÜ Uuskasutuskeskus, which sells recycled goods on the market and donates the goods required by families in need for free. Noored Kooli SA (an analogous of Teach for America), which increases the popularity of teaching as an occupation, offers challenge and management training for graduates, using a mix of grants and the fee-for-service model. Although SEs focus a lot on the issue of the active labour market in Europe, it is not the case in Estonia; only a few nonprofits and SEs are active in the employment model and the market intermediary model. Nonetheless, examples can be found; for example, Anni Akadeemia offers training and practice for the handicapped.

In Estonia, as in Europe, attention is paid to social benefit rather than to generating revenue. The underlying drive for SEs is to create social value rather than personal and shareholder wealth (Austin *et al.*, 2006b; Zadek and Thake, 1997; Achleitner *et al.*, 2009). It helps to emphasise that although these organisations function as businesses and may make a profit, this profit is not the primary goal. Nyssens (2009) argues that the central idea in Europe is that the financial viability of the SE depends on the efforts of its members to secure adequate resources to support the enterprise's social mission; the economic dimension of the concept does not necessarily refer to the growing importance of any trading activity. These resources can have a hybrid character; they could come from trading activities, from public subsidiaries, or from voluntary resources or a philanthropic market, thanks to the mobilisation of social capital (Nyssens, 2009). More diversified funding lowers the risk of the outcome being unsustainable (Wei-Skillern *et al.*, 2007). Herranz *et al.* (2010) suggest that SEs could gain resources from all three sectors: government funding, earned business income and charitable contributions; this is similar to the Estonian approach. At the social entrepreneurship conference in Estonia (conducted by The National Foundation of Civil Society in 1 July 2011) practitioners agreed that the production of goods and/or the provision of services should itself constitute support of the social mission of the organisation (as suggested by Nyssens, 2009). In this case, the organisational support model should not be seen as an SE, as it is in the United Kingdom or the United States (e.g. Wei-Skillern *et al.*, 2007).

Estonia has borrowed from the approach taken by Europe and the United Kingdom; that is, the importance of innovative solutions and multiple stakeholder participation (e.g. Rotheroe and Miller, 2008; Chell *et al.*, 2010); see

figure 4. However, Hulgård (2010) considers the criterion of innovation to be unnecessary, since “innovative social entrepreneur” seems to be tautologies. Still, the author believes that it is worth stressing. In Canada only one-fifth of SEs were deemed to be highly innovative (Madill *et al.*, 2010). Madill *et al.* (2010) suggest that future research is required to examine what it means to be innovative in SEs. Otherwise, all SEs may be assessed as innovative simply because they are SEs.



**Figure 4.** Characteristics of social enterprise in Estonia compared with the approach taken in the United States, the United Kingdom and Continental-Europe

Source: compiled by the author; comparison of United States and Europe adjusted from Kerlin (2010) and Hulgård (2010)

Note: CIC – Community Interest Companies

The primary goal of not-for-profits should not be monetary success but rather the achievement of sustainable and positive social impact for diverse stakeholders (Achleitner *et al.*, 2009). According to Les and Kolin (2009), new decision-making models distinguish Central and East Europe’s SEs from regular third-sector organisations, and they usually include democratic management styles, customer representation and participation, and an orientation towards stakeholders. A stakeholder is defined as a person, group, organisation or system which affects or can be affected by an organisation’s actions.

Bacchiaga and Borzaga (2001) have developed the concept of “multiple stakeholder ownership” to cover this area, where different types of stakeholders are represented on the board.

Young and Salamon (2002) state, “In Europe, the notion of SE focuses more heavily on the way an organisation is governed and what its purpose is rather than on whether it strictly adheres to the non-distribution constraint of a formal nonprofit organisation” (cited in Kerlin, 2006). Nyssens (2006) analysed more than 160 European SEs and found that 58 per cent of them had more than one type of stakeholder on their board. In contrast to the traditional third sector, SEs are more open to the local community and place more emphasis on the dimension of general interest because they serve the broader community and not just their own members (Nyssens, 2009).

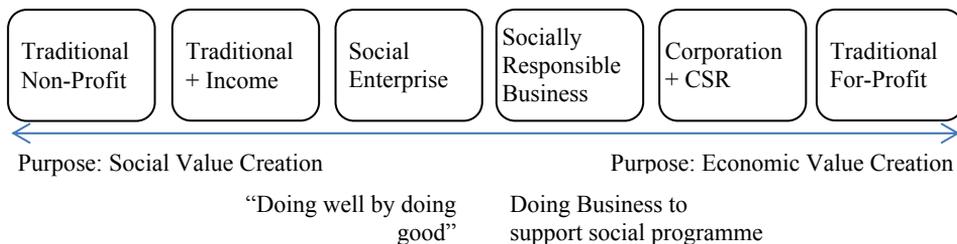
Based on previous discussion, table 5 provides a comparison of the main values of businesses, nonprofits, SEs and public sector entities in Estonia (see definitions of social enterprise at table 2).

**Table 5.** Comparison of private sector, third sector, public sector and SE in Estonia

<b>The Category for Comparison</b>	<b>Social enterprise</b>	<b>Private sector</b>	<b>Third sector</b>	<b>Public sector</b>
Driving force for development	Opportunism and resourcefulness of internal parties (workers, volunteers); accountability to multiple-stakeholders	Accountability to external parties, such as customers and/or shareholders (profitability predominate)	Opportunism or personal interests	Accountability to external parties, such as citizens
Organisation's objective	Economic concerns are balanced with social mission or goals	Economic concerns are paramount	Personal economic concerns or social mission	Social goals are paramount
Way of creating social value	Promotion of social welfare and financing it (at least partially) through entrepreneurial actions	Donor or charity approach to social contributions, corporate social responsibility	Using the contributions achieved from private or public sector for offering services	Offering public goods, regulating the society and reallocating the resources
The stratification of communication	Partnership between the community, shareholders, workers, and consumers	Recognition of the power of the consumer	Recognition of the power of funders and members	Recognition of the power of the electorate

Source: compiled by the author

It can be seen that these values are much broader than the focus on the issue of active labour market policies. Yet these values reflect the ideal type of SE. As Peattie and Morley (2008) stated: “Such characteristics may be typical and even desirable, but they do not make an organisation a SE and the absence of any one of them does not preclude other forms of organisation from being considered a SE”. The borders of the SE phenomenon are not clear cut (Defourny and Nyssens, 2008a) and each organisation creates social, ecological and financial influences, according to the blended value concept (e.g. Emerson *et al.*, 2003; Chell, 2007). The evaluation of social impact can be used for each organisation whose aims include social goals (figure 5).



**Figure 5.** The Domain of Social Enterprise

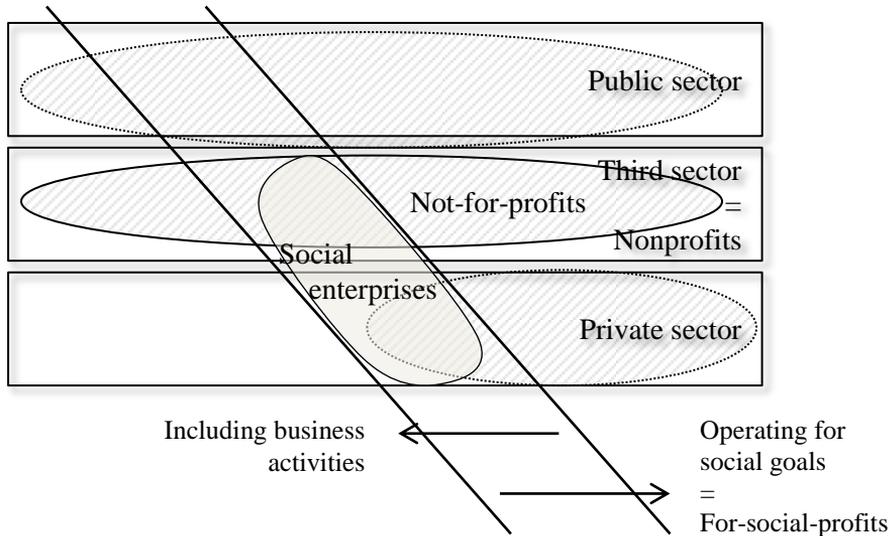
Source: Adapted from Kim, 2008; Etchart and Davis, 1999; Alter, 2006; Nicholls, 2006; Borza *et al.*, 2009

Note: CSR – Corporate social responsibility

The distinction between social and commercial entrepreneurship should be conceptualised along a continuum that ranges from purely social to purely economic, rather than being strictly dichotomous, with elements of both still to be found at the extremes (Galera and Borzaga, 2009). Traditional entrepreneurs generate social value as a by-product of economic value, but the reverse is true for social entrepreneurs (Diochon and Anderson, 2010; Harding, 2004). In Europe, some countries use the term “service of general interest” while others prefer “public services” (*Ibid.*); this illustrates the fact that social impact should be the purpose of public organisations and could be a purpose for all the other for-social-profits. The primary goal of not-for-profits should not be monetary success but rather the achievement of sustainable and positive social impact for diverse stakeholders (Achleitner *et al.*, 2009).

Anderson and Dees (2008) argue that not-for-profit researchers tend to start with a particular legal form of organisation in mind. Many appear to see business methods and ideas as risky and potentially corrupting for their sector, but most take a social science approach, focusing on public policy rather than on management issues. Although the author does not agree, the term “for-social-profit” will be used when referring to organisations that operate for social profit irrespective of the juridical body – e.g. nonprofits, public organisations, SEs, and enterprises that want to evaluate how effective they are in

implementing corporate social responsibility (CSR) issues. The term is borrowed from practitioners and it connects a diverse array of organisations in their common purpose: benefitting society (Gilligan and Golden 2009). As Gilligan and Golden (2009) suggest, the concept of “social profit” is more positive and a more accurate descriptor of an orientation towards benefitting all societal stakeholders. The author will not use “more-than-profit” (as suggested by Ridley-Duff, 2008) when talking about SEs, as these might refer to the third sector only. Not-for-profit will be used when citing authors who have used this term or when purposely referring to the third sector. The associations between SE, nonprofit, not-for-profit and for-social-profit, as used in this dissertation, are given in figure 6.



**Figure 6.** Social enterprise, nonprofit, not-for-profit and for-social-profit based on their juridical body and goals (as used in this dissertation)

Source: compiled by the author

SEs operate with social goals in mind and include business activities whether or not they operate in the third sector or the private sector. Public sector organisations are not considered to be SEs as these are not civil initiatives. The word “nonprofits” is used when referring to the third sector. The term “not-for-profits” is often used as a synonym for the third sector, but sometimes also to refer to the public sector and the third sector and to private sector organisations that operate with social goals. Therefore, the author uses this term only when referring to other authors; its use is avoided otherwise. For-social-profits are organisations that have social goals, irrespective of the economic sector in which they operate or whether they are involved in business activities. In the current paper, SE, social entrepreneur and social entrepreneurship are defined as follows:

- *Social enterprise* is an organisation whose primary goal is to add *social value* for its *multiple stakeholders*, who are engaged in the design of the activities, which are (at least partially) *financed through entrepreneurial actions*.
- *Social entrepreneur* is an *individual* with *entrepreneurial spirit*, who is *dedicated to creating and sustaining social value*.
- *Social entrepreneurship* is any *innovative action* that individuals, organisations or networks perform to *mitigate or eliminate a social problem*.

Although evaluation of social impact could be used for all for-social-profits, the author believes that such evaluation is most important for SEs whose primary goal is achieving social impact. To increase their role and contribution, SEs need to demonstrate that they can create both commercial and social value (Di Domenico *et al.*, 2009). Commercial entrepreneurs may produce social value in the process of creating private gains, and social entrepreneurs may produce private gains in the process of creating social value (Certo and Miller, 2008; Emerson and Twersky, 1996). However, it might not be feasible to carry out an evaluation because of the costs involved, where gaining social impact is a side effect.

Although SEs have existed for a few decades, there is still a lack of academic verified information to prove their effectiveness. Some information might be available for practitioners but, so far, academic literature on the topic is scarce. This could be caused by a lack of available information or a lack of academic interest in the topic. The public policy arena into which SE has emerged is in a state of turbulence as many of the certainties of the welfare state are being challenged or abandoned and many governments have repositioned themselves as partners in the provision of services, rather than as primary service providers (Gray *et al.*, 2003). During a competitive tender, each bidder (including SEs and not-for-profits etc.) will compete for the public services (Cox, 2008). Such a competitive tender could be seen as an institutional one, where different institutional forms compete with each other for the best possible arrangements for the provision of public services (Cox, 2008). Since the 1980s, in what has become known as the “new public sector”, many services in advanced economies have come under pressure to become more effective, so as to reduce their demands on taxpayers, while maintaining the volume and quality of services supplied to the public (Brignall and Modell, 2000: 281). Pollitt and Bouckaert (2004) define the purpose of these reforms as “getting public sector organisations (in some sense) to run better”. The new public governance paradigm focuses very much on inter-organisational relationships and the governance of processes, and it stresses effectiveness and outcomes of services (Osborne, 2006).

The issues concerning performance management will be discussed in more detail in chapter 1.4 but Halachmi (2011) and Pidd (2005) propose that failing to understand the possible follies of over-relying on performance measurement may be dysfunctional when it comes to acting in the public’s best interest.

Using examples of healthcare and education, Adcroft and Willis (2005) argue that it is highly unlikely that the outcomes of new public management and performance measurement will provide significant gains for any of the crucial stakeholders in the provision of public services. The legitimacy of SEs is still based mainly on personal and emotional thoughts but there is little empirical data to support this. Thus, the first research question (RQ1), addressed by sub-chapter 2.2 is: “*What are the criteria for evaluating the social impact of social enterprises so that the results will be useful in debate between protectionists and opponents of social entrepreneurship?*” These criteria will provide the support needed to make the results of an evaluation useful for raising the legitimacy of SEs.

## **1.2. Background of social impact evaluation**

The history of social impact evaluation goes back to the 1970s and 1980s but the meaning of this concept has changed. *Social impact assessment* (SIA) can be used in relation to social impact evaluation in general or more specifically as the social impact assessment required by laws and regulations as a subset of environmental impact assessment (EIA). To keep these separate, the abbreviation SIA will be used when referring specifically to social impact assessment. In the literature *social impact assessment* is sometimes used, but *social impact evaluation* is preferred in the current dissertation.

SIA is sometimes used as a certain methodology (mainly in the literature of Australia and the United States in the 1990s, see table 6) and sometimes independently from a methodology used to achieve the goal required by laws and regulations, mainly in terms of policies or large infrastructure projects (mainly before and after the 1990s). Discussion about the goal of SIA began in the 1980s: differences have emerged between those who see SIA as a formal inquiry process in a specific legislative framework and those who see SIA as a means of empowering communities affected by resource development (Howitt, 1989). In the twenty-first century the most common goal of SIA has been reported by Burdge (2003b). It states that the goal of SIA is to help individuals and communities, as well as government and private-sector organisations, to understand and better anticipate the possible social consequences – for human populations and communities – of planned and unplanned social change resulting from proposed policies, plans, programmes and projects (Burdge, 2003b).

The history of SIA can be viewed separately from other forms of social impact evaluation. Freudenburg (1986) provides a short summary of the history of SIA in the United States. Its inception is seen in the signing of the National Environmental Policy Act in 1969 (NEPA). Under NEPA, before a federal agency were allowed to take actions “significantly affecting the quality of the human environment”, it had to first prepare a balanced, interdisciplinary, and publicly available assessment of the likely impacts or consequences of the

action – an assessment now known as an environmental impact statement (EIS). Similarly, EU environmental policy has been developing since the 1970s (Jackson *et al.*, 2001) from Environmental Impact Assessment, which in Europe emanated from the EU EIA Directive (CEC, 1985), to the more plan/programme level Strategic Environmental Assessment (SEA) required under the EU SEA Directive (CEC, 2001) (Glasson and Cozens, 2011).

**Table 6.** Definition of social impact assessment (SIA)

	Reference	SIA definition	Region
SIA as a methodology	Jones <i>et al.</i> , 1996	SIA can be considered a branch of EIA. SIA has become <i>a tool</i> in its own right, owing to the focus that was paid to the natural and physical issues within the EIA process.	USA
	Burdge, 2003a	SIA as <i>regulated procedure</i> for the decision-making process, as in Australia, Canada, the United States and New Zealand	
	Burdge <i>et al.</i> , 2003	SIA <i>model</i> is outlined, followed by suggested social impact assessment variables and concludes the detailed steps in the SIA process.	
	Becker <i>et al.</i> , 2004	SIA is a <i>methodology</i> used to measure the social effects from proposed projects or policy actions.	
	Wildman, 1990	SIA, if properly carried out, is a powerful <i>tool</i> for evaluating major socio-economic changes.	Australia
	Barrow, 2010	SIA is a <i>tool</i> for assessing and managing the social consequences of development projects on people.	
SIA independently from methodology	Hella, 1977	SIA is an attempt to estimate and apprise the condition of a society organised and changed by large-scale applications of high technology.	USA
	Cramer <i>et al.</i> , 1980	SIA resembles <i>all other forms of policy analysis</i> in that ideally it should identify, predict, and evaluate all costs and benefits caused directly or indirectly by a certain (proposed) event. SIA is related to other policy analysis techniques.	USA
	Bowles, 1981	SIA is the systematic advance appraisal of impacts on the day-to-day quality of life of persons and communities when their environment is affected by development or policy change.	Canada
	Rossini and Porter, 1982	Impact assessment, <i>considered generally</i> , is the study of the consequences of new or modified technologies, projects, or programs and the development of policy alternatives for dealing with these consequences.	USA
	Vanclay, 2003	SIA is best understood as an umbrella or <i>overarching framework</i> that embodies the evaluation of all impacts on humans and on all the ways in which people and communities interact with their socio-cultural, economic and biophysical surroundings.	Australia
	Sairinen, 2004	SIA can be defined as <i>systematic effort</i> to identify and analyse social impacts of a proposed project or plan on the individual, on social groups within a community, or on an entire community in advance of the decision-making process.	Finland
	Momtaz, 2005	SIA is the <i>process</i> of assessing and managing the consequences of development projects, policies and decisions on people.	Bangladesh
	Lane <i>et al.</i> , 2005	The need to develop appropriate methods for use within the <i>political paradigm of SIA</i> has been established.	Australia
O’Faircheallaigh, 2009	SIA is generally seen as a <i>subset of EIA</i> that specifically seeks to predict the effects on people.	Australia	

Source: compiled by the author

Notes: EIA – Environmental impact assessment

Legislation (mainly NEPA in the United States) led to publications about SIA in the United States. The first “SIA textbook” (Finsterbusch, 1980) concentrated on what was known about social impact but not on how to carry it out (Freudenburg, 1986). The proportion of SIA discussions that appeared only in “underground” literature or technical reports has declined since 1980, and publications began to appear increasingly in refereed journals and other mainstream publications in the 1980s (Freudenburg, 1986). Craig (1990) characterises the wide variety of approaches to SIA as predominantly technically oriented or politically oriented. Since 1980, when SIA was more technocratic, in the sense that there was a strong, almost total, focus on the use of quantitative data, written information sources and ‘expert’ observations, there has been increasing recognition of the importance of the views, values and priorities of the stakeholders and communities affected by proposals (Buchan, 2003). Surprisingly, despite the regulations, there is not much literature on SIA in Europe, excluding sporadic and rather theoretical exceptions<sup>14</sup>.

The largest subset of empirical SIA work has focused on relatively specific construction projects, particularly large-scale energy development projects in rural areas (Freudenburg, 1986). Even now, most of the literature on SIA is based on case studies: how SIA is implemented on some specific project(s) (see figure 7). SIA is considered to be more a part of the decision process in Australia, Canada, the United States, and New Zealand (Burdge, 2003a). As figure 7 shows, Europe, North Africa, North Asia and South America are not represented much in the literature on SIA.<sup>15</sup>

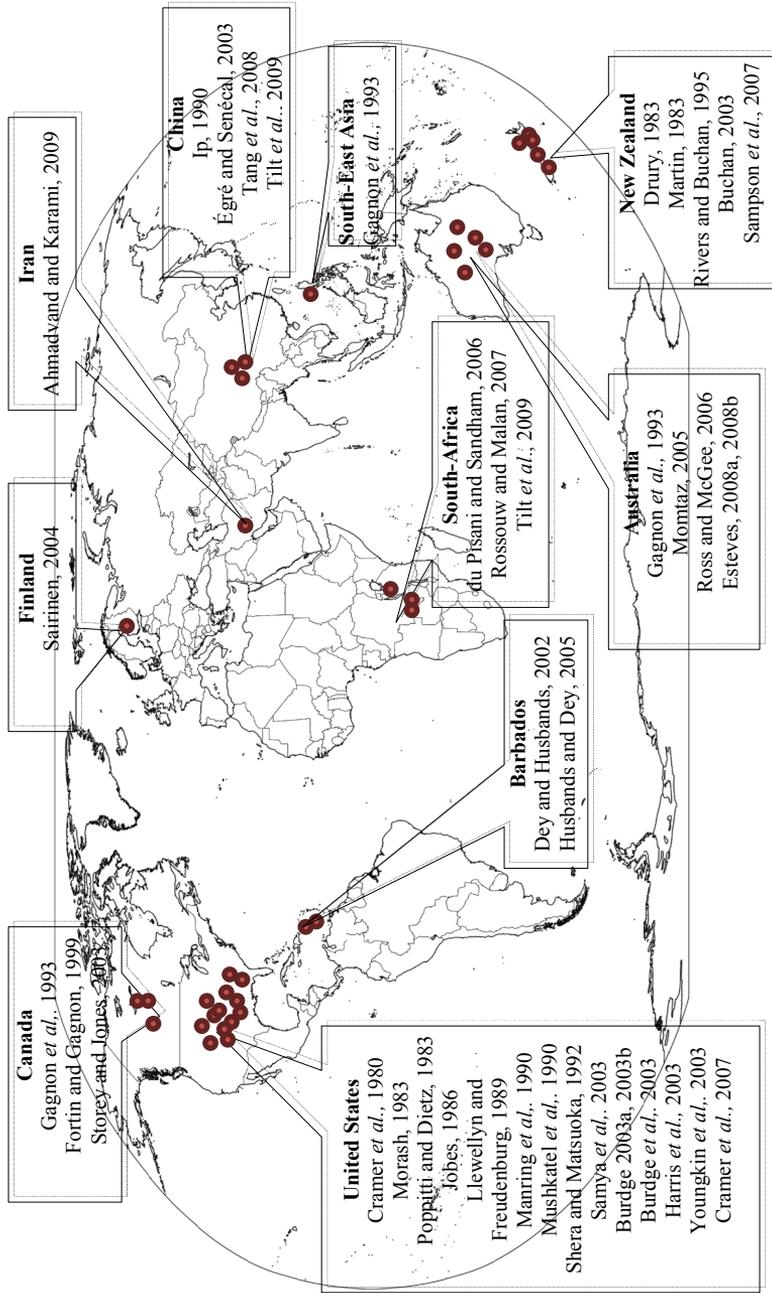
Based on a review of the literature of the 1970s and 1980s, Freudenburg (1986) highlighted four developments for SIA. SIA should:

- include a specific focus on sociological variables, instead of allowing the analysis to be guided by data availability, political pressures, or whatever “laundry lists” of potential influences happen to be available;
- focus on a key dependent variable, namely quality of life;
- increase emphasis on disaggregation and distributional effects;
- emphasise theories in the middle range of a level of abstraction, high enough to allow conclusions from one setting to be usefully applied in another but not so high as to attempt to explain everything while in fact explaining very little.

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<sup>14</sup> Some examples: Becker (1997, 2001) in the Netherlands; Marx (2002) in Belgium; Sairinen (2004) in Finland; Antonie (2010) in Romania; Dreyer *et al.* (2010) in Germany.

<sup>15</sup> At least not in the English academic literature that was available to the author.



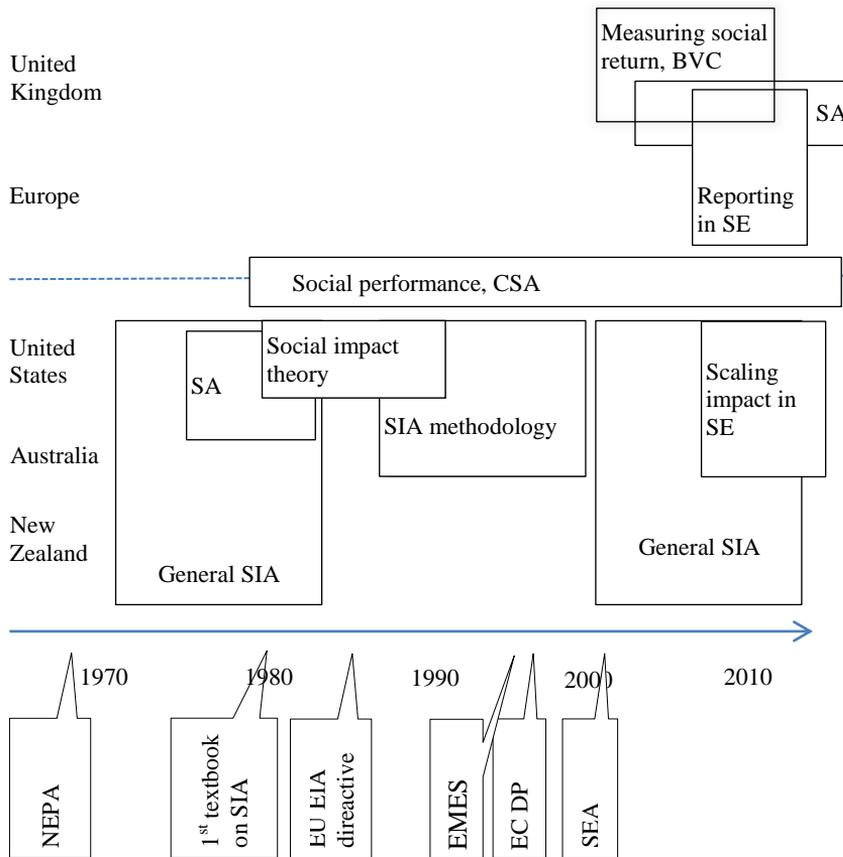
**Figure 7.** Regional location of case studies on implementation of SIA.

Source: compiled by the author

In the author's opinion, these developments have not yet taken place. Lockie (2001) argues that SIA must take a significantly more prominent role in setting the agenda for all aspects of impact assessment. Lockie (2001) shows that there is conflict between development proponents and SIA practitioners, where development proponents prefer the most technocratic approaches to SIA, and notes that the more technocratic the impact assessment the more support is lent to existing arrangements and their frequent incapacity to deal with uncertainty in a strategic and participatory manner, which does not allow SIA to move beyond its project focus. Because of this project focus, SIA is not a well-established evaluation approach for an on-going SE and its performance or impact.

Although the rise in the number of SEs has given new impetus to impact evaluation literature in the United States (and in Canada and Australia, which seem to have similar views on social impact evaluation), there is still a gap between academic literature, which focuses more on SIA or some parts of social impact evaluation, and practitioners' literature, which focuses on practical social impact evaluation tools in SEs.

A new trend in the literature, which began in 2002 in the United States, Canada and Australia, focuses on scaling impact in social entrepreneurship (e.g. Taylor *et al.*, 2002; Bloom and Chatterji, 2009; Smith and Stevens, 2010; Westley and Antadze, 2010; Schirmer, 2011) although some examples can be found in Europe and the United Kingdom as well (e.g. Perrini *et al.*, 2010). Scaling social impact is the process of increasing the impact a social-purpose organisation produces to better match the magnitude of the social need or problem it seeks to address (Dees, 2008). Three types of scaling strategies (scaling up, scaling deep and scaling out) are discussed. The scaling up strategy assumes that the organisation that is fostering and attempting to scale the innovation will continue to propagate a single innovation or group of innovations for the new markets (Westley and Antadze, 2010). Scaling out is considered as offering the same service to the new markets (Westley and Antadze, 2010). Smith and Stevens (2010) state that innovative solutions that offer more impact to the same market reflect the strategy of scaling deep. They argue that more locally focused social initiatives are likely to find that their ventures are most effective when scaled deeply. Taylor *et al.* (2002) list the ways for scaling deep: improving the quality of services, achieving greater penetration of the target client population, finding new ways to serve clients, extending client services to new client groups, developing innovative financial management approaches and serving as an example to others. Figure 8 shows that the European literature on social impact evaluation is more diverse.



**Figure 8.** The history of social impact evaluation

Source: compiled by the author

Note 1: BVC – Blended Value Concept

CSA – Corporate Social Accounting

SA – Social Auditing and Social Accounting

SE – Social Enterprise

SIA – Social Impact Assessment

NEPA – National Environmental Policy Act in the United States

EMES – The Emergence of Social Enterprise in Europe Project

ECDP – European Commission’s Digestus Project

SEA – Strategic Environmental Assessment required under the EU SEA Directive

Note 2: The regions and themes are mapped according to academic literature in English and characterised according to pervading patterns; there may be exceptions from these patterns. Also, there may be a time lag between the academic literature and the practitioners’ literature.

Ramanathan (1976) stated that, historically, the theory and practice of accounting has evolved into four interrelated areas: a framework of objectives, valuation concepts, measurement methodology and reporting standards. Similar areas could be seen in social impact evaluation. Views on social performance are often discussed in the context of corporate social responsibility and its reporting (social responsibility accounting). Their associations with social impact will be discussed in sub-chapter 1.4 in order to set a framework of objectives. Valuation concepts appear from the definition of social impact and the criteria for social impact evaluation. Measurement methodologies and reporting standards (which appeared to the literature of social impact evaluation in the United Kingdom around 2008 and can be considered as a superset of social return and blended value concept) are discussed together in sub-chapter 1.5. To be more precise, the blended value concept was introduced from the United States by Emerson (e.g. Emerson *et al.*, 2003), but this concept has gained a lot of attention in the United Kingdom.

Sub-chapter 3.2 will provide an analysis of whether the current findings are in accordance with Social Impact Theory (SIT). SIT is based on social psychology and tries to describe and predict the diffusion of beliefs through social systems. It views society as a self-organising complex system composed of interacting individuals each obeying simple principles of social impact. It states that the likelihood of a person responding to social influence will increase with three factors: strength, immediacy and number. In this context, strength represents how important the influencing individual is to an influenced individual. Immediacy represents the spatial closeness of the influencing individuals. Number describes how many individuals are influencing the one individual. (Macaš and Lhotska, 2008)

Some of the most confusing terms in the literature on social impact are social accounting and social auditing. Although these terms (which are sometimes used as synonyms for each, or as synonyms for *social measurement*) have been around for over 30 years (e.g. Gibbon and Affleck, 2008; Gray, 2001; Ross and McGee, 2006), in the author's opinion there are only a few studies focusing on the same thing. In the 1970s, social accounting and social auditing were used mainly in the context of SIA. In the 1980s, social accounting and social auditing faded from the public agenda (Gray, 2001). In the 1990s, they appeared in the literature again, but mainly in the United Kingdom. Since the 1990s, social accounting and social auditing have been used in the context of the Strategic Environmental Assessment required under the EU SEA Directive (e.g. Owen, 2008), evaluating corporate social responsibility (e.g. Dey, 2007; O'Dwyer, 2005; Gao and Zhang, 2006; Harvey *et al.*, 2010), the public sector (e.g. Hill *et al.*, 1998) and even SEs (e.g. Gibbon and Affleck, 2008; Darby and Jenkins, 2006). Partly in response to this proliferation of approaches and terminologies, the Institute for Social and Ethical Accounting was formed to establish a common language and international standards for Social and Ethical Accounting Auditing and Reporting (Paton, 2003); this published its "AA1000

Accountability Principles Standard”<sup>16</sup> in 2008. Darby and Jenkins (2006) use the term “social accounting” in the way the current study uses “social impact evaluation” and concludes (using the United Kingdom as an example) that no one method of social accounting has been universally accepted. Hence, when Darby and Jenkins (2006) as well as Paton (2003) refer to social accounting, they pay most attention to a tool developed by New Economics Foundation (NEF); in 2011 this has become quite similar to the social return on investment (SROI) approach (which will be discussed in sub-chapter 1.5).

In terms of methodology, the literature on impact evaluation is more diverse (see table 7) compared with that on SIA (which focuses on case studies), although it still relies a lot on case studies. Douglas (2008) found that the differences in research methodologies are influenced by their foundation disciplines. Whilst social movement is strongly associated with sociology, anthropology and political science, social entrepreneurship is firmly embedded in business disciplines. Douglas (2008) argues that this explains why the methodology on social entrepreneurship studies is more severe (25% surveys, 30% case studies, 20% network analyses, 15% secondary data, and 10% mixed quantitative and qualitative methods).

To conclude the history of SIA and social impact evaluation, the literature on social impact evaluation in Europe shows that there are two major differences between it and SIA. Firstly, in terms of methodology, the literature on impact evaluation is more diverse. Secondly, if SIA is regulator-driven, then social impact evaluation is practitioner-driven. Research on SIA started with legal requirements; standards for social impact evaluation are rather required by SEs themselves. The construction of these standards is yet to be completed, but it has become an increasingly important topic in past few years.

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<sup>16</sup> The AA1000 AccountAbility Principles are intended for use primarily by organisations that are developing an accountable and strategic approach to sustainability (AA1000APS, 2008).

**Table 7.** Some examples of methodologies used in the literature of social impact evaluation (apart from SIA)

<b>Context</b>	<b>Reference</b>	<b>Methodology, data</b>	<b>Region</b>
Reporting in SE	Nicholls, 2009	Five annual reports of audited financial accounts as case studies	United Kingdom
	Achleitner <i>et al.</i> , 2009	Theoretical, no empirical data	Germany
Social return, Blended value concept	Flockhart, 2005	Constant comparison of grounded theory and phenomenology/heuristic analysis (in-depth interviews)	United Kingdom
	Meadows and Pike, 2010	Case study	United Kingdom
Scaling impact of social enterprises	Bloom and Chatterji, 2009	Theoretical (SCALER model) with some example cases	United States
	Smith and Stevens, 2010	Theoretical, no empirical data	United States
	Westley and Antadze, 2010		Canada
	Schirmer, 2011	Case study	Australia
Social accounting, social auditing	Bauer, 1973	Theoretical	United States
	Ramanathan, 1976		United States
	Hill <i>et al.</i> , 1998	Consultative focus group discussions and individual interviews (n=22)	United Kingdom
	O'Dwyer, 2005	Case study	United Kingdom
	Dey, 2007		United Kingdom
	Gibbon and Affleck, 2008	An action research approach with the single case organisation (31 workshop participants)	United Kingdom
Social impact theory	Latané, 1981	Theoretical	United States
	Mullen, 1985	Meta-analytic evaluation of academic studies	
	Sedikides and Jackson, 1990	Factor analyses	
	Prizzia, 2003	Meta-analytic evaluation of case studies and surveys	
	Ndemo, 2006	A modified design of ethnography for listening and asking questions in the context of sociological and anthropological studies (11 social enterprise programmes)	Kenya
	Schultz, 2008a	Viewpoint	United States
	Parisi and Hockerts, 2008	Case study	Denmark
	Harvey <i>et al.</i> , 2010	Quantitative study, survey (n=269)	United States

Source: compiled by the author

### 1.3. Defining social impact and its evaluation

Because of the background to SIA, at least in the non-European literature, social impact evaluation is often seen as a subset of environmental impact assessment (e.g. Asselin and Parkins 2009; Jones *et al.*, 1996; O’Faircheallaigh, 2009), although there has also been a shift in scope, from the narrow biophysical approach of early environmental impact assessment activity and of some current SEA activity, towards a more holistic approach, including biophysical, social and economic dimensions (Glasson and Cozens, 2011; Glasson, 2009). Even now, much of the literature on SIA focuses on the context of environmental impact assessment (EIS), whilst social impact (in the context of social impact evaluation in SEs) is seen as equal to the environmental impact (e.g. Bruch *et al.*, 2008; Emerson *et al.*, 2003; Glasson and Cozens, 2011; Kirkpatrick and George, 2006; Utting, 2009).

Based on a review of the literature, the main questions about the essence of “social impact” could be as follows: 1) Is social impact evaluation a subset of environmental impact evaluation? 2) What are the differences between the terms “social impact” and “social value”? 3) In emotional impact and/or impact on health separate from social impact or are they part of it? 4) Should organisational sustainability and capability be part of (social) impact evaluation? To answer the first question, the content of the impact needs to be analysed. To answer second and third question, the content of social impact and some definitions of social impact must be analysed. The fourth question will be answered in next sub-chapter.

There is no consensus on what total impact consists of. The term *social impact*, and its evaluation, is sometimes used in the narrowest sense. For example, Green and Peloza (2011) use it in terms of *meeting social norms* in the context of consumer value. However, such a narrow concept is not the norm in the literature, although the division of impacts is quite diverse. Table 8 provides a short comparison of some frameworks, where social impact can be seen as one part of a whole.

Social impact (e.g. Elbers *et al.*, 2009; Fried *et al.*, 2010; Mair and Marti, 2007; Prieto-Rodriquez *et al.*, 2009), social change (e.g. Schultz 2008b) and the creation of social value (e.g. Pandey *et al.*, 2008; Huarng and Yu, 2011) could be used as synonyms, as the authors seem to be focusing on the same subject area and definitions are not given. A synonym for social impact might also be “value added” or “social benefit” (e.g. Kober and Eggleton, 2006).

**Table 8.** Comparison of social impacts location in the impact and value (creation) framework.

<b>Ingredient of impact</b>	<b>Burdge 2003a</b>	<b>Finney and Wittchalls 2005</b>	<b>Russell-Bennet <i>et al.</i> 2009</b>	<b>Holbrook 1994</b>	<b>Bruch <i>et al.</i> 2008</b>	<b>Kirkpatrick and George 2006</b>	<b>Jesus-Hitzschky and Silveira 2009</b>	<b>Utting 2009</b>	<b>Glasson and Cozens 2011</b>	<b>Emerson <i>et al.</i> 2003</b>
<b>Social</b>	<b>Social</b>	<b>Social</b>	<b>Social</b>	<b>Socio-cultural</b>	<b>Socio-cultural</b>	<b>Socio-cultural</b>	<b>Social</b>	<b>Social success</b>	<b>Socio-economic impacts</b>	<b>Social Impact</b>
<b>Economic/functional</b>	Economic	–	Functional	Economic	Economic	Economic	Economic success	–	–	Economic value creation
<b>Environmental</b>	Environmental	Environmental	–	–	Environmental	Environmental	–	Environmental impacts	Environmental	Environmental value creation
<b>Emotional, Health</b>	Health	Health	Emotional	Hedonic	–	–	–	Impact on livelihood of primary stakeholders	Health Impact	–
<b>Institutional, regulatory</b>	–	–	–	–	–	–	Institutional success	Policies, institutional impacts	Regulatory Impact	–
<b>Other</b>	–	–	–	–	–	Process	Capability	Organisational impacts, Future prospects	Sustainability appraisal, equality impact	–
<b>Name of framework</b>	<b>Impact</b>	<b>Impact</b>	<b>Value</b>		<b>Trans-boundary impact assessment</b>	<b>Sustainability impact assessment</b>	<b>Impact assessment</b>	<b>Impact assessment</b>	<b>Impact assessment</b>	<b>Blended value map</b>

Source: compiled by the author

Some examples of where definitions of social impact and social value are given can be found in table 9. It appears that there are two main similarities between these definitions:

- social impact is about impact on people (their lives, well-being, etc.);
- social impact has to be seen to appear in the interaction between the organisation and its stakeholders.

**Table 9.** Examples of definitions of social impact and social value

Term	Definition	Reference
Social impact	... impact on <i>people</i> , communities and society, which have an effect on well-being.	Juslen, 1995
Social impact	... all impact on humans	Vanclay, 2002
Social impact	... significant or lasting change in <i>people's</i> lives brought about by a given action or actions.	Barrow, 2002
Social impact	... includes a firm's <i>interaction</i> with key <i>stakeholders</i> – consumers, employees, owners and investors, suppliers, competitors, communities, and the environment.	Dillenburg <i>et al.</i> , 2003
Social value	... the total social impact a charitable organisation has on <i>all</i> its <i>stakeholders</i> and thus needs to have a broader scope than might traditionally be considered in performance evaluation. These stakeholders include donors, employees, volunteers, other charities and nonprofits, those the charity is helping, and society in general.	Polonsky and Grau, 2008

Source: compiled by the author

In the context of nonprofits, Kelly and Lewis (2009) state that there is a need to create a set of measures to evaluate a nonprofit's effectiveness in its ability to change lives. Even SIA is moving towards a methodology that includes the social stage. It does this by allowing the opinions of stakeholders to be integrated into the decision-making process in the early stages (indicators definition) of the environmental and social impact studies in order to reduce conflict between the project promoters and the stakeholders, thus improving the public participation processes foreseen in the environmental and social impact assessment procedures (Cloquell-Ballester *et al.*, 2006).

The economic concept of value is based on the two fundamental premises of neoclassical welfare economics (Freeman, 2003) – that the purpose of economic activity is to increase the well-being of individuals in society – and that individuals are the best judge of how well off they are in a given situation. The author agrees with the first premise but the second is not always considered valid for social impact. It is argued, especially in the context of value-based methods (see sub-chapter 1.5) that the changes in people's behaviour should be evaluated, rather than taking their own estimation of their well-being. The main criticism on a survey-based methodology for eliciting information on the values people place on goods, services and amenities (contingent valuation) is expressed by

Scott (1965): “Ask a hypothetical question and you get a hypothetical answer” (cited in Boyle, 2003). If the behaviour does not change, then it can be argued that there may not be any impact at all or the impact may be quite small. For example, if an organisation’s purpose is to educate people with the intention of getting them to sort their rubbish, the evaluation needs to look at whether they are actually sorting it, and are not just aware of the need to sort it. Young (2008) names five crucial features of value from the perspective of SEs:

1. Value is subjective, it is a matter of real life experiences;
2. Social value is negotiated between stakeholders;
3. Social value is contingent and open to reappraisal;
4. Social value brings together incommensurable elements that cannot be easily be aggregated within a single metric;
5. Values are inseparable when it comes to social activity.

In business terminology, measurement is emphasised in relation to a single bottom line (financial); it does not include social and environmental outcomes, which SEs excel in (Bull and Crompton, 2006). The social purpose of the SE creates greater challenges for measuring performance than the commercial entrepreneur does. Empirical research has shown that the single-stakeholder character does not seem to jeopardise the multiple-goal nature of SEs (Defourny and Nyssens, 2008a). The various financial and non-financial stakeholders that an SE is readily accountable to are greater in number and more varied, resulting in greater complexity in managing these relationships (Austin *et al.*, 2006b; Kanter and Summers, 1987). Nicholls (2008: 30) concludes that it is patently clear that social entrepreneurship is generating entirely new paradigms of social value creation and systemic change.

Some authors argue that it is essential to separate the concept of the process of social change from the concept of social impact in a conceptual framework. Those who agree see social change as a dynamic process associated with an influencing event (e.g. Vanclay, 2002; Schirmer, 2011). Social impact is a static result of social change and refers to “*how people experience social change*” (Schirmer, 2011). Vanclay (2002) argues that if “social impact” refers to the effects actually experienced by humans then many of the impact variables commonly measured in SIA studies – for example, population growth, the presence of construction workers, etc. – are not impacts; they are change processes that lead to impacts. The purpose of social impact evaluation is to evaluate the outcomes of social change processes. Consequently, the term “social impact” is used in the current dissertation.

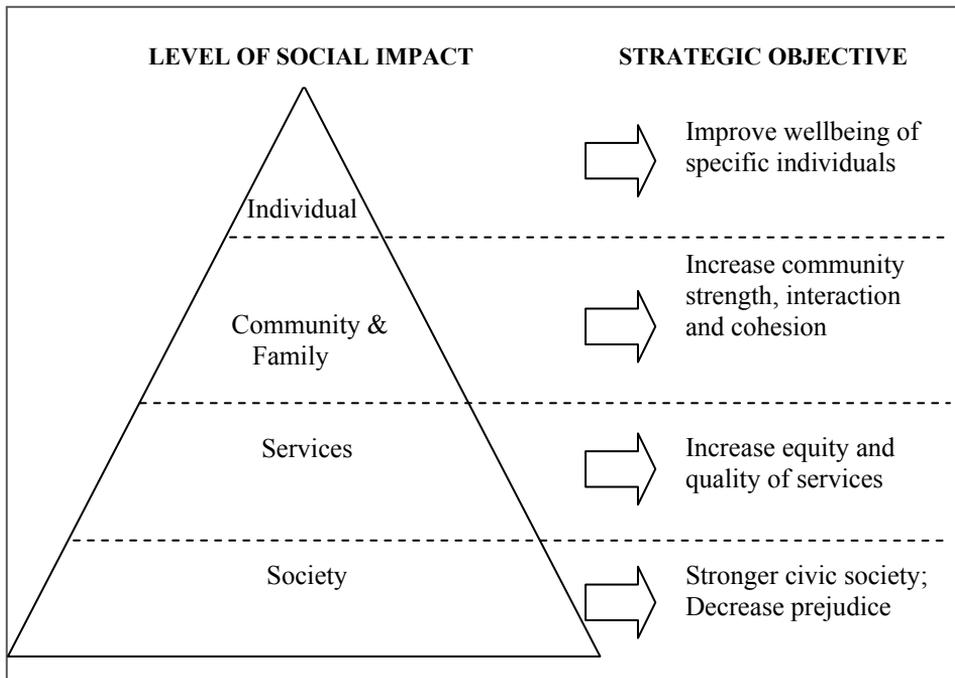
Vanclay (2002) divides social impacts into direct and indirect, depending on whether they result from planned or unplanned social change processes. Slootweg *et al.* (2001) divides social impacts into on-site and off-site impacts: change that results directly from intervention (first-order change) and changes that may result from first-order change through a causal chain of events or processes (second-order and higher-order changes).

Several studies have tried to compile a list of social impacts. One of the most famous lists was created by Burdge (1994) (Sairinen, 2004; the full list can be found in Appendix 2) and one of the most elaborate ones by Vanclay (2002) (see Appendix 2). It is essential to mention that Vanclay (2002) emphasises that the list is useful for expanding awareness of the full range of social impacts, but the list should not be used as a checklist.

In the current dissertation, social impact, environmental impact and economic impact are seen as equal subsets of total impact. Health and emotional impacts are seen as subsets of social impact evaluation, as social impact is often defined as impact on people. Regulatory and institutional impacts are considered as meta-level impacts, and are not considered in current thesis. In the context of the current dissertation, social impact is defined for social impact evaluation in SEs as the *traceable difference in people's behaviour that appears in the interaction between the organisation and its diverse stakeholders*; and social impact evaluation for SEs is understood as *the process that results in finding how much one particular social problem has been relieved by the activities of one particular organisation*.

Some studies have paid attention to dividing social impact into separate levels. Such divisions are sometimes hard to differentiate from social impact checklists. For example, Jones *et al.* (1996) defines social impacts as the consequences for human populations, communities or individuals, resulting from a project or activity; Sairinen (2004) defines SIA as the systematic effort to identify and analyse the social impacts of a proposed project or plan on an individual, on social groups within a community, or on an entire community in advance of the decision-making process. Four levels of social impact, which are outlined by Lumley *et al.* (2005), are used in this dissertation, because it is the framework in which levels of social impact are related to an organisation's strategic objectives. These levels are the individual, the local community (including the individual's family), the services available to them, and the society (state); see figure 9. The comparison between lists of social impacts and the division of impacts suggested by Lumley *et al.* (2005) is given in table 10.

Just for the record, some authors have proposed that social impacts should be considered on two-dimensional matrixes. Reed *et al.* (2005) used a division quite similar to that used by Lumley *et al.* (2005), whereby services are replaced with other organisations; community and society bunched together in one level above other organisations. However, the division of impact was complemented with the dimension of voluntary sector functions, based on the "impact grid" constructed by Wilding and Lacey (2003). See Appendix 3 for more information. An alternative division of social impacts on different levels is proposed by Kelly and Lewis (2009). They measured the level of social impact on a scale from 1 to 5, corresponding to the five levels of turbulence (see Appendix 3). They defined the level of social impact as the number of programmes available to help people in need with products/services and to change the economic development within a community.



**Figure 9.** Levels of social impact and their relationship to strategic objectives

Source: Lumley *et al.*, 2005:14

The author believes that for-social-profits could be divided according to the level of social impact that they are trying to achieve within their strategic objectives. Smith and Stevens (2010) have divided SEs into different types, based on the extent of focus on “social value creation”. The types of social entrepreneurship, which are based on theories of Hayek (1945), Kirzner (1997) and Schumpeter (1942), are borrowed from Zahra *et al.* (2009) and their association with the level of impact is as follows: the Social Bricoleur type focuses on creating social value at a local, even a community-wide, level; the Social Constructionist type often focuses on creating social value within regional or national boundaries; and the Social Engineer type often addresses social issues in a transnational or global context (for more information on these types see Appendix 4). Becker (2001) divides SIA projects in a similar way: micro-level impact (the impact on individuals), meso-level impact (the impact on collective actors, such as organisations and social movements) and macro-level impact (the impact on national and international political and legal systems).

**Table 10.** Lists of social impacts

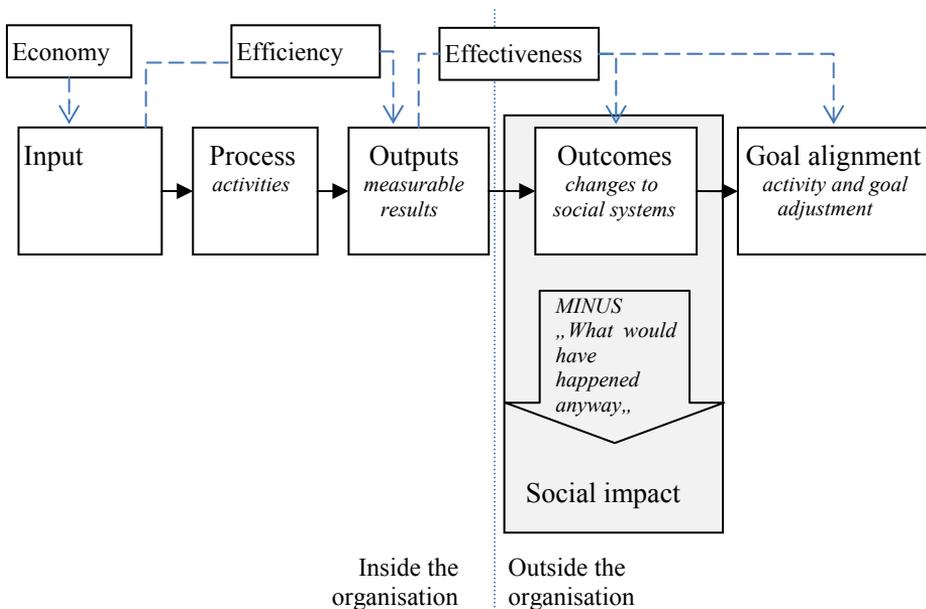
Lumley <i>et al.</i> 2005	Branch <i>et al.</i> 1984	Gramling and Freudenburg 1992	Burdge 1994	Juslen 1995	Taylor <i>et al.</i> 1995	Armour 1990	Vancley 1999	Vancley 2002
<b>Individual</b>			Population characteristics		Life-styles, attitudes	People's way of life		
		Cultural systems	Individual and family changes (cultural effects)		Beliefs and values	Culture	Culture (beliefs, customs, values, language or dialect)	Cultural impacts
	Individual well-being	Biophysical and health systems Psychological systems	Conflict between local residents and newcomers	Mobility, Anticipatory fear			Health and well-being	Health and social well-being
<b>Local community (incl. the individual's family)</b>	Community well-being		Community and institutional structures	Psycho-social impact		Community character, services, facilities)	Personal and property rights, Fears and aspirations	Family and community impacts
	Community resources, Community social organisation		Community resources (infrastructure needs)	Impact on carrying out the assessment				Gender relations impacts
<b>Services</b>				State and private services	Social organisation			
		Economic systems						Economic impacts and material well-being
		Political systems, Social systems					Political systems (level of democracy, level of participation)	Institutional, legal, political and equity impacts
<b>society (state) level</b>				Noise level, pollution, etc.			Environment	Quality of the living environment

Source: compiled by the author, based on Vancley (2002) and Sairinen (2004)

To understand this area, the second research question (RQ2) was developed to analyse standardisation through focusing on what the stakeholders' manager finds most important. As SEs are accountable to multiple stakeholders and as the social impact appears in the interaction with them, issues of corporate governance should be more critical for SEs. The measures should be aligned to strategy, thus the stakeholders are compared to the strategic objectives of the organisation. RQ2 was stated: *Should the impact be evaluated in relation to the group of stakeholders to whom the strategic objectives of the organisation refer?* Two prepositions will be made to specify this research question in subchapter 2.3.

One of the most common conceptual frameworks employed in the economic analysis of organisational performance takes the form of a production function. Here, SEs or organisations with a social mission are seen as analogous to companies transforming inputs into outputs and outcomes through a production process. The relationship between the terms used to analyse social impact are described in figure 10.

The vocabulary of the impact value chain is based on the Double Bottom Line Project Report (Clark *et al.*, 2004), which is one of the first methods developed for evaluating the social impact of SEs or not-for-profit organisations.



**Figure 10.** Social impact value chain

Source: Clark *et al.*, 2004: 9; complemented by author, based on Koopman *et al.*, 2008; Kober and Eggleton, 2006.

Input includes all the resources – tangible and intangible – that are committed to the organisation. Inputs are the resources that contribute to a programme or activity, including income, staff, volunteers and equipment. Activities are what an organisation does with its inputs in order to achieve its mission (Wainwright, 2003; Moxham and Boaden, 2007). Bagnoli and Megali (2009) use social effectiveness in relation to evaluating all parts of the impact value chain; they state that with regard to inputs, a social-effectiveness perspective has to consider the responsible use of resources. In other words, a sustainable SE should pursue community interest in the following ways (Bagnoli and Megali 2009):

- choosing local suppliers to favour short supply chains;
- choosing socially or environmentally certified;
- adopting a regime of decent work conditions (safety, health, etc.); and
- giving employment to workers who are disadvantaged (for example, the mentally ill, the mentally retarded, the physically handicapped, the disabled, or civilian prisoners).

Outputs are results that a company, nonprofit or project manager can measure or assess directly, such as direct products or activities (Buckmaster, 1999). It must be stated that some authors see outputs as an impact, which may be misleading; e.g. Falcone and Bjornstadt (2003) name a number of new patents, publications, citations, etc. as examples of impacts. Measuring outputs has been found to result in goal displacement and the creation of organisational silos focused on delivering measurable and auditable results (Norman, 2007). Such measures have a narrow view of social entrepreneurship, and underplay the significance of social performance or impact in SEs (Haugh, 2005; Teasdale, 2010). Holding people accountable for outputs rather than for outcomes will produce *procedural* rather than *results* accountability (Wei-Skillern *et al.*, 2007). The study (conducted by The Department of Trade and Industry in the United Kingdom) suggested that impact evaluation that focuses on beneficiaries is more useful as a measure of social aim than categories are, as categories are more descriptive of an organisation's activities (Allan, 2005). Similarly, Rhodes and Donnely-Cox (2008) mention a “trap” of evaluating the activity itself rather than its impact in relation to the organisation's mission. The main criticism of measuring outputs instead of impacts in social entrepreneurship is stated by Kramer (2005), reflecting to the innovativeness of SEs: “*We're not giving people fish. We're not teaching people how to fish. We're trying to change the whole market of how we deliver fish to people. If you claim to do that, you can't just measure how many fish you deliver.*”

An SE's contribution to positive social change is determined by its specific strategic positioning or “theory of change” (Scholten *et al.* 2006) or “logic model” (Wei-Skillern *et al.*, 2007; Smith, 2010b). More specifically, the logic model could be seen as a part of the theory of change. This theory of change includes the *beneficiaries and stakeholders* of the organisation and the *logic*

*model* or cause-and-effect relationship, that is how the SE's activities will produce the objectives defined as its distinctive contribution (W. K. Kellogg Foundation, 2004; Wei-Skillern *et al.*, 2007; Achleitner *et al.*, 2009). If the cause-and-effect model that informs intervention does not fully capture the nature of the problem, it may ignore a number of unintended impacts, some positive, some not (Kabeer, 2003).

The theory of change describes how we hope (and assume) that outputs create outcomes that will help to relieve or resolve a social problem (Colby *et al.*, 2004). Once this model is set, the assumptions and premises on which it is built must be tested empirically. Testing the theory of change should not be part of day-to-day managerial focus, yet it may make sense to try to assess, at least occasionally, whether the hypothesised cherished theories seem to be correct (Wei-Skillern *et al.*, 2007). Impact evaluation on a society level and analysing the theory of change would, in the author's opinion, provide better grounds for policy formation.

Output, outcomes, impact, and goal alignment all express the benefits that arise from the activities of the organisation (Clark *et al.*, 2004: 8). Outcomes are the ultimate changes that one is trying to make in the world (Clark *et al.*, 2004: 8). Outcomes comprehend all the changes in the social system. Outcomes can be measured as either internal (achievement of a mission and chosen objectives) or external (client/user satisfaction) (Bagnoli and Megali, 2009). It was stated at the beginning of this sub-chapter that social impact has to be seen to appear in the interaction between the initiator of social change (the organisation) and its stakeholders. It would thus be more correct to say that outcomes (and impacts) are the ultimate changes that the organisation is trying to achieve for the stakeholders.

Effectiveness has several meanings. Diochon and Anderson (2009) define it as "innovation in dealing with the challenges of social exclusion and marginalisation; increased self-sufficiency and sustainability". In the current study, effectiveness is understood as "comparing accomplishment with goals" (Sorensen and Grove, 1977) and the ability to optimise the transformation from outputs to desired outcomes and impacts. There is growing consensus that the outcomes of social initiatives need to be measured and so social initiatives require clear mission statements and a systematic evaluation of their progress towards that mission (Forbes, 1998; Forbes and Seena, 2006). Perrini *et al.* (2010) propose that the better the entrepreneur is at articulating social motives, innovativeness and the need for achievement in a concrete vision of the future, the easier will be the evaluation of the social and economic feasibility of the project. Effectiveness, seen as the ability to achieve goals and implement strategies while using resources in a socially responsible way, becomes important in evaluating an SE's success (Bagnoli and Megali 2009).

In the 1980s, the focus was on the "three Es" – economy, efficiency and effectiveness. However, in the 1990s, attention shifted to quality and consumer satisfaction (Kouzmin *et al.*, 1999). It could be argued that in the new century

the shift is towards impact. Generally, there is an opinion that the most proper measure for added value is the evaluation of impact. The impact is the portion of the total outcome that happened as a result of the activity of the venture, above and beyond what would have happened anyway (Clark *et al.*, 2004: 8). Impact is therefore all the changes resulting from an activity, project or organisation. It includes intended as well as unintended, negative as well as positive, and long-term as well as short-term effects (Wainwright, 2003; Moxham and Boaden, 2007). According to Uglow (1998), a positive social impact is one that furthers social development and sustainable development. A negative impact, therefore, is one that limits or retards development (Esteves, 2008a). The author sees positive impact as that which drives the SE closer to its social goals and negative impact as that which takes the SE farther from its social goals.

To measure social impact, it is necessary to evaluate what would have happened or what is going to happen if the particular SE (or for-social-profit organisation in this case) did not exist. The idea of social impact evaluation is to evaluate the impact on the stakeholders of the organisation and that organisation only. All trends in people's behaviour should be discounted. Even if the outcome is negative, an impact may be positive, considering the trend. Clements (2007) argues that evaluating what has not happened may be just as important. Methods for evaluating and/or pricing social impacts and discounting the trends vary in different methods and will not be discussed in detail in this dissertation. Among the most common ways of discounting the trends is using control groups or statistics. Problems with such techniques are analysed by Elbers *et al.* (2009) and will not be repeated in this dissertation.

Sheehan (1996) asserted that a philanthropic organisation is effective if it accomplishes its mission (this is based on questionnaires collected from 101 philanthropic organisations in Ohio). He found that despite the organisation's desire to influence the world, the vast majority he studied measured the activities they completed; yet they did not know if they were accomplishing their mission and they had not developed any measures to evaluate impact. It is often assumed that inputs are strongly and positively correlated with outcomes but the causal relationship between these three parts and the impact are not analysed. Thorbecke (2007) mentions that impact evaluation often answers an important but narrow question: does intervention have an effect? It does not explain why or how the effect occurred, only that it occurred. Elbers *et al.* (2009) found that the vast majority of development evaluations are focused on process rather than on impact, and on recording changes rather than on attributing changes to interventions. They state: "*Consultants who specialize in evaluations of development activities are usually very good in establishing what happened, and why. They report, of course, to what extent targets were achieved but typically they do not attempt to establish rigorously whether observed changes can be attributed to the intervention.*"

## **I.4. Performance measurement's relationship to social impact evaluation**

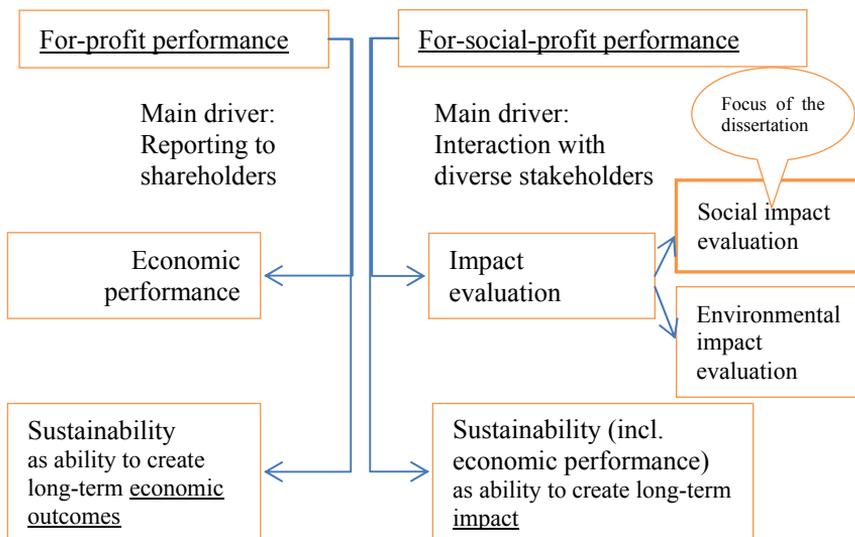
The term “performance management” is used differently by many authors, but it mainly refers to managing the organisation according to its objectives. In the most extreme form of public administration and management, it was assumed that the application of private-sector managerial techniques (such as performance measurement) to the public administration of public services would automatically lead to improvements in the efficiency and effectiveness of these services (Thatcher, 1995). At the same time, Greiling (2006) found that most of the theories (Weber's theory of bureaucracy, Niskan's budget-maximising bureaucrats, principal agent theory, Leibenstein's theory of X-inefficiency, and institutional theory) are sceptical about the assumption that performance measurement will help drive the efficiency of public services.

The proliferation of private managerial practices in the public sector and also in the nonprofit sector (including SEs) goes along with a certain amount of reluctance and a contradictory process. At the same time, the common view in the literature on public policy and administration is that public and private organisations are so different that bringing managerial processes and behaviour from the private sector into public organisations is inappropriate. McAdam *et al.* (2005) concluded that the proliferation of private sector practices in the public sector is built on the false underlying assumption that public-sector organisations can structure their performance management approach to address the needs of a composite end customer. This approach over-simplifies the multiple stakeholders within the public sector, which often have differing agendas and requirements and who need a differentiated strategy to meet their needs and expectations (McAdam *et al.*, 2005). Parhizgari and Gilbert (2004) analysed performance measurement on 11,352 cases in the United States – comprising organisations in both the private sector and the public sector; the results showed statistically significant differences across the two sectors. It has been argued that a specific approach is required in the public sector, one that can draw upon, but not slavishly copy, models used in the private sector (Talbot, 1999).

Hamby *et al.* (2010) see one underlying distinction between social and commercial entrepreneurship: researchers and practitioners tend to pursue contrasting paths; commercial entrepreneurship seems to begin in the conceptual domain, with a focus on innovation, whereas research into social entrepreneurship starts in the substantive domain. They suggest that social entrepreneurs would be well served with a better understanding of business models developed in the conceptual domain (Hamby *et al.*, 2010). However, Baruch and Ramalho (2006) found, while analysing 149 scholarly publications published in the past decade, that social performance is considered to be an issue only in not-for-profit organisations, and that there is no reason to consider that differences between for-profits and not-for-profits are so wide that studying performance must be seen as a fundamentally different construct for each. On

the subject of social entrepreneurship, Young (2008) states: “*At its best, social entrepreneurship is about living a more compelling life that is more directly engaged and that integrates vision and impact. This is why any discussion of value in this field should never stray too far from a clear sense of values, or borrow too uncritically from a business world that often works most effectively when it is ethically neutral in its calculus; and why educational, capacity-building, research, or infrastructure debates should continue to grapple with the things that make social entrepreneurship different.*”

Social impact evaluation and performance measurement are often used as synonyms for each other. However, in the author’s opinion, social impact evaluation should be seen as a subset of performance measurement in for-social-profit organisations (e.g. Prizzia, 2003; and see figure 11).



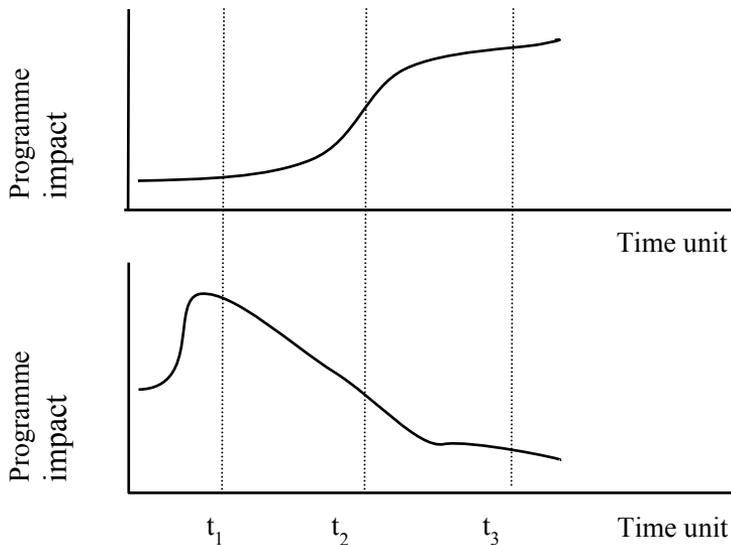
**Figure 11.** Differences in the concept of performance in for-profit and for-social-profit organisations.

Source: compiled by the author

The main differences between social impact evaluation and performance measurement in the private sector are as follows:

- Differences in the perception of short term and long term;
- Differences in the goals of organisations and in the focus of evaluation in the context of the impact value chain;
- Differences in stakeholders’ interests (discussed in previous sub-chapter).

An integral part of every evaluation system deals with decisions about the choice of criteria to be evaluated, establishing standards for those criteria, and the desired measurement frequency (Globerson, 1985). King and Behrman (2009) discuss the importance of the timing of evaluations and the effect of timing on impact estimates. They argue that impact evaluations of social programmes or policies typically ignore the timing dimension and assume that interventions occur at a specified date. This is untrue to several reasons, including programme design features that have built-in waiting periods, lags in implementation owing to administrative or bureaucratic procedures, spillover effects, and the interaction between sources of heterogeneity in impact and duration of exposure. Comparing two hypothetical programmes whose impact differs over time (see figure 12), shows that an evaluation undertaken at time  $t_1$  indicates that the case in the bottom panel has a higher impact than the case in the top panel, while an evaluation at time  $t_3$  suggests the opposite result. One of their conclusions is that the timing of the evaluation should take into account the time path of the programme impacts.



**Figure 12.** The timing of evaluations can affect impact estimates

Source: King and Behrman, 2009

Commercial entrepreneurs usually consider short term to be less than a year and long term to be more than a year (this is probably the result of financial reporting standards). Sen (2007) argues that institutional grants are made available for short periods. The author would add that public investments usually demand that output results are reported annually. Meadows and Pike (2010) argue that short term for an SE is about two years and long term is about

5–10 years. Harjula (2005) highlights the conflict between the entrepreneur and the venture capitalist, in terms of longer and different time horizons: the entrepreneur has a long-term perspective (over 10 years) whereas the venture capitalist has a mid-term perspective (3–10 years). It appears that there is no common view about the meaning of short term for SEs, although it is most probably at least more than two years.

As the purpose of for-social-profit is different from for-profit then the measurement and evaluation has to be focused on different things (what to measure). In terms of microeconomics, the purpose of a for-profit company is to maximise the value of the company. While there are readily observable measures of performance in the for-profit sector (for example, profit, return on equity, return on assets, sales turnover, stock price, etc.), the goals of an agency in the for-social-profit sector are often less quantifiable. Consequently, measuring performance is more problematic (Kober and Eggleton, 2006). Measurement of performance in the for-social-profit sector is substituted for measurement of profitability in the private sector. The ultimate test of the performance of a private-sector organisation is the bottom line (profit), so economic performance is a goal per se.

The purpose of for-social-profits is usually not based on gaining material wealth but on carrying out public service objectives (Young, 1997). Social value is central to the framework of an SE (Wei-Skillern *et al.* 2007). As Casteuble (1997) reported: “We might be not-for-profit but we are not-for-loss either” (cited in Baruch and Ramalho, 2006). The economic performance is not a goal per se for a for-social-profit organisation, but it supports the achievement of sustainable impact.

Heinric (2002) argued that relying on administrative data to measure the outcomes of programmes (rather than impacts) in the public sector produces information that might misdirect programme managers in their performance-management activities. Empirical analyses confirm that the use of administrative data in performance management is unlikely to produce accurate estimates of true programme impacts; they also suggest that such data can still generate useful information for public managers, in terms of policy levers that can be manipulated to improve organisational performance (Heinric, 2002). Wei-Skillern *et al.* (2007) add that, in practice, it is often the case that the social entrepreneur becomes increasingly focused on organisational interests as a means to achieving social impact rather than on social impact itself. Instead of adopting radical social change as advocated by Bornstein (2004), SE development appears to focus on becoming a competitive business in a market ideology (Bull *et al.*, 2010). However, the focus is on procedural issues, even in academic literature. For example, Diochon (2010) does not mention impact when talking about effectiveness, but argues that in providing support for the creation of SEs and to increase their effectiveness, it is critical to enable those involved to learn how to think and act entrepreneurially.

Performance management in for-profit organisations essentially means measuring output and outcome. It is argued that the adequate measurement of outcomes is pivotal in ascertaining the effectiveness of public sector organisations rather than the maximisation of service provision (outputs) or efficiency aspects (Modell, 2005; Kober and Eggleton, 2006). Social impact evaluation goes beyond that; it means that the trends in the society are also part of the evaluation (see impact value chain). It should not be forgotten that – like in the literature on SIA – differentiation between impacts caused by the programme/organisation and other societal changes is needed (Kauppinen and Nelimarkka, 2004).

Strothotte and Wünstenhagen (2005) highlight the goal and the tool needed for achieving the goal in SEs (or social entrepreneurial enterprises in their context). The function that SEs optimise is the degree to which the organisation accomplishes the social mission, while at the same time remaining economically viable and independent (Strothotte and Wünstenhagen, 2005). The word “sustainability” is used when talking about the economic performance of SEs (e.g. Darby and Jenkins, 2006; Kim, 2008; Moizer and Tracey, 2010; Phillips, 2006; Roper and Cheney, 2005; Wallace, 2005). Stavins *et al.* (2003) argue that “there is more to the perceived value of sustainability than equitable efficiency” (cited in Trexler, 2008). The differences in language between SEs and the business mainstream might seem trivial but these can have profound implications (Peattie and Morley, 2008).

Some authors (e.g. Bagnoli and Megali, 2009) see performance management in SEs consisting of three equal parts: social effectiveness, economic-financial performance and institutional legitimacy. At its core, legitimacy is a normative concept that rests upon the principles of justness and appropriateness (Wallner, 2008). Institutional legitimacy control involves verifying that the organisation has respected its self-imposed “rules” (statute, mission, programme of action) and the legal norms applicable to its institutional formula. The second aspect of legitimacy concerns respect for the general and particular legal regimes that govern an SE, and specify the conditions for its creation and functioning (Kerlin, 2006). The author does not agree and considers institutional legitimacy and economic-financial performance to be subsets of sustainability.

Similarly, Achleitner *et al.* (2009) argued that the reporting standard for SEs should include the following elements: performance, risk and organisational capacity. Once again, performance is defined as economic and social performance. Risk and organisational capacity can be seen as sustainability issues. Meadows and Pike (2010) stated that SEs need to provide evidence of superior social outcomes, and that they are normally accountable to a complex range of stakeholders; nonetheless, they are often rated low to medium in terms of organisational capacity. Similar keywords appear in the development of the model of corporate social performance:

- integration of *economic and social objectives* in a total corporate social responsibility framework (Carroll, 1979; Simpson and Kohers, 2002);

- incorporating *organisational institutionalism* (Wood, 1991) and *stakeholder theory* (Wood, 1991; Papania *et al.*, 2008).

The importance of stakeholders is also discussed in the literature on social performance (e.g. Meijer 2007). For example, in critique of a book by Paton (2003), which discusses performance measurement in for-social-profit organisations, the main point made by Osborne (2003) is that performance management is treated as an objective managerial exercise rather than the “subjective, value-driven and political exercise that it often is”. Ferguson and Islam (2008) state that it is essential to involve stakeholders in the process of mapping/listing the social outcomes of the activity. Caraganciu and Belobrov (2010) state that to identify whose benefits and costs are taken into account, one needs to be aware of the existence of a number of social actors (stakeholders). Engaging with stakeholders means not simply listening to what they say but also means incorporating their views into strategic decision-making (Tracey *et al.*, 2005). If their definitions of performance are not captured, marketing is likely to be ineffective and may even result in decreased support for the organisation’s goals (Mano, 2010).

Fryer *et al.* (2009) calls for further empirical research to determine how the public sector can take the next steps to a performance management system that embraces all members, stakeholders and customers. All the parties involved should be included in the process of creating a performance measurement system. If it is not done this way, the measurement system will not work, even if it is suitable and reflects exactly the organisation’s objectives, strategy and other important processes.

Research shows that appraisal systems created merely by top management did not lead to the desired changes and did not become an inseparable component of management processes. For example, those teachers who were involved in the development of appraisal systems were much more aware of, and accepted, the expectations set on their performance, understood the appraisal process better and were much more committed to it (Kelly *et al.*, 2008: 44). Research by Williams and Levy (1992:8419) showed that an understanding of the appraisal system was correlated positively with work satisfaction, organisational commitment and the perception of justice. Nicholls and Young (2008) stated that recent empirical work, which explored the strategic context of impact measurement regimes within social entrepreneurship, demonstrates that social entrepreneurs tend to use measurement as part of the resource strategy to satisfy or attract funders rather than as a mechanism to strategically improve their own accountability and mission impact.

However, Koljatic and Silva (2010) studied 39 field-based case studies of social initiatives implemented by civil society organisations and company-based initiatives operating in Mexico, Central America, Venezuela, Colombia, Peru, Chile, Argentina, Brazil and Spain and compared them in the following areas: 1) Well-defined mission and specification of measurable goals; 2) A clear focus

on evaluating value creation for stakeholders; 3) The general quality of managerial practices in social initiatives; 4) Alignment of mission and strategy. The data showed that civil society organisations appeared to be more focused than company-based endeavours when it came to mission definition, attention to stakeholders, the quality of their managerial practices, and the alignment between their mission and strategy. They suggest that a possible explanation for the discrepancy in performance measurement practices between these two types of initiative may be that civil society organisations need to be more efficient and more attuned to outcomes if they are to survive in a competitive environment, in which donors are in short supply.

In the context of nonprofits, Dawson (2010) finds that examining the range of external stakeholders need to be a focus of any social impact evaluation, particularly concentrating on those that provide funding and what they want to know to continue to provide this funding. Based on the example of the United Kingdom, McLaughlin (2004) believes that the government is moving towards selective engagement with a limited range of “preferred” nonprofit service providers, where one of the key criteria for the selection of preferred nonprofits is their capacity to engage in the (short-term?) accountability process. It is a thought-provoking finding, as the creation of an effective performance evaluation system is a continuous process; the appropriateness of that system should be re-evaluated periodically and changes should be made if needed.

Nwankwo *et al.* (2007) studied investments in local charities and found that local charities, which received financing for implementing projects, lack sufficient capacity to manage the projects and have no way to sustain the project in the long term. Although the current dissertation focuses on social impact evaluation, which is a subset of performance measurement in for-social-profit organisations, it is not possible to ignore any sustainability issues, as these have some influence on social impact and vice versa. Harjula (2005) argues that finding an appropriate single metric for social and disruption/financial targets is the starting point for creating value in both dimensions. Social goals will not be emphasised at the cost of disruption/financial targets as long as the chosen single performance variable has a strong positive relationship with both targets. The author agrees that both dimensions have to be considered, but if the main goal is social then these can be considered separately, with the focus on social impact.

As social impact evaluation is a subset of performance measurement in for-social-profits, there are things to learn from performance measurement systems. Van Helden *et al.* (2008) analysed the literature on performance management and found that the topics of performance management differ in different regions and in different disciplines: public administration researchers from the United States concentrate on the design of performance management systems, accounting researchers from Europe concentrate on the use of performance management, while public administration researchers from Europe concentrate on the impact of performance management.

Good performance management provides direct benefits to the organisation through a rigorous, focused approach to the achievement of goals (Macaulay and Cook, 1994: 7; Winstanley and Stuart-Smith, 1996: 66–67; Hartog *et al.*, 2004: 556). It is believed that performance management would also be an effective management tool to improve the effectiveness of the for-social-profit organisations. According to the rationalist/positivist interpretation, social entrepreneurs use reporting practices to enhance performance and improve the efficiency and effectiveness of their delivery of mission objectives (Nicholls and Cho, 2008).

A valid performance measurement system helps to identify an organisation's key areas and problem areas, and it assists the organisation with updating strategic objectives and making tactical decisions to achieve these objectives. It also allows feedback about the success of the decisions made. Performance measurement, if used appropriately, has the potential to support better decision-making (Lancer Julnes and Holzner, 2001: 693). Behn (2003: 588) highlights eight main purposes that public managers should have in mind when measuring performance:

- Evaluate – seeing how well the public agency is performing;
- Control – ensuring that employees are doing the right thing;
- Budget – what programmes, people or projects should the public agency spend the public's money on;
- Motivate – motivating staff, middle managers, nonprofit and for-profit collaborators, stakeholders and citizens to do whatever is necessary to improve performance;
- Promote – convincing political superiors, legislators, stakeholders, journalists and citizens that the public agency is doing a good job;
- Celebrate – identifying which accomplishments are worthy of the important organisational ritual of celebrating success;
- Learn – understanding why something is working or not working;
- Improve – identifying what should be done differently and by whom to improve performance.

Although performance measurement has many positive impacts, on the funding side, there are reasons for not being interested in constructing an effective measurement system. Dees (2007) argues that there are at least two reasons. Firstly, if there is no investment in performance evaluation, there will be more funding available for programmes. Secondly, it might be more popular to support a needy organisation rather than one that seems to be doing well. Dees (2007) states that resource flows depend more on sentiment, popular causes, personal charisma, and marketing skills than rather than on creating social value.

Good performance management as well as social impact evaluation is based on setting the correct measures. Irrespective of the amount of the literature and the number of articles written on the topic, the perpetual “reliable criterion

problem” and the creation of an effective measurement system continues to receive considerable attention within performance management literature (Fletcher, 2001: 474). Performance measures need to be positioned in a strategic context, as they influence what people do. Performance measures should be derived from strategy; that is, they should be used to reinforce the importance of certain strategic variables (Neely *et al.*, 2005: 1231).

Therefore, when developing a performance measurement system, the first step is to clearly define the organisation’s mission statement. Without a definition of purpose – what is meant by a “good result” or a “good performance” – it is not possible to create management processes that will systematically generate and improve results over time (Wei-Skillern *et al.*, 2007). The mission statement is also a guide for identifying an organisation’s strategic objectives. If there an organisation is oriented towards achieving a goal, the adoption and implementation of performance measures is more likely to occur (Lancer Julnes and Holzner, 2001: 695). For social impact evaluation, as a subset of performance management, the strategic objectives are taken as the best indicators of the purpose of a specific organisation. While studying not-for-profit organisations in the disability sector, Griggs (2003) found that strategic planning does have an effect on an organisation’s performance. Although there are few published empirical studies linking strategic planning and the performance of not-for-profits, Achleitner *et al.* (2009) state that success on a strategic level is evaluated by means of social impact evaluation.

It is argued that traditional models and approaches to performance measurement generally do not succeed in meeting their objectives, are flawed in implementation, act to demotivate staff, and are often perceived as forms of control that are inappropriately used to “police” performance (Winstanley, 1996: 66). By one method or another, performance measurement, social impact evaluation and performance indicators will continue to be key issues for organisations. As SEs should act in a business-like way, there is reason to believe that business management practices can be incorporated into the evaluation of SEs. Arising from this is research question three (RQ3): *What can be learned from incorporating private sector management practices into social enterprises?*

Here the author highlights the criteria for performance measurement design, based on common flaws in performance measurement system (Bititci *et al.*, 2000: 696; Globerson, 1985: 640; Ittner and Larcker, 2003: 90–93; Kravchuk and Schack, 1996: 350; Modell, 2004: 44; Neely *et al.*, 2005: 1229–1231, 1244–1245; Storey, 2002: 331; Winstanley, 1996: 67–70).

- An organisation’s strategy should be elaborately designed, and measures should be directly related to its long-term and short-term objectives. Measures should express the unitary view of the organisation.
- The measures should stimulate continuous improvement rather than simply monitor. Measures should be adaptable and flexible, meaning that they should change when circumstances change.

- Performance criteria should be selected through discussions with the people involved (interest groups) and be under the control of the evaluated organisational unit. Measures might vary between locations; one measure will not always be suitable for every department or site.
- Measures should be diverse, taking into account objective (quantitative) and subjective (qualitative) criteria as well as financial and non-financial criteria.
- The measurement strategy must be explicit, the purpose of each of the performance criteria must be clear, the measures should be simple and easy to use and fast feedback must be possible.
- Performance criteria must allow for comparison of organisations in the same business, and comparison must be possible at different times.

In short, these criteria are as follows. Performance measurement measures should (1) be linked to a long-term strategy, (2) be set with the co-operation of several stakeholders, (3) be flexible, (4) cover qualitative and quantitative and (5) enable comparison. The author is not aware of any studies that show the criteria for social impact evaluation in SEs. The existence of these flaws in SEs was discovered through empirical analyses (see sub-chapter 2.4) and the flaws existing in social enterprises were added to the social impact evaluation criteria.

## **I.5. Social impact evaluation tools for comparison**

One of the criteria of valid social impact evaluation, arising from common flaws in performance measurement, was that measures must be set with the co-operation of several stakeholders. The most important stakeholder, the one who has to accept the measures and reporting standards, is the manager of the organisation. This led to the setting of research questions RQ4 and RQ5, which were explored in sub-chapter 2.5.

*RQ4: What are the criteria for social impact evaluation for managers of social enterprises?*

*RQ5: What practical limitations would prevent managers of SEs from carrying out a valid social impact evaluation?*

Most of the theoretical frameworks for social impact evaluation in social enterprises are quite new and were not available for the author to consider when the choice was made between practical tools (see table 11); see Appendix 5 for more information about balanced scorecard-based tools. In the literature on social impact evaluation methods, the methods are often applied to a narrow sector and not to an organisations; e.g. Utting (2009) constructed a model for social impact evaluation of fair trade coffee, Prieto-Rodriguez *et al.* (2009) of terrorism, Allen and Lau (2008) for HIV, Newman *et al.* (2002) of social safety nets, and Sadoulet *et al.* (2001) of schooling programmes for the poor; also, Wilder and Walpole (2008) constructed a “Most Significant Change method” for conservation.

**Table 11.** Theoretical frameworks on social impact evaluation in SEs

	<b>Short description</b>	<b>Reference</b>
<b>Examples of SROI</b>	Guidelines for implementation of SROI.	Lingane and Olsen, 2004
	Analysing the attitudes towards using SROI. Five in-depth interviews in the United Kingdom.	Flockhart, 2005
	The implementation of SROI analysis in a Liverpool-based Furniture Resource Centre.	Rotheroe and Richards, 2007
<b>Modifications of balanced scorecard for social enterprises</b>	Perspectives: financial sustainability, stakeholder, internal processes and resources. Piloted in 12 organisations in the United Kingdom.	Somers, 2005
	Perspectives: the multi-bottom line return, a learning organisation, the stakeholder environment and internal activities. Piloted in 30 organisations in the United Kingdom.	Bull, 2007
	Perspectives: mission, operational, learning and growth, financial.	Wei-Skillern <i>et al.</i> , 2007
	Perspectives: financial, learning and growth, customer – stakeholder and internal process.	Lee and Moon, 2008
	The four dimensions of social value: operating efficiency, achievement of organisational objectives, return on investment, and social outcomes. <i>Note: authors do not consider it to be a balanced scorecard.</i>	Polonsky and Grau, 2008
	SIMPLE (social impact for local economies) model. Dimensions: external drivers, internal drivers, stakeholders, activities, mission and values. Tested on over 40 social enterprises during a series of three-day training courses in the United Kingdom. <i>Note: authors do not consider this to be a balanced scorecard.</i>	McLoughlin <i>et al.</i> , 2009
	Perspectives: business model, organisational development, financial return and social return. Tested in three case studies in the United Kingdom.	Meadows and Pike, 2010
<b>Other</b>	A generic and quantifiable model for the social dimension of a triple bottom line consisting of: demographics, individual well-being, community well-being, employment, industry impact.	Miller <i>et al.</i> , 2007
	Reporting standards for social enterprises including performance, risk and organisational capacity (characteristics of social entrepreneur, organisational capacity on normative, strategic and operative level).	Achleitener <i>et al.</i> , 2009
	The multi-dimensional controlling model for social enterprises, including economic and financial performance, institutional legitimacy and social effectiveness.	Bagnoli and Megali, 2009
	SCALER model. Scale of social impact depends on situational contingences and organisational capabilities.	Bloom and Chatterji, 2009
	Statistical impact evaluation. Example from the education sector in Zambia.	Elbers <i>et al.</i> , 2009
	Scaling up model: links micro-scale and macro-scale change, and identifies the relative contribution of the impacting event versus other influences on macro-scale social change.	Schirmer, 2011

Source: compiled by the author

Note: SROI – social return on investment; SCALERS stands for Staffing, Communications, Alliance building, Lobbying, Earnings generation, Replication, Stimulating market forces

To familiarise managers with the topic of social impact evaluation the author chose three impact evaluation tools that had been created by practitioners. There are basically three types of social impact evaluation methods. What differentiates them is what the results are compared with. According to Clark *et al.* (2004) these are process-based methods, impact-based methods and value-based methods (using money as a metric).

Process-based methods evaluate the efficiency and effectiveness of an organisation and compare how these correlate with or cause social impact. The main question is how to manage the processes to achieve the best result. The assumption that these processes provide the best method of dealing with the problem is not discussed.

Impact-based methods pay attention to the outputs and impacts and compare them with the outputs and impacts of competitors, those organisations that are trying to solve or relieve the same problem in society. The main aim is to discover which organisation has found the best way to solve/relieve the problem.

Value-based methods try to evaluate the impact in monetary terms. The organisation is taken as an investment. The main question is whether the investment is profitable. Is it cheaper to handle the problem or to relieve it? For example, are we willing to accept the current level of crime? If we are not, then how much are we willing to pay to reduce crime to an acceptable level? The main differences between the three types of social impact evaluation methods are summarised in table 12.

**Table 12.** Comparison of social impact evaluation methods in case of social enterprise

Type of evaluation method	Main user	Decision made according to the evaluation	The tool (example)
Impact-based	External user	Which organisation to finance	Acumen Fund Scorecard
Process-based	Internal user (e.g. manager)	Optimisation of current processes	Issue-based approach
Value-based (money as a metric)	External user	Whether to finance the organisation at all	Social return on investment (SROI)

Source: compiled by the author

McLoughlin *et al.* (2009) classify approaches to impact measurement into four categories: monetised (economic) methods; methods based on the balanced scorecard; methods that focus on quality assurance; and sequential process frameworks. In the author's opinion, the only difference between this and the division mentioned earlier is that impact-based methods are narrowed to balanced scorecard methods and quality assurance methods are separated from the other categories for unexplained reasons.

The author has chosen one tool from each type of comparison of social impact evaluation tools (see table 12). The selected tools were chosen because these take the whole impact value chain into consideration, as can be seen in table 13, although it can be argued that the impact cannot always be proved (e.g. Trelstad, 2008). The Acumen Fund Scorecard can be considered as an adapted balanced scorecard tool; this represents studies carried out in the United States. SROI and balanced scorecard tools have gained much attention in the United Kingdom (see table 11). SROI was created by REDF and developed by several scholars; it is now used by big consultancy firms (e.g. Ernst & Young).<sup>17</sup> SROI is characterised by Rotheroe and Richards (2007): “Founded upon conventional accounting principles, the technique demonstrates many qualities of sustainability. Stakeholder inclusion is critical in allowing connected thinking from which a framework for increased transparent accountability can be created.” Froggett and Chamberlayne (2004) argue that biographical research methods, which are often used by practitioners, can support a psycho-social practice by exploring intersection of individual lives, organisations and public policy. Therefore, an issue-based tool, which has elements of the biographical method (including same-target group analyses in different time periods), is constructed by author. It could be that these practical tools have influenced academic literature, as scaling (which is part of the Acumen Fund Scorecard) is discussed mainly in the literature of the United States; the SCALER model is also constructed in the United States. According to the SCALER model (constructed by Bloom and Chatterji, 2009), the scale of social impact depends on situational

**Table 13.** Components of social impact evaluation tools and their relation to components of the social impact value chain.

<b>Tool</b>	<b>Input</b>	<b>Activity, output</b>	<b>Outcome, impact</b>	<b>Goal alignment</b>
<b>Acumen Fund Scorecard</b>	Financial sustainability	Cost effectiveness: best available charitable option (BACO)	Social impact, scale	Changes in systems
<b>Issue-based model</b>	Total impact compared with the inputs	Point of application	Magnitude and direction of impact	Reference frame
<b>SROI</b>	Total investment of the organisation and stakeholders	The number of activities, the number of units, the number of lives touched, etc.	Cost allocation and perceived value	Decrease of the social issue

Source: compiled by the author

<sup>17</sup> An online tool for SROI is called the Social Evaluator; it is available at [www.socialevaluator.eu](http://www.socialevaluator.eu)

contingences and organisational capabilities. Situational contingencies are labour requirements, public support, potential allies, supportive public policy, start-up capital, dispersion of beneficiaries, and the availability of economic incentives. The corresponding organisational capabilities are staffing, communicating, alliance-building, lobbying, earning-generation, replicating and stimulating market forces.

SROI, the Acumen Fund Scorecard and the issue-based approach were used to familiarise SEs with the topic of social impact evaluation (see sub-chapter 2.5). These tools were used to analyse if they (or some of them) fulfil the criteria for solid social impact evaluation. It must be noted that the author introduced these tools because of public written material, written materials received from Mariko Tada of the Acumen Fund (in 2008) and knowledge shared by Peter Scholten during workshops held on 23–27 January 2008. The author cannot guarantee that the tools were introduced totally in accordance with their current practice. Nonetheless, they were all in accordance with the above-mentioned criteria and the represent different types of social impact evaluation methods. The suggestions for improving social impact evaluation tools are based on the author's understanding of these tools. It also must be stated that the Acumen Fund Scorecard model introduced during the workshops is not in use by the Acumen Fund in the same form in 2011. It has been developed and changed into a software tool for managing a portfolio of impact investments called "Pulse" and there has been collaboration with the Rockefeller Foundation and B Lab to create Impact Reporting and Investment Standards (IRIS), a set of data reporting standards for the impact investing sector (Pulse and IRIS, 2010).

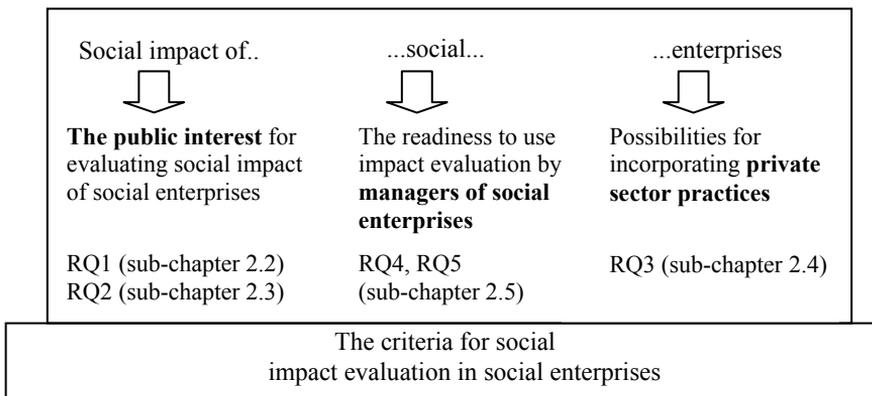
The theoretical chapter of the thesis specified five research questions, which will be analysed empirically in chapter 2. The empirical part will provide empirical data about social impact evaluation from three viewpoints: need, readiness and practices in Estonia. The need refers to the criteria needed for the legitimisation of SEs and possibilities for standardisation of social impact evaluation. Private sector practices will be applied to SEs and managers' readiness to use existing social impact evaluation tools will be analysed.

## 2. EMPIRICAL STUDY

### 2.1. Research outline

In this sub-chapter the author sets up the research framework for the empirical part of the thesis. As social entrepreneurship often has to exist within three common sectors (discussed in more detail in sub-chapter 1.1) then all the sectors must be taken into consideration when constructing the criteria for a valid social impact evaluation. Discovering the criteria for social impact evaluation based on three sector approaches should give reason to believe that the list of criteria is multilateral enough to provide guidelines for social impact evaluation in SEs, taking into account their diversified nature.

The author believes that no solid evaluation tool could exist independently of the social world. If social impact evaluation is to have merit, it has to be supported by the management and also by the external stakeholders of the organisation. Therefore, from the ontological perspective, the evaluation has rather a constructivist nature. Epistemologically, social-constructivist approach is used in this study. If an organisation is to accept the results of social impact evaluation, the standards of the evaluation have to be accepted by the management of the organisation and by the external stakeholders. It does not mean that the standards selected should be based on objective criteria. They might be emotional as well. The overall research framework of the empirical part is presented in figure 13.



**Figure 13.** Research questions as they relate to the criteria of social impact evaluation

Source: compiled by the author

The empirical study presented in chapter 2 comprises independent pieces of research that are based on different samples and methods. The outline of the methodology and the data of the empirical study can be found in table 14. There are two reasons why quantitative methods were not used discover the criteria for valid social impact evaluation. First, gaining a similar understanding of the terms relating to “social impact evaluation” requires a lot of background infor-

mation. For example, Lyon and Ramsden (2006) studied organisations in the United Kingdom and concluded that although one important aspect of marketing an SE to either users or funders is the need to demonstrate the impact of the SE on its social aims, the interviewees did not raise the issue of social impact evaluation, and no mention was made of “social accounting” or other ways of showing impact. Second, there is only a small number of SEs in Estonia (estimated at around 25<sup>18</sup>).

Many authors (e.g. Dees, 2007; Phillips, 2006; Dart, 2004) are convinced that social entrepreneurs are more effective than the public sector. Much of the existing literature on SEs uses case-study methodologies (e.g. Emerson and Twersky, 1996; Boschee, 2001; Hibbert *et al.*, 2002; Raufflet and Amaral, 2007; Reiser, 2009; Squazzoni, 2009; Thompson *et al.*, 2000; Alvord *et al.*, 2004; Choi and Gray, 2004; Thompson and Doherty, 2006; Van Slyke and Newman, 2006; Yunus, 2003); these illustrate positive outcomes. Muñoz (2010) notes that this has led to a bias towards the “success”; at this point, there is little empirical evidence to prove the effectiveness of SEs. If their effectiveness is not proven, SEs cannot be considered to be pragmatically legitimate (Dart, 2004). As case-study methods have not been considered valid enough, the construction of criteria for a solid social impact evaluation method will not be based only on case studies. Several data collection and data analysis methods are used for comparing the results. Still, the case-study method was used to determine whether private sector management practices could be incorporated into SEs.

A discourse on social impact evaluation of third parties can be found in subchapter 2.2. The criteria for a solid social impact evaluation method are constructed using grounded theory combined with parts of Fairclough’s critical discourse analysis approach.

The grounded theory approach (Glaser and Strauss, 1967; Glaser, 1978; Strauss and Corbin, 1990) was combined with macro-structure analysis from Fairclough’s critical discourse analysis. Grounded theory instructs academics to look for issues that are open and unclear (Auerbach, 2003:15), rather than getting them to read the literature in search of a specific question or problem. The topic of impact evaluation could be considered to be a topic where several issues are open; even the term itself is unclear. Although grounded theory looks carefully at the context (e.g. ‘6C’ coding named in Locke, 2001), according to Glaser and Strauss (1967), grounded theory is quite static and does not pay a lot of attention to sequentiality (Kontos, 2005). The current study used open coding; subsequently, the codes were compared and concentrated into super-categories, then agreement between the original data and the super-codes was tested.

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<sup>18</sup> KYSK supported 18 organisations that were considered to be (or which would become) social enterprises. There are 8 organisations in the Heateo SA social enterprise portfolio. Not all of these organisations might be recognised as social enterprises in Estonia. Some might comply with most of the social enterprise criteria but they might not have labelled themselves as social enterprises; this makes them hard to find and analyse.

**Table 14.** Methodology

<b>Sub-chapter</b>	<b>Research question</b>	<b>Data type</b>	<b>Method</b>	<b>Time</b>	<b>Data</b>
2.2	RQ1: What are the criteria for evaluating the social impact of social enterprises so that the results will be useful in debate between protectionists and opponents of social entrepreneurship?	Texts on social entrepreneurship in academic literature	Grounded theory combined with discourse analyses	2008–2009	64 articles (in English)
2.3	RQ2: Should the impact be evaluated in relation to the group of stakeholders to whom the strategic objectives of the organisation refer?	Impact maps + transcriptions of structured interviews	Comparing the correspondence with presumptions	2009–2010	33 for-social-profit organisations in Estonia
2.4	RQ3: What can be learned from incorporating private sector management practices into social enterprises?	Transcriptions of case-study in-depth interviews	Case study information compared with theory	2006–2007	Three social enterprises in the educational field in Estonia
2.5	RQ4: What are the criteria for social impact evaluation for managers of the social enterprises; RQ5: What practical limitations would prevent managers of SEs from carrying out a valid social impact evaluation?	Transcriptions of workshops	Grounded theory combined with discourse analyses	2009–2010	Five social enterprises in Estonia

Source: compiled by the author

To make the analyses more dynamic, the macro-structures of the discourse were analysed using parts of Fairclough's critical discourse analyses (Fairclough, 1992). Discourse is "a connected set of statements, concepts, terms and expressions which constitutes a way of talking and writing about a particular issue, thus framing the way people understand and act with respect to that issue" (Watson, 1994, p. 113). The author analysed topics that emerged, the causality of the topics, and the correspondence with the existing discourse. The micro-structures of the discourse were not analysed because these were considered to be in the rapid development phase, where a common understanding had not yet been established. Therefore, microstructures could have been affected too much by the workshop conducted by the author.

A solid social impact evaluation method is needed to build a bridge between two the separate discourses of social entrepreneurship: the discourses of the protectionists of SEs, who believe without empirical proof that SEs are effective, and the opponents or doubters, who need empirical proof of the effectiveness of SEs. The criteria for a solid social impact evaluation method are based on the discourse used in discussing the pros and cons of SEs in sub-chapter 2.2. Each category for comparison (table 5, sub-chapter 1.1) will be discussed in sub-chapter 2.2, based on the discourse used in articles about social entrepreneurship and its social impact evaluation, to answer the RQ1:

*"What are the criteria for evaluating the social impact of social enterprises so that the results will be useful in debate between protectionists and opponents of social entrepreneurship?"*

Sub-chapter 2.3 takes the first step towards finding ways to standardise social impact evaluation. The aim of sub-chapter 2.3 is to analyse whether the stakeholder for whom the impact has to be evaluated differs in for-social-profit organisations, which have different strategic objectives, and to answer the second research question (RQ2): *Should the impact be evaluated in relation to the group of stakeholders to whom the strategic objectives of the organisation refer?* The strategic objectives of the stakeholders and the organisations are analysed on two scales: the level of impact (which can be individual, family and community, services or society) and the internal and external view of the organisation.

Although many authors (Sud *et al.*, 2008; Pearson, 2001; Gray *et al.*, 2003) agree that social entrepreneurs and not-for-profits may be able to address specific social problems more effectively, they are unlikely to provide the broad and comprehensive reforms needed to bring about widespread solutions to those problems. It might be sensible for a smaller organisation to focus its efforts on achieving results at one particular level, but far-reaching and lasting change for a whole section of the population (such as older people or disabled children) is likely to be brought about only by the achievement of results at all levels – from the individual level to the societal level (Lumley *et al.*, 2005:14).

What is measured should be directly associated with what needs to be achieved (the measures should be aligned to strategy); therefore the social

impact evaluation should be associated with the level of social impact that the organisation is trying to achieve, according to its strategic objectives. The level of social impact and stakeholder value, which are most important for the organisation, should be related to its strategy. Stakeholders are persons or groups with legitimate interests in the company, and whose interests are of intrinsic value, whether or not the company has any corresponding functional interest in them (Esteves, 2008a).

*Proposition 1. The level of social impact the organisation expresses in its strategic objectives should correspond to the level of social impact of the most important stakeholder (the one the manager considers to be most important).*

For example, if the organisation's objective is to bring about change in the family and the community (e.g. social support for social parents and foster children) then the measurement of the impact has to be based on the change in behaviour of the foster family (the stakeholder equates to the family). If the objective is to effect change on an individual level then the impact on the individual has to be evaluated. In other words, if an organisation is focused on achieving social impact in one particular level of society, then the level of the stakeholder (on whom the impact is being evaluated) should be the same.

A debate is taking place as to whether for-social-profits should operate in the public interest or in the interests of the members of the organisation. This study divides organisations into two categories, based on strategic objectives: those that focus on the interests of internal stakeholders and those that focus on the interests of external stakeholders. If the most important stakeholder is associated with an external or an internal focus, there should be alignment with the organisation's strategic objectives. If the organisation is trying to make the change for external stakeholders then the external impact should be evaluated.

*Proposition 2. The organisational focus – internal or external, depending on strategic objectives – should accordingly evaluate the impact to the internal or external stakeholders*

The qualitative research was based on reviewing the strategic objectives and interviews with managers in 33 for-social-profit organisations. These organisations were chosen from the public sector (23 organisations) and the third sector (10 organisations, 7 nonprofits and 3 foundations). They were active in various fields, including kindergartens, schools, courts, libraries, organisations that provided social services for orphans and disabled people, entertainers, culture and interest centres, and groups with similar hobbies. The strategic objectives of each organisation were estimated, based on the organisation's level of social impact and whether it focuses on internal or external stakeholders (table 15).

The strategic objectives were examined with reference to written strategic documents. If written strategic objectives did not exist then they were written according to statements made by the managers. It was presumed that if written

strategic did exist then they were real and actual. If they did not exist then it was presumed that the manager knew what these strategic objectives were. In their study exploring agency theory principles in nonprofits, Callen *et al.* (2003) found a positive relationship between major donors on the board and indicators of organisational efficiency (Mwenja and Lewis, 2009). Although it can be said that the purpose of the for-social-profit organisation (especially if it is a public organisation) is to produce positive social impact, which is in accordance with the board's perceptions, it is presumed that if manager did not see this as a strategic objective then this objective did not exist.

**Table 15.** The allocation of examined organisations according to their strategic objectives

<b>Strategic objectives of the organisation</b>	<b>Individual</b>	<b>Community &amp; Family</b>	<b>Services</b>	<b>Society</b>
<b>Internal</b>	2 – Nonprofits 2 – Public organisation: e.g. <i>discovering and developing the musical skills of the members of the organisation</i>	2 – Nonprofits e.g. <i>creating the community of breeders of one specific dog breed</i>	6 – Public organisation: e.g. <i>offering educational services to students</i>	
<b>External</b>	1 – Foundation 2 – Nonprofits 2 – Public organisation: e.g. <i>developing and maintaining the quality of life of the disabled</i>	1 – Foundation 1 – Nonprofit 5 – Public organisation: e.g. <i>developing a positive image of a certain area</i>	7 – Public organisation: e.g. <i>arranging concerts, etc.</i>	1 – Foundation 1 – Public organisation: e.g. <i>securing justice in society</i>

Source: compiled by the author

The scarcity of organisations that focus on society level and the absence of organisations that focus on internal issues and on society can be caused by the same reason that Collis *et al.* (2003) observed while researching groups in the voluntary sector. Collis *et al.* (2003) suggests that some respondents were unable to describe impact at the society level; this suggests that they were unaware of the potential for wider impact, or that this wider impact was not a priority to them.

It was mentioned that the primary goal of for-social-profits should be sustainable and positive social impact for diverse stakeholders. To define the stakeholders of the organisation, impact maps (which are a way for systemising and formalising the theory of change) were compiled for each organisation in

co-operation with the managers in both of the studies described in sub-chapter 2.3 and sub-chapter 2.5. The theory of change prescribes which stakeholders are associated with the organisation's activities and why the organisation has chosen these stakeholders to achieve its strategic objectives. The impact map develops a pathway to understanding how the organisation enacts change by using a cause-and-effect chain from inputs through to outputs, outcomes and impacts, thereby achieving its mission (Rotheroe and Richards, 2007). The impact map describes the social impact of the organisation on different stakeholders (stakeholders are shown in rows on the impact map). The columns on the impact map contain the impact value chain that responds to the specific stakeholder (see figure 10). Ferguson and Xie (2008) have used outline that is quite similar to the impact map (called an intervention logic model). They have added column for theory and assumptions to be applied to queries on the theory of change; these are often taken for granted but should be tested in practice.

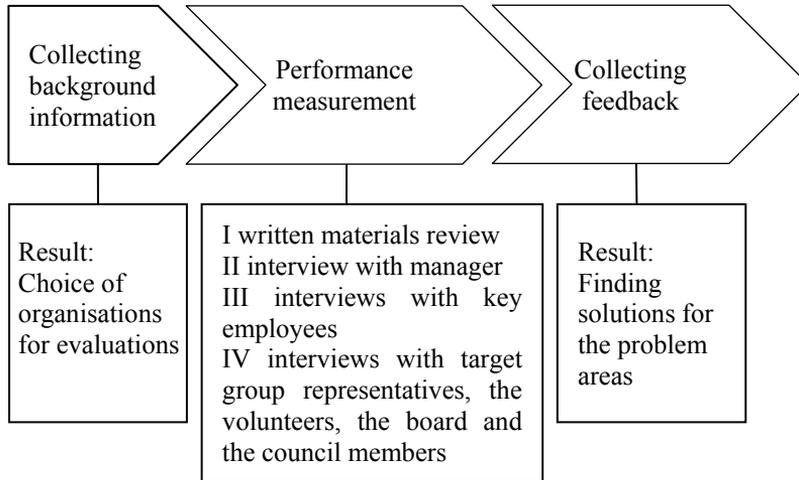
For sub-chapter 2.3, short interviews with managers of the organisations were carried out, using impact maps that were constructed during the workshop. To identify the most important stakeholder from the perspective of social impact evaluation, managers were asked: "Who are the most important stakeholders from the perspective of evaluating the social impact of the organisation, and why?" Holding the workshop before the interview was necessary to ensure that the manager identified the range of the stakeholders and the kind of impact the organisation is trying to have on each stakeholder. It was presumed that if a manager claimed that a particular stakeholder was most important for the organisation then that was true. After evaluating the impact on all the stakeholders of the organisation, the one that received the most positive social impact could be identified. When it comes to designing solid criteria for social impact evaluation it is not important to know which stakeholder receives the most positive social impact. Rather, it is important to know which stakeholder the organisation considers as the most important stakeholder, as it defines the focus of their operations.

Sub-chapter 2.4 answers the third research question (RQ3): *What can be learned from incorporating private sector management practices into social enterprises?* While there are many examples of shortcomings in the process of designing a measurement system and measuring an organisation's performance in the world, the author was interested in examining the situation in Estonia, using the example of three educational organisations. The author looked at the role of performance measurement in the management of educational organisations and in the decision-making process.

It is said that management tools cannot be transferred successfully from one sector to another because of differences in organisational environments, goals, structures and managerial values, etc. These variables represent a set of contingencies that require different approaches to management in public agencies and private firms. If public managers are to learn from the private sector, the first step is to ascertain more clearly the determinants of performance in private

organisations, compare them with others in their sector, and then develop an appropriate system that based on the public service organisation’s objectives.

To find answers to RQ3 three educational institutions in the third sector were evaluated in co-operation with Heateo SA (Good Deed Foundation, which is a launch pad for new and exciting social initiatives). The evaluation was carried out between October 2006 and March 2007. The evaluation of each organisation was executed in three stages (figure 14).



**Figure 14.** Evaluation process for answering RQ3

Source: compiled by the author

In the first stage of the evaluation, background information about the Estonian educational field was collected. Based on an analysis of public written information and interviews with specialists, the main problems in the field and possible solutions were determined. As a result, the three most influential organisations were selected (referred to X, Y and Z from now on). To protect confidentiality, the names of the organisations are not given. Influence was interpreted as the ability to have the greatest impact on the Estonian society. Their activities were not local and their strategic objectives were to make a qualitative change in the educational system. The selected organisations acted in a variety of educational areas, including improving methodology for kindergartens and primary schools, leadership training, schooling of adults on environmental issues and offering supplementary programmes for public schools. These organisations covered the sector that started with pre-school education and ended with life-long learning, including formal and informal education. The findings of the study are based on the knowledge, observations and shortcomings that emerged while evaluating these three organisations.

In the second stage of the evaluation (performance measurement), information on specific organisations was collected. This included familiarisation

with written materials connected to the organisations and interviews with management, the council, and target groups. The target group was defined as people whose educational problems or an improvement in social wellbeing social well-being are primary goals for the organisation.

The analysis of the written materials included the following documents and sources of information: homepage, statutes, annual reports, annual short-term and long-term goals and publications. In organisation X the researchers viewed strategy discussion results, annual reports from the previous three years and the organisation's overviews for the financiers. In organisation Y the documents analysed included the current strategy and annual reports from the previous three years. In organisation Z the documents examined were the strategic directions, annual report, annual plans for the organisation and its subsections and a self-audit report. In all three evaluated organisations, the homepages, including statutes and publications, were analysed.

A total of 23 structured in-depth interviews were conducted with the managers and at least two key employees in every organisation. Everyone was interviewed separately. The interviews lasted for two hours. The interviews were conducted by the author and Jaan Aps, a specialist from Heateo SA (the Good Deed Foundation), whose responsibility (among others) was to evaluate these organisations. Each interviewer took separate notes, which were stored in hard copy and electronically. Conclusions were drawn by each interviewer, and subsequent discussion revealed areas they needed additional information, whether from the board, council, volunteers or partners. The interview topics were constructed by the author and Jaan Aps, and they were based on the performance measurement criteria mentioned in paragraph 1.4. The interviews consisted of the following topics: 1) the activities and goals of the organisation (including its mission and vision), 2) the relationship with interest groups, 3) current performance measurement practices, and 4) bottlenecks that may affect future performance. The interview topics are given in Appendix 6.

In organisation X, four employees and three members of the council were interviewed. In organisation Y, three employees, one volunteer and two partners were interviewed. Two of the employees were also members of the board and the volunteer was a member of the target group. In organisation Z, two employees, five volunteers, one member of the advisory body and two members of the target group were interviewed. The advisory body was akin to council but there was no official council. All interviewees were selected randomly.

The author analysed whether and how the organisation's activities and goals were integrated into their current performance measurement practices. Relationships with the target group were analysed to determine whether the measures stimulate continuing improvement and reflect the understanding of performance that the different target groups want to achieve. As a result of the second stage, the problem areas were charted by interviewers. The evaluations from the interviews showed a significant amount of agreement (around 80%). There was no difference of opinion in the existence of problem areas. Differences occurred

where one side had not discovered/detected certain problem areas. The third stage of the evaluation involved gathering feedback from the management. The discussion included the strengths and problem areas detected by the evaluators.

Sub-chapter 2.5 was written most recently to look at why most of the SEs (at least in Estonia) do not seem to evaluate their impact. Unfortunately, there are the statistics about impact evaluation in Estonia. Sub-chapter 4 was constructed to cover research questions four and five. *RQ4: What are the criteria for social impact evaluation for managers of social enterprises; RQ5: What practical limitations would prevent managers of SEs from carrying out a valid social impact evaluation?*

Two objectives were set with the intention of exploring how evaluation tools influence the social impact evaluation process. The first objective was to describe the conversational characteristics, while talking about different evaluation tools (in terms of topics that emerge, the causality of the topics, correspondence with the existing discourse). The second objective was to understand how the discussion setting and the introduced social impact evaluation tool could influence the construction of the discourse (emerging themes, relationships between different stakeholders of the organisation, emotional connotation of the discourse).

Five outstanding SEs were chosen for empirical analysis in 2008. Three criteria determined whether an enterprise was outstanding. First, it operates on state level, meaning that it is solving or relieving an issue that is important for Estonia in general, not only for a narrow region. Second, it has strong PR, which means its activities are known and get published in the public media. Third, it has independent cash flows. Two of the selected organisations operated as umbrella organisations and three of them provided services directly to their members or clients. They operated in the fields of HIV and drug addiction, communication skills and youth problems, higher education, strategic philanthropy, and security and safety issues (fire, missing people, etc.).

To find out more about this area, two workshops were carried out for sub-chapter 2.5. The first workshop was also about making an impact map, and impact maps were constructed for each organisation with the co-operation of the manager and the author. The impact maps for were constructed in workshop format to overcome the challenge of evaluating the impact of a broad or fuzzy mission statement (named also by Raghelli *et al.*, 2006) and to help organisations focus on their shared goals. Co-operation continued (in 2008) when students tried to construct an evaluation tool suitable for each organisation with help from the author, Toomas Roolaid and Anastassia Ivanova. Unfortunately, the quality of students' work was not high enough to provide practical output for these organisations. It was reckoned that this was caused by a lack of co-operation with management of the organisations when constructing these evaluation tools.

In the second workshop, three social impact evaluation tools (the Acumen Fund Scorecard, SROI and the issue-based approach) were introduced to the

managers of the SEs. It must be noted again that the author introduced these tools based on public written materials, written materials received from Mariko Tada of the Acumen Fund (in 2008) and knowledge shared by Peter Scholten during the workshop (23–27 January 2008). The author cannot guarantee that the tools were introduced exactly in accordance with their current practice. Nonetheless, all the tools introduced fulfilled the above-mentioned criteria and represent different types of social impact evaluation methods. Suggestions for improving social impact evaluation tools are based on the author's understanding of these tools. The workshops were improved in response to a pilot study on two organisations in 2008:

- The overview of the background of social impact evaluation and performance measurement was left out, as it might have influenced what the managers said and the transcripts may be disposed. Also, the workshops tended to go on for too long, and it was a possibility to optimise this duration.
- There was debate about whether to add the questions at the beginning of the workshop: about the current practice of social impact evaluation and why the organisation was interested in evaluating its impact. These questions were left out to minimise the risk that managers would feel restricted to their earlier opinions, and may feel that their estimations about tools had to relate to their previous answers.
- The examples used in the introduction of the Acumen Fund Scorecard were diversified to bring out the important aspects for the internal user of the organisation, although the tool is designed mainly for the outsider.

The workshops used in this research were held between September 2009 and March 2010, with Toomas Roolaid. They were a continuation of the above-mentioned activities, with their purpose was to discover how to proceed with evaluations. The workshops included constructing specific evaluation standards for evaluating the social impact for at least one activity or stakeholder of the organisation. After each tool was introduced, the managers were asked two questions:

- What “right things” does the tool evaluate and what does it leave out of the evaluation?
- What are the practical possibilities and limitations of using the tool in practice?

The second workshop was fully transcribed in order to analyse the managers' thoughts about social impact evaluation. Transcribed workshops were arranged for each organisation separately and they lasted for 3–7 hours. The workshops were transcribed and analysed using grounded theory combined with parts of Fairclough's critical discourse analyses (similar to sub-chapter 2.2). The main focus of the analyses is based on the macro-structure of the texts: the topics that

emerge, the causality of the topics and correspondence with the existing discourse.

This approach was chosen to avoid a problem also mentioned by Koljatic and Silva (2010): when leaders are asked how they evaluate impact, they tend to describe what they do to achieve impact instead. It must be mentioned that how participants use the terms cannot be considered to be exactly the same as how they are used in this dissertation, so their responses had to be extrapolated (as in a study by Reed *et al.*, 2005). The purpose of each workshop was to find the most suitable tool for each organisation. The transcripts of these workshops were analysed to study how the managers of SEs estimate these social impact evaluation tools and to discover their attitude towards using any of these social impact evaluation tools for evaluating their organisation's social impact.

As attempts to analyse this area by the use of standardised questionnaires were not very successful, the transcripts of workshops was chosen to provide the data. Even managers tend to distance themselves from practical issues while filling in standardised questionnaires. It is not possible to produce a discourse on social impact evaluation by referring to written material on a manager's thoughts about the subject, as such material does not exist; managers of SEs do not estimate the social impact of their organisations, or at least they do not document it.

The workshops were conducted in Estonian and the analyses were based on Estonian transcripts. The quotes used in the current study have been translated and will not contain the exact wording. There is no exact translation for "for-social-profits" in Estonian. Often the abbreviation of the non-profit association is used when talking about non-governmental or not-for-profit organisations. The translation of this abbreviation is questionable; it might refer to a non-profit association's legal form, nonprofit, not-for-profit or for-social-profits.

It was author's intention to gather empirical data to construct the criteria for solid social impact evaluation from each sector. Therefore, sub-chapter 2.2 is based on public materials (articles discussing how social entrepreneurs impact on public interests), sub-chapter 2.3 is based on the classical nonprofit sector and sub-chapters 2.4 and 2.5 are based on SEs (who operate in the form of nonprofits). The private sector was enlisted in sub-chapter 2.4, where private sector management practices were used. The criteria for a solid social impact evaluation will be constructed according to the criteria arising from the interests of the different sectors.

This chapter aimed to provide an overview of the research process used in the four studies presented in the following chapter. The aims, when the studies were carried out and samples of the studies were briefly introduced.

## **2.2. Society's need for social impact evaluation of social enterprises**

Society's need for social impact evaluation is based on academic articles in English, which discuss SEs. In the author's opinion, there are three main topics about the effectiveness of SEs for discussion in the literature: a) innovative solutions and decreased asymmetry in information (related to the stratification of communication and the driving force for development in Table 5, b) the sustainability and legitimacy of SEs (related to the organisations' objective in Table 5, and c) the lack of clear evaluation standards (related to society's contribution in Table 5).

### **2.2.1. Innovative solutions and decreased asymmetry in information**

The stratification of communication in SEs is said to be based on the partnership and not the recognition of stakeholders. This possibly provides two advantages for increasing effectiveness: innovative solutions and decreased asymmetry in information.

Innovativeness is a topic that is brought up by the protectionists in social entrepreneurship (e.g. Dees, Curtis). So far no empirical proof has been given to ensure that SEs are more innovative than other organisations. Young (2008) states: "Some social ventures are extremely innovative; others are not." Peattie and Morley (2008) specify that innovations that SEs are good at tend to be social (particularly in terms of financial or commercial relationships) rather than technological. There is also the question of what we can consider an innovative solution. If there is good SE practice, which could be copied and is, could the copy itself still be considered a social enterprise? Proof derived from theoretical analyses is based on emphasising the negative aspects of other forms or affirming the existence of the same positive aspects as other forms rather than suggesting new categories for innovation. Clearly, those who are not convinced about the effectiveness of SEs tend to "talk" explicitly about the weaknesses of SEs. The author's comments are added in brackets in the following.

Dees (2007) argues that innovative solutions are caused by exploring a wider range of alternatives, largely because *they are not as constrained* by bureaucratic rules, legislative mandates, political considerations, or a fixed budget [compared with the negative aspects of the public sector]. All of these constraints are caused by accountability issues for the stakeholders (Table 5). Young (2008) mentions as the most important argument for social entrepreneurship that it recognises needs that are not adequately met by the market, governments or the traditional voluntary sector, and it recognises them better and acts on them more effectively. Even the state-sponsored SEs in the case studies seek ways to subvert the intended forms of the programme to achieve the expected

social outcomes, *rather than, as might be expected, wholly focusing on compliance with the norms of sponsorship programmes* [compared with the negative aspects of nonprofits] (Curtis, 2008). Qualitative research by Weerawardena and Sullivan Mort (2006) has also shown that social entrepreneurship strives to achieve social value through the display of innovativeness. “They are required to be innovative because of the *competitive nature of the market* [compared with the positive aspects of for-profits]...” (Weerawardena and Sullivan Mort, 2006).

It is argued that it is easier to bring about social change if there is direct contact or partnership with the stakeholder. As found in entrepreneurial literature, there is a connection between the business opportunity identified by entrepreneurs and their backgrounds (Dorado, 2006). SEs can offer *less standardised solutions* [compared with other forms] *that create more social value for the stakeholders*. SEs open up new sources for bridging and linking social capital, which can lead to social inclusion at the societal level (Teasdale, 2010). Simmons (2008) found that SEs providing public services create synergy through commitment to meeting social objectives and wider stakeholder involvement. The focus on partnership makes social entrepreneurship seem an important mechanism for supporting economic activity in areas deemed *unprofitable by the private sector and neglected by the state* [compared with the capability of public organisations] (Di Domenico *et al.*, 2010). Partnership can also be a disadvantage, although many authors (Sud *et al.*, 2008; Pearson, 2001; Gray *et al.*, 2003) agree that social entrepreneurs may be able to address specific social problems more effectively, *they are unlikely to bring about the broad and comprehensive reforms needed to bring about widespread solutions to those problems* [directly reflecting the weakness of SEs]. Dorado (2006) and also Murphy and Coombes (2009) question whether such findings from businesses (e.g. familiarity with a social problem might provide entrepreneurs with an advantageous position to identify a business opportunity connected to the solution of this problem) can be translated onto a “different type” of enterprises – SEs.

Based on agency theory, partnership and closeness to stakeholders decreases asymmetry in information. The managers of SEs could be *less opportunistic* [compared with the negative aspects of for-profits] as failure for a social entrepreneur does not imply financial loss, but a loss of personal credibility, while success does not imply financial gain, but increased social and human capital through an enhanced personal reputation (Shaw and Carter, 2007).

### **2.2.2. The sustainability of social enterprises**

The sustainability of SEs is primarily brought up while discussing the negative aspects of SEs. A comparison with other legal forms is not given in the analyses. It is stated that to change the *status quo*, empirical proof is needed about their sustainability. The sustainability problems are not certain, yet this

issue is seen as a threat. On the other hand, the protectionists of social entrepreneurship do not look for the proof. The protectionists prefer to focus attention on the growing number of SEs as an answer to the question of sustainability. Both parties raise the topic of legal issues concerned with SEs, but from different sides: opponents analyse the legal aspects of the public sector while the protectionists analyse the legal aspects of SEs.

Social entrepreneurs *cannot reasonably be expected* to solve social problems on a large scale mainly through their own legitimacy. This is based on the fact that the very existence of certain types of organisations depends upon the *consent of the society in which they are embedded*. This acquiescence is based on the perception that one type of organisation serves some sort of useful purpose. *The ability to attract and maintain resources is a key element in the search for legitimacy* (Sud *et al.*, 2008).

Diochon and Anderson (2010) argue, based on two Canadian case studies, that SEs had to prove themselves not only to the public, but also to the other social organisations because of their business activities. Based on the example of France, Ducci *et al.* (2002) confirms that although SEs are steadily increasing in number in France, a clear separation still exists between economic activities and socially oriented activities, which gives rise to certain problems including: *the difficulty for a nonprofit organisation to engage in economic activities; the difficulty for a nonprofit organisation to obtain financial resources (capital)* [these are problems that might arise]. It points out the real essence of the problems of obtaining financial resources. Peattie and Morley (2008) agree that some of those managing the procurement contracts express a reluctance to purchase from SEs due to concerns about their professionalism, ability to scale up or long-term sustainability.

SEs in Europe have to confront *legal issues which come from their hybrid value chain* [no comparison with other forms]. Although SEs of some form are to be found in almost all European countries and *are steadily increasing in number*, their legal definition *and recognition by the respective legal systems is extremely inadequate in most member states* [analysing the legal aspects of SE instead of sustainability] (Digestus project, final meeting, cited in Ducci *et al.* 2002). Access to public resources is questionable, as jurisdictions that endeavour to support social entrepreneurs may find themselves confronted with legal questions (e.g. is it appropriate to support faith based organisations with public funds?) and propriety questions (e.g. would support of this organisation give the appearance of favouritism?) (Korosec and Berman, 2006).

It is discussed that SEs could be pragmatically legitimate. Pragmatic legitimacy is the most basic form of legitimacy based on a kind of exchange calculation of the expected value of a focal organisation's activity for immediate stakeholder groups. Pragmatic legitimacy could be paraphrased as "if we get anything out of this then we consider it legitimate" (Dart, 2004; Suchman, 1995). Gilligan and Golden (2009) assert that social profit enterprises, when managed like their for-profit counterparts, impact social improvement more

widely and deeply than any other market entity. Mobilising resources is seen as a primordial challenge for SEs (Wei-Skillern *et al.*, 2007; Cooney, 2011). To analyse whether SEs are pragmatically legitimate, what impact they are having should be measurable.

### **2.2.3. The mission drift in social enterprises**

The problem of evaluating SEs raises several questions for their opponents: how can we define SE? How can we make sure that SE is not just a marketing trick? How can we make sure that the economic concerns are balanced with social objectives and that economic concerns do not dominate (Laville and Nyssens, 2001; Perlmutter and Adams, 1990; Young and Salamon, 2002; Cooney, 2006; Mooney, 2006; Rosengard, 2004)? Can an SE balance a double bottom line (Hackett, 2010)?

Cook *et al.* (2003) explain the risks of promoting SEs and finds that the private entrepreneurial model, where social costs (or benefits) are present and not valued in the market, is not efficient; hence, pursuing social justice aims is likely to violate the conditions required for efficiency. The dominance of the business discourse and drive for SEs to be the quick fix for society's ills has detracted attention from the foundations of these organisations – from the social (Bull, 2008). A similar finding is presented by Weisbrod (2004). Phillips and Hebb (2010) add that the current emphasis on business-based approaches and revenue generation can result in mission drift and a loss of focus for nonprofit organisations if the SE comes to dominate the sponsoring body or if delivering on the original mission of the organisation becomes too costly or time consuming when forced to compete with businesses unencumbered by social objectives. Boschee (2006) bring the example of conflicting values within the SE working with psychiatrically disabled people in Oregon: “There was a demilitarized zone between the production people who ran the factory and the rehab people who provided social services. We had two very strong-willed managers and each of them had their own lieutenants and armies” (cited in Wei-Skillern *et al.*, 2007).

Cook *et al.* (2003) claims that *it is unclear how a social entrepreneur balances resource allocations between profit-making and welfare-providing activities*. Baron (2007) gives this a simple explanation using the marketing perspective. If the social entrepreneur received an entrepreneurial social glow from forming a corporate social responsibility (CSR) firm, she may prefer to form a CSR firm rather than a profit-maximising firm (Baron, 2007). SE's legitimacy debate thus seems to run in the opposite direction to the CSR legitimacy debate, in which the concern is that social goals might endanger profits (Hervieux *et al.*, 2010).

Both protectionists and opponents of social entrepreneurship share concerns about blurring the boundaries of the sector. The concerns are (Dees and Anderson, 2003; Ducci *et al.*, 2002; Zietlow 2002): business approaches may cause

mission drift and make it impossible to satisfy plural stakeholders, profit emphasis or difficulty obtaining financial resources may lead to overall lower quality services, blurring of sectors may provoke a decline in advocacy by nonprofits. Nonprofit non-governmental organisations need to be especially vigilant in ensuring their social ventures return something to the community at a level beyond that of their stated nonprofit mission and ensure that they are actually adding value (Easterly and Miesing, 2009).

Miller and Wesley (2010) (similarly to Marks and Hunter, 2007) highlight the debate in the literature concerning the degree of focus needed on a social mission: “While some organisations focus only on goals related to fulfilling a social need, others only address it secondarily. However, both are often conceptually classified as social entrepreneurship.” They find that the identification of decision-makers influences the extent to which they value the social mission. Yet, the question about the point, in terms of earned income or social focus, at which a nonprofit or business organisation “becomes” an SE, is unanswered (Lyon and Sepulveda, 2009; Dart *et al.*, 2010).

Chapman *et al.* (2007a) mention three principal reasons why it is believed that SEs are not business oriented at all: 1) business activity is ‘cushioned’ by public money; (2) organisations are ‘risk averse’; and (3) SEs are ‘amateurish’ or ‘playing’ at business.

Brown (2006) highlights the potential conflict between shareholder interest and social objectives. Even though there are no overt ideological clashes between financial objectives and social missions, McBrearty (2007) thinks there is evidence that the development of commercial ventures consumes immense amounts of senior management time. Theoretically (e. g. Flockhart, 2005), it is argued that social and economic goals are not in conflict in SEs, but these can be considered as win-win situations. Similar findings are supported in the corporate social responsibility literature (e. g. Pava and Krausz, 2004; Campbell, 2007; Kurucz *et al.*, 2008). Within the blended value concept it is suggested (Nicholls, 2009) that, first, all organisations create both financial and social value, and that, second, the two types of value creation are intrinsically connected rather than being in opposition in a zero-sum equation (i.e. to generate more social value an organisation must sacrifice its financial performance). Chapman *et al.* (2007a) suggest, based on a qualitative study in the United Kingdom, that key stakeholders in the public sector assume that there is a value continuum between the voluntary and community sector through the SE sector to the small and medium enterprise sector. They conclude that it is possible for SEs to achieve a balance between being market led and value driven.

To overrule the threats with a possible mission drift, new ways of social impact evaluation are needed. Social entrepreneurship might provide a potential change in the focus of nonprofit philanthropy from charity to investment and lead to the development of new tools for effectiveness measurement (e. g. Farruggia, 2007; Galvin, 2006; Peredo and McLean, 2006). Many donors,

particularly those who have made money in business, find the lack of standards and benchmarks in the world of philanthropy particularly troubling (Frumkin, 2003). Without good evaluation, they will not find answers to tough questions about the social benefits produced through philanthropic intervention (Frumkin, 2003).

To sum up, any method for social impact evaluation in SEs with a purpose to provoking social change, should answer three questions: how is mission drift avoided, are SEs sustainable and are SEs innovative and effective. Answering these questions makes the evaluation of the impact of SEs useful in the debate between protectionists and opponents of social entrepreneurship, which RQ1 was all about.

### **2.3. Possibilities for standardisation of social impact evaluation**

Possibilities for standardisation of social impact evaluation were analysed based on 33 for-social-profit organisations in Estonia. The reason for analysing for-social-profit organisations and not SEs, is the small number of SEs. The stakeholders were divided according to the levels of social impact (figure 9): individual, community, service/organisational or society. All the respondents chose a stakeholder that responded to the individual level of impact. The stakeholders were merged into two main classes (table 15): members of the organisation and employees and service users or potential service users. Stakeholders that were classified as members of the organisation were named as *employees, members* or *students*. Stakeholders that were classified as service users were named as *children, residents of the region, visitors, users, students, scholars, teachers, academics, dancers, scientists* or *disabled people*. Some of the organisations refused to name only one most important stakeholder and named two of them. If these two stakeholders were not in the same category then the classification of “members of the organisation or employees and service users” was used.

There were two organisations that seemed impossible to classify at first: organisations that were dealing with children but which viewed the parents of the children as the most important stakeholders. One was a public sector organisation whose purpose is to provide shelter for children left without parental care; however, it also focuses on working with problematic parents, although that is not clear in its strategic objectives. As this organisation actually provides services for the parents then the stakeholders or parents were classified as “service users”. The other nonprofit, which found that parents are the most important stakeholder, explained it like this: *“The most important group is parents, as they are holding a wallet... We don’t have enough active participants. We are keeping the statistics as well – how many participants take part in our activities. The children of more active parents come more often and find more financial resources for make it possible to participate.”* The interpretation

here is that this organisation has to prove that it has an impact on the parents and not that the impact on the parents should be evaluated. Therefore, in this case, the parents were left out, as they are actually not the ones that should be evaluated in terms of impact.

The following are some examples of stakeholders that were mentioned in the impact map, which were not mentioned as most important ones but which would have been classified on different levels:

- Community and family: *citizens of a specific area, parents of students, employers;*
- Services: *partner and competitor organisations, enterprises in the same area, owners/investors;*
- Society: *city, state (Estonia), media, society, economy (Estonian).*

The stakeholders were divided into external or internal, based on the author's evaluations. The evaluations are similar to those suggested by Avgeropoulos (2006): internal stakeholders are employees and managers etc., while and external stakeholders are investors, strategic partners, customers, suppliers and other pressure groups. Those who were categorised as "members of the organisation or employees" were identified as being internal. Surprisingly, the ones that were categorised as "service users or potential service users" were not always perceived as external. The dissimilarities were caused by educational organisations. Scholars were seen as internal parties when they were accounted for in the organisation's list of members (e.g. students of secondary school and kindergarten were considered as internal stakeholders). On the other hand, participants of educational programmes who were not on the organisation's list were classified as external stakeholders (e.g. participants in skill conversion programmes). Also, members of a nonprofit organisation who use the services of a nonprofit organisation are evaluated as internal stakeholders. In nine of the organisations, the service users were seen as internal stakeholders.

Proposition 1 was that the level of social impact an organisation expresses in its strategic objectives should correspond to the level of social impact of the most important stakeholder (the stakeholder the manager considers to be most important). Surprisingly, proposition 1 was rejected. Although organisations were chosen from different level – individual, community and family, services and society (see table 15) – the managers of all the organisations found that the most important stakeholder from the point of view of social impact evaluation was an individual level stakeholder. The following are some examples of the answers that managers gave to explain their choice of the most important stakeholder.

- A court, with a strategic objective to ensure peace and justice in a society by giving judgement fairly; classified as operating at society level: *"If no one participates in court's proceedings, we would have nothing to do."*
- A library, with a strategic objective to offer library and information services and to provide a multilateral culture institution; classified as operating at

service level: *“The most important stakeholders are the children. I am sure that we can’t do much to change the habits and interests of grown-ups, but it is possible to have a substantial impact on children, to deepen their interest for books and establish a lasting reading habit.”*

- A nonprofit association, with a strategic objective to unite breeders and owners of /certain dog breed/ living in Estonia into one organisation: *“As there are only a few breeders, the most important impact is on the owners.”*

The focus on the individual level could be caused by the pressure of using business tools for evaluating social impact, where much attention is given to the members, the client and the owner. This also manifests in the explanations of several managers: *“If there were no clients/members/public/children, there were no organisation/club”*. On the other hand, the focus on individual may be caused by shared knowledge of social impact, where the focus is on people. In the current paper, social impact was also defined as the traceable difference in *people’s behaviour*, which appears in the interaction between the organisation and its diverse stakeholders, based on academic literature.

The fact that all the organisations indicated that the individual level stakeholder was the most important for them indicates that there is potential for developing a standardised method of impact evaluation. It is therefore concluded that the level of impact an organisation wants to achieve does not lead to differences in reporting the level of impact, as there is always a need to estimate the impact to individual level stakeholders.

Considering proposition 2, organisational focus (i.e. on internal or external issues, according to its strategic objectives) should be aligned to the impact on the internal or external stakeholders if it is to be the most important. If the strategic objectives of the organisation refer to the goal related to the internal stakeholder(s) then the stakeholder that the manager finds to be most important – in terms of social impact evaluation – should also be internal. If the strategic objectives of the organisation refer to the goal related to the external stakeholder(s) then the stakeholder that the manager finds to be most important – in terms of social impact evaluation – should also be external. The proposition holds for most of the sample organisations (see table 16). However, there were two organisations that raised doubts about the proposition.

The answers of these two managers of the organisations for whom the proposition does not hold sounded as follows:

- A Centre of Culture and Interests in a region of Estonia, whose purpose is to hold and develop cultural life in ... city and county through offering several cultural events and attractively enlist the residents of that region (external objective, expected stakeholder is “a resident of that region”): *“We think that the most important stakeholders are managerial employees, the supervisors of hobby groups and administrative employees.”*
- A higher education institution, whose purpose is to ensure sustainable coverage with ... specialist in Estonia (external objective, as the

organisation is relieving the external needs; expected stakeholder is ‘the people who needs those specialist’): *“The knowledge of a student depends on how the teacher/lecturer teaches. The product of our job is ... specialist. The lecturer, through practiced activities, motivates a student for independent work and life-long learning; that is important for this specific activity.”*

**Table 16.** Division of the organisations studied, according to the focus of the stakeholder and its relationship with the focus of the organisation

<b>Organisational focus</b>	<b>Internal stakeholder</b>	<b>External stakeholder</b>
<b>Internal</b>	4 – nonprofits 8 – public organisation: e.g. <i>employees and service users in the organisations, the purpose of which is to offer extracurricular activities for members of the organisation</i>	
<b>External</b>	1 – foundation 1 – public organisation	2 – foundations 3 – nonprofits 14 – public organisation: e.g. <i>children and visitors to the library</i>

Source: compiled by the author

Both organisations found that the impact on the stakeholders, which the organisation influences directly, should be evaluated. The manager did not find it necessary to evaluate the impact on the indirectly influenced stakeholders, although such impact was mentioned in their strategic objectives. It indicates that while constructing social impact evaluation standards, the impact on the indirectly influenced stakeholders can probably be left out of the evaluation. This is in accordance with traditional performance measurement principles: reports must be as short as possible and should evaluate the impacts as directly as possible. This study did not contain in-depth interviews that would explain why the impact on individual level stakeholders was preferred. The aim of this sub-chapter was to analyse whether the stakeholder to be evaluated in terms of impact differs in different for-social-profit organisations. Stakeholders from 33 for-social-profit organisations were analysed on two scales, based on the organisation’s strategic objectives and on interviews with the managers of these organisations.

First, the level of impact, which can be individual, family and community, services or society and its association with social impact evaluation were examined. It was tested to see if the level of social impact the organisation expressed in its strategic objectives corresponded to the level of social impact

on the stakeholder that the manager considered to be most important. It was found that this proposition is not valid and there is always a need to evaluate the impact on the stakeholders on an individual level.

Second, the internal and external view of the organisation and its relationship with social impact evaluation were analysed. It was found that in most cases (31 out of 33) the proposition is valid: the manager of an organisation that focuses on internal or external issues, according to its strategic objectives, should also see the impact on the internal or external stakeholders as the most important.

To overcome the lack of generally accepted reporting standards for for-social-profits and the lack of standardisation in social impact evaluation, the following points should be remembered: the impact on individual level stakeholders has to be evaluated, internally focused organisations should evaluate the impact on internal stakeholders and externally focused organisations should evaluate the impact on external stakeholders.

## **2.4. Possibilities for using business practices in social enterprises**

Business practices were tested in three SEs in the field of education in Estonia. Therefore, the example of evaluating impact in this field in the “social impact value chain” framework is given. Educational production outputs are often defined in terms of pupils’ test scores. Existing empirical evidence about the strength of the link between test scores and subsequent achievement outside schools is inconclusive (Hanushek, 1986: 1153–1154). Kane and Staiger (2002: 99) argue that annual test scores are unreliable measures and may lead to inefficiency. Ranking schools by average test scores might result in switching pupils out of subjects that are perceived to cause difficulties in achieving target grade levels, although schools should also deal with students with poorer performance by offering support with learning. Failure to maintain a high ranking may result in adverse consequences, such as poor chances of career advancement for individual teachers and head teachers, and a lower level of demand for places in the school from parents to whom the published school league tables are readily available.

One of the main goals of the educational sector is believed to be to offer high-quality education. It is believed that the quality of education would be reflected in the performance of students and graduates. For instance, the value added from school can be measured by performance in or impact on the labour market, such as extra earnings or employing educated workers (Lee and Barro, 2001: 466). It must not be forgotten that outputs and outcomes of the educational process are influenced by numerous elements that lie outside the formal education context (the socio-economic environment of the family, innate abilities, etc.). Consequently, the person’s performance in the labour market is

also dependent on other external factors and circumstances, rather than solely on schooling (Mancebon and Bandres, 1999: 134).

Eager to improve quality and unable to do it directly, government policy typically moves to what is thought of as the next best –thing: providing added resources to schools (Hanushek, 2003: 66). However, a disturbing pattern in the multitude of studies of this type is that there is no strong empirical evidence in support of the contention that traditional educational inputs have the expected positive influence on educational outcomes (Worthington, 2001: 245). Many previous economic studies have concluded that school inputs do not matter because school output often does not correlate with input variations (Brown and Saks 1975: 571).

The shortcomings agreed by the evaluators and the organisation’s representatives have been summarised in table 17. In the table, “–” represents an existing shortcoming and “+” a shortcoming that does not exist; “0” indicates that it was not possible to determine whether the shortcoming existed or not.

**Table 17.** Main shortcomings of the organisations

Organisation Weaknesses		X	Y	Z
Problems related to organisation’s goals	Mission is understood	+	+	+
	Vision is shared	–	–	–
	Short-term goals are related to long-term goals	–	–	–
	Plans and research are implemented	–	–	–
Problems related to measurement	Reliable social impact evaluation, clear performance criteria	–	–	–
	Reliable comparative data	–	–	–
	Reliable accounting	–	–	–
Problems related to employees and members	Effective division of labour	–	–	–
	Motivated employees	0	–	–
	Spread of information	–	–	–
	Goals and activities are related	–	–	–
Resources	Financial resources	0	0	+
	Material (e.g. facilities) resources	0	0	0
	Human resources	–	–	–

Source: compiled by the author, based on interviews with active management, confirmation of short interviews

Problems related to goal setting in evaluated organisations started from either missing long-term plans or the misuse of plans in practical leadership. Vision was lacking in all three organisations. In organisation X the key interviewees had significantly different understandings of the aims of the organisation, as they gave different answers to the relevant question or they could not give any answers at all (X3: “*I have no idea where our organisation should be by year 2012. Maybe we could increase the number of teachers...*”). A certain amount

of stagnation was sensed in organisation Y and Z, as change or rearrangement in activities had never been considered (Z3: *“Last year was a big failure, we did as we have always done, but the environment had changed.”*). The vision did not provide a unified view of the organisations (Z1: *“It is a problem in many organisations, as well as in our organisation, that the members don’t see the big picture...”*). Short-term goals dominated as there was a lack of clarity about long-term goals and as the use of resources was focused on short-term gain. Middle-management decisions derived from financial possibilities; the scarce resources were more likely to be given to current members and activities rather than more qualitative activities (Y2: *“We don’t throw the ideas aside... We try to attract suitable resources. The main problem is that we lack human resources.”* Interviewer: *“What would you do if you had more resources?”* Y2: *“If we had more resources then we would increase salaries.”*; X2: *“I could use an assistant... but it is simpler to do the job myself. We always find a reason not to recruit.”*).

The evaluated organisations had the theoretical knowledge needed to manage the organisation but that knowledge was left unutilised. Organisation X knew that the current management structure did not permit it to make changes but the know-how for improving the structure was missing. Organisation Y had repeatedly compiled various detailed strategic development plans and a communications strategy, but the skills needed to employ these were missing. Organisation Z made detailed plans every year but these were not in sync with the activities of the subdivisions. A lack of planning prevented employees from focusing their efforts on the important fields and so the work was fragmented, and divided between many projects.

Quantity rather than quality of outputs was the primary goal of the organisations (Z1: *“We have about 90 active members, 15 of whom participate in a practical programme and about 35–50 in a leadership programme. Actually it takes 3 years to becoming the “agent” we want them to be. Many drop out, and we try to recruit more people each year...”*; Y3: *“The quality is fine as long as some people come to the seminars. We shouldn’t put too much emphasis on feedback.”*). Organisations did not even have year-long plans related to the quality of training (although it is the main activity of these organisations). Employees of all three organisations claimed that they had tried to evaluate the number of people who had received training, but they do not intend to do it anymore. There were three reasons: the lack of comparative data with which to interpret the results; the qualitative component of the training evaluation had been discarded as it was not a part of the performance report required by the external stakeholders; the quantitative data had little merit for insiders as it was not tied to qualitative goals.

Problems related to setting goals directly influenced performance measurement, as there was nothing to compare the results with (Z4: *“I think our model of competence is necessary. They say that they cannot use it for evaluation, as they do not know how to do it.”*). Theoretically, there are three types of

comparative data: comparison with ideals/goals, comparison with other similar organisations and comparison with the same organisation in the past. Comparing with plans presupposes professional planning that would set realistic goals. For example, the evaluated organisations have shown that plans are often missing and so the comparative data is not useful.

The lack of qualitative criteria was also caused by the accountancy, which was aimed at the external user and did not support an organisation-based performance analysis. So far, the supporters and the national reports demanded only quantitative indicators. (In answer to the question, “How does city government measure your work?” X2 replied: “*City government tells us: We have a sum of EEK<sup>19</sup> x. We want the programme for these families, though the need for the programme is greater. Take it or leave it.*”). Since the organisations were only obliged to analyse quantitative indicators, they sensed that creating further organisational reporting would have been too bureaucratic. (X1: “*We plan as much training as we can. Right now the quantity matters.*”)

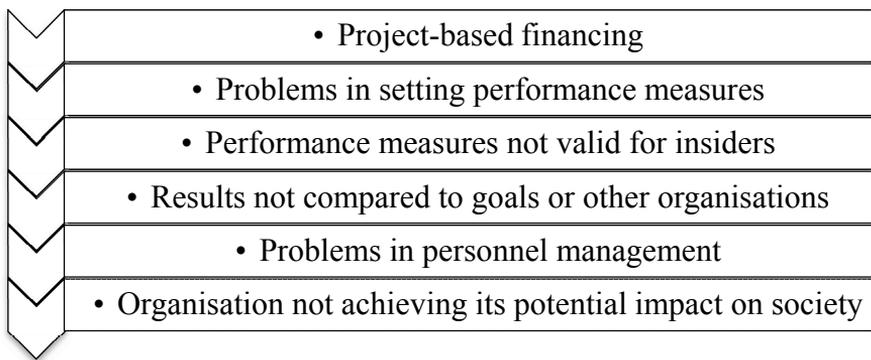
Since the organisations had not found a means of evaluating the quality of trainings there was a tendency to give up evaluating entirely, which would certainly not improve performance (Y4: “*Girls do not like numerical indicators. They feel constricted when numbers are involved, although they are conscientious. So we gave that up.*”). The lack of qualitative criteria made the quantitative analysis useless, since the interviewees felt that accumulated data did not adequately reflect the organisation’s activities. (X3: “*I understand that it is my problem as I am a manager, but I don’t know how many classes we have in Estonia. Let’s say 350 kindergarten classes, but I could just as easily say 600 classes. Actually there is no good criterion for telling what “our class” is.*” Y3: “*We have different understandings about what training is (author’s comment: “We” = Y2 and Y3). We have not defined it. A public lecture is not training as it will not result in a concrete learning outcome.*” Y2: “*There’s no point in gathering feedback as it is slight...I like the teacher, good company.*”).

The lack of performance analysis prevented the organisation from improving the division of labour and focusing on more important areas, which also resulted in a decline in motivation (Y4: “*I’ve been trying to show the teachers that, thanks to the coordinators, they can make more projects, and therefore more salary. It is quite hard to explain this to the teachers.*”). In organisations X and Y, extra tension was created by the salary system, which was focused on short-term goals and quantitative indicators. The salary depended on how many people were trained but that did not ensure quality. However, in theory, many of those who are engaged with the educational sector are motivated not only by financial but also by non-financial incentives (X1: “*We lack human resources. I take the offers and can’t manage/finance them. If a mother comes to ask with tears in her eyes then... I just can’t say no. Salary or money is not a motivator. There are people who want to help others.*”).

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<sup>19</sup> Estonian currency 1992–2010.

Surprisingly, the resource-related problems in the organisations were not related to the shortage of financial means, as could be guessed but from lack of human resources. (Y4: “*Nothing stays undone because of the money. We have the finance per pupil plus the children pay for the studies.*”; X1: “*We lack human resources.*”). The weakness in financial and managerial accounting made it impossible to get an overview of how the finances were used. The organisations lacked know-how to put theoretical knowledge in practice. Based on qualitative research, it is presumed that most of the shortcomings in organisations operating in the educational field in Estonia are caused by project-based financing, which manifests in the external-oriented performance management criteria; these do not make sense for internal parties and they are not usable in the management and development of the organisation (figure 15).



**Figure 15.** Connections between shortcomings in organisations in the educational field

Source: compiled by the author, based on results of sub-chapter 2.4

Incorporating private sector management practices into SEs (RQ3) shows that at least the following criteria have to be fulfilled is a valid performance measurement system is to be built:

1. The evaluation has to be based on the organisation’s strategic goals and objectives, so these clearly stated objectives must be in place first;
2. The educational organisations have to be involved in the construction of the evaluation system (it must not be constructed for them by external stakeholders);
3. The evaluation system cannot consist only of quantitative indicators, although they are easier to measure and interpret (or misinterpret).

## **2.5. The readiness of social enterprise managers to use social impact evaluation tools**

This part of the empirical study is based on workshops that were implemented in five social enterprises in Estonia, where three different social impact evaluation tools were introduced and the potential for implementing one of these tools in a specific social enterprise were discussed. It appeared that it is possible to identify some common themes that emerge while talking about concrete social impact evaluation tools. The results in terms of these themes are presented in Table 18 and are divided into the positive issues of why and when to use one certain social impact evaluation tool, and the doubts and limitations of using certain social impact evaluation tools. Some examples are given of how organisations expressed these issues in Appendix 7.

The organisations saw the opportunity to increase their income by introducing the results of the value-based method to the external stakeholders. Lingane and Olsen (2004) also found that the entrepreneurs' time and financial constraints are typically severe, and in practical terms they are unlikely to spend time on such evaluations unless it is seen as important to their investors. The discourse the managers used while talking about numerical data represents the experience of achieving success by using such data: their announcements are taken more seriously, the need for increasing income could be proved in a better manner. The numerical data is seen as an argument for the external stakeholders, while it might raise too many questions for internal stakeholders. The numerical data also raises three problems: it is considered difficult for stakeholders to link the numbers to the social goals; due to a lack of know-how the organisations feel they might be unable to carry out the evaluation process, which requires financial management expertise; the numbers used in the calculations might not be measured accurately, which leaves a lot of room for speculation and subjectivity.

The impact-based method (Acumen Fund Scorecard) was seen to take the dual-targeted nature of SEs into account, as both financial and social goals were analysed. On the other hand, the managers of the analysed organisations did not seem to value the analysis of the financial indicators as being similarly important for the internal stakeholders. As with the value-based method (SROI), it emerged while discussing the possibilities for using the impact-based method (Acumen Fund Scorecard) that not-for-profits and SEs do not have the necessary internal competence for calculating the finances and that they feel insecure if economic terms are used. The softer aspects of entrepreneurial analysis like competition and competitive advantage are valued higher than financial analysis for internal stakeholders. Hence, based on the example of the United Kingdom, it has been found that SEs were slow to exploit funding opportunities through marketing their uniqueness (Bull and Crompton, 2006).

**Table 18.** The topics that emerge while discussing social impact evaluation tools

<b>Social impact evaluation tool</b>	<b>Positive issues of why and when to use social impact evaluation tool</b>	<b>Doubts and limitations for using the social impact evaluation tool in practice</b>
<b>Value-based method (SROI)</b>	<ul style="list-style-type: none"> <li>– Important for stakeholders, who appreciate financial outcomes and information presented in numbers.</li> <li>– Numbers make the information seem like a fact, which increases the feeling of subjectivity (especially for external stakeholders).</li> <li>– Information presented in SROI format makes it easier to communicate the purposes of an organisation to external stakeholders (state, investor and residents of the region).</li> <li>– Helps to see the big picture and purport the activities of an employee for the employee itself.</li> <li>– Grants access to value-based pricing, when current market practices are based on cost-based pricing.</li> </ul>	<ul style="list-style-type: none"> <li>– Calculating the impact in monetary terms contradicts the common discourse of internal stakeholders of nonprofits (employees and members).</li> <li>– No common view exists of whether such an evaluation is useful for the internal user or organisation itself.</li> <li>– The SE lacks internal competence for carrying out an evaluation using SROI.</li> <li>– Finding data for calculating alternative costs is complicated.</li> </ul>
<b>Impact based method (Acumen Fund Scorecard)</b>	<ul style="list-style-type: none"> <li>– Brings out the competitive advantage.</li> <li>– More in accordance with the common discourse of internal stakeholders than SROI.</li> <li>– Allows a strategic view to a certain problem in society.</li> </ul>	<ul style="list-style-type: none"> <li>– If the evaluator does not know the background of the evaluation, then the results can be easily manipulated.</li> <li>– Finding data about an alternative solution is complicated.</li> <li>– It can be rather used for external evaluator.</li> <li>– The SE lacks internal competence for evaluating the financial parts of Acumen Fund Scorecard.</li> </ul>
<b>Process based method (Issue-based approach)</b>	<ul style="list-style-type: none"> <li>– Result oriented.</li> <li>– Can be used while forming the activity plan as it connects the reason and the consequence.</li> <li>– Is in accordance with nonprofits logic, which sets the human being, whom the organisation wants to change, at the centre of the evaluation.</li> </ul>	<ul style="list-style-type: none"> <li>– Could be motivating for the employees, but it is guessed that it might be too hard to make the employees understand it.</li> <li>– Most subjective and the results can be easily manipulated.</li> <li>– Goals might change over the long period, which is needed for the evaluation.</li> </ul>

Source: compiled by the author, based on the results of sub-chapter 2.5

Managers seemed to value the complexity of their organisations, as the fact that the impact-based method takes a too narrow a view of organisational activities and problems in society was considered a threat. Each organisation was unquestionably unique for their manager, which also raised the question of finding alternatives with which the organisation should be compared. The uniqueness of the organisation for the manager is in accordance with the findings of the study conducted by Kelly and Lewis (2009), when the respondents were asked how their products/services differed from other nonprofits, 73.7 per cent of the responses answered either 4 or 5 on the five-point Likert type scale corresponding to totally different. The question of a comparable organisation highlighted the topic of subjectivity in evaluation.

The process-based method (issue-based tool) does not pay much attention to the financial issues, which was in line with some managers' thoughts about their organisations. They do not feel that they operate to achieve financial goals. The managers considered these to have less value for investors for the same reason. The main use for the issue-based tool was seen while constructing activity plans, which could mean that this tool has the most value for internal stakeholders. The necessity of this tool for internal stakeholders was also seen when emphasising that this is most logical for nonprofits as it is focusing on real lives and changes in individuals.

The main weaknesses of the issue-based tool stem from the same things as its threats: the flexibility makes it possible to adjust it for the organisation quite easily, but on the other hand, this leaves a lot of room for subjectivity and manipulating the results. The issue-based method is most similar to medical drugs testing, which Elbers *et al.* (2009) describe as the ideal social impact evaluation example involving the comparison of two randomly selected groups, a treatment and a control group.

Although the method is in accordance with the for-social-profits logic, where results appear in the long-term, there are several problems in evaluating the long-term results. Most important of these could be that in practice the organisations prefer to use short-term goals and planning. Short-term planning could be the result of the (previous) practice of project-based financing (see also subchapter 2.4), or also the fact that SEs do not have a long history in Estonia, which means that each organisation is still positioning itself on the Estonian market and this causes goals to change quickly.

Whether the same tool elicits the same topics in the discussion of social impact evaluation was also analysed. The topics that emerged were analysed on two scales according to the research questions: firstly, what are the criteria for choosing a social impact evaluation model, and secondly, what are the practical limitations for managers of SEs to (not) carry out a valid social impact evaluation.

The categories which should be analysed while choosing a suitable method, based on results of the workshops, are given in Table 19, where the differences between three tools analysed are also given. The comparison between the tools is based on the managers' thoughts about these tools.

**Table 19.** Criteria for choosing a suitable social impact evaluation tool.

<b>Category</b>	<b>Value-based (SROI)</b>	<b>Impact-based (Acumen Fund Scorecard)</b>	<b>Process-based (Issue-based approach)</b>
<b>Conformity with the not-for-profits logic</b>	It is often considered taboo to calculate not-for-profits results in monetary terms	Rather in accordance with not-for-profits logic: enables strategic view of a problem; includes financial indicators AND descriptive answers about social impact	In accordance with the not-for-profits logic: places the person, whom the organisation tries to change, at the centre of the evaluation
<b>How is financial sustainability integrated in the evaluation</b>	The total of financial results are compared to the impact of the organisation as a whole	Financial sustainability is compared to the impact of one activity	Total costs compared to the problem, which the organisation is trying to relieve.
<b>Internal versus external user?</b>	Rather for external user. Use for internal user is questionable	Rather for external user.	Rather for internal user.
<b>Stakeholder to whom the results are presented</b>	Partners, in bureaucratic relations	Investor (external evaluator)	Members of the organisation
<b>The focus of the evaluation</b>	Which stakeholders gain from the activities of the organisation, compared with the stakeholders on whom the resources are spent	Comparison with other similar organisation	Result oriented. Defines the organisation through cause-and-effect.
<b>Which part of the organisation is evaluated</b>	Organisation as a whole	One activity of the organisation	Issues or problems in the society the organisation is dealing with are analysed separately
<b>When does the manager feel the tool could be useful?</b>	For reporting results and purposes to the external stakeholders.	During construction of strategy, mission and vision	During construction of activity plan

Source: compiled by the author, based on workshop interviews

The problems of implementing social impact evaluation tools that emerged while talking about the tools are described in Table 20. It is interesting that when the pros – why and when to use a particular tool – differed between the tools then the limitations for carrying out a social impact evaluation in an organisation are quite similar. However, the relative weighting of these topics and details about their occurrence differed slightly depending on the social impact evaluation tool. Most of the problems were first mentioned while discussing the possibilities for using SROI for evaluating the social impact of the organisation. Some problems were added while discussing the Acumen Fund Scorecard, and the least while discussing the issue-based approach. This could be caused by the fact that the tools were always introduced in the same order and problems that were mentioned earlier were not repeated later.

As the data needed for the evaluation is different for different tools, the problems with comparative data are also a bit different for each tool. The only similarity between the tools is that the data is considered to be missing. Trelstad (2008) has stated that the search for absolute impact or performance measures is elusive and irrelevant. Performance is always relative to what you had been doing before (past), to what your competition did over the same time period (peers), and to what you should have done (projections) (Trelstad, 2008). What is common in all the organisations studied is that the managers of each organisation feel that their organisation is unique and a comparable alternative does not exist. It is interesting that while discussing this subject, the managers used other organisations (which had been included in research) as examples, where alternative examples do exist. This could mean that organisations that are similar for the external stakeholders are not similar for the internal stakeholders. This could be caused by internal stakeholders focusing on the details of the activities and organisational issues (e.g. in the context of the Acumen Fund Scorecard: *‘For example /name of the organisation/ is a bit similar. But they have a different structure’, ‘We can’t be compared to /name of the organisation/. They’re focusing on quantity while we are focusing on quality. How can you say, what is more important? I think /name of the possible investor/ values quantity more’*).

**Table 20.** The causality between the problems in carrying out a social impact evaluation and the social impact evaluation tool

	<b>Value-based tool</b>	<b>Impact-based tool</b>	<b>Process-based tool</b>
<b>Finding data for comparison</b>	Defining an alternative is difficult. Historical data or reliable statistics are missing for calculating alternative costs.	The comparable alternative does not exist.	Historical data for comparison does not exist
<b>Financial indicators</b>	Economic terms like cash flows, financial sustainability and alternative costs are confusing. The organisation lacks in-house competence for analysing financial data.		The lack of financial indicators might reduce the importance of the evaluation for the investor
<b>The cost of carrying out social impact evaluation is unknown</b>	Managers cannot evaluate and plan the time and money needed for a social impact evaluation. The intuitively estimated indicators are valued over measured indicators (therefore, carrying out empirical research seems to be illogically expensive.) Due to the lack of in-house competence an external evaluator should carry out the social impact evaluation. Long-term study during which the purposes might change.		
<b>The context of Estonia</b>	Due to rapid changes in the society, longitudinal studies do not exist. Studies about Estonia do not exist.		

Source: compiled by the author, based on workshop interviews

In theory, the tools make it possible to create a theoretical alternative. Yet, the value of the theoretical alternative is irrelevant for practitioners who estimate the practical limitations of these alternatives (e.g. *‘what is a real alternative, what is a 1:1 alternative and what is the reality. For example the state would never pay attention to the problems of this small region’, ‘other organisations could not contact our stakeholders. They just would not find them’*). The problems finding data and estimating its validity were described while talking about the threats of SROI.

The organisations studied mentioned that external stakeholders are interested in financial indicators, and that they have felt the need for financial management for internal stakeholders as well. Still, the organisations lack the competence to evaluate financial indicators, business performance or sustainability themselves. This lack of competence might be caused by outsourced accounting, which does not grant access to the financial management (*Well on the financial side, mainly we have dealt with accounting.... but we feel that we need much more. We need financial management, but we do not have it’*). The

managers of SEs tend to be specialists in the social aspect the organisations are dealing with rather than specialists in economic management (*It seems to me that it often happens in nonprofits... we came together around the kitchen table and founded a nonprofit organisation. Maybe we started to gather members and do something. But we are not... we do not know what this financial sustainability is...*). This could be the reason why economic terms caused confusion among the managers (one manager exclaimed when the word ‘cashflow’ was used: ‘*you must be an economist. I almost understand what you’re talking about*’). A similar finding is supported by Smith (2010b), who argued that the board for nonprofits is recruited for their passion and support for the mission of the organisation and not their performance management skills.

The most important limitation in using social impact evaluation tools in practice is that the resources needed for the evaluation are unknown. Time (*‘I see that constructing a model is such a work, that if anyone could invest the time to think everything through and argue them clearly’*), money (*‘I can’t estimate the cost right now. I should know what it takes to put it in the budget. But right now I don’t know how much it is’*) and competence were mentioned as resources. Ellis and Gregory (2008) also showed that the high expectations of a social impact evaluation are seldom matched by the resources available, and the sources of funding and the nonprofits both underestimate the time and resources required to evaluate social impact. Due to a potential lack of competence most preferred an external expert to carry out the evaluation (*‘the bases of impact evaluation should be intra-organisational. What we evaluate and which numbers are used and why? The knowledge for making changes could be outside the organisation’, ‘The construction of the model could stay outside our competence. But if the system is quite simple and easy then we could use it’*). Sometimes the reason for outsourcing the social impact evaluation was the time the social impact evaluation takes (*‘When we should do it, then I would say that find someone who has a lifetime’*).

One of the reasons why an organisation would prefer an external evaluator might lie in the values of not-for-profits, where stories, examples of change and belief in doing the right thing (*dóxa* in Greece) are valued over measurable results (*epistème* in Greece). It is also worth noting the conformity with the nonprofit’s logic in Table 19; *‘I have noticed that these members, who believe in it, are doing great. And the one’s that just come and do it... they will quit soon or find something else to do’*. The not-for-profits logic was also illustrated by Moxham (2009): *“with measurement you’ve really got to turn it around so it’s not just statistics on paper. It’s about people.”* This was also supported by Bull and Crompton (2006), who analysed SEs in the United Kingdom and conclude that ‘tools’ developed for SEs need to be ‘informal’, non-generic and based on ‘experiential’ learning (ergo acquiring tacit knowledge through experience or based on the experience of other organisations in the sector).

Such an approach is not completely unknown to investors, as Trelstad (2008) expresses based on his experience that when complicating the system build,

management teams and boards are often not patient enough to wait for the system to be developed before reporting on current programme performance. Or, once a system is built, organisations skimp on new investments in adaptations or further development. Donors, in Trelstad's (2008) experience, care about metrics, but they want simple, clear and meaningful metrics, and at the end of the day still prefer stories about the impact of our work (preferably stories informed by data). Smith and Stevens (2010) argue theoretically that social entrepreneurs who engage in solutions at a local level, and as a result command more involved, more direct relationships with stakeholders and community members, are less likely to focus on objective measures of the venture's value to society, based on shared knowledge of the outcomes by both the entrepreneur and stakeholders and the shared desire to put resources most directly into outcomes and avoid measurement. Miller *et al.* (2007) criticize such approaches in terms of validity, and refer to it as a popular story-telling approach. As organisations emphasise the elements and aspects of social impacts that best suit them, the majority of the current social reports are often based on little more than selected case studies that inevitably favour the company, so these cannot produce sufficiently valid, generalizable or credible information (Miller *et al.*, 2007).

The quick changes and relatively small population in Estonian society were mentioned as reasons for statistical data not being useful for evaluation (*'Everything has changed so quickly. In a few years the regulations and laws... everything has changed so suddenly and even if Statistics Estonia started acting in the late nineties, we cannot compare it with what we had last year... these are not comparable', 'Estonian society is too small to flatten the statistical errors'*). It was also mentioned that research on Estonia does not exist or is not available for managers (*'we could use some analogies with other countries, where such research has been made. But in Estonia, I doubt these exist', 'I could bring an example... while elaborating /change in Estonian regulations/ the impact was somehow evaluated by the ministry... But it stayed behind something... they did not want to share the results for some reason... they said impact analyses are for them. And when the data changed a bit, then they said, they don't have time to do these analyses'*).

To conclude, the main criteria for social impact evaluation for managers of SEs (RQ4) are that social impact evaluation has to be in conformity with the not-for-profits logic, and financial sustainability has to be integrated in the evaluation. Impact evaluation should make it possible to reckon with the uniqueness of the organisation. Impact evaluation is seen as useful for reporting to external stakeholders, during strategic planning and activity planning. It is the author's opinion that efficient social impact evaluation requires a good tool that supports all these functions. Although social impact evaluation provides several advantages in theory, there are several reasons why social impact evaluation is complicated for SEs. The answer to RQ5 – What practical limitations would prevent managers of SEs from carrying out a valid social impact evaluation? –

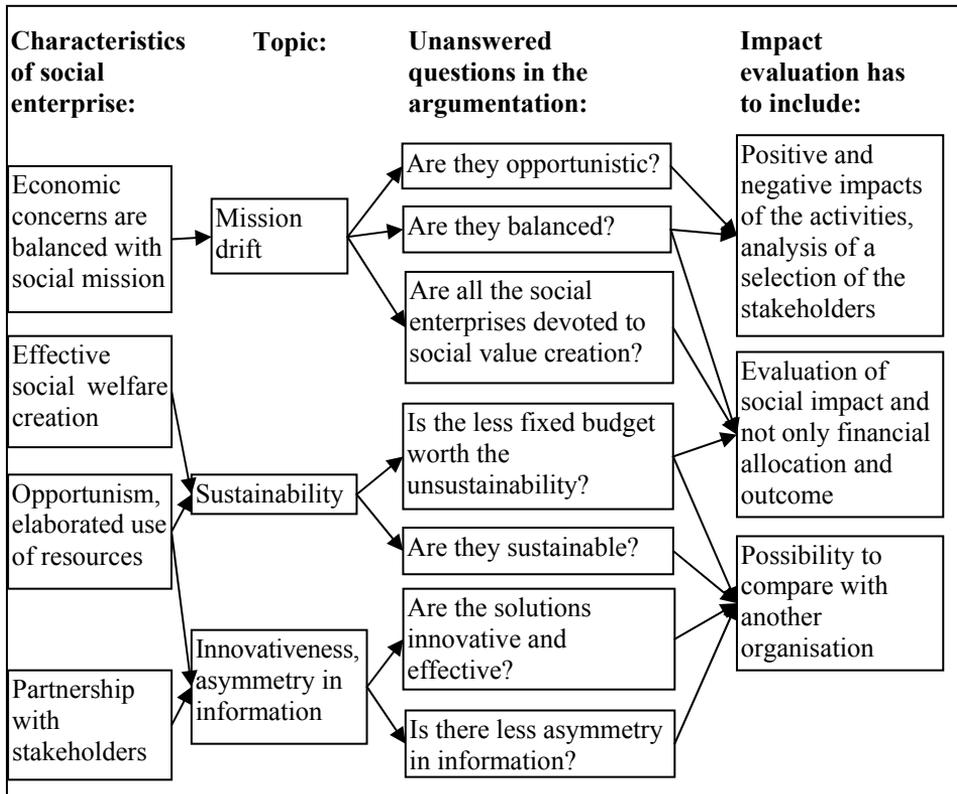
is threefold. Finding data for comparison is difficult and demands resources. Internal stakeholders would prefer to use historical data, but such data does not exist. The purpose of the external stakeholder is often to compare similar organisations, which leads to several gaps between the interests of internal and external stakeholders. Managers cannot evaluate and plan the time and money needed for social impact evaluation. Social impact occurs over the long term, during which the goals might change, therefore the flexibility of social impact evaluation is a key aspect.

### 3. SYNTHESIS AND DISCUSSION OF THE RESULTS

#### 3.1. Empirical findings

This sub-chapter will discuss the results of the empirical study and end by answering the first part of the aim of the thesis charting the criteria for social impact evaluation. First, the results of different parts of the empirical study are discussed. Second, the results of the different parts of the empirical study are compared with each other.

Questions about SEs that are not answered (based on sub-chapter 2.2) are illustrated in figure 16. Any method that evaluates social impact in SEs, with the purpose of provoking social change, should contain least three criteria: it should include an analysis of a selection of the stakeholders and of the positive and negative impacts, it should evaluate social impact and it should allow the results of evaluation to be compared.



**Figure 16.** Relationship between the characteristics of SE, the arguments for and against SEs, and the criteria for social impact evaluation

Source: compiled by the author, based on sub-chapter 2.2

To test innovative solutions and the decreased asymmetry in information, a good method of evaluation should allow for the analysis of whether one organisation (SE) produces a more positive social impact (including social welfare) than another organisation in the same field, as a result of fewer opportunistic goals and less asymmetry in information, which derives from the differences in the driving force for development and the stratification of communication. The potential impact that SEs can have is recognised, although there is little or no empirical evidence about the sector (Bull and Crompton, 2006). Such evaluation can provide empirical proof of (or it could disprove) the effectiveness of SEs compared with other sectors.

The issue of comparability is not new in the social performance and reporting literature (e.g. Paton, 2003). Wood and Jones (1995) have also highlighted the limitation of the model of corporate social performance; they see it as a lack of objective and behavioural measurement to be able to compare the social performance of different organisations (Kraisornsuthasinee and Swierczek, 2009). Aras and Crowther (2008) state, in the context of Global Reporting Initiative's Sustainability Reporting Guidelines, that an accepted model for social reporting aims to provide a framework that allows for comparison between the reports of different companies whilst being flexible enough to reflect the different impacts of the various business sectors. Germak and Singh (2010) ask that empirical research be performed to determine the effectiveness of SEs, compared with more traditional nonprofit organisations.

Although the current study focuses on social impact evaluation, it was argued previously that sustainability issues have an effect on long-term social impact (as in for-social-profit performance composition). Evaluating sustainability either proves or disproves whether the SEs are able to relieve the problems in the long term (are the SEs capable of carrying out the reforms necessary for social change).

Testing the sustainability argument requires the evaluation of two components: economic sustainability, which can be evaluated using the methods known to the for-profit sector, and legal sustainability. The legal issues concerned with sustainability have to be discussed from the perspective of the SE as well as from the perspective of the public sector.

In testing the mission drift argument, a good method should analyse a selection of the stakeholders and a selection of the activities. Burdge (2003a) discusses several myths about social impact evaluation; one of them is that evaluation brings social costs to some and benefits (financial or non-financial) to others. Therefore, an additional criterion, the capability to analyse all the impacts (including negative ones) is added to the analysis. The activities themselves should be analysed to obtain proof that the organisation is doing the right thing and helping to solve or relieve a social problem.

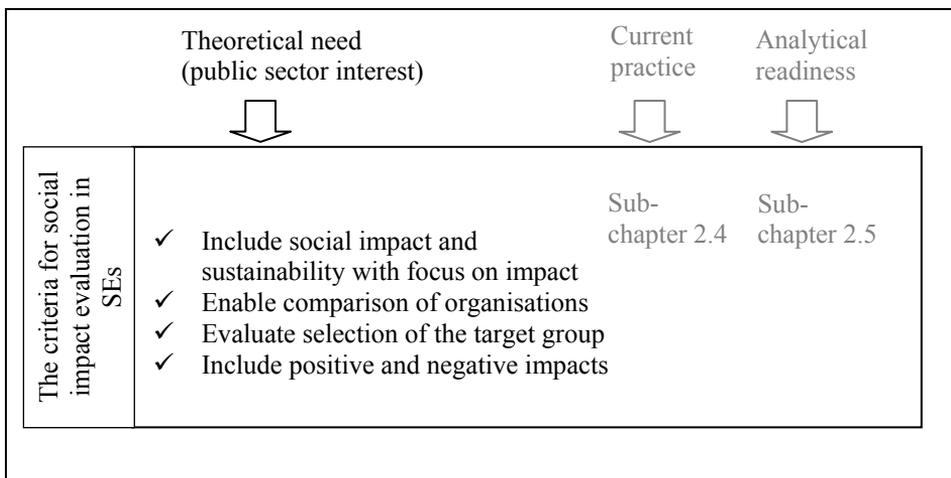
In social impact evaluation, there is always a risk that only the good results are evaluated. Not all of the impacts of the activities are evaluated. Often the evaluation reports do not show the assumptions used in the evaluation. In

practice, too little attention has been paid to whether the right activities are being carried out. Do the activities (always) lead to the purpose? For example, student exchange programmes are meant to make people more tolerant of other cultures. What happens if one has a terrible experience and does not learn from it? It could be that the opposite of what is planned is achieved.

These criteria are similar to the findings of the study carried out by Achleitner *et al.* (2009) and Hervieux *et al.* (2010). Achleitner *et al.* (2009) listed the essential elements of reporting as performance, risk and organisational capacity. These correspond to agency theory, mission drift and sustainability. Hervieux *et al.* (2010) named five concepts on which the examined discourses on SEs showed the most frequent convergence: social mission, socio-economic, social change, innovation and sustainability. Miller *et al.* (2007) also lists the criteria required if the social dimension of the evaluations is to be meaningful and relevant: the measurement of the social dimension must be compatible with existing business practices; social impact practices need to be valid, comparable and able to be generalised to ensure accountability; the development of a standardised measure is desirable to facilitate both usability and the acceptability of social reporting in the business world. However, the bases for these criteria were not explained, so these cannot be critically analysed in the dissertation. Evaluating the social impact of SEs in a way that responds to the above-mentioned criteria could give empirical proof of the validity of the arguments for SEs.

To conclude the results from sub-chapter 2.2, three main questions have to be answered to decide if SEs are potentially effective in relieving social problems: effectiveness arising from decreased asymmetry in information and innovative solutions, a lack of legitimacy arising from the question of sustainability of SEs, and the potential mission drift caused by a dual-targeted nature. Finding answers to these questions requires a solid method of social impact evaluation. This should cover the following (see the last column in figure 17):

- Analysis of the social impact of the organisation, not only the financial allocation and outcome;
- Analysis of the differences in the impact of two organisations operating in the same field;
- The selection of the target group and an analysis of all the impacts of the activities.



**Figure 17.** Criteria for solid social impact evaluation is SEs based on public sector interests on it

Source: compiled by the author, based on results of sub-chapter 2.2

The conclusions from sub-chapter 2.2 might be misleading as the issues raised about social impact evaluation in literature might not correctly reflect the needs of the practitioners and the real values of external stakeholders might be different. The literature might reflect what the external stakeholders *should be* valuing and not what they *are* valuing.

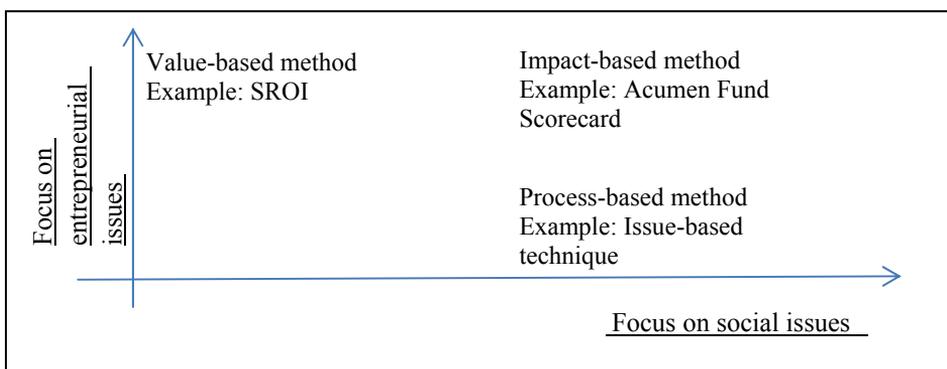
To overcome the lack of a generally accepted reporting standard for for-social-profits and the lack of standardisation in social impact evaluation, the following points were highlighted (see sub-chapter 2.3; figure 18): the impact on the individual-level stakeholders has to be evaluated, internally focused organisations should evaluate the impact to internal stakeholders while externally focused organisations should evaluate the impact on the external stakeholders, the indirectly influenced stakeholders (or off-site impact, according to Slootweg *et al.*, 2001) can most probably be left out of the social impact evaluation. It can be concluded that the logic of social impact evaluation in not-for-profit organisations and SEs puts the individual, whom the organisation is trying to help or change (the so-called target population), at the centre of the evaluation.

	Theoretical need (for-social-profits interest)	Current practice	Analytical readiness
The criteria for social impact evaluation in SEs	<ul style="list-style-type: none"> <li>✓ Be linked to long-term strategy (incl. internal-external orientation)</li> <li>✓ Evaluate the impact on individuals</li> </ul>	Sub-chapter 2.4	Sub-chapter 2.5

**Figure 18.** Criteria for solid social impact evaluation, based on for-social-profit organisations

Source: compiled by the author, based on results of sub-chapter 2.3

This conclusion was supported by the results presented in sub-chapter 2.5. It was presented that the tool’s conformity with the nonprofit’s logic could be a critical factor when choosing a social impact evaluation tool to be used in practice. The more specific question could be expressed as: “How can entrepreneurial and social issues be balanced?” The criterion does not indicate how to find the balance between these two goals, which might be the case, but it does not have to be controversial. As practitioners understand it, process-based methods (like issue-based tools) emphasise social goals whilst value-based methods (like SROI) emphasise the financial reasonability of the organisation’s activities. Impact-based methods (such as the Acumen Fund Scorecard) could be set somewhere in between (see figure 19).



**Figure 19.** Balancing social and financial goals and the use of different methods of social impact evaluation.

Source: compiled by the author

In sub-chapter 1.4 the criteria for a performance measurement system were listed (figure 20). These criteria were not satisfied in the performance measurement in SEs studied by the author. The short-term goals dominated, measures were set by external stakeholders and were not flexible, only quantitative measures were analysed and there was no comparative data with which to analyse results. The similarity of the shortcomings in performance measurement in both the private sector and SEs (sub-chapter 2.3) gives confidence that management practices used in the private sector can be incorporated into for-social-profits (at least based on the example of SEs in the educational field).

Quite similar shortcomings were found by Moxham (2009) and Rantanen *et al.* (2007). Moxham (2009), in analysing nonprofits in the United Kingdom, found that nonprofit financial reporting is linked to accountability in the public sector, nonprofit performance measurement is developed in isolation, nonprofit measurement systems are resource intensive, nonprofit performance measures focus on the short term and nonprofit measures do not support continuous improvement. The four underlying reasons for the problems encountered in implementing private sector performance measurement in the public sector are outlined by Rantanen *et al.* (2007): there are many stakeholders with conflicting needs, the end products and goals are undefined, there is a lack of property ownership and there is a lack of management skills.

	Theoretical need ↓	Current practice (incorporating private sector practices on SEs) ↓	Analytical readiness ↓
The criteria for social impact evaluation in SEs	Sub-chapters 2.2. and 2.3	<ul style="list-style-type: none"> <li>✓ Be linked to long-term strategy</li> <li>✓ Be flexible</li> <li>✓ Be set with the co-operation of stakeholders</li> <li>✓ Enable comparison of organisations</li> <li>✓ Balance between qualitative and quantitative data</li> </ul>	Sub-chapter 2.5

**Figure 20.** Criteria for solid social impact evaluation based on for-social-profit organisations

Source: compiled by the author, based on results of sub-chapter 2.4

It could be said that these shortcomings do not fulfil the requirements proposed by Sawhill and Williamson (2001), who state that every nonprofit organisation (including SEs) should measure its progress in fulfilling its mission, its success in mobilising its resources, and the effectiveness of its staff. In the author's

opinion, project-based financing of educational institutions leads to a lack of clarity in the long-term goals, domination of short-term goals and outsider-oriented reporting. So far, practice has shown that performance is measured only in terms of the quantity of outputs, which is not a valid criterion for an organisation whose internal parties are more concerned with qualitative outcomes. The tendency to provide data sought by funders, rather than evaluating impact, is also highlighted by Bull and Crompton (2006), using the example of the United Kingdom.

As the measures are not valid for internal parties, the results cannot be compared with the goals. This causes several problems in human resource management, starting with payment system and ending with a decline in motivation. Similar findings were brought out by Moxham (2009): *“The majority of the criteria stipulated by the funders and the regulator focused on short-term quantitative measures, such as targets and evidence of attendance... Nonprofits did not see links between the measurement criteria used to grant funding and those used to evaluate the project or service that they had subsequently provided.”* On the other hand, problems with human resources restrict the organisation’s ability to be effective, which is one of the purposes of performance measurement. The fact that the organisations analysed did not claim to lack financial resources (even when asked directly) supports the view that just giving more resources to SEs will not improve their performance.

The results in sub-chapter 2.5 are summarised in figure 21. Social impact occurs over the long term, which means that social impact evaluation has to be based on a long-term strategy. Impact evaluation should be able to change when the purpose of activities changes. To overcome the problems arising from the gaps between internal and external stakeholders, impact evaluation has to be set with their co-operation. This would lead to efficient social impact evaluation, which would support both reporting and planning. Social impact evaluation has to conform to not-for-profits logic, where the focus is on individuals. Impact evaluation should take into account the uniqueness of the organisation. Financial sustainability has to be integrated into the evaluation.

Although, in theory, social impact evaluation has several advantages, there are several reasons why it is complicated by SEs. The answer to RQ5 – What practical limitations would prevent managers of SEs from carrying out a valid social impact evaluation? – is threefold. Finding data for comparison is difficult and demands resources. Internal stakeholders would prefer to use historical data, but such data does not exist. An external stakeholder’s purpose is often to compare similar organisations, which leads to several gaps between the interests of internal stakeholders and those of external stakeholders. Managers cannot evaluate and plan for the time and money needed for social impact evaluation. For practical reasons, comparable data has to be available at a reasonable cost.

	Theoretical need	Current practice	Analytical readiness of social enterprises
The criteria for social impact evaluation in SEs	Sub-chapters 2.2 and 2.3	Sub-chapter 2.4	✓ Be linked to long-term strategy
			✓ Set with the co-operation of stakeholders
			✓ Include social impact and sustainability with focus on impact
			✓ Consider the uniqueness of the organisation
			✓ Evaluate the impact on individuals
			✓ Balance between qualitative and quantitative data
			✓ Be useful for both reporting and planning
✓ Be flexible			

**Figure 21.** Criteria for solid social impact evaluation based on for-social-profit organisations

Source: compiled by the author, based on results of sub-chapter 2.5

The correspondence between different discourses on social impact was studied. First, the differences between the discourse of SE's internal stakeholders and the discourse of the external stakeholders, as perceived by the managers of the SE, are highlighted. The current study highlights what managers of SEs think about the following topics in relation to social impact evaluation; it indicates which ones they consider to be important and which ones are not important for the external stakeholders:

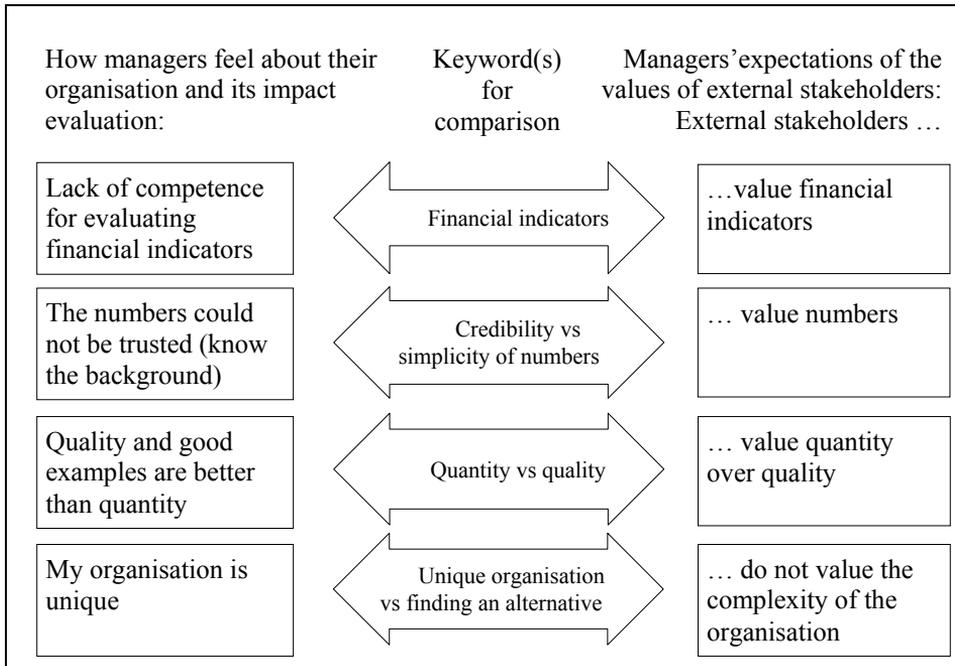
- External stakeholders value financial indicators (see also positive issues about SROI);
- External stakeholders value numbers (see also positive issues about SROI); numbers can be easily manipulated (see problems with data) if the external stakeholder is not familiar with the background and details of the social problem (see threats of Acumen Fund Scorecard and Issue-based tool);
- External stakeholders value quantity over quality (see threats of Acumen Fund Scorecard);
- External stakeholders do not value the complexity of the organisation, so they cannot construct a practical alternative (see threats of Acumen Fund Scorecard and problems with finding data).

Each of these characteristics seems to contradict the internal approach of SEs:

- SEs lack the competence to evaluate financial indicators although they agree with using entrepreneurial approaches, such as strategic management and competitive advantage, etc.;

- SEs do not trust the statistics and the results of research (even if the research is conducted by themselves);
- SEs value quality and favour good examples over quantity;
- SEs value the complexity of the organisation and the organisational design (e.g. structure) that makes them unique and makes it difficult to find an alternative.

These contradictions are also described in figure 22.



**Figure 22.** How managers feel about social impact evaluation and their expectations of the values of external stakeholders.

Source: compiled by the author, based on results of sub-chapter 2.5

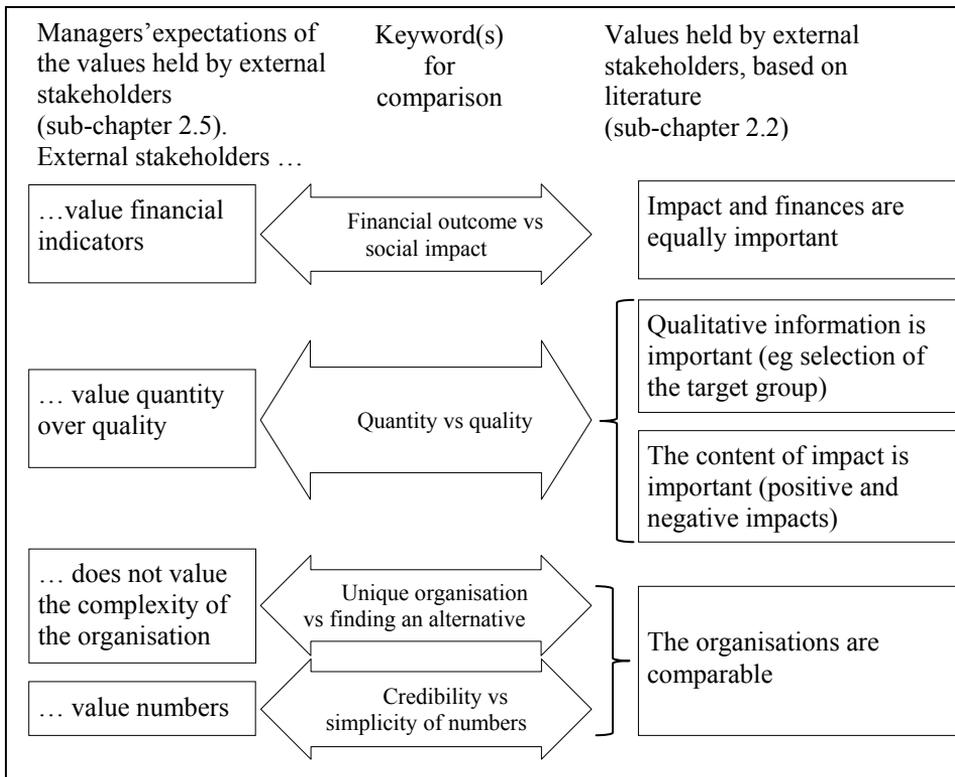
For example, Moxham (2009) found that frustration by nonprofits – that the measurement criteria stipulated by the funders and regulators did not support continuous improvement – had resulted in the majority of local and national nonprofits implementing their own internal performance measurement systems. The criteria deemed valuable by nonprofits was not required by funders, resulting in the operation of parallel measurement systems in half of the nonprofits that were examined (Moxham, 2009).

Greatbanks *et al.* (2010) analysed not-for-profits in the third sector in New Zealand (called voluntary sector organisations). They found that the voluntary sector organisations that receive government funding appear to use what they

call anecdotal performance measurement systems. They name two characteristics of such evaluation. First, they found evidence of frustration and general dissatisfaction in the use of reporting measures that do not allow a voluntary organisation to present the true value of its programmes and work. Whilst the use of arbitrary “tick box” reporting measures may satisfy government reporting systems, the absence of alignment with the core goals and values of the voluntary organisation make them remote, unforgiving and ultimately valueless to the organisation that has to use them. Second, deep and rich qualitative information was provided, which aligns well with third-sector values, goals and achievements. From an internal managerial perspective, such evidence appears to be considered appropriate and significantly less frustrating to manage and report. As a consequence, there is a growing call for an approach that employs social measurement that aligns more closely with the activities and achievements of voluntary sector organisations (Greatbanks *et al.*, 2010).

The author is convinced that the managers value the process of social impact evaluation while at the same time fearing that the external stakeholders might value some of the results of social impact evaluation only in order to compare organisations with each other. Internal and external stakeholders share the view that financial indicators provide information about the organisation’s performance, but the gap lies in the decisions made when choosing the “correct” financial indicators and evaluating the results. Managers were concerned about whether they had the “right” cash flow and resources in the eyes of the external stakeholder. Sustainability is more important for the organisations than earning income from business activities (as also discussed in chapter 1.4). Internal stakeholders feel that sustainable public funding is as good as earned income, but it is feared that the external stakeholder may not perceive the results in the same way. Managers value the process of getting to the numbers that represent the organisation but they expect that the external stakeholders value the numbers only in order to easily compare two (or more) organisations.

The current study analyses social impact evaluation with reference to academic literature on the subject and the views of managers of social enterprises. The existing discourse and interests of the society in evaluating social impact in academic literature were analysed in sub-chapter 2.2. The literature on SEs is taken as a representation of the real values of external stakeholders; therefore, the solid social impact evaluation criteria should represent the values of external stakeholders. The real and expected values of external stakeholders are compared in figure 23.



**Figure 23.** Managers' expectations versus real values of external stakeholders

Source: compiled by the author, based on results of sub-chapters 2.2 and 2.5

It appears that managers seem to overestimate the importance of those parts of social impact evaluation that external stakeholders value in SEs. The literature indicates that the values of external stakeholders are more balanced. Managers expect that external stakeholders value financial outcome more than social impact; however, the literature indicates that external stakeholders see social impact and financial outcome as equally important. Even in some parts of the for-profit sector (e.g. incentive payment systems), it has been proved that “qualitative performance indicators have informativeness beyond profits, for long-term profit growth” (Gibbs, 2008).

At the same time, some examples in the academic literature show that not-for-profits themselves use unbalanced performance measures. For, example Greiling (2010) provides an overview of comparative studies that discuss the balanced scorecard in the nonprofit sector and argues that the organisations analysed had only a measurement system with an unbalanced distribution of financial and non-financial performance measures (with the financial indicators dominating) and they lacked cause-and-effect linkages as well as compensation links at all levels. This study, using on 20 structured questionnaires, was carried

out in healthcare organisations and social service providers that had managed to implement the balanced scorecard. It was found that the measurement systems needed improvement with respect to ecological and social indicators (Greiling, 2010), which refers to the construction of a balanced for-social-profit performance, as stated in sub-chapter 1.4. Maybe this lack of balance is also caused by what nonprofits perceive as being of value to external stakeholders.

In theory, external stakeholders do not value quantity over quality, as managers expect, but they see that quantity and quality are both important. Trelstad (2008) says that while collecting lots of data, it is essential to balance the qualitative – observations and anecdotes – with the quantitative – facts, metrics and trends. There is no substitute for judgement, but judgement that is not informed by careful attention to patterns of facts can quickly slip into speculation and intuition (Trelstad, 2008).

On the other hand, Mair and Marti (2006) find it necessary to quantify social effects, to develop useful and meaningful measures that capture the impact of social entrepreneurship and reflect the objectives being pursued. Clements (2007) argues that a social auditing tool converts qualitative information into comparative statistics, but these may be an inaccurate expression of the empirical reality. The reason that managers think that quantitative measures are more important may lie in the viewpoint that quantitative measures of performance are considered to be reliable and valid, orientated towards producing empirical outcomes that can be generalised across a variety of quite different contexts; in contrast, qualitative methods are characterised by ambiguity and subjectivity, and they place more emphasis on the localised context (Clements, 2007; MacPherson *et al.*, 2000).

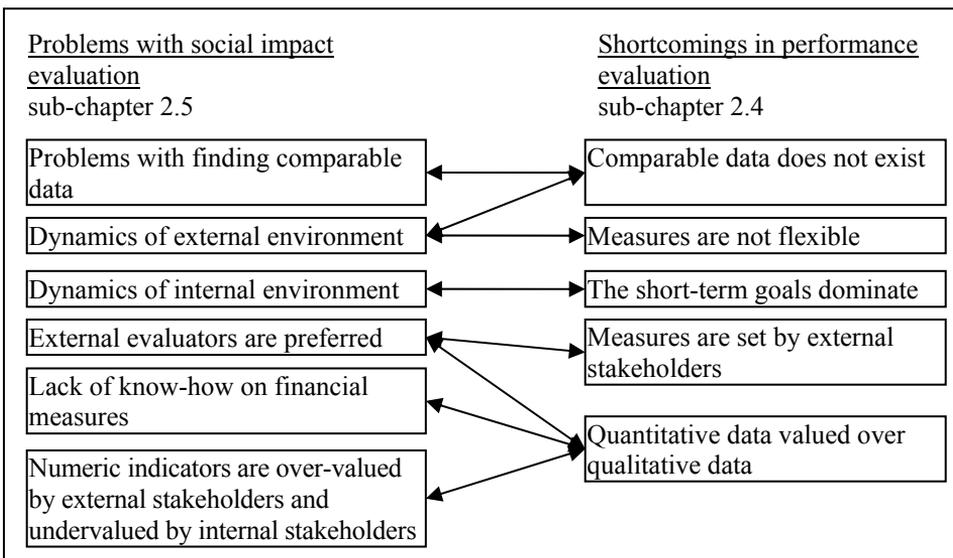
The only area where expectations and reality seem to concur is that organisations are comparable for external stakeholders while they are unique for internal stakeholders. Miller *et al.* (2007) argue that, in terms of comparability, the lack of comparable social indicators means that organisations are able to make unsubstantiated comments that are based primarily on case studies that demonstrate their “social successes” or pre-existing social, economic and demographic data.

To conclude the comparison of results from sub-chapters 2.2 and 2.4, several gaps exist between the values of managers in relation to social impact evaluation, their expectations of the values of external stakeholders and the real values of external stakeholders. These gaps embody problems with balance between qualitative and quantitative data, balance between social and financial issues and the uniqueness of each SE for internal stakeholders. It is believed that external stakeholders value quantitative data more than qualitative and will not look beyond the numbers; however, the numbers might be misleading or manipulated. It is believed, but not proven, that external stakeholders value financial issues more than social issues, whilst managers are not confident in dealing with financial terms and calculations. Internal stakeholders see their organisations as unique while the purpose of external stakeholders is to compare

one organisation with another. These gaps result in problems with finding a reliable party to carry out the evaluation. Internal parties are incompetent when using the methods and techniques of social impact evaluation. External parties are incompetent when setting the correct impact indicators because they are not aware of the organisation’s entangled and complex “theory of change”.

Dhesi (2010) argues that innovative, institutional mechanisms, which are outside the existing rigid administrative framework and which meet the accepted standards of accountability and transparency, are needed. However, Smith (2010b) argues that the mismatch between goals and performance indicators could be caused by insufficient input from the organisation’s board. If there is no common agreement between internal and external stakeholders about what should be evaluated then it is unlikely that solid social impact evaluations, which could be used for external stakeholders, will be carried out by social entrepreneurs themselves. A social impact evaluation system should be constructed in co-operation with diverse stakeholders if it is to be applicable. As long as internal stakeholders believe that external stakeholders are not interested in setting the right indicators for evaluating their long-term goals and as long as external stakeholders do not appeal for such indicators, the balanced relationship between demand and supply will not exist to create solid evaluation system.

A comparison of the results from sub-chapters 2.4 and 2.5 is given in figure 24.



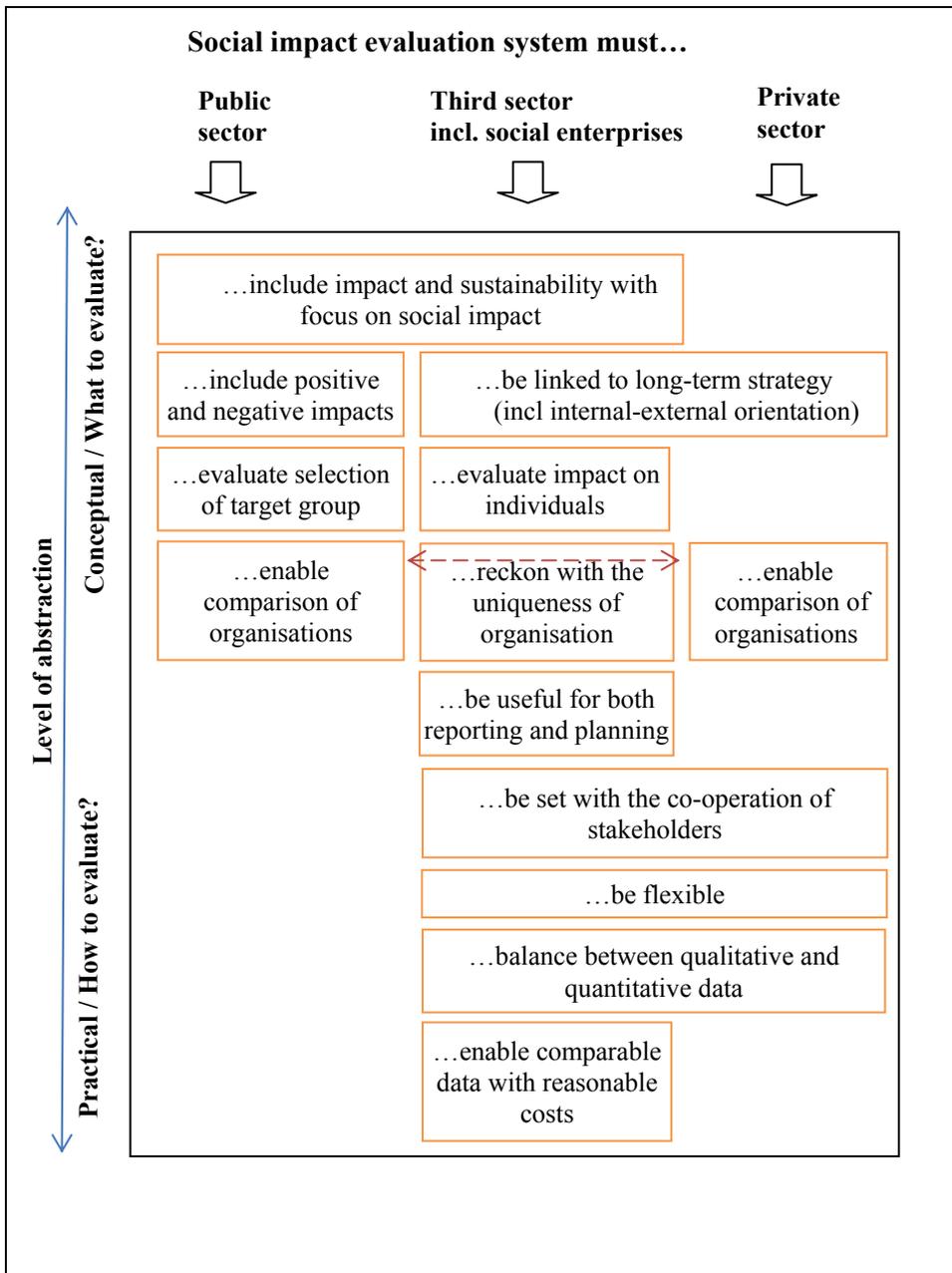
**Figure 24.** Similarities between the shortcomings in SEs and the problems in carrying out social impact evaluation

Source: compiled by the author, based on results of sub-chapters 2.4 and 2.5.

The problems encountered with social impact evaluation and the shortcomings in performance evaluation using private-sector approaches are quite similar. Finding comparable data is difficult in both cases. The dynamics in the external and the internal environment are not reflected in the flexibility of the measures and the emphasis is on the short-term goals. Internal parties who should be interested in impact evaluation according to theory have rather eliminated themselves from the evaluation process: measures/indicators are set by external stakeholders and external parties are preferred for carrying out the evaluation. Internal parties are not confident in dealing with financial indicators (economic performance or sustainability in the for-social-profits performance framework) and numeric data in general. On the other hand, quantitative data is valued over qualitative data, as in the for-profit performance framework.

The criteria for social impact evaluation required by different sector stakeholders (chapter 2) are summed up in figure 25. SEs are considered to be subset of the third sector, according to the Estonian example (see also sub-chapter 1.1). The SEs that were analysed act in the nonprofit sector. Managers' expectations of the values of external stakeholders in SEs are more likely to reflect the expected values of external stakeholders in the third sector in Estonia. If external stakeholders were comparing different SEs then they might value different aspects than if they were comparing nonprofit organisations. On the other hand, while SEs are scarce, they will often be compared with nonprofit organisations; consequently, they will be compared using the above-mentioned bases. A similar comparison was made by Jackson (2010).

The present study indicates that there are no criteria that are common to all sectors. There also seems to be a shift in emphasis, in terms of the evaluation required by different stakeholders. The division of criteria on the level of abstraction was not intentional. It is thus not surprising that SEs as practitioners pay more attention to the practical details associated with the implications of impact evaluation. Private sector criteria are rather strategic and value-based: "Give us any kind of information that we have agreed upon and which reflects your organisation's current goal achievement (according to you long-term strategy and flexibility)". Public sector criteria are conceptualisations of social impact evaluation and its necessary components.



**Figure 25.** Criteria for social impact evaluation system required by different stakeholders.

Source: compiled by the author, based on results of chapter 2

All of the social impact evaluation criteria referred to in the current study are as follows. Social impact evaluation system should:

- be incorporated into the for-social-profit performance framework where social impact evaluation and sustainability issues are considered separately but where the links between them are not forgotten;
- be linked to a long-term strategy and be flexible enough to change when the strategy changes;
- conceptually focus on evaluating the impact on individuals, include an evaluation of positive and negative impacts, evaluate the selection of the target group, and end with comparable data for the various organisations while taking account of the uniqueness of the organisation;
- be set in co-operation with stakeholders so as to be valid for both internal and external users, and to bridge the gap between the expected values and the real values of external stakeholders, as perceived by the internal stakeholders; co-operation between stakeholders helps to raise the effectiveness of social impact evaluation as the same data could be used for both reporting and planning; when an SE has stakeholders from the public sector then the public sector has to be encouraged to participate; it would be more plausible if the public sector were encouraged to set a reporting standard in co-operation with SEs, which could be suitable for several of them;
- consider practical issues: data and comparative data used in social impact evaluation should be available at a reasonable cost, and the evaluation should include qualitative and quantitative data.

The criteria for social impact evaluation were charted in this sub- chapter, which fulfils the first part of the aim of the current thesis. The second part of the aim is to make suggestions for improving social impact evaluation tools. The next sub-chapter looks at how three social impact evaluation tools satisfy the criteria. This comparison leads to suggestions for improving the tools (see sub-chapter 3.3).

### **3.2. The suitability of existing social impact evaluation tools**

The tools to be analysed were chosen in 2007, based on criteria mentioned in sub-chapter 2.2. The SROI, the Acumen Fund Scorecard, and an issue-based approach are in accordance with the criteria. The comparison in terms of these tools is shown in table 21. The current chapter will analyse and describe how (and if) these tools satisfy all the criteria (charted in sub-chapter 3.1).

**Table 21.** A comparison of SROI, the Acumen Fund Scorecard and an issue-based approach

<b>Criteria</b>	<b>SROI</b>	<b>Acumen Fund Scorecard</b>	<b>Issue-based approach</b>
<b>Evaluation of social impact (not outcomes only)</b>	Achieved social impact	Potential impact	Achieved social impact
<b>Comparability with other organisations</b>	Return on investment	Compared to best available charitable option (BACO)	Efficiency
<b>Selection of the target group</b>	Impact on each target group	Theory of change	Impact on each target group
<b>Evaluation of negative impacts</b>	Can evaluate	Does not evaluate	Evaluates

Source: compiled by the author

Note: SROI – social return on investment

Each of these three tools evaluates social impact but it does so in a different way. SROI evaluates the real social impact in monetary terms. The Acumen Fund Scorecard evaluates the idea – how the organisation produces impact. The potential impact and the real impact are evaluated. The issue-based approach analyses the real social impact in three dimensions: quality, quantity and direction. It is possible to find the synergy in using different tools, as issue-based dimensions can be converted into monetary units by using the techniques of SROI.

All of these tools enabled the results of one organisation to be compared with the results of another. SROI provides the comparison in terms of return on investment. It is thus easy to determine whether the investment is profitable. Acumen Fund Scorecard reveals which organisation provides the most impact for each invested monetary unit. The issue-based approach answers the question of how many of the activities give positive/negative results. This means that the efficiency of the organisation is calculated as a percentage of positive results. It is possible to convert each activity measured with the issue-based approach into monetary units – then the advantages of SROI and the Acumen Fund Scorecard can be combined.

SROI allows the impact of two organisations to be compared, as it gives the impact result in monetary terms. Acumen Fund Scorecard compares the impact of the organisation with the alternative costs. Alternative costs can be calculated by analysing another existing organisation in the same field or they can be constructed theoretically. The issue-based approach analyses, on an absolute scale, which organisation creates the most impact in the field and it analyses the efficiency in terms of the percentage of stakeholders who were impacted, positively or negatively.

SROI calculates the impacts for each target group. The calculations show, in monetary terms, how much impact each target group receives. This allows for

the analysis of which target groups receive the most impact and how this impact correlates to their contribution. The selection of the target group is analysed along with the potential social impact and the scale of social impact by the Acumen Fund Scorecard. The issue-based approach analyses the impact on each target group. By analysing quantity and quality and the direction of impact on each target group, it can be decided which target groups can be impacted in the most efficient way. On the other hand, the issue-based approach also provides the opportunity to see if the organisation achieves important goals (for example, solving a problem for a certain number of people). In addition to analysing the selection of the target group, the effort needed to achieve social change can be analysed. This means that the tool gives the opportunity to evaluate whether the organisation is able to achieve the desired change in society and not only in the lives of a few people. Harjula (2005) analyses a similar question, from the perspective of venture capitalists, and asks whether the innovation will achieve critical mass during the venture capitalist's investment period so that the innovation will survive and realise its financial potential. In some cases it might be important to solve the social problem, no matter what the costs are.

SROI and the Acumen Fund Scorecard do not pay a lot of attention to the evaluation of negative impacts; however, the issue-based approach does this through the evaluation of direction. It is possible to convert the negative impacts into monetary units by using the techniques of SROI. Therefore, the strengths of SROI and the issue-based approach could be combined.

A discussion in sub-chapter 2.5 showed that, in the opinion of SE managers, value-based and impact-based methods (like SROI and the Acumen Fund Scorecard) are most suitable for the external user while process-based methods are best for the internal user; accordingly, value-based methods were considered suitable for reporting and process-based methods for activity planning. Surprisingly, impact-based method was considered appropriate for strategy planning and external stakeholders, which might be in accord with the priority of impact-based methods. In the author's opinion, the tools introduced do not restrict either reporting or planning. Ways to implement these tools, so that they are suitable for both reporting and planning, have to be developed.

All the tools consider some aspects of the impact on the individual. SROI and the Acumen Fund Scorecard both count the individuals concerned and evaluate the average impact on each. The issue-based approach does not focus so much on the average impact, but rather on the different impacts that SE might have on different individuals. The managers perceived that process-based methods put the individual at the centre of the evaluation, which best matches the internal approach to the success of SEs.

Managers of SEs feared that process-based methods might be too descriptive and qualitative for external parties. Nonetheless, quantifying qualitative data into monetary units (as in value-based methods) would not be the first choice for managers, because it would mean changing the template in which they and their employees think.

The criteria of setting the evaluation in co-operation with stakeholders and linking the evaluation with long-term strategy are not tool-specific but rather implementation-specific; consequently, the tools are not analysed in these contexts. The criteria for enabling comparable data will be discussed in the following sub-chapter.

In the comparison, the strength of impact-based methods is in combining planning and reporting activities, process-based methods respond most to the SE's internal approach (centred on individuals), while value-based methods seemed to be most useful for both internal and external stakeholders. The main reasons why these tools outran other tools were that they take sustainability and the ability to maintain resources (not only finances) into account; they pay attention not only to the economy but also to efficiency, effectiveness and social impact evaluation (one of the criteria for choosing these tools). The tools consider financial sustainability and economic performance and the results are compared with the total social impact. All three tools evaluate the impact on individuals and consider both qualitative and quantitative data, although the balance between these two aspects is different. All in all, these tools could satisfy all the criteria for solid impact evaluation.

### 3.3. Improving social impact evaluation tools

The current sub-chapter suggests improving social impact evaluation tools. Suggestions are based on similarities between social impact and mechanical physics (including mechanical work and moment of force). These terms will be defined shortly to show how they relate to social impact and its evaluation. The purpose of the activities of social enterprises is to have social impact, while the purpose of applying force<sup>20</sup> in physics is to get mechanical work<sup>21</sup> done.

It is suggested that SEs should set up a proper reference frame, according to its strategic objectives. Mechanical work and also evaluated social impact depends on the chosen reference frame. Work<sup>22</sup> done by force acting on an object depends on the choice of reference frame because displacements and velocities<sup>23</sup> are dependent on the reference frame in which the observations are being made (*Ibid.*).

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<sup>20</sup> Force is any influence that causes a free body to undergo a change in speed, a change in direction, or a change in shape (*Ibid.*).

<sup>21</sup> Mechanical work is the amount of energy transferred by a force acting through a distance in the direction of the force (*Ibid.*).

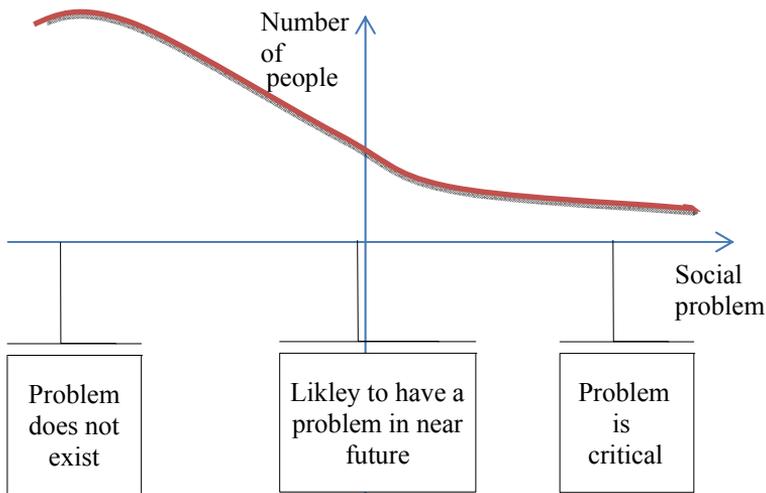
<sup>22</sup> Force and displacement are both vector quantities and they are combined using the dot product to evaluate the mechanical work, a scalar quantity.

$W = \vec{F} \cdot \vec{d} = Fd \cos \alpha$ , where W is work, F is force, d is displacement and  $\alpha$  is the angle between the force and the displacement vector (*Ibid.*)

<sup>23</sup> Velocity is the measurement of the rate and direction of change in the position of an object (*Ibid.*).

The reference frame for social impact evaluation could be considered as three-dimensional or multi-dimensional. One of the dimensions is the social problem associated with the strategic objective of the organisation. It is suggested that the reference frame should describe the problem that an SE is solving or relieving in society. It should contain a continuum that merges a serious social problem at one end and the lack of any such problem at the other. As the social problem can be evaluated but not measured; it should be benchmarked, in which case it is said that a social problem exists. Moving along this continuum characterises desirable (or desirable) social outcomes. For the sake of simplicity, the current thesis visualises the reference frame on two scales, where this dimension is shown on a horizontal axes. If the organisation has several goals then several reference frames may be set or each goal could be considered as an additional dimension in the frame.

The individuals associated with the specific social problem can be charted crossways (on vertical axes) of social problem (which were figured on horizontal axes); this will provide an overview of the depth of the social problem. An example of such a reference frame is given in figure 26.



**Figure 26.** Reference frame for social impact evaluation.

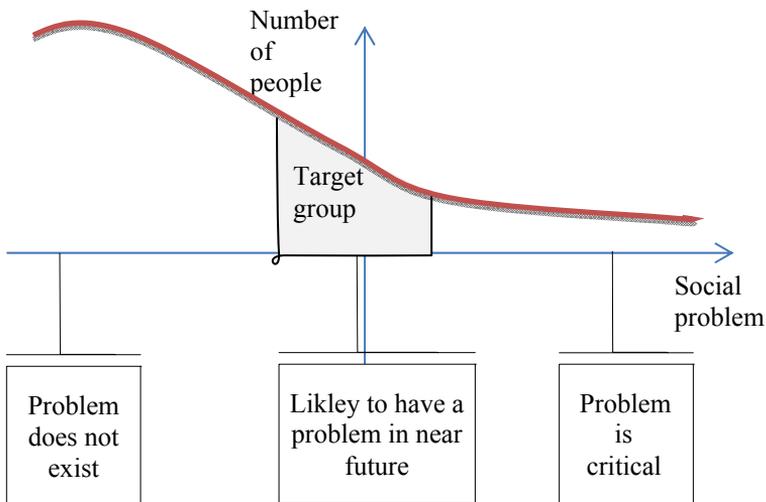
Source: compiled by the author

It was said previously that when an organisation has several goals then different reference frames may be set for each goal. Often, the uniqueness of the organisation for the internal stakeholder lies in the combination of these reference frames, whilst external stakeholder might be interested in only one (or some) of them. Describing the impact within the reference frames allows external stakeholder to choose only those in which they are interested and to compare organi-

sations in the context of one particular social issue. This helps to overcome some of the practical limitations in the existing tools, where balancing the values of the internal and external stakeholders was highlighted, and also the need to take the uniqueness of the organisation in account.

As different goals can be evaluated separately, social impact and entrepreneurial goals should be evaluated (and rated if necessary) separately, as in the for-social-profit performance setting, as these require different competences, which may be developed separately. Those interested in social impact evaluation can then make their own decisions about which combinations of social impact and financial sustainability is satisfactory or acceptable for them.

Social impact was defined through traceable change in behaviour. An analogue could be drawn with velocity. The purpose of the SE is to move individuals within the chosen reference frame. Before evaluating the change, the targeted group of individuals (or an object in physics) has to be defined within the reference frame: the behaviour of which individuals is the organisation trying to change (an example of a theoretical organisation, which deals with prevention, is shown in figure 27). It is suggested that the main target group is defined within the chosen reference frame.



**Figure 27.** Suggestion 1 – Main target group defined within reference frame

Source: compiled by the author

In terms of the necessity of defining the target group, the analogue in physics is the point of application. It is well known from mechanics that the point of application plays an important role. The better the choice of the point of

application of force, the less force is needed to gain the same results.<sup>24</sup> The importance of the point of application in the social sphere is that there are different ways to reach the same goal; some are easier and some are more difficult. Somehow, the best target group is chosen and the optimum level of how much their lives should be changed is evaluated. In evaluation, qualitative measures are emphasised: how the target group is chosen, who should be affected, and how much should they be affected. *The first suggestion for improving social impact tools is stated as follows: a reference frame has to be set, based on the social goal that the organisation is trying to achieve or the problem it is trying to relieve, and the main target group (point of application) within this reference frame has to be defined.*

Once the target group is defined within the reference frame it is possible to move to impacting them (using force to gain work). In physics, the magnitude of the moment of force has three main characteristics: module/magnitude, point of application and direction. In social sciences, the emphasis is on qualitative and quantitative ratios. *The second suggestion for improving methods of social impact evaluation is to develop a three-dimensional method that takes quality and quantity as well as the direction of impact into consideration.* A suggested comparison for the use of these terms in physics and in social impact evaluation is given in table 22.

**Table 22.** Comparison of characteristics of social impact and the magnitude of the moment of force.

<b>Magnitude of the moment of force</b>	<b>Characteristics of social impact</b>	<b>Evaluation norm</b>	<b>Importance of the character, the essence of analyses</b>	<b>Existing methodsn that evaluate the same</b>
Module, magnitude	Quantity	Compared with the scope of the issue	The relationship between the activities and systemic social change; number of stakeholders who are affected	SROI, Acumen Fund Scorecard, Issue-based approach
Point of application	Quality	Compared with the relevance of the issue	Selection of the target group, how much are they affected	Acumen Fund Scorecard, Issue-based approach
Direction	Direction	Percentage of all the cases that have made things better	Direction of processes, selection of actions	Issue-based approach

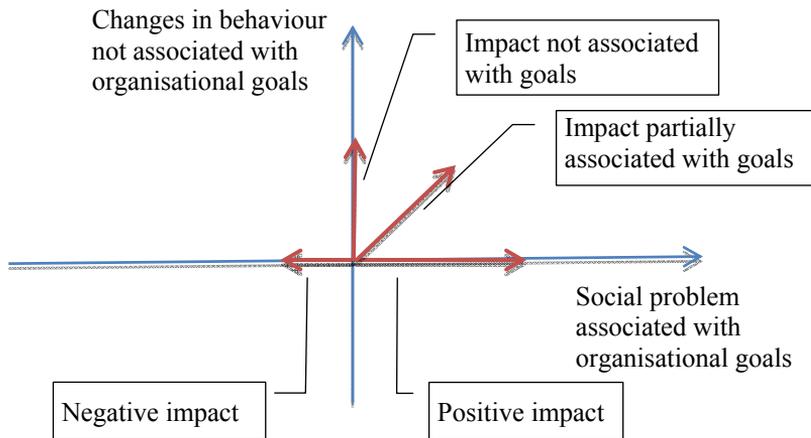
Source: compiled by the author

<sup>24</sup> The magnitude of torque (torque is the moment of force) depends on three quantities: the force applied, the length of the lever arm connecting the axis to the point of force application, and the angle between the force vector and the lever arm.

The current thesis suggests using the work “quality” to analyse the selection of the target group (analogue: point of application) and the evaluation of how it has changed (analogue: velocity) within the reference frame. In the author’s opinion, the word “direction” would be better to describe possible impacts. As discussed previously, there is a risk that only the good results are measured and the negative results are brushed aside. The dimension of the direction of impact should provide answers to the following questions:

- Do all activities bring the organisation closer to its goal?
- Do some activities sometimes have the opposite result?
- Are some of the impacts of these activities (or the activities themselves) not associated with desired goals?

The issue of accordance between desired goals and achieved impacts is also mentioned in physics: the force is always perpendicular to the motion of the object; only the component of a force parallel to the velocity vector of an object can work on that object (*Ibid.*). The dimension of direction could be visualised as the reference frame, where *moving* across the social problem continuum indicates the subsidiary outcomes that will occur; these would complement the activities of the organisation. Such a reference frame and possible changes in behaviour within this reference frame are illustrated on figure 28.



**Figure 28.** Suggestion 2 – Direction of impact.

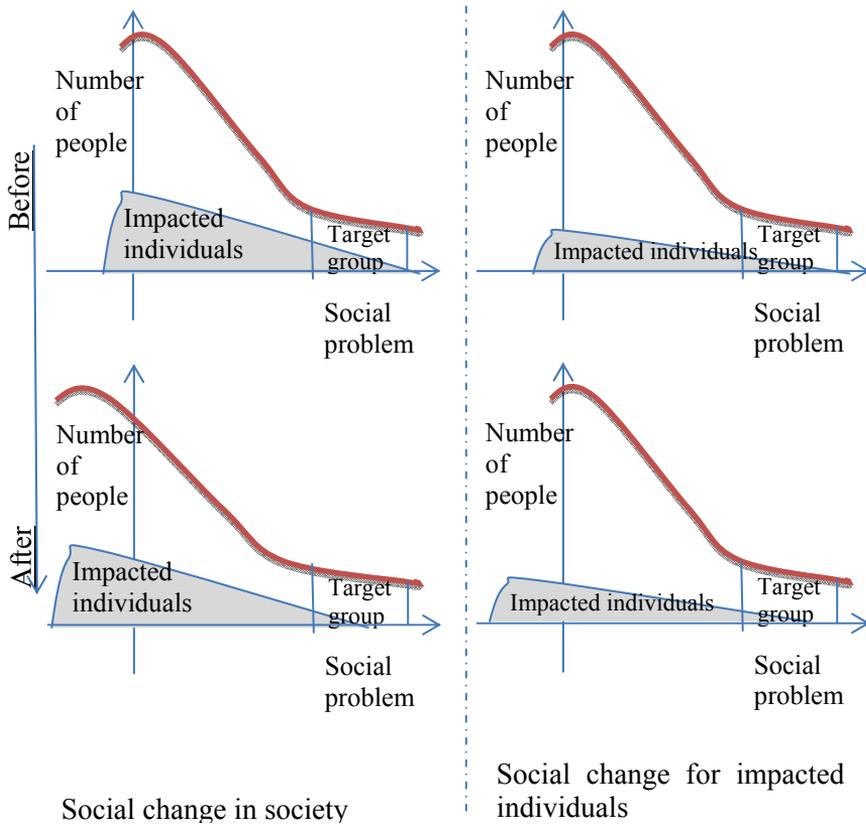
Source: compiled by the author

It was found that performance measurement often failed because of the lack of appropriate comparative data with which to interpret the evaluated result. Dees and Anderson (2003) also stressed one of the pitfalls in social impact evaluation, which is when SEs are compared to some fictional ideals. To overcome

this problem, the evaluation norm, which explains how the characteristics should be interpreted (column 3 in table 22), has also been highlighted. If three characteristics of the moment of force are evaluated then the social impact lies in the intersection of all three. If even one of the characteristics shows weak results then the evaluated impact suffers as a whole. All these evaluation norms are based on mapping the social problem, mapping the impacted individuals and mapping impacts within the same reference frame.

Moving to the third suggestion for improving social impact evaluation, it is clear that one important association between force and work has to be considered. In development economics, policy analysis, and new public governance, the underlying focus is on maximisation: maximising social surplus or per capita GDP, etc. In physics, the “more is better” phenomenon does not apply. In practice, things do not always improve if more force is used and work can be non-existent even when there is a force. In physics, something might break or the same result might be achieved with less force. It is similar to trying to open a window. Some force is needed to open it, but once a critical amount of force is exceeded it will not matter how much more force is applied; the window will not open. According to Social Impact Theory (SIT), proposed by Latanes (1981), the amount of impact an individual experiences (e.g. changes in behaviour or opinions) as a result of being part of a group will be a function of the number of sources, as well as the strength and immediacy of the sources of impact. On the other hand, reactance theory (Brehm, 1966; cited in Sedikides and Jackson, 1990) maintains that when freedom of choice is threatened, restricted or eliminated, people will experience an uncomfortable motivational state (i.e. reactance), which drives them to engage in behaviours that restore freedom. The same occurs with social impact. Based on this knowledge, *it is suggested the force needed to bring about social change should be taken into consideration when evaluating social impact and evaluating dynamics within the reference frame.*

It is necessary to exceed a critical point to make a change in society. However, there is always a risk of too much pressure or a risk that the critical mass needed for systemic change will not be exceeded; consequently, change will not be achieved. The problem might be solved for some people, but this is not the target when the goal is a systemic social change. For sustainable change, the organisation needs to change the division of the people who are having the social problem. This creates a link between micro-level and macro-level social change. If the change in behaviour is not traceable on the society level then the system has not been changed. Also, if the change in behaviour is not traceable on the individual level then it has not taken place. These changes are illustrated in figure 29.

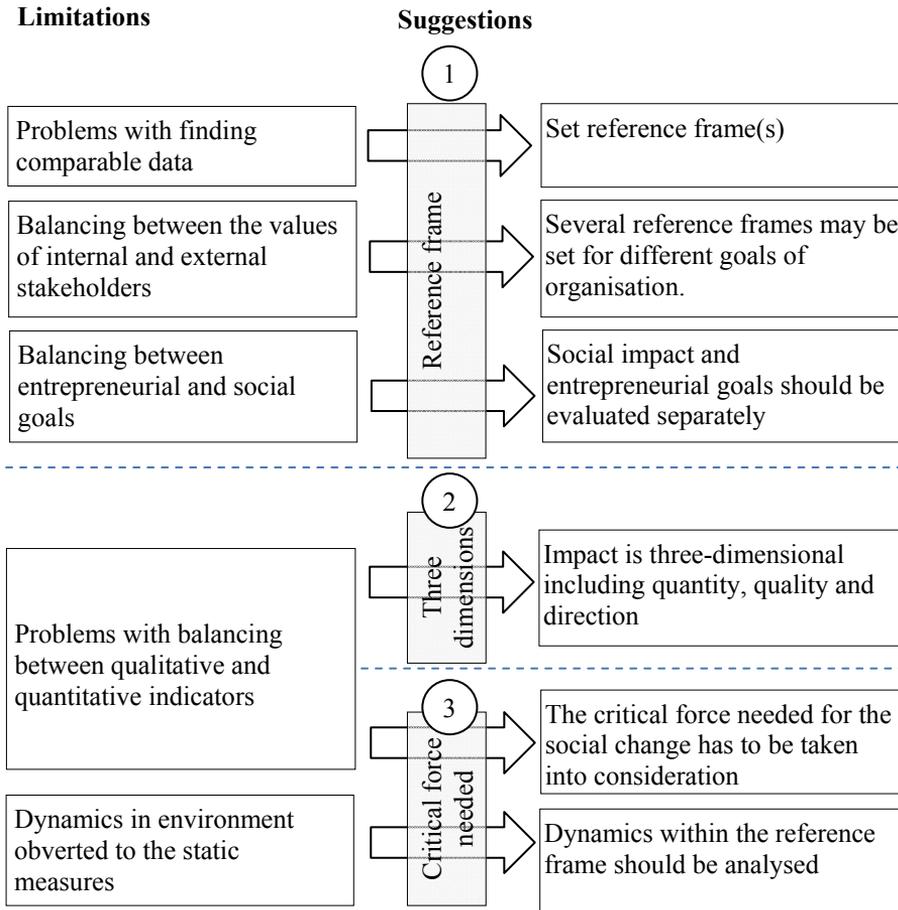


**Figure 29.** Suggestion 3 – Force needed and dynamics within the reference frame.

Source: compiled by the author

The limitation of current social impact evaluation was that dynamics in environment are obverted to the static measures. Analysing the results within the reference shows the dynamics taking place towards one particular social problem.

To conclude the third chapter, the criteria for social impact evaluation were charted, the accordance of their impact evaluation tools with these criteria were analysed and three suggestions are made in the dissertation to develop the social impact evaluation tools based on analogue with mechanical physics. The connections between these suggestions and practical limitations are given in figure 30.



**Figure 30.** Connections between practical limitations of social impact evaluation tools and suggestions for improving them

Source: compiled by the author

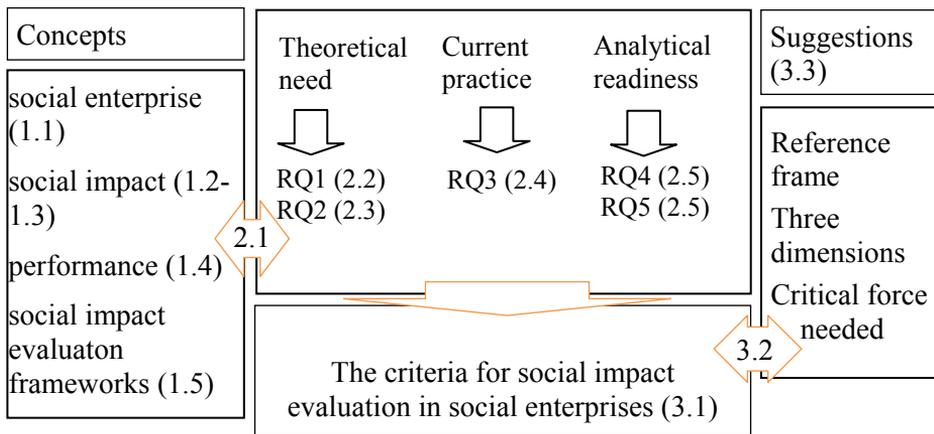
First, a reference frame (or frames) must be set, based on the social goal or that the organisation is trying to achieve or the problem it is trying to relieve, and the main target group (point of application) within this reference frame must be defined. Different frames have to be set for different goals. Second, three dimensions should be considered to have three characteristics (an analogous with the moment of vector of force): quality, quantity and direction of impact. Third, the force needed to effect social change has to be taken into consideration while evaluating social impact, and the dynamics within the reference frame have to be evaluated.

# CONCLUSIONS

Social impact evaluation in SEs has gained more attention in the past few years and the amount of academic literature on the topic is growing. However, the literature on the subject is quite fragmented. The theoretical part of the current thesis focuses on the conceptualisation of the social impact evaluation framework in SEs. Empirical study shows that the manager of a for-social-profits organisation or an SE cannot be considered as *homo oeconomicus*.

The need for social impact evaluation lies mostly in the legitimacy of SEs and the lack of standardisation of social impact evaluation and subsequent reporting. If the impact of a SEs is not evaluated and the effectiveness in creating social impact is not demonstrated, there is no proof that SEs are worthy mechanisms that help to legitimate it. Generating a reporting standard for social impact evaluation would help practitioners construct a single evaluation system that would enable effective social impact evaluation. Comparable social impact reporting would raise the effectiveness of investments into the social sector.

The aim of the present thesis was to chart the criteria for valid social impact evaluation and make suggestions for improving social impact evaluation tools. The criteria for social impact evaluation were based on theoretical assumptions about the need for such a method of evaluation. It concluded with the practical limitations on current theoretical methods named by practitioners and the implications of current performance evaluation practices.



**Figure 31.** The role of criteria for social impact evaluation in developing social impact evaluation from theory to practice

Source: compiled by the author

Note: sub-chapters are given in brackets, RQ – research question

The present dissertation consists of three major parts: theoretical, empirical and discussion. The theoretical part is based on the concepts of SE, social impact,

performance and an overview of theoretical social impact evaluation frameworks for social enterprises. The empirical part focuses on the three main aspects of social impact evaluation: theoretical need, analytical readiness and the current practice of social impact evaluation. Figure 31 summarises the outcomes from these aspects. The discussion chapter consists of three sub-chapters. The first consists of a synthesis of the results of empirical study and charts the criteria for social impact evaluation. The second looks at whether the social impact evaluation tools are in accord with these criteria. The third puts forward three suggestions for improving social impact evaluation tools.

## **Theoretical background to social impact evaluation in social enterprises**

In order to make suggestions about social impact evaluation for SEs, a short summary about social entrepreneurship was constructed, and the history of social impact evaluation was analysed and set in the context of performance.

Definitions for SE, social entrepreneur and social entrepreneurship were constructed as follows:

- *Social enterprise* is an organisation whose primary goal is to add *social value* for its *multiple stakeholders*, who are engaged in the design of the activities, which are (at least partially) *financed through entrepreneurial actions*.
- *Social entrepreneur* is an *individual* with *entrepreneurial spirit*, who is *dedicated to creating and sustaining social value*.
- *Social entrepreneurship* is any *innovative action* that individuals, organisations or networks perform to *mitigate or eliminate a social problem*.

SEs were differentiated from traditional economic sectors in terms of the driving force for development, the organisation's objective, the way of creating social value and the stratification of communication. The concepts of social impact and social impact evaluation were discussed. Social impact is a traceable difference in people's behaviour; it appears in the interaction between the organisation and its diverse stakeholders. Such an approach to impact differentiates the current thesis from policy analysis, welfare and developing economics, which does not pay much attention to individuals or their behaviour. Social impact evaluation in SE is the process that reveals how much one particular social problem has been relieved by the activities of one particular organisation. This means that changes in behaviour on an individual level must be set in the societal context. Social impact evaluation was also set within the framework of performance. Social impact evaluation should be seen as a subset of performance measurement in for-social-profit organisations. The main differences between social impact evaluation in for-social-profits and performance measurement in for-profits come from:

- differences in perceiving the concepts of short term and long term;
- differences in the goals of the organisations and the focus of evaluation in the context of impact value chain;
- differences in the interests of the stakeholders.

As social impact evaluation is a subset of performance measurement in for-social-profits, there is much to learn from performance measurement systems. Performance measurement and social impact evaluation should (1) be linked to a long-term strategy, (2) be set with the co-operation of several stakeholders (internal, external, management, employees, etc.), (3) be flexible, (4) cover qualitative and quantitative indicators and (5) enable comparison.

## **Data and research methodology**

A qualitative empirical study was carried out between 2006 and 2010. The aim of the first part of the study was to determine the criteria for a solid evaluation of social impact in SEs, in order to build a bridge between the two separate discourses of the protectionists and opponents of SEs. This was based on academic articles on SEs in English. The purpose of the second part of the study was to examine whether the impact should be evaluated on the group of stakeholders to whom the organisation's strategic objectives refer. The conclusions were based on workshops and interviews carried out in 33 for-social-profit organisations in Estonia. The third part of the study looked at the current practice of social impact evaluation and the success of incorporating private sector management practices into SEs; this took the form of case studies in three organisations in Estonia. The last part of the study aimed to chart why and when the managers find it necessary to evaluate social impact; this was based on workshop interviews with five SEs in Estonia.

It was the author's intention to gather empirical data for constructing the criteria for valid social impact evaluation from each sector. Therefore, sub-chapter 2.2 was based on public materials (articles discussing the impact of SEs on public interests), sub-chapter 2.3 examined classical nonprofit and public sector organisations, while sub-chapters 2.4 and 2.5 looked at on SEs that operate as nonprofits. The private sector was analysed in sub-chapter 2.4, where private sector management practices were used. The criteria for a valid social impact evaluation were constructed using the criteria arising from the interests of different sectors. A discussion of "social impact evaluation" requires a lot of background information, and so quantitative methods were not used to discover the criteria for valid social impact evaluation.

## Answering research questions

The social impact evaluation criteria gleaned from the current study and the results of five research questions can be summarised as follows. A social impact evaluation system should:

- be incorporated in the for-social-profit performance framework where social impact evaluation and sustainability issues are considered separately but the links between them are not forgotten;
- be linked to a long-term strategy and be flexible enough to change when the strategy changes;
- conceptually focus on evaluating impact on individuals, include evaluation of positive and negative impacts, evaluate the selection of the target group, and end with comparable data for different organisations while considering the uniqueness of the organisation;
- be set with the co-operation of stakeholders if it is to be valid for both internal and external users; it would also bridge the gap between the expected and the real values (of external stakeholders) perceived by internal stakeholders; co-operation between stakeholders helps to raise the effectiveness of social impact evaluation, as the same data could be used for both reporting and planning; when an SE has stakeholders from the public sector, the public sector has to be encouraged to participate; otherwise it would be more plausible if the public sector were encouraged to set a reporting standard in co-operation with SEs, which could be suitable for several of them;
- consider practical issues: data and comparative data used in social impact evaluation should be available at a reasonable cost, and evaluation should include qualitative and quantitative data.

RQ1: *“What are the criteria for a social impact evaluation of social enterprises for social impact evaluation results to be useful in debate between protectionists and opponents of social entrepreneurship?”*

It was found that there are three main questions that have to be answered for deciding if SEs are potentially effective in relieving social problems: effectiveness rising from decreased asymmetry in information and innovative solutions, lack of legitimacy rising from the question of sustainability of SE, and the potential mission drift caused by dual-targeted nature. For answering these questions a solid social impact evaluation method is needed, which should be able to analyse:

- the social impact of the organisation and not only the financial allocation and outcome;
- differences in the impact of two organisations which are operating in the same field;
- the selection of target group and analyses of all the impacts of the activities.

*RQ2: Should the impact be evaluated on the group of stakeholders to whom the organisation's strategic objectives refer?*

To overcome the lack of a generally accepted reporting standard for for-social-profits and the lack of standardisation in social impact evaluation, the following points should be remembered. The impact on the individual stakeholders has to be evaluated; internally focused organisations should evaluate the impact on the internal stakeholders while externally focused organisations should evaluate the impact to the external stakeholders.

*RQ3: What can be learned from incorporating private sector management practices into social enterprises?*

In sub-chapter 1.4 the criteria for a performance measurement system were listed. These criteria were not fulfilled for performance measurement in the educational organisations studied by the author. The short-term goals dominated, measures were set by external stakeholders and were not flexible, only quantitative measures were analysed and there was no comparative data with which to analyse the results. At least the following criteria have to be fulfilled when building a performance measurement system that is based on incorporating business sector practices into SEs. The evaluation system:

- has to be constructed with the strategic goals and objectives in mind, so these clearly stated objectives are needed first;
- has to be constructed with the educational organisations rather than for them (by external stakeholders);
- cannot consist of only quantitative indicators, although they are easier to measure and interpret (or misinterpret).

*RQ4: What are the criteria for social impact evaluation for managers of social enterprises?*

The criteria arising from limitations for social impact evaluation in SEs named by their managers were as follows: data has to be found for comparison, financial indicators have to be balanced, quantitative data has to be balanced with qualitative data, and the method of evaluation should take account of the uniqueness and complexity of the organisation. Each of these criteria seems to contradict the internal approach and existing know-how of the SEs:

- SEs lack the competence to evaluate financial indicators, although they agree with using entrepreneurial approaches, such as strategic management and competitive advantage, etc.;
- SEs do not trust the statistics and the results of the research (even if it is conducted by themselves);
- SEs value quality and favour good examples over quantity;
- SEs value the complexity of the organisation and the organisational design (e.g. structure) that makes them unique and makes it difficult to find an alternative.

*RQ5: What practical limitations would prevent managers of SEs from carrying out a valid social impact evaluation?*

Although, in theory, there are several advantages to social impact evaluation, there are many reasons why it is complicated for SEs. First, finding data for comparison is difficult and demands resources. Internal stakeholders would prefer to use historical data, but such data does not exist. The purpose of external stakeholders is often to compare similar organisations, which can lead to divisions between the interests of internal stakeholders and those of external stakeholders. Second, there are gaps between the values of managers involved in social impact evaluation, their expectations of the values of external stakeholders and the real values of external stakeholders. These gaps embody problems relating to balance between qualitative and quantitative data, balance between social and financial issues and the uniqueness of each SE for internal stakeholders. It is believed that external stakeholders value quantitative data over qualitative and will not look beyond the numbers; however, these numbers might be misleading or manipulated. It is believed, but not proven, that external stakeholders value financial issues over social issues, whilst managers are not confident in dealing with financial terms and calculations. The internal stakeholders see their organisations as unique while the purpose of external stakeholders is to compare one organisation with another. These gaps result in problems with finding a reliable party to carry out the evaluation. Internal parties are incompetent when using the methods and techniques of social impact evaluation. External parties are incompetent when setting the correct impact indicators because they are not aware of the organisation's entangled and complex "theory of change".

If the internal and external stakeholders cannot reach an agreement about what should be evaluated, it is unlikely that solid social impact evaluations, which could be used for external stakeholders, will be carried out by the social entrepreneurs themselves. A social impact evaluation framework needs to be constructed in co-operation with diverse stakeholders if it is to be applicable. As long as internal stakeholders believe that external stakeholders are not interested in setting the right indicators for evaluating their long-term goals, and external stakeholders do not appeal for such indicators, there will not be a balanced relationship between supply and demand to create a solid evaluation system.

## **Suggestions for improving social impact evaluation tools**

Suggestions for improving social impact evaluation tools are based on an analysis of three examples of social impact evaluation tools: social return on investment (SROI), the Acumen Fund Scorecard and the issue-based approach. Each tool refers to a different method of social impact evaluation. Three suggestions were made:

1. Social impact evaluation has to be set in a reference frame that is based on the social goal that the organisation is trying to achieve or the problem it is trying to solve, and the main target group (point of application) has to be defined within this reference frame;
2. A three-dimensional method is needed (analogous with the moment of vector of force), which takes quality, quantity and the direction of social impact into consideration;
3. The force needed for the (sustainable) social change needs to be considered while evaluating social impact and the dynamics within the reference frame have to be evaluated.

## **Implications of the study**

The contribution by this dissertation is twofold: the implications of the dissertation may be seen from the perspective of the analysis of SEs, but also from the viewpoint of approving performance measurements. In terms of the theory and analysis of SEs and of social impact evaluation, the current dissertation contributes in the following ways:

1. The conceptualisation of social impact evaluation within the framework of SEs. As social impact evaluation in SEs is such a new subject in academic literature, there are few publications in the field. Some articles have been written on the topic but each is independent and does not grasp the background of the subject (this may also be caused by the format of the article).
2. The conceptualisation of social impact evaluation within the performance measurement framework. There is controversy about whether performance measurement practices used in the private sector can be incorporated into the public and nonprofit sector. In the author's opinion, both sides are focusing a lot on economic performance and on frameworks that include social and economic performance, and their connections with sustainability are lacking. Once again, such an opinion may be influenced by the format of the article, which prefers to dig deep into a narrow subject rather than to connect several broad subjects of investigation.
3. The criteria for social impact evaluation are listed. These criteria are based on worldwide academic literature and on the opinions that Estonian practitioners express about SEs. The available literature on social impact evaluation in SEs has jumped to the discovery tools for social impact evaluation without testing the grounds for social impact evaluation, or these grounds are based only on theoretical foundations. Social impact evaluation can be valid only if it is approved by practitioners. Despite the small sample and the Estonian context, the current paper takes the first steps towards bringing an understanding of the theory and of the practice of social impact evaluation closer together.

There are implications for managers of SEs, which could be taken into account when planning managerial actions. In the context of the present research, these are as follows:

1. Sometimes, the perception that internal stakeholders have of the values held by external stakeholders might not be accurate. Therefore, communication between different stakeholders has to be improved.
2. SEs should incorporate the topic of competitive advantage into their marketing and social impact evaluation practices in order to better communicate their uniqueness to the external stakeholders.
3. Like any other businesses, SEs must be good at financial planning and managers of SEs must understand economic terms. If support is being offered to SEs then trainings on these fields should be considered.
4. The current study could be used for practitioners as well as for politicians during preparation for negotiations with representatives of other sectors, as it highlights some of the topics that are commonly misunderstood by the different parties.
5. This study takes the first steps towards constructing a solid social impact evaluation model. Using such a model could lead to an empirical study that proves or disclaims the need for SEs and builds a bridge between the different discourses on SEs and social impact evaluation.

## **Limitations and suggestions for future research**

These theoretical insights, which have been derived from an in-depth field study of a small number of cases do not, as yet, provide for robust theories. However, they do form the basis for on-going work in other cases in other contexts. In qualitative studies, there is always the issue of whether the findings are specific to the particular sample. This issue is not easy to address, and the author believes that a degree of generalisation in the results will always lead to a hypothetical outcome. [Please check meaning in last sentence.] Consequently, while the concepts of SE and social impact evaluation remain fuzzy, the author does not see the possibility of conducting a quantitative study. A quantitative study would also be limited because of the small number of SEs operating in Estonia.

This study represents the views of different stakeholders in relation to social impact evaluation. The issues raised in the literature on social impact evaluation might not correctly reflect the needs of practitioners and the real values of external stakeholders might be different. The literature might reflect what the external stakeholders *should be* valuing and not what they *are* valuing. The field of public interest in social impact evaluation could be analysed in more detail, using qualitative methods on the Estonian public sector.

The social entrepreneurship sector does not exist, and the SEs that were analysed act in the nonprofit sector. The expectations that managers have of the

values of external stakeholders of SEs might reflect the expected values of external stakeholders in the third sector in Estonia. If external stakeholders were to compare different SEs then they might value different aspects than if they were to compare nonprofit organisations.

As the current study is based only on interviews with managers of organisations in Estonia, the results may not be valid in areas with a different cultural and institutional background. Social phenomena are thought of as continually changing in response to social conditions (Corbin and Strauss, 1990). As social impact evaluation is not a natural part of the management of nonprofit (or even for-social-profit) organisations in Estonia then the answers given by the managers could change if their understanding of social impact evaluation improved.

The workshops, coding and analysing results were single-authored, so the subjectivity of the author cannot be eliminated. “Qualitative research captures multiple versions of multiple realities” (Coffey and Atkinson, 1996: 163) and results represented in the study could have been categorised according to the author’s version of reality. The tools were introduced to organisations according to the knowledge author had in 2008. The field is growing and developing fast, especially from the practitioner’s point of view. For now, SROI has developed significantly and the Acumen Fund Scorecard has been replaced by upgraded versions of impact evaluation.

The current study is based mainly on North American and European academic literature in English. So far, social entrepreneurship has been practitioner driven. That is why the academic literature is lagging somewhat. When conducting further studies in the field, the views of practitioners should be included and the time lag in the academic literature has to be taken into consideration.

The following are some suggestions for future research:

- Further analysis is needed to discover the reasons for preferring individual-level stakeholders, even if these are not in accordance with the organisation’s strategic goals;
- This study lists the criteria but does not give answers for tested practical social impact evaluation. Heateo SA is implementing a social impact evaluation tool that is in accordance with these criteria. Their practice should be analysed in the future;
- Analyse the readiness and need for social impact evaluation in the public sector to discover if this is in accordance with academic literature and bridge the gap between practice theory;
- Analyse the readiness and the need for social impact evaluation in the public sector to discover if there are any differences in the criteria for social impact evaluation in the public sector and the nonprofit sector, to which public services are contracted out.

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## **APPENDICES**



## Appendix I.

Peattie and Morley (2008) list the key issue studies in social entrepreneurship based on research monograph and accompanying discussion paper on SE that reviewed over 150 sources:

- governance, particularly in terms of competing “stewardship” and “stakeholder” based approaches (Huybrechts and Defourny, 2008; Huybrechts, 2010; Low, 2006; Mason *et al.*, 2007; Ridley-Duff, 2007, 2010; Smith, 2010a; Spear *et al.*, 2009; Turnbull, 1994);
- financing, particularly the challenges SEs face in accessing funding and their need for new forms of “patient” capital (Brown and Murphy, 2003; Brown, 2006; Edery, 2006; Hare *et al.*, 2007; Perrini and Marino, 2006; Ridley-Duff, 2009);
- factors associated with SEs success or acting as barriers to it (Kim, 2008; Koe Hwee Nga and Shamuganathan, 2010; Maase and Bossink, 2010; Sharir and Lerner, 2006; Todres *et al.* 2006);
- relationships with the public sector (Chapman *et al.*, 2007b; Luke and Verreynne, 2006; Mason, 2010; Sullivan, 2007);
- external business support services for SEs (Hines, 2005; Conway, 2008; Litzky *et al.*, 2010);
- marketing, particularly some of the difficulties social enterprises tend to have in marketing relating to their understanding of pricing dynamics and the need to be competitive in packaging and labelling quality and information provision for customers (Bird and Aplin, 2007; Gilligan and Golden, 2009; Hibbert *et al.*, 2005; Lyon and Ramsden, 2006; Mallin and Finkle, 2007; Mano, 2010; Sarstedt and Schloderer, 2010; Shaw, 2004; Smith *et al.*, 2010);
- human resource management, particularly the challenge of managing organisations typically staffed by a blend of volunteers and paid workers (Hamzah *et al.*, 2009; London, 2008; Ohana and Meyer, 2010; Prabhu, 1999; Royce, 2007).

The author would add five topics:

- institutional legitimisation of SE (e. g. Galera and Borzaga, 2009; Kelley, 2009; Kerlin, 2009; Kistruck and Beamish, 2010; Lasprogata and Cotten, 2003; Lemaitre, 2009; Nicholls, 2010a, 2010b; Nyssens, 2006; Reid and Griffith, 2006; Weisbrod, 2004);
- the narratives and discourse of the concept of social entrepreneurship (Corner and Ho, 2010; Dacin *et al.*, 2010; Dey and Steyaert, 2010; Douglas, 2008; Froggett and Chamberlayne, 2004; Hervieux *et al.*, 2010; Jones *et al.*, 2008; Mair and Martí, 2006, 2009; Massetti, 2008; Neck *et al.*, 2009; Nicholls, 2008, 2010b; Parkinson and Howorth, 2008; Peattie and Morley, 2008; Peredo and McLean, 2006; Roper and Cheney, 2005; Sullivan Mort *et al.*, 2003; Swanson and Di Zhang, 2010; Thompson, 2002, 2008; Trivedi, 2010a, 2010b; Zahra *et al.*, 2009);
- characteristics of social entrepreneurs (Barendsen and Gardner, 2004; Marshall, 2011; Ryzin *et al.*, 2009; Vasakarla, 2008);
- comparison of social and commercial entrepreneurship (Dacin *et al.*, 2010; Dorado, 2006; Hamby *et al.*, 2010; Horwitch and Mulloth, 2010; Meyskens *et al.*, 2010; Murphy and Coombes, 2009; Spear, 2006; Zahra *et al.*, 2008; Trivedi and Stokols, 2011), and it is not agreed, whether social entrepreneurship is a subfield of commercial entrepreneurship or are they different fields;
- community participation and networking although this could be considered as subtopic of governance (Fawcett and South, 2005; Forno and Merlone, 2009).

## Appendix 2. Lists of social impacts

Vanclay (2002):

### A. Indicative Health and Social Well-being Impacts

- Death of a self or a family member – personal loss.
- Death in the community – loss of human and social capital.
- Nutrition – adequacy, security and quality of individual and household food supply.
- Actual health and fertility (ability to conceive) of family members.
- Perceived health and fertility.
- Mental health and subjective well-being – feelings of stress, anxiety, apathy, depression, nostalgic melancholy, changed self-image, general self-esteem (psycho-social factors).
- Changed aspirations for the future for self and children.
- Autonomy – changes in an individual's independence or self-reliance.
- Experience of stigmatisation or deviance labelling – the feeling of being 'different' or of being excluded or socially marginalised.
- Uncertainty – being unsure about the effects or meaning of a planned intervention.
- Feelings (positive or negative) in relation to the planned intervention – which may result in formation of interest groups.
- Annoyance – a feeling/experience such as due to disruption to life, but which is not necessarily directed at the intervention itself.
- Dissatisfaction (betrayal) due to failure of a planned intervention to deliver promised benefits.
- Experience of moral outrage – such as when planned intervention leads to violation of deeply held moral or religious beliefs.

### B. Indicative Quality of the Living Environment (Liveability) Impacts

- Perceived quality of the living environment (i.e. work and home environment or neighbourhood) – in terms of exposure to dust, noise, risk, odour, vibration, blasting, artificial light, safety, crowding, presence of strangers, commuting time etc.)
- Actual quality of the living environment.
- Disruption to daily living practices (which may not cause annoyance).
- Leisure and recreation opportunities and facilities.
- Aesthetic quality – visual impacts, outlook, vistas, shadowing etc.
- Environmental amenity value – the non-market, non-consumptive aesthetic and moral value ascribed to a location of experience.
- Perception of the physical quality of housing.
- Actual physical quality of housing.
- Perception of the social quality of housing (homeliness) – the degree to which inhabitants feel that their house is their 'home'.
- Availability of housing facilities.
- Adequacy of physical infrastructure – impact on the existing infrastructure of the community (water supply, sewerage, land, roads, etc.).
- Adequacy of social infrastructure – change in the demands for and supply of basic social services and facilities, such as education, police, libraries, welfare services etc.

- Perception of personal safety and fear of crime.
- Actual personal safety and hazard exposure.
- Actual crime and violence.

#### C. Indicative Economic Impacts and Material Well-being Impacts

- Workload – amount of work necessary in order to survive and/or live reasonably
- Standard of living, level of affluence – a composite measure of material well-being referring to how well off a household or individual is in terms of their ability to obtain goods and services. It is also related to the cost of living, and is affected by changes in local prices etc.
- Access to public goods and services.
- Access to government and/or other social services.
- Economic prosperity and resilience – the level of economic affluence of a community and the extent of diversity of economic opportunities.
- Income – both cash and in-kind income.
- Property values.
- Occupational status/prestige and type of employment.
- Level of unemployment in the community – underutilisation of human capital.
- Loss of employment options.
- Replacement costs of environmental functions – the cost of replacing a product or service that was formerly provided by the environment, such as clean water, firewood, flood protection, etc.
- Economic dependency or vulnerability – the extent to which an individual or household (or higher entity) has control over economic activities, the degree of incorporation into larger production systems.
- Disruption of local economy – the disappearance of local economic systems and structures.
- Burden of national debt – such as the intergenerational transfer of debt.

#### D. Indicative Cultural Impacts

- Change in cultural values – such as moral rules, beliefs, ritual systems, language, and dress.
- Cultural affrontage – violation of sacred sites, breaking taboos and other cultural mores.
- Cultural integrity – the degree to which local culture such as traditions, rites, etc. are respected and likely to persist.
- Experience of being culturally marginalised – the structural exclusion of certain groups because of their cultural characteristics, thus creating a feeling of being a second class citizen.
- Profanation of culture – the commercial exploitation of commodification of cultural heritage (such as traditional handicrafts, artefacts) and the associated loss of meaning.
- Loss of local language or dialect.
- Loss of natural and cultural heritage – damage to or destruction of cultural, historical, archaeological or natural resources, including burial grounds, historic sites, and places of religious, cultural and aesthetic value.

#### E. Indicative Family and Community Impacts

- Alterations in family structure – such as family stability, divorce, number of children at home, presence of extended families.
- Changes to sexual relations.
- Obligations to living elders.
- Obligations to ancestors.
- Family violence – physical or verbal abuse.
- Disruption of social networks – impacts on the social interaction of household members with other people in the community.
- Changed demographic structure of the community.
- Community identification and connection – sense of belonging, attachment to place.
- Perceived and actual community cohesion.
- Social differentiation and inequity – creation of perceived or actual differences between various groups in a community or differentiation in level of access to certain resources.
- Social tensions and violence – conflict or serious divisions within the community.

#### F. Indicative Institutional, Legal, Political and Equity Impacts

- Workload and viability of government or formal agencies – capacity of the formal institutions to handle additional workload generated by a planned intervention.
- Workload and viability of non-government agencies and informal agencies including community organisations.
- Integrity of government and government agencies – absence of corruption, competence info which they perform tasks.
- Loss of tenure, or legal rights.
- Loss of subsidiarity – a violation of the principle that decisions should be taken as close to the people as possible.
- Violation of human rights – any abuse of the human rights, arrest, imprisonment, torture, intimidation, harassment etc., actual or fear or censorship and loss of free speech.
- Participation in decision-making.
- Access to legal procedures and to legal advice.
- Impact equity – notions about fairness in the distribution of impacts across the community.

#### G. Indicative Gender Relations Impacts

- Women's physical integrity – refers to the right of women to be able to make informed decisions about their own body, health and sexual activity, having control over fertility and childbearing and child-rearing practices, and having the resources to implement those decisions safely and effectively, and to be free from coercion, violence and discrimination in the exercise of those decisions.
- Personal autonomy of women – the level of independence, self-reliance, and self-respect in physical, economic, political and socio-cultural aspects.
- Gendered division of production-oriented labour – refers to the unequal distribution of workload between men and women in relation to production, in terms of cash cropping, subsistence food production, wage-labour and other household (cash) income strategies.

- Gendered division of household labour – refers to the gendered and uneven distribution of workload in relation to the care and maintenance of household members, which is the personal burden of childbearing and childrearing.
- Gender-based control over, and access to, resources and services – including land, water, capital, equipment, knowledge, skills, employment opportunities and income, and services such as health facilities, education and agricultural extension services.
- Equity of educational achievement between girls and boys.
- Political emancipation of women – women’s influence on decision-making at household, community and society levels.

Burdge (1994):

- A. Population characteristics (demographic effects)
  1. Population change
  2. Dissimilarity in age, gender, racial or ethnic composition (ethnic and racial distribution)
  3. Relocated populations
  4. Influx or outflow of temporary workers
  5. Seasonal (leisure) residents
- B. Community and institutional structures (public involvement)
  6. Formation of attitudes towards the project (voluntary associations)
  7. Interest group activity
  8. Alteration in size and structure of local government
  9. Presence of planning and zoning activity
  10. Industrial/commercial diversity
  11. Enhanced economic inequalities
  12. Employment equity of minority groups
  13. Changing occupational opportunities
- C. Conflicts between local residents and newcomers
  14. Presence of an outside agency
  15. Introduction of new social classes
  16. Change in the commercial/industrial focus of the community
  17. Presence of weekend residents (recreational)
- D. Individual and family changes (cultural effects)
  18. Disruption in daily living and movement patterns
  19. Dissimilarities in religious practices
  20. Alteration in family structure
  21. Disruption of social networks
  22. Perceptions about public health and safety
  23. Change in leisure opportunities
- E. Community resources (infrastructure needs)
  24. Change in community infrastructure
  25. Land acquisition and disposal
  26. Effects on known cultural, historical and archaeological resources

## Appendix 3. Levels of impact

### Levels of social impact

Function/ impact	Resourcing	Service provision	Voice/ advocacy	Membership and representation
Individuals	New opportunities, development of human capital	Access to basic services, Additionality	Voice	Bridging/ bonding social capital
Other organisations	Resource catalysis, Leverage	Innovation, Expertise, Knowledge	Community knowledge	Linking social capital
Sectors/ communities	Social/ economic regeneration, Sustainability	Welfare pluralism, Reach, Added value	Social inclusion	Democratic pluralism, Social cohesion

Source: Based on Wilding and Lacey 2003 and Reed *et al.* 2005

### Social impact versus environmental turbulence

Charac-teristic	1 Stable/ repetitive	2 Reactive	3 Anticipatory	4 Entre-preneurial	5 Creative
General program emphasis	Assist people	Provision of products/ services	Self-help services	Individual empower-ment	Economic develop-ment
Program content	Help with routine, spiritual or emotional needs	Delivery of food, clothing, medications, or housing	Job preparation, ESL classes, vocational training	Self-sufficiency, policy advocacy	Opportuni-ties to end hunger, poverty, start businesses
Impact uniqueness	Programs are similar to others in other communities	→	Offer differentiated programs	→	Novel program offerings
Planning/ complexity	No planning	Improvement of current products/ services	Expansion into new communities	New products/ services and partnerships or alliances	New products/ services and communi-ties

Source: Kelly and Lewis 2009

## Appendix 4. Types of social entrepreneurship

Type	Social Bricoleur	Social Constructionists	Social Engineer
<b>Theoretical inspiration</b>	Hayek	Kirzner	Schumpeter
<b>What they do?</b>	Perceive and act upon opportunities to address a local social needs they are motivated and have the expertise and resources to address.	Build and operate alternative structures to provide goods and services addressing social needs that governments, agencies, and businesses cannot.	Creation of newer, more effective social systems designed to replace existing ones when they are ill-suited to address significant social needs.
<b>Scale, scope and timing</b>	Small scale, local in scope – often episodic in nature.	Small to large scale, local to international in scope, designed to be institutionalized to address an on-going social need.	Very large scale that is national to international in scope and which seeks to build lasting structures that will challenge existing order.
<b>Why they are necessary?</b>	Knowledge about social needs and the abilities to address them are widely scattered. Many social needs are non-discernable or easily misunderstood from afar, requiring local agents to detect and address them.	Laws, regulation, political acceptability, inefficiencies and/or lack of will prevent existing governmental and business organisations from addressing many important social needs effectively.	Some social needs are not amenable to amelioration within existing social structures. Entrenched incumbents can thwart actions to address social needs that undermine their own interests and source of power.
<b>Social Significance</b>	Collectively, their actions help maintain social harmony in the face of social problems.	They mend the social fabric where it is torn, address acute social needs within existing broader social structures, and help maintain social harmony.	They seek to rip apart existing social structures and replace them with new ones. They represent an important force for social change in the face of entrenched incumbents.
<b>Effect on Social Equilibrium</b>	Atomistic actions by local social entrepreneurs move us closer to a theoretical “social equilibrium.	Addressing gaps in the provision of socially significant goods and service creates new “social equilibriums.”	Fractures existing social equilibrium and seeks to replace it with a more socially efficient one.

Type	Social Bricoleur	Social Constructivists	Social Engineer
<b>Source of Discretion</b>	Being on the spot with the skills to address local problems not on others' "radars." Local scope means they have limited resource requirements and are fairly autonomous. Small scale and local scope allows for quick response times.	They address needs left un-addressed and have limited/no competition. They may even be welcomed and be seen as a "release valve" preventing negative publicity/social problems that may adversely affect existing governmental and business organisations.	Popular support to the extent that existing social structures and incumbents are incapable of addressing important social needs.
<b>Limits to Discretion</b>	Not much aside from local laws and regulations. However, the limited resources and expertise they possess limit their ability to address other needs or expand geographically.	Need to acquire financial and human resources necessary to fulfil mission and institutionalize as a going concern. Funder demands oversight. Professional volunteers and employees are needed to operate organisation.	Seen as fundamentally illegitimate by established parties that see them as a threat, which brings scrutiny and attempts to undermine the ability of the social engineers to bring about change. The perceived illegitimacy will inhibit the ability to raise financial and human resources from traditional sources. As a consequence, they may become captive of the parties that supply it with needed resources.

Source: Zahra *et al.* 2009

## Appendix 5. Balanced scorecards for social enterprises

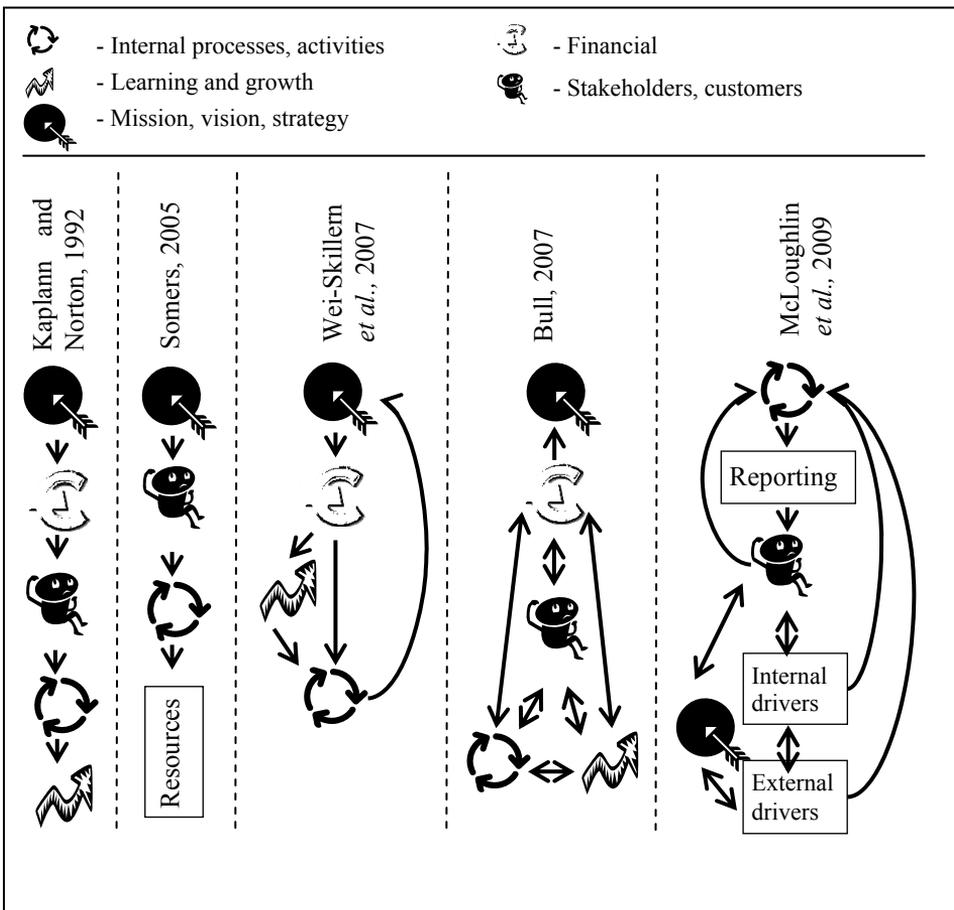
The overview of the perspectives that suggested scorecards take into account are given in the following table. Kaplan and Norton's balanced scorecard are given for comparison.

Kaplan and Norton, 1992	Somers, 2005	Bull, 2007	Lee and Moon, 2008	Wei-Skillern <i>et al.</i> , 2007	Meadows and Pike, 2010	McLoughlin <i>et al.</i> , 2009	Polonsky and Grau, 2008
				Mission		mission and values	Achievement of organisational objectives
Financial	financial sustainability	multi-bottomline return	financial	financial	financial return		return on investment
Customer	resources stakeholders	stakeholder environment	stakeholder		business model	stakeholders	
Internal processes	internal processes	internal activities	internal processes	operational		activities	operating efficiency
Learning and growth		learning organisation	learning and growth	learning and growth	organisational development	external drivers, internal drivers	
					social return		social outcomes

Source: compiled by the author

Some similarities can be drawn from this comparison. Financial, internal processes, learning and growth perspectives are also important for social enterprises. The focus is more on sustainability issues. Customer perspective is replaced with stakeholder perspective. Some authors have added social impact (return, outcome etc.) perspective, but the perspective, which has been considered irrelevant and eliminated is different (e. g. financial, customer, learning and growth). Some authors have added mission and values perspective, which in some way is also represented in Kaplan and Norton's balanced scorecard (all objectives has to be driven from strategy). It is interesting that there is no such perspective, which has been considered important for all suggested scorecards.

Only some authors have brought out the interaction between different perspectives and strategy. The frameworks, which have visualised these interactions, are compared in the following figure.



Source: compiled by the author

Surprisingly, there is only a little agreement concerning the interaction between different perspectives. In most cases, it is agreed that stakeholders have influence on internal processes and activities (and maybe vice versa).

According to these frameworks, objectives for each perspective do not have to be derived from strategy (Bull, 2007; McLoughlin *et al.*, 2009), which could be interpreted as organisations are not operating for their social goals. E. g. framework constructed by Bull (2007) rather says that goals are derived from financial capabilities (*ex post facto*). *Ex post facto* – the objectives are selected later based on resources (Aarnio, 1996).

## Appendix 6. Interview topics

### Introduction/warm up

Story about the establishment of the organisation

How did the interviewee get involved with the organisation?

### The canto of the interview

*Explaining the social aim of the organisation and future plans; The activities and goals of the organisation*

1. Explanation for the existence of the organisation (the problem in the society)
2. Mission / clarity of the mission
3. Vision
4. Main activities for achieving the mission
5. The accordance between the activities and the mission
6. Description of the main target group

*Relations with interest groups*

7. The organisations social impact on main target group and its benefit to the relieving/solving problem in the society
8. The importance of the activities to the main target group
9. Relations/connections with stakeholders

*Current performance measurement practices*

10. The ways of measuring the satisfaction of stakeholders
11. The satisfaction of stakeholders with the activities of the organisation
12. Goal achievement
13. 3–5 most important achievements in last 3 years
14. 1–2 goals that have not been achieved in last 3 years
15. Evaluating the achievement of results/goals

*Risks, Bottlenecks that may affect future performance*

16. Action planning
17. Risks and risk management
18. Bottlenecks that do not allow higher quality
19. Bottlenecks that do not allow higher quantity
20. Awareness of risks
21. Financial planning
22. Sustainability of resources
23. Professionalism of employees (competences, experiences, potential)
24. Use of voluntary labour and their participation in organisations activities
25. Organisation's dependence of its current leader
26. The council of the organisation
27. Infrastructure
28. Internal communication
29. Public relations
30. Organisation's position in the activity field compared to the other organisations in the same field.

### Conclusions

What are the topics that were not discussed during the interview?

Planning future activities

## Appendix 7. Examples of expressions about three tools introduced during the workshops

### Examples of the expressions about value-based method (SROI)

<p>SROI is important for stakeholders, who appreciate financial outcomes and information which is presented in numbers.</p>	<p><i>'It helps to keep the partners with us. It gives a quick overview, where does the money go...'</i>, <i>'It helps to calculate interesting things and the partners will immediately have different thinking'</i>, <i>'For me... this, this SROI is very good... in Estonian society in the current moment at least it is wanted in numbers that you explain something, how much the society gains from you activity... then you are heard and listened... if we talk about other impact we have, then there are only a few who will listen'</i>,</p>
<p>Numbers make the information seem like a fact which increases the feeling of subjectivity (especially for external stakeholders)</p>	<p><i>'the results count... how do I put it... in bureaucratic communication. You put the fact in front of them. Because I see that the result is like a fact: a, b or c.'</i></p>
<p>Information presented in SROI format makes it easier to communicate the purposes of an organisation to external stakeholders (state, financier and residents of the region):</p>	<p><i>'I would use the table of SROI for the communication... it is so easy to understand for the people when the numbers are given'</i>, <i>'These are so great calculations. I should really make them again with real numbers and this could be one thing that should be on our webpage. (An activity of the organisation/ rises so many questions in people...'</i>, <i>'We are so often so attached to our activity that we cannot think critically or... I don't want to say unobjectively but... let's say as normal people. For example /target group and activity mentioned in impact map/ is very important for the people in the society... something they fear. We should be aware of it, then we can control and manage it.'</i></p>
<p>SROI evaluation helps to see the big picture and purport the activities of an employee for the employee itself</p>	<p><i>'I think it should be used for the organisation in general... not only for some sub-activities. Why should I prefer one sub-activity to another? Sub-activities in themselves are quite easy to administer, but to see the whole...'</i>, <i>'I think this could be very interesting for the employees... sometimes we have made research together with University of /.../ and I see how our employees, who are hands-on every day, see their activities in a bigger perspective. They're not just making /activity of the organisation/... But they feel that they are part of this impact'.</i></p>
<p>SROI evaluation could grant access to value-based pricing, when current market practices are mainly based on cost-based pricing:</p>	<p><i>'This could be an argument for /the investor/. Because the prices we have right now, the price list you may say, is based on our real costs. What we have here is quite the contrary model, vice versa thinking. Let's start from the impact. What do you want to achieve? I do not know, what we want to achieve, but our investor asks that we have to start from somewhere. But I would like to know...'</i></p>

<p>Calculating the impact in monetary terms is in contradiction with the common discourse</p>	<p><i>'We have never measured our impact this way... it has been a taboo for nonprofits through times, to calculate their results in money. Because we measure something else... something that we feel more ethical or moral...'. 'For using it... I think it has to be combined with something else... some softer side not monetary side of social impact... We could use it in our business unit, but everywhere else... it's very hard'. In the context of finding alternative costs and subtracting deadweight it was discussed, that organisations feel themselves more attached to the activities they do rather than the goals (or impact) they achieve: 'Do we have to say what would not have been? I would like to say, what is and what we do. I would like to put in positive way... It seems to me, that this entire monetary thing is speculations about what we don't have'.</i></p>
<p>No common view exists if such evaluation is useful for the internal user or organisation itself:</p>	<p><i>'I think SROI is very suitable for measuring one half of the mission /of the organisation/. But the other half... /description of two purposes of the organisation/... I think this one half it measures very well... because this is what you do. You pick organisations like fruits from our greenhouse, weigh them, measure them, add it all up and produce a number to describe them', 'Does it say anything?... Yes, it does if... It does, if we have to say something to the society or the investor', 'for the organisation itself I don't see, why an organisation should need it... we know what we lack in our activities, but monetary it is absolutely not necessary for us'.</i></p> <p>On the other hand if one organisation were asked, if it seems to be suitable for them, if the results of the evaluation will be equally available for internal and external user, the answer was: <i>'I don't see why I should change it. I won't put any information in it that can't bear the daylight or something... It's all free and available information. The more we explain what models we use and more similar grounds we have, how we understand things, then there is no point for me to make a secret model here and secret model there. And then wonder why we can't understand each other. If I should use it, then I would leave it on the same grounds. Copy-paste for me, copy-paste for you and everything is clear'.</i></p>
<p>The not-for-profit organisations fear that they lack internal competence for carrying out SROI evaluation</p>	<p><i>'Finding the indicator... I see this is such a lot of work... will anyone have that much time to argue about the construction of the model?', 'there are so many 'ifs' in it... If we can... I feel from the beginning that we will get stuck with them... Maybe i would believe the result... but it is so hard for us to find something that could be measured in money... because our activities are like that...'</i> It is referred indirectly while talking about calculating financial indicators, that some external evaluator should carry out the evaluation: <i>'Well we have said that we don't have the competence to... to make all these analyses... when we have given the idea, then it is somehow role of the /investor/ to meet the half-way and make these by themselves', 'We need a person to analyse this... everyone of us does what s(he) can, but this is one thing that looks at the money a little bit. Well on the financial side, mainly we have dealt with accounting.... but we feel that we need much more. We need financial management, but we do not have it'.</i></p>

<p>Finding data for comparison (and calculating alternative costs) in SROI is complicated</p>	<p><i>'I do not know... I have never asked what did you (author's comment: the main stakeholder the organisation is operating for) give up if you game here.'</i>, <i>'We are so different... we can't be compared to the professionals'</i>, <i>'the soft sides we have... prevention in its widest sense. There you do not have this direct benefit. And you don't have skills to measure it.... you see how much time and money you spent, but you don't see... Even Statistics Estonia cannot measure it'</i>, <i>'description of the survey conducted within the main stakeholders, where it was proven that at least 30% of the one's participated on the survey had lied/... it means that 30% of them are actually... it is a data, we cannot trust or use. It's hard to tell, who our stakeholders are and how many of them exist'</i>, <i>'All the numbers in our area, with some exceptions, are so-so... we play more with the magnitudes and not numbers. It means that the person constructing a model should know a lot about the area and the organisation.... I read from the internet that this number might be 13000, but it can be twice as much... And should be able to be critical on the result...'</i>. Even some indicators that for the external stakeholder might seem easy to measure (in the example, the number of active members), turns out to be tricky, when asked from the manager of not-for-profit. It is impossible for external stakeholder to evaluate, if the indicator is given based on facts or based on the feeling, which number the manager would like it to be: <i>'you never know... officially we have /number/ members... but it is only a part of it... maybe a half of them has become official members or only a third, who knows... 1000 seems to be a cool number.'</i></p>
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### **Examples of the expressions about impact-based method (Acumen Fund Scorecard)**

<p>brings out the competitive advantage and compels an organisation to think, why should its services be preferred to others</p>	<p><i>It's a good tool for... Well, not-for-profits often does not have to ask them what differentiates them from the others. What is it? Do the changes take place because of me or independently from me, in the society'</i>, <i>'In three years from now you might ask, are you still the best party to offer the service actually. And I think it's really something we should ask ourselves'</i>, <i>'Of course I have not thought about it. Right now /the name of the organisation/ has some role in the society. But if someone else should offer the same service then it would definitely cover some of our stakeholders... I don't know if all of them. Right now it seems that we have enough of /clients to participate on our events/'</i></p>
<p>The managers feel that Acumen Fund Scorecard is more in accordance with the social impact evaluation discourse of not-for-profits than SROI.</p>	<p><i>'I think I like it a bit more than SROI. It is somehow descriptive answer. Maybe not-for-profits like it because of it. It is more the way not-for-profit talks about its effectiveness. And it puts it.... it is very interesting this 50-50, this actual impact and potential impact – these are the things that we like to talk about. Financial sustainability and cost effectiveness – these are the things we don't like to talk about. But this is it; this is what gives us the possibility to have some social impact... It gives us the possibility to talk about the topics, which are not often discussed in the nonprofit world.'</i></p>

<p>It seemed to the managers that Acumen Fund Scorecard allows a strategic view to a certain problem in society</p>	<p><i>'You know, where I would use it? I would use it, when organisation starts to regenerate or generate its vision and mission. I would take it as one thing to talk about. It's clear that we have vision and mission and these are abstract things. But now let's get concrete. It is actually a good feedback: does our mission, what we do, make sense. 'I would use it during strategy planning and making action plans'; 'It seemed to me that this sustainability clasped the organisation in a bigger scale. It associated with the thoughts we had in our development plan', 'It seemed to me that this gives this overall view... which role has an organisation to play in the society. The other ones were very specific'.</i></p>
<p>Acumen Fund Scorecard can be easily manipulated if the evaluator does not know the (local) background.</p>	<p><i>'The investor has to know the local background very well. If s(he) does, then s(he) can take all the variables into account... But if s(he) doesn't know... I could tell you everything and make you believe it, because you know nothing...', 'Actually, it can be used this way, that you let some of the data only for yourself or for a little inside group... to specify the critical areas/activities', 'I'd say the keyword here is context and awareness of Estonia. If someone should come and rope in the people who understand our organisation, the statistics in our activity field... it requires smart people I would say. Smart people... to put the results in the context'.</i></p>
<p>Defining the best alternative or similar organisation to compare your results to is raising a lot of questions.</p>	<p><i>'The minus is that each organisation is different and does not describe all the parameters', 'An analogue that would be similar enough cannot be found. There is no such thing as our field/area', 'I'd say that the biggest challenge for this model is, that you should be able to analyse what would have been without you. It would be easy to do, if there were one kindergarten because there are 700 kindergartens in Estonia. You could pick 70 of them, which are similar to the one and see what has happened in them. But if the organisation is unique.</i></p>
<p>Useful tool for external evaluator.</p>	<p><i>'It sounds logical if I would be an investor... then it is good, but for organisation itself... It does not take the organisation as whole, but it is good for estimating one direction of our activities', 'I'm thinking how to implement it. We have several fields we want to operate on, which makes it more intricate'</i></p>
<p>Social enterprise lacks internal competence for evaluating financial parts of Acumen Fund Scorecard.</p>	<p><i>'we do not know what this financial sustainability is. We don't know what... maybe we can compile an annual report, we hire an accountant for that', 'I think most of the not-for-profits and it seems to be, that we as well... the emphasis is on scale or potential social impact. It is something we know and are clear about. The real social impact we are not so clear about. Cost effectiveness – who the hell knows, and financial sustainability – well, that is totally a taboo if you have to think about it', 'I don't know what it is... how it is... who has sustainable cash flows? Could you bring an example?', 'I know that in Finland it is somehow interestingly built up. They are somehow different, they have it. But I don't know how...'</i></p>

## Examples of the expressions about process-based method (issue-based approach)

<p>Issue-based tool that it is goal-oriented and does not pay that much attention to the financial issues</p>	<p><i>'This financial side is not that important... rather goal-oriented, which helps to plan the activities. If we see, that we didn't reach our goal this time, then what will we do differently next time', 'often our members for example do not want to solve a problem... or they say that the problem is that we should have public seminars 4–5 times a year, which does not mean that /stakeholders/ have too few gatherings or events to participate on'</i></p>
<p>Organisations mentioned that they would use issue-based tool while constructing activity plans</p>	<p><i>'we are refocusing our activities right now, this could be used in this context', 'I would use it while activity planning'</i></p>
<p>more in accordance with the not-for-profits logic of social impact evaluation but less in accordance with investor's current views</p>	<p><i>'this one is most logical', 'no one measures it... I mean the financing mechanism... this is not someone measures to finance it. But they should, to make things better', 'Well, that would be great if someone should examine it', 'it is something we could use in several places... these results... I don't know if for investor... maybe even there. These changes touch people and even an investor is a human being, then maybe I could reach him/her in this aspect. I believe in humanity and still hope these could work on financial grounds', 'these examples of real changes in people could work in several places. Firstly, we want this information for ourselves, we have been interested in it for years... and the people in the outside are interested in it, they want practical... they'll ask immediately: what changes, do you have examples, bring real examples... then I would have anything to answer them'.</i></p>
<p>issue-based tool could be motivating to the members of the organisation, but on the other hand might be too sophisticated to make the members understand it</p>	<p><i>'Problem-based analysis is interesting in a sense that it gives a larger meaning to the organisation. Such disquisition could be motivating to the members', 'I'm not sure if I could explain it to our employees', 'it is so similar to the scientific studies, the simplest method. I have read hundreds of scientific studies'.</i></p>
<p>the results can be easily manipulated</p>	<p><i>'It can be manipulated, but if we use it for internal purposes, then there's no motivation for manipulating', 'hard to measure it objectively in our field', 'a lot of external parameters influence the result', 'the one who uses the results of the evaluation has to be the expert on the field', 'I think out of all these methods, I'm the most critical about it. Not in principle, but for our organisation... for calculating the trend... If you could find a comparable country, comparable situation... If you could do that, I might agree with this method'.</i></p>

<p>The issue-based tool emphasised the long-term nature of social impact evaluation. It seems to be a normal practice in Estonian SEs that the goals of the organisations change faster than the results of the activities occur and can be measured or evaluated</p>	<p><i>'It is not associated with this method, but for further activities... please not that our model was totally different in the beginning... the operation model we have right now is been used since 2005', 'each management wants its own evaluation model...', 'I think the people we have here, we have them for quite a short period and if you start making such impact evaluation you need to see the wider spectre and often in the beginning you don't see the work, that has been made in years'</i></p>
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## Appendix 8. Keywords in English and Estonian

Social entrepreneurship	– Sotsiaalne ettevõtlus
Social entrepreneur	– Sotsiaalne ettevõtja
Social enterprise	– Sotsiaalne ettevõte
Social impact	– Sotsiaalne mõju
Social impact evaluation	– Sotsiaalse mõju hindamine
Venture philanthropy	– Strateegiline filantroopia
For-profit	– Kasumitaotlusega organisatsioon
For-social-profit	– Sotsiaalse kasumi taotlusega organisatsioon
Performance	– Tulemuslikkus
Social performance	– Sotsiaalne tulemuslikkus
Economy	– Säästlikkus <sup>25</sup>
Efficiency	– Tõhusus
Effectiveness	– Mõjus

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<sup>25</sup> Termineid säästlikkus, tõhusus ja mõjus kasutab samas tähenduses kui käesolev töö ka "Tulemusauditi teooria ja praktika käsiraamat" (2001), mis on tõlgitud Riigikontrolli tellimusel väljaandest "Handbook in Performance Auditing. Theory and Practice" (1999) 2nd edition, Stockholm. Käsiraamat on elektroonilise versioonina kättesaadav ka Riigikontrolli kodulehel [www.riigikontroll.ee](http://www.riigikontroll.ee)

## SUMMARY IN ESTONIAN – KOKKUVÕTE

### Sotsiaalse mõju hindamine Eesti sotsiaalsetes ettevõtetes: vajadus, valmisolek ja praktika

#### Töö aktuaalsus

Sotsiaalsed ettevõtted (SE) on äripõhimõtetele tegutsevad organisatsioonid, mille peamiseks eesmärgiks on sotsiaalse muutuse loomine. Organisatsiooni tulemuslikkus väljendub nii äriis-organisatsioonilises (majanduslik tulemuslikkus, jätkusuutlikkus) kui ka sotsiaalses (sotsiaalne mõju) plaanis. Erasektori tulemuslikkusest rääkides keskendutakse eelkõige äriis-organisatsioonilisele küljele, mille korral saab rääkida tulemuste mõõtmisest. SE tegevuse eesmärgiks ei ole aga aktsionäritulu loomine (Achleitner *et al.*, 2009; Austin *et al.*, 2006b; Zadek ja Thake, 1997; Wei-Skillern *et al.*, 2007), seetõttu ei ole võimalik nende tulemust hinnata vaid finantsandmete põhjal. SEde tegevuse tulemuslikkusest rääkides tuleb keskenduda eelkõige sotsiaalsele mõjule, mille korral tuleb mõõtmise asemel rääkida pigem hindamisest. Äriis-organisatsioonist tuntud eesmärkide mõõdetavuse kriteeriumi on skeptikud sõnastanud SEde tarbeks järgnevalt: „kui ei hinnata organisatsiooni sotsiaalset mõju, siis ei tohiks väita, et selle sotsiaalse mõju saavutamine on organisatsiooni eesmärk”. Sotsiaalse mõju hindamise (SMH) rolli SE organisatsioonilise identiteedi kujundajana ja mitte pelgalt aruandluse vahendina rõhutab ka Grimes (2010). Sarnaselt toob välja Pearce (2003), et sotsiaalse mõju hindamine ja hindamise tulemuste esitlemine nii organisatsiooni liikmetele kui laiemale üldsusele võib olla määravaks faktoriks, mis eristab SEde sotsiaalselt vastutustundlikest ettevõtetest, mille korral sotsiaalsed eesmärgid ei ole ettevõtte põhitegevusega seotud ning mille korral sotsiaalsed eesmärgid võivad olla deklaratiivsed ja kanda endas pigem turunduse ja mainekujunduse elemente.

Mair ja Marti´ (2006) on nimetanud SMH lausa SEde, nende toetajate ja uurijate suurimaks väljakutseks. SMH on oluline nii SEde endale kui ka väliste huvigruppidele. Organisatsiooni sisesed huvid tulemuslikkuse hindamiseks on analoogselt kolmanda sektoriga võimalik jagada kolme kategooriasse (Kanter ja Summers, 1987): institutsionaalsed (õiguspära peamiste väliste huvigruppide silmis), juhtimislikud (ressursikasutus) ja tehnilised või professionaalsed (teenuse kvaliteet ja tulemused) (tsiteerinud Paton, 2003:44). Väliste huvigruppide (eelkõige potentsiaalsete rahastajate) jaoks loob tulemuslikkuse hindamine võimalused paremate (objektiivsemate) investeerimisotsuste tegemiseks ja investeerimisportfelli haldamiseks.

Institutsionaalsest aspektist on SMH vajalik selleks, et hinnata, kas SEde taotlus suuremale toetusele enda õiguspärasuse suurendamiseks on põhjendatud. Kuni SEde tõhusus ei ole empiirilisel tõestatud, ei ole võimalik otsustada SEde vajalikkuse üle. Ühest küljest, seoses uue avaliku juhtimise (*new public management*) põhimõtete levikuga survestatakse kolmanda sektori organisatsioone SEde sarnasemaks muutuma. Teisest küljest ei olda ühel meelel, kas

SEde teke on üdini positiivne. Näiteks Schwartz ja Austin (2009) leidsid Ameerika Ühendriikide mittetulundussektori juhtimise kirjanduse põhjal, et SEd võivad negatiivselt mõjutada annetustulu (Guo, 2006; Kingma, 1995), vabatahtliku sektori olemust (Adams ja Perlmutter, 1991; Dart, 2004; Perlmutter ja Adams, 1990), ja mustata organisatsiooni tegelikku missiooni ja eesmärke (La Barbera, 1991).

Vastandlikud seisukohad SEde legitiimsuse osas on viinud olukorrani, kus SEd hõivavad eraldiseisvat organisatsioonilist valdkonda (Harris *et al.*, 2009), kuid juriidiliselt opereerivad endiselt turu, avaliku poliitika ja kodanikuühiskonna piirimaal (Defourny ja Nyssens, 2010; Hulgård, 2010; Nyssens, 2006; Phillips ja Hebb, 2010). Surve kolmandale sektorile muutuda SEde sarnasemaks ning poliitikakujundajate suuremad ootused ja nõuded (Shah, 2009; Suurbritannia näitel) on tekkinud enne, kui on mõistetud ja loodud poliitikaid ja protseduure, mis sarnaseid muudatusi ja lepingulisi suhteid toetaks (Seanor ja Meaton, 2008). Kuni SEde sotsiaalset mõju ei suudeta hinnata, ei ole võimalik neid vastuolusid ületada ning SEde legitiimsuse ega selle taotluse püüdluste üle objektiivselt otsustada.

Juhtimislikust aspektist võimaldaks SMH läbi viimine ja selle tulemuste kommunikeerimine suurendada SE rahastuse kaasamist (Hynes, 2009). Tehnilisest aspektist võimaldab SMH suurendada SE tõhusust oma eesmärkide saavutamisel. SMH on kahjuks aja ja ressursimahukas, mistõttu ressursside säästlikuks kasutamiseks peab SMH olema maksimaalselt ühtne nii juhtimisliku, tehnilise kui insitutsionaalse aspekti tarbeks.

Lähenedes mõju hindamisele väliste huvigruppide poolelt tuleb tõdeda, et uue avaliku juhtimise põhimõtted on muutnud avalikku sektorit ja kolmanda sektori rahastamist üldisemalt. Rahastajate poolelt nähakse kolmandale sektorile ja SEdele raha andmist pigem investeeringu kui annetusena (Kingston and Bolton, 2004). Investeeringu loomulikuks osaks on tulu ja kulu võrdlemine, mis võimaldab investoril valida kõige tulusama projekti. Mõju hindamine on üks peamiseid vahendeid, millega vähendada rahastamisotsuse subjektiivsust, kuigi subjektiivsuse vähendamine ei pruugi olla iga rahastaja eesmärk. Dees (2007) väidab, et SMH on oluline, muutmaks rahavooge vähem sõltuvaks arvamustest, populaarsetest teemadest, isiklikust karismast ja turundusoskustest, mis omakorda suurendaks sotsiaalset väärtust loovate tegevuste rahastamise tõhusust. Wei-Skillern *et al.* (2007) ja Paton (2003: 8) kurdavad, et kolmandate osapoolte vähene huvi SMH vastu on viinud selleni, et head sotsiaalset tulemuslikkust ei tasustata ja samuti ka kehva sotsiaalset tulemuslikkust ei karistata.

Selleks, et SMH viiks ka efektiivsema investeerimisportfelli halduseni, on lisaks huvile SMH vastu, vajalik SMH läbi viimine kooskõlas aruandlusstandardiga. Achleitner *et al.* (2009) arvavad, et aruandlusstandard võimaldaks investoritel teatava tasemeni võrrelda investeerimisvõimalusi sotsiaalsesse algatusesse ja koondada need investeringud portfelligitasandil, mis omakorda suurendaks sotsiaalsektorisse tehtavate investeringute kvaliteeti ja kvantiteeti sõltumata sellest, kas neid investeringuid teostab.

Standardimine võiks olla ka SE enda huvides, sest Byrne (2002) hinnangul võimaldaks standardimine parendada rahastuse kaasamist (juhtimislik aspekt). Praktikud (Trelstad, 2008 – Acumeni Fondist) nõustuvad, et vajadus aruandlusstandardite järgi on olemas ning on selle valdkonna uurimisel astunud ka esimesed sammud. Näiteks Acumeni Fond on koostöös Google, Skolli fondiga (*Skoll Foundation*), Lodestar Fondi (*Lodestar Foundation*) ja Salesforce.com'ga arendmas Portfelli Andmete Juhtimise Süsteemi (*Portfolio Data Management System*) ning on lootusrikkad, et piisav hulk praktikuid on ehitanud osalisi süsteeme, mis koostoimel võimaldavad luua sektoriülest lahendust (Trelstad, 2008).

Kuid eksisteerib ka vastuväiteid standardimisele. Aras ja Crowther (2008) väidavad sotsiaalse vastutustundlike ettevõtete raamistikus, et aruandlusinfo maht on kasvanud ka ilma standarditeta. Nicholls (2009) väidab, et standardid pole vajalikud, kuna sotsiaalse mõju aruandluse praktikad SEdes tulenevad pigem sisemisest vajadusest kui regulatsioonidest, kokkulepetest või muudest välistest survetest. Samas ei ole võimalik saavutada mõjusat ressursijaotust sotsiaalsete eesmärkide nimel, kui SMH ei ole standardiseeritud (Achleitner *et al.*, 2009, Meehan *et al.*, 2004), kuna SMH kulud muutuksid ebamõistlikult kõrgeks nii väliste huvigruppide kui ka SE enda jaoks, kes peaks looma erinevad mõõdikute süsteemid erinevate huvigruppide tarbeks.

Eelnevalt kirjeldati SMH ja selle standardimise vajalikkust nii SE kui selle rahastajate jaoks. Käesoleva töö raames sõnastatavad kriteeriumid SMHks loovad baasi, mille pinnalt on võimalik sõnastada aruandlusstandardid ja luua tööriistu, millega SMH praktikas läbi viia. Kriteeriumidele vastavate tööriistade ja standardite olemasolul on võimalik saavutada efektiivsemast SMHst tulenevaid hüvesid nii SEde kui nende rahastajate jaoks, millest olulisimana võib välja tuua SEde legitiimsuse küsimuse.

## Uurimuse eesmärk ja ülesanded

Uurimuse eesmärgiks on Eesti näitel kaardistada sotsiaalse mõju hindamise kriteeriumid ja teha ettepanekuid sotsiaalse mõju hindamise tööriistade (p)arendamiseks. Eesmärgi saavutamiseks püstitati järgmised uurimisülesanded:

1. SE ja SMH kontseptsiooni teoreetilise ülevaade koostamine;
2. SMH ja tulemuslikkuse mõõtmise seoste analüüsimine;
3. olemasolevate teoreetiliste ja praktiliste SMH tööriistade analüüsimine ja tööriistade valik võrdluse jaoks;
4. erinevate huvigruppide motivatsioonist lähtuvalt SMH kriteeriumide kaardistamine Eesti näitel: sh arvestades
  - 4.1. avalikku huvi SE mõju hindamise vastu (legitiimsus),
  - 4.2. SMH standardiseerimise võimalusi,
  - 4.3. erasektori praktikate kasutamise võimalusi SEs kui äripõhimõtetele tegutsevas organisatsioonis,

- 4.4. SE juhatajate valmisolekut ja vastuväiteid kasutamaks olemasolevaid SMH tööriistu;
5. võrdluseks valitud SMH tööriistade analüüsimine SMH kriteeriumide raamistikus;
6. SMH kontseptsiooni teoreetiline arendamine ja SMH tööriistade rakendamiseks soovitude tegemine.

Autor on seisukohal, et SED ei peaks otsima ainuõiget tulemuslikkuse mõõdikut. Pigem peaksid nad tõsiselt mõtlema, miks tulemuslikkuse hindamine on vajalik (Behn, 2003) ja lähtuma üldiselt kokkulepitud SMH kriteeriumidest. Käesolevas doktoritöös tehakse järgmine lihtsustus ja eeldus: kui informatsiooni asümmeetriat ei esineks, siis oleks igal organisatsioonil võimalik koostada ühene SMH mudel, mis kataks kõik organisatsiooni tegevused ja kõigi huvigruppide vajadused. Praktikas saavad selle mudeli erinevad osad olla kasutuses erinevatel eesmärkidel. Kriteeriumide loomine SMH korraldamiseks peaks andma praktikutele juhtnööre, millega tuleb arvestada, kui hindamismudelit oma organisatsiooni jaoks koostama hakatakse ja milliseid aspekte tuleb arvestada erinevatele huvigruppidele aruandlust esitades.

## Töö uudsus

Kuigi esimesed SED loodi aastakümneid tagasi ja palju artikleid on kirjutatud sotsiaalsest ettevõtlusest, siis seni ei ole veel eriti palju akadeemilist kirjandust SEde tulemuslikkuse hindamise vallast. Paljud autorid nimetavad selle valdkonna olulisust SEde jaoks (Allan, 2005; Bloom, 2009; Germak ja Singh, 2010; Haugh, 2005; Lasprogata ja Cotten, 2003; Lyon ja Sepulveda, 2009; Neck *et al.*, 2009; Paton, 2003; Rhodes ja Donnely-Cox, 2008; Somers, 2005; Trivedi ja Stokols, 2011; Young, 2003; Zahra *et al.*, 2009), kuid seni on seda valdkonda vähe uuritud. Sellel teemal on peamisteks kirjastajateks praktikud, peamiselt strateegilise filantroopia fondid. Kuid olukord on muutumas. Viimastel aastatel on SMH temaatika võitmas enam tähelepanu ning esimesed teadusartiklid selles vallas avaldatud. Senised teadusartiklid on aga tegelenud SMH mõne aspektiga kitsamalt ning ülevaatlikud lähenemised puuduvad. Käesoleva töö uudseks aspektiks on SEde SMH tervikliku teoreetilise käsitluse loomine seniste killustatud kitsamate uuringute pinnalt.

Töö toob tulemuslikkuse hindamises välja uued rõhuasetused keskendudes sotsiaalsele mõjule kui organisatsiooni tulemuslikkuse osale ning rõhutades sotsiaalse mõju käitumislükke aspekte indiviidi tasandil. Gilligan ja Golden (2009) väidavad, et puuduvad mõõdikud, millega hinnata sotsiaalsete vajaduste rahuldamist ja sotsiaalsete hüviste pakkumist. Senine tulemuslikkuse kirjandus on fookuseerunud pigem majanduslikule tulemuslikkusele ja sotsiaalsed dimensioonid ei ole kujunenud ettevõtluse kirjanduse põhivooluks (Cohen *et al.*, 2008). Mõned mõõdikud sotsiaalse väärtuse hindamiseks on tuntud arengu-

ökonoomikast ja poliitika analüüsist ning mõõdikud äritegevuse hindamiseks äriahandusest. Seni ei ole loodud tunnustatud mõõdikuid hindamaks seoseid makrotasandi sotsiaalse heaolu ja organisatsiooni panuse vahel sellesse heaolu kasvu. Käesolevas töös avatakse indiviidi käitumise muutuse roll sotsiaalses mõjus, millega erinetakse senistest makrotasandi sotsiaalse heaolu käsitlustest.

Uuringu ülesehitus on mitmetahulisem võrreldes senise sama valdkonna teaduskirjandusega, mis on keskendunud eelkõige ärisektori mudelite teoreetilisele kohandamisele SEde tarbeks. Erinevused on nii töö epistemoloogilistes lähtekohtades kui ärisektori kesksuses.

Senine empiiriline tõestus (lähem info peatükis 1.5) SMH tööriista sobivuse kohta on induktiivselt lähtunud väitest: „Kui leidub mõni SE, kes SMH tööriista rakendab, siis on tegu sobiva tööriistaga.” Kui luua piisav hulk tööriistu, mis mõnele organisatsioonile sobivad, siis nende ühisosa pinnalt on võimalik luua SMH standardid ja kriteeriumid. Käesolev töö on pigem deduktiivne ja lähtub järgnevast väitest: „Kui leppida kokku SMH kriteeriumides on võimalik luua lõpmata palju tööriistu, mis on nende kriteeriumidega kooskõlas, ja seega sobivad.” SMH kriteeriumid on koostatud kolmest vaatepunktist lähtuvalt: uuritud on praktilisi vajadusi SMHks SEde õiguspärasuse kontekstis, organisatsioonide juhtide valmisolekut SMHst läbi viia ning seniseid SMH praktikaid. Äri sektor kajastab vaid senise SMH praktikate juures ja seega on tasakaalustatult kajastatud.

Tulemuslikkuse hindamise kirjandus kirjeldab tulemuslikkust pigem realistikult lähtekohast: tulemused on ühesed ja mõõdetavad (arvestades mõõtmisveaga). Käesolev töö põhineb sotsiaalkonstruktivismile, mille raames sotsiaalse mõju sisu SE jaoks on pigem konstrueeritud SE sisemiste ja välimiste huvigruppide interaktsioonide käigus. Autor keskendub praktilistele probleemidele, mistõttu SMHst ei rakendata. Kui äriettevõtte juhte käsitletakse sageli kui *homo oeconomicus*'t, siis empiiriline uuring näitab, et sotsiaalse kasumi taotlusega organisatsioonide juhid pigem sellele määratlusele ei vasta ja on sageli enam mõjutatud emotsionaalsetest aspektidest, mis seostuvad mõju hindamise ja mõõtmistega üldisemalt, oskusteabe tasemest kvalitatiivsete ja kvantitatiivsete meetodite vallas ja valmisolekust seista vastamisi hinnangu tulemustega. Seega sotsiaalset mõju saab käsitleda sotsiaalselt konstrueeritud nähtusena.

Kokkuvõtlikult seisneb töö uudsus teemavalikus ja epistemoloogilistes lähtekohtades. Luuakse üks esimesi terviklikke käsitlusi SMHle kui tulemuslikkuse hindamise osale. Erinevalt poliitika analüüsi ja arenguökonoomika lähenemistest keskendutakse indiviidi käitumisele aspektidele. Empiiriline materjal on tavapraktikast mitmetahulisem. Epistemoloogiliselt lähenetakse deduktiivselt ja sotsiaal-konstruktivistlikult, mis ei ole tulemuslikkuse hindamise kirjanduses tavapärane.

## Töö ülesehitus

Dokoritöö koosneb kolmest peatükist: teoreetiline, empiiriline ja analüüsi peatükk. Töö üldine ülesehitus on toodud joonisel 32. Teoreetiline peatükk annab ülevaate sotsiaalsest ettevõtlusest ja SMHst ning selles täidetakse esimesed kolm uurimisülesannet. Esimene alapeatükk annab ülevaate sotsiaalse ettevõtluse ja SE mõistetest ja olemusest. Teine alapeatükk keskendub SMH ajaloole ja kolmas alapeatükk sotsiaalse mõju ja selle hindamise olemusele sealhulgas sotsiaalse mõju väärtusahelale. Neljas alapeatükk analüüsib SMH ja tulemuslikkuse hindamise vahelisi seoseid eesmärgiga välja selgitada tulemuslikkuse hindamisest tulenevad kriteeriumid, mis rakenduvad ka SMHle. Viies alapeatükk tutvustab sotsiaalse mõju hindamise tööriistad üldisemalt ja annab lühikese ülevaate SMH tööriistadest, mida kasutatakse kolmanda empiirilise uuringu läbiviimiseks ja soovitude tegemiseks SMH tööriistade arendamiseks.

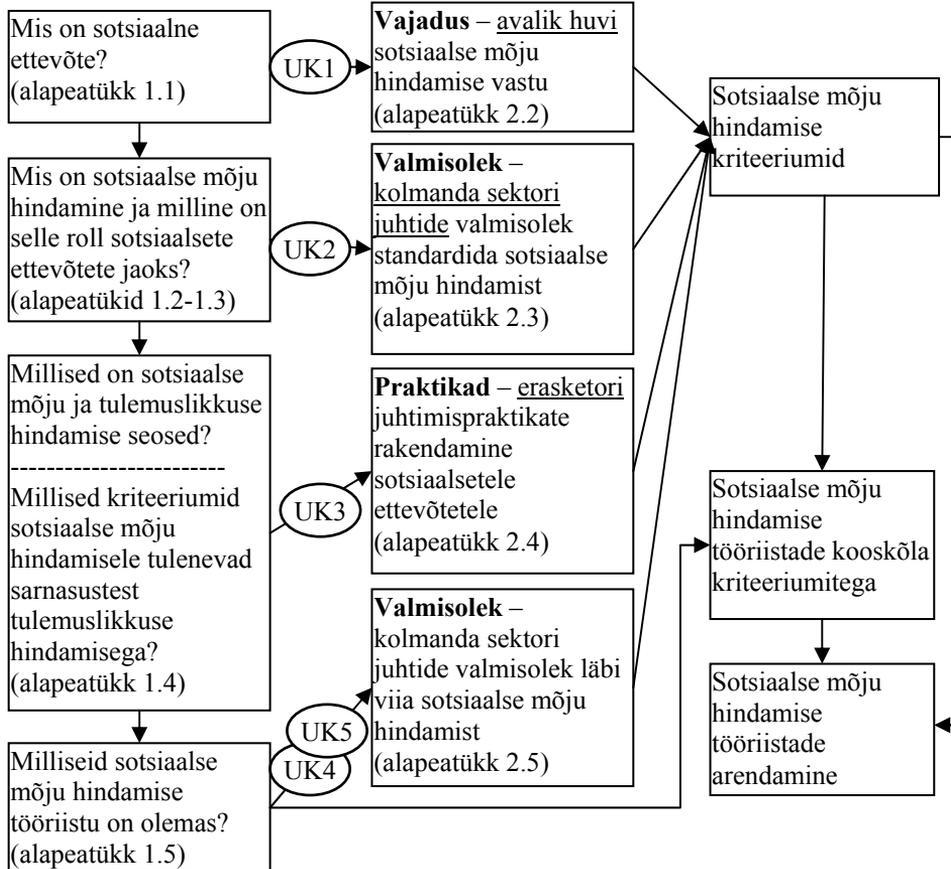
Töö empiiriline osa vastab neljandale uurimisülesandele ja on jagatud viieks alapeatükiks, millest esimeses antakse ülevaate meetodikast ja alapeatükkides 2.2–2.5 tutvustavad uuringu erinevaid osasid. SEde SMH vajaduse välja selgitamiseks koostati alapeatükis 2.2 kriteeriumid SMHks tuginedes SE pooldajate ja vastaste diskursuste võrdlusele. Alapeatükis 2.3 astutakse esimesed sammud leidmaks viise, kuidas SMHst standardida, keskendudes strateegiliste eesmärkide ja SMH kriteeriumide vahelistele seostele. Ärisektori praktikate rakendamise võimalust SEdes kirjeldab alapeatükk 2.4, kus on tuginetud ärisektorist tuntud tulemuslikkuse hindamise süsteemi ja SEde praktiliste probleemide võrdlemisele. Alapeatükid 2.3 ja 2.5 lähenevad SMHle sotsiaalse kasumi taotlusega organisatsioonide juhtide küljelt ja uurivad kas, miks ja kuidas on nad valmis standardima ja rakendama SMH praktikaid oma organisatsioonis. Alapeatükk 2.5 otsib põhjuseid, miks enamik sotsiaalseid ettevõtteid (vähemalt Eestis) oma sotsiaalset mõju ei hinda.

Kolmas peatükk, mis on jagatud kolmeks osaks, analüüsib empiiriliste uuringute tulemusi ja vastab viimasele kahele uurimisülesandele. Esimeses alapeatükis tehakse empiiriliste uuringute tulemustest ülevaade ning kaardistatakse SMH kriteeriumid lähtuvalt empiirilise uuringu tulemustest ja nende tulemuste võrdlusest. Teine alapeatükk analüüsib SMH tööriistade (mida tutvustati alapeatükis 1.5) vastavust SMH kriteeriumidele. Kolmas alapeatükk analüüsib teoreetilisi võimalusi SMH meetodite arendamiseks. Kokkuvõte on koondatud eraldi peatükki ning sisaldab lisaks ka töö piiranguid ning soovitusi edasisteks uuringuteks.

## Teoreetiline peatükk

## Empiiriline peatükk

## Analüüsi peatükk



**Joonis 32.** Töö struktuur

Allikas: autori koostatud

Märge: UK – uurimisküsimus

## **Teoreetiline taust**

Tegemaks ettepanekuid SEde SMHks, koostati ülevaade sotsiaalsest ettevõtlusesest, SMH ajaloost ja SMH seati tulemuslikkuse hindamise konteksti. Analüüsiti SE, sotsiaalse ettevõtja ja sotsiaalse ettevõtluse geograafilisi erinevusi ning SE erinevusi võrreldes traditsiooniliste majandussektoritega. Eesti konteksti arvestades defineeriti need mõisted järgnevalt:

- *Sotsiaalne ettevõtte* on *organisatsioon*, mille peamiseks eesmärgiks on *sotsiaalse lisandväärtuse loomine oma erinevatele sihtrühmadele*, kes on

kaasatud organisatsiooni tegevuste kujundamisse, ning mis on (vähemalt osaliselt) rahastatud läbi äri/ettevõtlustegevuse.

- *Sotsiaalne ettevõtja on indiviid, kellel on ettevõtlik vaim ning kes on pühendunud püsiva sotsiaalse väärtuse loomisele.*
- *Sotsiaalne ettevõtlus on igasugune indiviidide, organisatsioonide või võrgustike innovaatiline tegevus, mille eesmärk on sotsiaalse probleemi leevendamine või lahendamine.*

Kuna sotsiaalne ettevõtlus loob täiesti uusi sotsiaalse väärtuse ja süsteemse muutuse mõisteid ja muudab nende tähendust, siis avati ka sotsiaalse mõju ja SMH kontseptsioonid. Sotsiaalne mõju defineeriti kui tuvastatav erinevus inimeste käitumises, mis ilmneb organisatsiooni ja selle erinevate sihtrühmade vastastikmõjus. SE sotsiaalse mõju hindamine on protsess, mille eesmärgiks on välja selgitada, kui palju üks teatav sotsiaalne probleem on saanud leevendust ühe konkreetse organisatsiooni tegevuste tulemusel. Sotsiaalse mõju raamistiku kirjeldamine loob teoreetilise aluse hindamismudeli arendamiseks.

SMH seati palju uuritud tulemuslikkuse hindamise (*performance measurement*) konteksti. Autori hinnangul tuleb SMHst käsitleda kui tulemuslikkuse hindamise alamhulka sotsiaalse kasumi taotlusega organisatsioonides. Sotsiaalse kasumi taotlusega organisatsioonide mõju hindamise ja kasumit taotlevate organisatsioonide tulemuslikkuse hindamise peamised erinevused seisnevad:

- lühi- ja pikaajalise perspektiivi erinevas tajumises;
- organisatsiooni erinevates eesmärkides tulemuslikkuse ja jätkusuutlikkuse skaalal;
- erinevas mõju väärtusahela (sisend-väljund-tulem-mõjufookuses);
- erinevate huvigruppide erinevates huvides.

SMHI (kui tulemuslikkuse hindamise osal) saab kasutada tulemuslikkuse hindamisest teadaolevaid kriteeriume indikaatoritele. Indikaatorid peavad (1) olema seotud pikaajalise strateegiaga, (2) olema seotud erinevate huvigruppide koostöös (sisemised, välised, juhtkond, töötajad jne.), (3) olema paindlikud, (4) katma kvalitatiivsed ja kvantitatiivseid indikaatorid ja (5) võimaldama võrdlust.

## **Andmed ja uurimismetoodika**

Kvalitatiivne empiiriline uuring viidi läbi perioodil 2006–2010. Uuringu esimese etapi eesmärk oli sõnastada kriteeriumid SE SMHks, mis võimaldaks ehitada silda sotsiaalse ettevõtluse pooldajate ja oponentide erineva diskursuse vahel. Tugineti inglise keelsetel sotsiaalset ettevõtlust puudutavatel teadusartiklidel. Uuringu teises etapis analüüsiti, kas sihtrühm, kellele avaldatavat sotsiaalset mõju peab organisatsioon vajalikuks hinnata, on kooskõlas organisatsiooni strateegiliste eesmärkidega. Kooskõla analüüsiti nii mõju tasandi kui

sisemise-välimise fookuse raames. Järeldused tehti 33s Eesti sotsiaalse kasumi taotlusega organisatsioonis korraldatud töötubade ja intervjuude põhjal. Uuringu kolmandas etapis analüüsiti seniseid SMH praktikaid ja ärisektori praktikate rakendamise edukust kolmes Eesti haridusvaldkonna SEs juhtumianalüüsi põhjal. Uuringu viimases osas kaardistati viies Eesti SEs läbi viidud töötubade ja intervjuude alusel põhjused, miks ja miks mitte ning millal peavad juhid SMHst vajalikuks.

SMH kriteeriumide koostamiseks koguti empiirilisi andmeid erinevatest allikatest. Uuringu esimene osa põhines teadusartiklidel (mis analüüsisid SE mõju avalikest huvidest lähtuvalt), teine osa tugines avaliku sektori ja klassikalise kolmanda sektori organisatsioonidel, kolmas ja neljas osa baseerusid SEDel (kes küll Eesti näitel tegutsevad mittetulundusühingute või sihtasutuste vormis).

Kuna SMH temaatika arutamine nõuab küllaltki palju taustainfot ja samu termineid kasutatakse erinevas tähenduses, siis kvantitatiivseid meetodeid SMH kriteeriumide leidmiseks ei kasutatud. SMH kriteeriumid koostati erinevaid meetodeid kasutades ja erinevate meetoditega saadud tulemusi võrreldes. Kasutati juhtumianalüüsi, otsiti toetust eelnevalt püstitatud väidetele, kombineeriti põhistatud teooria ja Fairclough kriitilise diskursuse analüüsi lähenemise elemente. Analüüsi põhirõhk oli tekstide makrostruktuuridel: tõstatuvad teemad, teemade põhjuslikud seosed, kooskõla kehtiva diskursusega.

## Töös püstitatud uurimisküsimused, põhitulemused

Siin peatükis avatakse vastused viiele uurimisküsimusele, mis sõnastati teoreetilises peatükis ja mille pinnalt vastatakse töö eesmärgi esimesele poolele, milleks on SMH kriteeriumide kaardistamine.

*Uurimisküsimus 1: Millistele kriteeriumidele peab sotsiaalse ettevõtte mõju hindamise mudel vastama, et see oleks kasutatav sotsiaalse ettevõtluse pooldajate ja oponentide vahelises debatis?*

Tuvastati kolm peamist küsimust, millele tuleb vastata otsustamiseks, kas SED võiksid potentsiaalselt olla tõhusad sotsiaalsete probleemide leevendajad. Esiteks, kas SED on tänu väiksemale informatsiooni asümmeeriale ja uuenduslikele lahendustele mõjusamad. Teiseks, kas SED suudavad ületada kaheldavast jätkusuutlikkusest tulenevat vähest usaldust. Kolmandaks, kas SED suudavad säilitada kooskõla oma missiooniga hoolimata oma kahe-eesmärgilisest olemusest. Nendele küsimustele objektiivselt vastamine ei ole praegu võimalik empiirilise tõestuse puudumise või vähesuse tõttu. Argumentatsiooni kallutamiseks kas SE poolt või vastu peaks SMH:

- tulemused olema võrreldavad vähemalt sama valdkonna organisatsioonide lõikes;
- arvestama sihtrühma valikut ja kõiki organisatsiooni tegevustega kaasnevaid (ka negatiivseid) mõjusid valitud sihtrühmadele;

- analüüsima organisatsiooni sotsiaalset mõju ning mitte vaid jätkusuutlikkust ja väljundeid.

Uurimisküsimuse 2 eesmärgiks oli leida SMH standardiseerimise võimalus ja see oli sõnastatud järgnevalt: *Kas organisatsiooni strateegilised eesmärgid määravad ära sihtrühma, kellele avaldatavat sotsiaalset mõju tuleb sotsiaalse mõju hindamisel eelkõige arvestada?* Uurimisküsimust täpsustati kahe väite sõnastamisega.

*Väide 1. Sotsiaalset mõju tuleb hinnata selle sihtrühma tasandil, millele viitavad organisatsiooni strateegilised eesmärgid.* Sihtrühma ja strateegiliste eesmärkide tasandite kirjeldamiseks kasutati Lumley jt. (2005) jaotust.

*Väide 2. Sisemistele sihtgruppidele suunatud strateegiliste eesmärkidega organisatsioon peab hindama sisemistele sihtrühmadele avaldatavat mõju; analoogselt välistele sihtgruppidele muutust loovate strateegiliste eesmärkidega organisatsioon peaks keskenduma välistele sihtgruppidele avaldatava sotsiaalse mõju hindamisele.*

Uuringu tulemused ei toeta esimest väidet. Sõltumata organisatsiooni strateegiliste eesmärkide tasandist, peavad organisatsiooni juhid esmatähtsaks SMHst indiviidi tasandil. Teine väide sai kinnitust, sest sissepoole fokuseeritud organisatsioonide juhid peavad oluliseks sisemistele huvigruppidele avaldatud SMHst ja vastavalt väljapoole fokuseeritud organisatsioonide juhid välistele huvigruppidele avaldatava SMHst.

Analüüsima SEid kui ettevõtluse alamhulka sõnastati uurimisküsimus 3: *Mida on võimalik õppida sotsiaalsetes ettevõtetes äri sektori praktikaid rakendades?*

Alapeatükis 1.4 sõnastati äri sektori praktikates tulenevad kriteeriumid tulemuslikku hindamise süsteemile. Neid SMH kriteeriumeid uuritud organisatsioonid ei täitnud. Lühiajalised eesmärgid domineerisid, mõõdikud olid seatud väliste huvigruppide poolt ja ei olnud paindlikud, analüüsiti vaid kvantitatiivseid andmeid ja võrdlusandmeid ei olnud. Sarnasused tulemuslikkuse hindamise puudujääkides nii äri sektoris kui SEdes annab alust arvata, et äri sektori praktikaid on võimalik SEdes rakendada. Vähemalt järgnevad kriteeriumid peavad olema täidetud, et SMH oleks kooskõlas ka äri sektori tulemuslikkuse hindamise põhimõtetega. Hindamissüsteem:

- peab olema kooskõlas strateegiliste eesmärkidega, mistõttu esmajärjekorras peavad strateegilised eesmärgid olema selgelt sõnastatud;
- peab olema loodud sisemiste ja välimiste huvigruppide koostöös;
- ei saa sisaldada vaid kvantitatiivseid andmeid, kuigi neid on lihtsam mõõta ja (eksitavalt) tõlgendada.

Uurimaks SE valmisolekut SMH läbiviimiseks sõnastati uurimisküsimus 4: *Milliseid sotsiaalse mõju hindamise kriteeriume peavad oluliseks sotsiaalsete ettevõtete juhid?*

Rääkides oma senisest SMH kogemusest ja katsetustest, siis peamised rahulolematust põhjustavad aspektid puudutasid SEde praegust sisemist lähenemist tulemuste hindamisele ja vähest oksuteavet. SE väärtushinnanguid ja suhtumist tulemuslikkuse hindamisse saab loetleda järgmiselt:

- SE siseselt puudub kompetents finantsandmete hindamiseks, kuigi nõustatakse, et ärilised lähenemised (nagu näiteks konkurentsieelis, strateegiline juhtimine jms) on SE jaoks vajalikud ja kasutatavad;
- SE siseselt ei usaldata statistilisi tulemusi ja (isegi mitte enda poolt läbi viidud) uuringute tulemusi, kuna teatakse, mis võib tulemusi kallutada;
- SE siseselt väärtustatakse mõne hea näite pinnalt kinnitust leidnud usku töö kvaliteeti ja tulemuslikkusesse enam kui kvantitatiivseid andmeid;
- SE siseselt väärtustatakse organisatsiooni terviklikku keerukust ja organisatsioonilist ülesehitust (nt struktuuri), mille poolest organisatsioon on ainulaadne; seetõttu on keerukas leida alternatiivset organisatsiooni, millega ennast võrrelda.

Teoreetiliselt annab SMH mitmeid eeliseid, siis esineb praktikas mitmeid vastuväiteid, miks seda siiski mitte teha. Uurimisküsimuse 5 raames otsiti vastust küsimusele, *mis on peamised piirangud, miks sotsiaalsete ettevõtete juhid ei ole seni sotsiaalset mõju tõestatud hinnanud?*

Põhjustena, miks SE pole seni SMH korraldanud, toodi välja, et ilma võrdlusandmeteta ei ole võimalik hindamise tulemusi interpreteerida. Võrdlusandmete leidmine on aga keeruline ja ressursimahukas. Organisatsiooni siseselt eelistatakse kasutada varasmate perioodide andmeid, et tuvastada muutuseid enda tegevuse tõhususes. Kuid selliseid eelmiste perioodide andmeid ei ole varasemalt kogutud.

Senine kogemus tulemuslikkuse hindamise vallas on seotud finantsanalüüsiga, kuid SEde jaoks omab enam tähendust sotsiaalset mõju väljendav lugu või lood, mis puudutavad konkreetseid inimesi ja nende muutust organisatsiooni tegevuse tulemusel. Juhtide hinnangul ei arvesta kasutatavad hindamismeetodid organisatsiooni omapära ja tervikliku keerukusega. SE juhid hindasid oma organisatsioone ainulaadseteks, mis välistab võrdluse teiste sama valdkonna organisatsioonidega. Väliste huvigruppide jaoks on aga huvi eelkõige sarnaste organisatsioonide võrdlemine ja tulemuslikeima (mitte ainulaadseima) leidmine, mis on vastuolus SE sisemiste väärtustega.

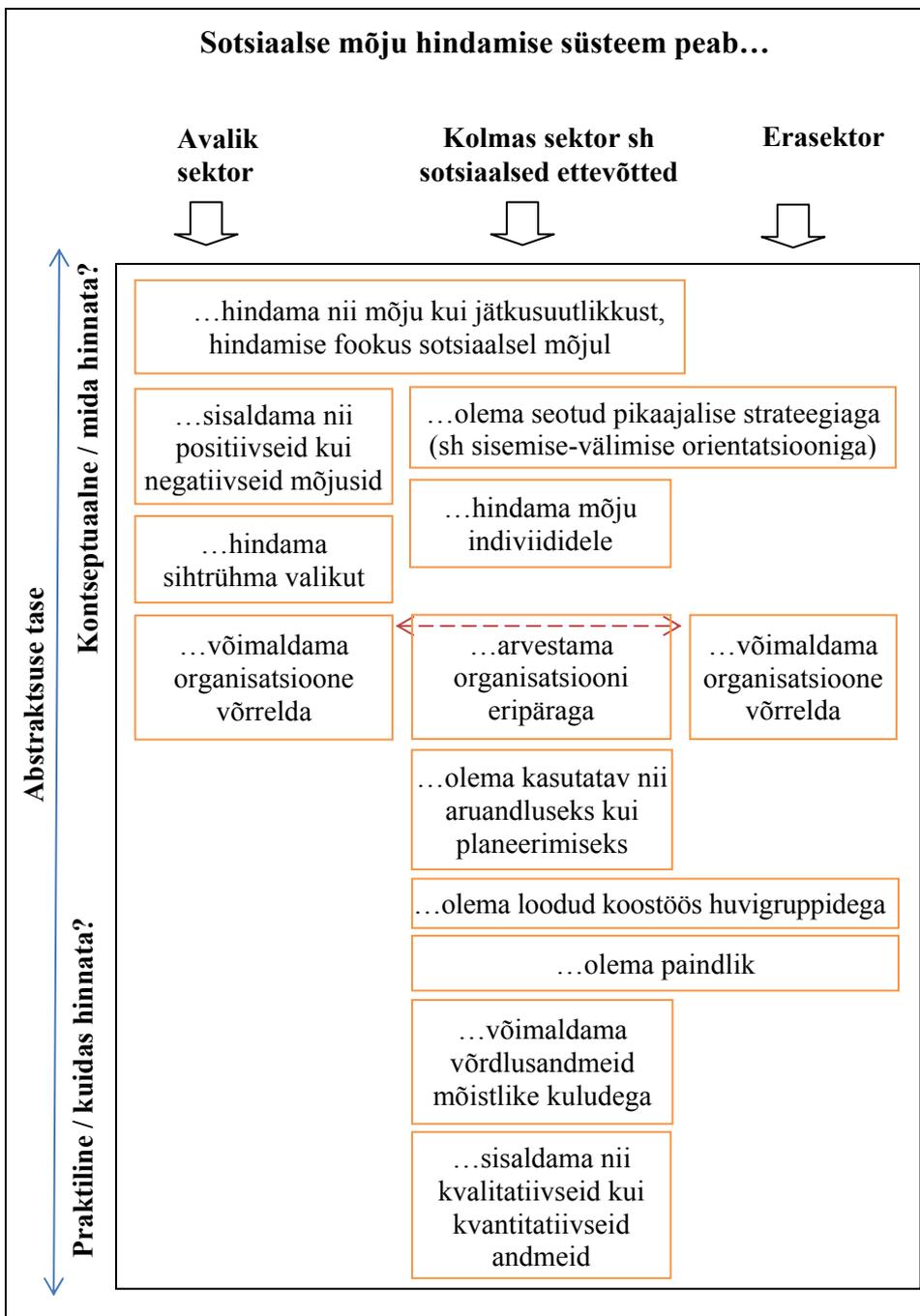
Tuvastati mitmetimõistmisi organisatsiooni juhtide poolt välistele huvigruppidele omistatud väärtustes ja väliste huvigruppide tegelikes väärtustes. Need sisaldasid endas kvalitatiivsete ja kvantitatiivsete andmete tasakaalustatud kasutamist; sotsiaalsete ja majandustulemuste tasakaalustatud kasutamist; SE ainulaadsust. SE juhid uskusid, et välised huvigrupid väärtustavad kvantitatiivseid andmeid enam kui kvalitatiivseid ja ei ole huvitatud numbrite sisuse ja tekkepõhjustesse süvenemisest kuigi numbreid on suhteliselt lihtne kallutada/moonutada. Usuti, kuid mitte täie kindlusega, et välised huvigrupid hindavad majandusküsimusi kõrgemalt kui sotsiaalseid teemasid. Samas ei tundnud

SE juhid end majandusküsimustes ja -arvutustes enesekindlalt. Need mitmeti-mõistmised on põhjustanud olukorra, kus ei suudeta leida sobivat osapoolt, kes hindamise läbi viiks: sisemised huvigrupid ei hinda ennast piisavalt kompetent-seks mõju hindamise vallas ning välised huvigrupid ei suuda seada sobivaid hindamisindikaatoreid, mis arvestaks organisatsiooni mitmetahulise ja ainu-laadse muutuste teooriaga.

Kuni sisemised ja välised huvigrupid ei ole jõudnud üksmeelele, mida hinnata, seni ei ole põhjust arvata, et sisemised huvigrupid viiksid läbi hinda-mise, millest oleks kasu ka välistele huvigruppidele. Praktiliselt väärtusliku SMH raamistik tuleb luua koostöös erinevate huvigruppidega. Kuni sisemised huvigrupid usuvad, et välised huvigrupid ei ole huvitatud õiglaste indikaatorite leidmisest organisatsiooni pikaajaliste eesmärkide saavutamise hindamiseks ja kuni välised huvigrupid ei nõua selliseid indikaatoreid, ei eksisteeri sellist nõud-luse ja pakkumise vahekorda, mis võimaldaks väärtusliku SMH läbi viimist.

Erinevatest uuringutest tulenevad kriteeriumid SE SMH on ülevaاتlikult toodud joonisel 33. Tulpades kajastuvad erinevate uuringu osade tulemused, mis kajastavad erinevate sektorite vaadet SMHle SEdes. Joonise vertikaaltelg ei olnud taotluslik. Sellest hoolimata ei ole üllatav, et SED pööravad praktikutena enam tähelepanu SMH rakenduslikele aspektidele, samas kui avalik huvi on pigem kontseptuaalne, väljendades aspekte, mida peab SMH võimaldama. SMH kriteeriumid koondatuna erinevate uurimisküsimuste tulemusena saab sõnastada järgnevalt. SMH peab:

- paigutama tulemuslikkuse hindamise raamistikku, kus sotsiaalse mõju ja jätkusuutlikkuse näitajaid analüüsitakse eraldi, kuid mille seoseid arves-tatakse;
- seostuma pikaajalise strateegiaga ja muutuma koos strateegia muutmisega;
- keskenduma mõju hindamisele indiviidi tasandil, sisaldama positiivsete ja negatiivsete mõjude hindamist, hindama sihtrühma valikut, võimaldama erinevate organisatsioonide võrdlust, kuid samaaegselt arvestama organi-satsiooni omapäraga;
- sisaldama indikaatoreid, mis on valitud sisemiste ja väliste huvigruppide koostöös; sel juhul on samad andmed kasutatavad nii sisemisteks vajadusteks kui aruandluseks, mis tõstab SMH säästlikkust;
- arvestama praktiliste asjaoludega: andmed ja võrdlusandmed peavad olema kogutavad mõistlike kuludega, hindamine peab sisaldama nii kvalitatiivseid kui kvantitatiivseid andmeid.



**Joonis 33.** Kriteeriumid sotsiaalse mõju hindamisele lähtuvalt erinevate huvigruppide vajadustest

## Soovitused sotsiaalse mõju hindamise tööriistade parendamiseks

Töö üheks eesmärgiks oli SMH tööriistade (p)arandamiseks soovituste tege-mine. Soovitused põhinevad kolme SMH tööriista näitel: sotsiaalne tulu inves-teeringult (*social return on investment* – SROI), Acumeni Fondi tulemuskaart (*Acumen Fund scorecard*) ja teemapõhine lähenemine. Käesolevas töös tehti kolm soovitust tööriistade täiustamiseks:

1. SMH tuleb paigutada konteksti (taustsüsteemi), tuginedes eesmärgile, mida organisatsioon püüab saavutada või probleemile, mida organisatsioon püüab leevendada ning peamine mõjutatav sihtrühm tuleb kaardistada selle taust-süsteemi raamistikus;
2. sotsiaalset mõju tuleb hinnata kolmedimensiooniliselt (analoogselt jõu-momendiga füüsikas), st arvesse tuleb võtta nii kvaliteeti (rakenduspunkti), kvantiteeti kui suunda.
3. sotsiaalse mõju hindamisel tuleb arvesse võtta kriitilist hulka mõju, mis on vajalik (jätkusuutlikku) sotsiaalse muutuse läbi viimiseks ning tuleb hinnata dünaamilisi muutusi taustsüsteemi raamistikus.

## Töö praktiline tähtsus, uuringu piirangud

Töö loob väärtust kahes uurimisvaldkonnas: SE perspektiivis ning sotsiaalse mõju hindamise perspektiivis, mida võib tulevaste uuringutega olla võimalik laiendada ka teistele sotsiaalse kasumi taotlusega ettevõtetele. Töö peamiste väärtustena võib välja tuua järgmist:

1. SMH põhimõttelise ülesehituse raamistiku loomine SE jaoks. SE SMH teemavaldkond on akadeemilise kirjanduse jaoks uus. Üksikud artiklid küll sellel teemal kirjutatud, kuid need on üksteisest sõltumatud ja jagatud tead-must pole veel praeguseks tekkinud. Autorile kättesaadavad artiklid ei ole sisaldanud mõju hindamise tausta avamist, mis võib olla põhjustatud artikli formaadist, mis pikemaid ülevaateid ei võimalda.
2. SMH sidumine tulemuslikkuse hindamise raamistikuga. Autori hinnangul keskenduvad nii ärisektori praktikate muudes sektorites rakendamise pool-dajad kui vastased liigselt majandusliku tulemuslikkuse hindamisele. Töös seotakse nii majanduslik kui sotsiaalne sooritus tervikuks ning näidatakse võrdlusena, millistele terviku osadele peaksid erinevad organisatsioonid kes-kenduma. Autoril ei ole seni olnud võimalik tutvuda ühegi sellist tervikut loova publikatsiooniga. Üheks põhjuseks võib jällegi olla teadusartikli formaat, mis pigem soodustab kitsa teemaga sügavuti minemist, kui erine-vate uurimisvaldkondade ühendamist tervikuks.
3. Töös kaardistati kriteeriumid, millele SMH peab vastama. Kriteeriumid põhinevad nii inglise keelsel kirjandusel kui Eesti praktikute hinnangutel. Senine SE SMHle keskenduv akadeemiline kirjandus on autori hinnangul

seni teadaolevale teorialele tuginedes koheselt asunud koostama SMH tööriistu. Sotsiaalkonstruktivistlikust vaatepunktist ei ole võimalik koostada SMH meetodit ilma praktikute seisukohti kaalumata. Hoolimata väikesest valimist ja vaid Eesti kontekstist, on käesolev doktoritöö esimeseks sammuks koondamaks nii teooriast kui praktikast tulenevaid põhimõtteid SMHks. Põhimõtted on eelduseks, mis võimaldavad järgmises etapis hakata arendama tööriistu, mis nendele põhimõtetele vastavad. Analoogselt raamatupidamisega on olulisem kinni pidada teatud põhimõtetest ja see, millist programmi või tehnikat valida, ei ole nii määrav.

Töö loob ka praktilist väärtust SE juhtide jaoks pakkudes kriteeriumid, millele organisatsiooni hindamismudelit koostades mõelda. Hindamismudelit koostades tuleb arvestada järgnevaid aspekte:

1. sisemiste huvigruppide hinnangud väliste huvigruppide väärtuste kohta ei pruugi paika pidada. See toob välja vajaduse kaasata välised huvigrupid SMH süsteemi loomisele, selle asemel, et neile välja pakkuda organisatsioonisiselt välja töötatud lahendusi. Ka vastupidine variant, kus väline osapool nõuab oma lahenduse kasutamist, ei ole tulemuslik.
2. SEd peavad paremini omandama konkurentsieelise põhimõtteid, mis võimaldavad neil paremini oma ainulaadsust välistele huvigruppidele turundada ja tutvustada.
3. SEde oluliseks osaks on jätkusuutlikkus, millest tuleneb kohustus olla edukas ka majandussoorituses, mis sisaldab endas majandusnäitajatest teadlik olemist. Kui kaaluda toetusvõimalusi SEde legitiimsuse ja jätkusuutlikkuse suurendamiseks, siis esmajärjekorras tasuks kaaluda SE juhtide arendamist nendes valdkondades.
4. kriteeriumide arenemisel sotsiaalse mõju aruandlusstandardiks, võimaldab see SMH säästlikumalt korraldada, kuna erinevate sihtrühmade jaoks ei ole vaja realiseerida erinevaid mõju hindamise süsteeme.

Kuid käesoleval töö on loomulikult ka piiranguid. Järeldused tuginevad väike- sele valimile, mida on sügavuti uuritud. Selline lähenemine võimaldab luua baasi, et sõnastada hüpoteese, mida on võimalik suurema valimi ja erinevate regioonide peal testida. Kvalitatiivsete uuringute korral on peamiseks küsimuseks, et tulemused ei ole tingitud valimi omapäradest. Sellele küsimusele ei ole lihtne vastata ja autori hinnangul tuleb tulemuste üldistamisse suhtuda pigem hüpoteetiliselt. Praegusel ajahetkel ei ole aga võimalik läbi viia kvantitatiivset uuringut. Seda peamiselt kahel põhjusel: esiteks on SE ja SMH piirjooned üsna ähmased, teiseks SE arv liialt väike, et arvestatavat kvantitatiivset uuringut korraldada.

Töös esitletakse erinevate osapoolte hinnanguid SMHle. Inglise keelses akadeemilises kirjanduses tõstatatud teemad ei pruugi õiglaselt kajastada väliste huvigruppide vajadusi. Kirjandus võib liigselt kirjeldada seda, mida välised huvigrupid *peaksid väärtustama* ja mitte seda, mida nad *praktikas väärtustavad*.

Avalikku huvi SMH vastu võiks täiendavalt kvalitatiivselt uurida Eesti avaliku sektori teenistujate seas.

Eestis on SED reeglina rajatud mittetulundusühingute või sihtasutustena, seetõttu on organisatsiooni defineerimine SEna hinnanguline. Juhtide hinnagud väliste huvigruppide väärtuste kohta võivad peegeldada pigem väliste huvigruppide ootuseid kolmanda sektori organisatsioonidele kui kitsamalt SEdele.

Käesolev töö on eestikeskne ja ei ole rakendatav teistsuguse kultuuri ja institutsionaalse taustaga regioonidele. Lisaks on sotsiaalsed ilmingud vastusena sotsiaalsetele tingimustele pidevas muutumises (Corbin and Strauss, 1990). SMH ei ole hetkel Eesti SEde (ega ka sotsiaalset kasumit taotlevate organisatsioonide) tegevuse loomulik osa. Kui juhtide teadmised ja oskusteave SMH vallas tõuseb, siis see võib muuta nende hinnanguid SMH kriteeriumide osas.

Töö kodeeriti ja andmeid analüüsiti vaid autori poolt. Seetõttu ei saa välis- tada teatavat subjektiivsust. 'Kvalitatiivne uuring hõlmab mitmeid versioone mitmetest reaalsustest' (Coffey and Atkinson, 1996: 163) ja töös esitletud tule- mused on kategoriseeritud vastavalt autori nägemusele reaalsusest.

## **Soovitused edasisteks uuringuteks**

Käesoleva töö pinnalt saab teha soovitusi edasisteks uuringuteks. Mõned olu- lisemad teemad on järgnevalt loetletud:

- Põhjused, miks SEde juhid eelistavad sõltumatult strateegilistest ees- märkidest hinnata sotsiaalset mõju indiviidi tasandil.
- Koostati kriteeriumid SMHks, kuid ei tehtud täpsemaid soovitusi SMH praktiliseks läbi viimiseks. Heateo SA on rakendamas (alates 2011. aastast) SMHst, mis on nimetatud kriteeriumidega kooskõlas. Nende rakendamise edu ja õppetunnid on eraldi uurimist väärt.
- Kui SMH rakendamine Heateo SA õnnestub, siis see loob hea võimaluse võrrelda nende portfelli kuuluvate ja mittekuuluvate organisatsioonide juhtimispraktikaid ja edukust.
- Kaardistati kriteeriumid SMHks SEdes. Tasub uurimist, kas need kriteeriu- mid on rakendatavad ka teistele sotsiaalset kasumit taotlevatele organi- satsioonidele (sh avaliku sektori organisatsioonidele). Analüüsida avaliku sektori huvi ja avalikku huvi SMH vastu, et veenduda selle kooskõlas või vastuolus akadeemilise kirjandusega.

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