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**Gordon Institute
of Business Science**
University of Pretoria

A framework for measuring the performance and sustainability of Social Enterprises

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A research project submitted to the Gordon Institute of Business Science,
University of Pretoria, in partial fulfilment of the requirements for the degree of
Master of Business Administration

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Abstract

Social Enterprises are becoming a key economic sector globally, which has led to increased interest from scholars, policymakers, investors, regulators and practitioners alike. There has however not been any consensus and consistency on how to measure their performance. This study aims to address these challenges by proposing a framework that could be used to measure the performance and sustainability of Social Enterprises.

The study was conducted by initially reviewing the literature, selecting the most relevant performance criteria from the literature to form the performance measurement framework and finally testing the framework through a qualitative descriptive study of a sample of eight Social Enterprises listed on the Social Stock Exchange in the United Kingdom for the period 1 January 2008 to 31 December 2012.

The research further proved that it is possible to measure the performance of Social Enterprises and to standardise those measurements for the sector. In this light the financial performance and sustainability criteria were found to provide meaningful results whereas the social performance criteria were prejudiced to an extent by the absence of standardised social reporting in the sector.

Further to this the research study found that: (1) the Social Enterprise sector yielded more stable but lower financial returns relative to the stock market, (2) there were no correlations between the sector, GDP and stock market, (3) the social aims have not been achieved in full and (4) the sector was becoming progressively unhealthier with time.



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Keywords

Framework

Social Enterprise

Financial performance

Social performance

Sustainability

Social stock exchange

Performance measurement



Declaration

I declare that this research project is my own work. It is submitted in partial fulfillment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

A handwritten signature in black ink, appearing to read "Itumeleng Mokhothu".

Itumeleng Mokhothu

29 January 2014



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1 Introduction to research problem

1.1 Need for the research

In the aftermath of the recent global financial crisis the dominant capitalistic economic system worldwide has been criticised by many quarters for the central role it played in enabling the economic behaviour and activities that contributed to the crisis. The crisis has been widely regarded as the most devastating since the Great Depression and the consequences of which will continue to be felt for many years to come.

Innovative structural solutions have been sought by many in an effort to address the abnormal levels of unemployment, deep poverty and inequality. Some entrepreneurs, known as Social Entrepreneurs, are changing the way business is done by changing lives for the better while still generating profits. According to the International Labour Organisation (2011), Social Enterprises represent new growth opportunities that offer attractive win-win solutions for all.

Recently, acclaimed African businessman, Tony Elumelu, advocated that business should play a leading role in solving many of Africa's most pressing challenges. He coined the term Africapitalism, to describe a private sector commitment to the economic transformation of the continent through long term investments that create economic prosperity and social wealth.

1.2 Why this topic is important

Mair and Marti (2006) wrote that one of the greatest challenges for individuals in the social entrepreneurship field is how to accurately assess social impact and performance. They suggested further research needed to be conducted in order to develop generally-accepted measures of social impact as it forms an important part of the performance of Social Enterprises.

Yunus, Moingeon and Lehmann-Ortega (2010) argued that there will be a growing interest in developing social business models in future and therefore further studies need to be conducted to gain an adequate understanding of how their performance should be assessed.

Numerous scholars and practitioners have written on how performance in Social Enterprises should be measured and managed. Unlike the case of Commercial Enterprises, where performance is measured in terms of financial performance, there has been little consensus on the standard measures that can be used in Social Enterprises (Certo & Miller, 2008).

Amongst others, Nicholls(2009), Bagnoli and Megali (2011), Meadows and Pike(2010), Porter and Kramer (2011), Dawans and Alter (2009), Emerson and Cabaj (2000)and the Wharton Societal Wealth Program have made varying contributions in this field.

1.3 Relevance of Social Enterprises

Social Enterprises are becoming a key economic sector and investors are increasingly looking at them as an alternative as they offer more than just financial returns. The scale and impact offered by Social Enterprises are becoming more attractive to all stakeholders who want to contribute to responsible business practice.

Social Enterprises have received policy recognition in many countries since the late 1990s. In this regard, an office of Social Innovation and Civic Participation has been opened within the White House in the United States of America and an Office for Civil Society has been opened within the Department of Trade and Industry in England (Teasdale, 2012).

A number of Social Stock Exchanges have emerged across the world in recent years, such as the South African Social Investment Exchange (SASIX) in South Africa and the Social Stock Exchange (SSE) in the United Kingdom which was launched in 2013.

Further to that numerous reports have been written about the important role that Social Enterprises are playing in the economy, such as:

- The work of Prabhu, Haigh and Symonds (2010) shows that there were 62,000 Social Enterprises in the United Kingdom in 2007 which contributed 24 billion pounds per annum to their economy and employed 800,000 people;
- The International Labour Organisation (as cited in Yorke, 2012), believe that Social Enterprises can provide new growth opportunities that can

benefit a wider pool of people through access to employment and driving better service delivery.

1.4 Research aim

The aim of the research was to propose a framework that could be used to measure the performance and sustainability of Social Enterprises taking business models into account. As interest in the sector grows, so too should the scientific, diagnostic and analytical tools used in the sector.

This research will allow for a more methodical analysis of the impact of Social Enterprises, for more relevant benchmarking of financial indicators both within the sector and against other sectors and lay a platform that stakeholders can utilise to assess whether individual Social Enterprises are likely to be present in future and continue to meet their needs.

By researching how Social Enterprises listed on the Social Stock Exchange in the United Kingdom fare in the above-stated measures over a period of time, this study suggests an optimal framework for measuring the performance and sustainability of Social Enterprises. The framework can be used within the sector in any part of the world.

1.5 Conclusion

This chapter laid the foundation for the need for further research in the Social Enterprise field through an analysis of the literature, it described the role that Social Enterprises play in the economy and highlighted some ways that investors and businesses can contribute to the sector.



This research can be used by entrepreneurs when they develop or reinvigorate their business models, by regulators when they set policies that affect how Social Enterprises are structured and operate, by investors who are looking to make investment decisions as well as by scholars who are building further knowledge in the field.

The following chapter explores the literature on Social Enterprises, performance, sustainability and business models.

2 Literature Review

2.1 Introduction

This chapter begins with a brief description of Social Enterprises and summarises a selection of the legal structures adopted in Europe for this entity type before exploring the literature on performance and sustainability. It concludes by looking at the relationship that business models have with the performance and sustainability of enterprises.

2.1.1 Understanding the Social Enterprise

There is no precise and consistent definition and description of Social Enterprises. Kerlin (2010) argued that this conceptual disagreement may be explained by Social Enterprises having different meanings in different parts of the world.

Scholars such as Leadbeater (1997) and Grenier (2002) advocated frame-breaking and innovation in the social sector as the key defining characteristics. Dart (2004) focused primarily on the outcomes that client groups and communities derive while Emerson and Twersky (1996) argued for activities that are motivated jointly by social and financial aims.

In more recent times Dees (2003), Ashoka and the Schwab Foundation have focused on innovation and impact, Williams (2007) on community enterprises that address social problems and Harding (2010) described them as businesses with a social conscience.



According to the EMES European Research Network (as cited in Galera & Borzaga, 2009), a Social Enterprise is a self-sustainable business that trades in goods or services, whose primary objective is to serve society. The activities of the enterprise need to be carried out in an entrepreneurial manner and a balance between the economic and social dimensions needs to be maintained. Figure 1 below depicts this definition diagrammatically.

Figure 1. Social business



(Source: Yunus et al, 2010)

After assessing numerous definitions of Social Enterprises, Peattie and Morley (2008) concluded that the only defining characteristics central to all the definitions are the salience of social aims and the necessity of trading. As a result, for the purposes of this paper, this description of a market-driven enterprise that seeks to maximise social value was adopted.

Haugh (2005) stated that the Social Enterprise sector is under-researched and the value it contributes to society is not known as no robust evidence has been provided.

Bagnoli and Megali (2011) argued that the economic and social dimensions of Social Enterprises should be measured and analysed in order to determine their level of success.

This paper seeks to address these points, highlighting past performance and future sustainability through a business analysis tool.

2.1.2 Understanding global legal structures for Social Enterprises

The legal structure of an enterprise can materially impact its ability to raise debt and equity, which could affect its revenue-generating strategy and ultimately its sustainability (Yorke, 2012).

As a result, Coates and Van Opstal (2009) asserted that any legal framework that aims to serve Social Enterprises should ensure:

- that the pursuit of social aims is possible;
- the pursuit of economic activities in an efficient manner;
- the existence of a sound governance structure;
- the safeguarding of the autonomy of the enterprises.

There are various legal structures that govern Social Enterprises globally. Table 1 below compares some of the legal structures used in Europe.

Table 1. Social Enterprises in Europe

Country	Name	Defined by	Social reporting required	Model		
				Co-operative	Company	Open form
Belgium	Social Purpose Company	Self	Yes	-	Yes	-
Finland	Social Enterprise	Law	No	-	-	Yes
France	Collective Interest Co-operative Society	Law	Yes	Yes	-	-
Italy	Social Enterprise	Law	Yes	-	-	Yes
Poland	Social Co-operative	Law	Yes	Yes	-	-
Portugal	Social Solidarity Co-operative	Law	No	Yes	-	-
UK	Community Interest Company	Public regulator	Yes	-	Yes	-

Source (Adapted from Coates & Van Opstal, 2009; Roelants, 2009; OECD, 2009).

Steinman (2010) found no specific legal structure for Social Enterprises in South Africa and Social Enterprise as a construct is not defined in any legislation.

2.2 Performance

2.2.1 Understanding performance

Pestoff (1998) suggested that performance is a multifaceted, highly dynamic and ambiguous concept which is further complicated by different sector and stakeholder perspectives. In the Social Enterprise sector this complication is further heightened as a result of the description, measurement and reporting of social value being intangible and difficult to quantify (Dees & Anderson, 2003). The performance of Social Enterprises

depends on how the inputs of the enterprise interact and influence each other in the process of working towards the common goal of social impact (Dawans & Alter, 2009). Therefore, profits as a single measurement for success, cannot work because other output dimensions not captured by profit measures are equally as important to Social Enterprises (Speckbacher, 2003).

2.2.2 Performance measurement

Paton (2003) summarised the reasons usually given for performance measurement as:

- measurements reduce ambiguity and misunderstandings when they are explicitly defined and the expectations set;
- measurements can simplify complex situations and enable their users to identify deficiencies;
- measurements enhance analysis and decision making as they are based on facts;
- measurements allow for comparisons over time and between different units.

Kennerley and Neeley (2002) pointed out that performance measurements need to exhibit the following attributes in order to add the greatest value:

- they need to be valid and reliable;
- they need to be relatively few in number;
- they need to be comprehensive in covering all dimensions of performance;

- they need to be acceptable, credible and meaningful to a wide range of constituencies;
- they need to allow for aggregation and comparisons;
- they need to be relatively stable in order to allow for tracking over time;
- they need to assist in diagnosing and explaining the source of varied performance;
- they need to be predictable and not unduly costly.

Nicholls (2009) argued that the social sector has mostly operated in an environment without sufficient performance measurements as a result of not having any standardised tools that can be used for comparisons. The reasons he found for this deficiency are as follows:

- There is no consensus on what needs to be measured and reported as the relationship between inputs and outputs of social enterprises is often difficult to establish;
- There is no consensus on how to measure those outputs as the main objective of the business is to serve society and this objective can vary substantially per business so benchmarking and comparability are often low;
- There is no consensus on why this measurement and reporting need to happen.

Certo and Miller (2008) wrote that this deficiency does not exist in Commercial Enterprises as their objectives are primarily private gains. Furthermore, these enterprises have standardised financial measures,

which are widely recognised and accepted by entrepreneurs and investors alike.

The consequences of not having these performance measurements is that new participants in the sector are discouraged from entering as opportunities to create value in the sector are not reported and any inefficient or failing enterprises are allowed to continue participating in the sector without their stakeholders driving their performance to new heights (Nicholls, 2009). If there are many such inefficient or failing enterprises, the sector as a whole can be negatively impacted.

According to Waddock and Graves (1997), managers are coming under increasing pressure to allocate scarce resources in a competitive environment as a result of the greater influence that social issues have on management decisions. This further suggests that measuring the performance and impact of resources is a strategic imperative. It can therefore be deduced that business models that place emphasis on their best performing activities or resources will perform better than those that do not.

Ritchie and Kolodinsky (2003) stressed the importance of measuring profitability and efficiency in Social Enterprises even though they are not mainly profit-driven. Further to the Social Enterprise definition provided earlier, the above two measurements are critical to the sustainability of the enterprises and they should therefore form a part of any metrics portfolio.

Dawans and Alter (2009) stated that when Social Enterprises are able to measure and improve the degree of impact they achieve, they can take

steps to improve their performance and subsequently increase their effectiveness and efficiency.

Orlitzki, Schmidt and Rynes (2003) took this further in their integrated, quantitative study on Corporate Social Performance (CSP) and Corporate Financial Performance (CFP). Broadly, they found that there was a positive, bidirectional relationship between CSP and CFP, therefore enterprises that performed better financially, spent more on their social activities and companies that were seen to be performing better socially, benefited financially as their reputations were enhanced.

2.2.3 Performance measurement methodologies

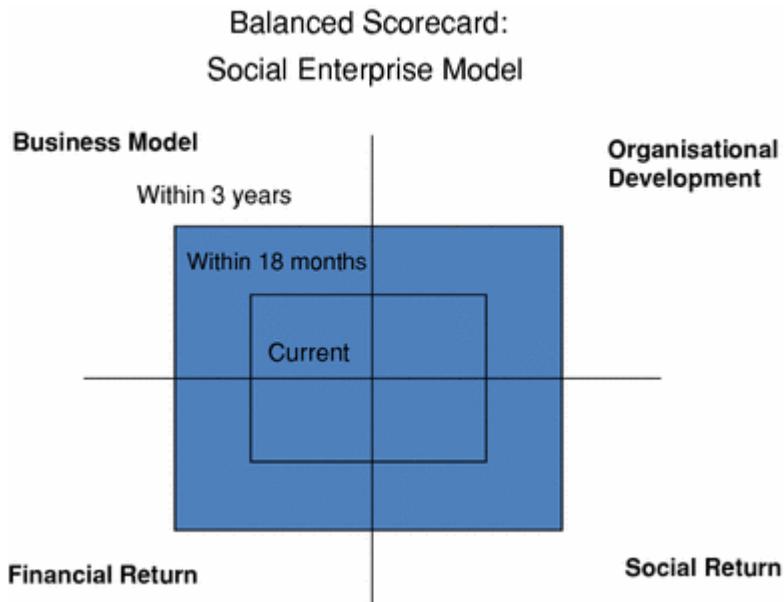
1. Emerson and Cabaj (2000) proposed the concept of Social Return on Investment (SROI), which is an estimation of the socio-economic value of an enterprise. Socio-economic value is defined as the cost saving and/or increase in income resulting from the work of a Social Enterprise. It is calculated by adding the present value of the future enterprise net income to the present value of the combined future net savings to society. This sum can then be compared to the initial investment to determine if value is created or diminished.

SROI was initially created for use in the non-profit sector and for the analysis of value creation at enterprise level. SROI can apply to Social Enterprises and the analysis of individual projects, minor adjustments. The authors advised practitioners to use SROI in conjunction with other tools as it does not cover all benefits and costs.

2. Meadows and Pike (2010) proposed the use of a Social Enterprise Scorecard (SESC) which is based on the Balanced Scorecard that was introduced by Kaplan and Norton (1996) and modified to suit the relevant set of stakeholders. The SESC, which is depicted in Figure 2 below, has four performance measurements and incorporates a time perspective.

The performance measurements are: business model, financial return, organisational development and SROI. The time perspective links the current situation to the medium and long term for ease of planning and for tracking actions and strategy.

Figure 2. Balanced scorecard: Social Enterprise model



Source: Meadows & Pike, 2010, p. 136

3. Nicholls (2009) proposed the use of Blended Value Accounting, which is a combination of the financial and social outputs and impacts that enterprises yield.

The measurements include assessment of the annual audited financial statements, SROI, level of compliance with legislation/s governing Social Enterprises, enhanced social audits which measure the degree to which core objectives have been met and lastly, if the level of reporting that is required by the authorities has been met through a Trustee's Report.

The reliance on both qualitative and quantitative measures as well as the levels of reporting required ensures that the needs of the different stakeholders are addressed.

4. Bagnoli and Megali (2011) proposed that the following three reference fields need to be assessed: economic and financial performance which track financial accountability; social effectiveness measured by the inputs, outputs, outcomes and impact of the Social Enterprise; and institutional legitimacy which assesses the degree to which the enterprise has followed its mandate and legal frameworks.

2.3 Understanding organisational sustainability

At the organisational level, a sustainable business is one that 'meets the needs of its stakeholders without compromising its ability to also meet their needs in the future (Hockerts, 1999, p. 32).

Moizer and Tracey (2010) described sustainability of SEs as a function of three causal influences, namely: revenue generation, a recognisable social need and the perceived organisational legitimacy. They argued that if any of these influences reduce to zero the enterprise is no longer sustainable.

According to Foster and Bradach (2005), organisational sustainability poses particular challenges for SEs, as they need to build legitimacy among stakeholders who are concerned with creating economic and social values.

As a result, the sustainability of SEs may depend on how well leaders understand these challenges and subsequently how they apportion enterprise resources in an effort to achieve the above-mentioned value (Pharoah, Fisher, & Scott, 2004).

2.4 Understanding business models

Successful enterprises are driven by a combination of inputs and factors. According to Osterwalder and Pigneur (2011), these inputs and factors can be described through the business model as “a business model describes the rationale of how an organisation creates, delivers and captures value” (p. 62). They believe that every organisation has one, even if they do not define it as such.

2.4.1 The link between business models, performance and sustainability

Zott, Amit and Massa (2011) stated that scholars and practitioners are increasingly reaching consensus on the salience of business model innovation in the performance of enterprises.

Pohle and Chapman (2006) found that businesses that undertook business model innovation grew their operating margins faster than those that focused on other forms of innovation and it assisted them to become more flexible in their strategy while also reducing their costs.

It is for these reasons that the following section looks at the literature on business models.

2.5 Business models

Zott et al (2011) conducted a comprehensive review of the business model literature that has been published in leading academic and business journals during the period January 1975 to December 2009. Broadly their study found that some of the main areas of prior research were on, amongst others, value creation, firm performance and innovation. They went on to argue that these main areas are interrelated and can be enhanced to the benefit of all stakeholders through focusing on business model innovation.

Social entrepreneurship provides such an opportunity as in recent times it has contributed to value creation in previously unchartered sectors through

“combining novel types of resources in new ways” (Seelos & Mair, 2005, p. 242).

The need for Social Enterprises to trade in order to generate income and become self-sustainable necessitates that entrepreneurs adopt more innovative business models (Di Domenico, Haugh, & Tracey, 2010). This need for innovation becomes even more important in environments which have scarce resources such as funding, human capital and access to markets as Commercial Enterprises are also in competition for them.

In the Resource-Based View (RBV) perspective, Meyskens, Robb-Post, Stamp, Carsrud and Reynolds (2010) stated that this scarcity of resources is a reality for all enterprises and it impacts their ability to reach their goals and create social value. They went on to state that the way enterprises manage these resources and how they flow internally will impact the efficiency of the enterprise. Even though RBV is internally focused, it is important to understand as the outputs of enterprises are dependent on the inputs.

In an attempt to address this resource scarcity, Dahan, Doh, Oetzel and Yaziji (2010) argued that collaborative business models can enhance economic and social value creation when enterprises share their scarce resources. These combined resources can be used in the combined business model as well as by the enterprises in their individual business models.

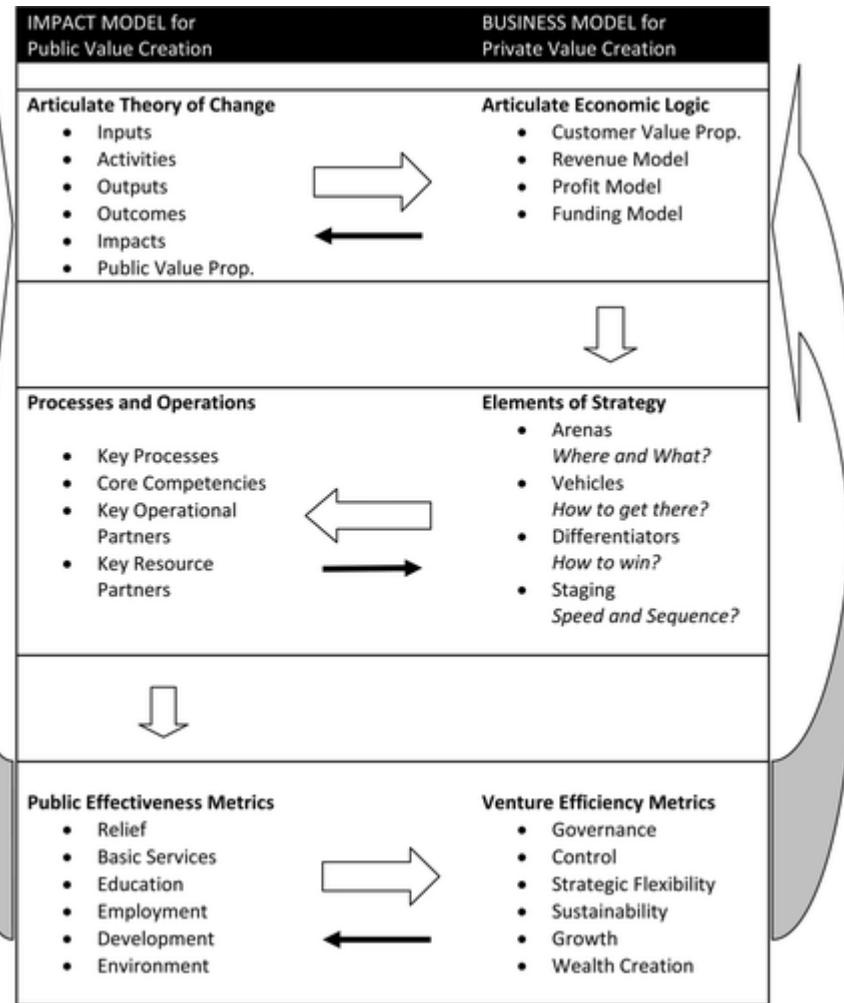
Co-creation provides another avenue for an enterprise to optimise its resources. The authors suggested that this business model may even yield

greater results as enterprises work together holistically instead of merely collaborating in an effort to address deficiency in their own value chain.

In this context, Figure 3 below has been adapted to depict how collaboration or co-creation of business models can yield both economic and social value. Importantly, this model suggests that enterprises can learn from each other's experimentation and they can immediately incorporate those learnings into their own strategy. It further suggests that the performance metrics are analysed and the key learnings are fed back into the formulation of the value proposition stage.



Figure 3. Hybrid business model



(Source: Florin & Schmidt, 2011, p. 171)

2.6 Conclusion

A vast majority of the literature reviewed points to the need for further research into Social Enterprises. Regardless of the fact that Social

Enterprises are not a new concept, there are many different definitions and there is little consensus on their legal structures globally.

It is widely acknowledged that the social sector operates in an environment without adequate measurements of performance and that these measurements need to incorporate all the output dimensions that are central to the existence of the Social Enterprise, not just financial indicators. Further to this, there are numerous performance measurement methodologies proposed in the literature, but none of them have been widely accepted and used by scholars and practitioners alike and none of them incorporate a measurement of sustainability. The business models adopted by enterprises ultimately contribute to their performance, especially within environments of scarce resources so they need to be assessed accordingly.

Stakeholders may have different, sometimes opposing, needs which could drastically impact the sustainability of Social Enterprise in the absence of proactive leadership. It is imperative to understand the evolution of these stakeholder needs over time if one is to make an analysis of future prospects.

The following chapter outlines the specific research questions that framed this research.

3 Research questions

3.1 Introduction

The previous section reviewed the theory on Social Enterprise, performance measurement, organisational sustainability and business models. The key themes that surfaced were the numerous legal frameworks used globally and performance measurement methodologies, both of which proved that there is little consent and consistency.

This section outlines the four research questions that were tested in the research.

3.2 Research questions

3.2.2 Research question 1

How do Social Enterprises perform financially compared to the stock market index over time?

3.2.3 Research question 2

How do Social Enterprises perform financially compared to the economic growth of the country (GDP) over time?



3.2.4 Research question 3

Do Social Enterprises achieve their social goals and do their identified social needs still remain?

3.2.5 Research question 4

How exposed are Social Enterprise to the risk of bankruptcy?

4 Research methodology

4.1 Introduction

The previous chapter outlined the purpose of this research by stating the research questions. This section discusses the research methodology that was utilised and details the limitations thereof.

The first and second research questions were answered by gathering financial information from individual Social Enterprises, the FTSE 100 index performance from the London Stock Exchange and Gross Domestic Product data for the United Kingdom from the World Bank.

The third research question was answered by gathering information from the mission statements of the individual Social Enterprises as well as from the impact reports and the director's reports.

The final research question was answered by gathering information from individual Social Enterprises and computing Altman Z-Scores for each one.

4.2 Research design

The aim of the study was to determine an appropriate framework that can be used to measure the performance and sustainability of Social Enterprises.

The framework consisted of a portfolio of three metrics, namely, financial returns, social returns and sustainability.

The design of this study was quantitative in nature and made use of a descriptive research method.

Saunders and Lewis (2012) stated that descriptive research is appropriate when collecting measurable, quantifiable data and it is useful when a researcher is attempting to describe a situation accurately.

4.3 Population

The population consists of existing Social Enterprises that were operational at the time of the study and met the following criteria:

- Pursue revenue generation through trade
- Aim to achieve specific social goals
- Have a clearly defined treatment population (social beneficiaries)
- Have an accessible record of historical information spanning a minimum of three years

The reasons for limiting the study to the above population were informed by practicality. The researcher had limited resources to pursue the study and was required to do so in a relatively short period of time.

4.4 Unit of analysis

The unit of analysis was individual Social Enterprises.

4.5 Sampling

4.5.1 Sample screening

Initially an internet search was conducted for a directory of Social Enterprises that operate in the same geography using the words “Social enterprise directory” and “Social business directory”. The most relevant finding was Social Enterprise UK (www.socialenterprise.org.uk) which has a directory of hundreds of members.

Then the databases of Ashoka (www.ashoka.org) and Skoll Foundation (www.skollfoundation.org) were assessed.

Finally, independent public Social Stock Exchanges that were operational at the time of the study were assessed for suitability and fit of the Social Enterprises they have listed. This included the South African Social Investment Exchange (SASIX), Kenya Social Investment Exchange (KSIX), Impact Exchange and the Social Stock Exchange (SSE) in the United Kingdom.

4.5.2 Social Enterprises excluded as they do not pursue revenue generation through trade:

- The 57 projects (entities) listed on SASIX
- The entities listed on the Skoll Foundation database as they only deal with non-profit organisations



- ITM Power PLC that is listed on SSE as the majority of its income is in the form of grants
- Scope listed on SSE

4.5.3 Social Enterprises excluded as they do not do have an accessible record of historical information spanning a minimum of three years:

- The entities listed on the Social Enterprise UK database
- The entities listed on KSIX
- The entities listed on Impact Exchange
- The entities listed on the Ashoka database
- Places for People Homes Ltd listed on SSE

4.5.4 Social Enterprises excluded for other reasons:

- Primary Health Properties PLC listed on SSE as the composition of its financial statements is significantly different to any of the other entities and it is significantly larger than any of the other entities in size.

4.5.5 Sampling technique

The resulting sample came from a selection of Social Enterprises listed on SSE that met the population selection criteria listed above.

The reasons for selecting stock exchanges are that they provide large quantities of current and historical data on the chosen population, they are accessible by the general public and they require uniform disclosure for all enterprises that are listed on them. This allowed the researcher to gather the necessary data and enabled for easier benchmarking and analysis of data.

The researcher had intended on adopting a simple random sampling technique to select the sample but due to the relatively small number of Social Enterprises listed on SSE, the researcher made use of all of the qualifying entities.

4.5.6 Sample size

The sample size was determined by the number of Social Enterprises listed on SSE that met the selection criteria, which amounted to eight at the time of the study.

According to Nicholls (2010), the United Kingdom has the most developed institutional support structure for Social Enterprises in the world. Further to that, as highlighted in Chapter 2, the United Kingdom possesses the only legal structure of the European countries described that is defined by a public regulator, requires social disclosure and where the Social Enterprises adopt a company model. It therefore provided the ideal location to conduct research in this field.

4.6 Altman Z-Score

Altman Z-Scores were manually calculated using the annual financial statements from the individual Social Enterprise records.

The model was developed in 1968 and has since become a popular tool used to analyse the health of a company and to determine the likelihood of bankruptcy in following two years (Narayanan, 2010).

For non-manufacturing (general use) companies the following equation is used to calculate the Z-Score:

- $Z = 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4$

The formula relies on the following inputs:

- $X1 = \text{Working Capital} / \text{Total Assets}$
- $X2 = \text{Retained Earnings} / \text{Total Assets}$
- $X3 = \text{EBIT} / \text{Total Assets}$
- $X4 = \text{Market Value of Equity} / \text{Total Liabilities}$

The resulting Z-Scores can then be interpreted as follows:

- $Z > 2.6 = \text{Healthy}$
- $1.1 < Z > 2.6 = \text{Grey Zone}$
- $Z < 1.1 = \text{Unhealthy}$

The higher the Z-Score the healthier the company and therefore the lower the risk of bankruptcy. Conversely, the lower the Z-Score the higher the risk of bankruptcy.

It is advisable to calculate Z-Scores over extended periods of time and to track the annual percentage changes in order to determine the severity of the risk of bankruptcy (Altman, 1968).

4.7 Research instrument

4.7.1 Design

The instrument that was used was multiple source secondary data in the form of a time series.

Data was gathered from a variety of sources; including the financial and company records from the enterprises as well as financial and company records from the Stock Exchanges.

The design of the performance measurement tool is based on the rules and guidelines provided by Globerson (1985), namely:

- the performance criteria must be selected from the objectives of the enterprise;
- the performance criteria must make it possible and practical to compare enterprises that are in the same line of business;
- the purpose of each performance criterion must be clear;
- data collection and the methods used in calculating the performance criteria must be clearly defined;

- ratios are preferred to absolute numbers;
- the performance criteria must be under the control of the enterprise unit that is being evaluated;
- the performance criteria should be selected in discussion with the people involved;
- objective performance criteria are preferred to subjective ones.

In light of this, the performance criteria chosen are:

- **Financial performance** through the computation and measurement of the total return yielded;
- **Social performance** through the measurement of the degree to which the mission has been achieved;
- **Sustainability** through the computation and analysis of the Altman Z-Score.

4.8 Data analysis

In analysing the data descriptive statistical tools were used. Such tools are useful when analysing categoric and numeric quantitative data.

The study looked at the means, standard deviations, percentages and comparables for each Social Enterprise. It also compared financial returns to normal profit-seeking enterprises which are listed in the same geographic locations as the Social Enterprises by computing the total return achieved by each Social Enterprise annually.

Total return = income return + capital return



$$= [\text{income} + (\text{P}_1 - \text{P}_0)] / \text{P}_0$$

*Where P₀ is the initial stock price and P₁ is the closing stock price.

A market-capitalisation weighted Social Enterprise index was formulated for the sample used in order to better assess the performance of the sector relative to the FTSE 100 index. This weighting method was derived from the FTSE 100 index on the London Stock Exchange.

4.9 Research limitations

Making use of secondary data relies on unknown collection methods which may not be suitable or accurate.

The research is only applicable to the sample period and using the SSE as the market.

The sample was small and can therefore not be representative of the global population of Social Enterprises.

The publication of the social performance outcomes relies on information provided by the enterprises themselves and there was no requirement for an external audit report. This can result in biased data.

Although the Altman Z-Score is a widely used measurement of financial distress, it would have been more relevant to use an industry-specific one for Social Enterprises instead of the generic non-manufacturing measure.

4.10 Conclusion

This chapter defined the methodology used by providing details of the research design, population, unit of analysis, sample, the research instrument, how the data was analysed and limitations of research.

The following chapter will provide the findings of the research.

5 Results

5.1 Introduction

The previous chapter detailed the research methodology used to gather the data and described the process through which the research questions were answered.

This chapter provides the findings of the research that resulted from following the methodology described in the previous chapter.

5.2 Descriptive statistics

The below table provides a summary of the descriptive statistics for the Social Enterprises that formed part of the study. These will form the basis of the presentation of the research findings.

Table 2. Descriptive statistics

Enterprise	Total return (%)								
	Mean	Median	Standard deviation	First quartile	Third quartile	Skewness	Kurtosis	Min	Max
Accsys	-0.17	-0.28	0.36	-0.30	0.06	0.21	-0.65	0.63	0.31
Ashley	2.09	2.17	3.00	-0.36	2.46	1.10	1.18	0.63	6.84
Assura	0.83	0.00	1.54	-0.01	0.94	1.81	3.18	0.26	3.47
Good energy	1.10	1.67	1.01	0.00	1.83	-0.55	-3.24	0.00	2.00
Halo	1.61	0.00	4.23	-0.45	0.00	2.21	4.91	0.66	9.15
Straight	4.42	3.20	5.18	1.76	3.55	1.87	3.82	0.20	13.37
V22	-0.20	0.00	0.36	-0.50	0.03	-0.65	-2.51	0.67	0.13
ValiRx	0.18	-0.61	1.74	-0.69	-0.16	2.10	4.49	0.91	3.25

5.2.1 Normality test

The resulting sample had too few data points that would have enabled the researcher to perform statistical tests to assess the nature of the distribution. The descriptive statistics above suggest that the majority of the data does not follow a normal distribution but there was not sufficient information to reach a significant conclusion.

5.3 Financial performance

The financial performance metric provides the results of the computation of the total return as defined in section 4.8 of the previous chapter.

Table 3. Total return

	Total return (%)				
	2008	2009	2010	2011	2012
GDP	(0.97)	(3.97)	1.80	0.99	0.27
Accsys	0.31	(0.30)	(0.28)	(0.63)	0.06
Ashley	2.46	2.17	6.84	(0.63)	(0.36)
Assura	-	3.47	0.94	(0.01)	(0.26)
Good energy	-	-	1.67	1.83	2.00
Halo	-	-	9.15	(0.66)	(0.45)
Straight	3.20	13.37	3.55	1.76	0.20
V22	(0.50)	0.13	-	(0.67)	0.03
ValiRx	(0.61)	(0.69)	(0.91)	3.25	(0.16)

Social Enterprises and Gross Domestic Product

The above table is well depicted by way of graphs that compare the Gross Domestic Product of the United Kingdom to the total return achieved by the individual Social Enterprises.

Figure 4. GDP vs Accsys

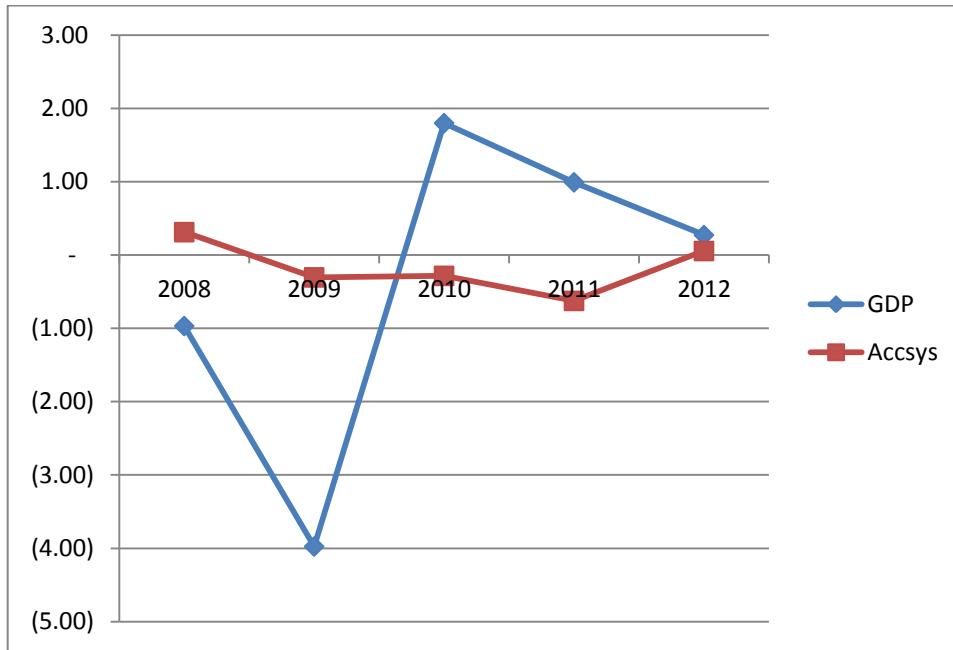




Figure 5. GDP vs Ashley

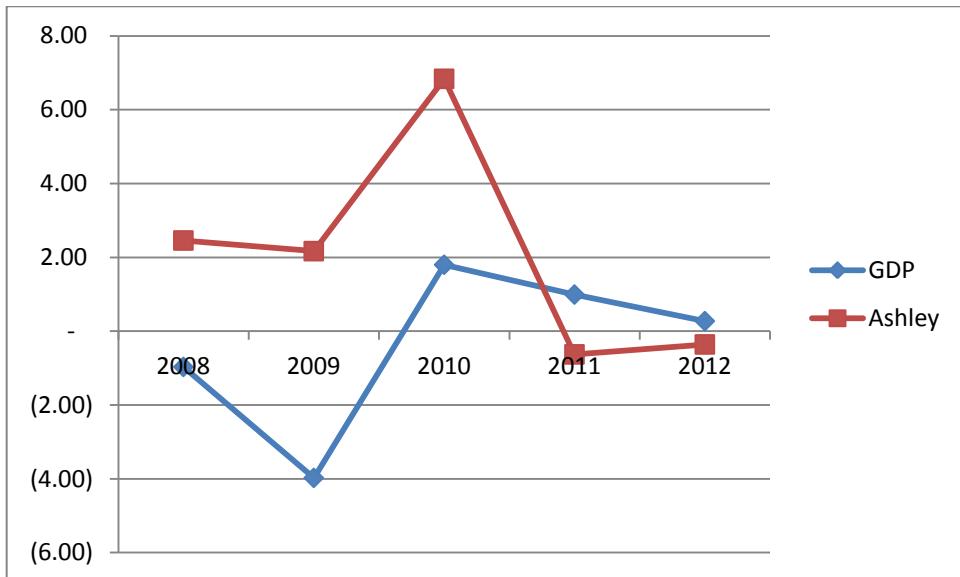


Figure 6. GDP vs Assura

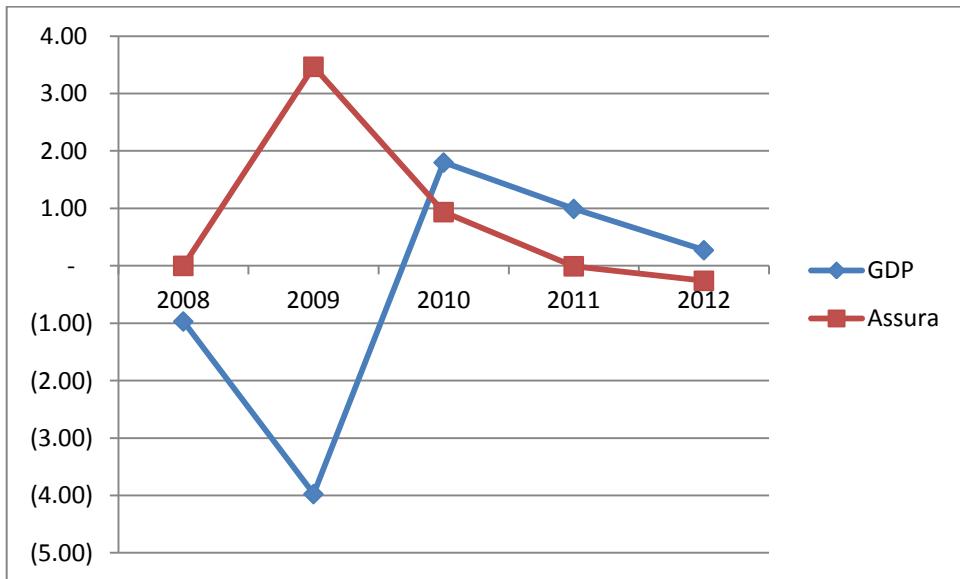




Figure 7. GDP vs Good Energy

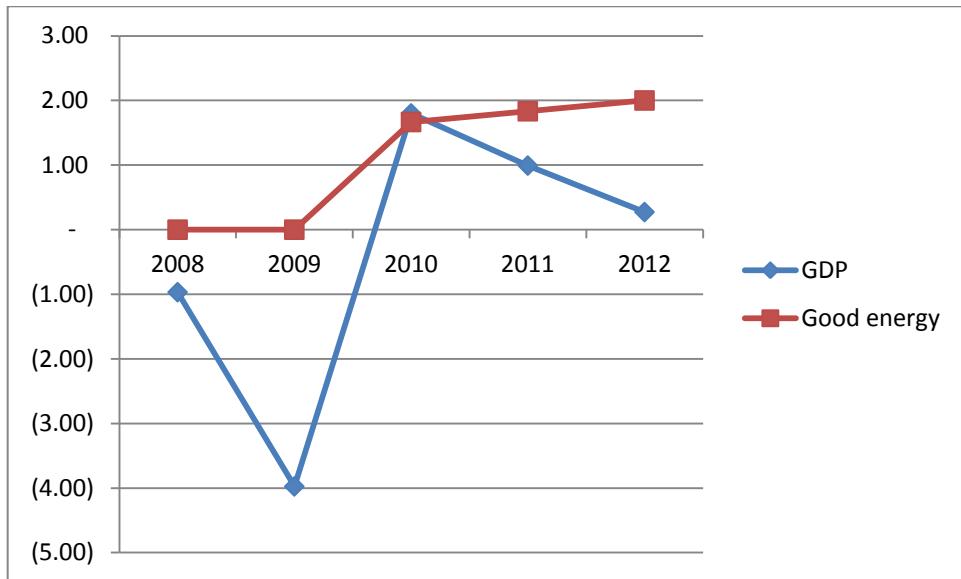


Figure 8. GDP vs Halo

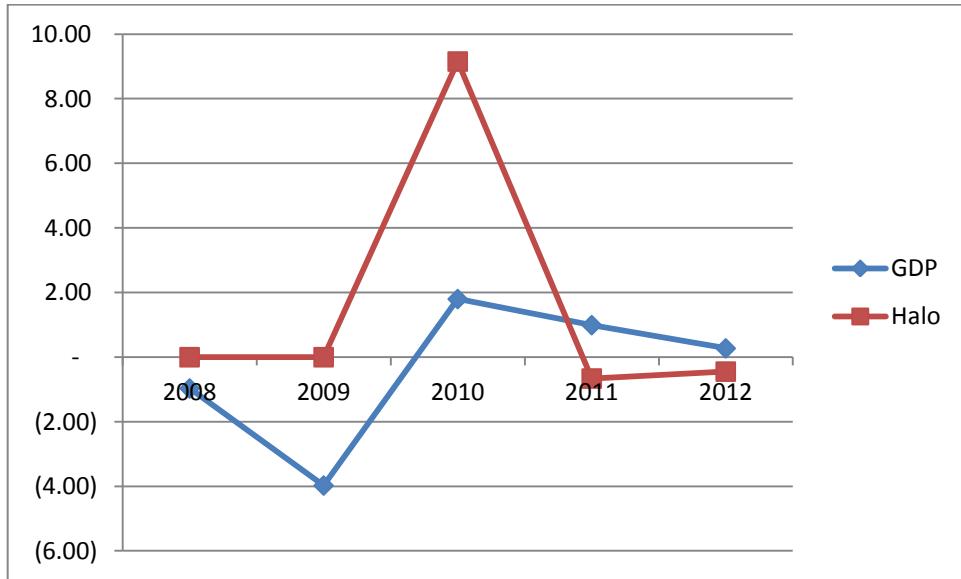




Figure 9. GDP vs Straight

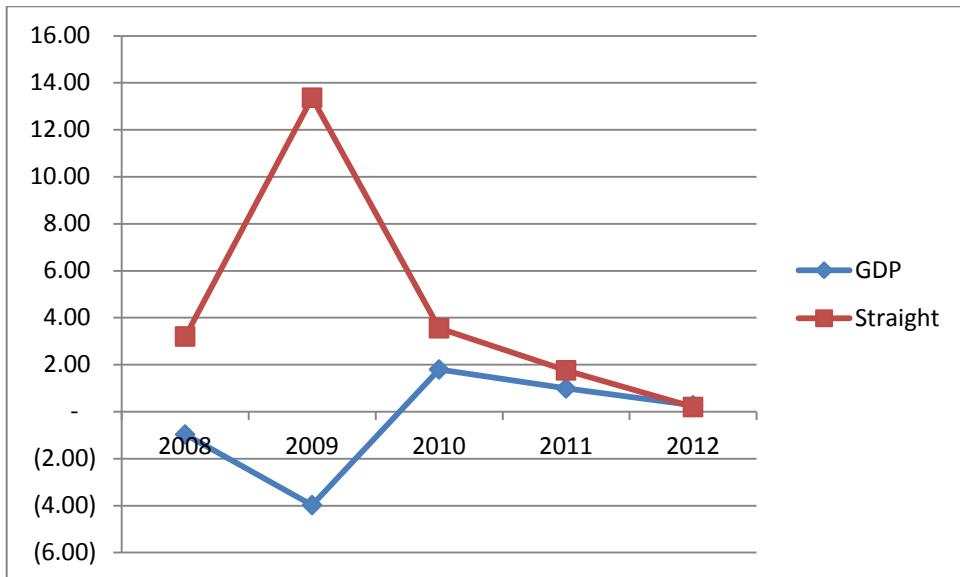


Figure 10. GDP vs V22

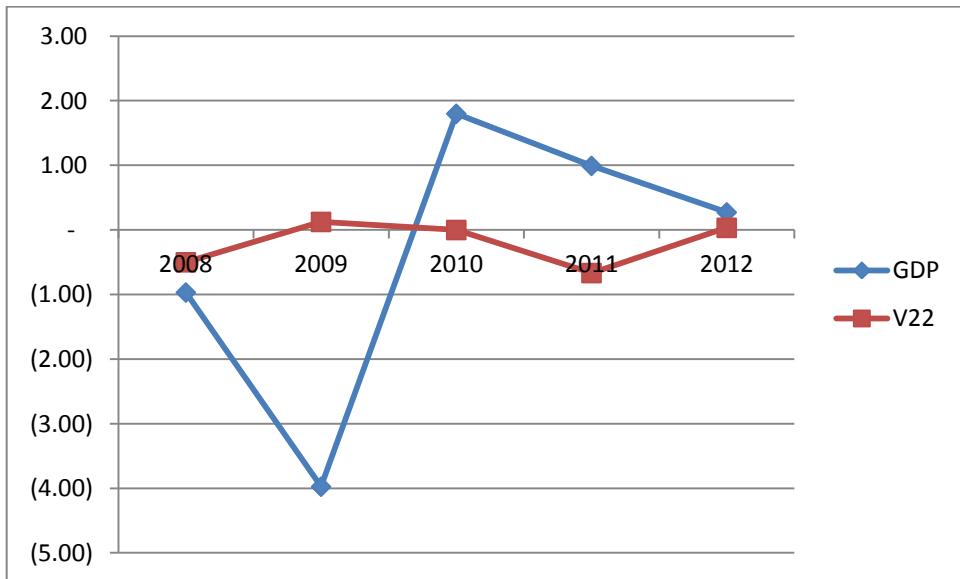
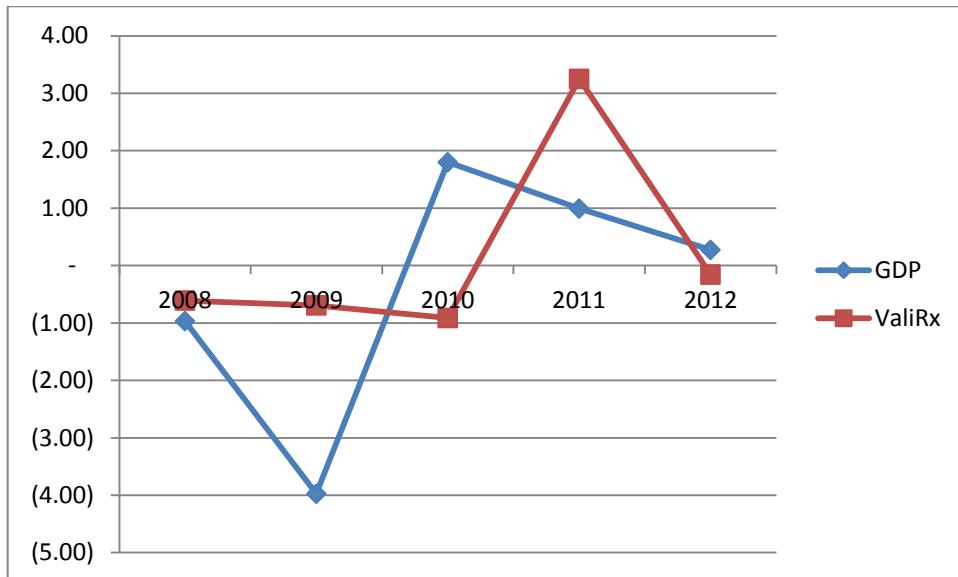


Figure 11. GDP vs ValiRx



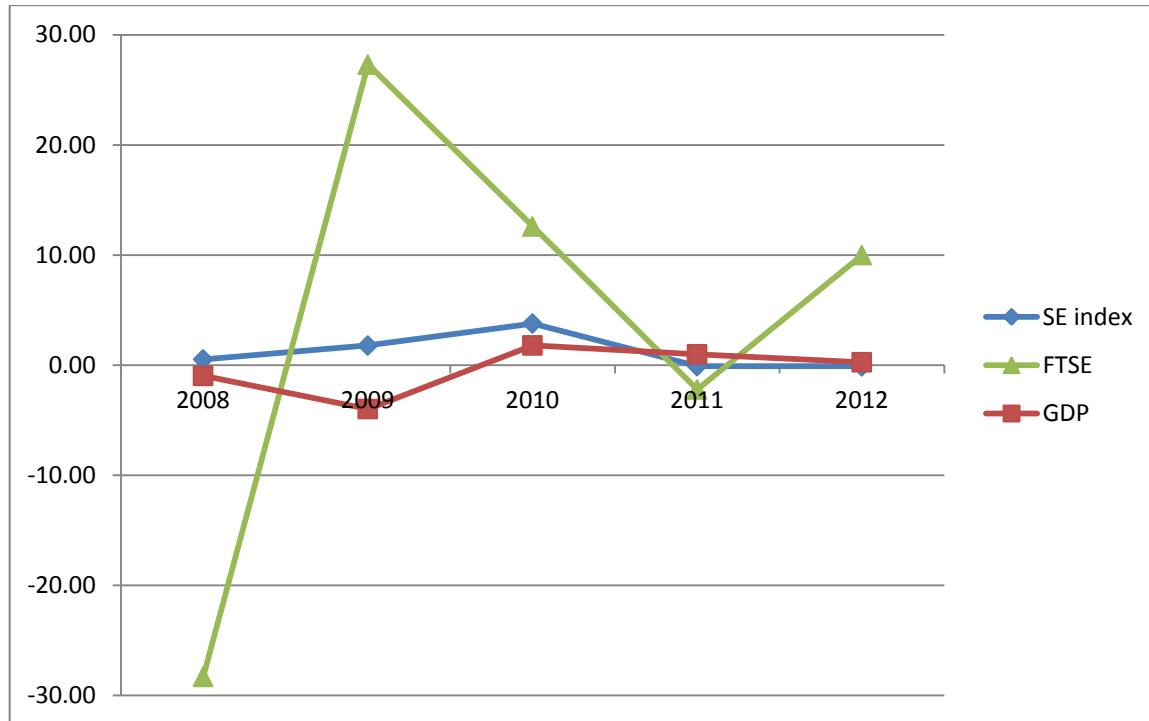
The market capitalisation weighted Social Enterprise Index that was created is compared to the FTSE 100 index and the GDP of the United Kingdom in order to better assess the performance of the Social Enterprise sector.

Table 4. SE Index vs FTSE vs GDP

	Total return (%)				
	2008	2009	2010	2011	2012
SE index	0.53	1.79	3.79	-0.08	-0.10
FTSE	-28.30	27.30	12.60	-2.20	10.00
GDP	-0.97	-3.97	1.80	0.99	0.27

The same information is depicted in the following graph:

Figure 12. SE Index vs FTSE vs GDP



5.3.1 Percentage returns

The below table summarises the gross financial returns that could have been achieved by investors who may have invested in the Social Enterprise index relative to those that may have invested in the FTSE 100 index.

Table 5. Percentage returns

	5 year cumulative	Annual compound
SE index	6.01	1.17
FTSE	10.56	2.03

5.3.2 Correlation matrix

The below correlation matrix compares the correlations between the three variables. The range of correlation is -1 to +1, where -1 describes perfect inverse correlation, 0 describes no correlation and +1 describes perfect positive correlation.

It is noted that these relationships do not imply causation.

Table 6. Correlation matrix

	SE Index	FTSE	GDP
SE Index	1.00	0.42	0.09
FTSE	0.42	1.00	-0.27
GDP	0.09	-0.27	1.00

5.4 Social performance

According to the rules and guidelines provided by Globerson (1985) for designing a performance measurement tool detailed in the previous chapter, the performance criteria must be selected from the objectives of the enterprise. As a result, the researcher incorporated an analysis of the social performance of each Social Enterprise based on the social purpose they provided themselves.

The below table also includes a description of the forms of external verification, through listing the accreditations the enterprises have. It also includes a list of the core beneficiaries that are impacted by the daily operations of the enterprises and assesses whether the social needs that



the enterprises seek to address are still prevalent post the study, thereby determining whether the enterprises should remain operational.

Table 7. Social performance

Enterprise	Social purpose	Accreditation/s	Core beneficiaries	Does the social need remain post this study
Accsys	To reduce the use of environmentally unfriendly building materials and products by the utilisation of our proprietary technology and the introduction of our products throughout the world	- Forest Stewardship Council - Programme for the Endorsement of Forest Certification - ISO 14044	- Governments - Distributors - Licensees - Employees - Suppliers - End users	Yes
Ashley	To deliver the most cost-effective, health and community care property solutions through enduring partnerships and proven expertise	- ISO 14001 - BREEAM	- Patients - Housing residents - GP's - Registered providers - Healthcare professionals - NHS	Yes
Assura	To transform local communities by promoting health and wellbeing through our primary care properties	- ISO 9001 - ISO 14001	- Patients - Tenants - NHS - Communities	Yes
Good energy	To provide consumers with the choice to help tackle climate change and to help make the UK more energy self-sufficient choosing an energy supplier that is committed to increasing the amount of renewable electricity in the UK electricity mix	- Green Energy Supply Certification Scheme	- Environment - Customers - Government - Renewable electricity generators - Communities	Yes



Halo	We design innovative solutions to rid water of impurities and infectious elements and return it responsibly to the earth. We help organizations make water safer, cleaner and more accessible and we champion the enjoyment and positive impact that water has on our lives.	- United States EPA - WQA Gold Seal - China Ministry of Health - INMETRO (Brazil)	- All users of water - Water recyclers	Yes
Straight	To offer products and services that have the potential to deliver an environmental benefit, whilst causing no damage to the environment itself.	- Carbon Reduction Label	- Waste management industry - Industrial customers - Car-sharing clubs - Local authorities - Staff	Yes
V22	To build a new kind of art institution, one which supports the production of high quality contemporary art and embraces the need to democratise art ownership so that its benefits can be readily accessible to aspiring collectors from more diverse backgrounds.	- Arts Council England	- Artists - Investors - Public audiences - Local communities	Yes
ValiRx	To engineer a scientific breakthrough into human health and wellbeing through early detection of disease and therapeutic intervention.	- Preclinical and clinical stages	- Individuals with or at risk of developing cancer or neurological diseases	Yes

5.5 Sustainability

As defined in Chapter 2, an enterprise that is sustainable is one that is able to meet the needs of its stakeholders now as well as in the future.



In order to assess the sustainability of the Social Enterprises, the researcher made use of the Altman Z-Score which measures the health of an enterprise and the likelihood of it becoming bankrupt within two years. It can be logically deduced that a bankrupt enterprise would be unable to meet the future needs of its stakeholders so it would therefore not meet the sustainability test.

5.5.1 Altman Z-Score summary

Individual Altman Z-Scores were calculated for each Social Enterprise for the period 2008 to 2012 in accordance with the method described in section 4.6 above. The below table summarises the results according to the health of the enterprises in each year.

Table 8. Altman Z-Score summary

	2008	2009	2010	2011	2012
Accsys	Healthy	Healthy	Healthy	Healthy	Healthy
Ashley	Healthy	Healthy	Healthy	Unhealthy	Unhealthy
Assura	-	Unhealthy	Unhealthy	Unhealthy	Unhealthy
Good energy	Healthy	Healthy	Unhealthy	Grey zone	Healthy
Halo	-	Unhealthy	Healthy	Healthy	Healthy
Straight	Grey zone	Healthy	Grey zone	Unhealthy	Unhealthy
V22	Healthy	Healthy	Grey zone	Unhealthy	Unhealthy
ValiRx	Unhealthy	Unhealthy	Unhealthy	Healthy	Healthy

5.5.2 Altman Z-Score descriptive statistics

The following tables provide summaries of the descriptive statistics for all the Social Enterprises for each year that was considered. This provided the basis for the analysis of the results.

Table 9. 2008 Altman Z-Score descriptive statistics

2008	Frequency	Validity %	Cumulative %
Healthy	4	50%	50%
Grey zone	1	13%	63%
Unhealthy	1	13%	75%
Not applicable	2	25%	100%
Total	8	100%	

Table 10. 2009 Altman Z-Score descriptive statistics

2009	Frequency	Validity %	Cumulative %
Healthy	5	63%	63%
Grey zone	0	0%	63%
Unhealthy	3	38%	100%
Total	8	100%	

Table 11. 2010 Altman Z-Score descriptive statistics

2010	Frequency	Validity %	Cumulative %
Healthy	3	38%	38%
Grey zone	2	25%	63%
Unhealthy	3	38%	100%
Total	8	100%	



Table 12. 2011 Altman Z-Score descriptive statistics

2011	Frequency	Validity %	Cumulative %
Healthy	3	38%	38%
Grey zone	1	13%	50%
Unhealthy	4	50%	100%
Total	8	100%	

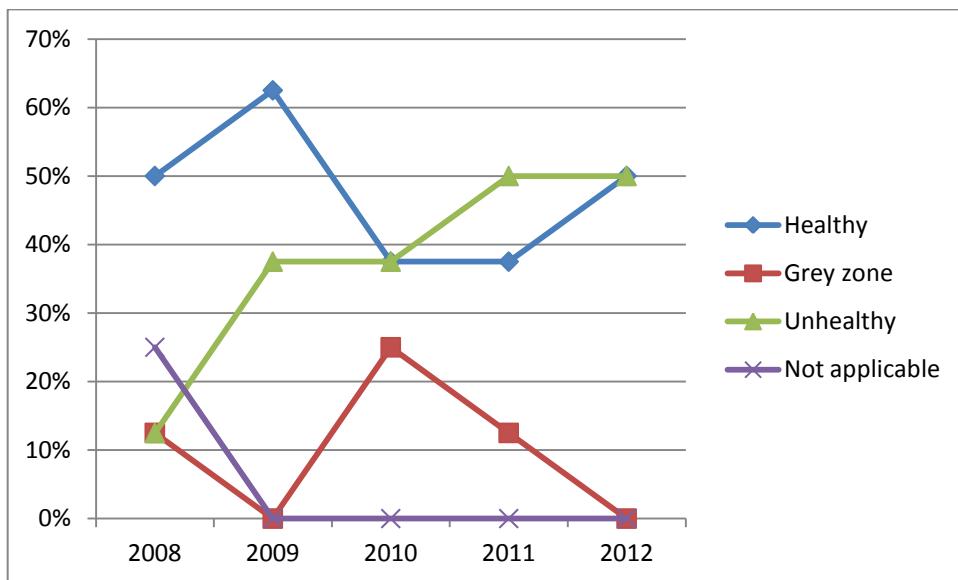
Table 13. 2012 Altman Z-Score descriptive statistics

2012	Frequency	Validity%	Cumulative %
Healthy	4	50%	50%
Grey zone	0	0%	50%
Unhealthy	4	50%	100%
Total	8	100%	

5.5.3 Altman Z-Score trend

The above results are depicted by way of the following graph.

Figure 13. Altman Z-Score Trend



5.6 Conclusion

This chapter summarised the findings of the research in accordance with the three performance criteria selected in Chapter 4; namely financial performance, social performance and sustainability.

The following chapter will discuss these findings in detail with reference to the literature and the research questions.

6 Discussion of results

6.1 Introduction

The previous chapter outlined the findings obtained from conducting the research with Social Enterprises listed on the Social Stock Exchange in the United Kingdom. As a result of the small sample size, these findings cannot be regarded as representative of all Social Enterprises in the United Kingdom or anywhere else in the world.

This chapter will discuss the findings from the previous chapter by way of addressing each research question within the context of the three performance criteria mentioned in Chapter 4, namely, financial performance, social performance and sustainability.

The three performance criteria were selected in accordance with the population criteria discussed in section 4.3 and the rules and guidelines of designing a performance measurement tool by Globerson (1985) in section 4.7.1.

6.2 Financial performance

6.2.1 Research question 1

How do Social Enterprises perform financially compared to the stock market index over time?

The objective of this research question was to determine whether there exists a significant difference in the financial returns yielded by the normal enterprise sector relative to the social enterprise sector.

The literature review revealed that it is important to measure the profitability and efficiency of Social Enterprises even though they are not solely profit driven and that there is a positive, bidirectional relationship between Corporate Social Performance and Corporate Financial Performance.

The findings revealed that during the period 2008 to 2012, the Social Enterprise sector yielded more stable returns compared to the stock market (represented by the FTSE 100 index) as the stock market exhibited a greater degree of variability with its higher peaks and lower troughs.

It is also noted that an investment in the stock market index would have yielded higher financial returns than an investment in the Social Enterprise sector during the period under review. This was to be expected as Social Enterprises are not merely profit-seeking entities but it was also somewhat surprising in that the differential in the returns is not very significant. This implies that investors in these Social Enterprises could have been well rewarded over this period if the social aims were also achieved.

Finally the findings revealed that there was a relatively weak positive relationship between the Social Enterprise sector and the stock market as they had a correlation coefficient of 0.42. For this reason the Social Enterprise sector does not offer strong diversification qualities to the general stock market so investors would need to take this into account before making investment decisions.

6.2.2 Research question 2

How do Social Enterprises perform financially compared to the economic growth of the country (GDP) over time?

The objective of this research question was to determine whether the financial performance of Social Enterprises follows the general growth trajectory of the greater economy or if it is counter-cyclical.

The literature review revealed that Social Enterprises are becoming an increasingly important sector to policymakers as well as investors around the world but there is insufficient scientific research and understanding on their performance.

The findings revealed that there was a very weak positive relationship between the Social Enterprise sector and the GDP of the United Kingdom as they had a correlation coefficient of 0.09. This indicates almost no relationship, which can also be seen in the large variability between the individual enterprise graphs in section 5.3. This was not unexpected as the sector was relatively young and the data was small.

The most surprising finding was during the 2008 to 2009 global financial crisis when the United Kingdom economy was at its weakest, the majority of the Social Enterprises did not suffer the same fate and some even had their best performance for the period then. This could be an indication of the defensive nature of the Social Enterprise sector but the findings are inconclusive.

6.3 Social performance

6.3.1 Research question 3

Do Social Enterprises achieve their social goals and do their identified social needs still remain?

The objective of this research question was to determine whether Social Enterprises actively pursue and achieve their social goals and whether the social goals had been met in full.

The literature review revealed that numerous definitions and descriptions of Social Enterprises exist in various parts of the world but they shared the common characteristics of pursuing trading activities and being driven by social aims. Speckbacher (2003) also argued that there are various other important output dimensions specific to Social Enterprises that are not catered for by profit measurements alone.

The findings revealed that each Social Enterprise had a clearly defined social purpose and core set of beneficiaries but there was no consistent manner of reporting the degree to which this purpose had been achieved nor was there any external verification, such as the enhanced social audits that were proposed by Nicholls (2009) in the Blended Value Accounting framework.

Each enterprise reported social performance in its own format and did not benchmark against any industry standards or competitors. A mitigating factor for this was found to be the nature and number of accreditations each

enterprise had, many of which had very strict requirements and are internationally recognised.

All the enterprises had not achieved their social aims and were therefore required to remain operational in order to continue pursuing them. This was found to be the result of setting very bold social aims that are mostly beyond the scope of a single enterprise.

6.4 Sustainability

6.4.1 Research question 4

How exposed Social Enterprises to the risk of bankruptcy?

The objective of this research question was to determine whether Social Enterprises were financially sustainable and would be able to meet the needs of their stakeholders in the future.

The literature review revealed that Social Enterprises face unique challenges as they need to constantly balance the needs of stakeholders who are concerned with creating economic value as well as those who are concerned with creating social value and this challenge is further heightened by the scarcity of resources. Moizer and Tracey (2010) described sustainability as a function of revenue generation, a recognisable social need and organisational legitimacy.

Through using the Altman Z-Score for the period 2008 to 2012 the findings revealed that the majority of the Social Enterprises were healthy but were

closely followed by the high number in the unhealthy segment. This seems to support the literature as balancing differing stakeholder interests is challenging in itself.

Only one enterprise remained healthy throughout the period and one remained unhealthy while the status of the rest changed over the period. The trend indicates that the general health of the sector is decreasing over the period as the proportion of unhealthy enterprises is rising. A larger sample and longer period may have led to more meaningful outputs and findings.

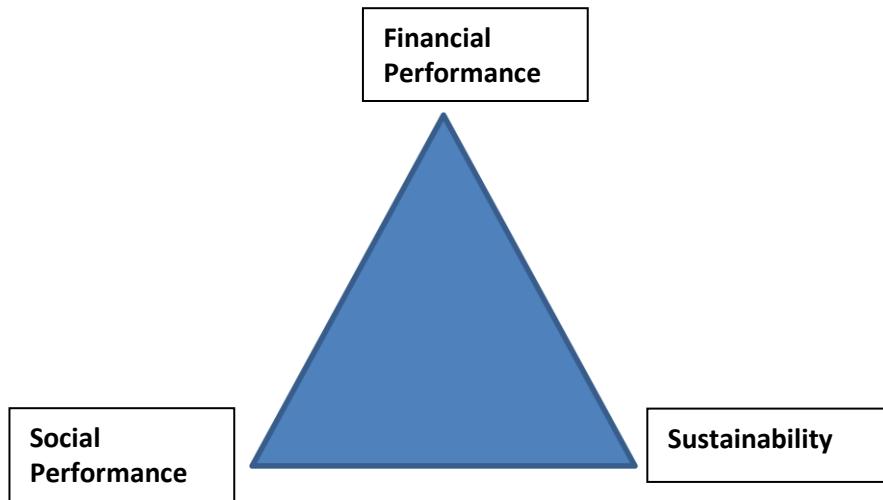
6.5 Conclusion

This chapter discussed the findings of the research in detail and suggested a framework that can be used to measure the performance and sustainability of Social Enterprises.

Chapter 2 described a Social Enterprise as a market-driven enterprise that seeks to maximise social value. The proposed framework therefore incorporates financial as well as social performance measurement and places an emphasis on the future of the enterprise through measuring their sustainability. The below diagram summarises the framework.



Figure 14. Framework





7 Conclusion

7.1 Introduction

The previous chapter discussed the findings of the research in detail.

This chapter provides the background of the topic, revisits the aims of the research, summarises the findings of the research, discusses the limitations of the research and suggests areas for future research.

7.2 Background and research aim

The International Labour Organisation (as cited in Yorke, 2012), noted that Social Enterprises represent new growth opportunities that offer attractive win-win solutions for all. In this regard they have received policy recognition in many countries over the last 20 years and the recent emergence of a number of Social Stock Exchanges around the world provides an indication of the growth in the sector.

In spite of this growth and attention there has been little consensus amongst scholars and practitioners on the standard measurements that can be used to assess performance.

The aim of the research was to propose a framework that could be used to measure the performance and sustainability of Social Enterprises. The framework suggested a portfolio of metrics that included financial, social and organisational sustainability measurements.

This framework was then tested using the sample collected from the Social Stock Exchange and the following outcomes resulted.

7.3 Research findings

The aim of the research was achieved as a framework that had its basis in the literature review was successfully formed. It was therefore concluded that it is possible to measure the performance of Social Enterprises and it is possible to standardise those measurements in order to compare performance over a period of time, across different enterprises in the sector and to benchmark across different sectors.

In an attempt to test the robustness of the framework, the research questions were applied to the sample that was collected. Even with the small sample it was broadly found that the financial and sustainability metrics yielded meaningful results that could be computed and compared with relative ease but the social metrics provided more challenges as social reporting in the sector is not standardised. It is expected that the social metrics will become more useful when there is more standardised social reporting and more data to use.

The research questions on the financial performance, social performance and sustainability of Social Enterprises yielded the following findings for the period:

- The sector yielded more stable but lower returns relative to the stock market;

- There was effectively little or no correlation between the sector and the GDP as well as between the sector and the stock market;
- The social aims had not been achieved as described in the social purpose;
- The health of the sector was becoming progressively unhealthier as time went on.

7.4 Research limitations

The study relied exclusively on secondary data which may have been collected for different purposes and the collection methods were unknown to the researcher.

The research is only applicable to the sample period of 1 January 2008 to 31 December 2012 for enterprises listed on the Social Stock Exchange in the United Kingdom.

The small sample and the fact that data was collected once per annum hampered the study and rendered it unrepresentative of the global population of Social Enterprises.

The assessment of the social performance criterion relied on information that was provided by the Social Enterprise themselves and it was not audited by an external party. This data could therefore be bias.

Making use of the generic non-manufacturing Altman Z-Score measurement of financial distress does not cater for the unique characteristics of Social Enterprises. Further to that the measurement merely provides an indication on

the likelihood of bankruptcy and not when it will actually happen. It also cannot account for personnel changes, managerial influence, external influences that change the operating environment, theft and a rapid change in circumstances.

The study only looked at a few financial metrics due to the size of the data. This limited the understanding of financial performance.

7.5 Areas for future research

The same study would benefit from a larger data set which may be used for statistical tests and for rendering the sample more representative of the population.

The same study would benefit from analysing the enterprises over a longer timeframe.

The same study could benefit from incorporating a qualitative research methodology in order to collect primary data from the Social Enterprises themselves as well to better extract data on the social performance criterion from third party beneficiaries.

A similar study could be conducted in different markets which may have different legislative environments and different factors that influence the sector.

A further area that could be explored is looking to derive a measurement of financial distress that is relevant for Social Enterprises.



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A final area that could be explored is to study the factors that drive investment and disinvestment decisions of investors in Social Enterprises.

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