

Performance measurement in emerging market social enterprises using a balanced scorecard

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Abstract

Performance measurement in social enterprises is important; however, up to now, there is no agreement on which tool to use, especially for those in emerging markets. Therefore, this study used a balanced scorecard to quantitatively measure performance of 446 social enterprises in South Africa. The findings show that the adapted perspectives of a balanced scorecard such as customer, organizational learning and growth, finance and internal processes can be used as performance indicators. This study developed and tested an adapted balanced scorecard that can be used as a performance instrument for enterprises that do not have specific measurement tools.

Keywords: Balanced scorecard, performance measurement, emerging market, social enterprise

Introduction

Social entrepreneurship has become a high-profile research theme due to its contribution to development through solving social and economic problems (Ormiston and Seymour 2011; Rey-Martí, Ribeiro-Soriano, and Sánchez-García 2016). Despite the significance of social entrepreneurship, there is a continued discourse regarding the definition, conceptual clarity, boundaries of the field and the asking of significant research questions (Dacin, Dacin, and Tracey 2011). Additionally, the field has yet to agree on how to measure performance in social enterprises both theoretically and empirically (Austin, Stevenson, and Wei-Skillern 2006; Rotheroe and Richards 2007; Ormiston and Seymour 2011; Rawhouser, Cummings, and Newbert 2017). In particular, there is a lack of consensus with regard to aspects such as the conceptual framing, methodology, tools, triple bottom line, balanced scorecards or other approaches that can be used to measure performance and social impact (Dacin et al. 2011; Ebrahim and Rangan 2014; Arena, Azzone and Bengo 2015). The absence of empirically tested performance measurement frameworks inhibits the progression of social enterprise effectiveness and constrains the progression of research into the phenomenon.

There are myriad approaches, but there is no unified model for measuring performance in social enterprises (Yang, Huang, and Lee 2014; Grieco, Michelini, and Iasevoli 2015). The argument posed by scholars is that social enterprises have complex objectives and are diverse in nature, operating in many industries and taking varied forms, which makes it difficult to measure their performance (Brown 2006). On the one hand, the field uses quantitative financial measures such as donations, expenditures and operating expense ratios (Kaplan 2001; Emerson 2003). However, these quantitative measures are criticised for showing a limited view of performance

(Brown 2006). On the other hand, some scholars use more holistic measures such as the triple bottom line (Elkington 2004), the balanced scorecard for not-for-profits (Kaplan 2001), the family of measures (Sawhill and Williamson 2001) and social reporting (Zadek 1998) to capture the hybridity of social enterprise activity. This study proposes and tests the concept of a balanced scorecard (Kaplan 2001; Sommers 2005) to measure performance in emerging market social enterprises, on the grounds that it appropriately captures the multi-dimensional nature of social enterprise performance.

The motivation for selecting the balanced scorecard is that some existing measures require financial or accountancy indicators, which are often not accessible for emerging markets' social enterprises due to scanty public financial data. To add to this, the concept of social entrepreneurship is in a relatively early stage of academic enquiry, and in emerging markets may have a very different meaning from that which is understood in the developed world (Urban 2008; Karanda and Toledano 2012; Desa and Koch 2014). This suggests that there is an opportunity to study social enterprises in emerging markets and contribute to the theoretical assumptions suitable for their unique context.

The quantitative findings of a study of 446 social enterprises conducted in South Africa relate to the four dimensions of the modified balanced scorecard (Kaplan 2001; Somers 2005). Furthermore, the measurement items were modified to suit the context of the study. First, the results show that innovation can be measured using internal processes such as new product development and differentiation from competitors. Second, an increased number of customers, beneficiaries and stakeholder engagement represents the customer perspective. Third, organizational learning and growth was measured by improved technology and an increase in the full-time staff. Finally, the financial perspective was determined by an ability to increase profitability and sales of products or services.

This study makes a contribution by showing that an adapted balanced scorecard can be one of the ways to measure performance in emerging market social enterprises. Furthermore, social enterprises in emerging markets can make theoretical contributions to the development of social entrepreneurship. For instance, in emerging markets, some social enterprises operate as hybrids, thus relying on income from customer transactions to fund their mission activities. As a result, this influences the customer and financial perspectives of the balanced scorecard. The study is also meant for business to have instruments to assess social enterprises when it comes to funding and support decisions. Finally, the findings will also help policy-makers to develop policies informed by performance measures in social enterprises.

Literature Review

Performance management in social enterprises

Scholarly interest in social enterprises has progressed beyond the early focus on definitions and context to investigate their management and performance (Doherty, Haugh, and Lyon 2014). Performance assessment has become significant in social enterprises as they have to tell their success story through social and financial impact indicators that are credible to all stakeholders (Sommers 2005). Additionally, social entrepreneurs have to request funding by showing potential funders that they are solving societal problems (Ebrahim and Rangan 2014; Arena et al. 2015). Although this concept is important, much of the performance literature in the social sector is under-theorized, with most literature coming from business institutions such as think tanks, government agencies, funding organizations and prominent consulting firms that are shaping the practice of social enterprise performance (Ebrahim and Rangan 2014).

The lack of a well-developed conceptual framework makes measuring the performance of social enterprise organizations complex and open to a variety of different interpretations (Millar

and Hall 2013). First, the usage of the instruments to measure performance depends on the context in which the social organization is embedded (Urban 2008; Karanda and Toledano 2012; Millar and Hall 2013; Desa and Koch 2014). Second, the diversity of the social enterprise's objectives, goals, outcomes and industry of operation suggests that they will struggle with implementing universal performance measurement instruments and techniques (Brown 2005; Hart and Houghton 2007; Millar and Hall 2013). Third, unlike commercial entrepreneurs who rely on standardised quantitative measures such as financial indicators, social enterprises have to use the non-quantifiable, multi-causal and multi-stakeholder perspectives of the social impact created (Kaplan 2001; Emerson 2003; Austin et al. 2006). Therefore, the evaluation of performance in social enterprises will often be achieved by identifying a set of criteria and having various knowledgeable individuals who will provide their perceptions of an organization's accomplishments related to its mission (Brown 2005).

There exists a range of different tools and methods that inform the ways social enterprises measure their impact (Somers 2005; Hart and Haughton 2007; Millar and Hall 2013). The conventional models of performance measurement are social return on investment (SROI) (Aeron-Thomas, Nicholls, Forster, and Westall 2004), contingency PMS models (Garengo and Bititci 2007; Bagnoli and Megali 2011), social enterprise balanced scorecard (Kaplan 2001; Somers 2005; Bull 2007) and the SIMPLE model (McLoughlin, Kaminski, Sodgar, Khan, Harris, and Arnaudo 2009). These models may not effectively and completely capture performance in social enterprises, but using various measures and perceptions from different stakeholders will minimise the limitations of each model (Somers 2005).

This study uses a modified balanced scorecard to measure performance in a sample of social enterprises in South Africa (Kaplan 2001). A study conducted with senior management of 12 organizations in the United Kingdom has empirically shown that a balanced scorecard can be successfully adapted to measure performance in social enterprises (Somers 2005). From a

business practice point of view, consulting organizations suggest that the balanced scorecard is gradually becoming the dominant internal process for measuring performance in organizations (Lee and Moon 2008). One advantage of using a balanced scorecard is that organizations can adapt it to suit their own unique circumstances (Bull 2007; Lee and Moon 2008; Millar and Hall 2013).

The balanced scorecard

The central argument of the balanced scorecard is that financial measures are not enough to measure the performance of organizations (Kaplan and Norton 1999). As a result, three perspectives were added to complement the traditional financial indicators which are the customer focus, internal processes and organizational learning and growth. The balanced scorecard is preferred to traditional measures for a number of reasons.

First, the balanced scorecard measures are grounded in an organization's strategic objectives and competitive demands. Second, whilst traditional measures pay attention to past financial reporting periods without indicating what the managers can improve, the scorecard functions as the cornerstone of the company's current and future plans by offering managers insight into what needs improving. Third, it balances between external measures like operating income and internal measures like new product development. Finally, it is a comprehensive tool that shows the organization's efforts, defining and communicating priorities to managers, employees, investors, even customers (Kaplan and Norton 1999).

Although the existing balanced scorecard is successful in for-profit organizations, it has limitations when used in the context of social enterprises (Kaplan 2001). For instance, Somers (2005) criticised it for only partly responding to the needs of the social enterprise by not reconciling the tension that exists between generating social impact versus financial profit. Further, it incorporates a limited range of stakeholders and does not incorporate employee,

supplier or community perspectives on firm performance (Mooraj, Oyon, and Hostettler 1999; Hubbard 2009). Realizing the limited application of the original balanced scorecard in social enterprises, scholars came up with modified measures suitable for this kind of organizational form (Kaplan 2001; Somers 2005; Bull 2007; Lee and Moon 2008; Arena et al. 2015).

Kaplan's (2001) modification, shown in Figure 1, positioned the mission at the top of the hierarchy, prioritized the customer over the financial perspective and defined who the customer is. The argument was that traditional businesses prioritize financial measurements while social enterprises prioritize the creation of value for beneficiaries. Additionally, in traditional businesses, the customer is the one who pays for the service and receives it, but in a non-profit, the funder pays for the service and the beneficiaries receive it (Arena et al. 2015). This is further complicated in the hybrid social enterprise, where revenue from the customer transactions may be applied to the funding of beneficiary goods and services. Similar to Kaplan (2001), Somers (2005) adapted the balanced scorecard, placing the social goals at the top of the strategy map, aligning social and economic priorities, and organising activity around the most important driver(s), while also ensuring financial sustainability. The financial perspective was amended to focus on sustainability by creating an indicator for revenue growth, cost reduction, and the costs of advocacy and stakeholder engagement. As for the customer perspective, Arena et al. (2015) added those who pay for the service and those who consume it. In sum, their balanced scorecard shows the potential to communicate performance to internal and external stakeholders and presents an opportunity to build credibility among investors, funders, customers, and stakeholders.

[Figure 1 near here]

Finally, Bull's (2007) adaptation of a balanced scorecard focused on a tool that incorporates an array of issues such as non-financial measures, involving the self-reflection of managers, and

their own perceptions of where their organization is now and where it wants to be in the near future. Therefore, the balanced scorecard can be adapted and used to measure performance in social enterprises.

The mission and strategy

Success for non-profit organizations should be measured by how effectively and efficiently they meet the needs of their constituencies (Kaplan 2001). The mission should be featured and measured at the highest level of scorecard priorities (Kaplan and Norton 2005). Elkington (2004) argued that measuring performance in a social enterprise should focus on clarifying the mission, defining the scope, which is a set of activities associated with the mission, and establishing the scale or magnitude of the problem. As part of the strategy, the organization needs to articulate the vision which is concerned with the future: business planning, strategy building and the communication of those visions to various stakeholders (Lee and Moon 2008). Most organizations adopt the mission and activities without focusing on the outcomes that emerge from the activities. Initiatives should be a way to achieve strategic goals (Kaplan and Norton 2005), thereby, ensuring that the social enterprise's initiatives and the outcomes thereof are aligned with the mission and strategy.

Financial perspective

The financial perspective on a balanced scorecard is different from the traditional measures that rely on financial indicators such as ROA (Lee and Moon 2008). In a qualitative study of 30 social enterprises, Bull (2007) renamed this perspective the multi-bottom line, based on the notion that social enterprises offer help and support for a variety of social and environmental issues as a way of giving back to society. The indicators associated with the financial perspective include social, environmental and financial sustainability; efficiency of budgeting and expenditure management; stakeholders' financial supports; trade-profit performance

indicators combining social and economic accountability; and systematic approaches to articulating social accounting (Bull 2007; Lee and Moon 2008). Finally, Somers (2005) emphasised that this perspective should be “financial sustainability”, which will include stakeholder engagement.

Customer perspective

The customer perspective measures the entity’s performance with targeted customers and market segments by using outcomes such as market share, customer retention, new customer acquisition, and customer profitability (Kaplan and Norton 1999). Kaplan (2001) modified the customer perspective that measures the value proposition by redefining the customer and giving it priority over the financial measures. The motivation is that in a private transaction, customers both pay for the service and receive the service; however, in non-profit organizations, the donors provide financial resources and they pay for the service, which the beneficiaries receive (Kaplan 2001). Both Somers (2005) and Bull (2007) modified this perspective as ‘stakeholder environment’ based on the notion that social enterprises serve and satisfy multiple groups of people, sometimes in hybrid models that transact with customers and service beneficiaries. Their measurement items included: Awareness of the stakeholder; competitor identification and awareness; image and identity; promotional activities; marketing budgets; and importantly, the evaluation of the effectiveness of each of these practices. The other customers include: Government; social service users; employees; local communities; suppliers; and partnership with external organizations (Lee and Moon 2008). Although there have been attempts to increase the customer base, Arena et al. (2015) maintain that the enlargement answers partially to the needs of different stakeholders, as a range of subjects that are interested in the results may be much wider compared to other organizations.

Internal Business Perspective

This includes measures of “operating performance (cost, quality and cycle times) of critical processes that create entirely new products and services” (Kaplan 2001, 357). In addition, the internal perspective can include measures of innovation processes that create entirely new products and services (Kaplan and Norton 1996). Bull (2007) adapted this section to focus more on the activities that contribute to the performance of the organization, which includes internal structure, managing internal communications, quality, management systems, flexibility and adaptability. Other measures are: Organizational culture; organizational structure/management; internal/external communication; quality of products and services; and information sharing (Lee and Moon 2008). In line with Kaplan and Norton (1999), a study conducted in an emerging market context demonstrated that innovation creates value for the beneficiaries and local communities (Desa and Koch 2014). Innovation within the social enterprise is seen as increasing efficiencies, serving more individuals, enhancing what is done for the beneficiaries and generating new sources of revenue, such as from selling products or launching ventures, that are supplementary to or independent of the social mission (Morris, Webb, and Franklin 2011). This study regarded innovation as one of the necessary processes that modifies the existing products and creates new ones, which are unique to the market.

Organizational learning and growth

Organizational learning and growth arises from sources such as people and systems. The typical measures for the learning and growth perspective include employee motivation, retention, capabilities and alignment as well as information system capabilities (Kaplan 2001, 357). An empirical study of 30 social enterprises showed that “learning culture, creativity, participative decision-making, team-working, leadership and continuous improvement as a means of assessing the capacity to capitalise on knowledge and learning opportunities are critical for learning and growth” (Bull 2007, 55). Finally, a theoretical review by Lee and Moon (2008) included training and development, management participation, knowledge sharing,

leadership of the CEO and manager, and a learning culture. It should be noted that some scholars raised a concern that some of the indicators related to social capital and knowledge monitored might be difficult to measure (McLoughlin et al. 2009; Arena et al. 2015). Therefore, such measures should be treated with caution.

Theories underpinning the balanced scorecard

The multidimensionality of the balanced scorecard motivates for a few theories to explain its underlying phenomena. An observation from the reviewed literature is that authors scantily described entrepreneurship and management theories associated with the balanced scorecard. In any case, the field of social entrepreneurship has undefined theoretical content and boundaries, resulting in scholars borrowing from other management theories (Short, Moss, and Lumpkin 2009). The resource-based view of the firm (Wernerfelt 1984) can explain the mission, strategy, financial and internal processes (for example, innovation) as some of the significant resources for the SE to create social impact. This theory can explain how the social entrepreneurs acquire and utilise resources to have a competitive advantage over competitors. Organisational learning and growth can be explained by the organizational learning theory (Argyris and Schon 1997; 1974) which states that all members of an organization must learn. In the social enterprise context, this theory will show the organizational behaviour towards creation and sharing of information, which contributes social value creation. Customer perspective can be explained by stakeholder theory (Freeman 1984; Freeman and Reed 1983) as social entrepreneurs have to engage with the different stakeholders. Since social enterprises deal with multiple stakeholders, the challenge is to ensure that there is an alignment between the expectations of the stakeholders and what the social enterprise delivers (Mason, Kirkbride, and Bryde 2001). Ultimately, the engagement of multiple people benefiting directly or indirectly may enhance the legitimacy of the social enterprise (Suchman 1995; Dart 2004). Finally, stewardship (Donaldson and Davis 1991; Davis, Schoorman, and Donaldson 1997)

and upper echelons (Hambrick and Mason 1984) theories illuminate the role of managers and their individual characteristics being effective in driving the social enterprise's mission and strategy to create social value. This brief reviews show that there are many theories that can be used to illuminate the balanced scorecard in research. However, the application of the theories will depend on the specific research questions investigated in the research studies.

Balanced scorecard approach in social enterprise reporting and accounting

Somers (2005) argued that a balanced scorecard can be a reporting and an accounting device to provide social and environmental outputs to internal and external stakeholders. One of the approaches that evaluates social enterprise reporting and accounting is the Blended Value Accounting (BVA) (Nicholls 2009) used by social entrepreneurs to “access resources and realize organizational mission objectives with stakeholders” (p. 764). An advantage with BVA is that it is not prescriptive as it allows the social entrepreneur to combine the different business practices that can be explored and tested over time. BVA is based on two strategic objectives (Emerson 2003) and the three conceptual manifestations of disclosure and audit (Palmer and Vinten 1998). The strategic objectives focus on explaining financial value which is derived by using quantitative data and social value. This is explained through qualitative data. The conceptual manifestations are: The positivist stance enhances performance; the critical theorist stance supports resource acquisition and the interpretive stance establishes organizational legitimacy (Palmer and Vinten 1998; Nicholls 2009; Manetti 2014). These dimensions are used to illustrate how a balanced scorecard can be used for reporting and accountability.

[Table 1 near here]

Table 1 shows that the financial perspective of the balanced scorecard can be used for positivist reporting to enhance the performance of the organization and execution of social mission. The internal processes, learning and growth, strategy and financial perspectives can play a role in

the critical theorist reporting which supports resource seeking from the external stakeholders. Finally, the interpretive reporting demonstrates that customer perspective, mission and strategy communicate the organizational objectives to the stakeholders so as to build organizational legitimacy. As result, the social enterprise will gain legitimacy from those who directly and indirectly benefit from the activities (Suchman 1995; Dart 2004). If a social enterprise does not produce valuable outcomes for the stakeholders, then their legitimacy will be questioned. Based on these discussions, a balanced scorecard seems to cover all the aspects of the reporting unlike SROI focusing on positivist and critical theorist, and the interpretive trustees' report emphasizing organizational legitimacy (Nicholls 2009). In sum, a balanced scorecard can be strategically used to enhance performance, acquire resources and establish legitimacy of the social enterprise.

Methodology

The study was conducted in South Africa, which, similar to many emerging markets, is characterized by institutional challenges affecting the growth of social entrepreneurship (Rivera-Santos, Holt, Littlewood and Kolk 2015). In their empirical paper, Desa and Koch (2014) argue that emerging market social enterprises experience institutional voids, which are contextual, rife with historic and cultural antecedents, and characteristic of the challenges associated with doing business in the largely informal economy at the base-of-the-pyramid. For instance, in South Africa an “explicit engagement with social entrepreneurship in either policy or legislation by South Africa’s Government remains limited” (Littlewood and Holt 2015,16). The study implemented a quantitative research method, which is infrequently used in social entrepreneurship research (Sassmannshausen and Volkmann 2018). The population was defined as all social enterprises operating as formal sector organizations, across South Africa. It is generally agreed that there is currently no comprehensive, available sampling frame or

data base of social enterprises in the country. Therefore, the study therefore adopted a purposive sampling strategy in line with similar studies conducted throughout the world. From a list of 33784 civil society organizations 446 respondents were purposively selected to participate in the study. The criteria that were applied for selection to participate in the study included: Prioritizes social or environmental mission; more than 25% of revenue from trade or memberships; and self-identifies as a social enterprise. The unit of analysis in the study was the social enterprise.

Social enterprises were approached, and the founder or the person responsible for management was asked to participate in the study. Data were collected using telephone interviews, face-to-face interactions and the survey being completed online. Since this was a nationwide survey, the predominantly telephonic interviews were the best way of reaching out to geographically-dispersed social enterprises. The study was conducted over a period of a year, from 2016 to 2017.

A structured questionnaire with 36 closed-ended questions and 1 open-ended question was used to collect data on the personal characteristics of the social enterprise, activities and performance indicators. The questions were asked on a 5-point Likert scale, showing the extent to which the enterprise had accomplished a given set of milestones within the previous 12 months. Answers ranged from 1 = not achieved at all (0%), 2 = very limited achievement (greater than 0%, but less than 25%), 3 = only partially achieved (benefits and shortcomings are equal) (greater than 25%, but less than 50%), 4 = largely achieved (greater than 50%, but less than 75%) to 5 = fully achieved (greater than 75%, but less than 100%). The instrument used to measure performance consisted of four balanced scorecard perspectives, which were the customer, financial, organizational learning and growth, and internal process dimensions. Since there was no unified instrument to measure performance, the measurement items were derived from the literature. The financial indicators focused on profitability and accessing business funding

(Bull 2007; Lee and Moon 2008). The customer perspective focused more on the beneficiaries or customers served (Brown 2005; Bull 2007; Lee and Moon 2008), and organizational learning and growth was determined by the competencies to introduce new technology, new products, identify new locations and increase the number of employees (Brown 2005; Lee and Moon 2008). The last dimension, which is internal process, was determined using the innovation that happens within the social enterprise (Lee and Moon 2008; Morris et al. 2011). Each component was designed to have four to six measurement items (Hubbard 2009).

Before the analysis could begin, entrance tests were run to correct the missing values, skewness and distribution of the data. The data were analyzed using descriptive statistics and confirmatory factor analysis, which showed the measurement items that belonged to one perspective. The model fit parameters, which were used to assess the fit were chi-square, GFI (goodness-of-fit index), CFI (comparative fit index), RMSEA (Root mean square residual) and Average Variance Extracted (AVE) (Hair, Black, Babin, Anderson, and Tatham 2010; Schumacher and Lomax 2010). After CFA, the constructs were tested for reliability using Cronbach's alpha (Kline 2011). Finally, the non-parametric test, the Mann-Whitney U-test, was used to compare the differences between the two groups (Kline 2011).

Results

The findings of the study shown in Table 2 indicate that 1,3% of organizations prioritized for profit mission, but are operating as social enterprises, while 60,8% focus on social impact and 37,9% focus on balancing the social and economic impact. More than half of the participants (54,9%) have been in business for more than 5 years, while about 45,1% were in business for less than 5 years. Reviewing their sizes according to the income categories, the majority (69,5%) have an income of less than 300 000 ZAR (approximately 25 000 USD), which is in

the lower limit, while the minority of 2,7% have incomes in the higher limit of above 6 million ZAR (approximately 499 000 USD). This suggests that most social enterprises in this study are small. Regarding internationalization, the results show 95,1% of the social enterprises operate in South Africa, with a majority of the organizations (59,6%) operating within their communities. Only 4,9% of the social enterprises are internationalized.

[Table 2 near here].

Internal Processes

Innovation was used as a measure of internal processes which lead to a better performance of the organization. The global fit indices of the model have a chi-square = 2,6, df = 3, GFI = 0.998, CFI = 1.00 and RMSEA = 0.00. The factors that are confirmed in the model include: Offering better quality products/services than other similar organizations; serving more beneficiaries than other similar organizations; making better profits than other similar organizations; products/services regarded by beneficiaries/customers as new and different; and delivering goods and services to beneficiaries/customers in a new and different manner. The reliability score of these measures are found to be at 0.80, which is within the expected range, the standardised loadings range from 0.50 to 0.89 with an AVE of 0.6718. In addition, the descriptive statistics show that monitoring and evaluation of the social and environmental impact is one of internal processes that were put in place. The results show that the enterprises have different processes of monitoring, which include assessing activity outputs, using the established internal monitoring and learning systems, producing integrated reports of social and environmental impact and contracting an external agency to do evaluations. Therefore, innovation can be used as a measure to determine performance of a social enterprise.

Customer Perspective

CFA findings show that chi-square = 4,8, df = 2, GFI = 0.995, CFI = 0.991 and RMSEA = 0.056. The items that are associated with this construct included: attracted new customers/beneficiaries; served existing customers/beneficiaries; expanded to include more beneficiaries; and improved product/service quality offered to beneficiaries and customers. The measurement item loadings range from 0.5 to 0.7 with an AVE of 0.6275. The reliability score for this construct is 0.717, which is within the expected values. To expand on these findings, the descriptive statistics show that the customer perspective includes those who are buying the services/goods (small, medium and large corporates), beneficiaries (local communities, particular groups, locations or region and organizations as such NGOs, religious groups and employees) and stakeholders (advisory board, board of directors, community trust and employees and management). The descriptive statistics show some enterprises (37,9%) that operate as hybrids, meaning that customer transactions bring in revenue, which is used to fund social activities. Therefore, the customer perspective can be used to assess the performance of a social enterprise

Organizational learning and growth

The organizational learning and growth factor includes: Capabilities to launch new products/services; implementing a new technology; increasing the number of full-time employees; increasing market share relative to competitors; entering into a new and important partnership with another organization; and preparing a business plan. In the context of the social enterprise, the capability of learning to develop a business plan is important as many use this instrument to apply for funding. Further, the learning aspect is demonstrated by the ability to continuously introduce new product offerings and technologies. Results show that 41% of the social enterprises have established internal monitoring and learning systems. In addition, the descriptive statistics show that about 30% of the sample are expanding their operations nationally (20%) and internationally (10%). The model identification results show that chi-

square = 18.2, df = 9, GFI = 0.986; CFI = 0.978; RAMSEA = 0,048. The construct validity demonstrates that the factor loadings AVE is above 0.5 and the reliability score was 0.728, which are within the expected values of 0.5 and 0.7, respectively. Therefore, organizational learning and growth can be used to measure the performance of social enterprises.

Financial Perspective

The CFA model for the financial perspective has a chi-square = 8.9, df = 2, GFI = 0.990, CFI = 0.983 and RMSEA = 0.08, which includes: Lowered costs; increased sales; improved profitability; and attracted equity investment from a new shareholder. Although the model is significant, lowered costs and attracted equity investments from shareholders have factor loadings below the recommended 0.5, which results in a poor reliability of 0.657. Some authors argue that in social sciences, such value can still be used in the analysis (Kline, 2011). The AVE is found be just above 0.5. There are some factors that were removed from the analysis, which included obtaining loans from financial institutions and obtaining new donors. These challenges with the loadings highlight the notion that emerging market social enterprises encounter challenges in accessing funds from different sources. Further, obtaining funding is not an ideal measure to show the financial performance of a social enterprise. The results show that the two high loading measurement items, which are ‘increased sales’ and ‘profitability’ are the ideal measures to determine performance (with reliability of 0.80). Finally, the findings show that incorporating financial indicators to measure the performance of a social enterprise will be a challenging task.

The balanced scorecard perspectives for newer versus established enterprises

Since the balanced scorecard takes into account the strategic time to achieve the set goals, the participants were also asked how often they measure their performance. Table 3 shows that the

highest percentage is monthly evaluation at 35%. There is a small number at 2% who do not evaluate their progress or achievements. Above all, the data show that a majority of social enterprises evaluate their performance weekly, quarterly and monthly.

[Table 3 near here]

The different perspectives of the balanced scorecard were assessed according to the duration of operation, focusing on those that have been in operation for less than 5 years (newer enterprises) and longer (established enterprises). Table 4 shows that there are significant differences between the two groups with regard to customer and organizational learning and growth perspectives. For the customer perspective, the results show that with $p = 0.00 < 0.05$, organizations that have been operating for more than 5 years perform better on their customer dimension than those operating for 5 years and less. The same applies to organizational learning and growth, in that social enterprises in operation for 5 years and less are outperformed by those operating for more than 5 years. These findings indicate that as the venture grows, their performance achievements improve.

[Table 4 near here]

Internal processes means are not statistically different across the two groups, suggesting that this perspective is important in all phases of the business development. Although the findings show no significant difference, the mean score of social enterprises in operation for more than 5 years is greater than those in operation for 5 years or less. Finally, with $p = 0.37 > 0.05$, there is no significant difference between the two groups from the financial perspective. However, the mean results show that organizations operating for more than 5 years perform better when compared to those operating for 5 years and less. Therefore, this study argues that the four

perspectives of the balanced scorecard can be used to assess performance in both the short term and the longer term of the organizational life cycle.

Table 5 shows that the social enterprises with more than 5 years of operation have 45 more participants. A random sampling was applied to select 201 cases so as to balance the samples. The results, which are displayed in the table below still show a significant difference with regard to the customer and organizational learning and growth perspectives. Therefore, as the number of years in operation increases, there is a need to change the performance target to match the aspired growth.

[Table 5 near here]

Discussions

As seen in the findings section, the majority of South African social enterprises focus on social impact, which is consistent with the existing literature (Ormiston and Seymour 2011; Rey-Martí et al. 2016). However, there is an emergence of the hybrid social enterprise, as witnessed by 38% of participants claiming to balance both the social and economic impact (Haigh, Walker, Bacq, and Kickul 2015). This suggests that hybrid enterprises use the profits from customer transactions to fund their social impact activities. Therefore, social enterprises in emerging markets with limited funding can adopt the hybrid model to ensure they generate income to support their activities.

Based on the quantitative findings of the study, the adapted balanced scorecard used by the South African social enterprises is displayed in Table 6 and Figure 3. Social enterprises can adapt the suggested balanced scorecard to measure their performance. Also, they can include the performance indicators that are specific to their organizations.

[Table 6 near here]

[Figure 2 near here]

In this study, customers were assessed as buyers who pay for the services offered by social enterprises and beneficiaries who receive services paid by the funders (Kaplan 2001), although it was recognised that in some hybrid models, it is revenue from customer transactions that funds the services to beneficiaries. The findings show that the measures described as ‘served existing customers/beneficiaries’; ‘attracted new customers/beneficiaries’; ‘expanded to include more beneficiaries’; and ‘improved product/service quality’ can be used to assess social enterprise performance (Brown 2005). The descriptive statistics also showed that stakeholders such as boards of directors, community trusts and employees are also important contributors to decision-making within the social enterprises. Therefore, there is a need for a measure that assesses engagement with other stakeholders. These findings are consistent with the notion that customers should be expanded to include more stakeholders (Lee and Moon 2008). Since the reliability score of this component is within the required range, social enterprises can use this perspective as a measure to determine the performance of a social enterprise.

This study focused on innovation as one of the internal process perspectives that determine the performance of a social enterprise. Innovation was selected because Bull (2007) emphasised that this perspective should move away from processes to activities that contribute to the performance of social enterprises. The results show that innovation can be included in a balanced scorecard as an indicator of one of the internal processes. An empirical study of 241 social enterprises showed that higher innovation is associated with a higher social value, which is demonstrated by social contribution, higher social responsibility and greater social recognition (Felício, Gonçalves, and da Conceição Gonçalves 2013). Consistent with Morris et al. (2007), innovation is significant in increasing efficiencies, serving more individuals or

enhancing what is done for these individuals, selling products and launching ventures. Further, Desa and Koch (2014) show that innovation is one of the significant capabilities for social enterprises in emerging markets that creates and captures beneficiary and local community value. The descriptive findings of the study showed that these organizations are also involved in the monitoring and evaluation of activities as one of the internal processes to ensure that they achieve the social and environmental impact. Indeed, social enterprises can use innovation as a way of solving social problems and social inequalities (Yang, Huang, and Lee 2014).

Organizational growth and learning was measured by the increase in the number of full-time and part-time employees. These employees assist the organization with the implementation of new technology, increasing market share relative to competitors, entering into new and important partnerships with other organizations and preparing a business plan for funding (Kaplan 2001; Bull 2007; Lee and Moon 2008). Additionally, growth was descriptively determined by the scope of operation, whereby many of these organizations are increasing their operations nationally and internationally. This is one of the difficult perspectives to measure (McLoughlin et al. 2009; Arena et al. 2015) because there are many variables that can be used to describe the growth of an organization. The possible multiple measures are an opportunity for social enterprises to select the measures that are specific and aligned with their strategic goals.

As seen in the results of the study, 61% of the enterprises that participated focus on achieving social impact through activities such as developing skills, supporting the elderly, supporting children, the youth, and women, improving health and wellbeing, promoting education and literacy, protecting the environment, providing affordable housing and protecting human rights. However, these are possible only if the social enterprise is able to make profits through achieving and maintaining a competitive advantage (Doherty et al. 2014). Emphasising

financial sustainability in addition to profit distribution, becomes a way to account for all activities in which the organization engages (Somers 2005). The financial perspective in the study focused on increased sales, improved profitability, loan funding accessed from a financial institution, equity investment attracted from a new shareholder and funding attracted from new donors. The findings showed that two of the measures, increasing sales and increasing profitability were the most reliable measures of performance. These two measures show that while many social enterprises rely on a combination of grant and trading income, ultimately, if an organization is not financially sustainable, it cannot deliver its social and environmental impact (Somers 2005). Further, it supports the notion that emerging market social enterprises rely on selling goods and services, which generate income to support the social initiatives. In sum, the challenges encountered in establishing the reliability for the financial perspective confirm the notion that it is difficult to measure financial performance of social enterprises in emerging markets.

Finally, the findings showed that the balanced scorecard perspectives can be used to measure performance at different point intervals, thus making the scorecard usable both for newer and for established enterprises. The newer businesses can use the perspectives to set their long-term strategic goals.

Balanced scorecard implications for social enterprises

In the myriad of performance management approaches (Yang et al. 2014; Grieco et al. 2015), the balanced scorecard seems to be appropriate to be used to measure performance for emerging markets enterprises as it can be utilised for social impact reporting and accounting, balancing the social and economic missions, ensuring business sustainability and improving the social enterprise competitive advantage. The reasons are explained below:

- a) The balanced scorecard can be utilised for social impact reporting and accounting of their social impact activities to decision-makers inside and outside of the organization (Somers 2005). The financial or quantitative perspectives of the balanced scorecard can be aligned with the financial value creation, while the non-financial and qualitative perspectives such as organisational learning and growth, customers and stakeholders, internal processes, mission and strategy can show social value. Further, borrowing from the Blended Value Accounting assumptions (Nicholls 2009), the balanced scorecard can be used by social entrepreneurs to perform strategic functions such as assessing performance, acquiring resources and establishing organizational legitimacy. Moreover, the all perspectives can be the useful as internal control and command mechanisms that ensure efficiency in social value creation. Finally, the entire tool can demonstrate credibility and accountability to different internal and external stakeholders involved in the social enterprise.
- b) It has been widely established that social enterprises, are faced with the balancing act between the social and economic mission (Ebrahim, Battilana, and Mair 2014). In the same vein as Somers (2005), this study supports the notion that the balanced scorecard can serve as way of balancing the social and economic profits. First, the scorecard positions the mission and strategy of the organizations at the top, unlike commercial businesses that emphasise financial profits over social impact. As a result, the social enterprises managers will make strategic decisions to ensure that the financial profits generated are used to support the social value creation. Also, by using the adapted balanced scorecard, social value created by the organization will be communicated in the organizational learning and growth, customer perspectives, internal process and strategy. Doing this at all stages of the social enterprise business processes will minimise the social and financial tensions.

- c) Since the balanced scorecard considers the significance of time in assessing performance, social entrepreneurs will be able to articulate their core aims and goals in the both short and long terms. The mission will be used to articulate what the social enterprise aims to achieve in the long-term, while the strategy will focus on the activities in the short- or mid-term or within the fixed period of time. Ability to show the current status of the social enterprise and its future goals, can be a way of ensuring business sustainability and sharing the social enterprise's story to attract stakeholders.
- d) Today's business environment has been classified as volatile, uncertain, complex and ambiguous (Bennett and Lemoine 2014). Social enterprise managers are challenged to find tools that will help them remain competitive and sustainable (Bull 2007). Therefore, a balanced scorecard can help managers to deal with the current changes by reflecting on the core strategy in relation to the balanced scorecard perspectives. Lastly, reflecting on the long-term social goals will be a mechanism to prepare for the uncertain future challenges. Being aware of the dynamic macro-environment and preparing for it will ensure the sustainability, survival and competitiveness of the social enterprise.

Conclusions and Future Research

The study was successful in showing that some elements of the balanced scorecard can be adapted to measure the performance of social enterprises. In this study, the results demonstrated that innovation, as one of the internal processes, is significant in measuring the performance of social enterprises. The results indicate that customer perspective, which is about social impact, could also be used to measure performance. A significant discovery was that for this perspective, in emerging markets, social enterprises also operate as hybrids, thus using the income from the customer transactions to fund the social impact activities. The next perspective, that is learning and growth, had significant results, which suggests that it can be used to measure performance. Finally, the financial measures so commonly used in for-profit

performance assessment are less reliable indicators of social enterprise performance. This shows that measuring financial performance is a challenge in social enterprises. Donations are not reliable measures of performance as many social enterprises rely on selling goods and services to generate income that will support their activities.

Using the balanced scorecard has shown a need for other performance measurement instruments to be flexible so as to incorporate the differing business practices or measures in social enterprises. For instance, in this study, the internal processes focused on innovation, which is key in emerging market enterprises. Customer perspective was expanded to include beneficiaries of the services. What the study added, is a framework that could be used by social entrepreneurs to track their performance at different intervals or over time. This will be one way of reflecting on the survival and sustainability of the business.

The modifications of the existing performance models should take into account the notion that performance measurement in hybrid enterprises might be different. Lastly, the study showed that the balanced scorecard can be adapted for social enterprise reporting and accounting. Therefore, the performance measurement models should be designed in such a way that they will be used as reporting tools which will enhance the organization's performance, resource acquisition and organizational legitimacy.

A limitation to the study is that the data are self-reported and there is no available secondary data, such as financial data, to validate the data collected, and therefore the findings. However, the existing literature was used to validate the results.

Although this study made an attempt to measure performance in social enterprises, there is still more research needed, especially research that is qualitative in nature to explain performance in social enterprises. Such studies may lead to an understanding of performance and perhaps to the development of a performance measurement instrument. There is a need to further explore

contextual factors that may explain performance of social enterprises. Since this study relied on self-reported data, there is a need for large studies that focus on performance in listed social enterprises. Finally, the hybrid social enterprises present a different narrative from those that are meant for social impact only; therefore, there is an opportunity to explore performance in hybrid organizations.

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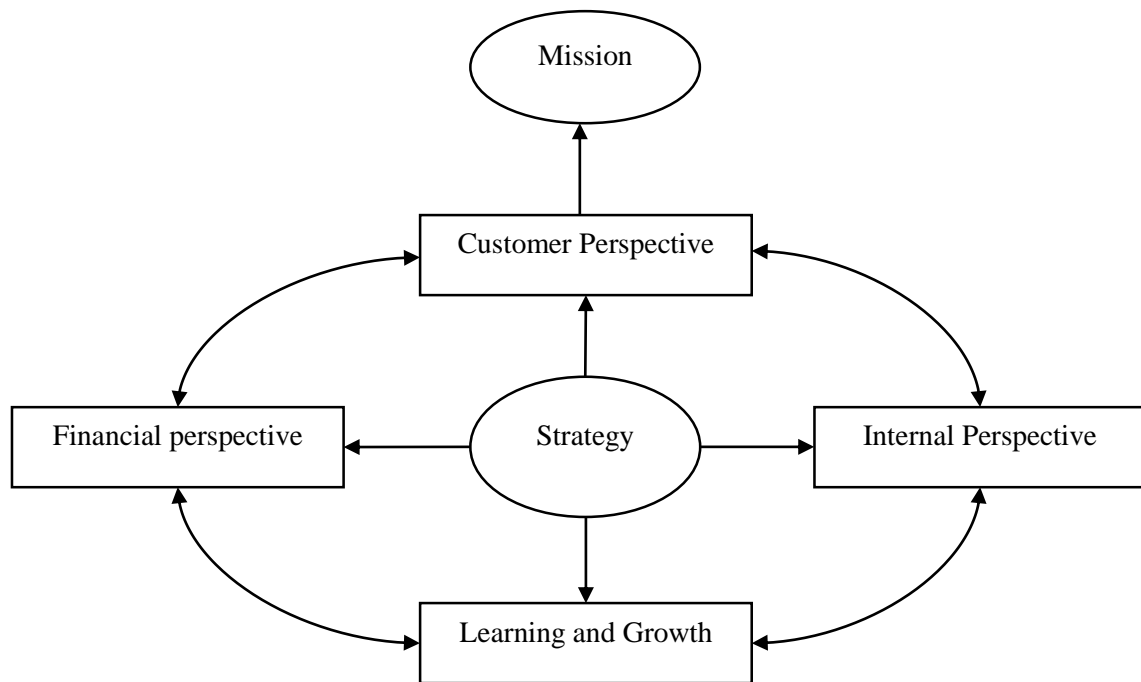


Figure 1: The modified balanced scorecard based on Kaplan (2001).

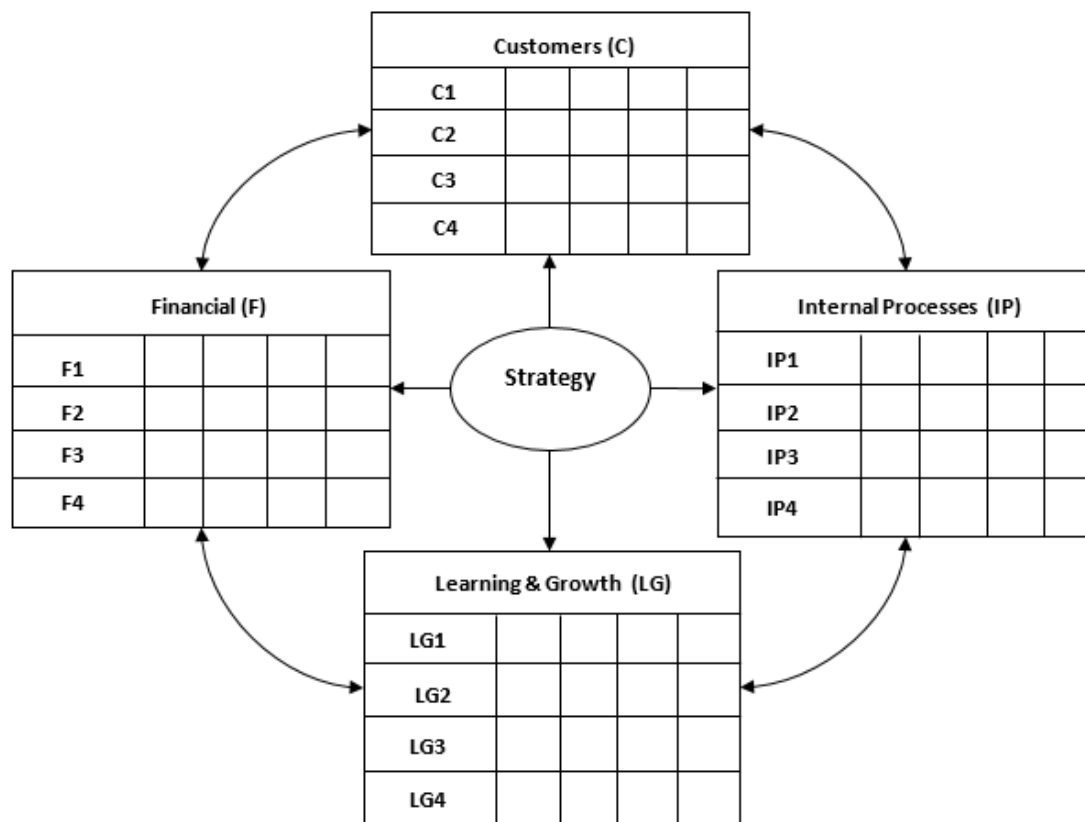


Figure 2: The adapted balanced scorecard.

Source: Authors' own

Table 1: Social enterprise reporting and accountability using balanced scorecard

Conceptual manifestations	Strategic function	Internal command and control using balanced scorecard perspectives	Stakeholder accountability
Positivist	Performance enhancement	Financial perspective	Balanced scorecard
Critical theorist	Resource acquisition	Strategy, financial, internal processes perspectives, learning and growth perspectives	Balanced scorecard
Interpretive	Organizational legitimacy	Customer perspective, stakeholder engagement, mission and strategy	Balanced scorecard

Source: Adapted from Nicholls (2009)

Table 2: Descriptive statistics

Organizational Characteristics	Frequency	Percentage
<i>Mission focus</i>		
For Profit	6	1.3
Social Impact	271	60.8
Equal Balance	169	37.9
Total	446	100.0
<i>Duration of operation</i>		
Less than 3 months	8	1.8
More than 3 months, less than 18 months	66	14.8
More than 18 months, less than 3 years	68	15.2
More than 3 years, less than 5 years	59	13.2
More than 5 years	245	54.9
Total	446	100.0
<i>Scope of operation</i>		
Local community based	266	59.6
Across a single province	48	10.8
Across multiple provinces	50	11.2
National, across the whole country	38	8.5
Regional, across several countries nearby	22	4.9
Global, across many countries	22	4.9
Total	446	100.0
<i>Income</i>		
Less than 300 000 ZAR	310	69.5
Between 300 000 and 500 000 ZAR	45	10.1
Between 500 000 and 1 million ZAR	35	7.8
Between 1 million and 3 million ZAR	31	7.0
Between 3 million and 6 million ZAR	13	2.9
More than 6 million ZAR	12	2.7
Total	446	100.0
<i>Monitoring and Evaluation</i>		
No effort and resources	36	8.1
Measure activity outputs only	83	18.6
Established internal monitoring and learning systems	183	41.0
Produce integrated reports of social and environmental	94	21.1
Detailed evaluations by external agency	44	9.9
Other Please Specify	6	1.3
Total	446	100.0
<i>Customers</i>		
Disadvantaged	166 out of 446	37%
Middle income	139 out of 446	31%
Upper income	98 out of 446	22%
Small business	122 out of 446	27%
Medium business	99 out of 446	22%
Large Corporates	124 out of 446	28%
<i>Beneficiaries</i>		
Local communities	208 out of 446	47%
Particular groups	178 out of 446	40%
Particular locations or regions	44 out of 446	10%
Organizations as such NGOs, religious groups	85 out of 446	19%
Employees	23 out of 446	23%
<i>Stakeholder Engagement</i>		
Advisory board made of beneficiaries	210 out of 446	47%
Representation on board of directors	187 out of 446	42%
Community trust	88 out of 446	20%
Employees and Management	168 out of 446	38%

Source: Authors' own

Table 3: Performance evaluation in social enterprises

Performance evaluation	Frequency	Percent
Weekly or more often	144	32.3
Monthly	157	35.2
Quarterly	99	22.2
Annually	38	8.5
Do not monitor progress and achievements	8	1.8
Total	446	100.0

Source: Authors' own

Table 4: Comparison of newer and established social enterprises

Balanced scorecard perspective	Duration	N	Mean Rank	Sum of Ranks	Asymp. Sig.(2tailed)
Customer	Less than 5 years	201	183.68	36920.00	0.00
	Above 5 years	245	256.17	62761.00	
	Total	446			
Internal processes	Less than 5 years	201	210.94	42399.50	0.61
	Above 5 years	245	233.80	57281.50	
	Total	446			
Learning and growth	Less than 5 years	201	198.47	39892.00	0.00
	Above 5 years	245	244.04	59789.00	
	Total	446			
Finance	Less than 5 years	201	217.44	43704.50	0.37
	Above 5 years	245	228.48	55976.50	
	Total	446			

Less than 5 years: newer and above 5 years: established social enterprises.

Source: Authors' own

Table 5: Comparison of newer and established social enterprises using equal sample sizes.

Balanced scorecard perspective	Business Duration	N	Mean Rank	Sum of Ranks	Asymp. Sig. (2-tailed)
Customer	Less than 5 years	201	174.29	35032.00	0,000
	Above 5 years	201	228.71	45971.00	
	Total	402			
Internal processes	Less than 5 years	201	201.45	40492.00	0.993
	Above 5 years	201	201.55	40511.00	
	Total	402			
Learning and growth	Less than 5 years	201	183.05	36794.00	0.001
	Above 5 years	201	219.95	44209.00	
	Total	402			
Finance	Less than 5 years	201	194.47	39089.00	0.224
	Above 5 years	201	208.53	41914.00	
	Total	402			

Source: Authors' own

Table 6: The adapted balanced scorecard for social enterprises

Balanced scorecard perspective	Annually																			
	Biannually										Biannually									
	Quarter 1					Quarter 2					Quarter 3					Quarter 4				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Customer perspective (C)																				
attracted new customers. C1																				
Served existing customers. C2																				
expanded to include more beneficiaries. C3																				
improved product/service quality offered to beneficiaries and customers. C4																				
Internal Processes (IP)																				
products/services regarded by beneficiaries/customers as new and different. IP1																				
delivering goods and services to beneficiaries/customers in a new and different manner. IP2																				
offering better quality products/services than other similar organizations. IP3																				
serving more beneficiaries than other similar organizations. IP4																				
Learning and Growth (LG)																				
increase number full time employees. LG1																				
enter into a new and important partnership with another organization. LG2																				
increase market shares relative to competitors. LG3																				
implemented a new technology. LG4 or																				
prepare a business plan. LG5																				
Finance (F)																				
lowered costs. F1																				
increased sales. F2																				
improved profitability. F3																				
attracted equity investment from a new shareholder. F4																				

Source: Authors' own