

# Chapter 10

## Performance Measurement in Social Enterprises: Social Impact Analysis

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### ABSTRACT

*This chapter begins with the notion of performance management and then focuses on the concept of social impact in order to deeply examine the measurement of performance in social enterprises. The chapter argues the importance of measuring social impact which is the crucial process in social investment and discusses which measurement method to choose. It then introduces the classification of methods in various forms based on the related literature. The chapter continues by explaining the most frequently used social impact measurement methods including cost effectiveness and cost benefit analyses, social accounting and auditing, SROI, balanced scorecard, SIMPLE, benefit-cost ratio, BACO ratio, expected return metric, cost per impact, and blended value. Finally, the conclusion focuses on the overall perspective of the subject, critical areas to pay attention to, and limitations.*

### INTRODUCTION

The grasp of the concept of sustainability has led the social dimension of the subject to be expanded and become more and more practical especially in recent years. This brought along corporate business executives to discuss their social performances and to think about how they can create value in this field. Parallel to these developments, there has been a huge increase in the number of nonprofit social enterprises. These initiatives have created a new business area by focusing on market-oriented businesses that create social value. Social enterprises have become a pioneer in creating social value in a wide variety of areas and with very different activities. The most important issue to be addressed at this point is the way value is created as well as the measurement of the social value created, in other words the social impact. The necessity of determining the social performances of both corporate and nonprofit social enterprises has led to the development of methodologies, tools and practices for measuring social

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impact. The measurement of social impact provides evidence of the value created by social enterprises with an output-oriented perspective.

This chapter will explain the concept of performance measurement and social impact which is the indicator of performance in social enterprises. Then the measurement of social impact and the importance of this measurement will be mentioned. Since there are various measurement methods available for social enterprises, how to choose the appropriate measurement method will be explained in following section. After explaining the approaches that can be used for the selection, the diverse classifications in the literature will be mentioned and the most frequently used methods of social impact measurement will be explained.

## **PERFORMANCE MEASUREMENT**

Performance measurement has emerged as a vital issue for profit-oriented businesses and various performance measurement systems have been developed throughout history. The development of performance measurement systems can be summarized within four phases. Until the late 1950s, it was particularly focused on production, cost and efficiency. Between the 1950s and the 1960s, financial performance outcomes have gained importance for other departments as well as production (Bititci, Garengo, Dörfler, & Nudurupati, 2011). From the 1960s until the late 1980s, performance measurement systems involved some other non-financial indicators like business strategy, quality, flexibility and customer satisfaction (Kaplan, 1984; Simons, 1995). In the fourth and the last phase, with the development of the stakeholder theory, it has come to the point that the performance should be measured by considering company's internal and external environment in other words all stakeholders related (Bititci, Garengo, Dörfler, & Nudurupati, 2011; Freeman, 1984). This approach has caused to examine performance measurement in a multidimensional perspective and has emerged ecological and social dimensions to the measurement systems beside financial dimension. However, performance measurement is usually based on the achievement of the goal and does not consider social or environmental issues. The efficiency is often represented by the achievement of defined and measurable organizational goals. Achieving such organizational goals can be explored using traditional performance measurement systems. But involvement of the influence of social and environmental dimensions makes it difficult to identify, measure and evaluate such effects. Measuring performances through the inclusion of economic, environmental and social dimensions involve challenges in it, but it also makes it even more difficult to address such measures in the context of social enterprises. First, the development of an extensive and reliable performance measurement system is expensive and in social enterprises, managers have limited resources and time restrictions to collect and analyze data to feed the measurement system. Secondly, a performance measurement system for a social enterprise should include various performance indicators that cover multiple goals in terms of economic, environmental and social performance. Finally, due to the content-based nature of a particular set of measures that reflect the sensitivity of specific groups, there is slight empirical evidence that performance measurement systems have any effect on actual business practices (Bull, 2007; Paton, 2003).

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