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What to Focus On While Running Social Enterprises – Toward Performance Measurement

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Abstract: *This article summarizes the performance measurement methods applicable to conventional enterprises and social enterprises. The article also presents the characteristics of social enterprises and thereby discusses the optimal measurement methods and criteria in the current context for social enterprises. The limitation of this article is just to compile existing documents without in-depth analysis of each proposed measurement system. However, this is also the strength of the article because it provides a relatively transparent and general perspective on measuring the performance of social enterprises.*
Keywords: *Social Enterprise, Operational Efficiency, Performance Measurement System*

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I. Introduction

The Vietnam's Social Enterprises Laws has come into effect from July 2015, following up with many legal documents born to manage and support the activities of social enterprises. It is undeniable that this external support has brought many advantages to the social enterprises. However, with classifying Vietnam belonging to a group of countries having a middle-low income in 2009 by World Bank results in the decreasing in receiving ODA, compared to the fact that Vietnam was used to be recorded as one of the top ODA recipients in the world [1]. As one of the beneficiaries ODA, social enterprises in Vietnam have certainly had a significant reduction in financial resources since this incident. This is one of the noticeable difficulties affecting the effectiveness of activities of social enterprises. In addition, internal difficulties come from the nature of business mode leading to a lack of operation and management orientation affecting operational efficiency. Therefore, it is necessary to have frameworks to measure the performance so as to keep social enterprises developing sustainably.

Social enterprises are private organizations that specialize in solving social problems, serving the disadvantaged, and providing important goods to society that, in their judgment, are not adequately provided by public authorities or the private market. These organizations pursued goals that could not be measured simply by generating profits or entering the market. Social enterprises are also defined as businesses that do business for social purposes. They combine innovation, entrepreneurship, and social purpose and seek to be financially sustainable by generating revenue from trading. Their social mission prioritizes social good over financial returns, and if and when there is a surplus, this surplus will be used to further the social goals of the group or community that benefits and is not distributed to those who have control of the business [2], [3]. Thus, it can be understood that social enterprises are enterprises established for social purposes and through business activities to achieve this purpose.

The table below summarizes and compares the characteristic differences between the two forms of enterprises mentioned above:

	Conventional Enterprises	**Social Enterprises**
Main Goals	Maximize profits: The main goal is to generate profits for owners or shareholders. Financial performance is the main measure of success.	Social or environmental impact: The primary goal is to address social or environmental challenges. The measure of success is a positive impact on society or the environment.
Mission and Vision	Focus on market success, customer satisfaction, and financial growth. Often emphasizes on innovation, efficiency, market leadership, and profitability.	The mission and vision focus on solving social or environmental problems. Emphasis on social impact, sustainability, and community or environmental well-being.
Profit Distribution	Profits are mainly distributed to owners or shareholders in the form of dividends or reinvestment for business development.	Profits are largely reinvested in social missions. Some may distribute limited

		profits to investors but prioritize reinvesting in their social or environmental goals.
Business Model	Business models are designed primarily around generating revenue and profits. Focus on competitive, market share, and cost-effective strategies.	Business models are designed to achieve both social impact and financial sustainability. Often involves innovative approaches to solving social problems and can rely on a combination of revenue streams, including sales, sponsorships, and donations.
Stakeholders	Key stakeholders include shareholders, customers, employees, and suppliers. The main focus is on meeting the needs and expectations of shareholders and customers.	Key stakeholders include social mission beneficiaries, employees, customers, investors, and the community. Focus on delivering value to beneficiaries and achieving social mission.
Legal Structure	Often structured as for-profit entities such as corporations, partnerships, or private businesses. The legal structure is chosen mainly because of business efficiency and tax considerations.	Can be structured into non-profit organizations, for-profit companies, cooperatives. The legal structure is chosen to balance social impact and financial capacity.
Financing	Funded through sales revenue, investment from shareholders, bank loans and capital markets.	Funded through a combination of sales revenue, sponsorships, donations, impact investing, and sometimes traditional investment mechanisms. It is also possible to receive funding from the government or charitable organizations.

Table 1: Conventional enterprises and Social enterprises in comparison (Source: Compilation)

From the above comparison, it can be seen that, in essence, while both traditional enterprises and social enterprises aim for financial sustainability, their fundamental difference lies in their core goals. Traditional businesses prioritize maximizing profits, while social enterprises put creating social or environmental value first, in addition to financial goals. This difference leads to modifications in mission, stakeholder focus, profit distribution, business model, and efficiency metrics. Due to the above differences, while the performance measurement of traditional enterprises is mainly by financial figures such as revenue, profit margin, return on investment (ROI) and market share, the development of a system to measure the performance of social enterprises must be meeting the goals of economic efficiency, financial sustainability, environmental and social impact. Social impact metrics may include the number of people served, environmental benefits achieved, and improved quality of community welfare.

II. Performance Measurement Systems for traditional enterprises

Performance measurement systems for conventional enterprises are developed through four main stages [4], [5]. The development of efficiency measurement theory reflects broader trends in management thinking and practice. From an initial focus on efficiency and productivity, the field has evolved to include a multi-dimensional approach, considering financial, operational, social, and environmental factors. This development is driven by changes in the business environment, technological advancements, and evolving social expectations.

In its first phase, between the 1920s and 1950s, the Performance Measurement System focused on one area—production—with specific attention devoted to cost/efficiency issues [4]. Frederick Winslow Taylor formulated the Scientific Management Theory. He emphasized the use of time and motion studies to optimize workflows and improve productivity. Taylor's approach focuses on efficiency and standardization. Later, Frank Gilbreth Lillian Gilbreth based on Taylor's theory to develop motion studies aimed at reducing unnecessary movements and improving work efficiency with Motion Research, and Lillian also contributed significantly to the understanding of human factors and ergonomics with "Management Psychology". In the 1920s-1930s, Elton Mayo conducted the Hawthorne study, which emphasized the impact of social and psychological factors on productivity and introduced the concept of encouraging employees to work more efficiently. This shifts the focus to understanding and measuring the human aspects of work. However, the ultimate measurement goal is still labor productivity.

In the second period, between the 1950s and 1960s, the Performance Measurement System began to expand its scope to departmental and departmental budgets, still paying special attention to economic and financial activity [4], [6]. In the 1950s, Peter Drucker introduced the concept of Management by Objectives (MBO), which emphasizes setting goals that are clear, measurable, and aligned with the organization's strategy. Efficiency is measured based on the achievement of these goals.

The third period was the period between the 1960s and 1980s. In the 1980s, Edwards Deming and Joseph Juran developed the concept of Total Quality Management (TQM) – which focuses on the continuous improvement of processes and products/services. TQM introduces quality metrics and statistical process control to systematically measure and improve efficiency. Along with that is the concept of Continuous Improvement, which represents a systematic approach to gradually improve an organization's processes, products, or services over time.

Performance measurement systems integrate new aspects of effectiveness: quality, timeliness, flexibility, and customer satisfaction [7],[8], leading to the emergence of Key Performance Indicators (KPIs), which refer to measures aimed at monitoring the long-term success factors of a company. In fact, at this time, the documentation on the performance measurement system clarified the existence of a link between performance indicators and the company's strategy [9], this connection became clear with the emergence of the Balanced Scorecard in the 1900s by Robert Kaplan and David Norton [10], [11], based on the idea of providing a comprehensive view of the company's performance, supported by financial and non-financial indicators such as customers, internal processes, and learning & development [12], [13]. It aims to balance traditional financial metrics with non-financial indicators to achieve strategic objectives.

In the 2000s, Andy Neely, Chris Adams, and Mike Kennerley developed Performance Prism by basing on the Balanced Scorecard and incorporating stakeholder perspectives and focusing on delivering value to all stakeholders. It looks at five aspects: Stakeholder Satisfaction, Strategy, Process, Capabilities, and Stakeholder Contributions. In recent years, the International Integrated Reporting Council has proposed Integrated Reporting including financial, environmental, social and governance (ESG) factors that aims to provide a comprehensive view of an organization's performance. It emphasizes transparency, accountability, and sustainability.

In particular, the advent of advanced data analytics and big data technology has revolutionized efficient measurement. Traditional performance measurement often relies on limited data samples, while big data allows for the collection of comprehensive, real-time data sets, predicting trends and future performance outcomes.

Finally, more recently, the development of the performance measurement system signals the need to go beyond corporate boundaries, integrating the impact of company operations on a larger group of stakeholders [4], [14]. This trend has led to the integration of indicators related to environmental and social performance into corporate reporting [15], [16], [17].

In conclusion, the historical development of the theory of measuring organizational performance reflects the evolution from scientific management methods that focus on efficiency to more comprehensive and stakeholder-oriented frameworks such as the Balanced Scorecard and the Efficiency Lens. These theories have evolved to include not only financial metrics but also non-financial indicators, sustainability considerations, and the integration of advanced data analytics. Modern trends continue to shape the future of performance measurement, emphasizing flexibility, sustainability, and strategic alignment between organizational goals and measurable outcomes.

III. Performance measurement for social enterprises

3.1 Difficulties in measuring the performance of social enterprises

There are some methodological problems, such as the inclusion of "social values", which require to be defined at the conceptual level and translated into measurable terms [18]. Secondly, social enterprises face difficulties in resources. Developing a comprehensive and reliable performance measurement system can be costly both in terms of data generation, employee time, and investment in information technology [19]. In social enterprises, managers are limited in time and resources to collect and provide data to the system. Thirdly, there is still little empirical evidence that performance measurement tools have any impact on actual business activity [20], especially due to the local and contextual nature of a particular set of measures, reflecting the sensitivity of a particular group [19], [21]. These characteristics have spurred the development of special tools for social enterprises, which try to take into account the key characteristics of these organizations and provide information tailored to their specific needs.

3.2 Suitable models to measure the performance of social enterprises

The first type of tool proposed is the Social Enterprise Balanced Scorecard (SEBS) by Somers (2005). Somers adapted Kaplan and Norton's initial Balanced Scorecard [22], [23], [24], attempting to combine consideration of different stakeholder groups to tailor the above model to the specifics of social enterprises. Compared to the original model, in the case of social enterprises, the definition of a customer is expanded. In private sector transactions, the customers both pay for the goods/services and receive it. In the case of social enterprises, the people who pay for a service can also be donors and/or members, while other beneficiaries receive that service, resulting in the choice of separating the customer perspective into the donor perspective and the recipient perspective [25]. The author introduces three main changes from the original model. He adds one more layer, introducing social goals above the financial aspect; the financial perspective is expanded to focus on sustainability (thus including environmental and social activities); and the customer perspective is expanded to attract a larger number of stakeholder groups, differentiating between those who pay for a service (sponsors) and those who use it (employees, beneficiaries, and the broader community).

SESB proposes indicators to measure the performance of a social enterprise including:

Financial performance figures	Revenue and profitability: Standard financial metrics such as total revenue, net profit, and profit margin.
	Cost-effectiveness: Operating costs, cost per service/product unit, and efficiency rate.
	Return on Investment (ROI): Financial gains from investments made in the business.
	Cash flow: Manage liquidity and cash to ensure the organization can stay afloat.
Social Impact Metrics	Beneficiaries served: The number of people who directly benefit from the organization's activities.
	Improving the quality of life: Changes in the standard of living, health, education, and economic stability of beneficiaries.
	Social Return on Investment (SROI): Social value is created for every dollar invested in the organization.
	Outreach and Participation: Community participation, participation rate, and outreach effectiveness.
Environmental Impact Figures	Carbon footprint: Measures an organization's greenhouse gas emissions.
	Resource efficiency: Use and conservation of natural resources (e.g., water, energy).
	Waste management: The amount of waste generated and the effectiveness of waste reduction strategies.
	Sustainable practices: Implement sustainable practices in operations and supply chains.
Activity Metrics	Efficiency rate: Measures of operational efficiency such as turnaround time, speed of service delivery, and productivity rate.
	Innovation and growth: The pace of innovation in products/services and organizational growth metrics.
	Employee metrics: Employee satisfaction, retention rates, and career development opportunities.
Stakeholder engagement metrics	Customer satisfaction: The level of satisfaction of customers and beneficiaries.
	Partnerships and collaborations: The quantity and quality of partnerships with organizations, NGOs, and other government agencies.
Transparency and accountability	Measures of how transparent an organization is in reporting its activities and impact.

Table 2: SESB's indicators to measure the performance of a social enterprises. (Source: compilation)

Bull [26] continues to adjust the original Balanced Scorecard model for Social Enterprises. He proposed measurement indicators including:

Financial figures	Evaluate revenue generation, profitability, cost-effectiveness, and financial sustainability. These figures help determine the viability and economic stability of social enterprises.
Social Impact Metrics	Evaluate the organization's contribution to social goals, such as improving education, health, poverty alleviation, or environmental conservation. Metrics can include the number of beneficiaries achieved, outcomes achieved, and improvements in the quality of life of stakeholders.
Performance	Analyze the efficiency of processes and resource utilization in the enterprise. This aspect focuses on optimizing operations to improve overall efficiency and impact.
Stakeholder involvement	Measure satisfaction among stakeholders, including customers, employees, investors, and the community. Effective stakeholder engagement is critical to maintaining support and achieving long-term sustainability.

Table 3: Bull's adjusted Balanced Scorecard model for Social Enterprises. (Source: complilation)

Although the Somers and Bull models provide a more comprehensive view of the effectiveness of social enterprise, there are still issues that need to be considered, including: expanding the client's perspective only partially meets the information needs of different stakeholders. The range of audiences that may be interested in the results of social enterprises is much wider than that of other organizations. Besides, this is a static framework that does not consider how an organization's related activities change throughout its life cycle [27]. Finally, some of the proposed indicators are difficult to measure, such as those related to social capital and supervised knowledge [28].

The second group includes proposals for contingency models that should be initiated based on the specific characteristics of a particular social enterprise. Bagnoli (2009) [29] proposes an Efficiency Measurement Framework with a dual-outcomes perspective – recognizing that social enterprises aim to achieve both financial sustainability and social impact. Therefore, measuring effectiveness must evaluate the results in relation to both aspects. Therefore, according to Bagnoli, the metrics must integrate financial, social and environmental to provide a comprehensive assessment of the organization's performance. This approach ensures that all aspects of the mission of social enterprise are considered. In that, he emphasized the importance of measuring and reporting on the social outcomes generated by businesses. Metrics can include the number of beneficiaries served, changes in their quality of life, and other social indicators related to the business's mission. Financial sustainability is also emphasized through the evaluation of traditional financial metrics such as revenue growth, profitability, cost management, and efficiency. These metrics are important for assessing the economic health and long-term viability of social enterprises.

Subsequently, Bagnoli and Megali (2011) [30] looked at economic-financial performance, in conjunction with the determination of overall operational efficiency (profits, value added, etc.) and the results of the analysis (cost of service production, performance indicators, etc.); social efficiency, to measure the quantity and quality of work carried out and determine its impact for expected beneficiaries and the community; and the legitimacy of the organization, verifying compliance with laws and mission statements. When integrating these aspects, we propose a multi-dimensional control framework that is suitable for the management of social enterprises. The indicators must be linked to these aspects based on the specific characteristics of the social enterprise. Compared to the previous models, Bagnoli and Megali emphasize the issue of social efficiency and institutional legitimacy as "new" aspects, which have not been addressed in previous approaches. However, similar to the adjustment of the Balanced Scorecard, it ignores the existence of various information requests coming from different stakeholders [31], [32], [33].

Ebrahim and Rangan (2010) [33] have shown the complexity of measuring social impact due to the diverse and often invisible nature of social outcomes. Social enterprises face unique challenges compared to for-profit organizations, including different definitions of success and impact, a long-term vision of results, and difficulties in attributing results directly to specific interventions. Ebrahim and Rangan propose a Contingency Framework to address the shift in the measurement of social effectiveness, showing that the appropriate measurement methodology depends on the context and specific nature of the organization's work. The Contingency Framework refers to the timing of outcomes, social issues, and allocation of results. Particularly, Current Outputs are short-term results, directly from the organization's activities. Intermediate outcomes are changes or benefits derived from the Current Outputs in the medium term, and Long-term impacts are fundamental changes in conditions or systems over a longer period of time. Considering the nature of social problems, problems are classified into simple problems that have clear solutions and direct causal relationships. Complex problems are ones that have many interrelated causes and do not have simple solutions. The results evaluated include direct results – it is easier to attribute more direct changes to the organization's activities; prevalent results – it is difficult to attribute direct results to more specific actions due to the involvement of many factors and agents. In particular, the authors suggest that, given the diversity of work, goals, and capacities of organizations in the social sector, some organizations should measure the long-term impact of volunteers, while others should focus on measuring short-term outcomes.

Therefore, they propose a logic to determine what type of measures are appropriate, driven by the missions and objectives of the organization, but do not formalize the set of indicators in a predefined system. Therefore, this framework provides a way for social enterprise leaders and managers to clarify what kind of outcomes they aspire to achieve and what they are accountable for.

IV. Conclusion

In conclusion, although the core goal is not a financial goal, it is essential for social enterprises to include financial indicators in the measurement of performance because financial sustainability is a prerequisite for the implementation of social goals. In addition, with the diverse and often intangible nature of the social impacts that social enterprises create, the diversity and sustainability that social enterprises pursue, all viewpoints claim that the model of measuring the performance for a social enterprise needs to integrate factors related to environmental and social results, at the same time customized according to the specific context and nature of the work of the social enterprise.

The limitation of the models presented is that the measurement criteria are built from the perspective of the social enterprise itself without seeing the voice of the stakeholders on what they want while the social enterprise is born and maintained because of the relevant beneficiaries. Therefore, it is necessary to build a measurement model that takes into account the criteria given by stakeholders, especially beneficiaries.

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