

# Measuring Performance in Social Enterprises

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## Abstract

This article addresses the subject of management control and tries to create a performance measurement system for social enterprises, that is, how to measure success. Three reference fields for management are analyzed: (a) economic-financial performance, linked to the determination of general performance (profits, value added, etc.) and analytic results (production-cost of services, efficiency indicators, etc.); (b) social effectiveness, to measure the quantity and quality of work undertaken and to identify its impact on the intended beneficiaries and the community; and (c) institutional legitimacy, verifying conformity with law and mission statement. In integrating these aspects, we propose a multidimensional controlling framework that is appropriate to the management of a social enterprise. We try to demonstrate the validity of the theoretical model through the illustration of an Italian empirical case: the work integration social enterprise “Ulisse.”

## Keywords

social enterprise, performance measurement, management control

## Introduction

Management control systems are valuable for orienting the behavior of an organization—both as individuals and as an institution—toward the fulfillment of goals. Predominantly, such control is achieved by means of measurement instruments that are quantitative and quantitative monetary, with attention also to the increasing importance of qualitative aspects.

When management control concerns a social enterprise (SE)—that is, a social mission-driven organization that trades in goods or services for a social purpose

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(Borzaga & Defourny, 2001; Kerlin, 2006; Nyssens, 2006)—the related performance measurement systems necessarily assume multiple profiles.<sup>1</sup> Actually, an SE should be multistakeholder, sustained mostly on earned income and run business that itself accomplishes the social aim through its operation (e.g., integration of disadvantaged people through work; provision of social, community, and environmental services; ethical trading).

Therefore, when referring to an SE as a firm that answers to the community rather than to shareholders (Pearce, 2003), management control becomes instrumental to a vision of general accountability, in the sense of responsibility and the correlated duty of disclosure (Gray, 2001).

Moreover, management control and the related measurement systems are the main instruments that guarantee the availability of data and information for an accountable disclosure. It follows that it would be appropriate to implement a multidimensional control system over three management-reference fields, in other words, a system that adds consideration of normative-statutory constraints to the traditional double bottom line (Barman, 2007; Emerson & Twersky, 1996).<sup>2</sup> These three fields are

1. economic-financial, both for financial statement disclosure and cost-accounting;
2. results-based, referable to the concept of (social) effectiveness; and
3. institutional legitimacy.

Although SEs are established for purposes other than profit (Gui, 1990; Valentinov, 2008), the financial field should not take the entity's legal type into consideration but rather focus on the activities carried out and therefore on the goods and/or services realized.<sup>3</sup> Nonetheless, it is important to measure efficiency and profitability to verify entrepreneurship as a basic component of assessing overall effectiveness (Ritchie & Kolodinsky, 2003, p. 368). On the one hand, this control will be carried out by means of a financial accounting system (suitably configured) and above all by the preparation of a financial statement designed to furnish the necessary information regarding efficiency and profitability. On the other hand, it requires the institution of a suitable system of cost accounting within the organization to translate the supply-chain into financial values through recording and analyzing the costs associated with products/activities undertaken.

In contrast, control, which is focused on results, corresponds to an evaluation of social effectiveness. In other terms, this dimension of control verifies an SE's capability to answer to the social purpose for which it has been established and managed. It deals with quantitative and qualitative analyses that, besides appraising (physical) inputs and outputs, aims to identify and evaluate benefits to the recipients of outputs, together with the impact on the general well-being. The implementation of these types of measurements also establishes an optimal informational basis for constructing formulae for social reporting (Gray, 1997).

Finally, control regarding compliance with institutional legitimacy is normally reported through

- checks on institutional coherence (encompassing control of the correspondence among activities undertaken, the results achieved, and the goals established in a mission statement, in the statute of the entity, and in the targets set by the board);
- conformity with national and international laws.

These fields of measurement and control are obviously broadly interdependent. However, to achieve clearness and intelligibility, this article deals with each separately, defining the most useful key indicators within each area and transforming this variety into a unitary control system characterized by a strategic approach (Kaplan, 2001; Somers, 2005).

To verify the theoretical validity of the above model for measuring, it will be illustrated, for each dimension of control submitted, its practical application to an Italian social cooperative—a work integration social enterprise—“Ulisse,” which aims for the inclusion and integration of people working at a disadvantage, with specific attention to psychological discomfort.

Ulisse was established in Florence in 1998 through a joint project between the local health organization and some third sector entities to create and develop services for the community.

It carries out the following commercial activities (services):

- Mille & a bike sale—repair and sale of used bicycles
- Mille & Rent a bike—bike rental
- Ulisse Barnum—bar and restaurant
- Ecology—bulk waste collection
- Science—software and information technology
- Aleph—social tourism
- Lavanova—Laundry

Ulisse, which is composed of 35 shareholders/members (27 employed, 7 volunteer, and 1 investor), has achieved in 2007 a production value of 838,000 Euros and total assets amounting to 430,000 Euros.

## **Economic and Financial Performance**

Economic and financial performance measurement is used by SEs to check their financial accountability. In this way, management control systems are necessary to measure an organization's effort to reach economic equilibrium (Giannessi, 1960).

Unlike other nonprofit voluntary organizations or foundations, SEs are—first and foremost—enterprises, and therefore their social goals are to be pursued only by respecting economic and financial efficiency. If an SE operates at a temporary loss, there should be a social reason—for example, to prevent community spending for social needs—and clearness about how to reach breakeven point. It follows that it is

necessary for SEs to adopt a double-entry accounting system focused on accrual principles applicable to for-profit and to establish well-constructed financial statements (Torres & Pina, 2003). This perspective aims to control economic and financial values and to guarantee a true and fair view of the annual accounts to assess

- economic efficiency, not only in terms of the bottom line but also in terms of providing full details of all parts of the income statement; and
- the financial situation, considering assets, liabilities, and net equity.

More specifically, with regard to the income statement, it will also be appropriate to work out formats that can express the incomes of the various participants in the production process—that is, to use a value-added approach to disclose revenues, expenses, and the final result.

A value-added statement uses information from the financial accounts to calculate the value added by an organization through the transformation of externally purchased goods and services (Burchell, Clubb, & Hopwood, 1985). It looks beyond income to encompass ownership and includes the wealth created for a wider group of stakeholders (Mook, Richmond, & Quarter, 2003). There are three possible approaches, which respond to different definitions of internal and external resources:<sup>4</sup>

- For the accountancy discipline and for professional accountants, value is added by using labor and capital. Therefore, internal expenses are labor costs such as wages and employee benefits, depreciation, and investor earnings, whereas external expenses are goods and services bought outside the company (Accounting Standards Steering Committee, 1975);
- For social accounting, internal expenses concern the economic flows destined to a wider group of stakeholders, namely, human resources (both employees and collaborators), the community (income taxes), investors (equity or debt), and the like (Mook, Quarter, & Richmond, 2007);
- For mutualities such as cooperatives, internal expenses include all payments to the partners and the related network, in accordance with international cooperative principles (International Co-operative Alliance, 1995).

Entering into the merit of our case study, Ulisse has a general accounting system based on respect for civil and fiscal principles. To apply the model based on the distribution of the value added, the records required and tracked in the income statement have been reclassified introducing a social key reading focused on the economic and social value added (VAES). Accordingly, the role of some inputs has changed, considering those inputs as internal factors. The related costs are treated to an allotment of profits so it broadens the concept of income—the VAES—to be distributed.

With reference to Ulisse, those internal factors are

- the internal structure, which is paid through depreciation and net income permanently retained within the cooperative;

**Table 1.** Production and Distribution of Economic and Social Value Added

|                                                                                    | 2007 % of VAES | 2006 % of VAES |
|------------------------------------------------------------------------------------|----------------|----------------|
| A. Production value (turnover, stock variations, capitalized work, other revenues) | 156.78         | 143.39         |
| B. Intermediate production costs (raw materials, services, other external costs)   | 56.78          | 43.39          |
| Economic and social value added (VAES): (A) – (B)                                  | 100.00         | 100.00         |
| Distributed to                                                                     |                |                |
| The company                                                                        | 4.82           | 4.29           |
| Amortization and depreciation                                                      | 4.37           | 4.17           |
| Retained earnings                                                                  | 0.45           | 0.12           |
| The community                                                                      | –4.25          | 0.91           |
| Income and other taxes                                                             | 1.69           | 1.82           |
| Contributions                                                                      | –5.94          | –0.91          |
| The members                                                                        | 74.60          | 64.90          |
| Staff costs (worker cooperative)                                                   | 74.60          | 64.90          |
| Raw materials (producers cooperative)                                              | —              | —              |
| Interests (banking cooperative)                                                    | —              | —              |
| The staff                                                                          | 21.61          | 27.37          |
| Employees                                                                          | 4.77           | 3.53           |
| Services                                                                           | 16.84          | 23.84          |
| The cooperative world                                                              | 1.51           | 1.28           |
| Materials                                                                          | 1.50           | 1.27           |
| Interests                                                                          | —              | —              |
| Mutual funds                                                                       | 0.01           | 0.01           |
| The external funders                                                               | 1.71           | 1.25           |
| Interests                                                                          | 1.71           | 1.25           |
| Total distributed VAES                                                             | 100.00         | 100.00         |

- the community, addressed of the taxes and donations and in turn providing contributions without corresponding commitments;
- the members of the cooperative;
- the human resources who are not members, both employees and external collaborators;
- the cooperative's world, as an "ideal network" which the enterprise refers to;
- the external funders.

The result is the prospect of VAES, illustrated in Table 1.

Although it can almost always be observed that in organizations making use of the "external" profile of economic-financial analysis—albeit with different degrees of analytic depth—the "inside" profile appears less widely diffused, and above all, when referred to budgeting.<sup>5</sup>

For an SE, it is often difficult to plan for the future. The reasons for their substantial incapacity for forward thinking and multiannual planning and budgeting include dependence on public spending and/or working with projects financed by investors

who are pursuing social aims and sometimes also the lack of markets combined with weak capital structures due to their average small size.

It follows that it is important to track, record, and analyze an SE's activities and income components (and above all costs) at least in the short term. That is to say, it is necessary to identify reasons for the emergence and the variability of revenues and expenses. In operational terms, then, the implementation of this planning and control system will entail a change of form, from natural to destination-based accounting.

The following steps put the above approach into effect:

1. Definition of cost-absorbing items: An SE should clearly define its core responsibilities ("responsibility centers") to collect and report revenue and cost information by area of responsibility. This requires that the SE assigns responsibility centers in relationship to its organizational structure, matching these to specific functions (administration, project planning, cost pooling, etc.), activities, and/or realized goods and services;
2. Analysis of cost behaviors and cost drivers: An SE should seek to apply the principles of objectivity and convenience when allocating costs to responsibility centers and should attribute costs on a robust and consistent basis;
3. Concrete revenue and cost allocation, as defined in points 1 and 2.

Finally, the economic values (ex-ante or ex-post data) are reclassified according to responsibility centers. Thus, purchases, services, labor costs, depreciation, and so on need to be distributed within the organizational structure of control.

As outlined, this internal control serves the following purposes:

- Development of partial results for assets/services/products, elaborated as synthetic performance accounting expressed as gross margin;
- Subsequent evaluations of sectional profitability and efficiency for each input.

From a practical point of view in Ulisse SE, this result has been obtained by the construction of the following schedule (Table 2).

Note that the capacity to allocate expenses according to the organizational structure can generate interesting business information:

- First, it makes the cost of running certain support activities, such as administration, evident.
- Second, it permits the determination of appropriate cost configurations for the "production" of specific goods/services (for example, the bike rental), including all the activities which are necessary to realize them to assess their value for money.

A better understanding of the costs of production also enables an assessment of the ability to compete with the reference marketplace and, above all, enables participation

**Table 2.** Partial Economic Statements

|                           | Responsibility centers (thousand Euros) |      |         |                 |                          |         |             |                  |
|---------------------------|-----------------------------------------|------|---------|-----------------|--------------------------|---------|-------------|------------------|
|                           | Bar                                     | Bike | Ecology | Social services | Cleaning and maintenance | Laundry | Informatics | General services |
| Revenues                  | 259                                     | 171  | 145     | 24              | 68                       | 62      | 85          | 55               |
| Purchase of raw materials | 116                                     | 3    | —       | —               | 0                        | 9       | —           | 7                |
| Personnel                 | 107                                     | 111  | 68      | 19              | 44                       | 44      | 15          | 80               |
| Services                  | 7                                       | 6    | 14      | —               | 6                        | 12      | 18          | 65               |
| Others                    | 4                                       | 4    | 12      | —               | 3                        | 1       | —           | 44               |
| Depreciation              | 3                                       | 2    | 4       | —               | —                        | 1       | —           | 13               |
| Partial results           | 22                                      | 45   | 47      | 5               | 15                       | −5      | 52          | −154             |
| Return on sales (%)       | 8                                       | 26   | 32      | 21              | 22                       | −8      | 61          |                  |

in public calls for tenders. In addition, where the market is wholly or partly made up of members/associates, knowledge of production cost provides an important benchmark for pricing decisions.

Finally, for more complex management activities, it has become possible to draw up sectional accounts to record profitability (cost efficiency), highlighting economic performance and each section's gross margin as part of the total SE's financial statements.

Moreover, a fuller knowledge of the contribution made by individual inputs toward the realization of an activity or a good/service can also give rise to calculations of efficiency (productivity), typically with reference to human resources.

To date, attention has been devoted mainly to ex-post data, focusing on ways to highlight economic performance—economic and social value added—and on the possible adoption of an analytical reporting system capable of detailing functions, goods/services, or sectional profitability (activities, projects, etc.).

However, the optimal implementation of a control process requires both the ability to measure data ex-post and also to plan activities ex-ante, in other words, future planning: drawing up a global budget and making forecasts of analytical cost/revenue. The management of an SE needs to have an ability to predict the company's future, representing it in terms of quantity-monetary values.

The pursuit of economic balance over time also relies on proper cash management, the ability to locate and deploy the necessary financial resources. When the market is characterized by the presence of "late payers" (as it tends to be the case for SEs with public sector clients), the ability to optimize cash flows becomes crucial.

Moreover, while nonprofit organizations in general are financed both by fundraising and performance, SEs specifically will tend to acquire only a reduced percentage of their resources without making corresponding commitments. As a result, the issues

of cash management, which are very close to those of traditional enterprises, are connected to a dynamic economic and contractual capacity on the side of commissioning, supply relationships, and the ability to refer to funding programs devoted to social purposes.

In addition, it is important to consider the problem of undercapitalization because the nondistribution constraint hinders the attraction of capital and the creation of a balanced financial structure.

## Social Effectiveness

Although, in recent years, increasing attention has been paid to business models that control efficiency and effectiveness and orient SEs to implement the financial measurement systems discussed above, this model of management control necessarily also includes a nonfinancial result assessment. Effectiveness, seen as the ability to achieve goals and implement strategies while using resources in a socially responsible way, becomes important in assessing an SE's success.

For a profit-driven enterprise, effectiveness measurement can be summed up by reading the income statement and by benchmarking quantitative data such as profits or returns-on-investment compared with those of competitors.

In contrast, while financial data certainly play an important role for an SE, effectiveness becomes fundamental to meeting the social needs it has been designed to address, thereby pursuing its mission. This is "notoriously intangible and difficult to measure" (Kanter Moss & Summers, 1987, p. 154).

On the one hand, attention to output assessment should try to measure what has been concretely achieved as a result of the SE's activity. On the other hand, it is also necessary to consider to what degree that activity has contributed to the well-being of the intended beneficiaries and also has contributed to community-wide goals. Moreover, the "social" point of view needs to consider not only the output but also the sustainability of the entire process (Darby & Jenkins, 2006). That is, it should recognize and include economic, social, and environment-related elements regarding the choice and use of external resources.

In other words, a suitable evaluation of an SE's overall effectiveness could incorporate many different key indicators. The performance measurement (Kendall & Knapp, 2000; U.K. Voluntary Sector Research Group, 2003) should include the following:

1. *inputs*, the resources that contribute to the activities undertaken;
2. *outputs*, in terms of both activities realized to achieve the mission and direct and countable goods/services obtained by means of the activities carried out;
3. *outcomes*, the benefits or impact for the intended beneficiaries; and
4. *impact*, the consequences for the wider community.

With regard to inputs, there are several assessment possibilities. Besides a cost-efficiency analysis related to outputs/outcomes, a social-effectiveness perspective has

to consider the responsible use of resources, that is, to evaluate the socially responsible behavior of SEs when producing services (or goods). In other words, a sustainable SE should pursue community interest by

- choosing local suppliers to favor short supply chains;
- choosing socially or environmentally certified suppliers (Sa8000 or other “ethical” certification, Eco-management and audit scheme [Emas], etc.);
- adopting a regime of decent work conditions (safety, health, etc.); and
- giving employment to workers coming from a world of discomfort, characterized by different types of disadvantage (diseases on mental health, mental retardation, physical handicap, disabled, civilian prisoners, etc.).

Moreover, there should be maximum disclosure with regard to the chosen governance model. In other words, an assessment of social effectiveness also entails consideration of whether the members of an SE’s board represent shareholders or stakeholders. Board members may be elected because of their expertise in managing assets or because they represent stakeholders and, consequently, when assessing overall social responsibility, it is important to know which governance model is preferable—that of stewardship or democracy (Cornforth, 2004; Low, 2006).

The second approach to nonfinancial performance measurement uses the analysis of outputs in the narrow sense. This involves highlighting the “physical” product of the activities carried out by an SE, as a valuation (or quantitative accounting) of outputs. In addition, such information can be analyzed in relationship to relative production costs and, ultimately, against the income generated to measure economic efficiency (productivity).

The third key element in an effectiveness control system is the measurement of outcomes (Moxham & Boaden, 2007). This dimension of control focuses on qualitative results, with the aim of evaluating the “benefits” (positive effects) that flow from activities undertaken to the intended beneficiaries. Outcomes can be measured either as internal (achievement of a mission and chosen objectives) external (client/user satisfaction). For example, this would require the verification of

- the success of a program of reinsertion of disadvantaged people, integrating them into the open labor market, and improving their life prospects;
- the utility to individuals of a postuniversity training program, measured in terms of employment outcomes;
- improved mental health at the end of a support program; and
- a higher artistic/cultural understanding as a result of social tourism.

In short, this dimension of control can be defined as the real utility/impact of the performance, above all, in terms of its achievement of goals in accordance with the SE’s mission. In these terms, success can also be defined independently of the amount of output realized.

**Table 3.** Measurement of Social Effectiveness in Ulisse

| Effectiveness variable | Key factors                                | Example of indicators                                                                                                                       |
|------------------------|--------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| Inputs                 | Human resources                            | Composition of human resources (% of disadvantaged workers; typology of disadvantage)                                                       |
|                        | Purchasing policy                          | Characteristics of suppliers (local, certified, etc.); fair trade                                                                           |
|                        | Work conditions                            | Safety indicators; health indicators                                                                                                        |
|                        | Governance model                           | Stakeholder representativeness; participation in management board and/or assembly of members                                                |
| Outputs                | Activities                                 | Productivity of those activities put in place to realize the mission (cost production of specific goods-services, for example, bike rental) |
|                        | Products/services obtained                 | Characteristics of products/services; quality and quantity of production                                                                    |
| Outcomes               | Positive effects to intended beneficiaries | Reinsertion of disadvantaged individuals; employment outcomes; user satisfaction                                                            |
| Impacts                | Long-term impacts on the wider community   | Community benefit due to integration; reducing pollution and increasing environmental protection; revitalization of depressed urban areas   |

Finally, it is interesting to consider the measurement of impacts on the wider community, recognizing the secondary effects that may accompany the work of an SE. Here, effectiveness control focuses on the contribution made by the SE to the creation of social capital and collective well-being through the identification of parameters by which to measure medium- or long-term impacts.<sup>6</sup>

Moreover, there are methodologies that translate such impacts into concrete financial-economic calculations. For example, when an SE's activity preempts a need for intervention by the public authorities, this can be defined as a revenue, in that it represents a collective saving to the collective purse. In other words, this approach quantifies impact as "avoided expenditures."

The practical application of this dimension of control in Ulisse has produced a multilevel grid that summarizes all the various effectiveness indicators (Table 3).

## Institutional Legitimacy

Institutional legitimacy control involves verifying that the SE has respected its self-imposed "rules" (statute, mission, program of action) and the legal norms applicable to its institutional formula.<sup>7</sup>

**Table 4.** Verification of Institutional Coherence

| Mission                                                  | Specific goals (evaluated from the statutory)     | Projects/activities                                                                                                                                                                             |
|----------------------------------------------------------|---------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| To ensure the fundamental rights of disadvantaged people | 1. Providing pathways of work integration         | Verifying the different types of disability as certified by a public administration<br>Defining specific pathways of work reinsertion<br>Increasing the employment of disadvantaged individuals |
|                                                          | 2. Creating opportunities for relationship        | Providing physical space<br>Promoting interaction between normal and disadvantaged people<br>Increasing use of mediation<br>Improving willingness to listen                                     |
|                                                          | 3. Providing pathways to improve life perspective | Improving social and professional abilities<br>Increasing the degree of autonomy<br>Overcoming psychological disadvantages generated by unemployment                                            |

The first aspect, namely, a verification of institutional coherence, is usually dealt with through mission accounting, demonstrating that the SE has respected its own mission and constitution.

Here, it is interesting to note the methodologies which, on the basis of the mission statement, check off itemized points correlating them to subobjectives and activities carried out (Table 4).

The second aspect of legitimacy concerns the respect for the general and particular legal regimes that govern an SE, specifying the conditions for its creation and functioning (Kerlin, 2006). By way of example, from a strictly legal perspective, in the *Ulissee* case study, these relevant aspects follow:

- respect for the rule of establishing social cooperation, the L. 381/91, and the set of provisions in civil matters;
- respect for law on health and safety in the workplace;
- respect for law on privacy;
- registration in the regional register of social cooperation held in the province of Florence.

Moreover, the Italian law regarding SEs (D.Lgs. 155/2006) prescribes appropriate procedures for involving staff in relationship to the intended subjects of the

**Table 5.** Multistakeholder Approach

| Activity      | Description                                                      | Stakeholder            | Degree of representativeness                                                     | Tool         |
|---------------|------------------------------------------------------------------|------------------------|----------------------------------------------------------------------------------|--------------|
| Information   | Information meetings on employee pension funds and similar types | Employees              | Percentage of participation                                                      | Meetings     |
| Consultation  | Consultation regarding choices of working hours                  | Employees; users       | Percentage of participation; Percentage of valid votes among all eligible voters | Assembly     |
| Participation | Decision making on new methods of planning activities            | Human resources; users | Percentage of participation                                                      | Focus groups |
| Others        | —                                                                | —                      | —                                                                                |              |

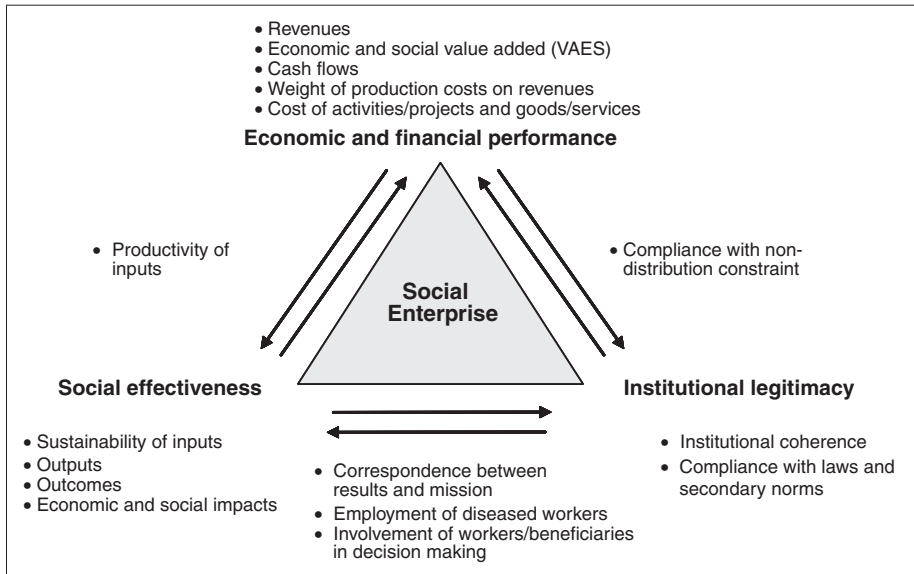
organization’s activities. These regimes require that the SE foresees mechanisms that will be capable of accommodating a multistakeholder approach to managing an enterprise as well as a social report (Marano, 2006). This approach is also seen in a recent U.K. law concerning community interest companies (CIC), which requires that obligatory reporting include information regarding modalities for stakeholder consultation.

To illustrate, it could be appropriate to provide cards for detection of activities in accordance with the format below (Table 5).

## Synthesis

The above multiplicity of reference fields implies a final problem: SEs will need to implement a multidimensional management control system. Consequently, their management finds itself called on to discover means to unite all the three profiles that have been discussed, constructing a map of indicators and instruments for measuring “success” (Figure 1).

Returning therefore to our three reference dimensions of control—financial performance, social effectiveness, and institutional legitimacy—this article concludes that a series of variables can be elaborated as a measurement scheme for concrete implementation. These variables should integrate the various fields of analysis, representing the decided programs and budgets and could be used for ex-post evaluation of what has actually been done by the SE.<sup>8</sup>



**Figure 1.** The multidimensional controlling model

While recognizing that control systems need to be designed to reflect the specificity of a particular SE, following its characteristics and information and monitoring needs, it is nonetheless useful to spell out the following proposal for a synthesis of the key information. The indicators given correspond to the performance measures that this analysis has judged significantly and can be determined both programmatically and definitively to enable an effective explication of the control process.

The SE's management should point out the following aspects:

1. For the economic-financial dimension

- the income statement, demonstrating economic equilibrium, at least in terms of breakeven;
- economic and social value added, demonstrating the equitable remuneration of stakeholders involved in the production process;
- the cash flow generated and thus the capacity of the SE to maintain a financial equilibrium compatible with its marketplace and with its particular investment and development strategies;
- the incidence of production costs on revenues, also compared with other market players (for-profit, public, nonprofit);
- the cost of activities/projects and goods/services, providing quantitative data on the basis of which prices are fixed and tenders for public calls submitted.

2. For the social-effectiveness dimension
  - evaluation of the sustainability of resources and production methods (environmental and social);
  - output in terms of “physical” results: the number of services, actions, and so on;
  - outcome indicators on the basis of concrete actions and in relationship to external benchmarks;
  - evaluation of economic and social impact.
3. For the legitimacy dimension
  - institutional coherence, thus the coherence of activities with the stated mission;
  - compliance with general and particular laws applicable;
  - compliance with secondary norms;

Moreover, in matching these three dimensions, it could be useful to obtain further integrated measures:

4. For the economic-financial and social-effectiveness fields
  - productivity of inputs (labor costs for services rendered, etc.)
5. For the economic-financial and legitimacy fields
  - compliance with the nondistribution constraint
6. For the social effectiveness and legitimacy fields
  - correspondence between achieved results (revenues, outcomes, impact) and the SE’s stated mission;
  - involvement of workers and users/beneficiaries in decision making.

### **Authors’ Note**

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### **Notes**

1. Although this article explores a framework for objective evaluation, it is important to state that performance measurement can be largely subjective (Herman & Renz, 1997). Social enterprises (SEs) and nonprofit firms in general have multiple constituencies (stakeholders) that may differ in how they evaluate effectiveness. Consequently, organizational effectiveness is not a single reality but a more complicated matter of differing interests and expectations.

2. "A non-profit organization has several bottom lines because no price mechanisms are in place that can aggregate the interests of clients, staff, volunteers, and other stakeholders that can match costs to profits, supply to demand, and goals to actual achievements" (Anheier, 2000, p. 6).
3. In certain countries, SEs pursue their aims by adopting for-profit legal vehicles to be free to generate revenue by running commercial activities. In this way, they can obtain moral legitimacy in strongly market-oriented cultures (Dart, 2004).
4. The income equation  $Revenues - Expenses = Income$ , becomes  $Revenues - External Expenses = Income + Internal Expenses = Value Added$ . The point is to decide where to fix the boundaries of internal and external costs.
5. Not least, the collection of internal data for management control plays no part in fulfilling accounting regulations—civil and fiscal—and therefore is adopted only on a voluntary basis.
6. The amplitude of the relevant parameters obviously makes it difficult to identify effects as owing to the work of an SE. Among the best references available are the indicators recorded by the alternative wealth calculation methods, such as the Genuine Progress Indicator (GPI) and the Happy Planet Index (HPI).
7. See the following examples of SE regulations: *La société à finalité sociale* in Belgium (1995), *l'impresa sociale* in Italy (2005-2006), UK Community interest companies (2004), *la Société Coopérative d'Intérêt Collectif SCIC* in France (2001).
8. Management efforts to realize the integration of various measurement indicators and instruments lead to an integrated control-framework. This is a means to avoid the difficulties that arise from an excessive variety of commitments and objectives, or, as Drucker affirms, the lack of a traditional bottom line ("What is the bottom line when there is no 'bottom line?'"; Drucker, 1990, p. 107).

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