SENIMA
Social Enterprises Management

RESULT 1

SENIMA Syllabus

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Project consortium:

Applicant – LP: University of Lodz

Partner - P1: LT Synergy LTD (LTS)

Partner - P2: Chamber of Commerce and Industry Csongrád-Csanád County (CSMKIK)

Partner - P3: PCX COMPUTERS & INFORMATION SYSTEMS LTD (PCX)

Partner - P4: EUROCERT - European Inspection and Certification Company S.A (EUROCERT)

Partner - P5: PRISM Impresa Sociale s.r.l. (PRISM)

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INTRODUCTION

Social Enterprises (SEs) or valued driven “hybrid” businesses that operate in the ill-defined space between the for-profit and not-profit worlds, are seen by some to have particular strengths in simultaneously addressing economic, social and environmental needs. The hybrid nature of SEs, marrying social, environmental and financial objectives, requires specific capabilities to manage these different objectives. Attitudes towards growth and scaling-up need to be understood in relation to organisational aims and experiences, institutional barriers and the key actors and agencies involved. Support for SEs needs to be tailored to their specific needs in order to enable themselves to formulate their growth strategies in accordance with their mission and values. SEs often lack internal skills like professional management structure and business skills.

The Impact Hub identified regular SE needs to be related to: (1) weak access to supportive networks, (2) community connections, (3) knowledge and skills training -access to lessons learned , best practices and trends, (4) resources and finance -needs after COVID-19 have been heighted and involve additional challenges. The most important challenges facing contemporary SEs involve demographic changes, population migration, climate change, regional development and marginalization of ethnic groups.

The European Union’s definition and description that “a social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities” sets the tone as regards to the context and the objectives of the **S**ocial **En**terprise **Ma**nagement (SENIMA) project as well as the needs and target groups to be addressed.

The SENIMA Syllabus is the first deliverable of the SENIMA project. It is a training material and comprise of four modules:

- ⇒ Module 1: Social Enterprises’ business models and Legal Forms
- ⇒ Module 2: Innovation in the Social Sector
- ⇒ Module 3: Financial Management for Social Enterprises
- ⇒ Module 4: Governance and Social Enterprises

SENIMA sets ambitious goals among which are: 1. Promote social entrepreneurship, 2. Better equip social enterprises’ participants with the skills and tools to enhance their business case and support them through the crucial phases of their development. 3. Provide the necessary skills and tools for new entrepreneurs in the social enterprises sector, SMEs, and Start-ups to facilitate the growth and development of the companies. 4. Develop a hands-on financial management guide. 5. Educate social enterprises about the benefits of governance. 6. Present the various Social Enterprises’ models and legal forms so that aspiring incumbent social entrepreneurs can adopt and adapt to change in the participating countries. 7. Promote social innovation though the better understanding and education of the Social Enterprises’ sector. 8. Facilitate networking and the sharing of knowledge, experiences, and best practices. 9. Develop a platform to support e- learning 10. Develop a Toolkit and applied-case study scenarios. 11. Develop a certification to support both the learning activities as well as networking between Social Enterprises in the wider SMEs, Start-ups, and entrepreneurship sector. 12. Provide access to other geographical regions for the exchange of practices and knowledge. We hope that SENIMA will result in measurable improvements in the performance of social enterprises. It is expected to make Social Enterprises more effective and efficient thus increasing their chances of longevity which in turn would provide them with a more favourable opportunity to fulfil their mission. We also expect that SENIMA will inspire the formation of an increased number of new Social Enterprises.

We tried to provide a comprehensive syllabus for SEs' benefit for them to address their operational, financial and organizational challenges. By improving on this set of critical skills, SEs will maximize their business prospects to fulfil their mission. The SENIMA concept is easily adjustable to accommodate all sizes of companies (micro, SMEs to larger organizations).

The SENIMA syllabus will be available in the English, Greek, Hungarian, Italian, and Polish languages.

More information: https://senima.eu/

The SENIMA Syllabus was developed by European partners from Cyprus (LT Synergy and PCX COMPUTERS & INFORMATION SYSTEMS LTD), Italy (PRISM IMPRESA SOCIALE S.R.L), Hungary (CSONGRAD COUNTY CHAMBER OF COMMERCE AND INDUSTRY) and Greece (EUROCERT EYROPAIKI ETAIREIA EMEGHON KAI PISTOPOIHSEON ANONYMOS ETAIREIA). The project is coordinated by the University of Lodz from Poland.

MODULE 1.

SOCIAL ENTERPRISES' BUSINESS MODELS AND LEGAL FORMS

1. Social economy and social entrepreneurship approach

This topic will define social entrepreneurship, the aim of social entrepreneurship, and the private-public-social entrepreneurship sector.

The social economy is made up of a diversity of enterprises and organisations such as cooperatives, mutuals, associations, foundations and social enterprises among other forms that can be specific to each country.

They are united around the values of the primacy of people and social objective over capital, democratic governance, solidarity, and reinvestment of most profits to carry out sustainable development objectives. The Social Economy shares the objective of producing a positive impact on local communities and pursuing a social cause.

The Social Economy business models aim at reinvesting most of the profits back into the organisation and/or a social cause and having a participatory/democratic form of governance.

Social entrepreneurship is all about recognising the social problems and achieving social change by employing entrepreneurial principles, processes, and operations. It is all about making research to completely define a particular social problem and then organising, creating, and managing a social venture to attain the desired change. Social entrepreneurs focus on bringing about improved social outcomes for a particular community or group of stakeholders.

According to R. Martin and S. Osberg (2007), a social enterprise differs from a commercial enterprise in the implementation of two goals, social and business. A key element for the functioning of social enterprises is striving to achieve positive changes on a large scale in a significant part of society. At the same time, this change should be addressed to people who are neglected, isolated and are significantly deprived of privileges in the society. Therefore, essential elements for the functioning of a social enterprise are innovation, having a clear pro-social mission, active pursuit of the intended goal, and showing a sense of responsibility for the actions performed. A social enterprise is different from a charitable organisation in the sense that like commercial enterprises it incurs the costs of its activities and strives for profitability. The profit generated by social enterprises serves to the implementation of social goals and the creation of socially desirable value. The economic activity of a social enterprise is not only a source of income but also generates jobs for people in difficult life situations.

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According to the international Ashoka organisation, a leading social entrepreneur should meet the following criteria:

1. To have a **new idea**, solution, or approach to a social problem that may change the pattern of action in a given area.
2. **Creativity** – Social entrepreneurs should be creative in setting goals, solving problems, and making their visions come true.
3. **Entrepreneurship** – social entrepreneurs should be leaders who see opportunities for change and innovation and decide to get involved in implementing these changes.
4. **Social impact** – the entrepreneur should implement ideas that have great potential to significantly change a given area of operation on a regional or national scale.
5. **Ethical aspects** – social entrepreneurs, by introducing major social changes, require many people to change the way they think and act.

Therefore, social entrepreneurs must inspire a sense of trust and leave no doubts as to the ethicality of their activities. If society does not trust the innovator, the probability that he will achieve success is much lower (Ashoka Poland).

According to the European Commission (2015), social enterprises are organisations that:

- ✓ see as their main goal generating a positive impact on society, not financial benefits;
- ✓ use most of the acquired resources to achieve given social goals;
- ✓ are managed in a transparent, innovative, and responsible manner, in particular by involving; employees, customers, and stakeholders affected by the company's business activities.

A social enterprise may be structured as a department, program, or profit centre within a non-profit and lack legal definition from its parent organisation. It may also be a subsidiary of its non-profit parent, registered either as a for-profit or non-profit. Many organisations use a mix of different structures simultaneously (http://www.4lenses.org/setypology).

Austin et al. (2006) state that social entrepreneurs are unable to tap into the same capital markets generated by commercial entrepreneurs, due to non-distributive restrictions on surpluses generated by non-profit organisations, and the embedded social purpose of for-profit or hybrid social enterprises. Furthermore, it is difficult to compensate the staff of a social entrepreneurship venture.

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Differences in measuring performance: Austin et al. (2006) point out that it is far more difficult to measure the performance of social purpose for the social entrepreneur, as opposed to the commercial entrepreneur who can use tangible and quantifiable measures of performance.

Differences in innovation: Although innovation is recognized as a key theme in social entrepreneurship, more effort is required to build social entrepreneurship-related innovation theory (Short et al., 2009).

Differences in opportunities: Austin et al. (2006) note that the primary focus differs for commercial and social entrepreneurship, namely economic returns, and social returns, respectively. Conceptually, opportunities appear similar across commercial and social entrepreneurship; however, in practice, this is not the case, due to fundamental differences in missions and responses to market failure. Due to underlying differences in objectives, opportunities are evaluated differently.

Differences in risk: Risk-taking by social entrepreneurs has been a necessary consideration for scholars, with two arguments posited by Short et al. (2009): The one is based on the logic theory, which suggests that social entrepreneurs are more risk-averse than commercial entrepreneurs, given the former's concern with the survival of the enterprise. What remains to be examined, empirically, is entrepreneurial orientation.

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2. Types of SE models and tools for creating SE models

The motives for undertaking and implementing activities through social entrepreneurs can be analysed from the business and non-business perspectives. Entrepreneurial activities begin with the identification of opportunities, i.e., situations when resources can be used in such a way as to bring financial benefits in the form of profit as well as non-financial ones, e.g., such as entrepreneur's image, psychological and ethical premises, preferences and values. The process of identifying opportunities is shaped by many factors such as the information, beliefs, and characteristics of a person. Access to information depends on life experience, the network of connections, education, and the method of searching for it. In this context, an important skill of the social entrepreneur is the ability to quickly estimate the potential effects of the opportunity sought in the form of an idea and to decide what resources and time should be devoted to it.

The business model is the logic of connections between the resources at the disposal of the enterprise and the activities that create value for customers. In the case of social entrepreneurs, the motives for action are to combine the profit achieved with the orientation towards social goals. Realisation of these goals contributes to solving some social problems, in this context, pro-social involvement is the main goal of the company, not an additional activity, which requires modification of traditional business models.

A business model is a pattern of running a business, including a social enterprise, and is related to both the competitive strategy or the way of building value for customers, and the methods of generating financial results (Kaplan 2012). The business model allows for the development of options for the operation of a social enterprise and its development, for example by using the "what if" technique - what if we eliminate this item from costs, what if we lower the price, what if we add new value, etc.? How will this affect customer value, revenue, and ultimately, profits? In practice, such action means searching for new solutions for existing processes as well as new sources of income.

In the literature on the subject, there are many definitions of a business model (see Table 1.), which makes it very difficult to clearly define this concept. The analysis of these definitions allowed us to distinguish three different approaches to defining the business model (Osterwalder, Pigneur, Tucci 2005):

- ✓ In the first approach, the authors focus on defining the concept of a business model, isolating its components, and describing it as a theoretical concept.
- ✓ The second approach consists of distinguishing types of business models and analysing their specificity.
- ✓ The third approach concerns the conceptualisation and presentation of business models dedicated to a specific type of enterprise, including social enterprises.

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Table 1. Selected business model definitions

Author	Definitions
J. Magretta	The business model shows how resources are combined and transformed to generate value for stakeholders and how the company will be rewarded by stakeholders in return for the values provided to them.
A. Osterwalder, Y. Pigneur, Ch.L. Tucci	A business model is an enterprise value offer for specific customer groups and a company architecture that is indicative of generating favourable and sustainable income streams.
S. M. Shafer, H. J. Smith, J. C. Linder	The business model consists of four main components, which include: strategic choices, value networks, value creation, and value appropriation.
D.J Teece	The business model describes how the company delivers value to the customer and how it translates into its profits.
D. Demil, X. Lecocq	The business model defines the modus operandi and the resources that are used to ensure sustainable development and growth.
D. Mitchel, C. B. Coles	The business model determines related elements that answer the question of what? how? when? why? where? how much? Relating to delivering a product and service to the customer and end-users.
B. Mahadevan	The business model is a unique blend of three streams that are critical to the company - partner value stream, revenue stream, and logistics streams.

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Source: own study based on: Baden-Fuller Morgan M. S. (2010) *Business Models as Models*, Long Range Planning, nr. 43; Brettel M., Strese S., Flatten T. C. (2012), *Improving the Performance of Business Models with Relationship Marketing Efforts – An Entrepreneurial Perspective*, European Management Journal, no. 30, A. Osterwalder, Y. Pigneur, Ch.L. Tucci, *Clarifying Business Models: Origins, present, and future of the concept,* Communications of Association for Information Systems, 2005, Volume 14.

The business model defines the modus operandi and resources that are used to ensure the sustainability and growth of the venture. Thus, a business model is usually made up of resources and competencies, an organisational structure, and a value proposition in the form of products/services. It is the company's "roadmap" as a way of thinking about business, contains elements of the operationalisation of the business concept into specific actions, and defines the way of creating value for the customer.

The business model performs specific functions (Chesbrough 2010):

- ✓ defines a value proposition – description of target customers, researching their needs, the proposition to deliver value, assessment of factors influencing the customer.
- ✓ determines the segments of the market – selecting a target group, selecting a market service policy, researching the needs of individual market segments.
- ✓ defines the structure of the value chain – here, management decisions are made that answer the questions: through what activities should value for the customer be delivered? and how the enterprise will capture some of that value.
- ✓ specifies the mechanism of generating financial and non-financial benefits – selection of tools, price, and cost policy that will lead to the achievement of the planned level of income; defines the company's position in the value chain.
- ✓ defines competitiveness strategies – answer the questions: how can a company achieve a competitive advantage? and use it to expand the company and improve its competitive position in the market?
- ✓ sets growth strategies – determine the directions and areas of growth or intensive growth through integration or diversification.

The business model distinguishes the following sources of value creation for the customer (Sparviero 2019; Amit, Zott, Massa 2011):

- ✦ *Efficiency* - the increase in efficiency is caused by the reduction of asymmetry in access to information between the enterprise and the client, e.g. via the Internet, which enables faster and easier decision-making based on a larger amount of obtained information. The source of efficiency improvement is also the reduction of transaction costs.
- ✦ *Complementarity* - the source of value may be the complementarity of strategic resources, this also applies to complementary goods provided to the recipient by the consumer, which will ensure greater value than the total value of owning each good separately.

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- *Value retention* - the business value creation potential is greater the more customers are motivated to repeat transactions and the relationships are maintained and strengthened. The source of significant benefits of retention is to propose a specific product or service for the first time - that is, value for the customer.
- *Innovation* - new products and services, processes, and new distribution and marketing methods are seen as sources of value creation.

The concept of the business model is the overall logic of the social company's operation, it is also used to define the relationships that take place between the company and its environment. A good business model should not only be built but also modified along with changes taking place in the environment causing reconfiguration of the company's operating strategy. A business model is a holistic approach to an economic undertaking, it is a kind of business process architecture consisting of a description of the concept, determining the stages of operational activities, and shaping these processes.

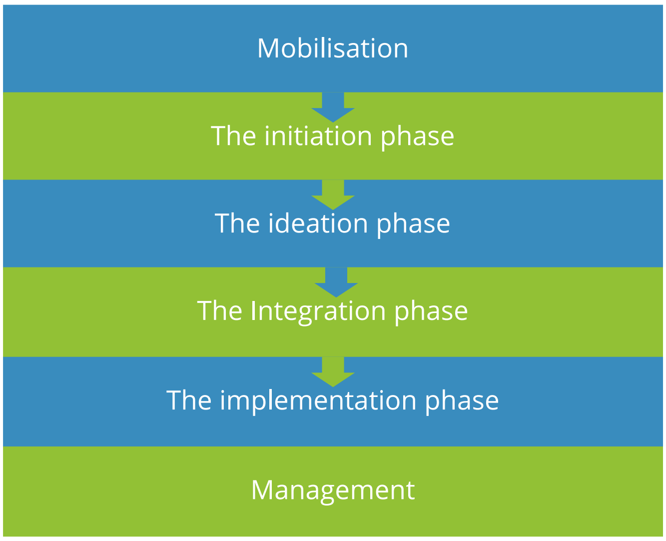

Figure 1. Business model phases

Source: own study based on Osterwalder A., Pigneur Y. (2010), Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers, New Jersey.

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When creating a business model, the following phases (see figure 1) are distinguished (Osterwalder & Pigneur 2010):

1. **Mobilisation** – preparing the team to design a business model. The main goal of this phase is to indicate the need to create a new model based on the creativity and innovation of the project team,
2. The **initiation phase** – analysis of the current state of the enterprise and its environment,
3. The **ideation phase** – creating ideas for a new business model,
4. The **integration phase** – refining the concept (customers, value proposition, resources, processes, income generation),
5. The **implementation phase** – model implementation,
6. **Management** – the project does not end with its implementation but requires constant effort and constant monitoring of the market. Business models have a short period of validity and require constant modifications and transformations – it results from an unstable environment.

When building a business model of a social enterprise, it is difficult to decide whether the structure we create has a chance to achieve social goals and become a breakthrough solution that will give a chance to compete effectively and generate profit.

Important issues while defining the social enterprises business model:

- ✓ Simultaneous generation of social and economic results by the project.
- ✓ Treating profit as a necessary element of the company's operation, thanks to which it is possible to solve social problems.
- ✓ Creating significant positive social effects while reducing the negative impact on the natural environment and society.
- ✓ A sustainable and integrated way of creating and delivering value.
- ✓ The attractiveness of the value proposition to both the company's customers and other stakeholders.

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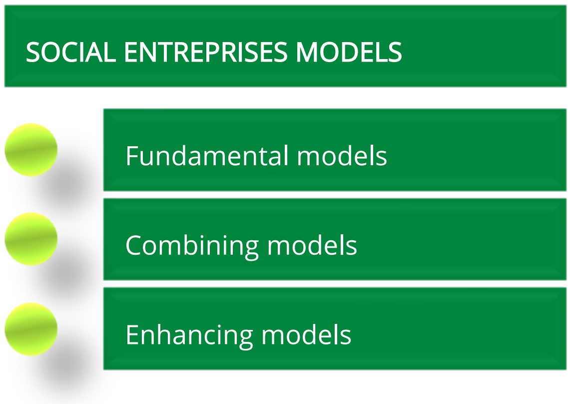

Figure 2. Types of social enterprise models

Source: own study based on http://www.4lenses.org/setypology

The **first group - fundamental models**, sample models (http://www.4lenses.org/setypology):

- market intermediation model – the market intermediary model of social enterprise provides services to its target population or "clients," small producers (individuals, firms, or cooperatives), to help them access markets. Social enterprise services add value to client-made products, typically these services include product development; production and marketing assistance; and credit. The market intermediary either purchases the client-made products outright or takes them on consignment, and then sells the products in high-margin markets at a mark-up.

- employment model – the employment model of social enterprise provides employment opportunities and job training to its target populations or "clients," people with high barriers to employment such as disabled, homeless, at-risk youth, and ex-offenders. The organisation operates an enterprise employing its clients and sells its products or services in the open market. The type of business is predicated on the appropriateness of jobs it creates for its clients, regarding skills development, and consistency with clients' capabilities and limitations, as well as its commercial viability.

- entrepreneurship support model - the entrepreneur support model of social enterprise sells business support and financial services to its target population or "clients," self-employed individuals or firms. Social enterprise clients then sell their products and services in the open market.

In **the second group – combining models**, there are examples of models (http://www.4lenses.org/setypology):

Combining models – Social enterprises combine operational models to capture opportunities in both commercial markets and social sectors. Combining is a strategy to maximize social impact as well as diversify income by reaching new markets or creating new enterprises. In practice, most experienced social enterprises combine models--few social enterprise operational models exist in their pure form. Operational models are like building blocks that can be arranged to best achieve an organisation's financial and social objectives. Model

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combinations occur within a social enterprise (Complex Model) or at the level of the parent organisation (Mixed Model).

In the **third group - enhancing models** - examples of models (http://www.4lenses.org/setypology):

- social franchising - An organisation can franchise its "proven social enterprise model" and sell it to other non-profits to operate as their own business. Franchising enhances non-profit organisations that have viable, yet non-scalable social enterprises, through replication.
- the private-non-profit partnership model of social enterprise - is a mutually beneficial business partnership or joint venture between a for-profit company and a non-profit organisation. The partnership may occur with an existing social enterprise or may result in the creation of a new entity or a profit centre.

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3. Components of business model

Based on the analysis of the literature on how to define a business model, many approaches, as well as elements of the business model, can be identified. According to S. Shafer, H. Smith, and J. Linder (2005), the business model consists of four main components: strategic choices, value network, value creation, and value appropriation (compare Fig. 3).

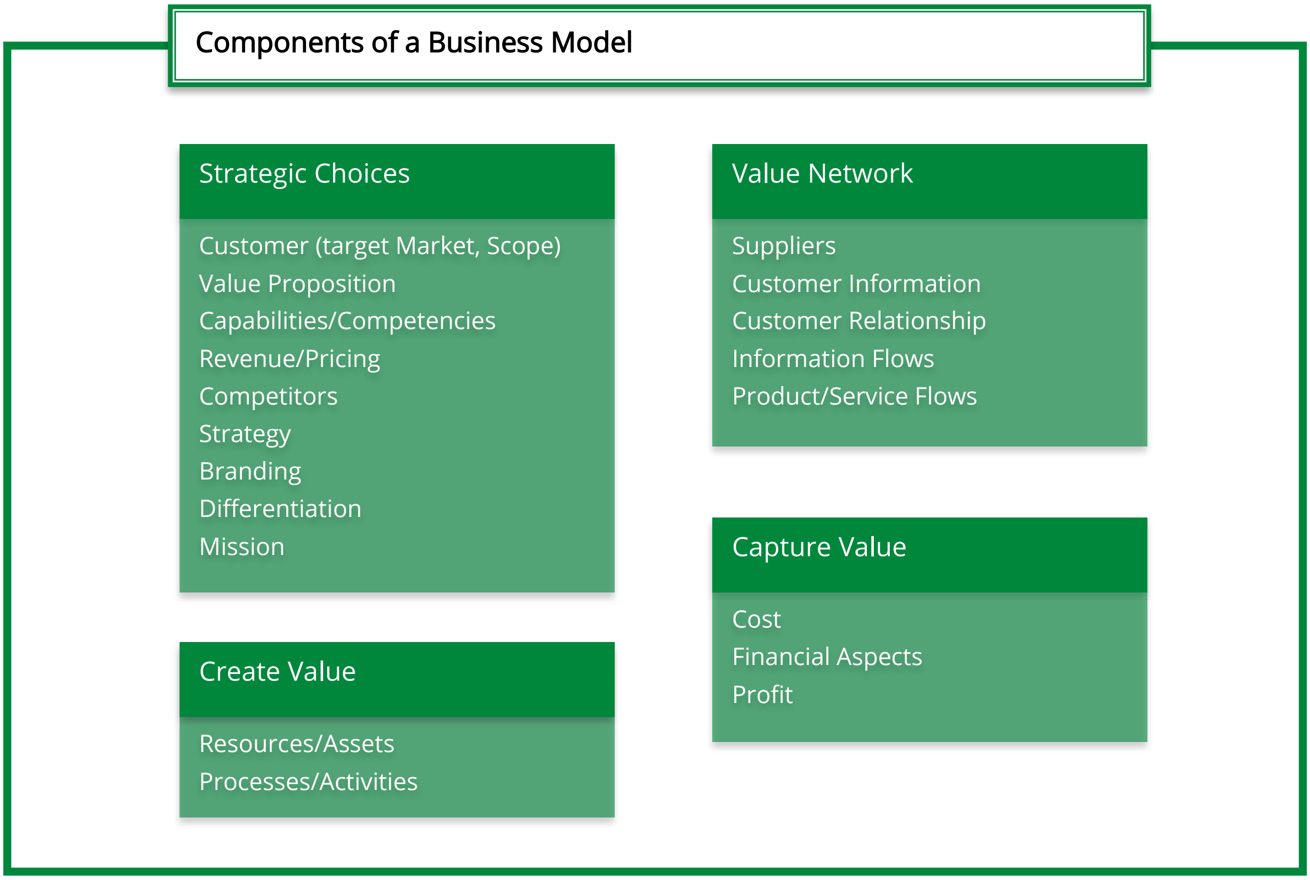

Figure 3. Components of a business model

Source: S. M. Shafer, H. J. Smith, J. C. Linder, The power of business models, Business Horizons, (48) 2005, s. 202.

Components of the social enterprise business model include:

1. An innovative idea.
2. A goal – solution or contributing to some social solution.
3. A product/service – it is like the product/service to solve a selected social problem – pro-social involvement is the main goal of the company, not an additional activity.
4. Features of a classic business – the enterprise takes benefits from the sale of products/services, employs employees, and is subject to all market laws.

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One of the best-known approaches to the description of business models is that of A. Osterwalder and Y. Pigneur (Osterwalder, Pigneur 2010) – Business Model Canvas (BMC). The starting point of this model is the definition of the customer, market segment, and the next step - the definition of the value proposition. The value proposition is one of the key elements of this model. It addresses the customer's needs, expected benefits, and perceived costs of choosing an offer by defining the so-called value maps (products and activities that, on the one hand, are aimed at reducing barriers and customer fears, and on the other hand - should provide an appropriate level of features as a response to the expected benefits). Defining clients and value propositions should be supplemented with an indication of the channels through which we will deliver these values and the method of communication with clients, as well as specifying the nature of the relationship we want to establish with them. The remaining elements of this model define the necessary resources and activities to deliver the value proposition to the client and describe the key partners. The description of the business model ends with the identification of sources of income and the structure of costs. This model can also be applied to social enterprises pursuing social goals and often environmental goals supplementing it with two elements: (1) the social and environmental costs of a business model (i.e. its negative impact), and (2) the social and environmental benefits of a business model (i.e. its positive impact) (Osterwalder and Pigneur 2010, p. 265).

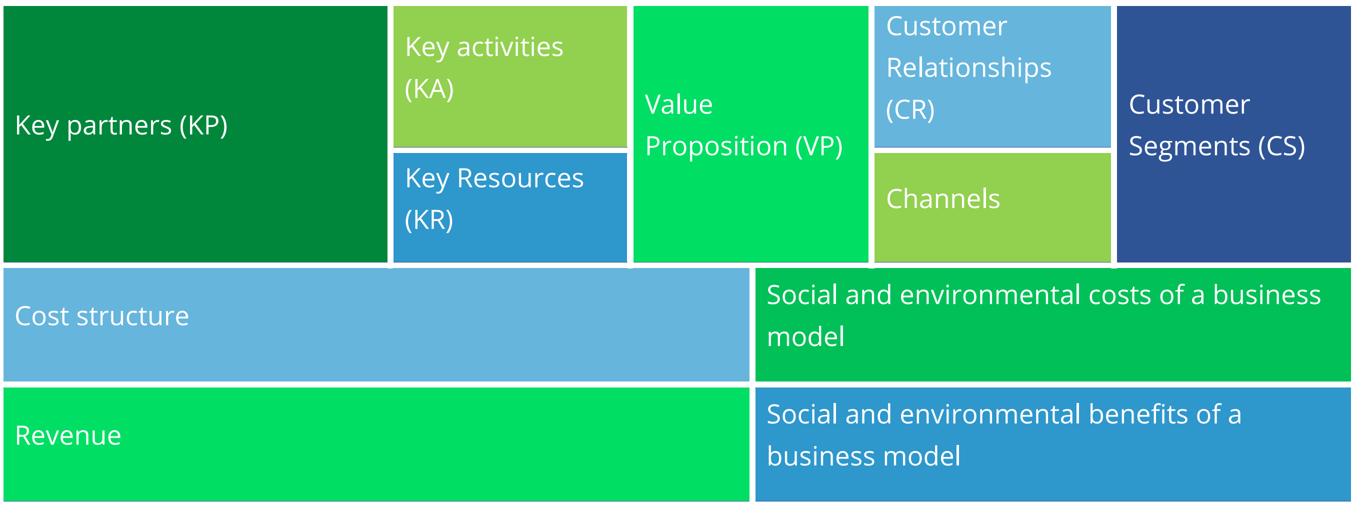

Figure 4. Social Enterprise Model Canvas (SEMC)

Source: Sparviero S. (2019), The Case for a Socially Oriented Business Model Canvas: The Social Enterprise Model Canvas, Journal of Social Entrepreneurship, 10:2, 232-251.

Components of the Social Enterprise Model Canvas (SEMC)

Key partners (KP)

- This element of Business Model Canvas describes a network of suppliers and contractors that have a direct impact on the functioning of the company.
- Who is our key partner?
- What external companies or organisations do we need to operate with?
- What are the key activities our partners carry out?

A key partnership is a choice of how activities and processes are carried out through collabouration with various partners. A business partnership is a network of joint ventures with other organisations necessary to offer and commercialize value.

Key activities (KA)

It is a set of activities necessary for an enterprise to establish relationships with customers, provide them with added value and generate a revenue stream.

- What actions do we need to take to deliver our value proposition to our clients?
- What actions do our channels of reaching the client and the relationships with them require?

The key activities differ depending on the profile of the company. For some companies, such activity will be the product itself, that is, the production and delivery of goods. For others, solving social problems will be a key activity.

Key Resources (KR)

This section lists the resources needed to create added value as well as distribute that value to customers.

- What key resources do we need to offer our value proposition?
- What resources are needed for the proper functioning of distribution channels?
- What resources do our customer relationships require?

Key resources include material resources (e.g., machines, devices, warehouses), financial resources (money needed to produce value for the customer), intellectual resources (copyrights, patents), and human resources (human capital).

Value Proposition (VP)

It is a set of benefits offered by the company to its customers to solve their problems. Specific products or services that generate value for specific customer segments.

- What value do we generate for our clients?
- What customer problems do we want to solve?

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- What matters most to the customers?
- What is the greatest value for them?

A value proposition is something that prompts the customer to choose your product instead of your competitor’s products. The value should solve the customer's problems or satisfy their needs. The value proposition can be specific benefits, such as social benefits.

The value delivered to the customer is included in the market offer. The value is more valuable, the less common the offer, and the way the value is delivered uniquely. The value provided to the customer takes a measurable form: quantitative, e.g. lower price, and qualitative, e.g. quality, brand, and availability.

Customer Relationships (CR)

This element describes the type of interactions the enterprise has with each customer segment. This information may relate to customer expectations as to the ways of satisfying their needs and suggestions for solving this problem by the entrepreneur.

- What kind of relationships do our clients expect from us?
- Can we live up to these expectations?
- Is the way of establishing relationships with customers integrated with other areas of the business model?

Describe the type of relationship that the company will connect with each consumer segment. Think about the purpose of these interactions. Your company may, for example, primarily care about acquiring new or retaining existing customers.

Channels

This part of the model describes how to deliver added value to individual customer segments.

- How do I make contacts with clients?
- What channels do I want to use?
- What methods work best?
- What costs are generated by the individual channels?

Define the channels through which you will provide your customers with information about your products or services. Depending on the business model, the channels may be primarily designed to raise the awareness of recipients about the products or services that your company offers. Consider whether you want to use direct channels (such are vendors at the company's premises or your online store) or indirect channels (partner stores, wholesalers).

Communication channels are designed to inform customers at various stages of purchasing decisions, distribution channels help to reach the customer with an offer in all dimensions (real, marketing, and business), while the sales channel defines various forms of sales (direct, wholesale, retail, internet).

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Customer Segments (CS)

When describing this part, you define groups of customers for whom the company, its product, or service will create added value. One or more customer segments may be defined in the business model depending on the broad spectrum of customers the enterprise aims to serve.

- Who is the product/service created for?
- Who can be a potential customer and why?
- Who will be able to pay for the product?

Define which groups of people and organisations you want to reach. Think about the common features of specific customers (e.g. age, place of residence). You can define one or more segments of different sizes. The company may serve one or more market segments but must make a customer choice each time.

Cost structure

Description of the cost stream generated when creating and distributing added value, establishing relationships with individual customer segments, and generating revenues.

- What activities of the company require the greatest financial outlays?
- What generates the greatest costs?
- Which key resources cost the most?

In business models, cost structures can be either cost-oriented or value-oriented. In the first case, companies will strive to reduce costs wherever it is possible. On the other hand, companies implementing a business model with a value-based cost structure focus more on providing customers with value at the appropriate level.

Revenue

This is part of the Canvas business model that describes how the enterprise generates revenue from each customer segment. When designing this part of the model, the entrepreneur should consider what value proposition each target customer will be willing to pay for.

- What are your customers paying for now, and what value would they be willing to pay for?
- How do they pay and how could they pay?
- What is the share of these revenue streams in total revenues?

Determine how much money is generated by the company in individual market segments. A business may have several revenue streams that will differ in the pricing mechanism.

Social and environmental costs of a business model & Social and environmental benefits of a business model.

Moltivolti example – regenerative business model

- Moltivolti is both a restaurant, and a co-working and meeting space.

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- Founded in 2014, by a group of young neighborhood friends with different cultural backgrounds — coming from eight countries: Senegal, Zambia, Afghanistan, Bangladesh, France, Spain, Gambia and Italy.
- Moltivolti is a hybrid business model: it functions as a for-profit and a non-profit at the same time.
- It's purpose is to create a community-based dining experience, a hub for social integration and employment which serves the needs of the community beyond food and nourishment.
- What is unique about the regenerative business model is the idea that community value creation is as important as business value creation (www.activistbrands.com)

REGENERATIVE
BUSINESS MODEL

BRAND: m • lt v• lt COMMUNITY: Ballarò, Palermo

Boundaryless, community dining Create space for social justice		BRAND PURPOSE "No one is a stranger….my land is where I stand"		Migrant integration, dignity, and upliftment Neighborhood relationships and regeneration	
BUSINESS PARTNERS Funding partners	**KEY ACTIVITIES** Service Food preparation Menu innovation Merchandising	**BUSINESS VALUE PREPOSITION** Dining experience Sicilian/World menu – taste and presentation Open community "vibe" Diversity as a differentiator Cultural expression Community bar and meeting area	**CUSTOMER RELATIONSHIPS** B&B neighborhood Tour operators Community partners		COMMUNITY ECOSYSTEM REGENERATION
	KEY RESOURCES Chefs & associates World menu Balları market		**CHANNELS** Local presence Community activities		
COST STRUCTURE	Labor Leased space Food ingredients	Restaurant supplies Cleaning Maintenance / miscellaneous	**REVENUE STREAMS**	Restaurants and bar Catering Merchandising	NGO products Lease (B&B) Paid co-working
Community partners	**COMMUNITY ACTIVITIES** Organizing & planning Co-working Meetings	**COMMUNITY VALUE PREPOSITION** Meeting "space" for socio-cultural events Party "space" for neighborhood (toys) Support local initiatives Jobs & internships Free wi-fi Co-working space" for community partners Consulting services for community partners	**BENEFICIARY RELATIONSHIPS** B&B neighborhood Tour operators Community partners	**BENEFICIARY SEGMENTS** Non-profits SOS Ballaró Casa Santa Chiara Community partners Immigrants	
	COMMUNITY RESOURCES Partners helping partners Local initiatives Neighborhood support		**DEPLOYMENT** Local presence Community activities		NGO formation B&B "Through My Eyes" Expansion/ Growth
MISSION COST	Leased space Internet Computers & equipment	Office supplies Cleaning Maintenance / miscellaneous	**MISSION ACHIEVEMENT / IMPACT FACTORS**	NGO performance Social cohesion Neighborhood integration	

Source: www.activistbrands.com

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The indicated components are difficult to operationalise and measure. The business model constructed with the use of the above-mentioned components aims to minimise the negative social and environmental effects while maximising the positive ones (Osterwalder and Pigneur 2010, p.265; Bull, M., Ridley-Duff R., (2019)). According to G. Smith (2013), non-profit social enterprises should create two separate business model templates - one for donors and one for beneficiaries. The first model would be based on the original Business Model Canvas (BMC) proposal, and the second would include Impact Metrics. In the quoted proposal, apart from the distinction between the proposition of economic value and the proposition of social value, it is also worth paying attention to the enrichment of the concept with an element of human resources (Brzózka 2015). This complement allows you to focus on the human resources specific to a social enterprise, the difficulties in engaging them, and the resulting risks.

Another proposal for the elements of the business model was presented by I. Lee (2015), indicating six logically related components of the business model emphasizing the specificity of a social enterprise. They are: (1) Value Proposition), (2) Legal and Governance Structure, (3) Market Scope), (4) Networked Activities, (5) Resources, and (6) Sustainability. Each of the components relates to the basis of the activities of a social enterprise and constitutes a pillar of the organisation's architecture. The value proposition describes the value of the product/service offered. The legal and governance structure, market reach, and networking activities all refer to how an organisation defines its market and delivers value to its beneficiaries and customers. Resources include the most important assets needed to create and deliver value. On the other hand, the sustainable development of activities indicates the key activities for creating and capturing value by the organisation (Lee, 2015, pp. 288–292). The presented business models can be used by social enterprises. Identifying the components of the business model contributes to the correct definition of the value offered to customers and beneficiaries, resources, activities, and relationships with partners that are used to create this value and ensure the organisation's success. A properly configured system of connections and cause-effect relationships between the individual components of the business model allows for the achievement of both social and economic goals resulting from the organisation's survival on the market. Business models enable social entrepreneurs to create social value and maximise social profit. By creating and developing their business model, they can better understand the essence of their business, increase their competitive advantage and achieve added value in the form of a surplus of revenues over costs. Creating business models also allows the activities of individual social enterprises to be compared, which in turn allows social entrepreneurs to use the experiences of others - benchmarking.

Business models enable social entrepreneurs to create social value and maximise social profit.

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4. Types of SE legal forms

In the Europe 2020 strategy, the European Union has set out a development model that aims at - and is based on - smart, sustainable and inclusive growth. Not only governments but also civil societies and businesses are called upon to actively contribute to the realisation of this 'strategic' vision. In a context where the EU has updated its social model to cope with the economic crisis amplified by the COVID-19 pandemic – which has deeply affected employment and the social dimension of the economy – the social economy and social enterprise can provide an important source of inspiration and energy for traditional enterprises.

Recently in Europe, new forms of organisation and collaboration between the public (state/local authorities), civil society (non-profit organisations), private (profit) companies and citizens are being experimented with, to sustain the impact of global competition, demographic changes and public spending cuts (spending review) on our continent's productive capacity and welfare systems.

The most recent Commission documents on the subject, as well as the mandate of the new European Parliament and Commission, also reflect these orientations. From the Social Economy Resolution of 2009, to the Social Business Initiative of 2011 aimed at building an ecosystem in Europe to promote social enterprises at the heart of the social economy and social innovation, to the work of the intergroup of the European Parliament and the European Economic and Social Committee (EESC), to the policy conclusions on the topic signed at the Strasbourg Conference in 2014, to the mapping of Social Enterprises and their Ecosystems[1] and its comparative synthesis Report that brings together and explains data, figures and experiences on social enterprises in 35 countries.

The report shows how, depending on the national legal system and other contextual characteristics, social enterprises cover a variety of legal and organisational forms in each country studied. These include ad hoc legal forms/statuses that have been designed specifically to further social enterprise growth (ex lege social enterprises) and legal forms not designed explicitly for social enterprises (i.e., associations, cooperatives and mutuals, foundations, conventional enterprises and specific types of non-profit organisations in various countries: "chitalishte" in Bulgaria, "zavod" in Slovenia, public benefit companies in the Czech Republic), which can be used, albeit sometimes with difficulty, run economic activities aimed at pursuing general interest aims.

Country variations tend to be rather significant: while in some countries the conduct of economic activities by non-profit organisations has been traditionally permitted by the legal system (this is the case, for instance, in France), in some other countries trading activity was until recently rather problematic (for example, in Italy).

1 Commissioned to Euricse (European Cooperative and Social Enterprise Research Institute) and EMES (International research network for Social Enterprise) by the European Commission's Directorate General for Employment, Social Affairs and Inclusion, this EU project has seen several phases, the first in 2014, the second in 2016 and the last in 2018-2019.

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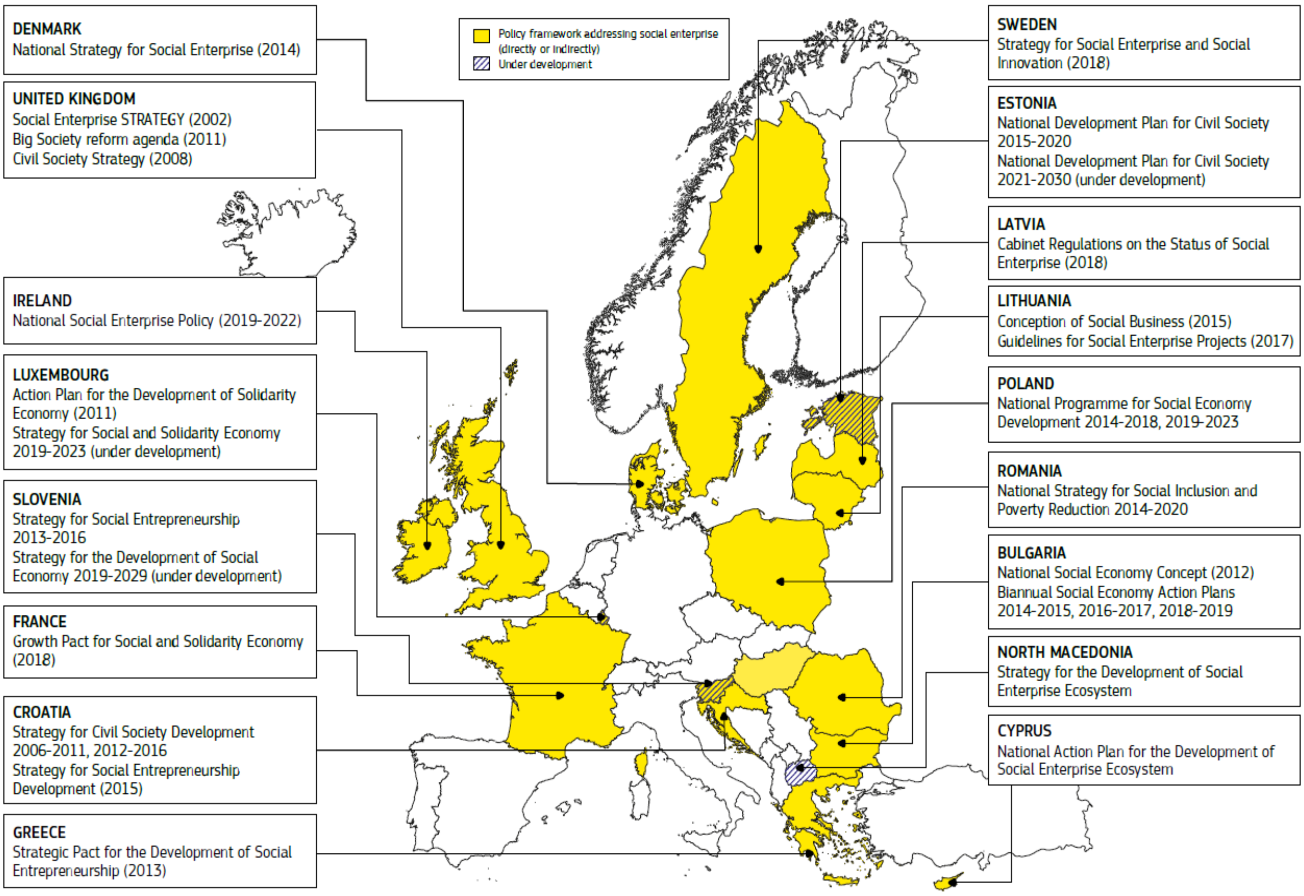

Figure 5. Countries with public policy frameworks targeting social enterprises

Source: Borzaga C., Galera G., Franchini B., Chiomento S., Nogales R., Carini C. (2020), Social enterprises and their ecosystems in Europe. Comparative synthesis report, Publications

From a comparative standpoint, two groups of nations can be distinguished: those that have passed legislation particularly intended to support the growth of social enterprises and those where they are not yet fully regulated.

Legal recognition has made it possible for social enterprises in the first group of nations to define their objectives, distinguishing characteristics, and areas of operation.

Social enterprises can be divided into five different categories based on their public recognition and the various national legal systems. The first category is made up of (1) social businesses that have been formalised through ad hoc legal structures that allow for the conduct of a wide-ranging (general interest, for example) or more focused range (work integration, for the second category) of activities. The third category consists of social enterprises that have been granted a legal standing thanks to their specific performance of work or integration in their framework (fourth category).

In many countries, some social enterprises are eligible for public benefit status (fifth category), which existed before the emergence of social enterprise and is not exclusively for social enterprise.

Accordingly, the identified types of social enterprises are presented in Table 2.

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Table 2. Legal statuses and legal forms adopted by social enterprises

Source: Borzaga C., Galera G., Franchini B., Chiomento S., Nogales R., Carini C. (2020), Social enterprises and their ecosystems in Europe. Comparative synthesis report, Publications Office of the European Union, https://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8274&furtherPubs=yes (accessed: 15.09.2022), p.109

Type of SE	Description	Legal form/status exclusively for SE	Countries
Institutionalised SE	Through a legal form designed specifically for SEs with a broad focus (different fields of activity of general interest)	Yes	Belgium, France, Germany, Greece, Italy, Latvia, Spain, United Kingdom
Institutionalised SE	Through a legal form designed specifically for SEs with a specific focus on work integration	Yes	Czech Republic, Greece, Hungary, Poland, Portugal
Institutionalised SE	Through an SE status (different fields of activity of general interest)	Yes	Bulgaria, Croatia, Denmark, France, Greece, Italy, Luxembourg, Portugal, Romania, Slovakia, Slovenia,
Institutionalised SE	Through a WISE status	Yes	Albania, Austria, Belgium, (7) Bulgaria, Croatia, Finland, France, Germany, Lithuania, Luxembourg, Poland, Romania, Serbia, Slovakia, Slovenia, Spain
Organisation with a public benefit status	Status that relates to a tax-privileged organisation that exists for public benefit	No	Albania, (8) Austria, Bulgaria, Czech Republic, (9) Estonia, Finland, France, Germany, Hungary, Latvia, Malta, Netherlands, Poland, Romania, (10) Sweden, Turkey (non-exhaustive list)
De facto SE	Organisation that fulfils the criteria set by the EU operational definition of SE, but uses a legal form not specific to social enterprises (e.g., association, cooperative, conventional enterprise)	No	All countries

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WISE statuses – targeting vulnerable groups

More and more statuses particularly acknowledging WISEs have been introduced in a substantial number of EU nations, including Austria, Bulgaria, Croatia, Germany, Poland, Romania, Slovenia, and Spain. This has made it easier for disabled individuals to integrate. WISEs are governed by laws that are more than 40 years old, including regulations that were passed during the communist government in CEE. In some cases, such as Finland, Lithuania, and Spain, they were introduced by contemporary legislation (e.g., Bulgaria, Croatia, Slovenia).

All of the aforementioned situations can be classified as WISEs, given that at least 30% of the workforce consists of underrepresented groups or people with disabilities.

Legal forms used by specific social enterprises

Depending on the country, social enterprises are set up via ad hoc legal forms, statuses and accreditation schemes designed specifically for social enterprises and/or via existing organisations that may fulfil the SE criteria (e.g., associations, cooperatives, conventional enterprises), if they comply with the three dimensions of the EU operational definition. Borderline types exist and they refer to initiatives and organisations that cannot be regarded as social enterprises, although they are mission-driven for they do not prioritise the pursuit of social aims and/or do not carry out economic activities regularly.

The following are just an example of how legal forms may differ in different countries due to their specific national regulation (see Table 3).

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Table 3. Legal forms used by specific social enterprises

Source: Borzaga C., Galera G., Franchini B., Chiomento S., Nogales R., Carini C. (2020), *Social enterprises and their ecosystems in Europe. Comparative synthesis report*, Publications Office of the European Union, https://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8274&furtherPubs=yes (accessed: 15.09.2022), pp.114-118.

Country	Institutionalised forms of SE	Organisations that can be considered SEs, provided that they comply with the three dimensions of the EU operational definition
AT	Different legal forms with status of socio-economic enterprise (SÖB), non-profit employment project/company (GBP) and integrative enterprise (IB)	• Associations • Cooperatives • Limited liability companies with/without public benefit status (gemeinnutzigkeit)
BE	Different legal forms accredited as work integration social enterprises (2019), Cooperatives accredited as social enterprises (2019)	• Associations • Conventional enterprises • Cooperatives • Foundations • Mutuals
BG	Cooperatives and conventional enterprises registered as enterprises of PWDs (81/2004) Different legal forms with social enterprise status (class A and class A+) (240/2018)	• Associations (including chitalishta) • Cooperatives (mainly agricultural) • Foundations
PL	Professional activity establishments (ZAZ) (776/1997) Social cooperatives (work integration, 2006)	• Entrepreneurial non-profit organisations (ENPOs, e.g., associations and foundations) • Conventional enterprises (non-profit companies
IT	A-type social cooperatives (delivering social, health and educational services) and B-type social cooperatives (work integration) (381/1991) Different legal forms with status of social enterprise (155/2006 and 106/2016)	• Associations • Cooperatives (e.g., community cooperatives) • Foundations • Mutual aid societies
CZ	Social cooperatives (work integration,90/2012)	• Associations • Cooperatives • Foundations • Institutes • Limited liability companies • Public benefit companies
HR	Companies, cooperatives and institutions with status of sheltered workshop or integrative workshop (157/2013) Different legal forms with social enterprise status (Strategy 2015)	• Associations • Conventional enterprises • Limited liability companies funded/owned by associations • Private foundations • Private institutions funded/owned by associations (ustanova) • Social cooperatives, veteran social-working cooperatives, cooperatives

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DE	Social and cultural cooperatives (2006) Enterprises for the inclusion of PWDs and enterprises for the integration of persons with other permanent labour market disadvantages (2016)	⅄ Associations (including welfare organisations) ⅄ Associations, cooperatives and limited liability companies with public benefit status (gemeinnutzigkeit) ⅄ Cooperatives ⅄ Operational foundations
HU	Social cooperatives (work integration,141/2006)	⅄ Associations with/without public benefit status ⅄ Cooperatives with/without public benefit status ⅄ Conventional enterprises ⅄ Foundations with/without public benefit status ⅄ Non-profit companies with/without public benefit status

To have a full overview of the organisations that can be considered SEs in each specific European country, please check the 'Social Enterprises and their Ecosystems in Europe' report, on page 114, at the following link: https://2021.euricse.eu/social-enterprises-and-their-ecosystems-in-europe-the-comparative-synthesis-report-now-online/

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[2] https://2021.euricse.eu/social-enterprises-and-their-ecosystems-in-europe-the-comparative-synthesis-report-now-online/

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5. Stakeholders

For a social enterprise identifying key stakeholders, differentiating between the diverse stakeholder groups, and understanding what influence these groups can have, are essential when planning everyday processes as they can immensely increase effectiveness. Since the profile of social enterprises shows a high degree of variety, the unique set of stakeholders depends on the individual social enterprise, its activity, and the environment it is embedded into.

Stakeholder Theory for social enterprises

The theory of identifying stakeholders has been used since the 80s to shape the relationship between businesses and their interested parties. Edward Freeman was the first to introduce the Stakeholder Theory in his work "Strategic Management: A stakeholder approach", which has since been applied to organisational management in various fields, including entrepreneurship and project management. In his book, Freeman identifies those groups which can be considered stakeholders of a corporation and outlines methods for taking into consideration the needs of the parties involved in management processes (Freeman, 2010; Stakeholder Theory, 2022). The stakeholder approach differentiates between shareholders and stakeholders and stipulates that any business should create values for both groups. Not only for-profit organisations but also hybrid ones can make use of the stakeholder theory when mapping the interest of their groups as they are entities which generate values involving multiple participants.

Who are the stakeholders of a social enterprise?

Stakeholders of a social enterprise include all those organisations, groups or individuals who matter for the particular organisation and on which the organisation depends. Anybody can be considered as a stakeholder who has any kind of interest in the social enterprise, any group that is affected by its products or services, was affected by them in the past or will be affected in the future. The stakeholders of a social enterprise are those who are interested in its development, results and success, including those who contribute to the development of the enterprise with their work, expertise and own information networks (Disoci, 2022.; Stevenson, 2022).

Consequently, not only external but also internal groups should be taken into consideration. Stakeholders for a social enterprise might include the employees, managers, owners, and shareholders as internal stakeholders, and clients, suppliers, customers, users, supporters, other organisations within the field, local communities and many more as external stakeholders (Introduction to Business, 2022) The list is not and cannot be exhaustive, since the actual group of interested parties largely depends on the individual social enterprise, its activities and interaction with the local community it is embedded into.

Why are stakeholders important for social enterprises?

A social enterprise cannot operate effectively unless it has a strong local presence. Therefore, it is an inevitable task of a social enterprise to identify who the relevant stakeholders are, i.e., those who are interested in the development, results and success of a social enterprise, and those who can significantly help the enterprise with their work, expertise and own resources of information (PiacTárs, 2017). If the stakeholders are carefully identified and listened to, the social enterprises will be able to react more readily to the concerns raised by various groups and receive continuous feedback

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on the effects of the activities undertaken. The stakeholders'

function is basically to support the social enterprise with information, ensure quality standards and help set and, if needed, re-set its direction. More specifically, according to *The importance of stakeholders* (2022) stakeholder engagement can help:

- ✓ empower people with decision-making roles,
- ✓ create sustainable change for the social enterprise with informed decisions,
- ✓ build mutually beneficial relationships by building on existing relationships and encouraging new ones,
- ✓ build a better organisation by developing social responsibility,
- ✓ increase the success of the social enterprise by winning influential groups to the cause,
- ✓ mutually share information, experience and good practice.

Allowing stakeholders to have a voice will result in a healthier relationship, better communication, and smoother functioning for the social enterprise.

How to identify stakeholders?

To identify the relevant stakeholders, those individuals and groups should be taken into consideration which are most likely to be involved or affected by the activities of the social enterprise. The list of groups can include various participants ranging from staff and volunteers to customers and local actors.

Inevitably, during the stakeholder mapping process, some stakeholders might receive more importance than others. Consequently, it is essential to draw a map of the *key stakeholders*, who are most closely related to the objectives of the social enterprise. Using the concept developed within the framework of the Learning FromWOeRK project (Plymouth University), the stakeholders who are key to the success of the social enterprise can be grouped under the following categories:

- Customers: those individuals who are buying the product or using the services of the social enterprise. Mapping their needs is essential for successful marketing and long-term sustainability of the objective. If their needs are left unattended, they will refrain from repeating purchases or recommending the product/service to others.
- Beneficiaries: they are the consumers of the particular product or service who directly benefit from using them. Their involvement is particularly important in planning, reviewing, and delivering work. Focusing on the beneficiaries can help social enterprises identify the needs and the social impact they can expect to have.
- Key influencers: they include those groups which have an influencing impact on the customers/service users, therefore they affect purchasing decisions. If key influencers are taken into consideration, the profile of the social enterprise as well as the customer base can be improved. With the help of the key influencers, the main messages of the enterprise can easily be communicated, however, they are also able to ruin their reputation. Previous beneficiaries will often become key influencers when they start recommending the social enterprise. (ibidem)

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Prioritising stakeholders with Power-Interest Grid

Once the different stakeholder groups are identified for the social enterprise, it is worth making a rank in terms of importance. According to the blog post of the Institute Project Management (2022), prioritizing will help recognize both the level of influence of the given stakeholder group and the level of interest in the work of the social enterprise. One of the most used tools for categorizing the interest groups in terms of influence, interest and level of involvement is by using the Power-Interest Grid. The technique, usually used to classify key players, helps determine where to invest resources. The grid offers four categories to group stakeholders according to how much influence the particular stakeholder has (influential power) and how much interest the stakeholder has in the social enterprise (interest).

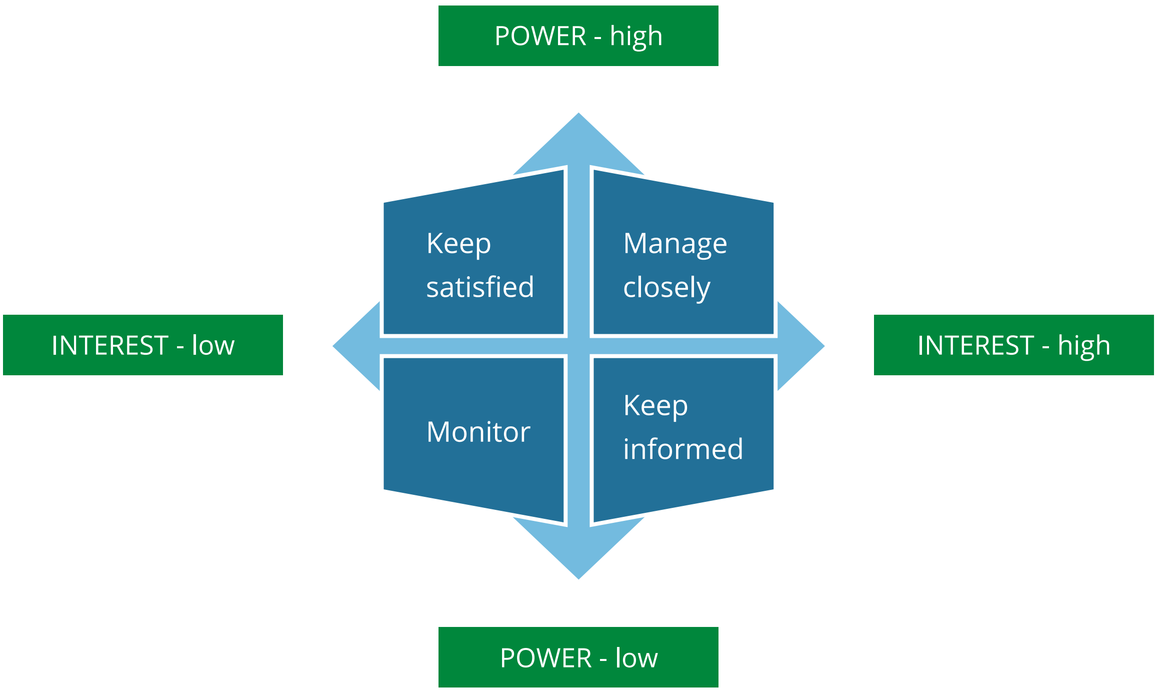

Figure 6. Adapted from: Graph on power interest grid, Institute Project Management

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Low power, low interest *→ Monitor.* Stakeholders with little influential power and no significant interest in the social enterprise do not represent a central target group, however, they cannot be dismissed as unimportant. Monitoring and reaching out to them regularly will prevent them from forming a negative opinion of the enterprise.

Low power, high interest *→ Keep informed.* Although this stakeholder group might be very interested in the activities of the social enterprise, their power is still not sufficient to make them influential factors. The best strategy would be to keep this group informed enough to ensure their positive attitude towards the venture of the social enterprise.

High power, low interest *→ Keep satisfied.* The relatively low-interest level of this group does not mean that it should be dismissed as not relevant. On the contrary, they represent a significantly important group which should be kept satisfied. With their balanced engagement in the social enterprise, their level of interest could be increased.

High power, high interest *→ Manage closely.* Having both significant power and high interest, this category groups the most important stakeholders for the social enterprise which should be on the top of the list of priority actors. Although all stakeholder groups should be addressed, the focus of attention should be on this particular group to fully engage and satisfy. (ibidem)

Conflict of stakeholders' interests and their resolution

The diverse types of stakeholder groups arrive with diverse focuses and interests. The level of involvement of the different stakeholders in the social enterprise is also diverse. These might eventually create a conflict of interest. Social enterprises have to operate by taking into account the often conflicting interest of their key stakeholders, which frequently arise from the hybrid nature of the social enterprise: some stakeholders for instance might want to put more focus on the commercial objectives, while others would opt for strengthening the social value (Eiselein & Dentchev, 2020).

Stakeholder conflicts can be resolved by increasing the level of engagement of the stakeholder groups in decision-making processes and by improving channels of communication between the stakeholder groups. To resolve the problem arising from the conflicting nature of social and commercial objectives, four governance mechanisms are offered, which are the following:

- ✓ fit of values: common values are essential not only with internal but also with external stakeholders: the more personal values fit with the overall objectives and values of the organisation, the more intensive the feeling of shared goals among different stakeholders (ibid., 15)
- ✓ communications: intensive and open communication towards both internal and external stakeholder groups are crucial when balancing conflicting interests and presenting straightforwardly the overall

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goals of the social enterprise. Various channels and occasions should be offered for the stakeholders to openly discuss any issues (ibid., 17).

- ✓ agile structure: Agile organisational structures with reduced power distances and open discussion principles not only facilitate communication but also help strengthen partnerships and stakeholder commitment. (ibid., 18)
- ✓ partnerships: Partner organisations are essential for social enterprises to achieve and maintain social impact. Social enterprises attract all sorts of non-profit, for-profit or governmental organisations. However, with a careful and balanced selection of partners with similar objectives, social enterprises can maintain the right balance between social and commercial objectives. (ibid., 21)

The four governance mechanisms are mutually complementary and are thus inseparable from each other when resolving conflicting interests.

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MODULE 2.

INNOVATION IN THE SOCIAL ENTERPRISE SECTOR

1. Concept of innovation and social innovation

Early uses of social innovation include, on the one hand, reference to significant long-term structural changes in institutions, habits and routines that were brought about by democratic revolutions and the demise of feudal society, but also, on the other hand, to more specific narrower social-cultural changes (Bailey 1970). In the next few years, the concept of social innovation has become pervasive in academia, in policymaking, among third sector organisations and in business. In the European public policy today, there is consensus that social innovation broadly implies new ideas and new collaborations to improve effectiveness and meet social needs (European Commission, Bureau of European Policy Advisors 2010). Social innovation relates to new responses to pressing social demands by means that affect the process of social interactions, and it is very concerned with wellbeing (BEPA, 2010, p.6)

Social innovations relate to social sector. Zahra, Gedajlovic, Neubaum, and Shulman (2009) have emphasized that social innovation is the core of social entrepreneurship. Social entrepreneurship implies social change and improvement, and this can require innovation. The starting point for social innovation is an idea of a need that isn't being met, coupled with an idea of how it could be met. Social innovation refers to innovative activities and services that are motivated by the goal of meeting a social need and that are predominantly diffused through organizations whose primary purposes are social. From a broader perspective social innovation can be defined as innovative activities and services that are motivated by the goal of meeting a social need (Mulgan 2006).

Social innovation is an effective and sustainable way to respond to societal needs.

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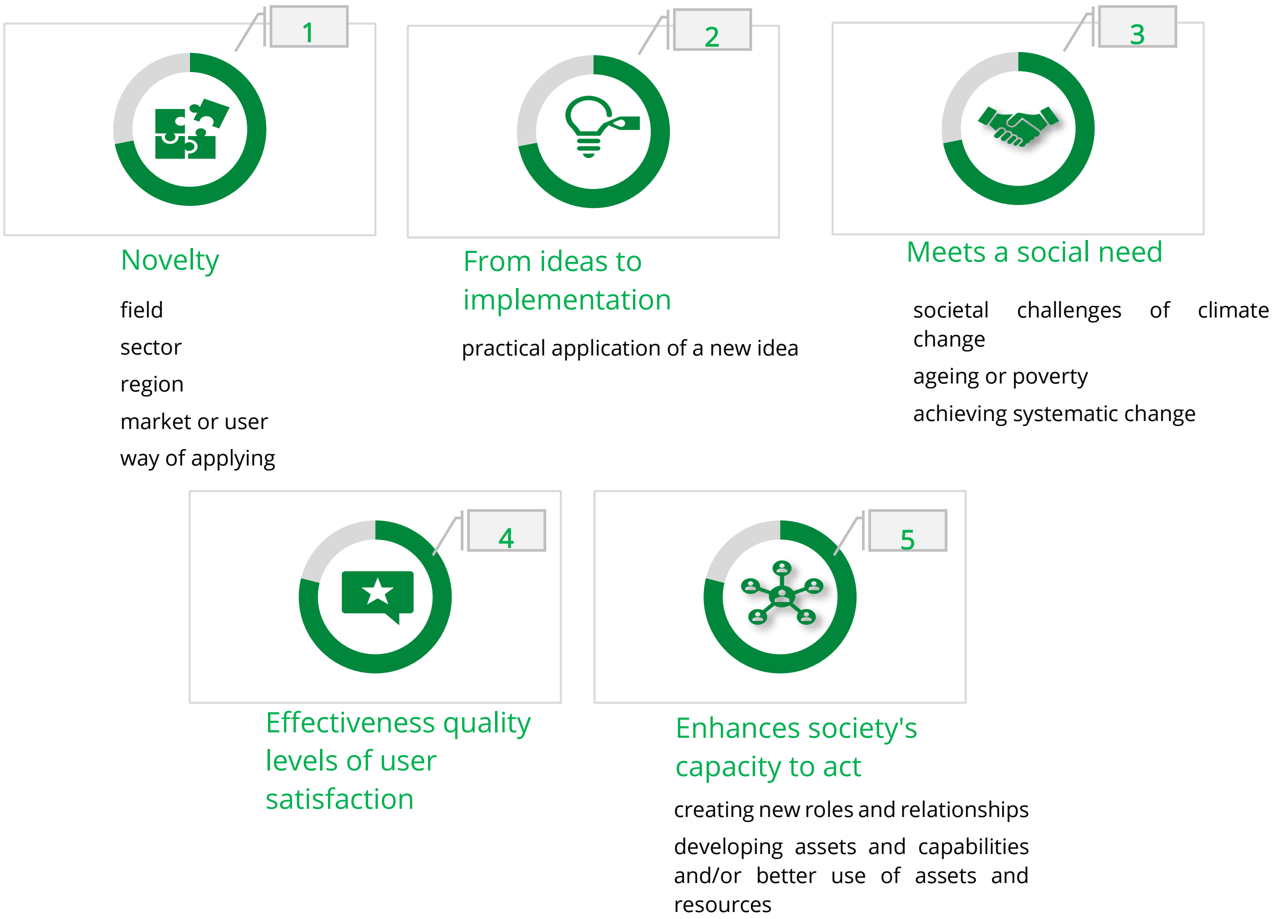

Figure 7. Core elements and common features of social innovation

Source: Caulier-Grice, J. Davies, A. Patrick, R. Norman, W. (2012) Defining Social Innovation. A deliverable of the project: "The theoretical, empirical and policy foundations for building social innovation in Europe" (TEPSIE), European Commission – 7th Framework Programme, Brussels: European Commission, DG Research

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Social innovation is an effective and sustainable way to respond to societal needs. Social innovation is used in ideological and theoretical debates about the nature and role of innovation in contemporary society, either to confront mainstream concepts of technological and organizational innovation, or as a conceptual extension of the innovative character of socio-economic development. The concept of social innovation evolved from two main directions: social entrepreneurship and local development.

Social entrepreneurs are defined by Bornestein (2004) as “people with new ideas to address major problems who are relentless in the pursuit of their visions, people who simply will not take “no” for an answer, who will not give up until they have spread their ideas as far as they possibly can”. Even if the social entrepreneur does not create or design directly a new product or invention, he must be creative and innovative in how he goes about it, so that he optimizes and maximizes his output. Social entrepreneurship entails a different way of thinking about social impact and change, and therefore requires innovation. The social entrepreneur involves innovation in the way he tackles social problems, etc. The social entrepreneur therefore needs to be innovative and creative in the way he brings together stakeholders and implements interventions. The social entrepreneur cannot only address the surface problem or ill but needs to suggest and propose sustainable and effective solutions that address the problem fundamentally and systematically, and this may require a lot of innovation (Mthembu, Brian, 2019). Innovation must be radical or disruptive in nature, to be able to truly contribute to social transformation, and thus social entrepreneurship or social impact.

It must be able to and allow the system to be changed and transformed.

Mulgan (2006) states that social entrepreneurship, and the social change resulting from it, must be radical and disruptive, instead of common, to really have a significant social impact. Types of innovation are:

- Disruptive Innovation - To be truly effective, the main task of social entrepreneurship should be to be disruptive – to effectively change the system. Otherwise, social entrepreneurship is simply treating or alleviating symptoms. The amount of social impact the social entrepreneur will have, depends on how disruptive or radical he and his solutions are. More and more people are coming together and collabourating to bring about social improvement.
- Radical Innovation - The innovation that comes with, or that is embedded in, a social opportunity or enterprise may be radical. Radical social entrepreneurship is more likely, the greater the social need, and the greater the imperative or objective to bring about social impact. The more radical the social entrepreneur, the more likely his chances of surviving. The more passionate the social entrepreneur, the more radical he is likely to be.
- Incremental Innovation and Sustaining Innovation – are not common with social entrepreneurship.

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New approaches to local development have emerged which focus on the exploitation and promotion of the endogenous potentialities of the territory (Lenz, Shier, 2021). Social innovation is quite often either locally or regionally specific, or/and spatially negotiated between agents and institutions that have a strong territorial affiliation. This approach defines social innovation as the satisfaction of alienated human needs through the transformation of social relations: transformations which 'improve' the governance systems that guide and regulate the allocation of goods and services meant to satisfy those needs, and which establish new governance structures and organizations (discussion fora, political decision-making systems, firms, interfaces, allocation systems, and so on). Taking into consideration local development concepts, social innovation involves, among others, the transformation of social relations in space, the reproduction of place-bound and spatially exchanged identities and culture, and the establishment of place-based and scale-related governance structures (Moulaert 2009). Social innovations in local development are visible in all the European countries but have major differences from those involved in work integration, both in the number of enterprises and the types of services supplied.

In Italy, for example, thousands of social enterprises provide a range of social services including the work of integration of disadvantaged people. In other countries, such as Sweden and Finland, they are mainly active in specific fields, such as employment services and kindergartens (Copus et al. 2017). In France, the main direction of social innovation is to create innovative social and community care services, by integrating public social and labour policies. It is worth giving some examples of social innovation:

- ✓ Community Care Assynt - A charity established by local residents that delivers services to support people to overcome barriers they face due to age, health or disability issues (http://www.communitycareassynt.org.uk/)
- ✓ Fish Factory Creative Centre - The result of the transformation of an abandoned fish factory in Stöðvarfjörður by a passionate group of individuals (https://inhere.is/)
- ✓ Kalix Övre Bygd - runs a local store and provides a range of public services in the fields of care for the elderly, childcare and education (https://www.kalix.se/Samhalle/Landsbygd/byar/ovre-bygden/)
- ✓ Sorø Senior Service - A network of volunteers who deliver groceries to elderly citizens in the remote parts of the municipality (https://www.sn.dk/soroe-kommune/stift-regelsaet-har-draebt-soroe-senior-service/)
- ✓ The Initiative Factory is a social innovation scheme coordinated by Avise and supported by the organisations that guide business startups in 30 areas (https://fabriqueainitiatives.org/)
- ✓ Collabourative Social Housing offers homes at affordable rents and promotes the formation of smart communities with shared spaces, tools and services (https://www.fhs.it/?lang=en)

Moreover, there are two theoretical perspectives concerning social innovation. On one side, there is an 'agentic centered perspective', an individualistic and behaviorist approach in which social innovation is created through the actions undertaken by specific individuals. On the other side, there is a 'structuralist perspective' in which social innovation is perceived as determined by the external structural context (Graddy-Reed, Feldman 2015).

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Social innovation can be perceived from the perspective of an outcome. From this point of view, social innovation is about innovation with social aims or about improving social welfare (Cajaiba-Santana 2014). While societal development in the nineteenth and twentieth centuries was driven by technological progress and economic dogmas, the twenty-first century must give rise to social innovation to encourage societal and systemic changes. Social innovation has become particularly attractive to policymakers because of the difficulties traditional welfare systems face in meeting the growing and diverse needs of society (Borzaga, Bodini 2014).

Zahra et al. (2009) define social entrepreneurship by emphasizing the innovation that is the final aim of the process: "social entrepreneurship encompasses the activities and processes undertaken to discover, define and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in an innovative manner." Social innovation can be understood as the process of creating novel solutions to further a social good—it is innovation relating to the solution of a social problem (Pol and Ville, 2009). That means not just working collaboratively with all stakeholders but also integrating technology innovation with new business models to bring about the convergence of IT with social and industrial infrastructure.

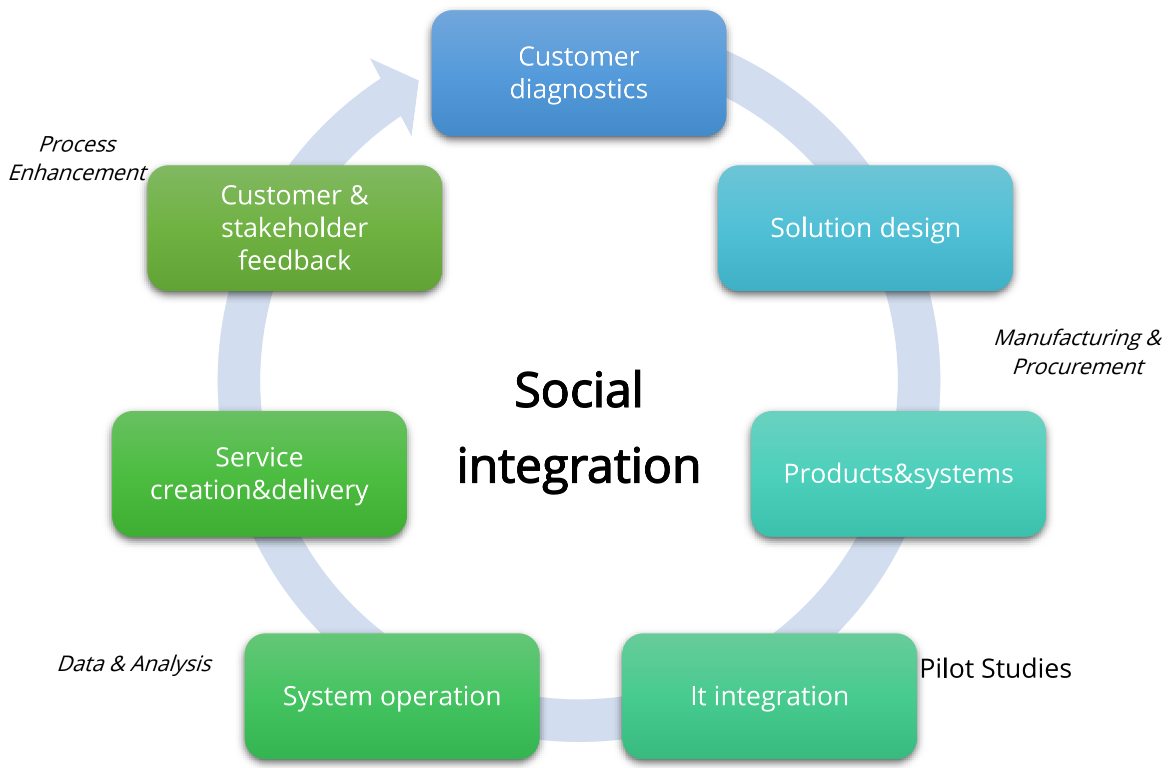

Figure 8. Value Chain for Social Innovation

Source: Frost & Sullivan, 2014.

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Social innovations are collective processes. This statement suggests that innovations promote cooperation and participation processes. The result of high levels of innovation and often involving novel solutions, meaning a high degree of learning and iteration for all stakeholders resulting in circular value chains with feedback loops and continuous improvement. Open innovation accommodates the inventiveness of citizens, communities, businesses, civil organisations, and local and central government in both the design of solutions and in the feedback loops for collabourative improvement.

Summarizing, social innovation actively promotes inclusive relationships among individuals, especially those that are (or have been) neglected by previous economic, political, cultural, or social processes. Moreover, social innovation is explicitly about addressing need, and emphasising the importance of more inclusive solutions to pressing human needs. Social innovations are a kind of social change; they have an impact on future social development and present stability beyond temporary fads.

> Social innovation actively promotes inclusive relationships among individuals, especially those that are (or have been) neglected by previous economic, political, cultural, or social processes.

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2. Digital social innovations

The relationship between technologic and social innovation is complex and difficult to disentangle. While social innovations frequently make use of new technologies, the interplay between technology and social innovation is not a one-way linear relationship. Rather, societies and individual users apply new and existing technologies in innovative ways. Concepts such as design in use and the appropriation work of users in information technology refer to practical efforts to make technologies work (Grimm, Fox, Baines, Albertson 2013).

In the digital age, the dichotomies of innovator–producer and user–consumer are blurring into each other. The digital transformation in the social space has been less dramatic, especially in using technology to solve wicked social problems, such as poverty, inequality, social exclusion, marginalisation, and poor healthcare access. These entities can collaborate using digital technologies to co-create knowledge and solutions to address a wide range of social needs in disadvantaged, socially excluded and marginalized groups at a scale that was unimaginable before the rise of internet-enabled technologies. (Qureshi, Pan, Zheng, 2021).

Following the European Commision (2014), digital social innovation is a new kind of innovation enabled by the network effect of the internet, which is leading to new models of collaborative production and content sharing. This has radically changed the competition and supply and demand equations of traditional business models. The European Commission is currently supporting the take-up and expansion of digital social innovation as part of its digital agenda policy. The concept of digital social innovation was developed by the EU, which was reflected in one of the priorities of Europa 2020.

The Europe 2020 Strategy has identified new drivers to boost growth and jobs in seven specific areas, for which measures have been embedded in seven flagship initiatives, that aim to make the EU economy more efficient (a resource-efficient Europe, an industrial policy for the globalisation era), foster innovation (a Digital Agenda for Europe, Innovation Union) and fight unemployment and exclusion (Youth on the Move, an Agenda for New Skills and Jobs, European Platform against Poverty).

The Digital Agenda for Europe (DAE) aims to develop innovative solutions that challenge traditional ways of doing things, like moving from closed innovation models to open and collaborative innovation that can unleash the power of social production and collective intelligence. In this context, the digital agenda is probably the most significant example of a policy area which concerns digital social innovation.

Although initially considered as a special case of social innovation, digital social innovation is now recognized as a new research and application field with distinctive features (Rodrigo, Palacios, Ortiz-Marcos, 2019). Digital social innovation (DSI) involves the use of digital technologies in the development and implementation of innovative products, services, processes and business models that seek to improve the well-being and agency of socially disadvantaged groups or address social problems related to marginality, inequality and social exclusion (Qureshi, Pan, Zheng, 2021). Technologies like blockchain, artificial intelligence (AI) and virtual and augmented reality (VR and AR) have so far been most widely applied commercially, bringing with them both positive and negative disruption to industry, the economy, and our societies, but they also have the potential to transform the way we address social challenges using digital tools.

Along the literature review there are three main contexts concerning DSI. The first one, is the digital context that cover technologies of the citizens, technologies on civic life, social technologies, civic technology, tech for good, social tech, digital

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technology in social innovation, civic media, digital technologies for/in Social Innovation, internet ecosystems, Collective Awareness Platforms CAPS, networks of open communities. The second is social context: digital commons, eCommons, eDemocracy, eGovernance, social embeddedness of technology, civic engagement. The last, innovation context is the following social innovation and new technologies, technological innovation, Digital Social Innovation DSI, social innovation in digital context (Rodrigo et al. 2019)

With Digital Social Innovation (DSI) there is a new communication technology component, namely to set up Internet platforms and digital information processing tools to promote those value-generating collabourations and to extend or scale-up best practices and transfer know-how cheaply and rapidly via the net. The goal is to find new ways of solving social issues, to gain in efficiency, in effectiveness, in sustainability or (in the long term) to address the problem of citizen engagement for good governance (Loretta, Passani 2014).

Social innovation initiatives are not only intended to innovate a product or a service, but also to affect the social relationships that characterize a social group and a solid community structure (Murray, Caulier-Grice and Mulgan, 2010). DSI aims to promote innovation and social change based on the network effect: meaning internet connections, web collabourative tools, sharing of open data and a process of bottom-up peer-supported activities and applications). Initiatives using social media and web connectivity to support, complement or speed existing social innovation processes represent some of the most common examples of DSI (Certoma 2022). DSI is organized as a public-private partnership based on an active role of citizens and the use of state-of-the-art information technology to engage citizens, to support stronger links (data exchange, visualization) and thus to multiply the potential effect of grass-root initiatives. (Loretta, Passani 2014).

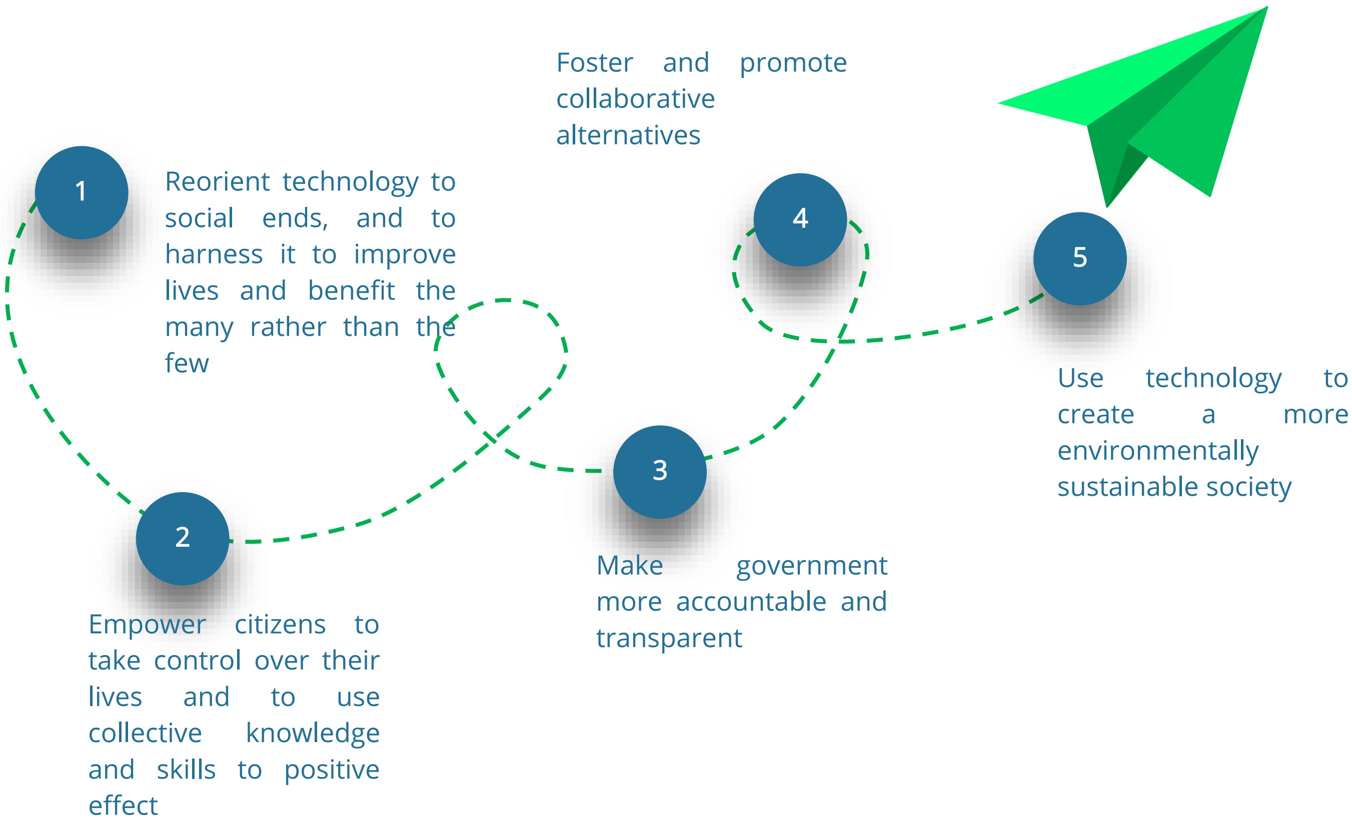

Figure 9. Main aims of DSI

Source: DSI4EU, A guide for developing DSI ideas, https://digitalsocial.eu/images/upload/65-A%20guide%20for%20developing%20DSI%20ideas.pdf

Digital social innovation concern initiatives which (Stokes, Baeck, Baker, 2017):

- ☑ Have a social impact.
- ☑ Adopt new technology trends in a novel way.
- ☑ Aim to empower citizens for individual and collective awareness.
- ☑ Demonstrate a clear network effect.
- ☑ Focus on supporting and working with grassroots or 'bottom-up' communities of users.

The DSI initiatives can be led by social entrepreneurs, government agencies, charities, trust, non-government organizations (NGOs), cooperatives or corporations under their corporate social responsibilities. However, given the scope and scale of SDGs, such initiatives more likely involve cross-sector partnerships and multiple stakeholders.

By integrating research in ICTs for development, social entrepreneurship, and social innovation, we propose a framework to understand the process of DSI and identify interesting research avenues.

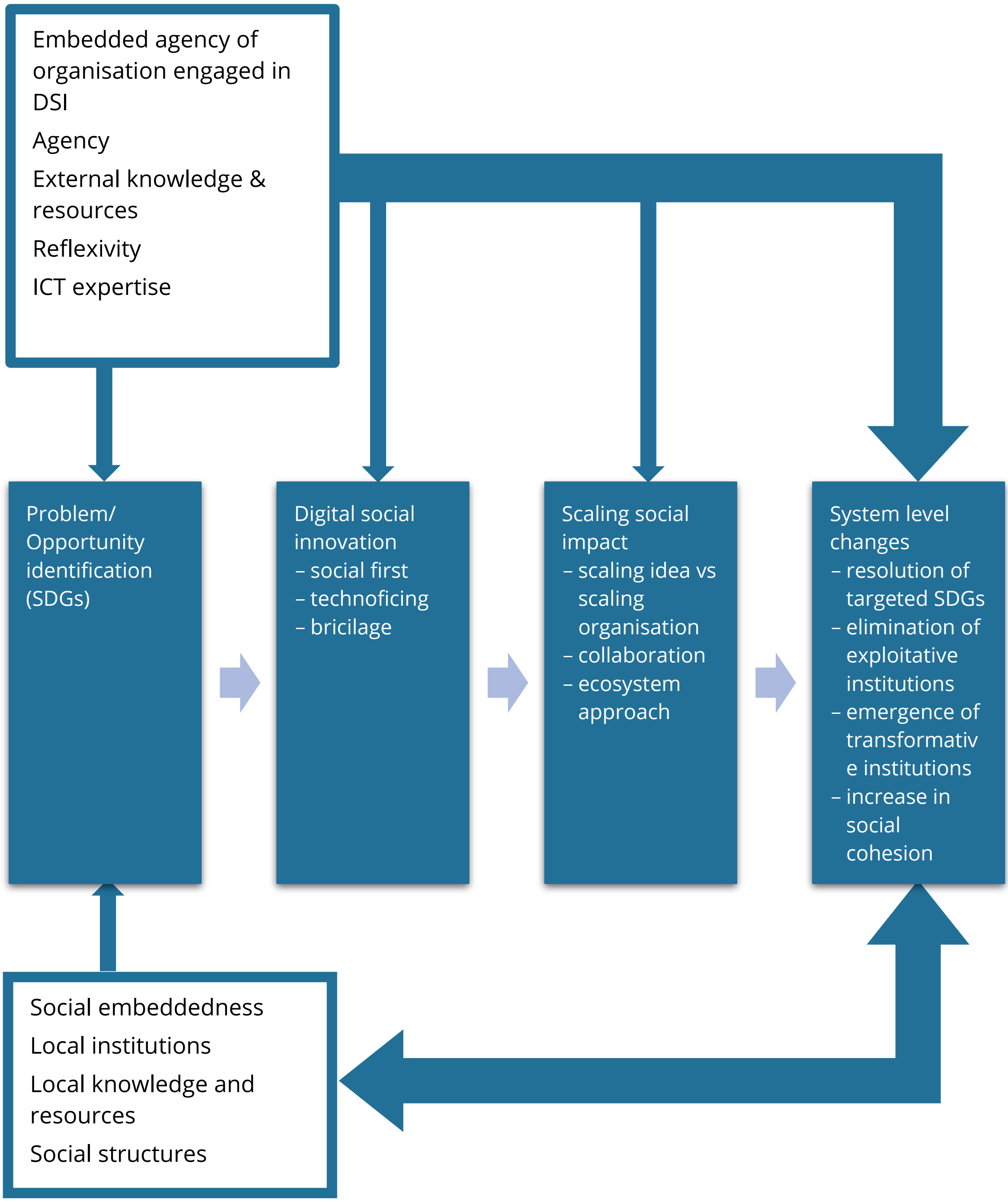

Figure 10. Process of digital social innovation

Source: Qureshi, Pan, Zheng, 2021.

The social-first approach means that DSIrs need to strive to maximize social impact. DSIrs should adhere to the principle of technoficing, understood as the purposeful pursuit of social objectives using a technology that is good enough and appropriate for the purpose. The construct of cultural bricolage is defined as the innovative recombination and ad hoc use of available cultural resources to overcome resource constraints and rigid social hierarchies in addressing wicked social problems (Qureshi, Pan, Zheng, 2021).

> The rapid spread, pervasive availability, and affordability of new digital technologies have opened a new world of possibilities to solve pressing social problems.

DSI is already delivering social impact in different areas. The digitalsocial.eu platform was developed by the DSI4EU project, and it offered users the opportunity to find listings of digital social innovation (DSI) initiatives across Europe since February 2016. In 2022 there are almost 2,000 organizations and over 1,000 projects involved in digital social innovation (DSI) across Europe, with the highest concentration of activity in Western and Southern Europe. Digital social innovation platforms collect examples of digital social innovation divided into topic health and care, skills and learning, food, environment and climate change, migration and integration, digital democracy, cities and urban development, work and employment, culture and arts, science, finance, and economy. DSI4EU project, present the main statistic of using digital technologies to tackle social challenges. As an example, we can list the following:

- Baluchon builds affordable wooden and DIY micro-houses that enable low-income people to live independently (https://www.tinyhouse-baluchon.fr/)
- Fab Foundation - provide access to the tools, knowledge and financial means to educate, innovate and invent using technology and digital fabrication to allow anyone to make (almost) anything, and thereby creating opportunities to improve the lives and livelihoods around the world (https://fabfoundation.org/getting-started/#fablabs-full)
- Fairphone - aim to create a positive social and environmental impact from the beginning to the end of a phone's life cycle (https://www.fairphone.com/en/our-goals/?ref=header)
- I Wheel Share application, it facilitates the collection and diffusion of information about urban (positive and negative) experiences that may be useful to disabled people (https://retourdimage.eu/i-wheel-share-application-mobile-et-citoyenne-pour-laccessibilite/)
- mySociety is a not-for-profit social enterprise with a mission to invent and popularize digital tools that enable citizens to exert power over institutions and decision makers (https://www.mysociety.org/)
- Opendesk - changing the way furniture is made, by connecting customers to local makers (https://www.opendesk.cc/)

Summarizing, the rapid spread, pervasive availability, and affordability of new digital technologies have opened a new world of possibilities to solve pressing social problems. Digital social innovation leverages digital technologies to meet social needs. Main areas of digital social innovation are education, healthcare, welfare services (promotion of societal inclusion and cohesion).

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3. Corporate Social Responsibility

The best-known CSR model is that of Carroll (1979), which proposes that the social responsibilities of a company are the economic, legal, ethical, and philanthropic expectations formed by society. The main area of responsibility is economic, but at the same time the company must abide by the law. Ethical responsibility refers to the obligation to behave fairly and honestly. CSR is perceived to positively influence firm reputation, suggesting that firms may decide to expand their CSR programmes in the wake of poor economic conditions. Corporate social responsibility concerns actions by companies over and above their legal obligations towards society and the environment.

The European Commission proposed the definition of CSR in its Green Paper of 2001 as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing 'more' into human capital, the environment, and the relations with stakeholders. In 2011 the European Commission in its renewed EU strategy 2011-2014 for Corporate Social Responsibility put forward a new definition of CSR to address the very complex issue of "going beyond legal compliance". The new definition describes CSR as "the responsibility of enterprises for their impacts on society" and clarifies that respect for applicable legislation and for collective agreements between social partners, is a prerequisite for meeting that responsibility. European Commission (2011) stressed three main features of the new definition:

- Recognition of the importance of core business strategy. Development of the concept of "creating shared value".
- Explicit recognition of Human rights and ethical considerations in addition to social, environmental and consumer considerations.

Corporate social responsibility (CSR) literature suggests CSR initiatives extend beyond meeting the immediate interests of stakeholders of for-profit enterprises, offering the potential to also enhance performance. Growing disillusionment of for-profit business models has drawn attention to social entrepreneurship and social innovation to ease social issues (Phillips, Lee, Ghobadian, O'Regan, James, 2014).

There are many definitions of CSR as well as different perspectives on how CSR should be introduced and implemented in organizations. According to stakeholder theory, CSR is essentially divided into two categories: external and internal CSR. External CSR includes three main issues, namely, corporate philanthropy, corporate volunteerism, and environmental protection (European Commission, 2001), while the core of internal CSR involves the employees and employment relationship. As a result, internal CSR somehow functions as fundamental HRM activities, and is considered an effective strategy to encourage personnel satisfaction, employee affective commitment and engagement, and knowledge sharing activities (Gupta, Sharma, 2016) and in turn, boost organizational creativity (Chaudhary, Akhouri, 2018).

Graddy-Reed & Feldman (2015) presented the multiple paths to social innovation that existing literature has focused on separately. The most direct path is through organizations, whether they would be for-profit, nonprofit or a hybrid structure, that are created with the explicit aim to attempt to address a social problem. Any innovation may have a social effect: profit-seeking business technological or organisational innovation can produce externalities that generate social benefit (Pol and Ville, 2009). Thus, businesses can indirectly create social innovation through a positive externality with a social application. For-profits may also create social innovation through their social involvement, namely their corporate social responsibility (CSR) practices. Considering CSR as a new business model can also be considered a social innovation, since it applies a new business concept that will result in social development.

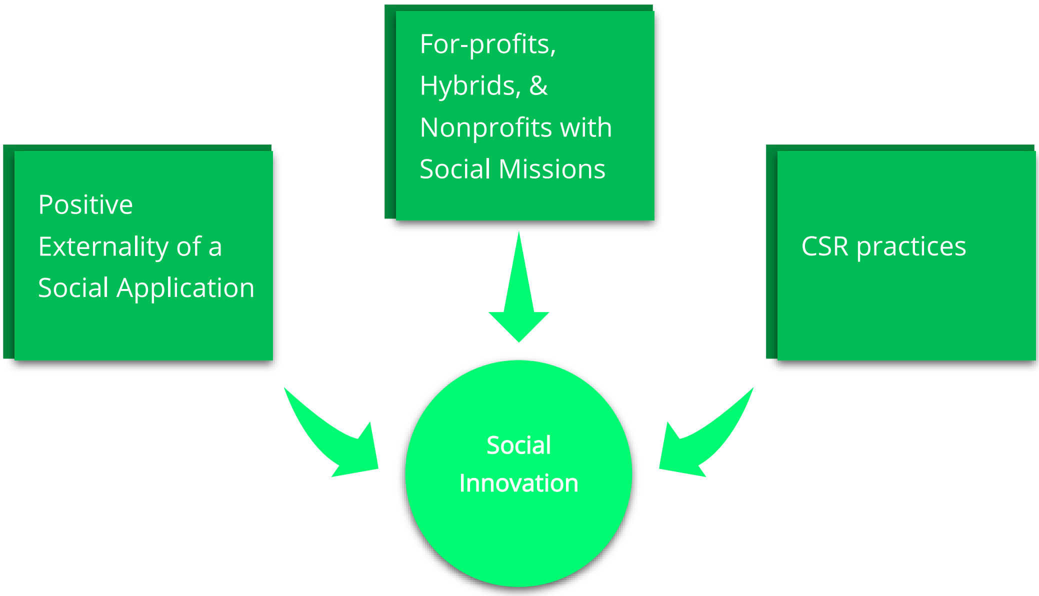

Figure 11. Source of social innovation

Source: Graddy-Reed & Feldman (2015).

These three alternative routes suggest that social innovation will not be limited to social enterprises but will span the range of organisational forms. For-profits may also create social innovation through their social involvement, namely their corporate social responsibility (CSR) practices. CSR is perceived to positively influence firm reputation.

Social innovation, defined as innovative activities and services that are motivated by the goal of meeting a social need" (Mulgan, 2006, p. 146), occurs across several forms of organizations, from for-profit firms that often create social value through their CSR programs, to dual mission organizations forming new hybrid models (Dees, Anderson, 2006). Social entrepreneurs focus on bringing about improved social outcomes for a particular community or group of stakeholders (Chell, Nicolopoulou, Karatas-Özkan, 2010).

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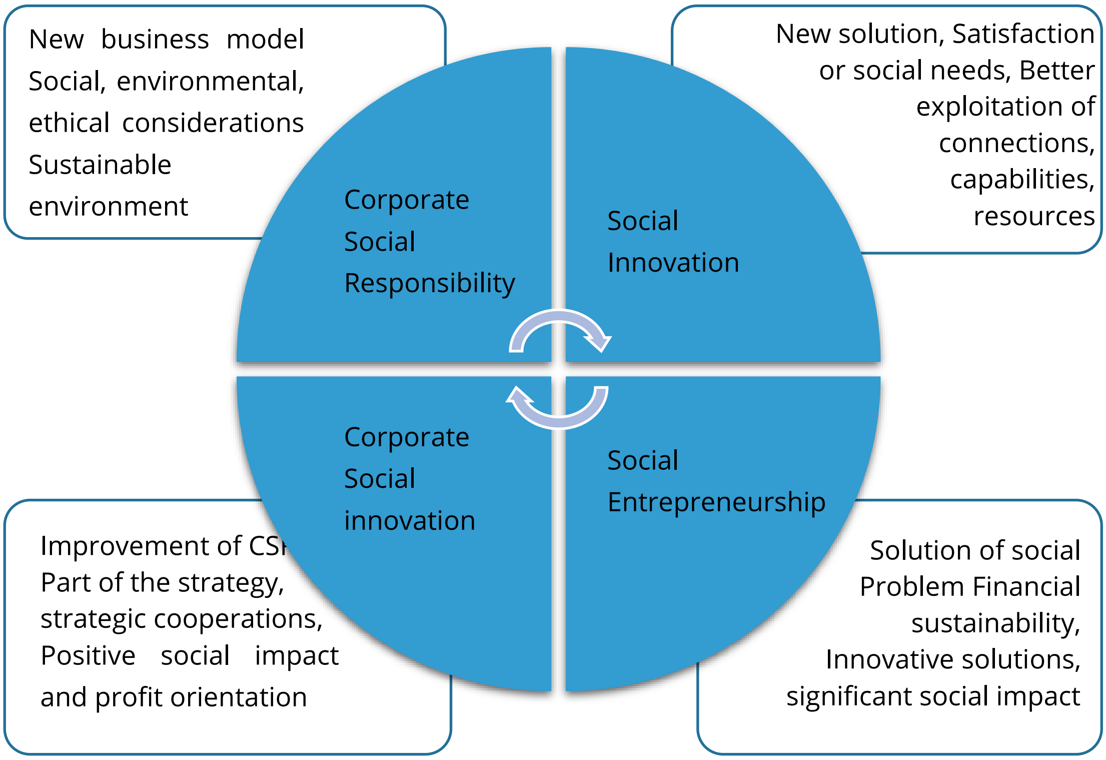

Figure 12. The integrated model of corporate social responsibility, social innovation, and social entrepreneurship

Source: Szegedi, K. et. al (2016).

Analysis of the concepts of corporate social responsibility and social innovation have shed light on the way in which CSR that is integrated into corporate strategy can itself be considered social innovation. Corporate social innovation and social entrepreneurship both attempt to contribute to solving some social problem, while maintaining economic sustainability.

Social entrepreneurship and social innovation are increasingly being held as a means of overcoming the market-based mechanisms governing for-profit organizations, and their reinvestment of profits into delivering positive outcomes for communities or stakeholder groups. In contrast to for-profit enterprises, social entrepreneurs focus on the “double bottom line,” a motivation to perform both financially and socially. Both social entrepreneurship and social innovation share common overlaps, significantly in the process of identifying problem-solving opportunities for unmet social needs (Philips 2015).

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4. Leadership in SEs

In contemporary socio-economic conditions, there is a need to create forms, ideas, and ways of doing business that meet sustainable development goals. The traditional goal of a company, which is usually to maximize profit, seems insufficient in a turbulent environment. Meeting the necessity of corporate social responsibility requires the involvement of entrepreneurs in new forms of business activity aimed at ensuring social welfare.

Social enterprises are gaining importance based on changes and increased social awareness. Their main goal is to improve the quality of life of the population. These enterprises are crucial for social inclusion, stable development of local communities and counteracting social exclusion. They are faced with the challenge of carrying out a mission considering social and economic goals. From the point of view of the survival of a social enterprise on the market, it is necessary to focus on social aspects and to ensure high efficiency of financial and organizational processes, focused on the quality of the organization's activities (Grant, 2008; Muscat, Whitty, 2009).

The necessity to adapt to external business requirements, the unpredictability of the environment and dynamic changes in the third sector require the presence of managers who can secure financial issues and optimally use human resources. Since the success of any organization largely depends on top management, the effective operation of social enterprises cannot take place without leadership (Cekuls, 2018).

The development of social enterprises depends on the knowledge, skills, and flexibility of the organization's leadership. Leadership is using influence over others without resorting to coercive measures and supporting individual and collective efforts to achieve common goals (Yukl, 2008). In today's organization, leadership is one of the most important elements of managerial activity and consists of organizing human resources in such a way that the right people focus on the right tasks, have access to the right information, tools, and applied incentives, and control systems that allow them to use tasks efficiently and economically (Gravells, 2012).

A social enterprise leader takes the initiative to identify and solve social problems. The manager must be completely committed, goal-oriented, led by example, inspire colleagues, be courageous, patient and provide a sense of security. These features are also leadership in traditional organizations, but they are crucial for the success of enterprises pursuing social goals (Al Mamun, et al., 2018).

Social entrepreneurial leaders can be defined as persons who create and manage innovative entrepreneurial organizations or ventures whose primary mission is the social change and development of their client group. These social entrepreneurial organizations may depend on outside funding for their activities or be self-sufficient by engaging in economic activity in consonance with their core mission.

Leadership in a social organization should be characterized by having hard and soft skills.

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- **Leadership Through Person** - WHO has the informal power to create leadership? Gravells (2012)
- **Leadership Through Position** - WHO has the formal power to create leadership? Overall, Tapsell and Woods (2010)
- **Leadership Through Process** - HOW is leadership created? Pless and Appel (2012)
- **Leadership Through Performance** - WHAT is achieved through leadership? Smith, Besharov, Wessels and Chertok (2012)
- **Leadership Through Place** - WHERE is leadership created? Grant (2008)
- **Leadership Through Purpose** - WHY is leadership created? Maak and Stoetter (2012)

Leadership in a social organization should be characterized by having hard and soft skills. The manager of a social organization must have appropriate interpersonal and professional qualifications, including directional education, completed courses and training, and internships. In many countries, the requirements for performing leadership functions in social organizations are strictly defined in legal regulations. These regulations cover a wide range of aspects and requirements for professional qualifications (Tian, Smith, 2015).

A modern leader should have a specific set of character traits and skills. In the era of socio-economic and geopolitical changes, the leader's abilities to adapt to market changes, effective personnel management, appropriate delegation of tasks, building organizational culture and teamwork skills become more important. Efficient and flexible management in a social enterprise means anticipating and preventing risk. Making decisions and responding to external threats allows for a holistic approach to organization management, which makes the company work effectively in a changing environment.

One of the fundamental abilities of a social enterprise leader is the selection of appropriate employees and matching their abilities and competencies to their tasks and positions. A leader should have a flexible approach to human resource management and create an appropriate working environment and an effective motivation system to encourage people to improve their skills and acquire knowledge (Spineli, 2006).

The main goal for a social enterprise leader is to reconcile the contradictions between market action and the creation of public/social value. The key challenges include society's rapidly changing needs and preferences, the development of private competition in the social services field, high volatility of the environment, limitation of financial aid and the need to obtain funds from other sources, problems with attracting volunteers and macroeconomic crises (Pache, Chowdhury, 2012).

Three interrelated leadership skills enable managers to attend to these challenges: accepting, differentiating, and integrating competing demands. Accepting involves viewing both social and financial demands as simultaneously possible. Differentiating entails recognizing the unique contributions of each demand. Finally, integrating focuses on bringing social and financial demands together such that conflict between them becomes productive rather than intractable.

Social entrepreneurship's future depends on several external and internal factors. External determinants include the economic situation and prospects for its development, geopolitical conditions, access to external sources of financing, and the national and international programs supporting the development of social entrepreneurship. On the other hand, internal factors include property and financial situation, human and intellectual capital, tangible and

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intangible resources, and adopted strategies and business models. In the age of an aging society and increasing inequalities, external support for socially responsible initiatives and activities is necessary (Faruk, et al., 2016).

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5. Human Resources Management

In the second decade of the 21st century, several changes can be observed in organizations and their environment. Management and human resource management are influenced by the volatility, uncertainty, complexity, and ambiguity of the environment, which is referred to as VUCA (volatility, uncertainty, complexity, ambiguity). The 2008-2009 financial market crisis affected the economic situation of a great many countries. However, the complications of the pandemic caused by the SARS-CoV-2 coronavirus, were global in nature and now the economies of countries on all continents are dealing with the effects of the COVID-19 pandemic. They are bound to leave lasting marks in the social and economic spheres, governance, people management, employment, and labour. Over the past few months, Ukraine and neighbouring countries have been affected by hostilities, with widespread and multidimensional consequences.

Thus, societies, economies, businesses, and their employees are exposed to the need to cope with the VUCA phenomenon, but also face other challenges, related to globalization, internationalization, tertiarization, informatization and artificial intelligence, aging societies, increased competition, and innovation, as well as changing consumption patterns and customs of citizens, the growing role of social media in obtaining knowledge and information. Changes of an economic, technological, and demographic as well as social nature create a new context for human resource management theories, policies, and practices. These changes equally affect organizations in the logistics industry (Bednarkiewicz, Warwas, 2022).

HRM is a whole range of issues included in the personnel function of an organization. HRM is a process consisting of logically interrelated activities, providing the organization with properly selected employees and the effectiveness of their tasks - in this way the organization achieves its objectives. The basic (sub)functions of HRM are human resources analysis and planning, personnel recruitment, selection and adaptation of employees, employee evaluation, remuneration, motivation, personnel development, shaping of working conditions and relations, personnel controlling, and outplacement. These are therefore activities related to the employee - from his entry to exit from the organization.

The goals of HRM are to:

- ☑ support the organization in achieving its objectives by developing and implementing human resource strategies that are integrated with the business strategy (strategic HRM).
- ☑ contribute to the development of a high-performance culture.
- ☑ ensure that the organization has the talented, skilled, and engaged people it needs.
- ☑ create a positive employment relationship between management and employees and a climate of mutual trust.
- ☑ encourage the application of an ethical approach to people management (Armstrong, 2014).

HRM is determined by the management vision, mission, and strategy of the organization - and at the same time it is a justification for it. At the entrance to the organization the processes of planning and recruitment of employees are located. In the centre there is motivation and staff development, and at the exit there is de-recruitment and outplacement. All processes are accompanied by the "consideration" of employees

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in the context of competence management, which is the "glue" of human resources management.

Pocztowski (2018) writes that "human resource management includes the formation of strategies, processes, structures and tools that support the achievement of high labour efficiency and the enhancement of the quality and value of human capital as a source of value generation for shareholders." At the same time, he points out that "people are not a resource, but a subject in the work process, the owner and disposer of the resources of knowledge, skills, abilities, health and behaviour that contribute to the functioning of the organization through the provision of work in various organizational and legal forms" (Pocztowski, 2018). Organizations as open systems are in constant interaction with the environment. This implies an approach to human resources, as they are different from other resources, and their management is sometimes described as "a strategic, integrated and coherent approach to the employment, development and well-being of people employed by the organization" (Armstrong, 2011). The overriding place in human resources management is occupied by the Human Resources philosophy, defined as the values and principles adopted by managers in the process of forming a strategy conceived as the direction of management. By taking the right direction, organizations can efficiently and effectively manage employees, including attracting them, compensating them, training, and creating conditions for their development, providing appropriate conditions and shaping labour relations (Warwas, Rogozinska-Pawełczyk, 2016).

The 5-P model of HRM describes how HRM operates under the five headings of:

I. **HR philosophy** – a statement of how the organization regards its human resources, the role they play in the overall success of the business, and how they should be treated and managed.

II. **HR policies** – these provide guidelines for action on people-related business issues and for the development of HR programmes and practices based on strategic needs.

III. **HR programmes** – these are shaped by HR policies and consist of coordinated HR efforts intended to initiate and manage organizational change efforts prompted by strategic business needs.

IV. **HR practices** – these are the activities carried out in implementing HR policies and programmes. They include resourcing, learning and development, performance and reward management, employee relations and administration.

V. **HR processes** – these are the formal procedures and methods used to put HR strategic plans and policies into effect (Armstrong, 2014).

Among the megatrends affecting human resource management, the phenomenon of population aging occupies an important place. It is an objective process, inevitable in the foreseeable future, since demographic changes are not reversible in the short term. This phenomenon can be looked at both from the perspective of the organization and the labour market, the difficulty of recruiting employees, extending working life and retirement, raising or lowering the retirement age (Kuchciak, Warwas, 2022). Organizations can respond by implementing age management or multigenerational management if they have representatives of other generations working in addition to mature employees.

Another issue of interest in human resource management is diversity. The growing importance of this issue is due to, among other things,

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demographic changes, but also the processes of population migration and free movement in the labour markets. The diversity of human resources can be seen as a source of competitiveness of organizations (Gross-Gołacka 2018).

One of the principal criteria used to define the profiles of employees who will join the team in charge of social enterprises is the level of correspondence between the values promoted by the organization and the personal values of the candidate. This practice reduces job rotation and improves the bonds between the worker and the company (Austin, 2006).

People who assume a leadership role in these enterprises must have a background in administrative project management as well as experience in dealing with social issues. In the case of for-profit organizations, their business focus leads them to make use of available permanent staff members to support their social enterprises.

Human resources development is a retention tool. Mechanisms for the retention of personnel include a range of actions implemented by a firm to assure that its workers are loyal to the organization and willing to maintain a relationship with it that lasts several years. Organizational climate and employee quality-of life issues are dealt with by its development. Measurement of organizational climate consists of teamwork and worker participation, the relationship between supervisors and subordinates, recognition for tasks accomplished, and the work motivation of personnel. The organization is also concerned with the degree to which labour activity allows for equilibrium between the professional and personal lives of individuals, including matters such as family welfare and spiritual health (Austin, 2006). In the practice of modern organizations, this means creating and implementing work-life balance programs and wellbeing projects.

The issue of labour efficiency has been the subject of research and implementation since the dawn of human resource management. Within the framework of performance management, the following directions of change can be anticipated: the growth of self-service of HR matters within shared service centres, the development of corporate governance in human resource management, and the evolution of the role of HR as a business partner towards becoming part of the business and taking on leadership roles. And among the roles performed by HR, the role of the HR analyst is developing (Pocztowski, Rakowska, Sitko-Lutek, 2021).

Social enterprise organizations must balance short term, objective-driven funding regimes with the desire to provide job security, progression, and creativity in the work environment.

In the case of social enterprises, human resource management is a complex and difficult issue. The process involves not only employees but also temporary collaborators, including volunteers. Faced with the inability to compete for human resources with high salaries, social enterprises should focus on “soft” management. It may also be helpful to design competence management around the values that social enterprises are known for, such as inclusion, sustainability, ecology, well-being (Smith at all, 2014).

As the line between work and life blurs further, employees are demanding that organizations expand their benefits offerings to include a wide range of programs for physical, mental, financial, and spiritual health. In response, employers are

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investing in well-being programs as both a societal responsibility and a talent strategy (The rise of the social enterprise 2018 Deloitte Global Human Capital Trends).

Human Resources is important for any social entrepreneur who is thinking about taking on staff or volunteers. If social entrepreneur invest time in getting human resources strategy, policies, procedures, and processes right from the beginning, then the organization will be building on stable foundations (Practical information on managing people in social enterprises).

Social enterprise organizations must balance short term, objective-driven funding regimes with the desire to provide job security, progression, and creativity in the work environment. Additionally, managing a board with variable levels of skill and ability to commit time and reach out to volunteers creates the need for a strong, diverse, and inclusive communication culture. As the sector moves towards sustainability and funding bodies demand detailed reporting of project management, the pressure is on for it to respond with professional strategies, policies, and processes (Royce, 2007).

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MODULE 3.

FINANCIAL MANAGEMENT FOR SOCIAL ENTERPRISES

This module consists of some basic financial tools so that Social Enterprises and other users can utilize to achieve better financial management.

Here is a detailed explanation of the most common financial management methods and tools used in the wider industry:

1. Incremental cash flows

Incremental cash flow is the additional operating cash flow that an organisation receives from taking on a new project. A positive incremental cash flow means that the company's cash flow will increase with the acceptance of the project. The business must compare projected cash flow if it takes on the new project to when it does not, and at the same time should consider how implementing such a new project may affect the cash flow from another part of the business. A positive incremental cash flow is a good indication that an organisation should invest in a said project. General components that must be acknowledged when calculating incremental cash flows include the following

1. **Sunk costs**
   These are past costs that have already been incurred and may times have been taken before any investment decision was made. Since incremental cash flows look into the future, it should be stressed that sunk costs should not be included in the computation.
2. **Opportunity costs**
   Opportunity costs refer to a business's missed chance for revenues from its assets. As an example, a business owner wants to add a new product on the line-up which requires an upfront investment of €5000. The opportunity cost is the potential value of the €5000 spent somewhere else or even saved for the future.
3. **Cannibalization**
   Cannibalization is the result of taking on a new project that reduces the cash flow of another product or line of business. As an example, consider any of the smart-phones brands: When Apple announces a new iPhone, the sales of its older iPhone models immediately drop.

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Incremental Cash Flow Formula (ICF):

Incremental Cash Flow = Revenues – Expenses- Initial Cost

Example 1

- ⇒ ABC company is looking to develop a new product. The company must make a decision between product X and product Y. Product X is expected to have revenues of €200.000 and product Y revenues of €300.000. Looking only at the revenue site one might choose product Y.
- ⇒ Expenses for product X are €60.000 and expenses for product Y are €120.000.
- ⇒ Initial Cost for product X is €35.000 and initial cost for product Y are €80.000.

	Product X	*Product Y*
Revenues	€200.000	€300.000
Less: Expenses	€60.000	€120.000
Less: Initial Cost	€35.000	€80.000
Incremental Cash Flow (ICF)	€105.000	€100.000

Hence ABC company should choose Product X over Product Y but it should undertake further analysis to determine whether product X will result in sizable cannibalization of its other line of products.

Advantages of The Incremental Cash flow method:

The Incremental Cash Flow method is easy to calculate, and it does not involve any of the complications introduced by the discount rate in methods like Net Present Value (NPV) and Internal Rate of Return (IRR) – to be presented later.

Disadvantages of the Incremental cash Flow method:

In practice incremental cash flows are difficult and complicated to forecast. It is as good as the forecasted inputs. In addition, the cannibalization effect, if any, is difficult to estimate.

Besides endogenous factors that are project specific, there are many other exogenous factors that may significantly influence a project, and which are very challenging to forecast. Such exogenous factors may include changes in government policies, market conditions, legal environment, and even natural disasters. Another challenge is distinguishing between cash flows from the project and cash flows from other business operations. Without proper distinction, project selection can be made based on flawed data and inputs.

Conclusion

The Incremental cash Flow technique can be used as an initial screening tool for new projects. It would need additional methods to corroborate its result. But despite its shortcomings, it can be used to give an idea about a project's viability and profitability.

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KEY TAKEAWAYS:

- Incremental cash flow is the potential increase or decrease in a company's cash flow related to the acceptance of a new project or investment in a new asset.
- Positive incremental cash flow is a good sign the investment is more profitable to the company than the expenses it will incur.
- Incremental cash flow can be a good tool to assess whether to invest in a new project or asset, but it should not be the only resource for assessing the new venture.

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2. The role of sunk cost

Sunk cost refers to money that have already been spent and cannot be recovered. In business, the axiom that one must "spend money to make money" is reflected in the phenomenon of the sunk cost. A sunk cost differs from future costs that a business may face, such as decisions about inventory purchase costs or product pricing. Sunk costs are independent from any event and should not be considered when making new investment or project decisions. Only relevant costs, that is costs that relate to a specific decision and will change depending on that decision, should be taken into consideration when making such decisions.

All sunk costs are considered fixed costs. Fixed costs do not change with increases/decreases in units of production volume while on the other hand variable costs fluctuate with the volume of units of production. It is important to note that not all fixed costs are considered sunk costs that as you may recall are costs that cannot be recovered. For example, equipment bought are generally considered fixed cost, but they are not sunk costs since they can be resold or returned at a pre-determined price.

When making business decisions, companies should only consider relevant costs, which include future costs (inventory purchase costs, product pricing that still need to be incurred). The relevant costs are contrasted with the potential revenue of one choice compared to another. Sunk costs are excluded from future business decisions because the cost will remain the same regardless of the outcome of the decision on investment.

Sunk cost is also referred to as embedded cost, past cost, prior year cost, stranded cost, sunk capital or retroactive cost.

Example 2

⇒ A company will spend €1.000.000 in building a very specialized machinery that it believes will attract demand given the current market conditions. As the machinery is almost finished the company realizes that the demand they had assumed is no longer there as market conditions demand a completely different machinery. The company has already spent €800.000 on this machinery. To tap the market, they need to build a totally different machinery that will cost €1.500.000. In this scenario, the €800.000 spent is a sunk cost and should not be taken into consideration whether to build the new machinery. The only relevant cost for the new machinery is the €1.500.000 and this should be the determining factor whether to go ahead with the new project.

⇒ A company spends €20.000 to train its employees to use a new software system. As the training progresses it turns out that the new software is full of design problems, and it is not useful at all. The management is considering whether to abort training altogether and change to a new software system. The €20.000 already spent is a sunk cost.

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The Sunk Cost Fallacy

The sunk cost fallacy reasoning states that further investments or commitments are justified because the resources already invested will be lost otherwise. This is often known as “throwing good money after bad”. The sunk cost fallacy is a mistake in reasoning since the sunk costs of an activity are not considered when deciding whether to continue with the activity.

KEY TAKEAWAYS:

- Sunk costs are those which have already been incurred and which are unrecoverable.
- In business, sunk costs are typically not included in consideration when making future decisions, as they are seen as irrelevant to current and future budgetary concerns.
- Sunk costs contrast with relevant costs, which are future costs that have yet to be incurred.

Sources:

https://www.investopedia.com/terms/s/sunkcost.asp

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3. Asset disposal

Companies often have tangible assets, such as property or equipment, that are used in generating revenue. Once these assets have reached the end of their useful life, companies dispose of them. Understanding the asset disposal process can help companies accurately document these transactions in their financial statements.

Asset disposal is the removal of a long-term asset from the company's accounting records. It is an important concept because capital assets are essential to successful business operations. More-over proper accounting of the disposal of an asset is critical to maintaining updated and clean accounting records.

The asset disposal may be a result of several events:

- ⇒ An asset is fully depreciated and must be disposed of.
- ⇒ An asset is sold because it is no longer useful or needed.
- ⇒ An asset must be removed from the books due to unforeseen circumstances (e.g. the asset was stolen).

The accounting entries required to record the disposal of an asset depend on the situation on which the event occurs.

Example 3

Let us consider the following scenarios to analyse the different situations that require an asset disposal.

Company ABC owns a specialty machinery asset on its balance sheet valued at €10.000.

- ⇒ **Case 1**: Disposal of a Fully Depreciated Asset
  Company ABC estimated that the machinery's useful life to be 5 years. Hence the annual depreciation expense is €2.000. At the end of the 5 years the machinery is fully depreciated, and the asset must be disposed of. In this case the asset's value and the accumulated depreciation must be written off.
- ⇒ **Case 2**: Disposal by Asset Sale with a Gain
  Suppose that at the end of the third year, company ABC decided to sell the machinery to another company. At that time the accumulated depreciation was €6.000 and therefore the total book value of the machinery was €4.000 (10.000 – 6.000). ABC has managed to sell the machinery at €5.000 euros. This implies that company ABC must recognize a gain of €1.000 from the sale.
- ⇒ **Case 3**: Disposal by Asset Sale with a Loss
  Same situation as case 2 but at this case the agreed selling price is €3.000. Thus, there will a €1.000 loss on the sale, and it must be recognised in the journal accounting entries.

Source: https://corporatefinanceinstitute.com/resources/knowledge/accounting/asset-disposal/

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4. Nominal vs real prices

Nominal values are the current monetary values. Real values are adjusted for inflation and show prices/wages at constant prices. Real values give a better guide to what you can actually buy and the opportunity costs you face.

Table 4. Nominal vs real prices

Source: www.economicshelp.org

Nominal	Real
The current monetary value	Considers the effects of inflation
Presents the current headline monetary figure	Provides a guide to actual purchasing power and the opportunity cost of workers
Example: Nominal wage increase +5% Inflation at 3%	Increase in real wage = 2%
Example: Nominal interest rate: 2.5% Inflation: 2%	Real Interest rate = 0.5%

Examples of application of real vs nominal:

- ⇒ If you receive a 6% increase in your wage from 1.000 euro to 1.060, this is the nominal increase.
- ⇒ If inflation is at 2.5%, then the real increase is 6% -2.5% = 3.5%.
- ⇒ The real wage is a better guide to how your living standards changes. It shows what you are able to buy with the extra increase in wages.
- ⇒ If wages increase 20%, but inflation was also 20%, the real increase in wages would be zero – in effect, despite the monetary increase in wages of 20%, the amount of goods and services you could buy would be the same.

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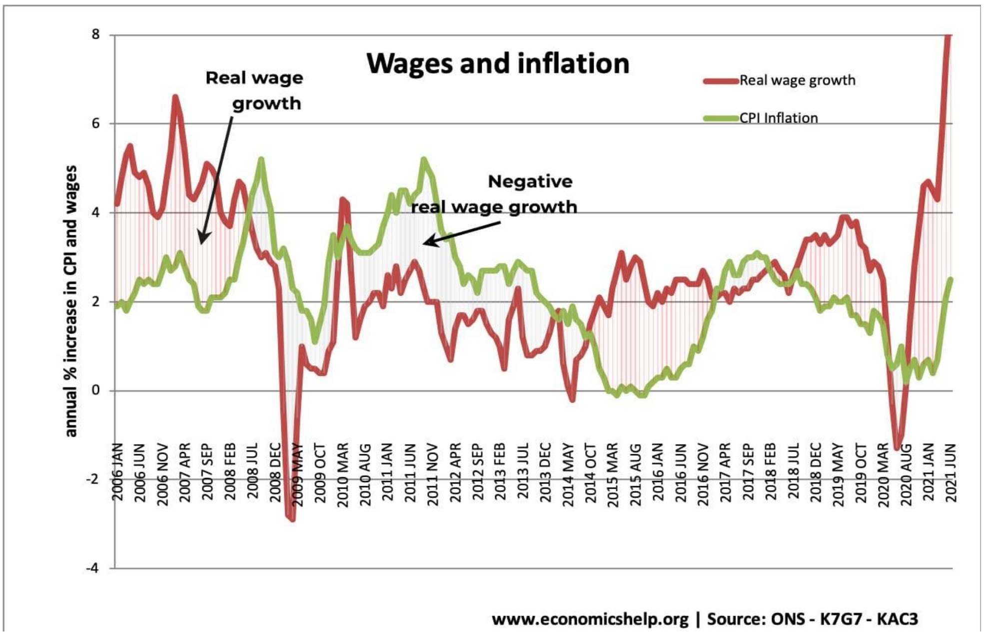

Figure 13. Real wages Graph

⇒ The above graph shows nominal wage growth and inflation. Between 2006 and 2008, nominal wage growth was higher than inflation – causing positive real growth of roughly 2% a year.

⇒ However, between 2009 and 2014 there was the unusual circumstance of inflation higher than nominal wage growth leading to negative real wages.

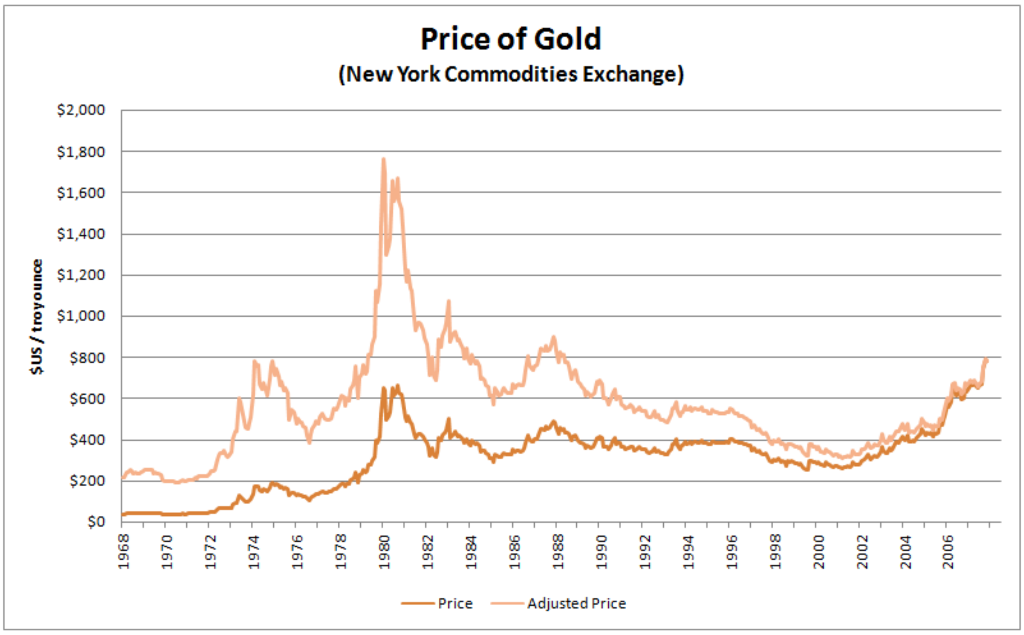

Figure 14. Commodity prices nominal vs real

The adjusted price is the inflation adjusted price. The nominal price of gold shows a bigger increase, but using constant prices and adjusting for inflationary increases in the value of money we see the real price of gold increase from $200 in 1968 to $800 in 2008.

KEY TAKEAWAYS:

- Nominal values are the current monetary values.
- Real values are adjusted for inflation and show prices/wages at constant prices.
- Real values give a better guide to what you can actually buy, and the opportunity costs you face.

Source: https://www.economicshelp.org/blog/146717/economics/real-vs-nominal/#:~:text=Nominal%20values%20are%20the%20current,the%20opportunity%20costs%20you%20face

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5. Net Present Value (NPV)

The concept of money that you have in hand now is more valuable than money you collect later on is familiar with most people. That is because money at hand can be used to make more money now by running for example a business or buying an asset now and selling it later for more money. The most indicative example is of course that money at hand can be deposited in a bank and earn future interest. Future money is less valuable because inflation erodes its buying power. This is called the **time value of money**. The NPV method is how you compare the value of money now with the value of money in the future.

Net present value (NPV) is the difference between the present value of cash inflows and the present value of cash outflows over a period. NPV is used in capital budgeting and investment planning to analyse the profitability of a projected investment or project. NPV is the result of calculations used to find today's value of a future stream of payments.

How is NPV calculated?

The formula for the calculation of NPV is the following:

$$Net\ Present\ Value = \sum \frac{Year\ n\ Total\ Cash\ Flow}{(1 + Discount\ Rate)^n}$$

where n is the year whose cashflow is being discounted.

This is the sum of the present value of cash flows (positive or negative) for each year associated with the investment, discounted so that it is expressed in today's currency (€, $ etc).

For a three-year period, the formula will look like:

$$NPV \ = -x_0 + \frac{FV_1}{(1 + discount\ rate)} + \frac{FV_2}{(1 + discount\ rate)^2} + \frac{FV_3}{(1 + discount\ rate)^3}$$

where "FV" is the projected cash flow for each year and n is the number of periods out the cash flow is from the present. X_0 is the initial investment or initial outflow.

If the NPV is negative, the project is not a good one as it will ultimately drain cash from the business. However, if NPV is positive, the project should be accepted. The larger the positive number, the greater the benefit to the company.

The discount rate is a critical input to the calculation. The discount rate is generally company specific as it is related to how the company gets its funds. It is the cost of borrowing money or the rate of return that the investors expect. If the shareholders expect a 10% return, that is the discount rate the company will use to calculate NPV. If the firm pays 5% interest on its debt, then it may use that figure on the calculation. It is important to note that the NPV calculation is based on several assumptions and estimates which means that there is ample room for errors. It is a good mitigation technique to perform sensitivity analysis on the initial calculation.

There are three specific areas where misestimates will drastically influence the result of the calculation. These are:

1. The initial investment or outflow. Sometimes it is not as clear as buying a piece of machinery with a fixed price tag. In many instances the initial investment often gets out of proportion during the later stages of the project.

2. Risks related to the discount rate. You are using today's rate and applying it to future returns so that there is a chance that sometime in the future interest rates will spike and hence your cost of debt will probably increase as well. This means that returns for that particular year will be less valuable than initially thought.

3. Often-case, projections tend to be optimistic in cases that people want to do the project and pessimistic in the opposite cases.

Example 4: Net Present Value (NPV)

Let's look at an example of how to calculate the NPV of a series of cash flows. The assumption is that the investment will return €10.000 for a period of 8 years. The initial investment is an outflow of €30.000. The discount rate required is 8%.

YEAR	0	1	2	3	4	5	6	7	8
DISCOUNT FACTOR FORMULA		1/ (1+8%)	$1/(1+8\%)^2$	$1/ (1+8\%)^3$	$1/ (1+8\%)^4$	$1/(1+8\%)^5$	$1/(1+8\%)^6$	$1/(1+8\%)^7$	$1/(1+8\%)^8$
DISCOUNT FACTOR		0.9259	0.8573	0.7938	0.7350	0.6806	0.6302	0.5835	0.5403
UNDISCOUNTED CASH FLOW	-30.000	10.000	10.000	10.000	10.000	10.000	10.000	10.000	10.000
PRESENT VALUE	-30.000	9.259	8.573	7.938	7.350	6.806	6.302	5.835	5.403
NPV	27.466								

The final result is that given our assumptions about the initial investment, the discount rate and the future cash flows, this project has a positive NPV of €27.466. Hence the investment should proceed.

General benefits for Using NPV

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NPV serves a variety of roles and provides significant advantages in the sector or business or inside a corporation. Several functions of NPV include the following:

1. In business, the NPV calculation is used to determine a company's capacity and opportunity to manage investment over the following several years. If the investment generates a profit, the plan will be carried out. If the investment prediction ends in a loss in the future the plan will be abandoned.
2. NPV is a comprehensive statistic since it incorporates all revenues and capital costs connected with an investment.
3. NPV may assist businesses in implementing efficient budget management.

KEY TAKEAWAYS:

- Net present value, or NPV, is used to calculate the current total value of a future stream of payments.
- If the NPV of a project or investment is positive, it means that the discounted present value of all future cash flows related to that project or investment will be positive, and therefore attractive.
- To calculate NPV, you need to estimate future cash flows for each period and determine the correct discount rate.

Sources:

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6. Internal Rate of Return (IRR)

The Internal Rate of return (IRR) is a metric used in financial analysis to estimate the profitability of potential investments. IRR is a discount rate that makes the net present value (NPV) of all cash flows equal to zero in a discounted cash flow analysis.

IRR calculations rely on the same formula as NPV does. Generally speaking, the higher the internal rate of return, the more desirable an investment is to undertake.

When calculating IRR, expected cash flows for a project or investment are provided and the NPV equal zero. The initial cash investment for the beginning period will be equal to the present value of the future cash flows of that investment, that is Cost paid is equal to the present value of future cash flows, i.e. NPV is zero.

Once the IRR is determined, it is typically compared to a company's hurdle rate (see below) or cost of capital. If the IRR is greater than or equal to the hurdle rate, the company would accept the project as a good investment – that is of course assuming that this is the sole basis for the decision to be made. In reality, there are many other quantitative and qualitative factors that are considered in an investment decision. If the IRR is lower than the hurdle rate, then the new project is rejected.

A hurdle rate is also known as the minimum required rate of return or target rate that investors are expecting to receive on an investment. The hurdle rate is determined by assessing the cost of capital, risks involved, current opportunities in business expansion, rates of return for similar investments and other factors that could directly affect an investment.

The IRR formula is as follows:

$$0 = CF_0 + \frac{CF_1}{(1+IRR)} + \frac{CF_2}{(1+IRR)^2} + \ldots + \frac{CF_n}{(1+IRR)^n}$$

$$0 = NPV = \sum_{n=0}^{N} CF_n/(1+IRR)^n$$

where:

$$CF_0 = Initialinvestment/Outlay CF^1, CF^2, CF^3 \ldots CF^n = Cash\ flows$$

$$n = each\ period$$

$$NPV = Net\ Present\ Value$$

$$IRR = Internal\ Rate\ of\ Return$$

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Calculating the IRR can be done in three different ways:

1. Using the IRR function in Excel or another spreadsheet program.
2. Using a financial calculator.
3. Through an iterative process where one tries to guess the IRR until NPV = 0

Example 5: Demonstration of an IRR calculation

A small-size company is deciding whether to purchase new equipment that costs €50.000. It is estimated that the useful life of this new equipment will be 4 years and for each year the machinery will generate annual profits of €16.000 and at the fifth year the machinery will be sold for €5.000.

Year	Cash Flows
0	-€50.000
1	€16.000
2	€16.000
3	€16.000
4	€16.000
5	€5.000

Using Excel and the IRR build-in function we obtain the following solution for IRR.

Year	0	1	2	3	4	5
Cash Flows	-€50,000	€16,000	€16,000	€16,000	€16,000	€5,000
PV of Cash Flows	-€50,000	€14,125	€12,469	€11,008	€9,717	€2,681

IRR	13%
NPV	0

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How is the IRR used for?

The IRR method is widely used for capital budgeting. Corporations are continuously contemplating and evaluating new projects and investments to increase their revenue or shrink their cost structure. In capital budgeting, management would like to know the estimated return on such investments. The IRR is one method that allows them to compare and rank projects based on their projected yields. The investment with the highest IRR will rank 1st.

KEY TAKEAWAYS:

- The internal rate of return (IRR) is the annual rate of growth that an investment is expected to generate.
- IRR is calculated using the same concept as net present value (NPV), except it sets the NPV equal to zero.
- IRR is ideal for analysing capital budgeting projects to understand and compare potential rates of annual return over time.

Sources:
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7. Payback period

The term payback period refers to the amount of time it takes to recover the cost of an investment. Simply put, it is the length of time an investment reaches a breakeven point. It is a simple way to evaluate the risk associated with a proposed project. This type of analysis allows firms to compare alternative investment opportunities and decide on a project that returns its investment in the shortest time if time is a priority criterion. An investment with a shorter payback period is better since the investor's initial outlay is at risk for a shorter period.

The payback method is the calculation used to derive the payback period. The payback period is expressed in years and fractions of years.

Payback Period Formula

The formula for the payback method is simplistic. Just divide the cash outlay (which is assumed to occur entirely at the beginning of the project) by the amount of net cash inflow generated by the project per year.

$$Payback\ Period = \frac{Initial\ Investment}{Annual\ Cash\ Flow}$$

Example 6

⇒ Assume that Company XYZ invests €100.000 in a project that is expected to save the company €25.000 each year. Dividing €100.000 by €25.000 we arrive at the payback period of 4 years.

⇒ Assume that Company ABC considers a project that costs €1 million. There are no associated cash savings, but the project is expected to earn the company an incremental €300.000 each year for the next 5 years. The payback period is derived by dividing € 1 million by €300.000 which is 3.33 years.

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What is a Good Payback Period?

The best payback period is the shortest one possible. Getting repaid or recovering the initial cost of a project or investment should be achieved as quickly as possible. On the other hand, not all projects have the same time horizon meaning that longer payback periods are not necessarily undesirable. The payback period criterion is a metric that should be used in conjunction with other financial metrics to evaluate potential projects or investments.

Advantages and Disadvantages of the Payback Method

The payback period is useful from a risk analysis perspective since it gives a quick indication of the amount of time that the initial investment will be at risk. If the determining criterion was solely the payback method, a company would tend to accept those investments having short payback periods and reject those having longer ones. This would be more useful in industries where investments become obsolete very quickly and a full return of the initial investment is a concern. Although the payback method is widely used due to its simplicity, it suffers from the following problems:

1

Time value of money

The method does not consider the time value of money where cash generated in a later period is worth less than cash generated in the current period. The **Discounted Payback Period** is often used to account for the shortcomings of the time value of money. A discounted payback period gives the number of years it takes to break even from undertaking the initial expenditure, by discounting future cash flows and recognising the time value of money. The discounted payback period is thus more accurate than the standard payback period calculation.

2

Profitability

The payback method focusses solely upon the time required to pay back the initial investment and does not take into consideration the ultimate profitability of the project. Hence this method may favor a project having a short payback period but with no overall profitability over a project requiring a long-term payback period but having substantial long-term profitability.

3

Asset life span

The payback method does not incorporate any assumptions regarding asset life span; if an asset’s useful life expires immediately after it pays back the initial investment, then there is no opportunity to generate additional cash flows.

4

Cash flow complexity

The method is too simplistic to account for the array of cash flows that actually arise with a capital investment. For example, cash investments may be required at several stages and cash outflows may change significantly over time.

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KEY TAKEAWAYS:

The payback period is the length of time it takes to recover the cost of an investment or the length of time an investor needs to reach a breakeven point.

- Shorter payback periods imply more attractive investments, while longer payback periods are less desirable.
- The payback period is calculated by dividing the amount of investment by the annual cash flow.
- Account and fund managers use the payback period to determine whether to go through with an investment.
- One of the downsides of the payback period is that it disregards the time value of money.

Sources:

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8. Profitability Index (PI)

The profitability index (PI), alternatively referred to as value investment ratio (VIR) or profit investment ratio (PIR), is a decision-making exercise that helps evaluate whether to proceed with a project. The profitability index represents the relationship between the costs and benefits of a proposed project. It is calculated as the ratio between the present value of future expected cash flows and the initial amount invested in the project. The rule is that a profitability index or ratio greater than 1 indicates that the company should proceed with the project. A profitability index or ratio less than 1 indicates that the project should be abandoned. If the PI is equal to 1, the project breaks even and the company is indifferent between proceeding and not proceeding with the project. The higher the profitability index, the more attractive the investment.

Profitability Index formula:

$$Profitability\ Index = \frac{Present\ Value\ of\ Future\ Cash\ Flows}{Initial\ Investment}$$

or

$$Profitability\ Index = \frac{(Net\ Present\ Value\ +\ Initial\ Investment)}{Initial\ Investment}$$

Example 7

Company XYZ is considering two projects, A and B:

Project A requires an initial investment of €150.000 to yield the following estimated cash flows:

Project A (discount Rate 10%)

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	Cash Flow	*Discount Factor*	*Present value*
Year 0	-150.000		
Year 1	15.000	=1/(1.10) = **0.9091**	13.636
Year 2	30.000	=1/(1.10)^2 =**0.8264**	24.792
Year 3	50.000	=1/(1.10)^3 = **0.7513**	37.565
Year 4	20.000	=1/(1.10)^4 = **0.6830**	13.660
Year 5	60.000	=1/(1.10)^5 = **0.6209**	37.254
Year 6	50.000	=1/(1.10)^6 = **0.5645**	28.225
			€155.132

Profitability index for project A = 155.132 / 150.000 = 1.034

Hence Project A creates value and should proceed.

Project B requires an initial investment of €300.000 to yield the following estimated cash flows

Project B (discount Rate 10%)

	Cash Flow	*Discount Factor*	*Present value*
Year 0	-300.000		
Year 1	10.000	=1/(1.10) = **0.9091**	9.091
Year 2	50.000	=1/(1.10)^2 =**0.8264**	41.320
Year 3	100.000	=1/(1.10)^3 = **0.7513**	75.130
Year 4	150.000	=1/(1.10)^4 = **0.6830**	102.450
Year 5	20.000	=1/(1.10)^5 = **0.6209**	12.418
Year 6	50.000	=1/(1.10)^6 = **0.5645**	28.225
Year 6	50.000	= 1/(1.10)^7 = **0.5132**	25.658

Profitability index for project B = 294.292 / 300.000= 0.981

Hence Project B destroys value and should be abandoned.

Advantages of the Profitability Index:

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- + The profitability index indicates whether an investment should create or destroy company value.
- + It takes into account the time value of money and the risk of future cash flows through the cost of capital (discount rate).
- + It is useful for ranking and choosing between projects when capital is allocated.

Disadvantages of the Profitability Index:

- – It requires an estimate of the cost of capital as an input to the formula and this is not easy to estimate.
- – In mutually exclusive projects where the initial investments are different, it may not indicate the correct decision.

KEY TAKEAWAYS:

- The profitability index (PI) is a measure of a project's or investment's attractiveness.
- The PI is calculated by dividing the present value of future expected cash flows by the initial investment amount in the project.
- A PI greater than 1.0 is deemed as a good investment, with higher values corresponding to more attractive projects.
- Under capital constraints and mutually exclusive projects, only those with the highest PIs should be undertaken.

Sources:

https://www.investopedia.com/terms/p/profitability.asp

https://corporatefinanceinstitute.com/resources/knowledge/accounting/profitability-index/

https://economictimes.indiatimes.com/definition/profitability-index

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9. Benefit – Cost Ratio (BCR)

The benefit -cost ratio (BCR) is a ratio used in a cost-benefit analysis to summarize the overall relationship between the relative costs and benefits of a proposed project. BCR can be expressed in monetary or qualitatively terms. If a project has a BCR greater than 1.0, the project is expected to deliver a positive net present value to a firm and its investors.

Formula for the Benefit-Cost Ratio

$$\sum_{t=0}^{n} \frac{\sum_{t=0}^{n} \frac{VF_t[Benefits]}{(1+i)^t}}{\sum_{t=0}^{n} \frac{VF_t[Costs]}{(1+i)^t}}$$

where:

$$CF = Cash\ Flow$$

$$i = Discount\ Rate$$

$$n = Number\ of\ Periods$$

$$t = Period\ that\ the\ cash\ flow\ occurs$$

The formula above is not as complicated as it looks; it is the discounted cash inflows divided by the discounted cash outflows. The discount rate used is again the cost of capital which can be the company's required rate of return, the hurdle rate, or the weighted average cost of capital.

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Cash flow projections for a project are provided below. The discount rate is 10%

Project A (discount Rate 10%)

Time	*t=0*	*t=1*	*t=2*	*t=3*	*t=4*
Costs	-€5.000	-€10.000	-€12.000	-€14.000	-€15.000
Benefits			€45.000	€70.000	€50.000
Net Cash flow	-€5.000	-€10.000	€33.000	€56.000	€35.000

Question: What is the Benefit-Cost ratio for the project?

Answer:

Time	Discounted Costs	Discounted Benefits
t=0	-€5.000	0
t=1	-10.000 / $(1.1)^1$ =- **€9.091**	0
t=2	-12.000 / $(1.1)^2$ =- **€9.917**	45.000 / $(1.1)^2$ = **€37.190**
t=3	-14.000 / $(1.1)^3$ =- **€10.518**	70.000 / $(1.1)^3$ = **€52.592**
t=4	-15.000 / $(1.1)^4$ =- **€10.245**	50.000 / $(1.1)^4$ = **€34.150**
TOTAL	€44.771	€123.932

$$Benefit - cost\ ratio\ = 123.932/44.771\ = 2.77$$

Interpreting the Benefit-Cost ratio:

The higher the BCR the more attractive the risk-return profile of the project. BCR indicates the euro value generated per euro cost. In the above example, the BCR of 2.77 can be interpreted as for each €1 of cost in the project, the expected benefit will be €2.77.

Advantages of the Benefit-Cost ratio

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+ It is a useful starting point in determining a project's feasibility.
+ The ratio indicates the value generated per euro of costs.
+ It facilitates the comparison of different alternative projects.
+ If the inputs (cash flows, discount rate) are known, it is very easy to calculate
+ The ratio considers the time value of money through the discount rate.

Disadvantages of The Benefit-Cost ratio

– Inputs are good if assumptions prove valid. Poor cash flow forecasting or an incorrect discount rate would lead to a flawed ratio.
– The BCR alone does not indicate the liquidity/ funding aspects of the analysed options.

KEY TAKEAWAYS:

- The benefit – cost ratio (BCR) is an indicator showing the relationship between the relative costs and benefits of a proposed project, expressed in monetary or qualitative terms.
- If a project has a BCR greater than 1.0, the project is expected to deliver a positive net present value to a firm and its investors.
- If a project's BCR is less than 1.0, the project's cost out-weigh the benefits, and it should not be considered.

Sources:

https://www.investopedia.com/terms/b/bcr.asp

https://corporatefinanceinstitute.com/resources/knowledge/finance/benefit-cost-ratio-bcr/

https://project-management.info/benefit-cost-ratio/

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10. Microfinance

The internet lists various definitions of microfinance:

- Microfinance is the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services. en.wikipedia.org/wiki/Microfinance
- Refers to institutions that specialize in making very small loans to very poor persons in developing countries. Instead of using collateral to assure repayment, these lenders harness social pressure within the borrower's community. www-personal.umich.edu/~alandear/glossary/m.html
- The provision of small loans (microcredit) to poor people to help them engage in productive activities or grow very small businesses. The term may also include a broader range of services, including credit, savings, and insurance. www.pbs.org/wgbh/rxforsurvival/glossary.html

The idea for microfinance began in 1976 by Professor Muhammed Yunus. Yunus is a typical example of a social entrepreneur. Social entrepreneurship is the use of entrepreneurial principles to organize, create and manage a venture to create social changes. Social entrepreneurs assess the success of their business in terms of the impact they have on society (Sengupta, Aubuchon 2008).

Mr. Yunus loaned the equivalent of $27 from his own pocket to forty-two stool makers living in a tiny village in Bangladesh. These individuals simply needed enough credit to purchase the raw material for their trade. Yunus's loan allowed them to break out of the cycle of poverty.

Since traditional banks refused to make small loans to the poor, the idea for Grameen Bank was born. In 1976, Dr Yunus launched the activities of Grameen bank, giving out microloans to the poor. In 1983, Grameen Bank was officially formed. Mr. Yunus won the Nobel Peace Prize in 2006 for his work in micro-credit and helping economic and social development (Robinson, 2002).

Microfinance is a subset of social entrepreneurship that promotes the availability of financial services (credit, savings, insurance) to very low-income populations that are frequently shut out from traditional banking networks. The goal of microfinance, which is prevalent in developing countries but also exists in high-income nations, is to assist people who are unable to receive bank loans for their business initiatives owing to a lack of guarantees, equity, expertise, financial literacy, etc., and thus to enable them to engage in productive or income-generating activities.

Microfinance represents a method of financial inclusion that seeks to integrate more individuals and households into the formal financial system (Yunus, 1999), which in turn fosters economic activity such as set up a new business and self-employment (Attanasio et al., 2015; Augsburg et al., 2015; Shahriar et al., 2016), encourages companies to grow and support economic growth (Ahlstrom, 2010; Ferdousi, 2015; Field et al., 2013), and increased personal income for the entrepreneurs (Chliova et al., 2015). Such inclusive methods to facilitate entrepreneurship 'aspire to create opportunities that enhance social and economic well-being for disenfranchised members of society' (George et al., 2012: 663).

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There are many institutional models for microfinance, and it is essential to match the appropriate model with the organization's mission. Sometimes the most appropriate model is a membership-based organization such as a credit union if the institution is workplace-based, or a rural cooperative if significant gains can be made from the financing of collective storage and marketing activities. If the activity is at a very high risk, for example targeting extremely marginalized populations or microenterprise start-ups, a subsidized NGO might be the most suitable institutional model (Rosengard, 2004).

Social finance is thus a global approach that manages money by delivering a social dividend and an economic return, involving three different elements: i) investees, ii) investors and iii) instruments. The characteristics of these stakeholders mark the difference between social and traditional finance (Glänzel et al. 2012):

1. Goals are different as social finance focuses on social goals whereas traditional finance focus on a risk-reward approach; by social goals we mean solving or addressing a social problem or need within the local community and society in general.

2. Return expectations are different as social finance focuses on the positive return on society, with investors expecting a social benefit generated by meeting or addressing the above-mentioned social goals; on the other side, traditional finance focuses on economic returns.

The development of financially sustainable microfinance is a dramatic application of social entrepreneurship to both mainstream commercial banking as well as NGO microfinance institutions. It demonstrates that banks can "do well by doing good": they can generate considerable profit while at the same time have a significant positive development impact (Rosengard, 2004).

In general, social enterprises have more challenging access to financial resources than other businesses do. They are in fact not suitable for investors, unlike private individuals or financial institutions that seek big financial returns. Social enterprises strive to have beneficial social outcomes and can only share profits with their funders and owners to a limited level, if at all.

Just an example, social enterprises struggle to raise the money required for establishment and expansion since they are non-profits; potential funders have no opportunity of receiving an alluring return on their investment, even over the long term. On the other hand, social enterprises typically have access to additional resources, whether they be public (including in the form of dedicated fiscal advantages) or private (human, such as volunteers and financial, such as donations).

Opportunities for social enterprises exist, however, in the possibility of capitalizing on new social clauses in public procurement and favouring reserved contracts. How to facilitate access to public markets and help negotiate this process is nevertheless still an open question in most countries. A good example is provided by the French case, where the profile of the "social clause facilitator" has been introduced, a consultant that is expected to help public administrations to design calls for tenders that allow for the participation of social enterprises.

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With, every business needs access to financing, whether it be for very brief periods like a bank overdraft or for very long durations like a mortgage or long-term loan. Regardless of the type of financing you require, it is wise to plan and acquire it before you need it. Running out of money or needing to go to the bank for cash during a crisis is the worst managerial performance there is. So, when it comes to money, think ahead and make plans for the future.

Based on the availability of major support measures for starting up social enterprises, the following support measures may be identified:

Type of support measures	Yes, without limitations	Yes, with limitations	Not available
Grants and subsidies from public authorities and EU funds	Austria, Finland, Italy, Luxembourg, Malta, Netherlands, Poland	Belgium, Cyprus, France, Germany, Ireland, Latvia, Lithuania, Portugal, Romania, Slovakia	Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Greece, Hungary, Slovakia, Slovenia, Spain, Sweden, United Kingdom
Grants and other support from private stakeholders, foundations, and second-level organisations	Austria, Belgium, Croatia, Czech Republic, Germany, Latvia, Lithuania, Luxembourg, Netherlands, Portugal, United Kingdom	Bulgaria, Estonia, France, Ireland, Italy, Malta, Portugal, Slovakia, Spain	Cyprus, Denmark, Finland, Greece, Hungary, Romania, Slovenia, Sweden
Private and public support for incubators and business innovation centres	Austria, Belgium, Cyprus, Estonia, Finland, Greece, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Spain	Croatia, Denmark, France, Germany, Hungary, Ireland, Italy, Portugal, Romania, Slovenia, United Kingdom	Bulgaria, Czech Republic, Poland, Slovakia, Sweden

Source: European Commission (2020), Social enterprises and their ecosystems in Europe.

Now, it seems that public measures are predominant, but measures supported by private institutions are widespread as well and are becoming increasingly important.

When looking for funds, it is also good practice to determine the different needs for finance. After all, finance for starting up is different from finance needed to cover operating costs, which in turn is different from finance for investments and growth. Connected to this, in most countries measures in favour of starting up are more developed than measures for scaling: only in a few countries (Germany is one example) are the two types of measures balanced where there is sufficient attention to the resources needed for scaling.

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Microfinance Loan Terms

Like conventional lenders, microfinanciers must charge interest on loans, and they institute specific repayment plans with payments due at regular intervals. Some lenders require loan recipients to set aside a part of their income in a savings account, which can be used as insurance if the customer defaults. If the borrower repays the loan successfully, then they have just accrued extra savings.

Empowering women in particular, as many microfinance organizations do, may lead to more stability and prosperity for families.

Because many applicants cannot offer collateral, microlenders often pool borrowers together as a buffer. After receiving loans, recipients repay their debts together. Because the success of the program depends on everyone's contributions, this creates a form of peer pressure that can help to ensure repayment.

For example, if an individual is having trouble using their money to start a business, that person can seek help from other group members or from the loan officer. Through repayment, loan recipients start to develop a good credit history, which allows them to obtain larger loans in the future.

Interestingly, although these borrowers often qualify as very poor, repayment amounts on microloans are often actually higher than the average repayment rate on more conventional forms of financing. For example, the microfinancing institution Opportunity International reported repayment rates of approximately 98 percent.

KEY TAKEAWAYS

- Microfinance is a banking service provided to unemployed or low-income individuals or groups who otherwise would have no other access to financial services.
- Microfinance allows people to take on reasonable small business loans safely, and in a manner that is consistent with ethical lending practices.
- Most microfinancing operations occur in developing nations, such as Uganda, Indonesia, Serbia, and Honduras.
- Like conventional lenders, microfinanciers charge interest on loans and institute specific repayment plans.
- The World Bank estimates that more than 500 million people have benefited from microfinance-related operations.

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11. Crowdfunding

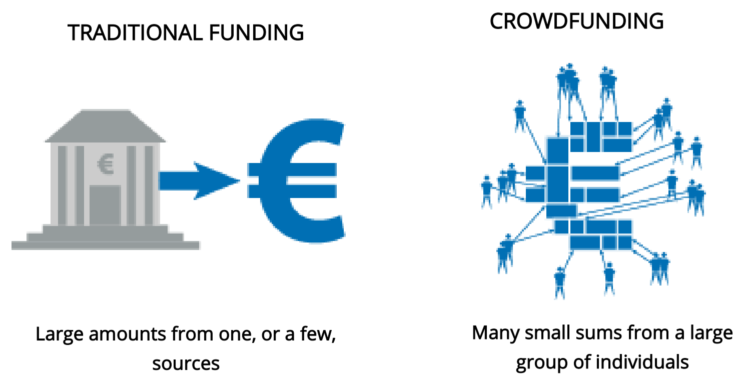
Crowdfunding is the use of small amounts of capital from a large number of individuals to finance a new business venture. Crowdfunding makes use of the easy accessibility of vast networks of people through social media and crowdfunding websites to bring investors and entrepreneurs together, with the potential to increase entrepreneurship by expanding the pool of investors beyond the traditional circle of owners, relatives and venture capitalists.

KEY TAKEAWAYS:

- Restrictions apply to who is allowed to fund a new business and how much they are allowed to contribute.
- Crowdfunding allows investors to select from hundreds of projects and invest as little as 10 Euros
- Crowdfunding sites generate revenue from a percentage of the funds raised.

Source: https://www.investopedia.com/terms/c/crowdfunding.asp

For social enterprises crowdfunding is a unique opportunity to reach crowds and convince them of the relevance of the targeted social problem of the enterprise. The model of crowdfunding proved to be successful in the last 300 years and thanks to the digitalization, crowdfunding platforms provide a fast and transparent funding method for grassroots projects all around the world.



What is crowdfunding?

The figure of the European Commission grasps the essence of the difference between traditional funding and crowdfunding (Figure 1). Traditional funding can be characterized by large amounts of funds from a few investors, while crowdfunding enables fundraisers to collect money from a large number of people via online platforms.

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Investopedia defines crowdfunding as a funding type based on the easy accessibility to broad networks of people through social media and crowdfunding sites to bring investors and entrepreneurs together. This innovative way of funding can expand the pool of investors beyond the traditional circle of owners, relatives, and venture capitalists (Smits 2022).

The key component of crowdfunding is the internet-based platform which provides the role of intermediary between project creators (individuals or organizations), who seek funding, and funders (donors or investors), who may or may not expect tangible or intangible reward in return for funding projects (Rey-Martí et al. 2019).

The history of crowdfunding

Aki Kallio and Lasse Vuola analyzed the history of crowdfunding in the book entitled Advances in Crowdfunding. They stated that crowdfunding as a form of financing is not a new phenomenon. In the early-1700s Jonathan Swift, "the father of microcredit" founded the Irish Loan Fund, which offered small loans to low-income rural families. One of the most famous crowdfunding campaigns was carried out when the project of the Statue of Liberty-on-Liberty Island off New York had run into financial difficulties. Joseph Pulitzer launched a fundraising campaign and in exchange for a donation, he promised to publish the names of all donors in his magazine. Over 160,000 donors had donated more than US $100,000 to erect the pedestal.

There are several examples for crowdfunding from the field of art. In 1713, the poet Alexander Pope set out to translate Greek poetry into English, including Homer's epic poem, the Iliad, and asked donors to support his work. In exchange the donors' names were published in the acknowledgements of the book. Another example is the composer Mozart who wanted to perform three piano concertos in a concert hall in Vienna and published an invitation to prospective backers. He offered manuscripts to those who agreed to donate funds for this purpose.

As a contemporary example Marillion, a British rock band, should be mentioned who funded its tour by collecting money from its fans via the internet. This project was one of the first successful fan-based funding projects and it gave a boost to the popularity of crowdfunding at the end of the 20th century (Shneor et al. 2020). Inspired by this innovative funding method, ArtistShare became the first crowdfunding platform focusing on musicians in 2001. In the next few years more crowdfunding platforms were created based on the Marillon model, such as IndieGoGo (2001) and Kickstarter (2009). An entrepreneur, Michael Sullivan was the first one who used the term "crowdfunding" in 2006. He used it in the launch of his company fundavlog, which was a (failed) attempt to create an incubator for videoblog projects.

By 2012, there were more than 450 platforms for crowdfunding campaigns, raising more than $2.7 billion worldwide (The Startups Team 2018). Crowdfunding has considerably grown over the years and will continue to expand in the future. The most funded Kickstarter project of all time is Surprise! Four Secret Novels by Brandon Sanderson. The fantasy and science fiction author raised nearly 42 billion U.S. dollars in 2022 (Statista Research Department 2022).

How does crowdfunding work?

Crowdfunding provides a forum to anyone with an idea to pitch it in front of the investors. Nowadays this forum means an online platform where project owners pitch their idea to potential backers, who are typically not professional investors (Shneor et al. 2020).

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Crowdfunding platforms enable interaction between fundraisers and the crowd. Financial pledges can be made and collected through the crowdfunding platform Fundraisers are usually charged a fee by crowdfunding platforms if the fundraising campaign has been successful. In return, crowdfunding platforms are expected to provide a secure and easy to use service.

Many platforms operate an all-or-nothing funding model. This means that if you reach your target you get the money and if you don't, everybody gets their money back – no hard feelings and no financial loss. (European Commission).

1. Opt for a suitable platform

Select a suitable crowdfunding platform online and start creating your project.

2. Make an impact full idea

To attract more investors and traders, it is essential to pitch your idea impressively.

3. Propose investors with captivating rewards

A reward proves to be the first inviting gesture for any investor, that's why it is essential to set

4. Introduce a wide range of investment levels

Avail investors with a wide range of investment levels.

5. Make an idea worth sharing

An idea should be allowed to be shared online or on social media platforms so that more people

Figure 15. How crowdfunding works

Source: Rilcoin, 2017.

Types of crowdfunding

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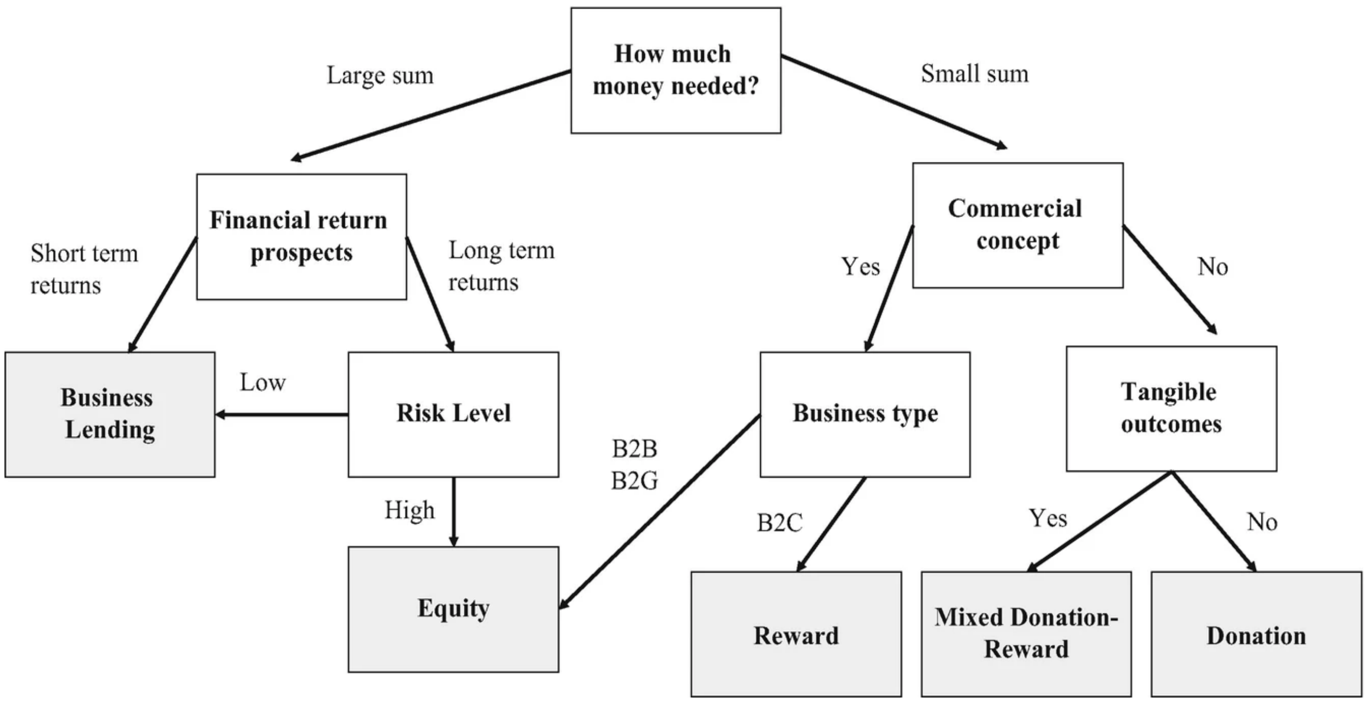
Crowdfunding platforms differ regarding the scope of types of crowdfunding they offer, the nature of projects they support, the geographic area they cover, the roles of facilitator of transactions between funders and beneficiaries, the models of revenue streams and the relations with other stakeholders (Ingham, Assadi 2016).

The 4 main types of crowdfunding:

- In equity-based crowdfunding, funders receive a share in the capital of the company they invest in.
- In lending-based crowdfunding funders invest in the form of a loan. Funders recover their investment, potentially with interest.
- In reward-based crowdfunding, funders receive goods or services in exchange for their investment. These rewards may come in different forms such as public acknowledgment, product pre-sales, or limited editions of the product.
- Donation-based crowdfunding refers to investment in projects or firms with social ends. Donors receive neither monetary nor material reward for their investment (Rey-Martí et al. 2019).

The Generic organizational fundraiser model choice framework of Rotem Shneor helps the fundraisers to choose the best fitting crowdfunding model for their projects. The following model guides the project creators through key considerations of the funding needs to identify the most suitable type of crowdfunding:



The benefits of crowdfunding

According to studies the main motivations for crowdfunding project creators are to raise funds, expand awareness, form connections, gain approval, maintain control, and learn new fundraising skills, while the obstacles are the inability to attract supporters, the fear of public failure, and time and resource commitment (Ingham, Assadi 2016).

The European Commission identified the main non-financial benefits of crowdfunding:

Proof of concept and validation	Help with other forms of financing
It gives a reality check; the enterprise can see if others share the belief and value in your project or concept. If they are willing to contribute it is a strong validation that the market approves.	It highlights that there is a market for the business of the enterprise that people believe in. It is very useful when seeking other types of financiers, as the enterprise might seem less risky to them, or get better terms and
Access to a crowd	**Powerful marketing tool**
The addressed audience of individuals may have valuable expertise and insights. It enables the enterprise to interact with them in a new way that provides valuable feedback without cost.	It can be an effective way to present a new product or a new company by pitching directly to the people that are likely to be customers. The enterprise can create interest, even before the product has hit the factory floor.

Figure 16. Non-financial benefits of crowdfunding

Source: European Commision.

Crowdfunding and social entrepreneurship

In the section on history of crowdfunding the link between crowdfunding and the art sector was presented through several examples. What art and social issues have in common is that the traditional funding models often fail to provide the necessary initial capital. In social entrepreneurship, which encompasses both for-profit and not-for-profit enterprises, the role of crowdfunding is particularly important because it may be the only available source of funding. (Rey-Martí et al. 2019).

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The attitude of investors towards the social impact of financed projects has changed in a positive direction. According to the Global Impact Investing Network 2018, crowdfunding platforms increasingly attract investors who are interested in profitability as well as the social and environmental impact of the projects they invest in. Investors are more and more concerned with the social good that their loan can achieve than with the return on the loan. (Rey-Martí et al. 2019).

Crowdfunding itself is also an example for responsible social innovation if the transactions are transparent, in compliance with the legal framework, and in line with social expectations, between funders and social entrepreneurs. In this perspective, crowdfunding is a social innovation providing funds to social enterprises and favoring social interaction and participation (Ingham, Assadi 2016).

For social entrepreneurial projects donation is the best-known form of crowdfunding from the presented 4 types of crowdfunding. Lending-based crowdfunding is also a common form for social supporting projects however investors usually do not require interest and consequently do not receive financial return. Reward-based crowdfunding is also a suitable funding for social projects, although the rewards provided are often symbolic. In general, donation-based and reward-based crowdfunding are the most common forms of funding social projects. Regarding the popularity by geography, donation-based crowdfunding of social projects is predominant in the European Union, France and Belgium (Ingham, Assadi 2016).

We can distinguish generalist or specialist crowdfunding platforms. Indiegogo, Kickstarter are examples of generalists, they offer a wide range of crowdfunding forms. These platforms are also international because project leaders and contributors can apply from all over the world. The writer of the Institute of Entrepreneurship Development collected the 5 best crowdfunding platforms focusing on social entrepreneurs or specialized in social projects:

Indiegogo lists various non-profit organizations and social enterprises and focuses on traditional arts and non-profit crowdfunding.

- Chuffed is a social entrepreneurship crowdfunding platform where every pitch is limited to 50 words and the receiving of the funds are not dependent on reaching goals.
- Mightycause is a modern online all-in-one fundraising platform for non-profits that focuses on building lasting relationships with the supporters.
- UpEffect is ideal for social ventures that do not have a “crowd” as the platform helps creators creating exceptional campaign pages to gain attention.
- Propel(x) is an online investment platform that enables accredited investors to invest in technology startups and venture capital funds (Bouronikos 2021).

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MODULE 4.

GOVERNANCE AND SOCIAL ENTERPRISES

Corporate Governance is extremely important for organizations of all sizes. As identified by the International Finance Corporation (www.ifc.com), corporate governance for SMEs is as equally important as for large organizations.

Governance is defined as "systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of an organization" (Cornforth 2003).; Governance mechanisms can include governing boards, monitoring systems, and signalling mechanisms like reporting or codes of conduct.

Social enterprises address the most pressing problems societies face through employing scalable, self-sustainable and innovative business models. They must balance financial responsibilities and social impact and must coordinate among multiple stakeholder groups, including investors, employees, regulators, clients, and beneficiaries. As a result, social enterprise leaders manage complex trade-offs.

1. Good governance – wider interpretation

1.1. Council of Europe: 12 Principles of Good Governance

As depicted by the Council of Europe, Good Governance is the responsible conduct of public affairs and management of public resources and is encapsulated in the Council of Europe 12 Principles of Good Governance. They cover issues such as ethical conduct, rule of law, efficiency and effectiveness, transparency, sound financial management and accountability. The 12 principles of Good Governance are the following with a brief description provided by the Council of Europe:

Principle 1: Fair Conduct of Elections, Representation and Participation

- ✓ Local elections are conducted freely and fairly according to international and local standards and without any fraud.
- ✓ Citizens are at the centre of public activity.
- ✓ All men and women can have a voice in decision -making. Such broad participation is built on the freedoms of expression, assembly, and association.

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- ✓ All voices, including those of the less privileged and most vulnerable are heard and taken into account in decision-making.
- ✓ Mediation should be exercised between various legitimate interests to reach a broad consensus.
- ✓ Decisions are taken according to the will of the many and at the same time the rights and interests of the few are respected.

Principle 2: Responsiveness

- ✓ Objectives, rules, structures, and procedures are adapted to the legitimate expectations and needs of citizens.
- ✓ Public services are delivered, and requests and complaints are responded within a reasonable timeframe.

Principle 3: Efficiency and Effectiveness

- ✓ Results should meet the agreed objectives.
- ✓ Best possible use is made of the resources available.
- ✓ Performance management systems should be in place for the evaluation as well as for the enhancement of the efficiency and the effectiveness of services.
- ✓ Audits, carried out at regular intervals, help assess and improve performance.

Principle 4: Openness and Transparency

- ✓ Decisions are taken and enforced in accordance with rules and regulations.
- ✓ Not classified information are available for public access.
- ✓ Information on decisions, implementation of policies and results is made available to the public in a way as to effectively enable it to follow and contribute to the work.

Principle 5: Rule of Law

- ✓ The local authorities abide by the law and judicial decisions.
- ✓ Rules and regulations are adopted in accordance with procedures provided by law and are enforced impartially.

Principle 6: Ethical conduct

- ✓ The public good is always above individual interests.
- ✓ There are effective measures to prevent and combat all forms of corruption.
- ✓ Conflicts of interest are declared in a timely manner and persons involved must abstain from taking part in relevant decisions.

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Principle 7: Competence and Capacity

- ✓ To improve output and impact, the professional skills of those who deliver governance are continuously maintained and strengthened.
- ✓ Public officials are motivated to continuously improve their performance.
- ✓ Practical methods and procedures are created and used to transform skills into capacity and to produce better results.

Principle 8: Innovation and Openness to Change

- ✓ New and efficient solutions to problems are sought and advantage is taken of modern methods of service provision.
- ✓ There is readiness to pilot and experiment new programmes and to learn from the experience of others.
- ✓ A climate favourable to change is created in the interest of achieving better results.

Principle 9: Sustainability and Long-term Orientation

- ✓ Current policies take into account the needs of future generations.
- ✓ The sustainability of the community is constantly taken into account.
- ✓ Decisions try to internalise all costs and not to transfer problems and tensions including environmental, structural, financial, economic, or social, to future generations.
- ✓ There is a broad and long-term perspective on the future of the local community along with a sense of what is needed for such development.
- ✓ There is an understanding of the historical, cultural, and social complexities in which this perspective is grounded.

Principle 10: Sound Financial Management

- ✓ Prudence is observed in financial management, included in the contracting and use of loans, in the estimation of resources, revenues and reserves, and in the use of exceptional revenue.
- ✓ Multi-annual budget plans are prepared, with consultation of the public.
- ✓ Risks are properly estimated and managed, including by the publication of consolidated accounts.

Principle 11: Human rights, Cultural Diversity and Social Cohesion

- ✓ Human rights are respected, protected, and implemented and discrimination in any ground is combated.
- ✓ Cultural diversity is treated as an asset, and continuous efforts are made to ensure that all have a stake in the local community, identify with it and do not feel excluded.
- ✓ Social cohesion and the integration of disadvantaged areas are promoted.

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- ✓ Access to essential services is preserved, in particular for the most disadvantaged sections of the population.

Principle 12: Accountability

- ✓ All decision-makers, collective and individual, take responsibility for their decisions.
- ✓ Decisions are reported on, explained, and can be sanctioned.
- ✓ There are effective remedies against maladministration and against actions of local authorities which infringe civil rights.

Source: https://www.coe.int/en/web/good-governance/12-principles

1.2. United Nations

The terms "governance" and "good governance" are increasingly used in development literature. "Bad governance" is being increasingly regarded as one of the root causes of all evil within our societies. Major donors and international financial institutions are increasingly basing their aid and loans on the condition that reforms that ensure "good governance" are undertaken.

Good governance has 8 major characteristics all of which apply to Social Enterprises as well:

These are:

1

Participation
Participation by both men and women is a key cornerstone of good governance. Participation could be either direct or through legitimate intermediary institutions. Participation needs to be informed and organised. This means freedom of association and expression on the one hand and an organised civil society on the other hand.

2

Rule of Law
Good governance requires fair legal frameworks that are enforced impartially. It also requires full protection of human rights, particularly those of minorities. Impartial enforcement of laws requires an independent judiciary and an impartial and incorruptible police force.

3

Transparency
Transparency means that decisions taken, and their enforcement are done in a manner that follows rules and regulations. It also means that information is freely available and directly accessible to those who will be affected by such decisions and their enforcement. It also means that enough information is provided and that it is provided in easily understandable forms and media.

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4 **Responsiveness**
Good governance requires that institutions and processes try to serve all stakeholders within a reasonable time frame.

5 **Consensus oriented**
Good governance requires mediation of the different interests in society to reach a broad consensus. It also requires a broad and long-term perspective on what is needed for sustainable human development and how to achieve the goals of such development.

6 **Equity and inclusiveness**
A society's well-being depends on ensuring that all its members feel that they have a stake in it and do not feel excluded from the mainstream of society. This requires all groups, but particularly the most vulnerable, have opportunities to improve or maintain their well-being.

7 **Effectiveness and efficiency**
Good governance means that processes and institutions produce results that meet the needs of societies while making the best use of resources at their disposal. The concept of efficiency in the context of good governance also covers the sustainable use of natural resources and the protection of the environment.

8 **Accountability**
Accountability is a key requirement of good governance. Not only governmental institutions but also the private sector and civil society organisations must be accountable to the public and to their institutional stake holders. In general, an organisation or an institution is accountable to those who will be affected by its decisions or actions. Accountability cannot be enforced without transparency and the rule of law.

Source: United Nations Economic Commission for Asia and the Pacific: What is Good Governance?

The governance of a Social Enterprise and non-profits in general, is not much different from the governance of a corporation that was created for profit. Well executed designed and implemented governance helps safeguard the mission of the social enterprise and at the same time it meets the demands and expectations of the stakeholders – clients, investors, employees. It is also vital to safeguard and adhere to public regulation and the law in general. Stakeholders are motivated by strong governance which increases their motivation to contribute to the development of the organization.

Governing boards are highly relevant for social enterprises as they allow for dynamic interaction of management and stakeholders of an organization (Ebrahim, 2003). Boards have the dual functions of monitoring and signalling thus making them an integral part of governance that will eventually influence the sustainability of the organisation. Hence social enterprises and social entrepreneurs should consider creating a board and manage it in such a way to promote the long-term viability and sustainability of the Social Enterprise.

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2. Good governance and the organisation

2.1. Why to create a Board? The benefits

The absolute essence in creating a board lies in the fact that a board strengthens the management and enhances the chances of success for the social enterprise. The management of social enterprises are often hesitant to set up a board. Even in the case that they do have a board, often they tend not to involve it to the required degree in the guidance of their organisation as they may view it as a threat for management. A correctly designed board will strengthen the relationship with the management and will be a facilitator in helping the enterprise to reach its full potential. Boards should complement the work of the management team to have the utmost effect in reaching the social enterprise's targets and ambitions. They do these through the following actions:

⇒ Support and Expertise
Organizations cannot always demonstrate competencies in a variety of expertise complementary to the task at hand; Board members can be chosen to fill these gaps.

⇒ Networking
Board members coming from a variety of backgrounds can be a valuable asset in making contact and involving a number of other stakeholders or potential stakeholders for the purpose of fundraising, recruitment of people etc. Board members open doors to valuable external networks.

⇒ Vision and Mission success
The need for the vision and mission of the company to be successfully propagated and implemented is ensured not only by the management team but also by the board members who are selected partly for this task. Boards include and enable carefully selected individuals to guide the enterprise and ensure that the vision of the organisation succeeds.

⇒ Credibility signalling
Well-regarded board members have the benefit of good credibility signalling to stakeholders. Thus, boards provide a "license to operate" (European Confederation of Directors Associations, 2010)

Source: World Economic Forum: The Governance of Social Enterprises, Managing Your Organization for Success.

2.2. How are boards evolving over the lifespan?

The composition of a board as well as the tasks it takes on should evolve over the lifecycle of the social enterprise. Governing boards should be tailored to the organisation and be dynamic to the changing needs of the organisation over its lifespan. There are certain circumstances regarding the lifespan of the social enterprise that should trigger the evaluation and probable modification of the governance structure. These circumstances are the following:

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⇒ **Founder withdrawing from management**

When the power and influence of the enterprise rests in one person, namely the founder, it means that inherently the mission of the social enterprise is knitted into all strategic decisions. The risk is that when the founder steps down there will be a void which will have to be filled by the governance structure.

It is prudent for the board to have a succession plan at place at all stages of the lifecycle and put in place when called for.

⇒ **The enterprise reaches the next lifecycle stage**

As social enterprises scale, they should establish more formal governance structures. This is also important during transitional stages.

⇒ **The legal structure of the enterprise changes**

If a social enterprise is organised as a for-profit organisation (where the governance of the for-profit organisation focusses primarily on shareholder return) or a hybrid for-profit and non-profit, mechanisms have to be put in place to safeguard the mission while controlling for a reasonable return. This need is recognised by some governments through the establishment of legal structures that try to safeguard the social mission not at the expense of the financial obligations. Such legal structures include Community Interest companies (CICs), Benefit corporations (B-corps) and low profit limited liability companies (L3Cs).

⇒ **Expansion or changes of shareholder structure prompting a change in the financial structure**

Like any corporation, the shareholders and other capital providers are very influential within governance and hence can play a very important role in the success of the social enterprise's mission. Hence it is extremely important that the interests of the investors are aligned with the mission of the social enterprise. For example, the interests of the founder and equity investors may diverge when the social enterprise might opt to take decisions that require a trade-off between financial returns and the social mission.

⇒ **New government regulations, the external environment changes**

Government regulations might require the adoption of new policies forcing the social enterprises to change the way they operate. Examples include new reporting standards, requirement of additional certifications and disclosures. The board of the social enterprise must be able to ensure that the organisation can manage these changes

⇒ **Changes in complexity of business, environment, or risk profile**

Boards should be willing and able to evaluate changes in the complexity of business, environment or risk profile and act upon the changes altering their own composition.

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2.3. Board selection

Priorities regarding the short and medium term should be kept in mind when designing the governance structure. The criteria to consider for selecting board members denote expertise, representation of stakeholders, networking, and reputation.

⇒ Expertise

The know how and skills of the board members are a significant criterion for selection. Boards benefit from having members of expertise and experience as they provide new insights and perspectives (Siciliano, 1996). Some areas of expertise should be present in all boards namely legal, financial and accounting. Sought out skills include:

- Business skills
- Legal skills
- Social sector skills
- Finance skills
- Accounting skills
- Fund raising skills
- Audit skills
- Marketing skills
- Public relations skills

A board should be diverse in its skills and the cumulative effect often results in the most robust decisions. Critical to the success of a diverse board is a culture of active listening, respect for different perspectives, productive dialogue and the shared interest of coming to a collaborative decision.

⇒ Representation of stakeholders

It is desirable that the board represents many of the stakeholders. Stakeholders include investors, customers, beneficiaries, employees, governments and affected community members. Multiple stakeholder boards are often perceived to have high social capital and facilitate the acceptance of the operations by serving as a "license to operate" in front of their groups.

⇒ Network and Reputation

Boards seek the inclusion of esteemed members of the target community to validate and promote the actions of a social enterprise. Furthermore, esteemed board members can also serve as "magnets" for attracting other talented people for the board or attracting talent for the social enterprise workforce team.

One risk often observed with high esteemed board members is that these esteemed members might be hindering organizational development by not taking on risks that they consider periling their own reputation.

2.4. How to recruit the right Board members?

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Many early-stage social enterprises (as any other Small and Medium -SMEs- enterprise) build boards out of their network of Friends & Family. This often creates a disadvantage at later stages particularly if the board members do not possess the relevant skills, representation, network, and reputation to provide the necessary oversight and strategic guidance.

The search of capable board members should utilize the following actions and channels:

- Use a wide array of referral and recommendation resources such as ask investors, foundations and other social enterprises to activate people from their networks.
- Reach out to people with the desired expertise or a demonstrated passion for a similar cause or mission as the said social enterprise.
- Search through intermediary platforms.
- Look for companies that are offering pro-bono services.
- Attend networking events and ask intermediaries for their support.
- Invite a famous, reputable person to join the board to increase visibility.

Other aspects to consider during recruitment of board members:

- Board members should have a track record of being socially responsible and proven commitment to social issues so that they feel committed to pursue the objective of the social enterprise.
- Investors would often require a board seat as a prerequisite for their investment, thus they must be selected carefully regarding their goal setting. If their goals contradict the goal setting of the social enterprise, conflicts of interest may arise. Cheap capital should not be the single selection criterion for choosing investors. Moreover, it is vital that the interests of different investors are aligned to avoid inflexible conflicts.
- The case of dominant personalities should always be taken into consideration as powerful people could intimidate other board members. There is also the risk that dominant personalities can get very influential in day-to -day business of the social enterprise with an ulterior motive of self-interest.

2.5. How should I appoint Board members and for what term of time?

In the case of for-profit organisations, shareholders often maintain the right to nominate a significant part of the board members. In the case of non-profit organisations which is most cases involving social enterprises, nomination and election is often based upon a wider range of stakeholders. If the organisation comprises of membership, it is often based upon these members to nominate and select.

Appointments are often based on skill gaps identified by the boards. When defining appointment of board members, procedures for removing a board member must be defined as well.

Relevant questions to ask potential board members during the interviewing process include:

⇒ What is your understanding of the social enterprise's mission and vision?
⇒ How much time can you devote for board meetings?
⇒ Where do you see the organisation within the next 5-10 years?
⇒ Which skills or other benefits including networks can you provide to the enterprise?
⇒ How would you measure the success of your contribution to the organisation?

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The typical board term is 2-4 years and often there is a limit of 2-3 terms. Advantages of a short term include the opportunity for easier removal of non-performing board members or members that do not get along with others. However short-term tenures require more frequent procedures to recruit new members, and this could be a time and effort consuming process for the rest of the board.

Board member appointment is a continuous process and board members should regularly ask themselves whether they are still adding value and provide benefits to the organisation. The size of the board should always be re-examined when electing new members.

A well-run board can provide valuable and time-saving guidance to the management and ensure the long-term success of the social enterprise.

2.6. How to choose the right governance structure?

There is no “one size fits all” of social enterprises’ governance models. Factors specific to the organisation like size, complexity or maturity influence the optimal governance structure. The following table can help social enterprises to identify unique aspects of their organisation and to use these considerations in creating their government structure.

Table 5. Choosing the right board structure

Condition	Consequence	Suggestion
Enterprise operates in one country	Governance is needed to provide overall checks on the enterprise	Option 1: Keep it simple
Enterprise operates across several countries or regions	Governance must include local knowledge	Option 2: several boards
Enterprise has several boards	The work of the several boards needs to be well coordinated.	Option 2 : several boards
The board is facing a high workload or specialized tasks	The capacity of the current board is not sufficient	Option 3: Board committees and task forces
The enterprise cannot offer insurance against potential lawsuits	Candidates might be reluctant to join board	Option 4: advisory council plus legally binding board
Target group should be represented on the board.	It is often the case that the target group does not have the ability to assume legal liabilities	Option 4: advisory council in addition to legally binding board
Enterprise has a hybrid legal structure of for-profit and not-for profit entities	Governance is the mechanism that will coordinate and safeguard the mission	Option 5: Hybrid organisational structures

Source: Corporate Governance of Social Enterprises -Working document.

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Option 1: Keep it simple

The simplest structure is a single governing board in addition to the management team. There two variations of this structure depending on the origin country of the organisation. In the UK the one-tier structure is common where there is a single board composed of both the management team and external non-executive members usually referred to as board of directors. In continental Europe (countries like Germany and the Netherlands) the two-tier structure is the norm where the management board and the supervisory board are two separate entities.

<u>One – Tier Structure</u>

Board of Directors	
Executive Board Members	Non-Executive Board Members
The executive members of the board have the same tasks, duties, and rights as the members of supervisory board Management Board.	Non-executive board members have the same duties and rights as members. Their tasks usually pertain to oversight and consulting of the executive members.

<u>Two – Tier Structure</u>

Management	Supervisory Board
The management board refers to the executive committee of an organisation that manages the day-to-day affairs of an organisation and represents the organisation	The supervisory board is not involved in the day-to day running of an organisation. It oversees the management team, helps to shape the strategy, and safeguards the interests of the organisation

Source: Corporate Governance of Social Enterprises -Working document

Option 2: Organisations with several boards

Some organisations that operate across several countries or with several subsidiaries might have several boards. In this way, the enterprise can differentiate according to local circumstances and align across the different geographies and sectors. Local boards help the enterprise include local knowledge and support. Moreover, several boards have the benefit that all business units are tightly controlled. The disadvantage with this model is increased coordination efforts and increased management overhead.

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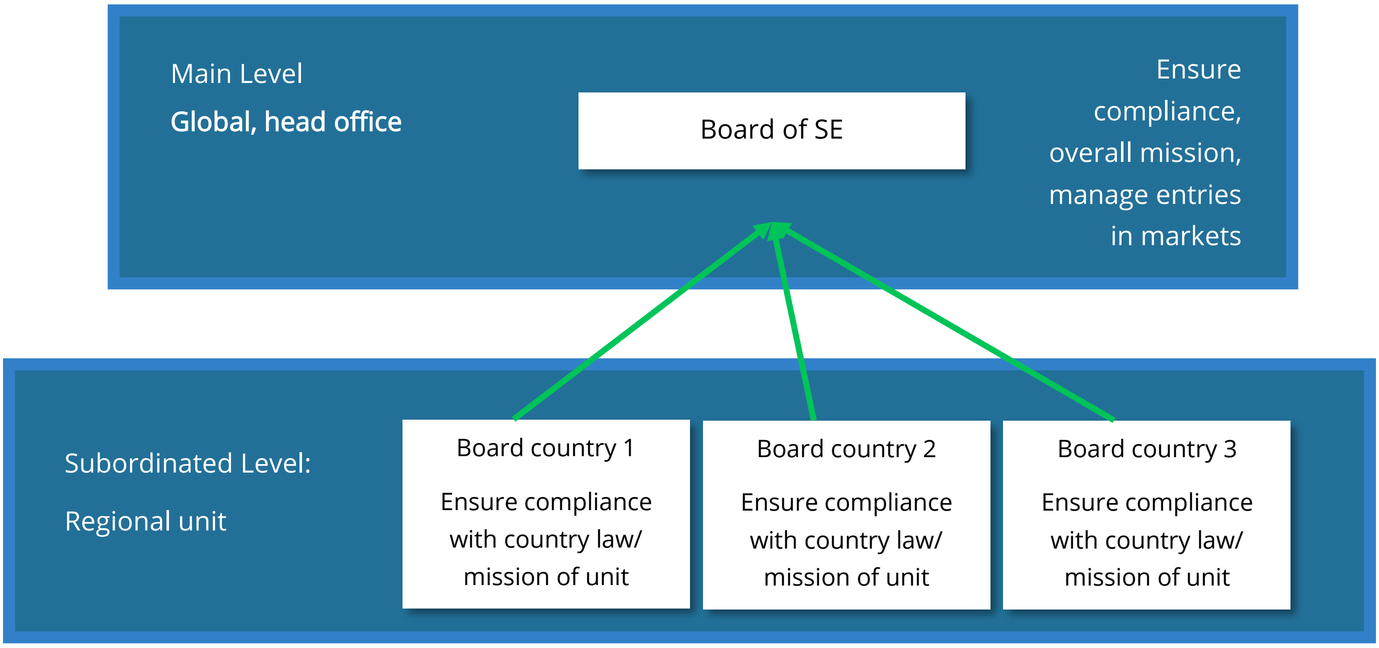
There are two ways to structure the relations among several boards, namely the **horizontal structure** and the **vertical structure**.

In the horizontal structure all boards have equal rights. It is a more democratic structure but, on the downside, there is the danger that single boards loose track of the overall mission and steer towards different directions. In the vertical structure more effort is exerted to ensure adherence to the overall mission by all the business units but on the downside, it restrains the independence of the business units and requires more management efforts.

Horizontal Structure

Vertical Structure



Source: Corporate Governance of Social Enterprises -Working document.

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- ⇒ SE has a separate board for each regional unit. A member of each regional board is represented in the board of the head office of SE.

- ⇒ For social enterprises that are expanding into new markets/regions/countries the vertical structure is more suited for ensuring the centralized coordination of strategy and operational alignment. By having representatives on the global level, units get the possibility to exchange experiences and a positive pressure is created when performance is compared among units.

Option 3: Board committees and taskforces

Some organisations establish committees within the board to delegate ongoing functions and to utilize board members' capabilities. These committees include:

Audit and finance committee:

- Finance: Help with the preparation of the annual budget; review performance against budget; examine and scrutinize capital expenditure
- Proposed members: Finance experts
- Investment: Appoint and oversee investment advisers: advise on investment strategy.

Proposed members: Experts in Investments or valuations

- Audit: Oversee the annual audit; review internal control systems; oversee risk management; oversee the accuracy of financial statements and reports

Proposed members: Audit experts

- Compliance: Ensure compliance with agreed structures and law.

Proposed members: Legal experts

- Fundraising: Oversee the fundraising strategy; contribute ideas and contacts.

Proposed members: Members of board with a wide network and fundraising skills.

Human resource committee:

- Compensation: Advise board on remuneration of the CEO; advise on overall remuneration policy.

Proposed members: Senior board members; independent board members.

- Nomination: Plan board and committee succession; manage search and selection process; oversee election process and the induction of new board members.

Proposed members: independent board members.

- Human resources: oversee employment policy and procedures; hear disciplinary appeals and complaints.

Proposed members: Well-connected board members.

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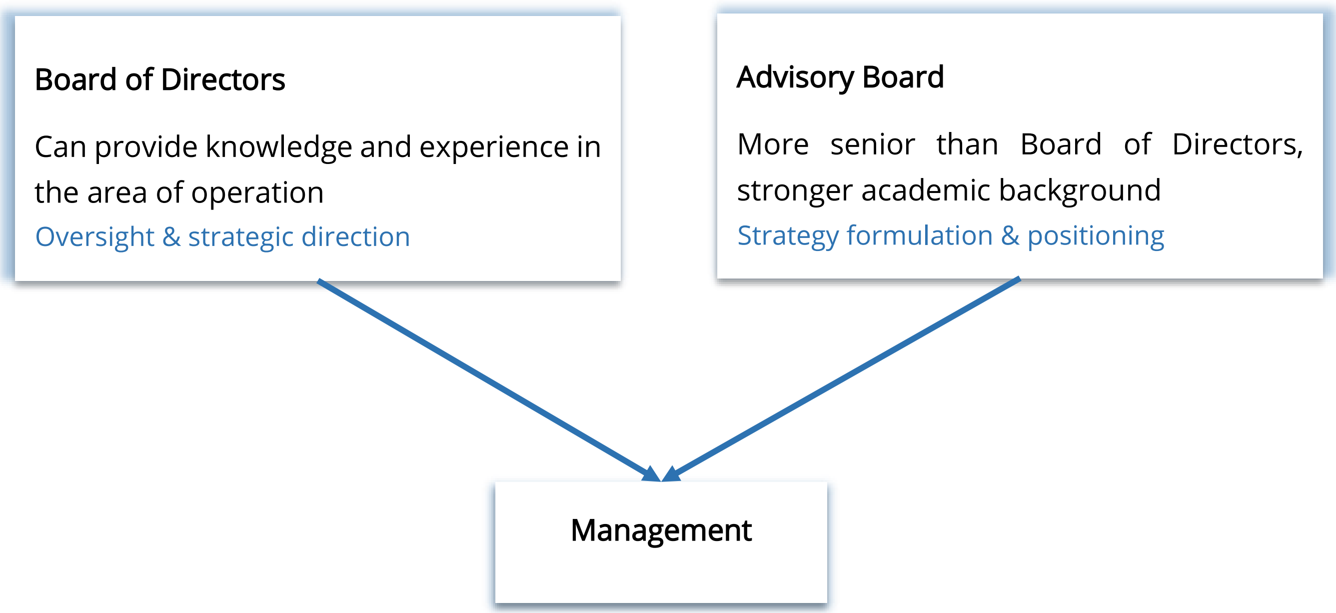
Option 4: Advisory council in addition to legally binding boards

Board members of social enterprises might be held liable before the law if they have not performed their duties diligently. Some of the board members like the target group might not possess sufficient expertise for assuming legal liabilities. Furthermore, some prospective board members like celebrities might be reluctant to join a board if they are not insured against a lawsuit. To overcome this shortcoming, social enterprises might set up an advisory council in which members are not legally binding, in addition to a legally binding board.

Some organisations choose to establish an advisory board without any legal obligations or formal decision-making authority as an interim step before creating a more formal board (European Confederation of Directors Associations, 2010).



Source: Corporate Governance of Social Enterprises – Working document.

Option 5: Hybrid organisational structures

Social enterprises sometimes combine non-and for-profit legal entities within their organisation. An additional legal entity is often created out of necessity, e.g. investor requirements. It is important that the governance of both entities is well coordinated and that both are steering towards the same mission.

<u>Example: Homeless World Cup</u>

The Homeless World Cup is an international football tournament where homeless players from over 70 countries participate. Football is used as a mechanism to end homelessness. The organisation provides support to partner organisations worldwide.

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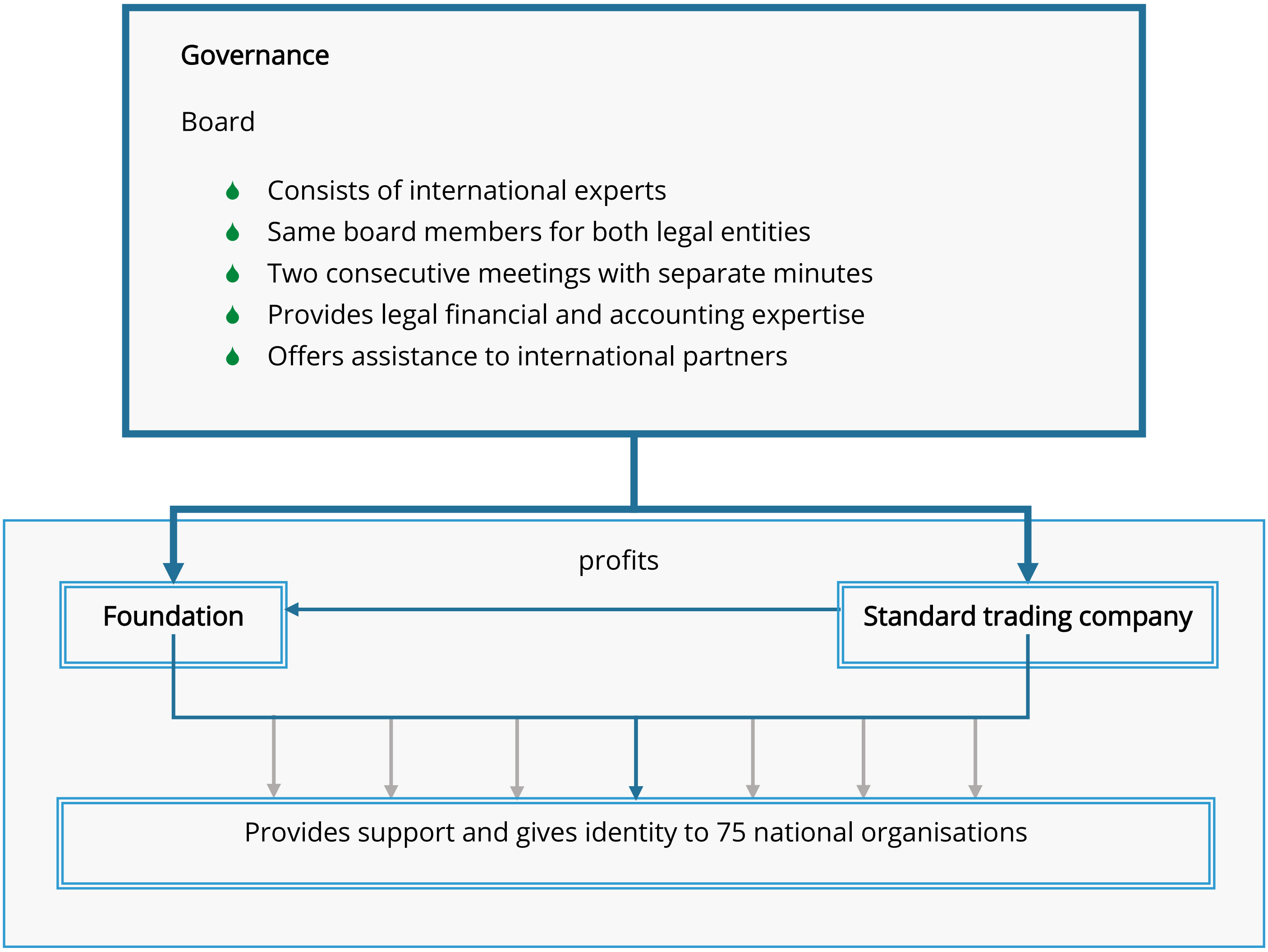

Figure 17. Hybrid organisational model

Source: Corporate Governance of Social Enterprises – Working document.

How to ensure that all boards are steering towards the same mission?

The coordination of the work of several boards is not an easy task. Some helpful measures to facilitate coordination include the following:

- ☑ Creation of a common reporting template.
- ☑ Facilitation of exchange and communication among entities by introducing key people.
- ☑ Inviting a representative of each board to a periodical (annual/semi-annual) meeting.
- ☑ Comparison of performance among the entities to create a sense of “positive pressure”.

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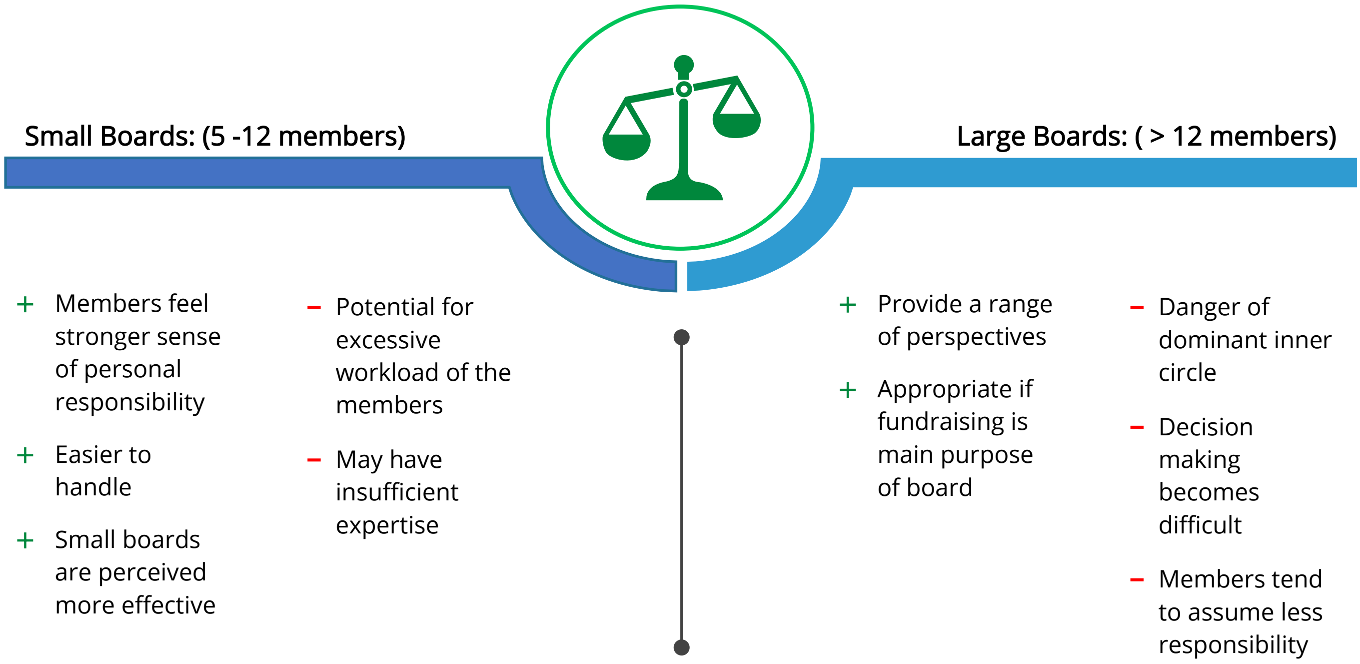
2.7. What is the right size for my board?

The optimal size of the board depends on the needs of the organisation. In the context of social enterprises, large boards are defined as boards with more than 12 members. Large boards create more administrative and coordination efforts and include the danger of ineffective oversight due to some board members free riding on the efforts of others.



2.8. Managing your board for optimal performance?

Managing a board can demand significant time and effort but a well-run board can be a great help to the management and ensure the long-term success of the social enterprise.

2.8.1. Rights and duties of board members

There needs to be a clear delineation between the roles of governance and management. Governance is about ensuring and guiding, whilst management is about action. Boards take the long-term perspective and avoid becoming involved in day-to-day operational matters. Management has to ensure that the board's decisions are implemented.

Board responsibilities are grouped into two main categories: support and supervision.

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Support

Support refers to three areas:

1	2	3
Provide strategic guidance and challenge management	Help with sourcing by providing access to their networks to foster business relations of the social enterprise. Example: helping with fundraising.	Boards serve as ambassadors for the mission of the social enterprise and thus provide advocacy and legitimization.

Supervision

Supervision primarily refers to safeguarding the mission of a social enterprise.

1	2	3
Boards are monitoring performance of management against benchmarks.	Monitoring concerns social as well as financial performance. While financial indicators are easy to measure and compare, social performance is often hardly sizable. Social enterprises should pay attention to defining	Compliance is an integral part of supervision. It is the duty of the board to ensure that management complies with its own governing document as well as with law and regulation.

Approval of management decisions

The approval of certain management decisions is a task that falls between support and supervision. Topics that require board approval include the following:

- ☑ Annual budget.
- ☑ Decisions on financing and changes in ownership structure.
- ☑ Succession and remuneration of chief executive officer and its management team.
- ☑ Decisions about overall strategy.

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2.8.2. Role of founder within governance

Social entrepreneurs are unique individuals. They possess the passion to pursue their mission relentlessly and without regard to resources currently at hand (Dees, 2001). This can come at a cost, sometimes to the detriment of the employees' work/life balance and other times to the detriment of the well-meaning board members.

Governance processes are essential, especially when the organisational structures become too complex to handle for a single person. By including and empowering others in the guidance of the organisation, governance mechanisms both ensure continuity of the founder's vision and success beyond the efforts of one person.

2.8.3. Roles and responsibilities of the board chair

The roles of the chief executive officer and the chairman are fundamentally different. The board chair is responsible for running the board while the responsibilities of the chief executive officer refer to running the organisation's business.

2.8.4. How to create a board culture?

To increase commitment of board, induction of board members as well as active board management is vital. Creating the right board culture will increase the commitment and value of board members to the organisation. When the board is diverse, it is critical to establish a culture of active listening, respect for different perspectives, productive dialogue, and the shared interest of coming to a collaborative decision.

Onboarding the board

New board members should be given an introduction about the organisation's work, strategies and plans. An extensive introduction is important because board members and social entrepreneurs often have different backgrounds which might lead to a clash of cultures if understandings are not aligned.

Recognize the board and value their commitment appropriately

Board members of social enterprises are rarely incentivized by monetary remuneration prompting social enterprises to recognize and reward board members emotionally for their time and commitment. Example: site visits to get a first hand of the actions of the organisation and where expenses should be incurred by the organisation.

When working with a board, organisations should pay attention to the following:

To do:

+ Let boards create their own agendas
+ Define success jointly with board
+ Plan annual meeting cycle
+ Invite external experts
+ Direct questions to specific members
+ Focus on shaping the future

Not to do:

– Short term and reactive bias
– Spend time on the trivial
– Overloaded meetings with details
– Overly involve the board
– Let executives control the board
– Just review the past

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Frequency and use of meetings

Board meetings should be held at least four times a year, and in some cases more frequent depending on the current situation of the enterprise -e.g., lifecycle, to keep board members closely on track with the development of the organisation and to maintain familiarity among board members and between board members and management.

Agenda: There should be a moderator to stay on track with the agenda.

Action plan: Boards should also agree on an action plan that contains concrete milestones. Progress should be evaluated against the action plan.

Follow-up: Following-up on meetings, the meetings should contain place, day and time of meeting, participants, decision making process, deliberations, voting results and manner how resolutions were passed.

2.8.5. How should management report to the board?

Reporting increases transparency and serves to legitimate the existence of an organisation. Regular updates about an organisation's development keep board members involved and serve to maintain trust.

Management should report monthly or at least quarterly to their board members and reports should contain the following:

- ✓ Cash flows, comparison of budget and actual financials.
- ✓ Social performance compared to benchmarks.
- ✓ Management comments about important incidents, development of external factors etc.

A more detailed report containing balance sheet as well as profit and loss statement is required at the end of the year.

2.8.6. How to evaluate the work of a board?

Board members join boards because they desire their contributions to be meaningful. Social enterprises should communicate regularly with their board members about what is working well on the board and what is not working well. Likewise, boards should take this feedback as an opportunity to make a stronger impact. Instead of assuming that good intentions and goodwill lead to effective governance, boards should pay attention to evaluating their own performance.

- ✓ At the end of each meeting: Review
- ✓ Between meetings: Informal conversations
- ✓ Board self-assessment questionnaires every few years

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2.9. Boards: Conclusion[2]

The following aspects should be highlighted regarding boards:

- Organisational lifecycle: When establishing the governance structure, you should consider the organisation's needs and lifecycle.
- Investor selection: Consider governance requirements during negotiations with investors.
- Role of the founder: Do not rely upon a single person for managing, shaping, and overseeing the organisation.
- Board membership: Balance expertise and stakeholder representation appropriately.
- Transparency: Be transparent and accountable, especially when dealing with conflicts of interest.
- Involvement of board members: Keep board members involved within strategic topics instead of becoming restrained by a reactive board.
- Reporting: Keep your board members on track with the developments of your organisation. If you report regularly to your board members, it is their responsibility to ask questions.

[2] The content regarding Boards is based on the papers.
- Corporate Governance of Social Enterprises -Working document, TUM School of Management - Ann-Kristin Achleitner, Judith Mayer, European Business School – Andreas Heinecke, Schwab Foundation for Social Entrepreneurship - Mirjam Schoning, Abigail Noble
- The Governance of Social Enterprises: Managing Your Organisation for Success, SCHWAB FOUNDATION FOR SOCIAL ENTREPRENEURSHIP WORLD ECONOMIC FORUM

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3. Challenges of good governance of social enterprises: mission drift and accountability

Social enterprises are neither typical charities nor typical businesses. Their primary objective is to deliver social value to the beneficiaries of the social mission and often their primary source of revenue is commercial, relying on markets to sustain themselves and to scale their operations. For these organisations commercial activities are a means towards social ends. As such, social enterprises are hybrid organisations that combine both aspects of both charity and business at their core (Battilana & Lee,2014; Besharov & Smith, 2014; Mair, Mayer, & Lutz, 2014; Galaskiewicz & Barringer, 2012).

Although social enterprises are viewed as promising vehicles for the creation of both social and commercial value (Sabeti, 2011), they are at risk of losing sight of their social missions in their efforts to generate revenue. This risk is referred to as mission drift (Fowler, 2000; Jones, 2007; Weisbrod, 2004). Although the risk of mission drift is not specific to social enterprises, it is especially acute for them given the following:

1. They are inherently at risk of giving priority to their commercial activities which enable them to generate revenues in order to survive.
2. The consequence of mission drift for social enterprises is severe as it threatens their very reason for existence (raison d'eˆtre): if the sight of social mission is lost then they have failed their goals of delivering social value to their beneficiaries.

Social enterprises thus face a unique governance challenge: how to handle the trade-offs between their social activities and their commercial ones, so as to generate enough revenues but without losing sight of their social purpose. In terms of organisational governance, they not only combine potentially conflicting goals (social and financial) but also potentially divergent stakeholders' interests. It is a function of governance to articulate both for what an organisation is accountable and to whom it is primarily accountable (Behn, 2003; Ebrahim, 2010; Kearns, 1996; Mulgan, 2000; Najam, 1996; O'Neill, 2002).

Social enterprises are accountable for both a social mission and for making profits, that is they are required to achieve both a financial and a social performance. These dual objectives are not necessarily aligned and oftentimes are contradictory presenting risks to the mission. In addition, while methods and metrics are well established to measure financial performance, the measure of social performance is much more complicated and generally lacks standardization and comparability (DiMaggio, 2002; Ebrahim & Rangan, 2010; Paton, 2003).

Social enterprises are also accountable to multiple "principal" stakeholders The beneficiaries targeted and the funders (or investors) often have diverging interests between them. This is not a straightforward principal-agent case as with conventional profit-seeking corporations where the owners are represented by the principals and the management are the agents whose task is to seek to the interests of the principals. The social enterprise context comprises of various stakeholders with different objectives, some of which can enforce their interests and others who cannot. To hold managers accountable in such settings and avoid mission drift, a key task of governance is the proper alignment and prioritisation of diverse and sometimes conflicting interests.

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The risk of mission drift and governance

Organisational governance assumes a critical role in navigating potentially contradictory objectives and in attending to the needs of beneficiaries even when the pattern of resource dependence might make social enterprises more likely to attend to the demands of their customers.

There are two dimensions of accountability that must always be kept in mind when we examine the role of organisational governance. These are:

1. They are inherently at risk of giving priority to their commercial activities which enable them to generate revenues to survive.

2. The consequence of mission drift for social enterprises is severe as it threatens their very reason for existence (raison d'eˆtre): if the sight of social mission is lost then they have failed their goals of delivering social value to their beneficiaries.

Governance approaches will differ based on whether the organisation is an **integrated hybrid** (IH – the commercial and social activities are interwoven in achieving the social mission, such that profit, and social value are created through the same set of activities) or a **differentiated hybrid** (DH -profits from commercial activities serve to finance the social activities). Integrated hybrids and Differentiated Hybrids experience the risk of mission drift in different ways.

Mission drift is a process of organisational change where an organisation diverges from it main purpose or mission. Identifying mission drift is not an easy exercise. Sometimes it may occur in visible changes in mission, strategy or objectives but oftentimes it may also occur through less visible changes of the practices of the organisation.

Mission drift in differentiated hybrids is created when these social enterprises prioritize creating value for the paying customers (for example corporate customers who pay for a service) to the detriment of beneficiaries (for example people who receive schooling), which will lead them to allocate more resources into their commercial activities than in their social ones. Integrated hybrids do not experience this risk in the same way as their beneficiaries who are also their customers. However, these integrated hybrids are still subject to the risk of mission drift as they may over time give priority to profit-seeking over social mission either by charging higher prices, offering additional products or services that are meant to generate profits rather than help beneficiaries, or by shifting to market segments that can afford to pay for their goods rather than those who most need them. This risk of systematically prioritizing profit is a reason why microfinance organisations have come under heavy scrutiny in recent years (Banerjee, Duflo, Glennerster, & Kinnan,2013; Karlan & Zinman, 2011).

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Dual performance objectives

Organisational governance is concerned with simultaneously balancing the dual objectives of profit generation and social mission. These objectives have traditionally been governed through the separate forms of business and charity and codified in the laws of many countries as for-profit and non-profit incorporations.

Over the recent years, several countries have developed new legal statuses to better fit the needs of social enterprises that are neither typical for-profits nor typical non-profits (A description of these legal structures can be found in Module 1). These new legal entities help to clarify the governance challenges those social enterprises face when it comes to the joint pursuit of social and commercial objectives. It marks the will to recognise social enterprises as distinct organisations that are neither typical for-profits nor typical non-profits.

> The roles of governance include monitoring performance to mitigate this risk.

Balancing dual performance objectives

Boards use specific organizational governance mechanisms in their effort to seek balance between social and commercial objectives. As we have already highlighted, the primary risk is **mission drift**. The roles of governance include monitoring performance to mitigate this risk.

Assessing social performance is a fundamentally different task from assessing financial performance and this poses many challenges. Financial performance measurement uses accounting measures such as sales, profit, return on investment etc. and market measures such as market value, share price, return on equity etc. These measures are well-established with standardised definitions and methods of assessment allowing for relative ease of comparability over time for the various enterprises. Social enterprises use the conventional financial measures to assess financial performance.

Combating mission drift through "compartmentalization"

Many social enterprises try to manage the financial risks of engaging in commercial activities and hence the risk of mission drift through "compartmentalizing" the different activities of the organisation, but there is no guarantee that separating social and commercial activities in this way will eliminate tensions and achieve goals.

In assessing social performance, there are no common measurements for the boards to rely on. Instead, a suite of evaluation methods broadly known as "theory driven evaluation" have become especially prevalent (eg. Chen, 1990; Chen & Rossi, 1983, Rogers, 2007). These are premised on articulating "an explicit theory or model of how the program causes the intended or observed outcomes" as a basis for evaluating performance (Coryn, Noakes, Westine, & Schroter, 2011:201; Rogers, Petrosino, Huebner, & Hacsi, 2000). At the heart of much of this work is a "logic model" of results chain in which organisational inputs (eg. knowledge, equipment, and financial resources) are used to support activities or processes for the production of goods and services (eg. food, shelter, health services, schooling, job training etc) that in turn result in the delivery of outputs to a target beneficiary population (typically measured in terms of the number of people reached within that target population and immediate benefits to them). (Bickman, 1987; Chen & Rossi, 1983; Donaldson,

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2007; Ebrahim & Rangan, 2014; Liket,Rey-Garcia, & Maas, 2014; Weiss, 1972)

Monitoring the relationship between social and commercial activities

In differentiated hybrids, the separation of commercial and social activities enables their performance to be monitored separately. This division enables boards and managers to set distinct performance objectives for their commercial and social activities. This separation or firewall between social and commercial activities enables greater clarity in both its commercial and social performance assessment. However, commercial activities can still pose risks to the organisation where they contradict or are incompatible with the mission.

In integrated hybrids, because commercial and social activities are the same, the risk of mission drift takes a different form. Integrated hybrids run the risk that commercial activities (profit) will overtake social objectives, undermining the social outcomes of the integrated activity. For example, microfinance organisations that succeed in establishing high loan repayment rates (financial performance) do not necessarily succeed in getting their customers out of poverty (social performance). The challenge for integrated hybrids is to ensure that the commercial transaction leads to social change. A function of effective governance is to monitor whether revenue generating activities result in the intended outcomes.

The common challenge of governance lies in how to prioritize and align interests.

The governance challenge in **differentiated hybrids** lies in monitoring for contradiction or conflict between commercial and social activities while the challenge in **integrated hybrids** is in ensuring a clear causal link between the integrated activity and social outcomes. Although all social enterprises face the problem of clarifying cause-effect relationships between their activities and social outcomes, this risk is especially pronounced in integrated hybrids where good financial performance can mask poor social performance.

Monitoring the performance of agents

Social enterprises are also faced with the challenge of overseeing the performance of agents. Agency theory specifies two primary mechanisms for overseeing agents: monitoring the performance of management and staff (how social and economic activities are carried out); and /or, monitoring outcomes directly (social and financial results) (Eisenhardt, 1989; Jensen & Meckling, 1976). This distinction is often referred to as procedural versus substantive accountability (Coleman & Porter, 2000; Woods, 2001) or process versus outcome accountability (Tetlock, 1985).

From an agency theory perspective, a fundamental task of governance is to determine what kind of control strategy – behaviour-based or outcome-based – is most appropriate and feasible for its organisational context. Behaviour-based control requires having information on what staff and management do, which can be achieved through observation and supplemented with information systems. Behavioural controls rely on measures of process and an assessment of effort rather than effect (Scott, 1992:355). Because such control requires having relatively clear criteria for judging the quality and quantity of behaviour, it is best suited to highly predictable and programmable tasks that can be readily observed and judged (Ouchi, 1979; Thompson,1967) or where there is a well-understood theory of performance linking activities to short-term outputs and ultimately to long-term outcomes.

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Under the outcome-based control governance mechanism, agents are rewarded for the results of their actions rather than for the actions or tasks themselves. Such a control strategy may be desirable in contexts not only where behaviour is difficult or costly to observe, but also where results are more readily measured (Eisenhardt, 1985; Ouchi, 1979). Outcome-based controls transfer some of the risk of achieving results to the agent, even where the agent may have little control over the context, he/she operates. For example, employees who are paid on commission are compensated through an outcome-based reward system.

Since the primary purpose of social enterprises is to achieve a social mission, we expect that boards of both differentiated and integrated hybrids will seek to establish control strategies that help them to prioritize social results over financial results thus minimizing mission drift.

Accountability to whom? Aligning principal stakeholders

Organizational governance also involves accountability to multiple principal stakeholders. The problem lies in how to align the interests of various stakeholders, or demanders of accountability, and whose interests to prioritize when those interests conflict. Stakeholder theories of the firm suggest that organisations may prioritize among stakeholders on the basis of their power, social legitimacy and the urgency of their claims (Dunfee, 2008; Mitchell et al., 1997; Neville, Bell, & Whitwell, 2011) and that greater value results from the alignment of interests (Freeman, 1984) .

The common challenge of governance lies in how to prioritize and align interests. There exists a potential conflict and an implied tension at the organisational level between "upward accountability" (demands of powerful donors) and "downward accountability" towards beneficiaries (Edwards & Hulme, 1996; Najam, 1996). In businesses, the alignment of upward and downward interests is facilitated by market exchange: value is created for owners when customers buy the goods and services produced by the firm. Downward accountability to customers hinges on the option of exit (Hirschman, 1970), where customers who are dissatisfied with the product or service can leave for a competitor. Upward accountability to investors is also facilitated by exit, particularly in publicly traded companies where shares can readily be sold.

Charities, in contrast, do not have a mechanism for alignment akin to the market.

Discussion and conclusion regarding mission drift

Social enterprises offer a distinct way of categorisation of an organisation that is different from the traditional business, non-profit and governmental organisations. History suggests that it can be difficult for social enterprises to achieve both their social mission and commercial success.

The organisational governance of social enterprises is faced with the challenges arising from the combination of charity and business forms at their core. The greatest risk is that of mission drift.

Minimising the risk of mission drift involves the following regarding organisational governance:

i. Monitoring the relationship between social and commercial activities.
ii. Developing appropriate control strategies for monitoring manager performance; and
iii. Enacting meaningful forms of downward accountability to beneficiaries.

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Source: ACADEMIA The governance of social enterprises: Mission drift and accountability challenges in hybrid organisations'Julie Battilana

Cornforth, Christopher (2014). Understanding and combating mission drift in social enterprises. Social Enterprise Journal, 10(1) pp. 3–20.

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4. Key aspects

Governance is defined as “systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of an organization” (Cornforth 2003); Governance mechanisms can include governing boards, monitoring systems, and signalling mechanisms like reporting or codes of conduct.

Social enterprises address the most pressing problems societies face through employing scalable, self-sustainable and innovative business models. They must balance financial responsibilities and social impact and must coordinate among multiple stakeholder groups, including investors, employees, regulators, clients and beneficiaries. As a result, social enterprise leaders manage complex trade-offs.

Good governance has several major characteristics. These characteristics should be a guideline in applying the governance principles and structure to social enterprises in general:

Clarity of purpose, roles, and behaviours – Boards need to ask themselves one fundamental question: ‘what is the point of this organisation?’ The purpose of the organisation, and the vision set by those that govern it to support the achievement of that purpose, is the starting point for any system of good governance.

Application of principles – The principles driving an organisation must be of fundamental value, understood by all users and reflect the organisation’s purpose: entity, accountability, stakeholders, governance and management, the board and constructive challenge, delegation and reservation, openness and transparency, board support systems, knowing the organisation and its market, and competence.

Leadership and strategic direction – Without clear strategic direction and leadership embedded within the governance system, organizations can be successfully reactive, but are also prone to going into organizational free-fall.

Effective external relationships – Good governance has the interests of all stakeholders at its roots. The best boards and governing bodies ensure their leaders are directly engaged in stakeholder relationships.

Effective internal relationships – Boards must understand how their own organizations’ internal stakeholders are feeling and acting. At the root of many organizational issues is a lack of good communication between those who run the organization and those who work for them.

Transparency and public reporting – Openness builds confidence and early disclosure supports early improvement. A mature organization will have empowered staff who welcome comments, who apologize when things go wrong and respect users’ expectations that things will be put right.

Systems and structures – Organisations must be able to benchmark themselves against relevant best practice and track compliance against standards and targets. They must ensure a clear line of sight from the front line of service delivery through to board level on quality and safety.

Challenge on delivery of agreed outcomes – It’s not always easy to identify and measure outcomes in complex environments or to identify specific causes of failure, but there are tools available to help and boards should be well-informed about them and about how their organisations measure up against relevant benchmarks.

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Risk and compliance – Healthcare organisations in particular work to a broad range of compliance regimes and it is the job of the board to ensure they are always observed – and this includes the conduct of the board itself. The risk system used by boards should properly alert management and boards of any danger of failing to meet compliance standards.

Organisational effectiveness – Boards should regularly discuss what value they can add to their organisations. Good governance includes identifying a vision, developing a strategy, selecting and supporting a leadership to deliver that strategy, assurance that progress is being made, the stewardship of resources, and the guardianship of quality and safety – all done to the highest standards of probity and transparency.

Source: https://www.good-governance.org.uk/publications/insights/the-basics-of-good-governance#:~:text=Good%20governance%20includes%20identifying%20a,standards%20of%20probity%20and%20transparency

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