Shaping the Balanced Scorecard for use in UK social enterprise

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EXECUTIVE SUMMARY

This paper describes an amended Balanced Scorecard for use in UK social enterprises, as tested in a pilot study with the senior management of 12 organisations.

Key conclusions:
• Kaplan and Norton’s Balanced Scorecard can be adapted to tell the social enterprise story.
• Positive outcomes include creating a common language through which social entrepreneurs can share and compare experience, even if they operate in different industries.
• By using the Social Enterprise Balanced Scorecard (SEBS), organisations become better businesses and can demonstrate social value added to stakeholders.

INTRODUCTION

As public and consumer interest in the benefits of social enterprise increases, the UK social economy has responded by developing tools to measure both financial outputs and social value added. To demonstrate their accountability and credibility, social entrepreneurs have worked with partner agencies to create new models for performance measurement. This has enabled them to learn from other disciplines and find new ways to capture and articulate the meaningful changes taking place as a result of social enterprise innovation.

Introducing the project

This paper shares the lessons learned by Social Enterprise London (SEL), as part of the Social Enterprise Partnership’s national Quality and Impact Project (see endnote 1). The national project piloted several performance measurement tools (key performance indicators, social accounting, social return on investment, and organisational health checks) in different UK regions in a range of social enterprises. The aim of the national programme was to encourage the use of such tools in the field and evaluate the strengths and weaknesses of different measurement frameworks. The project reported in this paper was led by SEL in association with the new economics foundation (nef) and the Oxford, Swindon and Gloucester Co-operative (OS&G).
The study examined the potential mainstream adoption of the Balanced Scorecard by UK social enterprises. The goal was to explore the potential mainstream application of the balanced scorecard in UK social enterprises and learn how this process can support the ways in which social enterprises develop, implement and track the performance of their socially driven strategies. A Social Enterprise Balanced Scorecard (SEBC) was created and tested by 12 social enterprises in a pilot training programme, which ran between August and December 2004. To begin, the paper discusses the Balanced Scorecard as a performance measurement tool and assesses whether an amended Scorecard is needed by social enterprises (see endnote 2). Next, the SEBC model is introduced followed by the results of the pilot test. The results of an independent evaluation are then presented. The paper concludes with recommendations for future development of the SEBC.

The UK context
Social enterprise is a global phenomenon that has champions from many disciplines. Depending on location, social enterprise is an agenda owned by the private or not for profit sectors (see endnote 3). In the UK, it has evolved from several historical alternative business movements, such as worker co-operatives, development trusts and community enterprise. As a result, the policy framework for social enterprise in the UK prioritises the organisation as the enterprising entity rather than the individual entrepreneur, as one might find in the US. This is evidenced by the use of the organisation as the unit of analysis for the Department of Trade and Industry’s mapping guidance for social enterprise activity. As a consequence of the emphasis on the organisation versus the individual entrepreneur, earlier performance measurement systems have potentially overemphasized the role of the stakeholder (see endnote 4), versus creating a robust and holistic mechanism for looking at financial and social performance side by side (see endnote 5).

It is within this context, and as part of the national project in quality and impact measurement that the work described in the following sections took place.

THE CASE FOR A SOCIAL ENTERPRISE BALANCED SCORECARD

Overview of the original Balanced Scorecard
The Balanced Scorecard (Kaplan and Norton 1996) is a performance measurement tool that uses a strategy map to connect an organisation’s day-to-day processes to its organisational goals. Rather than capture how an organisation currently operates, the Balanced Scorecard is concerned with creating a strategy to drive future direction, building in cause and effect linkages while simultaneously taking into account both financial and intangible resources that can determine success or failure.

Kaplan and Norton introduced the balanced scorecard (BSC) in the early 1990s as a means to provide a more holistic diagnosis of a business’s performance. They argue lagging financial indicators are not sufficient enough to tell senior management whether work taking place on the ground accurately corresponds to the business’s corporate strategy: overemphasis on reducing costs in the short run to boost financial indicators underestimates the value of large investments in research and development to the detriment of the company’s long-term survival strategy.
This model assumes that senior management uses the profit motive as the main driver of the business’s strategy. The BSC framework explains corporate goals through cause-and-effect relationships, and is filtered through four perspectives: financial, customer, internal processes, and learning and growth (also called intangibles). “If we increase employee training about products (learning and growth), then they will be more knowledgeable about the full range of products they can sell (internal processes); if employees are more knowledgeable about products, then their sales effectiveness will improve (customer); If their sales effectiveness improves, then the average margins of the products they sell will increase (financial)” (see endnote 6).

By connecting financial to non-financial objectives, external to internal processes, and current to future performance, corporate strategy will be mapped more cohesively, and employees at all levels of the organisation work towards the same goal.

Performance measures, with both lagging and leading indicators, are then linked to objectives identified in each of the four perspectives. These measures are intended not only to modify behaviour, but also inform upper management if their stated objectives are ultimately in line with their corporate strategy. In order to ensure strategic focus, Kaplan and Norton recommend that “eventually, all objectives and measures in the other scorecard perspectives should be linked to achieving one or more objectives in the financial perspective” – ultimately, a business’s strategy should be oriented towards its financial bottom line (see endnote 7).

Through this top-down process, upper management connects desired outcomes to specific objectives. Below, Exhibit 1 demonstrates what the for-profit strategy map looks like.

**Exhibit 1: Generic for-profit strategy map**

<table>
<thead>
<tr>
<th>Perspectives</th>
<th>Strategy: Desired Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial perspective</td>
<td>Objective 1, Objective 2</td>
</tr>
<tr>
<td>Customer perspective</td>
<td>Objective 1</td>
</tr>
<tr>
<td>Internal process</td>
<td>Objective 1, Objective 2</td>
</tr>
<tr>
<td>Learning and growth</td>
<td>Objective 1, Objective 2</td>
</tr>
</tbody>
</table>

Cause and Effect Relationships (Objectives) Run Throughout Strategy Map to Outcomes

**Social enterprises and private enterprises**

At the outset of the project it was argued that a social enterprise specific form of the balanced scorecard was not necessary, as the existing tool was
Social enterprises emphasise creating social and/or environmental value at all stages of their production process, as an intrinsic part of their identity. See Exhibit 3. For example, the target client population may also be the primary labour source, for instance where a social enterprise hires people with learning difficulties to run their community café. Not only could an outsider see these social enterprise characteristics in labour practices, but additional support for the employees in the form of increased on-site training or management would also be identifiable.

In the case of a co-operative organisation, internal analysis should indicate a structure that facilitates democratic governance. The important point to note is that because social enterprises use alternative inputs, or a modified production process, once a good or service is produced and sold to the marketplace, it ought to be possible to identify social and environmental profit in addition to economic profit. In practice, many social enterprise managers...
continuously make trade-offs between increasing productivity for financial gain versus increasing productivity for social gain (see endnote 8). The Balanced Scorecard might add value by making transparent this decision-making framework, capturing both the benefits and consequences when such trade-offs occur, and ensuring that social enterprise managers make decisions that are strategy-led rather than reactions to short-term conditions in the marketplace.

**EXHIBIT 3: SOCIAL ENTERPRISE PRODUCTION PROCESS**

**Non-profit BSC models**
While there are alternative versions of the BSC methodology for the US based non-profit sector, in terms of the UK social enterprise market, the non-profit model actually holds less relevance than the traditional private sector BSC model (see endnote 9). Non-profits in most of these methodologies do not have the sale of goods and services as their main activity. Further, the ability to win and keep donors is a prominent issue for US based non-profits because of the tax exemption that is tied to personal giving. The UK social economy does not have the same regulatory incentives, and thus it does not impact on the organisation as significantly.

**Limitations of the existing Balanced Scorecard for social enterprises**
The Balanced Scorecard began the discussion about the importance of examining non-financial information when aiming to improve business performance and elevated the status of non-financial information. However, in its current state, it is limited in responding to the needs of social enterprises because it does not reconcile the tension that exists between generating additional social versus financial profit. The implications of this are that the Balanced Scorecard does not accurately reflect the aims and achievements of social enterprises. If only the profit motive is used to set the social enterprise story, social motives are overlooked and part of the organisation’s story remains untold. The measurement of performance with respect to social and environmental outcomes would go unreported and the resource implications of these goals would remain hidden. By amending the Balanced Scorecard to address the needs of social enterprises, the study demonstrates that financial
profit is an enabler for social profit; reduces the threat of mission drift; and also provides a communications and performance management tool that holds decision-makers at all levels inside the organisation accountable for delivering the strategy to deliver financial, social and/or environmental goals.

**AMENDED BALANCED SCORECARD FOR SOCIAL ENTERPRISES**

To amend the original Kaplan and Norton Balanced Scorecard three changes were introduced: an additional layer was added in which social goals are articulated above the financial perspective; the financial perspective was broadened to focus on sustainability; and the customer perspective was widened to capture a larger number of stakeholder groups.

**EXHIBIT 4: SOCIAL ENTERPRISE BALANCED SCORECARD MODEL**

In the model above (Exhibit 3), social enterprises begin by stating their social goals as desired outcomes, and then move into the perspectives. In the financial sustainability perspective, each ‘bubble’ represents an objective. The SEBC appears more complex, and this reflects the hybrid nature of social enterprises that demands more complex management systems. This is best demonstrated through the stakeholder perspective, which has been widened from customers in the original model to distinguishing between those who pay for a service and those who consume it (donors, grant funders, employees, and the wider community).

In Exhibit 3, the arrows illustrate one cause and effect chain from the strategy
map. For example, assume ABC Institute is a childcare training organisation. ABC’s goal is to empower single mothers (social goal) through providing access to training (financial perspective - trading activity). The government (as paying customer in stakeholder perspective) requires that ABC demonstrate ‘value for money’. The organisation makes the assumption that the best way to demonstrate this is by reporting impact delivered to the client group (single mother’s - client in stakeholder perspective) across the organisation’s activities (internal process perspective). The best way to resource this is through the purchasing new data management software that relevant staff members can access across the Institute (resources perspective).

**Social motives drive strategy development**

An organisation can have a mission that is ongoing over a significant period of time, however a strategy is time sensitive and reflects what the organisation is trying to achieve within a fixed period of time. The strategy should be the means through which the mission is achieved.

The SEBC creates a space for social enterprises to articulate social goals. For example, a co-operative community-based nursery might have the following social goals at the top of their map the social goals as stated in Exhibit 5.

<table>
<thead>
<tr>
<th><strong>EXHIBIT 5: SOCIAL GOALS OF A CO-OPERATIVE COMMUNITY-BASED NURSERY</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Desired Outcomes</strong></td>
</tr>
<tr>
<td>Advocate for London’s poorest children</td>
</tr>
<tr>
<td>Improve the availability and quality of childcare on London’s housing estates</td>
</tr>
<tr>
<td>Increase the wealth of single mothers in London</td>
</tr>
</tbody>
</table>

These social goals become the priorities for the social enterprise and employees determine how best to achieve the outcomes through trading activities. The main trading activity is represented through the goal of increasing the availability and quality of childcare. Advocacy is included as well as the social purpose rationale for choosing the co-operative structure and the facility to distribute dividends to the target population (single mothers as owners of the co-operative). In the pilot study, participants were encouraged to capture what was most important to them, while also choosing language that anchored their desired outcomes in either a specific geographic location or a particular client base.

**Prioritising financial sustainability**

Social enterprises seek surplus generation in order to achieve financial sustainability. Learning from the work of the OS&G, the component of profit distribution was added so that social enterprise managers could track the objectives that added resources versus those that used them, in order to balance the competing drivers (See Exhibit 6).
Emphasizing financial sustainability in addition to profit distribution becomes a way to account for all activities the organisation engages in, including advocacy and pro bono work. Sacrificing one cause and effect chain for another can have significant implications for both the quality of work and the social enterprise’s financial sustainability.

The need to achieve financial sustainability is fundamental to social enterprises. Whilst many may rely on a combination of grant and trading income, ultimately, if an organisation is not financially sustainable, it cannot deliver its social and environmental impact. In existing performance evaluation tools, financial systems record trading activities that earn income, and qualitative systems are used to collect user feedback and measure social impact. The SEBC model provides a method for integrating both outcomes.

**Widening the stakeholder perspective**

In the SEBC, the customer perspective was widened to create a way for social enterprise managers to consider more stakeholders as well as the organisation’s wider impact. Since social enterprises are a response for greater community and employee involvement in, and ownership of, interventions to social problems, omitting them from the strategy map would not represent what actually takes place within the organisation. It is important for managers to be able to distinguish between groups who pay for services, those who use them, and those who benefit from the intervention in the long-term, as these are not always the same. In completing this bigger picture, social enterprises create a mechanism to record their wider impact.

In Exhibit 7 overleaf (endnote 10), the multiple beneficiaries of social enterprise are illustrated. The supply links between social enterprises promote greater economic development; money invested locally promotes local job creation; programs that encourage local participation create social capital.
PERFORMANCE MANAGEMENT

Measures, targets and initiatives
In the SEBC, every well-crafted strategy map should be supported by a performance measurement schedule. This is an internally facing performance management tool in which each objective from the strategy map is linked to a success indicator(s). Every objective requires a measure and an employee with responsibility to ensure the goal is achieved. In this way, the schedule also becomes a communication tool to report performance internally, across teams or business units. Ultimately, once an organisation has mapped out its strategy through determining objectives and outcomes, performance measures must be tied into the SEBC framework in order to ensure the strategy is being implemented throughout the organisation (See Exhibit 8).

EXTERNAL COMMUNICATIONS

The SEBC can be used to communicate strategy throughout the organisation, whilst also serving as an external reporting device to provide qualitative and quantitative measures for social and environmental outputs to external stakeholders. The Balanced Report Card (Exhibit 9) is part of the SEBC and comprises the external marketing tool to demonstrate that the social enterprise has achieved, and is implementing, the goals of the strategy map. It could play an important role in enabling social enterprises in different industries to communicate in a shared language.
It is recommended that as an industry standard social enterprises publish the Balanced Report Card in their annual review as a way to build credibility among investors, funders, customers, and stakeholders. It is also an opportunity for the UK social enterprise movement to collectively begin to share its social, economic, and environmental impact with others.

As a performance management tool, the Social Enterprise Balanced Scorecard can be one of a number of ways in which a social enterprise can tell its story, measure its performance, and communicate with internal and external stakeholders. It can also be thought of as a platform through which other impact measurement tools can be introduced into the organisation.

LESSONS LEARNED FROM THE PILOT STUDY

Teaching the new material to practitioners
The author of this paper (Director of Policy and Research at SEL), and the Head of Corporate Development at OS&G ran the workshops. OS&G
previously worked with the Balanced Scorecard in implementing the system in their business. Being able to learn from OS&G’s experience was critical to our success as we took into consideration the strengths and weaknesses of their two years of Balanced Scorecard work.

The SEBC was taught in a series of five modules delivered in workshops between August-December 2004. Each module lasted approximately four hours. The first workshop introduced the SEBC. Subsequent workshops consisted of a one-hour seminar to review progress and introduce new knowledge, followed by individual sessions with trainers in small group activities. Each training workshop closed with a summary of learning and recommended activities to complete between sessions.

The participants consisted of two representatives from 12 small to medium sized enterprises and three social enterprise support agencies (that were also trading in the competitive marketplace). The participating organisations were Café Direct, Big Issue South West, Day Chocolate Company, Liberty Credit Union, Via3.net, The Guild, Social Firms UK, Bootstrap Enterprises, the School for Social Entrepreneurs, Women’s Design Service, Community Music East and Core Design. Two participants from the senior management team of each organisation participated in the training workshops.

Criteria for success
At the start of the pilot study, targets for 60% of organisations to complete the pilot at the five-month mark and three organisations to produce strategy maps were set. These were exceeded and 100% of the organisations completed the pilot, a third drafted a strategy map. In the final session of the pilot, an independent observer from the nef facilitated an evaluation of the study. The evaluation aimed to was to gather responses to both the tool itself and the means through which it was taught (see endnote 11).

General observations and findings
The evaluation concluded that the SEBC had changed participant views about their organisations in terms of:

- increased employee understanding about their organisation as a business.
- the usefulness as a business planning tool for social enterprises
- that the ABSC had a natural fit alongside the existing UK quality accreditation scheme of Investors In People
- the ABSC was an effective means to engage staff and team members and could be used as an early-warning system for potential problems
- helping to redress the balance between purely financial gains and social purpose.
- the ABSC gave participants: focus, clarity, a big picture on one page, and the ability to remove non-essential detail from strategic planning

In addition, those participating would recommend the SEBC to the following:

- organisations needing to demonstrate value to potential investors or funders
- all non-profit organisations – charities, social enterprises, voluntary sector
- any social enterprise or mission-lead business
Feedback on the pilot study process
Several themes emerged in participant comments, in particular that:

- the most appropriate target group for learning about and then championing the SEBC is senior management
- the adoption of SEBC by social enterprises needs cross-organisational support
- embedding new knowledge requires time and space in the organisation.
- to maximise learning, senior managers should conduct their own “cause and effect” analysis
- The learning is cumulative and the pace increased as the process progressed
- Mutual support from group members was essential
- Learners are individual and have unique requirements

CONCLUSION

The initial assessment of performance measurement tools revealed that those currently being piloted for quality and impact measurement focus on external results rather than internal analysis of the organisation. However, as much of the value created by social enterprises occurs inside, many existing tools overlook this contribution. The study presented in this paper found that the original Balanced Scorecard could be adapted successfully for use with UK social enterprises. The SEBC places social goals at the top of the strategy map, aligns social and economic priorities, and organises activity around the most important driver(s) whilst also ensuring financial sustainability. In the SEBC, social goals are prioritised over financial goals; the financial perspective is amended to refer to financial sustainability, thus creating an indicator for revenue growth, cost reduction, and the costs of advocacy and stakeholder engagement; and the stakeholder perspective is widened. It was found that the SEBC has the potential to communicate performance to internal and external stakeholders and presents an opportunity to build credibility among investors, funders, customers, and stakeholders.

NEXT STEPS

There are questions around how this kind of work should develop. There is a recent trend in higher education institutions globally to offer an academic response to social enterprise. Business schools are stepping forward to take the academic lead rather than public administration or non-profit management schools and that little collaboration is taking place between the different disciplines. Further, in the UK, many universities are entering the social enterprise market, but there is no coordination around standards or a general research agenda for this work domestically. At the moment social enterprise development agencies are filling an intermediary role between social enterprises and universities.

Ideally, now that there is a Social Enterprise Balanced Scorecard model has been piloted, a suitable academic partner can carry on refining the model and teaching the methodology long-term to social enterprise managers. Ultimately there needs to be a way to bridge existing gaps so that once best practice is developed in the field and refined by experts, there are institutions ready to deliver this new learning to future social enterprise managers and thinkers.
ACKNOWLEDGEMENTS

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ENDNOTES

1. See www.neweconomics.org or www.sepgb.co.uk for more information on the national programme.
2. This paper assumes at least a superficial understanding of Kaplan and Norton’s original balanced scorecard model.
3. Several different forms of the term non-profit are used in academic text and in the field. The decision to use the term ‘not-for-private-profit’ as a more accurate description of the UK field was made based on discussions with member social enterprises in 2004. When the term ‘non-profit’ is used it in this text it refers only to the US field.
4. A ‘stakeholder’ is defined as “those people or groups who are either affected by or who can affect the activities of an organisation.” Pearce, John. “Social Enterprise in Anytown.” London: Calouste Gulbenkian Foundation (2003)
5. The differences between geographic context and later between private, charity and third sector are generalised and oversimplified for discussion purposes.
7. Kaplan and Norton p. 61
8. In some social enterprise models, for example those in consumer goods, increase in financial profit translates into an increase in public benefit. However, if looking at the social firm example, where the goal is to create full time employment for those with learning difficulties, managers may choose a 4% financial profit over an 8% financial profit if it meant being able to employ more people. While all social enterprises need to be sustainable, the extent to which they maximise financial profit is not always the same- it is dependent upon their social goal.
10. Note that the term ‘social firm’ used in Exhibit 9 describes the segment of the social enterprise field that creates employment opportunities for people with physical or learning challenges.
11. Feedback is summarised in this section but reflects both the positive and negative information received.

REFERENCES:


