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THE IMPACT OF THE SYSTEM FOR MEASURING INTEGRATED VALUES IN SOCIAL ENTERPRISES

Abstract: Creating economic values is usually associated with profit enterprises and social values are identified with non-profit organizations. Social enterprises represent a hybrid form in which triple values are created - economic, social and environmental. The determination of the performance of traditional profit enterprises is based on financial indicators, while in social enterprises the quantitative measurement, whose indicator will show their operation, including the integrated values is still a challenge.

This paper analyzes the ways, problems and challenges in determining and measuring the integrated values of social enterprises in order to deepen the understanding and determine their significance. The paper advocates the thesis that the provision of the data of the achieved changes through social impacts provides a potential for better positioning of social enterprises in the market, i.e. measuring the social (environmental) value and the display of impact, provides better competitiveness.

Key words: social enterprises, integrated values, social impact measurement, triple bottom line, blended value.

1. INTRODUCTION

Social entrepreneurship is an innovative, social value creating activity that can occur within/across the non-profit, business or government sector (Austin, Stevenson, Wei-Skillern, 2006, p. 227-250). Social enterprises differ from those involved in the traditional sector by creating integrated values which incorporate economic, social and environmental activity. Measuring the integrated value emerges as a challenge for the academic community and the practitioners who research/apply the social entrepreneurship concept. In the reports published by the social enterprises, the section on reporting financial indicators is indisputable. However, the challenge is in measuring the social impact which does not represent the output indicator, rather the indicator that shows systemic long-term changes achieved through direct results. In economies where social entrepreneurship registers significant development, a number of techniques and methods for measuring the impact in social enterprises are encountered, however there is a need for a unified system that will measure integrated values, including the economic and social (environmental) operation components. Since social entrepreneurship is linked to the local context, this paper has conducted a research with social enterprises in the Republic of Macedonia. Considering the fact that this area is insufficiently researched, the paper aims to analyze and define the system for measuring the integrated values in social enterprises and demonstrate its impact both on internal operations and on the stakeholders' side. The system for measuring integrated values in social enterprises has a positive impact in the social enterprise operations through increasing its efficiency and improving competitiveness.

2. DEFINING THE INTEGRATED VALUE IN SOCIAL ENTERPRISES

Social enterprises, as a hybrid model, create an integrated value which consists of an economic and social component. The social mission is regarded as one of the constituting fundamental elements of the social entrepreneurship (Dees, 1998; Drayton, 2002; Bornstein, 2004; Nicholls, 2006) and is linked to the objectives and challenges of the social entrepreneur for finding adequate solutions to social problems. Social value is reflected in removing barriers that prevent social inclusion and unlike creating economic value, where users participate themselves with their own resources in the trade, in social enterprises, users are allowed to receive value for which due to various reasons have been barred from until then (Austin, J., at al., 2006, pp. 251-274). We are talking about a value that integrates the economic, social and environmental components within itself and creates an integrated value which is necessary for a sustainable development.

Profit i.e. financial indicators are the most important indicators for the economic value. What is an indicator for measuring social value i.e. integrated value?

3. MEASURING INTEGRATED VALUES

Measuring economic results is possible and is successfully conducted through measurements and criteria that are applied in the traditional business. However, measuring the social impact is an issue that has not been clearly defined yet and leaves room for further research. Some authors find measuring the social impact as complex since it involves abstract terms, such as: “reduction of human suffering” or “protecting the biological diversity” (Austin, J., at al., 2006, p. 227-250). Performance measurement in social initiatives includes the following components: inputs, activities and processes, outputs and outcomes. The integrated system for measuring performances requires the identification and measurement of the information for all the above-mentioned components, while emphasizing the operational indicators and results that will enable obtaining a general picture of the orations of the social enterprise, as well as the level of mission's accomplishment (Austin, J., at al., 2006, pp. 227-250). Inputs represent all the assets and resources that the social entrepreneur invests in the performance of the activities of social enterprises (cash, knowledge, time, equipment, human or other resources). Activities represent specific activities undertaken for achieving the goals of the social enterprise. Outputs are measurable and tangible products or services (number of sold products, conducted trainings etc.) Outcomes lead to achieving changes (short-term or long-term) that arise from the activities in the social enterprise. The difference between outputs (direct results) or outcomes (indirect results) is that the first are measurable and easier to control, while the second are more difficult. The impact is the outcome (or part of the results) that arise from the activities in the social enterprise, to the extent it was responded to (Clark et al. 2004, p. 13-14). For the term “social impact” some authors use the terms “creating social value” (Emerson et al. 2000 in Maas, K. and Liket, K., 2011, p. 4) and “social return” (Clark et al. 2004, p.24). A commonly used term is “sustainable social impact” which implies continuity or continuous impact that results in the termination of the existing problem. (Dawans, V. & Alter, K., 2009, p. 11).



Figure 1: Impact value chain
Source: Adapted from Clark et al., 2004, p. 7

Impact means the total outcome that happened as a result of the activities of a particular venture (Clark et al. 2004, p.7). The social impact measurement process includes the following phases: setting objectives - the best way to identify the components of the theory of change; identification of stakeholders - they are the core elements considered in the measurement, whether they are contributors or users; setting measurement indicators - should be indicators for achieving the objectives; measurement, validation and valuation - if the results are achieved and whether they impact on stakeholders and the desired change has been obtained; reporting, learning and improving - insight into the achievement and improvement of the processes (EVPA 2013, p. 35-36).

Outcome measurement is carried out by various methodological techniques, such as: research method - assesses stakeholders' satisfaction; comparative method (benchmarking) - by establishing a periodic comparison with companies that apply a similar activity; and valuation according to the acceptance of external stakeholders (Austin, j., at al., 2006). Various techniques, tools and methodological approaches are available in TRASI (Tools and Resources for Assessing Social Impact).

One of the first methods for evaluating the social impact was created in the 90s of the last century, in the form of social return on investment. The concept aimed to allocate monetary values to the social and environmental outcomes.

Some authors consider the lack of universal system for measuring the integrated value as an advantage, elaborating that inhomogeneity will allow freedom to create specific models that will arise and will be determined according to the specifics and type of the activity.

3.1. The triple bottom line concept

Sustainability is mentioned as the goal of many profitable enterprises, or non-profit organization or it is the intention of governments, however it is difficult to estimate how much of this is done. In this regard, such phenomenon is explained with the inability to measure the social and environmental values, so that the level of the economic value can be shown. Namely, in that direction, John Elkington, by publishing the book *Cannibals with forks - The triple bottom line of 21st century business*, in 1997, where he, among others, talks about sustainable capitalism and sustainable accounting, promotes the triple bottom line concept, as a new language for expressing the already existing agenda for protecting the environment (Elkington, j., 2004, p. 1), as well as fulfilling social performances. It is an accounting term i.e. tool that will support the sustainability through reporting the achieved results and social impact. The triple bottom line - TBL is an accounting framework where the dimensions of the three performances are incorporated: social, environmental and financial. Academic workers, whose narrow research area is precisely this issue, as well as practitioners agree with the Andrew Savitz's definition for triple bottom line, under which this concept covers the essence of sustainability through measuring the impact of the organizational activities in the world, including the profit and value of shareholders and the social, human and environmental capital (Slaper, F. T., 2011). The question as to how to measure all the dimensions arises here i.e. what is their common value measurement, considering that the profit is measured through monetary units. In this regard, some suggest that the monetary unit shall be taken as a common measure, others are skeptical regarding the fact that money cannot measure the value of the extinct animal species, pollution or unemployment and social problems among others. Index indicators is suggested to be taken as a universal measurement for TBL, however such proposal contains flaws since the subcomponents of the three dimensions cannot be fully covered, nor it can be measured whether the people or the planet are more valuable etc.

The researchers are committed to integrating the three categories (economic, social and environmental) in order to obtain a complete picture of the consequences and results for each segment.

RSF Social finance, non-profit organization is an adequate example for the direction of the investments in improving the synergistic trinity of TBL. They apply the TBL concept by applying the following approaches: food and agriculture (economic) - research new economic models that support the sustainability of food and agriculture and increase the awareness for organic production value; ecological recreation (environmental) - providing assets for organizations and projects dedicated to sustainability, renewal and perseverance of the ecosystems etc.; education and art (social) - educative and artistic projects.

By applying the TBL concept, the challenge for finding accurate and valid data for each variable still remains, which will lead to assessing the sustainability, whether it is for a project, organization, enterprise or the society.

3.2. Blended value

Contrary to the triple value concept, Emerson, due to his own views that the value is indivisible, suggests a new approach, the so-called blended value. According to Emerson and Bonini, it is impossible to only divide the economic or social objectives, therefore it is necessary to talk about the blended value concept, which ensures a greater efficiency (Bonini, Sh. and Emerson J., 2005, p.1).

The blended value is a conceptual framework for promoting the value creation vision that is not based on the shared understanding of the nature of the value, but a unified overall understanding as an integrated whole. Impact on investments is what we do, while blended value is what we create. Emerson claims that one of the reasons why unrealized social economic and environmental objectives occur i.e. problems from the three segments deepen in different types of enterprises is precisely the tendency for dividing the value. Emerson and Bonini identify five distinct silos of the blended value: corporate social responsibility, social enterprise, social investing, strategic/effective philanthropy and sustainable development (Bonini, Sh. and Emerson J., 2005, p.7). Regarding the measurement of the blended value, it is necessary to find ways for its assessment, taken as a whole. In that regard, the following directions were suggested: developing the notion for advancing various metrics for different purposes; finding theories on how to change the world; finding out what to measure - indicators and data; and finding a framework how to measure (Emerson, J. & Bonini, Sh., 2005, p. 23). Emerson advocates the creation of a world where all the organizations will be in the best position for maximizing the total possible value, value which will be combined with the economic, social and environmental performances (Emerson, 2003, p. 13).

3.3. Social accounting

The basic principles upon which the social accounting approaches, social return on investment and reports on sustainability are based on are: stakeholders are central to understanding the value, there is a need for greater transparency in prioritizing the issues affecting the stakeholders, the value is a result of the organization's operations etc. (Nicholls, J., 2007, p. 6- 9).

Accounting and measurement in social enterprises are based on three key approaches i.e. views (Manetti, 2014; Nicholls, 2009; Mook et al., 2003; Palmer and Vinten, 1998; SIAA, 2014 in OECD, 2015, p. 5): positivist: accounting builds a picture for the real world through objective value measurement (Whittington, 1986; Watts and Zimmerman, 1979); critical: accounting is based on the democratic principles and responsibilities and plays

the role between (in) organizations and society (Lehman, 1992); interpretative: accounting serves as a symbolic intermediary between companies and their stakeholders in order to stimulate changes (Ryan et al., 1992; Gray, 2002). Costs in the social enterprise, unlike in the traditional, increase for the expenses that are made for achieving the social objectives, and can also be called social costs, they need to be separated from other objectives in order to assess the financial sustainability in these types of enterprises, which implies creating possibilities for achieving social objectives (Alter, K. S., 2000, p. 259-314). The so-called social cost is identified as a counterpart of social spending in the traditional economy which represents the amount of externalities that express the effects (positive or negative) of the production or consumption of the economic entities (Fit, T. 2016, p. 234-235).

4. THE IMPORTANCE OF SOCIAL IMPACT MEASUREMENT

The market orientation of the social enterprises is the second important component and it distinguishes it from non-profit organizations. If the non-profit organization operates out of the market economy, the social enterprises are market oriented and apply the concept of the most efficient utilization of resources and creating values or achieving social impact. The insight into the efficient and effective utilization of resources in order to achieve the social objectives is only possible through value measurement mechanisms.

The categorization of measurement methods is done in the following manner: process methods - to monitor the output indicators; impact methods - make a parallel between the outputs and outcomes and attempt to display the individual results; monetization methods - assigning monetary values to the results (Clark et al., 2004, p.8).

Blended value measurement approaches tend to concentrate in involving the stakeholders in order to strengthen the legitimacy and credibility of the organization (imperative theory) and strategic and organizational mechanisms which may improve the effectiveness and efficiency (critical theory) (Maneti, G., 2012, p. 447).

Performance measurement enables monitoring the operational activities and results that are achieved (Mair, J. & Sharma, Sh., 2012).

Measuring results should contribute for rational performance management and greater effectiveness and efficiency of the overall processes of the social enterprises.

Measuring impact is particularly important for establishing pragmatic legitimacy (Nicholls & Cho, 2006, p. 113). It strengthens the relations with the stakeholders. The value measurement in social impact is important for: setting real objectives; balance (equilibrium) between the economic and social component of the enterprise; achieving market objectives; attracting investors; access to capital markets and greater competitiveness; best utilization of available resources; better planning; insight in investments that give no results; monitoring and improving the performances; prioritizing important decisions; increasing the responsibility of the social enterprise and reducing the manipulative unrealistic representations of social impacts; stakeholders' responsibility; supporting the decision-making process; enterprise strategy through determining the social objective achievement.

Factors that influence the need for social value measurement are: social need, effective and efficient use of financial resources, legal responsibility, developing a measurement culture and greater transparency etc. (Clifford, J., Markey, K., and N. Malpani., 2013, p. 11-13).

The effective measurement of integrated values should contribute to: supportive stakeholders' behavior; avoiding various incentives and cuts in order to provide indicators for achieving the goals; avoiding manipulations; avoiding greater focus on direct results that are the means for the objectives; flexibility i.e. avoiding non-adjustment to changes; excess qualification at the expense of interpretation; maintaining proportionality; not approaching limited resources and no slower decision-making. Regarding the need of a system for impact measurement in terms of stakeholders, it is shown by their interest and it often is: effectiveness and focus on internal services, focus and support to investors, control of performance contracts, efficiency policy (including support, grants etc.), priority in applying the resources in public oversight etc. (EC, 2014, p. 37- 39). Measuring i.e. publishing results should contribute for a more qualitative stakeholders' decision-making in the social enterprise.

5. RESEARCH METHODOLOGY

Due to the lack of academic research on the impact of integrated value measurement in social enterprises, the inductive case study method is used, where by applying semi-structured qualitative interviews with representatives of the selected organizations and representatives of their stakeholder groups, theoretical views linked to the objective of this paper are achieved. Collecting empirical data enables the understanding and interpretation of the subject matter, as the interviews share the perceptions and experiences of the subjects. Due to ethical reasons and in order to obtain more objective data and enable the respondents to respond without pressure, the paper will not reveal their identities. Data from secondary resources were also used. The following were used as channels of communications with the respondents: face to face, telephone, e-mail and official correspondence.

The focus of the research was the Association for counseling, treatment, reintegration and re-socialization of people addicted to psychoactive substances "Izbor" from Strumica, that has created a therapeutic community "Pokrov" and functions according to the social enterprises model (Republic of Macedonia has not yet adopted a Law on social entrepreneurship). The funds in the project are mostly donated by the Swiss Development Agency, Municipality of

Strumica, Strumica Diocese. The process is also supported by the Center for Institutional Development. The Association, also receives support by the Ministry of Labor and Social Policy, by concluding agreements for mutual cooperation for providing services i.e. for certain funds it is obligated to accept and take care of persons that abuse drugs and psychotropic substances aiming go re-socialize or reintegrate them by organizing psychosocial treatments for a certain period of time (in the Agreement for 2019, it is envisaged to include up to 20 users). Long-term rehabilitation program for addictions (drugs, alcohol etc). “Pokrov” functions according to the social enterprise model with an incorporated economic component in its operations in order to create financial sustainability and also reintegration of users in their programs. The economic activity consists of the production of organic industrial products. Persons who are beneficiaries of their services in the final rehabilitation phase through the program for integration have the opportunity to gain skills and even get employed. In 2019, the association “Izbor” opened the bakery “Bagel” that is planned to function according to the social enterprise model. The research applied the approach for interviewing the subject matter through stakeholders’ views. Stakeholders that the corporate has established certain relations during its operations were selected, by one representative from each sector, the public sector (local and central government), from the non-profit and profit sector. The identification of the stakeholders was discovered through individual researches and the verification was done during the time of the interviews. Subject A - public sector - central government, subject B - local government, subject C - non-profit sector, subject D - non-profit sector, subject E - profit sector.

Table 1: Results measurement - stakeholders’ focus of the Association for counseling, treatment, reintegration and re-socialization of people addicted to psychoactive substances “Izbor”, project “Pokrov”					
Stakeholders’ focus	Subject A - public sector (financial supporter)	Subject B - public sector (financial and organizational supporter)	Subject C - non-profit sector (financial supporter)	Subject D - non-profit sector (network support)	Subject E - profit sector (economic activity products placement)
Monitoring output indicators	Yes	Yes	Yes	Yes	Yes (partially)
Application of measurement method for obtaining feedback	Monthly reports for the number and data of accommodated persons and the implementation of the previous month’s contract. Annual report for implemented obligations from the contract for accommodated persons and the manner of financial assets utilization.	Official reports prescribed by the Law on Non-Profit Organizations.	Submitting regular reports by the association in the form prescribed by subject B, as well as compulsive implementation of annual, independent, external financial audits for the overall operation of the grantor for the duration of the contract.	Publicly available official reports and monitoring the operation of the association through measuring instruments available to subject D	Data on official reports and by the mediator entity in the network connection
Parallel between outputs and impact	Review of direct results linked to the social objective	Review of the social impact for the local community	Separation of social, economic, politic and other aspects of positive social changes	Social impact emphasis	Data on weighed products (organic products)
Achieved objective by applying the measurement system	Monitoring the implementation of the agreement and feedback on the result from subject A measurements (contract control)	Monitoring the implementation of the support and obtaining feedback on the result from the support (contract control)	Monitoring the implementation of the contract, adequate implementation of the plan of activities and utilization of the budget, as well as	Obtaining feedback on results from the subject D mission for network connection of the companies/organizations that invest sustainable development	Adopting a decision for cooperation

			feedback for final impact of the grants through systemic changes for the society (contract control)		
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Source: Individual researches, conducted in the period December 2018 until the beginning of April 2019 (detailed information for the research are available to the author).

The association “Izvor” publishes annual reports pursuant to the Law on Accounting for Non-Profit Organizations, and during its operation it has conducted audit from an independent audit entity, thus the audit reports have been published. Both cases are financial statements supported by adequate textual remarks. The association also submits other types of reports according to the concept comprised of the entities it cooperates with i.e. concludes agreement for mutual cooperation. The separation of financial from social results is done for the needs of the supporters, as well as informing the public for the achieved social goals, in the form of narrative reviews that include measuring indicators for the results achieved. Results measurement is important for them because they: attract investors, fulfill the legal obligation, monitor the operation and decision-making etc. They feel the need for a system that will measure the integrated value i.e. the economic and social together or as they announce a model that will enable a review of the social results achieved in order to familiarize stakeholders with the level of the achieved objectives and gain trust and legitimacy.

Below is a review of the results of the social enterprise “Pokrov” according to the Helen Haugh model (Haugh, H., 2006, pp. 181 – 201), and they are: direct economic results, direct social results, direct results on the environment, indirect economic results, indirect social results, indirect results on the environment.

Table 2. Results of the social enterprise “Pokrov”

Results of the social enterprise “Pokrov”	Individual level	Level of social enterprise	Level of community	Level of region
Direct economic	Providing financial compensations	Providing financial assets for reinvesting and development	providing work for the marginalized community members, treated abusers (14 employed and freelancers)	Providing work for the marginalized groups in the Southeastern region of the Republic of Macedonia (14 employed and freelancers)
Direct social	Treatment, reintegration and re-socialization of persons addicted to psychoactive substances	Creating the culture identity of the enterprise	Contribution in the social capital by solving significant life problems and improving the quality of life	Contribution in the social capital by improving the quality of life in the Southeastern region of the Republic of Macedonia
Direct environmental	Providing conditions for a healthy life (clean air, organic products etc.)	Creating the cultural identity of the enterprise	Environmental protection by producing organic products	Environmental protection by producing organic products
Indirect economic	Individual economic stability	Financial self-maintenance	Providing labor for the parties involved in the performance of the activity (suppliers, etc.)	Improving the economic development in the Southeastern region
Indirect social	Changing the negative identity and lifestyle of individuals	Possibilities of creating social capital by networking	Stimulating social inclusion	Social changes through stimulating

				social inclusions
Indirect environmental	Contribution in creating awareness for protecting the environment	Creating the cultural identity of the enterprise	Improving the environment	Promoting the Southeast region as a healthy environment

Source: Individual researches and review based on the Helen Haugh model (Haugh, H., 2006, p. 181 - 201).

6. CONCLUSION

Measuring the social and environmental values is of crucial importance, not only for determining the financial sustainability of the social enterprises, but also for displaying their social and environmental impact.

The lack of a unified system for measuring the triple values (economic, social and environmental) leads to the lack of insight and an unrealistic narrative review of the impacts of the social enterprise.

The Republic of Macedonia has no law on social entrepreneurship i.e. the organizations/enterprises that apply the social enterprise model are registered and apply the Law on Trade Companies, Law on Associations and Foundations, Law on Cooperatives etc., whereby the operations results are presented according to the traditional forms of financial statements with the Law on Trade Companies and Law on Accounting for Non-Profit Organizations. The financial statement of the association "Izbor" within which the social enterprise "Pokrov" operates was analyzed and it was determined that they do not deviate from the traditional forms and generally accepted standards in the Republic of Macedonia i.e. no separation of the social impact that the enterprise has is registered, nor impact of the social costs and insight in the bottom double or triple line, although they also comprise reports at the request of stakeholders where the achievement of social objectives is emphasized.

A confirmation of the hypothesis set in the paper are the results from the conducted research on the application and importance of the system for measuring integrated values, where measuring the social impact emerges as a special challenge i.e. not only the review of financial results but also the social impact has a positive effect on the operations of the social enterprise, both internally (adopting decision, increasing efficiency etc.), as well as in the relations with the stakeholders (attracting investors, responsibility toward investors, gaining legitimacy, increasing competitiveness etc.). Regarding stakeholders, especially investors, requests for obtaining confirmation for achieving the basic social objectives are registered.

If we want social investments to be as important as financial investments and returns, it is necessary to find a unified system that will enable understanding and display of the social impact. The social change is long-term and its indicator is the impact of the result. The concept of social entrepreneurship is an opportunity for revitalizing the national economies through systemic social changes, and starting from the fact that the efficiency of the process is measured between inputs and outputs i.e. larger output on the account of smaller input implies greater efficiency, the measurement of the efficiency in social enterprise is a challenge that has a positive impact on the enterprise i.e. increase of its efficiency and improvement of the competitiveness aiming to create conditions for achieving the social goals.

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RESUME

The paper gives a theoretical overview on measuring the integrated values through a review of the measurement process, methods and concepts. It was determined that there is no unified system for measuring the integrated values and the organizations/enterprises that apply the social enterprise model publish reports that are characteristic for the organizational form in which they were founded.

The primary objective of the paper is to confirm the impact of measuring the integrated values on the operation of the social enterprises. The verification of the work thesis was done through a research conducted with the organizations/enterprise in the Republic of Macedonia that apply the model of social entrepreneurship. The data used in this research show that measuring results has a positive impact on the overall operation of the social enterprises and a special normative act is needed that will arise from the local context and will be the potential for developing this relatively new concept.