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A Pilot Study on Singapore's Social Enterprises: Characteristics and Performance

Social Entrepreneurship in Asia: Working Paper No. 4



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acsep: knowledge for good

Abstract

With the increase in sources of seed funding and publicity from beneficiaries in recent years, stakeholders in the social sector, especially donors and policymakers, are more seriously considering social enterprises as a potentially viable response to meeting social needs in the community. However, legitimacy issues persist, raising barriers to funding, sustainability and success for social enterprises. To gain a better understanding of the characteristics of social enterprises and their performance, the Asia Centre for Social Entrepreneurship and Philanthropy (ACSEP) conducted a pilot study on Singapore's social enterprises between October 2014 and May 2015. We evaluated the extent to which these enterprises align with the five defining characteristics distilled from the Community Consultative Circle hosted by ACSEP in July 2014. Our study identified several areas for improvement for social enterprises in the sample group, including information disclosure, corporate governance, social performance measurement and sustainable growth. Although the sample size is quite limited in this pilot study, we hope that our findings may still provide some implications for the social sector at large, particularly with regard to the development of the sector, the state of social enterprises, and the attendant training and development needs of social enterprises and the sector.

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ACSEP

Established in April 2011, the Asia Centre for Social Entrepreneurship and Philanthropy (ACSEP) is an academic research centre at the National University of Singapore Business School.

ACSEP aims to advance understanding and the impactful practice of social entrepreneurship and philanthropy in Asia through research and education. The centre's research, by an international multidisciplinary team, spans 34 nations and special administrative regions across Asia. Its working papers are authored by academia and in-house researchers, providing thought leadership and insights into the key issues and concerns confronting socially driven organisations.

To learn more about ACSEP's work, go to bschool.nus.edu.sg/acsep.

Acknowledgements

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Glossary of Terms

ACSEP Asia Centre for Social Entrepreneurship and Philanthropy

CCC Community Consultative Circle

SEs Social enterprises

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Introduction

There is growing public interest in social enterprises (SEs) in Singapore accompanied by an increase in the sources of seed funding and publicity from beneficiaries in recent years. Social enterprises differ from the conventional for-profit or charitable organisations in one critical way: they need to meet the double bottom line of social and financial returns. Hence, SEs have to adopt relevant strategies for survival and growth. However, there is very little research to date in Singapore that has examined these hybrid organisations' strategies, and social and financial performance. Our study attempts to fill this void.

From October 2014 to May 2015, the Asia Centre for Social Entrepreneurship and Philanthropy (ACSEP) at the National University of Singapore Business School conducted a pilot study on local SEs. We designed a survey questionnaire with more than 80 questions and invited participation from 286 SEs. The questionnaire covers information related

to organisational background, social and financial input, performance and impact of the SEs. Although deliberate efforts were made to engage the SEs through phone calls, email and personal connections, we only managed to obtain a response rate of 11.5 percent. A total of 33 SEs responded to our survey and completed all the questions. Given the small sample size, we were able to draw only limited inference for the SE sector in Singapore.

A second objective of this pilot study is to evaluate the extent these SEs align with the defining characteristics of a Singapore social enterprise as engendered from ACSEP's Community Consultative Circle (CCC) held in July 2014. Five defining characteristics emerged from the CCC's focus group discussion (Lam, Prakash, & Tan, 2014; Lam, Seah, & Zhang, 2015). Using the survey data collected from the SEs, we evaluated the legitimacy of these enterprises based on those five characteristics.

Development of the Survey

In Singapore, there is no standardised assessment framework or methodology to measure the social and financial performance of SEs. The lack of reliable data and access to individual enterprise's background information accentuate information asymmetries between funders and SEs. This is likely to result in greater resource allocation inefficiencies, costly and tedious fundraising, and lower potential for financial and social success (Akerlof, 1970).

The first step of our research process involved examining existing frameworks and databases in the field. We found none to be adequate for the evaluation of Singapore SEs. As an example, the **MSCI ESG** framework is usually used for for-profit organisations to measure their corporate social responsibility actions in three dimensions: environmental performance, social performance and corporate governance. This framework does not measure their financial performance. **Dow Jones Sustainability Index (DJSI)** scores and ranks the normal for-profit firms according to their sustainability. **FTSE4Good** measures a company's environmental and social practices and governance, but it does not integrate the financial performance. **B Corps** is a certification exercise that qualifies the surveyed firms as social enterprises in the U.S. socio-economic and legal contexts. A similar qualification exercise is used in

Calvert Social Index. **Charity Navigator**, **GiveWell** and **Foundation Transparency Index** focus on charitable organisations. **GRI** provides a framework to guide firms on sustainability reporting. **UN Global Compact** is used to encourage global business to align their business strategies with 10 universally accepted principles. Although it encourages the adoption of the standards and sharing of best practices, it does not integrate the financial performance of the firms.

To develop a comprehensive understanding of local SEs, we initially designed a survey questionnaire with more than 120 questions, adapting from the existing frameworks for our needs in the Singapore socio-economic and legal contexts. Together with ACSEP research associates and several trained undergraduate students, we collected data from founders and/or CEOs of SEs. The survey process lasted about eight months. In the first three months, the survey was conducted via face-to-face contact with the respondents. Based on their feedback and the low response rate after a prolonged period, we shortened the survey to a set of about 80 questions, simplified some questions, and launched an online platform to increase the flexibility of participating. By May 2015, we drew responses from 33 SEs out of a list of 286 SEs collated through multiple databases. This resulted in a response rate of 11.5 percent.

Key Demographics of Social Enterprises Surveyed

Below is a summary of the key demographics of the 33 surveyed SEs and their average social and financial performance:

- Most of the surveyed SEs (31 out of 33) are less than five years old. The majority of the surveyed SEs (19 out of 33) engage in commercial and professional services, and software and services.
- There is a lack of rigorous corporate governance among the surveyed SEs (22 out of 33).
- Most of the surveyed SEs (26 out of 33) rely on personal wealth as the only or a source of seed funding. The majority of SEs (21 out of 33) receive less than 10 percent of their revenue from government funding. Other types of external funding such as grants or donations seem to be highly correlated with government funding.
- More than half of the SEs (19 out of 33) do not have a formal process to review its social impact on a regular basis even though 15 of the SEs have optimistically claimed that they are not far away from achieving the expected social impact.

Although we have included a dimension on environmental performance in the survey, we took the decision to proceed without this specific dimension as 25 out of the surveyed 33 SEs did not set out to achieve any environmental impact. Consequently, we reported our analysis and findings in four key areas:

1) background; 2) corporate governance; 3) financial performance; and 4) social performance.

1. Background

Since our survey respondents are CEOs and/or the founders of SEs, it gives us confidence that the data collected are from the perspectives of social entrepreneurs or top managers. Consistent with literature on the motivation of philanthropy (Lam, Jacob, & Seah, 2011), we found that the majority of these social entrepreneurs or managers have religious affiliations (19 Christianity/Catholicism, three Buddhism and one Hinduism).

Most of the surveyed SEs are in their earlier years with about one-third of the total sample at a year old or less (Figure 1). This is also due to the fact that our initial research targets are youth-led SEs in Singapore. To find a better representative picture of the local SE sector, we will need to include more mature SEs in our sample in future research. We found that about one-third of the surveyed SEs operate in the commercial and professional services sector (Figure 2). Their social components lie in their targeted beneficiaries such as economically disadvantaged people and youths/at-risk youths (Figure 3). More than two-thirds of the SEs have less than five full-time or part-time staff (Figure 4). This implies that these SEs have a very lean operational team which is typical of young start-ups even in the for-profit sector (Blank, 2013).

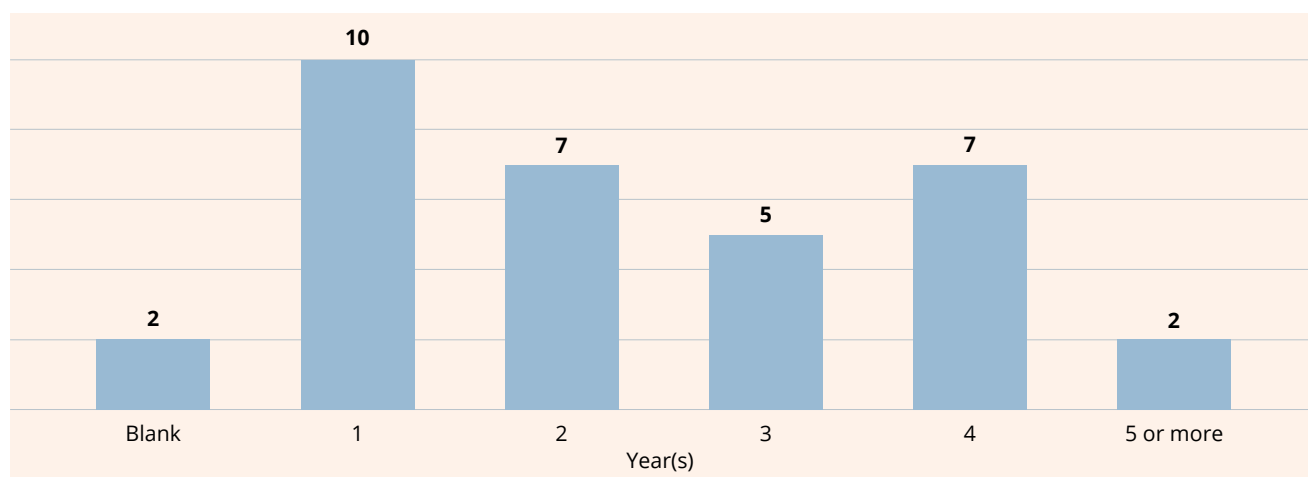


Figure 1: Age of Organisation

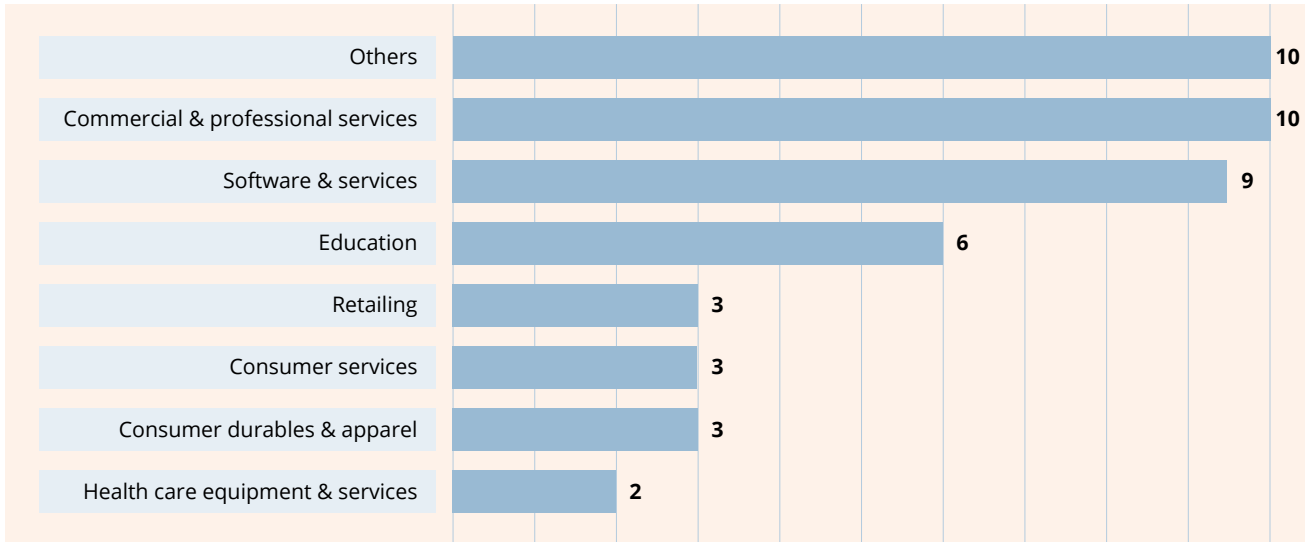


Figure 2: Industry Sectors

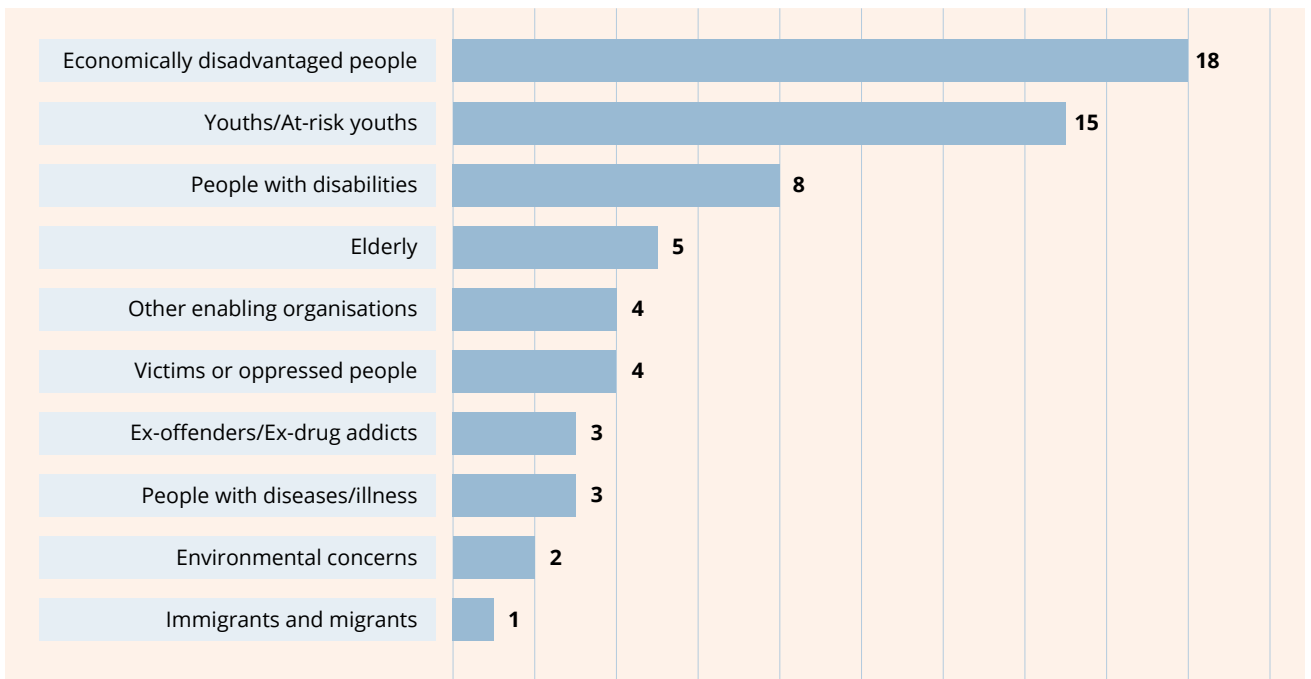


Figure 3: Types of Beneficiary Served and Causes

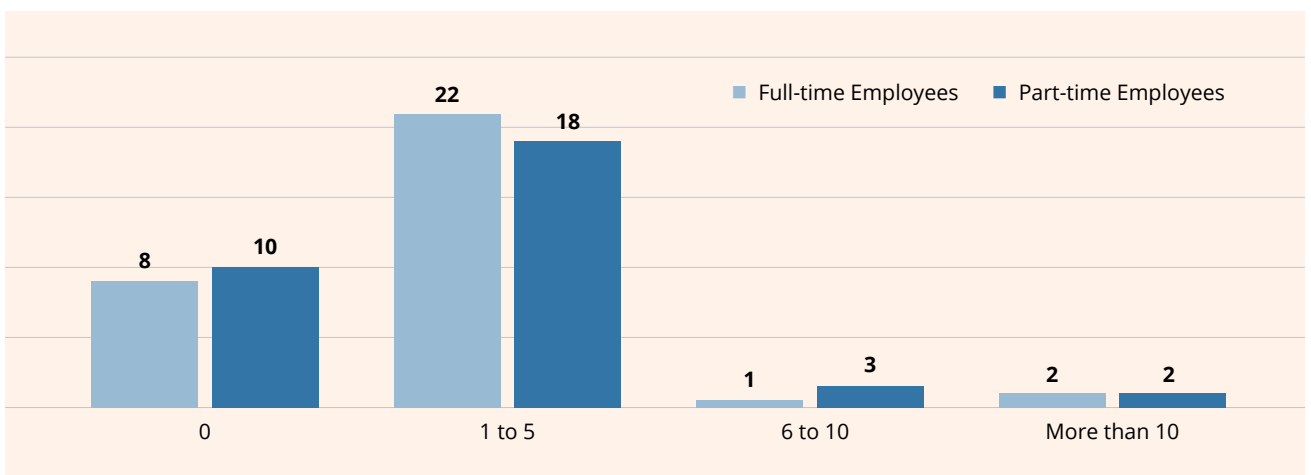


Figure 4: Number of Employees

While Singapore does regulate cooperatives under the Co-operative Societies Act, she does not have a formal legal framework to regulate or certify local SEs. However, more than two-thirds of the SEs are affiliated with the Social Enterprise Association (reorganised as Singapore Centre for Social Enterprise, i.e., raISE, effective May 2015), which is a quasi-government agency providing network, institutional and financial support for local SEs. The other types of organisational support for SEs include Singapore International Foundation, National Youth Council, and tertiary institutions such as the National University of Singapore, Singapore Management University and Nanyang Technological University. Five of the surveyed SEs are not affiliated with any of the named institutions.

2. Corporate Governance

Under the dimension of corporate governance, we looked into two specific areas: leadership and board of directors. Entrepreneurship literature often shows that good leadership is the key success factor for start-ups (Antonakis & Autio, 2006). The optimism in the leadership of SEs is clearly demonstrated in our survey sample as 20 SEs believe that their organisations have sufficient leadership skills in the management team to achieve the desired mission

of the organisation (Figure 5). Nevertheless, a closer look at their background revealed that about one-third of the top managers have never worked in the nonprofit sector before. Moreover, 17 top managers have not had finance/accounting related experience (see Table 1). Given that SEs usually need to achieve the dual goals of social and financial performance, the lack of relevant working experience in either of the areas may prove to be a barrier to achieving long-term sustainability for the young SEs. However, the lack of relevant working experience can be compensated through relevant training and education, which may equip top managers to do a better job as research has indicated that entrepreneurship can be learnt (Henry, Hill, & Leitch, 2005a; 2005b).

The second dimension under corporate governance we examined is board of directors. We found that only one-third of the surveyed SEs have a board in place, plausibly due to their small size and young age. The composition of the board usually includes the CEO and/or founder and other top executives. Gender, ethnicity and religious diversity are generally observed within existing boards, but less than half of the boards have adopted majority or consensual voting in the election of directors. This implies that decisions made by the board maybe driven by the chairman at this stage of the enterprise's development.

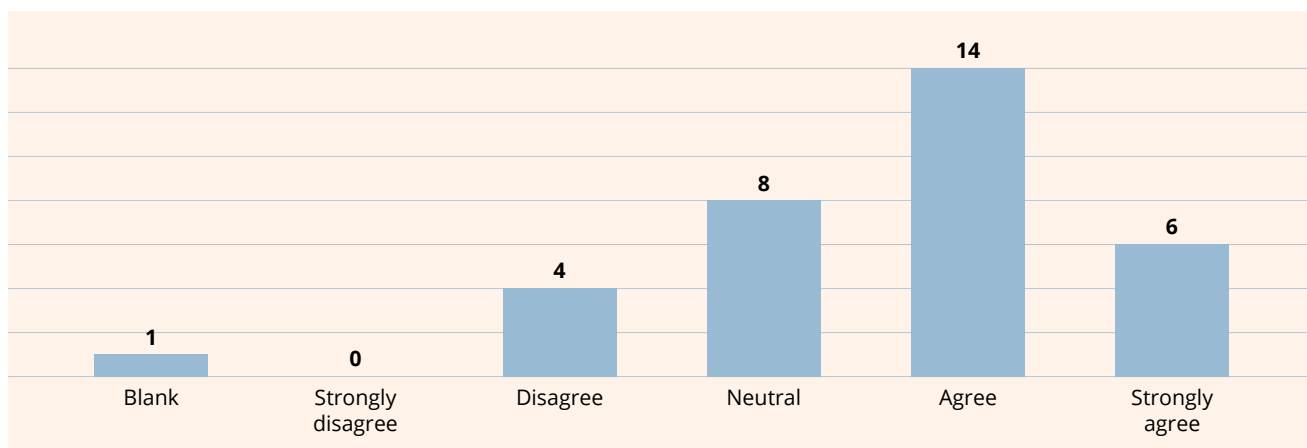


Figure 5: Adequacy of Leadership Skills to Achieve Mission

No. of firms whose CEO or top manager has	For-profit sector	Nonprofit sector	Managerial roles	Professional finance/ accounting roles
No experience in ...	5	11	6	17
1 – 5 years of experience in ...	16	17	18	12
6 – 10 years of experience in ...	8	2	4	3
More than 10 years' experience in ...	4	3	5	1
Total	33	33	33	33

Table 1: Summary of Leadership Skills

We also observed that nine existing boards do not have general expertise in risk management. As such, the young SEs may be vulnerable to excessive risk taking by certain individuals. Stewart and Roth (2001) have shown that risk taking is more strongly present in entrepreneurs than in managers. Hence, the behaviour of excessive risk taking can be reduced or moderated when more managers are present.

As expected, we found that the younger enterprises face challenges in rising to the corporate governance standards of the more mature ones. Moreover, SEs tend to have more at stake from bad governance practices as there is much more social interest embedded in these organisations. The adverse impact on their targeted beneficiaries can be devastating as their livelihood maybe solely dependent on provisions from the affected SEs. Of course, any scandal or misuse of investors' funds may adversely affect the social mission that the SE wants to achieve. Beyond the enterprise, the credibility of the sector may also be tested by any corporate governance scandal.

3. Financial Performance

There is generally limited seed funding for the young SEs in Singapore. In our sample, 26 SEs indicated that personal wealth constitutes the only or one of the sources of seed funding (Figure 6) while 17 SEs rely only on personal wealth (Figure 7). Moreover, 16 SEs received 10 percent or less in donations, fundraising,

sponsorship or government funding. Hence, it is not surprising to see that 17 of 33 SEs have earned a total revenue of less than \$10,000 during the last financial year (Figure 8); of which the greatest contribution is from the sales of goods and services (Figure 9). These results indicate that financial sustainability is an area of concern among the young SEs despite the fact that 15 SEs indicated that their enterprises took (or will take) less than two years to achieve it (Figure 10). Five of these SEs are lacking in proper financial budgeting.

Indeed, 24 SEs find that funding is one of the main challenges they face followed by scaling up (Figure 11). Since SEs have mainly relied on private or internal funds to finance the enterprise, it implies that more access for SEs to alternative sources of funding such as government grants and suitable bank loans could possibly ease the start-up process and the process of scaling their operations and associated social impact.

With respect to financial planning, most SEs (26 out of 33) have written estimates of revenues and expenses when the enterprises were founded; 11 of the 33 share the typical three-year planning period (Figure 12). Moreover, 28 of 33 SEs currently have written estimates of their annual revenues and expenses. These results reveal an improvement from eight years ago in the understanding among local SEs that they are business entities that need to pay attention to revenue and profits (Lien Centre's Report, 2007).

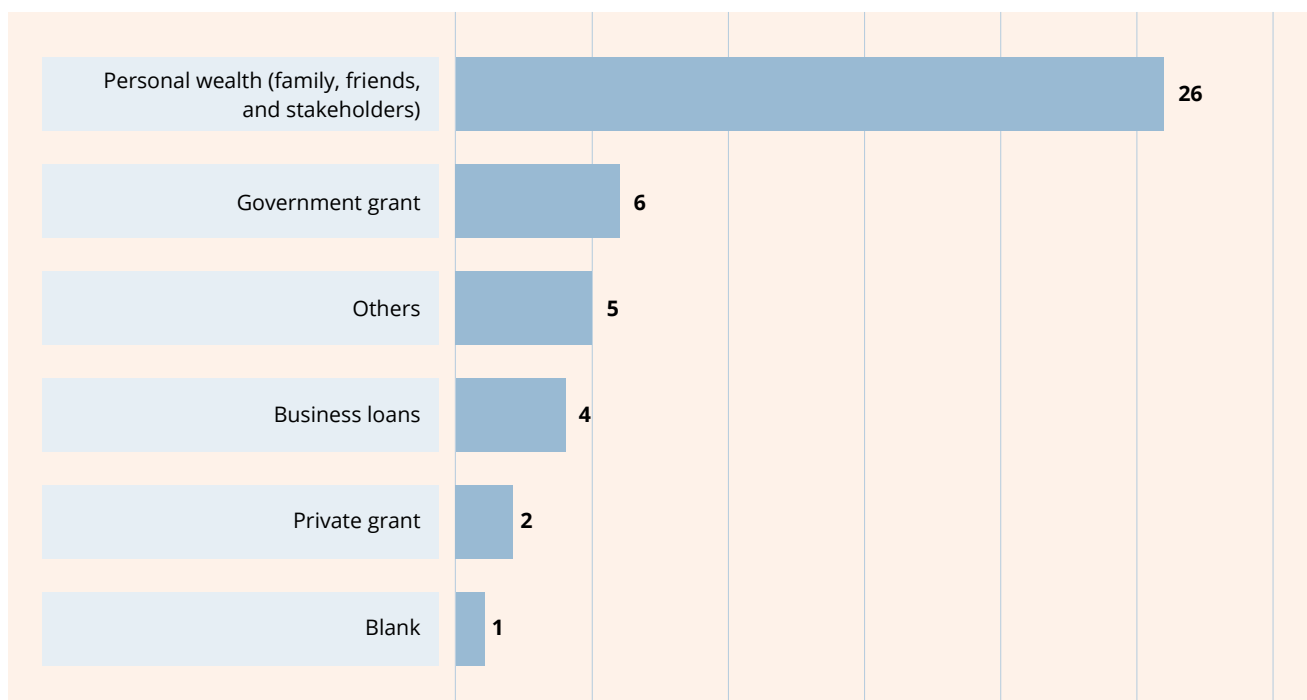


Figure 6: Sources of Funding

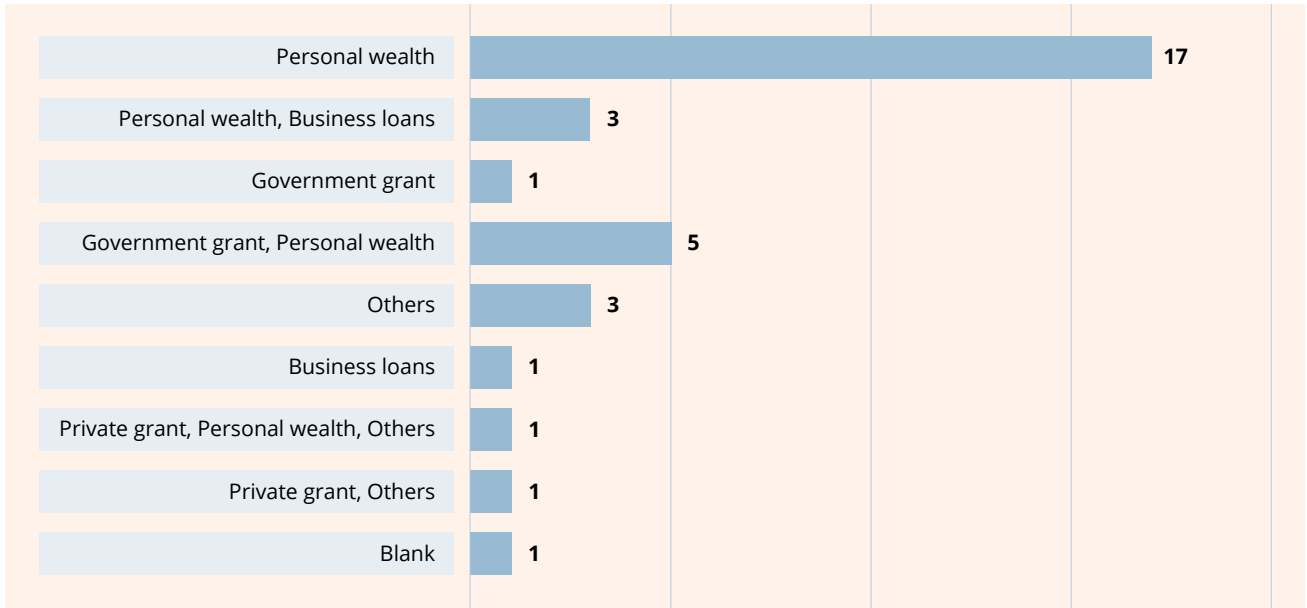


Figure 7: Sources of Funding (Unique Responses)

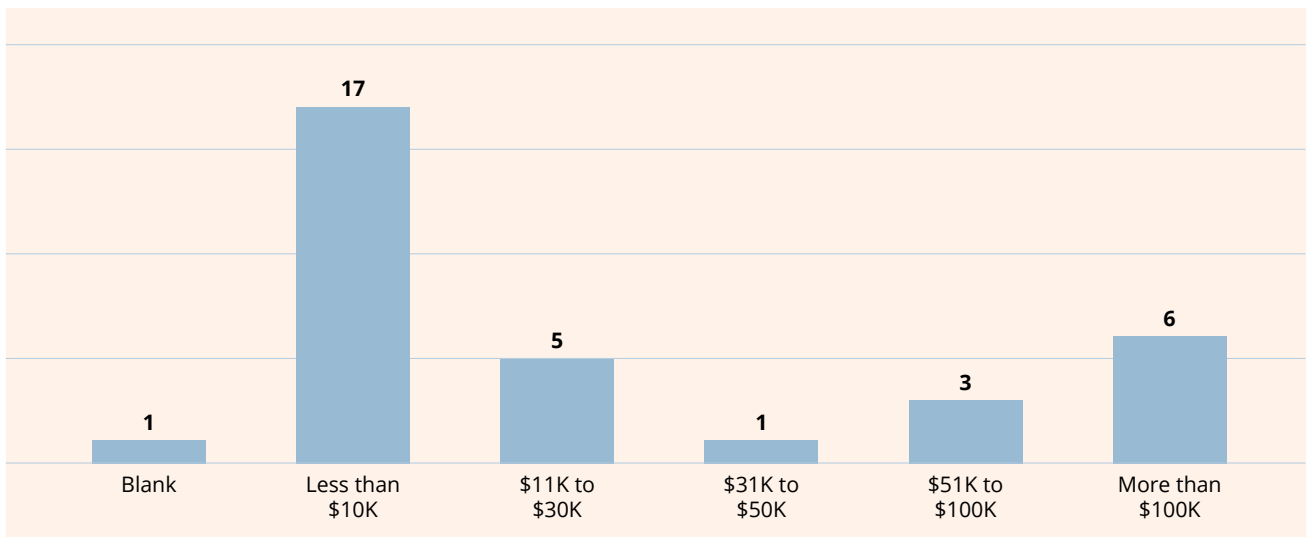


Figure 8: Total Revenue from Last Financial Year

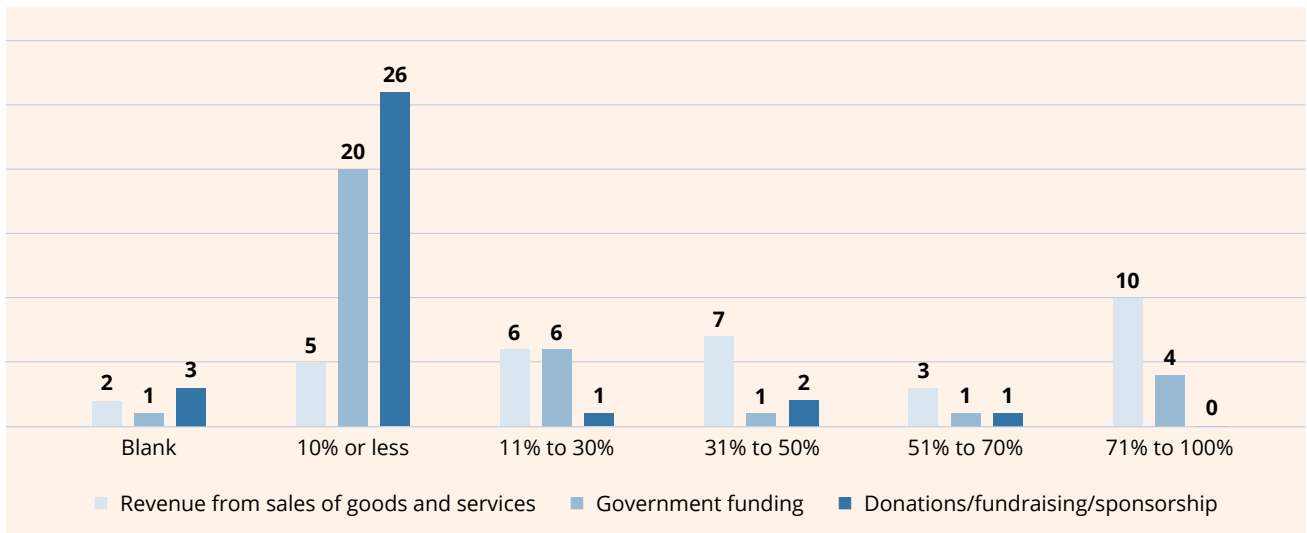


Figure 9: Total Revenue by Sources

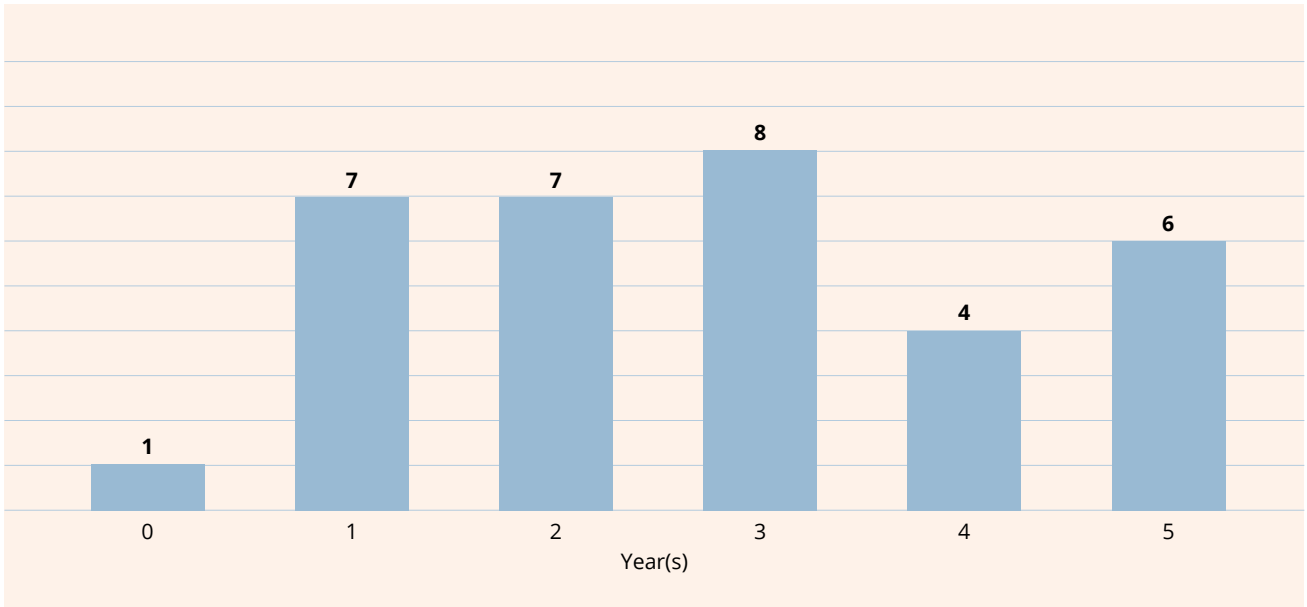


Figure 10: Years to Achieve Financial Sustainability

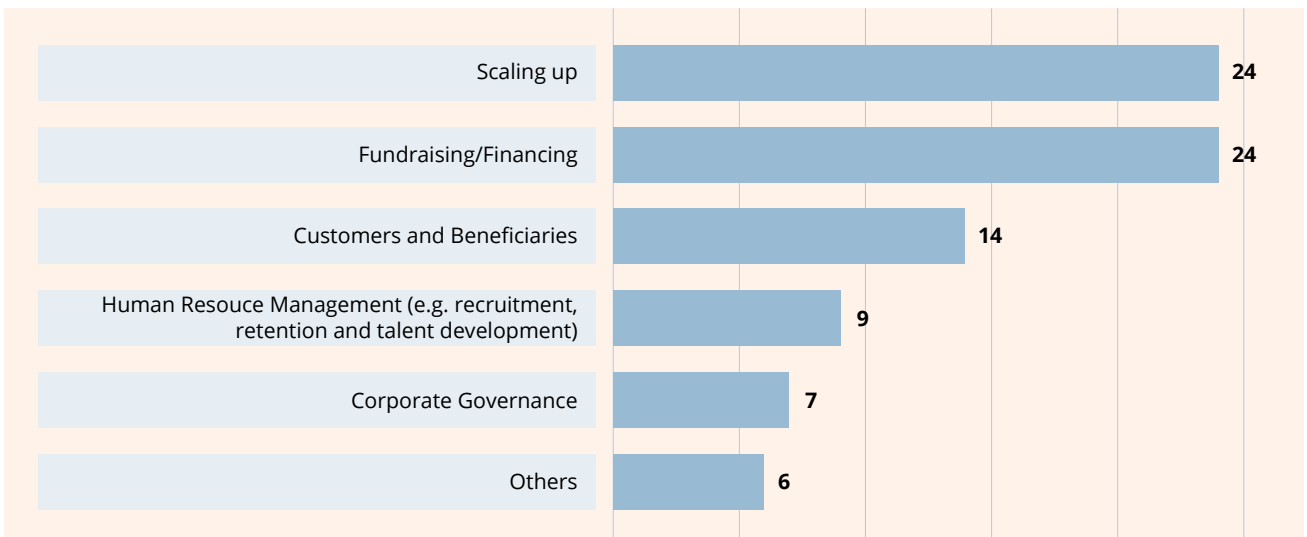


Figure 11: Challenges Faced by Social Enterprises

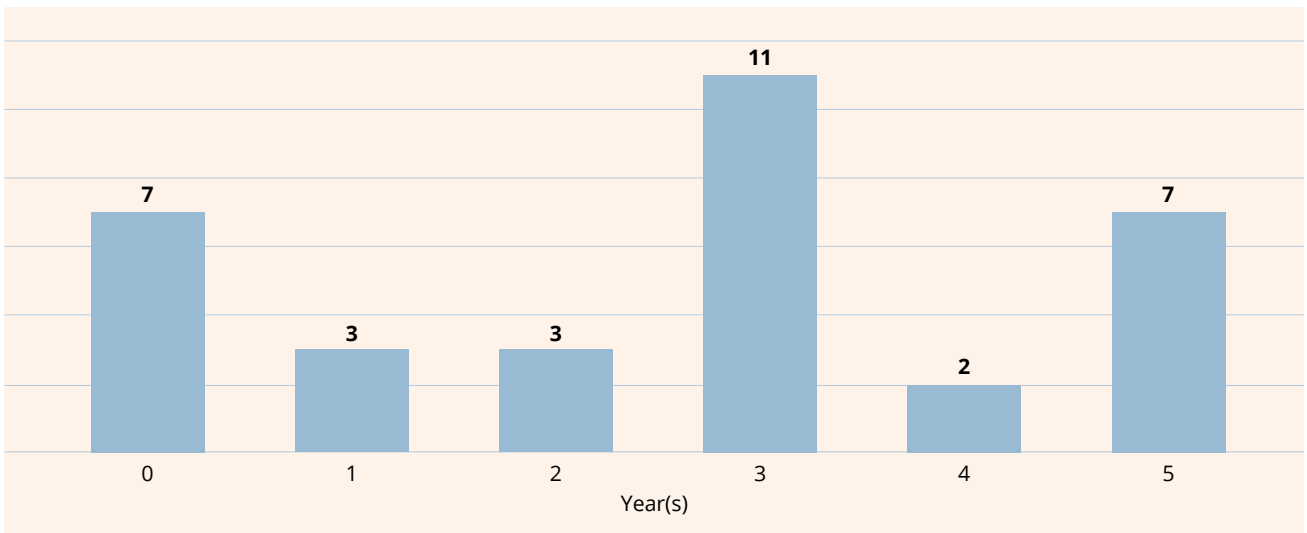


Figure 12: Years of Estimated Revenues and Expenses at Founding of Social Enterprise

4. Social Performance

In order for us to assess the social performance of SEs, we asked if there is a formal process to review its social impact on a regular basis. The picture that emerged could have been better as more than half of the SEs (19 out of 33) do not have such a review process yet. Using a less stringent benchmark, 14 SEs measure their social performance only for internal usage while 10 SEs do not measure their social performance at all.

Despite the lack of a formal/informal review process for social performance, self-assessments by SEs on the social impact they achieved are rather optimistic. Fifteen SEs claimed they have achieved at least the expected social impact in the founding mission statement while another 12 claimed they are not far away from the expected impact. The remaining six SEs rated themselves as *far below the expected impact* (Figure 13). When ranked relative to other SEs in Singapore in addressing social issues, only one social enterprise ranked itself *worse* while 31 SEs ranked themselves *at least the same*, if not better than others. When we asked the surveyed SEs to compare themselves to other SEs targeting similar causes and beneficiaries, 20 SEs ranked themselves better than their peers.

The lack of social performance measurements could be a result of the complexity involved in identifying relevant performance indicators. In our survey, we used an obvious and easy-to-measure social performance indicator – the number of beneficiaries that the SEs have reached. Fourteen SEs in our sample have served between one and 100 beneficiaries in the past two calendar years (Figure 14). Among them, two SEs have even managed to reach out to more than 5,000 beneficiaries. These two SEs are slightly older (i.e., three to four years old) and have mainly served those with diseases/illnesses and economically disadvantaged people respectively. The Work Integration Social Enterprise (WISE) model is not dominant in this sample as 18 do not have beneficiaries working part time in the organisation and 27 do not offer beneficiaries full-time work in the organisation.

Overall, we found that the measurement of social performance is rather limited or non-existent among local SEs. If this lack of clarity and focus is not properly addressed, the SEs are more likely to suffer a mission drift or operate more and more like a normal for-profit business rather than a hybrid organisation with clear social missions. Moreover, the lack of clear social performance measurement and management may also blur the lines for self-selection by funders supporting SEs (as hybrid organisations), charitable organisations (with clear social returns) or small and medium-sized businesses (with clear financial returns).

5. Discussion

From our findings, we have identified several gaps between self-assessment and objective reporting. For example, although some SEs do not have annual budgets, top managers still believe their enterprises can become financially sustainable within a definite time horizon. Moreover, even without a formal review process of social performance, these top managers continue to claim that they are not far away from achieving the intended social mission. Lastly, we also sensed managerial optimism from the way SEs compare themselves to other SEs, regardless of whether the other enterprises are addressing social issues in general or targeting similar causes/beneficiaries. It may be important for top managers to have an optimistic view of what they are doing. However, over-confidence is also one of the key reasons for failure in young start-ups. Hence, we suggest that a proper way to have more realistic expectations about the future is to go back to the basics: a pen and a notebook to do proper planning, evaluation and monitoring even though top managers are busy with many daily routines and working with limited capacity. It will be even better if these notes are shared among key decision makers including the board of directors who have more diverse expertise than the top managers.

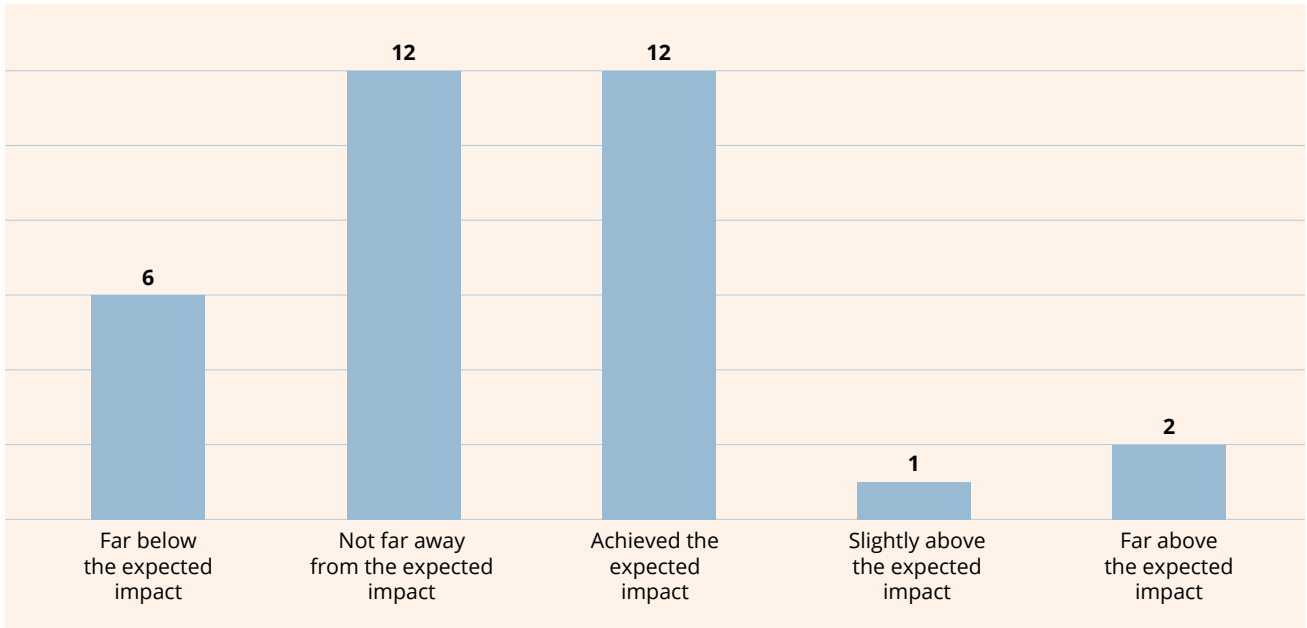


Figure 13: Self-Assessment on Achieved Social Impact

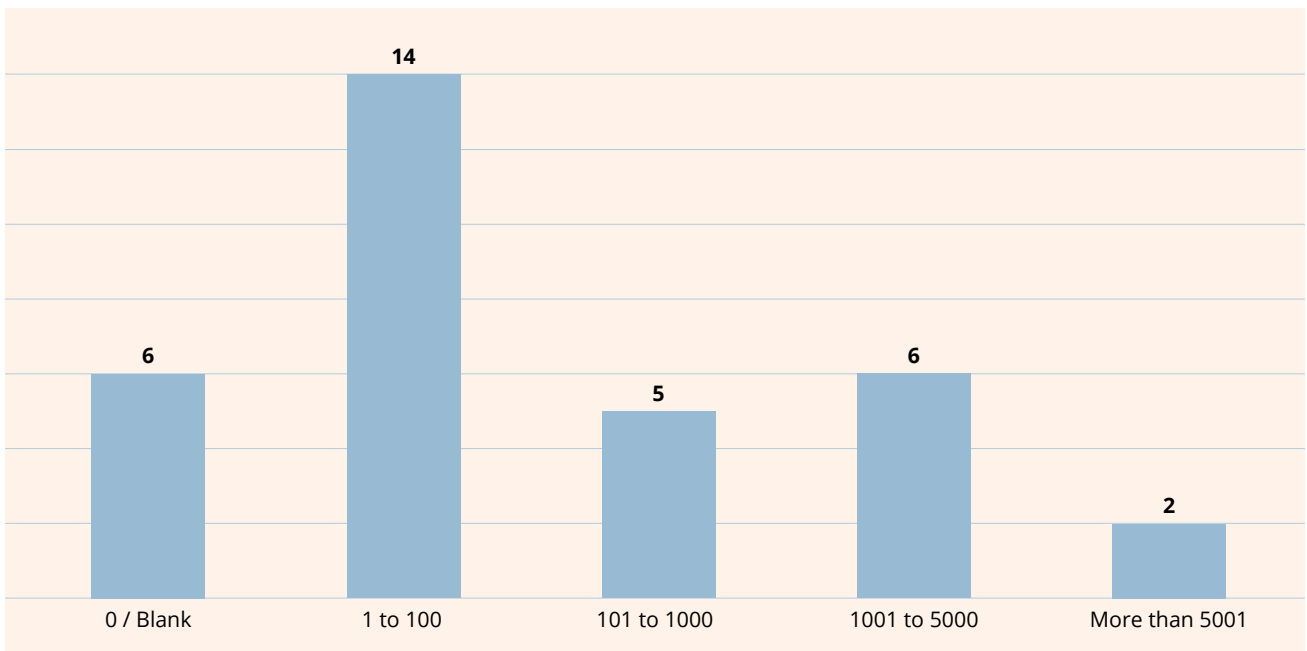


Figure 14: Number of Beneficiaries Served in Past Two Years

How do these Enterprises Align with the Defining Characteristics of a Social Enterprise?

The second part of our study evaluated how these surveyed enterprises align with the five defining characteristics of a social enterprise as distilled from the CCC. We score each SE on the following five dimensions:

1. A contextually relevant social mission at (re)birth with a business model
2. A social mission which flows through the products, services and operations, and where all social impact achieved is consistent with the mission
3. An intention and roadmap to sustainable financial performance (may have multiple revenue streams)
4. Based on business processes and thinking
5. Continuous balancing of dynamic tensions across business and social objectives

Four ACSEP researchers who have worked in the social sector research field provided their individual evaluations of the 33 SEs in the survey on the five dimensions. The average of their scores is taken to represent the final score for each SE. Our report includes the individual scores for each of the five defining characteristics as well as the overall scores for the SEs.

One important thing to note is that these scores merely indicate the extent to which the surveyed enterprises align with those defining characteristics. A higher (lower) score simply indicates that the enterprise is nearer to (further away from) the Singapore social enterprise referenced in the spectrum of social purpose organisations in Figure 15 (Prakash & Tan, 2014). We note that funders could potentially self-select target organisations for funding in a separating equilibrium of social purpose organisations. Therefore, there is no value judgment attached to the relative scoring as the measurement is not intended to carry any implications on actual performance.

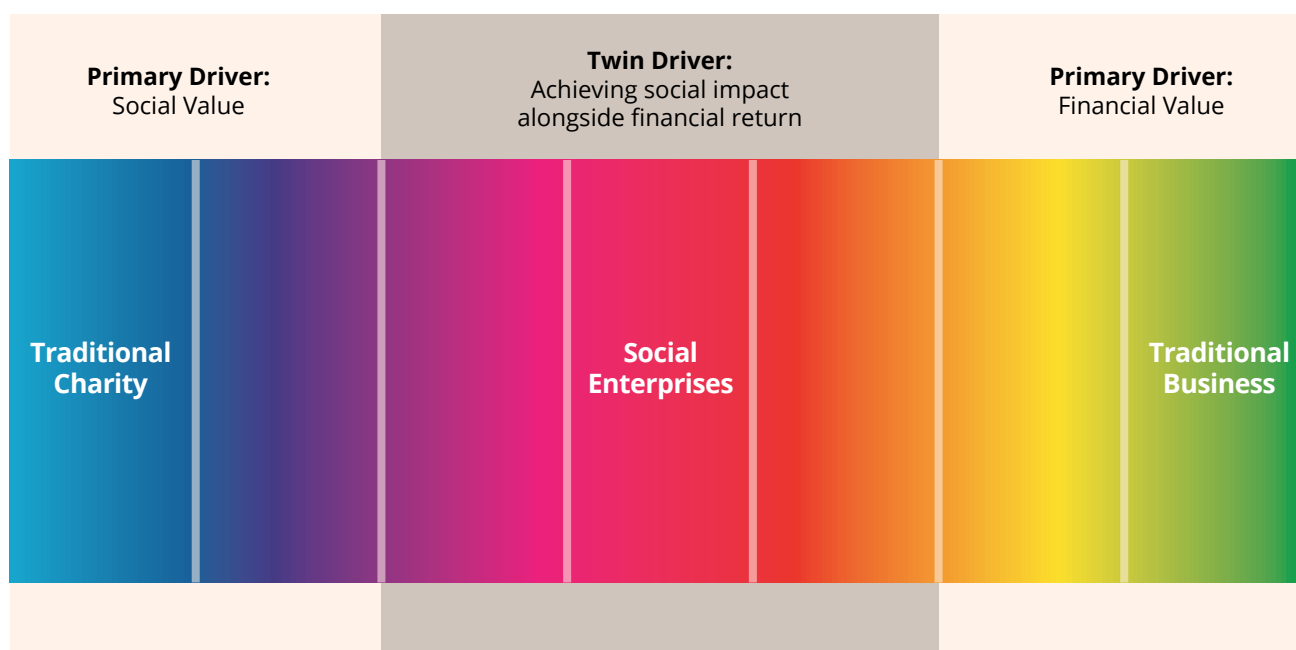


Figure 15: Spectrum of Social Purpose Organisations

Adapted from Prakash and Tan (2014) Figure 1

1. Individual Scores

Using a scale of one to 20, we scored the enterprises in our sample against the five defining characteristics as well as computed the median score for each characteristic. Here's a summary of our findings:

- Characteristic 1 "A contextually relevant social mission at (re)birth with a business model" has a median score of 9.75 points (Figure 16).
- Characteristic 2 "A social mission which flows through the products, services and operations, and where all social impact achieved is consistent with the mission" has a median score of 9 points (Figure 17).
- Characteristic 3 "An intention and roadmap to sustainable financial performance (may have multiple revenue streams)" has a median score of 16.25 points (Figure 18).
- Characteristic 4 "Based on business processes and thinking" has a median score of 12 points (Figure 19).
- Characteristic 5 "Continuous balancing of dynamic tensions across business and social objectives" has a median score of 13.75 points (Figure 20).

Given that the maximum score for each dimension is 20, the SEs, on average, perform the best along the third characteristic – an intention and roadmap to sustainable financial performance. This result suggests that the SEs are clearly aware that they need to plan and generate financial returns. They are in essence business entities that also intend to achieve social impact.

The SEs in our sample returned the second highest median score with the fifth characteristic – continuous balancing of dynamic tensions across business and social objectives. This indicates that the entrepreneurs are aware of the need to manage the duality of goals in their enterprises. This score does not reflect the quality of the strategies SEs used to manage the tension between the two goals.

The median scores for the first two defining characteristics are below 10 points. A closer look at the scores reveals that the mission statements crafted by most of the SEs are often inadequate in defining the contextually relevant social mission and articulating how the operations, processes and final products are related to achieve the intended mission(s) and impact. Writing down a clear mission statement is not an easy task at all and requires specific and in-depth training and learning (Matejka, Kurke, & Gregory, 1993). Therefore, a lower (higher) score suggests a greater (lesser) need for training and development for SEs to help them articulate a clear and effectual social mission.

2. Overall Scores

In Figure 21, we report the distribution of the overall scores of the 33 SEs. The median score is 55.5 points out of 100 points. The range of the overall scores spans from 37.25 to 77.75 points. These results indicate that there still exists some gaps between what key stakeholders perceive as social enterprises and how these enterprises self-identify themselves. We believe that education, training and development of the entrepreneurs or top managers would help to better align perception and reality. The smaller the gap, the higher the likelihood that funds would flow to the most relevant SEs, thereby building sustainability in the sector.

In summary, this mapping of our sample enterprises to the defining characteristics framework offers a moderate picture of the legitimacy of the local social enterprise sector. We note significant variations across local enterprises in their ability to articulate their social missions and conduct their business to achieve both social and financial returns. Our findings suggest that training and development can address these gaps to help these SEs become more focused and better aligned with stakeholders' perceptions.

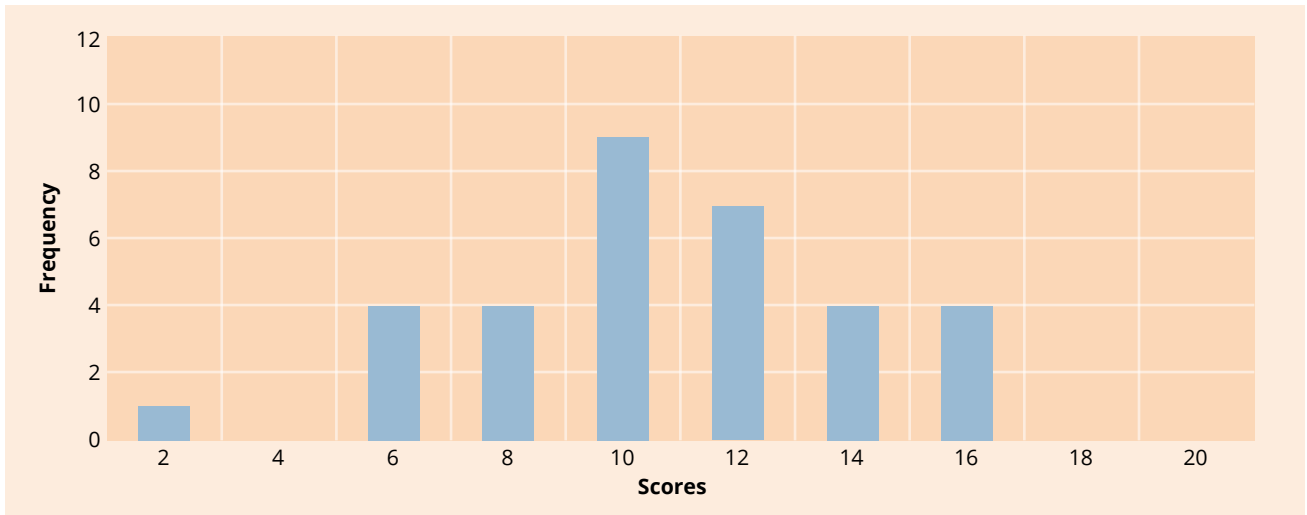


Figure 16: Distribution of Characteristic 1:
A contextually relevant social mission at (re)birth with a business model

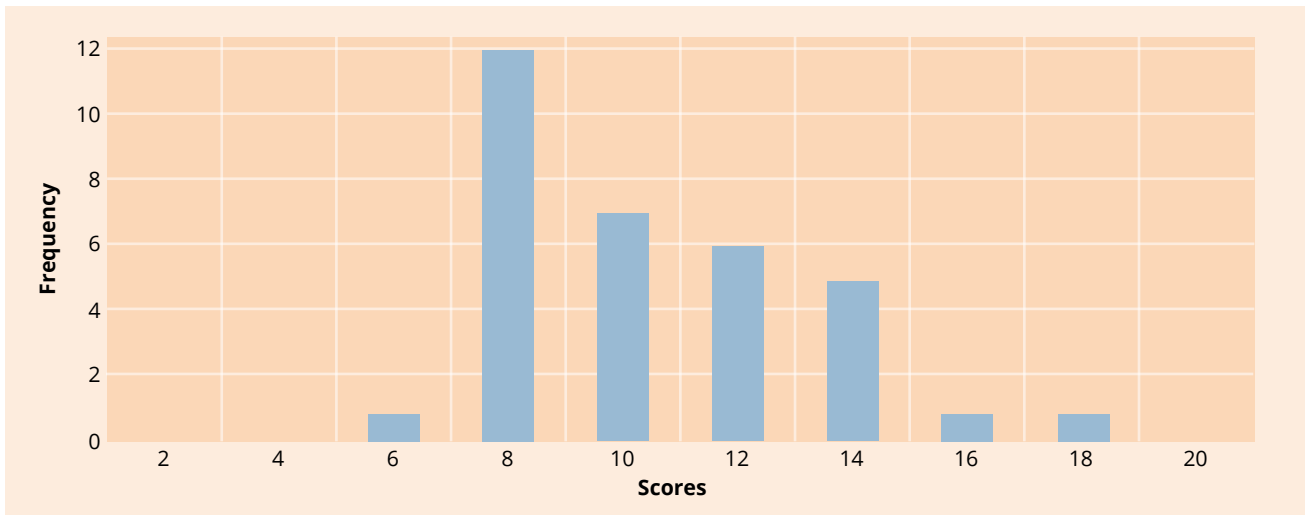


Figure 17: Distribution of Characteristic 2:
A social mission which flows through the products, services and operations, and where all social impact achieved is consistent with the mission

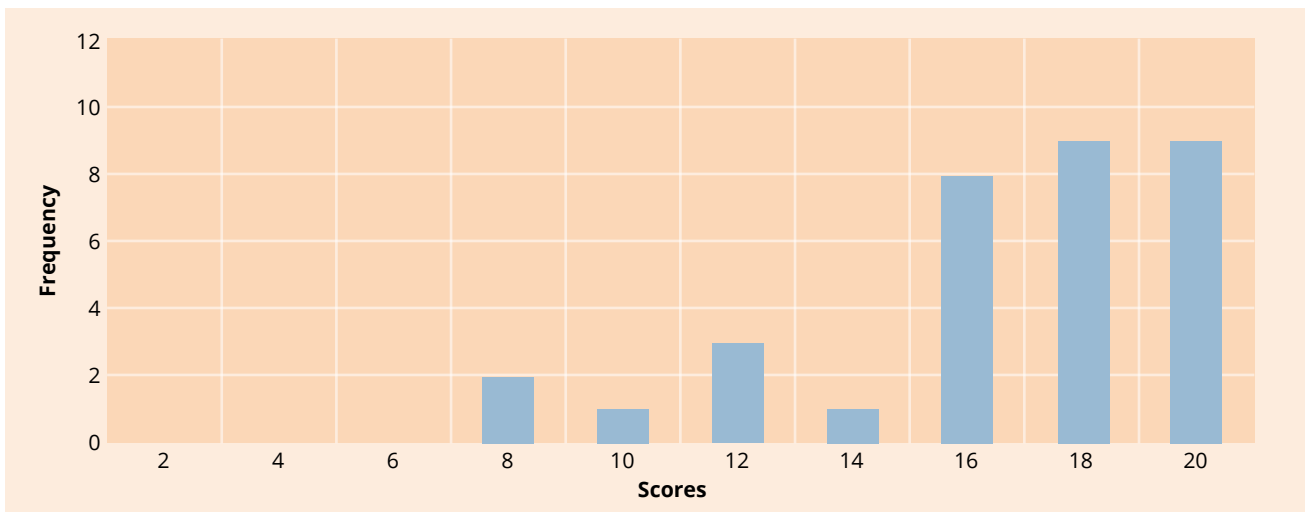


Figure 18: Distribution of Characteristic 3:
An intention and roadmap to sustainable financial performance (may have multiple revenue streams)

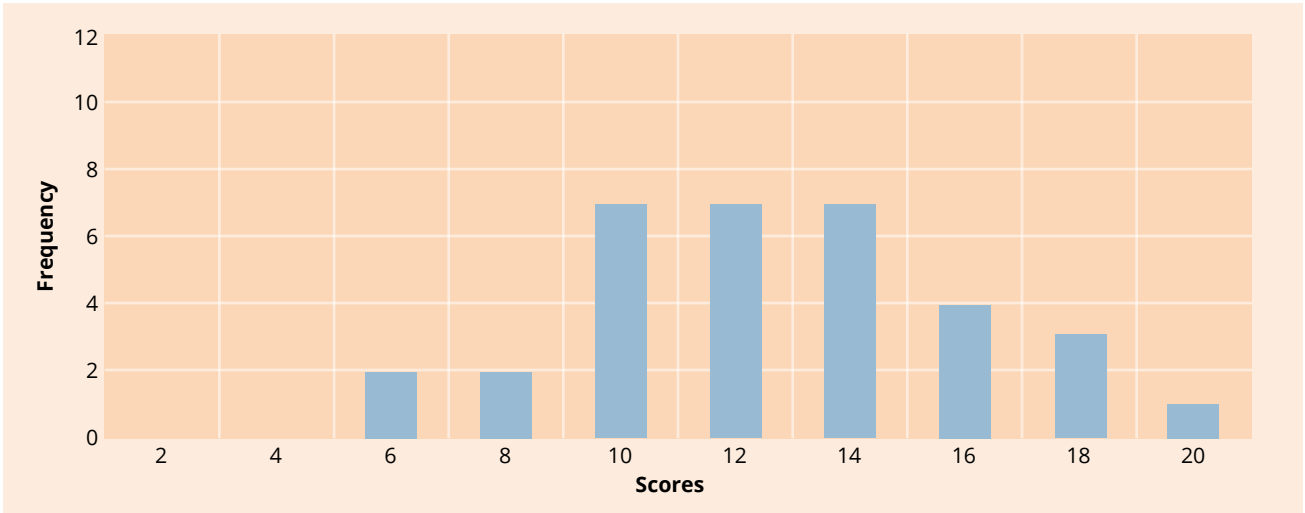


Figure 19: Distribution of Characteristic 4:
Based on business processes and thinking

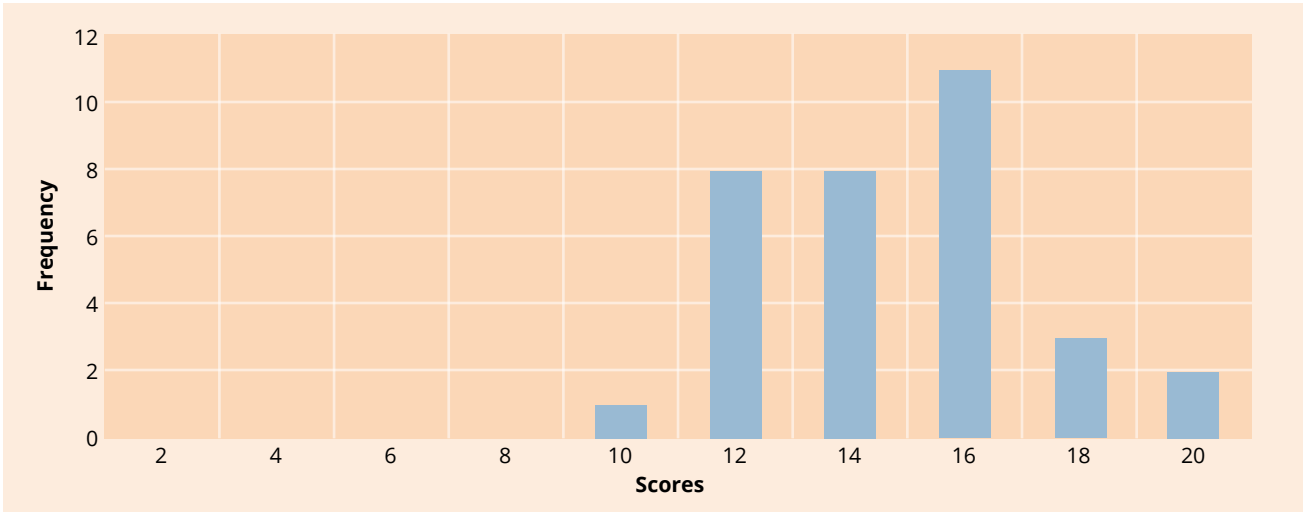


Figure 20: Distribution of Characteristic 5:
Continuous balancing of dynamic tensions across business and social objectives

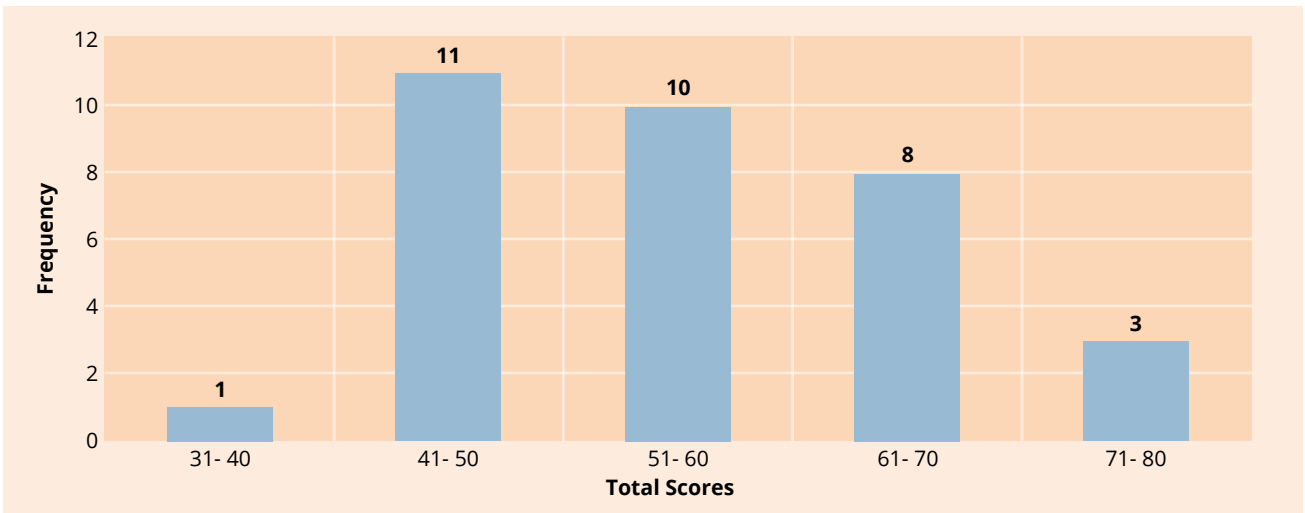


Figure 21: Distribution of the Total Scores of 33 Social Enterprises

Conclusions

This study is a first attempt by ACSEP to evaluate the characteristics and performance of individual SEs in Singapore at a time of high growth in the sector over the last five years. Although our sample size is small which prevented us from gaining greater insights into this type of hybrid organisations, we still managed to surface a list of distinctive characteristics and challenges faced by these relatively young enterprises.

Our opinion is that local SEs can do better to articulate their social mission to reflect the theory of change underpinning the value proposition of their business model. They can also deliver on their mission by adopting a more comprehensive approach in their operation and the products and services they provide. With the social mission and business strategies clearly laid out, the SEs would want to turn their

attention to information disclosure and corporate governance as well as improving their measurement of social outcomes generated. Most of the SEs have been performing adequately in measuring and reporting their financial performance. Nevertheless, financial sustainability is still a challenge for SEs. This is also reflected in the average age of the SEs and the self-identified challenges faced by the social entrepreneurs.

We trust that the findings of this study are helpful in lifting the mystery surrounding these SEs with regard to their characterisation and dual performance. Going forward, we hope to improve the survey questions and increase the sample size to yield more representative results on the characteristics and performance of the Singapore social enterprise sector.

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