

THE NEW BALANCE SHEET OF A SOCIAL ENTERPRISE

Redefining its assets and liabilities

As I pointed out in the editorial message of the '97 annual report of the Limmat Foundation, the content of the balance sheet that social enterprises¹ provide does not reflect the genuine value and the essence of their activities. In this paper I will try to redefine the parameters of the balance sheet of a social enterprise.

The starting point for the new balance sheet is the same as for a normal one: the **Assets** and the **Liabilities** categories. But what are the **real assets and liabilities of a social enterprise**? In my opinion the fundamental asset is the **expertise** (capability of acting in different fields and degrees) and the basic liability is the **expectations**² (requirements) of the different stakeholders.

I'm going to elaborate on these two concepts, in order to establish a model to determine the parameters and categories of the new balance sheet. To simplify things, we shall assume that every social enterprise is managing only one specific kind of social project.

THE ASSETS OF THE SOCIAL ENTERPRISE

In my opinion, the most fundamental and basic **short-term asset** of a social enterprise is its **know-how in running a specific social project**, its capacity and expertise in **finding solutions to a concrete social problem**. This implies that it can count on the necessary human resources and the adequate equipment and methodologies. The more a social enterprise is able to successfully solve a current problem, the greater its short-term asset.

The **medium-term asset** is the expertise to properly handle all the **managerial procedures** including the monitoring, evaluation and reporting **as well as the financial planning**. This asset is still lacking (or not possessed to an adequate degree) in many institutions running social projects. Only those who have it start becoming a social enterprise.

The **long-term asset** is the competency to **run social projects in general** B not just the specific one it is managing. This asset implies a vision of the social development processes and the capacity to adapt to a changing environment. Only mature social enterprises have this kind of asset and therefore possess a greater intrinsic value.

The **intrinsic asset** underlying the above-mentioned measures is the **quality of the human resources** of the institution, especially its idealism and capacity to be involved with the goals of the social enterprise.

¹ I define the social enterprise as the non-profit organization that promotes the common good, without pursuing its own interests.

² In this paper I am referring to reasonable expectations, which reflect real development possibilities, and not to exaggerated or illusionary ones.

THE LIABILITIES OF THE SOCIAL ENTERPRISE

The **short-term liability** of the social enterprise is the **expectations of the beneficiaries** of its social programs. A social enterprise creates a lot of expectations among its beneficiaries from the very moment it starts to plan a project with and for them. If these expectations are not met, it most probably will produce disenchantment, which can lead to a situation worse than the initial one.

The **medium-term liability** is constituted by the **expectations of the donors**. Most social enterprises rely on grants (from private or official sources) to achieve their social undertakings. Depending on the degree of involvement of the donors in the projects, the expectations can be higher or lower, resulting in higher or lower liability in the case of non-attainment of the objectives of the social project.

The **expectations of society** constitute the **long-term liability**. Society demands results from the social ventures in which the social enterprises are engaged. In some cases, when the projects are funded by governmental agencies, there is accountability toward not only the grantors but also society as a whole.

As is the case with the assets, there are the **expectations of the personnel** working for the social enterprise, which constitute the **overall liability**.

THE SOCIAL PROFIT

It can be said that the goal of the social enterprise is to optimize the social profit generated by its projects. A classic way to determine profit is through the difference between assets and liabilities.

There is **short-term profit** when the capacity of solving a concrete social problem is higher than the expectations created among the target population.

The same occurs in the **medium-term**: the donors expect from the social institution not only solutions to the social problem, but also an adequate method of controlling, monitoring, evaluating and reporting. Therefore, even if the management of the project itself is good, if the financial and managerial handling do not **meet the requirements of the donors**, the overall assessment will be negative, leading to a social loss for the social enterprise.

The better a social enterprise is known and the greater its reputation, the more it attracts spontaneous donors and recognition from the public. A social enterprise achieves **long-term profit** when it is able to surpass the **expectations of society**, widening its acceptance and acknowledgement among the public. This leads to an increasing capacity to raise the necessary funds for the financing of its social projects, enabling it to accomplish its mission.

For each temporal term considered, the social result gives a measure of the performance of the social enterprise from a different perspective:

- Short-term results (profit or loss) affect more directly **the beneficiaries** of the projects.

- Medium-term results reflect more directly the **efficiency of the social enterprise itself**, and hence have an impact on its capability to run future projects.
- Long-term results are only to be considered for medium-size to large social enterprises and have more influence in their **lasting capacity** to mobilize the necessary resources **to accomplish their goals**.

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N.B.: This paper reflects my personal opinion. Any input from people who have worked in this field or are interested in this subject is very welcome.