

Original Research Paper

# Social Impact as an Intangible Driver in Assessing Economic Value: An Application to the Italian Third Sector

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**Abstract:** Many studies have focused on Intellectual Capital (IC) applied to the Third Sector in the past few years. Despite the growing interest in intellectual capital in the field, the concept remains unclear. Few scholars and practitioners deal with the subject, however, as far as we know there are no studies that show the relationship between social impact generated by non-profit organizations and IC. This is the first study to be focused on this topic. This paper aims to fill the gap in the literature and demonstrate the relation between social impact and IC in the Social Work Integration Cooperatives (SWICs). This paper contributes to the literature by theoretically arguing that the measurement of social value improves SWICs' economic value as a consequence of improvements of relationships and trust with external stakeholders (intangible assets). To ground our theoretical hypothesis, we measure the social impact value achieved by Italian SWICs through an aggregate analysis. That is the starting point and the findings can generate further research from both non-profit practitioners and scholars through the measurement of hypotheses over time.

**Keywords:** Intellectual Capital, Social Impact Assessment, Social Return on Investment (SROI), Social Work Integration Cooperatives, Non-Profit Organizations

## Introduction

The initial studies of Intellectual Capital (IC) have all focused on profit enterprise to explain the difference between book and social value. Many studies have focused on IC applied to the Third Sector in the past few years. Despite the growing interest in intellectual capital in the field, the concept of it remains unclear. Few scholars and practitioners deal with the subject, but they focus on the definition (Veltri *et al.*, 2011; Kong and Prior, 2008; Kong and Thompson, 2009) on the role of IC as a strategic management concept (Kong, 2007) or on its use in innovation processes (Kong, 2010; Marr *et al.*, 2003). Other studies focus on IC as a resource that provides a competitive advantage (Kong, 2010), but the prevalent literature refers to the impact of knowledge, employee satisfaction, and the organizational structure on IC. Many studies also highlight the role of an integrated reporting in a reporting system as more appropriate to represent the performance of the non-profit sector (Veltri *et al.*, 2011; Arvidson and Lyon, 2014). As far as we know, there are no studies that

show the relationship between social impact generated by non-profit organizations and IC. In this study we focus on double aspects: on one hand we highlight this relationship, and on the other we underline the contribution that a complex measurement process, focused on social impact measurement, gives to the intangible assets.

The social impact measurement improves the social enterprise performances differently than economic and financial ones, and it is a strategic factor of the intellectual capital. Most non-profit organizations produce shared value (Porter and Kramer, 2011; Kramer, 2011) and pursue a social or environmental mission. The economic and financial imperatives are merely a budgetary constraint (Adams and Simnett, 2011).

In non-profit organizations, including social enterprises that adopt business or enterprise-like approaches to deliver goods or services (Kernot and Mc Neil, 2011), the main inputs and outputs are intangible or are based on intangible assets. For instance, we refer to the volunteers who contribute to the activities of social

enterprises, and who are the real added value of the sector (Veltri *et al.*, 2011). In fact, their contribution to generate economic value can be viewed in two perspectives: they provide high specialization services, while they do not cost anything to the entities, and they supply meta-economic value (Capaldo, 2013). The volunteers are sources of intellectual capital as non-monetary and non-physical resources that contribute to value creation. However, they do not appear on financial reports even though their role is vital to the value creation process, and to the pursuit of the social mission.

In addition, when analyzing non-profit organizations, we can find many relevant components of IC (Bontis, 1998; Roos and Roos, 1997; Stewart, 1997): some of them are referred to as *human capital* such as skills, knowledge, and employee satisfaction (Choo and Bontis, 2001). The other components of IC are the elements of *structural capital*: a company's knowledge, organizational structure, and procedures (Roos and Roos, 1997; Nonaka, 2006). The most relevant component of IC is *relational capital* and its elements, as relationship and partnership with external stakeholders (Kong and Prior, 2008; Bontis, 1998). In fact, a good relationship with stakeholders improves the firm's reputation and trust (Marr and Roos, 2005). The value generated by a network and relationship is not expressed in the financial measures and in the ordinary financial statement, but we have to consider it in the social impact measurement. It represents a relevant component of the value created by non-profit organizations. At the same time, reputation and trust represent a relevant intangible resource that contributes to creating value.

According to relevant literature, in profit-oriented organizations the intangibles are drivers of economic value (Dumay and Zambon, 2016). However, in non-profit enterprises, the intangibles cannot demonstrate the difference between book and market value. For the social enterprises we do not have disposal market value, a regulated market for listed social enterprises does not exist, and there are no listed social enterprises in Italy at least. But above all, the aim of the evaluation process cannot be the measurement of the economic value for its own sake. However, most social enterprises can accomplish their mission, achieve social interest, and increase a community's well-being.

The social value is the non-financial impact of a program, organization, or activity, including the well-being of individuals and society, human capital, and the environment. In this way, every input, resource, choice, and process is involved with improving people's lifestyle.

The measurement of the social activity's impact can be considered as a new approach to obtain a meaningful report of value created, a kind of Integrated Reporting (IR). Usually this is an instrument used to draw relevant information on Environmental, Social and Governance (ESG) performance of a firm, in addiction to financial ones, and to gain a better understanding of

a company's future perspectives (Mouritsen *et al.*, 2005; Rylander *et al.*, 2000). The most important ESG performances are the resources used, human rights, health and safety, corruption, and transparency. To date, there is no IR framework for non-profit organizations, and the existing ones are written primarily for the for-profit sector. However, the framework can also be applied and adapted as necessary by non-profit organizations (International Integrated Reporting Council, 2016). Debates often focus on profit oriented companies, but they can also be applied to non-profit organizations.

According to the prevalent literature (Veltri *et al.*, 2011; Dumay *et al.*, 2010; Rylander, 2000) IR is very important for a complete and truthful disclosure. For some scholars IR is essential for the non-profit organizations as well as the profit-oriented ones (Kong, 2010; Farneti and Guthrie, 2009). Non-profit organizations are mission-driven and carry out complex activities, but the available metrics are not able to "capture" the real meaning and value of these multifaceted realities. We need qualitative and quantitative elements (data and information), and the IR is adaptable to current forms of social impact measurement (Adams and Simnett, 2011).

On the basis of the above considerations, we can draw up some hypotheses:

- H1: If we consider reputation and trust as fundamental drivers of economic value, we can apply these items to the social enterprise, respect of which the development is grounded on relationship and approval by external stakeholders
- H2: If the social impact generated by social enterprise is positive, its economic value will increase as a consequence of improving relations with external stakeholders
- H3: If the economic value increases, it is possible to measure it through trend analysis of the SROI

To ground our theoretical hypothesis, we measure social impact value achieved by Italian SWICs through an aggregate analysis.

### Social Impact Assessment – Literature Review

Social Impact (SI) is a multilevel and multidimensional concept (Nicholls *et al.*, 2015). Through SI reporting, the social enterprises attempt to enhance their social mission, and to demonstrate their capacity to achieve social goals. The compliance to regulation, convention or other rules is not important (Nicholls, 2009). According to the prevalent literature, the goals of SI measurement are twofold: to provide information to the stakeholders and to use the results as an instrument to monitor and improve performance. In fact, evaluation and SI measurement encourage learning and self-reflection inside non-profit organizations (Maas and Grieco, 2017; Arvidson and Lyon, 2014).

The relevance of the SI measurement is proven by the increased development of studies and findings on this topic (Bengo et al., 2016; Barman, 2007; Nicholls, 2009; Mulgan, 2010) in the last years. This phenomenon was caused by various factors. The most important is the introduction of new government policies – for instance in the UK, Australia (Arvidson and Lyon, 2014; Barraket and Yousefpour, 2013), and in the last year Italy. At the same time, we have seen the European Commission (EC, 2011a; 2011b; 2012; 2013) increase attention on the theme of SI measurement. In this context, the GCES sub-group on Social Impact Measurement was set up in October 2012 to agree upon a European methodology which could be applied across the European social economy (GCES, 2016).

As far as Italy is concerned, it passed the Third Sector Reform (Law 106/2016 and Legislative Decree 112/2017) that has attached a great relevance to the evaluation of SI produced by social enterprises. In fact, social enterprises must deposit and publish social statements prepared in accordance with the guidelines adopted by the Labor and Social Policies Minister's decree, after it heard the National Council of the Third Sector "also for impact assessment of social activities" (article 9 of Legislative Decree 112/2017).

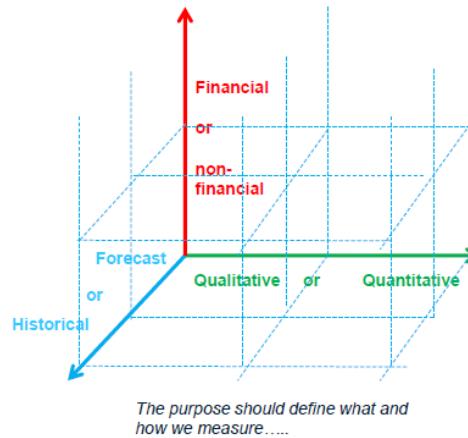
The government and supranational policies and choices gave impetus to focus on SI measurement; further impetus has come from philanthropic funders and grant makers. In fact, the latter want to demonstrate their impact on the community and their willingness to use performance measures in the allocation of funding (Arvidson and Lyon, 2014).

Our study contributes to the literature showing the relationship between IC and social value. According to our hypothesis, the SI assessment becomes a tool to improve performance not only as a result of a self-reflection process, but as a consequence of positive assessment of stakeholders. This position appears consistent with the policy lines undertaken by the EU, and it demonstrates the practical applications of our contribution.

In order to measure the SI generated by non-profit organizations, different quantitative and qualitative methods (Hall, 2014; Grieco et al., 2015; Zappalà and Lyons, 2009) can be used, some of which are borrowed from profit-oriented business evaluation models (Gibbon and Dey, 2011).

Some studies and organizations prefer statistics and “objective” indicators. Others choose methods and practices more “subjective” underlining the increasing importance of qualitative results and outcomes.

According to Clifford et al. (2013) we define perspectives and requirements for SI measurement through three dimensions, including financial or non-financial data; qualitative and quantitative evidence; and both forecast and historical evidence collecting.



**Fig. 1:** Matrix of Social Impact Measurement (Clifford et al. 2013:15)

As it can be noted in the Fig. 1, the evaluation process is complex, and the relationship among the variables is multi-faceted. The qualitative variables can be financial or non-financial, and they can be referred to as historical or forecast data. The same can be said about the quantitative ones.

#### *A Focus on Improving Relationships with Lending Stakeholders*

One of the benefits derived from the introduction of a SI assessment is to allow third sector organizations to prove to stakeholders the attainment of social objectives, thus helping them to achieve external recognition for the activity they perform (Ebrahim, 2005). The latter is a critical element for non-profit organizations which are often not recognized enough for the role they play in society. Demonstrating social achievements increases confidence and trust towards non-profit organizations that are often seen as little structured and transparent, and then promotes and stimulates the growth of the entire third sector.

Measuring SI is also useful for another problematic aspect of non-profit organizations' life that is the access to financial resources. The access to traditional funding channels has always been challenging for the third sector; to help non-profit organizations to overcome this problem, social finance is currently emerging in Europe. Social finance includes different instruments and actors with the aim of obtaining a financial return for the investment, while simultaneously generating social value (Rizzi et al., 2018). There is still not a consensus among scholars about the different approaches that can be used in the evaluation process since each method presents both advantages and disadvantages (Eckerd and Moulton, 2011). Providing information to founders specifically related to social objectives helps them in the decision-making process and in the effective

allocation of their resources (Maier *et al.*, 2015). Moreover, reporting social value can lead to a reduction of transactional costs (Glänzel and Scheuerle, 2016), decreasing the perceived risk of the investment. Thus, through a SI evaluation, non-profit organizations are stimulated to better use their resources to enhance their performances and also meet the requests of external founders.

The benefits of the SI measurement are not limited to non-profit organizations. The assessment can be also useful for profit-oriented companies since it helps them to demonstrate their compliance with the ESG criteria. That means “the companies’ commitment to translate into action best practices that potentially impact on their financial results but also derive in a benefit for society and the environment” (Soler-Domínguez and Matallín-Sáez, 2016:190). Studies demonstrate a positive relationship between ESG ratings and companies’ financial performances. A new investment approach called Socially Responsible Investment (SRI) that has been spreading in recent years involves the evaluation of investments based on financial and sustainability criteria (Haigh and Hazelton, 2004) on the basis of the idea that economic parameters help companies to better use their resources and enhance the economic performance of the company (Sharfman and Fernando, 2008).

SI assessment can therefore be applied to both profit and non-profit businesses and can be useful in both cases to favor the internal growth and the acquisition of new financial resources.

## Social Impact Measurement of the SWICs. An Italian Case Study

Our work is divided into several stages. After pointing out the theoretical gap regarding the application of the concept of IC to the third sector, and our goal of filling it, we dwelled on the definition of SI, that in this study we intend as an intangible driver of economic value. SI measurement is central to non-profit organization studies, and in this work, we emphasize its importance on external stakeholders.

At this point, we measure the SI generated by the SWIC through the Social Return on Investment (SROI). We believe that a careful presentation of the results and of the evaluation process as a whole can produce the effect we want to demonstrate: if the SROI is positive, the stakeholder’s relationships and trust as intangible value increases, and the economic value of SI increases too. For our analysis, we use aggregate data because we want to contribute to a general theory about the relationship between IC and SI in the third sector, and we want the positive and negative results to be offset.

It has just been in the past few years that studies on SI have been carried out in Italy. Many of these analyses are

only focused on outputs that specific interventions produce and do not consider outcomes and benefits offered to the stakeholders. All the methodologies adopted do not take into account results that would have been obtained in any case, even without specific interventions.

SI analysis is costly and complex, and for this reason is executed only on short and single projects or, in general, when it is required to account for the return of the investments, both public and private (Stevenson *et al.*, 2010).

To accomplish our goals, we focus on the evaluation and SI measurement among non-profit organizations, specifically SWICs, conducting a SI analysis related to systematic and non-occasional activities. As we have emphasized, we need aggregated data to give value to our hypotheses, so this work becomes the first study in Italy carried out through an aggregate analysis based on specific social policies directed to work integration of disadvantaged people.

### Methodology and Stages of Research Process

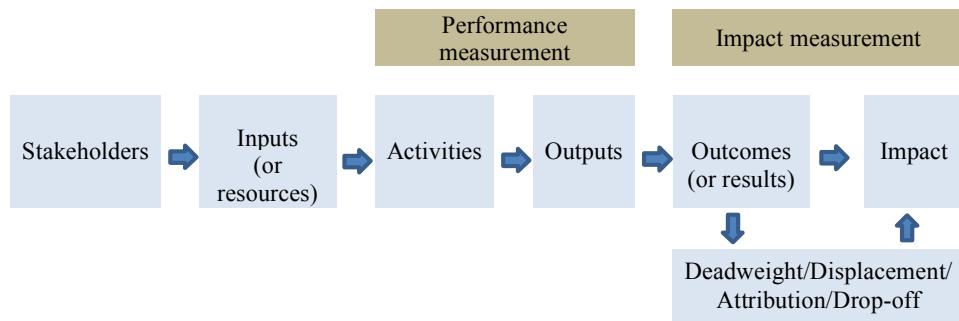
Our research is the result of a partnership between researchers and social enterprises network. That is *Isnet Association* that was founded in 2007 to support social enterprises development promoting relations between for profit and not for profit enterprises. To date, it is one of the members of the Labor and Social policies Italian Ministry’s Working Group that is set up to draft the guidelines for measuring the social impact generated from no profit organizations.

Our work is an early study, and the main goal of this stage is the measurement of SI value generated by the whole sector rather than by a single project.

The analysis is carried out on the basis of the so-called “Theory of Change” (Drucker, 1993; Dees, 1998). We used the GECES guidelines, Sub-group on Impact Measurement – European Commission (GECES, 2014), as borrowed by EVPA (Hehenberger, 2013) and the SROI model – Social Return on Investment – (Social Impact Investment Task Force 2014) that uses both quantitative and qualitative analysis based on in-depth interviews.

The proxy data analysis is completed on approximately 20 open data sources.

Our research used the data of the 9<sup>th</sup> and 10<sup>th</sup> Edition of the *Isnet Observatory on Social Enterprises*. The *Isnet Observatory* was created in March 2007 in order to study the relational dynamism and the innovative capacity of Italian social enterprises. To date, the *Isnet Observatory* is the only survey in Italy with historical series and constantly updated indicators. The data were obtained from interviews conducted on a panel of Italian social cooperatives by administering 400 questionnaires to social cooperative managers (Presidents and Directors).



**Fig. 2:** Value impact chain (Zamagni et al., 2015) with our integration

The survey was carried out using the Computer Aided Telephone Interview (CATI) methodology through a structured questionnaire. The panel is representative of the national statistical population: for social cooperatives, as a statistical population of about 11,264 units – as showed by ISTAT Census on non-profit organizations (ISTAT, 2013) – a variance of 0.5 and a confidence of 0.955, the sample number allowed to attest the sample error on 4.9%.

Our focus is the measurement of SI generated by Italian SWICs. The sample that we used for our analysis is composed of social cooperatives that employ disadvantaged people. The categories are recommended by Italian Law 381/1991, and they are people with disabilities, drug addicts, alcoholics, or convicts. Specifically, the survey focused on a sample of 144 SWICs (type B, and A+B). These cooperatives represent the statistical reference population. The values obtained from the sample analysis are subjected to a statistical inference on the whole universe of social cooperatives, type A and A+B, to obtain the SI assessment for 2016.

For each category, we have shown the outcomes, the quantitative variables picked up based on the indications given by interviewed cooperatives. Finally, we set forth the SI values as input, present value, net value, and SROI. In addition, we show some called “reduction value” to estimate input and the outcome that would have happened anyway, without specific activities of the social cooperative analyzed. We identified four distorting effects: deadweight, displacement, attribution, and drop-off.

In accordance with the stages provided in the references we used, we are going to highlight the steps of the analysis model used in the Fig. 2.

#### *Stakeholders and Connected Inputs*

Stakeholders represent people who gain and who give input to the cooperatives involved in the evaluation process. We asked them what and how they gave or received. Not every stakeholder is important for our analysis, and we selected only the most relevant ones in terms of contribution to the impact.

Before starting the measurement process, we have to identify five groups of stakeholders that have been selected through input and outcome attribution, and they are: social cooperatives, Public Administration, disadvantaged people, disadvantaged people's families, and the entire community.

By “entire community” we mean all of the citizens who live in the territory where the cooperatives operate, including the entities (business organizations or not).

On the basis of the Italian Law 381/91, the following are considered as disadvantaged people: people with physical, mental, and sensory disability; former psychiatric patients, and people who are receiving psychiatric treatment; drug addicts; alcoholics; minors yet of working age, and in difficult family conditions; detainees and condemned people admitted to alternative detention facilities.

It is important to note that the definition of disadvantaged people used in this study is the one of the Law 381/91 that is not complete. It does not consider immigrants, long-term unemployed, the unemployed for over 50 years, etc. and other kinds of disadvantages that are instead contemplated in European law (Commission Regulation (EC) No 2204/2002 of 12 December 2002).

To identify the objectives of the activities, it is necessary to involve the various parties in the measurement of the service.

In order to identify the objectives, we referred to the institutional purpose of Social Workers Inclusion, that is to offer employment to people whose disadvantage precludes or makes the relationship with the work market more difficult.

According to Italian Law 381/91, Article 1, paragraph 1, “social working integration cooperatives pursue the general interest of the community and the social integration of citizens making various economic activities (agricultural, industrial, commercial or services) to achieve of which are employed disadvantaged people.”

“Disadvantaged people must be at least thirty percent of workers and, in accordance with their objective status, be societies of the Cooperative itself” (Law 381/91 article 4, paragraph 2).

The inputs represent resources used in the delivery of the intervention.

To identify the resources made available by the stakeholders, we used financial statements and public resource data (e.g. Italian National Institute of Statistics, Findomestic Observatory, Department of Anti-Drug Policies - Presidency of the Council of Ministers).

Inputs have been selected considering the previous research conducted by Isnet Network within its Observatory, and by interviewing the principal stakeholders involved. Not all the inputs have been considered in the analysis, and as a consequence not all the stakeholders have been considered.

The first stakeholders considered are the social cooperatives. We included in the analysis additional costs sustained to coordinate disadvantaged workers that we intend as an output. In fact, to coordinate this type of worker requires a number of work hours that is higher than the one necessary for regular workers, because they need greater support in the activities they perform.

Gross labor costs for disadvantaged workers is not considered a relevant input in the analysis because it is an element that is balanced by public-private work orders, and is necessary to achieve the economic result. Volunteer work in the cooperative is not considered as input because it is marginal and concerns not all disadvantaged workers, only some of them.

Another relevant stakeholder is the Public Administration. Contributions paid by the P.A. to the social cooperatives to promote the hiring of disadvantaged people is the only relevant input considered in the analysis connected with this stakeholder. Tax exemptions and reduced IVA are not considered as input because they are not directly related to the disadvantaged worker, and can be considered supportive policies for social cooperation as a whole.

A third category of stakeholders are disadvantaged workers; their work-hours cannot be considered an input because they receive a salary for their job. Support activities provided by the families of the workers also cannot be considered as input because they are marginal in the cooperatives. Lastly, various forms of material and immaterial support (e.g. voluntary work and donations) that cooperatives receive from their communities cannot be considered as input because it is difficult to quantify and classify them.

### Activities

A very important step is identifying what is being done with those resources by the social enterprise is the intervention.

In the 10th edition of the "Isnet Observatory on Social Enterprises" (2016), it emerges that social cooperatives and disadvantaged workers operate in different areas and perform several activities:

- logistics (storage and transport)
- manufacturing and contractual work- meal service/catering/school meals
- agriculture
- cleaning service
- crafts (carpenters, electricians, etc.)
- informatics
- graphic and web design service
- call center
- retail trade (shops, bars, restaurants)

Social cooperatives work in both public and private markets. Revenues they obtain in performing their activities are divided into the following categories:

- 46.7% Contracts and agreements with public / local authorities
- 34.9% Sales of products and services to companies
- 6.4% Sales of goods and services to citizens
- 1.8% Public contributions for project implementation
- 0.2% Contributions, donations, donations from citizens and companies including calls and funding from private entities

### Outputs: the Results of the Activities

Outputs are a quantitative summary of an activity. They represent how each activity touches the intended beneficiaries.

Output in this study is the number of disadvantaged workers employed in the cooperatives. The values, recorded in the 10<sup>th</sup> edition of the Isnet Observatory on Social Enterprises (2016), have been statistically inferred from the entire target universe, namely SWICs type B and A+B. The result is an estimation of the disadvantaged workers occupied by the system in 2016.

The total number of disadvantaged workers occupied in the system is 67,134.

A number of 44,545 of them are physically or mentally disabled, 18,163 are addicted to drugs or alcoholics, and 4,426 are detainees or people admitted to alternative detention facilities.

### Outcomes Measurement

Attention should be given to not confuse outputs with outcomes. Output is a specific activity (in our case the number of disadvantaged people who are employed); outcome is the change arising in the lives of beneficiaries of the activities (in our case disposable income to final consumption). Not every activity is able to produce real change.

In this study, on the basis of the inputs, the activities, and the outputs considered have identified the outcomes for the different types of stakeholders. The outcomes have been divided into three groups:

1. Outcomes valued in monetary terms
2. Non-valued outcomes that can be evaluated with an upscaling model
3. Outcomes hardly evaluable

The first group includes:

- Disadvantaged workers' income, that is the disadvantaged worker's income that he or she can use at their own expense, and that for this reason represents a benefit for the entire community
- Higher tax revenue that can be considered a benefit of the public administration
- Lower social costs. These outcomes can be economically valued by proxy, and are related to cost saving obtained due to the reduction of disadvantaged people's inactivity. They concern different stakeholders (P.A., disadvantaged people, disadvantaged people families, and the community), and vary for the different types of disadvantage. Databases, research, articles, websites, etc. have been consulted for examining and evaluating proxies

In order to assign a monetary value to the activities that do not have a market price and obtain an appropriate financial outcome, it is necessary pick up the prices as approximations (proxies).

To accomplish our goal to measure disadvantaged workers' incomes, we used a financial proxy based on Italian household consumption expenditure (ISTAT, 2016). The proxy is used in order to measure largest tax revenue, we used average employee tax rate fixed for each category (Italian Ministry of Labor and Social Policies, Italian Revenue Agency).

The second group is a set of outcomes that includes cost reduction because of the work inclusion of disadvantaged groups, and the reduced social charges. They concern different stakeholders: P.A., disadvantaged people, disadvantaged families and the community. They have not been evaluated in this study, but to consider them in upscaling models changes the value of the SI index identified. In this study, we have limited ourselves to describe these outcomes.

The third group includes outcome series, dealing with macro-categories of inactivity costs and lower social costs, affecting more stakeholders (Public Administration, disadvantaged people, disadvantaged families and the community). These outcomes have not been monetized in this research as a consequence of the high complexity of any monetary determination process that deserves full analysis (for example: increased perception of security, reduction of injury, increased sensitivity on the subject, greater willingness to solidarity, etc.).

#### *Adjustments*

Not every outcome has occurred through the specific activities assessed. Some adjustments are

required. The first one is so called deadweight. It constitutes what changes would have happened anyway, regardless of the intervention.

Sometimes it is necessary to apply another adjustment, called displacement. It is the assessment of how much of the outcome has displaced other outcomes (Social Impact Investment Task Force, 2014).

Finally, two other adjustments are attribution and drop-off. Respectively they are the effects achieved by activities and contribution of other public or private organizations, and the decreasing effect of an intervention over time.

In order to complete this step, we adjusted the inputs and outcomes by the distorting effects. These last ones have been derived from in-depth individual interviews submitted to our panel of 144 SWICs (B and A+B). Four major distorting effects have been identified:

1. Deadweight. It represents disadvantaged workers who would have found a job in any case, even outside the cooperative
2. Displacement. It is a negative effect experienced by subjects who have had negative repercussions following the employment of disadvantaged people
3. Attribution. This distorting effect occurs when beneficiaries achieve positive results, but results are favored by other factors not directly connected with their work in the cooperative
4. Drop off. It happens when the positive results do not last and lose effectiveness over time

## **The Measurement Process Results**

Applying the principles and rules described above, we evaluated the SI generated by Italian SWICs. To underline the process we have followed, it is useful to draw each stage of the evaluation method.

The first stage is to identify different outcomes for each group of disadvantaged people; in our study people with disabilities, drug addicts and alcoholics, and convicts.

In detail, Tables 1, 3 and 5 show – for each disadvantaged category – the specific changes that took place for the stakeholders (our outcomes). Tables 2, 4 and 6 represent the overall evaluation process of the SROI generated by Italian SWICs.

The stakeholders are the people or entities on which the activities conducted by the cooperatives can produce an effect. The effect can be expressed as a monetary amount using a financial proxy or not. Sometimes we already had the number of outcomes; other times we had to measure the outcome using financial proxy.

We distinguished monetary and quantitative outcomes. According to our model, quantitative outcomes were not measured by financial proxy in the present study.

The Table 1 is referred to people with disabilities, and describes the monetary outcomes that we could measure or that we had at our disposal. Quantitative outcomes were instead described; they were not included

in monetary present value, they only contributed a small part to increasing social value.

The outcomes refer to different stakeholders. As previously underlined, the monetary outcome for the Public Administration is higher tax revenues. In fact, we can measure the outcome represented by disposable income to final consumption. In our study, we considered “disposable income to final consumption” as an advantage for the community. Each worker employed in the SWICs gains a salary, and he can use it for his needs. At the same time, he can buy goods and services, and even the dealers improve their turnover and gain. This process produces double advantages: it generates individual disposable income, and increases income and consumption taxes for both employees and companies (community).

As we noted before, the activities produce a return from outcomes that is impossible to estimate in terms of monetary value. Qualitative variables, unlike monetary outcomes, cannot be evaluated by financial proxy, however, they are very important and basic to figure out social value generated by activities.

**Table 1:** Outcome for people with disabilities

Stakeholders	Monetary outcomes (columns E1; E2;E3 table 2)	Quantitative outcomes
Community	• Disposable income to final consumption	• Enhancing social issues
Public administration	• Higher tax revenues	n/a
Disadvantaged people	n/a	• Opening mind and feeling useful
Families	• Family savings for a better reconciliation of work and family life	• Less medicines less medicines • Less social problems • Less hospitalization

**Table 2:** SROI evaluation process for people with disabilities

Social impact generated from Italian working integration cooperatives-people with disabilities Year 2016

A	Number of people with disabilities	44,545.00
B1	Input (average annual unit value): contributions paid by P.A. (1)	€ 4,417.48
B2	Input (average annual unit value): increased management costs for the social cooperative (2)	€ 1,013.18
C1 = B1*A	Total Input: contributions paid by P.A.	€ 196,776,695.38
C2 = B2*A	Total Input: increased management costs for the social cooperative	€ 45,132,269.58
D = C1+C2	TOTAL INPUT	€ 241,908,964.97
E1	Disposable income or spending power (average annual value) (3)	€ 6,204.91
E2	Higher tax revenue (average annual unit value) (4)	€ 949.34
E3	Family savings for a better private and work time reconciliation (average annual unit value) (5)	€ 3,131.03
F1 = E1*A	Total: disposable income or spending power	€ 276,397,854.29
F2 = E2*A	Total: higher tax revenue (average annual unit value)	€ 42,288,332.85
F3 = E3*A	Total: minor costs for recovery projects	€ 139,471,534.80
G = F1+F2+F3	TOTAL: PRESENT VALUE	€ 458,157,721.95
H=G-D	TOTAL: NET VALUE	€ 216,248,756.98
I=G/D	SROI	1.89

(1) Law no. 381 of 1991 recognized an exemption for the compulsory social and health insurance connected to the disadvantaged workers remuneration, even for the share paid by the workers. The percentage of P.A. contributions for each disadvantaged worker is calculated on the basis of labour consultant estimates. The figure corresponds to the average of the annual value for each job position.

(2) Time spent by staff for psychological assistance and support (it considers only the empathic care and support; it does not include work coordination).

(3) For each disadvantaged worker the available income/annual spending power is estimated; the net income is reduced by the average savings rate calculated by ISTAT (2015). The figure corresponds to the average of annual income for each job position.

(4) Average annual tax revenue deriving from the work of disadvantaged people, depending on the different rates of income. Estimates elaborated by labour consultants. The figure corresponds to the average of the annual value for each job position.

(5) Estimate of annual average savings for disadvantaged people families resulting from a better reconciliation between private and working times. The estimate is elaborated from data and research by Italian Federation for Handicap Overcome (FISH) and of Condicio.it - Years 2015-2016

The most relevant qualitative variables pointed out by the social cooperatives that form our panel are shown in the Table 1. We obtained them from individual in-depth interviews conducted with managers and directors of social enterprises of our panel to which we addressed research questions concerning what the organizations think about changes generated by their mission and activities. The analysis of answers permitted us to obtain useful information to measure SI value generated by Italian working integration social cooperatives.

According to the interviews, social cooperatives believe they are helpful to the family reconciliation of work and family life. In addition, they offer disadvantaged people the possibility of integration in society life, and give them a work integration possibility so that they can earn a salary and obtain appreciable work. Sometimes, social cooperatives help disadvantaged people find a life accommodation for their family too; other times, they pay the disadvantaged person's bill when they are in trouble.

Another answer we received, that seemed very interesting, emphasized the role of labor for society, not only for disadvantaged people. According to this perspective, work integration gives a great opportunity to remove stereotypes, to “open the mind” of society, and to promote more constructive dialogue among social actors. In fact, the social cooperatives not only give an opportunity to people that would not ever find a job without their help, but their aim is to change people’s behaviour and improve their quality of life.

The quantitative outcomes referred to the families of people with disabilities are particularly noteworthy: lower medicines costs and hospitalization expenditures, and less social problems. At this stage we have not monetized them because of the complexity of their monetary determination

process. However, in the next step of our research we will analyze this specific set of quantitative outcomes in detail.

As previously mentioned, Table 2 describes in detail the measurement process, the assessment of monetary outcomes, and the SI generated for people with disabilities. We included in this category people with physical, psychological and sensory impairments, and psychiatric patients both current and former. All values useful to the measurement are shown.

The second step of our research permitted us to measure the SI value for people with addictions. In this category, we included drug addicts and alcoholics.

We followed the same procedures of the first category (people with disabilities).

The Tables 3 and 4 show monetary and quantitative outcomes, as well as the SI value generated.

**Table 3:** Outcome for people with addictions

Stakeholders	Monetary outcomes (columns E1; E2; E3 table 4)	Quantitative outcomes
Community	• Disposable income to final consumption	• Increasing security perception • Retrieving the relationship with the community
Public administration	• Higher tax revenues • Less healthcare costs to relieve dependence	n/a
Disadvantaged people	n/a	• Possibility to give new meaning to their lives
Families	n/a	• Improving family relationships

**Table 4:** SROI evaluation process for people with addictions

Social impact generated from Italian working integration cooperatives – people with addictions year 2016

A	Number of people with addictions	18,163.00
B1	Input (average annual unit value): contributions paid by P.A. (1)	€ 4,829.45
B2	Input (average annual unit value): increased management costs for the social cooperative (2)	€ 1,107.67
C1 = B1*A	Total Input: contributions paid by P.A.	€ 87,717,353.97
C2 = B2*A	Total Input: increased management costs for the social cooperative	€ 20,118,659.17
D = C1+C2	TOTAL INPUT	€ 107,836,013.13
E1	Disposable income or spending power (average annual value) (3)	€ 7,572.36
E2	Higher tax revenue (average annual unit value) (4)	€ 1,002.20
E3	Less healthcare costs to relieve dependence reconciliation (average annual unit value) (5)	€ 3,069.38
F1 = E1*A	Total: disposable income or spending power	€ 137,536,699.08
F2 = E2*A	Total: higher tax revenue (average annual unit value)	€ 18,20,887.74
F3 = E3*A	Total: minor costs for recovery projects	€ 55,749,204.22
G = F1+F2+F3	TOTAL: PRESENT VALUE	€ 211,488,791.04
H = G-D	TOTAL: NET VALUE	€ 103,652,777.91
I = G/D	SROI	1.96

(1) Law no. 381 of 1991 recognized an exemption for the compulsory social and health insurance connected to the disadvantaged workers remuneration, even for the share paid by the workers. The percentage of P.A. contributions for each disadvantaged worker is calculated on the basis of labour consultant estimates. The figure corresponds to the average of the annual value for each job position.

(2) Time spent by staff for psychological assistance and support (it considers only the empathic care and support; it does not include work coordination).

(3) = For each disadvantaged worker the available income/annual spending power is estimated; the net income is reduced by the average savings rate calculated by ISTAT (2015). The figure corresponds to the average of annual income for each job position.

(4) Average annual tax revenue deriving from the work of disadvantaged people, depending on the different rates of income. Estimates elaborated by labour consultants. The figure corresponds to the average of the annual value for each job position.

(5) Estimation of the average annual value of the reduced social costs incurred by P.A. for recovery and/or assistance projects (less outpatient and home healthcare costs and lower residential and residential health care costs). The estimation is based on data from the Department of Anti-Drug Policies - Presidency of the Council of Ministers Federation of Employees for Addictions Services (FEDERSERD), Italian Ministry of Health, Italian Society of Alcoholics (SIA), and Italian Society for Drug Addiction (SITD). Years 2015-2016

We followed the previously mentioned procedures to measure monetary and quantitative outcomes, as well as the SI value generated by SWICs for the convicts.

Table 5 shows monetary and quantitative outcomes; Table 6 shows the measurement process and the values. Our observations regarding higher tax revenues and disposable income to final consumption are similar to those we pointed out regarding people with disabilities. However, when it comes to qualitative variables – which we used to describe quantitative outcomes – there are a lot of differences, and several answers given by our interviews are noteworthy. They stated the social cooperatives offer prisoners the possibility of working while continuing on the rehabilitation path.

As a consequence, when the detainee gets out of prison, it will be easier for him or to find work due to the experience he/she had with the cooperatives. In fact, because of the cooperatives' support, convicts have the opportunity to learn a profession and acquire skills. Moreover, through work in the cooperative, convicts started several recovery paths; many of them ended with success. Those people are now reintegrated into the community.

One of the most important consequences of convict integration work is that the detainees have the opportunity to feel useful, learn something, and give meaning to their days.

As we described before, qualitative variables, unlike monetary outcomes, cannot be evaluated by financial proxy, however they are very important to determining social value generated by activities.

During the interviews, we obtained interesting answers. The most interesting one highlights the role that social cooperatives have in the interest of the entire community, not only for the integrated workers. For instance, the social cooperatives give people with addictions a chance to redeem themselves by working, and an opportunity to give a new meaning to their life, to not feel burdened but independent through working and earning. Sometimes, social cooperatives pay out work grants to people who would otherwise not work, especially in some territory, like a small city where everyone knows each other and the injury to people with disabilities is very strong.

**Table 5:** Outcome for convicts

Stakeholders	Monetary outcomes (columns E1; E2; E3 table 6)	Quantitative outcomes
Community	• Disposable income to final consumption	• Reintegration into the community • Awareness on the subject of prisoners • Decrease of recidivism
Public Administration	• Higher tax revenues • Lower costs for recovery projects	n/a
Disadvantaged people	n/a	• Possibility to continue in the rehabilitation path

**Table 6:** SROI evaluation process for convicts

Social impact generated from Italian working integration cooperatives – convicts Year 2016

A	Number of convicts	4,426.00
B1	Input (average annual unit value): contributions paid by P.A. (1)	€ 4,431.28
B2	Input (average annual unit value): increased management costs for the social cooperative (2)	€ 1,016.35
C1 = B1*A	Total Input: contributions paid by P.A.	€ 19,612,825.98
C2 = B2*A	Total Input: increased management costs for the social cooperative	€ 4,498,354.58
D = C1+C2	TOTAL INPUT	€ 24,11,180.57
E1	Disposable income or spending power (average annual value) (3)	€ 7,743.36
E2	Higher tax revenue (average annual unit value) (4)	€ 984.61
E3	Lower costs for recovery projects (average annual unit value) (5)	€ 1,827.46
F1 = E1*A	Total: disposable income or spending power	€ 34,272,126.09
F2 = E2*A	Total: higher tax revenue (average annual unit value)	€ 4,357,882.43
F3 = E3*A	Total: minor costs for recovery projects	€ 8,088,333.03
G = F1+F2+F3	TOTAL: PRESENT VALUE	€ 46,718,341.55
H = G-D	TOTAL: NET VALUE	€ 22,607,160.98
I = G/D	SROI	1.94

(1) Law no. 381 of 1991 recognized an exemption for the compulsory social and health insurance connected to the disadvantaged workers remuneration, even for the share paid by the workers. The percentage of P.A. contributions for each disadvantaged worker is calculated on the basis of labour consultant estimates. The figure corresponds to the average of the annual value for each job position.

(2) Time spent by staff for psychological assistance and support (it considers only the empathic care and support; it does not include work coordination).

(3) For each disadvantaged worker the available income/annual spending power is estimated; the net income is reduced by the average savings rate calculated by ISTAT (2015). The figure corresponds to the average of annual income for each job position.

(4) Average annual tax revenue deriving from the work of disadvantaged people, depending on the different rates of income. Estimates elaborated by labour consultants. The figure corresponds to the average of the annual value for each job position.

(5) Estimate of the average annual value of the lower social costs incurred by P.A. for recovery projects (reception and orientation activities, training activities and mentoring activities within traineeships). The estimate is based on data and research from the Italian Ministry of Justice, Restricted Horizon, and the Italian Penitentiary Psychology Society (S.I.P.P.). Years 2015-2016.

## Discussion

Before starting the discussion of the paper, we believe it is useful represent a synthesis of the social value measurement process we carried out. In fact, the assessment method is complex and subjective so, we believe is useful resume it in the Figure 3.

As it can be noted, the first step of assessment consisted in the measuring of inputs that represent resources used in the delivery of the intervention. We then measured the valuable outcomes (disadvantaged workers' income, higher tax revenue, lower social costs). As previously mentioned, we obtained the outcome by multiplying the changes occurred in the life of the beneficiaries of the activities (the output: disadvantaged people involved) by using the financial proxies. Not all outcomes have occurred through the specific activities we assessed, therefore we corrected them by means of the adjustment process, and obtained the present value. By deducting total inputs from the present value, we obtained the net value. The SROI is the ratio of the net value to the input.

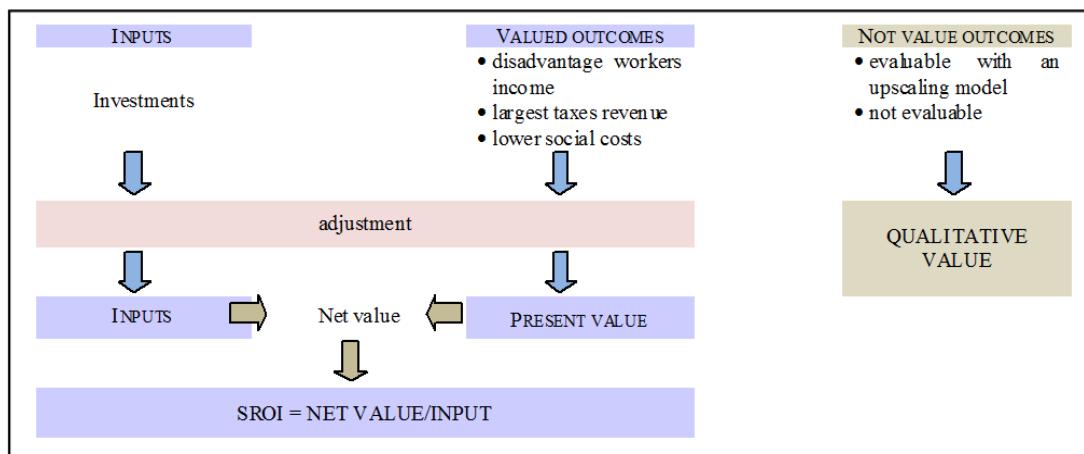
The aggregate results are noteworthy. We obtained them by adding partial results of each category showed in Tables 2, 4 and 6.

Specifically, we added the values of columns A in Tables 2, 4 and 6 to obtain the outputs (disadvantaged people). We added column D values for each aforementioned table to obtain total input (investments), and column G values to calculate the present value (valued outcome). Columns H showed us the net value (deducting total input from valued outcome). Finally, the algebraic sum of SROI (column I) gave us the total SROI produced by Italian SWICs in 2016.

As can be seen, each category we analyzed has a positive SROI (higher than one). As a consequence, if we sum up the partial results, we obtain the aggregate SROI values, greater than one, and the other values. In Table 7, we show a synthesis of the results to obtain the ratio SROI for the working integration cooperatives analyzed as a whole.

As can be observed, the SI value generated by integration working cooperatives in year 2016 has been valued at €716,364,855. This is the present value obtained on investments of € 373,856,159 which has led to a net value of investments with a value of € 342,508,696. The ratio SROI for the same years is 1.92 which means that for every euro invested on disadvantaged people's working integration, € 1.92 of social value is created in terms of increased taxes collected, reduced healthcare costs (especially for people with disabilities or alcoholics and drug addicts), and increased income for the beneficiaries of the social integration. The results show that the social value generated by social cooperatives is more than each euro invested in the activities. As stated before, the social value is underestimated due to the lack of some variables in the assessment process (non-valued outcomes at this stage, and outcomes hardly evaluable except with subjective and debatable valuations).

The findings from this study are not complete at this stage as they do not consider all categories of disadvantaged people such as immigrants, long-term unemployed, the unemployed over 50 years of age, etc., and other kinds of disadvantages that are included in European law.



**Fig. 3:** Measurement process

**Table 7:** Social impact total value

Social impact generated from Italian working cooperatives year 2016				
Disadvantaged people (output)	Investments (input)	Present value (valued outcome)	Net value (valued outcome – input)	SROI (net value/input)
67,134	€ 373,856,159	€ 716,364,855	€ 342,508,696	1.92

Another limitation is the lack of measurement and evaluation of some outcomes that we considered not evaluable. In fact, at this stage we have not monetized them as a consequence of the high complexity of any monetary determination process. The further step of our research will be to direct our efforts towards a full analysis of them, and we expect the SI is greater than what we have demonstrated.

We demonstrated that resources invested by different stakeholders (public administration, social cooperatives, disadvantaged groups, families, communities) produce a social value higher than inputs, irrespective of the effects generated by other employment inclusion policies. If the social value generated by social enterprise can be viewed as a result of intangible assets, this measurement increases stakeholders' trust as well as strengthens the relationship with them. As a consequence, the SI can be viewed as a driver of economic value. Community, public administration, lenders, and other investors will increase their relationships and partnerships with social entities.

This is the starting point of our research. To test our hypotheses and get final results, we need to measure the variation of the SROI over time. If our theoretical hypotheses are correct, we expect to register an increase of the SROI over time. This is a first study because to prove our suggestions we need to repeat the analysis for at least three or four years.

## Conclusion

The significance of this study is to extend the studies on the intangibles to the social enterprise, and to the Third Sector in general. To date, research has investigated the role of intellectual capital in the non-profit sector focusing on the contributions of skill, knowledge, employee satisfaction, fluent process, and other intangible aspects. Some studies concern IC in human resources structure, and deal with the assessment of volunteers and their role in relation to that of paid workers.

This paper fills the gap in the literature and underlines the relationship between SI and IC in the social work integration cooperatives. Indeed, many studies have focused on intellectual capital applied to the Third Sector, but there are no studies that show the relationship between SI generated by non-profit organizations and IC. This is the first study focused on this topic.

This paper contributes to the literature by theoretically arguing that the measurement of social value improves SWICs' economic value as a consequence of improvements of relationships and trust with external stakeholders (intangible assets). To ground our theoretical hypothesis, we measured the SI value achieved by Italian SWICs through an aggregate analysis. The aggregate analysis is very important for

our research because we are interested to know the positive or negative relationship between IC and SI as a whole, not only for a single case study.

However, in order to obtain final results, and not only first-level information, we need to verify whether the economic value increases over time. The next step of our study is to measure trend analyses of the SROI in Italian SWICs for the next 3-4 years.

The originality and contribution of our study to the extant literature and practice is twofold.

On the one hand it is the first study that links IC and SI in respect to the SWICs. In this way, this paper contributes to apply the IC definition, theory, debate, and measuring instruments to the non-profit sector as a whole.

On the other hand, it is the first research in Italy carried out through an aggregate analysis to measure SI value achieved by Italian SWICs. Our methodology could be applied to monitoring the SI for the social cooperatives as a whole. On the contrary, many existing studies focus on the evaluation of single projects or specific experiences, and adopt a vision focused on occasional activities rather than systematic ones. Primary data provide a broad basis for economic and employment development policies that engage public and private investors which support high-impact social activities. To date, this is very important in Italy because an important reform in regards to the Third Sector, specifically about social enterprises, was recently passed. The SI assessment may be described as "the quantitative and qualitative assessment of the effects of community-based activities on the short, medium and long term in relation to the target set" (Law 106/2016).

We believe that our work can be regarded as an international framework, and can be used to repeat the same evaluations in another country. Furthermore, our contribution can generate further research from both non-profit practitioners and scholars through the measurement of hypotheses over time.

Finally, as we emphasized earlier, the literature and the research on IC are referred to profit-oriented enterprises. We believe that the topic can be applied to every entity irrespective of mission and goal pursued. In fact, the results of our study show that not all value can be evaluated by financial data, especially if we refer to social enterprise in which the most important part of the activity is generated by pursuing intangible assets (social value, outcome not evaluable, and so on).

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## Author's Contributions

**Antonietta Cosentino:** She devised and coordinated the scientific project. She wrote the manuscript and reviewing it critically for significant intellectual content.

**Laura Bongiovanni and Alberto Cesari:** They carried out the acquisition, processing, analysis and contributed to the interpretation of data.

**Cristina Di Stefano:** She contributed to the writing of this manuscript and helped in preparing parts of the literature review.

## Ethics

This article is original. The Authors have presented a synthesis of the SROI results at several international conferences; however, the link between SI – measured with SROI – and the theoretical hypothesis is original and was specifically designed for this special issue. The corresponding author confirms that all the other authors have read and approved the manuscript. Hence, no ethical issues are involved.

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