

**Socio-economic Profiling and Social Auditing Tools for Measuring the Social Economy in Local Communities: The CONSCISE findings (Contribution of Social Capital to the Social Economy to Local Economic Development in Western Europe)**

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## **Abstracts**

The concept of social capital features in recent European policies and programmes for local development and social economy, but is beset with definitional problems making it a concept that is difficult to put to use. The CONSCISE Project - "The Contribution of Social Capital in the Social Economy to Local Economic Development in Western Europe" – has examined ways in which social enterprises in 8 different locations in Europe use and build social capital.

The CONSCISE Project developed a working definition of social capital comprising of six elements

- trust,
- reciprocity and mutuality,
- shared norms,
- sense of belonging and commitment,
- social networks and information channels.

This was then used in local socio-economic profiling to explore whether local social capital had an impact upon the emergence of social enterprises and a social accounting framework to examine how social enterprises use and build social capital. The project has produced a number of insights.

### **1. Introduction to the Research Project**

The CONSCISE Project was a three-year research project funded under the European Framework V Key Action "Improving the Socio-Economic Knowledge Base". The project has worked in eight local fieldwork locations in 4 EU Member States (Germany, Spain, Sweden and the United Kingdom) to examine the extent to which social enterprises in the social economy produce and reproduce social capital and thereby facilitate local economic development, social cohesion and inclusion.

The objectives were to identify relevant, comparable and practicable definitions, baseline characteristics, indicators and measures of social enterprises, the social economy and social capital. At first, a methodology for the construction of baseline socio-economic profiles of selected locations in each participating member state and common and comparable indicators/

measures were developed.

Then we adapted and developed a methodology for the carrying out of social audits of selected social enterprises in each locality. We ensured the compatibility of the social audit methodology with the agreed indicators and measures of social enterprise, social economy and social capital and consolidated these within the social audit methodology.

In baseline socio-economic profiles we collected data of selected locations in the participating states. Hence we produced social audit reports on selected social enterprises in each chosen locality, utilising the methodology developed. In a consolidated report socio-economic profiles and social audits were summarized and this further informed a comprehensive and final report which:

- drew conclusions on the relationship between the social economy, social capital and the broader economy,
- provided recommendations to contribute to European Community, member state, regional, and local policies on employment and social exclusion.

In a social audit report it was intended -

- to compare and contrast social audit reports of selected social enterprises in each of the chosen localities.
- to consolidate these reports into an overall report on social audits of social enterprises with the aim of establishing –
  - (a) how far the social enterprises are successful at meeting their stated social aims,
  - (b) the impact of the activities of the social enterprises on the development of a social

economy and the accumulation of social capital in the location.

The socio-economic profiles and social audits were consolidated into a comprehensive and definitive final report which

- drew conclusions on the relationship between the social economy, social capital and the broader economy,
- provided recommendations to contribute to European Community, member state, regional, and local policies on employment and social exclusion.

A survey-derived index of local social capital was produced for each of the eight localities, which compared well to other proxy indicators of social capital for the localities. However, this told us little about whether social capital enhances local development. What was more important than measurement was examining the operation of social capital in a local context, where aspects of social, political and economic development might affect the level and impact of social capital. While local social capital was in evidence in small, isolated rural localities we found that in large, dense and socially diverse urban locations, social capital was more associated with various communities of interest, groups and organisations. In addition it became clear that the balance and ‘management’ of bonding (within group) and bridging (between group) social capital would be important for social enterprises to gain positive advantages from the resource.

A range of key findings emerged from the research.

## **2. Local Economic Profiling: The case of Wrangelkiez**

The objective of CONSCISE was to identify Social Capital in social enterprises as well as in communities. The aim was to find out to what extent social enterprises use Social Capital and /

or to what extent and in which way social enterprises contribute to the building of Social Capital. According to our definition, social enterprises either pursue objectives primarily for the benefit of a target group or primarily refer to benefits for a local community. Within the framework of the CONSCISE project we were interested in both aspects, especially in the extent to which social enterprises – whether intended or not – use and build Social Capital through their activities in the city, the borough and the district.

In the German part of this project, socio-economic profiles of *Wrangelkiez* in the district of Kreuzberg and in another multi-deprived neighbourhood in the district of Wedding were produced at the same time. In this context, profiles of five social enterprises in each of the *Kieze* (neighbourhoods) have also been evaluated. It turned out that, for several reasons, the social enterprise Firm X in the *Wrangelkiez* met extremely well the necessary requirements for our research project.

As a training and employment Company Firm X did not focus on *Wrangelkiez* (neighbourhood around Wrangelstrasse in the borough of Kreuzberg-Friedrichshain) but on social target groups living in the whole district of Kreuzberg and beyond its boundaries Berlin-wide. It also played a role in developing Social Capital with a neighbourhood management.

Objectives of the profile profiles were to:

1. describe the area with the focus on the local Social Economy;
2. describe and evaluate the local social capital;

3. investigate the relationship between social capital and social enterprises within the local economy.

The profiles were therefore concerned to find out how local social capital contributes to the development of social enterprises and how social enterprises generate social capital locally.

The beginning of community profiling was only of late developed in the Anglo-Saxon countries.

Hawtin et al. (1995) define community profiling as

"... a comprehensive description of the needs of a population that is defined, or defines itself, as a community, carried out with the active involvement of the community itself, for the purpose of developing an action plan or other means of improving the quality of life of a community."

We applied four instruments in order to compile the profiles:

- the use of secondary data (statistics, literature etc.)
- a questionnaire survey of social enterprises in the Kiez (*neighbourhood*)
- a questionnaire survey of residents in the Kiez
- the critical assessment of results by a "Soundings Group", a group of residents and project representatives from the Kiez who were, to our opinion, well acquainted with the local situation and were able to evaluate the situation and who could examine our results.

Social capital can have a positive or negative impact. It can be the cement which glues the people in a society together, it is also the soil on which to grow human assets, where even productivity and financial assets might not grow. Social scientists are of the same opinion of late on the

positive or negative significance of such factors, be they of European (BOURDIEU), American (PUTNAM) or oceanic (ONYX and BULLEN) provenance.

So far it has only been examined, how far this factor of production affects the politics and the private sector. With regard to our socio-economic profiling in the Berlin districts of Kreuzberg and Wedding it concerned us, however, on the one hand to identify social capital at the local level. On the other hand we wished to describe and analyse the relationship of social capital and the Social Economy.

We suspected that the social economy, which normally has at its disposal only limited financial capital, must rely extensively on the use of social capital. We assumed on the other hand that social economy, which pursues social objectives, contributes also to the development of social capital. To verify the latter hypothesis in our example of a social enterprise a social audit was conducted.

We used a number of concepts and terms, which have come to be accepted in Germany only gradually and with difficulties. Since they cannot be explained in an introduction by a few definitions, we refer to the list of references. We recommend to our English speaking readers to peruse the Web Site [www.european-network.de](http://www.european-network.de) and <http://www.malcolmread.co.uk/conscise/> to verify the research and the working definitions to which we refer. Regarding the topic of the social and local economy we refer to the publications of the Interdisciplinary Research Group “*Lokale Ökonomie*”. Regarding in particular the topic “social enterprises” a number of publications were published by the IRG of Technologie-Netzwerk Berlin.

For the local socio-economic profiles in the *Wrangel Kiez* and in the *Soldiner Kiez* we had to clarify the following questions:

1. How does the socio-economic situation in the area present itself?
2. What does social capital contribute to the local social cohesion?
3. What does social capital contribute to the development of social enterprises?
4. What does the social economy contribute to the generation of social capital?

Our survey in the Kiez and the ultimate evaluation of the questionnaires and reports contributed to the development of social capital and the social economy within the respective Kiez. In the frame of the project we analysed the responses of residents in the neighbourhood, the local economy, the social economy in the Kiez, the local social infrastructure, the local civic society, and the Social Capital. Some of the findings were taken up by local groups in the area.

The results were most interesting concerning the development of Social Capital and the social economy in the neighbourhood: The neighbourhood was seen as a safe place where mutuality and common norms still play a strong role. It became clear, however, that social networking in the area was becoming weak. At the same time the knowledge of social economy organisations in the population was striking.

Within the local social economy, co-operative relations based on mutual trust were becoming scarce and were even breaking up in some cases. Whereas bonding capital often was obviously existing at a high level, bridging capital in the social economy and the local community was diminishing.

Even though there were indications that social enterprises were using local Social Capital (e.g. through membership of residents in social enterprises) how they generate and re-generate it remained obscure. The social enterprise Firm X we audited in the process was involved in carrying out a *Quartiersmanagement* / QM (publicly funded neighbourhood management) in this area. “Not without them, not for them but with them” was the credo under which the quality of life in the *Kiez* should be improved. Still the scepticism of the residents towards this social enterprise whose main aim was to train people for employment in the private sector, remained strong.

Whereas sector transcending networking among the organisations at local level were not strongly matured the QM developed several community-oriented projects. Here local social enterprises were involved in regenerating public space. Also new social enterprises were funded by the initiative of the social enterprise-led neighbourhood management, f.i. a local exchange and trading system in the locality.

### **3. Social Auditing: The case of Firm X**

The research connected with the social auditing tool we examined and presented *inter alia* the main findings of the social audit conducted by Firm X. Specifically, it considered how the enterprise used social capital to sustain itself and how it generated social capital for the benefit of the local social economy, and the effectiveness of using explicit social capital objectives within the social audit framework to measure this.

The central task of social enterprises is to gain social (including community-oriented and environmental) benefit. This benefit can only be achieved if there is financial stability. Yet, the latter is considered less important which means that, for this type of enterprise, social objectives play a more important role than profit-making. On the other hand, economic success is necessary to cover at least the cost and to gain a certain surplus which allows social enterprises to (re-)invest money according to their objectives.

It is the aim of the Social Accounting to inform the organisation as well as everybody taking part in it, or being affected by it, about how the social objectives are achieved. This also includes the question of whether the enterprise is ready to fulfill the stated values and whether objectives and values are relevant and appropriate. The Social Audit (and / or the Social Accounting) are meant to document and assess this process.

Social Accounting and Social Audit constitute a framework which allows an organisation to develop a process based on existing documents and reports by which it can demonstrate and improve its performance (e.g. by developing an action plan). Furthermore, this process allows the impact on the community to be assessed and an account to be given to the stakeholders. The stakeholders constitute all persons and groups who are affected by the economic activities of the social enterprise.

### **3.1 Social Audit, social accounting and social bookkeeping**

In the following section, the central terms of a Social Audit will be explained:

- Social Accounting

Process during which an organisation gathers, analyses and interprets quantitative

and qualitative information in order to give an account of its performance.

- Social Bookkeeping

Instrument through which information is gathered constantly in the course of a year in order to relate the performance to the stated social objectives and which constitute the social accounts.

- Social Audit

The process of revising and confirming the social accounts at the end of each Social Audit cycle. Nevertheless, the term „Social Audit" (process) is generally applied to the concept and the whole process, which should otherwise be correctly referred to as ‘social accounting’..

A complete social report usually includes

- a report on the performance of the enterprise with regard to the stated social objectives
- the estimated impact on the community
- the stakeholders' opinions on objectives and values
- a report on environmental activities
- a report on how equal opportunities are attained
- a report on how legally fixed as well as self-imposed quality and process Standards are kept.

Social Accounting provides a social enterprise with the necessary quantitative and qualitative information on its performance and how the people affected respond to it, including analysis and / or interpretation.

Social Accounting, checked by an independent Social Audit panel can therefore be generally

trusted. The information provided by such audited accounts can influence the activities and help the organisation improve. The published social accounts allow all stakeholders - those who benefit from the work, who work for the enterprise, who maintain business connections or cooperate in a partnership - to realize the obtained added value.

### **3.2 Social Audit within the framework of CONSCISE**

In the CONSCISE project the Social Audit was meant primarily to examine in what way Social Capital is produced and reproduced in the social enterprise, i.e. to what extent Social Capital is used and / or built in the enterprise, and in the community. The research project operationalised the concept of Social Capital and, for the first time in the European Union, included aspects of Social Capital in the Audit process.

### **3.3 Principles of Social Audit**

The Social Audit requires adherence to a number of criteria in order to produce an effective social report. The Social Audit should be:

- **Multi-perspective** with the aim to take into consideration the opinions (and / or ‘voices’) of all stakeholders, i.e. the people who take part in the organisation or are affected by it.
- **Comprehensive** with the aim to report about all aspects of the organisation's work and performance at the end.
- **Regular** with the aim to produce social accounts regularly in a way that conception and practice are anchored in the organisation's working method.
- **Comparative** in order to provide a means by which the organisation can compare its own performance with appropriate external norms and benchmarks every year. The aim is to draw comparisons between organisations working and reporting in a similar way.

- **Verifiable** in order to guarantee the Auditing of the social accounts by one or more experienced persons who are not involved in the organisation.
- **Disclosed** in order to guarantee the dissemination of the reviewed accounts to the stakeholders and the affected community so that all activities are accounted for and made transparent at the same time.

Since this was a unique project, the above-mentioned standards could not be applied here that strictly. Especially in the case of Firm X who agreed to carry out the Social Audit in an extremely difficult situation the above mentioned criteria could not be completely implemented. Nonetheless, it was intended to implement all those criteria because we regarded them as extremely important for the corporate identity of an enterprise.

Undoubtedly, it was a great challenge for the staff and the management of Firm X to be the "guinea-pig" for such an action carried out for the first time in Germany.

### **3.4. Conclusions and recommendations with regard to the objectives concerning Social**

#### **Capital**

The research team documented the process of change (the restructuring of the firm) using the information of the social book-keeper hired by the social enterprise. Alongside a questionnaire's guideline the researchers themselves asked relevant stakeholders on

- a) how the enterprise builds on social capital in the local community and
- b) in which way it produces social capital in the local community.

### **3.4.1 Mission and key values of Firm X\***

The **mission statement** of Firm X was the following:

- “Firm X is an enterprise with charitable status which provides training and employment for disadvantaged people with the aim to promote social inclusion and social urban development.”

The stated **values** were described and commented as follows:

- **Preserving the environment and improving the quality of life:**

Those were the constant values constituting the central activity area of Firm X.

This focus helped to strengthen social cohesion at local level. The way this was carried out (e.g. in a participatory way through citizens' participation), was by strengthening local Social Capital.

- **The creation of social justice and equality:**

This value was generally intended. Yet, it was not clear if this value was implemented to the extent desired. At any rate, it was important for the enterprise that such norms were fulfilled so that Social Capital could be built and the survival of the enterprise be guaranteed.

- **Participation of social minorities with equal rights in the social life:**

This task was basically tackled in the fields of cultural activities and urban development. These areas were extended in the change management.

- **The participation of disadvantaged groups:**

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\* Without the existence and the building of Social Capital this enterprise would never have been set up and would certainly have gone bankrupt during the first crisis. With the necessary amount of Social Capital, Firm X would possibly not even have got into a critical situation. A focused press campaign was initiated by people who felt mistreated by the old management. And when the campaign was started almost nobody was left to defend the enterprise.

was evidenced, e.g. by offering gainful employment to young people, by supplying flats to disadvantaged people or by supporting the homeless.

- **Good quality of products and services**

was given a higher and higher priority. By introducing a project integrated management system these aims were guaranteed. According to the new management, this was an important driver of Social Capital with regard to business connections with partners and clients.

### **3.4.2 Objectives and activities in the enterprise process**

We will now discuss how Social Capital was developed alongside the changing aims and activities of Firm X during the period of the Social Audit.

#### **Objective 1: Creation and protection of employment**

The construction department, which was the largest employer, was turned into a subsidiary without charitable status. That had to do with the fact that some construction activities were incompatible with the charitable status by law. These legal conditions are regrettable since the isolation of central areas (formally for the time being) might damage the enterprise as a whole. Yet, the enterprise cannot be blamed for that.

The implementation of employment programmes through socially useful work conducted by disadvantaged people was the central activity / business field. For the building of Social Capital in and outside the enterprise it was important to stick to that aim. For the social cohesion of the city of Berlin (more than 400,000 unemployed at present, a high incidence of unemployment in the construction industries) this was one of the most important activity fields.

**Objective 2: Creating training and employment as well as implementing qualification, training and further training and education**

This business area was becoming more and more important. In the 10 years that Firm X existed, it became successfully established as an educational institution. Concerning acquisition and supply of training places (incl. practical training) Firm X remained an important local actor in the city. This field was to be extended through training in different construction industries as well as retraining and / or training in the fields of information technologies.

Because of the difficult situation in the training and labour market, training on the job and its modularisation for disadvantaged groups remained important fields which improved the training capacity of young people. The enterprise's aim to foster communicative and social competence could directly promote the building of Social Capital.

**Objective 3: Environmental improvement**

For the above-mentioned reasons, this was an important activity field. Non-polluting construction and above all the renovation of churches were aims which contributed to the use and building of Social Capital.

This also applied to strategies of waste avoidance, recycling and waste management on the construction sites, to the organisation of trade fairs and events and the promotion of environment management systems (and/or the Eco Audit).

**Objective 4: Culture and event management**

Using churches for cultural matters was not only an important feature of Firm X activities. Regarding the building of Social Capital, cultural offers should not only be kept but even be extended in structurally weak areas.

#### **Objective 5: Social urban development**

The activity fields "Development of particular local communities", "Neighbourhood management", and "Networking of local actors at neighbourhood level" were considered as failed because the task of the neighbourhood management was transferred by the Berlin Senate to another organisation. Yet, the local socio-economic profile shows that Firm X operated with some success in this field and, furthermore, through its neighbourhood management, even set up structures which helped to develop Social Capital in the area. To some extent this also applied to the field of regional structural development. Whereas the first activity field had been completely dropped the latter was modified and kept.

#### **Objective 6: Promoting (the use) of modern information technologies**

Teaching unemployed people key qualifications can increase the chance of individual unemployed people finding a job. Yet, it does not help to reduce unemployment in general. However, this objective as such should not be declared a social aim. On the other hand, the dissemination of IT knowledge and equipment to disadvantaged or unqualified people with a special handicap (imprisoned people) can reduce social exclusion in some cases. The extension of prison projects also certainly contributed to the reduction of social problems of individuals-, though it is hard to tell how far this affects Social Capital.

#### **Objective 7: Social inclusion**

As already mentioned, social inclusion can (but need not necessarily) result in social cohesion. Employment and training for young people, immigrants, women, elderly people, long-term unemployed etc. were fostered with much more focus on districts containing social problem groups and through specific measures for socially disadvantaged individuals (beneficiaries of supplementary benefit).

There was thought to be sufficient Social Capital in the area such that Firm X could develop their new field, i.e. provision of support and inclusion for elderly and ill people as well as for fugitives etc., and then extend it to inhabitants of the neighbourhood.

#### **Objective 8: Good working conditions**

For the building of Social Capital within the enterprise, job protection is a significant aspect. So, fortunately, this objective was to be pursued more vigorously. It was certainly disappointing that no data was available concerning the health aspect in sensitive fields such as the construction sector. That several of the original activity fields were dropped may partly be due to their having been inadequately highlighted and delimited.

Finally, a recently envisaged activity field has to be examined:

#### **Objective 9: Firm X as Service Company and partner for churches and/or charitable institutions**

The support of charitable organisations offering employment for socially disadvantaged people (e.g. employment for beneficiaries of supplementary benefit in churches / clerical institutions), resulted from the government's tendency to allocate measures for beneficiaries of social welfare benefit to churches.

### **3.4.3 Conclusion**

It proved both interesting and fruitful to produce a Social Audit focusing on Social Capital. In this case, it was probably much easier to demonstrate the importance of Social Capital for the existence of the enterprise, including all aspects, than in an enterprise with a rather stable situation. Being outsiders, the few interviews we were able to make with stakeholders have shown us in a very vivid and sometimes even dramatic way the extreme importance of Social Capital for the development of an enterprise and its staff (i.e. for financial and human capital development).

All the elements and / or indicators of Social Capital such as confidence, mutual relationships, sense of belonging, norms, networks and information channels had already played an important role when Firm X was founded. During a crisis, after 10 years of ups and downs this fund of Social Capital was the crucial trump card that the new management could still offer to the few remaining partners. These were the qualities considered as important by the new management.

Finally, we would like to underline the great willingness of both old and new management and staff to participate in this challenge during a phase of reduced time and resources. We negotiated the implementation of the Social Audit with the old management. It gains our respect that the old as well as the new management had kept the promise to have the Audit carried out irrespective of the difficult situation. The fact that this promise has been kept helps to build Social Capital at the same time.

### **3.4.4 Strengths and weaknesses of the Social Audit**

This Audit process was based on a high degree of Social Capital with the management and the heads of departments as well as the colleague who carried out the social bookkeeping. It was carried out at a time when the enterprise went through a very difficult phase. The dynamics of this process was, at the same time, a strength and weakness of this Social Audit.

The activity fields changed quite dramatically (although without basic modification of mission and values) during the reported period. Within the framework of this Audit, it was extremely interesting to analyse this change in terms of the social performance. On the other hand, due to the unusual situation important areas could not continually be analysed and, nor could internal stakeholders such as the staff, participants of measures and important external stakeholders be constantly pursued for information on a regular basis.

The social bookkeeper, a qualified business social scientist, was certainly quite competent in capturing data but the lack of experience in this field could not be compensated for by the auditors either and had therefore often to be bridged by mere improvisation. Nevertheless this historical document – it was the first Social Audit carried out in a social enterprise in the Federal Republic of Germany – offered a very precise and detailed system and a multitude of important and usable information for the enterprise and its stakeholders.

## **4. Final Conclusions**

Social capital is clearly an important resource for social enterprises in all phases of organisational and local development, as it reduces transaction costs, is appropriable (once built up for one action it becomes available for others), does not diminish with use, and enables social cohesion.

In many cases however, social enterprises needed to first develop awareness of the importance of building, nurturing and maintaining relationships of trust and reciprocity with all their stakeholders. While social enterprises do **network** with other local social enterprises, they are also often in competition; rarely for market share but most often for public sector support. Of the eight social enterprises in the fieldwork almost all were found to be rooted in social capital that had emerged from people joining together in a social movement to address a local problem / need. Despite the popular idea that individual social entrepreneurs are responsible for mobilising social capital to develop social enterprise, there was no evidence of this and more apparent was a sense of collective entrepreneurship driving social enterprises as different stakeholder groups subscribed to the shared values inherent in their social objectives.

The main policy implications of the research were that raising awareness of social capital and doing a regular ‘stocktake’ of it should become part of the social management ‘tool kit’. As part of this a balance needs to be maintained between bonding and bridging social capital in order to prevent at one extreme possible exclusivity in local development, as against the risk of diluting local social cohesion and potential loss of commitment on the other.

Socio-economic Profiling and Social Auditing can be used as tools not only to assess Social Capital development in the social economy. It can be equally used to mobilize stakeholders and to strengthen local economic development even if initiated by independent researchers.

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