RITA DINIZ • MIGUEL PINA E CUNHA
Editors

Management, Leadership and Innovation in the Social Economy Sector in Portugal

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We hope that this book will help fulfil the mission that served as the foundation of this project, and contribute to the transformation of the social sector in Portugal.

Management, Leadership and Innovation in the Social Economy Sector in Portugal

Rita Diniz
Miguel Pina e Cunha

Organisers

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Opening note

Progress can only be achieved if we all make progress

'la Caixa' Foundation, one of the world's largest philanthropic institutions, allocates to the social sector, namely to Science, Education and Culture, amongst many others, over 50% of its budget. Since 2017, when it started designing its intervention plan in Portugal, following the integration of BPI Bank into Caixa Bank, the Foundation has maintained this resource distribution pattern. Among many other initial issues, it was crucial to gain an in-depth understanding of the country's social scenario, policies, key actors, and the network of institutions that make up the social solidarity system and the so-called third sector.

The need and desire to gain, organise and systematise knowledge, and make it available to the community gave birth, in 2019, to the Social Equity Initiative, a partnership between the Foundation, BPI and Nova SBE, that involves eight projects and two chairs. Four of those projects are directly targeted at the social economy sector: two in the field of science-based information, the Social Balance report, published annually, and the Social Database, now in its full maturity phase; and two other projects focused on the capacity-building of institutions and their agents: the Social Leapfrog programme, which offers selected institutions a three-year immersion in improving their

management conditions, and Social Leadership for Managers programme, which aims to prepare experienced professionals to collaborate with social institutions, with essential notions on their most relevant aspects.

One of the key aims of this programme, which has now been extended to Católica Porto Business School, is to ensure that managers bring benefit to organisations, especially through advisory boards. Approximately two-thirds of the participants have already achieved this, as the course fosters an active cross-section of experiences that is growingly expressive in the development of the Social Equity Initiative, with institutions benefiting from the Leapfrog programme. It presents multiple directions, as the school trains, supports change and then evaluates the work, namely through master's theses and case studies that address the social sector. This creates a virtuous cycle of study and action on reality, driven by teachers and students. This book, although not initially planned, is a valuable guide in the project, an example of the dedication and consolidation of a professional pedagogical process with continuity and purpose.

José Pena do Amaral

Preliminary note

This book continues the Social Leadership for Managers training programme. We soon realised that participants wanted more structured information to enhance their knowledge and do better.

But let's start from the beginning, in 2019, with the launch of the Social Equity Initiative, a partnership between 'la Caixa' Foundation, BPI Bank and the Nova School of Business and Economics (Nova SBE). The aim was to boost the social sector and develop research and training programmes to support social organisations in Portugal. This initiative created two chairs and eight projects, involving six Nova SBE Knowledge Centres, and was led by the Leadership for Impact Knowledge Centre. The path has been mapped out, the destination is social impact.

The Social Leadership for Managers executive training programme is a Programme for senior executives who want to understand the social economy sector to better contribute as skilled volunteers, and is one of the projects in this area.

This book was designed for anyone who wants to deepen their knowledge of the social economy sector. It aims to awaken the curiosity and interest of an entire ecosystem that ranges from the academic community, to enterprises, to the State, to social organisations and to each one of us as citizens with an active and responsible role in the community.

It's structured around three main theme areas: general framework of the sector, social organisations leadership, and management practices. Most chapters involve the participation of two authors, one from academia (a researcher or lecturer), and one as a prominent figure from the social economy sector, bringing their own vision of the field, experience and practice.

We hope that this book helps exchanging knowledge across sectors, at a time when the boundaries between sectors become more fluid, to build a country that is more competitive but more cooperative, more meritocratic but fairer, more inclusive in appreciative of the differences that make each person and organisation unique.

Rita Diniz

Miguel Pina e Cunha

Chapter 1

The challenges of social economy innovation in Portugal

The simmering country

FILIPE ALMEIDA

Social Economy

The expression 'social economy' was crafted in France in the first half of the 19th century to define an alternative moral system for managing and organising the means of production, based on self-organised communities, which emerged as a response to excesses, injustices and inequality caused by the dominant liberal capitalist model.[1] Over the course of two centuries, the concept and the economy evolved, democracies consolidated, literacy and access to education increased, and communities became more aware, of their own needs and ambitions, becoming more active, more vigilant and more demanding.

In the wake of such changes, social economy emerged as a sector which, living alongside the public and private sectors, is generally made up of collective activities that use private assets for social purposes. It is called the cooperative and social sector by the Constitution of the Portuguese Republic, and also commonly referred as the third sector according to a North American tradition, bringing together private actors dedicated to producing public goods. From a legal nature point of view, these include associations, cooperatives, Misericórdias (social care institutions), mutual associations and foundations, and also all those with special IPSS (Private Social Solidarity Institution) or NGO (Non-Governmental Organisation) status.

From different perspectives, social economy is perhaps the most dynamic sector, with less clear boundaries and still evolving, with a significant diversity of institutional forms and organisation types, with unparalleled richness in the multiplicity of resources it provides, the needs it satisfies and the social impacts it generates. It's a movement more than a sector, and as a reflection of its emancipatory vocation and adaptive mutability, even its very designation is not yet consensual. According to the Social Economy Satellite Account published recently by CASES and Statistics Portugal, in 2020 this sector consisted of 73,851 entities (a 33% increase since 2010) and represented

(1) According to Garrido and Pereira (2018, p. 23), the social economy was, from its onset, 'a humanist and militant idea born out of the confluence between the purposes of moralising the social body and the progressive transformation of the capitalist system'. Garrido, A.; Pereira, D. (2018). *A Economia Social em Movimento – Uma História das Organizações*. Lisboa: Tinta-da-China.

3.2% of the national gross value added (GVA) in Portugal. The figure increased in nominal terms compared to 2019, in contrast with the national economy, whose GVA fell by 5.8% following the adverse effects of the COVID-19 pandemic. In 2020, the social economy also accounted for 6.1% of paid employment in the national economy and 5.9% of total payments. However, the average pay in the sector was 85.2% lower than the average pay in the national economy. Overall, the social economy's weight and impact on the country has been increasing since 2010, reaching a central position in the debate on how to respond to the extreme challenges of social inequality, population growth, technological unemployment, dehumanisation of interpersonal relationships and decision-making, health risks, autocratic threats, natural resources depletion and climate change.

The social economy is made up of social organisations and multiple forms of collective response, representing a space of freedom where decisive solutions for the urgent and structural changes we need to design and develop are developed by the community for the community. No future is sustainable if social economy is not at the centre of that debate and response.

The new social innovation and impact entrepreneurship paradigm

Social economy is not just about economic purposes, nor is it limited to fighting inequalities; it goes beyond the words and aims for a broader purpose of promoting human development and strengthening social relations. Being essentially made up of community-based combining initiatives, it's not surprising that social economy is the cradle of many innovative responses to social problems and needs.

Despite being around for centuries (*e.g.*, the earliest reference to an innovative initiative inspired by mutualism ideals in Portugal dates back to 1176, the year of the commitment of the Fungalvaz brotherhood, in Torres Novas), social innovation became an study subject and a recognised practice or purpose only in the 20th century, with its democratisation in the 21st century when it became the subject of public policies, media attention and an increased conceptualisation effort,

where people, communities and institutions appropriated practices and narratives.

Social innovation thus became a paradigm for a new way of organising and providing services, producing goods, promoting civic participation and strengthening community ties, calling upon citizens, entrepreneurs, social organisations and the private sector to jointly seek and experiment new responses to increasingly complex and interdependent social problems. Associated with social innovation, there has been a consolidation of social entrepreneurship or impact entrepreneurship movement, which refer to the entrepreneurial process aimed at social change and can come through, for example, in the creation of social businesses, in experimenting with new social responses or in community initiatives.

As understood and practised today, social innovation generates employment, promotes micro-entrepreneurship, mobilises public and private investment and diversifies responses, encouraging partnerships and stimulating local and regional development. This approach to the world, *i.e.* seeking out and testing innovative solutions with a transformative impact on the community's life, is a crucial youth driver, resulting in social innovation having a significant potential to attract and retain talent.

In Portugal, the pioneering Portugal Social Innovation public policy programme, which since 2015 has been mobilising European Union funds to foster social innovation, boost entrepreneurship and promote impact investment, has approved 694 social innovation projects, representing more than 150 million euros in funding, including around 50 million euros in investment mobilised with 843 public and private investors. As expected, around 90% of the 477 entities developing these projects are social economy organisations. In addition to direct intervention projects, 30 social innovation incubators with a territorial proximity approach have been funded, thus creating decentralised spaces for welcoming and empowering impact entrepreneurs throughout the country. This has been a unique opportunity to test new solutions, improve existing responses and develop the sector. It should also be used to transform the country, strengthen society, fight inequalities instead of perpetuating imbalances, mobilise investment and create new professional impact management careers

that attract and take advantage of the talent, skills and world view of the new generations.

This pioneering experience has taught many lessons that can serve as a benchmark for developing the social economy and the country. We learned that different funding solutions are an effective way of developing an impact ecosystem. We learned that combining public and private funding is a successful strategy. We learned that the existence of a specialised public entity with a clear aim to boost social innovation and impact investment ensures consistency, focus and an effective network dynamic. We learned that proximity activation is necessary and that relationships of trust are key to collective progress. We learned that municipalities are strategic partners and that the private sector is increasingly aware of and willing to integrate the social innovation narrative and practice and the impact on its philanthropy and business strategies. We learned that capacity-building, as well as assessing and measuring impact, is essential for everyone. And we learned to value disruptive innovation and incremental innovation equally.

Above all, we confirmed that there is a huge, unused potential for economic and social transformation in the country, which can be unlocked by combining the experience of institutions with the talent of entrepreneurs, the commitment of investors with the scale of public policies, the willingness of the communities with the vision of impact innovators.

An agenda for impact

Within the scope of the European project aimed at creating National Competence Centres for Social Innovation, Portugal is represented by the Portugal Social Innovation Mission Unit (EMPIS) and the Agency for Development and Cohesion (AD&C), a National Advisory Board coordinated by the Calouste Gulbenkian Foundation was set up in 2021, gathering around 40 leading entities in the public, private and social sectors, with relevant experience in the social innovation field, including higher education institutions. The joint reflection of this Advisory Board (unique in its constitution and the diverse

intersectoral dialogues it offers) resulted in the document *2030 Agenda for Impact,* which structures 14 concrete recommendations for strengthening and developing the entrepreneurship and social innovation ecosystem in Portugal over the next decade.

These recommendations highlight, among others, the need to support and foster impact entrepreneurship projects; the need to empower Public Administration; the need to create spaces for interaction and sharing between social organisations and investors; the need to create tax incentives to mobilise private investment in the sector; and the need to regulate the social enterprises framework in Portugal. According to its authors, the recommendations of the *2030 Agenda for Impact* can mobilise around 500 million euros for social innovation and social investment in Portugal, representing a threefold increase when compared to the current size of this sector. The existence of a forum where diverse organisations, with different experiences and visions, meet and reflect together to listen and search for a consensus where theirs visions may converge, is a unique opportunity for progress.

However, this ambition and these recommendations, although aligned with a certain progressive vision of the country, will only be successful if the broader social economy sector is considered and integrated into the equation. Social innovation does not spread outside the social economy, and impact entrepreneurship is not effective without the social economy's aggregating vocation and associative tradition. Investment only finds scale in the sectoral dimension of the social economy, and social enterprises, which need to be regulated, fit into the social economy's value system as aligned with its common principles.

Social enterprises

Social enterprises don't have definite boundaries in the social economy sector, as it falls into the sector of collective entities which maintain a social purpose by having an organisational and entrepreneurship operation model. These enterprises focus on social impact, fulfilling their mission through a commercial activity that generates

revenue and allows for the sustainability of the intervention, conciliating impact with economic return. There are also hybrid organisational solutions where a parallel commercial activity unrelated to this mission is developed alongside the mission itself, to fund social intervention. In both cases, it's the commercial activity that serves the social mission and not the opposite, as is often the case in the for-profit private business sector.

The social enterprise concept is included in various European policy references at the European Union (EU) level, including the 2013 European Union Programme for Employment and Social Innovation (EaSI) and the more recent 2021 Social Economy Action Plan. Although it shares some features, the concept of a social enterprise and its legal framework varies among Member-States.

In Portugal, the most significant models of these organisational forms have historically been social cooperatives, entrepreneurial non-profit organisations, work integration social enterprises, solidary economy social enterprises and social businesses.[1] The latter have particularly challenged the sector's boundaries, including commercial companies with a social mission. Due to the lack of a clear legal framework, the prevailing view in Portugal is that social enterprises fall within the social economy sector's boundaries, as defined in the 2013 Legal Framework for the Social Economy. This understanding has proved insufficient to accommodate new realities, such as social start-ups and organisations which, while operating in a market context and having an entrepreneurial structure, have a social mission, aimed at contributing to solve social problems through their activities. The lack of a legal framework has led to distortions, forcing enterprises to set up associations to access public funds, and associations to set up enterprises to access private funds. Besides the lack of a national response to this prevalent concept in Europe, Portugal has a growing number of successful social start-ups, attracting more and more young impact entrepreneurs who choose the social enterprises format,

(1) Ferreira, S. (2021). 'A variedade das empresas sociais em Portugal: das trajetórias institucionais às caraterísticas organizacionais'. *Revista ES – Economia Social* (12). CASES, April 2021.

blending a business approach with a social mission, rather than focusing exclusively on the profit side.[1]

We can argue that, ideally, all enterprises are or should be social enterprises, insofar they aim to both satisfy collective needs and create significant social impact with their activities. These should be taken into account when assessing their performance and when being granted market authorisation. However, this is not the case. What distinguishes traditional, capitalist enterprises, aiming only to fulfil consumer needs, from social enterprises are, among other democratic governance principles, the following aspects:

a) Their social mission;

b) The intentionality of their choices and practices;

c) The criteria for selecting partners, reference stakeholders and investors;

d) How profits or surpluses are distributed.

Generally speaking, a social enterprise can be defined as a private organisation which operates in a market context and is subject to free competition laws, while pursuing a social mission, *i.e.*, responding to one or more social problems, seeking to generate a positive social impact through its activities. By combining good experiences from the recent past and recognising current trends, we can identify two other types of enterprise in this category: *a)* impact enterprises, which aim to generate a positive impact on society through their goods and services production activity; and *b)* work integration enterprises, which aim to socially and professionally integrate disadvantaged people into the labour market, by developing a goods and services production activity in a real-life context.

The regulation of social enterprises is crucial to modernise the social economy in Portugal. It will not only allow private organisations

(1) In Portugal, two recent initiatives on the subject of social enterprises stand out: *a)* The TIMES project – Institutional Trajectories and Social Enterprise Models in Portugal, of the Centre for Social Studies of the University of Coimbra (https://times.ces.uc.pt/); and *b)* the introductory study on the figure of a social enterprise, prepared by CASES (http://www.revista-es.info/estudo_17.html), with CASES also organising an important international conference on the subject in July 2022 (https://www.cases.pt/ices/).

with a social mission to have wider funding access, but also for the management of incentives with team-motivating potential, while regulating and making their work more transparent. But, above all, the creation of the social enterprise statute in Portugal would mean a significant political sign to positively pressure the traditional business sector, and offer an easier path for younger people, an institutional solution to mediate their relationship with the world that they understand, value and prefer.

Challenges and opportunities for the social economy sector

Modernising the social economy and the management models of its organisations is imperative for the sector to fully fulfil its potential as a society transformation agent. Among the management modernisation challenges, seven stand out:

1. Professionalise. Establish a paid executive board and an impact manager to attract qualified skills with all the resulting benefits for the responsiveness and development of social economy organisations.
2. Empower. Invest in the development of technical and cross-cutting skills that prepare teams for current and future social challenges.
3. Digitise. Leverage information and communication technologies, advanced data processing solutions and even artificial intelligence to improve and amplify intervention capacity.
4. Innovate. Create continuous improvement routines to foster incremental methods innovation, and also look for and experiment with different, alternative solutions.
5. Collaborate. Form strategic partnerships to share and reinforce good practices, share common resources, extend territorial impact, and jointly access funding.

6. Evaluate. Use existing knowledge to systematise, measure and make the social and transformational impact of the activities developed explicit.[1]
7. Communicate. This is probably the most waisted tool for change. It can attract young people, mobilise qualified professionals, boost their resources, attract investment and affirm their role as an agent of change and a priority partner in the design and implementation of public policies. Communicating effectively with a language and a narrative adapted to different audiences is essential.

The challenges can be summarised in three key ideas: new language, better practices, effective communication.

Rejuvenating the social economy may be its biggest challenge. Attracting qualified youth by changing the narrative and the arguments, presenting a sector that allows combining a career and a life project like no other, with the greatest social and systemic transformation potential. The sector offers possibilities for professional progress, reinventing new answers every day and measuring success through impact. A sector whose offers and specialities are in constant demand throughout the territory, from urban to rural, from the coast to the hinterland.

In order to change the narrative, improve practices, and attract and retain talent, especially young people, it's crucial to include two key players: higher education institutions and investors. The first can study the sector, produce knowledge and expose young people to a reality they are not aware of. The latter can create incentives to modernise processes, stories and languages, and also encourage young people to contribute to it.

We know the recipe. We have the ingredients. We have the tools and the experience. What is our excuse to keep the country simmering?

(1) According to the Social Economy Sector Survey published by Statistics Portugal, in 2018 around 93% of organisations in this sector had not taken any steps to measure the social impact of their interventions and activities.

Chapter 2

The paradigm shift in the social economy sector

DANIEL TRAÇA

Global capitalist societies have been experiencing increasing social and environmental challenges, such as, persistent poverty, inequality, structural unemployment, natural degradation, climate challenge or digital illiteracy. The anxiety caused by these challenges brought to the spotlight the topic of impact, *i.e.*, the extent to which the various organisations' activities contribute to improving the well-being of the community. The latter is seen as the combination of people's well-being, insofar as it is interdependent, where the well-being of one depends on the well-being of all.

The liberal view, supported by Adam Smith's 'invisible hand' and radicalised in the 1970s by Milton Friedman, suggests that the impact would be optimised in a decentralised way by pursuing companies' profitability, making it a tiresome topic.[1] The limitations of this approach became evident in the first half of the 20th century. The State's intrusive intervention through the entrepreneurial and/or administrative public sector, although ongoing, found intellectual support as the antithesis of liberalism. Throughout the 20th century, the pendulum swung between these two approaches.

By the last decade of the 20th century, it was clear that traditional systems, trapped in between the business and the public sector, were unable to address the growing social and environmental challenges, such as companies' lack of interest and the State's inefficient bureaucracy. The increased difficulties made clear the need for impact-focused organisations with an agility that has long disappeared from the public sector.

This gave birth to social organisations, known as the third or impact sector. This sector's organisations have increasingly played a role in the reality of both developed and developing countries, shifting from a welfare-based dynamic, such as helping people with difficulties (economic or other), to finding and implementing sustainable solutions and viable business models to address people's and society's issues.

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(1) Paul Collier (*The Future of Capitalism*, 2018) suggests that the emphasis on the concept of the invisible hand proposed in *The Wealth of Nations*, adulterates Smith's vision presented in *A Theory of Moral Sentiments*, which is a vision of social dynamics more based on compassion.

The notion of viability, which includes the organisation's profitability, is crucial, to the extent that social organisation cannot survive and achieve an impact without it. Social organisations aim to maximise impact, as seen by their stakeholders and founders, and ensure a profitability that makes them viable in the long term, unlike those focused on maximising solely owners or shareholders profits.

Unfortunately, the many new social organisations lack impact and profitability. The social organisations have a very low impact, due to the funds they attract and to profitability levels that prove their poor financial viability, putting their existence and medium-term impact at risk. Amongst the many challenges they face, we will focus on governance and strategic coherence, the former related to the struggle in defining goals and making decisions, due to unclear ownership structures.

This text focuses on strategic issues, linked to business and operating models to ensure that organisations maximise their impact and financial feasibility (profitability). The aim is to propose a number of strategic vectors that optimise the impact-profitability balance from the social organisations perspective, and inspire reforms in social organisations management, while suggesting criteria for funding allocation. We will begin by analysing the struggles between impact and profitability, and then propose some strategic levers to optimise the balance for social organisations.

Impact

Starting with a utilitarian approach to social choice, organisations' impact refers to the satisfaction/utility created in the community by its activities, including both the private satisfaction for the individual(s) who produce(s) and consume(s) the product and the external satisfaction gained by the rest of the community from the production, trans-

action and consumption.[1] This should also include the external satisfaction of future members of the community, in a logic of intertemporal impact,[2] minus the cost of producing the good with alternative uses, as required by technical rigour.[3] Thus, the impact of a technological solution reducing greenhouse gas would be the difference between the satisfaction of all members of present and future generations minus the cost of developing and implementing that solution. The impact of a model for developing the digital skills of digitally-excluded communities would be the satisfaction of those communities (providing jobs, income, self-confidence) minus the model development and implementation costs. But how do we move from a utilitarian community satisfaction concept to an impact metric?

The pure market economy paradigm suggests that, from a private satisfaction point of view, the market optimises impact in a decentralised way. As such, Adam Smith's invisible hand thesis was confirmed by neoclassical economic theory, which decreased economic science's interest in analysing impact.

Most human activities, particularly in the various challenges mentioned above, prove that the production or consumption of a good or service has external effects (externalities) on a larger part of the community than those directly involved in production and consumption, which can be positive or negative, direct for public goods or indirect for private goods. Pollution or greenhouse gas emissions, for instance, have a negative, direct external effect, drug addiction has a negative, indirect effect, while education has a positive, indirect external effect.

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(1) The possibility of finding a combination of society's preferences is the focus of the social choice theory. Nobel Prize winner Kenneth Arrow's demonstration, in the 1950s, of the difficulty of combining the utilities of the members of a community without violating some basic axioms decreased interest in this area in neoclassical economics. The work of American philosopher John Rawls in the 1970s deserves to be highlighted as a conceptual approach to this topic.

(2) In the case of a private asset, such as food consumption, external satisfaction comes from the interdependence between the satisfaction of the various individuals who make up society, bringing social dynamics such as inequality or poverty to the centre of the debate. In the case of public assets, such as the environment, nature degradation or pollution, private satisfaction is confused with external satisfaction because it directly affects society as a whole. However, these differences are merely technical and not relevant to the analysis.

(3) For economists, this is the core concept of opportunity cost.

Capitalist market mechanisms have proven not to be impact optimisers when these externalities are relevant. Unfortunately, economic science has defined a way of measuring society's combined satisfaction in order to make those choices, and is limited to show that the State can, through subsidies, taxes or other interventions, improve the situation and marginally correct those inefficiencies.

While in the 19th century State intervention was the solution to regulate these capitalism disfunctions, the lack of capacity and agility in public administration to find and implement solutions led to the rise of a significant social organisations ecosystem defined by focusing on impact optimisation, unlike the business sector, in the last decade of the 20th century.

This evolution of the actors ecosystem was not followed by a sophisticated impact conceptualisation and measurement. Although, in the 1930s, the combination of economic activity and national accounts around the concept of gross domestic product and national income led to a unique development in economic science, metrics to measure the societal impact of the activities of social organisations, companies or the State were never developed. The Human Development Index by the United Nations Development Programme in the 1990s added some indicators associated with human development, but never gained widespread acceptance. The same happened recently with OECD's efforts to define the Better Live Index.[1]

From a more micro perspective, indicators such as SROI combine the various dimensions of a project's impact by aggregating the stakeholders' perspectives and awarding them a financial proxy value. However, although the financial community has focused on the materiality of risk's external effects for companies through ESG criteria, until the social impact analyses materiality, the ESG movement will have a very limited value in ensuring a more positive impact from companies.

(1) www.oecd.org/wise/measuring-well-being-and-progress.htm.

Measuring impact

The reason for the lack of a transversally accepted impact measurement system is because it's relatively new, rather than theoretically impossible. However, there is hope that we will soon have standardised impact metrics for assessing what organisations do and how they do it, both on social and environmental topics, while ensuring the accountability of public, corporate and social organisations' impact. Movements such as B-corps are trying to hybridise this balance by bringing the impact to the core of the business sector's activity, however, until this becomes the norm, their relevance remains marginal and social organisations will keep focusing on impact, while companies will focus on profitability. Even if that impact is not properly defined and measured, it's important to keep up the work, given the urgency of the social and environmental crisis we are experiencing.

The relationship between types of organisations and their goals is not straightforward. Companies should take into account the perception of their social impact when considering social responsibility, institutional and reputational license-to-operate or shared value, as analysed in the article by Michael Porter and Mark Kramer.[1] Nevertheless, social organisations must ensure a profitability level that guarantees their continuity and their long-term impact, which is relevant to this analysis.

Despite impact measurement methodologies being still new, social organisations today are pressured to be accountable for their impact. On the one hand, the rise of 'impact investing', 'patient capital' or 'sustainable finance' asset classes attract funding for social organisations with lower return rates than the financial markets reference rates, although funders demand these organisations to measure and demonstrate their impact. On the other hand, the increase of organisations with non-transparent practices has led to resistance and distrust in the social sector. According to the 2023 Edelman Trust survey, social organisations scored 59 points in a global sample, scoring lower than companies, while in 2018, social organisations were trusted by 67

(1) '*Creating Shared Value*' by Michael E. Porter and Mark R. Kramer, *Harvard Business Review*, 2011.

points of the informed public and 53 points of the masses, scoring higher than companies in both.

The most common approaches to impact include accounting mechanisms such as SROI, which combines the organisation impacts on society from its stakeholders point of view, converting it into financial value through exchange rates. This is particularly complex, as it requires determining the economic and social value of the results. Other assessment techniques and methodologies can be used, such as market-based assessments, willingness-to-pay assessments or cost-savings analyses, taking an *ex-post* accounting approach to the impact.

Alternatively, the strategic approach to impact we defend defines a restricted number of social indicators, accepted by all stakeholders, which the organisation is committed to impacting. Governance's first dimension is to converge on those indicators in order to define and measure the organisation's vision and mission more easily. However, both the traditional notions of defining indicators for SMART goals[1] and the choice of indicators must comply with core strategic principles aligned with the organisation's business model. The purposes and indicators must be aligned with the organisation's business model, as we'll approach later.

Let's use the example of microfinance to facilitate understanding: setting the goal of ensuring the widest possible access to microcredit for families below the poverty threshold can clash with ensuring universal access, as it implies very low interest rates that allow obtaining funding from the traditional financial system. This choice affects the micro-credit organisation's business model and the dimensions' blurred boundaries led micro-credit organisations to a strategic mission creep at the beginning of the century, as seen with the Compartamos IPO.[2]

(1) SMART: *simple*, *measurable*, *actionable*, *reachable*, *time-bound*.

(2) *Social vs. Commercial Enterprise: The Compartamos Debate and the Battle for the Soul of Microfinance,* by Anne-Marie Carrick, Filipe Santos, INSEAD 2009.

Profitability

The profitability of an activity is the financial margin generated by the organisation. Measuring profitability is well-developed, with accounting development and multiple international entities adopting and sharing rules. From the organisations' point of view, economic profitability metrics became strategically crucial and have a high level of sophistication, which means they are clear, easy to compute and accepted by most stakeholders. All the work done so far, where a company's financial report can be analysed by several professionals who will have the same understanding of the profitability levels, is sometimes overlooked.

Associated with organisations' costs and revenues, profitability is key for the organisation's return and its medium-term continuity, and it cannot be ignored or they'll risk disappearing.

In the case of social organisations that rely on volunteers and other labour, capital and intermediate product donations, the financial costs are much lower than the economic costs. This undervaluation of costs implies risks for their sustainability, as they rely totally on the decisions of those donors. Unfortunately, social organisations' accounting systems fail to account for that risk, so the economic costs are always undervalued.

Social organisations rely financially on donations, subsidies with implicit risk and their own activities' revenue. Donations and subsidies have a very significant acquisition cost, such as time spent with donors, written communication, or long and demanding forms to ensure compliance with contractual obligations. Much of that acquisition cost is not proportional to the amount of funding obtained, leading to a significant scale benefit.

Own revenues are linked to the ability of charging for the services provided, which depends on the ability and willingness to pay of the potential beneficiaries. The ability is associated with the moral and operational opportunity of charging for services and excluding potential beneficiaries. It's operationally impossible, for instance, to exclude the beneficiaries from a programme that reduces pollution in a lake, or morally impossible to exclude access to a life-saving medicine – while

willingness to pay is associated to the beneficiaries income level and their cultural or financial interest in paying for the service.

Feasibility is the minimum profitability threshold for the organisation's survival in the med-term. This represents the point at which operating expenses, including capital assets maintenance, are covered by revenue, alongside liquidity management. If profitability falls below the feasibility threshold, the organisation won't be able to cover its costs and face closure, making its impact not feasible. Efficient management of social organisations and their costs is key to increasing profitability, thus its lack is the main obstacle to their feasibility.

Another profitability threshold is investment, which allows offering investors an appropriate return through dividends, interest or other financial instruments. Although lower than in the traditional financial market, given the growing availability of patient capital,[1] this threshold is essential to enable the organisation to attract funding for scaling up and growing with infrastructure and equipment. Business models which rely on donations and volunteering hardly have the capacity to grow in order to increase their impact. Despite the development of asset classes that impose lower returns because they discount the organisations' impact, significant growth funding implies positive returns, making the investment threshold higher than the feasibility threshold. Moreover, the greater the funding required, the higher the rates the investors will probably demand.

Scalability

Social and environmental challenges faced by developed and developing communities are crucial for people who will require the proposed solutions, making the organisation's activity ability to grow the most relevant impact element: the more active the organisation is, the greater its impact will be.

Unfortunately, many social organisations resist scalability due to ideological or emotional belief that small is beautiful and that growth dissolves the soul of the organisation or the nobility of their inten-

(1) Bamboo Capital Partners (bamboocp.com); Acumen Fund (acumen.org).

tions. Given the challenges defining their missions, solutions need the potential, intention and scalability implementation to deal with them. Organisations that lack them should be considered irrelevant, unless they are experimenting innovation and ideation for subsequent scalability. The solution's scalability defines the impact and relevance of a social organisation.[1]

Scalability and funding

While the relationship between scalability and impact is linear, the relationship between scalability and profitability depends on its operating model, cost structure, and revenue-funding model.

On the one hand, if costs are fixed and paid upfront, for example when building infrastructure or developing a software or platform that incorporates large volumes of users, scalability helps to increase profitability. This model requires funding to take off before starting the activity. After that, the resources required for scalability are less relevant. Start-up costs can and should be funded by single instance models, based on individual, corporate or foundation donations, where acquisition costs are not repeated and grow with the volume needed to take off.

On the other hand, when scalability depends on multiplying human or material resources, they increase in complexity and costs become variable, growing with scale. In this case, scalability decreases profitability. Scaling up may also require funding additional resources, *e.g.* buildings, machinery, which implies a higher profitability threshold to attract the necessary investors.

Here, obtaining increasing donations to fund growth requires a very high level of effort, which can jeopardise scalability, while start-up funding will be lower. The solution lies in the social organisation's ability to generate own revenue and grow, thus being key to funding scalability and ensuring sufficient profitability to attract investors.

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(1) Obviously, there may be cases where the activity becomes too big and the costs of expanding it become greater than the benefit created for the community, but these situations are rare in the challenges we face in the first quarter of the 21st century.

In short, to ensure scalability, social organisations should look for operating models aligned with fixed cost structures, whenever possible. When scalability promotes profitability, the funding needed to scale up is less relevant. The funding needed to take off is possibly a counterweight, but is limited, easier and more effective to obtain through donations or subsidies that don't have to be repeated and have lower acquisition costs for larger investments.

Whenever not possible, the alternative of scalability-based models by multiplying resources, namely variable costs, means that scalability reduces profitability, which must be above the investment threshold to fund growth. In this case, the social organisation's business model and how it generates marginal revenue become critical for scalability, namely the ability to charge beneficiaries for the service (Prahalad and Hammond, 2002).

Innovation and knowledge

A key factor in creating operating models aligned with fixed costs and easy to scale up is the solution's innovation and knowledge relevance. The progress of the modern economy after the Industrial Revolution is based on the role of science and knowledge in productive activity. New technological or technical ideas reduce costs or create new products. But the greatest relevance of new knowledge-based solutions is that they are replicable without additional costs, and therefore closer to the preferred fixed-cost model. That's why these knowledge--based solutions drive economic growth in modern economies, rather than relying on multiplying resources.

The education sector is a worthy example. The traditional model involves one teacher and one classroom for each group of X students, and scaling up implies expanding the number of teachers and classrooms proportionally. Scalability tends to reduce profitability, due to the increasing complexity of managing more teachers and classrooms. Additionally, scalability requires more capital to fund increasing numbers, thus requiring profitability above the investment level to attract investors.

Many social organisations have recently been leveraging technology (the most relevant operational vehicle for knowledge) to develop pedagogical models requiring fewer or less qualified teachers. Bridge International Academies (www.bridgeinternationalacademies.com) developed a curriculum that leverages technology to monitor and support teachers with lower qualifications and with lower classroom costs. The development of technology or pedagogical content operationalised by technology has high costs that can be covered by venture philanthropy, State subsidies or donations, but are replicated at zero cost – the cost of copying a software. Scalability thus increases profitability, becoming a requirement for the organisation's feasibility, and requires fewer additional resources (*i.e.* less funding to grow, which paradoxically requires less profitability).

As such, the focus on knowledge-based solutions is a fundamental driver for modern social organisations' scalability and an instrument for their impact and profitability. Investing in innovation capable of generating new ideas (technical or technological) that can be replicated at low cost is therefore a fundamental strategic dimension of modern social organisations.

Innovation is sometimes surprising. The Indian organisation Gram Vikas (www.gramvikas.org) developed a methodology for mobilising communities to produce public goods. The well-known Grameen Bank (grameenbank.org), set up by Nobel Prize winner Muhammad Yunus, developed micro-finance techniques that ensure incentives for borrowers to share risk and endeavour to comply with their commitments. In all these cases, the organisations have grown and created an exponential impact due to the scalability of the techniques supporting them.

Business models

As mentioned above, when the operating model involves a majority of variable costs, scalability tends to jeopardise profitability, which has to be higher in order to attract investment and fund growth. In this case, the solution is to create a business model that generates rev-

enue aligned with the activity, allowing the necessary profitability to be sustained even when the activity grows.

Recently, many organisations have adopted models based on revenue generation directly from the beneficiary. This revenue grows with scalability and sustains profitability.[1] Bridge International Academies, for example, charges its students' families a small amount to fund its activity and the return for its investors. Husk Power Systems (huskpowersystems.com) charges the communities where it supplies rice husk-based power generation equipment for the same reasons. Although prices and margins are lower than for traditional commercial activities, the potential market size opens up a significant potential for investors, especially those interested in the impact of their investments besides profitability.

The willingness to develop business models for social organisations based on charging users for services often faces resistance from social organisations. On the one hand, some consider them ethically questionable because they provide return to investors on the work of disadvantaged populations.[2] On the other hand, there is a prejudice on the willingness of the most disadvantaged users to pay for services that bring them satisfaction, despite the work of Hammond and Prahalad (2002) showing that, in many relevant cases, the unit cost paid by disadvantaged classes is higher than that of middle classes.[3]

Business models supported by charging users may be the only way to ensure scalability, insofar as the operating model generates significant variable costs. Furthermore, by ensuring a relationship between the social organisation and the users, this business model promotes accountability of the former towards the latter.

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(1) Some recent models, such as social bonds where organisations are paid by the State or foundations for the impact they generate, have had limited subscription.

(2) In a recent case, Oxfam criticised IFC's support to the Bridge International Academies model for charging students a fee that allows the model to be scaled up, ignoring the hundreds of thousands of disadvantaged students around the world who only had access to low-quality public education and now have access to quality education at prices they can afford (https://www.oxfam.org/en/press-releases//civil-society-groups-celebrate-ifcs-divestment-profit-driven-school-chain-bridge).

(3) '*Serving the World's Poor, Profitably*', by C. K. Prahalad and Allen Hammond, *Harvard Business Review*, 2002.

Immersion

The prejudice against the willingness of the poorest to pay for the service often stems from the social organisation's unwillingness to immerse itself in the community where it operates. They aim to make a difference, but don't take the time to know the reality they want to transform. One of the great lessons of recent decades is the value of immersion in the community. It involves an in-depth knowledge of the ambitions of the members of the community you want to impact and their socio-economic reality.

Immersing the organisation in the community is therefore a first and fundamental step towards impact. A key lever, as we have already seen, is the (partial or total) funding of variable costs by users, in order to promote scalability and accountability. Another important lever is recruiting workers from those communities. This way, local jobs are created, operational autonomy from the social organisation's parent company is ensured, and staff costs are reduced, contributing to profitability. This relationship with the community workforce, particularly in management positions, is also key to passing on knowledge to the local community, ensuring a lasting effect of the project, even if the organisation is no longer involved. The aforementioned Indian organisation Gram Vikas developed innovative methodologies to focus all its work on developing community institutions capable of transforming communities outside-in, in external recognition of immersion value.

The last twenty years have taught an important lesson: to develop solutions for the most geographically and culturally remote communities, we need to get to know them thoroughly, abandon our prejudices, test what works and measure the impact. Community immersion thus proves to be fundamental for impact. By allowing an understanding of the willingness to pay for services and the recruitment of cheaper staff in line with the local reality, it's also a profitability improvement factor.

Conclusion

This chapter analysed the challenges of aligning impact and profitability in social organisations, particularly in the scalability context, which is the most important aspect of their impact mission. The fundamental role relates to the cost structure and its operating model. A fixed-costs-based structure facilitates scalability because it promotes profitability and requires less funding for growth. One way forward for this type of operating model is to focus on innovation and the development of knowledge-based solutions as a technological platform or on new models of engagement with the community. The starting funds can be obtained through philanthropic means, as the acquisition costs related to donor relationship management are lower than for repeated investment.

Structures based on variable costs associated with resource multiplication are less interesting. They imply that scalability reduces profitability, which will need to be high to attract the repeated funding needed to fund growth. In this case, the solution should be business models that generate marginal revenue, namely by charging users. Many recent cases have shown that the prejudice against this type of business stems from a lack of knowledge of users' reality, and therefore suggest an immersion in the communities.

Measuring impact, scalability, innovation, business models and immersion have thus emerged as fundamental dimensions of the social organisation's strategic definition. Regarding the ability to address current social challenges, the options are obvious and imply a ranking of the relevance of social organisations and their operating and financial models. The premise is that social organisations should focus on models with greater potential for scalable impact, and that funders (whoever they may be) should focus on organisations that allow them to increase the aggregated impact of this sector.

PART 1

A SECTOR FOR IMPACT IN PORTUGAL

Chapter 3

The Social Economy Sector

JOANA CASTRO E COSTA
EDUARDO GRAÇA

In a constantly changing world, where societal (social and environmental) problems are increasingly relevant, it's essential to know, learn about and develop the social economy sector, which has so many visible and invisible contributions to society and the economy. In this chapter, we start with an essential characterisation of this sector to identify the opportunities and challenges it faces, presenting clues for approaching mentors, advisors or volunteers. Whilst not exhaustive, we provide different examples of projects and initiatives that help us understand the social economy world. The complexity of the sector and the infinity of theoretical and practical perspectives on it call for caution in adopting truths that are almost never confirmed when we seriously begin to delve into the subject.

What is the social economy sector?

The social economy sector traces back to the 15th century, with the creation of the *Misericórdias* (social care institutions), supported by their founder Queen D. Leonor, (Fernandes J. M., 2016). More recent studies on the history of social economy highlight organisations considered the main predecessors of modern social economy, such as the Misericórdias of Alvito (1420) and Lisbon (1498), or mutual aid associations such as the Montepio da Associação dos Livreiros (Lisbon, 1460), the Montepio do Corpo Santo (Peniche, 1505) and the Compromisso Marítimo de Faro (1552).[1]

The sector's long history began during the time of the 'Discoveries', predominantly addressing social problems related to poverty, emphasised by the charitable role played by the *Estado Novo*, where the church played a significant role and gave rise to several of the IPSS (Instituição Particular de Solidariedade Social) that still exist today. This fostered a generalised perception that this sector is mostly welfare-related and State-dependent. However, that is a simplistic and biased view of reality. What we see in practice is a very strong creative and entrepreneurial dynamic, which became even more visible during the pandemic, between 2020 and 2021.

(1) Garrido, 2016; Garrido & Pereira, 2018.

The importance of this sector is reflected in its ability to respond consistently to different and multiple social and environmental problems, particularly when public and private initiatives fall short. Social economy organisations operate in the market (production of tradable goods and services) and non-market (services provided to the community) sub-sectors, creating a range of socio-economic activities for the benefit of society: from health to education, employment integration for the most vulnerable (*e.g.*: people with disabilities, the elderly, children, refugees and migrants, the homeless), professional associations (artists, beekeepers, farmers, etc.), or socio-cultural groups (sports players, neighbours, parents, etc.), among others.

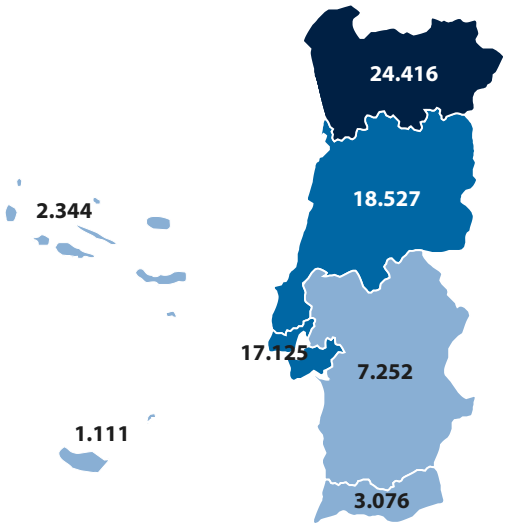
Constitutionally recognised as the cooperative and social sector, the Portuguese social economy sector, also known as the third or social sector, is a group of entities with different legal natures: associations, cooperatives, foundations, *Misericórdias* and mutual societies. They share a set of common values and guiding principles, and their aim is to contribute to the general interest of society, as outlined in the Basic Law for the Social Economy (Official Gazette no. 30/2013, of 8 May).

According to data from the Social Economy Satellite Account (INE – Statistics Portugal and CASES, 2020), there were 73,851 organisations in Portugal, the majority of which located in the North Region.

Table 3.1. Legal nature of entities in the social economy sector

Total entities by legal nature (2016)	73,851
Associations with Altruistic Purposes	68,996
Mutual Associations	91
Cooperatives	2,153
Foundations	618
Misericórdias	376
Community and Self-Managed Sub-sectors	1,617

Figure 3.1. Geographical distribution of social economy entities (2020)



To better understand this sector, the Social Database (Base de Dados Social) was launched in 2020 as part of the Social Equity Initiative partnership between the 'la Caixa' Foundation, BPI and Nova SBE. It currently has detailed data of more than 18,500 social organisations (around 25% of the sector's total, according to 2020 data), providing a snapshot of the sector, its impact and challenges, serving as a study and collaboration benchmark. The Permanent Social Economy Entities Database, a project under CASES, is expected to be launched by the beginning of 2024.

For the general public, the biggest social economy sector benchmarks are the 'IPSS' which gained visibility via cooperation agreements with the State through Social Security and personal income tax consignment campaigns, or 'NGOs' (Non-Governmental Organisations), present in communication media because of their work in international development projects. However, the IPSS designation corresponds to a statute, and those organisations represent a small part of the social economy sector. According to 2020 data from CSES, 5,476 organisations have the IPSS 'seal' or status (around 7.4% of the total) and 584 organisations have the NGO 'seal' or status (less than

1% of the total). These complementary statuses can be cumulative, like the case of Associação VilacomVida, which is both an NGO and an IPSS, hence why we generally refer to these as social organisations.

The social economy organisations governance structure varies according to their legal nature, usually presenting a board of directors, a supervisory board and a general assembly. Most of the board of directors are volunteers, with an increasing number of paid executive or technical directors, proving the current trend towards the professionalisation of management bodies. In more exceptional cases, we also see the appointment of advisory boards.

The population served by these organisations is generally defined as beneficiaries, *e.g.*, a disabled person with no income who is placed in a CERCICA (Cooperative for Education, Rehabilitation and Training for Inclusion in Cascais) nursing home funded by social security, or beneficiaries who are also customers, *e.g.*, a disabled person who pays to use swimming pool services adapted to their condition at CERCICA. Depending on the type of activities, products sold or services provided, and the organisations' business model, there are target audiences who are just customers, *e.g.*, a user who signs up every week to use CERCICA's swimming pool. In health-related organisations, the expression 'utente' in Portuguese or 'user' is used to refer to beneficiaries and customers. Lastly, some beneficiaries are also employees, as seen in social entrepreneurship projects, such as the Mezze restaurant, which employs Middle Eastern migrants, or Café Joyeux, which employs young people with intellectual disabilities.

These organisations are important nationally, as they address social and environmental problems and given their important contribution to national economy. According to CSES data, in 2020 the sector was responsible for generating 3.2% of gross value added (GVA), 5.0% of salaries, 5.2% of total employment, and 5.9% of full-time paid employment. The average salary in social economy organisations was 85.2% of the national average. In terms of activity type, the health sub-sector stands out, accounting for 25.5% of GVA and 33.2% of total paid employment in the social economy, as does the social services sub-sector, achieving 24.9% of GVA and 29.9% of paid employment (CSES, 2020).

Given the sector's importance, there has been an increase in public and private investment and a development of public policies fostering its development. The Portugal Social Innovation (PIS, 2019) mission structure, for instance, was created in 2014, representing the first European programme to use EU funds for the sector, and has so far mobilised 150 million euros from the European Social Fund to finance and invest in projects applied to different entities. *We also highlight* the BPI | 'la Caixa' Foundation awards, which between 2010 and 2022 have awarded more than 900 projects in the sector, totalling 27 million euros to support more than 195,000 people. This was followed by the creation, in 2023, of the Centre for Social Economy and Innovation (CEIS), in Guarda.

The sector has very diverse business models, systems of interdependent commercial and non-commercial activities carried out by an organisation and its partners to create value (Amit and Zott, 2015). The models range from pure philanthropy to commercial models (Dee, 1998) working on a market models-based logic, from philanthropic funding to almost exclusively public funding. According to a study by John Hopkins (2012), the funding of social organisations in 2006 came from public funding (40%), own revenue from the sale of products and services (31%), and property income (8%). Only 10% came from private individual and business donors. According to Social Economy Sector Survey (INE – Statistics Portugal and CASES, 2020) data, in 2018 transfers or subsidies accounted for 28% of the total means of social economy entities funding, followed by services provided (22%) and loans (19.2%), with around 6% of social economy entities receiving funding from foreign sources.

The aftermath of the 2008 financial crisis highlighted the need for a renewed debate on the convergence of values and principles from the public, private, cooperative and social sectors of ownership of the means of production. These could strategically converge into a new concept in which the economy and social values coexist, without one conditioning the other: the social companie. Over the last ten years we have also seen a very strong social entrepreneurial dynamic, both in senior and emerging organisations in the sector, seeking to maximise their social impact and diversify their sources of income through partnerships with the private sector.

The legal void of the social enterprise

Despite the various debates and movements, there is still a legal void regarding social enterprises in Portugal. This concept, already recognised in other European countries and around the world, has different characteristics depending on the country. In the national context, there are ongoing debates to establish the legal figure of the social enterprise.

There is a general consensus on the social enterprise concept deriving from the operational concept of the 2011 Social Business Initiative, which has been further solidified through various studies on the reality of each country and recent political documents such as the European Commission's 'Social Economy Action Plan', the conclusions of the International Labour Conference (European Union, 2021) or the OECD Recommendation on the Social and Solidarity Economy and Social Innovation (ILO, 2022; OECD, 2022).

The creation of a social enterprise statute or legal form may be aligned with the European Union's proposals, namely to classify eligible entities in future EU programmes, simplify investment and support with donations these organisations.

The three axes differentiating a social enterprise would be:

1. The provision of social services and/or the sale of goods aimed at audiences that are vulnerable and/or professionally integrate vulnerable people;
2. The adoption of an entrepreneurial organisational model (*e.g.*, generating revenue and operating freely in the competitive market) combined with the characteristics of the private non-profit sector (with underlying social economy values and principles, aimed at solving social problems and generating a positive social impact). The redistribution of profit or surplus is usually different, leading to a reinvestment (to varying degrees) in the organisation's mission.
3. A democratic and participatory governance, where employees and other stakeholders can take an active part in decision-making.

Given the strength of the entrepreneurship and social innovation movement in recent years, this legal void has been one of the current challenges of the legal tool chosen by organisations. Still, Portuguese creativity has proved effective, creating some 'codfishes with wings', a term created to identify associations that own a sole proprietor company. These private enterprises are often the operational arm for implementing a business that feeds the association's financial sustainability and the achievement of its social mission. In many cases, the company's activity has a direct relationship with the association's beneficiaries, and is therefore also a driver of impact. We mention the case of the ice-cream company Fratelinni (Remora Officinal, Unipersonal, Lda.), 100% owned by Associação Vale de Acor, which works as an integration enterprise for beneficiaries who are former addicts.

Opportunities and challenges in the sector

Language

The social economy sector has its own language and culture that needs to be understood. Its origin and evolution are linked to ideological and cultural models that defined it as a 'non-profit' sector, different from the private sector, but downplaying the importance of good management practices in many organisations. For decades, profit was perceived negatively and as something to avoid, however, the surpluses achieved by the organisations are healthy and desirable, as they contribute to their sustainability and growth through reinvestment in the social mission (Basic Law for the Social Economy, Official Gazette no. 30/2013, of 8 May).

Wages and talent (for management as well)

According to the Social Economy Sector Survey (ISES), in 2018, 32% of workers in the sector earned the national minimum wage, this being one of the reasons for its struggle to attract and retain talent. While wages are relevant to all functions, when we look specifically at management functions, they are a major barrier to the development of organisations and, therefore, of the sector. Many social organisations

now have a technical director who is supported by a finance officer or accountant, and few organisations have an executive director with training and/or experience in management.

On the other hand, according to ISES, 81% of the staff employed by social economy entities had open-ended employment contracts, showing that employment in the social economy tends to be stable and long-lasting.

Collaboration

It's common to see the relationship between the private profit--making sector and the social economy sector regarding funding, but there is also a growing trend for organisations in this sector to position themselves as enterprise suppliers, such as Crescer's catering services, or to establish partnerships with all the different actors involved in a complex social problem. The Inclusive Community Forum project, which aims to promote the inclusion of people with disabilities with the signing of an inclusion commitment by companies is an example of this, which involves more than 50 enterprises, more than 30 social organisations, more than 25 representatives of educational institutions, amongst other participants such as families, individuals and public actors. Each stakeholder brings a different and decisive contribution to the project, and together they identify challenges and solutions in a more holistic and sustainable way.

Conclusion

This sector is crucial for any country, especially in the current reality of continuous socio-environmental issues. Its agility, initiative and audacity make the social economy sector a privileged partner for both the public and private sectors, the latter increasingly attuned to the importance of its contribution to the Sustainable Development Goals (SDGs) and the regeneration of our planet.

In recent years, enterprises' employees and customers have been demanding their desire for the delivery of products and services that take into account their sustainability (environmental, social, economic) in their core business. Creating partnerships with one or more

social organisations, with a focus on impact and the long-term, represents a first step towards this goal. And, in our experience, collaboration, learning and knowledge sharing between these three sectors is still very scarce. We need to build more support for the social economy sector, encourage the creation of partnerships and the attraction of talent, as well as foster the exchange of knowledge and good practices between private enterprises, academia and social organisations. One thing is certain: once you start working with one of these organisations, you won't want to leave the sector.

EDITOR'S NOTE: Eduardo Grace is a member of CASES. www.cases.pt

Chapter 4

Social impact networks

Cascais Social Network

TALITA FELICIANO
ISABEL PINTO GONÇALVES

Networks as value creation

It's now clear that society will only evolve when we learn to work together and join forces to solve increasingly present social and environmental problems. The social sector in Portugal survives on the ability to create partnerships that can help fulfil its social mission. Some studies indicate that more integrated and longer-lasting intersectoral partnerships enhance the organisational capacity of social institutions and contribute to systemic change (Shumate, Fu and Cooper, 2018). Therefore, we urgently need to co-create significant economic, social and environmental value to drive society forward.

The social sector seeks intersectoral partnerships to gain access to resources it typically lacks, improve management skills and acquire new knowledge as a result of this collaboration and sharing (Murph, Arenas and Batista, 2015). In turn, the public sector aims to enhance its capacity to address a pre-existing problem and support existing actors on the field. A partnership is as successful as the trust built through involvement, collaboration and responsibility in governance practices (Abramov, 2009).

In this chapter we'll approach the importance of intersectoral collaborative partnerships that foster learning through a living and practical community, and learn about the work of the Cascais Social Network as a social sector value creation disseminator in the municipality.

Living communities: learning and sharing for value creation

The search for value creation underpins many intersectoral partnerships. That convergence, a growing movement of collaboration and approximation of perceptions of value, reflects the evolution of each sector's approaches to value creation. Collaboration is essential for value co-creation in the future (Austin and Seitan Idi, 2012). To be successful, the partnership must take into account the needs, motivations and interests of all those involved, so that common value can be created.

As we can see, value creation arises from collaboration and the sharing of knowledge and experiences. This exchange requires both theoretical and practical learning, without losing value or judgement. Living communities that are constantly learning can benefit from the knowledge of all their members. Those practical learning networks are defined as a group of people with a common interest, shared experiences or passion for a joint venture, who interact to learn or improve their performance (Nicolini *et al.*, 2022).

According to Nicolini *et al.*, the theory of Communities of Practice offers an analysis based on a mutual involvement and learning context, a shared identity experience that connects people even before their similarities are analysed. Those networks can have three purposes: promote learning and share knowledge, be a source of innovation, or defend interests.

The purpose of learning and sharing knowledge requires the development of practical knowledge, facilitating its dissemination, and extending it beyond the network. Practical knowledge can be developed through simple techniques for implicit knowledge sharing, such as brainstorming about real-life problems faced by network members (Pyrko, Dorfler and Eden, 2017). On the other hand, it's also important to facilitate the sharing of knowledge by motivating, programming and creating appropriate activities (Howorth, Smith and Parkinson, 2012). Bridging knowledge beyond practical communities, in turn, requires organising debates and facilitating interaction in intercommunity environments, connecting and integrating points of view and challenging the main assumptions of the network itself (Oborn and Dawson, 2010).

When networks adopt the mission to innovate, they become a potential value creation and adding source, as well as a path for generating and disseminating new ideas. In addition, they can either facilitate or hinder innovation, as proposed in their second purpose. There are three ways in which networks generate value: changing established practices, solving previously identified problems, and creating new products and services (Nicolini *et al.*, 2022). Innovation factors include generating changes and improvements in existing working practices, increasing efficiency through collective learning, and seeking solutions for existing problems and new challenges. Networks can

thus be seen as a breeding ground for new ideas and mechanisms that use new knowledge to create innovation (Garud, Tuertscher and Van de Ven, 2013). However, innovation can create tensions due to disruption in established processes or the difficulty in accepting change by those involved in the network.

The need to defend their situation, defend themselves from other communities that may think differently, or defend themselves from management control, change and uncertainties that may arise, is a third reason (Nicolini *et al.*, 2022). The members of a community may have different and contrasting goals and interests, which can generate entropy and hinder the previous learning and value creation purposes. That said, it's essential to create safe spaces that protect the members of the network, regardless of their organisational link (Welch and Welch, 2015), so that they feel free to share, criticise or even challenge a situation.

Let's now see how the theory applies to the practical case of the Cascais Social Network.

We are the Network, the Network is us – Cascais Social Network

The history of social intervention in the municipality of Cascais is based on the collective DNA of social actors. A collaborative culture, a practice of interdepartmental partnership and partnership operation were built up and consolidated over time, and became evident since the end of the 1980s. From the secular heritage, where links were forged with existing social actors, to the development of a variety of responses and social facilities in the municipality, the tested experiences of partnership projects or the growing inter-institutional articulation, all these determined the immediate adherence to the Social Network pilot project launched by the State on the eve of the 21st century (Pacheco, 2018). Today, a smart city is one that has good governance, integrates human capital and technology to achieve better results for people, and that's where the Cascais Social Network wants to be.

The Social Network Programme was created by Council of Ministers Resolution no. 197/97, of 18 November, as a forum for coordinating and pooling efforts based on the free membership of local authorities and public or private entities with or without a profit purpose that wished to participate in this network. However, it was with the publication of Decree-Law no. 115/06, of 14 June, that the Social Network Programme was definitively established as a new form of active partnership between public and private entities operating in the same territory, based on the equality of its members, the consensus on goals and the conciliation of the actions developed by the different local social actors.

By addressing poverty and social exclusion to a territorially based social development promotion perspective, this policy measure establishes a differentiation and innovation factor. This legislative proposal is part of a scenario of new social policies, breaking away from more traditional forms of intervention.

Organisation and operation

The Local Social Action Council (Conselho Local de Ação Social – CLAS), chaired by the Mayor, has 131 members (25% public entities, 70% social economy entities and 5% private for-profit organisations) and is organised into 23 thematic or territorial networks, four of which are parish social commissions and 19 Working Networks (platforms, forums or thematic consortia/partnerships).

The Strategy Commission is the body responsible for the strategic guidance of the CLAS Cascais Network, where decision-makers from the main areas of development, such as the City Council, Social Security, social institutions and other members are represented.

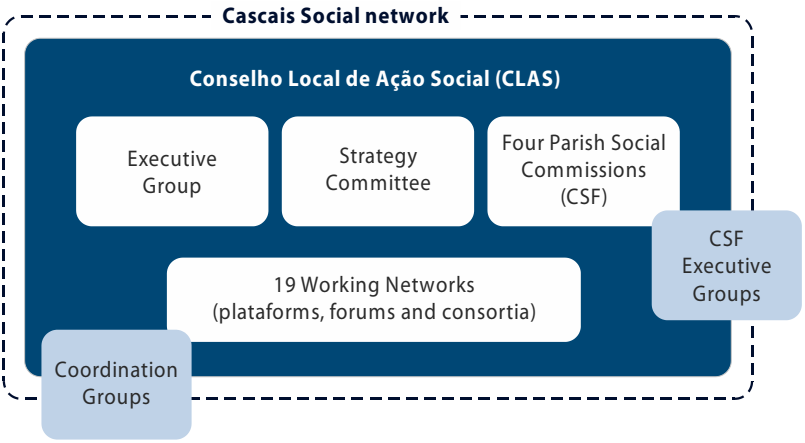
The Executive Group is responsible for boosting and managing the Network's current activity, guaranteeing the preparation of the Municipal Social Diagnosis and monitoring the Cascais Social Charter, as well as coordinating and implementing the Social Development Strategic Plan in close collaboration with all Social Network members. It has seven members which must include a Social Security representative, ae Cascais City Council representative, Health Centre Groupings'

representatives and a non-profit organisation representative elected from among its peers in the plenary. The remaining three members are elected by a list proposed by the Executive Group or by a group of plenary members. It is also provided support by a municipal technical team.

The 19 Working Networks (platforms, forums and consortia) are groups of organisations that share common intervention goals. They can be grouped by topic (*e.g.* health, disabilities, domestic violence), response (*e.g.* kindergartens, social centres), specific population group (*e.g.* homeless, immigrants, etc.) or temporarily created to develop programmes and projects.

Co-creation and collaboration are clearly at the root of CLAS and its entire operation.

Figure 2. Cascais Social Network



The Network as promotion of value creation

After over 20 years of existence, the Cascais Social Network has been accumulating relevant learnings and knowledge, and showing great resilience in the pursuit of its main goals, namely:

- Local social development: an ecosystem that seeks to understand local needs and define the main areas of intervention in order to implement proactive policies and activities, using physical,

material and human resources. Working in close collaboration with local organisations to develop innovative and systematic approaches focused on positive social change;

- Fighting poverty and social exclusion: a set of measures and public policies focused on creating the structural conditions that break intergenerational poverty cycles;
- Optimising and making the most of social resources: ability to design, develop, strengthen and assess resources, taking into account local social, economic and political environments, creating comprehensive tools for diagnosing, planning, monitoring and assessing processes, planning and impacts.

Over the years, this intervention has been supported by planning tools such as the Municipal Social Diagnosis, the Strategic Social Development Plan, and action plans built and implemented collaboratively by the members of this Network.

The key turning point of the Cascais Social Network pilot project was the ability to establish partnerships and collaborations, but above all the introduction of planning, monitoring and assessment, designed and implemented collaboratively with the participation of its members, and trust in a shared governance model.

The Social Network represents a multi-level social governance structure in Cascais that is able to respond to society's challenges and develop strategic areas such as knowledge production, social innovation, participatory planning, action assessment, influencing and advocating, thus fitting into a Network that seeks to create value beyond its borders.

The Cascais Social Network currently has three major and essential planning and action tools:

- A ten-year Social Development Strategic Plan;
- A four-year Social Development Initiatives Plan;
- A four-year Network Development Initiatives Plan.

The Social Network also fulfils its action follow-up and monitoring programme, in close collaboration with and between all platforms, forums and consortia, involving around 80 professionals from the various institutions in this constant exercise.

The current Social Development Strategic Plan (PEDS) is structured around two reflection and action axes and seven structuring strategic goals that lead to a hundred action measures.

Table 4.1. Strategic axes – PEDS

Axis I Social Development	1. Face the birth-rate, ageing and longevity demographic challenges	16 measures
	2. Promote social inclusion and protection of the most vulnerable groups	15 measures
	3. Guarantee rights and promote equal opportunities for different population groups	18 measures
	4. Strengthen socio-territorial cohesion	14 measures
Axis II Social Network Development	5. Strengthen the Network's strategic coordination	12 measures
	6. Improve the Network's knowledge and training	13 measures
	7. Increase the Network's notoriety and influence	13 measures

The fundamental ingredients and dynamics in building a robust, qualified and forward-looking institutional heritage, indispensable for a qualified Social Network, are: (*i*) the Network's operation, (*ii*) how collaborative work increases innovation capacity, (*iii*) partnerships' contribution to sustainability, and (*iv*) the continuous need to build relationships.

The Cascais Social Network therefore considers that:

Table 4.2. Ingredients and dynamics

(*i*) For the Network to operate, it needs:	• a governance model; • leadership; • clear mission and goals; • defined roles for each partner; • planning, monitoring and assessment; • commitment and transparency.

(*ii*) Increasing innovation capacity implies:	• transforming partner information into knowledge that serves all; • applying collaborative and creative work methodologies; • increasing institutional participation and collaboration levels; • being a learning community that values talent; • interacting in the search for comprising, complementary and challenging solutions.
(*iii*) To contribute to sustainability, it promotes:	• the optimisation and best use of existing resources in the territory; • a strategic vision that integrates sustainability; • planning and implementing combined action; • a good information and communication system; • a qualified management that understands the context in which it operates.
(*iv*) To build positive and lasting relationships, it develops:	• experimentation as a 'discovery' factor among peers; • clear, common goals understood by all; • processes for building mutual trust; • permanent attention, boosting and activation of existing partnerships or the creation of new ones.

Good practices and challenges

Both within the Social Network and its thematic or territorial networks, listed below are some best practices that influenced the Network's growth and learning process:

1. The PEDS planning and monitoring system, a collective learning process that involves more than 50 organisations and more than 80 professionals. This is an example of an innovative, challenging and demanding practice, which fosters collaborative action;
2. The capacity of social organizations to mobilize for emerging challenges, their commitment to their work, their willingness to engage in peer learning, and their focus on continuous improvement in service delivery to residents. A good example is the Networking Platform 'Envelhecer Melhor em Cascais' (Ageing Better in Cascais), which, during the 2021-2022 biennium,

carried out several highly relevant training initiatives aimed at improving and humanizing the services provided in the field of aging in the municipality. In 2022, more than 220 professionals from 26 local institutions were trained through these initiatives;

3. Sharing best practices and developing joint action plans have contributed to an innovation and continuous improvement culture in the context of many projects.

The work of the Social Network is in constant evolution and learning, and as such, short- and medium-term challenges for its development have also been identified:

- Consolidating the ability to plan and monitor together;
- Increasing the focus on innovation and the green and digital transition;
- Continuing to improve strategic and executive leadership in the context of effective collaborative governance in the social development area;
- Integrating and motivating the real participation of citizens in the Network's dynamics;
- Intervening in local development processes and different local policies;
- Understanding, globally and individually, we are a Network that learns, takes risks and wants to have an impact on the territory.

Conclusion

The increasingly present collaborative movement shows us that the path to value creation lies in networks that share knowledge, aspirations, and ideas aimed at truly transforming society. The Cascais Social Network is a living community model, involving the municipality's different stakeholders to create value, a space for innovation and shared learning. It is a complex and dynamic network where the individual parts complement the whole to generate systemic impact.

NOTE: Cascais Social Network: www.redesocialcascais.net

PART 2

LEADERSHIP AND GOVERNANCE IN PORTUGAL

Chapter 5

Leadership in social organisations

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ALEXANDRA MACHADO

Leadership critically influences the functioning of public, private and social organisations (Cunha and Rego, 2005). This chapter discusses the nature of leadership of social sector organisations. These organisations, given their very nature, confront specific challenges: they have social missions, but need to maintain economic viability.

Leadership in social sector organisations has been associated with an entrepreneurial and transformational model (Felício *et al.*, 2013). Notwithstanding the importance of this transformational aspect, in this chapter we present a vision that complements that dimension with its opposite: the ability to create rigorous processes and focus on clear goals and metrics. In other words, we will defend the leadership of social organisations as a paradoxical competence. To this end, the chapter is structured as follows: we begin by considering leadership in the entrepreneurial and social sectors, in what unites and distinguishes them. We then consider the challenges arising from the increasingly hybrid nature of organisations (social and entrepreneurial), after which we discuss the challenges associated with leading hybrid organisations, namely the need to lead paradoxically, articulating opposites (Cunha, Clegg, Rego and Berti, 2021). Finally, we consider the importance of preserving the identity of each sector in a hybridity context.

Leadership and social organisation

Leadership, a process of social influence, serves to mobilise organisations to fulfil their missions in a changing world and involves different skills, namely technical, social and strategic. These skills must provide the organisation with an inspirational and aspirational dimension, the poetic dimension, according to March and Weil (2009), as well as a pragmatic component, referring to execution, which the authors call plumbing. Social organisations, with great purpose, will be able to learn from business firms the need for rigorous management and reliable execution. In turn, firms will be able to understand the importance of impact and purpose in social organisations, imitating the power of 'making a difference' (Palanski *et al.*, 2022).

These two dimensions are coming closer together as social and business organisations adopt cross-cutting and mutually fertilising practices. As Battilana *et al.* (2019) explained, firms are being pressured to pay attention, not only to their financial results, but also to incorporate social impact metrics into their goals. Social organisations contain an element of spiritual satisfaction that makes work a mission rather than a means of survival (Cunha, Martins, Rego and Zózimo, 2022). This spiritual dimension can be gratifying on the one hand, but on the other hand, social organisations are being increasingly asked to keep good accounts and be rigorous in their use of resources. Good intentions are not enough to guarantee good management and organisational sustainability.

Business firms can understand the importance of mission, intrinsic motivation and people management as elements of a voluntary workforce. The importance of this last dimension, already discussed by Gratton and Ghoshal (2003), became clearer two decades later, namely with regard to the phenomenon known as great resignation: managing people as volunteers may help retain talent. Enterprise leaders may gain experience in this practice by working with social organisations and their volunteers (Palanski *et al.*, 2022). In fact, a company can be imagined and managed as a working community. In a community, interpersonal ties cannot be strictly transactional (Cunha, Rego and Vaccaro, 2014). As such, enterprises can take inspiration from social organisations to explore less transactional ties (Mazzelli, 2022). In short, the change in society's expectations invites different organisations to look to other sectors' organisations as a source of inspiration and learning (Table 5.1).

Table 5.1. Companies and social organisations

	What social organisations can learn from companies	What companies can learn from social organisations
Mission	Understanding the role of pragmatism as a critical element of the mission	Understanding the power of a mission or purpose
Leadership	The importance of focusing on results and measures	Developing leaders can benefit from the work experience in volunteering contexts
Staff management	The importance of management rigour	Managing your employees as volunteering communities. Development of less opportunistic and transactional forms of relationship.
Change	The importance of keeping your feet on the ground	The willingness to change the world and leave a positive impact

Hybrid organisations

Leadership in the social sector presents particular challenges. Social organisations have a dual goal: an explicit social mission, accompanied by the need for economic viability (Battilana *et al.*, 2019). Just as entrepreneurial leaders are increasingly recognising the need to embrace both financial and social goals, social organisation leaders are being asked to be skilled in management, in order to make efficient use of the resources available.

Although some organisations remain recognisably enterprises and others social organisations, organisations are acquiring hybrid attributes. This movement, in some cases, brings them closer. As discussed by Battilana *et al.* (2019), Patagonia, an outdoor activities clothing company, started out with financial goals, but progressively integrated social goals; while Bangladesh's Grameen Bank started out as a social organisation focused on micro-credit to focus on financial gains to survive and pursue its social mission.

Social organisations are therefore increasingly hybrid. These have attributes such as: the existence of social and financial goals; the

structuring of the organisation in order to pursue these two goal types; the socialisation of employees in social and entrepreneurial missions; the practice of 'dual-minded' leadership (Battilana *et al.*, 2019, p. 127). This dual-minded leadership has been called 'paradoxical leadership' in organisation studies.

Paradoxical leadership

The theory of organisational paradoxes defines paradoxes as persistent contradictions between interdependent opposites (Smith and Lewis, 2011). Although paradoxical tensions were initially considered anomalies to be eliminated, they have increasingly been considered normal features of organisations (Gaim *et al.*, 2022). They take on multiple forms in different organisations (Cunha, López, Van Dierendonck, Schad, Giustiniano, Gaim, Jarzabkowski and Raisch, 2022). As organisations are plural and complex, they inevitably face oppositions (Berti and Cunha, 2023). Leaders must manage those oppositions to identify synergies, where possible, between the best of both worlds (Rego and Cunha, 2020).

In a paradoxical approach, leaders are asked to integrate dual, contradictory goals, in a way that articulates what is normally considered incompatible. More than eliminating tensions, the challenge is to know when and how to take advantage of those tensions, namely how to channel different ideas and points of view towards the same goal, seeing difference as a growth and revitalisation factor. Ashforth and Reingen's (2014) study of a food cooperative is illustrative: the organisation is thriving by not ignoring the tension between idealists (who join for reasons related to values and lifestyle) and pragmatists (who join to get better food at a lower cost). The cooperative benefits from both groups, but they need to understand the tension between their worldviews as constructive. As discussed by Smith and Besharov (2019), leading social or hybrid organisations implies considering the mission and purpose, but also the organisation's material needs.

The challenge of dual leadership can take on different forms, such as organisations that operate with a business logic to serve a social purpose, or less hybrid social organisations that, nonetheless, use

good management practices to achieve their mission more effectively. One point, again, seems certain: the need for good management to make good use of resources.

How paradoxes emerge in practice

Social organisations have a fundamental role to play in promoting systemic and structural change, creating the foundations for a fairer and more decent society for every human being integrated into a wider ecosystem. For those working in the social sector but with an entrepreneurial background, here are some leadership challenges that are paradoxical in themselves, based on the case of Girl Move.

How to design a consistent and impactful mission in the medium--term, while guaranteeing economic viability. From Girl Move and other social projects, there is great pressure to compromise the mission in order to obtain funding for side activities. Many social organisations are losing their identity by taking on activities that are not fundamental to their mission. And they often do so because of the financial pressure of having to fund a structure often created by those same side activities. They end up being characterised by a generic area of activity, without a concrete mission to which they are committed.

How to work on the root of the problem rather than its consequences, i.e. emphasise development rather than charity, give the fish or teach how to fish. The social problems we identify are so urgent that most of the time we focus on the immediate solution. The sector thus acquires a charitable dimension which is not sufficient, although necessary. The funding structures most often incentivise this dimension that perpetuates the social problem. The true ambition of a social organisation is to fulfil its mission until its existence no longer makes sense, or at least to reformulate the origin of that very existence.

How to generate a comprehensive vision of each social organisation's ecosystem and promote an integrated strategy for systemic change. Most of the time, the root of the problem is only eradicated when the approach is coordinated and involves the participation of the various stakeholders. For countless historical, competitive and financial reasons, social organisations working in the same field do not have

a joint vision, and the private sector does not always see itself as part of that system. The coordinated participation of all possible change agents is crucial.

How to attract, develop and pay highly professional and demanding talent, especially in management. The social sector is hardly competitive with the private sector, which reduces its attractiveness. There is often an idyllic image of the social sector. The sense of purpose attracts volunteering, which is often inconsistent and associated with irregular work, fewer hours, less value and demands. The funding structures of which the enterprises form an integral part may be at the root of these challenges.

Box 5.1. Some examples of paradoxical challenges

Challenge 1 – Applications for grants with a two-year horizon and a side mission to that of the social organisation. After two years, the project ends without continuity for the beneficiaries, and the organisation's mission can get dispersed. Funders' agenda does not include the organisations' mission, which are doing a good job on the field. That agenda could become volatile and aggravate the sector's orientation.

Challenge 2 – Sometimes, when we approach private sector companies to collaborate in funding projects for communities capacity-building, the response is something like: 'With the investment they're asking for, we can buy two truckloads of rice that will feed the communities they want to empower for months'. While not generalising, although understandable, this type of response do not get to the root of the problem.

Challenge 3 – Applications for funding promoting competitiveness between social organisations versus promoting cooperation work. The partial view of the problems to be solved hinders the development of a systemic and effective approach.

Challenge 4 – We often encounter a rooted perception that payment in social organisations should be lower than in the private sector. This perception, joined with the actual difficulty social organisations have in adequately paying their human resources given the level of responsibility of their work, makes it difficult to attract and develop talent.

Opportunities for collaboration between the social and private sectors

Some opportunities can be considered for multisectoral collaboration: 1) understanding of the challenges faced by organisations and collaboration with the social sector in order to promote shared value; 2) social organisations understanding the mission of the enterprises and how to generate value for them; 3) mixed working groups; and 4) sharing experiences and best practices.

Next, we discuss each of these points.

1. Understanding of the challenges faced by enterprises and collaboration with the social sector in order to promote shared value.

   Example: what is the mission of this social organisation in five years' time and what contribution can this mission make to my company's value chain?

   Example: Girl Move's mission is to promote a new generation of young changemaker leaders in Mozambique.

   For a company operating in Mozambique, it is valuable to integrate this talent in their organisation. The enterprise can fund capacity-building scholarships.

   For a company operating in Portugal, it is valuable to integrate that cultural diversity, lead in adversity, and promote a more inclusive environment. The company can fund scholarships for exchange of experiences.

   These are examples of successful services resulting from the collaboration between a social organisation and business firm.

2. Social organisations' understanding of the mission of business and how to generate value for them.

   Social organisations can approach the private sector in a structured logic of the value they can provide versus asking for generic funding.

   Example: Girl Move created a social innovation laboratory with grassroots communities, while at the same time promoting talent capacity-building for future leaders with an integrated approach.

The Change Maker Lab works in a community, identifies the main social problems and, over a period of time, focuses on finding a social innovation that solves those problems, whether or not those innovations already exist in another location. It tests innovation with a rich learning about needs and what works or not.

The private sector was integrated into this lab according to the specific mission of each enterprise, and the achievements have been very interesting, with a high level of adherence by business. Information is provided on the field, social impact, capacity-building for the community and for future leaders and company executives. It offers an example of entrepreneurial approach realising the value they can provide.

3. Mixed working groups, with elements from companies and the various social organisations focused on an integrated intervention approach in the system, including the development of tools for measuring results and impact.
4. Opportunities related to sharing experiences and best practices in the area of talent development.

   Examples: Exchange of internships between private and social sector organisations. Creation of joint working groups.

The limits of convergence

Attempts to articulate the social and business components exist in a state of tension (Smith and Besharov, 2013): the hybrid nature of an organisation contains paradoxical attributes. Not all tensions can be integrated: some are trade-offs, which imply choices rather than integration efforts (Berti and Cunha, 2023). For this reason, it is important to consider that, despite convergence, the identity and specific goals of different organisations must be taken into account, because different organisations present different legitimate goals, which they try to achieve in different ways.

Despite the convergence thesis, it is important to consider that organisations must have a clear mission. Economic and social goals are

difficult to sort out and reconcile (Margolis and Walsh, 2003), but clarifying what prevails is key to avoiding problems. The resignation of Emmanuel Faber, CEO of Danone, due to results considered insufficient, combined with a discourse that was emphatically centred on the sustainability dimension, illustrates the point. The world may need a new form of capitalism, as many have advocated, but the need to create value for the owners/shareholders must be a necessary condition for creating more robust enterprises capable of bringing the innovations that society benefits from.

In other words, business firms maintain their identity (even if they incorporate ESG into their practice), the public sector continues having its own logic and the social sector did not become entrepreneurial, although hybrid forms such as B Corps may become more common. The need for intersectoral collaboration and mutual learning may be defended, but it is also important to preserve the spaces and boundaries between sectors. That's why it's also important for organisations embracing social causes to do so genuinely and not out of interest or for public relations motives. They would risk being seen as hypocrites (Wagner, Lutz and Weitz, 2009).

Conclusion

Social organisations need talent with a strategic, pragmatic and rigorous orientation. It's important that they get to know the value chain of the sectors they work with and that the requested funding be built on strengthening that value chain, proactively evolving from a donation logic to a value logic. Companies need to include the systemic intervention component in their mission in the community where they operate, which is essential to develop their teams' talent for a broader purpose. More and more companies embrace this sustainability vision and clear ESG policies. The issue is how these organisations can work together, understanding their essence and the differential value they can bring.

Note from the organisers:
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Chapter 6

Leadership and storytelling

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Tomorrow Options was founded in Porto in February 2007 (Baptista Dias, 2007), an enterprise with a strong social mission, long before social entrepreneurship became fashionable. Entrepreneurs who dedicated themselves to launching new businesses with a greater purpose existed before it became common. It was founded by Paulo Ferreira Santos and Catarina Aroso Monteiro during their Master's degree in Innovation and Technological Entrepreneurship at the University of Porto.

Paulo was a born entrepreneur, always on the lookout for opportunities and building connections. Catarina, younger and more reserved, brought a different vision of the world and a certain stability to the project, forming a promising duo. During their Master's, Paulo and Catarina saw the opportunity to take advantage of the university's technology that was not yet in use to launch the business. One of the authors of this chapter had the opportunity to mentor this team, and Paulo and Catarina presented their idea for the first time during one of those mentoring sessions. The way they did it was, however, peculiar. Instead of presenting a huge number of slides with steps, data and models, they started with a short story, along these lines:

'There are 300 million people with diabetes in the world. Many, around 15%, develop what is known as diabetic foot. Basically, as people with diabetic foot have no sensitivity in their feet, they over--tighten their shoes and walk in a wrong way, which can lead to the development of ulcers'.

Up to this point, the mentor was paying enough attention, but without much enthusiasm. Despite the number, diabetes is an unfortunately common problem. They presented some more generic data on diabetes, and suddenly showed a slide with the number '120,000', paused and asked: 'Can you guess what this number represents?' The mentor tried out several hypotheses, varying from the number of people with diabetic foot in Europe to the average cost of diabetic foot for hospitals, but he couldn't guess. And it would have been difficult to. Then they explained: 'This is the number of people amputated every year because of diabetic foot, in the United States alone. Every 30 seconds, someone is being amputated in the world because of diabetic foot.' We don't know what effect reading this right now provoked on you, but the project's mentor was very surprised. He was, in

fact, shocked, stating 'But this is a huge problem!' It was at that moment that Paulo and Catarina not only caught the interest of the mentor, but had him ready to pull out his wallet and invest in the business. They then explained the technology, called WalkinSense at the time, the business model, the market data and the growth plans. The solution involved essentially a sensors system patented by the University of Porto, to develop insoles adjusted to each person's foot so as to minimise the possibility of developing ulcers.

Unfortunately, the project ended up deviating from its initial mission. After several failed attempts in the difficult North American and UK markets, and two million euros invested by Portugal Ventures, the enterprise 'pivoted' to the athletics market (Pimentel, 2017). They changed the name to Kinematix and the technology to Tune, participated in NBC programmes and even had top athletes promoting the product in the United States. However, in February 2017, ten years and eight million euros later, the enterprise closed down and dismissed 27 people. Although the story does not have a happy ending, there is a deep admiration for the perseverance, determination and resilience of these entrepreneurs, and one of the first admirable university-based technology entrepreneurship attempts in Portugal.

Two fundamental conclusions can be drawn from this case: first, the stories told by social leaders are crucial for inspiring action and creating impact; second, sustaining a consistent narrative throughout a new enterprise's journey can be a huge challenge. Tomorrow Options was more likely a business based on a social problem, instead of a social enterprise, although there are many hybrid models (Santos, Pache and Birkholz, 2015). Anyhow, entrepreneurship struggles, combined with the specific difficulties of funding and growing a social initiative, can lead to deviations which distort the initial purpose. This chapter briefly deals with this topic.

The importance of storytelling for leadership

All authors of this chapter have come across countless impact stories, either through academia or practicing social entrepreneurship. Names such as Johnson Semedo, from Academia do Johnson, sadly

now deceased, Joana Moreira, from Movimento Transformers, Joe Santos, from Vencer Autismo, or Cristina de Botton, from Cozinha com Alma, are excellent examples, amongst many others, of impacting storytellers who all managed to adjust their projects without deviating from their purpose. So, what makes a good story?

Good stories are extremely effective to foster learning, capturing audiences and inspiring action (Denning, 2004). Storytelling is therefore an important leadership tool (Marzec, 2007) that promotes action and contributes to decision-making. Research work has been done on the effect of storytelling on our brains, such as that of Paul Zak, a renowned neuroscientist, showing that impacting stories affect the synthesis of two neurotransmitters (Zak, 2015), ACTH, which stimulates attention, and oxytocin, which is known as the empathy and passion molecule.

One of the experiments conducted by Paul Zak, tried to understand the impact of a good story on motivation towards altruism. The experiment included two groups, both presented with a case about a father struggling to bond with his two-year-old son with terminal cancer. One of the groups watched a video with a relatively neutral description of the case, while the other watched a video built around a strong 'dramatic arc' that brought the viewer into the story. The ACTH (attention) and oxytocin (empathy) levels in the first group remained unchanged, but increased significantly in the second, as expected. The information was the same, but the storytelling art made the difference. Part of the experiment also involved asking the participants to help a person with financial difficulties, unrelated to the story and that they did not know was part of the study. Results? The participants of the second group, who watched the 'impacting' story, felt more motivated to help that person selflessly, which in extremely relevant for social leadership.

So, what does an effective 'dramatic arc' do for an impacting story? To answer, we can take inspiration from writers and scriptwriters who have long been working on these topics. The first and widely used model was developed by Gustav Freytag in 1863. Essentially, based on the great epics and classics up to that date, Freytag proposed a pyramid model with growing tension, a climax and a dramatic end. A similar but more sophisticated approach, with more options for a happier

ending, involves a progression through the following phases (ElShafie, 2018):

1. *Introduction*: defines the context, introduces the main characters and their relationships.
2. *Causing incident*: something unexpected that causes action.
3. *Growing action*: the characters develop, tensions rise, conflicts arise.
4. *Climax*: the main character finds a solution to the problem, for better or worse.
5. *Decreasing action*: the main character works to solve the problem.
6. *Outcome*: the final state, in which the problem is finally solved.

As you may notice, the initial story about Tomorrow Options kind of followed these steps, ending on a more dramatic note with the company's bankruptcy. Like any drama, the case brings with it something positive that we can learn from. Similarly, if we pay attention to many of the stories we hear from (social or otherwise) impacting leaders, their narrative is very much based on this process, even if they often do so without noticing.

Born with a purpose: storytelling and social leaders

It's obviously clear that authentic social leaders and their initiatives are driven by a purpose beyond profit, addressing a serious social problem. Different kinds of stories help disseminate a purpose (Denning, 2004).

Social leaders' narratives usually have a very strong personal dimension. In many cases, they try to solve problems they face directly and that allow them to empathise with those they seek to serve on a deeper level. This creates what is known as motivational empathy, or compassion (Read, 2019), which is the case of the projects of two of this chapter's co-authors: Academia do Johnson, based on Johnson's personal history, starting with a life in crime and later recovering into

society; and the story of Vencer Autismo, based on Joe's relationship with his adopted daughter.

This deep personal compassion approach fits in with the four steps of the ethics of care proposed by philosopher Joan Tronto (1998). Impacting social leaders (1) pay attention to their surroundings and the suffering of others, (2) take responsibility for doing something to help, (3) draw on their skills, and (4) are responsive to the specific context of those they seek to aid. This last point is essential, as it allows developing solutions and creating narratives tailored to the specific reality of those they help, enhancing their credibility and effectiveness.

Additionally, stories with a strong personal component are particularly useful for getting to know the leader and building trust (Denning, 2004), as they usually imply some vulnerability and the ability or the need to overcome it. For new projects, focusing the narrative on the founding leader can be even more relevant, as it is probably the biggest credibility factor. However, a story with a strong personal component can only be effective when it provides a broader perspective beyond its leader. The story needs to represent a means to an end, the broader social cause than the personal case, and the leader is not the cause but the vehicle. Similarly, a story only has a real impact when the words match the actions. When a social leader is not authentic, the narrative will not last for long before being harshly criticised.

The risks to sustaining purpose

The life of a social organisation presents its struggles. In most cases, they have fewer resources and funding possibilities than business-centred organisations. While they may have a greater capacity to generate social capital, such as relationships, contacts, or communication, given their ethical and moral dimension, this is an intangible that still does not pay the bills.

Therefore, these projects require full acceptance and incorporation of the additional effort demanded of leaders in balancing various tensions. These efforts include social purpose and operational profitability; purpose stability and permanent change in the search for solu-

tions; the intended long-term social impact and short-term results; the different and sometimes contradictory needs of different stakeholders; the bet on the leader's (personal) story to inspire and their detachment, for the project to grow even without them. After all, the ultimate success of the social entrepreneur is the extinction of the social problem and paradoxically of their purpose and mission.

When some of these tensions arise, the leader is tempted to deviate from the purpose in favour of something more pragmatic, short--term or operational. The social leader must be deeply and emotionally invested in the cause, or the deviation risks are great especially when the leader loses close contact with those they serve and the notion of impact they have or aim to have. This deviation can lead to giving up entirely on the initial mission (as in the case of Tomorrow Options) or to a mismatch between what is said and what is done, leading to the discredit of the project and its leader.

Sustaining purpose through paradoxical impact stories

In line with paradoxical thinking (Cunha and Putnam, 2019; Smith and Lewis, 2011), social leaders must dynamically incorporate the different tensions of their activity into their impact stories. They must balance social needs, or the team may neglect the more financial, practical and operational issues, with financial issues, or the team will turn away from the initial purpose, be disappointed and alienated from the project.

Likewise, the social leader must consider the audience and adapt the storytelling to the different stakeholders, while maintaining the purpose. As such, a social leader must also have entrepreneurial skills, and have not one but several constantly evolving stories. The dynamic balance between tensions takes place also in this permanent fine-tuning of what we want to emphasise depending on who is listening, and whose expectations vary according to their own interests.

In fact, a story's success is not measured by what is said, but by the impact it creates and its ability to mobilise those who listen. The impact narrative must therefore be a dialogue, an exchange between the

leader and the other in what unites them. To this end, it's essential for the social leader to actively practice empathy and humble questioning (Schein and Schein, 2021) in the search for cooperation, even with those who may be more distant from their social vocation.

Finally, it's crucial for the leader to convey their story, to allow team members to embrace and take ownership of it, within their own context, characters and variations. As Morgan Marzec suggests, a story should be designed not to be read but to be retold (Marzec, 2007). Above all, the leader must know how to question and listen, and support the people who help them in interpreting what the story can mean in their specific context. This allows the project to live beyond what the leader personally can bring to it.

Conclusion

In conclusion, the art of creating impacting stories, particularly for the social leader, involves balancing the desired long-term impact with the rigour, efficiency and effectiveness of the daily operational management of a wide variety of stakeholders. This is the only way to sustain a purpose that is naturally long-term and, to a certain extent, utopian. In line with the thinking of John Elkington and Pamela Hartigan (2008), successful social leaders are those who, although not reasonable, create narratives and strive for 'achievable utopias', therefore paradoxical in their fulfilment and permanent impossibility.

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Chapter 7

Good governance and social leadership

Attracting donations and volunteers

DUARTE J. PITTA FERRAZ
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In the entrepreneurial world, the main advantages of good governance are the establishment of a reputation that allows attracting capital through shareholders, bonds and the financial system, alongside attracting, motivating and retaining talent (Ferraz and Adhikari, 2021). In a social organisation, capital focuses on attracting donations, while regarding talent it focuses on attracting, motivating and retaining volunteers. To illustrate the practical application of this framework, we invited Já T'Explico, a social organisation that helps children and young people from disadvantaged backgrounds build their future, by promoting fair access to opportunities, to share how it seeks to achieve a good governance structure in its institution.

In the ESG – Environment, Social and Governance acronym, the 'G' is a cornerstone for the development of both the 'E' and the 'S', while in social institutions the 'S' is at the heart of this type of organisation. Although structures can be less robust in a social organisation, due to limited resources and priorities focused on the organisation's purpose and goals, there is sometimes a lack of attention to the need to set up a structure that guarantees robust governance. This conveys to volunteers (talent) and donors (funders) a high degree of confidence.

The idea of establishing Já T'Explico emerged among a group of university students, based on the realisation that a student's socio-economic environment significantly impacts their journey: 'In Portugal, there is a strong relationship between students' school performance and the socio-economic background of their households' (DGEEC, 2016). With this in mind, and with the desire to contribute to the solution, Já T'Explico was created in 2015 by dozens of students from Academia do Porto. Through university volunteering, it helps its learners achieve better results at school, and regularly provides experiences and activities that they would otherwise have no access to. Thus, the social nature of Já T'Explico's activities, combined with good governance, allows the organisation to leverage the attraction of two essential resources: donations and volunteers.

The governance concept, aligned in the doctrine, is theorised in political science (institutions and power) and can be summarised as a conceptual framework that defines the rights, functions and responsibilities of the different groups of actors in the institution, which can

range from the executive board to trustees with a non-executive role. It's based on two pillars: (*i*) 'Structure', which encompasses a hierarchical and functional structures system, and (*ii*) 'Processes and Systems', including the internal control framework, processes, standards and procedures aimed at 'Informed Decision-Making' in terms of its monitoring and management (Ferraz, Adhikari and IIA, 2022).

Understanding the separation of functions between the different roles of management bodies members is relevant to exercising power under the law and best practices. Some social institutions have adopted trustees, which correspond to non-executive directors in enterprises, who must be independent (Everson, Monda and Vos, 2013). This is particularly relevant in protecting stakeholders' interests.).

Another significant good governance challenge is undertaking all the functions between management and supervision, executive and non-executive respectively, namely in the management of information asymmetry. The leveraging of monitoring functions, namely internal auditing, risk and compliance, is suggested for mitigating the risk, along with potentially using external guarantors, such as regulators, if a social institution operates in an area regulated by external auditors. Although important for good governance, due to social institutions' size and resources, it presents challenges that can be significant in terms of the volunteers carrying out these functions. This reality is known as the 'proportionality principle' (EBA, 2018), which allows governing bodies to establish monitoring mechanisms that take into account the size and complexity of the institution they manage.

At Já T'Explico, the good governance principles are aligned with the legal status applicable to youth associations, made up of governing bodies, members and volunteers. The members are all of the association's volunteers and governing bodies. The governing bodies include The General Assembly (highest body), the Board of Directors (executive body) and the Supervisory Board (supervisory body). The first is responsible for supervising and monitoring the work carried out by the other governing bodies, electing and dismissing the members of all bodies, as well as assessing and voting on the annual accounts report of the Board of Directors, the plan of activities and the budget.

The challenges in practice – Attracting donors (capital)

In a non-profit organisation, a significant portion of the funds comes from donations (capital), central to achieving the defined goals and increasing the impact on the community. In the case of Já T'Explico, this means of funding is essential not only to ensure financial sustainability for the daily activities with its learners, but also to provide them with new experiences and make the organisation as a whole grow.

However, the organisation faces other related challenges, such as the emotional decision-making process of a donor (individual), who is more willing and interested if the amount donated is earmarked for a specific good or moment in time or which impact is clearly visible, rather than for long-term impact projects. Another challenge is retaining donors in order to secure long-term funding that can support fixed costs. Enterprises, especially, require to see the organisation's results materialised in figures/metrics, for instance, calculating the learners' approval rate, which in recent years has been around 90-95%. This is a crucial point, given that the activity of a social purpose organisation is so wide-ranging that it can be difficult to measure its total impact.

There are other unquantifiable impacts, such as the fact that Já T'Explico has young people changing their view of education and wanting to continue their higher education studies, while initially unwilling to do so and following a similar path to their parents, and also its impact on preventing the dropout of children who are taken away from their families in the middle of the year due to domestic violence contexts, and managing to keep their grades and progress, amidst all their personal and family life obstacles.

These challenges are critical sustainability factors for Já T'Explico, which has endeavoured to keep in line with the best good governance practices since its foundation.

Attracting volunteers (talent)

Volunteers are the most valuable resources of any organisation that works on a volunteering basis. These are the people who dedicate part of their sometimes limited time to a common mission with a direct impact on society.

As mentioned before and like for enterprises within a good governance framework, one of the biggest challenges Já T'Explico faces is attracting, motivating and retaining university volunteers and conveying to its learners the impact that each person's work generates for the organisation's mission and its learners. Its volunteers search for impacting experiences and are confident that it can effectively change the world. Conveying that certainty through their work at Já T'Explico is crucial to achieve their desired commitment. Experience has shown that it's feeling as agents of change that makes them willing to stay in the organisation for a longer period of time and maintain their ongoing commitment.

Additionally, in the case of university volunteers not yet in the labour market, one of the attracting and motivating factors is the fact that they find in the association a professionalised structure in terms of functions/responsibilities and also processes, which adopts the best governance practices. Já T'Explico's four operational departments are Mentoring, Human Resources, Strategy, and Marketing & Communication, each headed by a director. The feedback and performance assessment process is a procedural initiative adopted to promote 360--degree feedback and the continuous personal and professional development of each member. Over time, the organisation has come closer to the entrepreneurial reality thanks to constant collaboration with *alumni* members already in the entrepreneurial world who suggest ways of making the organisation's *modus operandi* more efficient, so that it can continue to improve its results and increase its impact.

These practices are in line with the good governance goals for attracting, motivating and retaining talent, *i.e.*, volunteers.

Corporate governance bodies – The institutionalisation of governance

The developments, attention and relevance that governance has acquired as a multidisciplinary area of study are recent. This process allowed for the involvement of public agents in the governance theme and to raise awareness to good practices. The OECD (2016) advocates that the governance framework should recognise stakeholders' interests and their contribution to the (social) institution's sustainability. Governance architecture involves governing bodies, which institutionalise governance in view to the relationship between them, governance and management. The decision-making and conduct process must maintain a balance between those bodies and the stakeholders. Good governance promotes trust, transparency and responsibility, fostering reputation and sustainability, and supporting the growth and development of inclusive societies through the actions of socially-oriented institutions.

The conceptual framework (Jensen and Meckling, 1976) identifies generic agency challenges in the corporate area, such as between the main actor who provides capital and the agent who is the volunteer managing capital and taking advantage of their executive position. Social organisations face challenges related to their relations with stakeholders, particularly donors, more distant from the institution and demanding in accountability. Although the agents (managers) are the main decision-makers, they take lower financial risk than the main actor (donors), as these are primary investors, and that unequal distribution of financial risk can lead to a different risk tolerance level. This situation can generate tensions when the agent and the main actor have diverging goals. There are three levels at which Agency Conflict manifests itself: *(i)* the asymmetry of information that is monitored by the agent; *(ii)* the execution monitored by the agent (executive volunteers); and (*iii*) the risk that lies with the main actor (donor).

Different countries have their own social, economic, political and cultural values, which originate enterprises and other institutions such as associations and foundations, with different governance models which require adjustments depending on the jurisdiction and the type of institution (*e.g.*, non-profit institutions, enterprises or associa-

tions). Good governance practices should be followed by institutions such as non-profit associations (like Já T'Explico), small and medium-sized enterprises, family enterprises or startups, namely by integrating independent non-executives with supervisory responsibilities (Ferraz and Ferraz, 2023). Governing bodies are responsible for effectively monitoring potential conflicts of interest (Ferraz and Ferraz, 2023), which is why they should be set up with structures and processes in line with the best governance practices, establishing a supervision and inspection system that mitigates agency costs that could affect reputation and negatively impact the ability to attract donations (capital) and motivate, retain and attract volunteers (talent).

The inclusion of independent executive and non-executive managers/directors who adopt the legal duties of care and loyalty is relevant for alignment with best practices. Based on these best practices and good governance principles, over the eight years of Já T'Explico's existence, there has been improvement in the governance policies and structures mentioned, one of which is to allow only people who no longer have operational functions in the organisation to apply to the General Assembly and the Supervisory Board, to avoid conflicts of interest and maintain the independence of the members of these bodies (Ferraz and Ferraz, 2023).

Executives and non-executives: different functions

The main difference between the chairperson and the chief executive lies in the responsibility of the former to 'lead the Board of Directors' and of the latter to 'run the institution'. The chairperson is a leader that balances the legitimate interests of the various stakeholders, while the chief executive has an execution function. The chairperson is responsible for and represents the Board of Directors, while the chief executive is responsible for and the public face of the institution (Shekshnia, 2018). That makes the job of the chairperson, which requires specific skills and practices, very different from that of the chief executive, and unawareness of these differences often leads to tension between these actors (Ferraz and Adikhari, 2021). The second aspect

concerns the functions and responsibilities of executives and non-executives.

They can be summarised as follows: non-executive members of the governing bodies are responsible for (*i*) governance *ii*) strategic management, and (*iii*) supervision and monitoring; executive managers are responsible for (*i*) developing the strategic plan, (*ii*) its execution, and (*iii*) supervising the board of directors' first line. Executive management must exercise its decision-making powers within the competences delegated to it by the board of directors, *i.e.*, 'day-to-day management' (short-term) competences, and 'transformational management' (long-term) competences, and all other that have not been delegated. When in doubt, the executive management must submit decisions to the Board of Directors. The Board of Directors should focus on the important topics while the executive management should focus on the urgent ones. A matrix that structures the institution's needs, compared with the personal, professional and academic qualifications of the future members, should be prepared to ensure an appropriate and harmonious combination of competences, taking into account, namely, gender diversity, academic background and age. In its publication on corporate governance principles, the OECD (2016) emphasises that the board of directors plays a crucial role in the appointment, and governing bodies' members must have the skills and profile to fulfil three duties established by law: the duty of care, the duty of loyalty and the duty of obedience.

IVENS ViSTO – Allocation of responsibilities

An organisation's power pyramid structures and rationalises decision-making and delegation of power, as well as the functions and responsibilities of its members.

The conceptual framework called IVENS ViSTO (Vision-Strategy--*Tactics),* adjusted to the size of the institutions, breaks down the power structure, between the decision-making bodies and their members, into four levels, allocating powers and the way they are articulated and coordinated, namely in the information asymmetry reduction process. The Vision represents the organisation's anchor, which

should express the aspiration and dream, providing the inspiration and basis for the Strategy, the second layer of the structure/pyramid, focused on what shapes the value proposition of the business model, meaning the purpose-oriented strategy, *i.e.*, identifying the stream of revenues and the cost structure in the Business Model Canvas (Osterwalde and Pigneur, 2010). It aims to allocate scarce resources, like volunteers (talent) and donations (capital), to fulfil the Vision. Tactics are the responsibility of executive management and are linked to the third level of the structure, with the aim of implementing the defined strategy. The tactical plan is developed after designing the strategic plan.

The distinction of responsibilities and functions defines and frames the power of the various decision-making levels, and is relevant for establishing mechanisms for the performance of functions at the various organisational levels, to protect the interests of the different parties (OECD, 2016). This process will allow the functions to be carried out within a framework that results in an effective and efficient decision-making process and ensures good governance.

The 'Three Lines of Defence'

The 'Three Lines of Defence' is a tool that checks the internal monitoring framework by using the monitoring functions as tools that the responsible actors use to ensure good governance practices in the decision-making process.

The Three Lines of Defence model (IIA, 2022) theorised by the Institute of Internal Auditors links its goals to the functions defined for governing bodies. The model follows a principles-based approach and must be adapted to the organisational goals and circumstances. It takes care of achieving goals and creating value through effective risk management, including defending and protecting the institution's value, establishes the link between the functions and responsibilities represented in the model and their relationships, and implements measures to ensure that the activities and goals are aligned with those of the stakeholders.

In addition, external independent verification guarantors are external entities that play an essential role in the governance structure, constituting an additional line of defence called the Fourth Line of Defence (Arndorfer and Minto, 2015). Other external stakeholders should be mentioned, such as the regulatory bodies of the social sector, external auditors and the media, which can have a role in monitoring non-social organisations.

Conclusion

In conclusion, we would like to point out that the conceptual framework presented for establishing good governance fulfils several goals, mitigating information asymmetry risks, promoting the best governance practices in both enterprises and social institutions, and maintaining a 'reputation capital' that attracts donors (capital) and volunteers (talent), while ensuring a robust governance ('G') base for the development of 'E' and 'S', the latter being particularly relevant in the case of non-profit social institutions.

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Chapter 8

Advocacy in the social economy sector

LÉNIA MESTRINHO
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This chapter focuses on advocacy practices carried out by social organisations and aims to fulfil three main goals:

1. Demystify the concept of advocacy in social organisations, not only through its definition but also through its different dimensions, with the presentation of concrete examples;
2. Know the legal and communication tools typically used for advocacy, and the summarised key steps for putting a strategy into practice;
3. Challenge readers to imagine themselves wearing these shoes and taking on the role that belong to all of us – citizens and civil society – of identifying social and environmental challenges and building solutions to them together.

Advocacy: what is it?

Advocacy is a broad, multifaceted concept depending on the context in which it's used. In general terms, it can be defined as any action aimed at recommending, defending, arguing, supporting or advocating on behalf of others.[1]

Considering the social organisations context, advocacy consists primarily of defending a cause, shaping public debate and/or changing public policies, involving audiences and agents who may be able to help fulfil those changes.[2]

Advocacy practices can take various forms, such as: organising events, campaigns and movements, promoting community literacy, carrying out research studies and collaborating with the academia, involving citizens and voters, disseminating information to public authorities, influencing elected representatives, and lobbying for regulations amendments.

(1) https://mffh.org/wp-content/uploads/2016/04/AFJ_what-is-advocacy.pdf.

(2) https://bolderadvocacy.org/advocacy-defined/.

These actions are especially important when we want to ensure that under-represented and vulnerable communities have a voice in the decisions that affect them.[1]

Mastering the ecosystem

For an organisation to decide on its advocacy path, namely its mission and the goals to achieve, to make a robust and informed decision it is essential to gather information about the ecosystem in which the organisation operates. It's therefore important to understand the context of the organisation at different levels:

- Peers: who our peers are, *i.e.* organisations with a similar mission which share the same causes; understand whether those organisations already have advocacy activities and, if so, what those are and in what areas;
- Funders: which organisations typically fund this kind of initiatives, both in the social economy and in the private sector, and what kind of advocacy activities are eligible for this funding;
- Stakeholders: who are the organisations with the main interest/motivation to work on this theme and why; who could our allies and opponents be.

It's crucial to broaden our advocacy perspective to an Iberian, European and even global level, especially because there are territories where advocacy activity is historically and culturally older and more prevalent. This international analysis should therefore extend to everyone – our peers, potential funders and other foreign partners.

After this initial research, the organisation is able to better understand, strategically, which position it should take in terms of advocacy. For example, there may be a *topic A* that is relevant and a priority for the organisation, but since it considers that there is already significant advocacy effort on that topic, it decides to redirect its efforts elsewhere Alternatively, research may indicate that an international peer has already been on a successful path on *topic B* in their country, so the

(1) https://mffh.org/wp-content/uploads/2016/04/AFJ_what-is-advocacy.pdf.

organisation decides to talk to them, absorb all their knowledge and even use the case study as an argumentative benchmark for the advocacy initiatives it develops in Portugal.

Once there is a better grasp of the overall picture, before starting its advocacy activities, especially if those are legislative, the organisation needs to develop its case file, which should include information on:

- Key figures: this analysis can be divided into two parts – the first one characterises the problem, and the second presents impact estimates if the measure is implemented or the legislation comes into effect (*e.g.*, benefits for recipients, potential savings for the State, etc.);
- Success/benchmark examples: in most cases, and particularly in the international context, there are organisations that have carried out a similar process to ours with the same goals. These cases should be studied in depth, not only because they allow us to identify their critical success factors, which can later be used in our initiative, but they also serve as proof of concept, showing that the proposed initiative has already borne fruit in other locations;
- Potential partners: it's also important to identify key stakeholders who can support the advocacy initiative – whether they are communication partners, collaborators in preparing the legal dossier, peers with aligned advocacy goals, funders, or others.

Knowing the legal tools

Social organisations form an integral part of the policy formulation process at all government levels (LeRoux, 2009). When the advocacy goals amend existing legislation or pass new legislation, the process becomes more complex, possibly more time-consuming, and requires mastering the legislative initiative processes.

Who is responsible for the legislative initiative? What is the stand of the various parliamentary groups on the topic? What is the stand of the governmental Ministry on the topic in question? Which parliamentary committee(s) could deal with the topic? Which MPs are in fa-

vour or against the topic and what arguments do they present? These are just some of the matters that need to be understood.

Generally speaking, the common legislative process flowchart, and other information relevant to this type of advocacy, can be found on the website of the Portuguese Parliament.[1] The fulfilment of these initiatives requires an internal team with the necessary skills (*e.g.* developing a draft bill) or a partner to replace it with the technical knowledge and necessary experience. It's also worth mentioning the possibility of organising a petition or a referendum, as citizens' initiative rights.[2]

Investing in communication

Organisational communication is critical for successful advocacy campaigns. It allows creating a stronger connection between the organisation and their stakeholders, establishing trust with cause supporters and increasing the chance that the message will be heard and understood.

Investing in communication can help create a single, solid message that resonates with all stakeholders, such as the organisation's employees, partners, beneficiaries and supporters, but also the government and the media.

To do this, it is important to choose spokespeople who have communication skills and knowledge of the cause represented by the organisation and its ecosystem.

Key communication methods include:

(1) https://www.parlamento.pt/ActividadeParlamentar/Paginas/Iniciativas-sobre.aspx.

(2) https://www.parlamento.pt/Cidadania/Paginas/default.aspx.

Table 8.1. Communication methods

1. Social media campaigns	Develop and execute social media campaigns to reach the target audience and advertise advocacy efforts.
2. Press conferences	Hold press conferences to announce and discuss the causes' challenges and advocacy goals and efforts.
3. Media use	Prepare press releases and disseminate them through mass media in order to share stories and build relationships with the media.
4 Petitions	Create petitions, usually online, to collect signatures and show public support for a particular cause.
5. Local activism	Organise events to draw attention to a problem and attract supporters from the local community.
6. Speaking in public	Give speeches and presentations at conferences, forums and events to share the message.
7. Webinars	Hold public webinars to provide information and answer questions on the advocacy topics.
8. Infographics	Communicate in a visually appealing way, using the main figures on the issue defended, creating knowledge/demystifying the problem.
9. Letters 'to the editor'	Write letters to newspaper editors to share opinions and information on the advocacy topics.
10. Networking	Participate in key events attended by stakeholders, to build relationships and promote new advocacy actions.

Building partnerships

Regardless of the cause they are dedicated to, social organisations aim to achieve change. Whatever the strategy, collaboration, networking and partnership-building are imperative for a successful achievement of advocacy initiatives. Therefore, we must work together and involve not only 'the usual suspects' but also new social actors who have the potential to attract greater attention from politicians and the public (Hale, 2011).

These partnerships can be fluid and informal, creating networks, projects and movements, or creating a legally constituted entity (Sharma, 1997). When choosing how to come together to gain greater power of claim, excessive formalities and complex governance mechanisms should

be avoided, as they do not necessarily guarantee a greater commitment from partners and can take away some capacity for action.

We also need time and energy, because partnerships involve building relationships of trust. This requires making goals, functions and benefits clear to everyone, maintaining regular contact, sharing information, and knowing how to welcome diverse opinions and different positions (Sharma, 1997).

Being aware of the risks and challenges

First of all, the organisation must reflect on its strategic positioning, the style of discourse to be adopted, and choose the advocacy practices to be implemented. There are costs and benefits to adopting a cooperative and constructive attitude, or one that is more confrontational and publicly critical of the dominant ideology or power. Any link to a particular political party must be weighted, as the organisation can risk losing prior support and damaging its reputation. And it's also crucial to assess whether we are allocating too many of the organisation's resources, exceeding our capacity to act or losing focus (Hale, 2011).

Joining forces to achieve common goals also comes with risks. In fact, the more organisations come together and the wider the scope of action, the more difficult making decisions is, the more conflicts of interest can arise, the more diluted or oversimplified our message can become, and the greater the risk of running over each other and limiting the intervention of each partner. On the other hand, it can also be difficult to integrate groups of citizens without an institutional framework into broader advocacy initiatives, as they are naturally much more flexible and directly monitor both the message and the action (Hale, 2011; Bond, 2005).

Many social organisations face constant funding struggles, with revenues usually being earmarked for activities related to supporting their beneficiaries directly, compromising their ability to play a more active role in defending the interests of the cause they defend and changing the *status quo*. However, we must consider the risk that corporate support objectives may not align with our own, and that this

misalignment could undermine our organisation's credibility and the very purpose of its existence. (Hale, 2011; Bond, 2005).

How to start advocacy in the context of the organisation

Like any other initiative, planning helps us clarify our goals and the steps needed to achieve them, by identifying potential difficulties, avoiding surprises, and increasing the chances of success. Otherwise, we could waste valuable energy, lose opportunities and even antagonise those on our side. Planning is crucial because advocacy can pressure powerful individuals or organisations into making changes that may not be in their short-term interest, carrying out actions with high public visibility and taking a stand against opponents (Holt *et al.*, 2013).

Figure 8.1. Advocacy strategy

* SMART (Specific, Measurable, Achievable, Realistic and Timely).

Practical examples of advocacy in Portugal

Reshape: the case of Prison Insights

Reshape is a Portuguese non-profit association, founded in 2015, with the mission of ensuring the dignified reintegration of all individuals who are or have been in prison. The team believes that there is a 'before' and 'after' Prison Insights (PI) in the life of the organisation. This was the name given to the advocacy event launched in 2018, aimed at demystifying the prison system and sparking interest among the public and the government in experimenting with different approaches and solutions – many of which have already been successfully tested in other parts of the world.

In 2023, Reshape prepared the fifth edition of Prison Insights. The team's initial concerns, such as 'nobody cares about the prison population', 'it's a topic that nobody spends time thinking about', 'it's a minority in terms of supporters, compared to so many others that are more consensual', quickly faded away with the results achieved. The law firm Morais Leitão, which hosted the first edition of the event in the João Morais Leitão auditorium, saw the venue filled to capacity, with dozens of people standing or sitting on the stairs. The event was attended by the sector's volunteers, law students, former prisoners, social reintegration technicians, prison guards, members of the Directorate-General for Reintegration and Prison Services and the Ministry of Justice, other associations of the sector, leading national lawyers, and many other stakeholders.

Thanks to the diverse range of national and international speakers – and the trusting relationships built with them – new opportunities emerged: to join European movements that brought new funding sources, new partners, and the chance to learn from other prison systems; to launch new projects within Portuguese prisons; to attract talent, through hundreds of volunteer applications and numerous internship requests; to establish partnerships with companies that now purchase products from the Reshape Ceramics social business and employ formerly incarcerated individuals; to schedule meetings with people and organisations that were previously considered out of reach; to grow social media followership – among many other positive effects.

However, the organisation highlights that one of the most meaningful impacts lies in the sense of satisfaction and enthusiasm felt by professionals in the field and by those who have experienced incarceration – for having shared a moment and a space with a global community genuinely committed to studying, working, and inspiring more humane and effective pathways for successful reintegration into society.

Growing demand led Prison Insights (PI) to Auditorium 2 of the Calouste Gulbenkian Foundation in 2022. To date, the event has welcomed over 950 participants and 49 speakers from around 20 different countries.

The '*Pela Memória Futura*' (For Future Memory) manifesto of Alzheimer Portugal

Alzheimer Portugal was founded in 1988, has nationwide reach, around 12,000 members and 130 employees, and aims to improve the quality of life of people with dementia and their caregivers. As a private social solidarity institution, it provides direct support through its social responses and projects in the community. As a patient organisation, it develops initiatives to raise awareness and literacy, and to represent people living with the disease and their families, communicating with public authorities and other stakeholders.

In 2009, Alzheimer Portugal took the first steps towards creating a National Strategy for Dementia. A working group was founded in 2016 after several resolutions approved by the Portuguese Parliament, and the strategy was published in 2018, but it was only four years later that the Minister of Health approved the implementation of the respective National and Regional Health Plans.[1][2] Despite having completed these stages, many years later, dementias were still not effectively prioritised by the government, as there were no care pathways on the field and the Ministry of Labour, Solidarity and Social Security was not involved in the solutions design and implementation.

(1) Order no. 5988/2018

(2) Order no. 12761/2021

Alzheimer Portugal maintained its dialogue and engagement in the implementation of these policies, and then decided to draft a manifesto,[1] in an attempt to make dementias a social and public health national priority, and draw the attention of Portuguese society to the urgency of implementing accessible and integrated responses. This initiative had the support of a pharmaceutical enterprise and the know-how of a communication agency.

Using the manifesto, the association contacted the parliamentary groups with seats in the Assembly of the Republic and held meetings to present the document and request the involvement of the political parties in monitoring the issue and pressuring the government. In September 2022, the manifesto became public through Alzheimer Portugal and various mass media communication agencies, and in that month only, nearly twenty news articles and interviews on the topic were published on mass media.

The results of the manifesto continued after its publication, and it is still a tool for systematising and publicising the claims of the around 200,000 people and their families living with dementia in Portugal.

Conclusion

The predictive factors for greater engagement of social organisations in advocacy practices are now known: organisational size, professionalisation, Boards' support, legal knowledge, public and private funding, cooperation, citizen engagement and a negative policy context (Lu, 2018).

Imagine the potential of the more than 70,000 non-profit and third sector organisations that exist in Portugal (Statistics Portugal, 2019) if they had the means to engage in structured advocacy. They could shape public debate, change policies and positively transform the causes they defend and the panorama of participatory democracy in our country.

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(1) https://pt.wikipedia.org/wiki/Manifesto: a text of essay and persuasive nature, a public statement of principles and intentions, which aims to warn of a problem or make a public report of an occurring problem, usually of a political nature.

Until the ideal conditions arise, we cannot give up. Change rarely happens overnight and our goals can take years to achieve. We have to start the journey right now, aware of our resources and limitations, and with our eyes set on the future we want to conquer!

Note from the organisers:
Catarina Alvarez is a member of Associação Alzheimer: alzheimerportugal.org

Chapter 9

The importance of the advisory board and the role of the advisor in a social organisation

FRANCISCO GRANJA DE ALMEIDA
RUI DINIZ

"*Bons amigos, bons conselhos*" (Good friends, good advice), goes the Portuguese saying. This chapter defends the importance of an effective advisory board (and good advisors) for social organisations' governance and impact. It is organised into two main parts: the outline of advisory boards' legal framework to define their main legal aspects in a useful and easily understandable way, followed by real-life testimonies of how they work and the unique way in which advisory boards can leverage social organisations' positive impact.

The legal nature of advisory boards

Advisory boards are corporate bodies that hold purely advisory functions, which means they do not perform administrative, management or supervisory functions. They work as collective centres of knowledge and experience which, at the request of another governing body or on their own initiative, produce advice, assessments, opinions and strategic contributions to help social organisations in the pursuit of their mission. With its knowledge and experience-based advisory role, this board has the potential to enhance the organisation, strengthen its governance model and improve the strategic direction.

Advisory boards are made up of members (advisors) with recognised technical know-how and experience, appropriate for the social organisation's mission. In addition to the technical characteristics related to their knowledge, it's also common to refer to *personal* features of the advisors, such as character, reputation, recognised merit or civility. In short, the general expectation is for advisors to be knowledgeable and hold recognised merit and reputation, in order to provide quality advice and added value. It's often said that the advisory boards are composed of the leading experts or 'authorities' in certain fields.

This initial reflection on the advisory boards introduces three main legal characteristics to be detailed.

Collegiality

Advisory boards are necessarily collegiate bodies, made up of generally three or more members, although nothing prevents social organisations from having singular advisory bodies (which are not common in Portugal), like a sole advisor or a community ombudsman, pursuant to the organisational freedom principle of the applicable legal framework. As a collegiate body, the advisory board deliberates through meetings attended by its members.

The collegial nature of advisory boards promotes the regular and effective functioning of social organisations by bringing together diverse knowledge, a plurality of perspectives and a system of checks and balances. This serves as a guiding principle for the actions of social economy entities and enables democratic oversight of the governing bodies by its members, as outlined in article 6(c) of the Basic Law for the Social Economy.[1]

In this context, best governance practices recommend that collegiate bodies consist of an odd number of members; however, as will be discussed in this chapter, this is not a legal requirement for advisory boards.[2]

Optionality

Since advisory boards are optional bodies and not legally required, organisations may choose whether to appoint them.

The difference between mandatory and optional bodies is very clear in the foundation regime under articles 26 and 27 of the Foundations Framework Law,[3] which clearly states that there are three mandatory bodies in private foundations – the administrative, the ex-

(1) Approved by Law no. 30/2013, of 8 May.

(2) Unlike what happens, for example, in the administrative body of an association, under the terms of Article 162 of the Civil Code.

(3) Approved in annex to Law no. 24/2012, of 9 July, and amended for the third time by Law no. 67/2021, of 25 August.

ecutive and the supervisory body, but they 'may also have one or more optional bodies'.[1,2]

Our emphasis on the fact that social organisations are not *legally* required to have an advisory board highlights the absence of a *legal* obligation to so prescribed by law, but there might be a *statutory* obligation written in the articles of association of the social organisation that determines so. In sum, when considering whether advisory boards are mandatory or optional, it is important to distinguish between an 'external' legal obligation and an 'internal' statutory obligation.

If, for example, the articles of association of a private foundation provide for an advisory board in its governing bodies list, should the foundation have this advisory board functioning? Yes, it should, but by virtue of a statutory obligation and not by virtue of a legal obligation. This is the general rule throughout the social economy sector: advisory boards are not *legally* mandatory, without prejudice to self-regulation.

This apparently theoretical difference can have practical relevance for organisations. The irregular incorporation and/or functioning of statutory governing bodies clearly constitutes poor governance practices and poses a significant risk to the organisation's reputation. Furthermore, if the social organisation operates under specific State supervision due to its legal nature, it may be subject to government investigations, requests for compliance procedures and other regulatory actions.[3] For example, when private foundations apply for public utility status, it's common for the applicable State supervision bodies to carry out a material analysis of the foundation's statutory compliance.

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(1) Typically referred to as Board of Directors, Chief Executive Officer (singular form) or Executive Board (collegiate form) and Supervisory Board.

(2) Under the terms of Article 26(2) of the Foundations Framework Law. Due to the specific nature of foundations, the law exemplifies as optional bodies the 'board of founders or curators, with the mission of ensuring compliance with the foundation's articles of association and respect for the will of the founder(s)'. In any case, this list of bodies and functions is not categorical, and the possibility of having advisory boards with advisory functions should be considered.

(3) In other words, *some* private social solidarity institutions (hereinafter, IPSS) and *some* foundations, since the effective supervision of these social economy organisations can vary depending on a number of factors, including the sector in which they operate.

Advisory functions

As mentioned above, advisory boards serve as collective centres of knowledge and experience, producing advice, assessments and opinions that assist the social organisation in pursuing its mission. In practice, they often work in line with the management body to assist, guide and advise the directors in the performance of their duties, by issuing non-binding opinions.[1]

However, advisory boards do not and should not have executive, administrative or supervisory functions, nor should there be an overlap or confusion between the functions and powers of the different governing bodies in order to safeguard the harmonious operation of the social organisation's governance model. In light of the principle of separation of powers and interdependence of the governing bodies, the powers of the governing bodies must be well defined in order to avoid entropy and even illegalities.[2] Overlapping powers should be avoided, especially in the relationship between advisors and directors. The advisory board can offer advice; however, it is ultimately the management body that makes the final decisions.

Finally, even without management functions, advisors have a due diligence duty that is appropriate and proportional to the nature of

(1) We point out that nothing seems to prevent advisory boards from working in coordination with other governing bodies. In our opinion, for example, the General Assembly of a non-profit association may request an opinion directly to the advisory board, without intermediation by the board of directors, in order to obtain advice in order to take a more informed decision on a matter within its powers, if allowed by the association's articles of association.

(2) Insofar as there are exclusive powers of certain corporate bodies provided by law. Take, for example, the exclusive power of the General Assembly of an association to approve the balance sheet, as provided for in Article 172(2) of the Civil Code, or, in the case of foundations, the exclusive power of the management body to resolve on proposals to amend the articles of association, modify or terminate the foundation, as provided for in Article 26(1)(a) of the Foundations Framework Law. Here, any distortion of the exclusive powers of these governing bodies can lead to an illegality.

their powers, arising from their mandate in the social organisation.[1] Therefore, board members must carry out their functions in compliance with the applicable duties of care, for example, reflected in their technical competence and knowledge of the social organisation's activity. They must also comply with the duties of loyalty, ensuring to act in the common interest of the social organisation and its mission, avoiding any conflict of interests situation.

The effective operation of advisory functions, carried out in an independent, experienced, and diligent manner, has the potential to enhance the governance model and activities of social organisations.

How to create advisory boards

There are two main ways of incorporating advisory boards in social organisations: by specific reference in the articles of association or by resolution from the competent governing body. Both can be supported by the establishment of an internal regulation that provides for characteristics, powers and the functioning of the advisory board.

A specific reference in the articles of association, whether included initially or through amendment, establishes a clear and robust statutory governing body in its own right. The articles of association must be public and are not frequently amended, being the most legitimate and robust way to provide for the incorporation of an advisory board.

In turn, creating an advisory board through a mere resolution of the competent governing body can be less transparent and robust, as it will necessarily be more vulnerable to possible revocations or amendments, which will not dignify its presence in the governance model as

(1) In this regard, in sum, the Civil Code contains a rule – Article 164 – which establishes that the obligations and responsibilities of the members of the bodies of legal persons towards the latter are defined in the respective articles of association, and that, in the absence of statutory provisions, the rules of the mandate apply, with the necessary adaptations (under the terms of Article 164(1) of the Civil Code). However, the rules of the mandate are limited, with civil law laying down only a few obligations of the mandated party (in this case, the members of the board), such as the obligations to act diligently and with respect for the interests of the principal (the social organisation, in this case) and to report and provide information on the state of management, whenever requested by the principal (under the terms of article 1161 *ex vi* article 164, of the Civil Code).

a statutory governing body. However, as it may not trigger an amendment to the articles of association, the creation of an advisory board by means of a resolution might be cheaper and faster for the social organisation.

For example, a non-profit association could decide to amend its articles of association in order to specifically mention the existence of an advisory board, creating a new statutory governing body, or it could simply and informally decide about its incorporation by resolution of its General Assembly.

Regardless of the path chosen to create an advisory board in the organisation's governance model, there is a minimum set of characteristics that should be established in writing, to guarantee the organisation's harmonious and transparent governance: the composition of the advisory board (minimum and maximum number of members), the terms of office of the advisors (duration and limits), its functioning (number of ordinary meetings, way of convening a meeting and voting) and the specific powers in question (*e.g.*, issuing an opinion on the activity plan).

Notes to bear in mind for Advisory Board Members, from a personal experience

These notes stem from the personal experience of serving on various boards across different institutions over the years. It's essential to keep in mind that they represent a reflection combining professional management experience in large business institutions with engagement in social institutions of varying types and sizes.

The first relevant consideration focuses on evaluating this participation over the years. This assessment is distinctly positive, making it something I highly recommend to those with the time and inclination. Specifically, this involvement offers the chance to encounter different realities, apply our knowledge in diverse contexts, and learn substantially, benefiting our personal and professional development.

Participation in an advisory board, along with specific involvement in various areas, should aim to align each individual's skills and tal-

ents with the areas they are most passionate about. This alignment is essential to ensure that we add value and feel motivated to contribute over the long term.

Belonging to these boards should not be limited to attending meetings and understanding the organization's activities solely through numbers or presentations. Direct knowledge of on-the--ground realities is crucial—knowing what is actually being done, participating in main events, visiting facilities, and becoming aware of each institution's impact and how it is fulfilling its mission. This direct exposure lends credibility and insight, enabling members to contribute more effectively and assertively as advisory board members.

The duration of mandates on advisory boards should strike a balance. On one hand, a relatively long term reflects perseverance and dedication, allowing real impact and oversight through different institutional cycles. On the other hand, it's important to avoid perpetuation in roles, which can risk a loss of critical sense and independent perspective, both of which are genuinely useful.

During these mandates—and surely before assuming them—it's crucial to be transparent and clear about one's actual availability to prevent misaligned expectations. Once a mutual commitment is established, it's essential to fulfil it with diligence and rigour.

Each individual's contribution within the board context should draw upon and benefit from their professional experience and background. This is why members with diverse backgrounds, particularly from business, are very positive additions. Yet, it is essential to adapt this experience to the specific reality in which one is now involved. We cannot always apply the same logic or metrics, as they may not fit or be justified, leading only to misalignment and frustration. Starting from our reality is important, but we must understand how to make it useful and valid in the context of the institution we are now supporting.

Similarly, our evaluation of an institution's impact should blend our more traditional and "business-like" criteria with the significant impact of each institution's work on the ground. We should consider both dimensions simultaneously, ensuring that one does not replace

or justify the other but rather that they complement each other in a balanced way.

Finally, a concluding comment we find highly relevant—and sometimes difficult to uphold—is the need to maintain independence from the executive leadership regarding our opinions. Only in this way can we add value and genuinely contribute. If we feel constrained in offering our perspective and advice, especially when it differs from the executive and operational leadership—particularly when this leadership has invited us and is often characterized by a charismatic profile—then our role becomes less useful. Achieving this is not easy, but I believe it is highly relevant. After all, one of the advisory board's roles is to ensure that an institution remains focused on its core mission and purpose. This requires independence and the ability to diverge if necessary. Of course, there are many ways to do this, with good sense and proximity, and the ability to do so is greatly strengthened by all the points mentioned above.

Overall, participating and contributing to an advisory board or other governance bodies of social institutions is demanding but immensely positive and rewarding.

PART 3

NEW MANAGEMENT LOGICS IN PORTUGAL

Chapter 10

Efficient resource management

PAULO BASTOS
LUÍS LOPES

Efficient resource management is a crucial topic for all organisations regardless of their area, but particularly for the social sector, since organisations generally work with limited resources and often depend on donations or State subsidies to run their operations. In that context, efficient resource management can be a determining factor a social sector organisation's success or failure.

Every day, social sector organisations look for revenue sources to cover the difference between costs and the amounts paid by service users. It's a matter of resilience!

According to the balance sheet centre of the social sector, the percentage of IPSS with negative net results was 42.12% in 2016, 39.82% in 2017 and 44.10% in 2018, and operating results figures are also alarming.

Efficient resource management means that the organisation has the right resources, in the right quantity, at the right time and in the right place to carry out its activities. Without efficient management of those resources, social sector organisations face the risk of facing significant challenges, namely being unable to provide useful, quality services, attract and retain skilled human resources, or guarantee the organisation's financial sustainability.

The sector accounts for a large portion of employment and wealth created in Portugal, and struggles in obtaining the necessary resources for basic needs and accessing management resources to improve its governance model for greater efficiency, value for beneficiaries and stakeholder satisfaction.

This chapter will focus on the crucial points for efficient resource management in a social sector organisation, drawing insights from theoretical and ambitious approaches shared by two managers: one explained and challenged by Paulo Bastos, manager in the non-social sector, and by the opinion of Luís Lopes, manager in the social sector who feels the inherent constraints in practice.

Defining a strategic plan – Identifying the needs and defining the goals

The organisation needs to understand its role in the ecosystem to respond clearly to an existing need and do so effectively. There is a large number of social sector organisations in Portugal, some with similar social responses, which should be complementary rather than competing. In a reduced resources reality, complementarity provides greater added value and greater impact, maximising the few resources available. This is why defining a differentiating value proposition is essential for the organisation's successful implementation in society.

A strategic plan is crucial as it defines the organisation's vision, mission and goals, strategic paths to achieve those goals, and ensure the lines of action are always aligned with the mission. The existence of a strategic plan demonstrates transparency and commitment to the organisation's future, conveying credibility and professionalism to the ecosystem that supports the organisation in its activity, and should be the main task of the organisation's management.

On the field, day-to-day struggles in running the operation make it clear that it's essential to adapt in order to avoid tripping in the fulfilment of the mission, hence why every four years or so the organisations should stop and reflect, analysing their surroundings, observing their strengths and weaknesses, the risks they face and the opportunities that challenge them, (re)defining goals, targets, how to measure their achievement and the resources to be applied. A rich contribution is obtained by involving several actors in the process, while a plan is built on good synthesis and prioritisation work, to be dynamic and adjust to change. Management bodies play an essential role in involving everyone in the process that allows dissemination and a better understanding of the strategy, transforming it into everyday actions.

Generally speaking, the boards of social sector organisations are comprised of people who are still working or have retired, contributing altruistically but without a full-time commitment. As a result, they hardly have complete knowledge of how activities take place on a daily basis. It's necessary to have qualified interlocutors who collect and process the information, to present it for discussion and decision-making, whose decisions hold its members personally responsible.

But it's up to the board of directors to define its operating dynamics according to the organisation's complexity, the attendance frequency of its members, or the existence of an executive board that represents it on a daily basis. The intent of the Board of Directors should be to achieve the mission by actively participating in defining the strategy, enhancing change and adaptation, getting involved in projects to make the most of initiatives and people, and ensuring that the targets set are met.

Defining a financial business plan and carrying out a risk analysis

The financial business plan, based on the strategic plan, will allow defining the allocation of resources to the different activities, as well as the financial strategy to be followed.

In a social sector organisation, we believe that the financial business plan is particularly important because of the future planning it provides as in non-social sector organisations, even though it allows understanding revenue evolution, seeing whether it is evolving towards lower or greater reliance on elements the organisation does not control, such as subsidies.

If the projected future is increasingly dependent on external funding sources, the management team should conduct a risk analysis to have options if any external factors significantly affect funding. The COVID-19 pandemic was a clear example of that need, especially for organisations that heavily depended on donations, which ceased to exist at that time, causing serious constraints for several organisations.

In the social sector organisations ecosystem, the current economic context is adverse, facing price volatility, a shortage of people and an increase in interest rates and pay scales, making the efficient allocation of resources more critical than ever.

On the other hand, our organisations also suffer from a 'productivity gap'. Increases in productivity are more easily achieved in industries that use machinery than in the care provided by social organi-

sations, which have only a few machines. In the social sector there is a natural resistance to the standardisation of personal care, and quality is considered inseparable from the quantity of work employed.

People are the main production factor in the organisations, and their productivity does not increase at the same rate as the rest of the economy, *e.g.* you can't replace a caregiver with a less qualified one or with a machine, as their remuneration cannot evolve differently from the economy.

The activity plan we develop and its reflection on the business plan shows that we have the necessary skills, resources, partnerships and support, as well as long-term financial feasibility. Moving forward without having these assumptions in place can jeopardise the undertaking itself and the entire organisation. Activities with negative results can persist if supported by other more sustainable ones, which can limit their development.

Monitoring implementation – Setting a management budget and a budgetary monitoring model

The budget is a crucial internal management tool that must be detailed and drawn up to be understood and used by the whole organisation.

By having a budget, the organisation will be able to regularly monitor the deviations it has between what was executed and what was budgeted for that period, allowing its managers to take corrective measures so that the pre-defined goals and key performance indicators are met.

Having these tools allows ensuring in advance the necessary resources for the planned activity.

For social sector organisations to meet this goal, they must be aware of the lack of accounting information. In fact, the information provided by the accounting department, which is often outsourced and therefore more distant from the operational reality, seems to be lacking to show our state-of-the-art. In the current socio-economic envi-

ronment, opportunities have come up to support the implementation of management monitoring systems in our organisations, which produce management information in a non-accounting format, some of which through applications to EU qualification and development funds, which could and should be used to improve tools and skills.

Specialised information is crucial to daily decision-making. If the organisation has more than one activity, it's important to know their income, expenses and results, as well as how common expenses are distributed among them, in order to better reflect the operation's reality.

We will be able to approach our accountant, hear his/her proposal and monitor implementation. As a dynamic process, it includes the engagement and accountability of those responsible and collaborating in activities' results. It will lead to a more appropriate contribution to the established strategy, greater involvement, better contribution to internal monitoring and choice of the most favourable cost-benefit ratio.

We must also pay attention to technology. Few organisations do not offer MB Way (payment app), do not have a website or do not use social media. However, IT (information technologies) could play a much more important role in increasing efficiency. There are collaborative platforms that allow us to be connected to operational teams and to share files or agendas. There are planning solutions that allow following and contributing to the teams' work online. There are cloud hosting systems that allow dematerialising servers and accessing information from any device and location, while guaranteeing data security.

By integrating information from user, activity or invoicing management applications, we avoid publication tasks while increasing security. Electronic data interchange (EDI) allows for the integration of information while using less resources. 5G communication systems make it possible to monitor users online and to perform telemedicine, in the wake of artificial intelligence and process automation.

This requires an investment in technology training for employees, a subject that is sometimes overlooked due to the sometimes erroneous perception that this training can be expensive.

Training human resources

The quality of the service these organisations provide depends above all on its employees' skills. These are usually 'people for people' projects, making it crucial to train these employees in subjects such as strategic management, financial management, human resources management and technology. The organisation must ensure it has qualified and motivated professionals to achieve its goals, by defining fair payment policies, creating capacity-building and professional development opportunities, and promoting a healthy and collaborative work environment.

However, we all know that this goal is sometimes not easy to achieve. These organisations must find alternative ways to motivate their human resources, be creative and bold in the use of the specific resources available. We consider that social sector organisations could make more effective and demanding use of the 'volunteers' resource, which are, in practice, a differentiated group of motivated people, at the service of the organisation and representing a special advantage over other organisations in the non-social sector.

We often say that 'managing is placing the right person in the right place'. Our organisations are made of people who carry out the operations, representing the most important and most valuable resource. Which team leader has not had the opportunity to see that sometimes, by changing a person's functions, their performance changes significantly?

A structured people management service is not available to all organisations. However, there are aspects to bear in mind: it's important to think about the characteristics that a person should have when they come to work for the organisation: they should feel related to our values, which should be cross-cutting to all employees. We should also have a clear definition of the responsibilities of each function, and which specific and technical-professional skills are essential to fulfil them. The combination of these skills defines what we call the 'skills matrix'.

The challenge is for our organisations to align our people with the skills matrix, and then undertake a performance assessment, seeking to strengthen positive aspects and signal growth opportunities. Ac-

companying, assessing and developing people has a truly transformative power.

We should also pay attention to the motivation criteria. Remuneration in the sector is generally meagre. Revenues are few and not always guaranteed, making it difficult to manage resources in terms of qualification, motivation and retention, and making it difficult to attract qualified professionals. Workers in the social sector are usually paid less than in the non-social sector, so they tend to stay only if they don't find a financially more attractive alternative or if they have additional motivations.

This area values developing an activity with a social impact, where the person contributes to a better world. The responsibility of making people aware of the importance of their role in the organisation is a huge challenge. The human sense that surrounds the organisations is favourable to the development of a policy that reconciles professional and personal life. For many, it's important to take their children to school, work from home, go out for a few hours to deal with a personal matter, without any of the parties losing out. It's also common to use other forms of non-financial/non-remunerated compensation, such as a birthday gift or access to special conditions for purchasing goods and services from the organisation.

Besides volunteering in essential areas, such as direct users support, organisations need to carry out other actions, many of a technical nature, but which scale does not usually allow them to have a specific resource for that purpose, such as IT networks management support, marketing activities or social media management. This skill-based volunteering should have an annual plan based on the organisation's strategy.

Communicating transparently

Clear communication is crucial to achieve engagement with donors, collaborators, volunteers, suppliers and others. The way resources are used, the impact the organisation is having on the community, the fulfilment of goals, the long-term strategy, all this must be communicated regularly, professionally and transparently. Auditing is

a tool at the disposal of transparent management, as it allows for an external opinion on the organisation's management practices.

Transparent communication ensures the organisation's credibility and recognition, essential for any activity that depends on external factors for its success.

The organisations we are connected to are based on solidarity and volunteering principles, and are usually run by associates as members of their governing bodies. These members often have a strong connection to the communities they belong to and where they develop their mission, which raises concerns about transparency and impartiality in order to protect their personal reputation.

In funding and in our organisations' dynamics, there is a growing concern among donors regarding the use of their resources, also to protect their reputation as funders. To this extent, organisations relying on external funding, whether public or private, are feeling increasing pressure towards accountability as a way of guaranteeing the trust and continuity of the funder.

Organisations' managers and leaders must recognise that they are guardians of assets that do not belong to them, although they are the ones managing them to generate the greatest possible social impact, and they are accountable to the members of the ecosystem.

Defining alternative sources of funding and being cost-efficient

Diversifying sources of funding is a pressing need in this type of organisation, and failure to do so constitutes a risk. It's risky to be extremely reliant on certain sources of funding, particularly donations and one-off subsidies, because any change to those sources of funding could affect negatively the service these organisations provide to society, even putting them at risk of extinction.

Social sector organisations need to diversify their sources of revenue to ensure their long-term financial sustainability, while ensuring efficient cost management, crucial in these organisations.

The form of funding depends on the activities carried out. In a large organisation, with various responses and services and links to different funders, most revenue comes from cooperation agreements with the State or applications for national and international funded projects. In turn, in a small sports club revenue comes mainly from membership fees, sponsorships and small subsidies from the local authorities.

Just as a company should not rely too heavily on sales to one customer to mitigate the risk of loss, social organisations should also find alternative sources, to have replacements and never fall short.

In an effort to diversify, some organisations become 'hybrid', meaning they carry out production or service activities to help fund their activities, developing their mission through the market. In recent years we have seen a number of social businesses appearing all over the world, generating billions of dollars in revenue, serving millions of beneficiaries and employing millions of people. New stakeholders, including governments, international organisations and investors, see these organisations as vehicles for creating social and economic value.

In addition to the usual fundraising strategies, there are now mechanisms such as crowdfunding, where the necessary amounts of money are raised by registering initiatives on online platforms for raising investment from individual investors. There are also platforms that combine national and international, public and private opportunities to submit applications for funding structured projects. Organisations should monitor these means systematically.

Regardless of their sources of revenue, as a general rule, these organisations are unable to pass on the funding of all their expenditure to the funders, as they either unilaterally set the updated figures (like the State), or do the best they can, but within their limits (like private funders).

That's also why it's essential to think about cost management efficiency.

This is largely related to internal process organisation. Guaranteeing efficient, well-documented workflows, with established metrics, and properly disseminating them to employees, will allow reducing variability and regulating flows for greater user or customer satisfaction.

There are certification regulations that induce us to reflect on, involve and develop more efficient planning and operating models, and to move forward in a continuous improvement logic.

We must look at operations to reduce waste, namely redundant records, duplicate monitoring, inefficient routes, unnecessary activities, obsolete vehicles, which can be mitigated using Lean methodologies.

Looking for synergies

We must address a crucial best practice that organisations can adopt and that depends exclusively on them, although they don't often use it: synergies and complementarity between them.

We believe that some organisations, each with their own small amount of resources and similar value propositions, could have a bigger impact together rather than separately, whether organically, through mergers, or on an *ad hoc* basis, through partnerships.

By joining resources and skills, we would obtain: (*i*) more efficiency; (*ii*) greater beneficiary coverage; (*iii*) greater ability to attract funding, because of the greater impact on society and the funder's perception being precisely that of a greater impact and professionalism; (*iv*) possibility of providing more services; and (*v*) a lower risk of extinction, as there is less reliance on a few sources of funding in the first place.

However, when developing an initiative or expanding a response or service, we tend to look for solutions that we can monitor ourselves, and creating partnerships takes time, which is why this approach is not as explored as it could be.

Resources should ideally be managed in a shared way, identifying a multitude of synergies and scale economies that would increase efficiency. Defining strategic partnerships at the beginning of each cycle would allow us to go further and faster. Developing a partnerships map to fulfil the strategic goals is an important planning act. Its subsequent assessment allows us to know its cost-benefit ratio and identify improvement actions in order to guarantee the satisfaction of both parties.

This requires a shared strategy, thought across the whole ecosystem, which would require a professionalisation level that does not exist in the sector yet. It would also require the dissemination of a less competitive and more collaborative culture among the organisations, sometimes too closed in on themselves and their users, not focusing on their surroundings, with which they could possibly lose part of their own identity, but have a greater impact on society.

Conclusion

In short, despite operating in an ecosystem that is not the most favourable to the range of needs that social sector organisations present – which are many! – we believe it's possible for each of them to take measures that allow them to become more efficient in managing their often scarce resources. This requires, above all, opening mindsets and searching for knowledge, which is available to anyone who wants to apply it.

Success and sustainability rely also on factors we cannot control, such as luck, policies or the economic environment, and also on our ability to plan and react, on our unsatisfaction, in order to influence the future.

Note from the organisers:
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Chapter 11

Strategic management also in social organisations?

JOÃO SILVEIRA LOBO
PATRÍCIA ROCHA

'Luck is what happens when preparation meets opportunity.'

Attributed to Demetrius, the Cynic

The strategic intent

Uncertainty and surprise are the new normal that organisations must consider in their strategic design. Developing strategic thinking is directionally correct when it goes beyond the usual methodologies based on past projections, and develops a core skill that enables organisations in the future to recognise and take better advantage of it, more quickly than their competitors. It is thus crucial to acknowledge the virtue of breaking away from the organisation's current orthodoxies and deep-rooted beliefs in the past levers of success.

This can only be achieved when organisations are willing to create quality time for their employees to develop strategizing skills, by creating a strategic intention based on different plausible futures. Given the very nature of the decisions that constitute it, an organisation's strategy generates commitments that reduce its flexibility. The tactical adaptability that an uncertain world demands can only be achieved if the different futures are mapped out while there is still time to think about them. When it's time to act, there won't be time to think.

Establishing strategic intent, together with careful planning, is a decision that requires a number of key resources for organisations embarking on that development. This way, we won't miss the windows of opportunity that open up and, at the same time, will maximise the plausibility of success in an environment that, in many cases, is not only difficult but also relatively unknown.

In the case of social organisations, with scarce resources and often insufficient management skills, the strategic intent often has to be introduced by force of an external factor that requires it. In the vast majority of cases, the most mobilising factors are those associated with present or future crises, or unforeseen events that condition the activity with the beneficiary. When situations like this occur, social organisations often resort to external support, through skills volunteering, university projects or even amateur activities carried out with the

help of stakeholders, to define a clear and objective strategic path to overcome the identified issues.

Although this is still the rule, there is growing awareness in social economy that strategic intent is present in the current thinking of these organisations' boards of directors. The strategic plans that most organisations try to define for a three to five-year horizon, which serve as a compass for their annual operational planning and management decision-making, are a clear example of this.

However, organisations are spaces for action. That's why 'thinking well', while strictly necessary, is actually not enough. Implementing the strategy through superior tactical and operational execution plays a decisive role in maximising the probability of success. Managing the critical factors of that execution and disseminating them throughout the organisation, keeping them under constant surveillance and promoting the tactical and operational adaptation essential for success, formalise the strategy implementation space and respond effectively to the constant change and uncertainty prevailing nowadays.

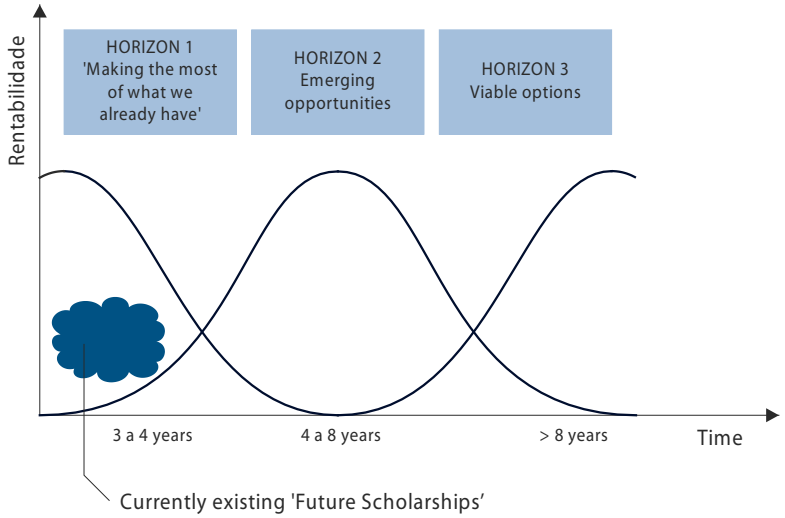
Those goals can only be achieved in organisations with enlightened leadership, capable of designing an organisational culture that promotes merit and that, by creating continuous assessment instruments, ensure strategic adaptation to change as a way of responding to the uncertainty context in both the global competitive arena and the contextual environment of different industries. While the construction of strategic plans is becoming more common in social economy organisations, their implementation, execution and follow-up are not verified to the same extent, showing the lack of resources available for this type of activity in the organisations. It's urgent to foster the creation of conditions in these organisations that will allow strategic implementation, or they will risk losing a substantial part of the professionalisation work that has been done in the sector. With the increasing awareness of the need for capacity-building of those organisations' resources, support activities such as strategic planning and implementation are now considered critical to the organisation's sustainability, and therefore developed and improved internally.

What is strategic management?

Strategic management is fundamentally about focus and fit. Focus on the products and services provided to those we serve, on the organisational resources we have accumulated over time, and on the values we defend. Fit for the context and the dynamics of the area in which we operate. In the social area, achieving this fit with the organisation's mission is crucial. The mission, values and vision of a social organisation are the cornerstones of a strategic definition and should be its starting points. While teams may have a clear idea of their daily tasks, new projects emerge over the years often as a result of funding needs, causing the initial mission to fade or become irrelevant. It's therefore crucial for the strategic definition to begin with a clear starting point that is accepted by everyone.

However, strategic management is also about the present and the future, as we cannot change what was already done; we can learn from the past and honour it, but we cannot change it. For this reason, the aim of strategic management is making the most of what we have at present, making choices for the near future – also called exploitation – and for the medium and long-term future – also called exploration. This is what allows creating ambidextrous organisations, which management lives in permanent tension between 'being correct' and 'being prepared'. Although the aim of any manager is to 'get it right', in reality this can only be achieved if in the future our organisation is prepared to make the most of it. The three horizons model is probably a good graphic image of what was just mentioned.

Figure 11.1. Three horizons model



Source: adapted from 'Seeing in multiple horizons: connecting futures to Strategy', Curry Andrew *et al.*, *Journal of Future Studies*, August 2008, 13(1): 1-20.

Determinants of organisational performance

The performance of any organisation is fundamentally based on three vectors to which strategic management must pay particular attention: the context, the dynamics of the industry in which it operates and the value created and captured by the organisation itself. Attention and careful management provide a relevant path of action for any organisation. Let's take a look at each of them in particular:

a) The context: Political, Economic, Social, Technological, Environmental and Legal (PESTEL forces of change) macrotrends form the framework in which industries operate. Disruptions in the contextual forces significantly alter any organisation's strategic options and define what to take into account when making strategic decisions (and we are currently living a very challenging period of significant and profound change). Social economy organisations often carry out PESTLE analyses to help define their context. Although these analyses are usually carried out for a ten-year horizon, they are used to identify the

path that should be followed over a shorter one. Not only do they help define the path ahead, but they also give the organisation clarity about what its future might look like, its risks and even its opportunities.

b) The dynamics of the industry in which it operates: until the end of last century, industries were relatively stable. However, the past two decades saw a deep transformation momentum in all industries: the boundaries became blurred, newcomers appeared unexpectedly, strategic substitutes multiplied, platforms designed new distribution channels, and upstream or downstream vertical integration movements became increasingly frequent. As a result, mergers, acquisitions and alliances have increased in the hope of gaining in size and/or accumulating organisational resources like never before in the incumbents of any industry. In social economy, although these movements are not frequent, there have been changes in the sector's dynamics as a result of the feeling of competition that has been growing, especially concerning funding applications. This notion has been forcing social organisations to think more objectively and concretely about their strategy to differentiate themselves from their peers. Success in funding application and inviting private or public partnerships for new projects depends, to a large extent, on the strength of these organisations and the strategy they have defined.

c) The value created and captured by each organisation: within a given industry, exposed to the same context, profitability differs amongst organisations. This is due to the fact that each organisation views and acts on the contextual conditions and industry dynamics in different ways, and consequently makes strategic decisions on its positioning and the organisational resources it accumulates in different ways. Given its strategic intent, and to create unique value by delivering to its customers and stakeholders tangible and/or intangible unique benefits and using unique resources, the organisation creates above-average value for the industry in which it operates. This potential is fulfilled through business differentiation and/or cost leadership strate-

gies, establishing the basis for sustainable or temporary competitive advantage, and escapes the trap of competitive parity.

How to prepare the organisation for the future

The challenge faced by any organisation in its strategic management is based on a paradox: strategic decisions are always about the future, on which there are no facts or data, and all managers' experience is rooted in the past. Under these circumstances, how can we deal with uncertainty and the associated risks? This question becomes even more critical when organisations have limited resources that can't be conditioned by less-reflected or more risk-based strategies.

Attitude and organisational transformation

We must recognise that the best way to build an organisation's future is to be prepared, accepting the uncertainty and associated risks of such preparation. Preparation must be done collaboratively, through the commitment of employees in working groups, thus providing a quality space for organisational transformation through the consensus generated for the future management of the organisation. We must use robust methodologies to deal with the uncertainty and ambiguity that the future always creates, particularly in volatile and complex contexts. This process is suitable for any type of organisation and should be highly encouraged as a starting point in non-profit organisations, so that the strategic definition process itself becomes a capacity-building and internal involvement process.

Strategising

Over the last few decades, the strategic planning process known as strategizing has become increasingly important. This approach focuses on providing organisation members with the critical skills to develop strategic conversations as time goes on. The development of these critical future-thinking skills, disseminated among a significant num-

ber of organisation members as a facilitator of the subsequent implementation process, is just as important as the 'strategic plan'. The process is based on three fundamental phases:

1. *Defining the Focal Question*: A strategising process always begins with the objective clarification of a question to be addressed. This is the objective responsibility of the top management, which must agree on the strategic issue the organisation is going to focus on. We must not forget that the key to robust thinking is a powerful question. In social economy, this issue is often addressed collaboratively to obtain an implementation process with less resistance and more engagement. These organisations have, by nature, features that facilitate collaboration between teams and between teams and managing bodies, making it easier to navigate disruptive strategic processes.
2. *Generating Strategic Options* – The work groups must generate strategic options for the question posed through the three primary sources: developing future scenarios, identifying and challenging orthodoxies, and leveraging unique organisational resources.
3. *Selecting Strategic Options* – The previous phase allows organisations to overcome TINA ('There Is No Alternative') circumstances and generate a significant number of strategic opportunities from which to select. The selection phase should include the options generated in the previous phase and those that have been pursued by the organisation. The new and current options portfolio to be implemented is selected by classifying them in a matrix, ranking them on two analysis axes: attractiveness and success probability.

Strategy implementation

Once the strategic options that make up the portfolio of relevant opportunities for the different planning horizons have been selected, the organisation must start to plan, communicate and monitor the implementation of the defined strategic path, executing the strategy. Or-

ganisations often fail at this phase, so it's worth clarifying the fundamentals of a successful strategic execution.

Execution despises complexity! It demands discipline and speed in a context of incomplete and asymmetric information. Successful execution can only be achieved with focus, alignment, integration and behaviour, *i.e.*, doing only what is relevant, with everyone going in the same direction, speaking the same language and feeling in the same boat. This requires robust methodologies that allow everyone to know the organisation's strategy, for all processes and initiatives to be integrated and aligned with the strategy, for indicators to be used to measure progress, and for those to be made available to the different stakeholders in good time.

The use of key performance indicators is becoming increasingly common in social economy organisations, both for internal use and to present objective results to all stakeholders.

The most successful system is the Balanced Scorecard, a two-components system that must be developed in the following order: first the strategic map, and then the scorecard. Both are based on the core principle of causality, which defines the work of a manager. The life of a manager is based on strategic assumptions every day: 'if I do this... then that will happen'.

Performance and organisational structure

Whenever the strategy is redesigned, the organisation's strategic management involves an in-depth reflection on governance and organisational structure. In social economy organisations, it represents an internal capacity-building process in itself. Regarding organisational design, there are two principles worth keeping in mind:

- Challenge principle – Organisations that show the best results in strategic implementation have incorporated challenge as a fundamental learning and development characteristic into their organisational culture. This should also be reflected in the organisation's design, by creating dual decision-making structures at the highest level of the organisation, and engaging people from outside the organisation in the top body.

- Balance principle – Every organisation has several stakeholders. It's therefore essential to clearly decide who the organisation's core customer is. Once this is clear, it's important to design the organisational structure to serve it, balancing cooperation and coordination on one hand, and response effectiveness and processes efficiency on the other.

Conclusion

The later and/or less disciplined the organisation's strategic management process starts, the more coastal navigation will be. What is shown every day and by every news report, whether general or specialised, is that navigation will have to be oceanic, most likely through stormy seas and, in most cases, with unknown waves. Under these circumstances, the time spent designing the compass that points north is what will allow us to overcome the Cape of Storms that always characterises the way to the future. Do not expect a King Sebastian to appear on a foggy morning. Instead, we must never forget that 'the path is made by walking'!

Note from the organisers:
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Chapter 12

Theory of change and impact measurement

JOÃO LOUREIRO RODRIGUES
ANTÓNIO PEDRO DE SÁ LEAL

Impact refers to the effect of an action over time, whether positive or negative, conscious or unconscious (Impact Management Project, n.d.), and is a central concept in organisations' activities nowadays. While for enterprises this topic is relatively new, and often motivated by the regulatory environment in which they operate, for social organisations impact is the reason for their existence and purpose, and monitoring and evaluation are increasingly a matter of survival, an element that differentiates them in attracting beneficiaries, volunteers or funding. Unlike enterprises, which leverage their activity on financial results, social organisations live on how effectively they communicate their impacting story (Epstein and Yuthas, 2014).

This chapter explores the challenge of impact monitoring and evaluation in social organisations, establishing a rigorous lens on the topic and identifying best practices. It begins by deconstructing the concept of impact, looking at its different definitions and the limits they impose on its communication. The chapter then discusses the monitoring process, particularly the tools to be used in its various stages. The logical model is explored in detail, as a tool that helps the organisation to conceptualise its impact model or theory of change, and includes the case of the Cascais Surf Programme for Employability, developed by the Associação Surf Social Wave association (see highlighted presentation). The end of the chapter discusses the depth of impact evaluation processes and how statistical analysis can award them credibility.

Box 12.1

Associação Surf Social Wave (ASSW) is a non-profit, public utility and social organisation, founded in 2017. It works with socially excluded adults, such as unemployed, first-time jobseekers and NEET, using surf as an anchor for the professional, social and personal capacity-building of the participants. It runs its programme four times a year on the Nova SBE campus in Cascais.

The Cascais Surf Programme for Employability (CSPE) develops a process of deconstruction, construction, tool learning and mentoring (DCTM) with its participants. It takes five weeks and has between ten to twelve participants per edition. There have been fifteen editions between 2017 and December 2023, with a 90% success rate in returning to the labour market.

Impact: causality and responsibility

The dictionary defines 'impact' as the effect that something has on a situation or person (Cambridge Dictionary, n.d.). Some points emerge from the definition, namely when considering to demonstrate, or assess it. On the one hand, although **causality** between the activities and their results is explicit, this link requires evidence. On the other hand, the definition of impact also implies determining what or who causes the action that generates it. Properly attributing the merits or demerits of an activity and **accountability** is key to the process of impact measurment. Organizations must consider what would have happened anyway, regardless of their presence, and just recognise the fair 'proportion' of their impact (Clark and Rosenzweig, 2004).

Organisations don't always acknowledge the limitations of their claims when they communicate the results of their work. They easily establish a relationship between their activity and the relevant variable for their impact story (employability, in the case of the CSPE programme), or they take all the credit for the result. The chapter's initial presentation of the programme illustrates this, by assuming both the existence of the causality relationship and that the 90% success rate is entirely its responsibility. However, reintegration into the labour market depends on many factors besides this training, of course. The challenge lies in effectively communicating the value that ASSW believes it holds.

Analysing the cause-effect relationship is one of the major challenges associated to the monitoring and evaluation process. As discussed later in the chapter, the offered solutions outline the differences between demonstrating and proving impact, and the strength of

the process inevitably differs between the two options. As both are credible ways of reporting on the work carried out, the results must be presented scientifically, rigorously and clearly, reporting all the steps, assumptions and limitations of the methodology presented.

The monitoring and impact evaluation process

Results' monitoring and evaluation is a demanding process that needs to be carried out periodically, ideally on an annual basis, along with the organisations' activity reports and accounts. This process tracks the development of activities over time and is based on the organisation's impact model for its project (Gertler *et al.*, 2016). This model considers the problem approached by the project, the activities carried out by the organisation and their predicted effect on the variables that reflect their impact over a certain time horizon. It can also refer to the 2030 Agenda, aligning the initiative with the Sustainable Development Goals, known by the acronym SDGs (United Nations, n.d.). Although some organisations define their impact model when their projects are already underway, they should be defined at their design phase. Besides being an excellent tool for promoting organisations' projects, it supports the efficient management of their resources, namely financial, and enhances the temporal effects of each of the activities developed (McLaughlin and Jordan, 1999).

Organisations tend to consider monitoring and impact evaluation as time-bound, when in fact they run parallel to daily work and should be part of their continuous improvement ambition. Over time, activities may be adjusted as a result of dynamic learning throughout the process or because reality changes, as particularly illustrated by the case of the COVID-19 pandemic, where, for instance, the CSPE programme had to adjust its process to online and adapt its impact expectations to a new reality.

Once the impact model has been defined, it's crucial to elaborate the monitoring process of the identified variables. As illustrated in the next section, it's challenging as indicators are not always measurable. Contact with the beneficiaries for data collection must be planned, whether by observation, questionnaires or other relevant means which

should preferably be carried out by independent entities. The last stage of the process is data analysis and report preparation (Gertler *et al.*, 2016).

Figure 12.1. Monitoring and impact evaluation process

Measuring the impact of the CSPE programme involves several stages, including questionnaires before, during and after the programmes, and occasional follow-up via email over the years. Participants' personal and professional development is an impact that is manifested only much later, so it's crucial to maintain a close connection with the *alumni* network.

Depending on how data is collected, such as the choice of participants in the evaluation process or the size of the sample, it's possible to statistically prove the causality relationship between the activities carried out in the project and the variables included in the impact model as predicted effects. However, as discussed later, this statistical work is not always possible. In these cases, it's important to find alternatives that award credibility to the defined variables choice (Gertler *et al.*, 2016).

Several conceptual tools help demonstrate and communicate impact, and represent the Theory of Change, including the Logical Model (Gertler *et al.*, 2016). This chapter focuses on this model, especially because of its ability to organise the various project components, but there are alternative or complementary ones that are equally relevant and to be considered for a complete analysis. The social return on investment, known by the acronym SROI, is an example which seeks to translate impact variables into a monetary reference value (Nicholls *et al.*, 2012). While this approach has its virtues and limitations, especially when used in isolation, its financial mentality can be very useful for organisations' dialogue with their partners, such as social investors. It facilitates dialogue with the State about the savings brought by

the activity. CSPE programme's employability, for example, certainly generates savings that cannot be ignored.

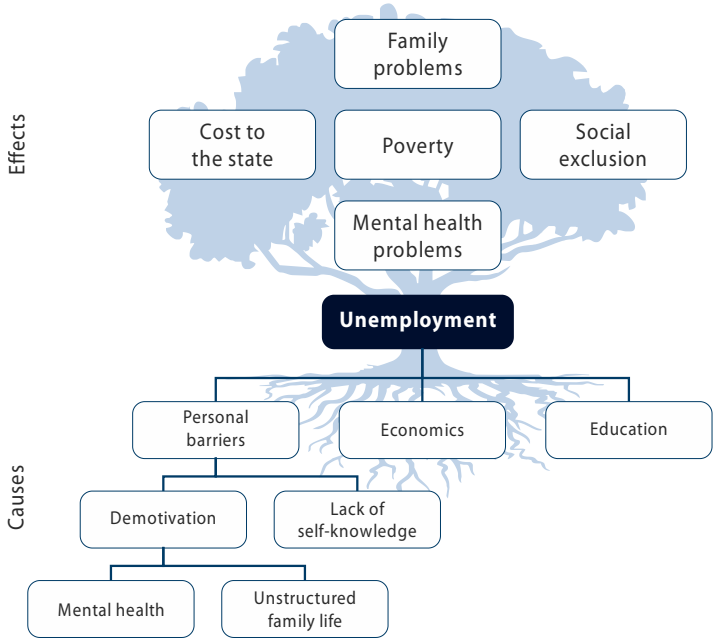
The impact model

The impact model, or Theory of Change, contextualises the activities carried out in the light of society-related problems addressed by the organisation's project, while identifying its effects on the various stakeholders, particularly direct beneficiaries. As mentioned above, there are various tools that help conceptualise this model. This chapter explores the Logical Model, a flexible tool that allows the organisation freedom to leverage its use, facilitating the incorporation of the added value of the other complementary tools already mentioned.

The activities are framed around the central issue that the organization addresses, which should be analysed independently. The Problem Tree is a basic tool very much used in this context, providing an overview of this initiative's possible impact. Just like a tree, a problem has more or less deep, interdependent roots, that support a more or less leafy canopy, which metaphorically reflects the positive and negative effects associated with the problem and its causes. A good problem tree depends on extensive knowledge about the problem, ideally based on academic references that validate the identified causes and effects (Veselý, 2008).

The CSPE programme, for example, promotes employability by addressing unemployment as its activity's core problem, which obviously has many causes (see Figure 12.2). The ASSW works above all on personal barriers, such as lack of motivation or self-knowledge, the response being centred on the individual, namely on non-cognitive skills and other tools that could allow them to return quickly to the labour market. With this process, it counteracts some of its expected effects, such as the mental imbalance associated with this condition or isolation.

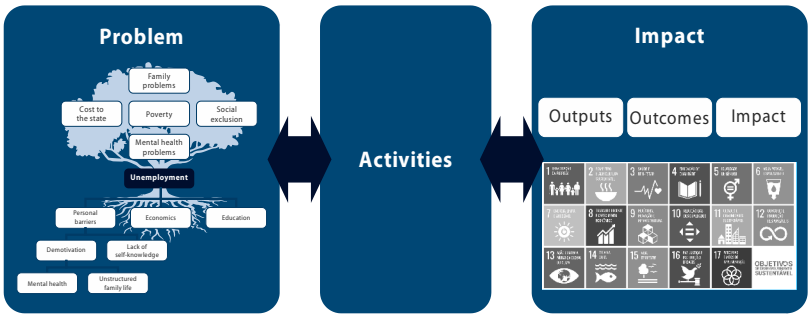
Figure 12.2. The Problem Tree of the CSPE programme



Note: the Problem Tree presented does not portray thoroughly the unemployment problem.
It has been simplified for the purposes of an example, as part of the explanation of how the tool works.

The Logical Model integrates the impact model into the conceptualisation of the expected impact of the project's activities, structured by the organisation to address some of the problem's causes and sub-causes (see Figure 12.3). It tells the impact story, highlighting how certain **resources** are used to carry out **activities** that generate impact over different time horizons. These results over time are tangible at the beginning of the project (**outputs**), and evolve over time as a consequence of each other. In the short/medium-term, the variables identified as action results are known as **outcomes**; and in the long-term as **impact** (McLaughlin and Jordan, 1999). With such a wide lens over time, it's easy to recognise the impact of organisations' work on the 2030 Agenda for Sustainable Development (SDGs) currently in force. It is therefore fundamental to establish a clear link to this tool, which includes the main goal but also specific targets and indicators to be enhanced.

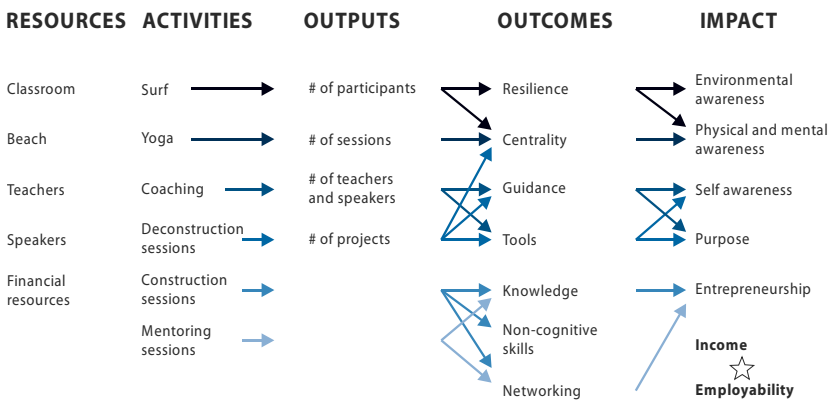
Figure 12.3. The impact model



While some variables are very objective and tangible, others can be difficult to translate into a measurable indicator. In these cases, literature and similar experiences can provide guidance on explanatory variables, as what is often obtained is only an approximation to reality. In the CSPE programme, for example, in addition to employability, the most widely reported effect, there are other variables to take into account, such as well-being or environmental awareness (see Figure 12.2). If for the first we have well-being scales, for example, how can we quantify the second, which is quite abstract? A plausible solution, as an approximation to the expected effect, could be considering participants' behaviour after the programme and linking their actions to an awareness activation, such as volunteering.

Though seemingly simple, the Logical Model has a lot of potential and is also an excellent management tool, as it encourages a detailed analysis of each of the activities carried out (McLaughlin and Jordan, 1999). The CSPE programme, for instance, runs activities such as surf or yoga, which have a very different expected impact from classroom training. While surf takes participants back to the 'healthy body, healthy mind' experience that characterises the DCTM method, classroom sessions provide crucial tools for employability. Does one activity have more impact than another on the project's ultimate goal? If so, is the allocation of time and money balanced in both? These and other questions can be analysed under the Logical Model, provided the organisation is willing to build it in detail and identify the real distribution of resources among activities.

Figure 12.4. The Logical Model of the CSPE programme



Note: the Logic Model does not portray thoroughly the impact of the CSE Programme.
It has been simplified for example purposes, within the framework of explaining how the tool works.

Regarding the Logical Model, it's crucial to involve all the relevant project stakeholders. Activities generate multiple impacts, benefiting one or more direct or indirect stakeholders. Organisations often focus on direct beneficiaries. It's worth thinking about the effects of projects on families or on the volunteers involved themselves, for example.

Conclusion: demonstrating and/or proving impact

Analysing the cause-effect relationship is one of the major challenges in the monitoring and evaluation process, and its strength can vary on the organisation's ability to statistically prove the link between the activities carried out in the projects and the variables that translate their effects, as identified in the Logical Model. **Proving** that there is a causality link depends on a good literature review that identifies academic studies in which this link has been proven. However, it's crucial to understand the context in which the references intervene, which are not always comparable. A project carried out in a Mozambican school context, for example, does not develop under the same conditions as an initiative carried out in Portugal. Conversely, an impact study from a project carried out in a school in the north of the country, although from a different reality, can legitimise the actions carried out in a

school in the south of the country. Statistical **proof** means taking into account the specific situation of the project being analysed and trying to isolate its effects. When outlining a statistical evaluation process, the organisation faces many challenges, starting from the rigour required to work in a context where everything matters, particularly on how data is collected. Very often it's not necessary, other times it's not even possible, when the number of participants is very reduced, for example. In some cases, this statistical evidence proves decisive for the credibility of the activity carried out. When we are looking at an innovative activity with a promising approach, if the project is replicable or if this process is strategically relevant, it's generally worth investing in (Gertler *et al.*, 2016).

Impact monitoring and evaluation is more than just a reporting tool, it values the work carried out by the organisations. It facilitates a reflection on the actions that best suit projects' beneficiaries and generate the most impact, but also optimises processes and resources. Throughout the chapter, we discussed some of the tools the organisation can use to tell its story, and that enhance its credibility. With more or less depth of analysis, it's important to monitor, understand and improve!

Note from the organisers:
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Chapter 13

Hybridity in the social economy sector

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FILIPA PINTO COELHO

This chapter focuses on the hybridity of organisations which aim to serve the general interest of society, and develop or aim to develop entrepreneurial product/service production/sale activities to generate their own revenue. Given this context, it is divided as follows: it begins by defining organisational hybridity, and how it combines social and entrepreneurial reality in terms of identity, forms and rationales; it then approaches the main motivations behind the growing proliferation of hybrid organisations; and finally, it identifies the potential benefits, challenges and strategies for navigating between the two worlds, which simultaneously present contradictions and interdependencies (Smith and Cunha, 2020).

The case of Café Joyeux Portugal is featured in this chapter, illustrating how hybridity is created and lived in practice. Café Joyeux is the first family of cafeteria-restaurants that employs and trains people with intellectual and developmental disabilities (IDD), providing quality meals produced with fresh local produce and served heartedly by the employees in central, cosy spaces. Of French origin, Café Joyeux's first international expansion took place in Lisbon, thanks to Associação VilacomVida. It currently trains and employs 29 people with IDD at Café Joyeux in Portugal, and hires other young people for catering services as a way of helping them become autonomous. With four cafeteria-restaurants currently operating in Lisbon, Cascais and Telheiras (three open to the public and one for Grupo Ageas Seguros Portugal employees), the association plans to open two more by 2026.

Organisational hybridity. What are we talking about?

When organisations combine different identities, forms and rationales that traditionally don't coexist, they create what is nowadays known as organisational hybridity (Battilana *et al.*, 2017). This phenomenon is increasingly recognised as cross-cutting to all types of organisations (Smith and Cunha, 2020). Hybrid organisations can thus arise from the intersection of different sectors and/or areas, such as public-private partnerships in the energy sector (Jay, 2013), universities and pharmaceutical enterprises (Murray, 2010), or art and busi-

ness (Cunha *et al.*, 2019). This chapter will focus on the intersection between the social and business mission.

Rather than defining an organisation as hybrid or non-hybrid, studies in this area are increasingly focusing on organisations' hybridity degree, which reflects greater heterogeneity and suggests that some organisations have more hybrid characteristics than others (Besharov and Mitzinneck, 2020). As a result, hybrid organisations present different levels of tension, depending on the centrality and compatibility of the social and commercial elements (Besharov and Smith, 2014).[1] Next, we'll explore hybrid organisations from the point of view of their identity, form and rationale (Battilana *et al.*, 2017).

Identity

Identity answers the question 'who are we as an organisation?' (Ashforth and Mael, 1996) and is defined as its central, distinctive and lasting nature (Albert and Whetten, 1985). In a study of a food retail company known for its strong position on social and environmental responsibility, Besharov (2014) found that employees recognised that the enterprise's identity included both economic and social values. However, the importance attributed to each of these values differed among the employees as follows: (*i*) the idealists, who attached great importance to social values related to mission, environmental sustainability, health and well-being of the community; (*ii*) the capitalists, who attached greater importance to the economic values associated with profit and growth; (*iii*) the pluralists, who saw economic and social values as mutually reinforcing elements; and (*iv*) the indifferent, who attached a low level of importance to both values.

(1) Tensions are defined as divergent and persistent conditions that require difficult decisions due to their interdependence (Berti and Cunha, 2023).

Box 13.1. Café Joyeux's identity

Café Joyeux Portugal

Café Joyeux's identity reflects economic and social values. As such, Café Joyeux wants to be seen as a social enterprise that invites society to know difference through a value proposition that also brings positive results to its operation, allowing the project to be financially sustainable.

Organisational forms

From this perspective, hybrid organisations combine forms of organisation that are often associated with different organisations (Battilana and Lee, 2014), such as enterprises and non-profit organisations. The topics covered include organisational strategy (where are we going as an organisation?), activities (how will we get there?), organisational design (how are we going to coordinate internally?) and inter-organisational relationships (how will we develop ties with other individuals and organisations to generate more value?).[1] In this case, hybridity can be reflected in the combination between commitment to the social mission and a structure and leadership that focus on the formalisation and professionalisation of the organisation through strategic plans, financial management, fundraising plans, branding, communication, results and impact measurement, among others. It also considers how hybrid organisations establish their legitimacy in the eyes of the target audience and other stakeholders external to the organisation (Battilana *et al.*, 2017).

(1) Ashforth and Mael, 1996; Battilana and Lee, 2014.

Box 13.2. Café Joyeux's governance model

Café Joyeux Portugal

In Portugal, Café Joyeux is a social enterprise 100 % owned by an IPSS, Associação VilacomVida – A Mais-Valia na Diferença.[1] Its management is entrepreneurial, and its leadership is currently the same in both situations. VilacomVida therefore concentrates the fundraising and training component, with a specialised team for this purpose, and supports people with IDD in other inclusive recruitment processes. All the other services arising from the activity – financial and administrative management, communication and marketing, operational management – are allocated to the Café Joyeux social business and are used to ensure the fulfilment and sustainability of its mission. VilacomVida raises funds from society and enterprises to enable its mission to grow faster and to involve the community, which so feels involved in its mission, taking it further and becoming ambassadors for the cause.

Rationales

This perspective relates to cultural patterns, values, beliefs and practices. Institutional logics are key in this area, as they provide a set of implicit assumptions, values and rules on how to interpret organisational reality and achieve a successful, appropriate behaviour (Thornton and Ocasio, 2008). Hybrid organisations provide a combination of social well-being with commercial logic. The social well-being logic is associated with a non-profit organisational format, which aims to respond to society's problems and needs through a democratic form of control. Here, the professional legitimacy basis is the contribution to the mission, while the commercial logic emphasises profit-generating value through hierarchical monitoring and is associated with the legal form of profit-oriented organisations, such as enterprises. The professional legitimacy basis emphasises technical and managerial knowledge (Litrico and Besharov, 2019).

(1) Private Social Solidarity Institute.

Table 13.1. Café Joyeux Portugal

Business logic	Social well-being logic
• Consistent identity, brand and communication • Management knowledge • Paid human resources • Generation of own revenue	• Associação VilacomVida owns a company whose future profit is redistributed to the mission. • Technical and field knowledge • Volunteers in cafeteria operations • Donations and funding

Reasons for hybridity in organisations with a social purpose

There are several reasons for the rising interest in hybrid social organisations.

From the point of view of external conditions, there is greater uncertainty about available financial resources (Suykens *et al.*, 2021) and a more turbulent and competitive environment (Weerawardena *et al.*, 2010), which can lead to organisations increasingly seeking commercial activities to generate their own revenue (Eikenberry and Kluver, 2004).

From the point of view of internal conditions, motivation may also be related to and depend on organisations' nature and internal strategic choices. Founders' background and identities can drive them to create hybrid organisations to respond to the social problem and identified opportunity (Wry and York, 2017).

Integrating social mission and commercial activities can transform the business into a vehicle for achieving the mission. Winnow, for instance, is a company that provides services through a software that uses artificial intelligence to monitor and analyse food waste in commercial kitchens, to implement improvements and fulfil its mission of reducing food waste (Winnow Solutions, n.d.).

Commercial activities can also be a means to an end, the organisation's social mission, and these commercial activities may or may not be related to the mission (Alter, 2007). Along these lines, organisa-

tions may have more instrumental motivations, such as an ambition for greater financial independence to reduce risks associated with relying on highly uncertain funds (Froelich, 1999). Organisations may also want to achieve greater autonomy and flexibility (Carroll and Stater, 2008) in carrying out their activities, maintaining their goals and/or priorities without having to forcedly align with the funding available (Froelich, 1999). Organisations can try to achieve greater financial sustainability without needing to substantially change their central activities (Litrico and Besharov, 2018). Depending on their alignment with the organisation's mission, these commercial activities can also be a means to contributing directly to the intended social change. An organisation that aims to include homeless people in its communities can, for instance, set up a restaurant with the purpose of training and employing homeless people and, at the same time, generate its own source of revenue that contributes to the greater financial sustainability of the social activities carried out by the organisation.

Box 13.3. Business

Café Joyeux Portugal

Business can also be both a means and an end to achieving the organisation's purpose, which is the case with Café Joyeux. Business is an end to achieving the mission of developing a financially sustainable business that employs people with IDD and contributes to their full inclusion in the community. This also encompasses the higher goal of bringing difference from the periphery to the centre of life in society through natural meeting spaces, where negative stereotypes become positive experiences. 'Until one day the difference ceases to exist and becomes truly part of us' (Coelho, 2021).

Potential benefits and challenges

Hybridity comes with benefits and challenges, which trigger mitigation and opportunity maximisation opportunities.

Potential benefits

There are five main benefits.

First, combining multiple identities, forms and/or rationales can create productive tensions that generate creative solutions for social and/or organisational challenges, which can result in the implementation of innovations (Jarzabkowski *et al.*, 2013).

Second, hybrid organisations can be more flexible in adapting more quickly to external changes and to their customers and/or beneficiaries' needs (Doherty *et al.*, 2014).

Third, hybridity can generate positive rewards such as legitimacy and access to resources (Wry *et al.*, 2014).

Fourth, it also allows organisations to respond to the complex and conflicting requirements of different stakeholders (Paolella and Durand, 2016).

Fifth, by contributing to a better world, hybrid organisations may attract paid or unpaid talent with an intrinsic motivation in their commitment to that mission, which can lead to more satisfied employees with the potential to generate more value for the organisation (Doherty *et al.*, 2014).

Box 13.4. Training

Café Joyeux Portugal

The training model for Joyeux employees is centred on the individual, his/her abilities and potential, creating operating strategies to suit this rationale, bringing out the best in each one, representing the best for the business. It makes people feel challenged within their potential and give more to the mission, also taking ownership of it as ambassadors.

The internal flexibility required by a person-centred vision also helps create strategies for greater operational flexibility, and even in looking at the customer as someone unique, supporting their loyalty.

Café Joyeux customers are willing to get involved and search for other ways of supporting the cause by becoming ambassadors. Physical proximity and the appeal of the service and product model provide this conviviality, relationship and storytelling that positively engage and captivate customers to feel useful to the project. Volunteering, building bridges with friends and colleagues, proposing meaningful gifts, and sharing on social media are all practical ways that add value to the project every day.

Challenges

Despite these benefits, hybrid organisations face several challenges.

First, they can be more complex to manage, as there is always tension between contradictory elements which, depending on their centrality and compatibility, can generate unmanageable internal conflicts and raise decision-making problems and difficulties (Besharov, 2014). More specifically, if the organisation is made up of employees with different social and commercial identities (profiles), it may face communication challenges, as the different parties may have different perspectives and ways of working (Glynn, 2000).

Employees in a hybrid organisation may resist change, as they may feel more comfortable with more familiar structures and processes (Limitro and Besharov, 2019).

As hybrid organisations move away from their dominant social logic or form, they can be neglected or undervalued by stakeholders that are confused and do not understand their organisational positioning (Zhao *et al.*, 2013). Combining profit and non-profit category elements, for example, can cause ambiguity about how an organisation should be classified and assessed, which can penalise it from an external, public point of view.

Last but not least, the most well-known challenge is deviating from or jeopardising the social mission to generate revenue (Ebrahim *et al.*, 2014).

Box 13.5. Challenges

Café Joyeux Portugal

This social enterprise model undoubtedly faces many challenges. One of them is the recruitment of trainees. Having the same team deciding to invest in someone and their potential, and also deciding when that same employee shows he/she has not gained enough skills for the responsibility that the business requires, after some time, is difficult for everyone. Our mission is betting on each person's potential and developing it as a team, creating positive synergies between this evolution and the required productivity. When this is not achieved, we must take positions as managers, taking into account factors such as justice and equity towards the entire Joyeux team. On the one hand, the decision calls for objectivity, but on the other hand it is emotionally painful, as it goes against the principle of respecting each one's evolution time, often incompatible with business pressure.

Recruiting supervisors is another challenge. With love for a cause, the desire to act and work with a purpose at the basis, deciding to embrace a project can happen instinctively. But reconciling this attitude of dedication with the stress and discipline inherent to a catering service, as well as responsibility for trainees who are learning and may hinder the workflow, is not for everyone. All this when loyalty and low turnover are in favour of the mission and the business. When we find the right people, we feel stronger, grow faster and are more capable of taking on new challenges, such as opening more Cafés Joyeux.

When the leadership is strong and inspiring, the inability to say no can generate in employees a desire to go beyond their limits. It's better to work with a purpose, as it helps us grow and overcome obstacles because we make decisions with love. It's crucial to remain focused, listen again and again, read between the lines whether the person is happy in their work or whether the mission might be depersonalising someone. In the end, we are all human.

Another challenge is the temptation to distort the model to meet market demands. Production capacity varies and not all days are the same, hence the temptation to hire someone for the team already with the required skills, instead of investing in new strategies to discover the individual trigger that leads to their best performance. The role of the project leader is to defend the model, encourage the teams to get the best out of each other and not go for the easiest solution, otherwise we'll be a cafeteria like any other. This last point is also linked to profit, of course, as sustainability challenges are greater for a social enterprise when we want the business to pays the mission, and not otherwise. Fundraising can only exist as an initial investment strategy and not as a solution to what the business cannot achieve.

Strategies to mitigate challenges and capitalise on strengths

Several academic studies have identified different approaches to mitigate challenges and leverage strengths. These strategies include recruitment and socialisation practices (Battilana and Dorado, 2010), the creation of spaces for negotiation (Battilana *et al.*, 2015), the combination of formalisation with collaboration (Ramus *et al.*, 2017), stakeholders engagement (Ramus and Vaccaro 2017) and structured flexibility (Smith and Besharov, 2019).

To respond to the divergent expectations of various external stakeholders, organisations can selectively combine elements of both logics, thus gaining their legitimacy. We can, for example, find in the same organisation the commitment to reinvest all profits in the mission (social well-being logic) while business units are required to pay a percentage of the revenues to the central organisation for monitoring and follow-up (commercial logic) (Pache and Santos, 2013).

Box 13.6. Betting on people

Café Joyeux Portugal

In terms of business model, at Café Joyeux all profit is reinvested in the mission of generating more jobs for people with IDD.

In terms of human resources, we promote crucial team-sharing moments, as key for reuniting within the mission. Conveying, saying out loud and living the message that we are together, are actions that strengthen teams and allow the mission to grow, while creating more time to listen to employees. In a challenging project like this, this space and time can make a difference, involving more people and strengthening the team as a whole.

In the short-term, we want to implement performance assessment processes that focus not only on individual skills, but that financially reward selflessness, *e.g.* if my trainee develops in autonomy under my supervision, I should be rewarded for it. It's disruptive, heart shaping, and creates a less individualistic society.

A positive leadership that is contagious by example and by sharing results is essential at all levels.

Conclusion

The blend between the entrepreneurial and social worlds must be tailored to the specific context and nature of each organisation. Identity, goals, logics and environment vary between different organisations, so commercial elements can be peripheral or central in the organisation (Besharov and Smith, 2014). Ultimately, the organisation's social mission should be its base and guiding principle, so the mission must be aligned with the value created by the commercial activities the organisation already develops or intends to. The mission should foster collaboration rather than competition, to forge partnerships between private, public and social sector organisations and have a more systemic effect on society with the value created.

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Chapter 14

Financial sustainability in social organisations

Need and importance

MARIA CASTRO E ALMEIDA
MARIANA LOPES DA COSTA

Financial sustainability has become increasingly crucial in the life of social organisations (SO). We can no longer rely heavily on the State, given the growing demands and constrained capacity of the State itself. Social organisations are increasingly struggling to find funding sources that will allow them to fulfil their mission for the time being, and to grow and expand their mission in the future.

If I am on the advisory board of an SO, what can I do? I can contribute by:

- Bringing a more entrepreneurial logic to the SO's management;
- Working on defining a fundraising strategy;
- Finding and identifying the necessary human and financial resources to implement and execute this strategy;
- Monitoring the implementation of the strategy;
- Sharing my networking;
- Bringing a more impartial 'outside view';
- Using my critical sense in SO's decisions;
- Contributing with my special talent;
- Bringing my specific skills.

Box 14.1. Financial sustainability challenges

Main challenges for social organisations' financial sustainability

- Create a good, simple, memorable and engaging Case for Support;
- Ability to plan and draw up a funding strategy;
- Ability to foresee and create the necessary human resources and financial resources strategy;
- Ability to execute and monitor the defined strategy.

Requirements for financial sustainability – Strategy, human and financial resources

There is no financial sustainability without a fundraising strategy and the conditions for its proper implementation and execution. Over the years, fundraising consulting has revealed the challenges for some SO to acknowledge the need of ensuring these three conditions and investing in fundraising as worthwhile. From our personal and the SO's experience, we can draw the conclusion that without investment there is no stable and lasting fundraising, which means no hope for organisations' financial sustainability. Although today many SO are raising funds in much better conditions, the topic of investment in fundraising persists...

To ensure a good fundraising strategy, we must guarantee:

1. The creation of a good Case for Support, a document collecting all the arguments on why our cause should be supported. It must identify the problem, the solution proposed, the difference the solution will generate with its successful implementation, the desired impact, what will happen if it's not successful, and why the SO is the best entity to solve the problem (instead of others). It must also mention the budget needed to fulfil the mission, the vision for the project and the financial needs required for the vision. Finally, it should call for the active participation of its readers, whether donors or investors. This Case for Support must be simple and present remarkable arguments, to provide medium/long-term engagement with the SO's cause.
2. A reflection on the SO's strengths, weaknesses, opportunities and threats. What can be truly differentiating about my SO? What can't it offer under the current conditions? What will it still have to create to provide a better response? Where are the opportunities? Is there an untapped funding niche? What about market threats? Is the State planning to reduce its co-funding?
3. The analysis and planning of funding sources. Once the available sources of funding are identified, identify the sources currently explored by our SO and choose the combination that best suits its reality. Although opting for multiple sources can dis-

perse resources and the organisation's mission, the rule is that the greater the number of sources of funding, the lower the degree of dependence on each of them. Should I fundraise from private individuals, enterprises, foundations, or the State? With what degree of investment in each of them? What is the return?

4. The creation of a human and financial resources structure that ensures the smooth implementation and execution of the strategy. As already stated, there is no financial sustainability without strategy, and there is no strategy design, implementation and execution without resources. Period. What fundraising team profile will be needed, and what will the budget be to maintain this team? At this stage, that is one of the main challenges.
5. A reflection on investment in communication. Fundraising to fulfil our mission depends on donors/investors, and engaging with them depends on our ability to communicate, reach them and maintain a relationship over time. Making a diagnosis of our donors and our communication methods, allows evaluating that communication and understanding whether the investment being made has achieved the desired return. If not, the communication strategy should be reviewed.
6. The design of a fundraising plan. Establish what fundraising activities will be carried out: events, regular donation campaigns, SMS campaigns, crowdfunding, major donors campaign, Door to Door, Face to Face, applications for entrepreneurial, foundations or State funding, etc.
7. The definition of a fundraising timetable and budget for all the activities defined.

If I am on the advisory board of an SO, what can I do? I can contribute by:

- Brainstorming to build the best Case for Support. Start with a SWOT analysis of the SO: what are the strengths, weaknesses, opportunities and threats? Looking at my SO's crucial characteristics, what is truly distinctive about it? What is the real problem to which the SO responds? Is the solution the best one? Is the SO's structure prepared to give the best response? What

would change in the response quality if some assumptions were changed?

This exercise may help: 'If I were a donor to this SO, what arguments would I like them to use to convince me to support it?' Use a more impartial 'outside view' to add critical sense to the arguments the SO plans to use.

- Using my experience in the for-profit sector to bring an 'outside view' of what is happening in the world, in the country and in the region, which could influence the way the SO operates and must operate.
- Helping identify the type of sources of funding that the SO must explore given its nature, the nature of those who support it and its vision of its own activity.
- Guaranteeing that the human and financial resources structure exists and carries out its activity with the necessary conditions.
- Contributing to design communication arguments by taking part in special working groups or focus groups dedicated to brainstorming on communication.
- Evaluating as a 'participatory layperson' rather than as a fundraising expert, and putting my talent and skills at the service of the SO, the reasonable nature of the SO's fundraising: arguments and appeal (Case for Support), financial needs, sources of funding to be explored, amounts to be requested and, above all, the capacity to fulfil the mission.

Let's now take a look at the reality of Associação Salvador.

Associação Salvador

Founded in 2003 by Salvador Mendes de Almeida, who became quadriplegic at the age of 16 due to a car accident, Associação Salvador aims to promote the social inclusion of people with motor disabilities

and improve their quality of life. It initially developed three projects, and funding was guaranteed by two major patrons.[1]

The 2010-2014 financial crisis and some cuts in patronage raised awareness to the need to diversify its sources of revenue. The first step, in 2015, was hiring a person responsible for fundraising and communication. This was clearly a medium-term investment with a greater return than its cost. This balance allowed us to keep growing the fundraising team, which today counts eight people, out of a total of twenty-four employees.

Since then, we have been able to largely increase our communication base, such as social media followers, and launch campaigns such as the IRS consignment.

With regard to consignment, we later realised that in order to maximise results, we had to invest in advertising, have temporary teams maintaining communication, and be present on more media. This decision resulted from a conversation with Associação Nariz Vermelho, which emphasised the need of a significant investment in a strong communication campaign to be able to achieve the level of revenue they did.

From there on, we have increased contacts with other institutions and recently proposed the creation of a joint working group to exchange experiences, namely related to fundraising.

While diversifying our patrons and contacting more enterprises, we noticed the difficulty of attracting patrons for the association in general, so we started presenting specific projects or cases that needed support. We challenged enterprises to engage their employees in our cause, and launched the crowdfunding platform '*Preencha esta Vida*' (Fill this Life), inspired by the experience of Banco Alimentar (Food Bank).

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(1) The *Face to Face* project is a fundraising method that consists of setting up street teams that approach people directly to present the work of Associação Salvador and invite them to become regular donors (Amigos da Associação Salvador) through an automatic monthly donation by direct debit. The *Door to Door* and *Voice to Voice* projects work in the same way, but the former is door-to-door and the latter by phone call.

In 2018, we opened an office in Porto to expand the employability project, and that brought interesting contacts that we later challenged to become partners.

We bet and took a chance on different events and campaigns. Some worked, others didn't. The two successful campaigns that still continue to this day are our Christmas campaign with the sale of hoodies inspired by Pirilampo Mágico, and the artwork auctions (Quarentena Solidária and Street Art Indoor) organised during the pandemic. '*Juntos pela Associação Salvador*' (Together for Associação Salvador) was an idea developed based on a similar Portuguese League Against Cancer initiative, to organise fundraising initiatives in different municipalities with the support of local volunteers. Because we weren't as present at local level, there was a weak volunteering commitment and it didn't achieve the aimed impact on the community.

It's very important to constantly monitor and analyse these initiatives to decide whether to maintain, invest or disinvest.

We went ahead with national and international applications, with the support of specialised enterprises. The latter have been a challenge and a learning experience! We believe they are a good way of guaranteeing sustainability and exchanging experience and know-how with international partners.

With the support of Nova SBE's Leapfrog programme, we assessed the possibility of transforming projects into social businesses, rejected some ideas and promoted others, such as training for inclusive employability and consulting to improve accessibility.

One of the latest bets was the investment in regular donors, the *Amigos* (Friends). Investment is larger, with long-term return, achieving break-even three years after the investment. As it was an area we didn't master, we did a lot of research and after more than a year looking for the right person for the job, we hired someone with a rich experience at Amnesty International.

This was an important 'leap', as a large base of regular donors allows us to plan better for the long-term, with more predictability in revenue and knowing what amount we can count on. Moreover, the Face to Face, Voice to Voice and Door to Door teams allow us to reach

many people, raising awareness of our cause and increasing notoriety. In the end, this project goes far beyond fundraising.

In order to develop any fundraising programme, especially among regular donors, it's crucial to create a positive and open fundraising culture, destroying myths even within the organisation.

Table 14.1. Myths and realities

Myth	Reality
People don't like being approached for money	Donating feels good. It's an invitation that people decide whether or not to accept. People only give donations if you ask them
Asking for Associação Salvador's cause is hard	When we tell our story with passion, people donate
It's wrong to spend more money on fundraising than on our mission	If we don't have funds, we cannot fulfil our mission
Fundraising is the sole responsibility of the corresponding department	All areas of the organisation are crucial for fundraising and building relationships with donors

Once these issues were well resolved internally, we continued the investment by hiring two more people: a coordinator for the Face to Face project and a coordinator for Loyalty.

The aspects we consider fundamental to the success of this programme, which has already enrolled around 5,500 friends since September 2020, are:

- The use of CRM, the Salesforce, centralising and managing contacts, to involve donors in our work and to better monitor results;
- A good analysis gives us the necessary inputs for better planning. Looking closely at indicators we know who supports us and define how to communicate and build a better strategy;
- The loyalty plan allows us to consolidate the relationship and increase LTV (lifetime value). It's three times more expensive to get a new donor than to keep one, so it's essential to maintain

communication to thank them, acknowledge the importance of the donation, inform how it's being used, and engage them. There are several ways of building loyalty: welcome calls; sending welcome kits; sending emails at the 3rd, 6th, 9th and 12th month of support; sending an email at the beginning of the year with the donation receipt, among others. We recently launched a Friends card to spoil them with discounts at various partners.

- Betting on different friend inbound channels, such as Face to Face, Door to Door and Voice to Voice, the latter as a conversion tool in digital campaigns to acquire contacts. The digital area has great raising potential. With a relatively low investment, we were able to raise a high number of Friends, achieve average donations and maintain higher retention levels than other channels.
- The maturity of Associação Salvador in its twenty years of existence. The results and the impact on the lives of thousands of people allows creating a strong Case of Support based on the lives of people with motor disabilities that the organisation has supported and supports every day.

Not everything has been easy in this journey. Some funders remain reluctant to support human resources, others ask if our employees are volunteers... However, many now realise that we need to work professionally to achieve our goals.

In an ideal world, we would secure bigger and longer-term funding by focusing all efforts on our mission and the difference we make to people's lives. While we are trying to follow this direction, there are very few patrons who commit for more than a year, so diversifying our sources of revenue is crucial and consequently has a financial weight (investment) to our cost structure.

Throughout this growth process, which has been central to increasing the impact generated, the openness and trust of the Board of Directors in the team on the field has been and remains essential. This is the only way to promote this path of innovation, of trial and error, and learning.

Conclusion

As we've already mentioned, not everything is easy on the path to financial sustainability. This is still one of the major challenges SO face in Portugal. Most of them are constantly worried about tomorrow, as they struggle to guarantee the basic conditions that ensure a fundraising strategy and the necessary structure to guarantee its proper implementation and execution. Fortunately, many social organisations are professionalised, achieving a more entrepreneurial approach to their management, while never losing their sense of common good.

It's a story about the greatest resilience, that of Portuguese social organisations. Despite the daily challenges of their financial sustainability, they persevere in fulfilling their mission. Every single day.

> 'Our greatest glory is not in never falling, but in rising every time we fall.'
>
> From the autobiography Long Walk to Freedom,
> Nelson Mandela, 1994

Note from the organisers:
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Chapter 15

Social investment

BÁRBARA LEÃO DE CARVALHO
PATRÍCIA BOURA

> "*Every time you spend money, you're casting a vote for the kind of world you want.*"
>
> Anna Lappé

Social investment?

When you invest in social innovation, you're investing in the constructive evolution of the ecosystem and the value chains within it, delivering value to the whole. This chapter discusses social investment or impact investment, defined as a type of investment aimed at generating a positive and measurable social and/or environmental impact, alongside a financial return.[1] This definition emphasises the dual goals of social investment, seen as an intentional financial and non-financial contribution to generating social and environmental solutions. This intentionality is the differentiating factor from other types of investment, such as ESG investment or responsible investment.

This type of investment is objectively geared towards achieving certain outcomes, such as a more long-term and visible change in the ecosystem in line with the organisation's vision, instead of an output-only orientation, *i.e.*, measuring short-term impact performance indicators. Impact investment works on more abstract components of change, such as improving the quality of life, that can be translated through financial proxies that monetise the value delivered by impact organisations, when there is no immediately perceived market value (Millar and Hall, 2013).[2] Impact investment thus seeks a financial return on capital that may vary below the market return rate as it also seeks other types of social and/or environmental return (Barber *et al.*, 2021).

It's worth noting that, even if the financial return is not as remarkable in this ecosystem, impact investment continues to grow in popularity. According to GIIN's '2020 Annual Impact Investor Survey',[3] the

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(1) https://thegiin.org/assets/Core%20Characteristics_webfile.pdf.

(2) For further details, see, for example, this working paper: https://thirdsectorimpact.eu//site/assets/uploads/documentations/tsi-working-paper-no-6-meta-analysis-of-sroi-studies-indicators-and-proxies/TSI_WP6_SROI_Impact1.pdf.

(3) https://thegiin.org/research/publication/impinv-survey-2020/.

impact investment market grew from USD 114 billion in 2017 to USD 715 billion in 2020. With more impact investment in change drivers, we'll be able to see the economy moving towards more relevant and positive contributions for everyone.

Understanding the specificities of the ecosystem: more complex and synergetic

Investors looking for more than purely financial contributions or looking to find new paths of innovation, are trying to align their investment decisions with the huge drive for change led social entrepreneurs. From a business point of view, investing in social innovation can be defined as investing in 'new ideas (products, services and models) that simultaneously meet social needs and create new social relationships or collaborations' (Murray *et al.*, 2010, p. 3). This definition emphasises that social innovation involves creating new relationships and collaborations between stakeholders, and developing new products and services. In other words, it highlights the concept of ecosystem development and the importance of collaboration, networking and resource sharing in promoting social innovation through social business models. The ecosystem therefore includes various actors, such as social entrepreneurs, investors, policy makers, end beneficiaries and academics, who work together to create and implement social innovation initiatives. All this diversity can thus become a major innovation and relevance driver for the markets as a whole. This is why investors seeking to diversify their investment portfolio and combine it with a greater purpose path, end up embracing more disruptive viewpoints and business opportunities generated in the context of this type of innovation (Bello, 2005). Impact investment can therefore be seen as a way of aligning financial goals with personal values and even as a huge talent retention tool for organisations. Additionally, impact investment can offer financial return opportunities not typically available through traditional investment strategies. It's widely understood that investing in enterprises that make a positive social or environmental impact can lead to long-term financial success (Bugg-Levine and Emerson, 2011).

Yet, this is not an easy path. One of the challenges faced by social investment as a true catalyst and effective change promoter, is how to genuinely understand social organisations' essence, their entrepreneurs or leaders, and the organisation's culture, very different from traditional enterprises. Social organisations generally opt for more complex legal formats from the governance point of view, like the ones of cooperatives, associations, etc. They are subject to a number of daily challenges different from those of traditional enterprises, which typically have departments to deal with each business area. The almost decade-long delay in approving the 'social enterprise' legal format in Portugal has complicated the path towards the professionalisation of the sector. As a result, the usual lack of financial resources forces the social manager to constantly respond to the organisation's various challenges, such as:

Table 15.1. Social organisations' aspects

Human resources
The ongoing challenge of finding human resources committed to the cause who value it more than their salary. The social manager is constantly seeking to provide an emotional salary that compensates for the typical low salaries of the social sector.
Innovation
Social managers need to stay updated with the best practices on the market and methodology innovations. They constantly need to find new ways of generating more revenue and of solving old social problems. Managers who are not curious nor creative, are unlikely to be successful in this sector. They must have a vision of the future, otherwise organisations will become anachronistic and will not truly serve the needs they respond to. As society is constantly changing, so are its needs. If the organisation is not constantly evolving, it may lose its meaning.
Compliance and accountability
As an organisation that relies on third parties to generate revenue, it must be completely transparent regarding its financial and activity impact results. It's crucial to provide clear, timely accounts, duly recognised by accredited companies such as audit firms. Social investors demand to know how the amount they invest in the organisations is spent. The drawing of reports is part of the day-to-day of these organisations, *i.e.*, there is a permanent need to report, with a huge operational burden for the organisation.

Communication
Communication is an essential factor to a good management strategy of a non-profit organisation. The big challenge is finding the right balance between communicating the cause, the project, and the visibility of the supporting brands, without investing a significant amount of resources. Disseminating and telling stories is essential to creating a strong emotional connection. Giving brands visibility is important, but without hindering future partnerships with other brands. It's a delicate balance.
Sector contagion
This sector is the most sensitive to public opinion, precisely because it's responsible for doing good. Failure, mistakes or non-transparent accounts are not acceptable. When one organisation in the social sector does not behave well, all others are affected. It has a systemic impact on the entire sector, generating a huge lack of trust and greater demands from the sector. This degree of impact is not seen in other sectors.
Management
Social organisations are also scrutinised by the structure/operation ratio, such as how much they spend on structural costs and how much they spend on operations and carrying out their social mission. An organisation that spends more resources on structure than on social projects is not well regarded. Today's investors still like to see their amount invested in specific projects, and not funding structural costs. The challenge is how to fund both structure and management. Their structure usually lacks the various departments that companies have, as they don't have the capacity to hold their design costs.

The social innovation ecosystem has clearly evolved significantly in recent years. Organisations have become increasingly resilient and capable of generating their own revenue, becoming more and more financially and institutionally independent. Despite all the specificities of the sector in Portugal, the social entrepreneur is usually a passionate and determined person, with great resilience and ability to cope with all these daily constraints. Investors need to be emotionally aligned and empathetic with the organisation's mission and the inherent difficulties, to value both financial and operational results on the field, such as the resolution of the social problem addressed (Zahra *et al.*, 2009). Without this understanding, misaligned investments can compromise the performance of the social organisation and even the fulfilment of its goals. Fit, empathy and capacity-building are therefore the watchwords for reaching an investor/investee match and the consequent strong results.

The evolution towards a 'half way': lock-step model

The social investment context requires a very specific approach to investment analysis. The investor expects to analyse a measurable and financially feasible business plan compatible with the agreed impact promise. Thus, the social organisations that best converge their social or environmental mission into a portfolio that sells and generates impact, will become more interesting to investors. There is also the possibility of co-creating this type of product, which has everything it takes to be successful on the market. This working method of the social mission, also known as the lock-step model, is described as a collaborative approach between investors and enterprises with the aim of generating a positive social or environmental impact (Thornley *et al.*, 2011). In this model, investors and enterprises work closely together to set clear and measurable impact goals and agree to work together to achieve them. The parties involved work in a 'step-by-step' process, where each stage of the process is fulfilled before going on to the next.

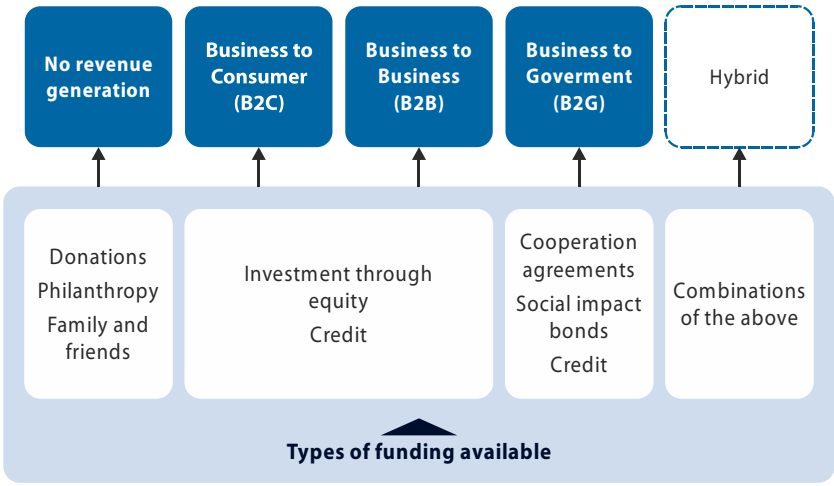
In management language, the aim is to find a way of monetising the social and/or environmental value of the organisation. In other words, to 'productise' that value, turning it into something that can be produced or served on an appropriate scale, at competitive costs and in line with the organisation's impact goals. Basically, having a market orientation in which the portfolio representing the organisation's social mission brings in direct revenue, it contributes to better business plans and greater impact. We could conclude that organisations and investors who adopt this lock-step model will be in a position to state that the more they sell, the greater the generated impact.

It's crucial to avoid distorting the aim of the product in favour of results, leading to impact washing, where those are marketed as having a positive social or environmental impact, but in fact do not achieve the intended goals (Diener, 2022). That can lead to the misallocation of resources, undermine market credibility and jeopardise the strength of the use of social investment as a tool for social and environmental change.

Types of social investment

Social investments can take on different forms, including capital, debt, donations and hybrid instruments, just like any other type of investment. Here's a diagram by type of business model:

Figure 15.1. Summary of types of social funding by advisory board of the National Competence Centre for Social Innovation



Although the tools themselves are relatively common, such as loans and donations, for example, some investment formats are more specific to this ecosystem. Next, we exemplify two of the most complex.

Community bonds

Community investment is a type of impact investment aimed at generating positive social and economic impacts in local and/or underprivileged communities. Community investors provide capital to community development financial institutions or locally-based organisations that provide loans and other financial services to low-income individuals, small enterprises and/or non-profit organisations in un-

derprivileged communities. The community thus comes together to build the necessary human or physical infrastructure for the region.[1]

> An example of the first implementation of something similar to this mechanism in Portugal was carried out by the law firm Vieira d'Almeida[2] in 2014, given the need to fund the ecological and community work infrastructure of Cooperativa Biovilla.[3] By leveraging loan agreements, the law firm offered the opportunity to 13 social investors – who later became cooperators – who successfully raised together the necessary ecological structure for the region. All of this was possible as the cooperative demonstrated a business model capable of generating enough own revenue to return capital and interest to investors. So instead of one big investor, the opportunity of building a structure particularly relevant to them was offered to various community members. Investors thus became beneficiaries and achieved a win-win situation for everyone.

Social impact bonds

Impact bonds are a type of impact investment where investors provide initial capital to fund social or environmental programmes. If the programme achieves the planned performance targets, investors receive a financial return, usually paid by the government in a 'payment by results' scheme. Impact bonds are often used to fund social programmes such as children's education or health initiatives. The Mission Structure of Portugal Social Innovation has an extraordinary impact in supporting and generating opportunities through this model.[4] Wechangers[5] and Academia de Código are among the first social impact bonds in Portugal.[6]

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(1) https://communitybonds.ca/.
(2) https://www.fundacaovva.org/.
(3) https://www.biovilla.org/.
(4) https://inovacaosocial.portugal2020.pt/.
(5) https://home.wechangers.org/.
(6) https://www.academiadecodigo.org/.

> The first social impact bond was created in the UK in 2010, to address the problem of repeat offences by recently released young people. At that time, 60% of young people who had been in prison and were released, would reoffend and return to prison for some other minor offence after 18 months. The negative impact of this reality, regarding jail system costs, the broken families and the costs on the entire system, represented significant government spending. Five million pounds were raised to fund social organisations on the field with specific projects to reverse this reality. The aim was to reduce the repeat offences rate by 7.5%. After seven years, Peterborough achieved a 9.7% reduction in repeat offences and resulted in a 3.1% return on capital, with the government saving more than 50% by reducing the costs caused by the social problem (Cohen, 2020). A true win-win case.

Given the enormous need for elasticity of thought and action to solve social problems, it's crucial to understand that the non-financial component of investment is significant, particularly in terms of financial literacy for the investee organisations.[1] Supporting investees in their strategic and operational activities to allow organisations to optimise their portfolio and be creative as to attract capital or resources, means simultaneously guaranteeing the impact they are aiming for while following the business, until reaching the desired full sustainability. Non-financial investment includes management skills, legal skills, marketing and, often, intensive networking on the organisation's behalf.

Therefore, funding social innovation means adopting a systemic and effective approach to the social problems that impact us, so as to reshape traditional economic models. It requires redefining what 'result' means to continue generating business, employment and impact, combined with the specific social mission of each organisation, in a clear, transparent and effective way.

(1) https://thegiin.org/assets/GIIN_issuebrief_capacitybuilding_finalwebfile_101217.pdf.

Blended financing

Because investing in social innovation is more complex, the blended financing approach offers an angle to development financing that employs the 'strategic use of development funding and philanthropic funds to mobilise private capital flows to emerging and border markets'[1] which, adapted to the European context by EVPA,[2] aims to bring a breakthrough to impact innovation ecosystems. It includes these three aspects:

1. Leverage: use governmental development funds to attract private capital.
2. Impact: investments that boost social and environmental organisations and economic progress.
3. Return: returns for private investors in line with the market and its prospects based on risk perception.

That's why this kind of approach and co-funding with various financial instruments is seen as a safe and strong way of triggering change.

A blended financing policy offers the collective opportunity to increase the execution rates of governmental funding lines, co-funding with philanthropy, corporations and investors, and mobilising more capacity-building and funding resources for social organisations or impact enterprises, in order to support their progress towards meeting the national Sustainable Development Goals.[3] Such a policy becomes particularly important in a context where public resources are increasingly under pressure, philanthropy and corporate investment need to be more precise, and more cause-motivated investors are looking for consistent impact organisations. A joint action is expected to lead to stronger results.

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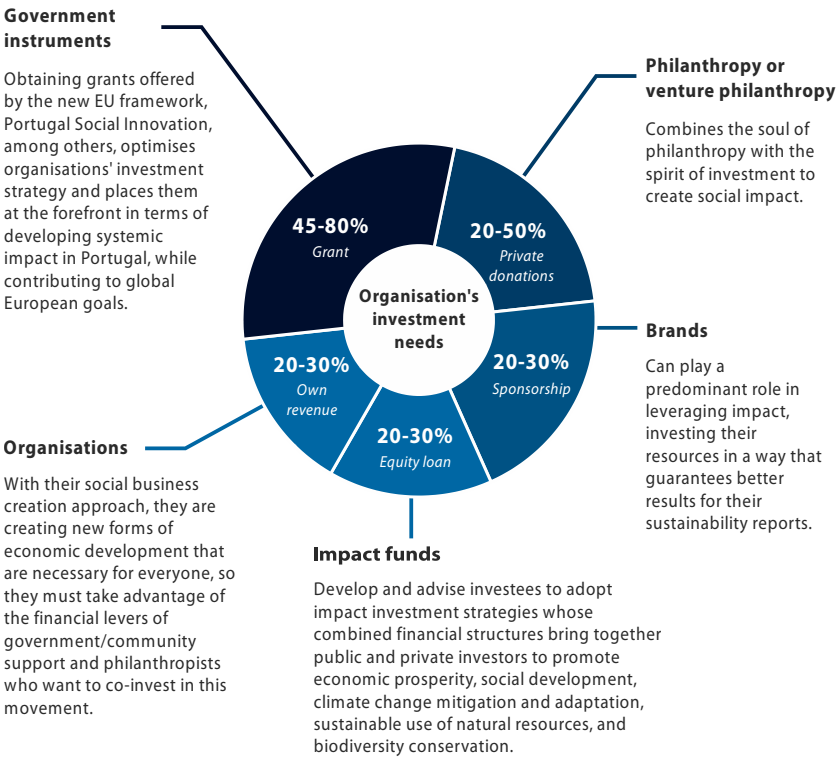
(1) OECD definition: http://www3.weforum.org/docs/WEF_How_To_Guide_Blended_Finance_report_2015.pdf.

(2) https://evpa.eu.com/.

(3) https://ods.pt/.

Figure 15.2. Example of blended financing



The development of a strategy of this kind is expected to:

1. Promote the articulation of mixed investment strategies, in order to encourage investees to develop strategies that seek grants and generate their own revenue, while ultimately reducing financial reliance on their funders;
2. Help governments, foundations and others develop their tools with confidence that the co-investing private arm (*e.g.* impact funds) will contribute and help professionalise investee organisations;
3. Use grants in synergy with capital investment or loans, replacing the one-to-one relationship effort of foundations, brands and local support offices (LSO) with a collective collaboration

network, increasing the learning potential, systemic impact and impact orientation.

Nonetheless, these types of investment approach can be difficult to identify and assess. One way of addressing that challenge is to work with specialised intermediaries, such as impact investment funds or social enterprise accelerators, who can help identify investment opportunities and provide the appropriate follow-up.

Conclusion

In a global context where social tensions are escalating for large population groups, while environmental issues are worsening and threatening even survival on this planet, we know that the current economic system has not been able to respond to this pressure. Will we then, as a last resource, turn to social investment to inject resources into new possibilities, seeking to catalyse all the systemic change humanity needs?

Despite its emerging role, social investment has shown great potential to collectively tackling social and environmental challenges with courage and determination, while creating new business models capable of generating new market references. Its main characteristics include focus on measuring and managing impact and potential to leverage enterprises or organisations that deal with social and environmental challenges, preferably producing systemic impact. Either way, there is usually a tension between financial and social/environmental goals. The investment decision is usually mobilised by a sincere drive to contribute to change and an alignment with the intentions of organisations that act for the agreed change. The main purposes of social investment are therefore to channel resources with a return and support value chains that generate wealth for the economic areas in which they operate. It also plays a crucial role of financially and non-financially leveraging the changes in which this ecosystem invests daily, and in countless ways, to do more and better for everyone.

Note from the organisers:
Patrícia Boura is a member of Fundação do Gil: fundacaodogil.pt

About the authors

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Paulo Bastos has 30 years of experience in senior management and administration functions in private and public sector organisations, both national and international, with a focus on organisational restructuring and change management, with the aim of achieving efficiency in cost management and business generation. Now, after seven years as an administrator at Nova SBE, where he contributed to the success of the organisation's change process, he is administrator at Nova Medical School, where he intends to apply his skills to help revolutionise the medical and health education sector in Portugal. He also has experience in the social sector as a, organisations mentor and trainer, aiming to empower them with good management practices that enable them to increase their impact on society.

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This book is an outcome of the Social Leadership for Managers program at Nova School of Business and Economics, a course of preparation for executives to become advisors in social organizations.

The book brings together insights from academics and social leaders to explore how management can drive transformation in the social economy sector. It covers a range of topics, including current challenges, organizational leadership, governance, and management practices. Each chapter features contributions from both an academic and a prominent figure in the social economy sector.

The goal is to facilitate knowledge transfer between sectors, ultimately contributing to more sustainable and impactful social organizations.

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