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# Reporting tools for social enterprises: between impact measurement and stakeholder needs

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## Abstract

Most people within the third sector and beyond would endorse the view that social economy organisations should report on what they do and how they work for the common good, and we, as a society, should require such reporting.

There are several studies and research on the role of reporting for social enterprises hoping to communicate financial information and social impact. However, the gap that emerged from the literature is that the principles of transparency and accountability are defined, but there is a lack of determination of a key element that can put order and respond to the need of stakeholders in the best possible way.

The author believes that a good reporting tool that is representative and that above all is understandable even to non-professional users only works if it can give an effective group representation if it puts the first place: the need.

The author employs the methodology of the case study where data are collected by multiple means through qualitative research techniques such as interviews, and document analysis for acquiring a full understanding.

The finding reveals that the focus on the need of stakeholders increase accountability, transparency, and stakeholder engagement. Stakeholders would be able to better understand the strong values of good governance, leadership, performance, and social impact that the company possesses.

Through the research project conducted so far has been possible to demonstrate that in social enterprises to have an effective measurement of impact must use all possible tools to know and describe the company and the ecosystem that surrounds it and this is possible through timely reporting that it returns clear information for all.

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Keywords: Reporting tools, social enterprises, social impact, impact measurement, stakeholder needs, accounting

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## 1. Introduction

Pearce (2009) explain that most people within the third sector and beyond would endorse the view that 'social economy organisations should report on what they do and how they work for the common good, and we, as society, should require such reporting' (Pearce, 2009). On a practical level, however, the basis of such reporting is perhaps less immediately obvious. The best-known approaches to social reporting, including AA1000 and the GRI guidelines, may appear excessively complex, costly and better suited to large corporate settings, rather than smaller values-based enterprises.

The business landscape currently existing in the entrepreneurial ecosystem in accordance with the literature defines a certain category of companies that can be the main players in the area of impact economy are the: social enterprises (SEs) (Bicciato, 2010; Borzaga, 2002; Borzaga & Tortia, 2004; Calò et al., 2018; Farmer et al., 2012).

The social enterprises have within their social object the characteristics that ethical finance seeks and above all they are the best structured companies of the whole panorama of the third sector (Zamagni, 2013).

The response to the need for comprehensible and effective reporting, introduced at an entrepreneurial level, is increasingly moving towards social enterprises that are currently considered in the scientific landscape hybrid organizations, business models aimed at maintaining the social mission along with business (Billis, 2010; Grossi & Thomasson, 2015; Haigh & Hoffman, 2012). Social enterprises make the social a strategic asset to regenerate resources of different nature: human, through the development of new knowledge and new skills; economic, through the possibility of aggregating a variety of types of sources precisely by virtue of the hybrid nature of the organization; physical, that is, linked to the process of transformation of spaces in places, where relationality becomes the key ingredient for the success of the process (Garrow & Hasenfeld, 2012; Kleynjans & Hudon, 2016; Smith & Phillips, 2016). The economic evaluation of the social impact of hybrid organizations becomes, therefore, crucial in the knowledge economy (Meneguzzo, 2005; Zamagni et al., 2015) and the debate focuses on the instruments of impact measurement (Calderini et al., 2007). Hybrid organizations are located in an intermediate section at the intersection of public, profit and non-profit (Billis, 2010; Grossi et al., 2015; Secinaro et al., 2019; Thomasson, 2009).

Reporting and communication for these realities becomes fundamental. In order to define the field of innovation and identify the social value that is returned to the ecosystem of the territory, it is important and helpful to define the business model as a tool that can facilitate (or not) the spread of innovation in the system. The value inherent in an innovation remains latent until it is put on the market or otherwise explicit and this can only happen through the use of a business model (Chesbrough & Rosenbloom, 2002).

Certainly, the accounting system is an important point within a company that can bring out information about good governance. Governance involves a set of relationships between stakeholders and the distribution of rights and responsibilities between these different stakeholders (Awotundun et al., 2011; Fernández-Fernández, 1999; Freeman, 2010; Freeman et al., 2010; Mair et al., 2015; Vining & Weimer, 2016).

As a result of good governance, the values that are passed on to stakeholders are experience and reliability, as the leaders of professional organizations in the field of ethics and compliance have a responsibility to feed the next generation of entrepreneurs. Leadership skills increase the effectiveness of management and also tend to promote ethics (Adams, 2000; Alshammari et al., 2015; Carroll, 1996; Friedman, 2014; Vining & Weimer, 2016).

The discovery reveals that with the SE's best reporting practices within the well-functioning ecosystem it is possible to create new social projects. Having accountability as a connecting feature with stakeholders gives you the credibility you need to create social impact through new projects. The benefit is perceived directly by the users of the service and indirectly by all the other stakeholders linked to the territory in which the impact activity is carried out (Adams, 2000; Alshammari et al., 2015; Biancone et al., 2018b; Carroll, 1996; Kirk et al., 1986; Lehner & Nicholls, 2014; Skelcher & Smith, 2017; Wainwright & Manville, 2017).

There are several studies and research on the role of reporting for social enterprises hoping to communicate financial information and social impact. However, the gap that emerged from the literature is that the principles of transparency and accountability are defined, but there is a lack of determination of a key element that can put order and respond to the need of stakeholders in the best possible way. Therefore, the research aims to define and highlight one or more key factors and answer the research question "define the key factors that a social enterprise should have in order to obtain a reporting tool oriented to the communication of financial data and social impact and determine which factors stakeholders would like to know in order to be heard included".

The document is structured as follows: the second section illustrates the literary review, the third section the research methodology, the fourth section the context of the case study, the fifth section provides the presentation of the results and finally the sixth section concludes.

## 2. Literature Review

### 2.1. Reporting tools

The consolidated financial statements provide the information necessary to verify the degree to which the objectives for the entire aggregate have been achieved, with particular reference to the composition of the sources and the composition of the investments (Fornaciari, 2017; Pisoni et al., 2007). This context makes it possible to know the financial structure of the group, the degree of financial autonomy and the level of indebtedness, the participation or composition of the group, the total cost of the same, the structural composition of costs, especially those that constitute the most significant elements of production. The Consolidated Financial Statements provide information and knowledge of the different composition of revenues. In addition, this document provides an analysis of the relationship between the income to be taxed and the capacity of the parent company. Revenues generated by the exchange with subsidiaries, with the possibility of forecasting consolidated business units. This information allows the possibility of formulating more optimised programmes to identify the use of resources. National and international accounting standards converge with the aim of providing information from the consolidated group: accessible, comprehensible and transparent (Ecchia & Zarri, 2005). Especially in the context of a corporate group, where several companies can be merged by nature and destination (profit and non-profit companies), it can intervene in support of Popular Financial Reporting, a consolidated economic and financial reporting tool that integrates financial, economic, equity, quantitative and qualitative information of the Consolidated Group with a simple language that can also be understood by non-professionals, therefore addressed to all citizens and stakeholders (Biancone et al., 2016, 2017b). The most widespread instrument in the municipalities and in the Anglo-American States has been applied for the first time in Italy with the realization of the Popular Budget of the Municipal Group of the City of Turin. The instrument in its first definition represented all aspects of the public group. Subsequent projects focus on the prevailing needs of the main stakeholder, the citizen, differentiating also the group's attention to gender needs (Biancone et al., 2017b).

The tool adapts well to the needs of the group through the representation of financial and non-financial aspects. Since the accessibility of information by stakeholders is the key point of the POP Reporting, the company works with them year after year to redefine the content to adapt to what are the requests and priorities for information. Moreover, given the difficulty of reading the results with respect to the financial and non-financial contents related to the level of education, the tool is able to respond to the needs of workers but also to those of investors considering the possible gap and scope related to education (Biancone et al., 2017a). The connotation and vision of the whole group allows a true representation of the real and trendy situation, giving the possibility to orient the planning by aligning the needs of the workers, and the objectives of the service contracts that social cooperatives often stipulate for the achievement of common public interests with local or regional authorities aimed at the satisfaction of the community. The definition of guidelines and suggestions to ensure transparency and ease of reading of data (Hermann, 2011) responds well to the needs of the declaration of non-financial information, without the need to further adapt these accounting standards and guidelines in the context of financial representation. In order to better explain the section, the author has produced Table 1 below.



Table 1. Scheme for comparison between types of financial statements

Report	Economic-financial	Social	Sustainability	Integrated	Popular Financial Reporting
Focus	<ul style="list-style-type: none"> <li>• Economic</li> <li>• Financial</li> <li>• Asset</li> </ul>				
Focus temporale	Past (final balance) Future (budget or programmatic budget)	Past with orientation to the future	<ul style="list-style-type: none"> <li>• Past</li> <li>• Present</li> <li>• Future</li> </ul>		
Main subjects	-Workers (politicians, professionals, auditors, researchers) -Funders -Central Administration -Media Specialist	-Citizens -Local Companies -Mass Media -Human Resources -Non-Profit organizations	-Interested public	-All stakeholders	-All stakeholders with the focus of content according to the needs of the main stakeholders
Commitment level	Compulsory drafting	Voluntary implementation			
Approach	Compliance	Based on principles			
Function	Communicative	<ul style="list-style-type: none"> <li>• Communicative</li> <li>• Strategic</li> </ul>			
Report with economic and financial statements	Complementary			Incorporation of: <ul style="list-style-type: none"> <li>• Economic and financial statements</li> <li>• Sustainability Report</li> <li>• Corporate governance Information</li> <li>• Possible focus on intangible capital</li> </ul>	Incorporation of: <ul style="list-style-type: none"> <li>• Consolidated economic and financial statements</li> <li>• Sustainability Report</li> <li>• Information on corporate governance with approach to gender need</li> <li>• Non-Financial Group information</li> <li>• Focus on intangible capital</li> </ul>

Source: Author's elaboration

The study shows that some social reporting tools (Integrated and Pop Reporting) can give a correct perception and analysis of the service of public interest.

Through a study, it was observed that the effective use of Intellectual Capital (IC) by managers and the introduction of Integrated Reporting is able to facilitate the introduction of changes in the processes of management and measurement of the CI from the point of view of value creation (Badia et al., 2018; Biancone et al., 2018a). In particular, it has been demonstrated that Popular Financial Reporting can be adopted with a view to greater transparency, accountability and sharing of results with stakeholders, responding to requests for information (Biancone et al., 2018c, 2018d, 2019b). Consolidated financial statements of a non-financial nature represent a useful tool for representing some important elements for the valuation of investments and the absorption of resources that are often not valued in the financial statements. There is no evidence or valuation of what human capital is, a resource on which companies have been investing more in the last twenty years. The Social Enterprise sees among its main stakeholders not only users and public bodies with whom it shares objectives to meet needs, but also investors and producers of services at the same time. The representation of the intangible needs a greater sensitivity to which the accounting principles and guidelines have not yet been able to respond. In the case study (Biancone et al., 2018c), it is highlighted that the values linked to the employment of disadvantaged human resources not present in the consolidated financial statements of the group do not find an economic expression, but present a real added value with consequent cessation of costs

(which would not have been to use the subjects involved). Business models and value reporting are the starting points for defining non-financial elements based on group values. A total representation can be given through the adoption of Popular Financial Reporting which, thanks to the intrinsic characteristics of the tool, already meets the needs of group representation in a perspective of integrated sustainability, considering many aspects including representation through infographics and a scale of priorities related to gender, environment and various priority stakeholders. The elements of KPIs allow for easy reading and comparison. The simple language of reaching everyone without distinction is a key element of the elements that must be present especially in those companies where investors are often the same disadvantaged members. Popular Financial Reporting is a voluntary tool but can respond in a single document to information needs (Yusuf et al., 2013). The need for transparency and responsibility in a period of reduction of available resources is met by Popular Financial Reporting, which is also justified in purely legislative terms by the need to have an easy reading of non-financial results to attract new investors and explain to them the strategic structure and intrinsic value of the company (Yusuf & Jordan, 2015).

## 2.2. Social enterprises

A social enterprise (SE) is an undertaking with a social or environmental mission as its primary goal, with profit having a lower rank and value than the success, effectiveness and impact of the mission itself. SEs usually start projects or a business in areas which are of public importance, areas where governments and their public policies have been inadequate and where markets/industries operate only with short-term gain or profit as their aim (Dart, 2004; Mauksch et al., 2017; Steiner & Teasdale, 2016).

Social enterprises are drivers of economic and social inclusion for the territories in which they operate. The phenomenon influences company extensions (Goldoff, 2000; Rehn, 2008). The fate of companies is linked to that of their territory (Zamagni, 2013).

Since the 1980s, non-profit organizations have slowly begun to incorporate hybridity, only occasionally questioning their public or private identity (Billis, 2010; Bryson & Roering, 1987; Grimsey & Lewis, 2002; Lan & Hal, 1992; Perry & Rainey, 1988; Stanton, 2004).

There are factors, such as good governance, market leadership, that give the necessary confidence to funders from the moment they seek funds but are also the key factors that allow a social enterprise to be included among the main actors of social innovation (Alshammari et al., 2015; Ayob et al., 2016; Caulier-Grice et al., 2012; Fernández-Fernández, 1999; Hubert, 2010; Smith & Phillips, 2016).

As Alter (2004) argues, SE occupy a single space within the economy and can be positioned between profit and non-profit. Borzaga and Santuari (2003) argue that compared to profit organisations, social enterprises attach considerable importance to the social purpose.

Normally, the creation of economic value has a predominant position within the objectives of profit organizations over the social and environmental ones, which are often used to achieve the former.

Instead, for SEs the main objective is to maximize the creation of social and environmental value and historically these are achieved through the right mix of social and financial performance.

Profit and SE are distinguished by the fact that the latter in terms of economic sustainability must give strong guarantees of being achieved through market-oriented activities. On the contrary, the former, as Austin argues (2000), focus only on some social results without the objective of competing on the market with profit-oriented companies and financing their activities largely (but not only) through donations and public contributions. Another very important distinction is given by Borzaga and Santuari (2003), which claim that ES design and sell a product or service, creating synergies between the financial and social objectives.

The role of these types of companies is fundamental for the creation of social innovation of the ecosystem and enter with force to contribute to the current definition of Impact economy given by Calderini (2018).

### 2.3. Social impact measurement

When, in this research, reference is made to the social the reference is to life within the community, the ecosystem. The scientific disciplines that study the subject are sociology, economics and anthropology (Calderini et al., 2018; Marradi, 1992; Rousseau, 2015; Zamagni et al., 2015).

As will often be used, the concept of social is accompanied by a tendency to improve the living conditions of less well-off citizens, to achieve greater equalization between the various components of a society.

Hybrid organisations are promoters of social innovation, generating widespread well-being and sustainable improvements in the living conditions of the community. It is precisely the community, thanks to the increasingly accessible communication technologies, that becomes not only the recipient of social innovation, but also the co-generator of innovative processes (Corvo & Pastore, 2018).

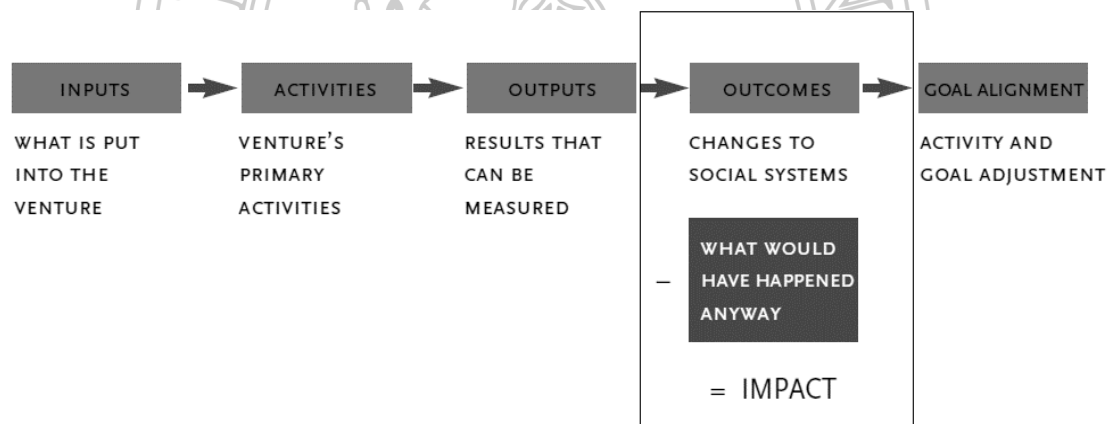
When social enterprises and resource providers are involved in symmetric relationships, the purpose of measuring social impact seems to help social enterprises to improve their performance so that the parties can achieve their common goal of creating social impact for those in need (Zamagni et al., 2015).

A fundamental element of the evaluation process is attention to the effects generated by the action, including positive and negative effects, direct and indirect, expected and unanticipated (Bezzi, 2001).

Evaluation should not be confused with monitoring, for which there are similarities and points of contact. In the first case, what has been achieved is analysed, verifying the validity of the results achieved; in the second case, the aim is to verify the progression with respect to the intervention planning, in order to identify any deviations (Montesi et al., 2017).

Through the explanation of the chain of value creation, Clark et al. (2004), as it can see in Figure 1, deepens the concept of "social" outcome, as the value purified of what would have happened regardless of the intervention of social impact.

Figure 1. Impact Value Chain



Source: (Clark & Rosenzweig, 2004)

The impact assessment is based on counterfactual analysis, i.e. it questions the occurrence of a change not only with respect to the "before compared to after", but also to the "with respect to without" a certain involvement (Clark & Rosenzweig, 2004).

There are projects where the "before vs. after" is sufficient to determine the impact generated, for example when no other factor is likely to have caused observable effects on the change generated: the reduction of time spent on drawing water from the installation of hydraulic pumps. In other cases, however, the cause-effect link is not so obvious and linear, requiring therefore an analysis that compares the "with respect to without" the intervention (Clark & Rosenzweig, 2004).

There may be various reasons for measuring the impact, for example: (i) demonstrate transparency, accountability and legitimacy to investors to access resources because without impact, evidence and reporting, lenders do not see the value created for communities; and (ii) know and improve organisational performance to determine whether they should continue or change their current strategy to achieve their missions (Nguyen et al., 2015).

As illustrated by Nguyen et al. (2015), when social enterprises and resource providers are involved in symmetric relationships, the purpose of measuring social impact seems to help social enterprises improve performance so that parties can achieve their common goal: to create social impact for people in need.

The budget tells us everything, the need is to know how to analyse it. Spreading the data through a Pop language is the challenge, starting from the needs up to the relapse on the territory (Biancone et al., 2018c, 2018d; Biancone & Secinaro, 2015; Brescia, 2019).

## 2.4. Stakeholder theory

Originally the relationship between the stakeholder and the company was conceived following a "hub and spoke" approach, later models of interactive relationships were developed, in which the management and the interested parties agree on a management approach oriented towards transparency and responsibility (Andriof et al., 2002; Freudenreich et al., 2019; Jiang et al., 2019).

Stakeholder theory scholars have sought to classify relational models between companies and stakeholders by taking a path of gradual growth in stakeholder engagement that includes the following steps (Svendsen, 1998; Waddock, 2002): stakeholder mapping (Clarkson, 1995); stakeholder management (Carroll, 1996; Clarkson, 1995; Donaldson & Preston, 1995; Mitchell et al., 1997; Sangle, 2010); stakeholder engagement (SE) (Andriof et al., 2002; Windsor, 2002).

Table 2. Stakeholder involvement steps

STEPS	
STAKEHOLDER MAPPING	Identify its stakeholders if possible to distinguish between primary (which determines the very survival of the company) and secondary (which affects or is affected by the company but does not affect its sustainability) (Clarkson, 1995)
STAKEHOLDER MANAGEMENT	Manage the expectations of stakeholders and the social and economic issues they support, balancing positions (Clarkson, 1995; Hillman & Keim, 2001)
STAKEHOLDER ENGAGEMENT	Involving its stakeholders in decision-making processes, involving them in company management, sharing information, dialoguing and creating a model of mutual responsibility (Manetti, 2011)

Source: Author's elaboration

The stakeholder management model in corporate social activities (including social reporting) can be used by the company as a tool to negotiate its relationship with stakeholders (Roberts, 1992; Ullmann, 1985); suggesting that companies are interested in stakeholders because of the perceived benefit in terms of improved financial performance and that managerial relations with stakeholders are based on regulatory, moral commitments rather than on the desire to use these stakeholders exclusively to maximise the definition of stakeholders' profits defining a two-way relationship between the organisation and its stakeholders (Berman et al., 1999; Freeman, 1984).

Starting from the stakeholder theory, a conceptual structure for corporate social activity was defined by testing the ability to explain social reporting activity, finding stakeholder power, strategic posture and economic performance significantly correlated levels of social diffusion and the model were tested to ascertain a critical assessment of contemporary developments (Berman et al., 1999; Freeman, 1984; Freeman & Gilbert, 1988; Owen et al., 2000; Roberts, 1992; Ullmann, 1985).

It is important to get feedback from stakeholders on social and ethical performance.

Therefore, companies currently use the notion of "stakeholder engagement" as a means of legitimisation instead of a means to extend corporate accountability and transparency (Civera et al., 2019; Owen & Swift, 2001; Strand & Freeman, 2015). This assertion can be supported by the fact that, as has been revealed above in this section, stakeholders are not identified in a clear and systematic way to involve them in the reporting process, the issues to be addressed are decided unilaterally and feedback from stakeholders is not included in the decision-making process (Freudenreich et al., 2019; How et al., 2019; Jiang et al., 2019).

Stakeholder theory has been widely used, both explicitly and implicitly, in non-profit research (NFPO) exploring accountability and transparency (Dhanani & Connolly, 2012; Ebrahim, 2003; Edwards & Hulme, 2014; Najam, 2002). The

stakeholder theory was born as a theory of organizational behaviour related to for-profit organizations (Freeman, 1984), with stakeholders initially defined as "any group or individual who can influence or is influenced by the achievement of the organization's goals". It was argued that engagement with stakeholders, including giving and receiving information, would help organizations achieve their goals and gain a competitive advantage (Andrews & van de Walle, 2013).

In addition to shareholders, there are many other interest groups that can influence or be influenced by the behaviour of the company such as employees, customers, suppliers, government and the general public (Freeman, 1984).

## 2.5. The Research Model

In the social impact assessment, as Clark et al. (2004) has previously highlighted by a definition of the impact value chain in order to better understand the factors that determine value creation.

An intrinsic factor that emerged in the literature analysed on Reporting tools, Social enterprises, Social impact measurement, Stakeholder theory is that to create stakeholder participation it is important that upstream there is a company with good governance, leadership, aimed at survival in the market through performance and orientation to social impact. This information is not important if it is not transmitted in the correct way through the correct reporting tool to increase the perception and consequently the involvement (Al-Khasawneh & Futa, 2012; Biancone et al., 2018b; Fernández-Fernández, 1999; Freeman, 2010; Strand & Freeman, 2015).

A good reporting tool must put the need of stakeholders first and through the principles of transparency and accountability communicate its corporate history to have the expected results that the ecosystem needs and try to promote ethics (Adams, 2000; Alshammari et al., 2015; Biancone et al., 2018a; Carroll, 1996; Ebrahim, 2003; Pestoff, 2014; Vining & Weimer, 2016).

The discovery reveals that with best reporting practices for SEs, it is about shaping the level of information about the various types of stakeholders, both professional and non-professional, so that the supply and demand for information meet (Biancone et al., 2019b; Biancone & Secinaro, 2015).

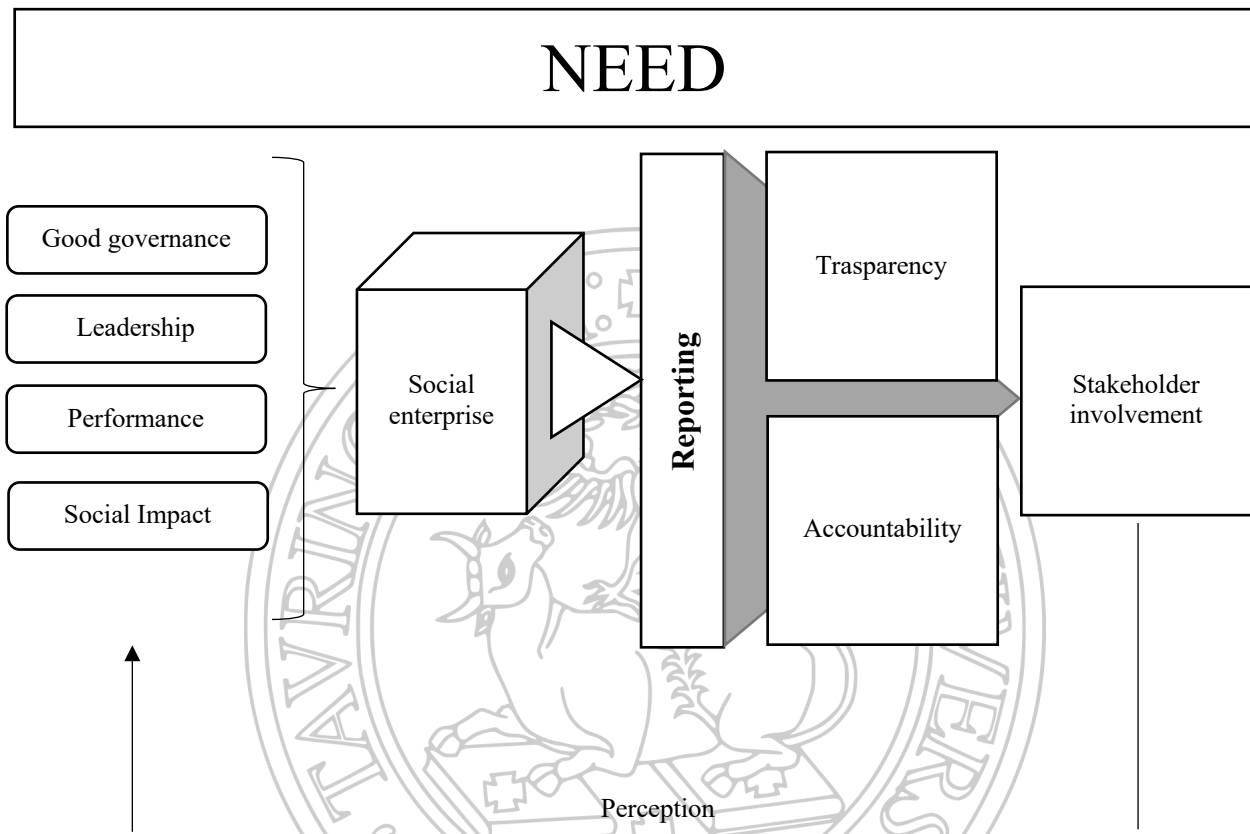
With the aim of answering the research question "define the key factors that a social enterprise should have in order to obtain a reporting tool oriented to the communication of financial data and social impact and determine which factors stakeholders would like to know in order to be heard included".

The researcher believes that: a good reporting tool that is representative and that above all is understandable even to non-professional users only works if it can give an effective group representation if it puts the first place: the need.

After a thorough analysis of the literature review, the study proposes that putting the need for a reporting tool first would increase accountability, transparency and stakeholder engagement. Stakeholders would be able to better understand the strong values of good governance, leadership, performance and social impact that the company possesses.

Figure 2 builds the reference model proposed by the authors. To adopt a reporting tool and meet the needs of stakeholders, a social enterprise must have the four key factors listed above. Through this guarantee and the most representative reporting tool they can have the involvement of stakeholders and increase the objective perception of them to create collaboration in new activities aimed at improving the ecosystem.

Figure 2. Model to satisfy stakeholder needs



Source: Author's elaboration

### 3. Research Methodology

This research employs a case study approach (Eisenhardt, 1989; Yin, 2014). The case-study approach is suitable for investigating why or how phenomena occurred and the relationships among these phenomena (Yin, 2014). Through case study, one may better understand a novel phenomenon and concept (Eisenhardt, 1989). In line with the purpose of this article, the methodology was adopted by preparing a longitudinal and explanatory case study (Yin, 1981, 2017).

The case study highlights some relevant aspects and possible approaches of the elements of the model. The methods for collecting information use qualitative techniques and include interviews with managers and employees, analysis of internal documentation, observation of the reality and truthfulness of the data declared with a reworking of some data that ensure the validity and reliability of the information.

The primary data were collected directly by one of the authors who for years has been carrying out research within the social enterprise, the secondary data were provided through a semi-structured interview to managers and employees. The validity is guaranteed by the triangulation of different resources with evidence of the key information collected. The evidence collected is guaranteed by a double check on the information through differentiated sources. Research allows to record a phenomenon in a real environment, where the boundaries between the context and the phenomenon tend to be blurred (Stake, 1995).

The literature allows to confirm and combine the information collected (Yin, 2017). The transparency, the approach and the repeatability of the analysis and the method allow its reliability (Leonard-Barton, 1990).

Therefore the researchers believe that the case study defined by Yin (2017) is the best way to answer the research question "define the key factors that a social enterprise should have in order to obtain a reporting tool oriented to the communication of financial data and social impact and determine which factors stakeholders would like to know in order to be heard included".

The research reflected its theoretical framework presented in Figure 2, which consists of eight elements: accounting, good governance, reliability and experience, market leadership, security and compliance, technology and innovation, performance and stakeholder engagement; in the interviews conducted and in the semi-structured questions, also ensuring external validity (Campbell, 1986). Company and interviewees names and position are kept anonymous for privacy reasons, then they were transcribed and then encoded independently (Curtis et al., 2010). However, researchers could mention that the surveyed members included the: CEO, CFO, and the participants who benefited from services.

### 3.1. Interviews outline

With the aim of answering the research questions, the research was organized to cover the topics needed to have the elements to proceed with the study. Additional exploratory questions were considered to deepen the understanding of the answer, rather than closing a discussion and moving on to the next question.

It was considered important to organise the questions by addressing the necessary issues from all points of view, from the most specific to the most general.

The topic of reporting was addressed by trying to understand which information was considered understandable and which was not. Also, to understand if social issues were considered important and if the information was more transparent if this would increase participation.

It was necessary to have information on the reaction of the members trying to understand if the group believed in the social enterprise and if they fully understand the identity in which they work if it had increased the sense of belonging. Since the tool would also be consulted by the users of the services, it was important to understand whether a better form of communication had changed the forms of behaviour. Through a more discursive approach another topic that created interest was to understand if there were any obstacles to achieving the objective by trying to understand how it influenced the company.

### 3.2. Case Study – Context

The Social Enterprise in question puts the creation of employment for its members, who are among the types of people defined in the social context as "fragile" through the collection of waste, first. The company has historically focused on activities with characteristics aimed at simplifying work to promote the qualified workforce, to allow workers to keep pace with the market, monitoring the results, solid assumptions to ensure the economic independence of people, always placing employment and social repercussions of the territory of intervention at the center of their choices. The services related to waste range from paper collection to bulky waste, asbestos removal, collection and disposal of RAEE and plastic and glass reception and social housing service.

The information was collected through interviews with members, staff, through the company's website and citizens who use the service. In addition, the financial report of the last five years has been analysed to support accountability. About accountability supported by financial statement data, it was possible to understand that the company is solid and stable from an economic point of view. Revenues from service activities can be kept constant by always recording important profits reinvested in new activities. The company recorded a significant improvement in the EBITDA, ROS, ROA, ROA and ROE indices and confirmed the company's solidity, as can be seen from the interviews that will be analysed in the section.

## 4. Presentation of Results

This section summarizes the results of the case, showing the outputs of the respondents and the connections that emerged between the strengths of the social enterprise.

The interviews made and the comments received confirmed the theory that literature has led to deepen (Curtis et al., 2010).

Respondents confirmed that the strengths of the company that has shown on several occasions has had the best results on the trust aspect.

Thirty years of experience and business leadership has shown that governance is solid and, above all, it is flexible to any unexpected event in the market, since thanks to their expertise they are able to adapt and shape business with the market, confirming the concepts of Al-Khasawneh and Futa (2012) and Alshammari et al. (2015).

The concept of good governance as treated by Fernández-Fernández (1999) and Norman (2014) is confirmed by saying that the governance structure is solid and has good internal management of responsibilities. The members of the company are aware of this because, in addition to seeing it from the numbers, they perceive the internal and external organisational strength.

It was therefore possible to link to the literature that the search for daily innovation is a key factor within the studied organization. This factor is perceived and above all demonstrated. It was interesting to understand the differences in perception of social enterprise because there were opinions of strong trust from within. The externals were divided between those who knew the company and therefore appreciating the work of inclusion and those who used only the city service which are often linked by a prejudice of the category as studied by Andrews and van de Walle (2013).

When it was explained that the social mission is to put the worker in first place and the great work is aimed at the welfare of members was shown to be the gap in the lack of that type of information as stated by Freeman (2010).

This type of perception prevailed over financial, non-financial and above all social impact data. Those who knew the subject had a better perception, the non-experts did not have the full picture sometimes clouded by prejudice, as mentioned before, which did not even lead to deepen confirming what was said by Adams (2000) and Biancone et al. (2018d) about participation thanks to good reporting.

For those who did not have clear concepts of social impact and therefore what was done for the ecosystem by the social enterprise underwent a change of attitude and a propensity to cooperate to participate in improving through their contribution by informing themselves of the ways approaching the concepts of Adams (2000) and Alshammari et al., (2015) about the cornerstones of ethical finance.

As in the studies of Biancone et al. (2017b, 2018d, 2019b) the idea of a group is strong and defines a point in favour of defining a good accounting policy in order to give the perception of being responsible and transparent. Governance is aware that everyone has the right and the desire to know more about the company, both internally and externally, as confirmed by the studies of Freeman (2010), Carroll (1996) and Biancone et al. (2016).

As highlighted in the literature, mapping stakeholders increases the range of action of information and therefore becomes an effective reporting tool. In fact, valuable information has emerged that professional users believe is enough to existing accounting tools as they are able to read them and deepen through other analysis of information not in evidence. Non-professional users, on the other hand, considered the existing tools difficult to understand and unrepresentative. Clearly dictated by the incorrect channel of information. A user-friendly language is preferred and can be enhanced by innovative social media tools. Consequently, it emerged that the use of social media was always present, confirming the theory of Biancone et al. (2018a) in which citizen participation increases with the use of computer tools. In their studies they show that the factor that determines a participation of families is the simple connection to the Internet because it has been shown that this element is enough to create in users an active participation in the digital world. Therefore, an interesting starting point was the request to adapt "information in pills" that have accustomed to receiving social media.

The territory is having a propensity to social orientation and social impact and therefore a good reporting tool can help to increase the propensity to social innovation of the ecosystem.

Summarizing the key factors that emerged from the literature and confirmed by the interviews, the company that was the subject of the case study confirmed the theoretical framework. Good governance, leadership, performance and social impact are the information that stakeholders perceive as a translation of responsibility and transparency of the social enterprise, creating in them an increase in positive perception and consequently in active participation. Figure 3 summarizes the concepts in this section.



Figure 3. simplification of results



Source: Author's elaboration

## 5. Discussion and conclusion

### 5.1. Contributions to the literature

In order to develop a sustainable approach to international growth, social enterprises must continue to learn from experience and adapt during their internationalization and connect all stakeholders with innovative reporting tools. As presented above, this process is the subject of this study.

In this work, it defines the key factors that a social enterprise should have in order to obtain a reporting tool oriented to communicate financial data and social impact and determine which factors stakeholders would want to know in order to be heard included.

In this way, it meets the need for transparency and accountability used for public authorities (Hartmann, 2019; Presenza et al., 2014) and the way they inform subsequent internationalisation practices (Biancone et al., 2019a; Owen et al., 2000).

The results contextualize and extend the conceptual work by suggesting that social enterprises rely on their dynamic capacity to learn from their experiences and to adapt their practices in the process of solidifying good governance and leadership to generate performance and social impact and make the model replicable and scalable.

It is found that this type of structure is able to perceive and manage the "need" of stakeholders and efforts would be in vain if they could not be linked to the company. A good reporting tool as presented in the literature can guide the right theory of change (Castello & Lévêque, 2016; Kail & Lumley, 2012). By responding to needs and communicating in the right way, the company generates transparency and accountability in its stakeholders by triggering a proactive form of these stakeholders who, through their participation, are able to improve the structure of the social enterprise which in turn manages the whole process described [Figure 2]. Therefore, having such key factors, however difficult to achieve, provides an initial basis for subsequent adaptation to the process. In this sense, the results add a nuance to the vision that structured reporting brings with it positive strategic effects for the company that uses it and for all stakeholders generating an evolution of all (Calò et al., 2018; Owen et al., 2000; Zamagni et al., 2015).

In essence, the transition from one phase of development of key factors to the next does not happen by default. Instead, the study must take an active role in monitoring the management process aimed at selecting the appropriate human capital, engaging in continuous reflection, critical evaluation, adaptation of criteria for its requirements, adaptation of good practices. This

selection is also fundamental in the choice of the reporting tool that creates a mechanism of trust in all readers (professional and non-professional) (Biancone et al., 2019a, 2019b).

## 5.2. *Implications for managers*

The results demonstrate that the benefits of a good company structure linked to an excellent reporting tool are not necessarily automatic and may require dedicated effort and procedures. Based on the preliminary evidence of the study and if supported by further research, social enterprise decision-makers can improve the effects of their actions internally and externally, even when reflection on good practice is not perceived as urgent. The results suggest that these micro-processes can be supported by an entrepreneurial attitude that allows business managers to regularly take stock of the situation and to be ready to act quickly, being aware of the financial and non-financial data of their company, especially in a language that is certainly accessible. Too often smaller companies that launch themselves on the market do not have the time and resources to make these assessments and this can lead to inefficiencies that last longer than necessary, resulting in waste of resources and poor returns, as well as reducing opportunities for learning and adapting practices.

In the specific context, good reporting practices consist in using human capital with increasingly specific combinations of skills and know-how. The manager must select the human capital for the implementation of these activities, otherwise he or she will have to provide external professionals for the implementation.

## 5.3. *Limitations and future research*

The demonstrated scenario has a strong illustrative and exploratory potential and the phases that the study identifies can be adapted to other contexts (Welch, 2012). The same applies to the transfer of context-specific notions of good governance, leadership, performance, social impact and especially reporting requirements. There may also be other companies that have similar characteristics to our context, but have different business models and industry regulations, so these results should be transferred to these contexts with caution.

The purpose of our exploratory study is to provide insights that other scholars can draw on and explore further in the theory development process. Therefore, this study invites scholars to investigate the transferability of our insights and provide several promising avenues for future research. First of all, the researcher asks ourselves whether the starting point from stakeholder needs and through a good reporting tool can generate in them transparency and accountability can be applied to all non-profit but also profit contexts, since the current literature provides us with further distinctions in this category: for impact and without impact (Calderini et al., 2018; Clark et al., 2004; Meneguzzo, 2005).

Secondly, the results strongly suggest that the effectiveness of reporting increases the speed of stakeholder engagement with the company.

Third, to arrive at more general conclusions, the 2030 goals that the world is running towards seem to be set by large institutions and public bodies. Social enterprises, which are the engine of social impact, can certainly contribute to this and trying to provide a dashboard of the SDGs business format can help generate global development from the local.

I would welcome further empirical studies that investigate the impact of good reporting tools on the global goals that humanity must now aim for (Biancone et al., 2018a; Welch, 2012).

In conclusion, with the aim of answering the question “define the key factors that a social enterprise should have in order to obtain a reporting tool oriented to the communication of financial data and social impact and determine which factors stakeholders would like to know in order to be heard included”, the research confirms that a good reporting tool that is representative and that above all is understandable even to non-professional users only works if it is able to give an effective group representation if it puts the first place: the need. This condition increases accountability, transparency and stakeholder engagement. Stakeholders would be able to better understand the strong values of good governance, leadership, performance and social impact that the company possesses.

In order to define the field of innovation and identify the social value of the company, which is returned to the ecosystem of the territory, it is important and helpful to define the business model as a tool that can facilitate (or not) the spread of innovation in the system. The value inherent in an innovation remains latent until it is put on the market or otherwise explicit and this can

only happen through the use of a business model (Chesbrough & Rosenbloom, 2002). Through the research project conducted so far has been possible to demonstrate that in social enterprises to have an effective measurement of impact must use all possible tools to know and describe the company and the ecosystem that surrounds it and this is possible through timely reporting that it returns clear information for all. We must not forget that a tool such as Popular Financial Reporting is also aimed at non-experts, generating responsibility, transparency and social impact. Stakeholders, therefore, will need increasingly advanced tools because the economic evaluation of the social impact becomes crucial in the knowledge economy.

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# Public Choice in European Affairs: Measuring Election Model

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## Abstract

Much of the accountability literature itself examines governance issues, be it decision-making and delegation, EU policy and decision-making mechanism, regulatory status, multi-level governance, executive power and bureaucracy. Financial responsibility is at the center of political responsibility and, however, issues related to financial management have been marginalized in school discussions on the EU. Audit and evaluation involve examining the development of policies, implementation procedures and their consequences to provide an assessment of the economy, efficiency and effectiveness of an entity or activity. From the sociological and discursive point of view of institutionalism, responsibility is "carried out" by the EU institutions, on paper and in meetings, each trying to define the standards of responsibility. Special reports offer the opportunity to "account" for EU policy and thus "account" for the success or failure of the implementation of the Commission and the Member States.

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Keywords: *Accountability Methodology, Paying-agencies Election Governance, Performance Human Resource Model, Recruitment Explosion and Special Report.*

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## 1. Introduction to the analysis of the audit methodology

Auditing is a blurred concept that is difficult to define and is used in different ways in different contexts (DeNichilo 2019a). General concepts include audit, inspection and control: evaluation of EU cohesion policy functions under the general audit term (Power 1994). To analyze EU reform, this work takes an equally broad approach to auditing, which includes (for cohesion policy): verification of the effective functioning of Member States' controls, as undertaken by the Commission services and bodies independent in the EU Member States; and control of projects financed through desk-based controls and on-site inspections through the management and certification (i.e. payment) of the Structural Fund authorities in the Member States. As an external audit body, the European Court of Auditors (hereafter the Court) is not by definition part of the internal



audit / control framework under shared management, although administrative reforms in the Commission have had an impact on audit activities of the Court and, as will be discussed below, for the voice of this institution in the post-reform era.

From a theoretical point of view, the fundamental functional properties of audit and control are well captured in the classical terms of the main agent (Power 1994): a monitoring technology used to eliminate moral hazard and information asymmetries between an agent and its principal in order to restore or improve trust. The use of audit and control as political technology in government has grown since the 1980s - represented as an explosion of Audit by Power (1994, 1997) - with its roots in the erosion of society's trust and public sector management changes that require greater accounting, verification and control. In the EU context, similar factors explain the shift of the audit regime. An administrative reform program in 2000 was triggered by an EU financial management scandal and legitimacy crisis (Balint et al. 2008). Of primary concern here are the subsequent effects on policy implementation and the results in EU cohesion policy. The starting point is to specify the implications for the audit and how the process has transformed the scope and intensity of the audit, control and reporting activity (DeNichilo 2019b). The main questions are: what form did the audit explosion take and why? What are the consequences? And how effectively has it solved the underlying problems? The assessment of the form of the EU audit explosion can draw on comparative administration literature, which documents two distinct public sector audit models: the compliance model and the performance model (Barzelay 1997; Pollitt 1999). The compliance model has its roots in the financial audit based on the accounting practices of private companies (Power 1997) and the internal accounting in the government can be traced back to millennia. Fraud and error detection was the original goal of the financial review and a close association remains. The compliance audit focuses on legal and administrative compliance and on the probity and correctness of the administration, financial systems and management control systems.

Performance auditing has developed since the mid-1980s (Pollitt 1999). It resembles evaluation in probing the efficiency and effectiveness of public programs, but is undertaken in a similar way to auditing (Barzelay 1997). The easily quantifiable numerical indicators used in financial accounting are complemented by qualitative output-oriented indicators. The focus shifts accordingly from inputs to outputs and outcomes of public sectoral activities (Pollitt 1999). The pace and extent of the transition to performance auditing varies internationally. The leaders are the United Kingdom, Australia, North America and Scandinavia (Barzelay 1997; Pollitt 1999). Countries that adopt performance-oriented management doctrines have generally been proactive in auditing performance. Countries with a stronger tradition of administrative law and a strong Rechtsstaat (e.g. France, Germany and Italy) have been more cautious. A similar correlation applies to internal audit and control experiences (Pollitt and Bouckaert 2004; Power 2005).

This literature suggests that an explosion of the EU audit should take or approach the shape of the performance model. After all, the new public management principles were the basis of the Commission's administrative reform program (Knill and Balint 2008), which said it sought to improve effectiveness, focus on performance and provide more profitable training in financial management, audit and control. Furthermore, more than other EU policy areas, cohesion policy has established monitoring and evaluation mechanisms for evaluating policy performance, creating pre-existing knowledge that would facilitate performance auditing (Pollitt and Bouckaert 2004, Pollitt et al. 1999).

This leads to the second question relating to the behavioral impacts of the growth of the audit, for which the thesis of the explosion of Power's audit highlighted several pathologies. The audit explosion (Power 2002) may result in a priority decline

in the provision of public services due to resource costs. An organization that wants to survive an audit must invest in reporting, monitoring and control systems, rather than improving performance (Power 1994). Additionally, the growth of audit and control can aggravate mistrust (Power 2000b). Auditors can play elaborate games of non-compliance and the auditors' working methods can be questioned. Furthermore, the unproven benefits of the audit tend to be accepted, when the effectiveness of the audit should actually be called into question (Power 1997). Finally, auditors or controllers can become de facto policy makers by repositioning competencies in the public management hierarchy (Power 2005). And therefore, there is the question of whether administrative reforms in the field of audit and control are strengthening the Commission's governance capacities. This concerns the Commission's ability to manage policy effectively, as well as the effects of strengthening the legitimacy of administrative reform (Cini 2008). Before testing these propositions, it is necessary to corroborate the claim that an audit explosion occurred and that its origins lie in the Commission's administrative reform (Power 2015).

The introduction and the background place the study within the audit and control of the European community on the different states. The elimination of moral hazard between different levels of government is properly debated according to literature and practice references. The literature identifies and coherently argues the issue of auditing by the European Commission and cohesion policies, with a balance of powers by recalling the reforms that have taken place.

The purpose of the paper is to provide evidence and reporting of European methodologies for the election of people who will have administrative, accounting and political responsibilities (DeNichilo 2020). For similar papers that use the same elaborations in public choice you can consider the following recent ones: Berkowitz, Monfort and Pieńkowski (2020); Courtney and Powell (2020); Pavić, Turk, Grgić and Prišenk (2020) and Van Wolleghem (2020).

## **2. The explosion of recruitment as a performance model**

The audit explosion clearly led to significant changes in the Commission's organizational, strategic and operational approaches (Power 2011). The question is whether these changes were driven by ambitions to increase policy performance or ensure regulatory compliance. The previous account does not support the expected shift towards the performance model, but strongly points towards a compliance model. This is evident in the emphasis and strength of compliance-based measures implemented since the mid-2000s: faster suspension and correction procedures; Member States' action plans and their corrective follow-up; an increase in the scope and intensity of the audits; and stricter closure procedures.

Seeking has been to improve the regularity and legality of expenditure, to support pressure from the Court and Parliament to reduce the error rate. Noteworthy is the emphasis of the data on the sanctions instrument of financial corrections and recoveries, as underlined by the administrative reform program, the roadmap for internal control and the control plan and by the Court and Parliament on an ongoing basis. However, as claimed by one of the Court's auditors: by their very nature, financial corrections can be applied alone in the event of proven violation of specific rules. They are therefore much better suited to sanctioning violations of legality and regularity rather than weaknesses in terms of sound financial management. Another consequence of the Commission's roadmap has been found in annual declarations including summaries of Member States' audits and opinions on cohesion policy expenditure.

Again, this appears to be yet another compliance exercise with punitive characteristics rather than a real tool to stimulate learning about effectiveness, as the following comments from a hearing of the Parliament indicate: when asked if these summaries had allowed them to learn something useful, the Commission replied: "Not yet" (which is, I believe, the Commission's language for "no"). But when asked if all Member States had complied with the request, the Commission replied that Germany had not done so and that the Commission was initiating an infringement procedure. These are the early days, but there is something daunting in finding that these procedures add - so far - little value to the Commission, but represent a new way for Member States to find themselves in violation of a regulation. This interpretation is reinforced by evidence that the Commission only checked whether the Member States had submitted the annual summaries, had not undertaken any analysis of the content of the added value of the documents and paid little attention to the performance targets and methods. The priority given to obtaining guarantees from the Member States was a key feature of the 2006 reforms for the audit and control of rules in cohesion policy.

The main innovation was a "conformity assessment" exercise to ensure that all the management and control systems of the program "procedurally" comply with the requirements (Power 2011). The process was conflicting, with the Commission rejecting more than half of the first submissions of descriptions of audit systems and strategies; this includes countries that previously signed trust agreements with the Commission. Recent developments indicate a future step towards the performance model, even the key parameter of the performance audit - attention to results and impact as part of the audit - does not seem to be on the horizon (Power 2011). In 2007-2013, greater emphasis was placed on the so-called "single audit model", which constitutes a clearer division of responsibility between the Commission and the Member States, with each level combining its security on the next during the various stages of implementation. This promises less duplication of efforts, more cooperative relationships and greater trust, whether the model will work as promised remains to be seen. Furthermore, in moving to a control approach, the Commission may face another challenge: the economic and epistemic impossibility of direct control when it reaffirms control (Power 2011).

Furthermore, the Commission stresses that audit and control should be seen as a learning process. The goal is not only to identify problems (such as fraud or major errors), but also to propose solutions (in order to prevent minor errors), supported by a more bottom-up approach, oriented towards risk management (rather than driven by the sanction) approach (Power 2011). One of these Commission measures was the provision of a self-assessment tool to the Member States in 2007. However, these softer measures were superimposed on the existing compliance model and are diminished by the scope and intensity of the compliance actions implemented by recent years.

Three key factors explain the nature of the audit explosion and the consequences. The first reflects a fundamental political choice by Parliament, the Court (in particular in relation to the discharge of the budget) and the Council's budget group to prioritize compliance over performance (Power 2011). Furthermore, there is no specific Council specific committee for cohesion policy which focuses on: assessing the concerns related to the performance of EU cohesion policy. This political dimension largely explains why the Commission's administrative reform program had a strong logical bureaucratic impact (Ellinas and Suleiman 2008), despite claims about its ideals for new public management.

Secondly, the Commission's financial crisis and the program of administrative reforms have led to a redistribution of power and resources, in Parliament and in the Court (in the post-Santer era). In addition to strengthening the influence of the EU

budgetary authorities, it has enabled them to defend the new status quo, thus maintaining the ongoing administrative reform (Cini 2008) of auditing and control more firmly on the compliance path. This growing pressure largely explains the injustice perceived by the auditors in the Member States (see below). It also contradicts claims about administrative reform led primarily by the Commission, at least in the field of audit and control.

Third, the current institutional structure of shared management - where the Commission's power to establish rules (based on its responsibility for the budget) is not accompanied by an equivalent power over the implementation of the budget - necessarily implies a high degree risk of delegation, especially the highly devolved and dispersed delivery model of cohesion policy. As noted by the head of the audit department, it is not possible to provide Member States with a blank check and to rely on Member States' audit systems because when the Court of Auditors carries out its own checks in the Member States, the Commission will not blame the errors. Member states. A more rigorous approach to compliance is needed to address the problem of high levels of irregularities (Harber, Marx and De Jager 2020).

### 3. Introduction to the concept of Accountability

Responsibility has always been intrinsic to the research and practice of democratic governance. Responsibility concerns "the construction of an agreed language or currency of speech on the conduct and performance and the criteria that should be used to evaluate them" (Day and Klein 1987). Responsibility rests on a combination of structures and procedures, in addition to the socialization of public officials about what is appropriate in the conduct of public affairs. According to March and Olsen, the traditions of democracy require political officials to account for their actions; report, explain and justify any exercise of authority; and sanction if necessary. Public officials should act in anticipation of having to account for their actions. Responsibility is based on regulation, the process, setting standards and presenting accounts for actions. Peterson underlines the challenge the EU faces due to the coexistence of shared sovereignty and divided responsibility (de Haan, Schoemaker and Wierts 2020). The establishment of the European Court of Auditors and other audit institutions in the EU is an attempt to promote collective responsibility for coping with shared sovereignty. There are four forms of responsibility:

- a) administrative liability;
- b) parliamentary responsibility;
- c) election responsibility;
- d) judicial liability.

Interestingly, it did not include financial liability in its categorization. However, financial responsibility is an essential part of accountability in any democratic political system, given the importance of the public purse. Financial responsibility or the audit process are related to both administrative and parliamentary responsibility (Manes Rossi, Brusca and Condor 2020). A key feature of the administrative budget processes is "to ensure responsibility, that the funds are actually spent for the intended purposes, that the programs are executed as planned and that the funds, coming from any source, are not spent on unauthorized activities" The budget processes also support managerial functions, linking the financial decision-making process to the performance of the program (Köhler, Ratzinger-Sakel and Theis 2020). In addition, the audits provide the raw material for the budget control committees of the national and European parliaments, hence the contribution to parliamentary responsibility.

Democratic theory underlines the importance of two mechanisms as a basis for accountability. This is information and sanctions. The Court of Auditors is not a judicial court capable of imposing sanctions on other actors. Rather, its contribution to accountability in the EU. it is based on the provision of authoritative information to political bas institutions ate on audits that allow them to monitor and improve financial management. The European Court of Auditors was established in 1977 in response to the weakness of the pre-existing Audit Committee of the European Economic Community (EEC) and the Auditor of the European Coal and Steel Community (ECSC). The change in the financing of the EU budget following the budget treaties of 1970 and 1975 created political pressure to establish a stronger external audit capacity in the EU. Once established, the Court worked to strengthen its mandate and influence the evolution of financial responsibility in the Union. In addition to the functional tasks associated with the external audit, the Court of Auditors has acted to improve the regulatory framework for financial liability in the Union. The Court was part of a larger defense coalition for better financial management in the EU.

As an external audit body, the Court exercises its role by providing information on the management of the Union's finances to the executive and parliamentary bodies of the Union at EU and national level (March 1995). It has no judicial functions and does not impose sanctions on individual officials or institutions. So the basis of his contribution is based on the result of his audits as expressed in the reports. Responsibility is promoted through the publication and dissemination of information on financial management systems and practices in the EU. The Court increases accountability in the Union by conducting its audits professionally and reporting on the results of its audits. The basis of the Court's contribution to accountability in the Union is based on two pillars of information and publication. In addition, the expectation of an external audit influences the behavior of public officials engaged in the deployment of EU funds at EU and national level. The fact that public officials know that their actions can be reviewed by an external audit body affects the way they deal with EU finances (Fredriksson, Kiran and Niemi 2020).

#### **4. Organization settings of Supreme Audit Institutions**

Supreme Audit Institutions (SAIs), including statutory auditors, auditor courts and public or public sector certifiers, play an important role in strengthening government and public sector responsibility (Marchesi 2000). This is done through their examination and reporting of government financial reports, including government agencies, authorities, companies and subsidiaries (i.e. audit of financial reports). Not only performance or audits with a good quality-price ratio of the efficiency and effectiveness of the use of public funds, but also other judicial reviews, including environmental audits. This study extends the previous literature (De Martinis and Clark, 2007) by examining the enabling legislation of the SAIs of the 25 member countries of the European Union (EU) and the European Court of Auditors (ECA).

The study examines the provisions contained therein that deal with the scope of parliamentary powers on the accountability of SAIs to parliament, as well as the independence, supervision, mandate and funding of SAIs. Given the importance of the EU and the economic, political and social diversity of its member countries, it is useful to examine the enabling legislation of their SAIs (Colella 2000).

The wave of spectacular corporate collapses and frauds worldwide, including Enron, HIH, Parmalat, Tyco, WorldCom and Xerox, is well known, has highlighted the need for greater corporate and regulatory governance. All over the world and in the aftermath of these corporate collapses and fraud and, in particular, the disappearance of Arthur Andersen, the adequacy of the

auditor's legal requirements and professional standards for carrying out a quality audit have been subject to a greater control, in particular the auditor's independence. A significant achievement was in the United States, where the Sarbanes-Oxley Act 2002 was issued, creating a stricter corporate governance and accountability regime, including a climate of stricter rules on independence of control. In other countries, government regulatory and professional bodies have also followed suit with changes (proposals) similar to legislation and / or professional standards for the purpose of improving corporate governance, including audit quality. Interestingly, well before the entry into force of the Sarbanes-Oxley Act of 2002, the European Commission had proposed to improve the independence of auditors by setting minimum standards, in particular as regards the mandatory guarantee systems of the quality, since Member States have been found to operate with voluntary or partial systems or without a system (Caruana and Kowalczyk 2020).

## 5. Institutional Challenges: Review Special Report

Performance auditing is “a Knowledge-based activity” and that owing to its “special features” it requires “special competences” (European Parliament 2012). It is an “investigation discipline that requires flexibility, imagination and analytical skills. Excessively detailed procedures, methods and standards may hamper the effective functioning of performance auditing. Auditors traditionally have experience in public and private sector financial/compliance auditing but are not familiar with the appropriate methodologies for performance/value-for-money auditing (Van der Meer and Edelebos 2006). The Court’s management has been obliged to support the training of staff through professional education in performance auditing, for both auditors and members by developing a professional diploma course in public-sector auditing, finance and accounting as a qualifying tool. The Court is now hiring auditors from a variety of academic disciplines. Beyond accountants, economists and lawyers, its staff increasingly includes psychologists, linguists, social scientists, geographers and medics, policy expertise in performance audit requires professional qualification in, and in-depth practical knowledge of, a range of policy areas. It pushed through internal restructuring, creating vertical chambers with decision-making powers delegated to them away from the College. This brought efficiency gain but resulted in “silo-ing” with each chamber insulating itself, competing to out-perform the other in producing special reports. The Court is now much more conscious of its external profile. A communication department was created around the president to “professionalise” and actively promote the Court’s recommendations, with greater attentions paid to presentation. Adopting private sectors norms, the Court now talks of disseminating its “products” to its “clients” or “stakeholders” (See table 1). Compliance audit work will likely always receive a bed press, its impact hard to ascertain in terms of improved accountability (Homer and Stephenson 2012).

Tab. 1 Reports submitted to the Court of Auditors.

1. Annual reports / statements of assurance.
2. Up grade procedure services.
3. Confort letters.
4. News.

Source: Court of Auditors annual report.

## 6. The Audit of Paying Agencies: the AGEA case

The Agency for Withdrawals in Agriculture (AGEA) is a non-economic body governed by public law, established by legislative decree no. 165 and subsequent amendments and additions (DeNichilo 2011). It is subject to surveillance by the Ministry of Agricultural, Food and Forestry Policies. The organization, structure and functioning are defined and regulated in addition to the legislative decree of 27 May 1999, n. 165 and subsequent modifications introduced by the legislative decree n. 188 of 2000 and by law 21 December 2001, n. 441, by the AGEA Statute approved by ministerial decree no. 736 of June 14, 2002, by the Administration Regulations approved by ministerial decree of June 14, 2002 and by the Personnel Regulations approved also by ministerial decree of June 14, 2002. Pursuant to article 10 of legislative decree no. 165/99, as modified by law no. 441/2001, a Monocratic Office is entrusted with the exercise of the functions of paying agency, which has the task of ensuring the efficiency of the management and control structure of Community aid, without prejudice to those of other paying agencies, through the adoption of procedures aimed at the most rational use of resources, tools and resources in full compliance with current Community regulations (Hada, Luga and Căruț 2019).

The bodies of the Agency are: President, Board of Directors, Representative Council, Board of Auditors, Court of Auditors. The executive structure of the AGEA, as required by the Staff Regulations (14 June 2002) and articulated with resolution no. 44 of 19 July 2002, is made up of:

- a) Monocratic Office, responsible for the Paying Body pursuant to Regulation (EC) no. 1290/06 established with law no. 441 of December 21, 2001;
- b) Coordination Area, which performs the functions of Coordination Body pursuant to Regulation (EC) no. 1290/06 and of the regulation (CE) n. 885/06.

The two functions are distinct under the organizational, administrative, functional, managerial and accounting aspects pursuant to and in compliance with EU and national legislation.

The Monocratic Office performs the functions of paying agency pursuant to regulation (EC) no. 1290/06 and coordinates, determines the guidelines and objectives, the following areas subordinated to it:

- a) Administrative Area, which is made up of the "General, Financial and Cash - Personnel Affairs" Office, the "National Budget and Management Control Accounting Office" and the "Community Litigation" Office;
- b) Payment Authorization Area, which consists of the "PAC, Fodder and Oil" Office, the "Rural Development" Office, the "Single Application and Fruit and Vegetable Management" Office, the "Promotion, Quality Improvement and Social Aid" Office, of the Office of the "Community Litigation";
- c) Controls Area, which consists of the "Accounting" Office, the "Technical Service", the "Payments Execution" Office and the "Relations with Paying Bodies and SIAN" Office.
- d) The Coordination Area performs the functions of Coordination Body pursuant to Regulation (EC) no. 1290/06; in particular:
  - coordinates and monitors the activities carried out by the paying agencies recognized in compliance with regulation (EC) no. 1290/06;
  - takes care of the harmonization of the operational procedures for the implementation of the community legislation relating;
  - provides national aid, ensuring its compatibility with EU legislation.

The types of intervention that the Community internal control service can implement are the following:

- a) Compliance Audit: focuses on verifying the compliance of the procedures adopted by the paying agency with EU legislation, and verifying the compliance of the components with the internal rules and procedures, applicable to the context of the operating structures and operations under examination.
- b) Operational Audit: verifies / assesses the adequacy, regularity, reliability and functionality of systems and processes / procedures, methods (codification) and resources in relation to objectives, organizational structures.
- c) Financial Audit: these are actions aimed at verifying the adequacy of existing accounting, administrative and financial controls. Their objective is to verify that there is a correct and timely recording in the institution's accounts (with particular regard to the EAGF and EAFRD accounts) and that the economic and financial statements present the results of the year in a "true and correct" manner and the financial and equity situation at the end of the financial year. Systematically the purposes of a financial audit can relate to the reliability of the accounts, the legality and regularity of the operations and the verification of its financial management.
- d) Follow-up (Monitoring of corrective actions): these are interventions for verifying the effective implementation of the corrective action plans agreed with the process managers, in the face of the observations found during previous interventions, audits or process mapping , of the Service and shared by the process managers themselves.

At the date of this paper, the Internal Control Service is organized into the following basic specialized units, identified by the homogeneous environment of action of the paying agency, as classified by the EU guidelines, aggregated into homogeneous areas by subject of verification:

- a) Universe "EAGF Sigc / No Sigc" divided into:
  - EAGF (European Agricultural Guarantee Fund) schemes covered by the SIG, i.e. the support schemes referred to in Titles III, IV and IV bis of Regulation (EC) no. 73/2009 of the Council including the agri-environmental, forestry, less-favored areas and areas with environmental restrictions, if the same sectors are included in the temporary instrument for rural development. In particular, this unit deals with the authorization procedures (administrative and on-the-spot checks), execution of payments, accounting that take place in application of the Integrated Management and Control System in the EAGF environment;
  - EAGF (European Agricultural Guarantee Fund) schemes not covered by the SIGC, i.e. any other support scheme paid by the EAGF including any other scheme not covered by the SIGC which is part of the Temporary Instrument for Rural Development. In particular, this unit deals with the authorization procedures (administrative and on-the-spot checks), payment execution, accounting, advances and guarantees that take place outside the scope of the Integrated Management and Control System in the EAGF environment.
- b) Universe "EAFRD Sigc / No Sigc" divided into:
  - EAFRD (European Agricultural Fund for Rural Development) schemes covered by the Sigc, i.e. the support schemes borne by the EAFRD referred to in Article 6 of Regulation (EC) no. 1975/2006. In particular, this unit deals with the authorization procedures (administrative and on-the-spot checks), execution of payments and



- accounting that take place in application of the Integrated Management and Control System in the EAFRD environment;
- EAFRD (European Agricultural Fund for Rural Development) schemes not completed by the Sigc, i.e. the support schemes borne by the EAFRD referred to in Article 25 of Regulation (EC) no. 1975/2006. In particular, this unit deals with the authorization procedures (administrative and on-the-spot checks) for payments and accounting that take place outside the scope of the Integrated Management and Control System in the EAFRD environment.
  - c) Universe Credits divided into:
    - credit management within the EAGF;
    - management of EAFRD credits.
  - d) Advances and Guarantees universe: deals with the procedures relating to the management of the amounts paid in advance and the guarantees given in favor of the paying agency.
  - e) Public Storage universe: deals with procedures relating to public storage and community inventory management.

## 7. Methodology

### 7.1 Human Resource Performance Model

This paper analyzes factors that explain the increased use of special reports by the Court, such as the accountability methodology, wondering if they resemble evaluation studies. Their training examines their impact, as well as the institutional use implicit in the performance audit (DeNichilo 2013).

What factors and circumstances explain the increased use of special reports? The work shows how the interpretation of the Court has political implications and serves to promote its institutional interests in the battlefield to define "responsibility" and in what concerns it.

Evaluation in the EU is often conducted externally, offered to various consortia of academics, researchers and consultants who respond to assess the performance of political programs. Several multilevel stakeholders will conduct their assessments and choose from a mix of qualitative and quantitative data (DeNichilo 2019b). For the executive, its main purposes are: to contribute to the planning of interventions, including providing input to establish political priorities; assist in the efficient allocation of resources; improve the quality of the intervention; and report on the results of the intervention. This presupposes feedback in the political cycle, although theory does not always extend to practice. Audit is therefore an essential part of evaluation in the EU, contributing to the realization of financial responsibility, but also, maintaining the institutional legitimacy of the decision-making system (Spaventa 2008) In short, audit and evaluation are both key elements in the process of democratic accountability, but the question of what is accounted for and who is taken into account is central to the debate and in the EU.

Like the audit, the performance assessment function is to allow for accountability, but there is also an emphasis on collective learning. However, securing both can "run into several complications when applied in complex multi-actor political processes (Sposato 2010)."

## 7.2 Data and Sampling

This study analyses the characteristic and the determinants of the Legislative Decree 286/1999 in quality of Advisory Body in 102 Act's Director of paying agencies AGEA at 31.12.2013 (Caiden 2000). In sampling process we lost 1,04% of total universe of investigation and analyzed 102 executive positions.

Tab. 2 Identification of the survey sampling at 31.12.2013.

Total operational employees at 31.12.2013	64,96%
Total employees of the service organization at 31.12.2013	34%
Total universe of investigation at 31.12.2013	98,96%

Source: AGEA PwC Audit Reports 2011-2013 and AGEA PwC Special Report 2014

Tab. 3 Unavailable data.

Description	Data
Number of total Advisory Body Act's Director	120
Unavailable data of Advisory Body % (Qualification, Number, Independence)	15%
Number of Advisory Body object of analysis	102

Source: AGEA PwC Audit Reports 2011-2013 and AGEA PwC Special Report 2014

Our elaboration takes into consideration the year 2013 as there was the least amount of loss of data and with a minimum time span of five years to be able to evaluate the audit opinion in full independence (AGEA PwC Audit Reports 2011-2013 and AGEA PwC Special Report 2014).

## 7.3 Research Design: Framework and Hypothesis

There are a number of theoretical arguments as to why corporate management might elect voluntary to provide particular information to parties outside the organization. These arguments were grounded within "Positive Accounting Theory", but there are some alternative theoretical perspectives that address this issue.

These theories are:

- a) Legitimacy theory;
- b) Stakeholder theory;
- c) Institution theory.

Legitimacy theory has become one of the most cited theories within the social and environmental accounting area.

The author believes that legitimacy theory does offer a powerful mechanism for understanding voluntary social and environmental disclosures made by corporations, and that this understanding would provide a vehicle for engaging in critical public debate.

The problem for legitimacy theory in contributing to our understanding of accounting disclosure specifically, and as a theory in general, is that the term has on occasion been used fairly loosely. This is not a problem of the theory itself, and the observation could be equally applied to a range of theories in a range of disciplines.

Follow there are the hypotheses of the paper that we have identified using the theory of legitimacy, in particular we have identified corporate governance hypotheses, assumptions of positive and negative potential audit evidence (Rolle 2010).

Tab. 4 Framework Hypotesis

H1: There is negative association between impact of debt register evidence and Quality of Advisory Body.
H2: There is a positive association between internal audit statistics evidence and Quality of Advisory Body.
H3: There is a positive association between squeeze-out audit evidence (external job positions) and Quality of Advisory Body.

Source: AGEA PwC Audit Reports 2011-2013 and AGEA PwC Special Report 2014

#### 7.4 Dependent variable

The dependent variable is directly observed by visiting and explores the corporate website.

The characteristics of Corporate Report (CR) disclosure is classified in three categories:

- a) Number of Member of Advisory Body (NUM).
- b) Qualification Member of Advisory Body (QM).
- c) Independence Member of Advisory Body (IND).

This three aspect determine the Quality of Supervisory Body in Italian paying-agencies. The concept of social disclosure means providing adequate information about the events of the organization and its activities for the users of that information in order to enable them to make and take the decision (Costa 2009).

$$S \text{ Model} = S^1 = \frac{QM}{[\text{Max}(\text{NUM})+1-\text{NUM}] IND}$$

Tab. 5 Costruction Data Evidence

<p>First Evidence: There is a positive association between Number of Advisory Body (NUM) and Quality of Advisory Body:</p> <p>The number of Advisory Body varies from 1 to 3 in an Organization Settings Staff Unit.</p>
<p>Second Evidence: There is a positive association between Quality Member of Advisory Body (QM) and Quality of Advisory Body:</p>

- a) L consist in Legal Affairs (lawyers) who demonstrate that they have significant experience in the criminal law of the economy over 15 years;
- b) IA consist of Internal Auditor Staff and Line (cyber audit) who demonstrate that they have significant experience in corporate compliance and in the analysis of corporate reporting procedures over 10 years;
- c) O is represented payment operator who demonstrate significant experience in audit evidence over 15 year.
- d) E consists of the category Engineers in Operational Auditing and Environmental Impact Assessment who demonstrate significant experience in re-performing audit evidence on site over 10 years.

Third Evidence: There is a positive association between Independence of Advisory Body (IND) and Quality of Advisory Body:

The variable independence ranges from 0 to 1.

Source: AGEA PwC Audit Reports 2011-2013 and AGEA PwC Special Report 2014

This three hypothesis introducing social responsibility legitimization role of Legislative Decree 286/1999 in Italy (Noe 2006). The Quality composition of Advisory Body legitimates their Quality of the Audit to preventing fraud and corruption and legitimates trust in the “ritual of verification”(Mendez 2011).

Tab. 6 Corporate Disclosure of Legislative Decree 286/99.

Examined Disclosure	Dependent variable	Value at 31.12.2013
Number of Member of Advisory Body	NUM	(1;2;3)
Qualification Member of Advisory Body	QM	(Lawyer=4; Internal auditor=3; Engineer=2; Other=1) QM=L+IA+E+O
Independence Member of Advisory Body	IND	Variance 0-1 $\frac{\text{Independent members OdV}}{\text{Total member OdV}}$

Source: AGEA PwC Audit Reports 2011-2013 and AGEA PwC Special Report 2014

Tab. 7 Descriptive statistics of Corporate Disclosure of Legislative Decree 286/99.

Examined statistics	Number of Member of Advisory Body	Qualification Member of Advisory Body	Independence Member of Advisory Body
Median	2,8	7	0,7

Mean	1,5	5,5	0,5
Variance	0,21	6	0,30

Source: AGEA PwC Audit Reports 2011-2013 and AGEA PwC Special Report 2014

## 7.5 Research Model

To tested the hypotheses we used the research model specified in the follow equation:

$$S^1 = a_0 + a_1 (\text{Debt Register Evidence}) + a_2 (\text{Internal Audit Statistics}) + a_3 (\text{Squeeze-out Audit Evidence}) + \xi$$

Where:

Symbols	Description	Value al 31.12.2013
$a_0$	Intercept	External Audit Impact
Debt Register Evidence	Power of Size	$\sum_{i=1}^n \log Asset$
Internal Audit Statistics	Inspection Evidence	$\prod_{i=1}^n \log Inspection$
Squeeze-Out Audit Evidence	Dummy	[0;1]
$\Xi$	Residual	Residual Funds Access

## 7.6. Results

The table 8 contains the descriptive statistic of the independents variables.

Tab. 8 descriptive statistics.

Variable	Mean	Std. dev	Min	Max
Debt Register Evidence	12,5	2,59	1,05	20,35
Internal Audit Statistics	1,5%	0,99%	-2,50%	40,50%
Squeeze-Out Audit Evidence	0,50	0,25	0	1

Source: AGEA PwC Audit Reports 2011-2013 and AGEA PwC Special Report 2014

Our sample covers a wide range of data: some very small, some very large. They have median debt register equal to 10,22; the median of audit statistics is 3,55%. They are generally not highly squeeze-out audit, considering that they have a squeeze-out audit that is on median equal to 0,12.

In table 9 there is the multivariate regression results using the equation  $S^1$ , and estimate the coefficients and corresponding t-value.

Tab. 9 – Multivariate regression

Regress Model	Coefficient	T value	P>t
Intercept	-1,8	4,50	0,01***
Debt Register Evidence	-2,4	2,5	0,99
Internal Audit Statistics	0,2	4	0,01***
Squeeze-Out Audit Evidence	0,5	-2,5	0,45
R2	0,55		

\* \*\* \*\*\* Significant at the 0.1, 0.05 and 0.01 level.

Source: AGEA PwC Audit Reports 2011-2013 and AGEA PwC Special Report 2014

The model is significant (0,01 level) and the adjusted R2 are 0,55.

The independent variable has significant result (0,01 level) is internal audit statistics (H2).

## 8. Conclusions

This study analyses the characteristic and the determinants of the Legislative Decree 286/1999 in quality of Advisory Body in 102 Act's Director of paying agencies AGEA at 31.12.2013.

The multivariate analyses shows a positive significant related, to the companies have high internal audit statistics have high quality of Advisory Body, this fact is consistent to the legitimacy theory.

To future research predicts increase the characteristics and analyses comparatively to other country so it is possible. Some limitation should be considered, in particular the incidence of unavailable data of number, composition and independence of Advisory Body exceeding 10%.

Figure 1. Control activities of organization settings (D. L.vo 286/1999).

Activities	Strategic evaluation and control	Management control	Evaluation of managers	Administrative accounting control
Recipients	Political bodies	Executives in direct contact with the political policy body	Executives in contact with the governing body	Political summits, managers and external control bodies
Object	Guidance documents, management documents of executives who interact with political policy bodies	Economy, efficiency and effectiveness of the organizational entity to which the manager is responsible	Performance and organizational skills of every non-top executive	Accounting administrative correctness

Source: AGEA PwC Audit Reports 2011-2013 and AGEA PwC Special Report 2014

In conclusion the paying agencies that have high profitability of internal audit statistics have high quality of Advisory Body, this legitimates their Quality of the Audit to preventing fraud and corruption and legitimates trust in the “Ritual of Verification” (DeNichilo 2019c).

The increase in public debt in the euro area during the crisis, although more contained than that of the entire world of mature economies, has opened up a front that has not yet closed. The question of the possible negative effects of a high public debt is ancient. In general, there is a certain consensus on the idea that, through various channels, a very high debt may hinder growth, even if the relationship is very uncertain, and, above all, it is excluded that a threshold beyond which the effects may be identified negatives become particularly severe. The model dealt with in this paper is a starting point on the analysis of the immunization of public finance processes. The limitations of the work concern the difficulty in finding the data and the continuous updating of the data which in the stochastic processes of financial immunization represent the password (DeNichilo, Pedone 2009).

## 9. Discussion

The Court is transparent in the delivery of reports, publishing them online, freely accessible to stakeholders and citizens. However, it perceives accountability not as merely about visibility or transparency, but as ultimately resisting on parliamentary scrutiny and action, legislative responsibility underpins democracy. At the supranational level there is a “triangle of

accountability” between the European Court of Auditors (external controller), European Parliament (principal, scrutinizer, democratically accountable) and European Commission (auditee, non-elected, jointly responsible for managing and implementing EU funds). There is no clear-cut hierarchy among the institutions. Furthermore, the approach to, and practice of, audit across member states continues to require harmonization and the adoption of common standards. The soundness and value of parliamentary scrutiny remains open to question, in term of both recouping funds and influencing policy redesign. Nonetheless, performance audit itself, as a process of “accounting for” budgetary implementations, follows a clear logic of decision-making, research, analysis, drafting and reporting, thus constituting a series of sub-processes. Policy-makers are increasingly focused on issues of performance in audit, given budgetary constraints and the financial and political implications of audit for future policy. “Performance”, though evidence-based and drawing on quantitative data, is about framing and institutional discourse, ultimately value-driven and normative (Stephenson 2015).

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# The impact of stimulating the development of Human Capital on Economic Development

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## **Abstract**

Human capital is a significant ingredient of economic development. Today, the concepts of human capital have been defined as the knowledge, skill, creativity, and health of the individual. The long-run impact of human capital on the current innovation and economic development is still a question. Therefore, the interest in research to explore the contribution of human capital in economic growth increased. The production and processing of knowledge are directly related to scientific and healthy workflow. Educated and healthy people are one of the most critical factors in the models, namely the power of human capital, the development of the economy. In this study, the author uses a qualitative methodology. The investigation shows that the most crucial difference between developed and underdeveloped countries is the level of economic development. The biggest obstacle to the development of underdeveloped countries is low education level, lack of health conditions and brain drain. These factors prevent the accumulation of human capital in underdeveloped countries and cause waste of resources in the country. Considering these factors, the primary purpose of the study is to study the impact of human capital development on economic development in Azerbaijan.

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Keywords: Human capital, economic development, sustainable economic development, human capital index, knowledge economy, education

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## 1 Introduction

In the contemporary world, human capital is undoubtedly considered one of the main factors affecting the sustainable economic development of each country. The rapid development of human capital has particular importance for countries like, which aims to form a competitive structure for its economy to meet requirements of today's global competition and bring the welfare of society to high standards of living.

Human capital is an economic value that embodies people's competency, knowledge, skills, social and other qualities. Human capital development benefits a country directly and indirectly. The direct way is when people are educated, healthy and self-confident, while the indirect way is through economic development, the labor market, international economic relations and so on. In the middle of the last century, the idea of having "more territory" in international politics was replaced by the idea of having "better and better quality human capital" Human capital was originally defined as '[...] *knowledge, skills, attitudes, aptitudes, and other acquired traits contributing to production*'. This definition is broader than just educational attainment, as it includes any productive skills or capabilities of individuals, not just those that are formally taught (Muhammad Ali, et.al.,2018)

Human capital plays as the primary factor for the investment abroad implying that venture capital is a strict process of establishing the perimeter for choosing the right criteria for investments and what will include into it (Vahid Jafari-Sadeghi, et.al., 2018).

The human capital assumes the prevailing special weight in the structure of commonwealth. Human capital wealth is defined as the labour force. In other words, human capital wealth is an asset that generates a stream of future economic benefits (earnings) (Adalat Muradov et.al., 2019).

Human capital is the sum of investments in knowledge and skills that can benefit an individual's future activities (Zeynalli.L.V, 2017).

Nowadays, effective functioning of the economy in a nation is directly related to human capital development. A concept of human capital includes the elements of human knowledge, skills, ability and health. Emergence of the human capital concept has brought about the concept of knowledge economy. Knowledge economy is considered an advanced stage of high-tech and innovation-driven economy. The experience of developed countries shows that the main factor behind today's economic achievements is not just natural resources, but innovations based on human knowledge and abilities. Theoretical and practical propositions of representatives of institutional, neoclassical, neo-Keynesian and other economic schools are based on development of the human capital concept. T.Schultz, G.Becker, S.Kuznets, E.Denison, R.Slow, C.Kendrick, S.Fabrikant, I.Fisher, R.Lukas and many well-known economists put a lot of effort to develop this concept. G.Becker has rendered great services in developing human capital theory, and defined human capital as the source of knowledge, skills and motivations.(Капелюшников П.И, 1993)

Human capital, as viewed by economists, involves a process of investment that enhances human labor productivity by means of advances in knowledge and its applications. It specifically involves investment expenditures on education, training, health, nutrition, and related factors that increase the productivity of the labor force. Nobel Laureate T. W. Schultz was one of the first economists to identify the deficiency of the standard neoclassical production function in neglecting the critical role of

human capital. (Schultz.T, 1956) T. Schultz, another figure known for his human capital theory, suggests that human capital encapsulates a combination of knowledge, skills, relationships and professionalism that humans can fully realize and avail of resources existent in society. They are related to intelligence, health, knowledge, quality work and quality of life. (Schultz.T, 1968) He attributed to investments in human capital not only direct expenditures on education in secondary and higher education institutions, but also self-learning, work experience as well as expenditures on health, education and science. T. Schultz paid attention to education than display of other forms of human abilities and therefore called for studying this phenomenon in the context of form and sources of human capital. (Schultz.T, 1964)

Nowadays, the content of human capital concept is formed by a set of knowledge, skills, habits and abilities that are used to meet various needs of an individual and society. Thus, S. Fischer, R. Dornbusch and R. Shmalenzi consider human capital as a measure of human ability to earn income (S. Fisher, et.al.,1998).

The United Nations Development Program defines human capital as a set of individual qualities, such as skills, knowledge, social attributes as well as creative imagination, capable of performing labor activity to create economic value (Müəlliflik hüququ BMT-nin İnkişaf Proqramı, 2013).

Thus, human capital is an intense productive factor for development of society and the economy. It implies to creative professionals, intelligence, knowledge, quality and higher labour productivity as well as high quality of well-being. The bearers of human capital are people who remain competitive (or able to meet competition) with their mental, psychological, intellectual, cultural, creative and professional abilities as well as high quality of life.

The factors forming human capital are as follows:

- Knowledge;
- Skills;
- Competences;
- Creativity (abilities);
- Health;
- Ethics (norms of cultural behavior and system of values);
- Level of well-being.

These factors form human creative energy. Use of human creative energy for personal interests (benefits) as well as the benefit of society depends on the existing environment. In other words, every human being can be competent and creative, but use of creative energy, whether positively or negatively, is directly dependent on working environment, incentives in society and opportunities available around.

Formation of human capital in a nation assumes to ensure that every citizen has adequate knowledge, skills, competence, health and all other necessary qualities. Meanwhile, human capital on the national level is perceived as competitive and highly productive knowledge accumulated in all areas of society and economy, innovation system, intellectual capital and innovation technologies, creative and innovative labor resources as well as quality of well-being in society. They all together ensure competitive edge for a nation and its economy in international arena.

Human capital on the national level is formed by means of investments in upbringing, education, culture, health care and safety, professional development, science, knowledge and intellectual growth, entrepreneurial skills, innovations and enhancing quality of human well-being. (Becker G.S, 1962)

Development of human capital is conditioned as follows:

- attainment of required knowledge, skills, competence and creative abilities is dependent on quality, accessibility, continuity and target-oriented nature of education in a nation;
- state of health and labour ability hinges on quality and accessibility of country's health care system;
- ethics or behavioral culture depend on outlook and system of values that are largely and systematically promoted in the country

According to studies conducted by the World Bank, 16 percent of today's economic growth in the world comes from physical capital, 20 percent from natural resources and 64 percent from human capital. According to studies conducted in Western countries, returns on investments in human capital are two times greater than other types of investment in developed countries. (Maryam Ebrahimi, 2020) This fact explicitly shows the role of human capital in the development of society. Nowadays, competition for quality human capital is heightened in the world and human capital is the cornerstone of the global innovation development. At present, human capital is the main component of national wealth and remains a major driving force for economic growth in the world. Achievements of scientific and technological progress, organization of labour and its cultural emergence and productivity depend on the quality of human capital. Human capital is country's most valuable wealth. Being healthy, educated and experienced contributes to the long-term development of an individual and society. Country's future is dependent on talent, skills, and professional experience of its population. Human capital is the economic value embodying competences, knowledge and skills, social and other qualities. (Müəlliflik hüququ BMT-nin İnkişaf Proqramı, 2013)

Human capital theory suggests that people want to be compensated for their human capital investments, assuming that people seek to maximize their economic benefits over their life-time. Accordingly, human capital theory was originally developed to explain variations in financial returns of employees. Applied to entrepreneurship this means that entrepreneurs strive to receive financial returns from their venturing activities relative to their human capital investments. Therefore, entrepreneurs' human capital should be positively associated with a preference for venture scale and growth (Unger, J. M., et.al.,2011)

In the developed countries capital investments in human capital are admitted as the most effective expenditures for society which quickly covering itself on account of returns. Human capital is considered as one of the factors strengthening the economic potential and the economic growth in generally. In this type of approach the development is not only measured through increasing the economic growth rate, but also through human capital investment and reduction of poverty (Becker G.S., 2009)

## 2 Literature review

### 2.1 Human capital and economic development

Human capital is a broad concept which identifies human characteristics which can be acquired, and which increase income. It is commonly taken to include peoples' knowledge and skills, acquired partly through education, but can also include their strength and vitality, which are dependent on their health and nutrition. Human capital theory focuses on health and education as inputs to economic production. This is in contrast to the concept of human development which views health and education as intrinsically valuable outcomes to be placed alongside economic production as measures of human welfare. (Simon Appleton & Francis Teal, et.al., 1998)

Robert E Lucas conducted a study "on the mechanics of economic development" and states that the factors behind the economic growth is the human capital accumulation rate, in which both the economic growth and human capital accumulation rate is proportional to each other since, human capital levies externalities on production. The economic growth rate is proportionally more than the increase in the accumulation rates of human capital, thus, constructing increasing return to scale. He further explains satisfactorily the rich countries growth but does not explain the poverty traps countries (Zia Ur Rehman, et.al., 2018).

The modern economy is the most knowledge based, therefore, the human capital based on knowledge and skills, is a leader of the national wealth. In order to develop the human capital from the "potential" state to the state of "the cost of creating added value", the state should have special programs and effective management system. Human capital is a cost that brings benefit (Mayis G. Gulaliyev, et.al, 2019).

Modern economists are of the view that natural resources play an important role in the economic development of a country. A country which has abundant natural resources is in a position to develop more rapidly than a country that is deficient in such resources. However, the presence of abundant resources is not a sufficient enough condition to explain all aspects of economic growth. Economies are created and managed by people. These people must be capable of performing the duties required to create such an economy. Matters of economic growth and decline hinge on the population. This is called human capital, and to truly understand the world, we must understand the role that populations play in an economy's growth or decline.

Human capital is the fundamental source of economic growth. It is a source of both increased productivity and technological advancement. In fact, the major difference between the developed and developing countries is the rate of progress in human capital. The underdeveloped countries need human capital to staff new and expanding government services to introduce new systems of land use and new methods of agriculture, to develop new means of communication to carry forward industrialization and to build the education system.

Since 2005, leading international organizations and a number of research centres have undertaken a number of serious investigations and prepared reports in order to increase attention to effective use of Azerbaijan's oil and gas revenues, diversification of the country's economy and human capital development.

The World Bank's document "Azerbaijan - Country Economic Memorandum: A New Silk Road – Export-led Diversification" describes the steps needed to develop human capital in the country. In the document, the World Bank

recommended that the government of Azerbaijan should pay more attention to issues such as deepening of reforms in the education and healthcare systems, greater investment in these areas, adaptation of the education system to labour market requirements and strengthening of social security and employment services. (World Bank, 2009)

The "Azerbaijan 2020: Look to the Future" Development Concept, approved by a decree of the President of the Republic of Azerbaijan dated 29 December 2012, stated that one of the most important challenges of our time was "to lay the foundation of transition from a traditional economy to a knowledge-based economy and prioritize appropriate human capital development, which is essential for it". Section 7 of the Concept was called "Human Capital Development and Establishing an Effective Social Security System". The document stated that "providing the population with quality health and education services in the field of human capital development is part of the Concept and access to these services for various social groups, including low-income families and poorer citizens, is a key strategic line." [2]

Another document reflecting the state policy in the field of human capital development is the Strategic Road Map on the national economic prospects of the Republic of Azerbaijan, which was approved by a decree of the President of the Republic of Azerbaijan dated 6 December 2016. One of the four strategic goals outlined in this document is related to human capital development: "As an integral part of the efforts to achieve competitive, inclusive and sustainable economic goals, the third goal is to accelerate human capital development." Accordingly, the third strategic goal in the document is to develop human capital. It emphasizes that, as an integral part of reforms in the field of economic transformation in Azerbaijan, comprehensive measures will be taken to ensure continuity in human capital development, raise labour productivity and increase the role of knowledge in economic development. [4]

The Strategic Road Map on Vocational Education and Training Development in the Republic of Azerbaijan was approved by a decree of the President of the Republic of Azerbaijan dated 6 December 2016. Despite the emphasis on human capital development in both key strategic documents, their approaches and targets for human capital development are quite different. If the Development Concept focuses on 5 aspects of human capital development, the Strategic Road Map focuses exclusively on improving education, as well as stimulating investment in research and development.

### 3 Methodology of research

Human capital, innovation and economic development are rather large and vague ideas whose measurement has to be specified in greater detail. The human capital data used in this study come from different sources.

Starting in 2005, Azerbaijan has generated large oil revenues. According to the data of the State Oil Fund of the Republic of Azerbaijan covering the period of 2000- 2017, the Fund received a total of \$138.1 billion, of which \$102.3 billion (or 74.0%) was funneled to various projects related to the country's economic development (both through the state budget and funded directly by the Fund). During this period, the state budget revenues and expenditures increased rapidly: state budget expenditures increased from AZN 2.1 billion in 2005 to AZN 22.7 billion, in other words, more than 10 times in 2018. Accordingly, the amount of funds allocated from the state budget for education, health care, social protection, and social security as well as culture has seen a dramatic increase.



One of the main tasks in public administration is to ensure the development of individuals and the whole society as the most important strategic resource with strong potential and creative abilities. To achieve it, the government should develop and implement a consistent and rational policy. This policy should cover all the elements that make up human capital, reflect specific goals and objectives for each element, and ensure consistency of the indicators and incorporate mechanisms for their implementation. The main source of data for this study are from the Human Capital Report of the World Economic Forum and the Human Development Report of the United Nations Development Program was used. This study pays special attention to the indicators reflected in the human capital report of Azerbaijan for 2016. In particular, the Human Capital Report of the World Economic Forum compared Azerbaijan with other countries on the basis of 0-14 age group, 15-24 age group, 25-54 age group, 55-64 age group and Over 65 age group. In addition, Comparison of Azerbaijan's per capita GDP Data on Indicators of Selected Countries and Country Group and Azerbaijan's HDI trends based on consistent time series data and new goalposts were highlighted. In essence, the study did not use time series data for analysis.

#### 4 Results and discussions

The impact of stimulating human capital development on economic development has been discussed from the perspective of developing and developing countries. According to the Human Capital Report of the World Economic Forum, the indicators of the human capital index of 43 countries were obtained and compared. First, this section reflects the human capital index of Azerbaijan in 2016, as well as the score and level of the 5 group of indicators shown in Table 1 below.

Table 1. Azerbaijan's Human Capital Value Index for 2016

	Human Capital Index		0-14 age group		15-24 age group		25-54 age group		55-64 age group		Over 65 age group	
	score	Level	score	Level	score	level	score	level	score	level	score	level
Azerbaijan	70.72	54	83.18	68	61.65	87	66.66	48	78.85	24	60.93	50

Source: WEF, Human Capital Report. (2016)

As it has seen Azerbaijan is 54. Next place the general scope of Human Capital Index score in 2016. It ranks 68th in the age group 0-14, 87th in the age group 15-24, 48th for the age group 25-54, 24th for the age group 55-64, and 50th for the age of 65 years.

As it will be recalled, it is possible to make regional comparisons in the Human Capital Index. Human Capital Index ranking of countries in the region found that Europe and Central Asia, from Azerbaijan in this respect are shown in Table 2.

Table 2. Ranking of the Countries in Europe and Central Asia Region in terms of Human Capital Index Values in 2016

Number	HCI Rank	Countries	HCI
1	1	Finland	85.86
2	2	Norway	84.64
3	3	Switzerland	84.61
4	5	Sweden	83.29
5	7	Denmark	82.47
6	8	Netherlands	82.18
7	10	Belgium	81.59
8	11	Germany	81.55
9	12	Austria	81.52
10	14	Ireland	80.79
11	15	Estonia	80.63
12	16	Slovenia	80.33
13	17	France	80.32
14	19	United Kingdom	80.04
15	20	Iceland	79.74
16	21	Lithuania	79.34
17	22	Luxembourg	79.28
18	25	Czech Republic	78.45
19	26	Ukraine	78.42
20	27	Latvia	78.13
21	28	Russian Federation	77.86
22	29	Kazakhstan	77.57
23	30	Poland	77.34
24	31	Cyprus	76.97
25	33	Hungary	76.36
26	34	Italy	75.85
27	35	Malta	75.66
28	37	Armenia	75.39
29	38	Romania	74.99
30	39	Croatia	74.99
31	40	Slovak Republic	74.94
32	41	Portugal	74.39
33	43	Bulgaria	73.66
34	44	Greece	73.64
35	45	Spain	72.79
36	47	Kyrgyz Republic	72.35
37	54	Azerbaijan	70.72
38	57	Serbia	70.54
39	58	Tajikistan	70.53
40	59	Macedonia, FYR	70.01
41	63	Moldova	69.67
42	70	Albania	68.23
43	73	Turkey	67.57

Source: WEF, Human Capital Report. (2016)

When the countries in the Europe and Central Asia region are ranked according to their general index values, the first five; Finland, Norway, Switzerland, Sweden and Denmark. 37 out of 43 countries in this region Azerbaijan is located next. According

to these indicators, the Human Capital Index in Azerbaijan is lower than in Europe and Central Asia and is ahead of only 6 countries in the Human Capital Index.

This situation shows us that our country is weak in general in terms of manpower training in this region. It is possible to say that our country is in the middle of the 130 countries examined from the point of view of all these. In this respect, Azerbaijan will create a focus on education and employment elements of human capital will be in the interest of the country. Table 3 shows the first 15 countries according to the Human Capital Index of the 0-14 age group.

Table 3. Top 15 Countries in terms of Human Capital Index of the 0-14 age group for 2016

Number	Countries	Score
1	Finland	98.17
2	Cuba	96.87
3	Barbados	95.92
4	Ireland	95.87
5	Singapore	95.81
6	Japan	95.78
7	Switzerland	95.76
8	Belgium	95.29
9	New Zealand	95.20
10	Estonia	95.09
11	Norway	94.69
12	Iceland	93.85
13	Canada	93.46
14	Sweden	93.25
15	France	93.07

Source: WEF, Human Capital Report. (2016)

In the values of the Human Capital Index calculated for the age group of 0-14, the first five countries are as follows; Finland, Cuba, Barbados, Ireland and Singapore. The 15th is France. Accordingly, Azerbaijan is ranked 68th in this category with 83.18 scores. Table 4 shows the first 15 countries in terms of Human Capital Index calculated according to 15-24 age group.

Table 4. Top 15 Countries in terms of Human Capital Index of the 15-24 age group for 2016

Number	Countries	Score
1	Finland	85.35
2	Norway	84.72
3	Netherlands	83.70
4	Switzerland	83.34
5	Australia	82.56
6	Austria	82.41
7	New Zealand	82.25
8	Denmark	81.89
9	Sweden	81.03
10	Germany	79.78
11	Iceland	79.63
12	Slovenia	79.13
13	Belgium	78.25

14	Russian Federation	78.21
15	Ukraine	78.04

Source: WEF, Human Capital Report. (2016)

In the values of the Human Capital Index calculated for the age group of 15-24, the first five countries are as follows; Finland, Norway, Netherlands, Switzerland and Australia. The 15th is Ukraine. Accordingly, Azerbaijan is ranked 87th in this category with 61.67 scores.

Table 5. Top 15 Countries in terms of Human Capital Index of the 25-54 age group for 2016

Number	Countries	Score
1	Finland	81.24
2	Switzerland	80.51
3	Sweden	80.17
4	Norway	80.11
5	Japan	79.13
6	Singapore	78.70
7	Germany	78.39
8	Denmark	78.17
9	Canada	77.61
10	Netherlands	77.58
11	Belgium	77.55
12	France	77.32
13	Luxembourg	77.24
14	United Kingdom	76.78
15	Austria	76.75

Source: WEF, Human Capital Report. (2016)

In the values of the Human Capital Index calculated for the age group of 25-54, the first five countries are as follows; Finland, Switzerland, Sweden, Norway and Japan. The 15th is Austria. Accordingly, Azerbaijan is ranked 48th in this category with 66.66 scores.

Table 6. Top 15 Countries in terms of Human Capital Index of the 56-64 age group for 2016

Number	Countries	Score
1	Japan	85.72
2	New Zealand	85.70
3	Norway	85.34
4	Sweden	84.58
5	Canada	84.22
6	Denmark	83.99
7	Finland	83.90
8	Switzerland	83.54
9	Germany	83.31
10	Estonia	82.98
11	Armenia	81.84
12	Lithuania	81.24
13	Netherlands	81.06

14	Kazakhstan	80.95
15	Australia	80.85

Source: WEF, Human Capital Report. (2016)

In the values of the Human Capital Index calculated for the age group of 56-64, the first five countries are as follows; Japan, New Zealand, Norway, Sweden and Canada. The 15th is Australia. Accordingly, Azerbaijan is ranked 24th in this category with 78.85 scores.

Table 7. Top 15 Countries in terms of Human Capital Index of the 65 and over age group for 2016

Number	Countries	Score
1	Japan	75.61
2	Norway	74.53
3	New Zealand	74.07
4	Denmark	74.04
5	Armenia	74.01
6	Germany	73.54
7	Switzerland	73.28
8	Canada	73.05
9	Finland	72.95
10	Ukraine	72.21
11	Latvia	72.10
12	Austria	72.00
13	Estonia	71.77
14	Slovenia	71.39
15	Russian Federation	71.14

Source: WEF, Human Capital Report. (2016)

In the values of the Human Capital Index calculated for the age group of 56-64, the first five countries are as follows; Japan, Norway, New Zealand, Denmark and Armenia. The 15th is Russian Federation. Accordingly, Azerbaijan is ranked 50th in this category with 60.93 scores.

Table 8. Comparison of Azerbaijan's per capita GDP Data on Indicators of Selected Countries and Country Group.

Countries	Gross national income (GNI) per capita. (\$)
Azerbaijan	15,751
Turkey	23,500
Russian Federation	23,843
Kazakhstan	22,054
Kyrgyz Republic	3,113
Tajikistan	3,164
Estonia	27,645
Latvia	23,685
Lithuania	26,884
Ukraine	7,593
Belarus	15,765

Georgia	8,785
Armenia	8,350
Uzbekistan	6,135
Turkmenistan	14,890

Source: Human Development Report. (2016)

As can be seen from the table, Azerbaijan has a leading position in the Caucasus region. It lags behind only 6 countries on the same indicator. According to the table, average per capita income is 15,410 USA dollars. In this regard, per capita income in Azerbaijan is 2.2% higher than the average. According to the report, this figure is Kyrgyz Republic, with the lowest per capita income of \$ 3113.

Table 9: Azerbaijan's HDI trends based on consistent time series data and new goalposts

	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (2011 PPP\$)	HDI value
1995	65.3	10.0	10.2	3,387	0.612
2000	66.8	10.4	10.6	4,314	0.640
2005	68.8	10.7	10.7	6,940	0.679
2010	71.0	11.7	10.7	15,246	0.740
2015	71.9	12.7	10.7	16,334	0.758
2016	72.0	12.7	10.7	15,751	0.757
2017	72.1	12.7	10.7	15,600	0.757

Source: [http://hdr.undp.org/sites/all/themes/hdr\\_theme/country-notes/AZE.pdf](http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/AZE.pdf)

Azerbaijan's HDI value for 2017 is 0.757— which put the country in the high human development category—positioning it at 80 out of 189 countries and territories. The rank is shared with Lebanon and The former Yugoslav Republic of Macedonia. Between 1995 and 2017, Azerbaijan's HDI value increased from 0.612 to 0.757, an increase of 23.7 percent. Table A reviews Azerbaijan's progress in each of the HDI indicators. Between 1990 and 2017, Azerbaijan's life expectancy at birth increased by 7.3 years, mean years of schooling increased by 0.5 years and expected years of schooling increased by 2.0 years. Azerbaijan's GNI per capita increased by about 79.2 percent between 1990 and 2017.

Table 10: Human Development Index for Azerbaijan

Years	Health index	Education Index	HDI
1995	0.696	0.618	0.612
2000	0.719	0.640	0.640
2005	0.750	0.652	0.679
2010	0.784	0.681	0.740
2011	0.789	0.684	0.741
2012	0.792	0.689	0.745

2013	0.795	0.698	0.752
2014	0.797	0.709	0.758
2015	0.799	0.709	0.758
2016	0.800	0.709	0.757
2017	0.802	0.709	0.757

Source: Human Development Reports.

The development of human capital index of Azerbaijan is examined in Table 10, the respectively, there is a 1.2-fold increase in education and health indices, and a 23.7% increase in the HDI.

According to the World Bank report, Azerbaijan's Human Capital Index rose from 0.56 to 0.60 from 2012 to 2017. Azerbaijan's Human Capital Index in 2017 was lower than the average figure of regional countries, but was slightly higher than the average figure of countries with similar income. According to the report, if children born in Azerbaijan today benefit from full education and full health, 60 per cent will be productive and 98 out of every 100 children will be able to live to be 5. A 4-year-old child in Azerbaijan can complete an average of 11.6 years of education by the age of 18. Children in Azerbaijan are expected to complete 11.6 years of pre-school, primary, secondary and full secondary education by 18. However, when the school education process is adapted to the quality of learning, it is only 8.8 years. According to the report, 2.8 years are missing in learning. The assessment of pupils' learning quality is slightly below average in Azerbaijan. According to the Human Capital Index, pupils' learning quality was rated at 472 points. Boys were rated at 466 points and girls at 479 points for the quality of education they receive here. It should be noted that in this scale, 625 indicates the highest achievement and 300 - the minimum achievement. As for the longevity of people, 87% of 15-year-olds in Azerbaijan will live to be 60. This figure is 83% for boys and 92% for girls. The statistics shown are the means of evaluating the lethal and non-lethal health effects if a child born today ages in the current conditions. Moreover, the Human Capital Index shows that 18 out of every 100 children born in Azerbaijan are short and are at risk of mental and physical restraint, which may continue throughout their lifetime.

## 5 Conclusion

The most important difference between developed and underdeveloped countries is the level of economic development. The biggest obstacle to the development of underdeveloped countries is low education level, lack of health conditions and brain drain. These factors prevent the accumulation of human capital in underdeveloped countries and cause waste of resources in the country. In societies with healthy individuals, the production of information and the effective use of information increases the level of economic development with a high level of education. The high level of knowledge and skills of labor force increases productivity while accelerating technological development and this increases factor productivity. Therefore, human capital plays the most important role in economic development. Review of Azerbaijan's human capital index is very low as a result of the scope of the Europe and Central Asia. 37 out of 43 countries. Nevertheless, Azerbaijan has a leading position in

the Caucasus in terms of per capita income. Thus, per capita income in Azerbaijan is \$ 15,751, almost twice as high as in Georgia and Armenia.

This study examined the relationship between economic development and human capital in Azerbaijan. According to the World Bank report, Azerbaijan's Human Capital Index rose from 0.56 to 0.60 from 2012 to 2017. Although, Azerbaijan's HDI value for 2017 is 0.757— which put the country in the high human development category—positioning it at 80 out of 189 countries and territories. In Azerbaijan, economic development, human capital affects positively. Economic development leads to positive changes in human capital in the short and long term. Human capital has a positive impact on economic development in the long run. Human capital plays an important role in the long-term development of society. Increasing the perception of education and health of the society gives the country an advantage in achieving development goals. However, the stability of economic development will also have a positive impact on human capital.

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# Social Stock Exchange between academics and practitioners' view

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## Abstract

This paper aims to investigate social stock exchange (SSE) as an alternative market considering both academics and practitioners' view. SSE is a platform typically used by social entrepreneurs to collect financial resources for measurable social or environmental projects. Through the analysis of 12 scientific papers and 132 documents, websites, blogs and titles reviewed by experts, the authors identify the main themes strictly connected to SSE. Notably, based on the previous gap analysis, this paper reveals definitions and tools which social stock exchange could address. Despite the potential importance of this alternative market, the study shows few SSEs. The discussion between academics and practitioners shows interest by social entrepreneurs in this investment vehicle, considering the debate under the accreditation and sectors. Thus, the paper contributes theoretically and practically to the primary literature providing to overcome the lack of evidence on SSE. This article concludes its journey suggesting a structured future research agenda.

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**Keywords:** social stock exchange, social enterprises, impact investing, academics, practitioners

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## 1. Introduction

Social enterprises aim to deal, primarily, with social and environmental issues, seeking to improve the quality of life of society or groups of people (Doherty et al., 2014; Secinaro et al., 2019). As defined by Bugg-Levine et al. (2012) in the Harvard Business Review, an increasing number of entrepreneurs and investors believe that social enterprises can generate attractive financial returns. Therefore, the central role is assigned to the social entrepreneur, a direct link to attract financial capital on a large scale to carry out projects with positive social and environmental externalities (Colasanti et al., 2020; McWade, 2012).

According to Mendell & Nogales (2009), social entrepreneurs seeking investment are confronted with outdated categories and schemes (e.g. the demand for more bank guarantees). Therefore, as indicated by the same authors, a cultural adaptation is needed first of all of the financial communities and then of the legal, accounting and political communities at both national and international level. Therefore, over the years, alternative financial institutions such as social stock exchange (SSE) have emerged (Galina et al., 2013; Wendt, 2017). These institutions stand alongside social enterprises, to seek capital to finance their activities and investors who are willing to invest their money in projects with social and environmental outputs (Calderini et al., 2018). Besides, through the exchange of securities in specially created institutions, it is possible to maximise the social value of investments compared to private profit (Pavlov, 2017). However, as pointed out by many authors, there is not yet a full consensus in the literature on the infrastructures, definitions and tools that SSE can provide for entrepreneurs (Mendell & Nogales, 2009; Pavlov, 2017; Secinaro et al., 2019). Although a nascent stream of literature is actively focusing on social social



stock exchanges, at the moment, this area of research does not present a systematisation and comparison between what academics say and what professionals need.

Therefore, starting from this research issue, the paper will aim to understand and systematise the concept of the social stock exchange in theory and practice.

In particular, researchers using a qualitative methodology of analysis will proceed to classify and extract, through academic and professional databases, information on the field of research investigated.

The results obtained demonstrate some interesting elements. First, the definition of SSE is still to be finalised. Although there is agreement on the first version, deepening the analysis, it is possible to realise how many descriptions are present today. This substantial uncertainty in the literature is partly due to the situation of uncertainty, also at the level of professionals concerning SSEs around the world. The original plans for the constitution of the SSE have undergone variations due to the lack of interest on the part of the stakeholders involved in the use of the instrument. In other cases, there is evidence of platforms that are not active. It shows uncertainty and lack of clarity on the use of SSE definition, already "in the shadows" compared to the traditional stock exchange market.

Nevertheless, there are some successful cases in the world and this is driving the development of new platforms dedicated to impacting investing. Secondly, content's speaking, the initial discussion of the professionals is based on being able to define standards for the operation of these platforms. That is to say, specify whom they are designed for, what are the entry requirements, what is the necessary documentation to submit in order to obtain accreditation and then maintain membership.

At the level of practical results, the paper investigate the concept of social stock exchange analysing the most critical and successful models in the world such as the Impact Investment Network (U.K.), the Impact Investment Exchange (Singapore) and the Bolsa Social (Spain).

The paper aims to contribute to the emerging literature on social stock exchanges and, more widely, to the tools that social entrepreneurs can use in their activities.

The rest of the paper is organised as followed. The next paragraph will assess an in-depth literature review on the role of social enterprises and the need for SSE. The third paragraph will analyse the method adopted by the researchers. Additionally, the fourth paragraph will assess the main results for practitioners and academics. Finally, the last section will discuss and conclude the paper.

## 2. Literature review

### 2.1 Social enterprises and the need for Social Stock Exchange

According to Battilana & Lee (2014), the theory of organisation has evolved by considering social enterprises (S.E.s) as a particular form of hybrid organisation. According to the analysis of the literature published in the Academy of Management, these enterprises combine both business and charitable organisational aspects. Besides, these organisations often host projects of high social value (Battilana & Lee, 2014; Galaskiewicz & Barringer, 2012). For instance, these organisations could host microfinance organisations, sustainable food producers, labour companies and any other project of public importance. (Biancone et al., 2020; Dart, 2004; Dees, 2018; Mair, 2010; Mauksch et al., 2017; Steiner, 2016).

Additionally, S.E.s have been viewed as an innovative, and increasingly global, solution to bridge the service delivery gap of governments (Agapitova et al., 2017). In a world filled with poverty, environmental degradation, and moral injustice, social enterprises offer a ray of hope. These organisations seek to achieve social missions through business ventures (Smith et al., 2013). Attracting investments seems to be one of the main problems of social entrepreneurs. At the same time, some investors are ready to invest their money, but they do need guarantees and want to be sure in economic and social effects of social enterprises (Boguslavskaya & Demushkina, 2013). That is why social stock exchanges appeared.

SSE serves as a mediator between social enterprises, that need funding, and investors who are willing to invest their money (Boguslavskaya & Demushkina, 2013; Pavlov, 2017). The history of SSE is not longer than 15 years; it is a new social and economic phenomenon which is rapidly developing around the world. These are platforms dedicated exclusively to organisations with a social mission & vision. According to Boguslavskaya & Demushkina (2013), Pavlov (2017) and (2019), SSEs create multiple advantages either for investors or for social enterprises and the community. The same authors state that benefits designed for investors include: make the procedure of social-enterprise investment simpler (1), increase the

transparency of social projects (2), help to save time and cost of project searching (3), reduce the financial and administrative expenses (4), provide objective information about social projects placed on the exchange (5), increase the social value of investments (6), enable to obtain not only the financial but also the social impact of investment (7).

Additionally, they specified some advantages that SSEs generate for social enterprises: create the opportunity to get investment (1), ensure stable functioning of the organisation (2), raise the value of their social activities (3), help to grow the company's value (4), increase company's recognisability and rating (5).

The introduction of social stock exchanges would contribute to balancing the different interests of the subjects involved in the exchange, bringing them closer to those of the community. At the same time, it would give the possibility for the third sector to plan their activities carefully and to ration the available resources in a long-term perspective.

Investing ethically means using and managing its financial resources to promote the development of projects or work of an ethical and social nature (Sparkes, 2001). SSE investors are often driven by a goal that exceeds mere profit maximisation (Battilana & Lee, 2014; Mendell & Nogales, 2009). They are prepared to sacrifice part of their profit to fund organisations working for the community.

In conclusion, SSE can connect two worlds, finance and ethics, that always have been antithetical and meet the expectations of different stakeholders involved in Wendt (2017).

### 3. Methodology

#### 3.1 Review of scientific literature and practitioners' view

To answer the research question, the researchers used the literature analysis approach. In particular, the method, applied rigorously, makes it possible to investigate the primary scientific studies on specific topics (Paul & Criado, 2020). Therefore, the methodology used makes it possible to report all the research phases and to easily allow the analysis in different areas (Massaro et al., 2016).

The analysis was implemented using as keywords "Social Stock Exchange" following the objective of the article. Among the search criteria, we focused on English items that were inherent to the searched object. The authors used Scopus and Google Scholar as databases. Although in the social sciences Scopus returns a convincing result (Falagas et al., 2007; Mongeon & Paul-Hus, 2016), the reduced number of articles have prompted researchers to continue the analysis also on Google Scholar for a more accurate study of the topic.

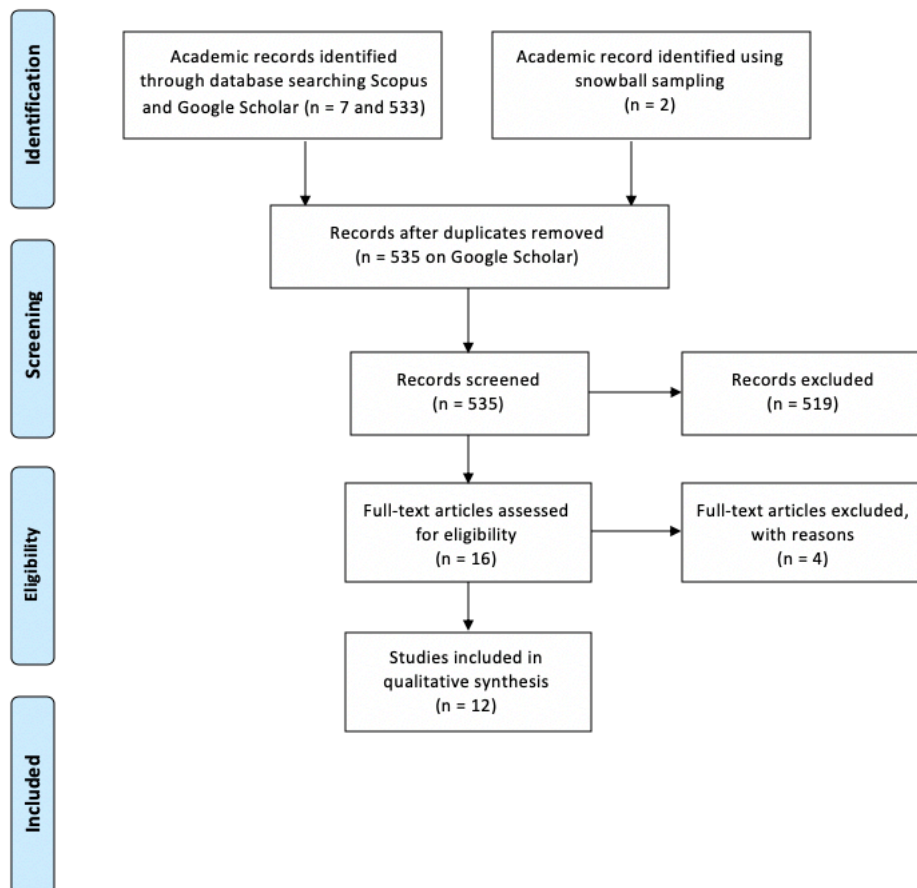
After an initial selection phase using databases, the researchers went on to consult the references of the articles found (i.e. snowball sampling) to increase further the sample being studied (Biancone et al., 2019; Lecy & Beatty, 2012). Further, the following search criteria were used: availability of the full text of the article (also by request to the author) (1), studies dealing with common stock exchange issues (2).

Moreover, to verify the opinions and practices of professionals, researchers used a measurement technique based on electronic periodicals, expertly revised titles, consumer magazines, newspapers, news and blogs (Dal Mas et al., 2019; Massaro et al., 2018). Therefore, Ulrichsweb has been used to explore all data related to professionals (Meeks, 2018).

As soon as the scientific and academic sample was available, all authors independently developed the analysis by reading the titles and abstracts of both datasets. Subsequently, through opinion sharing and conflict resolution, the researchers came up with a final sample of study (Lecy & Beatty, 2012).

The results and method benefited from the PRISMA approach for the classification of results (Liberati et al., 2009). Figure 1 shows the research steps and the number of scientific articles that have been selected for the construction of the academic sample.

**Figure 1.** The PRISMA flow



Source: Authors' elaboration on Liberati et al. (2009)

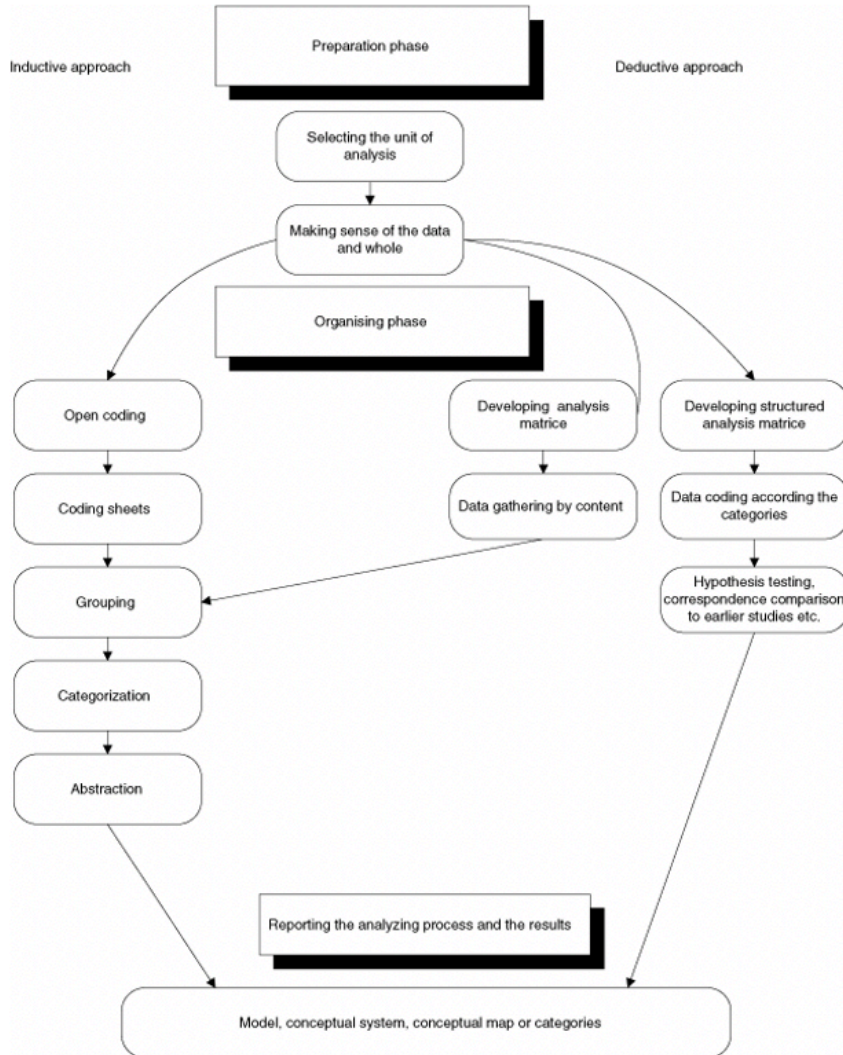
For the selection of professional contributions, the researchers used the filter "reviewed by experts". Compared to primary research with 7,728 results, the application of the screen allowed evaluating 1,637 results validated by experts in the field. After a careful selection, the researchers reached a final professional sample of 132 documents, websites, blogs and titles reviewed by experts.

### 3.2 Content analysis

Subsequently, after obtaining the results, the researchers carried out the independent content analysis. The objective of this method is to provide a reading of the content of the elements by creating cognitive patterns (see categories) that allow the reader to visualise the items in a research flow (Flick et al., 2004). According to Elo & Kyngäs (2008), content analysis can be inductive or deductive. In this case, the study uses a deductive method based on three phases: preparation, organisation, concluding remarks.

The first step was the reading of academic and professional contributions. Through the organisation phase, researchers built a matrix to test the paper's research question by identifying reading codes derived from the literature (Dal Mas et al., 2019; Secinaro et al., 2019). The third step made it possible to validate and conclude the article. Figure 2 shows the steps used for the analysis of social stock exchanges.

**Figure 2.** The qualitative process of content analysis



Source: (Elo & Kyngäs, 2008)

#### 4. Results

The following sub-paragraphs aim to specify the academic and practical results identified by the researchers. The variables under observation are definition (1), accreditation process (2), areas of activity of accredited members (3).

## 4.1. Practitioners' view on the Social Stock Exchange

The first variable under observation is the definition of social stock exchange according to the three models. Analysing this variable, we want to highlight the functioning of the platforms to understand how the founders conceived them. We also want to go deeper into what is the mission and vision that they pursue.

Regarding the U.K. platform of the Impact Investment Network (IIN), it is a network of companies and investors pursuing a social purpose. The IIN is the first U.K. organisation authorised to distribute the social stock exchange brand and its accreditation methodology.

The IIN aims to support companies, that join the network, to grow ethically and sustainably. Once they have obtained accreditation to the system, companies have the opportunity to receive investments from the platform's partners; this can represent an essential boost for the development of projects with a high social impact.

Moreover, thanks to the partnership between IIN and NEX Exchange, by joining the network companies can be listed on the segment of London Stock Exchange (LSE) dedicated to organisations with high social impact, the NEX Exchange.

Analysing the Singapore Stock Exchange model, called Impact Investment Exchange (IIX), first of all is necessary to highlight that it is a platform dedicated to social organisations. The initial press release indicates the date of conception, 2009. It was ideated to create more sustainable finance that takes a greater interest in socio-environmental issues.

However, as can be seen from the analysis of specialist news, in practice it is an investment platform dedicated to organisations with a high social and environmental value; it helps them to obtain funding thanks to the network of over 1,000 investors with a social impact purpose.

To date, the IIX platform includes a specific section called Impact Partners, which represents the first point of encounter and contact between social impact companies and investors. It is a social crowdfunding platform, which was launched in 2011 and aimed to facilitate investments in social enterprises. Basically, the Impact Partners platform should help potential investors to identify, assess and invest in social and environmental projects.

The analysis of the results of the professionals has made possible, as well, to find out more about the social stock exchange in Spain. Bolsa Social was born in 2014 and this is the first Spanish crowdfunding platform dedicated to investors and companies with high social and environmental value. Bolsa Social's mission is to finance companies that have growth potential and generate a positive impact on society and the environment.

The second variable under observation is the accreditation process that an organisation must follow in order to access to each platform.

Concerning social stock exchange in the U.K., the selection process starts directly on the IIN website by filling in a form in which the companies insert general data of their organisation.

The company will also have to demonstrate how its activities generate a positive and tangible social impact on the environment and the territory. If it meets this requirement, the organisation will be contacted by the IIN Business Development Team to discuss the objectives that the company intends to achieve through its impact activities. The team will also support the company and will help it to prepare the application. Among the mandatory documents to be submitted there is the impact report; it is a document in which the company declares its social, ethical and environmental commitment.

Finally, it will have to prove to be an economically/financially solid organisation with good growth prospects. Applications will be submitted to the Impact Admissions Panel; this is an institution composed of experts in social investment and impact reporting that has the task of assessing the suitability of candidates. If the application is successful, the company will obtain the accreditation to the platform.

Given the nature of the platform, each year, companies accredited to the IIN must submit an impact report demonstrating their social commitment (otherwise they will be excluded from the platform).

Analysing the Impact Investment Exchange and Impact Partners in Singapore, organisations that want to become members must comply with the following criteria: core business criteria (1), investment readiness criteria (2). Concerning the first criterion to be met, candidate companies must demonstrate that they are economically/financially solid and pursue a social mission. The second criterion requires the presentation of a business plan in which the company defines its strategic objectives and how it intends to create a positive and tangible social impact through its activities. This document must be accompanied by financial data (historical and prospective) that demonstrate the financial situation of the company. Also, in the case of the IIX, the candidate companies must submit their impact report.

As regards the process that a company must follow to become an accredited member, it consists of a series of steps that can be summarised as follows. First, the candidate will have to fill in an online form in which provides information about the company and details of the investment required. Then there will be a screening process in order to evaluate the suitability of the candidate with the platform's mission.

If the company pass this initial selection step, will be accepted as an accredited member. The Impact Partners team will prepare a technical description sheet of the company and its social project (which will then be visible to investors). The Impact Partners team will also facilitate matching between the accredited company and potential social investors.

Finally, analysing the case of the Bolsa Social, it is necessary to specify that can submit the applications only organisations that pursue a social mission/vision (for this reason is mandatory to present the impact report as a guarantee). Besides, is fundamental being an economically/financially solid organisation with good growth prospects.

As regards the process that a company must follow to access to Bolsa Social, it consists of a series of steps that can be summarised as follows. The selection process starts by filling in an online form in which the company presents to the Bolsa Social team, detailed information about its company, its business model and its current and prospective financial situation. Bolsa Social will carry out a screening of the applications received.

Once the selection process is over, the investment campaign will begin. Each company sets itself a minimum and maximum capital target that it wants to achieve through the investment. The Bolsa Social team will publish detailed information about the company and the investment project on a dedicated page. Bolsa Social will also organise dedicated events to promote contacts between investors and companies. Investors will be entitled to participate in the development of the project in which they have invested. They will also receive detailed information about the progress of the work.

Finally, the third variable analysed is related to the sectors of activity of accredited members on social stock exchanges.

Regarding the IIN platform, it is possible to divide the accredited organisations into the following clusters of activities: reduction of harmful emissions, energy efficiency and recycling (1), consultancy/service delivery for social organisations (2), healthcare, social services, services for people with disabilities or dysfunctionality (3), innovative technologies serving the community (4), eco-homes and home repair (5), sustainable mobility (6).

Analysing the case of IIX and Impact Partners platform, the accredited members are organisations belonging to the following areas of activity: industrial and rural development (1), innovative technologies serving the community (2), recycling and energy efficiency (3), social inclusion and services for people with low income or disabilities (4), education (5).

In the case of Bolsa Social, the accredited organisations are active in the following sectors: services for people with disabilities or dysfunctionality (1), sustainable fashion (2), social inclusion (3), sustainable mobility (4), industrial and rural development (5), eco-homes (6), innovative technologies serving the community (7), production, responsible consumption and recycling (8).

Table 1 shows the practitioners' view by illustrating the results obtained from the study of the three variables considered.

**Table 1.** Practitioners' view

Definition	<ul style="list-style-type: none"> <li>• The meeting point between companies with a social impact and investors</li> <li>• Platforms dedicated to companies with a social mission and the promotion of their impact activities</li> <li>• Securities trading and exchange platforms and social crowdfunding</li> </ul>
Accreditation process	Organisations of different types and sizes may apply. A fundamental requirement is to be a solid organisation from an economic/financial point of view, with good growth prospects, and to have a social mission/vision. Accredited members will obtain investments and will have to demonstrate how they can generate a positive and tangible



social impact on the environment and the community.

Areas of activity of accredited members

- Health;
- Sustainable mobility;
- Energy efficiency and recycling;
- Education;
- Innovative technologies at the service of the community;
- Tourism and sustainable fashion;
- Industrial and rural development;
- Social integration.

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*Source: Authors' elaboration*

#### 4.2. Academics' view on the Social Stock Exchange

Regarding the first variable, definition, according to (Wendt, 2017), social stock exchange allows the democratisation of capital. In fact, social stock exchange can be defined as a meeting point between investors and social organisations (Wendt, 2017). Social Stock Exchanges promote the impact investing and give the possibility to social enterprises to pursue their social objective. According to the author, impact investing could be defined as a process by which investment managers screen, evaluate and monitor investments using Environmental and Social Governance.

As stated by Bernardino et al. (2016) and Moritz & Block (2016), these platforms are similar to a social crowdfunding model. Crowdfunding can support entrepreneurs for financing their projects; there are several motivations to choose these platforms. The most relevant is obviously to receive funding from the donors to attenuate a particular problem by displaying the main characteristics of the projects and the managerial structural schemes of support (such as a social organisation) for efficiency and sustainability (Belleflamme et al., 2014; Bernardino et al., 2016). As stated by Bernardino et al. (2016) and Moritz & Block (2016), projects with a social or nonprofit oriented background have a higher probability of receiving funding from the crowdfunding.

Following Dadush (2015), social stock exchanges should be platforms designed to connect investors with social businesses in need of capital. SSE serves as a mediator between social enterprises that need funding and investors who are willing to invest their money.

Adhana (2020) defined social stock exchange as a platform on which social enterprises, volunteer groups and welfare organisations are listed so that they can raise capital for the welfare of the society and the disadvantaged. SSE allows investors to buy shares in social enterprises vetted by an official exchange. These platforms would be created to serve the community, generating source from society and giving back to society in the form of welfare, upliftment through providing high infrastructures like roads, schools, hospitals.

Analysing the second variable, accreditation process, according to (Chaturvedi et al., 2019) only social enterprises that have a track record of achieving measurable positive social and environmental impact are listed on the SSE. To be accepted on SSE, organisations need to comply impact and financial requirements. Impact requirements relate to the preparation of an impact report for at least a year by the listing entity, obtaining an impact certification by an independent body at least a year prior to listing and ensuring the primacy of social/environmental mission. Financial requirements would include meeting a minimum market capitalisation amount, publishing financial statements that meet specific specified standards at least a year before listing and demonstrating a financially sustainable business model (Chaturvedi et al., 2019).

Also, Dadush (2015) stated that social stock exchanges need to fix specific admissions criteria for social businesses wishing to transact on their platform. Establishing requirements with which accredited members must comply to obtain and maintain their memberships, such as the production of financial and social reports. Is fundamental that companies must have "social or environmental impact as a core aim". To satisfy this requirement, companies must submit a Social Impact Report for review by the independent Admissions Panel composed of finance and impact-investing experts

Concerning the third variable under investigation, areas of activity of accredited members, as mentioned by Pavlov (2017) accredited members, on platforms, have to be social organisations that pursue a social mission & vision. This means they have social ends (primary goal) which generate revenues (secondary purpose) from their activity, like mainstream businesses, and they reinvest them internally to grow as firms, reaching more people in need.

These organisations are operating in different areas of business, but they must pursue a social objective (Bernardino & Freitas Santos, 2016).

Analysing more specifically the sector of activities of social enterprises, on social stock exchanges, we can find different areas, such as food, security and agriculture (1), small business development (2), animal protection (3), education and health (4), environment and conservation (5), sustainable mobility (6), vulnerable people (7) (Bandini, 2014; Chaturvedi et al., 2019).

Table 2 shows the academics' view by illustrating the results obtained from the study of the three variables considered.

**Table 2.** Academics' view

Definition	<ul style="list-style-type: none"> <li>• The democratisation of capital (Wendt, 2017)</li> <li>• Social crowdfunding (Bernardino et al., 2016; Moritz &amp; Block, 2016)</li> <li>• Platform designed to connect investors with social businesses in need of capital (Dadush, 2015)</li> <li>• The platform which allows investors to buy shares in social enterprises vetted by an official exchange (Adhana, 2020)</li> </ul>
Accreditation process	<ul style="list-style-type: none"> <li>• Accreditation rules: impact and financial requirements (Chaturvedi et al., 2019)</li> <li>• Admissions criteria and requirements (Dadush, 2015)</li> </ul>
Areas of activity of accredited members	<ul style="list-style-type: none"> <li>• Social mission &amp; vision (Pavlov, 2017)</li> <li>• Social objective (Bernardino &amp; Freitas Santos, 2016)</li> <li>• The sector of activities of social enterprises on the Social Stock Exchange (Bandini, 2014; Chaturvedi et al., 2019)</li> </ul>

*Source: Authors' elaboration*

## 5. Discussion and Conclusion

The analysis of the literature of academics and professionals has made it possible to put together two visions into a single paper. This approach, according to Romme et al. (2015), facilitates the dialogue between what is present in practice and what is studied by academics. Mutual knowledge and common interest should facilitate the exchange of vision and contact between both realities. The paper is a connecting point by analysing the definitions, the process and the primary sectors.

The analysis of the results poses some interesting reflections.

First, despite the terminology, to date, social stock exchanges seem to be more similar to social crowdfunding platforms than real stock exchanges dedicated to buying and selling securities. The reference literature also confirms this with the contribution of Bernardino et al. (2016). According to several experts, this is a necessary evolution of the instrument, in fact, in some cases, the original project, related to the creation of social stock exchanges, didn't meet the interests of investors and social organisations. This reflection, therefore, opens the way for further research into why this model has not developed as much as the traditional market. Additional research by academics on this point could be directed to the models we map in the analysis of the case studies and the variables that constitute them. Also, a summary of the business models used could be beneficial to



the creation of future models. Finally, further research could be addressed in a comparison between social crowdfunding and social stock exchanges to investigate why the first one is more of interest to stakeholders.

Another significant result obtained concerns the terminology used. The analysis among practitioners and academics showed that the professional world had devoted more interest to SSE than academics. As reported by Romme et al. (2015), this may be due to the difference in benefits and the immediate need of practitioners to provide solutions to a practical problem. Furthermore, the comparison between the two visions leads to the conclusion that SSE is still too little known and exploited below their potential. Also, on this point, further research elements can be followed in the future. First, researchers through specific theoretical frameworks such as stakeholder theory could verify the feasibility of the model. Besides, further research could be repeated to see if there is an evolution of the terminology used today in the future. Finally, the analysis of the academic and professional vision poses some points for reflection. The number of scientific contributions identified makes the SSE a new tool that has been used less and less by entrepreneurs at the moment.

Moreover, the market is still not aware of its potential. Also, there is the difficulty of intercepting the social investor, which is more easily reached through crowdfunding tools (Moritz & Block, 2016). Finally, researchers indicate a strong information asymmetry on the use of SSEs, as well as the presence of a few companies accredited to the social network, can list within a segment dedicated to social. Therefore, future studies may also focus on the legal and political aspects of SSE.

We believe that these elements can be developed in future studies to understand whether the instrument can also be relaunched by companies that own conventional stock exchanges.

For the best of our knowledge, the paper contributes to the literature of the tools available to social entrepreneurs and provides an analysis of the research for SSE (Adhana, 2020; Chaturvedi et al., 2019; Pavlov, 2019).

Also, through the investigation of professionals, the paper highlights future challenges that professionals could solve to make SSEs platforms more attractive to investors and social enterprises.

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# Assessment of Women Empowerment of Hindu Religion: Case of Rural Bangladesh

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## Abstract

Women empowerment and equality are the concerning issue all over the world. The aim of this paper is to identify the real condition of Hindu women in society according to their religion. Qualitative approach focusing case study has been conducted in Koil village under Bogura district of Bangladesh. An attempt has been made in this study to highlight on the nature of Hindu women's rights to inheritance. Hindu women face various difficulties in their way of life since traditional values are deeply rooted in their life. This study reveals that Hindu women are deprived from their rights due to traditional social culture, ignorance, unawareness, and unemployment. Government should consider this issue with the view that they are a significant part of population; hence a duty of care and essential obligation must be there.

Keywords: *constitutional right, women empowerment, poverty, inequality, inheritance*

## 1. Introduction

Hindu women's life is bounded by their religious norms and traditional systems. Most of the respondents knew about the inheritance rights but they cannot and do not claim for it. They are depended on their family and especially husband (Jinnah, 2013). Hindu women in Koil village go through their general understanding of inheritance system. In spite of having some knowledge of rights, they do not claim (Agarwal, 2009). They think that their present situation is pleasant enough to lead their life that's why rarely they raise their voice against any injustices done to them (Zahur, 2016). They are peace loving women and they want to be so without conflicting with the traditional rules (Sarker & Jie, 2017). Whatever happens to them, they consider it natural. Dowry given to daughters during marriage is considered their custom and it has become natural to them. They cannot think of their daughter's marriage without dowry. Their perception of traditional inheritance system has

deep roots to their socialization process (Sarker, 2019c). They consider their traditional inheritance system as customary laws and it cannot be denied or changed so easily (Sarker & Sultana, 2017).

It was found that there is middle class value among the respondents and they know about the inheritance system but do not implement the rights (Sarker, Bingxin, Sultana, & Prodhan, 2017). Middle class family gives emphasize on cultural norms and Hindu women in Koil village do it as well (Dejaeghere & Lee, 2011). They are concerned about their traditional rules and they think constitutional rights should be applied but none is concerned enough to take initiatives. Patriarchal structure is dominant in Hindu society and patriarchal domination keeps Hindu women silent and they do not claim for their equal rights (Sarker, 2016). If they do, they think they can hardly achieve their rights. Moni and Sumaiya (2013) argues that Hindu women face more discrimination than men because of three unequal treatments: as member of a patriarchal society, as member of a patriarchal family and as a member of a patriarchal nationality (Sarker, Ali, & Islam, 2015). They also state that besides constitutional denial, minority women are also deprived of beneficial personal laws. Hindu women do not get any right from their customary law; rather they suffer from discrimination (Adams, 2015).

Women had no right in ancestral property and married women had no right in father's property or on dwelling home. In case of property rights of women, laws were biased towards men. There was no equal treatment or equal distribution of property to females. They were just mere survivors. Bangladesh has always been a male dominant country where rights of women have been neglected. Along with these lines, Hindu women in Koil village do not claim for their rights to inheritance for several reasons. Therefore, this study is intended to identify the empowerment of Hindu women.

## 2. Methodology

### 2.1 Research design

Qualitative method has been adopted for exploring in-depth discussion about the topic. We used qualitative methodology because we want to interpret the topic in-depth. Moreover, we wanted to see the social condition from respondent's perspectives.

### 2.2 Data collection

Our study site is a village named Koil in Bogra district in Bangladesh. To conduct my research, we need details information about my topic. We think I will get details information easily since all of my participants were villagers of my own area and they will help me a lot. The study population of my research is married women of Koil village in Bogra district. It is not possible for me to collect information from the entire married female of Koil village. That's why sampling is inevitable. We used convenience sampling under non-probability sampling to get details information about my topic. The sample size was 16. To collect the data we used mobile recorder, paper and pen. Semi structured interview schedule was followed to collect data. Data collection is an important part of research. Since this research is based on qualitative method, interview method was selected for data collection. Within interview method, semi-structured interview was applied for data collection. Along with interview, direct observation was also applied.

### 2.3 Data processing and analysis

We collected information in Bengali language for the convenience of my respondents. We recorded the data on my mobile and for my academic purposes, we transcribed those data. Then we translated them in English language. We read these translations again and again and tried to make summary of the writings. Then data has been analyzed according to objectives.

### 2.4 Afraid of breaking relationship

Women want to own land but they do not want to inherit it because women who state that they do not wish to inherit land are primarily afraid of straining relationships with their families or being rejected by their communities. In the absence of a will, when the Hindu Succession Amendment Act is applicable, women are generally forced to give up their share in favor of their brothers for various reasons (Sarker, Wu, & Hossin, 2019). One of the main reasons is the fear of breaking familial bonds. Mahmud et al. (2012) states that women often have to forgo their claims with regard to agricultural land to ensure the support of their natal family in case they encounter marital problems or their marriages breakup, even though such support may not actually materialize.



Kalpna Karmakar (25) argued that “if they claim for their rights, their brothers misbehave with them and do not want to give them any share.”

### 2.5 Dowry

Hindu women do not claim for their property rights since they are given with bequest during their marriage. In many cases, parents sell their daughter’s share of property to provide marital cost. That’s why women do not claim for their rights. Singh K, (2012) reported that there exists the customary and traditional belief that after marriage a girl belongs to her husband’s family and not to her natal family (Nasrin, Sarker, & Huda, 2019).

Namita karmakar (35) argued that “Hindu groom’s family owns 8 -9 lakh TK. during marriage and bride’s family provides it that’s why I want to distribute property in accordance with traditional system. In many cases bride’s family spend 2 bigha lands for daughter’s marriage and in such case, it is valueless to demand for further property rights. If my daughter gets married without such bequest or dowry then I could think of giving her a share of property.” She further told that since daughters are provided with bequest, boys should have more share of property and hence she does not accept equal rights for property.

### 2.6 Traditional systems

Hindu women do not claim for their equal rights since traditional system is deeply rooted in their society. It is not their tradition to claim for paternal property. Srimati Dulali karmakar (25) told that “Hindu women do not claim for their equal rights because of traditional system which is going on.”

Conversely, there are also some situations in which Hindu women claim for their rights. These are extreme cases in which Hindu women cannot but claim for their rights (Sarker, 2019b). In most of the cases, poverty forces Hindu women to claim for their rights (Patel, 2006). In case of abandonment of wife by their husband, Hindu women claim for their rights to inheritance. In this way, they want to secure their position in society and find a way of earning. Sonali Karmakar (26) wished to claim for her rights to inheritance because she is left in her father’s house and had to earn by her own to lead her life (Sarker et al., 2019). Namita Karmakar (35) told that many women claim for their equal rights if their economic condition of in law’s house is miserable. In this case, poverty is the main reason for claiming equal rights to inheritance rather than awareness.

Sonali Karmakar (26) faces problems since she is bound to live in her father’s house after marriage. She told that “if husband is addicted to drugs and do not work for family; Hindu women cannot do anything to survive and claim for their rights to inheritance.” In case of husband’s disability, Hindu women search for income and they think if they could have property from father, their life would have been different. In such cases, Hindu women claim for their rights. Rupali Karmakar (28) described her situation this way “Hindu women do not claim for their equal rights because of traditional system which is going on and if father had little property and husband is unable to work, Hindu women face severe problems. They cannot do anything to develop their condition.”

From these discussions, it is found that, Hindu women generally do not claim for their rights to inheritance because of traditional systems and even if they do, it is because of poverty or any other cause rather than their awareness about legal rights to inheritance (Sarker, Rahman, Cao, & Xu, 2019).

## 3. Problems faced by Hindu women for inheritance rights

Most of the Hindu women interviewed reported that they did not face any problems for rights to inheritance since they conformed to traditional system of inheritance. Although the traditional system of inheritance is itself a problem in present time, most of the respondent cannot recognize the situation (Sarker, Islam, Ali, et al., 2019). Due to lack of knowledge, Hindu women do not understand their problems rather they stick to old traditional system of inheritance. The ownership of property reduces women’s vulnerability to and enhances their ability to deal with the domestic violence (Guhathakurta, 2012).

In Sri Lanka, the study highlights notions of patriarchy and social norms that operate in the context of the Sri Lankan society, making women passive subjects to the violence inflicted on them. Lack of political will of the state government is clearly visible as there is hardly any pro-active effort on their part to enforce women’s right to inheritance and succession

(Khan, Sarker, Huda, Nurullah, & Zaman, 2018). In contrast, what is striking is that women universally expressed the desire to own land, implying that they fully recognize the value of land and property for their wellbeing. Their lack of action to claim is partly due to their ignorance of law, but more importantly perhaps out of their belief in the same patriarchal practices and lack of social support system that is needed in order to help them come forward (Rahman et al., 2018). Barriers that women face in inheriting land and property are: gender discriminatory practices such as dowry being considered a ‘one time settlement’ to women; insufficient knowledge of the Hindu Succession Act and its 2005 amendment; women’s reluctance to enforce their land ownership rights; and, lack of proactive implementation of the law by revenue department officers who tended to follow the department requirements which were not necessarily in compliance with the provisions of the Hindu Succession Amendment Act 2005.

Lack of assets enhances vulnerability and poverty and those women who do not own any assets are subject to violence, threats of violence and allocation inequalities within the household. In contrast, those who owned both land and house reported considerably less violence. The study found that one respondent named Sonali Karmakar (26) was bound to abandon her husband since he was addicted to drugs. In this case, that Hindu woman has no other source of earning and survives by tailor. She leads a miserable life and wished to have rights to inheritance. In another case Sondha Rani Karmakar (42), reported that her father had huge number of property and she did not get anything. This woman had to take care for her father but could not achieve anything. She also wished for equal rights to inheritance since daughters do care for their parents. Kalpana Karmakar (26) also reported of having possibility of misbehave if Hindu women claim for their rights. Since traditional systems are deeply rooted in Hindu women’s life, they cannot but face problem.

### 3.1 Rights of Hindu women and application of rights

It was found that there is positive co-relation between the educational level and Hindu women’s understanding of the rights to inheritance. The study indicates that the higher the educational level, the better the knowledge and understanding of inheritance rights. Women aged between 25-40 were more likely educated than those of older women. Literate women were more likely to be aware of their rights and wanted to distribute property equally (Sarker, Wu, Shouse, & Ma, 2019). Hindu women generally do not claim for their rights to inheritance. Most of the respondents recognized their rights to inheritance but cannot claim for it. Hindu women have to be pleased with what they were given during their marriage. If Hindu women claim for their inheritance rights, they cannot achieve it because of their traditional system of inheritance (Schuler, Lenzi, Badal, & Nazneen, 2018). Many women argued that Hindu women do not claim for their rights but they should. Rights to inheritance are granted by the constitution but it is not socially approved in Hindu society. As Surochi Karmakar (35) quoted that “They have to be pleased with the inheritance system that is going on because if they claim for their rights, they do not get anything. They are bound to accept the traditional inheritance system”. Srimati Adori Rani karmakar (26) argued in the same manner that “Constitutional rights do not get that much importance in Hindu society and that’s why women cannot demand for their rights to inheritance.” Although most of the respondents favor constitutional rights to inheritance, they do so because constitution is also undeniable and as government has granted it, they accept it. Srimati Adori Rani Karmakar (26) further argued that “constitutional rights to inheritance as granted by government is also important and cannot be denied.” This statement also indicates that in many cases, Hindu women are bound to accept constitutional rights although it contrasts to their traditional systems.

In this case, their roots stick to the traditional understanding of inheritance system. Although many women wanted to distribute their property equally, it is a debate that how much effective their action will be. Since traditional rules have become deeply rooted to Hindu women’s life, Hindu women cannot implement their wishes (Sarker, Wu, Alam, & Islam, 2019). Men in Hindu family are not concerned about women’s equal rights. Even if they know about constitutional rights, they are indifferent to implement the laws since this will decrease their power to own property exclusively (Mahmud et al., 2012). This indicates the patriarchal social structure that dominates over women’s life. Patriarchal social structure as emphasized by radical feminists is also responsible for women’s deprivation of rights to inheritance (Sarker et al., 2020). With the increasing importance of education and rising awareness among Hindu women, this situation is changing day by day in a very slow motion.

### 3.2 Application of constitutional rights

At the heart of Hindu society, there is predominance of traditional rules and customs. Although the constitution of Bangladesh grants equal rights to inheritance to every citizen, in Hindu society there is little application of it. Traditional system is so deeply rooted in Hindu society that in every aspect of their life, it has profound implication. Most of the respondents accepted constitutional rights but there is little application of it in their daily lives. In Hindu society,

constitutional rights are not being applied because of traditional rules; what is going on from ancient time is going on till today. Women are dominated in our society and in case of Hindu women, this situation is severe (Patel, 2006). Hindu women cannot do anything to change their rights.

As we know from the theory of radical feminism, patriarchal social structure exploit women and in case of Hindu women, this is practically applicable. Men household of Hindu family do not realize women's rights to inheritance rather they make maximum use of their paternal property exclusively. From the ancient period women are found to be dependent on their male counterpart. Since then they have been deprived of the right to property of their father and husband (Waheed, Sayeed, & Mujtaba, 2014). They remain dependent on father during their childhood, on husband in youth and on son in old age. Traditional rules are so deeply involved in Hindu society that it is very difficult to apply constitutional laws. As one respondent named Srimati Adori Rani Karmakar (26) told that 'Traditional system is deeply rooted in Hindu society that's why constitutional right is not being applied in their society.'

### 3.3 Inheritance situation of Hindu women

In most of the cases socio-economic background played an important role to the rights of inheritance. Most of the Hindu women did not get any share from their parents. Hindu women in Koil village, who were interviewed, know about their inheritance rights that are traditionally going on. Although they know about their constitutional rights, they seem to be unaware. Traditional system of inheritance gives priority to men possession over property and daughter does not get any share of property (Uddin, 2015). There are several reasons for which constitutional inheritance system cannot achieve importance. These are:

#### 3.3.1 Domination of traditional system

Hindu society is based on their religious values. Religious values and norms shape the life of Hindu women in Koil village. In Hindu religion, law is considered as a branch of Dharma. Hindu women do not get any right from their customary law; rather, they suffer from discrimination. Traditional system of inheritance gives priority to men possession over property and daughter does not get any share of property. Most of the respondents said that in Hindu society, women do not get share of paternal property because it has become their tradition (Sultana & Subedi, 2016). Although they acknowledge that women should be given their rights, most of the women are pleased with their traditional system. There were found three kinds of explanation regarding traditional system of inheritance. These are:

Even in case that parent own lots of property, women do not get anything because of their traditional culture. Hindus considered their law to have come from God. Law as understood by the Hindus is a branch of religion, which is not subject to any modification or alteration. Holding such view, they prefer to apply traditional law in all personal matters, which does not give much concentration on woman's right (Mohsin, 2004). Daughters are bound to live their life with their in-law's house and they cannot demand from their father's property even if father owns lots of property. Hindu daughters do not have rights to inheritance. Kalpana Rani Karmakar (30) told that 'Hindu women do not get any share of their paternal property even in case that their parents have lots of property. They have to be pleased with their father- in law's property.' Another respondent named Rina Rani Karmakar (30) told that 'She did not get any property from her parents because there is no tradition of distributing property among daughters in their society.'

Another explanation for traditional system of inheritance is that if parents do not have son, then daughter gets little share of paternal property. As one respondent named Dipali Rani Karmakar (40) told that, 'Hindu women get little share of their paternal property if they do not have brothers. She got little share of paternal property (2 decimal) since she does not have brother.' Another respondent Srimati Dulali Rani Karmakar (26) told that 'In the Hindu community, if mother owns property then daughters get share of it and if father owns property then sons get share of it. She herself did not get any share of parental property.' Being the absolute owner, a woman can dispose of stridhana at her pleasure. But in respect of other property she is merely a qualified owner and enjoys a very limited right. Surochi Rani Karmakar (50) described the same situation and told that 'Daughters generally do not get share of their father's property but if mother owns property, daughters can demand on that property to some extent.' This situation is further described by another respondent named Sonali Karmakar (26), 'If father wishes to distribute property to daughter then they can have property and if mother owns property, they can have rights to mother's property in their society'

Another explanation of traditional system of inheritance is that, if parents distribute property among daughters and sons intentionally, daughters can have a share of parental property. Even when the women receive land in inheritance, it is invariably much less than an equal share. Most Hindus in India and Nepal and Muslims in India, Pakistan and Bangladesh are governed by patrilineal kinship systems. As social identity is secured from the father, a son is a permanent member of the

natal household and a daughter is considered transient. She has moral rights to periodic gifts but largely denied inheritance, seen as a dependent of her husband. One respondent named Namita Karmakar (35) argued the situation this way, 'Daughters do not insist on their parents for having share of property. She did not get any share of paternal property till now and there is little hope to get but if parents give her a share intentionally then she can have'. Although constitution of Bangladesh grants rights to inheritance irrespective of religion and cast, Hindu women do not get their right in Koil village. Kalpana Karmakar (30) argued that, "Hindu women do not get rights to own paternal property and even if they have rights, they are not given any share of property."

### 3.3.2 Prevalence of Dowry

In the Hindu community, there is prevalence of dowry. Although dowry is prohibited in our country, it is still going on in Hindu society. It is deeply rooted in their customs and hence it has become their law. Dowry has become their traditional rule that hinders Hindu women's rights to inheritance. Dowry has important impact on the understanding of Hindu women's rights to inheritance. In the study, it was found that dowry has replaced the rights to inheritance. Hindu parents are bound to provide dowry in their daughter's marriage and groom's family receive it. In many cases, dowry seems to have replaced the present inheritance system. One respondent named Adori Rani Karmakar (25) describes the situation arguing that 'I did not get any share of my paternal property since my parents sold my share of property during marriage to provide marital dowry. For this reason, I will not get any share of my paternal property.'

Most of the women interviewed reported that since daughters are given marital gifts, it is valueless to demand for their property rights. To get married of their daughters seem to be very important to Hindu people. It has become a social practice that at the wedding of a daughter the father had to spend a lot of money and huge gifts in the form of ornaments and furniture. All such things are presumed to be given her in lieu of property (Sarker, 2019a). To provide daughter with property might cause the loss of ancestral property as she goes to other family; such attitude of Hindu society is also responsible for exclusion of women from their right to inheritance. One respondent Surochi Karmakar (50) described the situation arguing that 'In accordance to their religion, daughters mostly get their paternal resources during marriage and after giving birth to 1st child. Parents fulfill their duty during these periods and daughters generally do not get share of their father's property but if mother owns property, daughters can demand on that property to some extent'

It was found that Hindu groom's family owns 8 - 9 lakh TK. during marriage and bride's family provides it that's why Hindu women wanted to distribute property in accordance with traditional system. In many cases bride's family spend 2 bigha lands for daughter's marriage and in such cases, it is valueless to demand for further property rights. Namita Karmakar (35) described the situation arguing that 'if my daughter gets married without such bequest or dowry then I could think of giving her a share of property'. Another respondent Ashalata Karmakar (50) described the same situation this way 'Hindu women's parents get their girls married and it is the most important duty to be done to their daughters. I did not get any share of property from my parents. She told in the same manner what her parents did to her that "my property would be distributed between my sons and daughters would not get any share."

### 3.3.3 Development of inheritance system

Most of the respondents accepted and supported Hindu women's rights to inheritance as granted by the constitution of Bangladesh. Many women could not tell about how to develop inheritance rights because of their lack of education and knowledge about rights. Few women, who were educated and had knowledge about the constitutional rights, could tell about the development of inheritance rights (White, 2009). All of them asked about the development of inheritance rights told that they will distribute their property equally between their son and daughter to develop the inheritance rights. This reflects the idea that nowadays Hindu women are being aware of their rights and they are being influenced by constitutional rights. To develop inheritance rights, awareness must be raised among Hindu women. Kalpana Karmakar (30) told in the same manner that, 'Constitutional rights are not socially recognized in their society'. She further told that "Government cannot do anything unless parents themselves acknowledge equal rights". From above these findings it is clear that radical feminism, liberal theory and structural Marxism are relevant in this study. These theories have profound implications in this study. Traditional systems along with patriarchal social structures are largely responsible for women's deprivation. As being the minority, Hindu women lack voices to establish their rights in society (Sourav, 2015). In order for their rights to be established, social recognition is inevitable. The whole social structure has to realize Hindu women's rights to inheritance.

#### 4. Conclusion

In this century when women in the world are enjoying all sorts of civil and political rights and economic, social and cultural rights the states are adopting laws to remove gender discrimination and inequality, a Hindu woman must be provided with the exclusive right to inheritance. No civilization can prosper without ensuring the rights of women. Most of the problems that are associated with Hindu women's rights to inheritance are rooted in their traditional system and religious values. If enough steps are taken to aware Hindu women about their rights to inheritance, they can enjoy their rights. The women belonging to other religion like the Muslim enjoy their property exclusively, though the share in inheritance is less than their male counterpart. The national development of the country cannot be achieved leaving a large number of people, like Hindu women behind. In order to ensure their active participation in every aspect of national life, the Hindu women should be given exclusive right to property, which will ensure development and social security. It should be realized by the mass people in Bangladesh that without having any property right a Hindu woman has no room in the society. Government should consider this issue with the view that they are a significant part of population; hence a duty of care and essential obligation must be there.

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