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# Green and sustainable construction practices impact on Organizational Development

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## Abstract

Green Marketing plays important role in the organizational performance irrespective to the industry and the type of project. However green construction research lacks in the field of construction project. Basic purpose of this work was to highlight the impact of modern techniques such as green construction on the organizational performance through the adoption of sustainable practices in business strategies in construction industry. Data was collected from 132 organizations, working on different construction projects located within the city of Rawalpindi and Islamabad, through online questionnaire survey in two strata in terms of consultant and contractors. Data was analyzed through different tests, included Pearson's correlation coefficient as well as regression using IBM SPSS Statistics Version 20. Study indicated that green construction has a strong correlation and positive impact on organizational performance, and this correlation partially mediated by the sustainable development. The research findings have practical implications both in organizational and project manager's perspectives. This research was limited to specific geographic area due to time and cost constraints. Future researchers may opt to conduct the study in other geographic areas of Pakistan and in different industries. Moreover, additional or different mediating variables can also be used in the future work.

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**Keywords:** Sustainable Development; Organizational Performance; Green Construction; Environment Protection; Project Success.

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## 1. Introduction

Worldwide, construction industry contributed approximately 9% in GDP with 7% employment rate. The industry contributed significantly to socio-economic development and open different avenues of common interest for different stakeholder to work together. The Asian policies also have tended to keep construction industry busy as governments spend on infrastructure as a way of protecting jobs and boost the economy. (Saenz & Brown, 2018). Heavy civil engineering have built infrastructure of country through the construction of highways, bridges, tunnels and other national or international level construction project. Population have increased due to gradual increase of birth rate which have created burden on economy, resulting in the increase in the demand of houses with the passage of time. (Zampese, Moori, & Caldeira, 2016) Increment in population not only disturbed economy but also imposed burden on urban infrastructure through the migration of people due to lack of resources in rural areas. (Farooqui & Ahmed, 2008). However Gradual change in infrastructure development involves complexities such as, required extensive area of intervention and excavation service are large construction work generators. It is important to change strategies to reduce environmental impacts on construction stage in development of urban infrastructure. Hence, in modern development construction with less environment degradation preferred (Bedrunka, 2020).

Pakistan is a developing country having construction as the second largest sector in Pakistan's economy after the agriculture. Construction Industry have contributed 13.1% in industrial sector and 2.74% in GDP. Roughly 30-35% in employment sector are directly or indirectly affiliated with the construction sector. (Malik & Wahid, 2014). In construction industry, protection of environment is a major challenge, and an alarming situation towards sustainable development in which waste management is a big issue. It is not possible to control the fully waste while reuse of recycling and waste. Gradual change in climate and deposition of waste pollutants affect our environment very badly as well as our agriculture production, quality of life and tourism. (Huang et al., 2017) Industries and companies of such good production are more responsible as compared to any other sector, being environment vulnerable and need quick action to more towards green practices. Product consumption and effectiveness depends on consumer through

market value, the market behavior including consumer demand and consumer awareness, appreciate the companies practices towards “Green” (Biasutti & Frate, 2017).

Green marketing has influenced the organizational performance quite strongly. However, there is gap in the literature about the impact of green construction on organizational performance and research lack in the field of construction project (Zampese et al., 2016). According to Zampese et al. (2016) every construction project either residential or commercial have broader impact on the organizational and industrial performance after its completion. Impact can be either as a good practice or bad, particularly by examining the project impact related to environment by studying companies’ legal, economic and technological skills aspect which may also cause deep impact on industry. Though, literature is available about green marketing but it weakens the relationship between supply chain management and company’s performance. Construction project performance directly affect the organizational and industrial performance. In construction industry it is important to understand the pitfalls and challenges which can be incorporated. This paper highlighted the importance of green construction project with the adoption of sustainability techniques and their impact on organizational performance. Basic purpose of this study is to examine the impact of green construction project in organizational performance by analyzing empirically the different factors such as reuse of old material, reduce waste production and environment preservation. Other purpose is to find out either any positive impact may occur in construction industry by considering the mediating role of sustainability techniques includes environment protection, climate change and sustainable urbanization which may help to enhanced the organizational performance.

Many researchers highlighted the positive impact on organizational performances. A study done by Shi, Zuo, Huang, Huang, and Pullen (2013) in China which explored the positive impact of sustainable construction on community and environment through the properly management of overheads, time and availability of sustainable materials which can enhance the organizational performances and also reduces the industry barriers. Another USA based study by Riley (2004) on Toyota Motor Corporation (TMC) real estate expansion project found that, green building popularity evolving worldwide in construction sector which involve quick change in design stages but also found that construction organizations can play important role through the adoption of sustainable practices in their business strategies.

The implementation of green concept in company’s strategies can bring significant positive changes in profitability, marketing values and cost performance through the facilitation in consumption, production, promotion sector and also resolve ecological problems. In construction industry, organization have to deal



with different operation on regular basis, industry have diverse characteristics such as high fragmentation, vision of project, instability and mainly dependence of work force with high level of uncertainty. In this industry, mostly project relate to the on-site production and directly expose with environment. (Huang et al., 2017). Green Supply chain management including green construction, green product, and corporate practices towards sustainable development directly linked with organizational performance. (Rego & Figueira, 2017). Climate change, and environment protection policies' implementation, were the great moderator to increase organizational performance. Researcher studies the exploratory model for the better understanding with companies and industries in which they operate and particularly examine the impact of environmental by studying their legal, economic and technological skills of companies. (Zampese et al., 2016)

Developing countries as like Pakistan do not have strong construction industry, major challenges faced by organizations in Pakistan construction industry were found to be lack of expertise, resources, poor team management, employee's commitment, quality, safety and risk management. Significant changes may occur with the strong coordination, teamwork, training and awareness, can improve organization performance as well as industry performance. Proceeding Section, relates the previous research and literature on the organizational performance, sustainable development, and green construction followed by the hypothesis before the methodology part described in section 3, while results and analysis shown in the section 4, Conclusion, discussion and limitations in section 5 respectively.

## 2. Literature Review

In this section, detailed review of previous research is expressed with respect to the variables of this study including green construction, sustainable development and organizational performance followed by the hypothesis according to the objectives defined from the gap for this research study.

### 2.1 Organization Performance

Organization performance is depended on the successful completion of the project while next allocation of project or contract mainly based on the organization performance related to previous project. (Gunasekaran et al., 2017). In construction industry, emerging concept of "green" that means to adopt such strategies at organization level which make project sustainable through less environment degradation, better economic impact and preserve natural resources. Purpose of the strategies to enhances organization

performance and fulfil current demands in a better way without compromising future demands. According to Darko and Chan (2016), in construction industry, organizational performance evaluated through various factors included: sale increment, market share, corporate image, water consumption building, energy efficient building parameter, reuse of old building material, increment in revenue, risk reduction factor and financial result. (Zampese et al., 2016).

## *2.2 Green Construction Project*

Construction build urban and rural infrastructure by providing developmental facilities through the execution of different commercial, residential or any kind of development projects. Green construction consists of six main factors such as; management of construction, protection of environment, conservation of material, water, energy and land utilization. (Shi et al., 2013). Every construction project involves through five basic aspects which is necessary for completion, including manpower, machine, material, method and environment Project success of any project mainly depend on the successful completion of project to meet triple triangle constrains including cost, scope, schedule and quality (Lin, 2015). Green construction involves on-site practices which reduces environmental impact of construction. These practices mainly related to contractor, and sub-contractor but modern researchers claim it is more responsibility of designer to introduce such practices so that alternative can be adopted during construction such as use of prefabrication structure which is time saving and environment friendly but it is more responsibility of designer to introduce such alternative in market which can be adopted by contractors. (Fawaz et al., 2016). Green construction involve; less waste production during construction on site, replacing toxic substances such as paints solvents etc., less liquidated waste, alternative energy efficient sources, and use of efficient sustainable practices. (Yigitcanlar, Kamruzzaman, & Teriman, 2015). The benefits of green construction project can be summarized as: enhanced quality of life, improved safety of residents, improved health and aesthetics, reduced household expenditures, creation of new employment opportunities and enhanced neighborhood vitality. (Bedrunka, 2020)

### *2.2.1 Impact of Green construction on organizational performance.*

According to the Darko, Zhang, and Chan (2017), green construction mainly relates with green supply chain management process and involves three areas: importance, corporate practices, green design and operation. These areas involve saving resources, improving productivity and control waste production.

These practices may be more reactive if adopted in strategies in form of rules and regulations, or proactive, and proper ban harmful practices. Through this way integration of environmental activities was the scope of business strategies. (Huang et al., 2017). According to Darko and Chan (2016) green construction practices are the source of cost efficiency and profitability, it not only increase in market share but also reduces extra rework and engage logistics through optimizing resources. Latest innovation strengthens the organizational market values with their strategies and profit values without considering their size and capital. Researchers including Wei and Miraglia (2017) reported that, in Chinese manufacturing practically found that there is positive relationship exist between environmental management and organizational economic performance, while other researcher's including, Lin (2015) found significant positive changes between corporate green practices and industrial financial performances through the implementing of green practices in electronic industry of Taiwan.

### *2.3 Sustainable Development Practices*

This basic concept of sustainable development covered three important features include, economical, environment friendly and preserve natural resource for future generation. Interpretation of sustainable development vary with industry such as sustainable construction, sustainable business, sustainable technology, sustainable agriculture, sustainable economic etc. (Bedrunka, 2020). In Project Management scenarios, sustainability techniques brought positive impact in different dimensions of project which built interest of researchers and professionals towards sustainable project management which inter link multiple prospective such as social, environmental and economical. (Bocchini, Frangopol, Ummenhofer, & Zinke, 2014) As per literature the concept of Sustainable development is to meet present challenges without compromising future demands (Holden, Linnerud, & Banister, 2014).

#### *2.3.1 Impact of Green construction in Sustainable development*

In last five years, climate change awareness rises through various sources of medium either educational or cultural; Researcher Johns-Putra (2016) highlighted the awareness of climate through the medium of literacy including novel, theater and other media sources. There has been a growing trend, too, of climate change poetry, known as ecopoetry which exhibits the social and ecological awareness towards the environment degradation. Human interaction with environment poses sever risk on natural climate system. Although many impacts are already observed for the climate action in terms of toxic gases in air, rapid

melting of glacier, rise in sea level and ocean degradation since 1950s. However more scientific evidence is required to respond climate changes. (Linnenluecke, Birt, & Griffiths, 2015).

According to Pedersen (2018) the united nation sustainable development goals, climate change mainly related with the environment protection policy which practically relate with construction industry development. The environment or climate protection regards the development of an awareness about alternative resources, mainly depend on the physical environment, and how human activity and decisions affect it, with a commitment to factoring environmental concerns into social and economic policy development including preservation of natural resources, climate change, rural development, sustainable urbanization, disaster prevention and mitigation (Ricart, Olcina, & Rico, 2019). Before implementation into construction industry, it's important to introduce alternative resources with their social economic impact. (Zampese et al., 2016). Researchers including Secinaro, Brescia, Calandra, and Saiti (2020), also emphasizes on the adoption of climate mitigation sustainable practices at business level by indicating that international level firms adopted environmental practices in their business strategies to reduce the environment risk and bring significantly result in terms of increment in profit and organizational performance.

Climate change practices mainly relate with protection of environment while construction project activities directly expose with environment and major cause of environment contamination through toxic gases, and increment in temperature which causes rise of earth temperature and depletion of ozone (Huang et al., 2017). Modern concept of green building through green construction is a major alternative source to deal with climatic changes. In design phase, architecture is the main source of greenhouse gas control and important constituent to deal with climatic change. Green buildings formulated after the green construction are energy efficient with low emission of toxic gases with less conservation of natural resources and make environment healthy. Hence, green construction practices make environment healthy and build better climate through environment protection with less degradation. (Darko & Chan, 2016)

### *2.3.2 Sustainable development and organizational performance*

Process of sustainable development depends on the organizational hierarchy mainly internal polices, assessment criteria, strategies plan and their operational implementation. According to Bedrunka (2020), Environmental management system bound the organizations to formalize the policies in such a way that they can assess effect of their activities on environment, interaction of project with climate and find out

alternatives to cater the climatic challenges through different operational activities which causes less environment and natural resource degradation. Organizational performance mainly depends on the successful completion of project with good practices. (Biasutti & Frate, 2017) Every project causes social, environmental and economical after the completion, following these parameters, researchers found that sustainable product development through different alternative practices bring positive impact not only in organizational development but also at industrial level as a good lesson for other developers. We focus on climate change protection factor mainly include, environment protection policy and economic affect.(Gunasekaran et al., 2017).

#### *2.4 Mediation role of sustainable development practices*

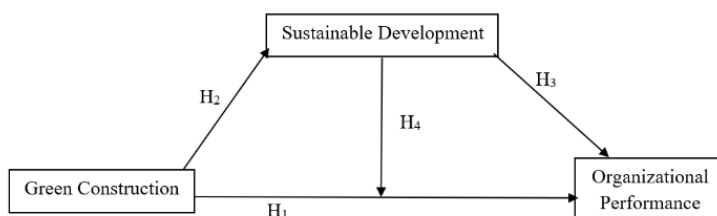
Researchers including, Yee, Ismail, and Jing (2020), indicated the, adoption of environment protection and sustainable policies with their implementation bring significant effect at industrial level with their significant social and economic impact. Organizational development or performance basically deal with the parameter how can an organization achieve success by defining their milestone, performance indicators, and certain limitations, which based on their production. (Akram, Goraya, Malik, & Aljarallah, 2018). Social and economic challenges relate the organizational performance which cater by the sustainable practices by adoption of alternatives strategies at organizational level which not only enhance the organization performance but also help to introduce latest modern practices in the industry. This is a step towards joint organizational and industrial revolution with the help of sustainable development. (Sormunen & Kärki, 2019). In order to preserve environment, it's important to formulate policies at organizational level which cater these industrial challenges which may create disastrous effect for future generation. New research related to the sustainable development and their application introduce many alternatives of materials, which are energy saving and promote green building materials, standardization, high energy consumption construction to develop low energy consumption, effectively cope with climate change. It has been commonly accepted that green construction through sustainable development focuses on prevention of unnecessary consumption of natural resources (especially non-renewable ones) and mitigation of harmful emissions. (Bedrunka, 2020). Green construction resource material mainly seems limited to waste, toxic gases, industrial waste etc., but at broader level it involves coal, steel, electricity and chemical industry such as industrial waste can demolish natural resources. Mega project involves huge amount of resources while sustainable techniques preserve the environment by providing alternative tools

and techniques. (Rahmawati, Utomo, Anwar, Setijanti, & Nurcahyo, 2014). The emerging modern concept of “green building” in sustainable development, directs itself towards creation and use of models which are intended to be healthier as well as a more resource efficient. These models include construction, operation, renovation, maintenance and finally demolition (Holden et al., 2014).

## 2.5 Summary of Literature

Through the literature studies we have studied about the green construction practices in the field of environment and economic which play vital role in organizational development. If there are strong green construction practices adopted on site during the construction project, it causes better organizational and industrial performance, hence sustainable development can play important role to strengthen the relationship. In this study we used organizational development and natural resource-based view theory to study the overall relationship between variables. Hypothesis and conceptual framework for this research study listed as;

Fig. 1. Conceptual framework of research model



Source – developed by the authors

- H<sub>1</sub>:** Green construction has positive significant impact on organizational performance.
- H<sub>2</sub>:** Green construction has positive impact towards sustainable development.
- H<sub>3</sub>:** Sustainable development has positive impact in organizational performance.
- H<sub>4</sub>:** Sustainable development mediates the relationship between green construction and organizational performance

## 3. Method

Research was carried out to find how the impact of green construction relate with the organizational performance of the construction companies. From literature questionnaire selected which cover all

variables. A five-point Likert scale was utilized to judge the severity indices of different criteria adopted for the respondent selection evaluation and further descriptive analysis (Armstrong, 1987). Employees working in construction industry either as a consultant, contractor, designer, or builder or in any other relevant department was selected

### *3.1 Research design and data collection*

In this research study the population was the organizations employees working in the construction field either as a consultant, client, government, or contractor related to any project such as residential or commercial project located in urban areas across the twin cities Rawalpindi and Islamabad. Sample selected by using the G-Power software and found 120 organizations across the population of 507 organizations as listed by the Pakistan Engineering Council. Non-Probability (proportionate convenient sampling) was used, data respondent includes, individual organization such as single employee for single organizations. We stratified our research study into two strata's consultant and contractor and according the statistics of Pakistan Engineering council (PEC). We proportionate the questionnaire and then distributed conveniently. 12% questionnaire distributed with contractors while 88% distributed with consultant's working in twin cities of Rawalpindi and Islamabad. 250 questionnaires circulated out of which 30 questionnaires shared with contractors and 220 shared with the consultant. During the survey, unit of analysis was the employee per organization working on public or private construction project from Islamabad and Rawalpindi. In this study, data collected from the companies working closely with the construction project related to either commercial or residential mainly including Housing project shopping complexes or any similar project. Organizations either currently working or done such projects in recent or in last two years were selected for this study. For describing analysis, a five-point Likert scale, was used for measuring the response (Boone & Boone, 2012). Questionnaire selected from literature such as; organizational performance and green construction (Zampese et al., 2016) and sustainable development practices (Biasutti & Frate, 2017) respectively.

### *3.2 Data Analysis*

After the collection of data, 132 responses were recorded, as per our stratified methodology and on the basis of responses we have 14 questionnaires from Contractor while remaining 118 respondents was consultant as per the defined percentage. Out of 132 (125 respondents were related to the construction and

planning sector of construction industry working in different organization while other 7 was related to the other sectors of construction). For analysis and interpretation of data and hypothesis we used statistical software IBM SPSS. Analysis of data including, distribution frequency demographics, reliability, correlation, linear and multiple regression. Multiple Regression is used to check the indirect path in overall total effect. It often provides better and easy approach over simple linear regression. Overall multiple regression highlights the influence, strength and contribution of more than one variable and overall contribution of variables in total effect. Furthermore, in multiple regression data was analyzed by using regression and process by Andrew F. Hayes model 4, with data coded according to an analysis framework based on a literature review, the questionnaire guide, and experience from similar research. The analysis was conducted by the authors in Statistical Package for the Social Sciences (SPSS) and checked with key actors. The survey was made clear and simple in order to encourage the participants so that they could respond quickly. Furthermore, the survey questionnaire was designed on the basis of existing literature of researchers.

#### 4. Result

Research survey questionnaire attached with the demographic scale such as the Gender, Age, Qualifications and Experience of the respondents. 96% respondent was male, 62% respondent holding bachelor degree, 79% respondent have experience between 1 and 5 years, and 95% respondent working on Planning and execution of construction projects. Reliability test for the selected scale found as Green construction (0.824). sustainable development (0.745) and organization Performance as (0.898) respectively which is above 0.70. Descriptive Analysis give the detail about the mean, standard deviation, skewness and kurtosis of data extracted from the questionnaire survey which help to defined the normality parameter. After analysis the results shows the mean of Green Construction (GC) is 2.0038, Sustainable Development (SD) is 1.9970, and organization Performance is 2.1341.

According to Gronemus et al. (2010), the data is considered to be normal if Skewness values lies in the range of +2 and Kurtosis in range +7. The results of Skewness & Kurtosis respective to each variable independently green construction, sustainable development and organizational performance are, Skewness as, 0.668, 0.277, 0.049, and kurtosis are -0.037, -0.570, -0.601 respectively, which fall in the defined range. In order to validate the scale, According to the Hair Jr, Sarstedt, Hopkins, and Kuppelwieser (2014),.



acceptable range of validity is 0.30. All of our question factor loading value is above 0.30 and no one question found less than 0.45 which lies within acceptable ranges.

#### 4.1 Variable Relationship

Correlation analysis was led to discover the variables – independent, dependent and mediator or moderator variables mutually related with each other or not and to find out the strength of this relationship in quantitative terms. Correlation relate the intensity of the relationship between different variables used for the analysis which are listed below:

Table 1. Correlation Analysis

		GC	SD	OP
Green Construction (GC)	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	132		
Sustainable Development (SD)	Pearson Correlation	.207*	1	
	Sig. (2-tailed)	.017		
	N	132		
Organization Performance (OP)	Pearson Correlation	.522**	.319**	1
	Sig. (2-tailed)	.000	.000	
	N	132	132	132

Source – developed by the authors

The relationship between Green construction and organization performance found strongly positive relationship as Pearson correlation value is positive 0.522 with the highly significance level 0.000 (Less than 0.05). The relationship between Sustainable development and the Organization performance found moderate and positive relationship at value 0.319 at high significance level. Similarly, relationship between green construction and sustainable development is positive at 0.20 and statistically significant at 0.017 (less than 0.05). Therefore, summarizing the correlation analysis, it is concluded that strong positive correlation exists between the predictor and outcome variables as well with the mediator variable.

#### 4.2 Linear Regression

The regression analysis is used to understand the causal relationship of the predictors and outcome variables and the form of these relationships. The analysis is used to test the established hypothesized

relationship to determine the causality direction and quantitative magnitude between the model's variables. Linear Regression indicate about the direct relationship path between independent and dependent variable

Table 2. Linear Regression:

Model	R	R Square	Adjusted R Square	Std. Error EST
1	.522 <sup>a</sup>	.272	.267	.51919

a. Predictors: (Constant), GC

Source – developed by the authors

Table 3. ANOVA Test:

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	13.113	1	13.113	48.647	.000 <sup>b</sup>
Residual	35.043	130	.270		
Total	48.157	131			

a. Dependent Variable: Organizational Performance (OP)

b. Predictors: (Constant), Green Construction (GC)

Source – developed by the authors

In first step analysis carried out to control the influence of demographics on the relationship between variable while in second step the regression analysis (ANOVA test) was carried out. According to the statistical result of analysis it is found that one-unit increase in IV i.e. green construction will tends to increase in the DV i.e. organizational performance by the 0.522 units while total effect is 0.445. F test value also above the 4.0, in our case we have 48.647 which indicate the acceptance of our hypothesis. The value of “Adjusted R Square” indicate the value of relationship between IV and DV. In our study variation exist between the Green construction and organization performance is 26.7% (0.267). Adjusted R square has smaller value as compared to R square. Standard error of estimates how much change is not elaborate by the model and for this model its value is 0.51919.

Table 4. Coefficient of ANOVA Test

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
Constant	1.242	.136		9.153	.000
Green Construction	.445	.064	.522	6.975	.000

a. Dependent Variable: OP

Source – developed by the authors

Table 4, indicate the result of linear regression analysis for Independent and outcome variable. Result indicate the positive relationship between the Green construction and organizational performance. After analysing results, it is clear that independent variable significantly impacts dependent variable. Hence all above result of ANOVA test of linear regression lies under the defined ranges which indicate that, Green construction (IV) bring positive significant changes in Organization Performance (DV). We can narrate as the one-unit change of green construction can bring 0.445 unit positive and significant change in organizational performance. First hypothesis of this research study or direct path relationship in conceptual framework is accepted.

### 4.3 Multiple Regression for Mediation

#### 4.3.1 Impact of IV on Mediator

Table 5. Model Summary of IV on Mediator

R	R-sq	F	df1	df2	p
.2071	.0429	5.8243	1.0000	130.000	.0172

Source – developed by the authors

Result indicate the Multiple regression for indirect path as defined in conceptual framework, Indirect path further have two direct patches from IV to Mediator and from Mediator to DV. Initially for direct relationship of Green construction (IV) and Sustainable Development (Mediation) without consideration of outcome variable (organizational performance) statistical result as follow: significance level  $p=0.172 < 0.05$ , Variable variation  $R\text{-sq}=.0429$  (4.2 percent). Since value of p is less than 0.05 and F test value lies above 2.0, therefor overall model is significant.

Table 6. Result of impact on Mediator

	Coeff	Se	T	P	LLCI	ULCI
Constant	1.6243	.1638	9.9169	.0000	1.3002	1.9483
GC	.1860	.0771	2.4134	.0172	.0335	.3385

Source – developed by the authors

Result highlighted the Impact of independent variable (Green construction): Per unit variable change or coefficient (beta value) = 0.1860, T model test (t) = 2.4134, (Above 2.0), Significance level p = .00172 (Less than 0.05), Boot value are non-negative, Null fall outside the strapping value so confidence interval also lies between Non-Zero. Hence; for every 1-unit increase in Green construction, we get a 0.186-unit increase in sustainable development. Hypothesis –II; Accepted.

#### 4.3.2 Direct effect on Outcome Variable

Table 7. Model Summary of organizational performance

R	R-sq	MSE	F	df1	df2	P
.5648	.3190	.2542	30.2135	2.0000	129.0000	.0000

Source – developed by the authors

Table 7, indicated the Direct effect from independent variable and Mediator variable on Outcome variables. Analysis result shows as, significant value  $p < 0.05$ , variable change R-Sq=.3190 (31.9 percent) variance exist due to two predictors. Since value of p is less than 0.05, and F test value is above 4.0, therefore overall model is significant.

Table 8. Model of organizational performance

	Coeff.	se	t	P	LLCI	ULCI
constant	.9010	.1746	5.1599	.0000	.5555	1.2465
GC	.4063	.0634	6.4106	.0000	.2809	.5316
SD	.2098	.0706	2.9740	.0035	.0702	.3494

Source – developed by the authors

Table 8, shows the overall result on outcome variable which is organizational performance from the sustainable development and Green Construction. The impact of Green construction (IV) as; Per item change through coefficient (beta value) = 0.4063, T Model test value,  $t = 6.4106$ , (Above 2.0) Significance value,  $p = .0000$  (Less than 0.05), Confidence interval also lies between Non-Zero from upper limit and lower limit interval

Secondly, mediation Sustainable Development impact on outcome variable as; Coefficient (beta value) = .2098, T Model test value,  $t = 2.9740$  (above 2.0), Significant value,  $p = 0.0035$  (Less than 0.05), and Confidence interval also lies in positive ranges and No Zero exist between interval. Hence; for every 1-unit increase of Green construction, we get 0.4063-unit increase, and 1-unit increase of Sustainable development, we get 0.2098-unit increase in overall outcome value. Hypothesis III accepted.

#### 4.4 Role of Mediating variable:

Role of Mediation analyzed through the indirect effect of Multiple Regression Model of Andrew Hayes and Preacher. Mediating variable presence indicate that overall strengthen or weaken the relationship. For Analysis Model 4, used and mediation role indicated by the Indirect path or effect from X to Y. Statistically result indicate as; confidence interval from positive boot strapping value interval as Zero falls outside the confidence interval, (.0021 and .0948) hence the relationship is Signification. Effect indicate the beta value which means, change of 1 unit of mediator (Sustainable Development) brings .0390-unit change in the relationship between IV (Green Construction) and DV (Organization Performance). Overall relationship has 0.4063 direct effect without mediation and 0.0390 indirect effect on outcome variable through the mediating variable.

Table 9. Indirect effect of X on Y

	Effect	Boot SE	BootLLCI	BootULCI
SD	.0390	.0238	.0021	.0948

Source – developed by the authors

Table 10. Direct effect of X on Y

Effect	SE	T	P	LLCI	ULCI
.4063	.0634	6.4106	.0000	.2809	.5316

Source – developed by the authors

Table 11: Total Effect

Effect	SE	T	P	LLCI	ULCI
.4453	.0638	6.9747	.0000	.3190	.5716

Source – developed by the authors

Table listed above, indicated the result of mediating variable which is sustainable development in our research study. From the results of analysis, overall, with the mediation the effect is .4453 within the significant level ( $p=0.000<0.05$ ) and lies under positive confidence interval (Non zero). Total effect of direct path through linear regression (ANOVA) remains same from as through the multiple regression

Hence, from the mediation test it is concluded that the mediating variable which in this study is sustainable development is affecting the relationship of Green construction and organizational performance to 8.75 % with (0.0390) per item change. Therefore, in the light of the observation we conclude that there is partial mediation exist between the model, Sustainable development practices partially mediate the impact of green construction on organizational performance.

## 5. Discussion

In this section, we relate our finding with the theoretical literature support. The current study tested the direct and indirect relationship between the green construction and organizational performance with mediating variable sustainable development practices.

### 5.1 Green construction impact on organizational Performance.

This study is supported by some of the previous researches which also contributed the same results toward the organizational development in the construction industry. Fahimnia, Sarkis, and Davarzani (2015), Green construction mainly divided into two parts green design and green operation which means

planning and execution of green practices such as less production of waste and reuse of old material. The field which focus on the importance of corporate practices related to green construction focused on the preservation of natural resources, reuse and recycling of old building material. The adoption of such practices by the organization at corporate level help to reduce their expenses such as overheads and increase market share through the better business strategies with modern techniques. Green construction involves the review of project life cycle and analyze project phases and convert them in to less economical and less environment degradation factors such as reverse logistics and network design in planning phase which involve review of policies and change the strategies while in execution phase involve waste management such as less use of pollution sources and material which can easily recycled. (Brunner & Rechberger, 2015)

According to the Chakraborty (2010), green practices at corporate level are the major source of cost efficiency, profitability, market share, preservation of resources and less causes for rework during the construction which enhance the organization performance by developing new market opportunities with higher profit and good practices for others in industry. Statistical result of our research study also added in the favor of argument that adoption of green practices at construction industry bring positive consequences on the organizational performance.

## *5.2 Green construction impact towards sustainable development*

Somehow green construction is the part of sustainable development while sustainable development is a vast field of knowledge and vary with respect to the working industry. Although it is a new emerging concept but it grows very rapidly in the construction sector in different country across the globe and bring significant results. (Pedersen, 2018) Sustainable development covers three main aspects as per the definition, preservation of natural resources, less cost consumptions resources and meet current demands without compromising future generation demands. In our study we focus on the environment and climate protection policy and result statistically indicate that green construction is helpful to protect the environment and climate protection while scientifically also sustainability techniques have been introduced across the globe which causes the less environment degradation. Adoption of that tools and techniques during the construction causes the less degradation such as the variation of material used for the construction i.e. fabrication, steel and many others. These materials not only save the cost, and time but also causes less degradation which is helpful to preserve the natural resources. Researchers including

(Sarkis & Zhu, 2018) indicate the role of less waste production through the green construction process which is the biggest relief in the environment protection. As construction industry is the major source of environment degradation and waste deposition is the emerging issue which is hard to control while new latest practices adopted during the green construction such as use of plywood which can easily reuse and recycle rather than the use of framework of natural wood which originated from the tree cutting. Researchers also indicate the other green practices such as the reuse of old building material in partition or low load bearing structure in the form of solid aggregate is quite helpful from the financial aspect. Our statistical research added in terms of green construction can bring significant positive changes in the sustainable development.

### *5.3 Sustainable development impact on organizational development*

Sustainable development and environment protection is major emerging challenge for the world. Organizational have to deal with it during the project lifecycle and somehow their projects are the cause of this environment degradation due to lack of sustainable business practices. Researcher (Awadh, 2017) defined the concept of sustainable institute. World certified institute for green mark, known as Leadership in energy and environmental design (LEED) from USA, other institute of France emphasizes on their organization to develop and adopt green business strategies which based on the preservation of natural resources, long lasting and economical structure. On the other side organizations following the LEED standard are strictly bound to adopt and implement the sustainable practices in terms of less carbon production in environment which also lead to the heavy penalty. Other researcher including Song, Zhao, and Zeng (2017) report the significant changes and positive relationship between environment management and the financial performance of the manufacturing companies located in China. Research study found the significant evidence between green practices at corporate level and economical performances in electronic industries located in Taiwan. Implementation of sustainable practices is the responsibility of government stakeholder working at national and international project in terms of protection policies and penalties. Government and organizations designed the alternative parameters and result shows that adoption of green practices not only enhance productivity and causes less degradation but also built standards for other industry at national and international practices. Our research also strengthens the argument that adoption of sustainable development practices can bring positive change on organization performances.



## *5.4 Sustainable development relationship between green construction and organizational performance.*

Project quality mainly based on the project designing team at the initial phases while financial performance based on the execution phase mainly and both play important role in the overall organization and project performance. Green construction highly depends on the efficiency of the project designing team. As the sustainable development and green construction practices as well is the modern emerging concept and growing very rapidly, organization top management, and stakeholder must show their interest and update their business and HR development strategies towards the sustainable development. According to the Awadh (2017) there are various sustainable material introduces for the construction industry which use as the alternatives and their result show as the good practices for others industry, such as the steel structure which save the time, cost and overhead of the organization and also control the amount of rework.

Organization working on the construction sector are the part of policy maker and agreed that long term degradation exerted in terms of usage of alternative resources such as HVAC system, and pre-fabricated structure instead of concrete structure which rises the temperature of earth. Researchers (Tariyan, 2016) indicated that adoption of green practices not only enhance productivity and causes less degradation but also built standards for other industry at national and international practices. Moreover, existing of sustainable development policy such as environment policy causes the better environment friendly green construction which also causes the organization to change their existing business strategies which ultimately enhance their productivity in terms of good practices, market share and project performances (Nilsson, Griggs, & Visbeck, 2016). Result of our study also strengthen the argument that sustainable development positively mediates between the relationship of green construction and employee performance.

## **6. Conclusion**

Finding of this study indicate that Green construction and organizational performance are associated with each other positively. There is positive relation exist between the factors of Green construction such as reuse and recycling of material and the factors of organizational performance such as the market share, and productivity. Moreover, research result also indicates that mediator which is sustainable development including environment protection policies partially mediate the relationship which means organization working in construction industry can enhanced their performance through the formalization and adoption

of environment protection strategies during the construction projects. This research study filled the research gap about the sustainable development and green construction practices role in organizational performance. Research focus on the organizations working in construction industry on twin city projects since last two years which to develop the better understanding about the relationship between Green construction and organizational performance through the mediation of sustainable development.

Research has managerial and theoretical implications in the field of construction industry. Green construction is the modern sustainable development and important for the organization to enhance its performance and meet international standards. Organization top management must change their business practices and adopt knowledge sharing technique to enhance employee performance. Moreover, this research gives a pleasant input toward s the enhancement of organizational performance Change in construction process and standards is a long-time consumption and huge dispersion of competitive conditions such as company capital, standards, and technology advancement. This study helps to develop the understanding about the impact of green construction on the organizational performance and as well as the adoption of sustainable development policies in organization business strategies.

It has been proven from findings that there is ample room for further research. One possible attempt could be studying the dependent variable which steam performance as dependent variable. And further studying the impact of green construction on the organization performance. Basically, the analysis of the relationship between different can only be studied. Further carried out research in longitudinal concept with different region (location) and projects (residential or commercial). Increment in sample size and change in the sustainable development assessment factor such as economy may bring more significant changes in the mediating role. Research can also have carried out as per emerging concept of green marketing which mainly depend on the organization and consumer relationship in better environment. The study can also be conducted on the relationship between sustainable development practices and green construction where green construction can be considered as a dependent and sustainable development as Independent variable instead of a mediation variable, and an additional variable playing a moderating role, can also be introduced in the conducted study to broaden the scope of the research. Considering all of the possibilities that this area of research lacks, one could conclude that there is always still a lot to discover in the following field.

This research study has certain limitations, there was a shortage of time to conduct this research study. The questionnaires survey was limited to the employees working in construction based organized located



in the twin cities of Rawalpindi and Islamabad. So, time consuming questionnaires would not have been affordable. Data was filled on the basis of their previous two-year projects. Secondly, the study has been only conducted on the basis of employee working with last two-year project. This again does not represent the whole part of the population targeted initially.

**Conflict of Interest:**

There is no conflict of interest

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## Appendix A

Table 12: Items of Questionnaire

<i>In the last 2 years, the company has adopted the following practices in work execution</i>	
Green Construction	Reduce waste of materials in construction site Reusing materials on construction site Replacing, reducing or minimizing the use of toxic substances (eg paints and solvents) Actions to reduce liquid waste (e.g., leak containment or flushing with water) Reduce energy use at the construction site Actions to improve supply chain environmental efficiency (e.g. Cooperation to reduce packaging, economic transport, technological synergies)
<i>Please indicate the extent of your agreement/disagreement with the statements</i>	
Sustainable Development	When people interfere with the environment, they often produce disastrous consequences Environmental protection and people's quality of life are directly linked Biodiversity should be protected at the expense of industrial agricultural production Building development is less important than environmental protection Environmental protection is more important than industrial growth
<i>In the last 2 years, there was an improvement in company's performance</i>	
Organizational Performance	Sales increase Market share increase Corporate image improvement Environmental performance improvement in related businesses or buildings regarding to the reduction of water consumption Environmental performance improvement in related businesses or buildings regarding to energy efficiency Environmental performance improvement in related businesses or buildings regarding to the use of materials Financial results improvement Revenue increase Reductions of risk of environmental legal penalties Improvement in company operation (e.g., building efficiency indicators)

Source – developed by the authors

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# The Effective Methods and Practices for Accelerating Social Entrepreneurship Through Corporate Social Responsibility

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## Abstract

The concepts of Social entrepreneurship and Corporate Social Responsibility have similar values from the social value perspective. Social entrepreneurship focuses on solving social issues, creating a positive social impact in an innovative entrepreneurial way, and profit maximization is not the primary target. Corporations focus on creating economic values and profit maximization; and use the CSR concept as a tool to maintain socially responsible business conduct. Both CSR and social entrepreneurship concepts represent the same sustainable values in different ways. Thus, finding effective methods for accelerating social entrepreneurship through CSR activities will be fruitful for the betterment of the corporation's stakeholders, social entrepreneurs, and society at large. This paper aims to explore the current CSR activities of corporations that influence social entrepreneurship development and to identify the most effective methods/practices to accelerate social entrepreneurship.

This study follows the qualitative inductive research methodology; and, the content analysis method has been used to analyze the collected data through the in-depth semi-structured expert interviews. It has been found that the current CSR practices for social entrepreneurship development are comparatively less than other community development and philanthropic considerations. Moreover, the challenges for social entrepreneurs and the expectations of corporations have been thoroughly discussed. The effective methods



and practices have been suggested for both corporations and social entrepreneurs to accelerate social entrepreneurship by CSR activities with mutual benefits and creating social value; as a win-win situation.

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**Keywords:** Corporate culture, effective methods, Social enterprise, Social impact, Social value creation, Sustainability

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## 1. Introduction

Corporations support NGOs, social organizations, and other small medium enterprises as their CSR activities (Fernando & Lawrance, 2015). Corporations expect to enhance the corporate reputation, gain employee loyalty and retention, maintain the trust, support, and legitimacy of the community and government, and business benefits from those CSR activities (Moir, 2001). Accordingly, it can be considered the purpose of a corporation engaging in CSR activities to act socially responsible while achieving its economic goals as profit maximization and maintaining competitiveness. Moreover, there is a need to use more innovative models of using CSR activities to maximize the benefits for both corporations and society (Singh, 2016). Hence, empowering social entrepreneurship through CSR's influence would benefit both corporations to achieve their organizational goals and social entrepreneurs to make a positive social impact. It could be a 'win-win' situation for both while benefiting society at large.

Research has been done for effective CSR by Seelos & Mair (2005), Bonini, Mendonca & Oppenheim (2006), and Galbreath (2009). Moreover, empowering social entrepreneurship through the influence of CSR for addressing social issues has been discussed by Archana Singh (2018), Mahfoozur Rahman (2018), Michelle Bredhammar & Pia Slesinski (2019), theoretically in their researches for the development of the concept. Those findings and theories are essential to analyze the theoretical aspects of both concepts and practices. The companies adequately address social problems through CSR will reap the rewards of competitive positions in the future while benefiting their stakeholders, and also society at large (Galbreath, 2009). Thus, companies should consider those social dimensions as opportunities, not risks (Bonini, Mendonc & Oppenheim, 2006). Simultaneously, support for social entrepreneurship development can be used as a powerful tool for corporations to gain loyalty in the market. Moreover, serial social entrepreneurs

may be the best hope for both society and companies wanting to participate in new market development (Seelos & Mair, 2005).

There is a need for identifying the most effective and practical ways of influencing social entrepreneurship development through CSR activities of corporations because the reality is that social entrepreneurs and corporations still live in different worlds today (Seelos & Mair, 2005). There is a significant knowledge gap in the effective methods and practices of influencing Social Entrepreneurship through CSR activities of corporations. Accordingly, finding practical and effective methods for influencing social entrepreneurship development through CSR activities will be fruitful for the betterment of the corporation's stakeholders and society at large.

This study aims to identify the most effective methods and practices that accelerate the social entrepreneurship development through the influence of CSR activities of corporations. The objective of this research is to analyze the current CSR activities of corporations that influence social entrepreneurship development. Therefore, this research analyses the current practice of CSR activities of corporations and identifies the most effective practices and methods of using CSR activities of corporations to develop social entrepreneurship. Moreover, the challenges for social entrepreneurship development has been thoroughly discussed. The recommendations have been given for the corporations and social entrepreneurs according to the findings of this study.

## **2. Literature Review**

Corporate Social Responsibility is a broad concept that is discussed in different aspects of business literature. It can be considered as one of the first critical concepts that collaborating businesses and social associates for enlightening the society at large and business itself (Jamali, 2007). The concept is famous as a voluntary principle that creates social value and welfare while maximizing profits in corporate governance. The significance of being socially responsible in business has been increased nowadays due to social and environmental issues. Moreover, the external pressure is getting higher for corporations to address societal issues from the stakeholders (Porter & Kramer, 2011). The CSR concept is being widely spoken in the global economy and has attracted worldwide acknowledgment; it has been developed over time through globalization and increase of international trade (Jamali, 2007). The core value and purpose of CSR are to maintain the organization's economic aspects while balancing the environmental and social

facts. In other words, act as a socially responsible organization and create a positive impact on social, environmental, and economic factors.

Social Entrepreneurship (hereinafter referred to as 'SE') is an emerging concept to address societal issues innovatively. SE's primary focus is to address social issues and create social value, not like focusing on maximizing profits as a usual business (Dees, 1998). Most importantly, social entrepreneurship is the process of identifying and exploiting opportunities in social problems, mobilizing resources, and acting innovatively for solving those social problems while creating social value and bringing positive social impact (Singh, 2016). Social entrepreneurship is standing beyond traditional entrepreneurship because it creates values for stakeholders and solving social problems. Social entrepreneurs have trained to identify social issues. They use their creativity and entrepreneurial skills to solve those social issues effectively and innovatively (Nicholls, 2006). They try to cure the real causes of social problems rather than dealing with the symptoms. Thus, social entrepreneurs are identified as value creators and change agents (Nicholls, 2006). Social entrepreneurs are being motivated by their personality and the background, which concerns societal issues (Cherrier, Goswami & Ray, 2017).

The relationship between the concept of CSR and SE depends on the focusing objective and the purpose of implementation. CSR is considered as a voluntary principle in corporate governance, which is used to create social value as well as maximize corporation's profits through corporate goodwill, fair competition as well as build loyal customer groups (Gallardo et al, 2019). As stated by the European Commission SWD (2019), it can be identified as responsible business conduct; as "*The responsibility of enterprises for their impact on society.*" CSR is a set of guidelines to mitigate the negative social impact of the business, as well as integrating social, environmental, ethical, human rights, and consumer concerns in the business operation and core strategy.

*"Companies should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of maximizing the creation of shared value for their owners/shareholders and civil society at large and identifying, preventing and mitigating possible adverse impacts."* European Commission SWD (2019).

CSR has been identified as a shared value creation approach of the corporation with the collaboration of stakeholders and detects, prevents, and mitigates negative impacts while running the regular business focuses on commercial value. According to Carroll's (1979) pyramid, CSR activities may be philanthropic or charity; indeed, a discretionary decision of the management. The core of the concept of SE is differentiated with the CSR from its primary objective, which is focused on solving a specific social problem in an entrepreneurial way. Social entrepreneurs identify a social issue that affects a set of social groups or environment, then try to find an innovative solution for mitigating that problem or creating social value using an entrepreneurial approach, not like charity or philanthropic context. As claimed by the OECD (1999), SE does not focus on profit maximization or taking competitive advantage from its social goals; instead, it attains specific social and economic goals by providing innovative solutions.

*“Any private activity conducted in the public interest, organized with an entrepreneurial strategy, but whose main purpose is not the maximization of profit but the attainment of certain economic and social goals, and which has the capacity for bringing innovative solutions to the problems of social exclusion and unemployment”* OECD (1999).

The concept of CSR has been widely discussed as a strategic approach in the 2000s by the Smith (2001), Lantos (2001), Marrewijk (2003), Werther & Chandler (2005), Porter & Kramer (2006), Husted & Allen (2007), Heslin & Ochoa (2008) and Gallardo et al. (2019). They have identified it as Strategic Corporate Social Responsibility (SCSR), which is majorly considered as a sustainable competitive advantage. SCSR can generate positive social impact while generating profits by improving customer loyalty and the company's reputation. SCSR will make the business environment for creating new products as well as new marketing opportunities in the global context. Moreover, it has been identified as a 'social contract' between the corporation and society.

SCSR has been further developed as Creation of Shared Value (CSV), and it is being discussed in the academic context and the practice widely after the 2010s by the authors; most importantly, Porter & Kramer (2011), Trapp (2012), and Chandler (2016). These developments of CSR have driven the standard definition towards the socially responsible business movement. The main purpose of using CSR has been considered as a core value and the strategic principle of the corporate firms. Porter and Kramer (2011) have mentioned that corporations should redefine their purpose of profit maximization for the shared value

creation. Moreover, companies should focus on creating shared value using their expertise instead of economic benefits; by incorporating the principles of shared value to the corporate framework and culture through the decision-making process as well as using clear guiding principles (Chandler, 2016).

The concepts of SCSR and CSV have shifted CSR's regular usage towards social value creation, which is the main purpose of SE. Accordingly, it can be seen a close relationship between CSR and SE in the main purpose and the objectives. **Table 1** depicts the relationship and the differences between CSR and SE within the scope of purpose, objective, target group, goal, motivation, and the operation.

Table 1 – Relationship between CSR and SE

Variables	Corporate Social Responsibility	Social Entrepreneurship
Purpose	Creation of economic value in an ethical, social and environmental friendly way	Creation of social value
Objective	Profit maximization and stakeholder satisfaction	Solving social and environmental issues
Target group	Pay nothing	Subsidized or Market rate
Goal	Accountability and Goodwill	Social Impact
Motivation	Strategically decided	Emotionally charged
Operation	Charity or philanthropy	Through products and services

Source – developed by the authors

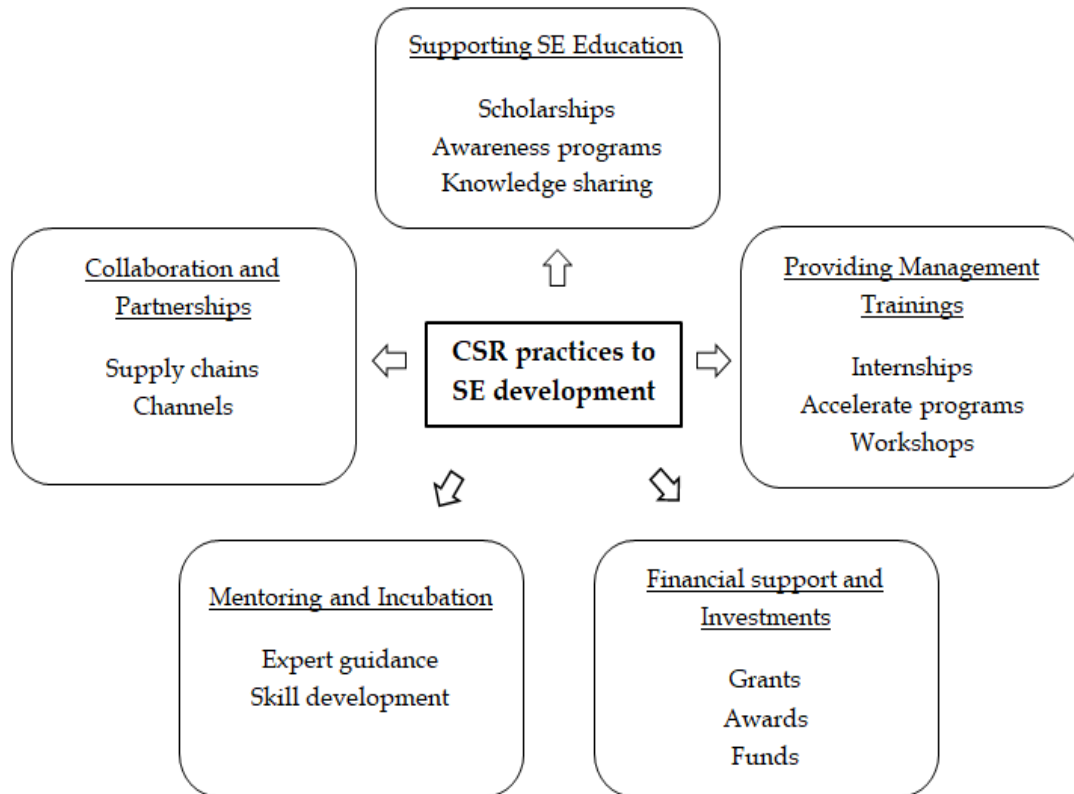
The main purpose of CSR is to create economic value and shared social value for maximizing its profits by taking a competitive advantage. Moreover, the objective of CSR focuses on profit maximization and stakeholder satisfaction. Corporations try to minimize the social and environmental harm within the context of business; thereafter, consider ethical and philanthropic values. As stated by Werther & Chandler (2005), the implementation of CSR policies to the corporation can be considered as a part of brand management to achieve and maintain legitimacy in the global context. SE considers its purpose as the

creation of economic and social value at the same time. The objective of SE is to address social and environmental issues innovatively. In the opinion of Tommaso & Antonino (2014), the noble goal of social entrepreneurship is to save the world or at least make it a better place. Hence, the main purpose and objectives of both concepts have some similarities as well as dissimilarities. Within the scope of CSR operation, it may be charity or philanthropy activity towards a specific social or environmental fact. The operation of SE is conducted through its products or services.

Furthermore, the target group of the CSR pays nothing, even though the target group of the SE pays market rate or subsidized rate for the products or services. Most importantly, the motivation for the CSR could be strategically decided by the higher management of the corporation. Social entrepreneurs are emotionally charged and performed by the sensitivity and empathy towards social vulnerabilities. In the opinion of Thompson et al. (2000), social entrepreneurs are social leaders who realize the opportunity to satisfy the unmet social needs and make a social change. Creating social and environmental value can be considered as a common goal of both CSR and SE. It can be argued that the socially responsible business model and the long-term business sustainability are also similarities of CSR and SE.

There are similarities and common goals between CSR and SE, as discussed in the previous chapter. Both entities are focusing on creating social and environmental value and long-term sustainability. Social entrepreneurs are emotionally motivated by social issues; thus, they tend to find entrepreneurial solutions. In CSR, corporations try to minimize their negative effect and create social or environmental value for their brand management and stakeholder satisfaction. Therefore, making a combination of CSR and SE would be more beneficial for addressing actual social issues and create social value while achieving their own commercial goals. Social entrepreneurs face several critical challenges; social and cultural effects, lack of financial assistance, lack of human resources, and scaling up business with competitive disadvantages. If CSR could support social entrepreneurs to face those challenges and obstacles, it will be a win-win situation for both corporations and social entrepreneurs. The following **Figure 1** shows the CSR practices that can foster SE development.

Figure 1 – CSR practices for SE development



Source – developed by the authors

**Supporting SE education** – Corporations can invest in social venture capital and educational institutions to develop skills of the social change makers would be more beneficial for the social value creation and the corporation itself. As stated by Nicholls (2006), SE is still in a developing mode; even a few business schools conduct SE courses. Indeed, social enterprises are genuinely experimenting, and they could be the first of their kind; thus, the success of their projects will depend on their strategic and systematic approach (Jhonson, 2000). Hence, corporations can cultivate SE education through scholarships, awareness programs, and mentorship programs to encourage social entrepreneurs.

**Providing management training** – Lack of skilled human resources is one of the main obstacles for the SE development. Social entrepreneurs have emotionally charged strong feelings to solve social issues

and create a positive social impact, despite the fact that they do not have enough managerial skills to maintain the enterprise for self-sustaining and generating profits. According to the seven universal principles of Heslin & Ochoa (2008), Cultivate the needed talent can be considered as a greater approach of SCSR. Thus, corporations can provide management training, internship opportunities, and accelerator programs to improve management skills. Moreover, companies can provide management skills and resources for scaling up the SE (Seelos & Mair, 2005).

**Supporting financially and investing** – Social entrepreneurs face a lack of financial support when they initiate social enterprises. As Dees and Anderson (2006) stated, social entrepreneurs, find capital from either below-market and market-rate capital investments or donations; thus, SE may face a financial struggle when starting the social enterprise as well as while running the business. Corporations could financially support or make investments below the market-rate as their CSR practices; it would be beneficial for a broader group of vulnerable people or the environment.

**Mentoring and incubation** – Social entrepreneurs tend to identify the actual social issues and practical solutions for those effectively despite the need for clear guidance and mentorship to implement the strong business that can survive and compete in the existing market and alternative products and services. Hence, incubation and mentoring support are needed for building a strong business model with a value proposition to being in the competitive market. Corporations can share their knowledge and the expertise to mentor and incubate the social entrepreneurs to initiate and scale up their ideas for the long run.

**Collaboration and partnerships** – Companies can support SE through collaborations and partnerships, which can achieve the common goal of social value creation. In Seelos and Mair's (2005b) opinion, social entrepreneurs bring a lot to the table as partners for corporations. Another way is conducting CSR through a third party, such as social enterprise; If companies feel that they have less expertise in the field of competency for developing and CSR practices, they can identify the existing social enterprises doing great work in their interest areas and support them financially or by providing partnerships and collaborations.

*“Serial social entrepreneurs may be the best hope, both for the poor and for companies wanting to participate in new market development models.”* Seelos and Mair (2005b).



It can be seen that CSR and SE have common goals of creating social and environmental value. At the same time, CSR focuses more on economic return, and SE focuses on positive social impact. Social entrepreneurs have expertise in identifying actual social issues, implementing solutions, and creating social benefits rather than purely economic corporations. However, social entrepreneurs face a set of financial and human resources challenges when they implement their solutions. Simultaneously, corporations spend a considerable amount of money on CSR activities to maintain their strategy, competitive advantage, and corporate goodwill. Therefore, it can be argued that if CSR supports the development of SE, it would be more beneficial for the society at large and the environment; while bringing economic value for the corporations itself. Ultimately it will be a win-win situation for both business corporations as well as the social enterprise.

### 3. Methodology

This study follows a qualitative inductive research methodology; and, the content analysis method has been used to analyze the collected data. In-depth and semi-structured expert interviews have been carried out with experts representing three main categories; social entrepreneurs, scholars, and company representatives. The authors have selected experts according to these criteria: 1) social entrepreneurs, who have been supported by CSR activities of a corporation and/or actively run/consult the social enterprise within the last five years; 2) Scholars, who have actively contributed in teaching CSR and SE and/or have research experience in CSR and SE at least five years. 3) Company representatives, who are managerial level representatives or consultants of the corporations which have done at least one or more CSR activities within the last five years. The three main categories have been more explained in detail in **table 2**.

Table 2 : Code of the Interviewee, Category, Personal profile and Remarks

Code for the Interviewee	Category	Personal profile
S-1	Scholars	Phd, Associate professor at one of the Estonian University. 18 years teaching experience in the fields of Social policy, Social work, Social Entrepreneurship, Corporate Social Responsibility and Social innovations.
S-2	Scholars	Phd, Associate professor at one of the Estonian University. 12 years teaching experience in the fields of Management, Social Entrepreneurship, Management in public, private and non-profit sectors and Social innovation.
C-1	Company representatives	Communication Manager at a leading bank in Estonia, Board member of CSR forum, 19 years experience in corporate governance, SME and corporate communication.
C-2	Company representatives	Marketing Manager at a leading telecommunication provider in Estonia, 8 years experience in corporate governance and CSR activities.
E-1	Social entrepreneurs	14 years experience in Social Entrepreneurship and impact management.
E-2	Social entrepreneurs	Founder and CEO of social enterprise, which is being supported by CSR activities of several corporations.

Source – developed by authors

These in-depth interviews assisted the researchers in collecting richly descriptive information. Mainly, the researchers developed four interview questions that covered the research question. The questionnaire included the following questions:

1. How do you describe the concept of CSR? How do you explain the socially responsible business conduct?

2. How do you define social entrepreneurship? What are the challenges for social entrepreneurship development?
3. How can CSR support SE to overcome its challenges? What are the ways that corporations use their CSR activities to support SE? Are you satisfied with the current contribution of CSR for SE development?
4. What are the benefits of CSR practices for both corporations and SE? What are the most effective methods of using CSR activities for SE development? How to improve CSR practices in order to foster SE development?

The authors have sent invitations for participants via e-mails in the second week of April 2020. The interviews were conducted online in the period of 20th April to 10th May, using the Zoom platform. Each interview was taken 30 minutes to 90 minutes; all the online calls were recorded with the interviewees' consent. Depending on the experts' request, the names of the experts are not provided, and when quoting the expert's statement, his/her code is indicated. The list of experts and the description of the characteristics supporting their competence are presented in **Table 2**. It should be noted that when describing experts to ensure their anonymity, experts are described using the masculine gender, as accepted by reference to positions, degrees, or other depersonalized data.

The study has some limitations. Firstly, purposive sampling has been used; thus, the study does not represent the unknown proportion of the entire population regarding the subject matter as scholars, social entrepreneurs, and corporate representatives. Moreover, The sample is selected based on the researcher's accessibility and personal judgment; therefore, there could be a reasonable probability of having uncontrolled variability and possible bias in the sample estimating. Hence, the findings could have a lower level of generalization compared to probability sampling. Moreover, the empirical data collection has been conducted in Estonia, though the study is not focused on any specific territory or region; therefore, it may cause a lower level of generalization in conceptual perspectives of the findings.

## 4. Results and Discussion

The interviewee E1 defines CSR as *"CSR is about three dimensions as workplace, environment and society"* and S2 states as; *"CSR is a free choice; and, can be embedded in corporations mainstream*

*activities by the process they deal with internally and externally in ethically and philanthropic aspects.*" In the opinion of Interviewee C1, the concept of CSR is an everyday business strategy. It is more focused on doing charitable and philanthropic activities and expects marketing as the return. Despite that, corporations do some charitable activities without even using the corporation's logo for the satisfaction of the stakeholders (C2). Moreover, their interests and priorities are being changed from time to time. Many corporations are interested in supporting vulnerable groups of the community; even those are not in the scope of a corporation's mainstream, and there should be a proper plan to implement CSR activities (E2). The interviewee E2 further states, *"Most corporations don't have any personal connection with the problem that they wanted to solve."* (E2). It can be seen the interviewees have identified the approaches of CSR from distinctive perspectives.

The interviewee S1 states that several corporations contribute to SE development as part of their CSR activities. Most corporations organize events in their spaces for students, giving awards and grants while doing capacity-building activities related to SE development (S1). Corporations are supporting social initiatives as their CSR activities without expecting anything in return (C1). As stated by the Interviewee S1, large corporations seek social enterprises to invest and make a partnership. Most of the corporations have a massive amount of budgets for their CSR purposes, although they spend mostly on charitable and philanthropic activities; therefore, the current influence for SE development is not at a satisfactory level (C2). In the opinion of interviewee S2, the current influence of CSR for SE development is not enough, and their focus and interest are changing (S2). The current CSR influence for SE development is comparably relatively small due to the lack of enthusiasm for the CSR managers (C1). As believed by the interviewee S1, the current CSR influence level is far from the satisfaction level. S1 further states, *"I think we are at the beginning of a long journey. It's far from the satisfaction level."* (S1). It can be identified the current influence of CSR for SE development from the interviewee's perspectives as above discussed.

Identifying the real-life challenges for social entrepreneurship is essential to find out the most effective methods of using CSR activities for SE development. As believed by the interviewee C1, social entrepreneurs have good intentions to make a positive social impact; but, they have a lack of skills in innovation and finance management. Finding a good team and keeping the energy and the enthusiasm for the long run is one of the main challenges for social enterprises (S2). Good team and human resources are critical for a successful social enterprise; but, it depends on managerial skills (S1). As stated by the

interviewee E1, the cost of products and services may be more expensive than the alternatives in the market. *“Mostly the products and services of Social Enterprises are expensive, so it would be hard to sell those”* (C1). The interviewee E2 points out as follows; *“If it’s hard to get clients, it will be hard to get sponsors and investors.”* (E2). Most social entrepreneurs do not make enough money for the effort they put, and it is even hard to self-sustain within the current competitive market (E2). It can be seen that there are many crucial challenges for SE development in the initiation and the scaling-up process.

The most effective methods of influencing SE through CSR can be categorized into several themes; Partnerships, Education and mentoring, Sharing knowledge, Venture capital fund, and impact investment, and Creating a market for social entrepreneurs.

The interviewees have pointed out several recommendations and suggestions for the effective methods of influencing SE through CSR activities of the corporations. In the opinion of the interviewee E1, integrating social enterprises to the corporation’s supply chain would be a sustainable win-win solution. Interviewees have stated that corporations can make partnerships with social enterprises as a channel for reaching their end-users of the CSR activities. *“Corporations can use social enterprises as their channels to reach more vulnerable groups of people in the society which need help”* (C1). Providing necessary skills and practice by workshops, incubation programs, and mentoring would be a significant influence (C2 & C1). Corporations can take leadership for creating support for social entrepreneurship as they do for startups (S1). In accordance with the interviewee C1; *“CSR companies and SE can work together for better social impact. Sharing ideas and knowledge will have benefits for both.”* (C1).

The interviewees suggest motivating venture capital funds, venture philanthropy funds, and impact investments would be useful to reduce the financial difficulties of social entrepreneurs. In accordance with the interviewee S1, corporations can take the lead of building the supporting ecosystem for SE. As claimed by interviewee E2, public knowledge about SE should be improved; corporations can make awareness about the SE concept and the practice. As believed by the interviewee E2, social entrepreneurs face huge credibility issues in the market. This study aims to identify the current influence of CSR on SE development. In accordance with the findings, most of the corporations actively engage in supporting SE development through organizing events in their spaces, giving awards and grants, doing capacity-building as their CSR activities without expecting anything in return.

Furthermore, large corporations are actively seeking better social enterprises to invest and make partnerships; for the purpose of reaching their social impact indicators and goals. Although the findings show that the current CSR practices are mostly focusing on charitable and philanthropic activities; thus, the influence of SE development is not at a satisfactory level. Even though the corporations are willing to support social enterprises, the focus and the interest of the corporations are changing accordingly. Most corporations are eager to support charity and philanthropic activities because of accessible marketing opportunities to gain public attention, as the ethical and philanthropic responsibilities can maintain if they only achieve the economic responsibilities successfully (Carroll, 1979).

Findings show that most CSR managers of corporations do not see huge benefits as a return from SE due to their lack of enthusiasm and the understanding towards SE. The contribution to SE development is far from a satisfactory level compared with other sponsorship for sports and cultural events. Therefore, much more effort is needed for SE development from the CSR activities to achieve a satisfactory level contribution. Moreover, social enterprises are one subset of organizations focusing on positive social impact as charitable organizations and NGOs; therefore, corporations may not be interested in social enterprises until their uniqueness and the sustainable business model attract the corporations. Moreover, corporations are willing to support those offering them much promotion, benefits, and feasibility because implementing CSR policies are part of the brand management and maintain the legitimacy (Werther & Chandler, 2005). Altogether, the findings show that even though the CSR activities of corporations supporting social enterprises to a specific limit, the current influence of CSR activities for SE development is not at a satisfactory level.

The study aims to identify the most effective methods of influencing SE development through the CSR activities of the corporations. It is essential to understand the real-life problems of social entrepreneurship to find development solutions. In accordance with the findings, one major challenge for SE development is the intention of social entrepreneurs. Mostly, social entrepreneurs are motivated by social issues; thus, they are focusing on solving those issues and creating social value. Their ultimate goal is to save the world or at least make it a better place (Tommaso & Antonino, 2014). However, the findings show that most social entrepreneurs have a lack of skills in innovation, financial skills, and business knowledge.

Moreover, they have a specific resistance to marketing and business activities; thus, they do not have a controversial relationship with money. There is a shortage of expert human resources because of below-

market-rate wages. Mostly, social enterprises use a voluntary labor force; thus, it is hard to get people for voluntary activities. Findings show that the general public mindset towards SE is one of the significant obstacles to SE development. The general mindset has been created to see social enterprises from charitable and philanthropic aspects.

Moreover, some cultural barriers and social norms prevent SE development to the next level. Most of the social enterprises are not interested in scaling up to outside the local territory because the social problem and the culture could be unique to that specific area (Mair & Marti, 2009). Findings show that most of the products and services of social enterprises are more expensive than the alternatives in the market; thus, it is a barrier to attract customers. It is evident that if a business does not have clients, it will not generate income, hard to get sponsors or investors. Moreover, it is hard for social entrepreneurs to be self-sustained within the market competition. Accordingly, most investors and sponsors have less attraction to invest in social enterprises.

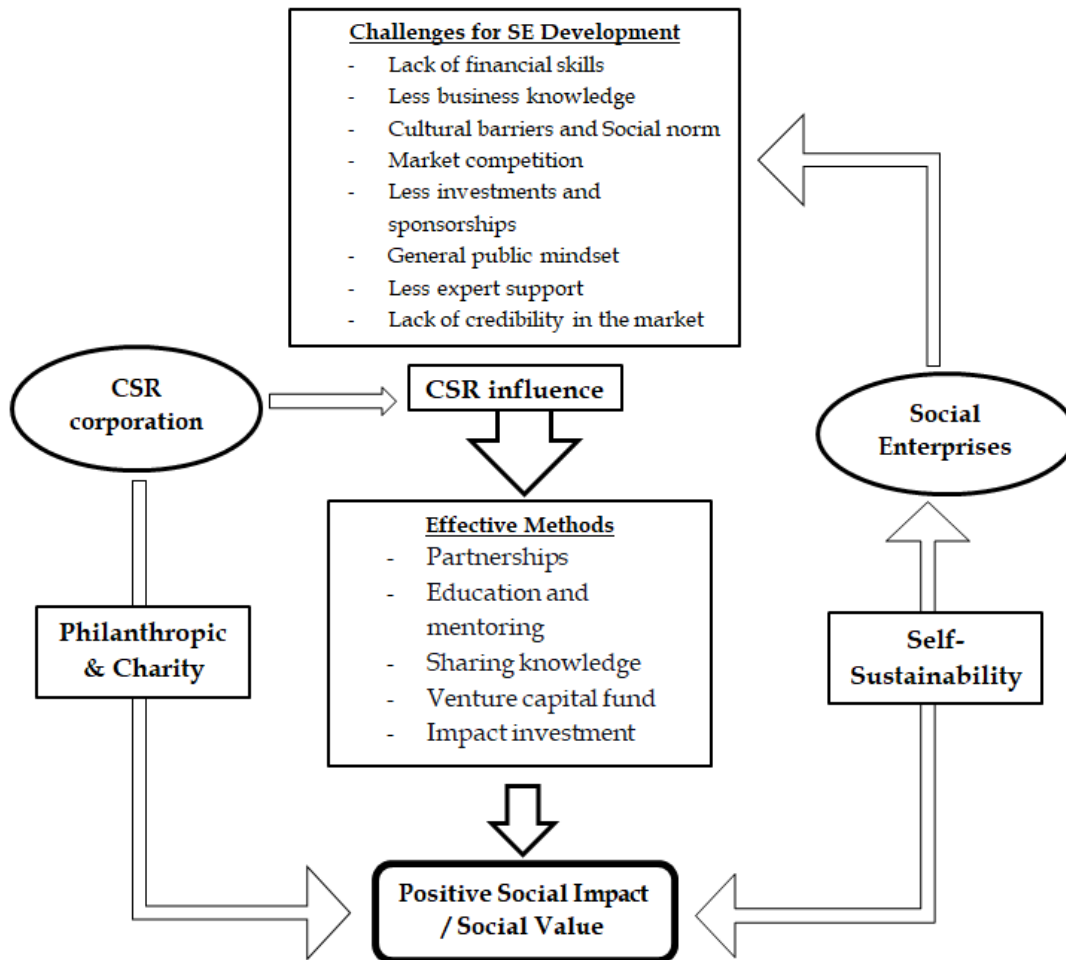
Altogether, there are significant challenges for SE development according to the findings as; lack of financial skills and business knowledge of the social entrepreneurs; find human resources and keep the enthusiasm for the long run; lack of managerial skills and marketing skills; cultural barriers, and social norms for scaling up; higher price of products and services than the alternatives in the market; fewer investments and sponsorships; lack of expert support and general public mindset towards SE.

The findings show that, though the CSR companies and social enterprises work separately, their mindsets are quite similar; there would be benefits for both by working together as one team. From the point of creating shared value, the collaboration of CSR and SE will be more effective. Findings show that corporations and social enterprises can share their expertise in unique and unusual situations while contributing to society in a meaningful and sustainable way. Furthermore, it is found that corporations have potential marketing opportunities by supporting SE development to gain customer loyalty, social reputation, as well as employee satisfaction. Altogether, there are unique benefits of influencing SE development through CSR activities, not only for SE and society at large but also for the corporation itself. Therefore, it can be considered a win-win situation for both corporations and society at large.

The research aim of this study is to identify the effective practices and methods of using CSR activities of corporations for the development of social Entrepreneurship. In accordance with the findings, the most effective practices and methods can be categorized under several topics; Partnerships, Education and mentoring, Sharing knowledge, Venture capital fund, and impact investment, and Creating a market for

social entrepreneurs. The following **Figure 2** shows the challenges for SE development and the effective methods of influencing CSR to overcome those challenges; the ultimate goal of both social enterprises and CSR corporations to create positive social impact or social value.

**Figure 2** - Challenges for SE development and effective methods for overcome those by influence of CSR



Sources: Compiled by Authors

Findings show that corporations can influence SE development by making partnerships with social enterprises. CSR companies can buy the goods and services they need from social enterprises by integrating them into the corporation’s supply chain. Furthermore, corporations can tender their projects or contracts to social enterprises. It will generate a regular revenue stream for the social enterprise; thus, social enterprise can overcome the challenge of self-sustaining in the current market. Furthermore,



corporations can enroll their employees for voluntary work at social enterprises up to two or three days per year; corporations can pay for voluntary work as their CSR activity. In accordance with the findings, this option would solve the less voluntary workers and the human resource challenge for social enterprises.

Findings show that social entrepreneurs have the expertise in the field of identifying social issues and finding practical solutions; thus, they can be the actors to reach the end-users of CSR activities of the corporation. Furthermore, corporations can use social entrepreneurs as their channels to reach the most vulnerable groups which are needed help. It is found that the lack of business knowledge, lack of managerial skills, and lack of financial skills are a significant threat to the SE development. Education and mentoring would be the best solution to fill that knowledge gap within social entrepreneurs. Findings show that corporations can empower education by providing; training, spaces, physical environment, infrastructure, event funding, expert support, and mentorship. Corporations have a wide variety of experts; they have immense experience in their fields; thus, it can be distributed within the social entrepreneurs.

Moreover, findings show that corporations can take the leadership for support SE as it exists for the Startups; by implementing incubation centers, innovation hubs, acceleration programs, hackathons, and internship opportunities. On the report of the seven universal principles of Heslin & Ochoa (2008), Cultivating the needed talent can be considered as a greater approach of SCSR. There is an opportunity for corporations to influence SE development by empowering education and mentorship; it will help social entrepreneurs to overcome their lack of financial and managerial skills. In accordance with the findings, sharing knowledge with corporations and social enterprises will be fruitful for both corporation and SE development as well as society at large.

Social entrepreneurs are considered path-breakers with a powerful new idea that combines visionary and real-world problem-solving creativity (Bomstein, 1998). Corporations and social enterprises can share the expertise and the knowledge for better performance of CSR activities; eventually, it will create an efficient process of creating social value.

It is found that social entrepreneurs face financial difficulties for scaling up and self-sustaining challenges. Findings show that motivating venture capital funds and impact investments would help reduce the financial difficulties of social entrepreneurs. Corporations can be social investors through their CSR activities. Furthermore, venture philanthropy organization is a better option for financial support for social entrepreneurs as investments, market below loans or donations. Dees and Anderson (2006) have mentioned that social entrepreneurs tend to find capital from either below-market and market-rate capital

investments or donations. Moreover, it is founded that corporations can take the lead of empowering sustainable investment through their CSR activities. These venture capital funds and impact investment will reduce the financial challenges of social entrepreneurs; thus, it can be considered as an influence of SE development.

It is identified that the general mindset is a considerable obstacle for SE development. Also, social entrepreneurs are facing difficulties in self-sustain and create a market for them. Findings show that corporations can be part of creating the market for social entrepreneurs. Corporations can take the lead to build the ecosystem, which is supporting SE by educating and awareness programs. Marketing is needed to build up as a business nowadays; thus, corporations can market social enterprises by allowing them to showcase their products and services. Furthermore, corporations can plant the credibility of social enterprises within the general mindset by promoting them and stand behind their names as partners; if a social enterprise gets more partners, it will be trustworthy in the general mind. Corporations can support social enterprises by creating a market for them; it will create a general mindset and opportunities to scale up businesses.

Altogether, there are several most effective ways of influencing SE development through CSR activities of corporations; as Partnerships, Education and mentoring, Sharing knowledge, Venture capital fund, and impact investment and Creating a market for social entrepreneurs.

## 5. Conclusion

The study analyzed the effective approaches and methods of corporate social responsibility activities on social entrepreneurship development. As a result, the goal of this study, which was to identify the most effective methods and practices to influence SE development through CSR activities, has been achieved. The concepts of CSR and SE have similar goals from the perspective of creating a social value; though the different financial targets and the approach. Moreover, social entrepreneurs can identify social and environmental issues and find solutions more innovatively and effectively; due to the expertise, enthusiasm, and the motivation they have. Supporting social entrepreneurs to overcome the challenges they face by CSR activities of corporations has much potential for the more effective and impactful social value creation.

The current influence of CSR to SE development has taken a mixed approach of philanthropic, CSV, TBL, and SCSR aspects. Even though the CSR activities of corporations supporting social enterprises to

a specific limit, the current influence of CSR activities for SE development is not at a satisfactory level; thus, much influence is needed to overcome the challenges of SE development.

This study has identified the real-life challenges for SE development as; lack of financial skills and business knowledge; find human resources and keep the enthusiasm for the long run; lack of managerial skills and marketing skills; cultural barriers and social norms for scaling up; higher price of products and services than the alternatives in the market; fewer investments and sponsorships; lack of expert support and general public mindset towards SE. It is found that supporting SE to overcome real-life challenges would be more useful for SE development. It will have unique benefits for both SE and CSR corporation; Thus, it can be considered as a win-win situation.

The most effective methods and practices of influencing SE development through CSR activities have been identified as; Partnerships, Education and mentoring, Sharing knowledge, Venture capital funds, and impact investment, and Creating a market for social entrepreneurs. These findings will be useful for corporations to implement their CSR activities to create higher social value through influencing social entrepreneurship development. Social entrepreneurs can be used as channels to achieve the socially responsible goals of corporations while benefiting society at large. Moreover, social entrepreneurs can use these findings to improve their positive social impact by the influence of corporations.

The empirical data collection of this study has been conducted only in Estonia, though the theories and concepts are not focused on any specific territory or region. Thus, there is a future research opportunity to scale it up to the global context. Moreover, this study is mainly focused on the influence of CSR on SE development from the perspective of social value creation. There is a future research opportunity to conduct research focusing on monetary value creation or mutual benefit creation.

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# Wises' Social Impact Measurement in the Baltic States

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## Abstract

WISEs devote most of their time and resources to working with the target group - not only organizing their employment activities and developing skills, but also adapting their work environment, improving the psychological climate, organizational culture, etc. Thus, the implementation of the social mission of this type of social enterprise requires a particularly large amount of time and other resources. In addition, they have to take care of the financial sustainability of their organization.

However, WISEs as all social enterprises face the pressure from the society and other stakeholders to measure their social impact. Nevertheless, it is also important to note that scientists still disagree on the definition of social impact. It is noteworthy that there are no common criteria for measuring social impacts and there are many different methods and tools for impact assessment and measurement (Arena et al. al., 2015; Hadad and Găucă, 2014). Thus, it remains unclear what and how WISEs should measure their social impact. However, it can be argued that social impact measurement it's very important for the WISE itself. The aim of this article - to identify what and how WISEs should measure their social impact in the organization. The methods of the research are an analysis of scientific literature and experts' interview. The results of the research disclosed the possible measurement framework and indicators.

**Keywords:** Agent-based banking model; Circular economy; Financial inclusion; Sustainability; Transformation

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## 1. Introduction

The initiatives of work integration social enterprises (WISEs) in Europe date back to the 1970s, when civil society actors rushed to find ways to help people excluded from the labor market and unable to enter it (Nyssens, 2014). The main purpose of such social enterprise is to help integrate persons experiencing exclusion and belonging to socially vulnerable groups through organized theoretical and practical professional training and/or development of work skills; this is common to all WISEs (Cooney, 2011). Training and educational process, through on-the-job training, other training, experimental training, mentoring, are the most important aspects of all types of work integration social enterprises (Barraket, 2013). In EU countries, WISEs mainly work with people with disabilities, the long-term unemployed and the low-skilled, refugees and immigrants, those with extremely low employment opportunities for various reasons (Davister, Defourny, Grégoire, 2004). Such groups of persons are also called social enterprise target groups, i. y. groups targeted by integration programs and employment activities of WISEs. There are many models and forms of WISEs in the EU. It is one of the oldest forms of social enterprises in the EU.

The origins of WISEs in the Baltic States date back to Soviet times, as at that time there were various “combines” of the disabled blind and deaf people which employed these target groups. After the restoration of independence of the Baltic States, these organizations were privatized and some continued to operate. However, many of these enterprises have the priority of making a profit and, therefore, they are inconsistent with the modern concept of social business, according to which the integration of both social - vulnerable groups and economic-financial sustainability should be equally important for a social enterprise.

After the Baltic states acceded the EU, in 2004, efforts were made to harmonize the Baltics policy with the EU policy; this led to the adoption, in the same year, of the Law on Social Enterprises of the Republic of Lithuania. This law encouraged the employment of persons with various disabilities (not only the deaf and blind) and other vulnerable persons; it thus expanded the potential target group by enlarging the list of vulnerable groups concerned. As a result, many social enterprises of this type

came into existence after the law was passed in Lithuania. In Latvia and Estonia, no social law has been adopted to support companies that employ vulnerable people, so many WISEs have operated in the non-governmental sector. In Latvia, only in 2018, the Law on Social Enterprises entered into force, a private limited liability company (PLLC) may be considered a social enterprise, if it is granted the status of a social enterprise by the law and which carries out economic activities with a positive social impact (e.g. provision of social services, the formation of inclusive civil society, promotion of education, support for science, environmental protection and conservation, protection of animals or contribution to cultural diversity). So far, no law on social enterprises has been adopted in Estonia. Thus, the practice has developed that de jure and de facto WISEs have started operating in the Baltic States. De jure social enterprises can benefit from various privileges, such as tax advantages and subsidies. De facto social enterprises are usually non-profit organizations in the Baltic States, having acquired the legal status of foundations and associations, and they try to apply various business models in their activities. It should be noted that such enterprises are not legally recognized, therefore they cannot enjoy the privileges provided for in the laws on social enterprises. Such companies are forced to diversify their income to remain economically stable, i. y. seek additional sources of income, such as ESF project funds, etc. It is important to note that the main goal of many de jure WISEs operating in Lithuania is to make a profit, not the integration of persons belonging to the vulnerable groups, therefore these enterprises are not considered the object of this study.

WISEs are not required to measure their impact, this obligation is voluntary, therefore the social value they create in society is not known, there is a lack of data on the impact of these enterprises in the Baltic States. The social impact assessment is of particular importance for these companies, according to Epstein and Yuthas (2014), the implementation of measurement system in the organization is very important - in its absence, there is a high risk that financial resources, time, and other resources invested in the activities of the organization are wasted. Thus, for the resources invested in social business to be used purposefully – to implement the social mission and to create certain changes in society, it is important to monitor the social impact created by enterprises. Also, it is important to mention the case of de jure social enterprises in Lithuania, where state support is provided to enterprises (various benefits and subsidies), but no mandatory social impact measurements have been established. Thus, in the absence of publicly available data on the impact of these enterprises, there has been a great deal of debate in the society about the loss of their social



mission and the dominance of commercial objectives. There were also several cases where these enterprises fictitiously covered up the implementation of a social mission to benefit from state support. Therefore, it is considered that data from regular and systematic social impact measurements can help to ensure that commercial objectives do not become dominant, thus maintaining the dual mission of a social business enterprise.

Moreover, in post-Soviet countries where social capital is not large enough, dual-mission organizations are still difficult for the public to understand, and various speculations about the activities of these organizations are possible. However, to avoid such situations, measuring the social impact of social business acquires an important role in creating a sustainable emerging social business sector and in building public confidence in the activities of these organizations. To ensure the sustainable development of this sector, the successful social integration of people belonging to vulnerable groups, it is important to determine how WISEs should measure their social impact. Scientists from the Baltic States study WISEs in their works: in Lithuania (Neverauskienė, Moskvina, 2011), Latvia (Oborenko, Rivza, Zivitere, 2018), Estonia (Raudsaar, Kaseorg, 2013). However, it should be noted that research on their effects and how to measure them in the Baltic States is still lacking. There is a significant knowledge gap in the measurement of WISEs' social impact in the Baltic states. Accordingly, finding indicators for measurement will be beneficial for the WISEs and their stakeholders.

The expert interview was selected to interview individuals who are experts in social enterprises, social impact measurement and its implementation, with exceptional specific knowledge and experience, and sufficiently detailed information on the research problem.

The rest of the paper is organised as followed. The next paragraph will analysis literature review on WISEs social impact measurement. The third paragraph will describe methodology adopted by the researcher. Additionally, the fourth paragraph will reveal the main results of study and present discussion. Finally, the last section will conclude the paper.

## **2. Measuring the social impact of work integration social enterprises**

WISEs differ in their objectives, size, target groups with which they work, employment and social inclusion programs, resources available, etc., for example, some WISEs take care of the temporary employment of target groups facing difficulties in the labor market and public life, so that they can integrate into the open labor market as soon as possible, others consolidate types which offer long-

term jobs to such unemployed people so that they can acquire social and professional skills and become independent, the third type is dominated by enterprises which main purpose is to socialize people through certain employment activities, etc. (Neverauskienė and Moskvina, 2011). Yet, all of them are united by the aim of helping to integrate the people belonging to the target groups into society through organized work activities and/or internships, training, providing them with the missing work and social skills and/or profession. The creation of employment activities or jobs for such people often requires the creation and adaptation of a suitable working environment. There is a need to create an environment in which these people can successfully adapt and learn: the workplace needs to be adapted, the services of a personal assistant are often needed, and these enterprises often have to give time to train other employees. However, their activities are not limited to the development of work skills or vocational training. The problems faced by people in target groups are not just that people do not have a job but often cover a wide range of issues, from a lack of basic social skills to a lack of items such as clothes (Krutulienė, Pocius, Gruževskis, Okunevičiūtė- Neverauskienė, Junevičius, 2017). Of course, the difficulties of different target groups, for example, single parents, are different from other target groups, such as the homeless. They need constant support and attention to successfully integrate into the labor market. To successfully integrate people into the labor market, it is often necessary to motivate and counsel them, or provide other labor market integration services (e. g. job search). For a person to be fully integrated into the society, other services and constant support for target groups are also needed. Such assistance often includes organizing the help of psychologists and social workers, providing other social services (accommodation, reimbursement of transport costs, work with families), the organization of socio-cultural and leisure activities. Successful integration of individuals into society requires additional resources and time from WISEs. It should be noted, however, that in recent years, as a result of declining EU support and gaps in national budgets, countries have increasingly reduced subsidies, such as moving from permanent to temporary subsidies or leaving only certain tax incentives to companies. WISEs are increasingly inclined to look for innovative ways to achieve financial sustainability by earning income from the goods created or services sold on the market and to be independent of the aids granted by States. So usually these organizations combine two different logics - commercial and social. Organizations that combine several different logics in the scientific literature are called hybrid organizations (Battilana, Dorado, 2010, Iannaci, 2020). Many WISEs are increasingly moving towards hybrid organizations (Iannaci, 2020). However, often even when an

organization receives most of its market revenue, it needs State aid to successfully fulfil its social mission-enterprises need not only to organize employment activities for individuals, but also to provide additional resources for workplace and environmental adaptation, integration into the labor market or provision of other services as only complex assistance changes individuals' values, attitudes towards life, strengthens motivation to integrate into the labor market and society.

During the social impact assessment process, the organization measures, analyzes, monitors and publicizes the changes created by the planned activities of the social enterprise. The purpose of the social impact assessment process is to manage and control the impact created to increase or optimize it. The assessment process consists of the following stages: setting assessment aims, involving stakeholders, planning, measuring, collecting and analyzing data, presenting results and learning from them. The social impact assessment process in a social enterprise is a continuous process of learning and activity improvement, the result of which is setting new assessment aims and the improvement of processes in the organization.

WISEs are often organizations with limited financial and human resources and devote most of their time to working with target groups and achieving financial sustainability. As a result, company managers and staff often lack time to measure their impact – to use quantitative or qualitative methods. There is a lack of a culture of measuring social impact in these organizations. Managers often feel that they are helping people, so why some additional measurements are still needed. There is a lack of understanding that social impact measurements help to provide evidence to the public, funders, and other stakeholders. Many WISEs do not implement social impact measurement because they simply do not know what to measure: their direct results, impact on beneficiaries or also wider impact on their communities and society; And how to measure: should they use quantitative or qualitative methods; what indicators should be measured; However, the implementation of measurement in the organization is very important because, measurement can help identify programs that are not effective in integrating vulnerable individuals into society. Also, it can help to make better decisions in the organization. It should be noted that selecting the most appropriate measurement methodology and/or measurement indicators requires special knowledge and competencies, which enterprise employees often lack, and financial constraints prevent from hiring private companies to perform such measurements or additional human resources to do this work.

The social impact is understood and described very differently by both researchers and practitioners (Ebrahim and Rangan, 2010). There is no common definition of social impact. According to Zeyen,

Beckmann (2018), some argue that impact should include only the target group (individual beneficiary perspective) whereas others argue that it should include their community and wider society (systemic context perspective). Due to the sheer diversity of impact understandings, contexts, there are numerous impact measurement tools. All of them are very different in their goals, time perspective, orientation, perspective, micro-, meso-, macro-level (Maas and Liket, 2011). The lack of a single common methodology and the large number of tools available, according to Grieco (2015), complicate the implementation of social impact assessment in an organization, as social entrepreneurs face obstacles in choosing the best approach for their organization from such diversity.

Many WISEs tend to use a storytelling method on social networks and websites to describe the success stories of their clients when the stories and impressions of program participants are told. Such stories are communicated through discussions with clients, consumers, or through the observations of the professionals in the field. Such stories are usually based on subjective opinions. Thus, not all such stories are reliable, it is considered that storytelling is not sufficient for a comprehensive understanding of the organization's activities. According to Epstein, Yuthas (2014), when such a method is used by professionals, such stories can often provide valuable evidence of success or challenge. However, they lack to prove these stories by evidences. WISEs should seek to provide more systematic evidence of success, storytelling should be only the basis, and additional qualitative or quantitative research methods should be included.

Quantitative measurements should be performed by analyzing large amounts of data and reporting those data in numerical form. This usually includes direct measurements such as questionnaires. This approach is chosen most often because sponsors and investors require performance to be quantified and presented. Quantitative measurements allow to better compare the activities performed by organizations and the achieved results. As a consequence, various impact measurement tools were adapted from business such as the Social Balanced Score Card, Social Cost-Benefit Analysis, or Social Return on Investment (Arena, Azzone, and Bengo 2015, Biancone at al, 2020). The Social Return on Investment (SROI) approach has emerged as a preferred quantitative social impact measurement tool (Arena, Azzone, and Bengo 2015). SROI, as an example of a quantitative tool, has a high potential for comparability but poses challenges to social enterprises during implementation (Biancone at al, 2020). Quantitative performance indicators are widely criticized for several reasons - not all benefits generated by an organization can be quantified or presented in financial terms (Grieco et al., 2014). Hadad and Găucă (2014) point out that it is particularly difficult to financially

express psychological changes which occur in the lives of people belonging to vulnerable groups, such as increased self-confidence or greater dignity (Hadad and Găucă, 2014). WISE's activities are focused on creating change for vulnerable groups of individuals, so it is thought that it can be difficult to measure and assess only quantitatively. This is due to the qualitative nature of the social impact itself (Mass, Liket, 2011). Moreover, mostly quantitative measurement methods are expensive, complex, time-consuming, and require special competencies. According to Costa and Pesci (2016), Grieco (2017), quantitative methods for measuring impact are particularly demanding for large-scale internal and external data collection and statistical analysis.

Therefore, the scientific literature pays more and more attention to qualitative research – the applicability of Theory of Change and chain of change/logical model (Hornsby, 2012; Epstein, Yuth, 2014; Spiess-Knalf and Scheck, 2017; Zeyen, Beckmann, 2018). This methodology outlines the chain of change of an organization, and causally links the organization's activities with short-term, outcome, and impact results. Theory of Change helps determine which actions and interventions create the desired change (Hornsby, 2012). This defines the problem, the target population, the assumptions on which the decision is based, and the intended results. It is first decided what changes are to be created, what activities are being carried out to achieve these aims, and finally, it is checked whether the activities will create the desired changes. The methodology of Theory of Change, compared to other standardized methodologies such as SROI or cost-benefit analysis, which require the application of complex statistical analysis, is based on the application of qualitative research (Spiess-Knafl, Scheck, 2017; Zeyen, Beckmann, 2018), as well as provides a visual explanation of the process of change. This methodology allows you to provide detailed descriptions of how and why the desired change will be achieved.

Theory of Change is implemented using a logical model/ impact value chain (Ebrahim, 2019) (See Table 1). Measurement indicators are set using a logic model. This is often a major challenge for an organization.

Table 1. Impact value chain

Inputs	Activities	Outputs	Outcomes	Impact
What is put into the activity, i.e. resources, etc.	Activities performed by the organization (provision of services, production of goods)	Results that come directly from the activities carried out (direct achievements of the activity)	Changes (results of the activity) that occur for the beneficiaries during medium and long term activity of an organization	Changes (results of the activity) that occur for the community or society during medium and long term activity of an organization

Source: Compiled by the authors based on Ebrahim and Rangan, 2010; Epstein, Yuthas, 2014; Crucke, Decramer, 2016; Spiess-Knafl and Scheck, 2017

Thus, the scientific discussion devotes a lot of space to the discussion on the definition of social impacts, measurement methodologies and tools, but there is little analysis of how much WISEs are able to perform the assessment and at what level (Ebrahim (2014), Crucke, Decramer (2016)). Epstein and Yuthas (2014) note that many enterprises measure outputs because it makes it easier for organizations to collect this data, i.e., how many trainings are organized, how many people are employed. Ebrahim (2014) argues that in some cases a social enterprise should focus on measuring direct achievements rather than long-term outcomes because the enterprise may focus too much on the measurement process and intended outcomes and thus deviate from its direct social activities. Other researchers argue that a social enterprise should measure impact, the ultimate change in impact value creation chain which occurs in the society or community in the long or medium-term perspective of an organization. For example, reduced unemployment, poverty, crime, fundamental changes in social norms and attitudes in the society. However, it is important to note that in many cases, such changes can only occur after a long period, making them very difficult to detect and assess. Also, there must be a direct and clear causal link among all these elements of impact value chain (Ebrahim and Rangan, 2014). Ebrahim points out that the causal link between outputs and outcomes is not always direct and clear, and that outcomes and impacts sometimes occur not as a result of the activities of a social enterprise, but because of other environmental factors, such as the activities of other organizations operating in the same field. In their research, Ebrahim and Rangan (2014) noted that social impact, created at the societal level (macro, meso-level) e.g. such as reduced unemployment and crime, is rarely achieved by one organization, usually, it is the collective impact

of several organizations. According to Grieco (2015), to understand the social impact created by social enterprises, it is necessary to at least move from the measurement of the perspective of output in the logical chain to the measurement of the perspective of outcome (Hehenberger et al., 2013). Outcomes are already broader changes that occur in the short and medium-term of an enterprise's activities, which is the meaning of measurement - to analyze how outputs affect individuals and broader environment - groups of individuals and communities. Thus, there are many discussions how and what WISEs should measure, however it is not clear what WISEs can measure according to their resources and capacity. The ambiguity of what should be measured often lead to a situation when WISEs are not implementing social impact measurement in their organizations.

Thus, it is therefore considered necessary to identify possible measurement framework to remove ambiguities as to what should be measured. The research, based on a logical chain, will analyze what WISE should measure to implement an impact assessment in an organization.

### 3. Methodology

**The selection of the research participants.** In the expert interview to select competent respondents who can offer possible measurement framework, the informants of the research were selected using a targeted selection method (knowledge, work experience, relationship with the studied phenomenon is the most important). The population of the informants of the research consists of Lithuanian, Latvian and Estonian experts, selected in similar proportions from each of the Baltic countries, to objectively reveal how to measure the social impact of WISEs. According to non-probabilistic target selection, three groups of experts were selected to participate, who differ in their experience, level of academic knowledge, nature of work and relationship with the research object (Babbie, 2005).

#### **Groups selected for the research:**

- The first group: representatives of the academic world, who have a degree of at least a doctorate, work in Baltic universities, conduct research on social enterprise development, social innovation and social entrepreneurship, study aspects of social enterprise activities in the Baltic States for at least three years.

- The second group: representatives of the authorities in the Baltic States, forming a suitable environment for social entrepreneurship and/or WISEs and implementing employment policies for the target groups in the Baltic States, have at least three years of work experience in these fields.
- The third group: representatives of umbrella (social business, organizations connecting social enterprises) and business innovation development, incubation processes (incubator) organizations working in the field of social business and social entrepreneurship development, with at least two years of work experience.

During the expert interviews, 15 experts (5 from each of the Baltic States) meeting the selection criteria listed here were interviewed.

**Organization of the qualitative research.** Expert interviews were conducted using the methods of direct and distance interviews. The form of distance interviews was applied to Latvian and Estonian experts because they requested this method. Interviews were conducted in the form of semi-structured interviews; i. y. possible questions were anticipated through which interviews with experts were conducted. The empirical research was conducted in 2018 May- September.

The methodology of qualitative research recommends that the experts choose whether to remain anonymous or to publish their names (Kaiser, 2009). Depending on the request of many experts, the names of the experts are not provided, and when quoting the expert's statement, his/her number is indicated. The list of experts and the description of the characteristics justifying their competence are presented in Table 2. It should be noted that when describing experts, to ensure their anonymity, experts are described using the masculine gender, as accepted by reference to positions, degrees or other depersonalized data.



Table 2. The list of respondents to the expert research

<b>Lithuania</b>	
<b>Expert's code</b>	<b>Characteristics substantiating the competence of an expert</b>
Ex_LT_1	Head of the Lithuanian work integration state institution. Management experience for this institution - 3 years, professional experience in the field of work integration - 12 years.
Ex_LT_2	Professor of one of the Lithuanian state universities. More than 10 years of experience in researching and teaching community development, NGO, social innovation, third sector disciplines. The expert has been researching the field of social entrepreneurship for 5 years.
Ex_LT_3	Head of the Lithuanian branch of the international organization working with the implementation of the activities of the social business incubator and head of the public institution implementing the social business promotion programs. Work experience working in the field of social business - 7 years.
Ex_LT_4	Specialist of the Ministry supervising the national economy, working with the formation of social enterprises and social business policy, work experience in this field - 5 years. This expert also conducts research and is preparing a dissertation on social business in the field of law.
Ex_LT_5	Project manager of an institution working with the development of social business and its enlargement in Lithuania. Professional experience in the field of social business - 3 years.
<b>Latvia</b>	
<b>Expert</b>	<b>Characteristics substantiating the competence of an expert</b>
Ex_LV_1	Specialist of the Ministry working with the European Union funded social entrepreneurship project in Latvia. Work experience in this project - 3 years.
Ex_LV_2	Doctor of Social Sciences. Lecturer in entrepreneurship at one of Latvia's universities. Manager of a creative business incubator. More than 5 years of experience in researching and teaching social entrepreneurship, social innovations, business incubation process disciplines.
Ex_LV_3	Doctor of Social Sciences. Professor at one of Latvia's state universities. More than 4 years of experience in researching and teaching social entrepreneurship. Defended a dissertation on social entrepreneurship in 2014. Published a book on social entrepreneurship.
Ex_LV_4	Doctor of Social Sciences, lecturer, innovation expert. Project manager of the Latvian Centre for Social Innovation. Developer and curator of many projects

	in the field of social entrepreneurship. One of the most important projects being implemented is the Platform of Social Business Support Institutions for the Baltic States. Work experience in the field of social innovation - more than 10 years.
Ex_LV_5	Head of umbrella social enterprise organization. Work experience working with communication projects, non-governmental organizations, social enterprise projects - not less than two years.
<b>Estonia</b>	
<b>Expert</b>	<b>Characteristics substantiating the competence of an expert</b>
Ex_EST_1	Head of the employment policy department at the ministry. Management experience for the department - 3 years. Experience in the sphere of employment - 10 years.
Ex_EST_2	Board member and executive position in the Estonian Association of Social Enterprises. Work experience in the association - 6 years. Since 2006 works with the concepts of social impact analysis. Since 2015 until now is a member of the European Commission's Expert Group on Social Entrepreneurship GECES.
Ex_EST_3	Doctor of Social Sciences, Professor. Lecturer in social entrepreneurship at one of Estonia's state universities. Defended a dissertation on social entrepreneurship. More than 5 years of experience in teaching and researching social entrepreneurship.
Ex_EST_4	Doctor of Agricultural Sciences, founder of training and social entrepreneurship development companies in Scotland and Estonia, as well as training in social business development across the EU, works as a senior researcher at an Estonian university.
Ex_EST_5	Doctor of Social Sciences, developer and head of the social entrepreneurship program at one of the Estonian universities. 12 years of experience working in an NGO, social business sector. More than 5 years of experience in teaching and researching social enterprises in Europe, Asia.

Source: Compiled by the author

It is considered that the characteristics of the experts sufficiently substantiate their competence in researching how the social impact assessment of social enterprises should be implemented.

**Formulation of research questions for experts.** The expert interview consists of a partially structured questionnaire. How important is social impact assessment for WISE and society? How do you think WISE should measure its impact? What indicators should be used?

**Analysis and processing of the results of the qualitative research.** Qualitative content analysis was applied to the analysis of the data obtained during the expert interviews, as well as to the above-mentioned management interviews (Berg, 2007; Žydzūnaitė, Sabaliauskas, 2017). During the qualitative content analysis, the features of the text were systematically examined, and then reliable conclusions were formulated. The data were processed using the computer program "Atlas.ti", performing primary and axial coding (Charmaz, 2006). Primary coding is performed using action categories. In the second stage, axial coding was performed by constructing the relationships between the categories and their aspects, which are identified as important for the analysis of the investigated phenomenon, i. y. the created categories are joined into main categories (Charmaz, 2006).

#### 4. Empirical research findings and discussion

The scientific literature (Grieco, 2015; Epstein, Yuth, 2014; Zeyen, Beckmann, 2018; Iannaci, 2020) highlights the following main reasons why social enterprises need to implement social impact assessment in their organizations: building collaborative relationships; accountability to stakeholders; better management decision making, creation of a learning environment in the organization. During the research in the interviews, the Baltic experts did not mention the creation of a learning environment in the organization and cooperation as important reasons for conducting a social impact assessment in the organization. Experts emphasized that social impact assessment is an important means of communication for the organization with stakeholders: it is a useful tool for building the good reputation of a social enterprise in the society and for communicating with various stakeholders: the media, local authorities, investors, customers, etc. (Ex\_LV\_3). Respondents also indicated that social impact assessment can be used as a marketing tool to increase sales of organizations' goods or services: I would rather order, or buy products from the enterprise which carries out the impact assessment, because I know that when I buy a product or services from that enterprise, I have an impact on society as a citizen (Ex\_LT\_2). The other reason is to check whether the planned aims of the company have been achieved: social impact assessment is a verification whether I have achieved my aim, whether my mission has been achieved, whether my aims and visions are working (Ex\_LT\_2). Also, according to the respondents, social impact assessment is important for the organization for the financial reasons: it helps not only to account to the financiers for the provided funds, but also attract new investors, financiers: Being transparent and credible can attract more investors (Ex\_LT\_5); If you actually work very well and create a social impact, you can go to the

fundors with that data and be able to present those results. This can help attract funding (Ex\_LT\_3). Respondents noted that impact assessment is important not only for social enterprises but also for their stakeholders. When providing funds to social enterprises, fundors are often interested in how and to whom their funds are used, what impact is created: The financier wants to know if the money is disposed properly (Ex\_LT\_3). Lithuanian experts pointed out that often financiers of WISEs are not private individuals, but public authorities, who distribute national budget or EU funds, which mainly belong to the society, therefore, this stakeholder must be concerned with the use of public funds: Society invests in social enterprises. That is, if I invest in something, I want to see what comes from my investment, whether there is or not the return, whether those enterprises actually do something good, this is what I truly care about as an active citizen (Ex\_LT\_2); We are talking about subsidies, public money - benefits or subsidies are granted for the enterprises. This is the money we pay and we want to see the impact that money creates (Ex\_LT\_3). Thus, in the opinion of the respondents, if an enterprise receives certain subsidies and funds, it must carry out social impact assessment and thus account for the financing provided to it, tax benefits, etc.

The respondents also cite the possibility of stopping the mission drift as an important reason why social impact assessment is important for stakeholders. Mission drift is presented in the scientific literature (Battilana and Dorado, 2010; Chambers, 2014; Cornforth, 2014) as a complex problem when commercial rather than social aims begin to dominate in an enterprise. This phenomenon can have negative consequences, for example, enterprises may fictitiously cover up the implementation of a social mission, the allocated funds may not be used for their intended purpose etc. Lithuanian experts provided an example of the mission drift of Lithuanian de jure WISEs, when enterprises receiving certain State subsidies and benefits “lost” their social mission - to help these persons and qualitatively integrate them into the society, and commercial aims began to dominate. In Lithuania, when the legal regulations were created and the social impact assessment was not established, those social enterprises that became very different started to establish. Some of them continued to focus on social impact, while others simply used that model for profit and the model became convenient, attractive, and useful to them, perhaps even when bypassing certain things. All that good idea became distorted (Ex\_LT\_4). Thus, according to experts, social impact assessment can help ensure that commercial aims do not begin to dominate, thus maintaining the dual mission of a social enterprise.

The research also analyzed WISE as a subject which carries out an assessment. Opinions of the respondents were divided on social enterprise as a subject of impact assessment. Some argued that a

social enterprise in the process of social impact assessment should be responsible for implementing the assessment process: This should be done by a social enterprise, as the results can help evaluate its performance, it can also help attract investment, show the contribution to the society (Ex\_LV\_3); Social entrepreneurs have a better understanding of the situation in the organization and can make an objective and comprehensive assessment (Ex\_LV\_3). Other respondents indicated that an enterprise cannot be solely responsible for the assessment for two main reasons: lack of competence and objectivity. Respondents pointed out that managers and staff of the enterprises lack competencies and experience in this area: not all of them are strong enough to leave them carry out an impact assessment, their teams, their managers lack competencies (Ex\_LT\_1); My experience is that social entrepreneurs do not indeed have experience in this area (Ex\_EST\_5). According to other experts, if an organization is responsible for carrying out the assessment alone, such assessment will not be objective: If an organization assesses its impact, it can lead to some controversy. It would be best to have an objective, third-party assessor (Ex\_EST\_5); In general, assessment and surveys of the whole society, I think, should not be done by social businesses, but by somebody else, it would be more objective if someone from the outside assesses (Ex\_LT\_3); It would be best to have an independent and unrelated assessor (Ex\_EST\_1).

However, it should be taken into account that the scientific literature (Grieco, 2015; Zeyen, Beckmann, 2018) places special emphasis on the benefits of measuring social impact for the organization itself, as better management decisions are made, activities are improved, and the environment of a learning organization is created. It is therefore considered that a social enterprise must be the subject of the social impact assessment. Also, the objectivity of the measurement of social impacts can be ensured in other ways, such as by involving stakeholders in the measurement (Costa, Pesci, 2016). Thus, since the measurement of social impact can generate positive benefits for the organization itself, it should remain the subject performing social impact assessment.

Research participants were also asked what a WISE should measure based on a logical chain - outputs, outcomes or impact. Experts pointed out that to measure changes in the society and community can be quite difficult due to the problem of data collection and availability, so this level of measurement should be carried out by other subjects: At the macro level, the enterprise itself cannot perform the measurement because it requires specific, large amounts of data (Ex\_LT\_2); The macro-level assessment requires the aggregation of data at the national level. The enterprise does not usually have this data, it cannot ask its competitor, "how many people did you employ" (Ex\_LT\_2).

It should be noted that the scientific literature (Barraket and Yousefpour, 2013; Noya, 2015; Amati, Bengo et al., 2017; Hoos, 2018; Grieco, Michellini, 2018) identifies both financial and human resources as the main obstacle to implement social impact measurement in an organization, also, in the Baltic States, most social enterprises are small and medium-sized and they lack resources (Jurgelane, 2017). Therefore, it can be assumed that only a few social enterprises in the Baltic States would be able to perform measurements of the changes in the society and community – in the impact logic chain. Measurement of this level would require a great deal of effort and resources on the part of the enterprises, they would focus on the implementation of the measurement and thus may not take time to complete the social and commercial mission, there would be a risk of mission drift. Focusing on the measurement process and the results sought can distract the organization from the social activities which it directly carries out.

It should be noted that many experts agreed that, to implement the social impact measurement, social enterprises in the Baltic States now need to focus on measuring the changes created for the beneficiaries: The medium-sized company should focus strictly on the micro-level when carrying out measurements (Ex\_EST\_2); Companies should at least focus on the micro-level, which means monitoring the impact on specific persons at the individual level (Ex\_LV\_4); The organization itself can only measure at the micro level so far (Ex\_LV\_5). According to the respondents, this would be a big step for the Baltic States at the moment, as enterprises have a great lack of knowledge on how to perform the measurement, they do not have enough information about measurement tools, they generally do not know how to measure.

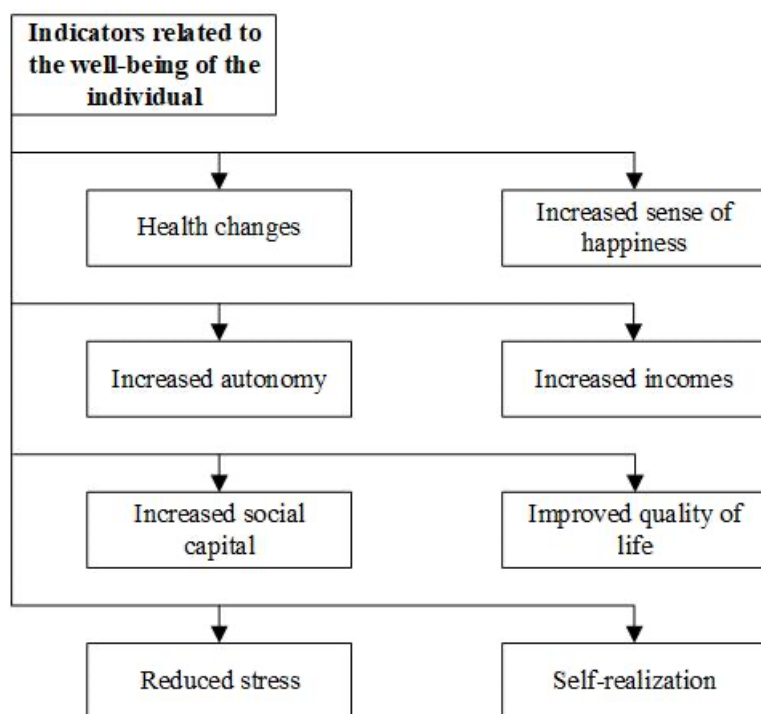
Thus, based on the insights of the experts, it can be concluded that WISEs in the Baltic States are currently not able to perform measurements of the changes created for communities and society. According to the experts, WISEs in the Baltic States should focus on how to measure the changes for the beneficiaries at the organizational (micro) level, and this corresponds to the outcome specified in the logical chain. This confirms the insights provided by Ebrahim and Rangan (2014) and Crucke Decramer (2016) that it may be pointless for an enterprise to focus on measuring the change in the community and society (impact in a logical chain) as it requires significant investment and time from the social enterprises. Ebrahim and Rangan (2014) also point out that a social enterprise should measure outcome only when it is possible to establish a clear causal link between output and outcome in the logical chain. Thus, according to the experts, it can be stated that a WISE has every opportunity to assess the causal link when assessing the changes created for the beneficiaries whom it directly

employs, therefore it is considered that WISEs should measure at the organizational level. However, it is considered that this does not mean that enterprises should not be interested in trends of measuring at the meso and macro levels, they should also improve their knowledge and competencies when assessing at these levels.

During the research, the experts singled out that the measurement of social changes created in the community and society should be performed by public authorities, universities, and research centers. Regarding the involvement of public authorities in the social impact measurement, the respondents from all three Baltic States emphasized that the State must not only assist enterprises in carrying out the measurement, but also carry out the measurement at the meso and macro level, as public authorities have sufficient resources for that: It is very expensive for organizations to measure at this level themselves, and public authorities should collect data and carry out the measurement (Ex\_LV\_5); This should be done at the level of the ministry, and at the national level considering what added value is created (Ex\_LT\_2); The social impact created at the meso and macro levels should be assessed by public sector institutions (Ex\_EST\_2). In their research, Ebrahim and Rangan (2014) concluded that funders or public authorities should be responsible for the measurement of impact specified in the logical chain, as they have sufficient resources to carry out the process of measurement. It is also important to mention that public authorities usually have not only sufficient resources but also access to national data, which is often needed when conducting social impact studies at the macro and meso levels. Therefore, based on these arguments, it can be concluded that public authorities should be responsible in the Baltic States for the implementation of social impact measurement at the meso and macro levels. Regarding the involvement of higher education institutions and research centers in the impact assessment, the experts stated that universities should also be the subjects which carry out social impact measurement: It is a scientific subject, universities, research centers could research why those changes took place (Ex\_LT\_3); The assessment could be carried out by research institutes, looking at the national level what added value is created (Ex\_LT\_2). Universities and research centers should help public authorities monitor long-term impact in the society and communities, as this research often requires special competencies in data collection, analysis, change monitoring, and forecasting. Noya (2015) points out that public authorities should fund research and experiments in the field of social impact assessment, so it is believed that macro-level measurement should be carried out by public authorities in collaboration with higher education institutions and research institutes.

The participants of the research were also asked about the measurement indicators that WISE should measure. Two main subcategories stood out in the participants' statements about the indicators of social impact measurement: indicators related to changes in the well-being of individuals (beneficiaries) (see Figure 1).

Figure 1. Indicators related to the well-being of individuals



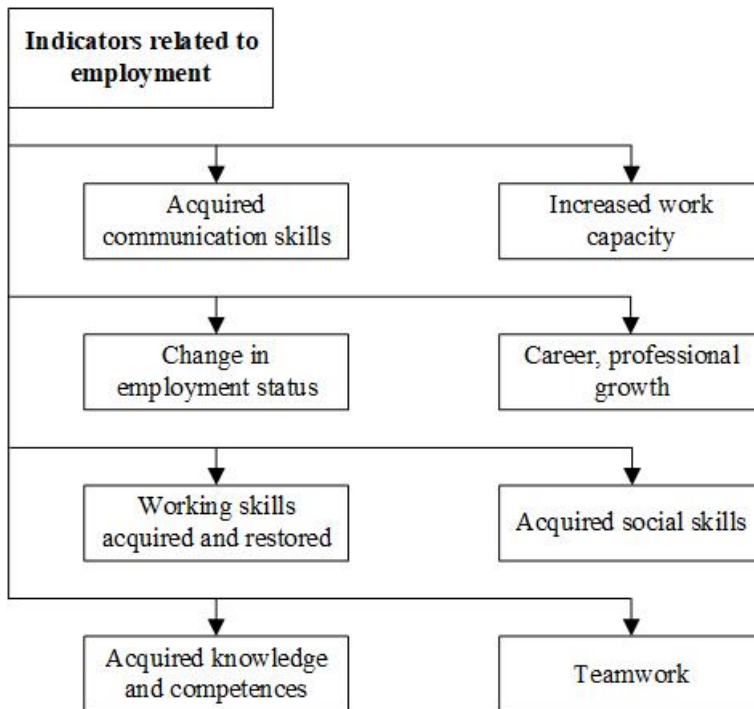
Source: Compiled by the author based on the software ATLAS.ti.

In the research, the experts indicated that these common indicators should be used to measure changes of WISEs for the beneficiaries. Improved health is mentioned among the changes in the health of individuals (Ex\_EST\_2; Ex\_EST\_3), as well as improved quality of life (Ex\_EST\_2; Ex\_EST\_3; Ex\_EST\_1). One of the experts pointed out that the quality of life could be related to the increased use of the services of these individuals, i.e., whether a person can afford more than before (Ex\_LT\_3). The experts (Ex\_LV\_5) associated the quality of life with better opportunities for these people to use science and culture. According to the respondent, perhaps the person has never been to the theatre, has never been shopping alone, has no friends, etc. (Ex\_LT\_3). The experts also highlighted reduced stress (Ex\_LT\_4; Ex\_EST\_3), self-realization (Ex\_EST\_2; Ex\_EST\_5).



Moreover, the experts highlighted the improved social life (Ex\_LV\_5), social networks (Ex\_EST\_3), social relations, increased social capital (Ex\_EST\_5). They emphasised the material well-being of the individual - increased personal income (Ex\_LV\_5; Ex\_EST\_5; Ex\_LV\_3). Respondents indicated that it is important to assess an individual's sense of happiness: It is important to assess the emotions of these individuals, whether they feel happier, how much unhappy they feel (Ex\_EST\_3); a sense of happiness can be an indicator of the assessment (Ex\_LT\_3). But one of the experts (Ex\_LT\_2) pointed out that when measuring increased sense of happiness, it is important to understand whether the person has become happier because of that job, activity, or other reasons. It is also possible to measure whether a person feels safer after a certain time, whether his/her self-esteem, his/her attitude to life changes (Ex\_LT\_1); his/her experience, changed well-being, etc. (Ex\_LT\_2). Also, experts believe that behavioral changes must also be assessed; it is important to assess changes in individuals' behavior (Ex\_LV\_3; Ex\_EST\_2), whether the person has become more independent from other people, or whether his/her autonomy has increased (Ex\_LT\_3; Ex\_EST\_1). Thus, after analyzing the experts' statements, the following main common indicators of measuring individual well-being can be identified: improved health, increased sense of happiness, increased autonomy, increased material well-being/income, increased social capital, improved quality of life (better access to education and cultural services), self-realization, reduced stress.

Figure 2. Indicators related to employment



Source: Compiled by the author based on the software ATLAS.ti.

During the research, the experts also singled out employment-related indicators (see Figure 2), which can be further divided into activity, outcome and impact indicators. The experts say: It is important to assess the number of employees, the number of people involved in the activities (Ex\_LV\_1); The organization should assess quantitative indicators such as the number of jobs created (Ex\_LV\_5); It is important to assess the number of people who have completed the program (Ex\_LV\_1); If a social enterprise provides services and products to disadvantaged people, they can assess how much they have provided (Ex\_EST\_4); material products and services, results that can be measured from operations carried out by social enterprises which can be measured directly, such as the number of people reached, the number of items sold, etc. (Ex\_LV\_3). Thus, as we can see from the statements, the respondents emphasize the measurement of the output indicators of the activity of the enterprise, i. y. the number of jobs created, the number of people involved in the activities, the number of services provided, etc. However, according to the social impact scientific literature (Grieco, 2017; Yuthas, Epstein, 2014), impact measurement should be understood as a transition in the impact chain from the measurement of an organization's direct output to an outcome, so it is

considered that these activity indicators specified by the experts should not be considered as impact measurement indicators.

It should be noted that WISEs differ in their aims, therefore, to establish common measurement indicators for them, it is necessary to choose those indicators that can be applied to all types of WISEs. For example, changes in an individual's employment status can be measured in all enterprises, as employment is a broad concept which includes not only a person's employment but also, for example, his or her enrolment in higher education or starting a personal business: The enterprise should measure created employment-related impact, such as changes in the employment status of the beneficiaries (Ex\_EST\_2; Ex\_EST\_5; Ex\_LV\_3). Some experts emphasized that there should be measured changes in acquired skills and working skills of an individual (Ex\_EST\_2), retraining, providing or restoring the necessary skills (Ex\_LT\_4): Social impact could be measured by showing that people acquire new knowledge and improve their skills (Ex\_LV\_2); acquired knowledge and skills (Ex\_LV\_3). It is considered that not all social enterprises aim to provide qualifications, but all enterprises focus on the development or re-establishment of new work skills, and it is therefore considered that this could be a common measurement indicator. The experts (Ex\_EST\_2; Ex\_LV\_5) also pointed out that it is important to measure not only the acquired working skills, but also social skills and communication skills, because many people belonging to the target groups are usually long time unemployed, have lived separated from the society for a long time and, therefore, lack communication and social skills. The experts (Ex\_EST\_3; Ex\_LV\_4) also emphasized the teamwork indicator.

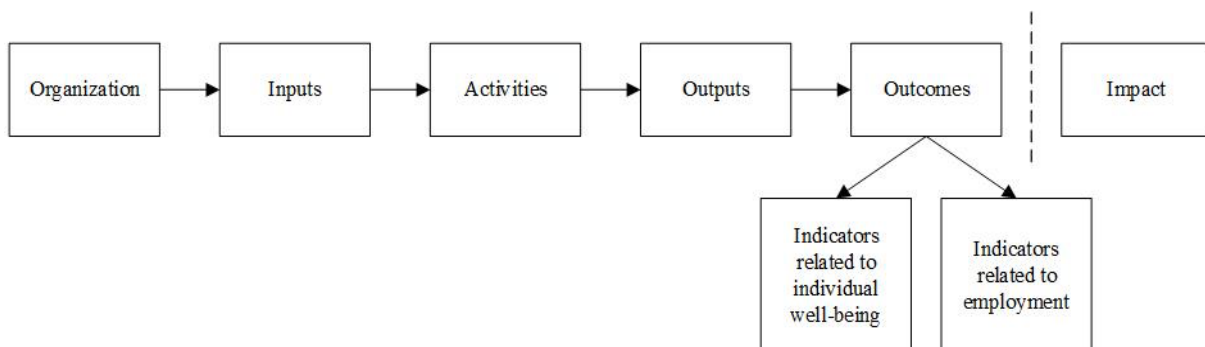
Another important indicator which could be applied to all WISEs is career and professional growth of these people: it is important to emphasize not how many of those people are employed, but how long they remain in the company, what their further career development is - if they leave the company, whether they are ready to further participate in the processes of integration and career planning. Because one of the promises of a social enterprise is the promotion of social integration. It is both, promotion of integration and its means. It would be possible to truly measure the effectiveness of the means, how those people are prepared in the career planning process (Ex\_LT\_1). According to this expert, this could be achieved by assessing the professional growth of a person, how his/her career changed over a while, 3 years, for example.

The experts also mentioned another indicator - increased work capacity. A person's work capacity should be understood in a broad sense (not only based on formal evidence - the conclusions of the

medical commission) as a person's ability to work systematically in an organization, taking into account greater motivation to work and improved work results. In social enterprises which employ these people, this can be, for example, a lower number of days off or sick leaves, etc. (Ex\_LT\_1; Ex\_LV\_3). Those enterprises which do not aim to employ such people can measure these parameters through the increased work motivation and the increased number of tasks performed, etc.

The research revealed that WISE in the Baltic States are currently not able to measure their created impact on the community and society levels, so they should now focus on measuring the changes created for the beneficiaries. Thus, after analyzing the data of the empirical research and based on the theoretical analysis, it is possible to present the framework for measuring WISE in the Baltic States. (See Figure 3).

Figure 3. Impact measurement framework for WISEs in the Baltic states



Source: Compiled by the author

The research found that to implement the social impact assessment of WISE in the Baltic States, it is necessary to measure two categories of indicators: indicators related to the employment and well-being of the individual. These indicators can be measured together with the specific indicators set by the organization itself, which can be set separately according to the aims of each WISE.

## 5. Conclusions

The implementation of the social impact assessment process in an organization requires a lot of effort and resources: to involve stakeholders, to choose appropriate measurement tools, to collect various data, to present the results of the assessment to the stakeholders. However, it does not mean that WISEs should ignore it. WISEs should take this opportunity to embrace social impact

measurement and adopt a framework that allows them to use data to make better decisions, improve operations, improve its programs, products and services for its beneficiaries. Social impact measurement is one way to make a greater impact in the lives of the individuals and communities they are committed to serving. Instead of debating social impact definition, impact measurement methods and tools, it is important to critically reflect what can be measured by WISE itself, taking into account their limited time, resources, skills and capacity to collect and analyse data;

The research revealed that WISEs in the Baltic States are currently not in a position to conduct an impact measurement on the wider society on their own, as this requires the collection of large amounts of data and the continuous monitoring and analysis of long-term changes in the society and communities. However, it is considered important to ensure that research on long-term changes in the society and communities created by WISEs is carried out, because it confirms the need for the existence of social enterprises and helps to reveal how and to what extent they contribute to the solution of complex social problems in the society, such as poverty, unemployment, intolerance. It should also be emphasized that WISEs devote most of their resources and time to working with the target group, their needs, communication with their families, which deprives them of the time that could be spent on implementing impact measurements in organizations, therefore, it is quite difficult for them to make measurements of the changes created at all levels (beneficiaries, community and society). Long-term changes in the society and communities could be measured by public authorities together with the institutions of higher education. They have much more resources than social enterprises, and the social impact created at the societal level (macro, meso-level) is rarely achieved by a single organization, it is usually a collective impact, making it more convenient for the public institutions to collect data and assess the impact of all organizations. It should also be mentioned that institutions often have better access to databases than WISEs, so they can collect the data needed for the research more quickly, they also have the conditions to collect and store the data, ensuring their security. Therefore, for the reasons listed here, it is considered that WISEs should be responsible for carrying out the impact measurement on their beneficiaries.

The research showed that to prove their impact to the stakeholders, WISEs should measure and monitor these indicators: indicators related to the employment and well-being of the beneficiaries. These indicators can be measured together with the specific indicators set by the organization itself, which can be set separately according to the aims of each WISE. Also, measuring these indicators would help identify the programs and activities that bring the greatest benefits to the beneficiaries.

The proposed measurement framework and a set of indicators removes obstacles to implement social impact measurement in an organization, and allows stakeholders to standardize and compare the impacts of WISEs on their beneficiaries.

The paper also has some limitations. The purposive sampling has been used. Since the sample is selected based on the researcher's ascertainties and criteria, the sampling was judgemental. There was a reasonable probability of having uncontrolled variability and bias in the estimations of the sampling. Despite these limitations, the experts' interviews have allowed to receive meaningful information for the research in the specific research area. It should be noted that the empirical study was conducted several years ago, however, it should be noted that during this period there were no significant changes in WISEs measurements, policies in the field of social enterprise because of COVID19 pandemic, so the results are unlikely to be different.

Future research should also include economic indicators of WISEs' activities because more and more WISEs performing as hybrid organizations. Economic indicators becoming important in order to reveal the full impact's spectrum of WISEs. Furthermore, more research studies are necessary to find effective methods and tools to measure WISEs' social impact.

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# How the agent-based banking model might facilitate financial inclusion and sustainability via economic circularity? – A Bangladesh perspective

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## Abstract

Transformation of business models with the interaction of technological breakthrough, innovation and socio-economic transition are historical. Context based adjustment of business value chain also not rare. In fact, such adjustment might prove essential to survive in the market at certain point, especially in case of corporate transformation due to economic recession/depression, industry downturn and ecological correction like COVID-19. However, some business models are smart enough to cope with both kinds of transformations. Agent-based Banking Model (ABM) is one of such kind, which not only sustains during adverse situation but also facilitates the momentum of adversity. This ultimately defined as a sustainable innovation in banking industry that drives via circular economy. The mode of circular economy in product and service level or goods and service industry are not identical and while articulating circular business model in service industry, like Banking, then it denotes generating values for broader range of stakeholders and transmitting this value in such a way that minimize the ecological and social costs. How ABM might help the conventional banks of developing countries like Bangladesh toward the business model sustainability, is the centre of this study. Consequently, this study found that ABM would not only assist to bring the World's 1.7 billion unbanked adult community into regulated financial system but also facilitate the physically challenged, illiterate & marginal people on financial inclusion and pave the way of global development in a sustainable manner.

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**Keywords:** Agent-based banking model; Circular economy; Financial inclusion; Sustainability; Transformation

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## 1. Introduction

In this dynamic World, transformation of business processes to behave in a sustainable manner is becoming inevitable as the business entities are no longer an isolated part of economic, social and environmental ecosystem (Bermúdez and Schneider, 2018). Therefore, converting traditional business model into circular one is now trending. What is circular business model? The essence of circular business model lies on the circular economy. According to Ellen MacArthur Foundation, “*Circular economy focus on resource use often follow the 3-R approaches, (a) Reduce – minimum use of raw materials, (b) Reuse – maximum reuse of products/components and (c) Recycle – high quality reuse of raw materials*”. Adoption or conversion into circular model rapidly gaining importance among business acumen as scientists/researchers have made significant progress on pricing the externalities (Andersen, 2007), which will apply over the corporate actions. Embracing the concept of circular economy as the driver for sustainability (Bocken et al., 2018) could facilitate this transformation. Even though businesses dealing with commodity market counting the adoption of circular business model as challenging, from environmental and policy perspectives. Korhonen et al. (2018) found circular economy as vague and unorganized concept due its undefined application in specific field and there is an ambiguity at the tangent point between circular economy and sustainability (Geissdoerfer et al., 2017). Investopedia defined sustainability as “*focusing on meeting the needs of the present without compromising the ability of future generations to meet their needs*”.

Until now, circular business model in service industries might be the most neglected part of the circular economy. We should not confuse the service of a product by counting as service level circular economy like buying the lifetime or service hours of a ‘Refrigerator’ not the ‘Refrigerator’ itself. However, incorporating this concept into service industries like Banking, Insurance etc. might be vastly beneficiary for the society and economy at large. It will enable the service providers to cover broader range of populations under respective service network

with minimum ecological and social cost. Among the service industries, financial or banking industry is the strategic one, which is in acute sustainability pressure (Bocken et al., 2016). This is due to high correlation of banking industry with macroeconomics (Athanasoglou et al., 2008; Drake et al., 2006), geo-political incidents and other sensible issues like pandemic. Incorporating the concept of circular economy within banking industry is almost essential, not only for de-risking its extreme domino effects over the society, economy and environment but also for covering the nearly 1.7 billion<sup>1</sup> unbanked bankable community into the network of regulated financial system. In addition, the term ‘Circular Economy’ is no more an acute environmental action as it emerged, rather an economic strategy (Yean et al., 2008) that will assist the economy to become sustainable and resilient.

However, with the blessing to technological advancements, the inception of mobile banking or m-banking services from the beginning of 21st century is not less than a revolution in global financial industry. This inception has significant positive effect over the financial inclusion (Siddik et al., 2014), especially in underdeveloped and developing countries. M-banking not only facilitated unbanked populations but also enhanced the efficiency of other existing financial service providers, including conventional banks and microfinance institutions (Shaikh and Karjaluo, 2015). This ultimately helped most of them to formulate ‘FinTech’ entity as sister concern or strategic wing of mother company, e.g. the ‘bKash’ of BRAC Bank in Bangladesh. Beside this, quick adoption of digital finance by tech-giants like Tencent, Alibaba, Apple, Google etc, leaved aggressive footprint of ‘TechFin’. This TechFin booted the way of financial inclusion with a big jump by facilitating ‘Platform Economy’, especially at the beginning of second decade of this century. The difference between ‘FinTech’ and ‘TechFin’ is coincide. When a financial institution embrace technology for better client services is called ‘FinTech’, like ‘bKash’ and when a technology firm enters into financial industry is called ‘TechFin’, like ‘Alipay’.

Though m-banking is a handy tool of covering marginal community under banking network but due to security, technical, financial literacy, infrastructure and related issues, this mechanism couldn’t provide full-fledge banking coverage and failed to meet the growth prospects. As a result, m-banking is accounted for just around 5% of total bank accounts in India (Bhatt and Bhatt, 2016), the second most populous country of the world. Beside this, m-

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<sup>1</sup> <https://globalfindex.worldbank.org/>

banking is highly expensive compare to the financial condition of marginal community. For example, 'bKash', the first and popular mobile banking service provider in Bangladesh, which incurs at least 1.75% charge for cash out from the virtual wallet. This is excessively high for any paper (money) based economy where most of the payments have to make through physical currency.

Providing banking services in remote areas with low service cost and customer friendly way might be an effective mechanism of covering the huge amount of unbanked community. This community are mostly marginal people with little or no financial literacy and residing in underdeveloped and developing countries. Agent-based Banking Model (ABM) may do this optimally by covering wider range of stakeholders with low economic and social cost as the essence of such model is circular economy. Therefore, transforming existing brick and mortar type or linear banking system into circular one is demanding and somehow required.

However, aim of this study is to investigate the impact of Agent-based Banking Model and how it might facilitates the marginal community toward financial inclusion? To do so, this paper will follow by its background. Methodology of this study presented at section 3. Section 4 highlighted the existing linear business model of Banks functioning in developing countries like Bangladesh. Pictograph of ABM with its explanation, application and limitation presented at section 5. Qualitative aspects of this study presented afterward and further wrapped-up by concluding remarks.

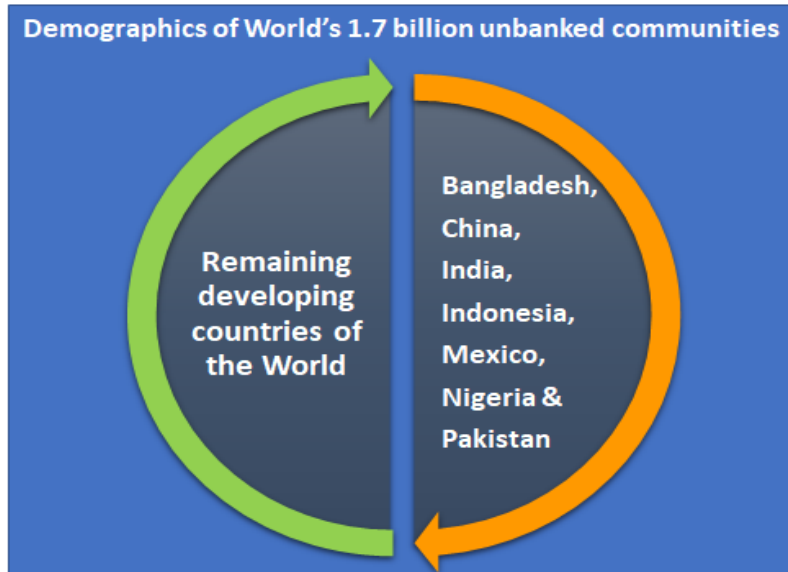
## 2. Background

To understand the status of global financial inclusion gap, the 'Global Financial Inclusion (Global Findex) database'<sup>2</sup> published in 2017 by the World Bank Group is absolutely good enough. Still, a brief flavour on this would help to realize the importance of fulfilling financial inclusion gap and identify the potential scope of contributing from socio-economic &/or environmental perspectives.

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<sup>2</sup> [https://globalfindex.worldbank.org/sites/globalfindex/files/2018-04/2017%20Findex%20full%20report\\_0.pdf](https://globalfindex.worldbank.org/sites/globalfindex/files/2018-04/2017%20Findex%20full%20report_0.pdf)

Figure 1: Demographics of World's 1.7 billion unbanked communities



Data source: Chapter 2, Global Findex Full Report 2017

According to World Bank's report, there are about 1.7 billion adult unbanked community globally. The unbanked means, they do not have a bank account or account with mobile money service. This report also claimed that, literally almost all of the global unbanked community lives in developing countries and nearly half of them belongs to seven countries only. Global technological super-power, the People's Republic of

China<sup>3</sup> hosting most of the unbanked adult population of the world. Therefore, sometimes technology may need to compromise with the context. For example, in the year 2018 due to digitalization of banking system, volume of net closing<sup>4</sup> of branches by Banks & Thrifts in the United States of America (USA) was 1,947 units, whereas in Bangladesh, banks opened 393 sub-branches<sup>5</sup> last year (2019). So, the context relevancy is very important rather than jumping into technology blindly. If that prevailed true than many banks of developing countries may become 100% digital, may be with the help of different global platforms like 'Deloitte Digital Bank Accelerator'<sup>6</sup> and could fill the vacuum of financial inclusion. Poverty, illiteracy and disability are the key obstacles of financial inclusion. Mechanism of agent-based banking model might facilitates illiterate, physically challenged and remote communities by leveraging

<sup>3</sup>[https://globalfindex.worldbank.org/sites/globalfindex/files/chapters/2017%20Findex%20full%20report\\_chapter2.pdf](https://globalfindex.worldbank.org/sites/globalfindex/files/chapters/2017%20Findex%20full%20report_chapter2.pdf)

<sup>4</sup><https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/49360224>

<sup>5</sup><https://www.dhakatribune.com/business/banks/2020/01/12/sub-branch-opens-up-new-portal-to-banking>

<sup>6</sup><https://www2.deloitte.com/global/en/pages/technology/articles/deloitte-digital-bank-salesforce.html>

existing technology and know-how. But the real challenge is poverty, which is further worsening with the interaction of COVID-19. World Bank estimate that COVID-19 might push 71 to 100 million<sup>7</sup> people into extreme poverty, globally. High financial inclusion may shed light on this, as it will prove that financial inclusion enhances the fund's mobility and leads toward productive investment that ultimately yield socio-economic development and reduce poverty.

### 3. Methodology

This is an exploratory research with thematic inclusion, where focus group interviews conducted in an unstructured manner to collect primary data. About hundred people asked for interview during February to April 2020, in the Chittagong region of Bangladesh, from which 63 person agreed to be respondent. Respondents are mostly male adult, whom are either existing clients (minority) of the Bank or officials (majority) working at the Banks. Respondents affiliated with the NCC Bank, One Bank, NRB Global Bank, First Security Islami Bank are branch level participants and respondents affiliated with Mutual Trust Bank, Dutch-Bangla Bank & Bank Asia Limited are the agent level participants. Respondent's orientation better described at the qualitative aspects section of this paper. Collected primary data extensively contributed to offset the key research query. These data also helped to find a substitute/supplementary business model for brick & mortar type banks that are hyperactive in underdeveloped and developing countries e.g. Bangladesh. This study used quantifiable data, gathered from plausible secondary sources, for better understanding the current scenario of formal financial inclusion gap that prevails mostly in emerging countries.

#### 3.1 Research question

How to incorporate marginal community into formal banking system and boost financial inclusion?

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<sup>7</sup> <https://blogs.worldbank.org/opendata/updated-estimates-impact-covid-19-global-poverty>

#### 4. Linear business model of banks in developing countries

By examining the primary data gained from branch level officials of different leading commercial banks in Bangladesh, it found that the existing business model of most of the commercial banks that operating in developing countries are kind of liner. This can be understand from their function pictograph plotted at figure 2. Nevertheless, many of those banks quickly coped with the trend of technological development. They have been adopting internet banking, real time transaction booking, inter & intra bank fund transfer, mobile application based banking service, online bank account opening, mobile banking division, SMS banking, ATM (Automated Teller Machine), CDM (Cash Deposit Machine), e-statement, POS (Point Of Sale) based cash withdraw facility, Plastic/Chip card based operation, storing data into the cloud and many more. To embrace those sorts of advance technology and facilities, operation cost of the banks reached at the pick where intention should be the gain of cost efficiency by embracing technology. Beside this, their brick and mortar type business model enhanced the maintenance cost significantly. To bear the lavish operation and maintenance cost, such banks have to charge the customers via different known and unknown means like SMS banking charge, half-yearly account maintenance charge, charge on cheque books, ATM cards, bank statement, online transaction, clearings and so on. As a result, availing banking services has become expensive which is discouraging people from financial inclusion.

Figure 1: Pictograph of Conventional business model of banks in developing countries



Source – developed by the authors

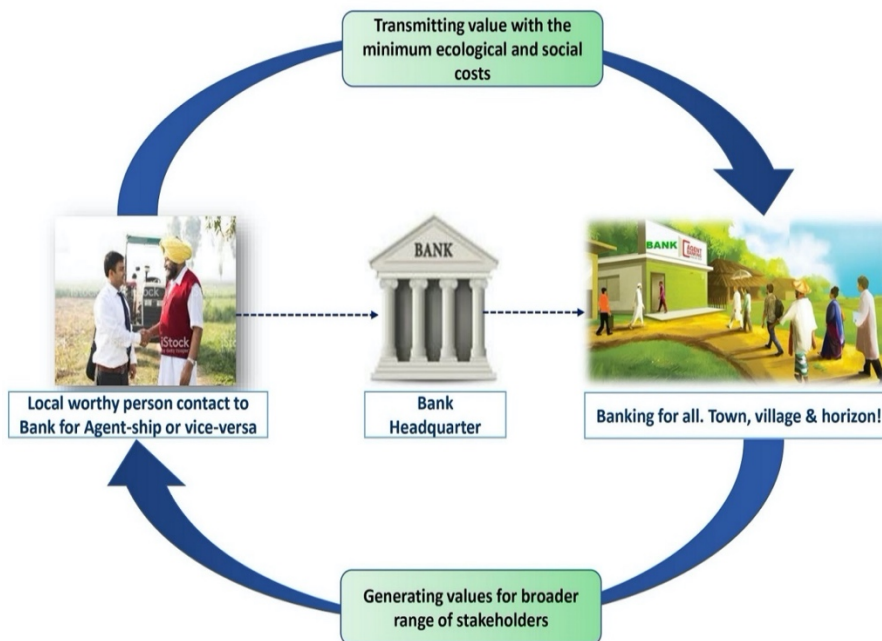


## 4.1 Mechanism of linear business model of banks in developing countries

As explained by the respondents, whose are the officials at branch level of different leading commercial banks, functioning process of Bank’s branch start form the head/corporate office. With the objective of expanding business, bank’s head office looks for potential commercial areas. After assessing the tentative business case, they generally rent an office space at the prime location of that particular commercial area which is logically expensive. Bank spends huge amount of money on its decoration, furniture and fixture, air conditioning etc. Then the bank employs personnel for providing services. Those personnel are mostly migrated from different parts of the country, who needs accommodation in nearby town. Through this way, respective banks provide financial intermediary services that incurs high amount of fixed and operation cost. Pictograph of such a model of banking is highlighted above via ‘Figure – 2’, for the better understanding.

## 5. Agent-based banking model

Figure 3: Agent-based Banking Model



Source – developed by the authors

## *5.1 Brief explanation of Agent-based Banking model*

In light with the objectives of circular economy, the agent-based banking model might transform the linear business model of conventional banks dramatically. As learned from the respondents affiliated with agent banking operations (Officials and Customers), the operating model of agent-based banking is very handy but technology dependent. Their opinions sketched, visualized and presented at figure – 3. Apparently, first of all locally competent person or entity approach to a bank for setting up a banking service centre with tentative social-business case, where conventionally banks look for potential markets and service location. Bank then review the proposal, which covers demographics and socio-economic condition of that particular region and the competency of the proposer. If the proposal fits with the bank's pre-specified criteria than it nominates the proposer as bank's local agent and asked the agent to set-up a friendly structure to provide banking services. In that case, banks generally provide technical supports and train the recruited staffs of agent, whose are mostly from local community. Through this mechanism employee migration reduces significantly, which means lower movement, better cultural affinity, better utilization of indigenous human resources, balanced development and many more. Off course bank needs to employ experienced staff for smooth operation of banking services until the locally recruited persons/agent become capable to serve the front office clients properly. Respective agent deploys his/her local reputation/network and the brand value of the bank, which ultimately serve the local community and brings them under formal or regulated financial system. This system incurs minimum ecological, social and operation cost than the linear service model of conventional banks. It enhances the service network of banking system that capable to serve all level of community from rich to ultra-poor. Eventually this builds a banking service model for the customers by the customer.

## *5.2 Mechanism of the core banking service under agent-based model*

Technological advancement blessed the conventional banks to adopt agent-based banking system, which not only help them to expand their coverage significantly without significant investment but also making their business model sustainable and resilient. Here is how?

Bank ask the appointed local agent to deposit certain amount in his/her mother or agent account with the respective bank. Upon receipt of deposit from customer through secure

computer-based transaction system, agent account debited (deducted) with the equivalent amount as credited (added) to the client's account. Similarly withdraw transaction booked for the drawings by client, that is, client account debited (deducted) with the equivalent amount credited (added) to agent account. For the safety of customer's fund, respective agent is not entitled to receive deposit from the clients exceeding the amount of his/her mother account and for such attempt, system will automatically reject the transaction. Transaction request will be authenticate by the biometric fingerprint of the respective client and agent/bank officials. This method is secure, cost efficient and environment friendly, due to no requirement of printing the 'Cheque'. Such assured form of transaction through biometric authentication is very effective and somehow essential for illiterate and physically challenged community. Those people are not capable to put signatures on paper, which protesting them from formal financial inclusion. Let us see an illustration on how the agent-based banking model facilitates the physically challenged community on formal banking inclusion;

Figure 4: Convenient banking inclusion of physically challenged community



Source: <https://www.bayometric.com/nitgen-fingkey-hamster-ii-dx-usb-fingerprint-scanner/>

According to World Health Organization, about 10% of global population are experiencing disability<sup>8</sup> and approximately 15% or 1 billion World's population lives with at least some sort

<sup>8</sup> [https://www.who.int/disabilities/world\\_report/2011/report/en/](https://www.who.int/disabilities/world_report/2011/report/en/)

of disabilities<sup>9</sup>. There is no such appropriate data available (at least I failed to find) about what percent of disable community are formally unbanked but there is a strong positive correlation among the poverty, disability and non-banking. Financial condition of most of the disable people that belongs to developing and underdeveloped countries are poor to ultra-poor<sup>10</sup>. However, bringing physically challenged people under social safety net is an on-going process globally. This require their formal financial inclusion not only for ensuring transparency in disbursement but also for truly empowering them financially with a real flavour.

Take the case of Mr. Mojaharul Hoque from Chittagong, a physically challenged freedom fighter of liberation war of Bangladesh and ex-policeman who got severe disability from war. He is entitled to receive the freedom fighter's allowance and pension from police fund but has to make another struggle for collecting his allowance and pension. The conventional brick and mortar type banking system of Bangladesh is responsible for worsening his sufferings; where in every month he has to travel to Upazilla-sadar (sub-urban area) where bank located, for proving his aliveness and receiving the pension.

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<sup>9</sup> <https://www.worldbank.org/en/topic/disability>

<sup>10</sup> <https://www.un.org/esa/socdev/enable/diswpa04.htm>

Figure 5: Photography of Mr. Mojaharul Hoque from Chittagong



Source: Author

However, with the agent-based banking model, disable and physically challenged people may get banking service easily from their home or nearby. This will reduce the cost of availing banking services, eliminate harassments & difficulties on financial inclusion. This might also ensure the transparency of the transactions and government's disbursement of social benefits to underprivileged, aged/retired, physically challenged and related communities.

### *5.3 Applicability of the model*

Agent-based model is in practice in many underdeveloped and developing countries (Chude and Chude, 2014; Chiteli, 2013) of the world, which generating huge social, economic and environmental positive impact there. Along with hitting triple-bottom-line, this mechanism may serve the special group of the society that is the physically challenged community. It might work as a handy weapon of eliminating inertia of illiterate people on formal financial inclusion. It will also enhance the indigenous fund mobilization via remote banking network and stimulate savings tendency of marginal inhabitants. This will ultimately lead toward the productive

investment and balanced development. Very specific challenges of brick & mortar type banking system that might be address by the agent-based banking model are;

- Existing high fixed & operation cost of spreading banking network might be reduce significantly.
- Way of incorporating illiterate and physically challenged community under formal financial system will be smoothen.
- Environmental footprint from banking industry of developing countries like Bangladesh, will be minimize notably especially through non-use of paper cheque, less employee migration, sustainable physical structure of service station and so on.
- Formal financial inclusion of marginal and remote community will increase and their savings propensity will stimulate accordingly.

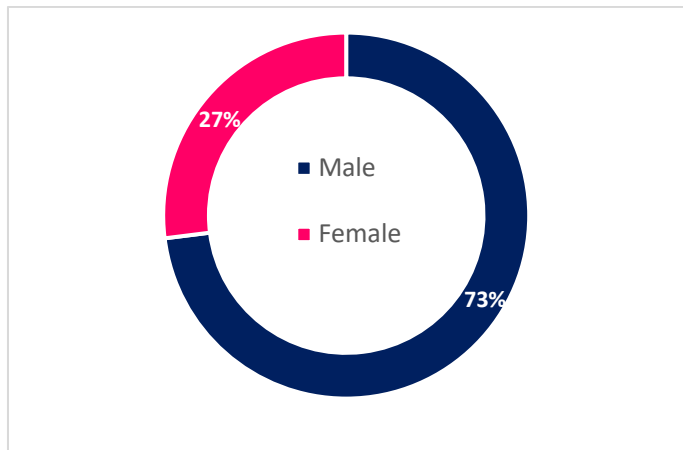
#### *5.4 Limitations of the agent-based banking model*

Functioning of the agent-based banking model might be limited on the several grounds. Availability of Electricity and IT infrastructure or internet coverage of the respective territory, which did not considered in this model. The issue of grid power might be resolved through solar panel in remote areas but the internet connectivity might a matter of concern. If internet providing mobile network is not available in remote areas than providing banking service there under such model will not be possible. Operation cost of that sort of banking model is subject to the cost of internet data and power as well. Finding the literally and financially eligible and interested local service provider or agent in remote areas might be difficult.

## 6. Qualitative aspects of the study

### 6.1 Respondent's orientation

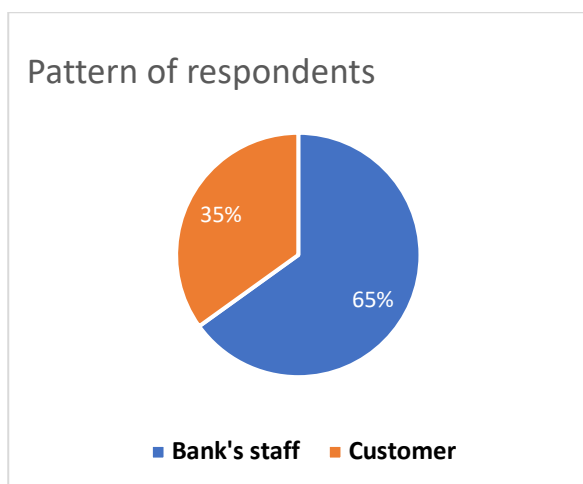
Figure 6: Respondent's orientation in terms of gender



Source – developed by the authors

In terms of the gender differentiation, 73% of total respondents are male and remaining are female. Reason behind this imparity might be the women are less likely to participate in survey.

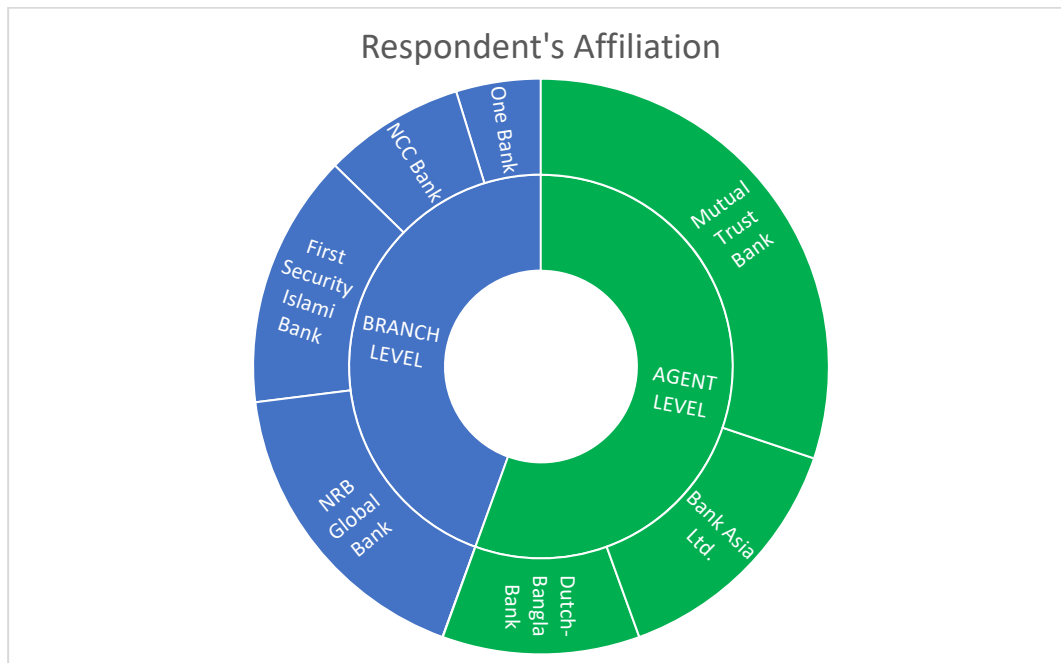
Figure 7: Pattern of respondents



Source – developed by the authors

About one-third of the respondents are the existing customers of the bank and 65% from the bank officials, either from Agent-banking or conventional banks. This is quite fruitful as the staffs of banks are better familiar with their business model.

Figure 8: Respondent's affiliation



Source – developed by the authors

Respondent's affiliation is an important factor regarding the relevancy and quality of data. Within collected samples, 56% respondents affiliated with agent banking service of three banks and remaining 44% affiliated with branch-level operations of four commercial banks. More than 30% of total data gathered from the respondents affiliated with Mutual Trust Bank, which is the highest single source. It followed by NRB Global Bank, Bank Asia Limited, First Security Islami Bank and Dutch-Bangla Bank, where they are accounted from more than 10% each. Respondents affiliated with NCC Bank accounted for 8% and One Bank accounted from 5% of respective data.



*6.2 Respondent's opinion (Selected)*

“Agent banking wing of our bank is one of the finest additions. It growing very rapidly and serving the remote community. Agent banking centres are working like social enterprises with very minimum ecological footprint. With the inception of about four years, our agent-banking network surpassed the branch network. The strategic implication of such banking model is really wide. Regarding this new-normal situation resulting from COVID-19, this is absolutely fit. People need not to crowd in the branches that means less travelling, less chance to be infected or spreading the corona virus. In certain cases, agents provided banking services at the doorstep of needed clients. So, I found this model is very handy and as a head of agent banking department at one of the country's leading private commercial bank, I would describe this as a silver bullet toward the financial inclusion of rural population of Bangladesh”.

Mr. Madan Mahan Karmakar,  
Senior Executive Vice-President & Head of Agent Banking Department  
Mutual Trust Bank Limited

“I believe agent-banking is an innovative solution in the entire banking system but it's definitely not a substitute of regular branch banking. Our bank still not introduced this model but very much positive about this as it incurs very low cost of spreading service network”.

Mr. Forkan Ali,  
Operation Head,  
NRB Global Bank Limited, Narayanhat Branch.

“Agent banking is a strategic supplementary to retail banking. In Bangladesh, I see the future of retail banking moving toward agent and/or online banking”.

Mr. Md. Saiful Islam,  
Junior Officer,  
First Security Islami Bank Limited, Hathazari Branch.

“Rural people once used to engage with NGOs and Cooperative societies for their savings endeavour where the risk of deception was very high. They also need to travel a lot to avail core-banking services. With the introduction of agent banking, those people might get the banking service at the nearby with safety and security”.

Mr. Md. Mamunur Rashid Chowdhury

Customer Service Executive

Mutual Trust Bank Limited, East Kalurghat Agent Banking Centre.

## 7. Conclusion

The role of banking system in wider areas of capital formation, investment and economic development is unanimously recognized. Unfortunately, in this technologically advanced World, approximately 22.58% of global adult population still out of regulated financial system and most of this unbanked community belongs to emerging economies. To bring those unbanked communities into formal banking system, agent-based banking model might be an efficient tool. This tool contains the basic traits of circular economy, where circular business model in service industry covers wider range of clients/customers with optimum costing from social, economic and environmental perspectives. However, this study prudently identified several latent constrains toward formal financial inclusion and flagged following issues;

- By leveraging existing technology, knowledge and expertise, applying a circular business model for brick and mortar type banks is very much feasible.
- There is enough scope of bringing physically challenged, disable, illiterate and remote community under formal financial system. Utilizing those scopes will not only enhance the propensity of financial inclusion but also stimulate transparency and good governance in the concerning regions.
- High fixed investment, high operating cost and employee migration related with spreading banking network by conventional commercial banks may be reduce significantly through the adoption of agent-based banking model.
- There is a huge potential to lure marginal community into regulated financial system without significant investment and ensuring affordable banking services for them is very much viable.

Essence this study based on the primary data of particular region of Bangladesh and the data from particular area might not represent the entire universe. Therefore, the effort of this study might be limited on this ground. Small sample size might be another limitation of this study. Still, it might be interesting for potential researchers on further development of existing ABM and the context based adjustment of ABM, since the status of prerequisites of this model are not identical in every country or county, especially internet facility.

Considering the current pandemic situation, the devastating effects of COVID-19 is leaving aggressive footprint almost in every industry. These effects further intensified at the banking industry owing its high correlation with different industries. In this complex situation as survival strategy, many private commercial banks in Bangladesh have been clipping their workforce and several other banks reduced their salary-base instead of retrenchment, media reported<sup>11</sup>. Outcome of this study might act as a policy feed for the conventional commercial banks in developing countries, like Bangladesh, whom are looking for sustainable transformation of existing business model.

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<sup>11</sup> <https://en.prothomalo.com/business/local/fear-of-losing-jobs-salary-cut-in-banks>

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# Women participation in nigerian economy: does governance matter?

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## Abstract

This study examines the effect of governance measures (control of corruption, accountability, and effectiveness of government) on women's participation in Nigerian economy using annual time-series data for 29 years spanning from 1990 - 2019. The Autoregressive and Distributive Lag (ARDL) Bounds test discloses the existence of a long-run co-integration relationship between accountability, control of corruption, effectiveness of government and women participation in the labor force. The empirical results obtained revealed that both in the short-run and in the long-run, accountability and the percentage of female employment have a positive and statistically significant effect on women's participation in Nigeria. Although, the effectiveness of governance shows negative and statistically insignificant effect both in the short-run and in the long-run while the control of corruption exerted a negative and statistically significant impact both in the short-run and long-run. Therefore, the study recommends that the government at all levels should ensure that accountability prevails in every sector, to allow fair play in representation, employment, and diffusion of decisions to strengthen and energize women's participation.

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**Keywords:** ARDL model, accountability, control of corruption, effectiveness, Women's participation

JEL Classification: C32, E02, J16

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## 1. Introduction

In a global dimension, good governance can be assessed through the sustainable economic opportunity that is available/made possible for the entire citizenry. This can be guaranteed through prudent economic management, organized private sector, adequate infrastructural facilities, effective community and rural development. It has also been argued that good governance ensures that the rule of law where property rights are guaranteed, voice and accountability are ensured, violence is suppressed, corruption is checked, and governance is effective. This simply means that good governance gives every citizen, regardless of gender, equal treatment, equal opportunities, and equal rights. In developing countries, several women are denied the opportunity to exercise their fundamental rights, such rights as, holding leadership positions, contributing in decision making, participating as head of the household, and many others. Studies like (Eagly, 1987; Cheung & Hanandez, 2001) have shown that women are more sympathetic than their male counterparts. They are less corrupt, very effective, accountable, and strict in following the rule of law. Similarly, international comparisons have shown that countries with more women in parliament or government have lower levels of corruption (Dollar, Fisman & Gatti, 2001; Swamy, Knack, Lee & Azfar, 2001; Vijayalakshmi, 2008; Paweenawat, 2018; Hazarika, 2018).

Accordingly, weak or bad governance creates ineffective institutions, a high level of corruption, violation of the rule of law, engaging in extravagant policies that disregard for the property right, constitutions, and customs that will ensure order and certainty in the society (Ogundiya, 2010). Furthermore, since women are known to be too sympathetic and peace-loving, weak governance indulges in political instability, corruption, and abuse of the rule of law to scare them away from participating in politics resulting in gender marginalization. Similarly, when the institutions that are supposed to support and encourage women participation are weak, better quality of life vanishes and the rights of the female are taken away. The power imbalance between women and men is manifested or exemplified in governance arrangements. Increasing the number of female participation may likely promote gender responsiveness of government which is crucial in eradicating corruption.

In most societies, women assume some key roles: that of a mother, a home-manager, and a political activist. Of these various roles, the mother has been engendered by the women's movement. Some developing countries have quotas, directing a minimum level of female participation in government. For example, the new constitution of Afghanistan and the interim constitution of Iraq both require that twenty-five percent of the legislature be female (Quota Project, 2005). In Nigeria, the awareness about the role of

women in the development of a nation came up in the 1980s. Fortunately, the International Conference on women in Beijing in 1995 intensified the effective participation of women in Nigeria. However, despite the enhancing effort and the major roles women play, they are yet to be given recognition.

Women are a force to be reckoned with in any society because of their population their leadership abilities and their important roles. Available statistics revealed that overall women's political representation in the government of Nigeria is less than 7 percent (Agbalajobi, 2010). This could be due to some cultural stereotypes, poor governance, political parties, religious beliefs, low level of education, poor finance, the godfather syndrome, negative stigmatization, harmful traditional practices, and patriarchal societal structures.

Concerted efforts have been made by some key government and non-governmental organizations on how to increase the level of participation of women in politics or governance in general to complement the declaration made at the fourth World Conference on women in Beijing, which advocated 30% representative. The National Gender Policy recommendation of 35% for the more inclusive representation of women in both elective and appointive positions respectively is also a significant effort. Certain proportions of women in elected positions increased slightly between 1999 and 2007, from an average of 2.3% to 7.8%. While in 2015, 20 women out of 359 were in its lower house representing 5.6% and 7 out of 109 were in its upper house representing 6.4% (Women in Parliaments, 2019). Also, United Nations Development Programme [UNDP], (2019), reported that women in the Nigerian parliament dropped from 7.3% in 2010 to 6.6% in 2012 and 2014 and declined further to 5.8% in 2015 and 2018 respectively. Similarly, according to Nigeria Women Trust Fund (NWTF), (2019) following the 2019 elections, women make up 7.3% of the Nigerian Senate, 3.1% of the House of Representatives, no state governors is a woman, one deputy governor and out of 42 ministers 7 are female representing 20%. Furthermore, the report also revealed that between 1999 - 2015, 6% of councilors were women, 24% of judges in the federal court were women, and an average of 7% of each type of high-level government officials and senior administrators were women (National Bureau of Statistics [NBS], 2018).

Undoubtedly, the rising inequalities in education have been of great concern to female, non-governmental organizations, and individuals in Nigeria. As reported by (UNDP, 2019), 45.2% of educational inequalities recorded between men and women in 2012 and 2013, reduced to 43.3% in 2014 and 2015, rose to 43.8% in 2016 and declined to 38.1% in 2017 and 2018 respectively. Likewise, income

inequalities fell from 34.5% in 2012 and 2013 to 28.5% in 2016 and 28.2% in 2017 and 2018 respectively (Kumar, 2017; UNDP, 2019).

The government has made several efforts to address the low level of women participation in Nigerian economy and politics to improve governance. Among such efforts, are the establishment of women's political empowerment office, Nigeria Women Trust Funds, Women Lobby Group, Independent National Electoral Commission (INEC) gender policy, the national multi-stakeholder dialogue, the initiation of several interventions to actualize affirmative action and the convening of the Nigeria Women Strategy Conference and National Center for Women Development. Despite these numerous policies, programmes, and interventions, women's participation in government in Nigeria is still low, and this can be attributed to the weak or ineffectiveness of governance. The empirical study of Cheung & Hanandez (2001) uncovers that states with higher rates of women participation in government have lower levels of corruption. In another view, if women partake in a potentially corrupt transaction, it is more likely to fail. The reason is that women are naturally more honest, but they are more opportunistic when they have the odds to smash an implicitly corrupt contract and less engaged in retaliating nonperformance (Frank, Lambsdorff & Boehm, 2011). It is on this note that this study seeks to examine the effect of governance on Women participation in the Nigerian government. The study was motivated by the fact that previous studies (Jaumotte, 2000; Damisa, samndi & Yohanna, 2007; Hora, 2014; Ekundayo, 2017; and Osimen, Anegbode, Basil & Oyewole, 2018) placed emphasis on the determinants of women participation, gender inequality, and governance.

The objective of this study is to examine the effect of governance on women participation in Nigeria. To achieve this aim, the study answered two principal research questions how does the corruption control, accountability, and effectiveness of government influence women's participation? Is there any relationship between control of corruption, accountability, and effectiveness of government and women's participation in Nigeria?

The intention of this study is to explore the potential of women in Nigeria through good governance. This study is paramount to the government, policymakers, and women because it provides policy suggestions on how good governance can influence women's participation in the country. It formulates policies that will promote good governance and enhance women participation in Nigeria. Lastly, this study serves as a useful material for future study by contributing to the scanty literature on the topic.



## 2. Review of relevant literature

Asian Development Bank [ADB], (2005) defined governance as the institutionalization of a system through which citizens, institutions, organizations, and groups in a society articulate their interests, exercise their rights, and mediate their differences in pursuit of the collective good. The United Nations Development Program [UNDP], (1997) established that governance is an exercise of economic, political, and administrative authority to manage a country's affairs at all levels. Governance refers to the quality of the institutions to make, implement and enforce sound policies in an efficient, effective, equitable and inclusive manner. In broad terms, governance is about the institutional environment in which citizens interact among themselves and with government agencies/officials. Fundamentally, it is about power, relationships and accountability: who has the influence, who decides what, and how decision-makers are held accountable (ADB, 2005).

On the other hand, Agishi (2014) formulated that women's participation is the active roles performed by women. Similarly, women participation is the activities of the feminine members of lawmaking organizations or people who try to influence the activities of a country (Nwabunkeonye, 2014). According to Bamberger (1988) women participation refers to an active process whereby women influence the direction and execution of development projects rather than merely receive a share of project profits.

This study adopted Gender Roles as a theoretical framework. The theory was propounded by Eagly (1987). The Gender Role theory suggests that an individual's gender is an important determinant of his or her behaviour and influence over others. The theory is based on the assumption that the behavior of men and women is assessed in terms of societal expectations of how their gender ought to behave. Women are expected to display more feminine characteristic such as sympathy, while men are expected to be more assertive, women are also flexible and better at managing ambiguous situations. The theory affirms that the feminist nature of women makes them so sympathetic, good managers of any situation, and effective in influencing and solving complicated situations in the economy. Therefore, governance that actively involves women participation can contribute significantly to the growth of the economy. Since they are more sympathetic than their counterpart in managing and executing a policy that will improve the lives of people.

This view is supported by empirical studies that investigated determinants of women's participation in Nigeria, and in other African countries. The studies also examined the developed economy. Osimen et al, (2018) studied political participation and gender inequality in Nigeria and found that Nigerian women are

still being marginalized due to the style of leadership inherent in the country. Hora (2014) researched factors hindering women participating in public institutions at Bamidele communities of Kenya and observed that over burden of domestic responsibilities, negative attitudes regarding women's ability to govern, lack of role model women leaders are factors that hinder women's participation in the community. Equally, Jaumotte (2000) examined the determinants of female labour force participation in OECD countries and discovered female education, the general labour market conditions, and cultural attitudes remain major determinants of female participation. Damisa, Samndi, and Yohanna (2007) investigated the determinants of women participation in agricultural production in Nigeria and established that the level of the disposable income, perception, tenure rights and the level of the contribution of the women to agriculture had a significant impact on women participation in agricultural production in Nigeria.

Furthermore, Welch (1997) examined why American women tend to participate in political activities slightly less than the men and found out that the political socialization process, the family responsibilities and the overrepresentation of women in demographic groups that have low participation levels are the reasons for low participation of women in politics in America. Also, Ekundayo (2017) investigated good governance theory and its implications in Nigeria and found that poor governance does not only exist but also thrives in Nigeria due to poor political leadership and observable flaws in the political leadership recruitment process in Nigeria. Lastly, Paweenawat (2018); Hazarika (2018), analyzed gender and corruption nexus and obtained that Nations with a greater number of women participation suffers less from corruption.

### 3. Methodology

This study employed time-series data span from 1990 to 2018, governance indicator measures (effectiveness, control of corruption and accountability) sourced from World governance indicators (2019), women labour force participation and female employment rate sourced from World Bank (2019).

#### Model specification

The functional form of the relations established below:

$$WLFP = F(GOV) \tag{1}$$

Where: WLFP is Women labour force participation and GOV is Governance. The equation (1) shows the functional relationship between women labour force participation and governance. To achieve the objective of the study three governance indicators were adopted and presented in equation 2:

$$GOV = (ACC, COC, EFF) \quad (2)$$

Where: ACC is accountability, COC is Control of Corruption and EFF denotes Effectiveness. In order to derive equation (3) and obtain functional relationship between women participation and governance, equation (2) is substituted into equation (1) and rewritten as:

$$WLFP = F(ACC, COC, EFF, FEMP) \quad (3)$$

Where: FEMP is the female employment rate. To obtain an econometrics model, equation (3) transformed, presented as:

$$WLFP = \alpha + \beta_1 ACC_t + \beta_2 COC_t + \beta_3 EFF_t + \beta_4 FEMP_t + \mu_t \quad (4)$$

Where:  $\alpha$  is the intercept of the model,  $\beta_1 - \beta_4$  are coefficients estimated. The theoretical expectation of  $\beta_1 - \beta_4 > 0$ . By implication, the coefficients of the parameters are expected to be greater than zero. That is, a positive relationship between governance indicators and women labour force participation is expected.  $\mu_t$  is Error term (stochastic Variable). The equation (4) is the long-run estimate, showing only the long-run relationship between the regressors and regressed. Since, the variables showed mixed order of integration, there is need to specify short-run estimate to test explanatory variables effect on explained variable. The speed of adjustment to equilibrium when short-run shocks occur also reveals. The short-run model presented in equation (5) where  $Ecm(-1)$  is error correction mechanism:

$$WLFP = \lambda_0 + \lambda_1 ACC_t + \lambda_2 COC_t + \lambda_3 EFF_t + \lambda_4 FEMP_t + Ecm(-1) \quad (5)$$

The conducted unit root test, diagnostics, and stability tests. The diagnostic and stability test were normality tests, serial correlation test, heteroscedasticity test, Ramsey RESET test, CUSUM, and CUSUMQ to verify soundness, reliability, and validity of the model.

#### 4. Research findings and discussion of results

In an empirical analysis, the first thing is to conduct pre-test of unit root to determine whether the variables are stationary or not and to also know the appropriate method of analysis to be employed. The Augmented Dickey-Fuller (ADF) and Philips Peron (PP) tests of unit root used results is presented below:

Table 1: units root tests results

Variables	LEVEL		FIRST DIFFERENCE	
	ADF	PP	ADF	PP
WLFP	-0.655	-0.181	-2.663*	-2.950*
ACC	-1.578	-1.570	-4.124***	-4.115***
COC	-0.355	-2.008	-4.376***	-5.591***
EFF	-3.241**	-5.872***	-10.040***	-16.515***
FEMP	-0.561	-0.382	-4.331***	-4.359***

\*\*\*denote 1%, \*\* 5%, and \* 10% level of significance

Source: Authors' computation (2020)

Given the ADF and PP results in table 2, the variables were stationary at the same order except one. Effectiveness of government (EFF) is stationary at levels but women labor force participation (WLFP), accountability (ACC), control of corruption (COC), and female employment rate were stationary at first difference. Thus, we reject the null hypothesis and accept alternatives and conclude that the variables have no unit root at 10%, 5%, and 1% level of significance.

Provided that the result of the ADF and PP tests showed a mixture of I(0) and I(1) for the variables, the correct estimation technique to follow is the ARDL method. However, it was necessary to test for co-integration among the variables. This was done using the ARDL bound testing for co-integration to verify whether a long-run relationship exists among the variables, illustrated in table 2.

Table 2: Bounds test

Test Statistic	Value	Significant	I(0)	I(1)
<i>F</i> -statistic	3.147	10%	2.2	3.09
	4	5%	2.56	3.49
		1%	3.29	4.37

Source: Authors' computation (2020)

The f-statistics value (3.149) is greater than the upper boundary I(1) at 10% levels of significance. Therefore, a long-run relationship exists between women labour force participation and the explanatory variables in the model. Hence, we employed the Autoregressive Distributive Lag model to capture both short-run and long-run effects of governance indicators on women labor force participation in Nigeria. The short-run estimates, submitted in table 3:

Table 3: Short Run ARDL

Variables	Coefficient	T-statistic
<i>D(ACC)</i>	1.120	5.675***
<i>D(COC)</i>	-0.946	-6.451***
<i>D(EFF)</i>	-0.039	-0.478
<i>D(FEMP)</i>	0.128	7.828***
<i>ECM(-)</i>	-0.620	-10.379***
$R^2 = 0.95$	DW = 2.16	

Source: Authors' computation (2020)

Table 3 is the short run ARDL Error correction model and the signs are in conformity with theoretical expectations. The result shows that ACC and FEMP have a statistically significant and a positive effect on the WLFP in Nigeria within the period of the study. A 1 percent increase in ACC and FEMP would lead to 1.12 and 0.13 percentage increases in WLFP respectively. This collaborates with a prior expectation of this study and findings of (UNDP, 2019), that accountability improved gender participation, as well (Jaumotte, 2000) on the female employment as a determinate of women labour force participation.

These suggest that accountability and female employment can boost women's participation. This is because a government that lives within the framework of accountability, ensures that citizens are given equal rights, empowerment, and participating opportunities, as well as secures sound system, hence reduction of inequalities which may increase women's income and involvement in decision making.

However, COC and EFF have a declining effect on WLFP, COC is statistically significant and EFF statistically insignificant. A percentage increase in COC and EFF would bring about 0.95% and 0.04% decreases in the WLFP. These outcomes are contrary to the theoretical expectation of this study and the discovery of (UNDP, 2019), that corruption has an inappropriate effect on women participation

The negative sign of COC, implies that fighting corruption does not promote women's participation. This could be as a result of corruption fighting back mechanism, less women involvement and insincerity in the fight against corruption in Nigeria. A serious government is needed to fight corruption and more participation of females is required because increase in women participation is found to have a decreasing effect on corruption (Paweenawat, 2018; Hazarika, 2018), While that of EFF could be traced to the weak

or low intervention of government to critical issues that need urgent attention, such as political violence, abuse of rights, the rule of law, marginalization, etc.

The coefficients of the error correction term have the correct negative sign, it is less than one and it is statistically significant. This unique outcome has three significant implications. First, it confirms the presence of a stable or strong long-run relationship between WLFP and the determinants (*ACC*, *COC*, *EFF*, and *FEMP*), as previously established by the bound test result in table 3. Secondly, the value (-0.62) implies that about 62% of the short run's disequilibrium arising from last year's shocks will be corrected within the current year. Lastly, the negative sign suggests the presence of a unidirectional causality in the long run from the explanatory variables to the explained variable.

The coefficient of determination ( $R^2$ ) shows that a 95% total variation in WLFP is explained or caused by regressors. The model is a good fit because the coefficient of determination has demonstrated the accuracy and inconclusiveness of variables that are determinants of WLFP.

After the short-run results and implications was ascertained, the long-run estimates of the ARDL model are shown in table 4:

Table 4: Long Run ARDL

Variables	Coefficient	T-statistic
<i>ACC</i>	0.254	3.483***
<i>COC</i>	-1.002	-4.688***
<i>EFF</i>	-0.451	-0.986
<i>FEMP</i>	0.156	64.010***

Source: Author computation (2019)

Table 4 expresses the long-run results. The variables depicting synonymous characteristics with the short-run result. *ACC* and *FEMP* have a positive and statistically significant effect on WLFP in the long run. A percentage increase in *ACC* and *FEMP* would result in a 0.25 and 0.16 percent increase in WLFP in Nigeria. These findings correspond to (UNDP, 2019; Jaumotte, 2000) and the theoretical expectation of this study.

Nonetheless, *COC* and *EFF* have a negative effect on WLFP and it is statistically significant except *EFF* in the long run. A one percent increase in *COC* and *EFF* would lead to 1.00 and 0.45 percent decreases in WLFP. This outcome is contrary to the theoretical a prior odd of this study and the empirical findings

of (Dollar et al, 2001; Kumar, 2017; UNDP, 2019), that corruption has an inappropriate effect on women participation

To ascertain whether the results presented in table 3 and 4 could be relied upon, some diagnostic and stability test was carried out and the results presented in table 5:

Table 5: Diagnostic tests

Assumptions	Test	Prob.
Normality	Jarque-Bera	0.406
Heteroscedasticity	Breusch-pagan	0.982
Serial correlation	Breusch-pagan	0.378
CUSUM and CUSUMQ	STABLE	0.050
Ramsey RESET	F-statistics	0.875

Source: Author computation (2019)

This test is very essential as the results of the estimated model have policy implications. Table 5 shows diagnostic test results for the classical assumption of Autocorrelation, Normality, Heteroscedasticity. The model passed the diagnostic test. Implying that the residual of the model is serially independent, Homoscedastic, and normally distributed. By fulfilling these underlines classical assumptions of regression analysis, it is concluded that the estimated parameters are best, linear, and unbiased as well as efficient. This means that policy implication can be drawn from the results of this study. On the stability of the parameters, Cumulative Sum of Recursive Residuals (CUSUM) and Cumulative Sum of Recursive Residual squares (CUSUMQ) tests were conducted. The results are contained in the appendix. It revealed that the estimated parameters of the models are stable over the studied sample period as both the recursive residuals and its squares are contained within the 5% critical bounds. We accept the null hypothesis and conclude that the required level of significance is not smaller than 5% (0.05). Overall the model is well fitted, stable, and good for policy recommendation.

## 5. Conclusion and Recommendations

Over the years we have overlooked the need for extensive continuing dialogues and mentorship to enable women to reflect on their ancestral roles and be convinced of the need to alter these in favor of equality with men, until the recent time that gender inequality has been a global highlight in the local,

national, and international domains. This is because the fortunate women in the society have realized that men dominate not only in the household decision making process but in essential positions in government which make them more superior, hence the need for an advocate of women's voice to achieve fair representation and participation in government and decision making. It's on this note that this study examined whether governance influences women's participation using annual time-series data for 29 years stretching from 1990 - 2019. The ARDL Bounds test disclosed the existence of a long-run co-integration relationship between governance indicators measures (accountability, control of corruption, and effectiveness of government) and women participation quantified as women labor force participation. The empirical results obtained reveal that both the short-run and long-run accountability, the percentage of female employment have a positive and statistically significant effect on women's participation in Nigeria government. Although, both in the short-run and in the long-run, the effectiveness of government shows negative and statistically insignificant while control of corruption prevails negative and statistically significant both in the short-run and long-run. Based on these findings the study recommends as follows:

The government at all levels should ensure that accountability prevails in every sector, to allow fair play in representation, employment, and delegations of responsibilities to strengthen and energize women's participation.

The government should implement the 30% women representation affirmed by the World Conference on women in Beijing. This is because a study in international comparisons have shown that nations with more women in government have lower levels of corruption (Dollar, Fisman and Gatti, (2001). Though, this study found control of corruption to have a declining effect on women's participation which means more need to be done in the fight against corruption before a sizable representative of women can be achieved.

Since employment is found to have an appreciative effect on women's participation. Women should be encouraged to participate in every sector of the economy and women empowerment programmes should be established to eliminate gender inequality so that they can demonstrate their abilities outside the house itself.

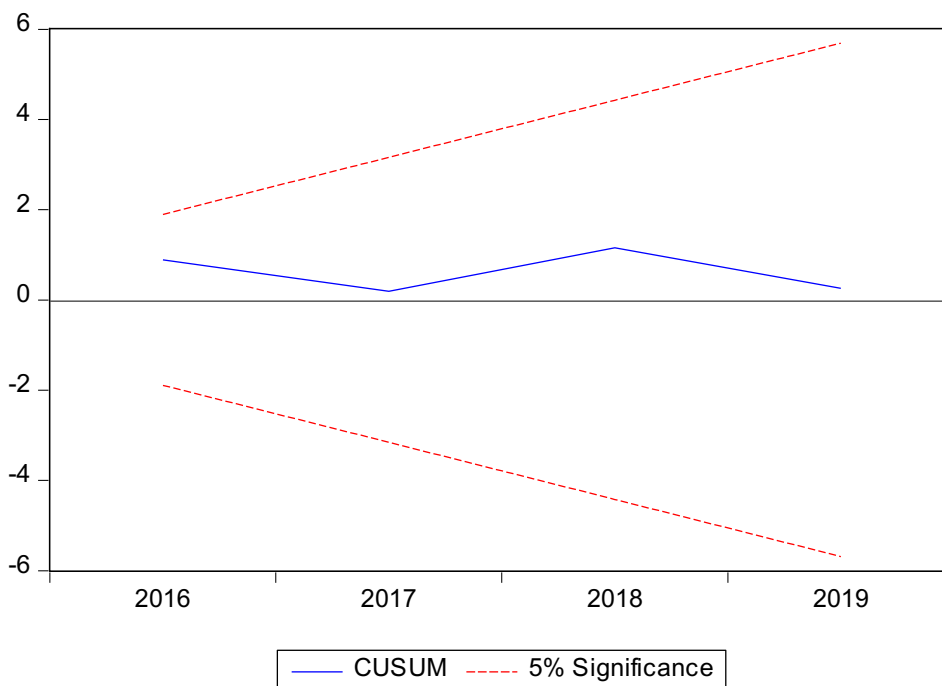
Finally, policymakers and relevant organizations should strengthen anti-graft in the area of checkmating bad governance to promote good governance as it would affect not just women's participation in the country but the whole economy.

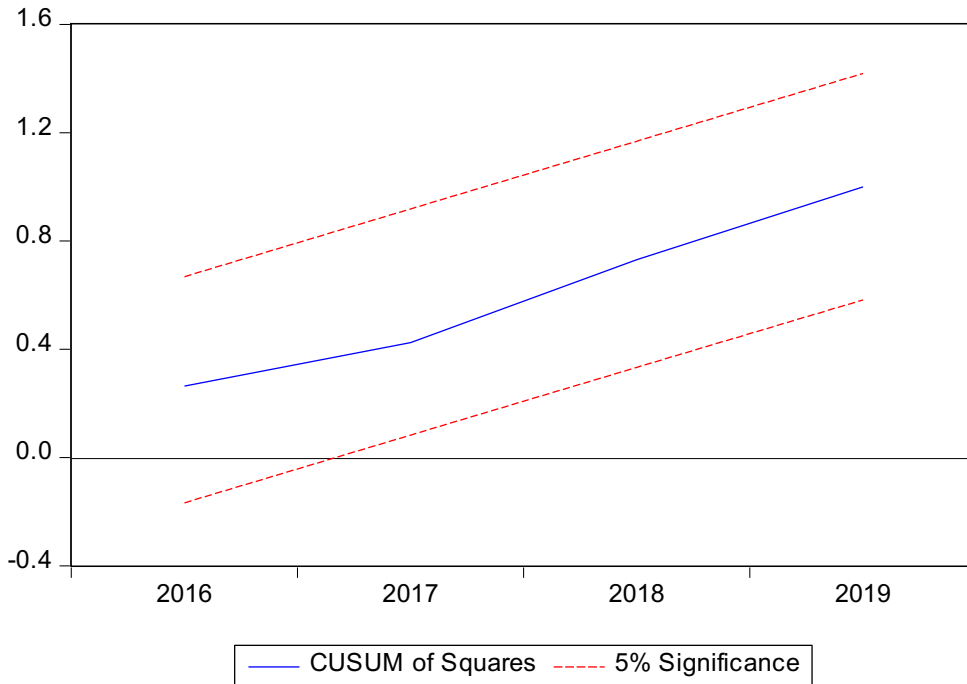


### 5.1 *The limitations and suggestions for further study*

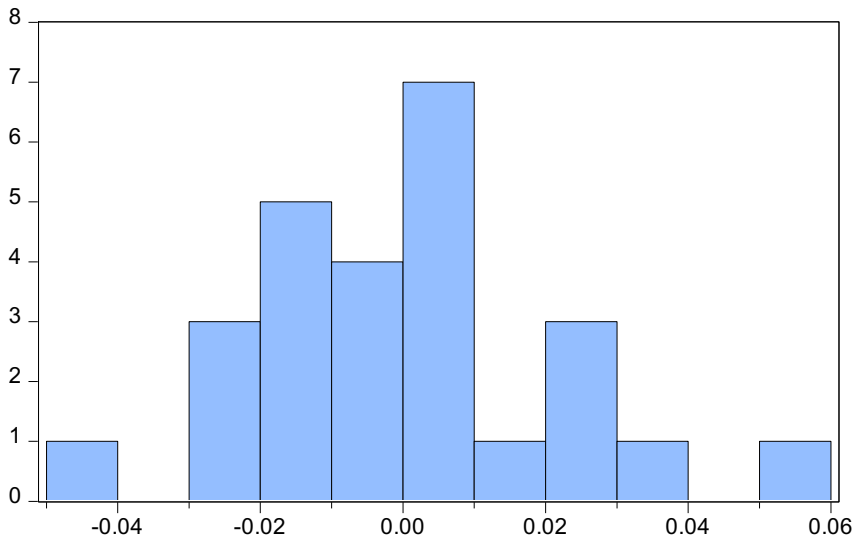
The study was constrained by inadequate data on governance indicators which limited the scope and there is a shortage of empirical studies on women's participation and governance in Nigeria. Therefore, the study recommends that further studies should use the primary sources of data to overcome the first limitation. Further research can examine the determinants of women's participation in labour force in Nigeria. Lastly, future studies can conduct a comparative study across the various geopolitical zones in Nigeria on factors that determine women's participation.

### APPENDIX A: Stability test





**APPENDIX B: Residual tests**



Series: Residuals	
Sample 1994 2019	
Observations 26	
Mean	1.12e-13
Median	-0.000794
Maximum	0.057070
Minimum	-0.041562
Std. Dev.	0.021537
Skewness	0.594352
Kurtosis	3.501012
Jarque-Bera	1.802697
Probability	0.406022

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.649181	Prob. F(2,2)	0.3775
Obs*R-squared	16.18565	Prob. Chi-Square(2)	0.5003

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.265629	Prob. F(21,4)	0.9816
Obs*R-squared	15.14202	Prob. Chi-Square(21)	0.8158
Scaled explained SS	0.448170	Prob. Chi-Square(21)	1.0000

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