Managing Social and Economic Performance in Social Enterprise

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Abstract

Social enterprise encounter has received enormous pressure to manage both social and economic objectives. This has given rise to tension in managing social and economic objectives leading to tension within the organisation. Failure to manage this tension and competing demands between these two objectives raise concerns toward mission drift issue. The paper discusses the conceptualisation of social enterprise and its competing demands, and the analysis of normative and empirical research on performance measurement system (PMS) and management control in social enterprise. From the normative literature, a number PMS models for social enterprise were advanced. However, there is lack of empirical research on management control and performance measurement in social enterprise, especially regarding the ways an organisation designs and uses its PMS to achieve a balance between social and economic objectives. Hence, a qualitative method is recommended as a developing strategy for managing the competing demands since they are very much dependent on the manner organisational view and deal with the needs of the two objectives.

Keywords: Social enterprise, hybrid organisations, microfinance, management control system, and performance measurement system (PMS)

1.0 Introduction

Social enterprise is a form of hybrid organisation that is often hailed as an innovation in the social economy (Peattie & Morley, 2008). In contrast to public and non-profit organisations which are dependent on limited public funding that leads to financial constraints to achieve social objectives, social enterprise engages in commercial activities to overcome these financial constraints. Inevitably, social enterprise has been recognised as an innovation in the social economy as it is able to generate its own income to address market failure and fulfil the responsibilities of public sector and non-profit organisations in providing social services to the community (Peattie & Morley, 2008). Nevertheless, despite being dubbed as an innovation in the social economy,

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social enterprise is viewed as a fragile organisation (Santos, Pache, & Birkholz, 2015). A considerable amount of literature review indicated that possessing dual objectives spark tension to social enterprise (Doherty, Haugh, & Lyon, 2014; Ebrahim, Battilana, & Mair, 2014; Smith, Gonin, & Besharov, 2013; Steven & Sunley, 2015). Failure to strike a balance between the demand of these two objectives is associated with mission drift; a term given when social enterprise places more emphasis on either one of its dual objectives. Too much attention on the economic objectives might drive the organisation away from its social objectives whilst too much focus on the social objectives might affect the financial sustainability of the organisation eventually.

Although the appearance of tension in social enterprise is acknowledged in the extant literature, there is a lack of studies on the manner of how social enterprise responds to such tension (Doherty et al., 2014; Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011; Smith et al., 2013). Thus, scholars recommended that further research should be carried out to understand the dynamics of social enterprise in striking a balance between the social and economic objectives (Austin, Stevenson, & Wei-Skillern, 2006; Doherty et al., 2014; Smith et al., 2013). In response, several studies furnished some evidence that a cohesive internal process might provide solutions for social enterprise to manage the dynamics of dual objectives. Among the internal process components are design structure (Santos et al., 2015), governance mechanism (Cornforth, 2014; Santos et al., 2015), and performance measurement systems (Epstein & Yuthas, 2010; Epstein & Yuthas, 2011; Santos et al., 2015). It appears from the aforementioned suggestions that the three internal components are elements of the management control package proposed by Malmi and Brown (2008). These studies generally revealed that management control tools such as performance measurement system can be leveraged to manage the dynamics between social and economic objectives.

Measurement is perceived as the key driver in the establishment of a control system (Watts & J.McNair-Connolly, 2012) and a performance measurement system has been documented as a tool to monitor and manage organisational control to guarantee the attainment of goals (Amaratunga & Baldry, 2002). However, compared to the profit and non-profit organisations, the literature surrounding management control and performance measurement in social enterprise illustrated that they are either still at the infancy stage (Conaty, 2012; Ebrahim & Rangan, 2010) or had been given little attention to (Berry, Coad, Harris, Otley, & Stringer, 2009; Luke, Barraket, & Eversole, 2013). One of the contributing factors for such occurrence is due to the fact that the dual objective nature of social enterprise complicates the manner of evaluating performance (Arena, Azzone, & Bengo, 2014; Austin et al., 2006; Bagnoli & Megali, 2011; Luke et al., 2013; Mason & Doherty, 2015). Another contributing factor can be attributed to the subjectivity of measuring social value creation (Paton, 2003). Nonetheless, as an organisation that professes itself in delivering social benefits to the community, it is crucial for social enterprise to manage and measure its double bottom line performance (Arena et al., 2014). Hence, this paper studies how performance measurements are used in social enterprise to manage social and economic performance.

2.0 Background of the Study

Microfinance institutions are one notable form of social enterprises (Ebrahim et al., 2014). As any other social enterprise, they incorporate components of development (social objectives) and banking in their operations (economic objectives) (Battilana & Dorado, 2010; Scarlata, Kimmitt, & Dimov, 2013). The main social objective of microfinance institutions is alleviating poverty by providing loans to the poor to participate in economic activities. Meanwhile, the economic objectives necessitate the microfinance institutions to design for sustainable operations so that disposition of loans can be dispensed to the needy continuously (Scarlata et al., 2013).

Prior study noted that in the early development of the microfinance industry, many microfinance institutions were established in the form of non-governmental organisations (NGOs). These NGOs undertook the community development role to tackle poverty on behalf of the government. As such, they received funding from the government and are dependent on the government for survival. However, over the years, as demand for loans increased and funding became scarce, the microfinance industry became more commercialised to assure its financial sustainability. The literature demonstrated that commercialisation in the microfinance industry occurred along a continuum of these five processes: (i) adoption of business-like approach in administration and operations via applying cost recovery interest rates, (ii) progression toward operational self-sufficiency (increasing capacity to cover all expenses by revenues), (iii) attainment of financial self-sufficiency (generating profit to finance growth), (iv) utilisation of commercial source of funds, and (v) operating purely as commercialised microfinance institutions or formal financial institutions (Ayayi & Sene, 2008; Charitonenko & Afwan, 2003). Hence, to be sustainable, numerous non-profit NGOs are transforming into commercial financial institutions while some are engaging in microfinance activities with a business-like strategy (Charitonenko & Afwan, 2003).

Likewise, similar development was observed in Amanah Ikhtiar Malaysia (AIM), the largest NGO based microfinance institution in Malaysia. AIM was established in 1987 with the objective of eradicating poverty (Mason, Azmi, & Madden, 2015). Given that this objective is in tandem with the government's policy, the organisation received heavy funding to operate (Mason et al., 2015). The obtained funding is in the form of soft loans and grants (Mason et al., 2015). Nevertheless, for fear of funding fluctuations* where the firm may not be able to cover the high transaction costs incurred in providing microfinance services and expanding outreach to borrowers, AIM hoped to become a financially sustainable organisation. The commitment to be sustainable was reflected in the organisation's mission statements, which were renewed in 2004 (Mason et al., 2015). In embedding sustainability in the organisational culture, attaining operational self-sufficiency and financial self-sufficiency is internalised in the day-to-day practices

* Allocations received under various Malaysia Plan: 6th Malaysia Plan, RM77.1 million; 7th Malaysia Plan, RM200 million; 8th Malaysia Plan, RM300 million; 9th Malaysia Plan, RM170 million; 10th Malaysia Plan, RM491 million.

(Islamic Finance Review, 2015). In fact, AIM also is engaging in microfinance activities with a business-like strategy by establishing its own investment arm to ensure that there are enough surpluses of income to repay the government and to finance the organisation's future growth (Islamic Finance Review, 2015; Mason et al., 2015).

Currently, the pressure to be financially sustainable in the microfinance industry is more intense than before. Besides focusing on poverty alleviation, microfinance is also used as a tool to leverage through the Financial Inclusion Agenda. Under this agenda, microfinance functions as a tool to provide financial services to 2 billion unbanked adults who have no access to banking and financial services (The Consultative Group to Assist the Poor, n.d.). Hence, to enable microfinance institutions to continue assuming this social role, the pressure to be financially sustainable is becoming more intense as it is well recognised that programmes which can cover costs will progress and consequently serve a larger base of borrowers (Hashemi, 2007).

3.0 Problem Statement

As mentioned in the previous section, the logic of achieving economic objectives is for social enterprise to be efficient in managing costs and profitability, so that the social mission can be pursued aggressively with the availability of funding (Epstein & Yuthas, 2010). Although this may be true, too much emphasis on commercial activities are often cited as the primary source of mission drift (Copestake, 2007; Ebrahim et al., 2014; Epstein & Yuthas, 2010). This can be best illustrated by the incidents of microfinance crisis in Indian State of Andhra Pradesh and Compartamos Banco, Mexico. Commercialisation appears to divert attention away from the social mission. In the end, the microfinance institutions in both countries became excessively profit-oriented at the expense of their low-income borrowers leading to a series of suicide cases ascribable to forceful collection practices and clients' over-indebtedness (Hulme & Maitrot, 2014).

Prior study indicated that mission drift demonstrates a profound absence of transparency and poor performance management in social enterprise (Copestake, 2007). To be precise, poor performance management is associated with lower emphasis given to social performance compared to financial performance. This aggravates the inclination for the social enterprise to utilise financial measures (Copestake, 2007). In the meantime, efforts to assess and improve social performance, if any, concentrate extensively on impact evaluation or the changes in client level well-being after social intervention (Copestake, 2007; Ebrahim & Rangan, 2014; Pawlak & Matul, 2004). Yet, many scholars argued that this method, which assesses social performance, suffers from some serious limitations.

One of the limitations is that impact assessment involves performing longitudinal studies to measure changes or external results that occur after intervention (Ebrahim & Rangan, 2014). These longitudinal studies were undertaken to justify to donor's that funds are utilised efficiently (Simanowitz, 2003). However, scholars asserted that these studies are difficult, impractical, strenuous, and costly to measure (Ebrahim & Rangan, 2014; Pawlak & Matul, 2004; Sinha, 2006). Moreover, impacts can only materialise from a concerted action and seldom can be achieved single-handedly by only one organisation (Ebrahim & Rangan, 2014). Therefore, the literature indicated that impact assessment is best performed by funders or independent researchers as the external result of social intervention is better suited for public policy (Copestake, 2007; Ebrahim & Rangan, 2014). Another limitation is that the process of creating impact depends on factors such as the economic, political, and cultural system which are beyond social enterprise control (Ebrahim & Rangan, 2014). So, recent evidence suggested that it is more practical for the social enterprise to emphasise on activities that are within its control which can provide a platform for it to make necessary changes to improve social performance, instead of proving the external result of social interventions through impact assessment (Ebrahim & Rangan, 2014).

Accordingly, many scholars suggested for a more systematic assessment of social performance that is largely useful for internal use (Ebrahim & Rangan, 2014; Pawlak & Matul, 2004; Woller, 2007). In an attempt to ensure for practical methods to manage social performance, the concept of social performance management was introduced. Since a social enterprise mission strives for double bottom line performance where financial performance facilitates the achievement of social performance, the term social performance management emphasises on the manner the social enterprise translates these missions into practice (Ledgerwood, Earne, & Nelson, 2013; Woller, 2007). It encompasses the integration of the mission into the operational system by defining clear objectives, apart from incorporating elements of monitoring and assessing the achievement of those objectives (Ledgerwood et al., 2013). By doing so, social performance management will enable the social enterprise to detect inefficiencies in their activities, provide feedback for improvement, as well as inculcate continuous learning and innovation culture (Ledgerwood et al., 2013; Pawlak & Matul, 2004). As asserted by Ledgerwood et al. (2013), the extreme importance of social performance management is to combat mission drift and to ensure the social enterprise remains true to its mission.

Even so, studies on the internal process of social enterprise were still not widely explored although the process of value creation commences within the organisation (Somers, 2005). Hence, this study shall attempt to close the gap in the literature relating to how performance measurements are used in the social enterprise to manage the double bottom line performance objectives guided by the following research questions.

4.0 Research Questions

This study focuses on answering the main research question of “how does social enterprise manage the competing demand of social and economic objectives in the design and use of PMS?" In doing so, the study focuses specifically to answer these research questions:

1) How does social enterprise translate its social mission into practice, specifically in developing and promoting an environment of social culture in the organisation?
2) What are the performance dimensions used by social enterprise to monitor and measure performance? Why are those dimensions used?
3) How does the organisation balance/reconcile between the competing demands of social performance and commercial considerations?
4) How is the information obtained from measuring financial and social performance utilised in taking corrective actions and making decisions?
5) How does the social enterprise evaluate and reward its employees?

5.0 Literature Review

The literature review is divided into four sections. The first section discusses the conceptualisation of social enterprise and its competing demands. The subsequent section focuses on a comprehensive analysis of the literature on the evolution of performance measurement in the profit and non-profit organisations. Analysis of prior research on performance measurement in social enterprise will then be reviewed in the third section and ultimately this analysis will eventually pave the way for the identification of the research gap.

5.1 Social Enterprise and its Competing Demand

Social enterprise is regarded as a classic example of a hybrid organisation that pursues social and economic objectives (Doherty et al., 2014). As a start, it is necessary to provide some conceptualisation of a hybrid organisation. Doherty et al. (2014) defined hybrid organisation as an entity that permits the combination of values, logic, and model. A further conceptualisation of hybrid organisation was given by Alter (2007) who described hybrid as an organisation with mixed motives, balanced social and economic missions to create social and economic values. Ironically, although social enterprise is regarded as a classic example of a hybrid organisation (Doherty et al., 2014), a generally accepted term of social enterprise is still lacking (Arena et al., 2014; Austin et al., 2006; Doherty et al., 2009; Ebrahim & Rangan, 2010; Teasdale, 2012). Doherty et al. (2014) contended that defining social enterprise is challenging due to its dissimilar structure and organisational formation. Despite that, from the review of literature, there appears to be some resemblance that ascribe social enterprise as a distinct formation that combines the element of non-profit and commercial venture into achieving social objectives (Doherty et al., 2014; Ebrahim et al., 2014; Teasdale, 2012).

Due to this combination, as highlighted in the introduction section of the paper, the social enterprise encounters conflicting demand and tension in attaining the social and economic objectives (Doherty et al., 2014). Two studies attempted to develop a framework for understanding the possible tension that might occur in social enterprise. The first study by Doherty et al. (2014) categorised tension into three categories: (i) tension in managing social and economic objectives, (ii) satisfying the demand of commercial and social funders, and (iii) managing the human resource mix between staff and volunteers. The second study by Smith et al. (2013) classified social enterprise tension as performing, organising, belonging, and learning. Smith et al. (2013) further described performing tension occurs when the social enterprise attempts to secure constructive goals to meet the demands of multiple stakeholders. Organising tension is associated with tension in the internal dynamics, such as culture and practices (Smith et al., 2013). Meanwhile, belonging tension is linked to the tension in managing the diverse identity of the stakeholders (Smith et al., 2013). Finally, learning tension occurs in managing the social objectives that need a longer time span to achieve compared to the economic objectives (Smith et al., 2013).

Taking both frameworks together, they illustrate that the social enterprise encounters constant tension in managing social and economic objectives, and these sources of tension can be derived from internal subgroups or from external stakeholders (Smith et al., 2013). Although managing tension is paramount for social enterprise sustainability, studies on the manner of how the social enterprise reacts to the competing demand appear to be still limited (Doherty et al., 2014; Greenwood et al., 2011; Pache & Santos, 2010; Smith et al., 2013). Among the available literature from institutional research pertaining to the manner a hybrid organisation responds to competing demand revealed that the hybrid organisation responds to competing demand differently (Greenwood et al., 2011; Pache & Santos, 2010). One of the factors influencing organisational responsiveness is the manner of how organisational members exert their power to ensure that their choices preside over others (Pache & Santos, 2010). This choice is shaped by the hiring process and through socialisation (Greenwood et al., 2011; Pache & Santos, 2010). Besides the influence of members in the organisation, another factor that determines the organisational response is organisational identity (Battilana & Dorado, 2010; Greenwood et al., 2011; Smith et al., 2013). Stevens, Moray, and Bruneel (2014) indicated that structuring a collective organisational identity is crucial. This is because organisational identity combines the values and attention that managers allocate toward achieving social and economic objectives. This affects the level of commitment in executing both objectives.

The finding that can be drawn from this section is that developing strategies and managing the competing demand between social and economic objectives are very much dependent on the manner of those involved from the social enterprise view and the ordeal of dealing with the needs of each competing demand. The next section reviews the evolution of performance measurement and management of social and economic performance in the profit and non-profit organisations to gain some insights on how these two organisations manage their social and economic performance.

5.2 Evolution of Performance Measurement

The central part of the management process is performance measurement (Speckbacher, 2003). The literature showed that performance measurement occupies an important role in managerial attention as it aligns organisational critical success factors with the activities and behaviours required to attain a strategic goal. Toward the end, performance measurement works closely with other organisational control instruments, such as planning, budgeting, feedback, and reward system (Modell, 2012). The literature has also indicated that performance measurement has evolved with the dynamic of the business environment. Since financial performance measurement is heavily criticised for having short term focus and emphasising less on strategic goals, organisational attention shifted to include measuring non-financial performance (Bourne, Neely, Mills, & Platts, 2003). With this transition, development of performance measurement was advanced toward being balanced, dynamic, and multidimensional. The notion of "balance" requires application of various measures that reflect a comprehensive perspective of an organisation (Taticchi, Tonelli, & Cagnazzo, 2010). On the other hand, being dynamic requires continuous development of performance measures which respond to critical external and internal changes (Bititci, Turner, & Begemann, 2000). Currently, performance measurement is turning multidimensional to measure the satisfaction of stakeholders (Brignall & Modell, 2000).

Regard this matter, the progression of performance measurement toward being multidimensional fulfils the dynamic demand of the business environment, which witnesses the boundary between profit and non-profit organisations turning ambiguous (Speckbacher, 2003). This can be illustrated by the demand placed by the business environment on profit organisation to be sustainable or to be socially and environmentally responsible (Hubbard, 2009). Heading toward this direction, similar to the non-profit organisation, the profit organisation that previously only concentrated on satisfying shareholders are expanding its accountability to satisfy multiple stakeholders (Speckbacher, 2003). Concurrently, the non-profit organisation is following the footsteps of the profit organisation by paying more attention toward measuring performance and accountability to increase their legitimacy (Speckbacher, 2003). Even though performance measures have evolved in tandem with business needs, insights form the literature indicated that both profit and non-profit organisations are experiencing various complications to measure performance. For instance, the profit organisation is still in constant search to explore the best method to measure social performance in its quest to be reckoned as a sustainable organisation (Durden, 2008; Norris & O'Dwyer, 2004).

However, the absence of common benchmark and guidelines (Ebrahim et al., 2014) in measuring social performance prompted profit organisations to revert to measuring financial performance (Durden, 2008; Norris & O'Dwyer, 2004). The reason being is that the method of assessing financial performance is deemed to be more well-grounded (Ebrahim et al., 2014). The dilemma in managing performance also persists in the public sector. Brignall and Modell (2000) argued that efforts to improve the public sector have shifted viewpoints toward financial performance. Increased reliance on financial measure is associated with the need to satisfy funders who are more concerned on the efficient utilisation of resources (Brignall & Modell, 2000). Apart from funders, satisfying the needs of other multiple stakeholders might trigger potential conflict and influence the balance of performance dimensions. Brignall and Modell (2000) demonstrated that potential conflict might arise if the funding bodies concentrate on financial measures while other professional bodies in the public sector are more keen on assessing non-financial measures, such as improvement of quality.

Nonetheless, despite difficulty in measuring social performance, there are efforts to integrate the financial and non-financial measures. In this perspective, social accounting and reporting garnered attention among scholars and practitioners as it provides the needed platform for organisations to integrate financial and non-financial performance, and qualitative and quantitative measurement, while generating social and environmental information to the internal and external stakeholders (Muhammad, 2015). Although social accounting and reporting is gaining attention, analysis of the literature observed that the study of social accounting and how it is practised are limited (Adams, 2004; Contrafatto & Burns, 2013). The majority of these studies mostly concentrated on environmental accounting (Deegan, 2002; Durden, 2008; Gray, 2001; Parker, 2005). The rationale of why environmental issues is more popular compared to social accounting is further exemplified by Gray (2001) with two reasons. Firstly, he justified that social issues are less manageable and more delicate due to its tendency to be politically influenced (Gray, 2001). Secondly, social issues are deemed more subjective compared to a relatively straightforward nature of environmental issues (Gray, 2001).

Furthermore, being heavily focused on environmental accounting, social accounting and reporting were found to be extensively used for external reporting (Adams, 2002; Adams, 2004; Deegan, 2002; Gray, 2001) without paying attention to the internal process of reporting and attitudes of an actor in an organisation regarding the aspects of reporting (Adams, 2002). As such, Deegan (2002) contemplated that external reporting is championed in many organisations with the primary purpose of only acquiring legitimacy to paint a good image of an organisation that is abiding by social and environmental demands (Deegan, 2002). Thus, it is not surprising that reporting practices for merely attaining legitimacy has its drawbacks. As devastatingly criticised by Adams (2004), reporting for legitimacy can be detrimental as the published performance was found to be incomplete, biased, and fail to depict a true picture of a company's performance. Therefore, to avoid what she termed as "reporting-performance gap", Adams (2004) advised the profit organisation to enhance accountability when reporting. Adams (2004) stated that one way of doing so is by paying more attention to the organisation's internal setting.

In similar vein, Contrafatto and Burns (2013) argued that it is more cost effective for organisations to establish an internal reporting database, which can simultaneously be utilised for external reporting purposes. Since management accounting plays an important role in providing information for internal and external reporting, the integration of sustainable strategies and social accounting, as well as reporting practice within the management control system, was proposed as it will benefit the internal and external reporting (Contrafatto & Burns, 2013).

Through the above description, this section has indicated that profit and non-profit organisations are facing complexity in measuring social performance. The next section will review on managing performance in a hybrid organisation.

5.3 Prior Research on Performance Measurement in Hybrid Organisation

5.3.1 Social Enterprise Performance Measurement Model

Despite the abundance of literature reviewed regarding performance measurement in profit and non-profit organisations, only five empirical studies were observed on performance measurement in the social enterprise; all of which were centred on the design and usage of performance measurement. From the five studies, two studies focused on developing contingency performance measurement models (Arena et al, 2014; Bagnoli & Megali, 2011) and another two dwelled on the modification of the Balanced Score Card to fit the hybrid nature of social enterprise (Bull, 2007; Somers, 2005). The last remaining study focused on the use of performance measurement in microfinance institutions (Waweru & Spraakman, 2012). The following is a brief insight extracted from the five studies. Firstly, Arena et al. (2014) developed a general multidimensional performance measurement model which covers the financial, social, and environmental dimensions while developing indicators to measure financial sustainability, efficiency, effectiveness, and impact. The study basically developed a PMS model for social enterprise; a dimension that should be measured, providing the methods can be adopted by social enterprise to establish their performance measurement system.

Next, another study was conducted by Bagnoli and Megali (2011) where the study focused on designing a multidimensional performance measurement model. The model incorporates three dimensions of control, consisting of economic-financial performance, social effectiveness, and legitimacy. This multidimensional model was later applied in the Italian social cooperative setting to test its validity. As performance measurement needs to be multidimensional and there was a request to provide a technique to measure the three dimensions, with a list of proposed indicators, this study concluded for each dimension and some integrating indicators between economic-social, economic-legitimacy, and social effectiveness-legitimacy that can be adopted by the social enterprise to measure performance.

Apart from efforts to develop distinct performance measurement frameworks for social enterprise, there were two other studies that modified the Balanced Score Card to fit the dual objective nature of the social enterprise. The first study focused on the development of Social Enterprise Balanced Score Card (SEBC). The main motivation for this research was to occupy the need for internal analysis in the social enterprise which was currently lacking, and to explore the potential use of the Balanced Score Card in UK social enterprises (Somers 2005). Somers (2005) further argued that despite incorporating non-financial information to measure performance, the Balanced Score Card is still a measurement tool designed for profit organisations to achieve the financial bottom line. Therefore, it is incapable of managing the tension that persists between social and economic performance. Due to this, as a first step in modifying the Balanced Score Card, the SEBC positioned social goals above financial goals (Somers, 2005). The justification for placing social goals above financial goals was to ensure that value-added activities that are created along the social enterprise production process are captured, unlike the Balanced Score Card, which focuses only on attaining profit.

Next, to ensure the financial sustainability of social enterprise, the SEBC broadened the financial perspective of the Balanced Score Card to monitor the inflow and outflow of revenues (Somers, 2005). At the same time, the customer perspectives were also broadened to integrate social enterprise governance to multiple stakeholders (Somers, 2005). This model was tested through a pilot study of 12 social enterprises in the United Kingdom (UK). Among the feedback gained on SEBC was that it managed to increase employee understanding about social enterprise business and it was deemed as an effective control mechanism to balance social and economic performance (Somers, 2005).

A second study to modify the Balanced Score Card was conducted by Bull (2007). He developed a business performance tool named "Balance". Balance has a broader view of financial perspectives as the financial dimension in Balanced Score Card was replaced with "return: multi-bottom line" to incorporate the social enterprise's dual objectives. The learning and growth dimension of Balanced Score Card was substituted with "a learning organisation" dimension to stress continuous improvement as a vital element in social enterprise. Taking into account the criticism stating that Balanced Score Card ignored the accountability to multiple stakeholders, a customer dimension in Balance is then replaced by "the stakeholder environment". Internal business process in the Balanced Score Card was expanded to cover internal business activities such as internal structure, internal communication, quality, management systems, and adaptability. The tool was tested by 30 pilot organisations in the UK. The score obtained indicated that most organisations are balanced in their social and economic pursuit (Bull, 2007).

Apart from the aforementioned studies, only one case study focused on the use of performance measurement system in microfinance institutions. The motivation to perform the case study in Kenya by Waweru and Spraakman (2012) was due to limited literature on the use of performance measurement in microfinance institutions, despite its positive outcomes with regard to (i) good monitoring practice and system, and (ii) securing financial sustainability. The research was performed to answer two crucial questions. Firstly, what types of performance measurement systems are utilised in the three selected microfinance institutions? Secondly, how and why they are used in these microfinance institutions?

Based on their findings and analyses, Waweru and Spraakman (2012) summarised the performance measurement collected from the three microfinance institutions in the study to occupy Fitzgerald et al., (1991) six dimensions of Result Determinant Framework (RDF). Despite the popularity of the Balanced Score Card, RDF was adopted in the study as it was classified as more dynamic and more fitting to suit the nature of small and medium size units of Kenyan microfinance institutions. The study concluded that there are some performance measurement practices in all the three microfinance institutions and there was a balance between financial measure (result) and non-financial performance measure (determinant). Among important measures cited for individual performance are number of new customers recruited, the total number of loans disbursed, and the quality of the loans awarded. Both financial and non-financial measures were also used to assess performance at the branch level with much importance given to profit margin and quality of the loan portfolio. Individual performance evaluation was done annually while division and organisational performance evaluation are conducted throughout the year. All three microfinance institutions indicated that the reason performance measurement was adopted is to ensure mission attainment, but the study made an observation that output was extensively used to assess performance instead of the process measures (Waweru & Spraakman, 2012).

All these studies emphasised the importance of having performance measurement in the social enterprise. In line as what was observed in the analysis of the literature, development of all the measurement models incorporated the two vital features of performance measurement in social enterprise, which are, the need for performance measurement to be multidimensional and the development of performance measurement needs to address the demands of multiple stakeholders. However, there are limited findings observed on how performance measurement is utilised as decision-making tools and what are the challenges encountered by a social enterprise in implementing performance measurement.

As argued by Brignall and Modell (2000), much management accounting research is directed toward designing effective performance measurement system and at the same time neglecting the social process of its implementation, since more focus has been given on the need for performance measurement to be multidimensional. Brignall and Modell (2000) further explained that it is vital to focus on the power and pressures imposed by different stakeholders and how the interference influences the use of performance measurement. Brignall and Modell (2000) believed the adoption of a balanced set of measures alone would not guarantee the balanced implementation of performance measurement in the organisation. Similarly, Modell (2012) stated that investigations in management accounting research should focus on the issue of politics and societal process reflecting on “power, conflict and resistance”, instead of merely focusing on technical and design matters.

Hence, to gain further insights into the social process of the implementation of performance measurement, this review was broadened to include studies on the use of performance measurement in socially responsible business. Socially responsible business was chosen as it also falls under the scope of hybrid organisations. Although the main objective of socially responsible business is the fulfilment of its of economic objectives, the organisation actively pursues the social mission and often portrays the commitment towards social endeavour by publishing social reports. Thus, similar to social enterprise, the socially responsible business is also facing identical tension in managing the social and economic objectives.

5.3.2 Performance Measurement in Socially Responsible Business

One prominent research by Norris and O'Dwyer (2004) provided an insight on how management control system is utilised by socially responsible businesses as a tool for socially responsive decision making. The case study revolved around a socially responsible firm that had published audited social reports for the last five years. The main motivation of this study was to contribute to the limited research on the framework that guides managers to make a socially responsive decision. Norris and O'Dwyer (2004) argued that the lack of research on how the managerial team makes a decision as "surprising" since the decision to be a socially responsible business is dependent on individuals or actors in the organisation.

This study examined the influence of management control through the lens of formal and informal controls, and the manner both controls interact and support one another to achieve goal congruence. Formal control revolves around written procedure and policies to guide social behaviour and this form of control was clearly observable in the firm's objectives, while informal control consisted of shared values, beliefs, and tradition. Norris and O'Dwyer (2004) observed that informal control was strongly embedded in the organisation through the hiring and socialisation process. The importance of inculcating social values in employees was also eminent within the firm.

Thus, at a glimpse, there seems to be a fit between the firm's formal control and informal control systems. However, further investigation noticed the opposite. There was resistance toward the formal control, which provides rewards only on the achievement of financial activities. The reward for the achievement of social pursuit was neglected since the measurement of social performance was deemed more subjective and difficult to measure. It raised concerns amongst employees that the firm was in fact not socially driven but was commercially driven. The incongruence between formal and informal controls creates tension in making a socially responsive decision. This tension became, even more, severe when the firm faced economic turbulence and greater emphasis was placed on the achievement of financial performance. Nevertheless, despite the lack of reward toward the achievement of social objectives, socially responsive decision making still prevailed within the firm as social value was strongly embraced by the employees. Efforts were made by employees to push for the development of social performance measures and reward system.

Besides Norris and O'Dwyer (2004), another study that focused on the implementation of management control system in socially responsible business was by Durden (2008). He examined the application of a management control system in a small manufacturing business in New Zealand that claimed to advocate strong stakeholder and socially responsible image by publishing a Triple Bottom Line report. Durden (2008) stated that he undertook the research for two main reasons. Firstly, to divert the focus on social accounting research from external reporting. Secondly, to fill the gap in social accounting research, particularly in the utilisation of management control system. Durden (2008) pointed that in order to operate in a socially responsible manner, organisations should develop their own management control systems, which are in tandem with stakeholder interest, and is able to respond timely to stakeholder needs. He demonstrated that it would be pointless for organisations to claim themselves as being socially responsible by merely publishing reports, but, in reality, is unable to utilise management control system to address stakeholder needs. Therefore, he called for social organisations to deploy a management control system as a platform to provide information for systematic external reporting while simultaneously providing internal decision-making information to act in a socially responsible manner.

The study by Durden (2008) revealed various findings. A general observation from the interviews with owner, management, and board members initially indicated a picture of a firm that was passionate in its social endeavours. However, further probing disclosed a contradicting feature. Social measures were not integrated into the firm management control system. Lack of integration between social measures with the management control system was evident in the content of published social reports. As pointed out by Durden (2008), the content of the published social reports was "text based, anecdotal, and descriptive in nature". The firm management control system was uncertain in measuring, reporting, and monitoring social performance. That uncertainty was even more aggravated with inability and contradicting perception among managers in defining what constitutes social and triple bottom line performance. As a result, the firm relied mostly on financial measurement to depict business performance.

Apart from the problem in measuring social performance, there were also missing linkages between the firm strategic goals and stakeholder needs. In fact, the strategic goals were articulated from the company point of view rather than from stakeholder perspectives. Key performance indicators were financial based and were developed as and when the need arose without proper linkage to strategic goals. Meanwhile, goals were cited by Durden (2008) as not properly defined, thus creating difficulty in measuring social outcomes. Similar to O'Dwyer (2005), Durden (2008) conceded that both the elements of formal and informal control are vital in directing the firm toward becoming a socially responsible business. Formal measurements alone were not sufficient in enforcing social value. As what was observed in the earlier case study by Norris and O'Dwyer (2004), Durden (2008) articulated that informal control can trigger a firm if it is drifting from social objectives. However, in his case study, there was no reaction from the informal control since being socially responsible was depicted merely as an image that the firm wishes to cultivate. Social measures are clearly lacking in both the formal and informal control systems (Durden, 2008).

While Durden (2008) focused on the implementation of management control system in a small firm, Riccaboni and Leone (2010) conducted a research on the role of management control in promoting sustainable strategies within a multinational company. Similar to Durden (2008), Riccaboni and Leone (2010) cited that the main motivation of their social accounting research was to divert from the inclination toward external reporting while adding knowledge to a still under-researched field of management control. Riccaboni and Leone (2010) highlighted while companies are publishing reports and manifesting commitment toward social and environmental issues, these acts do not connote enhancement in the company's accountability. In fact, increased attention toward social reporting might widen the gap between what the company preaches and what is being practised. Likewise, with what was contended by Durden (2008), Riccaboni and Leone (2010) argued that it is crucial to firstly establish a strong internal system that will direct organisations toward becoming sustainable before a company embarks on being committed to sustainable practices.

In order to gain insight on the role of management control system in promoting sustainable strategies, a case study was conducted on Procter and Gamble (P&G). P&G is a multinational company that promotes itself as a socially responsible organisation and has won many awards for its sustainability and social responsibility efforts. P&G was chosen since it was considered more challenging to observe the integration of management control system within a complex business environment of a multinational company. Riccaboni and Leone (2010) observed that P&G integrate its sustainable strategies into its traditional planning system or the Objectives, Goals, Strategies, and Measures (OGSM). They highlighted incorporating sustainable strategies within the company traditional OGSM system is an advantageous way of embedding sustainability principles. It manifests the importance of sustainability in P&G as it is strongly linked to central activities and not in trivial activities. At the same time, P&G developed a Product Sustainability Assessment Tool (PSAT) to furnish data for product development decision making. PSAT enables P&G to evaluate new product development and innovation from the financial, social, and environmental perspectives.

For a multinational company, such as P&G, it is crucial to ensure that OGSM is communicated throughout the global organisational structure. Constant communication between organisational structures is held to resolve tensions. Once the agreement on a plan and programme is achieved between P&G organisational structures, each employee has to compare his or her work development plan with an actual plan. Formal employees' performance evaluation is conducted every quarter by their respective supervisors. Similarly, P&G overall achievement is also published every quarter to employees and investors.

Riccaboni and Leone (2010) concluded that both the formal and informal control systems support the implementation of sustainable strategies in P&G. The formal control was evident in performance measurement and appraisal approach, while the informal control was obvious by the inclusion of sustainability principle in the organisational culture. The implementation of sustainability strategies did not lead to any profound changes in the traditional planning system since sustainable strategies are steadily integrated into P&G's internal process and culture. Concluding from the insight gained in the P&G's case study, Riccaboni and Leone (2010) stressed that besides financial strategies, management control system can be utilised for achieving social and environmental strategies. They suggested for organisations to broaden their management control system to ease the achievement of social and environmental objectives while hinting that the process is much simpler for environmental goals compared to social goals, which are more challenging.

This section has described that the manner formal and informal controls interact and support one another, which is paramount in directing an organisation to pursue their social objectives, and the decision to be a socially responsible organisation is not merely based on procedures, system, and policies, but also dependent on individuals or actors in the organisation.

6.0 Research Gap

This paper reviewed the management of social and economic performance in profit, non-profit, and hybrid organisations. One prominent finding is that most studies that measure performance tended to focus on technical aspects instead of concentrating on societal process relating to power, conflict, and possible resistance from internal subgroups and external stakeholders. As developing strategy and managing the competing demands between the social and economic objectives in the social enterprise are very much dependent on the manner actors view and determine the ordeal of dealing with the needs of the two demands, concentrating on the societal process of measuring performance in the social enterprise is inevitable. Secondly, although it was cited that internal process components via management control tools can be leveraged to the dynamics between the social and economic objectives, the literature in the area of management control and performance in social enterprise is either at infancy stage or has been given little attention. Hence, this study will fill the gap by focusing on the manner social enterprise leverages management control tools to manage the demand of social and economic objectives.

7.0 Theoretical Framework

In order to answer the above research questions, the study shall adopt the institutional logics perspective to provide guidance on how social enterprise juggles between the competing demands originating from the social and economic objectives in the design and use of performance measurement. As the institutional logics perspective stems from neo-institutional theory (Thornton, Ocasio, & Lounsbury, 2012), this section begins with an overview on neo-institutional theory to understand the manner institutional logics emerged from the core concept of neo-institutional theory.

7.1 Neo-institutional Theory

According to neo-institutional theory, an organisation is subject to the social and cultural environment along with their norms, myths, and symbols in order to attain legitimacy (Dart, 2004; Meyer & Rowan, 1977). Hence, the organisation assimilates and complies with the expectation transmitted by the social and cultural environment (Dart, 2004). Once the value of the organisation is in agreement with the expectation of the social and cultural environment, legitimacy is attained (Steven & Sunley, 2015). There on, the organisation is able to enjoy the benefits of being legitimate (Dart, 2004). One of which is facilitating access to resources that is especially crucial for organisational survival (Dart, 2004).

Legitimacy is perceived as a core aspect of the neo-institutional theory. Translated as "a generalised perception or assumption that the actions of an entity are socially desirable, proper or appropriate within some socially constructed system of norms, value, beliefs and definitions" (Suchman, 2005), legitimacy diverts the focus of organisational analysis from the formal structure (rules and procedures) toward the informal structure (norms, values, and beliefs) (Mason, Kirkbride, & Bryde, 2007). Hence, from neo-institutional perspectives, the analysis is not centred on economic rationalities, but against social and cultural factors such as power or political pressure (Mason et al., 2007).

Duly, previous studies on neo-institutional theory focused on isomorphism or the changes in organisational structure and operations to comply with the requirements of the external environment to attain legitimacy. Particularly, these studies emphasised on isomorphism to secure political power and institutional legitimacy which have been illustrated triggering in three manners (DiMaggio & Powell, 1983). Firstly, there is coercive isomorphism from other organisations that a firm is dependent on, and the best example is from the government (DiMaggio & Powell, 1983). Next is mimetically, by imitating other organisations, especially during uncertain situations wherein rules and regulations are unclear (DiMaggio & Powell, 1983). Finally, it acts normatively by adhering to the standards put forward by professional bodies (DiMaggio & Powell, 1983).

Still, one criticism on neo-institutional theory observed in the literature is that it portrays organisations as passive or plainly conforming to pressures of the external environment. Specifically, it neglects to analyse the process through which the organisation changes and the manner the organisation responds to external pressure (Scapens & Varoutsa, 2010). Furthermore, it neglects to analyse internal tensions within organisational groups members (Scapens & Varoutsa, 2010).

For these reasons, institutional logics emerged and became a popular instrument for explaining organisational actions in handling institutional pressures (Cobb, Wry, &

Zhao, 2016). Reason being, logics which is firmly rooted in decision-makers' thinking is said to mould their behaviour hence prompting them to act according to specific settings. Generally prescribed as culture, beliefs, and rules that form the perception and action of individuals and organisations (Dunn & Jones, 2010), institutional logics perspective provides key elements for organisations to analyse and translate the cues of external environment, respond, and make decisions (Cobb et al., 2016).

Hence, in this study, institutional logics will be used as a frame of reference to provide a premise that will be used not only for analysing the pressure of external and internal environment on social enterprise activities, but more importantly on how these pressures influence the manner social and economic objectives are prioritised within the organisation and eventually reflected in the design and use of performance measurement systems. The next section will provide a detailed discussion on the manner institutional logics will be applicable to answer these questions.

7.2 Institutional Logics Perspective

7.2.1 Conceptualisation of Institutional Logics Perspective

Institutional logics is defined as "the socially constructed, historical pattern of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organise time and space, and provide meaning to their social reality" (Thornton & Ocasio, 1999). In other words, logics offer a template for organisations and individuals to translate reality as conceived appropriate by society, and furnish set of actions for attaining legitimacy (Greenwood et al., 2011). As it is important for an organisation to attain legitimacy, organisations and individual identities, values, and interests are firmly rooted or embedded within the confine of this prescribed logics (Thornton & Ocasio, 2008).

On the contrary, while being attached to the prescribed logics, the institutional logics perspectives connote that organisational and individual behaviours are affected by the manner they encode the prescribed logics. As noted by Thornton and Ocasio (2008), organisations and individuals have "some hand in shaping and changing institutional logics". The authors asserted that one must position the individual and organisation in the social and institutional context to learn the rationale for their actions. Meanwhile the same institutional context may harmonise action of the individual and organisations. In view of all that had been mentioned so far, institutional logics perspectives imply a set of interlocking rules nested between individual, organisations, social, and institutional contexts (Thornton & Ocasio, 2008).

According to Friedland and Alford (1991), institutions are "supraorganisational patterns of activity rooted in material practices and symbolic systems by which individuals and organisations produce and reproduce their material lives and render their experiences meaningful". The basic institutions of society comprise six logics: (i) markets, (ii) corporations, (iii) professions, (iv) states, (v) families, and (vi) religions (Thornton

& Ocasio, 2008). Each of these logics provide guiding principles for the formation of an organisational field (Reay & Hinings, 2009). For instance, the health care field is formed by the institutional logics of market and professional logic of medical care. So, the field level logics are the reflection of the higher order institutions of society, and here at field level is where these logics are translated into practices and behaviours (Greenwood et al., 2011; Reay & Hinings, 2009).

As depicted earlier, organisational fields are not contingent on a single dominant logic but instead encounter with multiple logics which are often contradicting. These contradicting logics challenge institutional stability and act as a source to initiate institutional change (Lander, Koene, & Linssen, 2013; Reay & Hinings, 2009). Pache & Santos (2011) pointed out that in addressing multiple logics, organisations may emphasise one logic more than the others, hence likely to compromise legitimacy. Duly, the next section will focus on competing multiple logics and the manner organisations respond to these competing logics (Greenwood et al., 2011).

7.2.2 Competing Multiple Logics and Organisational Response

It is a widely held view that organisations encounter institutional complexity when they face pressure to adhere to conflicting institutional demands and the multiple logics underlying those demands (Greenwood et al., 2011; Pache & Santos, 2010). The literature indicated that these pressures can be triggered externally from various sources, such as funding agencies and also internally from organisational members due to hiring and socialisation policy (Pache & Santos, 2010).

The trend of previous empirical research on institutional complexity and multiple competing logics may be classified into three categories. Initially, the empirical research focused on the shift of one dominant logic to another at the field level. One such example is the study by Thornton (2002) which noted a shift from editorial to market logic in the higher education publishing, and the manner the shift in dominant logic affected the organisational structure. Later studies on multiple logics progressed toward tension between logics until one logic became the new dominant logic, as shown by Reay and Hinings (2005) in the Alberta Health Care System. Finally, recent trends led to a proliferation of studies on the co-existence of multiple logics co-existing over time (Dunn & Jones, 2010; Reay & Hinings, 2009).

It is believed that conflicting institutional demands may be severe in fragmented and moderately centralised fields that display an absence of dominant actors to influence or constrain organisational actions. As such, under those circumstances, conflicting demands may need to be resolved at the organisational level (Pache & Santos, 2011). Several studies suggested that organisations filter and respond to multiple logics in different ways depending on their characteristics (Greenwood et al., 2011; Pache & Santos, 2010). For Pache and Santos (2010), organisational response is subjected to internal representation of its members. By way of illustration, Battilana and Dorado (2010) showed how internal representation through hiring and socialisation policy may create a common organisational identity and in return balance the conflicting demand between commercial and social logics. Beside internal representation, Pache and Santos (2010) asserted that organisational response is subjected to nature of conflict where conflict at the goals level are less negotiable compared to the process level.

The following conclusion can be drawn from this section. The manner the social enterprise responds to multiple logics depends on how they are translated and interpreted by the organisation. In a similar vein, it will affect the manner performance measurement systems will be adopted within the organisation. Although there are studies that offer guidelines on how organisations can respond to conflicting multiple logics, there is no clear evidence on the specific strategies that organisations can adopt to manage conflicting multiple logics. Hence, this study shall attempt to explore social enterprise response to the competing demand of social and economic objectives within the design and use of PMS.

8.0 Proposed Methodology

Future research on this issue requires a qualitative study on how a social enterprise juggles between the demands and conflicting logics of its social and economic demands in the design and use of PMS. Qualitative study should be used as a means to conduct the study as it enables the opportunity to explore and interpret the triggered social process in responding to those conflicting logics. Exploring on why and how social businesses measure their economic and social performance, qualitative case study is appropriate as a research method because the case study may provide rich description on the manner actors in social enterprise views and determine the ways of dealing with competing logics to achieve the balance between social and economic objectives (Baxter & Jack, 2008).

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