

# Managing Social and Economic Performance in Social Enterprise: A Review of Literature

A. Z. Siti-Nazariah<sup>a\*</sup>, A. K. Siti-Nabiha<sup>a</sup>, Zubir Azhar<sup>b</sup>

<sup>a</sup> *School of Management, Universiti Sains Malaysia*  
<sup>b</sup> *Graduate School of Business, Universiti Sains Malaysia*

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## Abstract

Social enterprise encounters tension in managing social and economic objectives. The failure of social enterprise to manage the tension and its competing demand between these two objectives raise concern towards mission drift issue. The purpose of this paper is to conduct a review on the literature of managing social and economic performance in hybrid, profit, and non-profit organisations to identify possible research gap. In doing so, the paper discusses the conceptualisation of social enterprise and its competing demand, 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 and tools for social enterprise were advanced. However, there is a lack of empirical research found on the issues of management control and performance measurement in social enterprise, especially regarding the ways organisation designs and uses its PMS to achieve balance between social and economic objectives. In other words, this area of study is still at its infancy or being given little attention. Hence, a qualitative method is recommended as a developing strategy since managing the competing demands between the social and economic objectives in social enterprise are very much dependent on the manner actor view and determine the ways of dealing with the needs of the two demands.

**Keywords:** social enterprise, hybrid organisation, socially responsible business, management control system, and performance measurement system (PMS)

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## 1. INTRODUCTION

Social enterprise is a form of hybrid organisation that is often hailed as an innovation in 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 the financial problem. 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 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, social enterprise is viewed as a fragile organisation (Santos, Pache, & Birkholz, 2015). A considerable amount of literature review indicate 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 the 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 aspect might drift the organisation away from its social objectives whilst too much focus on the social objectives might affect the financial sustainability of the organisations in the long run.

Although the appearance of tension in social enterprise is acknowledged in the literature, as to date, there is a lack of studies on the manner of how social enterprise responds to such tension (Doherty et al., 2014; Greenwood, Raynard, & Kodeih, 2011; Smith et al., 2013). Thus, scholars have recommended that further research should be carried out to focus on understanding the dynamic 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

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\*Corresponding author. Tel.: +0-00-00000000; Fax: +0-00- 00000000  
E-mail: nazariah\_siti@hotmail.com

response to the call for more research to understand the dynamic of social enterprise, several studies have furnished some evidences that a cohesive internal process might provide the needed solution for social enterprise to manage the dynamic 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, 2011; Santos et al., 2015). It appears from the aforementioned suggestions that the three internal components are part of the management control package proposed by Malmi & Brown (2008). These studies generally revealed that management control tools such as performance measurement system can be leveraged to manage the dynamic between the social and economic objectives.

Measurement is perceived as the key driver in the establishment of control system (Watts & J.McNair-Connolly, 2012) and 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 illustrate that they are either still at the infancy stage (Conaty, 2012; Ebrahim & Rangan, 2010) or being 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 objectives nature of social enterprise which complicate 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 (Rob 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 intends to review the literature of managing social and economic performance in hybrid, profit, and non-profit organisations to identify possible research gap.

This paper is divided into four sections. The first section will touch on the conceptualisation of social enterprise and its competing demand. The subsequent section focuses on 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 research gap in the fourth section.

## **2. REVIEW APPROACH**

In order to conduct a systematic review on managing performance in social enterprise, empirical and conceptual literature were selected according to their relevance to the topics and no importance was highlighted on the year the studies were conducted. The literature findings were divided into two themes and were dissected concurrently to map and identify key issues in managing performance. Analysis of the methodology depicts that most studies are qualitative in nature. Due to the limited studies produced as to date on managing performance in social enterprise, the mapping process between the two themes were also focused on discovering similarities and applicability of broadening other available studies to social enterprise.

As mentioned earlier, the literature search was divided into two themes. In this regard, the first literature finding revolves around exploring studies associated with social enterprise, its conceptualisation, challenges in managing performance, and suggestions for future research. The review includes predefined keywords and search strings, including social enterprise, hybrid organisations, third sector, microfinance, mission drift, and social and economic performance (Tranfield, Denyer, & Smart, 2003). On the one hand, the second literature search focuses on reviewing literature on performance measurement system. The review on performance measurement includes predefined keywords and search strings including management control, internal control, performance management system, and performance indicator (Tranfield et al., 2003). The scope of the search on performance measurement focuses on the function of performance measurement system in organisation, its evolution, current trend, and suggestions for future research.

## **3. LITERATURE REVIEW**

### **3.1 Social enterprise and its competing demand**

Social enterprise is regarded as a classic example of hybrid organisation that pursues social and economic objectives (Doherty et al., 2014). As a start, it is necessary to provide some conceptualisation of hybrid organisation. Doherty, Haugh, & Lyon (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, balance social and economic missions to create social and economic values. Ironically, although social enterprise is regarded as a classic example of 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, 2014; 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, 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 the 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 social enterprise attempts to secure constructive goals to meet the demands of multiple stakeholders. Organising tension is associated with tension in the internal dynamic such as culture and practices (Smith et al., 2013). Meanwhile, belonging tension is linked to the tension in managing 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).

Taken both frameworks together, it illustrates that social enterprise encounters constant tension in managing the social and economic objectives and 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 social enterprise react 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 hybrid organisation respond to competing demand reveals that 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 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 organisation response is organisational identity (Battilana & Dorado, 2010; Greenwood et al., 2011; Smith et al., 2013). Stevens, Moray, & Bruneel (2014) indicated that structuring a collective organisational identity is crucial. This is because organisational identity combines the values and attention that managers allocate towards achieving social and economic objectives. This affects the level of commitment in executing both objectives.

The findings 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 in social enterprise view and determine 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.

### **3.2 Evolution of performance measurement**

The central part of the management process is performance measurement (Speckbacher, 2003). The literature shows 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. Towards 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 shifts to include measuring non-financial performance (Bourne, Neely, Mills, & Platts, 2003). With the transition, development of performance measurement is advanced towards being balanced, dynamic, and multidimensional. The notion '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 measure which responds to critical external and internal

changes (Bititci et al., 2000). Currently, performance measurement is turning multidimensional to measure the satisfaction of stakeholders (Brignall & Modell, 2000).

In regard to this matter, the progression of performance measurement towards being multidimensional fulfils the dynamic of 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 towards this direction, similar to the non-profit organisation, the profit organisation that is previously only concentrates 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 towards measuring performance and accountability to increase their legitimacy (Speckbacher, 2003). Even though performance measures have evolved in tandem with the business needs, insights from the literature indicate that both profit and non-profit organisations are experiencing various complications to measure performance. For instance, 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 organisation 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 & Modell (2000) argued that efforts to improve the public sector have shifted viewpoints towards 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 the funders, satisfying the needs of other multiple stakeholders might trigger potential conflict and influence the balance on performance dimensions. Brignall & 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 the financial and non-financial performance, qualitative and quantitative measurement while generating social and environmental information to the internal and external stakeholders (Muhammad Azizul Islam, 2015). Although social accounting and reporting is gaining attention, analysis of the literature observed that the study of social accounting and how it is practiced are limited (Adams, 2004; Contrafatto & Burns, 2013). The majority of the studies are mostly concentrated on environmental accounting (Deegan, 2002; Durden, 2008; Gray, 2001; Parker, 2005). The rationale of why environmental issues are more popular compared to social accounting is further exemplified by Gray (2001) with two reasons. First, he justified that social issues are less manageable and more delicate due to its tendency to be politically influenced (Gray, 2001). Second, the 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 are found to be extensively used for external reporting (Adams, 2002, 2004; Deegan, 2002; Gray, 2001) without paying attention to internal process of reporting and attitudes of actor in an organisation to the aspects of reporting (Adams, 2002). As such, Deegan (2002) contemplated that external reporting was 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 demand (Deegan, 2002). Thus, it is not surprising that reporting practices for merely attaining legitimacy has its drawback. 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 organisation's internal setting.

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

section indicates that the profit and non-profit organisations are facing complexity in measuring social performance. The next section will review on managing performance in hybrid organisation.

### 3.3 Prior research on performance measurement in hybrid organisation

#### 3.3.1 Social enterprise performance measurement model

Despite the abundance of literature reviews on performance measurement in profit and non-profit organisations, only five empirical studies were observed on performance measurement in social enterprise; all which are 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 dwell 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. First, 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 & Megali (2011) where the study focused on designing 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 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 social enterprise to measure performance.

Apart from efforts to develop distinct performance measurement frameworks for social enterprise, there are two other studies that modified 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 is currently lacking and to explore the potential use of the Balanced Score Card in UK social enterprise (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 organisation to achieve financial bottom line. Therefore, it is incapable of managing the tension that persists between the social and economic performance. Due to this, as a first step in modifying the Balanced Score Card, the SEBC positioned social goals above the financial goals (Somers, 2005). The justification for placing social goals above the financial goals is 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 was also broadened to integrate social enterprise governance to multiple stakeholders (Somers, 2005). This model was tested through a pilot study of twelve 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 the 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 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 thirty 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 institution. The motivation to perform the case study in Kenya by Waweru & Spraakman (2012) was due to limited literature on the use of performance measurement in microfinance institution despite its positive outcomes in regard to (i) good monitoring practice and system and (ii) securing financial sustainability. The research was performed to answer two crucial questions. First, what types of performance measurement system are utilised in the three selected microfinance institutions? Second, how and why they are used in these microfinance institutions?

Based on their findings and analyses, Waweru & 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 Frameworks (RDF). Despite the popularity of Balanced Score Card, the 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 the 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 of these studies emphasised the importance of having performance measurement in social enterprise. In line as what was observed in the analysis of the literature, development of all the measurement models incorporates the two vitals features of performance measurement in social enterprise, which are, the need for performance measurement to be multidimensional and the following feature would be that the development of performance measurement to address the need of multiple stakeholders. However, there are limited findings observed on how performance measurement are utilised as decision-making tools and what are the challenges encountered by a social enterprise in implementing performance measurement.

As argued by Brignall & Modell (2000) many management accounting research is reclining towards designing effective performance measurement system and at the same time neglecting the social process of its implementation since more focus was given on the need for performance measurement to be multidimensional. Brignall & Modell (2000) further explained that it is vital to focus on the power and pressures imposed by different stakeholders and how these interference influences the use of performance measurement. Brignall & Modell (2000) believe 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 on 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 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.

### 3.3.2 Performance measurement in socially responsible business

One prominent research by Norris & O’Dwyer (2004) provided an insight on how management control system was utilized by socially responsible business 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 & O’Dwyer (2004) argue that the lack of research on how managerial

team make a decision as “surprising” since the decision to be a socially responsible business is dependent on individuals or actors in the organization.

This study examines the influence of the management control through the lens of formal and informal control and the manner both controls interact and supports one another to achieve goal congruence. The 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 the informal control consists of shared values, beliefs and tradition. Norris & O’Dwyer (2004) observed that the informal control was strongly embedded in the organization through hiring and socialization 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 system. However, further investigation noticed the opposite. There was resistance towards 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 control 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 towards the achievement of financial performance. Nevertheless, despite the lack of reward towards the achievement of social objectives, socially responsive decision making still prevails within the firm as social value is strongly embraced by the employees. Efforts were made by employees to push for the development of social performance measures and reward system.

Besides Norris & 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 management control system in a small manufacturing business in New Zealand that claim to advocate a 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 utilization of management control system. Durden (2008) pointed in order to operate in a socially responsible manner; organizations should develop their own management control systems, which are in tandem with stakeholder interest, and is able to respond timely to stakeholder needs. He demonstrates that it is pointless for organizations to claim themselves as being socially responsible by merely publishing reports, but, in reality, is unable to utilize management control system to address stakeholder needs. Therefore, he called for social organizations to deploy 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 indicate 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 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. The 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 was also missing linkages between the firm strategic goals and stakeholder needs. In fact, the strategic goals are articulated from the company point of view rather from stakeholder perspectives. Key performance indicators were financial based and were developed as and when the need arise without proper linkage to strategic goals. Meanwhile, goals are cited by Durden (2008) as not properly defined creating difficulty in measuring social outcomes. Similar to O’Dwyer (2005), Durden (2008) concedes that both the element of formal and informal control is vital in directing the firm towards 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 & O’Dwyer (2004), Durden (2008) articulated that the informal control can trigger a firm if it is drifting from social objectives. However, in his case study, there is no reaction from the informal since being socially responsible are depicted merely as an image that the firm wishes to cultivate. Social measures are clearly lacking in both the formal and informal control system (Durden, 2008).

While Durden (2008) focused on the implementation of management control system in a small firm, Riccaboni & Leone (2010) conducted a research on the role of management control in promoting sustainable strategies within a multinational company. Similar to Durden, 2008, Riccaboni & Leone (2010) cited that the main motivation of their social accounting research is to divert from the inclination towards external reporting while adding knowledge to a still under-researched field of management control. Riccaboni & Leone (2010) highlighted while company are publishing reports and manifesting commitment towards social and environmental issues, these acts do not connote enhancement in company's accountability. In fact, increased attention towards social reporting might widen the gap between what the company preaches and what is being practiced. Likewise with what was contended by Durden (2008), Riccaboni & Leone (2010) argued it is crucial to firstly establish a strong internal system that will direct organizations towards 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 organization 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 & 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 was 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 the OGSM is communicated throughout the global organization structure. Constant communication between organizational structures is held to resolve tensions. Once the agreement on a plan and program are achieved between P&G organizational structure, each employee will have to compare his or her work development plan with an actual plan. Formal employees' performance evaluation was conducted every quarter by their respective supervisors. Similarly, P&G overall achievement was also published every quarter to employees and investors.

Riccaboni & Leone (2010) concluded that both the formal and informal control system supports 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 organizational 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 & Leone (2010) stressed that besides financial strategies, management control system can be utilized for achieving social and environmental strategies. They suggested for organizations 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 supports one another are paramount in directing an organisation to pursue their social objectives and the decision to be a socially responsible is not merely based on procedures, system and policies but are also dependent on individuals or actors in the organisation.

#### **4. CONCLUDING REMARKS**

This paper has reviewed the management of social and economic performance in profit, non-profit, and hybrid organisations. One prominent finding is that most studies in measuring performance tend to focus on technical aspect 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 demand between the social and economic objectives in 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 social enterprise is inevitable. Hence, future research on this issue requires a qualitative study on how a social enterprise juggles between its social and economic performance 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 the organisation. 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 demands to achieve the balance between social and economic objectives (Baxter & Jack, 2008).

## ACKNOWLEDGEMENTS

The authors would like to express their gratitude and appreciation to the Malaysian Ministry of Higher Education for the funding of this research through the Fundamental Research Grant Scheme (FRGS), grant no. 203/PPAMC/6711496.

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