G Model
RIOB-72; No. of Pages 20
ARTICLE IN PRESS

Research in Organizational Behavior xxx (2014) xxx–xxx

Contents lists available at ScienceDirect

Research in Organizational Behavior

journal homepage: www.elsevier.com/locate/riob

The governance of social enterprises: Mission drift and accountability challenges in hybrid organizations☆

Alnoor Ebrahim [a], Julie Battilana [a,*], Johanna Mair [b]

[a] Harvard Business School, Soldiers Field, Boston, MA 02163, United States
[b] Hertie School of Governance, Friedrichstraße 180, 10117 Berlin, Germany

ARTICLE INFO

Article history:
Available online xxx

Keywords:
Governance
Accountability
Social enterprise
Nonprofit
Organizational hybridity
Organizational form
Performance
Mission
Benefit corporation
L3C
CIC

ABSTRACT

We examine the challenges of governance facing organizations that pursue a social mission through the use of market mechanisms. These hybrid organizations, often referred to as social enterprises, combine aspects of both charity and business at their core. In this paper we distinguish between two ideal types of such hybrids, differentiated and integrated, and we conceptualize two key challenges of governance they face: accountability for dual performance objectives and accountability to multiple principal stakeholders. We revisit the potential and limitations of recently introduced legal forms to address these challenges. We then theorize about the importance of organizational governance and the role of governing boards in particular, in prioritizing and aligning potentially conflicting objectives and interests in order to avoid mission drift and to maintain organizational hybridity in social enterprises. Finally, we discuss future research directions and the implications of this work for rethinking traditional categories of organizations, namely business and charity.

Introduction

One of the most profound trends in the social sector over the past thirty-five years has been its steady rationalization and marketization (Eikenberry & Kluver, 2004; Mair & Hehenberger, 2014; Hwang & Powell, 2009; Powell, Gammal, & Simard, 2005; Smith & Lipsky, 1993). Nonprofit or charitable organizations, whose primary activities have traditionally been premised on achieving a social mission, are increasingly adopting practices that are typically associated with business (Frumkin, 2002; Tuckman & Chang, 2006; Young & Salamon, 2002). Since at least the 1980s, charities have generated a substantial portion of their revenues from the sales of goods and services, especially in the arts, education, and healthcare sectors (Child, 2010). And they have experienced a growing shift toward the hiring of professional managers, and the adoption of formalized practices such as strategic planning, independent financial auditing, and quantitative evaluation and performance measurement (Brest, 2012; Bromley & Meyer, 2014; Ebrahim, 2003b; Hwang & Powell, 2009).

This gradual sector-wide change is epitomized by the growth of so-called "social enterprises," organizations whose purpose is to achieve a social mission through the use of market mechanisms (Mair & Marti, 2006; Kerlin, 2009; Santos, 2012). Social enterprises are neither typical charities nor typical businesses; rather they combine aspects of both. Their primary objective is to deliver social value to the beneficiaries of their social mission, and their

☆ We are grateful to Ting Wang for research assistance, Art Brief and Barry Staw for insightful feedback, and Dana Brakman Reiser, Ed Carberry, Chris Cornforth, Marion Fremont-Smith, Joe Galaskiewicz, and participants at the 2012 European Group for Organizational Studies (EGOS) conference in Helsinki for their very helpful comments and suggestions.

* Corresponding author.
E-mail address: jbattilana@hbs.edu (J. Battilana).

http://dx.doi.org/10.1016/j.riob.2014.09.001
0191-3085/

primary revenue source is commercial, relying on markets instead of donations or grants to sustain themselves and to scale their operations. For these organizations, commercial activities are a means toward social ends. As such, social enterprises are hybrid organizations that combine aspects of both charity and business at their core (Battilana & Lee, 2014; Besharov & Smith, 2014; Mair, Mayer, & Lutz, 2014; Galaskiewicz & Barringer, 2012). Microfinance organizations that aim to help poor entrepreneurs by giving them access to financial services are a well-known example of social enterprises.

Although social enterprises are viewed as promising vehicles for the creation of both social and commercial value (Sabeti, 2011), they are at risk of losing sight of their social missions in their efforts to generate revenue, a risk referred to as mission drift (Fowler, 2000; Jones, 2007; Weisbrod, 2004). This concern echoes a long tradition of scholarship in organization studies that has highlighted the risk for organizations and their workforces of losing sight of their purpose and values in the quest for organizational survival and efficiency (Selznick, 1949; Weber, 1952). It has also been a central concern of research on organizational governance in the social sector – which may be understood as "the systems and processes concerned with ensuring the overall direction, control and accountability of an organization" (Cornforth, 2014: 5) – particularly regarding the internal means through which governing boards and managers ensure that organizations remain focused on their social goals (Chait, Ryan, & Taylor, 2005; Cornforth & Brown, 2014; Drucker, 1989). Although the risk of mission drift is not specific to social enterprises, it is especially acute for them for two main reasons. First, because they are dependent on commercially generated revenue in order to financially sustain their operations, they are inherently at risk of giving priority to their commercial activities – which enable them to generate revenues and thereby survive – over their social activities which enable them to achieve their mission. Second, the consequence of mission drift for social enterprises is severe as it threatens their very *raison d'être*: if social enterprises lose sight of their social mission, they will fail to achieve their goals of delivering social value to their beneficiaries.

Social enterprises thus face a unique governance challenge: how to handle the trade-offs between their social activities and their commercial ones, so as to generate enough revenues but without losing sight of their social purpose. In terms of organizational governance, social enterprises offer a rich subject of study as they combine not only potentially conflicting goals (social and financial) but also potentially divergent stakeholder interests. In this paper we adopt an accountability lens to unearth these challenges of governance facing social enterprises. It is a function of governance to articulate both *for what* an organization is accountable, and *to whom* it is primarily accountable (Behn, 2003; Ebrahim, 2010; Kearns, 1996; Mulgan, 2000; Najam, 1996; O'Neill, 2002). Our main argument is that social enterprises face distinctive governance issues associated with these dimensions of accountability.

Social enterprises are accountable *for* both a social mission and for making profits (or surplus). By virtue of their hybrid nature, they are therefore required to achieve both social and financial performance. Traditional corporations and charities also increasingly track performance in these domains. However, social enterprises that combine social and commercial activities in their core face a distinct challenge because their definition of success includes both dimensions. These dual objectives are not necessarily aligned and are oftentimes contradictory, thereby often creating a risk to the mission. In addition, while methods for assessing financial performance are well established, the assessment of social performance generally lacks standardization and comparability (DiMaggio, 2002; Ebrahim & Rangan, 2010; Paton, 2003).

Social enterprises are also accountable *to* multiple "principal" stakeholders. They are confronted with often diverging interests of the beneficiaries targeted by their social mission and of their funders or investors. This is not a straightforward principal-agent setting in which the problem for principals or owners, as represented by governing boards, is to ensure that managers carry out their interests (Dalton, Hitt, Certo, & Dalton, 2007; Eisenhardt, 1989; Jensen & Meckling, 1976; Przeworski, Stokes, & Manin, 1999). Instead, it is a context in which there are multiple principal stakeholders (Freeman, 1984; Mitchell, Agle, & Wood, 1997) with different objectives, some of which can enforce their interests and others who cannot. In order to hold managers accountable in such settings and to avoid mission drift, a key task of governance is the proper alignment and prioritization of diverse and sometimes conflicting interests.

In this context we probe two aspects of governance. First, we examine a series of newly emerging legal forms that have been explicitly designed to enable organizations to pursue both social and commercial objectives. We revisit the specific structures of ownership, financing and enforcement mechanisms prescribed by these "legislative experiments," and we clarify their potential and limitations with respect to accountability for dual objectives and accountability to multiple stakeholders.

Next, we discuss organizational governance, paying particular attention to the role of governing boards, in addressing these same challenges. In doing so, we find it useful to distinguish between two ideal types of social enterprises. Whereas all social enterprises engage in social activities meant to achieve their social missions and in commercial activities meant to generate revenue, the level of integration between these two sets of activities varies across them (Battilana, Lee, Walker, & Dorsey, 2012; Battilana & Lee, 2014; Lee, 2013). For some organizations, the activities that are primarily targeted toward serving the beneficiaries and thereby achieving the social mission are separate from those that are targeted toward serving customers and thereby generating revenue; for others they are the same. In this paper, we refer to the former as differentiated hybrids (DH) and to the latter as integrated hybrids (IH) (Battilana et al., 2012).

Integrated hybrids achieve their mission by integrating beneficiaries as customers. Most microfinance organizations are examples of integrated hybrids: they pursue their social objectives by providing loans to their beneficiaries who are also their customers. The primary activities in