Effective Governance Of Hybrid Organizational Forms: The Case Of Social Enterprises In Canada

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Context

From an organizational perspective, the opening decade of the 21st century was plagued by a series of failures in corporate governance. Starting with the Enron fiasco in 2001 and culminating with the financial crisis of 2008, the weaknesses and insufficiencies of corporate governance arrangements were blatantly exposed (Kirkpatrick, 2009). Although not as spectacular, the nonprofit sector had its own examples of failures in governance (Hayden, 2006).

At the same time, the blurring of boundaries between nonprofit and for-profit organizations, begun in the latter decades of the 20th century (Kramer, 1998; Zimmerman & Dart, 1997), continues at an accelerated pace (Dees & Anderson, 2003; Dart 2004). There is evidence of the cross-adoption of organizational practices and mission focus: On the one hand, nonprofit organizations are increasingly experimenting with innovative commercial ventures in an effort to diversify resources and augment their income (Meinhard, Foster, Moher & Fitzrandolph, 2006); on the other hand, a small, but growing contingent of for-profit organizations are focusing on creating social value for the communities they serve by blending social goals and financial returns in a balanced manner (Kong, 2010).

Thus the organizational landscape is no longer neatly sectioned into three sectors: public, for-profit and non-profit. It is populated by increasingly diverse organizational forms and practices, intersecting in innovative ways, and requiring more appropriate forms of governance. As governance has been linked to failed organizational performance (Kirkpatrick, 2009; Larcker, Richardson and Tuna, 2007), finding the appropriate governance models is essential for the survival of these new forms of organizations (Bradshaw, 2009; Bradshaw, Hayday & Armstrong, 2007).

Purpose

The purpose of this research is to identify the most effective governance structures and approaches for organizations operating in blended environments where for-profit, nonprofit and hybrid/social enterprise organizations intersect, compete and collaborate. We examine how institutional, environmental and organizational factors influence: a) the focus of governance (whether on the shareholder or stakeholder); b) governance processes, i.e. activities undertaken to set and achieve goals and to ensure that the key components of good governance are met; c) governance structure, i.e. the composition of the board and the formal relationships extant in the organization; and d) governance challenges as a result of their hybrid purpose. We then link these variables to perceived governance effectiveness to determine best practice. Although there is a growing literature on social enterprises, research looking specifically into the governance of SEs is sparse.

Definitions

Although there is no consensus on the definition of a social enterprise, the primary characteristic of a social enterprise is an innovative and “frame-breaking” (Dart, 2004, p. 413) pro-social activity (Dees, 2003; Emerson and Twersky, 1996; Leadbeater, 1997). For the purposes of this study, a social enterprise is defined as a nonprofit or for-profit entity that applies a business approach to address social issues and that has a positive impact on the social and/or environmental aspects of the community. In nonprofit SEs, profits are used to fund the organization’s social mission. In for-profit SEs, returns are measured not only by monetary profit but also by their impact on the community (e.g. jobs for marginalized) and profits are secondary to the social purpose.
Definitions of governance vary. This notwithstanding, there is a general consensus as to the meaning of organizational governance. In its broadest sense, it refers to the legitimate distribution of authority throughout an organization. Although most often the focus of governance research is on the board of directors, whose main duties are: fiduciary, programmatic and financial (adapted from Bourgeois, 1995); governance includes the everyday management of the organization as well.

Method

After an extensive literature review, seven general types of social enterprises were demarcated: three categories of nonprofit social enterprises and four of for-profit social enterprises (these categories and their definitions will be part of the presentation). Care was taken to include at least one of each type of social enterprise in the sample. The final sample consisted of 13 organizations. Key informant interviews were conducted with managers, owners or executive directors of the organizations sampled. The interviews were recorded and are presently being transcribed for content analysis. Project completion date is March 31, 2014.

Conclusion

This research has both academic and practical importance. From the academic perspective, it adds knowledge to a sparsely researched area of investigation, one which is only now catching up to the rapidly growing phenomenon of social enterprises. From a practical perspective, it provides evidence-based resources to a sector that has only imperfect role models to follow in terms of governance.