Chapter 13: The Governance of Hybrid Organisations

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Introduction

In an era when the recent financial crisis has raised questions about the morality and sustainability of the economic system, and austerity measures have led to funding challenges for many charitable and voluntary organisations, hybrid organisational forms such as social enterprise offer a promising alternative - an ethical form of business able to address social issues and reduce the dependence on donations and government funding. However, history suggests it can be difficult for social enterprises to maintain their social goals in the face of commercial pressures and that consequently they may succumb to mission drift. Organisational governance is important in helping to manage these competing pressures, and the chapter examines some of the main choices and challenges that social enterprises face in designing their governance structures, systems and processes.

One of the challenges facing hybrid organisations, such as social enterprises, is how to combine different logics, for example many social enterprises have to combine a commercial logic necessary for operating in the market with a 'charitable'[1] logic of pursuing a social mission (Ebrahim et al, 2014). It has been suggested that combining different logics can result in long-term instability, where one logic comes to dominate (Young et al, 2012). Indeed, traditional left-wing critiques of co-operatives and other forms of employee ownership suggested that these organisations would simply degenerate into being no different from capitalist forms of business as they succumbed to pressures from the market place (Mandel, 1975). This process whereby an organisation gradually loses its social mission is often called mission creep or drift (Minkoff and Powell, 2006; Jones, 2007). While social enterprises are not the only types of organisation to be susceptible to mission drift they face the particular challenge of trying to manage being both a business and pursuing a social mission.

Empirical evidence on whether or not social enterprises can sustain their social missions suggests a mixed picture. While there are examples of mission drift (e.g. Augsburga and Fouillet, 2010), there are also examples where social enterprises have found ways of successfully combining different logics (e.g. Battilana and Dorado, 2010). Young (2012) argues that some combinations of characteristics of hybrid organisations, such as legal forms, governance and sources of finance, are likely to be more stable than others. Ebrahim et al (2014) suggest that organisational governance and governing boards are of particular importance in attempting to manage conflicting logics and priorities in order to avoid mission drift, but this aspect of governance in social enterprises has been little studied.

This chapter helps to address that gap and focuses on the governance of social enterprises. It examines the question what choices and challenges do social enterprises face in designing their governance structures, systems and processes in order to manage competing institutional logics and avoid mission drift? It argues that the various options have different advantages and disadvantages, which need to be weighed up when deciding what is appropriate for a particular organisation. The aim then is to examine some of the choices that practitioners are likely to face when considering how their social enterprise is governed, and drawing on extant research to identify some of the important factors and challenges that they should consider in making their choices.

The paper proceeds as follows. First it examines different ways of understanding organisational hybridity, highlighting the importance of both competing institutional logics and the path dependent nature of hybridity. Then drawing on the literature on institutional logics (Friedland and Alford, 1991; Kratz and Block, 2008; Skelcher and Smith, 2014) it examines some of the different ways in which hybrid organisations can adapt to the demands of plural institutional environments. This analytical framework is then used to consider how governance structures, systems and processes can be designed to help social enterprises manage competing logics and avoid mission drift

Understanding organisational hybridity

As Skelcher and Smith (2014: p. 3) note, hybridity and hybrid organisation are '…slippery concepts with inexact empirical referents' and a variety of different approaches have been taken to conceptualising them.

One approach has been to define hybrid organisations in terms of a continuum. So, for example Alter (2007: p14) suggests that one way of thinking about social enterprises is as hybrid organisations that lie on a continuum between traditional voluntary or non-profit organisations and traditional for-profit businesses. He further distinguishes social enterprises from socially responsible businesses that pursue social goals, but whose primary purpose is still to make a profit for shareholders, and voluntary and non-profit organisations that establish trading activities as a way of raising additional funds. While this approach may be useful heuristically it lacks precision, and there has been a good deal of debate about at what point an organisation can be called a social enterprise.

A second approach has conceptualised hybridity in terms of the space between three primary or ideal sectors of the market, state and community (Pestoff 1998). In this formulation the third sector as a whole is conceptualised as a hybrid space between the three primary sectors (Rhodes and Donnelly-Cox, 2014). All third sector organisations, including voluntary organisations and social enterprises, are seen as hybrid organisations combining characteristics from the other sectors. Again, this approach offers no very clear way of distinguishing between different types of hybrid organisation except perhaps in terms of proximity to the three main sectors.

A third related, but somewhat different approach, has been put forward by Billis (2010). In his model the third sector itself is seen as a primary sector with its own ideal characteristics. He defines hybrid organisations with regard to the core principles underlying three ideal sectors: the private sector, the public sector and the third sector. The core principles of each sector include ownership, governance, operational priorities, distinctive human resources, and what he calls distinctive other resources, essentially how they generate income. In his approach the ideal typical third sector organisation is the voluntary membership association, that is 'owned' by its members who elect the governing body in order to pursue a distinctive social mission, rely on donations to fund the organisation and on volunteers and members to carry out its work. For Billis, hybridity occurs when an organisation 'moves away' from its primary sector by adopting some of the characteristics of other sectors but he suggests that organisations will retain a primary adherence to the sector in which they had their origins. This enables Billis to identify nine types of hybrid organisation depending on the transition an organisation makes from its primary sector. For instance, an example of a public/third sector/private hybrid is a recreation service that has spun out of a local authority as a charitable trust but that is partly funded by clients' fees. This approach has the advantage of specifying in more detail at least some of the distinctive characteristics of organisations in different sectors, highlighting different types of hybrid organisation and the path dependent nature of organisational hybridity. It suggests that the origins of the organisation and the path it takes will influence the sort of hybrid it becomes and that hybridisation is a dynamic process.

A fourth approach, and the one adopted in this chapter, draws on the theory of institutional logics (Friedland and Alford, 1991; Kraatz and Block, 2008; Thornton and Ocasio, 2008). This suggests that within society there exist plural institutional orders with their own central logics consisting of normative symbolic constructions and material practices (Friedland and Alford, 1991) that give meaning and identity to individuals and organisations (Skelcher and Smith, 2014). Kraatz and Block (2008) suggest that they can be thought of as the 'rules of the game' that both shape and constrain organisational behaviour. The fact that organisations may be subject to different and potentially conflicting institutional logics opens up the possibility of strategic choice and change. Skelcher and Smith (2014) theorise hybrid organisations as combining different institutional logics. They argue that such an approach puts the study of hybrid organisations on a strong theoretical footing and a number of authors have used the idea of competing institutional logics to help explain the dynamics within hybrid organisations, such as social enterprises (see for example, Mullins, 2006; Battilana and Dorado, 2010; Pache and Santos, 2010 and 2013; Cornforth, 2014). Organisations may respond to the demands of competing institutional logics in different ways as will be discussed next.

Adapting to the demands of competing institutional logics

Kraatz and Block (2008) suggest four basic ways in which organisations may adapt to the demands of plural institutional environments. First, an organisation may adapt by consciously or unconsciously trying to eliminate pluralism by challenging or not acknowledging the legitimacy of certain claims, while supporting others. This may result in mission drift when for example an organisation gives priority to business success at the expense of its broader social mission, or vice versa to business failure as priority is given to its social mission at the expense of commercial considerations.

A second approach is to '*compartmentalize*' the different identities and logics in the organisation, so that the different parts of the organisation contain the separate institutional logics and attend to different institutional demands. Skelcher and Smith (2014) suggest this may take two forms: the *segmented* hybrid where compartmentalisation is performed within a single organisation, for example by separating functions with different logics into separate departments; or the *segregated hybrid* where activities are divided into separate organisations, for example when a charity sets up a separate trading subsidiary to do commercial work, or when a social enterprise establishes an affiliated foundation to undertake charitable work.

In contrast to the second approach the third and fourth approaches aim at *integrating* rather than separating the different logics within the organisation. The third approach concerns trying to manage competing demands and logics. Strategies may range from playing off one constituency against another, to more co-operative solutions, such as trying to get the different constituencies to recognise their mutual dependence and the need for balance. This approach may involve reaching a *compromise* between conflicting views and logics, so that the different parties recognise the legitimacy of each other's views and practices even if they don't necessarily agree. However, Kraatz and Block (2008) suggest that these compromises are often uneasy and that tensions are still likely to remain between different groups.

Fourthly, organisations may attempt to forge a *new identity* that combines the different institutional logics, which gains wider legitimacy and begins to create a new organisational field. This may be what is happening in social enterprise fields such as fair trade, which has gained widespread legitimacy and acceptance. Much of the work of social enterprise associations, such as the Social Enterprise Coalition in the UK (http://www.socialenterprise.org.uk/), is about trying to gain this legitimacy. Kraatz and Block (2008) suggest that some organisations may become an 'institution in its own right', and become a 'valued end in its own right and thus become capable of legitimating its own actions'. A few well-known social enterprises such as the 'Big Issue', a magazine sold by the homeless to provide them with an income, may have achieved this status.

However, as will be argued below when considering organisational governance, these strategies are not necessarily mutually exclusive, so even if, for example, a social enterprise chooses a strategy of segmentation it may still need to adopt integrative strategies and reinforce its identity as a social enterprise.

Governance strategies for managing competing logics in social enterprises

Organisational governance is defined as 'the structures, systems and processes concerned with ensuring the overall direction, control and accountability of an organisation' (Cornforth, 2004; Cornforth and Spear, 2010). It includes the legal form that an organisation takes and accompanying regulatory requirements; any voluntary accreditation requirements; the internal governance structure and systems of accountability; board composition, and the performance management and control systems established by board. The chapter will now go on to examine each of these in turn outlining some of the main challenges and choices that social enterprises face in designing their governance systems to manage competing logics and avoid the dangers of mission drift. It first examines how governance structures, systems and processes can be used to help *integrate* conflicting institutional logics. As will be discussed below these integrative governance strategies may also help to create and maintain the *identity* of the social enterprise, and so these strategies will be discussed together. Then the paper will examine governance structures that attempt to manage competing logics through *compartmentalization*.

Integrative governance strategies

Legal structures and regulation

One of the most important decisions a new social enterprise has to make is deciding what legal form to adopt because a poor choice and lack of appropriate advice can lead to future problems (Spear et al., 2007 and 2009). There has been a concern that traditional legal forms that businesses commonly adopt do not provide adequate protection for a social enterprise's social mission, leave them vulnerable to takeover by other businesses that do not share their social mission, and provide inadequate means of accountability to other stakeholders beyond owners or shareholders. In the UK the demutualisation and takeover of many building societies by private sector banks is a classic example (Marshall et al, 2003). In the US the takeover of Ben and Jerry's by Unilever is another high-profile example. The typical legal structures for charities, voluntary organisations and mutual organisations, such as the company limited by guarantee or the industrial and provident society in UK law, while offering some safeguards for the organisations' social mission, limit their ability to raise external capital, which may limit their ability to grow and develop.

While in some jurisdictions it may be possible to build safeguards into traditional legal structures for businesses to address some of these concerns (Page and Katz, 2012) there have been efforts to develop new legal structures that are more suitable for enterprises that pursue a social mission. In the US these include the Low-profit Limited Liability Company, the Benefit Corporation and the Flexible Purpose Corporation (Battilana et al., 2012; Cooney, 2012). In the UK the Community Interest Company (CIC) has been developed; this was designed to enable people to establish a business for the benefit of the community and not purely for private gain, and is overseen by the Regulator of Community Interest Companies (www.gov.uk/government/organisations/office-of-the-regulator-of-community-interest-companies).

A key concern in developing these new legal forms has been how to balance an organisation's 'charitable' logic of pursuing a social mission with a business logic of operating in the market place and enabling better access to external finance. In the UK the CIC legal form attempts to protect a social enterprise's mission through a 'community interest test' to ascertain that the purpose of the organisation is of benefit to the community, and an 'asset lock' that prevents the assets of the organisation being used for other than their designated purpose. On dissolution any surplus assets of a CIC have to be transferred to another organisation with an asset lock, so that its assets cannot be sold off for financial gain. CICs have greater freedoms to raise external finance than companies limited by guarantee, the legal form commonly adopted by many charities and voluntary organisations in the UK. If a CIC's constitution allows, it can pay a dividend on equity investments, but a cap is placed on the amount of dividends and interest that can be paid. There has been a good deal of debate about whether these restrictions are too severe and discourage equity investments, or whether loosening the cap would endanger an enterprise's social mission. A consultation carried out by the regulator did lead to the loosening of restrictions on dividend and interest payments in 2009 (Regulator for Community Interest Companies, 2010) and then again in 2014 but debate is likely to continue about the appropriateness of these changes and whether further reform is required (De Grave, 2013; Spreckley, 2014).

The CIC form provides a number of mechanisms besides the asset lock to try to protect an organisation's social mission. When a company registers to become a CIC it must satisfy the regulator that its primary purpose is to benefit the community by passing a community interest test. It must also file an annual report with the regulator saying how it is meeting the community interest test and how it consulted with those affected by its activities (Regulator for Community Interest Companies, 2013). The Regulator also has the power to change the directors of the CIC or close it down if the community interest is not being met. However, it is intended that the regulation is light touch.

While there are likely to be continuing debates over the relative merits of these new legal forms compared to traditional legal forms in balancing social benefits and the freedoms to raise external capital, there may also be less tangible symbolic benefits. They may help increase the legitimacy of social enterprises by signalling to external stakeholders that the organisation's primary purpose is to benefit the community rather than benefit its owners or shareholders (Page and Katz, 2012). In this way adopting a new legal form may be one part of a strategy to integrate different institutional logics by reinforcing the organisation's identity as a social enterprise and increasing external legitimacy. However, this is likely to be at the expense of certain restrictions on raising external capital.

In summary the advantage of traditional legal forms, such as a company limited by shares, is that they are readily understood by potential external investors and offer the ability to raise capital from external shareholders; the disadvantage is that they can leave an organisation's social mission vulnerable to commercial pressures or from takeovers. In contrast new legal forms, such as CICs, have the advantage of offering some protection for an organisation's social mission and reinforcing its special identity, but have the disadvantage that they can make raising external capital more difficult. As a result, in thinking about what legal form to adopt a social enterprise will need to weigh up a number of questions. On the one hand, how important will access to external equity investments be for the development of the enterprise, and will potential external investors be put off by an asset lock and limits on dividend payments? On the other hand, how important is it to have legal safeguards to protect the organisation's social mission, and will this help reinforce the identity of the social enterprise and increase its legitimacy?

External accreditation

Official regulation of businesses is often relatively 'light touch' and regulators will usually only investigate an organisation if allegations of a serious breach of regulations are received, so the ability to protect a social enterprise's social mission is limited. Another integrative strategy social enterprises may choose to adopt in trying to maintain and signal their distinctive mission and identity is through some kind of voluntary, external accreditation of standards. In the US the B Corporation certification process is one example. B corporations can take a variety of legal forms but the process certifies that they meet certain minimum social and environmental standards and that their articles of incorporation include the consideration of stakeholder interests (Cooney, 2012: 2006). Another example in the UK is the Social Enterprise Mark (http://www.socialenterprisemark.org.uk/). In the absence of a legal definition of a social enterprise in the UK it sets out various criteria that social enterprises should meet. To meet these criteria a social enterprise must have: social/environmental aims and demonstrate social value; at least 50% of revenue coming from trading; at least 50% of profits being used for social/environmental aims; its own constitution and governance, and any residual assets distributed for social/environmental aims if the organisation is dissolved. In order to receive accreditation social enterprises have to demonstrate how they meet these standards. Organisations may also be subject to periodic inspections to assess compliance.

However, while external validation of standards offers some reassurance against mission drift there is no guarantee that compliance with standards will not gradually change over time, or that external assessment and enforcement will be adequate. There has also been debate over what are the appropriate standards or criteria that should be used to define a social enterprise, for example there have been different views over the percentage of revenues that should come from trading (Teasdale et al, 2013). As well as helping to safeguard against mission drift the value of external accreditation also depends on how widely the mark is recognised and valued by the organisation's stakeholders and the wider public. So far, the Social Enterprise Mark in the UK has not been able to achieve the level of public recognition as, say, the Fairtrade Mark. When deciding whether or not to go down this route social enterprises need to consider whether the potential benefits of accreditation outweigh the costs.

Membership and board composition

Decisions concerning the membership of an organisation and the composition of its board can have an important influence on how it is governed. An organisation's governing document[2] sets out who the organisation's members or owners are and how the organisation plans to work and govern itself, including how the members select the governing body or board. The board is responsible for overseeing the day-to-day operations of the organisation and is expected to account to the members at the Annual General Meeting, or any Extraordinary General Meetings that are called to agree major issues, such as constitutional change. Organisations then can be thought of has having a two-tier governance structure consisting of the membership and the board, except in those cases where membership is restricted to board members, and the board is essentially self-selecting.

The board or governing body of a social enterprise has the ultimate responsibility for trying to ensure that the organisation achieves its mission and remains financially viable. As a result, it has the responsibility for managing any tensions between commercial or financial imperatives and the organisation's social goals. How the membership is defined and the composition of the board can be an important integrative mechanism in trying to manage these tensions and again be used to signal the distinctive identity of the social enterprise. For example, organisations may decide to include on their boards people with different interests and competences, so that their membership is made up of people with commercial skills and people with expertise relevant to the organisation's social mission. Some organisations may want to go further and establish multi-stakeholder boards including 'representatives' of various stakeholder groups, such as staff, funders, and beneficiaries or users, on the board or establish advisory or consultative groups to represent the community interest (Young, 2011).

How do people get to serve on a governing body? There are three main methods of selection. Some organisations are constituted as membership associations, where the governing body is *elected* by the membership of the organisation. In others, new governing body members are appointed by the existing governing body - what I will call *board appointed*. In others, some external stakeholders may have the right to appoint some of the governing body members - what I will call *stakeholder appointed*. The different methods of selecting governing body members have contrasting advantages and disadvantages.

Elections can promote member participation and involvement in the organisation. They may also enhance the legitimacy of the governing body or board through its democratic accountability. However, it can be difficult with elections to ensure that the board has all the necessary competences to be effective. In a study of mutual organisations that have spun out of the public sector Davies and Yeoman (2013) note what they call the dilemma of expertise. Members elected to the boards of mutual organisations may not have the commercial and financial expertise necessary to exercise their duties as board members and be poorly equipped to hold management to account. They also suggest that the added burden of getting a mutual board to work can add to costs and reduce efficiency. Another challenge is the difficulty of maintaining an active membership and the danger of oligarchic tendencies, where the organisation becomes dominated by a small 'elite' group of active members (Michels, 1949).

By contrast governing bodies that appoint their own members have the opportunity to recruit people with the specific skills the governing body needs. However, the danger is that self-selecting boards can become self-serving and lack external accountability, with no wider membership to hold them to account. It may also reduce the board's openness to new people and ideas as the board chooses new board members that are like themselves. This lack of diversity can reduce the effectiveness of boards.

Stakeholder appointments may help to bring in new perspectives and increase external accountability and influence. The decision to include different stakeholders on the board may be influenced by the particular origins and development path of the social enterprise. For example, some social enterprises in the UK that have spun-out of the public sector have multi-stakeholder boards embodying a variety of different interests, often including staff, users, and trade union and local authority nominated members. One of the reasons for this is to try to reassure stakeholders that their interests will be protected in the spin out (Spear et al, 2007: 51-54).

However, including multiple stakeholders on boards is not without its own potential challenges, which need to be weighed up when decisions are made about appropriate governance structures. Spear et al. (2007 and 2009) highlight the problem of what one interviewee in their study called 'delegate syndrome', where board members act as if they are delegates for the particular stakeholder group they come from rather than act in the best interests of the organisation as a whole. Pache and Santos (2010) also note that the internal representation of multiple institutional demands in organisations can lead to conflict and manipulation. They suggest that the more even the power balance between stakeholder representatives the more likely is the outcome of organisational paralysis or break up. They also note that conflicting institutional demands on organisations are likely to be particularly prevalent in enterprises providing public and social services.

Table 1 presents a summary of the potential advantages and disadvantages of different methods of board selection. In choosing their legal form and deciding on their governing document organisations need to weigh up the advantages and disadvantages of different methods of board selection. In addition, boards need to keep their methods of board recruitment and selection under review and consider how they can address any weaknesses that arise. For example, organisations with elected boards may want to use co-options to fill important gaps in skills and experience on the board. Self-selecting boards may reserve some places on their boards for important stakeholders, such as users, to ensure that their voices are heard at board level. Alternatively, they might want to set up other mechanisms, such as consultative forums, to make sure the views of users or other important stakeholders are considered. Open advertising and recruitment procedures can be used to bring in new perspectives and skills and make selection processes more open and transparent. In addition, organisations need to provide induction, training and other forms of support to better equip new board members for their role.

Method of selection	Potential advantages	Potential disadvantages
Board appointed	1. Can select on the basis of expertise and experience. 2. Can choose people to fill gaps in governing body skills, and balance commercial and 'social' expertise.	1. Narrow, self-selecting governing body that lacks diversity can mean needs of some important stakeholders are not met. 2. Lack of openness and external accountability.
Stakeholder appointed	1. Can bring an external perspective. 2. Can increase external influence and accountability. 3. Can help balance interests of different stakeholders.	1. May lead governing body members to have divided loyalties. 2. Diversity may increase conflict and make it difficult to make decisions.
Elected	1. Greater openness and accountability. 2. Greater legitimacy. 3. May enhance user/community empowerment. 4. Encourages active membership.	1. Governing body members may lack expertise. 2. Questionable representativeness because of low participation in elections. 3. Responsibility without expertise can lead to failure/disempowerment.

Table 1: A comparison of the advantages and disadvantages of different method of 'selecting' governing body members

Control systems and performance management

The governing body or board of an organisation has overall responsibility for maintaining the mission of the organisation and ensuring that it performs satisfactorily. To do this the board, with the assistance of management, needs to put in place control systems to manage the performance of the organisation and oversee the work of management. One of the main challenges the board of a social enterprise faces is how to balance social and financial performance and avoid the attendant danger of mission drift.

What makes this particularly difficult is that assessing social performance is very different from assessing financial performance. As Ebrahim et al. (2014) discuss, there are well established, standardised and quantifiable ways of measuring the financial performance and sustainability of a business such as profit and loss statements, budgetary performance, return on investments, cash flow, and, if the organisation's shares are traded, then various market measures such as share price, or market value. This makes it easier to assess the financial performance of an organisation over time and to compare it with other similar organisations. The same is not true for social performance. For social performance there are no commonly accepted, standardised measures of performance that boards can rely upon, making comparison of performance between organisations difficult.

In evaluation studies it is usual to distinguish between the immediate outputs of an organisation's activities, for example the number of beneficiaries that have been helped, and the longer-term outcomes and social impacts the organisation is aiming to achieve. It is usually much easier to measure outputs than outcomes and impacts. For example in an organisation that is aiming to rehabilitate drug users it is relatively easy to measure certain outputs, such as how many people complete the programme, it is much harder to measure how many of those stay drug free for longer periods, the extent to which their quality of life has improved and the wider social impacts this may have, for example on reducing crime. While a good deal of research has gone into improving evaluation research it can often be complex, expensive and long term. Research in the US by Liket et al. (2014) also suggests that non-profit organisations struggle to carry out and make good use of evaluation studies. Evaluations are often undertaken to meet the external accountability requirements of funders or the public and have limited relevance to non-profits' strategic decision-making.

In the UK, the charity think tank New Philanthropy Capital (http://www.thinknpc.org/) has campaigned vigorously for voluntary organisations to develop their own systems of measuring outcomes and impact, and developed methods to help organisations do this (e.g. Kazimirski and Pritchard, 2014). However, these methods assume that organisations can accurately identify cause and effect chains between what they do, the outcomes that they want to achieve and wider social impacts. This can often be very difficult to do as a variety of other contextual factors may also influence the outcomes and impacts the organisation is trying to achieve and make it difficult to disentangle what has actually caused the impact.

If social performance is difficult to measure and interpret the danger is that boards and managers of social enterprises will focus more strongly on financial performance and commercial objectives. This can lead to mission drift as financial performance becomes the focus of attention rather than a means to achieving social goals. The challenge then for social enterprises is to try to find cost-effective ways to meaningfully assess their social performance, while recognising that financial performance is a means to an end rather than an end itself.

In contrast to integrative governance strategies discussed above, compartmentalising governance strategies try to manage competing logics by containing them in different parts of the organisation. These strategies are examined next.

Compartmentalising governance strategies

Segregation

One of the common ways in which some social enterprises manage the financial risks of engaging in commercial activities and the risk of mission drift is through segregating or separating their charitable and commercial activities into legally distinct, but connected organisations (Skelcher and Smith, 2014). The origins of the organisation and its path to hybridity may affect this choice of strategy. Many organisations established as charities in the UK have subsequently established trading activities as part of their fundraising strategies. A common example is charity shops selling donated goods. For many, charities separating the commercial from non-commercial parts of the organisations is a legal requirement in the UK (Cornforth and Spear, 2010). If a charity wants to engage in significant trading activities that do not directly further its charitable objects it is required by law to establish a trading subsidiary. Charities may also decide to set up trading subsidiaries as a way of protecting their charitable assets from commercial risks and for tax reasons (Sladden, 2008). Whatever the reasons this is one important way of trying to protect an organisation's social mission while benefitting from trading activity. The longevity of many charities that also have trading subsidiaries suggests that this can also have the advantage of being a relatively stable form of hybridity (Young, 2012).

Interestingly there have also been moves in the 'opposite' direction, where social enterprises that were first established to trade commercially have subsequently established charitable subsidiaries or foundations where they have social goals that qualify as charitable. This has the advantage again of helping to protect the organisation's social mission and means that their charitable activities are better able to attract donations, grants and tax relief (Social Enterprise Coalition, 2007:15). An example is the Big Issue Magazine https://www.bigissue.org.uk/. This social enterprise was established to produce a magazine that homeless vendors could sell in order to give them a source of income. Later the Big Issue Foundation was established as a charity to provide additional support to homeless vendors.

Another potential advantage of separating trading from social activities is that it can make it easier for the respective boards of the separate organisations to establish performance management systems, with the trading organisation concentrating on commercial performance and the 'charitable' part of the organisation concentrating on social performance. However, this does not necessarily remove all tensions. Chew (2010) carried out comparative case study research on the strategic positioning of four social enterprises set up as subsidiaries of UK charities. She found that the charities have 'strong strategic positions … anchored in their charitable missions' that helped to prevent mission drift as they developed commercial activities. This constrained the subsidiaries developing their own distinctive identities. In addition, there were cultural differences that led to emerging tensions. The charities had an operational culture that emphasised control, policies and processes whereas the social enterprises had a more enterprising culture.

Similarly, Spear et al (2007) also reveal tensions in trading charities. For example, in one children's charity there were regular discussions about putting up fees for services because of concerns about low reserves. However, the charitable side of the organisation resisted these proposals because of the likely negative impact on some of the charity's main beneficiaries. Another example concerns the merger of local Age Concern charities in the UK with a national body, Age UK. One of the ways Age UK raises funds for its charitable activities is through a commercial subsidiary that sells products, such as insurance, through commercial tie-ups with companies. A number of local Age Concerns were concerned about the ethics of these commercial arrangements and decided against merging with the national body (Sharman, 2016). Subsequently Age UK was criticised in the press because it was claimed some of these products did not offer good value to Age UK's beneficiaries.

What may happen then in segregated organisations is that tensions emerge at a higher level at the parent board, where decisions have to be made concerning for example how much to invest in a trading subsidiary, how the organisation's beneficiaries will benefit from the trading activities, what identity the trading subsidiary should have and what sort of returns should be expected from its activities. As a result, there may also be a need for integrative strategies at a higher organisational level to address tensions arising from conflicting logics.

A potential disadvantage of a strategy of segregation is the cost of creating separate legal organisations, servicing separate boards and meeting regulatory requirements such as producing annual reports and accounts. An interesting example is the case of UK housing associations (HAs), where many organisations followed a strategy of segregation only later to reintegrate in order to reduce costs and get increased economies of scale. HAs are the main providers of low-cost social housing in the UK. They can be regarded as hybrid organisations as they receive public subsidy and are required to house households with low incomes or special needs, but are also increasingly reliant on private finance and other commercial activities. Most were originally established to provide housing in a particular locality, often with a strong ethos of local accountability. Since the late 1990s a period of rationalisation has occurred stimulated by changes in the regulatory and funding environments that led organisations to seek economies of scale through mergers between organisations (Mullins, 2006, 2010). In order to keep a degree of local accountability and control this was often done through the creation of group structures, where the different HAs become subsidiaries of the group, but keep their own boards. Mullins (2006) highlights how there were frequent governance and management challenges during the life-cycle of these group structures, with key stakeholders often having quite different perceptions of the balance between retaining independence with local boards and accountability, and the need for further consolidation to achieve economies of scale, greater efficiency, clearer lines of leadership and competitive advantage. As a result of these pressures many groups have moved to integrate the HA subsidiaries into a unitary organisation (Mullins, 2010 and 2014).

Segmentation

Rather than compartmentalisation by establishing linked but legally separate organisations, segmentation involves separating parts of the organisation with different logics within the same organisation, for example by setting up separate divisions or departments. This may be preferable to full segregation as it avoids the costs associated with establishing separate legal organisations, and servicing two or more boards and meeting separate regulatory requirements.

Again, while segmentation may enable the different parts of the organisation to operate in a way that is consistent with the underlying logic, there is no guarantee that there will not be tensions between the different parts of the organisation. This is more likely to be the case where the different parts of the social enterprise are highly interdependent. Cooney (2006) provides an example in a detailed case study of a non-profit human services organisation in the US that created separate divisions for business and social service units with their own separate goals, budgets and operating procedures. The social service division was part funded by government and foundations, and by profits from the business units. However, this segmentation failed to prevent tensions between these highly interdependent divisions. The organisation provided welfare to work services, where the social services division recruited, case managed and monitored the flow of clients of the business divisions for vocational training and rehabilitation. Tensions arose because of the different pressures the units faced from external stakeholders in their fields. It was difficult to match the requirements of the businesses, such as the need for skilled labour or fluctuating demand, with the need to meet enrolment and training targets for clients set by grant funders. The difficulty of reconciling these conflicting demands led to a degree of goal displacement or mission drift as the training of clients suffered.

Table 2 summarises the advantages and disadvantages of segregation compared with segmentation that need to considered if a strategy of compartmentalisation is being pursued. However, as discussed, neither segmentation or segregation strategies will necessarily eliminate tensions arising from conflicting logics and external demands, which may need to be addressed at a higher organisational level. As a result, integrative and compartmentalising governance strategies should not necessarily be regarded as mutually exclusive and different aspects of both strategies may need to be combined.

Method of compartmentalisation	**Potential advantages**	**Potential disadvantages**
Segregation	1. Each organisation can focus on its primary purpose. 2. May enable one organisation to have charitable status with related tax and funding advantages. 3. Enables 'charitable' assets to be protected from commercial risk. 4. Relatively stable form of organisation.	1. More complex governance structure with the added cost of servicing multiple boards and regulatory requirements. 2. May be more difficult to create a coherent identity for the organisation. 3. Tensions may still arise which need to be resolved at a higher level.
Segmentation	Enables different parts of the organisation to focus on its primary purpose, without the added cost of establishing separate organisations.	When the activities are highly interdependent it can be difficult to insulate social mission from commercial pressures and risks, with the attendant danger of goal displacement and mission drift.

Table 2 A comparison of the advantages and disadvantages of segregation and segmentation

Conclusions

Hybrid organisations, such as social enterprises, can be characterised as having to combine different institutional logics. However, combining different logics can lead to internal conflict and instability, with the danger that one logic may come to dominate; a social enterprise may succeed commercially but gradually lose its social mission or, conversely, the social mission may dominate at the risk of commercial failure. Institutional theorists have argued that organisations may adopt different strategies in order to manage conflicting institutional logics, through segregation, segmentation, integration and forming a new identity (Kratz and Bock, 2008; Skelcher and Smith, 2014). This chapter has used that framework to examine how governance systems can be designed to help manage conflicting logics in hybrid organisations such as social enterprises.

How an organisation is governed is one important means of trying to manage potentially conflicting logics and priorities but has been little explored in the research literature (Ebrahim et al, 2014). The variety of social enterprises and the different circumstances in which they are formed and develop means that there is no one ideal form of governance that can help preserve the balance between social and commercial goals. In designing their governance structures, systems and processes organisations need to consider a variety of issues including: what legal form to adopt and how they will meet associated regulatory requirements; whether to pursue any voluntary external accreditation; their internal governance structure, board composition and accountability; and what performance management and control systems to establish. In considering these issues practitioners face what can seem like a bewildering variety of options and choices. In order to assist practitioners in navigating this terrain and make informed choices the chapter set out some of the main options and their advantages and disadvantages.

Young (2012) has suggested that some combinations of the characteristics of social enterprises, including legal forms and governance, are likely to be more stable than others. The longevity of many hybrid organisations that have adopted segregated structures, such as charities that establish linked, but legally separate, commercial subsidiaries suggest that this is one form of social enterprise that is relatively stable. However, empirical research shows that these organisations may still experience tensions between their commercial priorities and their social mission that still have to be resolved at a higher level.

This type of segregated structure is unlikely to be appropriate for social enterprises where their social and commercial activities are closely interrelated. In this case it may be possible to separate commercial and social mission activities through segmentation into separate divisions or departments but, as Cooney (2006) shows, where the activities are interdependent and there are conflicting demands from external stakeholders there is always a danger of goal displacement and mission drift over time. Integrative governance strategies are likely to be of particular importance in these 'unitary' social enterprises in helping to reconcile and keep a balance between commercial and social priorities, and to reinforce the organisation's identity as a social enterprise.

In setting out the advantages and disadvantages of some of the main options that social enterprises face in designing their governance systems to help manage their commercial and social goals it has only been possible to draw on a limited range of empirical studies. There is growing need for more empirical research that systematically examines how different aspects of an organisation's governance system can help reconcile potentially competing expectations, pressures and goals. In particular, there is a need to examine what influences social entrepreneurs to choose particular legal forms and governance structures for their social enterprises. More research is also needed into the advantages and disadvantages of new legal forms of organisation. How do these new legal forms affect a social enterprises ability to maintain their social goals and raise external capital? Do they help create and maintain the social enterprises distinctive identity?

Goal displacement and mission drift are processes that occur over time. It will be particularly important therefore to carry out more longitudinal and historical studies that examine how social enterprises perform over time and the role that governance structures, systems and processes play in attempting to manage competing priorities. For example, Blundel and Lyon (2014) demonstrate the value of taking an historical approach to studying the long-term growth and performance of social enterprises, showing how the organisations they studied responded to changes in their environment. Existing empirical research suggests that how social enterprises are formed and the field of activity they operate in can influence the governance structures and processes they adopt and the challenges they face. It will also be important therefore to conduct comparative research examining the governance of social enterprises operating in different fields, in order to examine the influence of contextual factors, such as different funding and regulatory regimes.

Notes

1. Charitable is used here in the broad sense to indicate the purpose of the organisation is intended to achieve some wider social, environmental or community benefit, which may not necessarily meet the legal definition of charity.

2. The governing document is called different things in different legal forms of organisation. For example, in UK companies it is called the 'memorandum and articles of association', and in unincorporated associations the 'constitution'.

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