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ORGANIZATION ZOO

Putting the horse back before the cart: designing strategic social enterprises

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Abstract

In this commentary on a case study of Unjani Clinics, I argue that the weak state of current social entrepreneurship practice—marked by the widespread prevalence of internal organizational conflict and mission-drift—reflects the lack of application of basic strategic and organization design principles to this important area. As the Unjani case study demonstrates, when strategically conceived and creatively designed, social enterprises can not only achieve both their commercial and social missions, but do so in a way that is supermodular compared to the governance forms of which they are a hybrid. If many, if not most, social enterprises fail to meet that standard, it is not because the tools to manage conflicting objectives within hybrid organizations do not exist, but because the lack of market discipline leaves substantial room for inefficiency in such organizations, resulting in the proliferation of ill-conceived and poorly implemented social ventures.

Keywords Social entrepreneurship · Hybrid organizations · Comparative governance · Commentary

In their fascinating case study of Unjani Clinics, Szerb et al. offer an account of an organization that seems to have successfully integrated both financial and social imperatives in a scalable way, doing so through the use of a franchising model that enables it to simultaneously improve healthcare access and support grass–roots entrepreneurship. As such, the authors point out, Unjani's story stands in contrast to the general experience of social enterprises described in the literature, where such hybrid organizations are often characterized as struggling to balance their commercial and social mission, frequently failing to accomplish one or the other.

I agree with the authors that Unjani's success as a social enterprise represents something of an exception in our study of such organizations, one that is heartening to read about. But I can't help wondering: why is the Unjani story so surprising? Should it really come as a shock—especially to a community of organizational design scholars—that an organization can successfully deliver on the objectives it was established to serve? The approach used by Unjani is not new: franchising is a widely prevalent phenomenon (Lafontaine 1992; Kalnins and Mayer 2004), providing opportunities for new entrepreneurs to launch their own businesses (with the support of the franchisor), in industries as varied as insurance, real estate, fast food, kitchenware, and cosmetics. So why wouldn't we expect Unjani to succeed?

To be clear, I am not trying to deny the relative novelty of the Unjani case study, or its contribution to our understanding of social enterprise. On the contrary, I wish we had a lot more such case studies. In fact, I wish success like Unjani's was the modal outcome for social entrepreneurs. The point I wish to make in this commentary—in the spirit of being provocative—is that the very fact that Unjani may be considered an exception is a sad comment on the theory and practice of social enterprise as it stands today.

Let's start with the theory. As briefly described by the authors, the doleful yet familiar tale of social enterprise runs something like this: in trying to pursue multiple objectives simultaneously, social entrepreneurs face an inevitable and irremediable organizational tension—'competing institutional logics' is, I believe, the *de rigueur* term—that necessarily puts them at a disadvantage. Caught between the Scylla of financial profit and the Charybdis of social welfare, the hapless social entrepreneur tries and generally fails to steer a course through the middle, drifting too far towards one goal or the other. In addition, even if the entrepreneur

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is lucky or able enough to achieve a momentary balance between these twin objectives, it is a delicate balance, easily undone by the first attempt to scale the enterprise any further. Faced with this unique and irrevocable dilemma, the received literature tells us, the best that hybrid organizations can hope for is to partially manage and ameliorate this internal contradiction, though never quite overcoming it.

While all this may seem reasonable at first glance, it begs two fundamental questions: First, what makes social enterprises unique? The pursuit of multiple, even conflicting, objectives is certainly not limited to such enterprises, but is a ubiquitous feature of all organizations. Porter tells us that firms face a fundamental trade-off between minimizing cost and maximizing willingness to pay, and every 1st year MBA student understands that good strategy means choosing a position that maximizes one without sacrificing the other (Porter 1980). March highlights the tension between exploration and exploitation (March 1991), and a large and illustrious body of organizational scholarship has discussed how that tension may be handled, either through various forms of structural ambidexterity (O'Reilly and Tushman 2013) or through vacillation between objectives (Nickerson and Zenger 2002; Boumgarden et al. 2012). Multinational firms have to balance pressures for integration across countries against pressures for responsiveness within them (Prahalad and Doz 1987; Bartlett and Ghoshal 1999); diversified firms must realize economies of scope across businesses while trying to choose strategies that are best for each business (Williamson 1985; Natividad and Rawley 2016; Chen et al. 2019); even focused single-business firms generally have multiple stakeholders to satisfy (Klein et al. 2019), and multiple (non-overlapping) dimensions of performance on which their success is measured (Holmstrom and Milgrom 1991; Hu and Bettis 2018; Obloj and Sengul 2020). These are all important and legitimate tensions, yet none are seen posing a fundamental roadblock to an organization's effectiveness or its scalable growth. Indeed, the study of organizational design is fundamentally concerned with developing ways to systematically reconcile these potential trade-offs within organizations; and successful organizations regularly and reliably do so. Why, then, should social enterprises be any different?

Second, even if—for reasons yet unspecified—the competing objectives of social enterprises really are fundamentally irreconcilable in a way that none of the other tensions mentioned above are, why is the problem irremediable? As Williamson (1985, 1996) reminds us, before we even begin to consider decision-making within a given organization, we must first 'get the governance structures right', and the presence of irreconcilable tensions within the organization would seem to suggest that we have failed to do so. After all, the natural solution to the so-called problem of competing institutional logics is simply to eliminate one of the logics. A hybrid form of organizing that underperforms both the structural alternatives of which it is a combination is, by definition, comparatively inefficient (Lee et al. 2020), and should be allowed, even encouraged, to fail. Hybrid organizing only makes sense if it is supermodular, i.e., if the hybrid can achieve something that alternative governance arrangements cannot (Williamson 1991; Makadok and Coff 2009). In other words, either the components of a hybrid organization cannot be made to fit together, in which case we're better off adopting a pure form and avoiding hybrids entirely; or there is an underlying logic for why the hybrid is better than its corresponding pure forms, in which case the parts of the hybrid not only fit together, but they are complementary when they do so (Milgrom and Roberts 1995).

Viewed correctly, there is nothing natural, let alone inevitable, about the notion that the joint pursuit of financial and social objectives by social enterprises makes them susceptible to irreconcilable organizational tensions. From a comparative governance perspective (Luo and Kaul 2019), social enterprises are only comparatively efficient under a narrow range of circumstances, and when correctly chosen under those circumstances, their hybrid nature gives them the potential to outperform both pure for-profit and pure nonprofit organizations. The combination of different forms is thus a feature, not a fault. In such cases, the underlying logic that makes the social enterprise supermodular also provides the basic principle around which the hybrid organization is best designed, and the organizational design challenge is then to correctly identify this strategic basis and implement the structure and systems necessary to bring that strategy to fruition. This is not easy—designing a successful organization rarely is—but it is not fundamentally different from any other organizational design challenge, provided the choice of social enterprise as the appropriate governance arrangement is correct. An analogy to a different type of hybrid organization—strategic alliances—may be helpful. Designing a successful alliance is not easy, but alliance scholars don't generally bemoan the irreconcilable tension between market contracting and administrative fiat, and conclude that most alliances must inevitably drift towards either acquisition or arm's length exchange. They recognize that, done right, alliances may substantially outperform both markets and hierarchies (Williamson 1991; Makadok and Coff 2009; Capron and Mitchell 2012), and focus on when, and how, those superior outcomes may be achieved.

If, as these arguments suggest—and the Unjani case demonstrates—the challenge of designing a successful social enterprise is fundamentally no different from that of designing any other new startup, then how do we explain the panic around hybrid organizing that seems to hold social entrepreneurship in its grip? The authors of the Unjani case study are not wrong in suggesting that Unjani's success is unusual, nor is the existing literature mistaken in claiming that problems of intra-organizational conflict and mission drift are common among social enterprises, more so than in organizations generally. What is going on?

The answer, I contend, lies in the unique nature of social enterprise; specifically, in the way social entrepreneurship efforts are compensated. As recent scholarship has pointed out, it is generally the case that the supporters who reward and enable a social enterprise are different from the recipients who benefit from its social mission (Kaul and Luo 2018; Luo and Kaul 2019). In fact, the distinction is central to the very definition of an organization as a social enterprise: an organization whose beneficiaries directly compensated it for goods and services received would be considered a regular commercial enterprise, no matter how significant its contribution to social welfare. Yet the separation of supporters from recipients means that social enterprises are susceptible to problems of moral hazard (Luo et al. 2018; Seo et al. 2021). Because the supporters do not directly observe or experience the benefits from the firm's pro-social actions, firms may claim more from their supporters than they deliver to their recipients (Luo and Kaul 2019). More generally, the separation of supporters from recipients means that social enterprises are not subject to market discipline in the same way as most other organizations, and this lack of discipline leaves room for inefficiency on the part of the social enterprise. A technology entrepreneur who fails to produce a cutting-edge product is sure to see her venture fail; a social entrepreneur who fails to deliver on her pro-social claims risks, at worst, a light rap on her proverbial knuckles for falling prey to 'mission drift'.

This lack of market discipline contributes to the inefficiency and ineffectiveness of social enterprises in several ways. First, it leads to bad organizational design. Buoyed by the oft-repeated and widely accepted belief that the tradeoffs they face are exceptional and insurmountable, social entrepreneurs have little reason to seek out new ways of organizing to achieve their stated objectives. In fact, faced with the possibility that misguided critics may accuse them of being too commercially minded if they should try to organize more efficiently, social entrepreneurs may prefer to conform to established norms of organizing, even if this means compromising on efficiency (Mitzinneck and Besharov 2019). Instead of looking for innovative ways to structure teams, design incentives, or implement processes that would help yield both financial and social benefits, social enterprise managers may choose to blindly adopt the prevalent professional practices from their previous backgrounds. The result is often a poor patchwork of mutually inconsistent organizational systems that is unable to transcend its internal contradictions (Battilana and Dorado 2010). The diagnosis of incompatible logics thus becomes a self-fulfilling prophecy.

Second, the lack of market discipline leaves room for bad strategy, or potentially for no strategy at all. As Chandler long ago reminded us, structure must follow strategy (Chandler 1962). Yet how many new social enterprises start with a real social case, i.e., a well thought through rationale for why they, and they alone, are able to address a social issue in a way that other organizations (including pure non-profits and/or government agencies) cannot? How many social enterprises choose the cause that they intend to address based on the presence of some co-specialized resources or capabilities or some unique innovation (Luo and Kaul 2019) rather than on some personal predilection of their founder (Horvath and Powell 2016)? In the absence of a coherent strategy, a conflicted and unscalable structure is only to be expected. Armed with noble intentions, but absent a coherent idea of how they will create value—i.e., achieve greater efficiency and effectiveness than alternative arrangements—it is hardly surprising that many social entrepreneurs experience the tension between commercial and social interests as a fundamental trade-off. For social enterprises with no underlying reason to exist, the two interests are incompatible, since in the absence of global value creation the allocation of resources to profit vs. social advancement is effectively a zero-sum game. The point is that social welfare would be enhanced if such inefficient social enterprises were systematically eliminated—in much the same way as unsuccessful commercial startups are eliminated—except that the lack of market discipline allows them to survive. In addition, their survival in turn lowers the bar for new entrants.

Third, the lack of a disciplining mechanism creates scope for adverse selection. While the literature on mission drift has tended to accept the original intention of social entrepreneurs at face value, I personally find it hard to put much faith in the idea of an entrepreneur who really wants to address a social issue but ends up helplessly making money instead. Given the general lack of accountability in the social enterprise space, it seems at least plausible that some proportion of founders choose to become social entrepreneurs simply because symbolically pursuing a social mission is easier than creating a substantive competitive advantage. Why bother trying to achieve the efficiency necessary to overcome competitive entry barriers, when a little judicious window-dressing will make you a social enterprise, and earn you the indulgence of your customers, employees, and investors as you seek to establish yourselves in the market? Especially when doing so offers the additional benefit of basking in the warm glow of your own beneficence (Andreoni 1990)? And once you have established a successful market position, what could be easier than simply dropping the pretense of a social mission, hoping that no one will notice, and knowing that even if they do, they will simply chalk you up as another unfortunate victim of the mystical process of 'mission drift'?

I'm not suggesting, of course, that all social entrepreneurs are inept or ill-intentioned. On the contrary, I firmly believe in the power of social enterprise, when done right, to be both profitable and welfare enhancing, with the Unjani case study offering a great example of what social enterprises can achieve when they are intelligently conceived and creatively executed. My point is that the current practice of social enterprise—with the natural absence of market discipline for such activities made potentially worse by an academic literature that normalizes and even legitimizes inefficiency—leaves too much room for social entrepreneurs that are inept or ill-intentioned to survive and even prosper. In fact, the presence of exceptional organizations such as Unjani that do succeed in their dual mission, may, ironically, make the survival of inefficient social enterprises more likely. If no social enterprise ever did any good for society then the entire social enterprise sector would long since have unraveled (Kreps and Wilson 1982; Milgrom and Roberts 1982), because everyone would recognize social enterprise as a failing proposition. So long as some social enterprises deliver on their stated objectives, they unintentionally provide cover to the vast majority that don't. Just as the success of a casino depends on the occasional gambler getting rich, the success of social entrepreneurship hinges on at least some social enterprises achieving both financial and social success.

At this point, a champion of social enterprise may (indignantly) ask: what if there are no other choices? What if, faced with the manifest failure of the government and other public institutions, an individual feels compelled to take action to address a social problem? Surely, in such cases, starting a social enterprise, even one not fully strategized or planned, is better than mere apathy? After all, something is better than nothing.

The trouble with this (often made) argument is that in the context of grand challenges, doing the wrong thing may, in fact, be worse than doing nothing. First, ill-conceived or ham-handed attempts to address social problems may fail, increasing skepticism and perceptions of illegitimacy around such efforts, and making future initiatives more challenging. Second, small-scale social enterprise efforts, even if successful, may be used by self-interested parties as an excuse to forestall or undermine regulation, claiming that such efforts 'prove' that government intervention is not needed (Maitland 1985; Dorobantu et al. 2017). Private social efforts may also be used to undercut proposals for higher taxation, with wealthy philanthropists and social entrepreneurs using these efforts to claim that they are already giving back to society in other ways. Inefficient social enterprises may also compromise larger social movements: if the richest, most influential members of society find their demands for a cause met by a social enterprise, they may no longer be as supportive of more inclusive, grass–roots efforts to address social problems at scale. In all these cases the narrative of 'government failure' may become a self-fulfilling prophecy, with private provision of public goods through social enterprises not only crowding out public provision (Becker and Lindsay 1994), but sub-scale and inefficient social enterprises helping to give rise to the very public failure that excused their initial creation. Third, to the extent that small-scale social enterprises are unlikely to be truly inclusive, they may lead to increasing inequality and polarization. Even as these enterprises help some of those in need, they may take resources away from those they do not help, leaving them worse off than they would have been otherwise (Lazzarini 2020). For instance, a key critique of the charter school movement in the United States has been that these schools have tended to cherry-pick the best/easiest students while also impoverishing the public school system, so that those who are unable to get into private/charter schools—often children of immigrants or people of color—are left worse off than they would have been otherwise (Ravitch 2013). In addition, even if those not served by social enterprises are not worse off in absolute terms, non-inclusive social efforts may still lead to perceptions of relative deprivation (Gurr 1970), prompting criticism of such efforts as elitist (Giridharadas 2019). Ill-conceived social enterprises may thus produce social polarization and backlash (Burbano 2021; Mohliver et al. 2021) that may harm the very cause they are trying to serve by both strengthening opposition to the cause and weakening the fundamental fabric of a democratic society (Polanyi 1944; Skocpol 2003; Horvath and Powell 2016). In sum, unless they are carefully conceived and vetted, social enterprises, however, well-intentioned, may do more harm than good.

In any case, government failure—even in cases, where such failure is real, and not just a convenient excuse to avoid dealing with the messiness of the democratic process—is hardly an excuse for sloppy planning and implementation of social enterprises. On the contrary, the prospect of such failure only makes the case for carefully designing social enterprises more urgent. If we could be confident that the state will eventually swoop in and save the day, then there would be little harm in letting the occasional dilettante play at being a social entrepreneur; if, however, our very future rides on the shoulders of social enterprises, then it is all the more critical that we bring the highest quality strategic and organizational thinking to bear on them.

To sum up, my contention is that the challenges that contemporary social enterprises often face, and the observed prevalence of so-called 'mission drift' among them, reflect less the inherent difficulty of reconciling financial and social objectives, and more the lack of appropriate motivation in an organizational space that finds itself protected from market discipline. Managing the tension between financial and social objectives is challenging, yes, but no more so than managing the tension between any other set of multiple and potentially conflicting goals; a challenge that our existing repertoire of strategy and organizational design tools is well equipped to handle. So long as a social entrepreneur has a genuine interest in advancing a social cause while making a competitive profit, and a coherent strategy for doing so, the potential to design an organization that effectively achieves both objectives exists, and requires little more than some good old-fashioned organizational creativity, as the Unjani example demonstrates. The trouble is that absent the strong accountability that market forces impose on other types of new ventures, social enterprises with no logical value creation rationale, and, possibly, no true interest in addressing social issues at all, are allowed to co-exist alongside those that have the potential to do real good. So long as social entrepreneurs continue to place the cart of their desire to be seen as doing good ahead of the horse of intelligent design, we will continue to see the social enterprise space overrun by organizations that are internally conflicted and adrift.

For scholars of organizational design, the implication is that rather than enabling such rampant inefficiency by peddling the comforting doctrine of competing institutional logics, we must instead insist on the feasibility of achieving win–win outcomes when the principles of organizational scholarship are properly applied to the problem of social value creation. This is why the example of Unjani Clinics is so important, and why the authors of the case study are to be commended for bringing it to light. Only by highlighting and studying such examples can we hope to move towards a world where we bring the same rigor of strategic and organizational practice to the pursuit of social entrepreneurship—and, therefore, to the efficient and effective resolution of the grand challenges we face as a society—as we regularly and automatically employ when pursuing commercial interests alone.

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