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MISSION DRIFT IN A HYBRID ORGANIZATION: HOW CAN SOCIAL BUSINESS COMBINE ITS DUAL GOALS?

ABSTRACT

The Europe 2020 strategy emphasizes that social enterprises are very useful to the society as an important element of the social economy. As “hybrid” organizations, social enterprises seek to manage the potential tension between social and business aims. The purpose of this article is to disclose how social enterprises may harmonize social and for-profit purposes. The present research promotes sharing of best practices in the field of social business. The methods of the research are analysis of scientific literature and expert interview. The research revealed that investment into human resources of the company, strong focus on the mission hybridity and organization strategy, sufficient communication with the stakeholders, and relevant monitoring of the organization’s financial and statistical indicators can help social entrepreneurs to find a balance between social and profit ambitions. The research confirmed that the phenomenon of mission drift does not depend on how much the country is mature in terms of experience with hybrid organizations and social enterprises in particular. The study can help to better understand the nature of mission drift and to plan problem mitigating solutions.

Keywords: Social enterprise, hybrid organizations, mission drift, Baltic States

1. Introduction

Social business is becoming increasingly relevant to the society nowadays. The institutions of the public sector are no longer capable of effectively resolving some of the major social problems in areas such as education, health, sanitation, environmental protection, human rights protection, etc. (Dees, 2011). Thus, establishing social business organizations may facilitate solving the aforementioned issues as social businesses are becoming increasingly well equipped to offer remedies for the occurring challenges of the social policy.

The Social Business Initiative¹ (October, 2011) has established the role of social enterprises in the “Europe 2020” strategy. The European Economic and Social Committee has approved the European Commission’s social policy and action plan to promote social enterprises in Europe and stressed the importance of its full implementation at both the EU and Member State level and the importance to foster social business. The latter approach is new in that it encourages the development of various forms and models of organizations not accommodated in the traditional social policy and economic framework.

In terms of the sector of social enterprises in the Baltic States it may be noted that the sector is relatively small². For example, in 2014, 133 social enterprises were functioning in Lithuania (Lithuanian Labour Exchange³), whereas only in 2013 there were 70 thousand social enterprises registered in Great Britain, which added 30 billion euros to the state budget. Because of the nature, purpose and specifics of their activities, social enterprises are deemed as a classic example of hybrid organizations in the most recent scientific research. Due to the fact that social enterprises must coordinate different organizational forms, they face a number of management challenges.

Scholars are seeking to understand and theorize about this new organizational form. Schmitz and Glänzel (2016) analyzed a concept of hybrid organizations. Social enterprises as hybrid organizations were mostly examined by Doherty et al. (2014), Battilana and Lee (2014), Santos (2013). Marchant (2017) explored whether hybrid organizations could be sustainable. The governance challenges of social enterprises were researched by Gonin et al. (2013), Spear et al. (2009). However, there is no comprehensive research on the state of the sector of social enterprises in the Baltic States.

To maintain both social missions and business ventures is central to the success of these organizations (Battilana et al., 2012). The aim of the research is to disclose how social enterprises may harmonize social and for-profit purposes. In order to achieve the aim the authors have set the following steps of the research: 1) to examine preconditions of the hybrid organizations; 2) to analyze the peculiarities of the mission drift phenomenon which occurs in social business; 3) to carry out an expert opinion survey in order to disclose the probability of the mission drift phenomenon occurring in the social enterprises of the Baltic States; 4) to ascertain the opinion of the managers of social enterprises in the Baltic States on the possibility to harmonize social and for-profit purposes of social enterprises.

The following research methods were applied in the research: scientific literature analysis and research based on expert interview.

2. Social enterprise as a hybrid organization

Over the last three decades, the boundaries between private-sector, non-profit-sector, and public sector organizations have become increasingly blurred.

This blurring is epitomized by the rise of “hybrid organizations” which combine elements of various organizational forms (Battilana, Lee, 2014). Hybrid organizations engage in activities requiring them to incorporate different institutional logics (Battilana, Dorado, 2010), that are both external and internal demands based on the nature and behaviour of the organization, and individuals acting within (Pache, Santos, 2013). Accordingly, hybrid organizations may be described as organizations that can simultaneously display characteristics of public, private and/or third sector/non-profit organizations (Billis, 2010). In the light of the above, hybrid organizations are organizations that combine several (often contradictory) organizational identities. It is noteworthy, that hybrid organizations are relatively common (e.g. universities, hospitals). Although scholars disagree on whether hybridity is an exceptional or regular phenomenon or whether it is a result of the blurring of distinct sectors, they all assume that the market, civil society, and public sector influence organizations and their members (Schröer, Jäger, 2015).

Social business organizations have also been referred to as hybrid organizations by a number of scholars (e.g. Florin, Schmidt, 2011; Battilana et al., 2012; Wilson, Post, 2013; Lepoutre et al., 2013). In the context of the research, the reason of the hybridity of social enterprises must be explained (Battilana, Lee, 2014). Due to increasing public pressure to help address far-reaching societal problems, a lot of corporations were forced to adopt behavioural patterns meant to fulfil the perceived social responsibility. Whereas not-for-profit organizations faced pressure to increase their overall efficiency and accountability, and to find new sources of funding. This subsequently led the non-profit organizations to adopting tools such as strategic planning and quantitative program evaluations, and engaging in commercial activities to complement revenues from donations and subsidies. The charity and business organizational forms, which historically evolved on separate tracks, have thus increasingly been mixed, causing the emergence and development of hybrid organizations which combine aspects of both of the aforementioned organizational forms. Social enterprises pursue the dual mission of achieving both financial sustainability and social purpose; therefore, the regarded enterprises do not fit into the conventional categories of private, public or non-profit organizations.

There are several aspects regarding how social business organizations can be compared to and differentiated from for-profit organizations and non-profit organizations:

- The first category is market failure. While for-profit organizations see an opportunity in an existing market, non-profit organizations and social business organizations see opportunity where there is a market failure to address a social need, and the opportunity for social change.
- The second category is the organization's mission. While the goal of non-profit organizations is to create social value and for-profit organizations focus on financial value creation, social enterprises balance both social and financial objectives to create blended value (Doherty et al., 2014).
- The third category of resource mobilisation is different for social business entities compared to both for-profit and non-profit organizations and they therefore manage them with different approaches. Specifically, social business and non-profit organizations often face resource constraints (e.g. experienced staff, funding), while for-profit organizations less so.
- The fourth category, performance measurement, is typically linked to mission, such that for-profit organizations have well established financial indicators, while non-profit organizations and social enterprises tend to focus on social performance, for which there are less well-developed measures.

Not all social enterprises are hybrid organizations (Gibson, 2013). Some of them operate more like traditional for-profit or not-for-profit organizations. Haigh and Hoffman (2012) emphasize these peculiarities of hybrid organizations: firstly, the business model is configured to address explicit social/environmental issues; secondly, relationships with suppliers, employees, and customers are based on mutual benefit and sustainability outcomes, costs are considered only after social and environmental outcomes are met; thirdly, industry activity is premised on creating markets for hybrid goods and services, competing successfully with traditional companies, and altering industry standards to serve

both the company and the condition of the social and environmental contexts in which they operate.

As "hybrid" organizations, social enterprises seek to manage the potential tension between social and business aims. There is a constant danger that some social enterprises become too focused on commercial aims at the expense of social aims or conversely too focused on social aims at the expense of building a strong business.

3. The mission drift phenomenon in social enterprises

The nature and operating field of social enterprises implies significant challenges for social enterprises and their governing bodies, as sustained commitment to the competing logic may show to be difficult. In order to attain the needed resources, social enterprises may respond to institutional demands stemming from a commercial logic while failing to attend to those associated with social welfare logic (Battilana et al., 2014). As hybrid organizations generate revenues to sustain their operation, several researchers have pointed out the risk of mission drift (Battilana, Dorado, 2010). Mission drift relates to a condition when the company's mission becomes too focused on financial profits and the social mission is no longer a priority. For example, a number of organizations initially operating as social enterprises shifted to prioritize their business venture over their social mission. Ebrahim et al. (2014) notes that the risk of mission drift is not specific solely to social enterprises. It can be seen that in the field of micro-finance, several prominent organizations have drifted away from their initial social mission in search of increased revenues. In this context, it is noteworthy that according to a report conducted by Battilana et al. (2012), which assessed mission drifts in micro-finance institutions, it is evident that the latter institutions shifted their focus from social mission to more conventional business priorities while trying to develop. According to Liudmila Chambers (2014), social enterprise ventures are susceptible to mission drift when making decisions about growth. She noted that resource providers (e.g. venture capital firms) and market conditions (e.g. increasing competition) often push social enterprise ventures to pursue rapid growth through organizational growth strategies, which may distract them from their social and (or) environmental goals, thus leading to mission drift. In

his research Cornforth (2014) found that dependence on a resource provider and the demands of “competing” institutional environments can lead to mission drift. One challenge for social enterprises, therefore, is to sustain commitments to both social welfare and commercial logics amidst institutional pressure to prioritize the latter (Smith et al., 2013). A mission drift is understood by compromising the social and/or environmental mission in search for profit. Similarly, Ebrahim (2014) also mentions the opposite situation, the revenue drift, where the organization is so focused on the social mission that they do not manage to economically sustain their operations. The consequence of a revenue drift may be the bankruptcy of the company, cutting down on the social activities or converting into a non-for-profit to attract new capital from grants or donations (Ebrahim et al., 2014).

According to Chambers (2014), mission drift can cause a number of issues. Firstly, mission drift can cause problems to the reputation of a venture. As a result, mission drift can jeopardize future funding, since financial backers (commercial and grant-giving foundations) might not understand the venture purpose anymore. Such mission drift can also threaten the organizational culture by lowering the morale of employees and even lead to internal conflicts.

Mission drift has a negative impact on employees' motivation and commitment by either changing or reducing it. Doherty et al. (2014) states that mission drift might lead to reorientation in the shared corporate cultural values. Employees may feel betrayed and their loyalty will soon lay elsewhere. In order to successfully achieve both of the dual mission goals, the governing bodies of social enterprises must create a balanced staff force with both social and commercial knowledge (Doherty et al., 2014). According to Battilana (2012), in order to prevent mission drift, hybrid ventures should pay particular attention to, firstly, developing a widely shared organizational culture and, secondly, selecting employees who are capable of simultaneously pursuing social and economic values. If the hiring approach of a hybrid venture is based on employing people with excellent commercial skills but no experience in the social sector, this reduces the likelihood of organizational conflict but increases the chances of mission drift as “employees are likely to slip into the habits and skills they learned in their previous work” (Battilana et al., 2012). On the other hand,

hiring people from different sectors might reduce the risk of mission drift but increase the chances of organizational conflict. A radically different hiring and socialization approach is to hire graduates with essentially no work experience and then train them into professionals who are committed to both social and commercial goals. According to Battilana (2012), this approach is optimal in developing a widely shared organizational culture and prevents mission drift in SE ventures.

It is important to mention that in Europe most social enterprises are small, and many are fragile (Leadbeater, 2007⁴). Social business organizations in the Baltic States are basically small enterprises and operate at a local level (Moskvina, 2013; Dobelev, 2014). It is difficult for them to make decisions about growth. The biggest challenge for these organizations is how to economically sustain their operations and remain on the market. The analysis of relevant scientific research shows that mission drift is related to huge revenue and organizational growth. It can be said that the risk of mission drift in Baltic States organizations is low. However, it raises the question about the possibility of “revenue drift”, where the organization is so focused on the social mission that it does not manage to economically sustain its operations. Social entrepreneurship is a new phenomenon in the Baltic States, in the stage of development. The development trends of the social entrepreneurship sector in the Baltic States are insufficiently examined. Revenue drift should be an important area for future research, which will allow us to get a better knowledge about social business entities and their sustainability.

4. Research methodology

Due to the lack of relevant knowledge on hybridity in the post-communist countries (Vaceková et al., 2015), our research aims to fill the gap with an up-to-date analysis on how social entrepreneurs in the Baltic States manage social and for-profit purposes in their represented enterprises. The goal of the research was twofold: 1) to explore the opinions of experts on whether the mission drift phenomenon is likely to occur in social enterprises in the Baltic States; 2) to ascertain the means to harmonize social and business aims in social enterprises.

The research was carried out by use of expert interviews. Managers of six social enterprises (from Lithuania, Latvia and Estonia, two from each coun-

try) were interviewed. The main criterion for the respondents' selection was the length of the period of being a manager at the company. The selected managers led the companies for at least three years. The experts represented different organizations so that more alternatives on the topic might be presented and more multifaceted analysis of the phenomenon at hand might be done.

The research data was collected from March to April 2016. In the first stage of the research, core questions for the prospective interview were distributed via e-mail. Afterwards, interaction with the experts was conducted via IT means for further discussion. Analysis of research data was based on the method of inductive transfer of knowledge. All of the informants were familiarized with the aim of the research and the further usage of it and questions of confidentiality were discussed as well. The experts were encoded as follows: Lithuanian experts – A1, A2; Latvian – B1, B2; Estonian – C1, C2.

The research was carried out using a semi-structured interview questionnaire. The two main questions of the research were formulated as follows:

1. It may be stated that the mission drift phenomenon in social enterprises occurs due to the dual goals of the organization forcing it to find a balance between achieving both its social and profit ambitions. Please present your opinion on why social enterprises tend to shift their focus to a single objective: either on the gain of profit or achieving social objectives. In your opinion, why does the phenomenon of mission drift occur?
2. How do you suggest dealing with social and for-profit aims of an organization?

The most common answers which helped to ground the assumptions on the mission drift phenomenon are cited below.

5. Research results

Social enterprises in the Baltic States are basically small enterprises and operate at the local level. The biggest challenge for these organizations is how to economically sustain their operations and remain on the market. Nevertheless, the interview made it possible to ascertain how the managers of those organizations construe the mission drift phenomenon.

With regard to the nature of the mission drift phenomenon, participants of the research noted, that social enterprises usually don't combine a social mission and an aspiration to generate revenue:

"Social entrepreneurship is primarily oriented at achieving social goals however it must also be capable of maintaining itself, i.e. to invest its profit in coping with social issues. If traditional means of business (e.g. focusing solely at gaining profit) are applied in operating a social enterprise, the social mission 'dwindles'". (A1)

The latter statement was followed by an example of the interviewee's food catering business. Due to its social aim, which is to integrate persons who are in social exclusion, it refuses the possibility to sell alcoholic beverage even though it could be highly profitable, thus the social enterprise loses its possible income.

The approach of the executives plays a significant role in the vector of organization politics, processes and activities. If the decision-making bodies give priority to maximizing the dividends and paying out bigger salaries, the organization becomes a profit-oriented company:

"I think that it largely depends on the views and set goals of the managing bodies and employees of the organization, and also it highly relies on the foreseen action plan of the company. If the decision-making bodies of the enterprise give priority to paying out dividends and higher salaries for themselves, it is only natural that the enterprise gradually becomes a for-profit entity". (A2)

On the other hand, for social enterprises, it is important to obtain financial resources from various sources in order to get more financial security and, eventually, to avoid the mission drift. Profit growth in the organization facilitates achieving the organization's social goals:

"In our experience, the main reason is that the profit seeking part tends to 'feel' more justified to grow, as the social side uses the money we earn, but doesn't bring financing by itself (mostly at least). So, every time our organization decides to grow our social side, we use the money earned by the profit side and lose the opportunity to grow our profit side, whereas the opposite usually benefits both sides (only the social side grows slower then)". (C1)

As can be seen, the interviewee repeated the observation of Huybrecht (2011), who stated that diver-

sification of recourses is a key factor of hybridity in the field of social enterprises. The problem of complicated balancing between profit and social goals was designated as a challenge:

“As an entrepreneur and not a theorist/analyst I have never used the term ‘mission drift’ to refer to our company or understood that this is what is happening to us. However, ever since we ran out of initial funding, the question of balancing out the business and social parts has been the biggest challenge for us (how to create a competitive product, but simultaneously provide an appropriate employment environment for senior people, who need adjustment in terms of their physical capabilities, for example).” (B1)

In order to balance social and business driven aims it is crucial to track and assess the financial and statistical data of the company:

“We maintain the balance by prioritizing and re-evaluating our operations. Monthly indicators show the first warning signs. And the bigger annual picture (statistical and financial data) shows if growth is seen in both the business side of the operations as well as the funding and in-kind donations that are going towards a social purpose. We can compare if the growth is at a similar pace or not.” (B2)

The successful enterprise's transformation also cannot be fulfilled properly when lacking the managerial skills and competences, investing in human resource management as well as a favourable organizational structure:

“The problem [of mission drift] initially lies in the mind set and background of social entrepreneurs: it is very unlikely to find a ‘hybrid’ person, who is both NGO and business based. Usually, the manager of a social enterprise comes either from the NGO sector, trying to be more hip, up-to-date or less dependent on external financial sources, or, on the other hand, from business people who want to go beyond just CSR add-on projects. Honestly, I simply think you cannot have the ideal middle ground, i.e. the perfect balance between social and business. As in our case, too much focus on social in a way becomes the main obstacle in successfully sustaining the company as such.” (B1)

“An enterprise willing to achieve the proscribed profitability ratios must perpetually invest in its staff by training and raising professional capacity. It is effective to share financial success with the employees, i.e.

to motivate them financially for good work results. The manager must strive to maximally involve the employees in to the activities of the organization since employees who are provided with adequate conditions act more efficiently.” (A2)

“Lack of managerial skills or structure are definitely factors that could cause a drift in the balance.” (B2)

Another point of the focus in social organizations is a well-established business model:

“We have a stable and good business model so we can afford to focus on the social impact and set it as a priority as our income is consistent. For social enterprises that don't have a good business model (or for example, have only one or two products which are highly dependent on export) they might have a harder time focusing on the social impact, since it is harder to find avenues for selling their product or their product is too expensive.” (B2)

Lastly, interviewees emphasized issues of core attitude to the nature, purpose and mission of the hybrid organization and, especially, of the social enterprise:

“I believe in the balance way not the profit way. I invest my profit back into my activities. I have 10-15 people with mental disabilities - people in my services and work-supported work. I can work harder, better and with more quality than 15 of the mentioned persons but my mission is to balance their weaknesses. I get back energy by new thinking and creativity aspects.” (C2)

“People must think by themselves why they choose social work. If you want to do well, you cannot think only about money. But if you like your work and put your heart into this, the money also comes... In the city, I am the only one giving supported work and sheltered work services for people with psychiatric disabilities. Yes, we have day centres for them, but my workshop is different. I do not train learned helplessness, I provide for my clients a new purpose in their lives and opportunities to work.” (C2)

“You have to be honest to yourself and your stakeholders, and be very clear about the social impact you want to achieve. Then the balance should come easier, keeping in mind that perfection is probably out of reach.” (B1)

“[The success of the social enterprise is related] with a strong focus on the mission that is shared throughout the organization, and with a strategy. If everybody knows the aimed speed of the growth of the both

parts of our social enterprise, problems should not tend to emerge.” (C1)

“If it seems to be difficult to work with persons who are socially excluded, you should not engage in the social business.” (A1)

It could be observed that general insights of interviewees are significant practically for a wide spectrum of different organizations and resonate with conclusions of the contemporary researchers in the field. Moreover, as Alberti and Varon Garrido (2017: 3) noticed, “Learning from hybrids about how to align profits and societal impact may be a driver of long-term competitive advantage”.

6. Conclusions

Social entrepreneurship is a new phenomenon in the Baltic States, thus, it survives in a quite early stage of development. Nevertheless, our research reveals that the problem of mission drift is inherent in the region in the same way as in countries which are mature in the aspect of performance of hybrid organizations. Mission drift is related to a situation

when the company’s politics, strategy and processes become too focused on financial profit and the social mission is no longer a priority. This was confirmed by our interviewees, too.

The interviewed experts indicated that in order to reconcile both social and business goals of the organization, it is most necessary to invest into development of managerial competences and human resources of the company, to maintain a strong focus on the purpose and strategy of the social enterprise that must be shared throughout the organization, and to ensure efficient communication with the stakeholders. The necessity of keeping track of the organization’s financial and statistical indicators was also highlighted by the interviewees. It should be noted that this is a double-edged problem, because a reverse mission drift may occur as the revenue drifts. It could happen when the organization is so focused on the social mission that it does not manage to economically sustain its operations. This particular problem is observed in Western countries; hence, it may be purposeful to explore it also in the Baltic region in the further researches.

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SKRETANJE MISIJE U HIBRIDNOJ ORGANIZACIJI: KAKO SOCIJALNO PODUZEĆE MOŽE USKLADITI SVOJE DVOSTRUKE CILJEVE?

SAŽETAK

U strategiji Europa 2020. naglašava se da su socijalna poduzeća vrlo korisna društvu i važan element socijalnoga gospodarstva. Kao „hibridne” organizacije, socijalna poduzeća nastoje ublažiti potencijalnu napetost između socijalnih i poslovnih ciljeva. Cilj je ovoga rada utvrditi kako socijalna poduzeća mogu uskladiti svoju socijalnu i dohodovnu svrhu. Istraživanjem se potiče dijeljenje najbolje prakse u socijalnom poduzetništvu. Metode istraživanja su analiza znanstvene literature i intervjui stručnjaka. Istraživanje je pokazalo da ulaganje u ljudske potencijale poduzeća, snažan fokus na hibridnu misiju i organizacijsku strategiju, odgovarajuća komunikacija s dionicima te prikladno praćenje financijskih i statističkih pokazatelja organizacije mogu pomoći socijalnim poduzetnicima u ostvarivanju ravnoteže između socijalnih i profitnih ciljeva. Istraživanje je potvrdilo da fenomen skretanja misije ne ovisi o tome koliko je neka zemlja zrela u smislu iskustva s hibridnim organizacijama, a osobito sa socijalnim poduzećima. Rezultati mogu pomoći u boljem razumijevanju fenomena skretanja misije i planiranju rješenja koja mogu ublažiti taj problem.

Ključne riječi: socijalno poduzetništvo, hibridne organizacije, skretanje misije, baltičke zemlje