

Key Features of Internal Governance Mechanisms for Social Enterprise Sector

*Mas Ervina Samsuddin and Mohd Fairuz Md Salleh

* Faculty of Accountancy, Universiti Teknologi MARA (UiTM), KM12 Jalan Muar, 85000 Segamat, Johor, Malaysia.

School of Accounting, Faculty of Economics and Management, Universiti Kebangsaan Malaysia (UKM), 43600 Bangi, Selangor, Malaysia.

ABSTRACT

Malaysian government is prioritising the efforts in raising the income and uplifting the wellbeing of the citizen (rakyat) in order to achieves an equitable society by the year 2020. Currently, Malaysian government is striving to boost the bottom-class society (i.e. bottom 40 percent household income group (B40)) to the middle-class society (i.e. middle 40 percent household income group) by fostering community and social-based enterprises amongst the community. More job opportunities, appropriate infrastructures and facilities may be created by setting up social enterprises, and subsequently encourage local community involvement in various social activities. This will result in a better quality of life for the B40 communities which will accommodate the efforts to resolve social or environmental problems and help particular population to earn extra income. However, a proper governance system and legal structure under which social enterprises can register and operate are currently not in place. Hence, the overall aim of this study is to obtain a clear picture of the existing governance structure adopted and practiced by various forms of social enterprises in Malaysia. In order to achieve this objective, a qualitative method has been employed and involved qualitative data collection via series of semi-structured face-to-face interviews with the top level manager from the selected organisations. The qualitative data in this study is in the form of words (from the transcriptions of the interviews conducted) whereby ATLAS.ti is a qualitative data analysis programme that has been used to analyse the interviews. Generally, a social enterprise subsidiary to holding companies is subjected to a proper governance structure set up by the holding itself. Its structure is similar to those of corporate entities but with some additions to the existing governance system in adopting it to local business environment.

Keywords: Internal Governance, Mechanism, Social Enterprise.

1. INTRODUCTION

The emergence of social enterprises in many countries is the reflective of impressive growth. United Kingdom (UK), United States of America (USA), South Korea, Vietnam, Thailand, Singapore, Myanmar, and Australia are among the countries that regard social enterprise as a key national agenda. Their efforts are manifested by the setting up of their own support agencies promoting local growth of social enterprises. In Malaysia, social enterprise is a rarely discussed concept up until a few years ago, but has since been introduced in line with the government's aspiration to promote growth and accelerate development of social enterprise locally. However, there is no universal definition of social enterprise specifically.

Social enterprise is defined differently according to various sources. It is referred as the commercialisation of non-profit organisations (Dees, 1998), transformation related to social

change through innovative activities (Tapsell & Woods, 2010), and integrated or hybrid enterprises (Harris, 2012). Other descriptions also include commercial revenue generation through charitable activities (Park & Wilding, 2014), and non-profit or hybrid enterprise's endeavours to actively pursue both social and financial goals (Rahim & Mohtar, 2015).

Patterns, interest and scope of the definitions have revealed social enterprise's shifting characterisation towards a hybrid concept. In between the non-profit and for-profit organisational framework, social enterprise aims to earn profits through functional business operations and consequently resolve social or environmental issues. In Malaysian context, social enterprise growth is still within the beginner phase in general compared to conventionally understood model of advanced economies where earned income activities are blended with primary social mission (Wiseman, 2014). Wiseman (2014) has further observed that a private local research focused on social entrepreneurs in Malaysia has recently tracked many of such enterprises. However, those enterprises are operating mainly in a relatively small scale and have yet to demonstrate significant signs of impact to the nation's economy.

The needs for more social-based enterprises in Malaysia have been highlighted in the Eleventh Malaysia Plan 2016-2020 (11th MP). The plan has underlined the disparity in household income among the top 20 per cent (T20), middle 40 per cent (M40), and bottom 40 per cent (B40) income recipients as a significant issue requiring attention. All Malaysians should be allocated with opportunity to contribute and participate in the economy as to ensure stable and continuous nation's economic growth. Hence, an approach that can be employed to achieve an equitable society is by improving the well-being of the Bottom 40 (B40) households' income¹ group. The government aims to assist in increasing the quality of life for the group by providing business opportunities via social-based entrepreneurial business activities. This scheme is fundamentally upholding dual objectives to foster the community which is by resolving social or environmental problems together and earning extra income for a better quality of life. Some of the entrepreneurial activities that can be carried out include childcare services, tuition centres, and orphanages in the urban area, which will also indirectly alleviate poverty. A study on social enterprise is now timely and crucial, given the importance of the sector in tackling social or environmental issues which includes alleviating B40 household's income to the middle-class society.

The Malaysian Social Enterprise Blueprint has highlighted two major challenges towards unleashing the sector's full potential: the lack of proper governance system and the absence of a legal framework that governs the structures of social enterprise in Malaysia. Social enterprise governance is an important determinant for the continuous balance between profit and social missions, and also for long-term survival (Mair et al., 2015). The absence of proper internal governance policy in the early stage (younger social enterprises) or the growth stage (older social enterprises) reflects their inability to survive over the long run. In addition, a national survey involving 144 Malaysian organisations in the social enterprise sector was conducted by Malaysian Global Innovation and Creativity Centre (MaGIC) Social Entrepreneurship (2015). The results indicated that majority of social enterprises faced critical survival problem where approximately half (55 per cent) were struggling to reach the breakeven point, especially those in the early stage of the venture. The earned revenues were insufficient to cover all the incurred costs while delivering the services to the community. In these circumstances, social enterprises will not be able to survive over the next generation. Based on the resource dependence theory (Pfeffer & Salancik 1978), this study emphasises on the importance of the board structure in social enterprises to access the critical resources that are essential for the survival and sustainability of the organisation in the long term. This is particularly vital as the social enterprise sector in Malaysia is an emerging and growing sector.

¹ B40 households income refers to Malaysian with households income of below RM4,000 per month. The average households income is RM2,573 per month (based on Household Income and Expenditure Survey 2014).

In Malaysia, the operation and management of social enterprises are distinct from any other traditional commercial enterprises. Currently, a social enterprise may register either as a private limited company (*Sendirian Berhad*) with the Companies Commission of Malaysia, as a society with the Registrar of Society, or as any other types of incorporation such as sole-proprietorship, public limited company (*Berhad*), partnership, or limited liability partnership. Different types of legal entity may translate into different forms of governance structure depending on the legal form it is being run or operated under. Hence, development of a special legal form and governance policy specifically for social enterprise is necessary to increase the accessibility to various opportunities (Engelke, Mauksch, Darkow, & von der Gracht, 2015). This step will also ensure that organisations are in the right track and applying fairness and transparency in achieving their social or environmental missions and objectives.

Acknowledging the importance of organisational governance is a recent and central concern for the academicians and policy-makers, especially for a new sector such as social enterprise. Most of previous literature on organisational governance are generally according to UK, US experiences (Cornforth 2003; Spear, Cornforth, & Aiken, 2009) and South Korean experience (Bertotti, Han, Netuveli, Sheridan, & Renton, 2014). However, less studies is being done to explore the topic in Asian countries (Chan, Kuan, & Wang, 2011; Yu, 2013). Therefore, this study offers new insight into social enterprises as hybrid organizations, particularly in the context on Asia, as to add to the existing discourse on the importance of governance in the sector (Ebrahim, Battilana, & Mair, 2014; Low, 2006).

The organisational governance poses different social, economic, political and cultural contexts locally compared to other ASEAN countries and remains as an underexplored research area. By focusing on the internal governance mechanism, this study is able to: (1) understand the background of the social enterprise sector in Malaysia by examining how they have been governed as their strategic directions, and (2) discover the key features of governance structure practices undertaken by various forms of social enterprise in Malaysia. The findings of this study may allow identification of governance patterns across organisations attributable to variations in non-profit and for-profit structures, and subsequently how the governance structures have been adopted.

2. LITERATURE REVIEW

Structured governance mechanisms can be classified into external and internal categories respectively, which have been explored in different areas of studies or literature. Upon reviewing literature on political science and corporate management, Ruhanen et al. (2010) has identified six most frequently studied dimensions in governance studies. The dimensions are accountability, transparency, involvement, structure, effectiveness and power. Meanwhile, Hu, Tam, and Tan (2010) empirically examined three internal governance mechanisms namely (1) ownership structure, (2) board of directors, and (3) supervisory board, on the performance of China's listed firm. Using a structural equation model (SEM), it has been found that ownership concentration poses the greatest impact on firm performance and influences board functions despite it being identified as a negative effect.

In social enterprise, the involvement of appropriate stakeholders in the governance include the democratic structure of one or more key stakeholders group, creation of a non-executive stakeholder advisory group, and adoption of social accounting via external auditing procedures. The emergence of social enterprises caused the stakeholders to engage with external stakeholders such as funders, investors, and other communities (Hodgkinson & Hughes, 2012; Lewis, Machold, Oxtoby, & Ahmed, 2004), and internal stakeholders including managers and employees (Arena, Azzone, & Bengo, 2015) in their operations. On the other hand, social

enterprise with democratic governance structure involved volunteer-dominated boards by the community members but do not have external shareholders such as funders and investors whom they need to satisfy financially (Mswaka & Aluko, 2015; Spear, Cornforth, & Aiken, 2009).

A particular study presented the complementary function between internal and external governance mechanisms that influence the long-term firm performance (Cremers & Nair, 2005). However, the study focused primarily on internal governance mechanism adopted by a social enterprise as it encompasses mechanisms (e.g. oversight of management, internal audit and structure board of directors) that are controllable within the organisation. External governance mechanisms (e.g. act, regulation and government policies) have been excluded as they are controlled by those outside the organisation.

Experts from governmental and non-governmental organisations, social enterprise investors, entrepreneurs, for-profit companies, and academicians also anticipate that special social enterprise policies and standards for the purpose of audits and governance criteria will be established in the future. The lack of guidelines to regulate respective legal and policy structure in Malaysia is a major challenge faced by social enterprises in unleashing their full potential as hybrid organisations and contributing towards economic, social and environmental growth (Malaysian Global Innovation and Creativity Centre (MaGIC), 2015).

Research on social enterprise governance is significant as social enterprises have the potential to be quite distinct from traditional for-profits and non-profits (Low, 2006). Yu (2013) referred the governance as “the institutions and processes of regulating and managing an organisation”. Therefore, governance is a system that directs social enterprises to achieve a sound overall direction, control, accountability, and system which is important for operational effectiveness (Cornforth, Hayes, & Vangen, 2014). Furthermore, corporate governance is a norm in commercial sector as the governance mechanism has been put in place appropriately as a monitoring system of a company’s overall direction. This is due to the relationship between the principal and agent within the structure in the sector. However, it is difficult to identify the principal and agent in social enterprise’s governance structure, as they are not commercial entities (Abzug & Galaskiewicz, 2001). Most large corporations have a formal board of director committee that are responsible for the overall setting of directions and also serving as a mechanism that ensures representation of all stakeholder’s interest. In contrast, the board structure for social enterprise may be more complex because the organisation’s top management is responsible of ensuring that the economic and social or environmental mission as well as the resources are achieved and managed efficiently.

Organisational governance is a key topic of interest in research due to its acknowledged importance by academicians and policy-makers alike. The increased focus on governance practices in social enterprise is reflective of the greater awareness towards governance issues in the setting, highlighting an interesting backdrop for this sector (Ebrahim et al., 2014; Mair, Mayer, & Lutz, 2015). Ebrahim et al. (2014) asserted that social enterprises are facing a unique governance challenge due to the need to balance social and commercial activities. Sufficient revenue generation and social impact activities should be carried out concurrently. Social enterprises that are able to decide the priority and main focus either according to commercial or social welfare logic are identified as ‘conforming hybrids’. Meanwhile, those who are unclear about their priority, focus or balance between commercial and social aims are categorised as ‘dissenting hybrids’ (Mair et al., 2015).

Despite the challenges in applying an effective governance structure in social enterprise driven by both profit and not-for-profit goals (Doherty, Haugh, & Lyon, 2014), multiple stakeholders’ demands must still be met (Bridgstock, Lettice, Özbilgin, & Tatli, 2010). A good governance standard for social enterprise similar to public services are crucial to reflect the elements of care and fiduciary of duties for hybrid social enterprises (Mason & Doherty, 2015). Social

enterprises are complex due to their dual mission of having the social or environmental as its primary objective while having profit motivations through commercial means. Hence, it is vital to have a mechanism that governs and regulates the sector properly in a way that is conducive for both individual social enterprises and private sectors to invest in it.

Based on discussions in prior literature and due to the nascent of social enterprise sector in Malaysia, this study is primarily concerned with internal governance mechanisms, particularly the internal governance board structure of social enterprises. Their lack of strategic planning and internal operational capacity are one of the top factors contributing to poor governance (Verma, 2015). Poor governance results in negative consequences, such as inability to raise adequate funds and declining technical development, leadership, and management (Nicholls, 2009; Verma, 2015). In contrast, having a sound governance in place emphasises the importance of having a board that can explain their roles and functions (Mason & Doherty, 2015; Mishra & Mohanty, 2014; Verma, 2015). In addition, this study believes that social enterprises demonstrating good performances are indicative of their good strategic direction that can assure of their survival in a competitive market. This will increase their opportunities to enhance integrated entrepreneurship support from other agencies in delivering services to the community such as with foundations or other private organisations. Therefore, social enterprise performance demonstrates the viability of the sector and encourages more involvement from potential investors or fund contributors, to inject financial capital for sustainment.

This study used resource dependence theory to relate the internal governance board structure of social enterprises as a crucial resource for the survivability of social enterprises in Malaysia. Resource dependence theory provides a perspective that organization is dependent on the external environment as a result of its inability to generate sufficient internal resources (Aldrich & Pfeffer 1976; Pfeffer & Salancik 1978). The resources are crucial in extend which the organization requires it for continued operation and survival. The resource dependence perspective states that boards have a positive impact on firms because they bring more varied resources, competencies and provide a possible range of solutions for their survival and development (Luoma & Goodstein, 1999; Pearce & Zahra, 2012) The directors on the board will provide insight and benefits to the organization in the form of advice and counsel, access of information and important resources, and legitimacy aspect (Pfeffer and Salancik 1978).

3. METHODS

This study utilised a qualitative method involving a semi-structured interview undertaken through a convenience sampling to achieve the objectives. The selected interviewees were chosen among those who can be easily access and agreed to participate in the interview. Databases on the identified social enterprises have been provided and verified by MaGIC SE (MaGIC Social Entrepreneurship). It is a dedicated team responsible in fulfilling the mandate given by the government to develop the sector in Malaysia through the special allocation of RM20 million funding. Interview (i.e. semi-structured interview) is a method capable of capturing individuals' narratives and describing their various experiences (Mason & Doherty, 2015). It has also allowed for a series of questions with no fixed order to be asked to the interviewee, probing further for their importance and relation to the issue being investigated. The purpose of gathering data through interviews is to obtain individual opinions and descriptions of governance structure adopted by selected social enterprises in Malaysia. Prior to the development of the interview questions, an extensive review of the Malaysian social enterprise sector and its governance in various countries has been undertaken. A semi-structured interview process involves recording the interview sessions, followed by transcription of the interview data in the form of words. The transcription involved coding of the data, dividing the text into small units, assigning a label to each of the codes and grouping

the codes into themes. The application of interview protocol has served as a guideline for consistency and cross-referencing, whereby a qualitative analysis has been carried out after data collection to analyse the interview notes. The qualitative data analysis software program, ATLAS.ti has then been used to analyse the data and results.

Qualitative data provide a greater understanding of the social enterprise background in Malaysia, allowing the discovery of key features of the board governance structure adopted by social enterprises incorporated as private limited companies. The qualitative data collection has been adopted due to the restricted information on the governance framework adopted by social enterprises in Malaysia. In addition, social enterprises are different from public listed companies, whereby the latter is required to fully disclose all information including their governance in the annual report. For the interview, five social enterprises incorporated as private limited companies (*Sendirian Berhad*) have been selected. Chief executive officers (CEOs) and founders that possess the decision-making power over the overall business operations, management, and organisational governance are subsequently picked as the interviewees. This is due to their sufficient knowledge and experience in governing the business operation of their respective organisations.

4. FINDINGS

4.1 Demographic Information

Table 1 has summarised the demographic information of the respondents involved in the interview, which includes age, gender, current and previous position, education and duration of working experience before joining social enterprise. The table outlined the five (5) top management personnel from five social enterprises that have participated in the interview session. Each has undertaken a role as the director, CEO, manager and consultant respectively of an organisation before joining social enterprise. Three (3) of the interviewees are male across different age ranges. Out of the five, two are diploma holders, while the remaining three possess bachelor level and master level degrees. As can be seen in Table 1, all interviewees have working experience in managerial roles in for-profit and non-profit sectors with accounting or finance related experiences before getting involved in the social enterprise sector.

Table 1 Demographic information of the respondents

Name	Gender	Age	Current Position	Previous Position	Education level	Working experience			
						In for-profit sector	In non-profit sector	Managerial role	Accounting/finance related experience
CEO A	Male	More than 50 years	Founder/CEO	CEO	Diploma	More than 10 years	6 – 10 years	6 – 10 years	More than 10 years
CEO B	Female	41- 45 years	Founder/CEO	Director	Bachelor's Degree	1 – 5 years	1 – 5 years	1 – 5 years	1 – 5 years
CEO C	Male	30 – 34 years	Co-Founder/CEO	Manager	Bachelor's Degree	1 – 5 years	1 – 5 years	1 – 5 years	6 – 10 years
MD D	Female	35 – 40 years	Managing Director	Consultant	Master's Degree	6 – 10 years	6 – 10 years	1 – 5 years	1 – 5 years
MD E	Male	41 – 45 year	Managing Director	Consultant	Master's Degree	6 – 10 years	1 – 5 years	6 – 10 years	more than 10 years

Table 2 present the demographic information of the five (5) social enterprises that have been selected for the interview exercise.

Table 2 Demographic information of the organisation

Subject	Category	Frequency (n = 5)
Location	Selangor	2
	Wilayah Persekutuan	3
Type of incorporation	Private Limited by Share (<i>Sendirian Berhad</i>)	5
Organisation age	Less than 5	4
	6 to 10	1
	More than 10	-
Subject	Category	Frequency (n = 5)
Social impact sector	Youth Development	1
	Disability	1
	Economic Access & Poverty Alleviation	1
	Environment, Sustainability & Energy	1
	Community Development	1
Number of employees	1 to 10	1
	11 to 20	2
	21 to 30	-
	More than 30	2

The organisations have been selected based on their convenience of geographical location, as they are located in Klang Valley, Selangor and Wilayah Persekutuan respectively, as well as for data availability. All social enterprises participating in this study are incorporated as private company limited by share (*Sendirian Berhad*). Majority are involved in the sector for less than 5 years, with quite small numbers of employees being employed.

4.2 The Internal Governance Board Structure of Social Enterprise

Semi-structured interview questions have been developed to obtain the data necessary to understand the background and key features of the governance structure adopted by Malaysian social enterprises incorporated as private limited (i.e members on the board, duties and responsibilities, and frequencies of meeting. The respondent were also expressed their opinion on the needs of having a proper internal governance structure ideally design for social enterprise in Malaysia.

4.2.1 Proper Internal Governance Structure in Place

Five (5) of the organisations are incorporated as *Sendirian Berhad*. Two (2) out of five (5) organization are a subsidiary company under a holding company. Therefore, they are equipped with a governance system and structure set by the main company that needs to be followed. They are essentially run similar to other conventional businesses, whereby the chairman is responsible of overseeing the organization and the CEO is responsible of controlling and coordinating all activities. However, with some local adaptation, there is a business unit that is internally responsible to some of the internal affairs and external engagements relevant to their customers or clients. This has created a greater accountability for these social enterprises as their tasks do not only revolve around the organisations' operations. They should also make sure that all actions being taken produce the desired effects on the main company. For instance, one of the respondents (i.e. Managing Director) has said that:

“...we really have put in place many governance structures. So, we just follow and build around them according to the local needs. We have to make sure our responsibility towards the stakeholders and the public, and that the annual report is published every year.” (MD D)

In contrast, the three (3) social enterprises that are not subsidiaries to respective holding company have yet to put in place a formal governance structure for their organisations. Nevertheless, one (1) of these three social enterprise have suprisingly set out its own governance framework consisting of the key principles and relevant distribution models on organisational governance and operation. This has been considered as a formal documentation for the day-to-day operation but it may change over time given the complexity of the organisation. As the Chief Executive Officer has said:

“...currently, we do not have a formal or completed governance structure in place but we have our own governance framework as guidance in managing our day-to-day business operation and to coordinate all activities. However, it maybe changed due to the business complexity.” (CEO C)

Meanwhile, despite being incorporated as a private limited company, but given that they are a social enterprise of a small scale, the board governance structure is comparatively simpler. There is only about three (3) to four (4) people in the board, and a small number of employees between one (1) to seven (7) people who are full-time employees. Another Chief Executive Officer has stated:

“...we are a small social enterprise. It is quite difficult for small social enterprises like us to have a proper governance structure in place. This is because like our company, there are only four of us to be in the board. So the structure requires everybody to do everything. But of course, among us, we have assigned the roles and responsibility according to their credibility to ensure that we are able to sustain in this sector.” (CEO B)

4.2.2 Board or Management Structure

Similarly, the holding companies have already set a proper governance system to be followed. As per their agreement regarding the accountability of a subsidiary towards its holding company, one of the respondents has stated that:

“Our structure is quite similar to a corporate company...We have a chairman and CEO... Some accountability measures have been established to hold us accountable as a lot of actions have also been laid out by our main company for this purpose.” (MD D)

Contrastingly, there is no Chairman function existing within a social enterprise that are not a subsidiary to any holding companies. Their board structure consists of the Chief Executive Officer as the higher level management and other co-founder or equity partners. The Chief Executive Officer has the power and responsibility to make decisions and oversee the organisation concomitantly. The head of department in the organisation will be responsible for business operations.

“...we do not have a chairman. We have a Chief Executive Officer and co-founder. We will decide together the direction, and then the Chief Executive Officer will execute them in helping to make decisions. We have a headquarter and different departments headed by each of our co-founder.” (CEO C)

When probed further regarding the presence of outside directors on the board as there is a social enterprise that are also funded by venture capitalist investor, the Chief Executive Officer has said that:

“...we have a social enterprise venture capitalist (SEV) on the board as he is a person who invests in our business and now become our equity partner. This venture capitalist helps us to be able to grow scalable and sustain so far given that there is very limited of funding source available in the market for social enterprise. In addition, this is inspired from what our prime minister aims for this sector to be self-sustaining by 2018. So we do not want to very dependent on loans to pursue our activities.” (CEO B)

4.2.3 Duties and Responsibilities

The governance structure consist of members from the social enterprise itself and the main company that governs the enterprise to ensure transparencies. For social enterprise, the CEO and management team possess multitasking capabilities due to its small scaled business. The board of directors only come a few times to check the company’s current status; the CEO is the head of the management responsible of maximizing profit from its social activities and daily operations. For example, one of the CEO said that:

“The CEO of social enterprise is not the same as the one in public agencies; the CEO in social enterprise has to do everything. We are a crew that multitasks well. The board does not disturb into the management. The management is set to be entirely headed by me. So I run the operation and the management. The board comes in and checks on it... all of the board members are very busy business people, so they come and check on the company’s goings-on... We believe that we have to maintain our operation and the management team neat and clean, because we want to maximize profit at the same time.” (CEO A)

Another CEO stated that:

“...we do not have a chairman but we have segregated our own duties and responsibilities by considering everyone’s background and capabilities. What I mean is for example, our executive director has many experience in operation and supply chain, I am experienced in human resources and marketing, whereas another member in board is good in negotiation, sales closing and finance. So, we are actually complementary of each other. We do it everything together. This is how we maintain our management teamwork.” (CEO B)

Similarly, another managing director has said that:

“In our organization, there are only three of us. The founder as Chief Executive Officer, then we have a managing director and another equity partner only. Although, the roles and responsibility have been assigned but given that we are considered as a small scale social enterprise, we are actually multitasking. The Chief Executive Officer is also responsible for the operation and the management part will be headed by me. But we always have meetings together to discuss any problems that arise. We actually do it together...” (MD E)

4.2.4 Number of Meetings and the Issues

The responses from all of the interviewees showed that the meetings are held quite frequently and on regular basis. The management meetings have been scheduled on a weekly basis, whilst the main meeting is two to four times per year. The weekly meetings normally discuss the daily issues, updates from related business units, changes on planned activities, post-mortem of activities targeted at delivering social impact, performance of staff or workers and future plans. Meanwhile, the main meetings are often more focused on future planning, unresolved client issues and major strategic decisions. All heads of the business unit in the organization are often involved in the meeting to ensure that the information flows directly from the responsible unit. Furthermore, the CEO also participates in the weekly meeting sometimes as to give input and contribute ideas. There have also been situations whereby only the management team is involved in every weekly meeting due to the small number of people in the management. For instance, one of the interviewees has said that:

“Like other social enterprises, here we conduct management meeting every week whilst the board meeting (main meeting) is every three or four months to update on daily or weekly issues... check on the performance of the trainers... to plan for next week’s event or activities and on any valid issues. Since we are small, only a management team consisting of about five of us are involved in every meeting... The information will then be passed to other staffs.” (CEO A)

Another Chief Executive Officer has stated that:

“We do regular meeting. We do self-review among partners every six month. We have all agreed on what each partner will be doing. We agreed on our key performance indicators and after that we do a partner joint review. We discussed on what have been achieved, any loopholes, any problems, so we will review back together, either weekly or monthly among the head of department. Now, we have made some improvement, which includes an annual meeting for career development.” (CEO C)

4.3 Expectation for Social Enterprise Sector in Malaysia

At the end of the interview, the respondents have expressed their opinions regarding the importance of a proper governance system for the social enterprise sector in Malaysia. A proper governance system will serve as a clear guideline on running the social enterprise, create an organisation that is more transparent, and provide both social and financial impacts for the society. For instance, the respondent has said that:

“Governance in social enterprise is a really big issue. Given that, we function like a normal business. Governance, specifically for the social enterprise sector, will provide more transparency, a clear process of how social enterprises should run. This could really be helpful for us.” (MD E)

Meanwhile, another respondent has expressed his keenness for a proper system that specifically governs social enterprise in Malaysia, with the hope that more non-profit organisations or non-governmental organisations can be part of the sector. Support from the public and government is also necessary in promoting and developing this sector. The respondent has stated that:

“It's very exciting. We hope that one day, non-profit organisations or non-governmental organisations would really focus in becoming social enterprises as recently the government is quite aggressive in promoting

social projects and public-private partnership to develop this sector". (CEO A)

Another respondent has also expressed the importance of having a proper internal governance structure for social enterprise in Malaysia so as to accelerate the development of the sector. The respondent has said that:

"That is very important. With improper or without guidance especially of the governance structure, people out there who is interested to become part of social enterprise may abuse or misinterpret the concept of social enterprise itself because social enterprise is not a profit oriented nor social oriented, but it should have both social and profit motives. This concept should be understood by those who want to start as social enterprise." (CEO B)

In addition, one of the Chief Executive Officers has asserted that:

"There is a need to have code of governance that is designed for social enterprise sector in Malaysia. Having a proper internal governance structure can help them in guiding and managing their business operations and survive in this emerging sector." (CEO C)

5. CONCLUSION

Social enterprise is a nascent and growing environment in Malaysia. It has emerged as a new form of organisation that aims to resolve social or environmental problems through commercial means or trading activities. It needs to fulfil the social, environmental and economic missions as to become part of an impact-driven sector. The viability of this sector to be successful in the long-term is determined by the commitment from all parties, including the public and private sectors. Social enterprises need to play a prominent role in affirming their ability to create impact and self-sustain, as the longevity of any sector based on its ability to sustain itself independently from the state or governing agencies. The social enterprise sector is a convergence of the traditional sectors, requiring it to adopt certain 'traits' of other sectors to meet its objectives better and overcome the challenges it faces (*Malaysian Social Enterprise Blueprint 2015-2018*, 2015).

This study has discovered the key features of the governance structure, particularly the board structure, that have been adopted by various forms of social enterprises in Malaysia. From the interview sessions, deeper and richer information on the governance practices by social enterprises have been gathered. The respondents have asserted that the proper governance structure is in place, as they are subsidiaries of holding companies, whereby the governance framework has been set up by the holding company. As the holding company is internationally acclaimed, a subsidiary social enterprise needs to follow the laws laid down by the holding. Some additions may be necessary to set up the organisation according to the local business environment, with the holding's permission. Moreover, the structure is quite similar to corporate businesses, whereby the board of directors are responsible of governing the organisation and monitoring its transparency. All control and coordination authority of their social activities preside over the CEO. In contrast, small scaled social enterprises with very small numbers of board members and staff employed have asserted that their internal governance structure is simpler compared to medium or large scaled social enterprises. Therefore, the small number of board member can oversee the organisation and execute operations concomitantly.

The findings are hoped to create awareness among many parties, including the Malaysian government in realizing the aspiration to boost the number of domestic social-based

enterprises. This will hopefully help in reducing the income disparity among citizens. A proper guideline and legal framework that can effectively govern the sector is extremely crucial because social enterprise is an entity that has emerged to resolve social or environmental issues faced at the national or global level. Its role is between a non-profit organisation and for-profit organisation.

This study has obtained valuable findings regarding the key features of internal governance mechanisms of social enterprises incorporated as *Sendirian Berhad*. They are inclusive of the board structure, duties and responsibilities, and frequency of board meeting. However, there are limitations in this study that must be considered. This study has employed a qualitative method, which has involved a semi-structured interview with five private limited types of social enterprises. More samples from other forms of social enterprise like society, partnership, and sole proprietorship should be included for an examination of the internal governance mechanisms for all social enterprises as a whole. Future research should be conducted to study the linkage between internal governance mechanisms and social enterprise performance both financially and non-financially, by adopting theories like stewardship theory, stakeholder theory, or resource dependence theory. This will indicate social enterprise's viability to survive and sustain for the next generation. It is also suggested that the quantitative research approach may also be used for a more rigorous hypothesis testing.

REFERENCES

- Abzug, R., & Galaskiewicz, J. (2001). Nonprofit Boards: Crucibles of Expertise or Symbols of Local Identities? *Nonprofit and Voluntary Sector Quarterly*, *30*(1), 51–73.
- Aldrich, H. E., & Pfeffer, J. (1976). Environments of Organizations. *Annual Review of Sociology*, *2*(1), 79–105.
- Arena, M., Azzone, G., & Bengo, I. (2015). Performance Measurement for Social Enterprises. *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations*, 649–672.
- Bertotti, M., Han, Y., Netuveli, G., Sheridan, K., & Renton, A. (2014). Governance in South Korean social enterprises. *Social Enterprise Journal*, *10*(1), 38–52.
- Bridgstock, R., Lettice, F., Özbilgin, M. F., & Tatli, A. (2010). Diversity management for innovation in social enterprises in the UK. *Entrepreneurship & Regional Development*, *22*(6), 557–574.
- Chan, K.-T., Kuan, Y.-Y., & Wang, S.-T. (2011). Similarities and divergences: comparison of social enterprises in Hong Kong and Taiwan. *Social Enterprise Journal*, *7*(1), 33–49.
- Cornforth, C. (2003). Introduction: the changing context of governance - emerging issues and paradoxes. In *The governance of public and non-profit organisations: What do boards do?* (pp. 1–19).
- Cornforth, C., Hayes, J. P., & Vangen, S. (2014). Nonprofit-Public Collaborations: Understanding Governance Dynamics. *Nonprofit and Voluntary Sector Quarterly*.
- Cremers, K. J. M., & Nair, V. B. (2005). Governance mechanisms and equity prices. *Journal of Finance*, *60*(6), 2859–2894.
- Dees, J. G. (1998). Enterprising nonprofits. *Harvard Business Review*, *76*(1), 54–67.
- Doherty, B., Haugh, H., & Lyon, F. (2014). Social enterprises as hybrid organizations: A review and research agenda. *International Journal of Management Reviews*, *16*(4), 417–436.
- Ebrahim, A., Battilana, J., & Mair, J. (2014). The governance of social enterprises : Mission drift and accountability challenges in hybrid organizations. *Research in Organizational Behavior*, *34*, 81–100.
- Engelke, H., Mauksch, S., Darkow, I. L., & von der Gracht, H. a. (2015). Opportunities for social enterprise in Germany - Evidence from an expert survey. *Technological Forecasting and Social Change*, *90*, 635–646.
- Harris, M. (2012). Nonprofits and Business: Toward a Subfield of Nonprofit Studies. *Nonprofit and Voluntary Sector Quarterly*, *41*(5), 892–902.

- Hodgkinson, I. R., & Hughes, P. (2012). A level playing field: social inclusion in public leisure. *International Journal of Public Sector Management*, 25(1), 48–63.
- Hu, H. W., Tam, O. K., & Tan, M. G. S. (2010). Internal governance mechanisms and firm performance in China. *Asia Pacific Journal of Management*, 27(4), 727–749.
- Lewis, T. J., Machold, S., Oxtoby, D., & Ahmed, P. K. (2004). Employee roles in governance: contrasting the UK and German experience. *Corporate Governance: The International Journal of Effective Board Performance*, 4(4), 16–28.
- Low, C. (2006). A framework for the governance of social enterprise. *International Journal of Social Economics*, 33(5/6), 376–385.
- Luoma, P., & Goodstein, J. (1999). Stakeholders and Corporate Boards: Institutional Influences on Board Composition and Structure. *The Academy of Management Journal*, 42(5), 553–563.
- Mair, J., Mayer, J., & Lutz, E. (2015). Navigating Institutional Plurality: Organizational Governance in Hybrid Organizations. *Organization Studies*, 36(6), 713–739.
- Malaysian Global Innovation and Creativity Centre (MaGIC). (2015). Malaysian Social Enterprise Blueprint 2015-2018. Retrieved from www.mymagic.my
- Malaysian Global Innovation and Creativity Centre (MaGIC) Social Entrepreneurship. (2015). State of Social Enterprise in Malaysia 2014/2015.
- Mason, C., & Doherty, B. (2015). A Fair Trade-off? Paradoxes in the Governance of Fair-trade Social Enterprises. *Journal of Business Ethics*.
- Mishra, S., & Mohanty, P. (2014). Corporate governance as a value driver for firm performance: evidence from India. *Corporate Governance: The International Journal of Business in Society*, 14(2), 265–280.
- Mswaka, W., & Aluko, O. (2015). Corporate governance practices and outcomes in social enterprises in the UK. *International Journal of Public Sector Management*, 28(1), 57–71.
- Nicholls, A. (2009). “We do good things, don’t we?": “Blended Value Accounting” in social entrepreneurship. *Accounting, Organizations and Society*, 34(6–7), 755–769.
- Park, C., & Wilding, M. (2014). An exploratory study on the potential of social enterprise to act as the institutional glue of network governance. *The Social Science Journal*, 51(1), 120–129.
- Pearce, J. a., & Zahra, S. a. (2012). Board Composition from A Strategic Contingency Perspective. *Journal of Management Studies*, 29(MAY 2007), 411–438.
- Pfeffer, J., & Salancik, G. R. (1978). *The external control of organizations: A Resource Dependence Perspective*. New York. Harper & Row.
- Rahim, H. L., & Mohtar, S. (2015). Social Entrepreneurship : A Different Perspective, 1(1), 9–15.
- Ruhanen, L., Scott, N., Ritchie, B., & Tkaczynski, A. (2010). Governance: a review and synthesis of the literature. *Tourism Review*, 65(4), 4–16.
- Spear, R., Cornforth, C., & Aiken, M. (2009). The governance challenges of social enterprises: Evidence from a UK empirical study. *Annals of Public and Cooperative Economics*, 80(2), 247–273.
- Tapsell, P., & Woods, C. (2010). Social entrepreneurship and innovation: Self-organization in an indigenous context. *Entrepreneurship & Regional Development*, 22(6), 535–556.
- Verma, S. M. S. (2015). An assessment approach for enhancing the organizational performance of social enterprises in India. *Journal of Entrepreneurship in Emerging Economies*, 7(1), 35–54.
- Wiseman, A. W. (2014). *International Educational Innovation and Public Sector Entrepreneurship*. International Perspectives on Education and Society (Vol. 23).
- Yu, X. (2013). The governance of social enterprises in China. *Social Enterprise Journal*, 9(3), 225–246.

