

# **MANAGEMENT & ACCOUNTING REVIEW**

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## Effects of Organisational Structure on Social Value: Mediating Role of Financial Performance

Nur Aima Shafie<sup>ab</sup>, Zuraidah Mohd Sanusi<sup>a</sup>, Razana Juhaida Johari<sup>b</sup>,  
Wiwik Utami<sup>c</sup> and Aziatul Waznah Ghazali<sup>d</sup>

<sup>a</sup>Accounting Research Institute, Universiti Teknologi MARA

<sup>b</sup>Faculty of Accountancy, Universiti Teknologi MARA

<sup>c</sup>Accounting Departmentthe , Mercu Buana University, Indonesia

<sup>d</sup>Kingston Business School, Kingston University London

### ABSTRACT

*Social enterprise (SE) is a hybrid organisation, which combine two different goals in their mission and vision. In an attempt to sustain their operation, a social enterprise must ensure that both missions (social and financial) is equally balanced and achievable. The existence of SE is to fill the gap leave behind by traditional profit organisation, non-profit organisations (NPOs) and the government. The aim is to positively impact the social, cultural and environmental issues through their unique business model. Their uniqueness, while can benefit the community and society as a whole is prone to fraud and misuse of funds which would eventually affect the survival of SE. The issues are originated from weak governance particularly the structure of their organisations. Hence, this study aims to examine the relationship between the organisational structure, financial performance and social value of SE in Malaysia. On the other hand, the study also aim to examine the mediating role of financial performance on the relationship between organisational structure and social value. Organisational structure is vital as carefully selected, well designed and well managed organisational structure will improve the impact of social enterprise on the society. This study is based on the 134 data obtained from the SE in Malaysia and registered as Company Limited by Guarantee (CLBG). The selection of a sample of respondents was done using purposive sampling method. Based on multiple regression analysis, the study found that organisational structure and financial performance significantly influence the social value of SE. Furthermore, it was also found that financial performance indeed mediates the relationship between organisational structure and social value. It is*

*hoped that the study can contribute to the improvement of the performance of SE in Malaysia and as well as encourage the development of research in the area of SE.*

**Keywords:** *Social Enterprises, Social Value, Financial Performance, Organisational Structure*

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## INTRODUCTION

Social enterprise (SE) is a hybrid organisation with double bottom line goals (social and profit goal). The existence of SE goes way prior to the time of social reformers such as Robert Owen and Sir Titus Salt who formed organisations following the needs to improve the well-being of employees while developing the community and society in 1833 (Beugre, 2017; Easter & Conway, 2015; Ridley-Duff & Bull, 2016; Lincoln, 2003; Billis, 2010; Shaw, 2004). The formation of such organisations created the foundation for the development of the SE ecosystem worldwide. In this digital age, an upsurge of creativity in social entrepreneurship has unfolded against the backdrop of a crisis in global capitalism. In the US alone, the worth of social enterprise is valued well over \$500 billion which is equivalent to 3.5 per cent of total US GDP. Similarly, the G8 Social Impact Investment Taskforce (2013) also reported that the sector of social enterprise accounted for more than 5% of GDP in several countries, including Canada, Germany, UK and US. Globally, social enterprise has made a significant impact socially and economically (Berry-Moorcroft, 2014; Social Enterprise UK, 2013; Europe Commission, 2008). While the Malaysian government recognise the positive impact of SE on the economy, the statistics in term of percentage of GDP is unavailable.

Recognising the importance of the sector as the agent and catalysts in carrying out social services, the government of Malaysia has embedded

the role of SE in Government Transformation Programme (GTP) under one of the roles assigned in National Key Result Area (NKRA) (MaGIC, 2015). The main purpose of the program is to raise the living standard of a low-income household. Moreover, the role of SE also fulfils the 17 of social development goals (SDG) as outlined by the United Nations (UN) such as to reduce poverty, to reduce income inequality and to achieve zero hunger (Department of Statistics Malaysia). In its mission to solve societal problems and to create both economic and social values, SE must ensure that they have both the internal and external accountability systems in place. In essence, SE should take all the necessary precaution to ensure that they get the accountability relationships right between the people who make decisions and the one who is impacted by the decisions in order to ensure the outcomes of social value are fair, inclusive and sustainable.

Several studies have explored the importance of social value creation as the outcome of SE (Srivetbodee, Igel & Kraisornsuthasinee, 2017; Mendoza-Abarca & Mellema, 2016; Dufays & Huybrechts, 2014; Hlady-Rispal & Bonclear, 2010; Dees & Anderson, 2003). In ensuring the maximisation the creation of social values among SE, the organisations (SE) should seek to enhance their performance by utilizing the resources available to them. Srivetbodee et al., (2017) and Dees and Anderson (2003) observed that SE could create social value through the resources available to them such as through the design of the product, accessibility, discrimination of price and leveraging their business to address the social issues. Such social value can improve the lives of unfortunate people, communities and societies at large (Stevens, Moray & Bruneel, 2015).

Efficient and effective organisational structure facilitates the creation of social value. Moreover, the process of setting the organisational structure emphasises the effort in ensuring that the necessary resources are in place for the organisation to meet its objectives and review performance (MCCG, 2017). According to Lipiper, Lajh, & Gric (2013), the organisational structure would foster social enterprise to improve their performance and provide much greater impact to the various stakeholder. In the meantime, the effective organisational structure can also bring down the agency costs, thereby improving the firm performance (Strebel, 2004; Pitcher, Chreim & Kisfalvi, 2000; Conyon & Peck, 1998; Eisenhardt, 1989).

An effective organisational structure that puts the dual objectives of an organisation into practices is a strategic way for the achievement of greater performance particularly in the generation of social value. Prior researchers have stressed on the need for more in-depth studies of existing relationships between strategy, structure, culture, and management systems (Chandler, 2003). Although SE is on the rise, there is limited empirical study pertaining to the performance and governance of SE. Coule (2015) and Low (2006) specifically calls for further investigation for the association of governance and performance of companies limited by guarantee (CLBG). They further assert that non-profit organization including social enterprise may also be incorporated as CLBG. In response to the gap in existing literature concern, the current study aims to examine the effect of the organisational structure on the financial performance and social value of SE in Malaysia.

## **LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT**

### **Overview of Social Enterprise in Malaysia**

Social enterprise (SE) has emerged over the past several decades as a way to identify and bring about potentially transformative societal change (Beugre, 2017; Easter & Conway, 2015). Although SE has been in existence for many decades, the concept and the term of SE in Malaysia is at the infancy stage (Rizam, Abdullah, & Abdulsomad, 2017). The concept of SE was initially recognised nationally when the former Prime Minister, Dato'Seri Najib Razak announced the assistance of RM20 million for the development of SE ecosystem during the Global Social Business Summit on 9 November 2013. Following the announcement, more entrepreneurs and existing NPOs are moving away from the traditional profit organisations and traditional NPOs to embrace the new business model, which incorporate both financial and social goals in their mission. The government aims to have at least 1000 SE operating actively in Malaysia by 2018. To support the development of SE in Malaysia, in 2013, the cabinet has introduced several programmes to raise awareness and to increase establishment (Rizam et al., 2017). Among the incentives for SE are tax exemption, Malaysian Social Enterprise Blue Print 2015 and involvement of social enterprises in the National Key Results Areas (NKRAs) (Nizam, 2017).

Since SE is still new in Malaysia, the concept and definition of SE are unclear. The uncertainty of SE's structure hinders its development. At hand, there are various definitions of SE. However, no consensus has yet been reached in defining the term "social enterprise" (Dacin, Dacin, & Matear, 2010; Chell, 2007; Young, 2006). Although the conceptual and definition of social enterprises are still largely unresolved and remained vague (Martin & Thompson, 2010), there are certain characteristics that exist in each of these definitions, which are 'social impact', 'trading, 'dividend 'and asset restrictions'. Distinguishing SE from other organisations posed as one of the many obstacles faced by the government to boost the ecosystem.

Ensuing the characteristic in the definitions of SE, it is deemed that the most probable structure for social enterprise in Malaysia is the one that registered as a company limited by guarantee (CLBG) whereby as a CLBG they have a restriction on asset transfer and also have a stipulation that put a restriction on the distribution of dividend. In order to be registered as CLBG, an organisation must have at least RM1 million capital or more, and the organisations are governed by the Companies Act 2016. As of 2017, there are around 2014 CLBG registered under Company Commission of Malaysia.

However, not all CLBG can be categorised as an SE. Through the screening process, only 500 organisations fall under the category of SE. The screening process only includes the organisation, which have a dual objective (i.e. financial and social), have a trading business, not a domain organisation and actively operate within five years. The screening follows the suggestion by Abdul Kadir and Sarif (2016); Crucke and Decramer (2016); MaGIC, 2015; Nicholls (2006); Mair and Marti (2004). This type of organisation combines the value of non-profit organisations and profit organisations with the main aims to assist the improvement of social values particularly for the underprivileged while at the same time aims to be independent of the grants by government and donations by the public. Social enterprise addresses the problems that are too narrow which cannot be solved either by the government, NPOs and pure profit organisations.

## **Value Creation in Social Enterprise**

The social entrepreneurs use and shift resources out of the lower area into a higher productivity area which would eventually produce a greater

outcome. In other words, the social entrepreneurs in SE create value. Basically, value creation in SE occurs simultaneously in three ways along a continuum which ranging from purely economic, to socio-economic and lastly to social. Figure 1 below shows the continuum of value creation in social enterprise.



**Figure 1: Continuum of Value Creation**

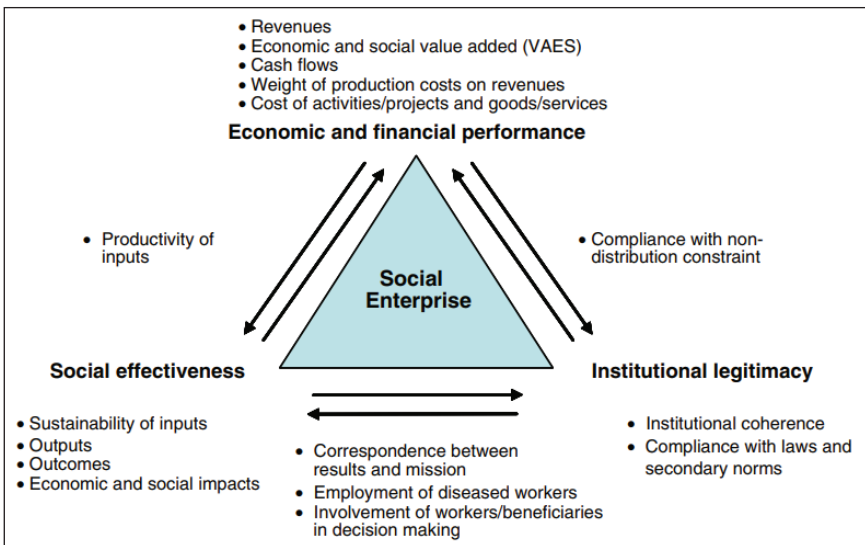
The first most extreme values of this continuum are economic value. The economic value is created through the process of putting a package of resources or set of inputs, provide additional inputs or processes that will increase the value of initial inputs and eventually produce a product or services that have greater market value and competitive enough at the next level of the value chain. The example of economic value creation may generally be seen in profit organisations whether small business, regional or global, product based or services-based organisations. Each player in the market gains the economic value from the residual value through each transaction. These residual values can be measured based on return on investment, debt/equity ratio or price/earnings ratio and other various methods. The residual value from each transaction which claimed by consumers and producers is the bait that brings each player to the market (Auerswald, 2009).

In any business transaction, the obvious residual value that is being created is financial value. However, in social business, the residual value can take form in non-financial value, which is referred to as social value. This residual value is created when resources, inputs, processes or policies possessed by an enterprise are pooled together to enhance the lives of individuals or community (Srivetbodee et al., 2017). Social value creates opportunities for reinvestment and cross-subsidisation of activities that may potentially profit highly needed community not involved in the original transaction (Alvord, Brown & Letts, 2004). For example, the establishment of Langit (a social enterprise in Sabah) helps the Sabahan and Sarawakian farmers to sell their produce to a larger audience in Malaysia. The establishment successfully provides a right chain and channel for the



farmers. Hence they were able to access the market and sell their produce at reasonable pricing. While economic value is closely related to the benefit of shareholders, the social value, on the other hand, focus more on the wider relationship between broader stakeholders (Ormiston & Seymour, 2011).

On the other hand, Bagnoli and Megali (2011) also construct a map of indicators and instruments to measure the value creation of social enterprise (Figure 2). As illustrated in figure 2 below, there are three indicators and instruments as the measurement the value creation in social enterprise, which are social effectiveness, economic and financial performance and institutional legitimacy. Social effectiveness measures the ability of the organisation in achieving its social mission while economic and financial performance measured data regarding efficiency and profitability. Lastly, institutional legitimacy measured the organisation’s compliance with national law and international laws.



**Figure 2: Measurement of Value Creation**

Existing literature on SE highlight the importance of measuring the value creation of SE from the perspectives of social value and financial value. Bagnoli and Megali (2011) also stated that the ability to accomplish social goals and implement strategies while utilising resources in a socially

responsible way becomes important in evaluating the performance of social enterprises. Therefore, this study chooses to view the performance of social enterprises from the perspectives of social value and financial value.

## **Corporate Governance Practices of Social Enterprises**

Monks and Minow (1995) define governance as the process of determining the direction and performance of organisations. Corporate governance can also be defined as the process and policies that direct the organisations in the way they manage, monitor and control their business operations (Khan, 2011). Crucke & Decramer (2016) defined governance as systems and processes concerned with ensuring the overall direction, control and accountability of an organisation. Malaysian Code on Corporate Governance (MCCG) defined corporate governance as:

*“The process and structure used to direct and manage the business and affairs of the company towards promoting business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value while taking into account the interest of other stakeholders.” (MCCG, 2017).*

In Malaysia, the local SE are facing difficulties in choosing the right and suitable legal structure to register and operate their social activities (Mokhtar, Abdullah, & Kin, 2014). This is due to the lack of legal recognition as to what constitutes an SE in Malaysia. Globally, policy-makers and academics have recognised the significance of corporate governance. In the corporate world, it is a common acknowledgement that practising “good corporate governance” could enhance the organisations’ performance (Economist, 2010). MCCG (2017) highlights that proper governance could support the organisation in accomplishing its goals while preventing unwanted conflicts. According to Corruption Prevention Department (n.d.), it is essential for an SE to construct and implement good governance to ensure that they meet their social objectives and as well as to minimise the risks of corruption and the other unethical conduct. Moreover, proper governance allows the management team to meet the needs of the various stakeholders and at the same time ensure compliance with public policies and regulations (Bhatt & Bhatt, 2017). Good governance is also vital in minimising the likelihood of fraud occurrence and accomplishing better

performance in terms of a delivery system to the public (Law, 2011; Che Haat, Abdul Rahman, & Mahenthiran, 2008).

Crucke & Decramer (2016) constructed five performance domains, which comprises of economic performance, environmental performance, community performance, human performance and governance performance. Focusing on the governance performance, which refers to the “systems and processes concerned with ensuring the overall direction, control and accountability of an organisation”. The authors further described that governance performance is certainly an important indicator as it predicts that good governance practices would bring an improvement to the overall performance of the enterprise. Corporate governance defines the structure and the processes of a company in which the business and affairs of the company controlled and monitored (Khan, 2011). Through the monitoring process, it enables the organisation to improve their performance and wider its impact to the various stakeholder (Lipiper et al., 2013).

Due to limited research on the corporate governance practices and performance of the SE, the current study forms an expectation that good governance affects the performance of the SEs positively. Specifically, Low (2006) asserted that there is minimal attention were given on the research regarding the corporate governance practices and its impact on the performance particularly SE registered as CLBG. Based the definition of corporate governance, it can be deduced that corporate governance practice involves the process of setting the structure, monitoring and controlling the operation of the organisation. Therefore, the organisational structure is chosen as the independent variables of the study. MCCG (2017) emphasises that an effort to ensure that the necessary resources are in place for the organisation to meet its objectives and review performance, the board should set the organisation’s strategic aims.

Other than that, the strategic plan of the organisation must encourage the creation of long-term value and includes strategies on the economic, environmental and social aspect that promote the sustainability of the organisation. The board also need to have a board charter, which clearly identifies the respective roles and responsibilities of the board, board committees, individual directors and management. Other than that, board meetings are also important for the performance of an organisation. General

meetings are important platforms for directors and senior management to facilitate a better understanding of the company's business, governance and performance. In addition, in similarity to the profit organisation, the role of the board of directors is crucial for the performance of the SE (Mswaka & Aluko, 2015). This is due to the responsibility of the members of the board in ensuring legitimacy, accountability and transparency in the operations of SE. However, the board of trustees of SEs is usually voluntary and unpaid (Paton, 2003). Despite being voluntary, the role of the board of director is still deemed important for the improvement of performance of the SE.

### **The Relationship between Organisational Structure, Financial Performance and Social Value**

The importance of the board of directors as a core feature in organisational structure in improving the performance of the SE is essential. A study by Kallamu and Saat (2015) suggests that board of directors provide effective monitoring of the management thereby reducing the possibility for opportunistic behaviour by the management and thus resulting to the improvement of performance of the companies. The board of directors are also responsible in providing access to various resources and strategic advice to help managers in achieving their profit maximisation goals (Pearce & Zahra, 1992; Pugliese et al., 2009). The board meeting is also included as an organisational structure practice of the organisation. A study by Al-Daoud et al. (2016) suggests that through meetings, board members may discuss and engage with each other to determine the operational issues and identify the solutions. A greater frequency of meetings would improve the decision-making process and consequently enhance the performance of the firms.

In another study, Fadeyi (2016) found that the board with diversity skills, knowledge and expertise are necessary for the companies' financial success. Other than that, the results found that the presence of the board of directors could increase the value of the companies and as well, as enhance the financial results of the companies. Therefore, this scenario has shown that corporate structure and performance are related. Due to the lack of literature review on the corporate structure and performance of the SE, this study suggested that corporate structure could impact the performance in terms of social value and financial value of the SEs and hence, the hypotheses are developed as follows:

- H1: There is a significant positive relationship between organisational structure and social value of SE.
- H2: There is a significant positive relationship between organisational structure and financial performance of SE.

There are two elements that characterised the nature of SE existence. One is mission-driven, and the other one is market-oriented (Crucke & Decramer, 2016; Abdul Kadir & Sarif, 2016; MaGIC, 2015; Nicholls, 2006; Mair & Marti, 2004). Mission-driven means that the main goals of SE are to give the impact to the community through the creation of social value. SE creates social value by minimising a social or market problem by meeting a social need of the community. On the other hand, SE is market-oriented when they pursue goals in an entrepreneurial manner, moving beyond dependent on grants and donations by generating own revenues to sustain themselves. Therefore, both financial and social performance is an important element for SE to check their responsibility to the stakeholders. Due to this unique element, SE always faces the problem of mission drift where there is a possibility that they have to make a trade-off to which extent they want to fulfil those objectives and which one comes first.

Nonetheless, SE is unable to sacrifice one element for another. Prior literature has shown that, financial performance is also a reflection of their social performance (Ghazal, Mehdi & Mahnoosh, 2016; Flammer, 2013; Ehsan & Kaleem; 2012; Pavie & Filho, 2010; Choi, Young & Chongwoo, 2010; Nelling & Webb, 2009; Orlitzky, Schmidt, & Ryneet, 2003; Frooman, 1997; Mahon & Griffin, 1997; Preston & O'Bannon, 1997; Waddock & Graves, 1997). Prior studies provide contradicting findings, a mixed of a negative relationship (Nelling & Webb, 2009; Preston & O'Bannon, 1997) and positive relationship (Flammer, 2013; Ehsan & Kaleem, 2012; Pavie & Filho, 2010; Choi et al., 2010; Orlitzky et al., 2003). Neiling and Webb (2009) and Ghazal et al., (2016) for example found that social performance negatively affects the overall financial performance of the company. This might be due to the extra effort and money needed in accomplishing the social performance. Nonetheless, it is argued that, investment on social performance produces benefits such as an increase in beneficiaries; an improvement on the activities provided; boost the company's public image and provide better access to capital and fund, which is expected to lead to greater financial performance eventually.

While most of the research mainly focuses on pure profit organisations, the assumption can still be used for SE since while SE is “mission-driven”, they also are “market-oriented”. Unlike any other traditional NPO, SE’s social goals are to be pursued only when they are economically and financially efficient (Bagnoli & Megali, 2011). This is in line with the stakeholder theory, which proposes that the firm’s success is dependent upon the successful management of all the relationship that an organisation has with its stakeholders. Hence, this study hypothesised that:

- H3: There is a significant positive relationship between financial performance and social value of SE.
- H4: Financial Performance mediates the relationship between organisational structure and social value of SE.

## METHOD

The questionnaire was used as the research instrument of this study as it is the most suitable way of collecting the data for SE and they offer a way to gather vast amounts of data on the subject. Prior to the distribution of the survey instrument, formal permission was obtained from the respondent. Once permission was received, the questionnaire was distributed through, electronic mail using google forms, postal and by hand to the top management of the selected SE (Board of Trustee, Manager and Coordinator). The respondents are required to provide their agreement or disagreement on the organisational structure, financial performance and social value of their organisation based on seven (7) point Likert-Scale. The population for this study is drawn from SE registered with Company Commission of Malaysia (CCM) as the company limited by guarantee (CLBG). From the screening process, out of 2014 CLBG, 500 organisations fit the definition of SE.

Since the population is quite large, sample size is needed to represent the research population. The sample size is the subset of the research population selected to participate in a study (Surveys & Guidelines, 2010). Thus, from the total population of 500 SEs, using the purposive sampling, 300 SEs was selected as the sample size for this study. According to the table of sample size by Sekaran (2003), the appropriate sample size for the size of the population of 500 is 217 respondents. Therefore, the selection of 300

SEs is considered appropriate as it fulfilled a minimum of 217 respondents as determined by Sekaran (2003). Majority of the chosen SE was located in Kuala Lumpur and Selangor. These locations were selected, as most of the SE is located in Kuala Lumpur and Selangor. The top management (Board of Trustee, Manager and Coordinator) was chosen as the respondents due to the positions and responsibilities that they held in establishing appropriate policies of governance and operation, supervising the affairs of the organisation and making financial decisions on behalf of the SE. Out of 217 distributed questionnaires, 149 questionnaires were returned which equivalent to 68.67% response rate. From 149 returned questionnaires, 15 questionnaires were not included due to incomplete data leaving a final research sample of 134 cases that were used in the final analysis.

## **RESULTS ANALYSIS**

### **Demographic Information**

From a total of 134 respondents, 30.6% of them were male, and the 69.4% remaining respondents were female. For the age group, most of the respondents were in the age ranging from 20 to 40 years old, which comprises of 70.9% of the respondents, 12.7% in the range of age between 41 to 50 years old and 16.4% in the range of age of 51 and above. In terms of ethnicity, the highest ethnicity is Malay which comprises of 70.9% followed by 15.3% of Chinese and lastly, 13.4 of the respondents are Indian. In terms of position, 60.4% hold the position of senior executive and executive, followed by 13.4% of manager and 12.7% Board of Trustee member. Majority of the respondents working with the enterprise for less than ten years (79.1%).

## Normality Test

**Table 1: Test for Skewness and Kurtosis: Normality Test**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Skewness</b>	<b>Kurtosis</b>
	<b>Statistic</b>	<b>Statistic</b>	<b>Statistic</b>	<b>Statistic</b>	<b>Statistic</b>
Social Value	134	5.415	1.051	-0.747	0.462
Financial Performance	134	5.177	1.134	-0.571	0.011
Organisational Structure	134	5.257	1.193	-0.327	-0.518

Table 1 presents the result for skewness and kurtosis analysis which was carried out for the purpose of the normality test. Skewness is a measure of symmetry. A data set is said to be symmetric if it looks the same to the left and right of the centre. On the other hand, kurtosis is a measure of whether the data set is heavy-tailed or light-tailed in relation to a normal distribution. The acceptable value for skewness and kurtosis is within -2 to 2 (George & Mallery, 2010). The result for this data indicate that the data is considered normally distributed since the value of skewness and kurtosis is within the acceptable range (-0.327 to -0.747) and (-0.518 to 0.462) respectively.

## Multicollinearity Test

**Table 2: Multicollinearity Test**

	<b>Collinearity Statistics</b>	
	<b>Tolerance</b>	<b>VIF</b>
Financial Performance	.926	1.080
Organisational Structure	.926	1.080

Table 2 present the result for variance inflation factor (VIF). VIF analysis is used to assess the possible multicollinearity issue in the regression model. The VIF will identify a correlation between independent variables and the strength of that correlation. The result of VIF analysis shows the value is 1.080 which suggest that there is no correlation between the variables. Thus multicollinearity issue is not violated.



## Heteroscedasticity Test

**Table 3: Heteroscedasticity Test: Glejser Test**

	<b>t</b>	<b>Sig.</b>
(Constant)	3.146	.002
Organisational Structure	-.850	.397
Financial Performance	-.593	.554
a. Dependent Variable: Social Value		

Referring to the Table 3 above, it indicates the result for heteroscedasticity test using Glejser Test. The test is carried out to examine whether there is a difference in the residual variance of the observation period to another period of observation. Heteroscedasticity problem exists if the sig. value is  $<0.05$  (Im, 2000). From the table, the sig. Value for all the variable is  $>0.05$ , indicating that there is no problem of heteroscedasticity and the data is proved to be homoscedastic.

## Reliability & Validity Analysis

**Table 4: Reliability and Validity Analysis**

	<b>Cronbach's Alpha</b>	<b>N of Items</b>
Social Value	.729	3
Financial Value	.801	3
Organisational Structure	.828	4

The purpose of the reliability test is to measure the consistency of the item developed in the questionnaire. The most common measure of reliability test is Cronbach's Alpha. The Cronbach alpha of more than 0.70 is considered acceptable. (George & Mallery, 2010). In the table above, the results of the reliability and validity of statistical tests on the social value, financial performance and corporate structure were presented. The result of the Cronbach's Alpha for all the tested variable is above 0.7, which shows acceptable reliability.

## Correlation Analysis

Referring to Table 5, there are positive relationships between corporate monitoring process, corporate controlling process and organisational structure with social value and financial value. The correlation coefficients between all the variables are either strongly correlated or medium correlation.

**Table 5: Pearson Correlation between Dependent Variables and Independent Variables (N=134)**

	Social Value	Financial Performance	Organisational Structure
Social Value	1	.562**	.208*
Financial Performance		1	.273**
Organisational Structure			1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

Correlation between social value to each independent variable ranged from financial performance ( $r = 0.562$ ) and corporate structure ( $r = 0.208$ ). In summary, the results of the correlation test have provided a preliminary finding on a positive relationship between organisational structure, financial performance and social value. Therefore, these results have provided preliminary evidence to support the objectives of this study.

## Hypothesis Testing

The multiple regression analysis is used to examine the effect of corporate structure on social value and also to examine whether financial performance mediates the relationship between corporate structure and social value.

**Table 6: Multiple Regression on Social Value (N=134)**

	Research Hypotheses	Beta	SE	t-value	sig-Value	Adjusted R-Square	F Change	Result
H1	Organisational Structure > Social Value	.183	.075	2.442***	0.016***	.036	5.961	Supported
H2	Organisational Structure > Financial Performance	.259	.080	3.257***	0.001***	.067	10.610	Supported
H3	Financial Performance > Social Value	.521	.067	7.800***	0.000***	.310	60.833	Supported
H4	Financial performance mediates the relationship between organisational structure and social value	.052	.066	.788	.432	.308	30.640	Supported

\*\*\*significant at 1% (2-tailed)

Input:		Test statistic:	Std. Error:	p-value:
a	0.259	Sobel test: 2.98880936	0.04514808	0.00280067
b	0.521	Aroian test: 2.96796647	0.04546514	0.00299777
s <sub>a</sub>	0.080	Goodman test: 3.01009761	0.04482878	0.00261164
s <sub>b</sub>	0.067	Reset all	Calculate	

**Figure 3: Sobel Test**

The first hypothesis is to examine the effect of corporate structure on the social value of the SE. The current study posits that the effective organisational structure will have a positive impact on the social value generated by the organisation. Based on Table 6 above, the coefficient for the organisational structure is 0.183,  $t=2.442$ ,  $p=0.016$  indicates that the result has supported the H1. The positive coefficient for the organisational structure at 0.183 signals that the more effective the corporate structure, the higher will be the impact on social value. In addition for hypothesis 2 (H2), the result also supported the proposition that organisational structure has a significant positive relationship with the financial performance ( $\beta=0.259$ ,  $t=3.257$ ,  $p=0.001$ ). The result suggests that corporate structure indeed significantly influence the financial performance of the SE. The effective organisational structure can indicate that the organisation has effective monitoring and controlling thus influencing their financial performance.

The third hypothesis (H3) is to examine the relationship between financial performance and the social value of SE. Based on the findings in Table 6, the coefficient for financial performance is at 0.521,  $t=7.800$ ,  $p=0.000$ . The result demonstrates that any improvement in financial performance would positively and significantly influence the social value of SE. Organisations with a surplus of income will be able to fund more activities which eventually benefit more beneficiaries. For the last hypothesis (H4), as referred to Table 6 above, it can be seen that financial performance, mediate the relationship between corporate structure and social value of SE thus supporting the H4. Indicating that financial performance did intervene in the relationship between organisational structure and social value. When the financial performance is controlled and included in the regression analysis, the corporate structure no longer influences the social value of SE. The Sobel Test supports the result from the regression analysis.

## CONCLUSION AND DISCUSSION

The minimal research in the corporate structure and performance of the SE in Malaysia is one of the main reason for this study to be conducted. Many of the research on the effects of corporate structure on the performance mainly focus on public organisations and private organisations. The results of those research show that an effective organisational structure enhances the performance of the organisations. The first objective was to examine the effects of corporate structure on the financial performance and social value of SE. For the first objective, three hypotheses were developed (H1-H3). The result from this study supported the proposition, which posits that organisational structure enhances the financial performance and social value of SE. Effective monitoring and controlling would eventually improve the performance of the organisation both in term of their financial and social performance. The management of SE is able to mitigate the opportunistic behaviour either by the management itself or by the employees within the organisation hence provide an avenue for the organisation to improve their performance (Fadeyi, 2016; Kallamu & Saat, 2015; Mswaka & Aluko, 2015; Pugliese et al., 2009; Pearce & Zahra, 1992).

Additionally, the study also found a positive relationship between financial performance and the social value of the organisation. Prior studies

have emphasised the main difference between traditional profit organisation and SE is, the former pursues the maximisation while the latter focuses on the maximisation of social value creation (Liu, Eng & Takeda, 2015). The difference causes confusion that since the focus of SE is more on the creation of social value, hence financial performance is less important and critical. Previous studies had pointed out that, there will be a mission drift when SE tried to achieve both financial performances (Foster & Bradach, 2005; Eikenberry & Kluver, 2004; Weisbrod, 2004). In real business practice, the process of generating both social and financial value means decisions and actions are in frequent opposition. For example, in the case where the organisation mission is skewed towards the social mission, the monitoring process also will be skewed more towards social mission instead of a financial mission (Cornforth, 2014).

However, Dacin, Dacin, and Tracey (2011) and Liu, Eng and Takeda (2015) asserts that creating and focusing on social value does not necessarily reduce the importance of financial performance. This is because; SE must have strategic plans to be implemented in order to secure a certain level of financial performance to create social value sustainably. The result from the study (H3) supports this proposition. For the second objective, H4 was developed. H4 suggested financial performance mediate the relationship between organisational structure and social value. The result confirms the hypothesis. When the financial performance is control and included in the regression analysis, the organisational structure no longer influences the social value of SE which is also supported by the Sobel Test. In other words, financial performance predicted both directly and indirectly social value via organisational structure. Apart from profit maximisation goals, the results of the study also showed that through a proper organisational structure, the SEs are able to accomplish their social mission of dealing with the various social problems, which is shown through the significant result for both direct and indirect relationship.

Based on the results of this study, there are few contributions to respective parties such as practitioners, academia/researchers and the regulators. For the practitioners, they can use these findings to understand how the organisational structure could help them enhance their performance both in social and financial performance. Hence, the findings can help social entrepreneurs to measure their performance through an observation

of the organisational structure established and managed by them. As for the academicians, this study could provide them with the latest literature that relates to this limited research area in Malaysia. Hence, it helps to increase and expand the evidence regarding corporate governance practices specifically in the SE's sector. In addition, it is hoped to encourage more research in the field of SE in Malaysia.

However, there are some limitations to be noted. Firstly, as the prior researches on the organisational structure of the SEs in Malaysia are minimal, there is not enough evidence available to describe the importance of organisational structure towards enhancing the SEs' performance. Lastly, as this study is using a questionnaire as the research instrument, the results are based on the data collected, and this may affect the accuracy of the answer. Therefore, the answers provided by the respondents might not reflect the real organisational structure practices of the SEs. On the other hand, more research related to this topic with different variables could be carried out for the future researches. In addition, there are not many studies, which examine the concept and development of SEs in Malaysia. Thus, this provides some opportunities for future research.

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