

Performance Measurement for Governance of Social Enterprise: Enhancing Accountability and Innovation in Elderly Homes



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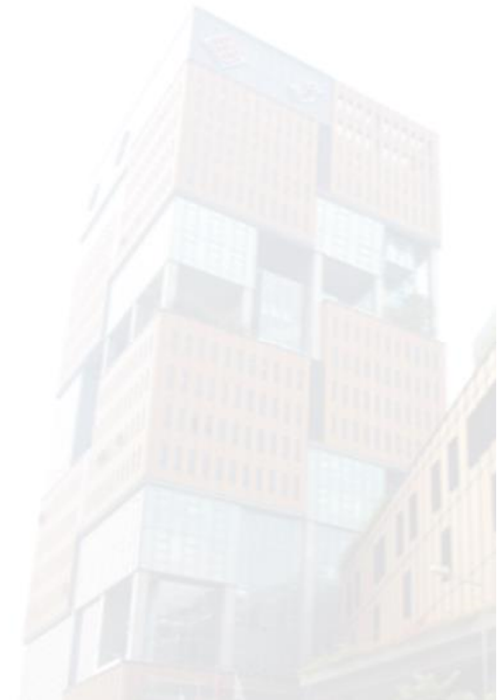
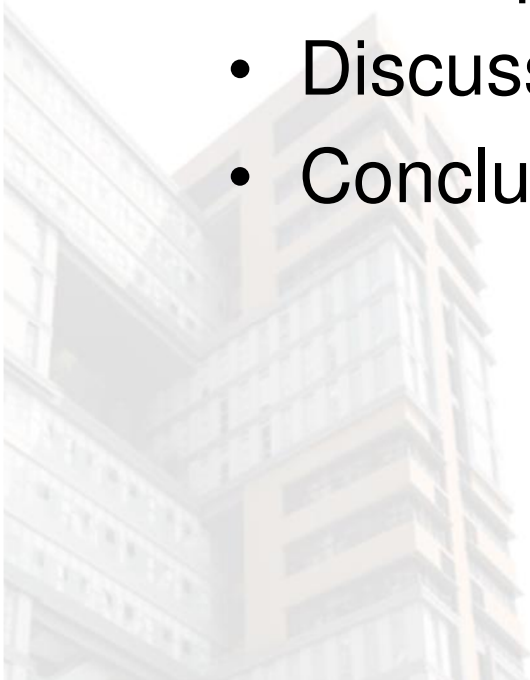


Abstract

- The aging societies around the world increasingly create demand on service providers of elderly homes (EHs). Such [organizations, being both knowledge and service-intensive, are considered socially responsible enterprises for their humanity services to take care of the elderly](#) who are a vulnerable group in the society. Nevertheless, there are concerns about their overall performance and the limited financial resources allocated for their operations. To deal with potential moral hazard, performance measurement system (PMS) and management control could play a significant role to the performance of services delivered by these publicly-funded organizations (Spekléa and Verbeeten, 2014).
- Use of a comprehensive PMS would also [support development of a mental model for management to enhance positive performance](#) (Hall, 2011). The function of management accounting is instrumental for the development of a well-balanced, comprehensive PMS that accounts for an organization's service while fulfilling social responsibilities (Franco-Santosa, 2012). With reference to a prior study on healthcare organization (Yuen and Ng, 2012), this paper [proposes a balanced PMS framework designed for EHs](#) to help ensure proper governance of resources provided by both public and private sources for quality service delivery beyond meeting minimal compliance.

Agenda

- Motivation/Background
- Literature Review
- Conceptual Framework
- Discussion
- Concluding Remarks

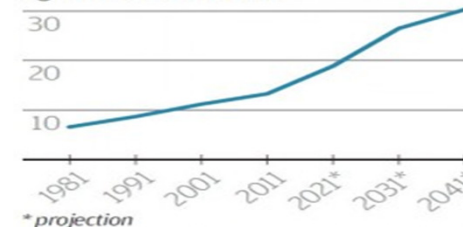


Background/Motivation

- Like the rest of the world, Hong Kong facing an ageing population
- Increasing number of elderly homes, or residential care homes for the elderly (RCHEs):
 - Government spent about **\$3.4 billion** for subsidized resident care service (RCS) places in 2013-14 alone

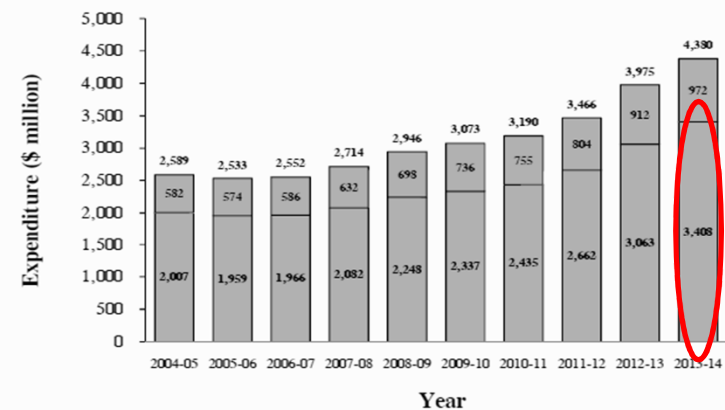
Most vulnerable

Percentage of population aged 65 and over (%)



Source: Census and Statistics Department SCMP

Recurrent expenditure on the provision of subsidised CCS and RCS (2004-05 to 2013-14)



Legend: CCS RCS

Source: SWD records

Background/Motivation

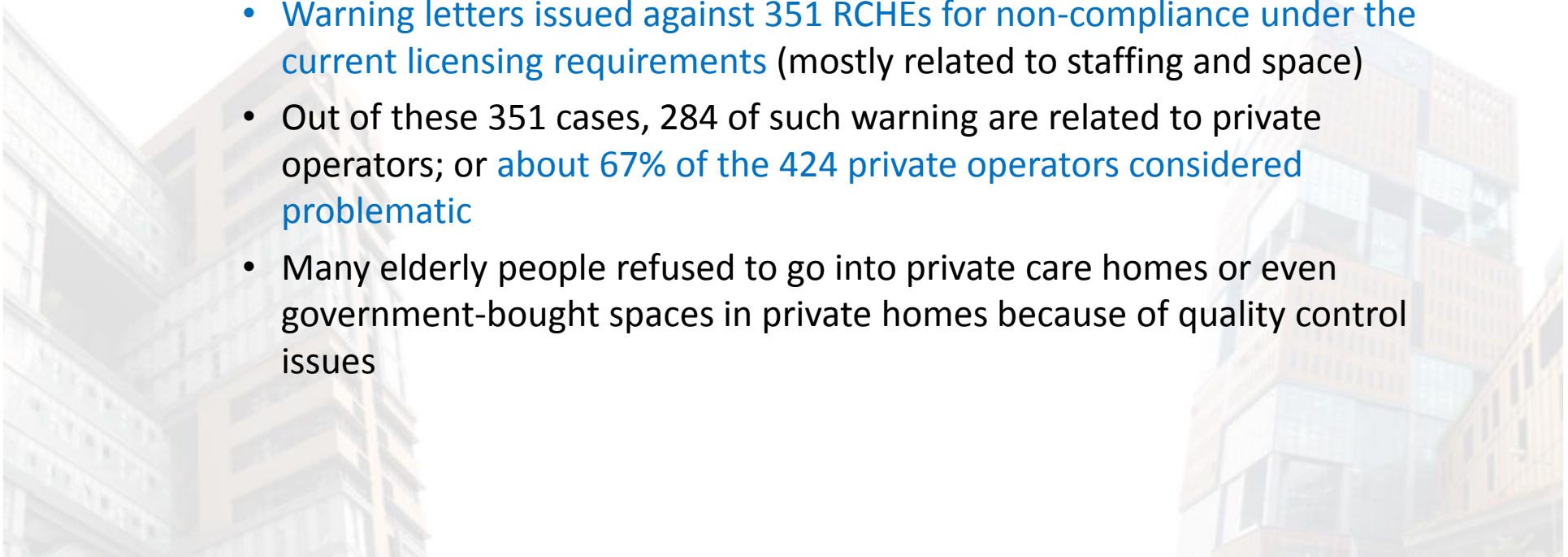
Type of RCHEs	No. of subsidised RCS places	
	End-March 2000	End-March 2014
(a) Subvented RCHEs	18 330	16 460
(b) Contract RCHEs	(Not yet come into operation)	1 670
(c) Private/Self-financing RCHEs participated in EBPS or NHPPS	3 250	7 820
Total	21 580 (say 21 600)	25 950 (say 26 000)

Increasing participation by private operators

Source: Audit Commission (2014)

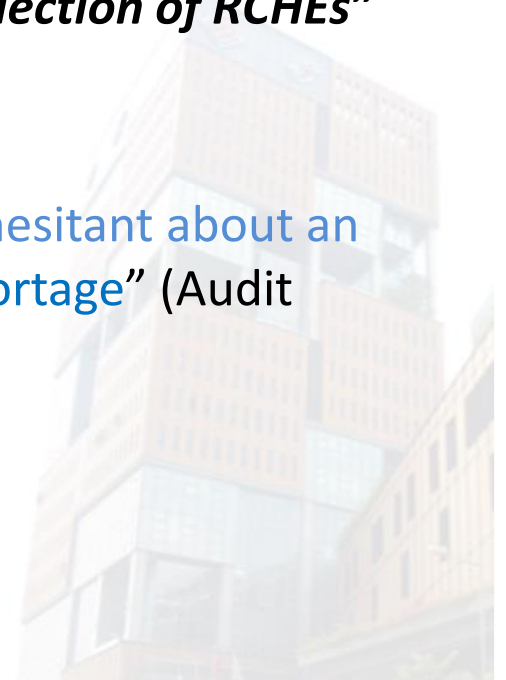
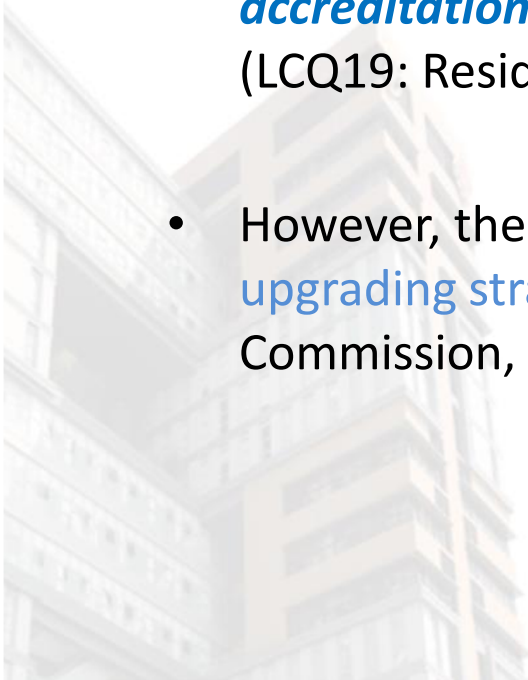
Background/Motivation

- According to Audit Commission (2014), there are **748 RCHEs** providing about **75,000 places in total** (only 35% subsidized)
 - *Run by NGOs, non-profit (self-financing)/private operators*
- Noticeable problems with private operators
 - **Warning letters issued against 351 RCHEs for non-compliance under the current licensing requirements** (mostly related to staffing and space)
 - Out of these 351 cases, 284 of such warning are related to private operators; or **about 67% of the 424 private operators considered problematic**
 - Many elderly people refused to go into private care homes or even government-bought spaces in private homes because of quality control issues



Background/Motivation

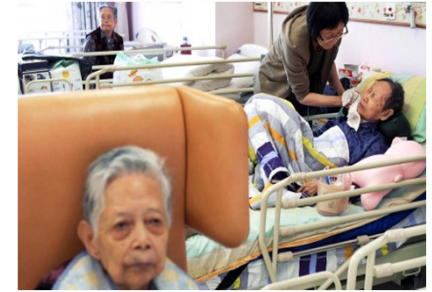
- After the **incident in Taipo** uncovered by the press that the staff of a RCHE frequently gathered a group of residents who lacked self-care skills on the outdoor podium of the RCHE... it was questioned “***whether it will consider establishing an official accreditation system for the service quality of RCHEs and making public the results of such accreditation for the reference of the public in their selection of RCHEs***” (LCQ19: Residential care services for the elderly, 2015)
- However, there is no decision yet; government seems **hesitant about an upgrading strategy** given the “**space and manpower shortage**” (Audit Commission, 2014)



A Complex Problem

- **Phenomena of expanding elderly home organizations:**
 - (i) An emerging service sector of growth
 - (ii) Meeting demand with “mediocracy”
 - (iii) Disparities in quality
 - (iv) Alleged constraints in human capital, land and infrastructure
 - (v) Post-performance regulatory measures -- limited incentives to perform or comply?
- **Private operators willingly investing into a market of unmet demand, manage to expand and “survive” with substandards**
 - Potentially a problem of “**moral hazard**”: effort “minimalization”, cost containment while seeking profit maximization
 - *“Moral hazard arises under information asymmetry where the risk-taking party to a transaction knows more about its intentions than the party paying the consequences of the risk”*
 - The old school thinking of Milton Friedman: “social responsibility” of business is to maximize profit, but “sustainability” is now relevant (Porter, 2015)
 - Gray et al. (2014), “investors are however relatively uninterested in social accounting information”

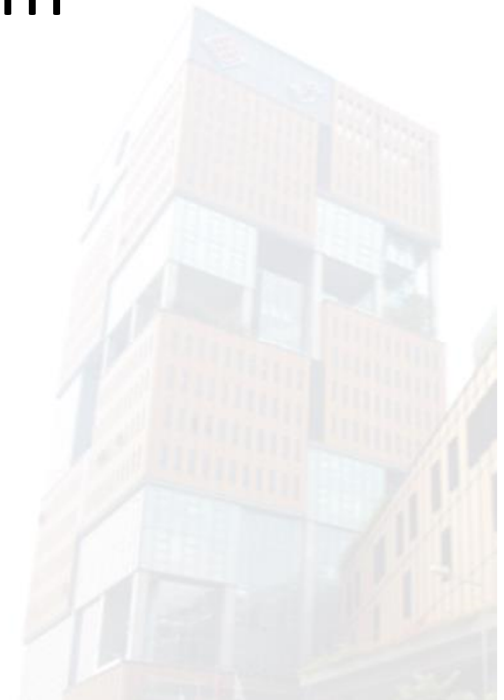
How do we mitigate such distorted performance of private operators?



- The moral obligations for a group of vulnerable stakeholders
 - Issues with breaches of confidentiality, unprofessional behavior and the non-enforcement of policy among staff in senior homes (Bernoth et al., 2014)
- To mitigate “moral hazard” (principal-agent problem, e.g. capital market), need to reduce information asymmetry with a transparent system and useful information:
 - Considering RCHEs as social enterprises vs merely a private operator:
 - Their mission, vision, value, ethics
 - Importance of a proper governance system integrated with performance measurement
 - Considering a funding/financial model that links with balanced performance measurement (Yuen and Ng, 2012)
 - A problem that requires a comprehensive review of system in place
- Largely an unexplored territory of research about elderly homes

Literature Review

- Social enterprise
- Management control system
- Performance measurement system



Social Enterprise (SE)

- **Social entrepreneurship** - “any innovative action that individuals, organizations, or networks conduct to enhance or reconfigure existing institutional arrangements to address the inadequate provision, or unequal distribution, of social and environmental goods” (Nicholls 2009, p. 755).
- **Social entrepreneurship provides a panacea for addressing a number of social market failures** (Drayon, 2002)
- Social enterprises **borrow business practices, charity and social models to deal with the complex social problems** (Nicholls, 2006).
- **European social enterprises** – government subsidies to the social missions, VS **US social enterprises** – operate towards “earned income strategies” due to shrinking government subsidies (Debourny & Nyssens, 2010).

Social Enterprise (SE)

- According to Dee (1998, p. 2) “**Mission-related impact becomes the central criterion, not wealth creation**”.
- Social Enterprise - **Mission, Scale and Scope** (Ebrahim and Rangan, 2014).
- **Social enterprises tend to challenge the conventional institutional coercion** by “reconfiguring accepted value creation boundaries (public/private, for-profit/not-for profit, and economic/social) (Nicholls, 2006; See DiMaggio and Powell, 1983).
- The distinction between SE and NPOs is **the funding model**.
- **Social enterprises tend to be fully self-funded and self-sufficiency with corporate social innovation** rather than from tax benefits governments & grant funded other institutions (Nicholls, 2006; 2010).
- The organizational structure of **social enterprises tends to have a voluntary board, senior managers, employees and volunteers that is contrary to the traditional business view** (Gibbon & Affleck, 2008).

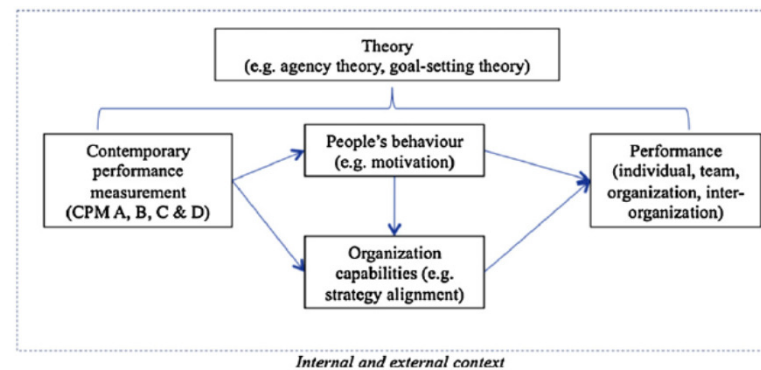
Management Control and Performance Measurement System

- To facilitate performance of social enterprises, there should be consideration of **designing adequate management control that drives behavior for performance**
- Hofstede (1981) notes **that management control is easiest to implement if : (i) the objectives are unambiguous; (ii) the outputs are measurable; (iii) the effects of intervention are known; (iv) the activity is repetitive.**
 - However, such **conditions are frequently absent among non-profits/social enterprises** (Gray et al., 2014).
- Management Control System (MCS) expected to help or hinder the development of managers' mental models (Hall, 2011).
 - **Certain information from MCS could be very helpful in confirming and building managers' mental models of business operations**, whereas other types of information would not.
 - A contemporary performance measurement system seeks to **provide managers with more extensive feedback about the organization's operations and performance** .

Contemporary Performance Measurement System

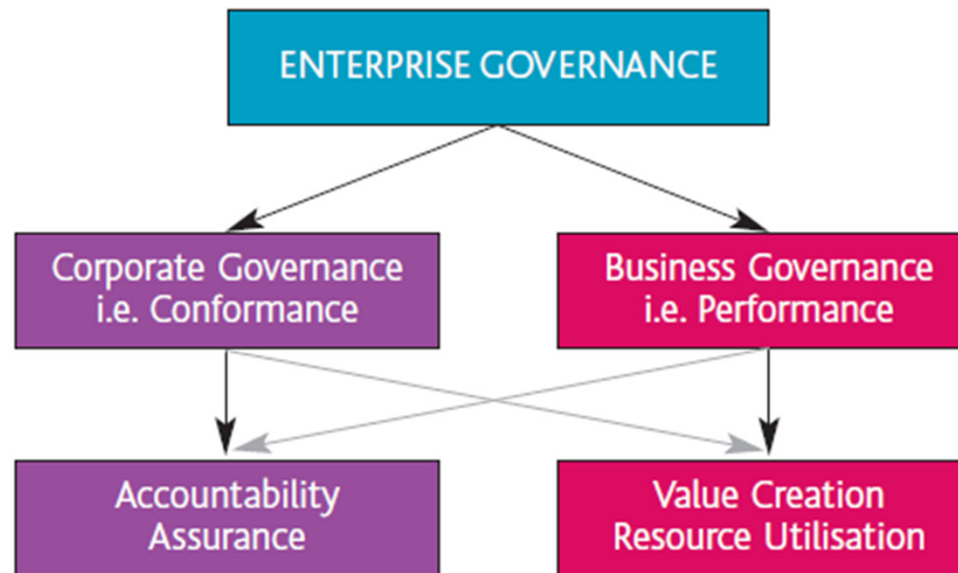
- Contemporary performance measurement (CPM) systems, such as the balanced scorecard, **advocate the use of an array of financial and non-financial performance measures**” (Franco-Santosa et al., 2012). A CPM system exists if **financial and non-financial performance measures are used to operationalize strategic objectives**. For example, systems such as the balanced scorecard aim to **provide a broad range of measures, often linked to strategy, to help facilitate the learning process**.

M. Franco-Santos et al. / Management Accounting Research 23 (2012) 79–119



- An exploratory **use of the performance measurement system would enhance performance in public sector organizations** (Spekléa and Verbeeten, 2014).

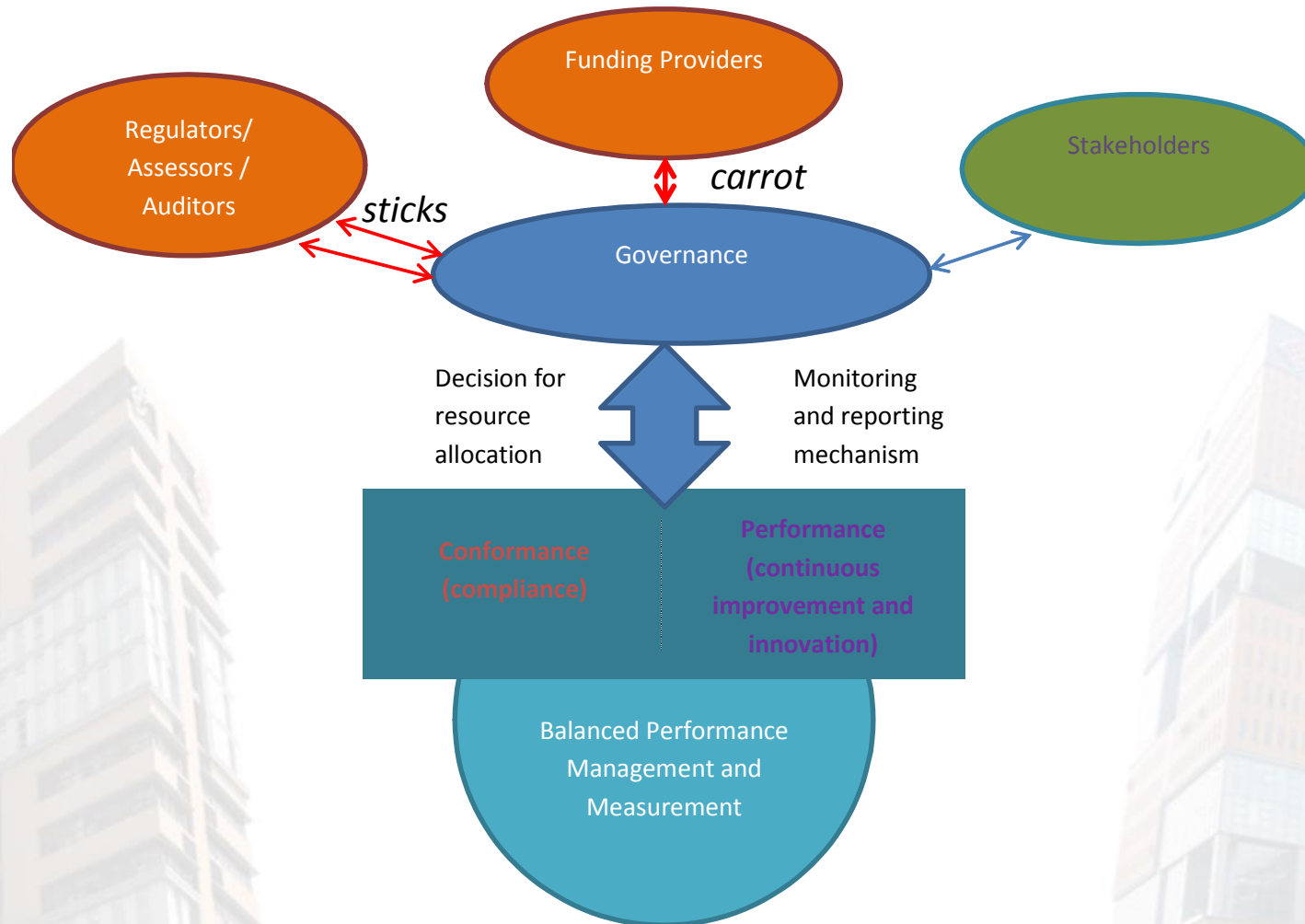
- A Balanced Enterprise Governance Framework



Source: Enterprise governance – getting the balance right (2004). London, New York: IFAC/CIMA

Conceptual Framework

- Adapted framework for social enterprises of elderly homes



Discussion

- A need to **redefine elderly homes as social enterprise beyond private operators**, for their unique responsibility and for the importance of accountability
- To enhance accountability and transparency of RHCEs, **a framework for contemporary performance measurement system** integrated with a governance structure **is proposed**
- Importance of **developing mitigating, regulatory measures with incentive and regulatory mechanisms for the “private market”**
 - **Linking availability of public and private funding with performance** as incentive (e.g. public-private initiatives thru responsible investing)
 - **Monetary penalty** on non-compliance as “sticks” of regulatory measures
 - **Creating a market for quality RHCEs over time (or their lifecycle)**

Concluding Remarks

- **Current licensing regime provides limited assurance even for basic standard let alone performance**
- **Inaction** may enable more private operators with inadequate qualities surviving and entering the market
- **Future studies** can be launched to explore development of specific performance indicators, incentive and regulatory mechanisms
 - What is an **adequate governance structure** that embraces stakeholders?
 - **Public policy research** into approaches to refine the current system:
 - Incorporating a mandatory accreditation system?
 - Developing a quality framework for balanced performance?
 - Facilitating planning for continuous improvement, e.g. training and development of professional staff
 - **In search of a more optimal model in meeting the challenges**

Q&A

