

# INTERPLAY OF MANAGEMENT CONTROL SYSTEMS AND SOCIAL CAPITAL IN SOCIAL ENTERPRISES

## – A CASE STUDY OF A SOCIAL ENTERPRISE IN VIETNAM

Rui Vieira, Tran Thi Lan Ha and Brendan O'Dwyer

### ABSTRACT

Social capital is a new concept in the field of accounting and control. Social enterprise is an emergent organisational model, with features that are distinct from other forms of organisations. Research on management control systems in social enterprises is therefore also a new approach that provides ample opportunities for researchers to enrich the limited literature on this topic in the field of accounting and control.

This paper presents the results of a case study investigating the interplay between management control systems (MCS) and social capital in a Vietnamese social enterprise. We examine how interpersonal relations (bonding) and external network (bridging) play their roles in solving the tensions between the social and business goals of the social enterprise, and how this process was affected by the enterprise's MCS.

In other words, how do MCS affect – and are affected by – the social capital in social enterprises? There has been very limited literature on this particular topic. A paper by Chenhall et al. (2010) examined the relationship between MCS and social capital in non-governmental organisations (NGOs). Their research has paved the way for further investigations on this topic in different settings. Hence, this study also revisits the research results of Chenhall et al. (2010) to deepen our understanding of whether or not particular forms of MCS have particular effects on social capital and whether the interactions with different forms of MCS have different influences.

In this paper, we seek to utilize the concept of social capital to investigate the interplay of management control systems and the building and sustaining of social capital in social enterprises. We draw on the literature on social capital in combination with: two other forms of cultural capital and economic capital developed by Bourdieu (1986); formal and informal controls by Chenhall and Morris (1995); and the levers of controls by Simons (1995). Chenhall et al.'s (2010) framework is extended by integrating two new elements of *tensions/challenges* and *sustainability*. These elements were considered to be central points for the investigation, redirecting the research path by starting with an examination of the tensions and challenges to be confronted by the social enterprise.

The study findings reveal that different forms of MCS do have effects on the bonding and bridging dimensions of social capital, both positive and negative. Some of the findings are contradictory to the research results reported by Chenhall et al. (2010); however, the differences between our findings and theirs may be related to the differences between NGOs and social enterprises in general and to the specific social enterprise context in Vietnam.

We show how an over-reliance on informal MCS and weak boundary systems contributed to financial mismanagement which threatened to simultaneously erode bonding capital, cultural capital and economic capital. This suggests that formal MCS, in particular strong boundary systems, may need to be enrolled earlier in a social enterprise's development to prevent the risk of eroding well established bonding capital reinforced by strong belief systems. Further, consistent with Chenhall et al (2010), belief systems within the levers of control frame of Simon (1995) greatly strengthened the inward focus (bonding). However, in contrast to Chenhall et al. (2010), who found that belief systems could interfere with the outward focus, in our case this did not weaken the outward focus (bridging). Besides, boundary systems were found to have symbiotic effects when used in parallel with belief systems. The boundary systems supported the employment of a formal MCS, which was perceived to enhance bonding. Weak boundary systems did more harm than good. This finding adds to Chenhall et al (2010) finding delineating a blurred role for boundary systems on building and maintaining bonding social capital. Finally, our findings suggest that belief systems should *not* necessarily add an efficiency focus to core social and cultural values when trying to resolve the tension between economic and cultural capital. Our case suggests that in some instances this focus should be integrated in diagnostic systems and interactive systems, with no need for the involvement of belief systems.

***Keywords:*** *Social Capital, Management Control Systems, Social Enterprises, Vietnam*

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