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## Article

# Why social entrepreneurship? Public and commercial, dual-approach for social enterprises with Chinese cases

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## Why Social Entrepreneurship? Public and Commercial, Dual-Approach for Social Enterprises with Chinese Cases

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Social entrepreneurship or enterprise is considered as an innovative form, which combines economic and social value creation to improve societal development. Theory and practice of this field are attracting more attention. In this article, we identified significant literature and journals as well as academic citation relationships for advancing scholarly research on social entrepreneurship. Then, we established a dual-approach for social entrepreneurship with China's cases: public and commercial, to illustrate the question why social entrepreneurship arises. At the end, future directions about legislation, contexts and performance were discussed.

*Keywords:* Social Entrepreneurship/Enterprise, Public Approach, Commercial Approach, Non-profit, Social Mission, Resource and Opportunity

*JEL:* L33, M14

Theory and practice of social entrepreneurship are both growing rapidly and attracting increasing attention from a number of different domains, such as non-profits, for-profits, and the public sectors. The term definitions of social entrepreneurship have been developed while there remains a lack of agreement on the domain, boundaries, definitional and conceptual clarity (Dacin *et al.*, 2011; Frumkin, 2013; Short *et al.*, 2009). The boundaries still remain fuzzy mixed with other fields of study.

Social entrepreneurship differs from traditional understanding of business entrepreneurship or non-profit organizations. There exist a number of debates on definitional and conceptual clarity. This current state of conceptual confusion serves

as a barrier to cross-disciplinary dialogue and theory-based advances in the field (Dacin *et al.*, 2010). Researchers who concerned theoretical contributions to social entrepreneurship, encounter struggles to arrive at a set of relevant and meaningful research questions including domain, interdisciplinary focuses (Dacin *et al.*, 2011; Tracey *et al.*, 2011). Clarified boundaries and unified definitions would do much to advance future research efforts and a lot of factors were discussed on the definitions, (see Dacin *et al.*, 2010). Dacin's article pointed out that critique often conflicts for defining the boundaries of social entrepreneurship: "limited" and "extended" definitions (Austin *et al.*, 2006; Dacin *et al.*, 2010). Light (2006) suggested that the current definitions are too exclusive, while Martin and Osberg (2007) characterized them as too inclusive. Most early definitions focus on the

characteristics of individual entrepreneurs (Dees, 1998). Dacin *et al.* (2010) suggested that definition of social entrepreneurship should focus on four key factors: the characteristics of individual social entrepreneurs, their operating sector, the processes and resources used by social entrepreneurs, and the primary mission and outcomes associated with the social entrepreneur (Dacin *et al.*, 2010). Recently, academic literature pays more attention to internal configurations concerning social value or social mission inside social entrepreneurship (Dacin *et al.*, 2011; Mair and Marti, 2006; Weerawardena and Mort, 2006). Social entrepreneurs make significant and diverse contributions to their communities and societies, adopting business models to offer creative solutions to complex and persistent social problems (Mair and Marti, 2009).

Though social entrepreneurship research and practice does not rely on preconceived definitions and conceptualizations (Pless, 2012), it is much important to describe clear conceptual boundaries or characteristics when social entrepreneurship researchers or practitioners interpret to cross-disciplinary researchers and general people who are interested in this amazing field, as well as to shape future academic topics.

We obtain the idea that, to figure out the merging meanings of social and entrepreneurship domain (Mair and Marti, 2006; Miller *et al.*, 2012), two essential elements should be addressed, social purpose and businesslike processes. Social entrepreneurship or social enterprises are social mission driven organizations which apply market-based business

strategies to achieve social purpose. With the ability to combine business and non-profit sectors, social entrepreneurship would become a frontier targeted by scholars working across disciplinary barriers to study this emerging phenomenon (Certo and Miller, 2008).

A review of social entrepreneurship literature by Short *et al.* (2009) found 152 relevant articles; the first one appeared in 1991. The expanded search constitutes journal articles from a variety of disciplines including, but not limited to, public administration, management and entrepreneurship. It also showed an increase in publication rate over the 18-year time (Short *et al.*, 2009).

## METHODOLOGY

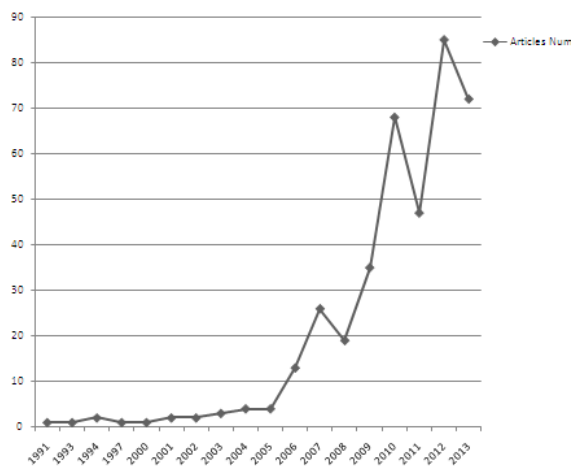
To enhance our understanding of social entrepreneurship literature published in recent years, we identified and analyzed the articles published in academic journals which explicitly mentioned social entrepreneurship, social entrepreneur, social venture, or social enterprise in title, keywords or abstract, without placing boundaries on time period (until end of April 26th, 2014).

Citation analysis has often been used as a measure for research stream and relevance (Short *et al.*, 2009). To examine the stream of literature from our sample of social entrepreneurship articles, we used HistCite software to identify academic citations and LCS scores were calculated as well (Garfield and Pudovkin, 2004). Local Citation Score (LCS) shows the number of times the publication has been cited by other publications in our collection of 318 articles in this study. This would help

searchers quickly identify the most significant work by normalizing the impact number (Times Cited) of publications focus to the field as defined by the HistCite collection (Garfield, 2009). With the help of HistCite, top scored LCS articles were identified and software showed the citation relationship among the literature.

## RESULTS

399 articles out of 614 without book reviews



**Figure 1. Increasing Publications on Social Entrepreneurship**

(31), reviews (27), editorials (30) or proceeding papers (127) were found. We narrowed our survey data in Web of Knowledge, including database of

shows a rapid increase in publication after Short *et al.* (2009) in less than five years. Five countries published the most articles in social entrepreneurship literature, i.e. USA (127), England (86), Canada (45), Australia (31), and Spain (20), which consist 77.4 percent of our collection. Business Economics (180), Public Administration (56), and Social Sciences other topics (43), these research topics yield the largest quantity (69.9%) contributing to social entrepreneurship research.

Figure 1 illustrates the increasing research on social entrepreneurship since 1991 and a large expansion in the latest 4 years, including several famous social science journals which published special issues wholly or partially focused on social entrepreneurship (see Table 1).

9 nodes and 17 links were found which point out that in 2006, several significant works were published and most frequently cited, marking a big advance in social entrepreneurship research. Mair and Marti (2006) in *Journal of World Business* (cited by 99 articles among 614) and Austin et al. (2006) in *Entrepreneurship Theory*

| Journal                                               | Special Issue Topic                                                                                                                        | Year Published  | Num. of Articles in Our Collection |
|-------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------------------------------|
| <i>Entrepreneurship Theory and Practice</i>           | Social Capital and Entrepreneurship                                                                                                        | May, 2013       | 1                                  |
| <i>Small Business Economics</i>                       | "Reassessing the Relationships between Private Equity Investors and Their Portfolio Companies", "INBAM 2010" and "Social Entrepreneurship" | April, 2013     | 6                                  |
| <i>Journal of Business Venturing</i>                  | Institutions, Entrepreneurs, Community                                                                                                     | January, 2013   | 2                                  |
| <i>Journal Business Ethics</i>                        | Social entrepreneurship in theory and practice                                                                                             | December, 2012  | 6                                  |
| <i>Entrepreneurship Theory and Practice</i>           | Social Entrepreneurship                                                                                                                    | July, 2010      | 4                                  |
| <i>Academy of Management Learning &amp; Education</i> | Educating Social Entrepreneurs and Social Innovators                                                                                       | September, 2012 | 8                                  |

**Table 1. Special Issues Published**

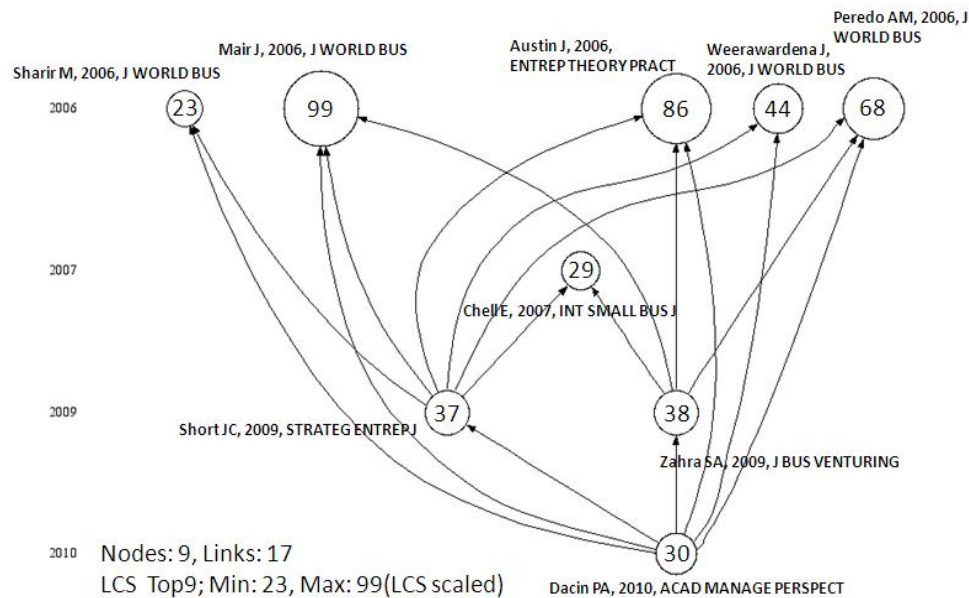
SCI-EXPANDED, SSCI, A&HCI, CPCI-S, CPCI-SSH, CCR-EXPANDED, and IC. Our result of these 614 articles on social entrepreneurship

*and Practice* (cited by 86 articles among 614) were the most cited articles in our collection

(Austin *et al.*, 2006; Mair and Marti, 2006) (see Figure 2).

We hope that these findings can be leveraged to offer opportunities for further contributions to social entrepreneurship scholarly research.

with a mission to change society and offer insights that may stimulate ideas for more socially acceptable and sustainable business strategies and organizational forms (Seelos and Mair, 2005). Double bottom line, triple bottom



**Figure 2. Top Scored LCS Articles**

### WHY SOCIAL ENTREPRENEURSHIP?

#### –Theory and Propositions: Dual–Approaches

The terms and concepts of social entrepreneurship began to appear in the horizon quietly in last few decades reflecting the bottom–up development of this research area. Today social entrepreneurship is more frequently described and practiced in narrow commercial and revenue–generation terms. Juxtaposing private sector concepts with the word “social” as a modifier, social entrepreneurship commits itself to identify and exploit solutions to social problems by business processes in an innovative manner (Peredo and McLean, 2006; Phillips *et al.*, 2008; Zahra *et al.*, 2009). It combines the resourcefulness of traditional entrepreneurship

line, blended value, and social return on investment are all terms that have gained popularity over the last decade (Neck *et al.*, 2009).

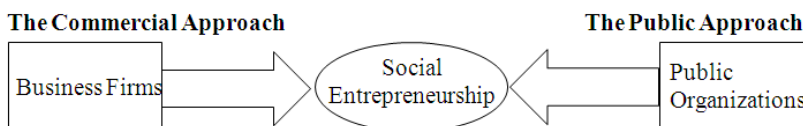
Connection of moral legitimacy to the neoconservative, pro–business, pro–market political and ideological values of social entrepreneurship, is likely a critical resource needed for the success (Dart, 2004). Aligned with societal norms, benefits and expectations, social entrepreneurship has emerged as a complex yet promising organizational form with compassion acting as a pro–social motivator (Miller *et al.*, 2012). Nicholls (2010) focused on the microstructures of legitimating that characterize

the development of social entrepreneurship in terms of its key actors, discourses, and emerging narrative logics (Nicholls, 2010; Ruebottom, 2013).

In this article, to establish a clear construct of origin and evolution for social entrepreneurship, we would like to scope this Socio-Economic hybrid from two approaches. First, we address the social value creation from the commercial approach. What would the social entrepreneurship benefit from contributing to solve social problems as commercial organizations beyond corporate social responsibility (CSR)? Second, from the public approach, why are non-profit organizations willing to embed business sectors beyond charitable donations and what would be extended by running for-profit and non-profit activities simultaneously?

how would social mission benefit the economical society and the social enterprise per se?

Managers in commercial firms continually encounter demands from multiple stakeholder groups to devote resources to corporate social responsibility (CSR) due to pressures from customers, employees, suppliers, community groups, governments, and some stockholders, especially institutional shareholders (McWilliams and Siegel, 2001). ISO 26000:2010 provides guidance and helps businesses and organizations translate basic principles into effective actions, and shares best practices relating to social responsibility (ISO, 2010). However, social entrepreneurship develops more advanced and powerful forms of Corporate Social Responsibility (CSR) (Austin and Reficco, 2009). The purpose of CSR for a firm relies on the potential business benefits although social value increases via these



**Figure 3. The Dual-Approach for Social Entrepreneurship**

**–Proposition 1: The Commercial Approach**

Austin *et al.* (2006) offered a comparative analysis of commercial and social entrepreneurship using a prevailing model called PCDO (People, Context, Deals and Opportunity) from the commercial filed concerning four aspects of organizational study: opportunity, context, people and resources, deals and four distinguishing variables: market failure, mission, resource mobilization and performance measurement (Austin *et al.*, 2006). We address the question that from the commercial approach,

responsible activities.

**–Proposition 2: The Public Approach**

Compared to pure mission aimed NPOs, social entrepreneurship would offer respectful jobs, skill training and shelter for both staff and vulnerable people who need more care. The idea of Amity Bakery was the extension of Amity Foundation contributing efforts to monetary and social issues beyond philanthropy. Affirmative business which provides further training and support would increase employment rate and income (salary) that sustain the fragile modern society (Tracey *et*

*al.*, 2005). The competitive business market would also offer abundant experience or useful operational plans for social enterprises and NPOs. Competitive cooperation, entrepreneurship, and business models are useful for nonprofit purpose.

### CASES AND FINDINGS

There was a young entrepreneur with long experience related to NPOs/NGOs activities who told a story about her dream of running a social enterprise. She was owner of a local wedding company at that time and banking her profits. Her plan was to start a bakery with her own money to help disable people. In her words: “ Even before social enterprise came up to my mind, I did surveys in this city and found that the profit margin of bakeries was high enough and ideal to meet my standards. I would start and own the new bakery and there would be a reasonably high salary for me as well as employees, Instead of taking the profit as private income, any profits would be saved to open another shop. Financial disclosure would be published to the public online, maybe quarterly, that the initial aim of running this bakery was not for profit. The bakery was going to offer training for disable people to develop career, income was to be spent to take care of their lives and start new bakeries.”

Reputations from non-profit purpose would support sustainable development of social enterprise similar but more advanced to commercial enterprise CSR activities for both customers and staffs’ social achievement. From a commercial approach, social entrepreneurship

would benefit much more from several aspects like deals, people and resources according to the PCDO model. Social entrepreneurship is perfect to satisfy those customers who share the same ideals to increase the society’ s social value. By appealing to these like-minded customers, governments, NPOs and CSR-minded business, social entrepreneurs would positively expand the potential market compared to conventional commercial enterprises. Social enterprises rely on volunteers to serve key functions, such as board members, to help with fundraising or to provide professional services, or as staff to deliver their services on the ground (Austin *et al.*, 2006). Some forms of social enterprises are better characterized as tri-value social enterprises, like Farestart in Seattle (Herranz *et al.*, 2011). Their revenue sources explicitly derive from the nonprofit, for-profit, and public sectors.

A bakery was set up similar to the young entrepreneur’ s idea in Nanjing, China by a non-profit, Christian foundation called Amity. There is also an online shop and even a Mobile App for Amity Bakery selling cookies. 8 in 22 of the employees in this bakery were mentally disabled or deaf and they were trained to serve customers or assist baking cookies there. The bakery was willing to accept volunteers working with the disabled and staff. Donations were posted conspicuously on the website as well as the volunteer recruitment ads (see Amity Bakery website). However, there were annual financial disclosure report for Amity Foundation containing none financial operating information about the bakery, meanwhile no independent public reports for the bakery. Amity Bakery was registered as a

business shop and thought to be operated depending on market rules to meet both commercial and social demand.

In the USA, Rubicon Bakery was set up with the idea and mission to help rebuild lives by employing, training, and supporting people who need a second chance. Many long-term employees came to Rubicon from life on the streets, from prisons or with substance abuse problems (see Rubicon Bakery website). However, it should be said, because vulnerable populations in China and the USA have different characteristics, social entrepreneurs operating in the two countries face different barriers.

Several prominent examples of social enterprises or quasi social enterprises helping vulnerable people have appeared in China bringing commercial attitudes and methods to China's philanthropy (see Appendix-I). Most Chinese Social Enterprises work on areas like vulnerable disabled, old or labors. Offering job is one of the most significant characters in Chinese cases. The most important social mission was to increase their capabilities, by the means of teaching them living skills. Tri-value income relies on selling stuff, cooperate social responsibility and government contracts. More focused on public approach, nonprofit organizations without business experience involved in social entrepreneurship. Some of them succeeded some failed.

Now more general forms of social enterprise or quasi ones combining both public and commercial approaches include: microcredit banks (One branch of Fuping Development Institute; CFPA Microfinance); environment

friendly agriculture communities (Learned Ecological Village, V-life); social works (SOWOSKY); youth development (Raleigh China) and women's education (Rural Women).

### DISCUSSION AND CONCLUSION

From both sides of the approaches, public and commercial, we found successful cases and their valuable experience to start nonprofit social enterprises. Combining different types of resources, tangible or intangible, social entrepreneurship now becomes more critical in nonprofit arena.

Exceeding Corporate Social Responsibility (CSR), social entrepreneurship was established based on the good belief to meet social needs or address social problems by innovative commercial methods. For conventional philanthropy, there were debates that sometimes charity or welfare would encourage the laziness (see Debatewise Website: Should we give money to beggars?).

While, more than helping the social vulnerable groups with productive supports, social entrepreneurship and enterprise pay effort to offer respectful opportunities and eliminate social prejudicial opinions, which also prove a better way to address social needs. But still, things like social enterprise's legislation and performance measurement need to be focused.

### FUTURE DIRECTIONS

#### -Legislation

Legislation governing some kinds of social enterprises has been adopted in Europe (Kerlin, 2006), but the whole map of social entrepreneurship still lacks constructive legitimacy and defined theoretical content and boundaries.



The Internal Revenue Service (IRS) require nonprofits to report Unrelated Business Income Tax (UBIT) as part of their annual IRS Form 990—which is a requirement for maintaining a nonprofit's 501(c)(3) tax exempt status. Nonprofits are permitted to engage in commercial activities; however they must not allow commercial activity to become a primary activity. Government regulates a nonprofit's commercial activity through the UBIT (Herranz *et al.*, 2011). In China, nonprofits are registered to government department of civil affairs and social enterprises run like business sectors with strong connection with nonprofit foundations (Yu, 2011). There are arguments among young social entrepreneurs whether investors should enjoy profit sharing from business activities. There is no doubt organizational decisions would continue to be made by nonprofit board members and stakeholders not shareholders, similar to NGO's operation. Still, profit sharing could be a critical tool for start-up social enterprises to attract initial investment. The entrepreneurship of social purpose implies chasing both commercial and social success. Organizational separation would be a possible solution but need further discussion.

#### **–Academic Contexts**

Social entrepreneurship can focus varyingly on economic development, environmental conservation, social welfare and human development, arts and cultural preservation, health, agriculture, education, children and youth, elderly services, democratization and governance, economic opportunities, community and rural development, market development,

access in under-served markets, employment development, microenterprise development, institutional and organizational development (Alter, 2007). The realm of social entrepreneurship study spans a number of fields and includes accounting, anthropology, economics, finance, management, marketing, operations management, political science, psychology, and sociology that can help bridge the gap between current understanding and enhanced knowledge (Short *et al.*, 2009). Over time, countries and regions (Zahra *et al.*, 2008) identify different definitions and concepts with the term social enterprise, across different contexts leading to a debate among researchers and practitioners (Kerlin, 2013). Hence, various contexts challenge social entrepreneurship scholars for researching and fostering this emerging field, as well as the necessity of analyzing specific issues case by case.

#### **–Assessment**

Quantitative and qualitative methods were achieved by business entrepreneurship to manage projects and evaluate performance outcome. The assessment of social entrepreneurship calls for special measurement systems to evaluate the integrated socio-economic value creation. Social Return on Investment (SROI), Social Audit, Local Multiplier 3 (LM3) and some robust approaches were developed to measure and report public good for practice. Grimes (2010) applied sense making theory to case studies of funding relationships within the social sector and found that organizations within the social sector employ performance measurement not just as a means of accountability, but also as a tool for making

sense of social entrepreneurship as an organizational identity (Grimes, 2010). Bagnoli and Megali (2011) addressed the subject of management control and created a performance measurement system for social enterprises to analyze economic-financial performance, social effectiveness, and institutional legitimacy with corresponding indicators given to the performance measures. According to the authors, this analysis has judged significantly and can be determined both programmatically and definitively to enable an effective explication of the control process (Bagnoli and Megali, 2011). To extend our knowledge about social entrepreneurship' s commercial and public good for society, we will need to learn more about how to measure success for social entrepreneurship; for now, this dimension of social entrepreneurship still remains fuzzy.

### LIMITATIONS

There are still limitations in our study. The more detailed management processes were not discussed here. We described a big picture for social entrepreneurship in China but not enough practical guides. We hope more scholars contribute their research to this frontier area with Chinese and international contexts.

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| <b>Commercial Approach</b>            | Inquire Social Reputation                         | Deals (Willing customers)                              | Resource                                                                           | People                                                                             |
|---------------------------------------|---------------------------------------------------|--------------------------------------------------------|------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| Social Entrepreneur's Ideal           | Quarterly Financial Disclosure                    | Ordinary, Government Contracts, Business CSR           | Tri-Value (Profit, Non-profit, Government, ...), Social Capital and Network        | Vulnerable People, Earned Income Staffs, Volunteers                                |
| Real Social Enterprise (Amity Bakery) | N/A, but affiliated to NPO                        | Ordinary, Business CSR                                 | Tri-Value (Profit, Funds, Donations, ...)                                          | Vulnerable People, Earned Income Staffs, Volunteers                                |
| <b>Public Approach</b>                | Social Mission (Target Group)                     | Additional Monetary Resource                           | Opportunity for Vulnerable Group                                                   | Business Capability                                                                |
| Fuping Housekeeping                   | Female farm workers in developing provinces       | Government Support, Brokerage Fee, Tuition Fee         | Job Opportunity in Peking, Capability Training, Insurance                          | Intermediary Agency, Training School                                               |
| Stars and Rain                        | Autism kids                                       | Tuition Fee, Government Support and Contracts, CSR     | Low cost professional and special care                                             | Offer training to parents, teachers                                                |
| Hetong                                | Old, laid-off employees                           | Tuition Fee, Government Support, CSR                   | Low cost but high standard for Old people, offer Capability Training for employees | 5 Nursing Homes, 1 Geriatric Hospital, 2 Nursing Training Schools                  |
| Canyou Software                       | Disabled people                                   | Business Selling, Government Contracts                 | Respectful Jobs, Capability Training and High Standard Shelter                     | High-tech software company                                                         |
| Hongdandan                            | Blind people                                      | Tri-Value: Business Selling, Government Contracts, CSR | Offer blind assist products                                                        | Business registered but NGO-type operation                                         |
| Fingertip Art                         | Female minority in stricken area                  | Business Selling                                       | Respectful Jobs, Capability Training                                               | 8 handicrafts selling shops and 1 online shop                                      |
| Jianai Workshop                       | Hemophilia patients and family, disabled people   | Business Selling, Awards                               | Respectful Jobs, Capability Training                                               | Intellectual Property, Paper Crafts Awards, Auctions                               |
| Xingeng Workshop                      | AIDS patients in Henan Province especially female | Business Selling for NPOs or CSR                       | Respectful Jobs, Capability Training                                               | Offer training to make handicrafts instead of making fireworks, support fair trade |
| Amity Bakery                          | Intellectual Disabled or Deaf                     | Business Selling                                       | Respectful Jobs, Capability Training and Shelter                                   | 2 selling shops, 1 food factory and 1 online shop                                  |

*Table 2. Why Social Entrepreneurship*