

Would For-profit *benefit* rather than *destroy* Non-profit? Balance in China's Social Entrepreneurship Management

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Abstract

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. Social entrepreneurship differs from traditional understanding of business entrepreneurship or non-profit organizations. Social entrepreneurs face barriers to achieve success both in business and social sector which get into more challenges. Facing social entrepreneurship failures, first, we isolated for-profit and non-profit compositions to better our understanding of internal processes. Then the primary question is whether for-profit activities would benefit non-profit or destroy the social purpose. We established a hypotheses framework by case studies which identified three tensions between for-profit and non-profit: T1. Ambidexterity: Differentiation or Integration; T2. Resource Allocation: Short-term versus Long-term; T3. Social Changes: Stability versus Adaptability. In this article, three identified tensions from social entrepreneurship practice would give theoretical structure to public field and increase better performance.

Keywords: Social Entrepreneurship/Enterprise, Balance Tensions, Non-profit Management

1. Brief Introduction

In recent years, social entrepreneurship, integrated economic and social value creation, continues to be a nascent field of interdisciplinary study and has become a social, economic and cultural phenomenon (Austin, Stevenson, & Wei-Skillern, 2006; M. T. Dacin, Dacin, & Tracey, 2011; Pless, 2012). The concept and study of social enterprise was formally introduced to China beginning in 2004 with the publication of the Chinese version of "How to Change the World: Social Entrepreneurs and the Power of New Ideas" by David Bornstein and "The Rise of the Social Entrepreneur" by Charles Leadbeater, as well as through various symposiums and conferences (BritishCouncil, 2008). Although the most famous social entrepreneur and Nobel Laureate, Mohammed Yunus with Grameen Bank is becoming more and more well-known in China, the general public is still relatively unfamiliar with social entrepreneurship or social enterprise. In this article, we would like to introduce prominent examples of Chinese social entrepreneurship to readers (Yu, 2011).

Social entrepreneurship as a process that embeds social mission in economic enterprises is considered to be a newly prominent form in the nonprofit sector and provides new avenues toward social improvement (Dees, 1998, 2012). A review of social entrepreneurship literature by Short (2009) found 152 relevant articles, from a variety of disciplines including, but not limited to, public administration, management and entrepreneurship (Short, Moss, & Lumpkin, 2009). Most early studies focus on the characteristics of individual entrepreneurs (Dees, 1998). Dacin (2010) suggested that 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 (P. A. Dacin, Dacin, & Matear, 2010). Recently, academic literature pays more attention to internal configurations concerning social value or social mission inside social entrepreneurship (M. T. Dacin et al., 2011; Mair & Marti, 2006; Weerawardena & Mort, 2006).

Merging for-profit and non-profit approaches challenges traditional assumption of value creation and business development (Dart, 2004; Mair & Marti, 2006). Social entrepreneurs make significant and diverse contributions to global sustainability (Zahra, Newey, & Li, 2014), by providing inspiring stories to communities and societies of "changing the world" (Bornstein, 2004) or using necessary resources to "make a difference" (Thompson, Alvy, & Lees, 2000). Social entrepreneurs adopt business models to offer creative solutions to complex and persistent social problems (Mair & Marti, 2009). These pioneers may also encourage established corporations to take on greater social responsibility (Seelos & Mair, 2005). New insights about social entrepreneurship are still emerging for sustained academic inquiry, as well as practical implications for social entrepreneurs and non-profit funders on how to approach social entrepreneurship more "systematically and effectively" (Austin et al., 2006).

2. Social Entrepreneurship Failure

Unfortunately, the story of social entrepreneurship does not always have a happy ending. Social entrepreneurs sometimes fail. Although this is an obvious statement, the current focus on success stories makes the rate of failure impossible to determine (Light, 2006). Social entrepreneurs face barriers to achieve binary success. Social entrepreneurship failures were observed in both US and China.

The Plymouth Housing Group is a great social enterprise that develops and operates on permanent, supportive housing to ending chronic homelessness (see Web page Plymouth Housing Group). The Plymouth Housing Group started a new restaurant, the Plymouth Café, as a business on October 2004 in downtown Seattle, and closed on April 2007. The initial mission for Plymouth Café was that profits would help fund social services for poor and formerly homeless people living in apartment buildings run by the Plymouth Housing Group. Non-published accounts explain that Plymouth Housing Group's housing management expertise did not transfer to running a café in the highly competitive restaurant business. Currently Plymouth Housing Group rents the space to a for-profit café business.

Another failure case, this one in China was MOPA Housekeeping Service (妙心家政 in Mandarin) with a mission to help and train rural women to be qualified housekeeping workers. Similar to Plymouth Café, there is little published information remaining about MOPA. It was heard that they gave up the social mission and became a normal business enterprise (BritishCouncil, 2008).

Social entrepreneurship needs to bear the commercial risk to operate in the business sector, but also to achieve their social responsibility mission simultaneously. Understanding on social entrepreneurship failure and the natural tensions inside the hybrid of social and economic value creation rely on further theoretical and empirical explanations, as well as detailed analysis and modes.

3. For-profit & Non-profit in Social Entrepreneurship

The social element and entrepreneurship element embedded each other that sometimes complementary, sometimes conflicting (Mair & Marti, 2006). Social entrepreneurship as a practice integrates both aspects of economic and social value creation. Identification of the For-profit & Non-profit activities inside organization is relevant to better understanding of reinforcing or exclusive processes.

Social entrepreneurship appeared in situations of both market and government failure (Santos, 2012). Accordingly, Non-profit activities concentrate on spending resources to fulfill social mission, address social needs or solve social problems, while For-profit activities concern about collecting resources and increasing opportunities.

Non-profit did not mean there was no margin but not enough to attract business attention. Unlike social entrepreneurship, we consider that business CSRs should be regarded as For-profit that their initial object was to increase financial income. Table 1 illustrates several aspects of the component for social entrepreneurship.

Table 1. The Composition of Social Entrepreneurship: For-profit & Non-profit

Non-Profit	Social Mission	Low cost service	For Vulnerable Group
e.g.	NGO-type similarity, address social needs or problems	Loan, Housing	Job Opportunity, Offer Shelter, Training
For-Profit	Business activities	Out-market rent	Consulting/Human Resource Management
e.g.	Making/Selling products	Relational Social Capital, government or CSR support	Headhunting agency

3.1: Non-Profit

First, social entrepreneurship can play an important role at NGOs that address social needs or social problems where government and markets have failed. Social enterprises can do anything NGOs commit to achieve through the innovative use and combination of resources to pursue new opportunities (Mair & Marti, 2006).

Second, some social entrepreneurship offer low cost services to vulnerable groups that businesses may consider unprofitable even though there may be huge unmet demand. Though it could be profitable for these social entrepreneurs, we consider it Non-profit because there exist opportunity cost targeting social contributions. One of the best examples is Grameen Bank providing credit and bank service to poor village people who are mostly women, that help them to establish better agriculture by accessing to financial alternatives (see Web page Grameen Bank). A few social entrepreneurs discovered the great opportunity in China and established microcredit social enterprises like Fuping and CPFA that are both profitable and serve social needs. The financial resource of Plymouth Housing Group includes mainly grants and some investment as well as limited income from program service revenue offering supportive housing (see Web page Plymouth Housing Group Financial Information).

Third, offering jobs and training for marginal people in society not only mean solving their survival issues or satisfying the employment rate or fishing tools, working shelter provides vulnerable people more confidence and self-respect that money or kindness cannot offer. FareStart operates a job placement and training program benefiting homeless and disadvantaged people. There is no such café or restaurant in China. Besides different

kinds of vulnerable group in US and China, cafés in China are not popular and small restaurants are competitive we believe the FareStart model is not practical in China. We think social mission bakery would be better model for China.

3.2: *For-Profit*

Social sector and business sector (Kanter, 2010; Mair & Marti, 2006) embedded each other that social enterprises involved for-profit commercial behaviors. We consider seeking donations as for-profit activities while non-profit activities fulfill social needs.

First, social enterprises run small businesses, train and employ vulnerable people to make handcrafts or work in bakeries. They can, through skillful use of the Internet, expand their local markets by attracting customers who value the social enterprise's social mission. Similarly, environment friendly agriculture communities can advertise their green organic products and promote their ideas to their customers at the same time.

Second, relational rent (Dyer & Singh, 1998) can offer social entrepreneurship and enterprises more financial opportunities than commercial organizations. Some customers prefer to social enterprises and are willing to buy products from responsible sellers. In China most social enterprises maintain quite well relationship with government. With the development of social entrepreneurship involved in the larger scope of civil society, Chinese central and local governments nowadays maintain intensive relationships with NGOs as well as social enterprises. The Fuping Housekeeping received provincial government contracts to train rural people to be capable housekeeping workers to increase their income. The government provided part of the training fee and Fuping Housekeeping offered microloan to trainees to be repaid in three months after graduation and they get their first job. Business CSR support and NGO foundations are important resources especially for start-up social entrepreneur. The Fingertip Art Workshop would not have survived at the beginning if there were no contracts from the prominent One Foundation. Then they turned to operate in business pattern for a sustained running without these contracts.

Third, social entrepreneurship can also benefit by offering consultant and human resource management. Social enterprise that concentrates on serving special populations can gain valuable expertise that they can in turn market to others. The Stars and Rain specializes in caring for autistic kids and offers professional consulting service to the business market. Fuping Housekeeping runs a human resource management agency not for high level headhunting but to provide qualified housekeeping workers to employers. That's a bidirectional channel that benefits Fuping Housekeeping connecting the needs of both rural people and the business market.

4. **Balancing tensions: Would For-profit destroy Non-profit?**

There is debate about whether pursuing business-based revenue may pose a risk to accomplishing the nonprofit's mission (Dees, 1998; Foster & Bradach, 2005; Herranz, Council, & McKay, 2011). Competing priorities of promoting social value versus capturing economic value leads to conflicts and tensions for social entrepreneurship development. Instead of contested tensions(Diochon & Anderson, 2011), we applied exploration-exploitation ambidexterity theory to social entrepreneurship which developed from organizational behavior research describing balance and ambidexterity for sustained performance (Lavie, Stettner, & Tushman, 2010; March, 1991; Raisch, Birkinshaw, Probst, & Tushman, 2009).

Three main hypotheses of For-profit and Non-profit balancing tensions inside social entrepreneurship were identified by case studies and summarized in this article.

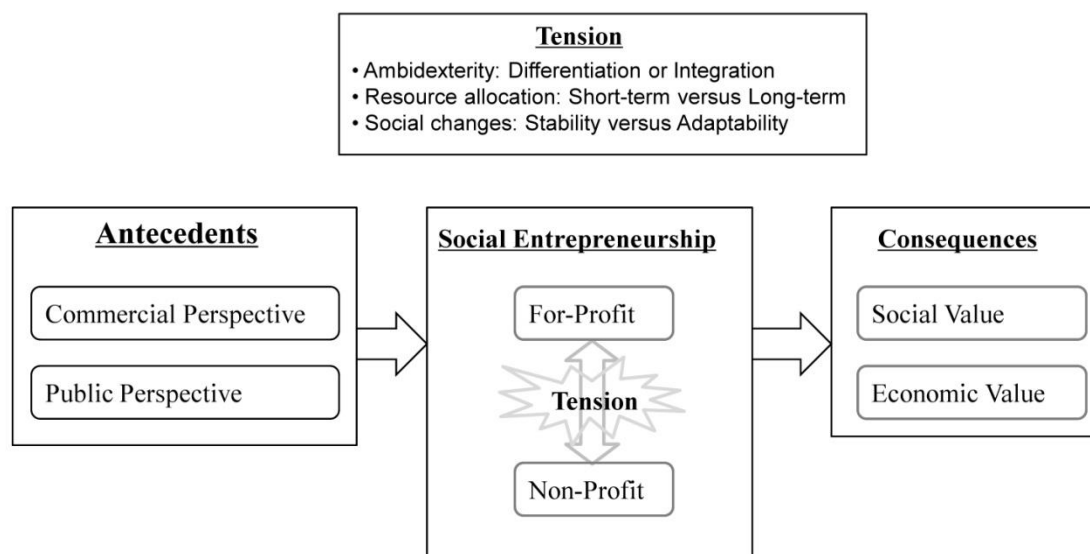


Figure 1. Hypotheses Framework for Social Entrepreneurship

Tension 1: Ambidexterity: Differentiation or Integration

Social entrepreneurship and enterprises mix commercial and social mission to achieve success where $1+1>2$. It is dynamic that For-profit and Non-profit activities they embedded each other to meet ambidexterity.

Songshuhui.net (科学松鼠会) is a Chinese collaborative blog focusing on popular science for the general public founded in April 2008. At the end of 2010, a fresh NGO was established based on Songshuhui called Hasai S&T Media Center (哈赛科技传播中心). Songshuhui is now running by Hasai. At the same time, a commercial company was also set up to run Guokr.com (果壳网) as a business sector. The founder and chairman of this NGO is the CEO of that commercial company as well. Songshuhui and Guokr are both social media that concentrate to diffuse science and technology knowledge to the public but in different manner. The commercial mission was separated from Songshuhui that construct Guokr which attracted angel venture and operated business programs like publishing books and S&T service. These two were officially independent organizations own contemporary ideas.

On the other hand, the commercial company gave direct financial support to the NGO. They share the same leader although the top management team and operation pattern were different from each other. To cut the cost, administrative and financial parts as well as technology support of the NGO were operated by commercial company's management and technology departments.

Tension 2: Resource allocation: Short-term versus long-term

For social entrepreneurship, the allocation of scarce resources between for-profit and non-profit activities can be a source of conflict. (Austin et al., 2006). Social entrepreneurs and enterprises have to make short-term or long-term strategies depending on resource constraints. For-profit activities pay more attention to short-term revenue increasing the operation capability for organizations. Non-profit activities burden the organization with the original mission and core values, and thus can be discarded and forgotten. For-profit activities can increase financial resources but at the same time use assets and distract from the non-profit activities. Monetary success is not always good for social entrepreneurs, even for NGOs, when it comes to accomplishing the initial dream.

Canyou Software (残友 in Mandarin which means Friends of Disabled) founded on September 1999 is now the biggest and most respected social enterprise group in China that consists of 1 foundation, 8 NGOs and 32 social entrepreneurship organizations in 11 branches, and employs more than 3700 employees, more than 95% of whom are disabled people. It is considered the largest and sole high-tech social enterprise in the world.

However, despite Canyou's great achievement, there exist for-profit and non-profit conflicts in human resource management. Disabled employees in Canyou enjoy a high standard of welfare including high salary and high benefits. For Canyou employees who wish to retire, salary and benefits continue to be paid at the level of one's best performance and income for their lifetime. Free transportation, free laundry and free dinners are still offered to retired employees. The huge cost of human resources and problems with performance measurements have become a burden to Canyou's sustainable development.

Tension 3: Social changes: stability versus adaptability

For-profit activities are more associated with flexibility and change meanwhile Non-profit activities are associated with stability and inertia. Organizations focused on social mission rely on operating stable Non-profit projects while flexible For-profit operations would strive for more social resources. Tri-value social

entrepreneurship would shift income strategies based on the triple nonprofit, for-profit, and public sectors revenue (Herranz et al., 2011). Non-profit activities have to overcome the difficulties of resource fluctuating and promote social value creation steady. Organizational separation (Tushman & O'Reilly, 1996) described in ambidexterity research would be a feasible idea apply to balancing these two parts in social enterprises.

Non-profit missions must also confront changes that balancing stability and adaptability which can be essential for survival. The NGO called March of Dimes Foundation that works to improve the health of mothers and babies is a good example of mission change. With approval of the Salk vaccine in 1955, original goal of ending polio in US was accomplished and the March of Dimes Foundation faced a choice to either disband or dedicate its resources to a new mission: it choose to focus on reducing birth defects and infant motility. Similar to industrial evolution, the booming development of whole society would discover new social mission.

5. Summary

In this article, we analyzed the expanding research in social entrepreneurship that revealed a building area of scholarly inquiry. Nevertheless, there are still attractive questions that remain to be discussed by interdisciplinary scholars in future. To further our understanding of social entrepreneurship based on a broad boundary, we constructed a framework to illustrate three main tensions are identified in this article to encourage Non-profit and For-profit ambidexterity in social entrepreneurship.

However, challenging questions still need scholars to approach. In public welfare field, social enterprises committed social mission but for-profit processes might easily kill the goodwill which turned them to be commercial business. So it's important for public administration to design well-ordered system to balance the good and seemingly good. These structured problems require more academia attention.

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