

Financial Sustainability of Educational Social Enterprises in China: An Interview Analysis of Two Cases

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ABSTRACT

Over the last few years, there has been a surging academic interest in newly-emerged social enterprises in Mainland China. Social enterprises are becoming increasingly important to China's civil society as they have been addressing a variety of social issues. While the majority of research focused on the general characteristics of social enterprises in China, few studies have been done on investigating whether or not these ventures are really financially sustainable in the long run. This paper aims to fulfill this research gap by doing a case study with PLO and WH - two prominent educational social enterprises in mainland China. Through conducting in-depth interviews with the founders of PLO and WH, the results are drawn out: firstly, a social enterprise's financial stability does not necessarily depend on income source diversity; secondly, leaders' previous experience in finance or management can contribute to the financial sustainability of a social enterprise. Additionally, it is also discovered that contrary to most social ventures in western countries, both PLO and WH were reluctant to expand their commercial activities to earn more revenue, a phenomenon which two interviewees attributed to China's current stage of economic development. The findings have several implications for Chinese social entrepreneurs who wish to build financially sustainable social enterprises and offer insights for scholars who would like to conduct similar research in the future.

Keywords: *Social Enterprises, Financial Sustainability, Revenue Streams, Leadership in Social Enterprises*

1. INTRODUCTION

Since China's Reform and Opening Up in 1978, the Chinese government has gradually let out the state control over the social and economic lives of the general public, which has spared room for the entrepreneurs to operate their own business ventures in a market-based economy. While Chinese society experienced an overall economic boom in the last few decades, the fast-developing economy also brought about a variety of social issues - education inequality, income gap, environmental pollution, labor overworking, to name a few. Despite the governmental efforts, many of these issues still clearly exist in China's society.

In recent years, a number of social enterprises (also called social ventures) stood out to participate in addressing the social problems in China. Despite the concept of social enterprise being still relatively new to the Chinese public, many research studies have been done regarding the general characteristics of these social ventures in China. However, few studies

have been conducted to address the question of whether or not these social ventures are really financially sustainable. Without financial stability, social enterprises will not be able to consistently develop and expand. Therefore, more research into the financial stability of Chinese social enterprises is urgently needed. This paper aims to address this research gap by conducting a case study with PLO and WH (for privacy purposes, only acronyms were used), two prominent educational social enterprises in China.

The research features in-depth interviews with the founders of these two social enterprises and qualitative analyses of the interview content. The findings provide insights for Chinese social enterprise leaders who wish to enhance their enterprises' financial stability and to help for developing better enterprise models. Additionally, the research initiated a conversation between Chinese social entrepreneurs and academia.

1.1. Literature Review

1.1.1 Social Enterprise

In recent decades, the world has witnessed an increasing number of social enterprises and an upsurge of academic interests in this field [2]. But what exactly is social enterprise? In order to understand this concept, it is necessary to break “social enterprise” into two words: “social” and “enterprise” [3]. In other words, it will help to understand the concept if one thinks from both the “social” perspective and the “enterprise” perspective of a social enterprise.

From an “enterprise” point of view, social enterprises share similarities with traditional enterprises. Many traditional enterprises and social enterprises share same business models or organizational structures. Social entrepreneurs exploit opportunities and resources in order to create value for their enterprises just like traditional business entrepreneurs [4]. From a “social” point of view, to qualify as a social venture, an organization must have a social mission that aims to deliver certain benefits to society. This is perhaps what distinguishes a social enterprise from a traditional business enterprise. One the one hand, a traditional business is usually associated with the goal of maximizing profits, a social enterprise does not necessarily seek to maximize its profits. On the other hand, a social enterprise is usually more mission-driven and focuses on creating positive externalities for its target communities. Wealth creation is not its central goal but a mere tool to maximize its impacts over the social issue [4]. Therefore, it is safe to say that a social enterprise is a type of business that puts doing good for society as its primary goal.

1.1.2. Financial Characteristic of Social Enterprises

Although social enterprises (for simplicity purposes, social enterprises will be referred to as SEs hereafter) usually put more emphasis on its social aspect, scholars have paid much attention to their financial dimensions. To survive and achieve social goals in the long run, they need to have sustainable financial systems [5].

SEs are often characterized by their hybridity - the need to achieve both the social mission and financial sustainability [6]. Although the idea of hybridity might seem a bit impractical upon first sight, it can actually provide SEs with more financial opportunities. The social mission gives SEs legitimacy, which can be utilized to seek grants or funds from a variety of stakeholders, such as government, social activists, individual donors, and corporate donors [7]. For SEs that specialize in commercial activities, their dedication to social

missions can often appeal to ethical consumers [6]. However, hybridity also brings challenges to SEs. SEs operate in the market where their economic values are more emphasized than social values, and therefore, poor economic conditions are often more easily punished than poor social conditions [8].

1.1.3. Influence of Income Sources on Financial Sustainability of SEs

In general, SEs rely on two sources of income: philanthropic source and commercial source, though the percentage of each source is usually flexible depending on the individual SE [9]. SEs could either heavily rely on a commercial source or philanthropic source or have a balanced amount from both sources. While there is little research focusing on the financial stability of SEs in Mainland China, much research has been done in other parts of the world. According to Staicu, the key to the sustainable development of SEs in Central and East European countries was that they avoided overdependence on only one specific source of income [12]. Similarly, scholars in Hongkong have discovered that SEs who had access to funds from both the public and private sectors were more sustainable than those who had access to funds from only one sector [10]. Studies indicate that the diversity of income sources is a factor that decides whether or not a SE can reach financial stability in the long run. The literature, therefore, poses a research question for this paper: whether or not the diversity of income sources also contributes to the financial stability of SEs in Mainland China?

1.1.4. Influence of Leadership Experience on Financial Sustainability of SEs

Another factor that can affect the financial fate of an SE is its executive leadership. The executive leaders of SEs need to have matured industry experience to maintain a healthy relationship with employees, volunteers, and a variety of stakeholders and to deliver their visions to the public [8]. When it comes to the financial health of an SE specifically, scholars have pointed out that those SEs with executive leaders who are experienced in finance are more inclined to be financially sustainable than those without [10]. Similarly, SEs with executive leaders who have previous management experience of other companies/organizations also tend to have more sustainable development than those without [11]. Hence, the literature suggests another research question for this paper: Does previous leadership experience contribute to the financial stability of SEs in Mainland China.

1.2. Methodology

As of the time when this research was conducted, there had been no official data on the income source or the leadership experience of SEs in Mainland China. Therefore, in order to gain clear insights into our research questions, the author used the qualitative approach of conducting case studies with PLO and WH - two prominent educational SEs in China. The method of case studies helped the author to examine a set of objective information regarding the two SEs. The author then proceeded to conduct in-depth interviews with one representative from each SE, which helped the author to gain a deeper understanding of the two SEs and provided empirical evidence to the research questions.

The author first visited two SEs' websites to gain the basic knowledge of their works and reviewed the existing literature to formulate a list of interview questions relevant to the two SEs. The two major sections of questions include (i) Income source diversity of the SE; (ii) Leadership experience of the SE. After formulating a total of 16 questions, the author conducted interviews with the founder of each SE and recorded the interviews, which were transcribed into text afterwards. Next, the author selected 8 important questions out of 16 and applied the content analysis method. By analyzing the text from the interviews, the author was able to find evidence and reach the conclusions to the two research questions.

2. FINDINGS AND INTERVIEWS ANALYSIS

WH and PLO are two Chinese SEs that work in the field of education. WH has been tasked with multiple projects. Since its founding, WH has been devoted to constructing several hope schools, providing scholarships to left-behind children in Sichuan, and building a volunteer team to offer free virtual English classes for migrant schools in China. The organization has a very clear focus on improving the education quality of the rural areas of the country. Similarly, PLO also carries a mission of providing educational opportunities for underprivileged students. Instead of performing multiple tasks simultaneously, its major work is to offer real-time virtual classes to a number of secondary schools across China.

To provide empirical evidence to the two research questions, highlights from the interviews have been attached. For privacy purposes, two interviewees from WH and PLO will be named as A and B respectively.

2.1. Income Source Diversity and SE Financial Stability

2.1.1. Status Quo of Two SEs' Income Source Diversity

Upon meeting with these two interviewees, the first few questions the interviewer asked were related to the income source condition of their SEs. When the interviewer began by asking "where do your SE's major funding sources come from", two founders gave similar answers:

A: Individual donations from people we already know plus some funds by ourselves (board members).

B: Individual and corporate donations and just a little bit of financial aid from some public foundations.

Two SEs were similar in a way that both relied heavily on donations and had only two main sources of income. Besides, both founders indicated that they engaged in few commercial activities. This was quite unexpected since many social ventures in western countries - typically those in the US and Europe - gain a significant part of their income from commercial activities rather than simply relying on donations. Regardless of this surprising finding, the interviewer proceeded to ask "Can you think of a time in which a problem arose because your social enterprise was overly dependent on certain types of income source?". A and B both replied no. They explained:

A: We funded our activities according to the number of donations we got. And therefore we've never encountered any big problem with our dependence on the donation.

B: Although we earned our most revenue from donations, the donations could pretty much satisfy all our needs.

At this point, it is clear that the revenue streams of PLO and WH were not very diverse, but they could still survive financially with just the donations and without engaging in as many business activities as one would expect.

2.1.2 Two SEs' Views On Commercial Activities as an Income Source

For SEs, merely surviving might not be their ultimate goal, so the interviewer continued to ask, "Do you think there is still room for diversifying your income sources in order to gain more revenue? For example, engaging in more commercial activities?" They answered:

A: Of course, if we receive donations from more kinds of people or financial support from the government, then we will be able to do more work. But we won't engage in too many business activities, so that's a no.

B: If we can get more new donors, whether corporate donors or individual ones, then our income sources will be more diversified. However, we don't really want to depend on more commercial stuff than we already have. That will not be a way.

It could be seen that both A and B indicated that there was still room for income diversification. But when talking about diversification, both of them only referred to donations by the public or grants by the government. Both were reluctant to consider engaging in more business activities as a way to sustain and expand their social ventures. When the interviewer went on to ask for clarification on why choosing to limit commercial activities, two founders explained in the following:

A: Don't think there is a huge market for social enterprise's products in China currently.

B: I actually tried operating my SE under several possible business models. However, all of the models did not quite succeed. The reason is simple: at this point, many consumers in China are not willing to pay or do not have enough money to pay an extra price just for some intangible externalities that they don't get first-hand experience. Remember, China's still a developing country.

A and B shared similar views. B's point about Chinese consumers brought up an idea about the difference between China's SE market and the western SE market. As of 2020, China is indeed still a developing country where its GDP per capita is on average less than most developed countries. Less income might contribute to consumers' less willingness to pay for the products of a social venture, which may be more expensive due to the need to fulfill SE's social mission. Additionally, as B suggested, his SE's products did not benefit the general consumers directly, and this might also deter consumers from buying their products. Under such circumstances, it would be reasonable for the SE to limit its business activities.

2.2. Previous Leadership Experience and SE Financial Stability

2.2.1. Status Quo of Two SEs' Leadership Experiences

As the interview transitioned to the second part, the interview was continued by asking about the experiences of their team leaders. When the interviewer asked, "Did any of your executive leaders have management experience prior to working for your organization," two interviewees answered:

A: Two of our six board members had run NGOs and other philanthropic organizations in China, and they had at least twenty years of experience before joining us.

B: The majority, maybe 80 percent, of our board members had either run businesses or NGOs before joining our team. I say they were quite good at managing different organizations at different levels.

Then the interviewer proceeded to ask "Did any of you executive leaders have financial expertise prior to working for your organization?" They said:

A: Our secretary was a financial advisor for his own firm. He had more than twenty years of experience as a financial advisor.

B: There are two or more people on our board who had experience in finance. They were general managers for their previous companies.

From here, it can be readily deduced that both SEs had a considerable number of leaders who had previous experience in either finance or management. Besides, these team members were considered to be quite experienced considering the number of years they were involved in the previous works.

2.2.2. Leadership Experiences' Influence On Financial Stability of Two SEs

After obtaining the basic knowledge about their team leadership experiences, the interviewer started asking questions regarding what these experiences brought to their SEs. When the interviewer asked, "Have your team members with prior experiences contributed to making efficient financial decisions for your organization?," they answered:

A: Oh yeah. More than efficient. Our secretary has been in charge of writing monthly, quarterly, and annual financial reports. These reports are super important for us to know if our organization is on the right track and to make better financial decisions for the future years.

B: Yes. My teammates with previous experience are the core of our team. They are essential to making most strategic decisions, and these are not limited to just financial ones.

Both interviewees gave very positive responses, especially B, who considered these people to be the "core" of his team. Then, the interviewer asked, "Have your team members with prior experiences contributed to the financial sustainability of your organization?" They replied:

A: A hundred percent. They are very professional about what they are doing. They make sure that the fund is continuously in a good condition and that there will be enough income to support us all.

B: Yep, their experiences have not only contributed to the sustainable development of our organization overall but have also positively influenced other team members who might be newer to the field of philanthropic works.

Again, both A and B gave overwhelmingly positive responses to the question. Therefore, it is safe to say that their leaders' previous experiences in either

finance or management have largely contributed to the financial sustainability of these two SEs.

3. CONCLUSION

Both SEs do not have diverse revenue streams and rely heavily on donations. However, this is not an issue for them as both SEs have survived financially for years, and the scales of their programs have never decreased. Income source diversity is not an absolute necessity for their SEs' financial stability.

Both SEs are not willing to engage in more business activities. The reason is closely related to the current economic status in China and Chinese consumers' perception of SEs. To these two SEs specifically, consumers are not economically and psychologically prepared to purchase their products.

Both SEs have many team members with strong leadership experience before joining the SEs. They either had experience in finance or management. Some of them were also familiar with NGO or philanthropic works before joining. The leadership experiences have contributed to the financial stability of the SEs very positively and are very crucial for the sustainable development of the SEs.

Based on the above findings, the author makes the following suggestions for future social entrepreneurs in China. Firstly, do not blindly diversify income sources by engaging in too many commercial activities. It is important to note that current China is still a developing country, and Chinese consumers' expectations for SE products/services may be very different from those of developed countries. Therefore, conducting thorough market research before starting a business is necessary. Secondly, if possible, hire executive leaders with prior experience in finance or management or relevant philanthropic work since they can very possibly contribute to the financial stability of a SE.

The study is limited by the number of SEs researched and the fact that both SEs work in the same field of education. The status of these SEs cannot represent other social ventures in China. The author recommends future researchers to examine a larger sample of SEs that operate in a variety of fields.

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