

北京师范大学
社会发展与公共政策学院
SCHOOL OF SOCIAL DEVELOPMENT
AND PUBLIC POLICY
BEIJING NORMAL UNIVERSITY


Social Entrepreneurship in the Nonprofits Sector: An Analytical Framework and A Case Study

Xiulan Zhang, PhD
Dean and Professor
School of Social Development and Public Policy
Beijing Normal University, China
(Based on a Draft Paper by Xiaomin Yu and Xiulan Zhang:
Social Entrepreneurship in China's Nonprofit Sector
The Case of Innovative Participation of Civil Society in Post-Disaster Reconstruction)

Defining SE: The Three Schools of Thoughts

- The three schools
 - The earned-income school
 - The social innovation school
 - The social enterprise school
- Although three schools of thoughts are divergent in delineating the boundary and nature of SE and in examining its dynamics, they are convergent on a common analytical focus – **the way SE differs from traditional nonprofits, as a new approach to solve social problems and create social values more sustainably, innovatively and effectively.**
- Based on the literature review, we have developed a nine-dimension framework to analyze the difference between SE and traditional nonprofits.


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An Analytical Framework of Differences of SEs in Nonprofits

<i>Balancing social and economic objectives</i>	Substantially distinct from traditional nonprofits driven solely by social goals, SEs need to strike an appropriate balance between social and economic objectives. As “market-driven and mission-led” dual-value organizations, SEs focus on “using business tools and approaches to achieve social objectives”. To do so, SEs need to create “a common ethical framework which translates into shared values”.
<i>Hybridizing organization structure</i>	Many SEs set up hybrid organization structure in order to engage in both non-profit and for-profit activities. The hybrid organization form found in SEs range from “holding companies” which carry out for-profit activities and generate income for the nonprofit parent to “joint ventures” which take the form of partnerships between nonprofits and for-profits. According to the level of integration between their social programs and business activities, SEs fall into three categories: embedded, integrated, and external.
<i>Broadening operational models</i>	Because they have both social and commercial objectives, SEs contain a high level of complexity in their strategies and operation.

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<i>Diversifying resource base</i>	Socially entrepreneurial organizations rely on a resource pool combining financial, physical and human assets. As the earned-income school highlights, SEs often engage in profit making activities and generate a significant amount of their revenues. The social enterprise school stresses that SEs often obey three different types of economic principles – market, redistribution and reciprocity and create a diversified resource base which often mixes earned income, donations, volunteering, and government subsidies. The social innovation school focuses on explaining the innovativeness of social enterprise in using resources.
<i>Strengthening cross-sector partnership</i>	SEs frequently rely on effective cross-sector networking and partnership. For example, SE are increasingly partnering with companies in new ways, such as cause-related marketing, endorsement, sponsorships, and other forms of dealings with corporations. Thus, a wide spectrum of new forms of partnership emerge, ranging from company’s direct investing in SEs to companies’ philanthropic and community investment activities
<i>Facing new challenges to achieve organizational sustainability</i>	The long-term durability of SEs depend on their ability to acknowledge and manage the two competing sides of the organization – commercial activities (assessed by efficiency, competitiveness, profitability, etc.) and social actions (evaluated by legitimacy, participation, impact, etc.). It is determined “their ability to gain resources and legitimacy, create cooperation with other institutions and development internal managerial and organizational capabilities”

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<i>Nurturing stakeholders' participation and democracy in governance</i>	SEs typically have democratic governance structure which allows the direct involvement of a wide range of stakeholders (e.g. users, clients, donors, employees, volunteers, social investors, etc.) or the indirect participation through trustees or directors who have the power to make decisions on behalf of stakeholders. The democratic participation by multiple stakeholders has been viewed as one crucial mechanism to balance SEs' dual objectives.
<i>Limiting profit-distribution</i>	Unlike conventional nonprofits prohibited from profit distribution, SEs are subjected to a "weakened" non-profit distribution constraint, to make them to accumulate financial resources and improve their economic stability.
<i>Enlarging social impact</i>	SE paradigm provides nonprofits a mechanism to strengthen, expand or enhance their missions by creating more meaningful social impact, by reaching new client markets, or by diversifying their social services. There are two different approaches for SEs to enlarge social impact: one is "scaling up" which means creating new service sites in other geographic locations; the other is "scaling deep" which means achieving greater impact in the organization's home community by improving service quality, extending services to new clients groups or other ways helping the organization to be the "best of breed" in certain field.

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Post-quake Reconstruction and the Emerging of Social Entrepreneurship



- Wenchuan Earthquake: The year 2008 saw 100 billion yuan in social donations, with the earthquake accounting for 76 billion yuan, up from 31 billion yuan in 2007. Nearly five million volunteers fluxed into the quake-hit areas, engaging in rescue, relief and reconstruction. In addition, the quake triggered growing participation of grassroots NGOs. By the end of 2008, there have been 263 NGOs or volunteer groups responding to the earthquake through raising funds, delivering materials, providing services.
- However, as emergency phase moved into the more complicated and demanding recovery and reconstruction phase, the involvement of civic groups receded like ebbing tide. It was reported that by April 2009, the number of NGOs or volunteer groups working in the quake-hit regions declined from nearly 300 to less than 50, while the number of volunteers decreased from nearly five million to around 50,000.
- **The structural obstacles encountered by Chinese civil society:**
 - Scarcity of financial resources
 - Unfavorable policy and political environment

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The Case: Joyful and Harmonious Home (*Le He Jia Yuan-JHH*)



- **Organization Profile and Program Origin:** Da Ping, a small village of 279 households located in the mountainous rural region of Pengzhou city, Sichuan province was devastated severely by the 5.12 earthquake. Over 80 percent houses collapsed, a great deal of roads and bridges were damaged, and most villagers lost resources to maintain their livelihoods. Two months after the quake, this small village witnessed the sprouting of a SE initiative, Joyful and Harmonious Home (*Le He Jia Yuan* in Chinese, the JHH), which was a multi-sided reconstruction program launched by *Global Village of Beijing (GVB)*.
- GVB got a star-up fund of 1.8 million yuan from The Chinese Red Cross Foundation (CRCF) in August of 2008. Consequently, the JHH program received funds from several foundations, such as CRCF, Narada Foundation, Jet Li One Foundation, and Give2Asia Foundation. By the end of February 2009, the JHH program has grown into a multi-purposed reconstruction program backed by a total fund of nearly 5 million yuan.
- JHH program launched a variety of reconstruction activities, ranging from rebuilding residential houses and public facilities, developing ecological industries, providing social services, to establishing grassroots environmental protection mechanism.

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Main Findings



- **Balancing social and economic objectives.** The JHH program has economic objective that is to strengthen the financial viability and sustainability of the program through engaging in various green industries such as eco-agriculture, green breeding, eco-tourism, and innovative handicrafts.
- **Hybridizing organization structure.** All green businesses activities included in the JHH program are jointly-owned social ventures in nature, constructed basing on a 15-year cooperation contract involving three partners: GVB plays crucial roles to absorb investment and carry out industrial planning, management and marketing (51 percent in the stake). Da Ping Mountain Ecology Association (DPMEA), a grassroots environmental group established shortly after the disaster with GVB's facilitation. Representing the interests of the villagers of 100 households involved in the JHH program, DPMEA plays a facilitating role to manage various green industries and coordinate the involvement of villagers (DPMEA and individual villagers held 49 percent of shares). Villagers' committee plays a role to maintain the partnership between three parties and supervise the operation of the businesses.
- **Broadening operational models.** The JHH program operates as a "market intermediary" between beneficiary groups (cooperatives and villagers) and marketplaces, through providing value-added services such as product development, production and marketing assistance. On the side of creating social value, the program helps villagers to earn a livable income and enhance environmental standards; on the side of creating economic value, market-based revenues help to cover the program cost and strengthen its self-sufficiency.

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- **Diversifying resource base.** The JHH start-up funds are mainly derived from social donations of foundations, local government also provides substantial grants. GVB attaches importance to self-earned income through producing and trading organic crops, green livestock as well as innovative handicrafts. However, income from sales of green products currently constitutes only a small source of revenues.
- **Strengthening cross-sector partnership.** GVB takes various efforts to establish and strengthen partnership with the local governments to gain legitimacy and obtain resources crucial to the success of the program. But the relationship changes as the local cadres changed their positions. Many initial contracts have to be revised.
- **Facing new challenges to achieve organizational sustainability.** The program has not generated sufficient earned-income to support its social programs. Several organizational and contextual factors constrain its ability to accomplish financial self-sufficiency. First of all, engaging in business activities pose various managerial challenges to GVB, such as cultivating new efficiency-oriented values, figuring out new way to manage mixed human resources, and creating new approach to assess performance. In addition, it is difficult to access sustained investment from “social investors” .

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- **Nurturing stakeholders' participation and democracy in governance.** The JHH program is operated through a “democratic” governance structure to enhance the participation of villagers. GVB facilitated the creation of Da Ping Mountain Ecology Association (DPMEA) in 2008, as a voluntary association of villagers involved in the program, to coordinate the villagers’ participation. However, in the eyes of villagers, DPMEA is merely a “puppet” of GVB, unable to truly represent villagers’ opinions and interests. The decision-making power was usually held by GVB which made villagers felt “marginalized” or even “employed as tools”.
- **Limiting profit-distribution.** The amount of profits under the shares held by GVB is prohibited from distribution. The amount of profits under the shares of villagers is allowed to be distributed. According to villagers interviewed in 2011, each villager involved in the program has received 60 yuan by the end 2010, as the distributed profits generated from the green businesses.
- **Enlarging social impact.** To create greater impacts, the program chooses to pursue a “scaling up” approach by diffusing the experiences of “constructing ecological civilization” accumulated in Da Ping village to other rural regions. However, there is still a long way to go.

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Conclusions



- The way socially entrepreneurial nonprofits participate in the post-disaster reconstruction differs from the approach of conventional nonprofits, manifesting multiple innovations in the 9 dimensions.
- Secondly, still in its infancy, SE in China's nonprofit sector has not evolved into an effective solution to the development hurdles confronting grassroots NGOs (scarcity of resources and unfavorable policy environment).
- The institutionalized mechanism to foster state-NGO partnership is nonexistent, the public-private partnership is often constructed upon interpersonal interaction and trust.
- To fully employ SE as a solution to alleviate the scarcity of financial resources, grassroots NGOs need to develop their entrepreneurial spirit and skills which are crucial to enhance financial viability and ensure organizational sustainability of their SE endeavors.



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Thank you!

