

## A literature review on social enterprise

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**ABSTRACT:** In recent years, social enterprises which primarily pursue a social mission while engaging in commercial activities to sustain their operations through sales of product or service have been sprung up throughout China. This article introduces two aspects, including research on social enterprises and that on corporation governance. Social enterprises are discussed concretely in definition, characteristic, classification, legitimacy, growth and governance.

**Keywords:** social enterprise; legitimacy; corporation governance

At present, research on social enterprise governance involves three fields: social enterprises, corporate governance and non-profit organization governance.

### 1 RESEARCH ON SOCIAL ENTERPRISES

Research on social enterprises covers three fields: concept, characteristics, and classification of social enterprises (Liu & Jin, 2015). Some studies have started to involve legality of social enterprises, characteristics of organization growth, and governance of social enterprises.

#### 1.1 *Definition of social enterprises*

There is no unified definition of social enterprises. Organization for Economic Cooperation and Development (2003) holds that a social enterprise is a non-profit organization in between public and private departments and its financial autonomy is dependent on trading activities. It integrates the operating methods of enterprises and the social responsibility of non-profit organizations. UK Department of Trade and Industry states that a social enterprise is a commercial organization targeted at social needs. Its profits are mainly used as supportive investment of organizational goals or direct investment of community business, rather than to maximize the profits of shareholders and holders. The American academic circle has a broader

definition of social enterprises. It emphasizes the social entrepreneurship and social innovation, and defines social enterprises as a type of organizations that achieve social objectives via incomes. At present, the generally accepted concept worldwide was proposed by Dees (2003): Social Enterprises Spectrum, which regards social enterprise as poly atomic mixture in between pure charity and pure profit (private companies). Chinese researcher Li and Jiang (2011) thinks that social enterprises include the non-profit-making of enterprises and the commercialization of non-profit organizations, and are organizations that achieve social targets through business means at the initial entrepreneurial stage.

#### 1.2 *Characteristics of social enterprises*

Social enterprises have evident mixing characteristics: they integrate the capital and management methods of both commercial and nonprofit organizations, and adopt the commercial way to obtain economic benefits, aiming at realization of social objectives (Alter, 2007). The organizational values are measured on basis of commercial and non-profit aspects. Moreover, Zhao and Yan (2009) hold that since social entrepreneurship is directly related to different social, cultural and political backgrounds, the organization forms of social enterprises in practice largely differ from each other due to social differences and have the difference features of organizational forms.

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### 1.3 *Classification of social enterprises*

Under different historic, legal and institutional backgrounds, the scales and operation patterns of social enterprises are both different to some extents, which is the basis for classification of social enterprises. According to the theory of social enterprise spectrum and to the differences in mission trend or interest trend in the commercial operations of social enterprises, Dees classifies social enterprises by the motivation orientation into mission-centered, mission-related and mission-independent types (Dees, 2003). Yu Xiaomin et al. divide the social missions of social enterprises into employment promotion, provision of social care and services, poverty alleviation, provision of medical services, and education development. By integrating social projects and commercial activities, Alter divides social enterprises into an embedded type, an overlapped type, and an exterior type. From the perspective of social innovation, Yan (2008) divides social enterprises into an employment type and an entrepreneurial type, according to the differences in commercial pattern, social environment and organizational traits.

### 1.4 *Legitimacy of social enterprises*

As a novel organization form, social enterprises are faced with questioning and challenge of legality (Liu, 2012), and have to actively formulate a self-growing legality institution. The view about automorphism acquisition of legality by relevant organizations according to the new institutional economics is unable to explain the differences in organizational legal behaviors (Liu et al., 2015). Thereby, Alford and Friedland (1985) put forward “institution logics” and portrayed the inner conflicting practice and belief in modern Western society. The institution logics refer to the cultures, religion and rules at the social level, which can be used to portray the cognition and behaviors of the behavioral entities (Thornton, 2004; Lounsbury, 2007). From the perspective of institution logics, researchers have legally reshaped social enterprises and thereby studied the organization growth (Battilana & Dorado, 2010; Jay, 2013). Liu et al. (2015) find under the joint influences of market logic, non-profit logic and reasonable selection logic, social enterprises improved both commercial benefits and social benefits through the acquisition of market legality, alliance legality and relationship legality, and thereby explored the adaptability of social enterprises to the external environment.

### 1.5 *Growth of social enterprises*

Construction of social entrepreneur network and the organization management institution in social enterprises is a nonnegligible motivation that promotes organization growth. After field investigations, Aus-

tin, Stevenson and WeiSkillern (2006) found the powerful organization internal and external coordination network constructed by social entrepreneurs was pivotal in organization growth. Such a network should involve social enterprise members, non-profit organizations, enterprises, other social enterprises, and governmental departments. The social entrepreneur individual network and the social entrepreneur social network or social capital are the key resource channels of organizations (Certo & Miller, 2008), and help social enterprises to acquire market and customer information, identification opportunities, fund support and local support. These networks are important influence factors on organization growth (Shaw & Carter, 2007). Besides the influence of external networks on organization growth, the inner organization management institution also affects the growth of social enterprises, such as decision institution, incentive institution and financial institution, which become new research hotspots and have attracted wide attention (Sengul & Gimeno, 2013; Sengul et al., 2012).

### 1.6 *Governance of social enterprises*

The organizational legality and growth of social enterprises are directly associated with organization governance (Canales, 2013; Murray, 2010). Research on social enterprise governance is focused on governance patterns & influence factors, and governance challenges. (1) Governance pattern and influence factors. Social enterprise governance involves the rights allocation and balance among shareholders, the board, and the operation layer. The board plays important roles in social enterprise governance (Cornforth & Brown, 2014; Ebrahim, 2010; Renz & Andersson, 2014). Diochon (2010) thinks that the board members, making use of their own social resources, can efficiently promote the governance and development of social enterprises. Nevertheless, Battilana et al. (2014) think the composition of board members plays a significant role in maintaining the essence of social enterprise mixed organizations and decides the unique governance patterns of social enterprises. Bertotti et al. (2014) find that social enterprises in South Korea are governed by five patterns: Compliance Pattern, Partnership Pattern, Political Pattern, Co-optation Pattern and Rubber Stamp Pattern. Defourny & Nyssens (2008, 2010) and Travaglini et al. (2009) suggest that social enterprises in the developed West Europe usually adopt governance patterns of high autonomy, social possession, democratization, participatory, and diverse stakeholder participation. Compared with Western countries, the social enterprise governance in China is still at the preliminary stage. Yu (2012) think that the registration patterns of Chinese social enterprises and the involvement of stakeholders are major factors deciding organizational governance, and thereby divide the governance patterns of social enterprises into a government-supervised type,

shareholder-controlled type, and a member autonomy type. The above analyses indicate that the board plays important roles in the governance and patterns of social enterprises. (2) Challenges of social enterprise governance. In recent years, the challenges of social enterprise governance become a research hotspot. As reported, the governance challenges faced by social enterprises are mainly manifested as the migration of organizational objectives induced by double-log conflict. Ebrahim and Rangan (2014) think efficient organizational governance should be achieved by building a management layer control and organization accountability institution.

## 2 RESEARCH ON CORPORATION GOVERNANCE

Corporation governance is a major branch of research on organization governance (Li et al., 2010). So far, the existing studies are focused on the motivations, contents (internal governance, external governance, organization network governance) (Li et al., 2014), and evaluation of corporation governance.

### (1) Motivations of corporation governance

Hart (1995) probes into the motivations of corporation governance and proposes the issue of proxy, namely there are benefit conflicts and trading costs among organization members (holder, manager, staff) that are key factors on the formation of corporation governance.

### (2) Contents of governance

Denis and McConnel (2003) classify corporation governance systems into internal governance and external governance. (I) Internal governance. The internal corporation governance mainly involves three parts: shareholder governance (Hawas & Tse, 2016; Burns et al., 2010), board governance (Chidambaran et al., 2010), and high-level governance (Chen et al., 2010). Shareholder governance mainly aims to solve problems of shareholder rights and interest protection (Barroso Casado et al, 2016), private incomes of majority shareholders (Tawiah & Benjamin, 2015), and inheritance of special assets of family enterprises (Daspit et al, 2015; Tsoutsoura, 2015). Along with the gradual diversification of corporation shareholders and the relative centralization of stock ownership structure, the invasion of large shareholders into small or medium-size shareholders becomes a new problem in governance (Hao, 2012). Research on board governance is focused on board scale, board structure, and independent director institution as well as its relationship with corporation performance (García Sánchez et al., 2015; Daily & Dalton, 2015; Zheng, 2011). Research on high-level governance is focused on handling the entrust-proxy relationship, including the senior management incentive & restraint institution, the senior management relationship network, and the interactions with other governance layers (Zona, 2016;

Mazur & Wu, 2015; Sigler & Sigler, 2015). (II) External governance. The external governance environment is mainly composed of law protection, governmental supervision, and market competition rules (Weir et al., 2002; Shen et al., 2004; Gillan, 2006; Li & Xu, 2009). Cu and Li (2012) hold the view that media play important roles in capital market supervision as they tend to report the negative governance issues that are very serious and involve big money, aiming to intensify the external governance restraints of listed companies. Li, et al. test the effects of external governance environments on surplus management by using OLS regression and study the substitute protective effect of corporation governance under weak external governance environment. However, some researchers believe that the external corporation governance acts on external stakeholders through formal or informal ways (Filatotchev & Nakajima, 2010). Thereby, the corporations surpass organization boundaries to interact with the external entities so as to promote the development of corporation network governance and research (Zhang, 2015). Network governance is an extension from corporation governance. The network governance as well as its structure and institution is built in order to acquire a network collaborative effect (Li et al., 2014). Gulati (1998) believes that network governance structure is a formal bargaining structure of partnership among organizations. Some researchers think that the network governance structure results from self-organization evolution, rather than formal inter-company cross-border cooperation (Sun, 2004). Network governance institution plays a key role in maintaining and coordinating the efficient operation among network nodes. Powell (1990) thinks the organization network governance institution includes trust, learning and innovation. Jones (1997) holds the view that the network governance institution includes the limited entrance, combined sanction, cultures and prestige. Based on previous studies, Sun (2004) proposes a network governance micro-institution, including learning innovation, incentive restraint, decision coordination, and profit distribution.

### (3) Evaluation of corporation governance

The practice of corporation governance promotes the research on corporation governance evaluation, which includes corporation governance environment evaluation, corporation governance institution evaluation, and cross-border company governance evaluation (Li et al., 2011). Governance environment evaluation aims to evaluate the external environmental quality of a corporation, including political environment (Kaufmann et al., 2009, 2010), social-cultural environment (Hofstede, 1980) and law environment (Djankov et al., 2008). Corporation governance institution evaluation aims to evaluate the pros and cons of corporation governance institution through a series of corporation governance indices or grading systems. Typical indices include the G index measuring shareholder rights;

the restrictions, poison pill and golden parachute plan that cover cross-election director provision, shareholder revision corporation (Gompers et al., 2003); and the E index that integrates and emends corporation constitutions and absolutely abide by majority rules (Bebchuk, 2009). Cross-border company governance evaluation aims to transversally compare the overall governance conditions of international corporations under different corporation governance environments, especially under law systems of different countries (Denis & McConnell, 2003).

These works theoretically underlie further research, especially the clues to construct organization governance frameworks, and use network governance as an extension of corporation governance, so as to acquire the network collaborative effect. These findings are of significance for further research on social enterprise governance.

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