Understanding regional growth of social enterprises: the art of the state

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Abstract

Purpose – The paper examines the key driving factors behind the rapid and uneven growth of social enterprises in China based on Kerlin’s Macro-Institutional Social Enterprise (MISE) model of social enterprise development, with an emphasis on testing key local institutional factors.

Design/methodology/approach – The study adopts the quantitative method approach. The hypotheses have been tested based on a cross-regional empirical analysis with two national datasets on China.

Findings – This study shows that among the state, market and civil society, local government support in terms of favorable policies is the sole determinant factor driving China’s social enterprise growth. On the other hand, the market is irrelevant and local civil society impedes social enterprise growth. This demonstrates that the current growth model is the result of government intervention.

Research limitations/implications – The datasets have a limited sample size. We suggest that future studies may collect a larger sample size with more comprehensive information. We think this study will encourage more comparative qualitative studies at the local level to reveal the underlying mechanisms of growth.

Practical implications – Since government policy is the determinant factor, the quality and quantity of government-backed incubation programs and platforms would matter the most for social enterprise growth. Our study also helps social entrepreneurs understand what factors matter when they try to develop social enterprises in China. They are advised to work on aspects of gaining legal legitimacy and political support in order to grow the sector.

Social implications – This conclusion suggests that professionals and practitioners should review the implications of the current growth of social enterprises in China, in terms of their sustainability, given their institutional isolation from other sectors.

Originality/value – Current studies have yet to thoroughly explore the role of meso- and micro-institutional factors in social enterprise development, especially in different contexts. With reference to Kerlin’s framework and the tri-sector model, this paper advances the understanding of social enterprise growth in China.

Keywords Local government, Social enterprise, Organizational development, State-society relations, China

Paper type Original article

Introduction

Social enterprises are defined as organizations standing at the crossroad of the public, the market and the civil society sectors (Defourny and Nyssens, 2010). Choi et al. (2020) define social enterprises as typical hybrid organizations that always try to incorporate market and

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Chengcheng Song and Echo Wang are contributed equally to this work.
social welfare logics. Due to their hybrid nature, many believe that social enterprises are more financially self-sustainable than traditional nongovernment organizations (NGOs), thereby enjoying greater autonomy (Cho and Sultana, 2015; Leung et al., 2019; Powell et al., 2018). The organizations are promoted as hybrid institutions combining businesses with a social objective, usually one that fosters inclusive, equitable and sustainable social development (Kim and Lim, 2017; Powell and Osborne, 2018).

How social enterprises are developed under different social contexts has attracted increasing academic attention. While studies on how they are related to the traditional sectors, especially the market and the nonprofit sectors, are abundant, studies on social enterprise growth is a relatively new discourse. As Kerlin (2013) points out, more studies are needed on how socio-political factors shape social enterprise development, especially in indigenous contexts outside their European origins. Among all, China stands out as an authoritarian political regime with demonstrated social enterprise growth, but what causes differentiation in their regional development is still unclear. We know that political support is critical for NGOs or nonprofits in China (Karthikeyan and Mayosi, 2009; Zhang, 2015), but how this applies to social enterprises as a new form of organizations and to what degree? We pose this question because social enterprises do not fit neatly into the categories of either nonprofits or businesses. They may leverage market mechanisms to produce commercial goods and services, adopt a traditional nonprofit approach based on social capital and community services, or even avail themselves of government grants specifically designed for NGOs (De Cuyper et al., 2020; Meyer, 2020). The hybrid nature of social enterprises has introduced uncertainties and complexities in their development in China. That said, most studies on social enterprises are still based on case analyses with a common lack of empirical rigor, which is especially true for China.

This paper utilizes Kerlin’s (2017) Macro-Institutional Social Enterprise (MISE) framework to explore the extent to which institutional factors at the meso and micro levels affect social enterprise growth, particularly in China. We use a combination of panel data and cross-sectional data across 31 provinces in mainland China to test our hypotheses. The certified social enterprises in both datasets include a mix of for-profit and non-profit organizational forms. The results focus on the relationship between local government support and social enterprise development. They show that among the three factors of state, market and civil society, only the state, expressed in terms of policy support, contributes to social enterprise growth. This result indicates that the development of social enterprises is primarily driven by local government support. The conclude holds true even when regional economic development is taken into account. This path is completely different from their Western counterparts; we therefore describe their development discourse in China as “art of the state”.

We therefore argue that the MISE framework needs to be applied with greater caution at the local level when considering social enterprise growth, especially when taking into account the indigenous state-society relationship. This study broadens the traditional understanding of social enterprise development by associating its growth with institutional factors at both the sectoral and organizational levels. This is an aspect that Kerlin’s model does not sufficiently address. Practically, it deepens our understanding of the role and extent of local government’s influence on social enterprise development in China and provides social leaders with insights on selecting the most effective strategies to promote the growth of their organizations.

The MISE framework and hypotheses
Owing to their cross-sector nature, the development of social enterprises is intricately linked with the public, private and nonprofit sectors (Defourny and Pestoff, 2014;
Terms such as “social business” (Duff, 2008) or “market-based social enterprise” (Vézina et al., 2019) are commonly used to highlight their hybridity. Studies on social enterprise development normally adopt the historical institutionalism approach and explain their sector development as the result of a set of path-dependent, incremental institutional changes rooted in a country’s public, private and civil society sectors (Jeong, 2015; Kerlin, 2010, 2013; Sepulveda, 2015; Thelen, 2003). This is well shown in Kerlin’s MISE Framework, which associates institutional factors at both the meso (regional) and the micro (local) levels with social enterprise development (Kerlin, 2013; Monroe-White et al., 2015) and argues that government type, stage of economic development, civil society model and international aid are the four major factors that determine social enterprise development in a country (Kerlin, 2009, 2010, 2013). According to Kerlin, China’s political economy conditions leads to a ‘semi-strategic focused’ country model with Statist state model, efficiency-driven economy and moderate diffusion of Innovation (Kerlin, 2017). Kerlin also claims that social enterprises are more “exported” to China by international parties than “imported” by domestic decision-makers (Kerlin, 2017).

Our hypotheses also draw reference to Pestoff, Defourny and Nyssens’s social enterprise triangle (Defourny et al., 2014; Hulgard, 2011, 2014; Nyssens and Defourny, 2012; Pestoff, 2013), which shares a similar “tri-sector” view on social enterprise development in Europe and North America (Pache et al., 2022; Wang, 2023). From the perspective of organizational theory, social enterprises are characterized as an of hybrid organizations that combines organizational logics of the public, the market and the civil society sectors. Therefore, their development should also be deeply rooted in the three sectors, assuming these arguments are also applicable to China. This is echoed in more recent studies by Amini Sedeh et al. (2023), which suggest that the combined logics of the state, market and religion contribute to social entrepreneurship, although the religious logic may be less prevalent in China.

Current studies that use the tri-sector model to explain social enterprise development have two main areas of weakness. First, it does not explain the significant regional difference in social enterprise development, and second, it underappreciates the importance of domestic decision-makers in the actual implementation of the social enterprise model. Note that in her latest study, Kerlin shifts focus to the meso-level and discusses the crucial role of intermediary institutions in China (Kerlin et al., 2021). However, a limitation is that these are small-N analyses relying on public information and self-reported assessments. Hence, they may not provide a comprehensive and objective evaluation of the social enterprises’ actual state. As Oberoi et al. (2019) points out, rigorous empirical studies are still much needed in this area. This study tests the three major institutional factors — state, market and civil society—at the meso level to understand what leads to actual social enterprise development. These factors are identified as crucial in Kerlin’s MISE framework, which posits that the role of the state shapes the civil society and economic development model, which determines the size of the social enterprise sector (Kerlin, 2013). If this argument also applies at the local level, we would expect a positive relationship between civil society development, the market and the government and social enterprise growth. This relationship is represented in Figure 1 below.

Civil society. The social nature of social enterprises is often strongly emphasized due to their civil society origins (Defourny and Borzaga, 2001; Defourny et al., 2014; Defourny and Nyssens, 2010; Steve, 2009). This is linked to their historical development back in Europe in the 19th century from a nonprofit sector constituted by mutual-help societies, charity groups, nonprofit associations and cooperatives (Brandsen et al., 2014; Kerlin, 2006; Mason et al., 2019; Sepulveda, 2015). Studies commonly view social enterprises as bottom-up civil society organizations that empower innovative ideas and social solutions (Sepulveda, 2015; Thelen, 2003). The social enterprise model has been praised for “unleashing” the power of civil society by enabling non-state actors, such as social entrepreneurs, to join the social service sector and provide public products and services (Au et al., 2016; Koehne et al., 2022). Due to their civil
society origins, the development of social enterprises is closely correlated with the growth and strength of the civil society sector. Therefore, a large civil society sector is supposed to provide a favorable base for social enterprises. In fact, Morrar and Baba (2022) argues that this is even true for social innovation in extreme institutional contexts.

Civil society in China faces more political complications. The resource dependence theory (Pfeffer and Salancik, 2003) is usually used to explain the interaction between the Chinese state and civil society organizations. The nonprofit sector in China is developed with “state corporatism” (Gleiss and Sæther, 2017; Hsu and Hsu, 2016; Huang, 2018; Teets, 2014), which is characterized by power asymmetry and the resulting dependency on the state. State-corporatism is still the most prominent characteristic of State-NGO relationship in China, which the NGOs must rely on for resources and legitimacy (Hsu and Jiang, 2015; Wang and Yao, 2016; Zhang, 2015). Since social enterprises are often associated with civil social organizations, we assume that a vibrant and strong civil society would support their growth.

H1. A stronger local civil society is positively associated with the growth of social enterprises in the region.

H1a. A stronger local civil society is positively associated with the number of social enterprises in the region.

H1b. A stronger local civil society is positively associated with the organizational size of social enterprises in the region.

The market. The market is believed to play a key role in social enterprise development (Cooney, 2016; Hulgard, 2011; Joerges and Rödl, 2004; Lee and Chandra, 2020; Smekal and Saroch, 2015). The “hybrid” nature of social enterprises points to their integration of social missions with market-based activities (Ebrahim et al., 2014; Evers and Laville, 2004; Evers, 2005; Minkoff, 2002). The “social market economy”, where the “social” side emphasizes rights and shared responsibilities while the “market” provides the space for business activities in the social service sector, is commonly associated with social enterprise studies (Claassen et al., 2018). Terziev et al. (2017, p. 55) conceptualize social economy as “... part of the real economy
and of civil society in which individuals and/or legal persons, associations of volunteers or other organized entities doing business in the public interest . . . and is different of corporate capitalism”. The market factor in a social economy refers to the commercial activities of social enterprises, which are balanced with their social missions. This provides the foundation for their development (Au et al., 2016; Joerges and Rödl, 2004; Peacock and Willgerodt, 1989).

According to the “earned-income” school of thought, social enterprises can be understood as nonprofits and NGOs that venture into the commercial market by incorporating profit-seeking models (Jones and Donmoyer, 2015; Khieng and Dahles, 2014). Alternatively, some social enterprises may develop directly from for-profit businesses that actively seek to fulfill both social and economic missions, known as the “double-bottom line” (Alter, 2007; Chell, 2007; Thompson et al., 2006). In China, some social enterprises are registered under the State Administration of Industry and Commerce (SAIC) as private businesses, which means they are even more closely linked with the market. We therefore propose that a mature and developed market is favorable for social enterprise growth.

H2. A higher level of local marketization is positively associated with the growth of social enterprises in the region.

H2a. A higher level of local marketization is positively associated with the number of social enterprises in the region.

H2b. A higher level of local marketization is positively associated with the organizational size of social enterprises in the region.

Local government support. Drawing from studies on NGOs, it is evident that the local government in China plays the dominant role as “the center of resources and power, a site for one-stop shopping for ‘everything an NGO needed’” (Hsu and Jiang, 2015, p. 110). A study by Ma and Liu (2019) analyzes the traditional NGO sector in 153 cities in China and concludes that nonprofit growth is significantly related to government support. Extending this impact to the social enterprise sector, we assume a positive relationship between local government support and social enterprise growth. Studies show that the development of social enterprises in Hong Kong (China) is the result of collaboration between social actors and the government (Chan and Yuen, 2013; Chan et al., 2019; Chandra, 2017). While these studies are based on individual cases and may not be fully representative, they affirm the paramount role of the local government in shaping organizational development.

A group of studies have discussed the critical role of government on social enterprises development in South Korea (Jung et al., 2016; Choi et al., 2020). In general, local governments may influence the operational environment of organizations through legal framework, tax policies, collaboration schemes and public endorsement (Choi et al., 2020; Fitzgerald and Shepherd, 2018). Some researchers study the impact of local policies on social enterprises and argue that government policies play a crucial role in shaping their design, which in turn affects their ability to address social issues and create public value (Choi et al., 2020). Jeong (2015) argues that social enterprises could be explained by the collective effort of civil society and the developmental state, while Park et al. (2017) ascribe social enterprises development to effective policy transfer. However, not all studies identify a direct positive correlation between local policy and development. A study conducted by Choi and Park (2021) on South Korea concludes that there is no evidence that the local government is effective in promoting social enterprises, despite the presence of a strong developmental state and nationwide programs. Another study by Wang and Zhou (2021) based on a survey of 183 new social enterprises in China concluded that legitimacy has a more positive mediating effect in their early growth stage. This implies institutional complexities at the local level for policy implementation.
H3. Local government support is positively associated with the growth of social enterprises in the region.

H3a. Local government support is positively associated with the number of social enterprises in the region.

H3b. Local government support is positively associated with the organizational size of social enterprises in the region.

Social enterprise growth in China

We measure social enterprise growth by increases in both the number of organizations and their size. This prevents biased measurement of unbalanced growth, such as monopolism. We first use the actual number of formally registered organizations to measure social enterprise growth. This is a common parameter for the size of the social enterprise sector (Teasdale et al., 2013). This parameter reflects the growth of the social enterprise sector as a whole and, to some extent, the favorability of the institutional environment towards their growth. A second parameter used is organizational size. This is usually measured in terms of commercial venture capital that reflects increase in the size of the organization and their capacity in the market (Davies et al., 2018; Delmar, 1997; Peng and Heath, 1996). However, since commercial assets do not provide an accurate measurement for social enterprises' capacity, we use total staff number (employment) as a measurement for organization size (Delmar, 1997). We consider this measurement is helpful in China, as some nonprofit organizations are government-organized and are generally large in size. In such areas, a smaller number of organizations does not necessarily indicate a smaller sector, as monopolism may occur.

As new hybrid organizations, social enterprises still lack official definition and conceptualization in China. They may either register as social organizations under the Ministry of Civil Affairs (MCA), or as private businesses under the State Administration for Industry and Commerce (SAIC). Their organizational forms include Community Services Centers (CSCs), Civilian-Run Educational Institutions (CREIs), cooperatives and private companies (Lee, 2009; Yu and Zhang, 2009). A recent study conducted by China Social Enterprise and Impact Investment Forum and Narada Foundation, supported by Social Enterprise UK, has counted 1,684 officially registered “social enterprise” and a total number of 1,750,420 organizations from the nonprofit sector if only the general criteria for social enterprises are considered [1]. As this would result in too much diversity, we only consider organizations that are formally registered and publicly recognized as social enterprises in our analyses.

Note that some studies argue that social impact must be taken into account and apply their own specific metrics combining both economic variables and social impact to measure social enterprise growth (Davies et al., 2018; Lee and Chandra, 2020). However, since the accurate measurement of social impact is still under debate and this is information is commonly lacking for China, social impact is not included in this study as a parameter for growth.

Empirical analysis

Due to data limitations, we cannot conduct our study using a single dataset that covers both regional and organizational level variables. Instead, we use two databases with different samples were used to test our hypotheses. One database was used to test the hypotheses about the number of organizations (the sector) at the regional level, and the other database was used to test the hypotheses on organizational size. Consequently, we employed different regression methods to analyze and process the data.
Growth of social enterprise number

Data sources and measurement. Data source 1. We used second-hand data collected from different sources. First of all, we collected the social enterprise data from China Charity Fair Social Enterprise Certification (CCFSEC) from 2015 to 2019. China Charity Fair is a quasi-governmental event held in Shenzhen, Guangdong province every year. In the past five years, 312 organizations have been identified as social enterprises by the certification body, the China Charity Foundation (CCF). This record constitutes our first dataset.

According to CCF’s report, the regional distribution of social enterprises in China is highly unbalanced [2]. Most of the social enterprises are located in the coastal provinces. For instance, in year 2019 alone, 37 organizations in Guangdong province were certified as social enterprises, but in provinces like Jilin and Xinjiang, the number was zero for the same year. As the selection criteria of CCFSEC were lowered in 2017, for consistency we used the final list of social enterprises in 2016 (45 organizations) [3]. Following the same logic, we also adjusted the case number in 2018 [4]. The total number of social enterprises examined from this source is 342 [5]. We have also collected related data from China Statistics Yearbook, China Civil Affairs Yearbook and marketization index of mainland China’s provinces (Wang et al., 2019). Combining these data with the number of certified social enterprises, we constructed balanced panel data from 2015 to 2019 at provincial level in mainland China. With 31 provinces, this brings the sample size of this source to be 155.

Dependent variable. Number of social enterprises. We use the certified number of social enterprises in a province every year from 2015 to 2019 to measure the dependent variable.

Independent variables. We use civil society organization numbers (logged) and voluntary service time (by hours, logged) in each province per year to denote the size of the nonprofit sector. The numbers are collected from China Civil Affairs Yearbook. We also use marketization index of each province per year to denote local market development level. It is collected from a study by Wang et al. (2019) [6].

For government support, Kerlin (2013) identifies two critical institutional factors for social enterprise development: legitimacy and political supportiveness. The legitimacy of social enterprises refers to their appropriateness in conducting activities (Dart, 2004). In this case, the government should formally recognize the existence and status of the social enterprises as social service providers. Supporting policies, on the other hand, imply favorable institutional environment and resources for the organizations. To be defined as “supportive” the policy must fulfill two conditions: formally using the term “social enterprise” (shehui qiye) and specifying measures that promote their growth. According to the China Social Enterprise and Social Impact Investment Development Report (2019) [7], the first policy that specifically promoted social enterprises was issued in Chengdu (Sichuan) in 2017. There are also policies that partially fulfill the criteria by mentioning social enterprise but lacking specific measures, and these policies are also included as supportive by providing formal legitimacy. The final result is triangulated with a screening of relevant MCA policies at the provincial and major municipal level during the year 2015–2019 [8]. Relevant policies during the period of time stated have been listed in Appendix 1.

Hence, we use the dummy variable policy to measure whether a province has specific supportive policy for social enterprises (yes = 1, no = 0). This has included all the provinces in China to compare the regions with government support to those without and to avoid selection bias issues.

Controls. We follow previous studies (Kim and Kim, 2015; Lecy and Van Slyke, 2013) to control gross domestic product (GDP) (logged), population (logged) and square of population (logged) in each province per year from China Statistics Yearbook. We also control public service expenditure (logged) in each province per year from China Civil Affairs Yearbook (Choi and Park, 2021). All the control variables are lagged by two years to cover the period from 2013 to 2017.
**Method and results.** We apply regression models to figure out factors that lead to the growth of social enterprises in each province. Since the dependent variable is discrete and dispersive, the Poisson model is used (see Table 1). Given our comparative analysis is cross-provincial, we report the result as provincial-level random effects models in Models 1–5. While a fixed-effect model can capture unobserved provincial-level time-invariant heterogeneity, it is not the appropriate estimation approach in our case.

The results show that public service expenditure (M1, r = 0.778, p < 0.1) and population square (M1, r = 0.501, p < 0.1) are positively related with number of social enterprises in a region. However, the statistical power of the estimation is relatively weak. We then consider the effects of civil society (civil society organizations, voluntary service, by model 2), market (marketization index, by model 3) and government support (policy, by model 4). The results show that both civil society (M2, r = −0.599, n. s; r = 0.0248, n. s) and market (M3, r = −0.0705, n. s) factors do not contribute to the number of social enterprise. There is more rapid growth in the number of social enterprises only in regions with supporting policies (M4, r = 2.461, p < 0.01).

We put all the variables in regression to further confirm the correlation between local policy and social enterprise number. The estimations in model 5 show that policy is positively related with social enterprise number (M5, r = 2.480, p < 0.01), which strongly indicates the policy-driven effect of social enterprise growth. We may also conclude that civil society and market development are not dominant factors during the period examined. Thus, H3a is supported but H1a and H2a are not.

**Robustness checks.** We ran two types of models to check the robustness of our findings. Considering the dependent variable is discrete and dispersive, we ran zero-inflation negative binary model (ZINB) and zero-inflation Poisson model (ZIP) with robust errors to test the

<table>
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<td>(0.425)</td>
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<td>−7.794</td>
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<td></td>
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<td>(6.505)</td>
<td>(4.932)</td>
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<td>Population square (logged)</td>
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<td></td>
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**Table 1.** Poisson random-effect estimates of number of social enterprise

**Note(s):** Standard errors in parentheses

***p < 0.01, **p < 0.05, *p < 0.1

**Source(s):** Arranged by authors
hypothesized models. The findings of these two approaches are consistent with results in Table 1. The results of the robustness checks can be found in Appendix Table A2.

Growth of social enterprise size
Data sources and measurement. Data source 2. In order to understand whether the same factors also impact organizational size, we test it by introducing data from the first social enterprise survey in mainland China [9] conducted by a network of researchers in 2017. Report (2017) selects survey respondents based on the criteria that the social enterprises must “have a well-defined social mission with a clear business model” (p. 9). The survey recruited directors or senior-level managers of social enterprises through university research centers across major cities in mainland China. The survey dataset has a total of 244 valid responses. Since there is no legislation on social enterprises in China, the identity of all the social enterprises was self-reported. This is an acceptable strategy for scholars to collect data in this field (Guan et al., 2021).

Dependent variables. We used two indicators to measure organizational size: financial scale (capital assets) and staff size (employment). Both variables are logged to reduce skewness.

Independent variable. The same variables on civil society and market have been used, which are civil society organization numbers (logged), voluntary service time (logged), marketization index as measures in year 2015 (lagged by two years from 2017) for civil society and market development and policy dummy (yes = 1, no = 0) for government support.

Controls. We have controlled the same provincial factors, i.e. GDP (logged), population (logged) and square of population (logged). All the control variables are lagged by two years (statistics in year 2015). Age of the social enterprise (organizational age) are also included as it may affect organizational size.

Method and results. We firstly calculate intra-class correlations (ICCs) of multi-level models, and the ICCs do not reach 0.1, which is the cut-off to determine whether multilevel modeling is appropriate (Kahn, 2011). The results show that there is no significant difference between multi-level models and ordinary least squares (OLS) models. So we use OLS with cluster-robust standard errors to estimate the dependent variables.

The results in Table 2 show that policy has a significant positive relationship with financial size (logged) (M9, r = 1.144, p < 0.01). The finding shows that local government supporting policy significantly affects the financial assets of social enterprises. It is quite interesting that both voluntary service hours and marketization index are negatively related to financial size (M7, r = −0.87, p < 0.05; M8, r = −0.403, p < 0.01). It indicates that there is an adversarial relationship between social enterprise and the two variables. The above results are further confirmed in model 10 (full model).

The results in models 11–15 shows that civil society, marketization and government support do not contribute to the staff size of social enterprises. Therefore, H3b is partially confirmed, but H1b and H2b are not supported. Moreover, the negative relationship between marketization and financial size also challenges previous theoretical arguments (Choi et al., 2020).

Robustness checks. We conducted a new different policy dummy (for the regions have supporting policies after 2017, we re-coded them as yes = 1, while other regions as no = 1) to check the findings in Table 2. The results in Table A3 show that social enterprises in regions with supporting policy have a larger financial size. We hereby conclude that local government support contributes to the size of social enterprises. This result can be found in Appendix 2.
<table>
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<tr>
<td>GDP (logged)</td>
<td>6.78</td>
<td>0.0287</td>
<td>1.479**</td>
<td>0.983</td>
<td>0.980*</td>
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<tr>
<td>Public service expenditure (logged)</td>
<td>0.141</td>
<td>0.393</td>
<td>0.695*</td>
<td>−0.0315</td>
<td>0.571</td>
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<tr>
<td>Population (logged)</td>
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<td>1.805</td>
<td>0.765</td>
<td>2.569</td>
<td>6.756**</td>
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<td>−0.113</td>
<td>−0.107</td>
<td>−0.239</td>
<td>−0.484***</td>
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<td>Organizational age</td>
<td>0.0631</td>
<td>0.0588</td>
<td>0.0582</td>
<td>0.0559</td>
<td>0.0524</td>
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<tr>
<td>Civil society organizations (logged)</td>
<td>−0.651</td>
<td>−0.257</td>
<td>−0.675</td>
<td>−0.303</td>
<td>−0.188</td>
</tr>
<tr>
<td>Voluntary service (logged)</td>
<td>0.578</td>
<td>(0.0720)</td>
<td>−0.187**</td>
<td>−0.124*</td>
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<tr>
<td>Marketization index</td>
<td>−0.403***</td>
<td>(0.0996)</td>
<td>−0.271***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy (yes = 1)</td>
<td>1.144***</td>
<td>0.720**</td>
<td>(0.300)</td>
<td>(0.283)</td>
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</tr>
<tr>
<td>Constant</td>
<td>15.94</td>
<td>−5.816</td>
<td>−10.75</td>
<td>−9.552</td>
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<td>R-squared</td>
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<td>0.081</td>
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<th>14</th>
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<td>GDP (logged)</td>
<td>−0.365</td>
<td>−0.646</td>
<td>0.148</td>
<td>−0.198</td>
<td>−0.0312</td>
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<td>Public service expenditure (logged)</td>
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<td>0.313</td>
<td>0.556</td>
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<td>0.455</td>
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<tr>
<td>Population (logged)</td>
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<td>−1.318</td>
<td>−0.931</td>
<td>−0.171</td>
<td>1.779</td>
</tr>
<tr>
<td>Population square (logged)</td>
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<td>(3.507)</td>
<td>(3.208)</td>
<td>(3.295)</td>
<td>(3.374)</td>
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<td>0.118</td>
<td>0.0619</td>
<td>0.00595</td>
<td>−0.114</td>
</tr>
<tr>
<td>Civil society organizations (logged)</td>
<td>0.167</td>
<td>(0.194)</td>
<td>(0.185)</td>
<td>(0.193)</td>
<td>(0.197)</td>
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<tr>
<td>Voluntary service (logged)</td>
<td>0.107***</td>
<td>0.106***</td>
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<td>0.103***</td>
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<td>Policy (yes = 1)</td>
<td>17.63</td>
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<td>(11.08)</td>
<td>(13.07)</td>
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<td>234</td>
<td>234</td>
<td>234</td>
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<tr>
<td>R-squared</td>
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<td>0.146</td>
<td>0.157</td>
<td>0.157</td>
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**Table 2.**

OLS regression estimates of social enterprise organizational size

**Note(s):** Robust standard errors in parentheses

***p < 0.01, **p < 0.05, *p < 0.1

**Source(s):** Arranged by authors
Discussion

Organizational growth as “art of the state”

The neo-institutional approach has stressed the importance of intermediaries and local stakeholders and enables an extensive exploration of both the macro and micro-environmental factors and their influence on social enterprises (Iswoyo and Narsa, 2023). On the other hand, Kerlin’s analyses from the historical institutionalism perspective do not differentiate scenarios at the meso and micro levels. This leaves a gap that needs to be addressed, as these studies could not explain the variation of cross-regional institutional growth. Our empirical study joins this intellectual conversation and shows that the local government’s discretionary support is the reason why rapid social enterprise growth only occurs in certain regions, but not others in China [10]. This discovery contradicts the universal argument that social enterprises are the product of a combined effort from the state, market and civil society, which bring us to reconsider how social enterprises have developed as a new form of organization in China.

The Chinese welfare system has gone through fundamental changes in the 1980 and 1990s. The economic reform has adopted the official policy of “smashing the iron rice bowl” (Howell, 1995, p. 7), which symbolizes the unraveling of the old social welfare system. Private and social partners only started to enter the welfare sector later as service providers to form a multi-level social welfare structure (Deng, 2010; Teets and Jagusztyn, 2013). The Chinese civil society is therefore described as “state-led”, in which the state creates and manages social organizations selectively as governing instruments (Saich, 2010).

Our argument examines and analyses social enterprise development at the organisational and management level against the background of this unique state-society relationship, which forms the basis of our argument. While the general argument for a balance between the three factors of state, market and civil society might be accurate at the macro-institutional level as described by Kerlin’s across-country MISE framework, our study shows that the framework must be applied more cautiously at the organizational level, as local policy is the sole determinant factor behind social enterprises’ recent rapid growth in China. While it is a common approach of the Chinese state to selectively promote certain NGOs as necessary service partners to meet increasing complex social needs in the traditional nonprofit sector (Howell, 2015; Hsu and Jiang, 2015; Shen and Yu, 2017), this study shows that the degree of political dependency is unprecedented for social enterprises. The result implies that rather than incremental institutional changes arising from the non-profit sector, these new social enterprises may be rapid organisational development responding to local political efforts.

Disconnecting from market and civil society

Our results show that the market and civil society sector are negatively related to social enterprise growth. The finding clearly reveals contrary to the hybrid argument, there is the absence of market forces and nonstate actors in the current social enterprise sector. It is worth noting that both marketization index and voluntary service are negatively related to social enterprise size. The finding suggests that vibrant civil society and developed market economy actually impedes social enterprise development. This is counter-intuitive as it is in stark contrast to the common perception that both the private and the nonprofit sectors are vital for social enterprises. First, this implies a general lack of institutional support from the nonpublic sectors despite social enterprises are supposedly registered as either private businesses or nonprofits. More importantly, this means the new organizations share little in common with the private and the nonprofit sectors in terms of developmental factors. They might have developed in isolation.

While we cannot conclude at this point what the causes are behind this contrast, we propose two possible directions for future investigation. First, there might be a
crowding-out effect between the NGOs and social enterprises. Yu (2012) summarizes three factors determining organization’s resource dependency in China: the significance of the resources, the importance of the group utilizing the resource and the availability of alternative options. The lack of alternative options, which brings traditional NGOs and social enterprises to becoming direct competitors for funding from the public sector, could be the reason for this crowding-out effect. Existing NGOs may “disapprove” or even “stigmatize” the new organizations. In such cases, social enterprises will have to explore innovative models to avoid direct competition with the traditional NGOs. A second possible reason is that social enterprise as a foreign concept has not yet been universally accepted by the traditional indigenous organizations. Therefore, the new organizations have to develop independently from the traditional sectors under the support of the government. This would also explain their complete reliance on local policies. Either way, our result has clearly indicated that the market and the nonprofit sector have not contributed to social enterprise development, or their influence is insufficient to affect development without the intervention of the state.

In conclusion, local policy determines not only the growth of the social enterprise sector as a whole, but also their scale of operation at the organizational level. This is true when all external factors such as market, civil society and level of economic development have been considered. The authors suggest two possible explanations. Firstly, institutions at the regional level may be more sensitive to the local political climate than macro-institutional factors at the country level. This is especially true in China’s state-corporatist system, which means that the local political factor has completely outweighed the market and social factors. Secondly, social enterprises in China might mostly develop under the state’s support as a new form of organizations independent of the traditional market and nonprofit sector, rather than as incremental changes of current NGOs or enterprises.

Practice and policy implications
This study has practical implications for the practice of social entrepreneurship in China and presents a different perspective on the remarkable growth and optimism surrounding social enterprises. Scholars believe that social enterprises would come with higher autonomy and economic vibrancy, as they could mobilize resources from China’s flourishing market economy and growing nonprofit sector (Yu, 2011). However, our results indicate that the organizations have yet to reach this stage. Social entrepreneurs in China may face challenges such as institutional isolation and excessive political dependence. Grassroots communities, civil society groups and even private firms may find themselves detached from the newly emerged social enterprise sector. Since government policy is the determinant factor, the quality and quantity of government-backed incubation programs and platforms would matter the most to social enterprises.

Social enterprise leaders would need to pay close attention to local political dynamics and relevant policies while maintaining operational autonomy and focus on advocating local to develop social business ecosystems locally to further grow their organizations (Busch and Barkema, 2022). All in all, it is important for social enterprises to ensure that their strategies and social contributions are in line with the development interests of the local government.

From a strategic perspective, for social enterprises in China and Eastern Asian societies, the key is to consider the role of the government at different stages of their own development and formulate appropriate growth strategies accordingly. While in the early stages of organizational development, the government should be considered as an important resource provider and should be valued to gain government trust and legitimacy, in the growth stage of an organization it is necessary to seek collaborations and align their development interests with that of the government.
Last but not least, this study exposes a weak link in the current social enterprise development model in China. Brown et al. (2023) suggests that social enterprises should avoid focusing on primary stakeholders (government) at the expense of secondary stakeholders (nonprofits or market entities). Specifically, social enterprises should utilize their fuzzy legal identity and intersect more with traditional social and market actors. On the other hand, policy-makers need to pay closer attention to the sustainable development and health of social enterprises if they are expected to take on greater social roles and responsibilities. It is critically important to develop the social enterprise sector through diverse channels, such as empowering the intermediaries. This will prevent social enterprises from excessively conforming to government’s policies and interests and become more vulnerable to external dynamics.

Conclusion
The finding of this paper poses two challenges to the existing theories. First, it is a challenge to Kerlin’s MISE framework and thus the conventional tri-sector model, which stresses the critical role of civil society and market on social enterprise development. With credits granted that Kerlin develops the MISE model for a more general context, our study shows that specific considerations need to be made for China, especially at the local level. Whether our result is a pure consequence of the authoritarian state, or whether it is linked to other indigenous institutional factors would require further investigation. A second challenge is regarding the evolving state-society relations in China. Our results imply that social enterprises are receiving disproportioned political support across China. This suggests that state-society relations at the local level might be more diverse and dynamic than commonly perceived. The negative correlation between traditional voluntary services and social enterprises also requires more future investigations to understand how local stakeholders interact.

This study explores a topic that has been yet to be studied thoroughly and empirically. Current studies suggest that social enterprises benefit by connecting the government, market and civil society. Our study tests this assumption with a cross-regional analysis on China and argues that social enterprises growth only responses to positive signals from the local government. Local government support contributes to growth at both the organizational and the sector levels. This is affirmed by the relationship, or lack thereof, between the market, traditional civil society and social enterprises. The result suggests that further investigation into indigenous contexts is crucial. Future studies could collect a larger sample size with more information about social enterprises. Additionally, more in-depth qualitative studies that analyze the actions of both the government and social enterprises to understand their mutual interaction are suggested. Does the case of China propose that we should view Chinese social enterprises as a different set of institutions, or are they just following different development paths leading to the same transformational outcomes? Exploring these questions can help us better understand the underlying mechanisms of social enterprise development in China.

Notes
2. See WeChat official accounts: cnecf2014. https://mp.weixin.qq.com/s?__biz=MzkwODI4MTEwNg==&mid=2247505621&idx=1&sn=072ec9b840402d14a592c7f599a0609d&source=41#wechat_redirect.
3. This also explains why the number of identified social enterprises increases in 2017. However, we cannot find the final list of social enterprises in 2015. For more information refer to https://mp.weixin.qq.com/s/eSHpMQCrWyzFHmjjNOrlQ.
5. Note: this only includes social enterprises in mainland China.
6. Marketization (index) in this paper is a macro level variable, which has been frequently used as a common control variable in previous studies, especially in economic studies; it refers to the maturity of market economy at provincial level in China.
8. The *Regulations on Open Government Information of the People’s Republic of China* published in 2008 brings into full play the role of local governments in ensuring policy transparency and makes such investigations possible.
10. One such example is Shanghai, one of the earliest cities that has been exposed to the social enterprise concept (British Council, 2007, *Social Enterprise Overview: A UK and China Perspective*, available at https://www.doc88.com/p-878103357778.html), and has decent market development, but has not demonstrated significant growth both in terms of sector and organizational size.

References


(The Appendix follows overleaf)
## Appendix 1

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<th>Province</th>
<th>Policy</th>
<th>Government department</th>
<th>Year</th>
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<td>Trial Measures on Chengdu Social Enterprise Certification and Management Implementation Opinions on Giving Full Play to the Administration of Industry and Commerce to Cultivate the Development of Social Enterprises</td>
<td>Administration for Industry and Commerce (Chengdu)</td>
<td>2018</td>
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<tr>
<td>Guangdong</td>
<td>China Charity Exhibition Social Enterprise Certification Measures (Trial)</td>
<td>Development Center for China Charity Fair (supported by the Shenzhen Office of Civil Affair, China Charity Foundation, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), the All-China Federation of Industry and Commerce (ACFIC), the People’s Government of Guangdong Province, and the Municipal Government of Shenzhen)</td>
<td>2015</td>
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<td></td>
<td>Futian District’s Measures for Building Social Impact Investment Highlands Shunde District Social Enterprise Incubation Support Program (Revised Draft)</td>
<td>Futian district government (Shenzhen)</td>
<td>2018</td>
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<td></td>
<td>Social Innovation Center under the district government of Shunde</td>
<td></td>
<td>2016</td>
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<tr>
<td>Beijing</td>
<td>Beijing Municipal Social Enterprise Certification Measures (Trial)</td>
<td>Beijing Municipal Social Construction Office and Beijing Social Enterprise Development Promotion Association</td>
<td>2018</td>
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**Table A1.** Supporting policies for social enterprise, 2015–2019

**Source(s):** Arranged by authors
### Appendix 2

#### Robustness checks

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**Note(s):** Standard errors in parentheses

***$p < 0.01$, **$p < 0.05$, *$p < 0.1$**

**Source(s):** Arranged by authors

---

Table A2. Zero-inflation negative binary (ZINB) and zero-inflation poisson (ZIP) estimates of number of social enterprise growth of social enterprises.
### Table A3.
OLS regression estimates of social enterprise organizational size

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<td>1.091**</td>
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<tr>
<td>Public service expenditure (logged)</td>
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<td></td>
<td>(0.423)</td>
<td>(0.506)</td>
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<td>Population (logged)</td>
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<tr>
<td></td>
<td>(2.970)</td>
<td>(3.267)</td>
</tr>
<tr>
<td>Population square (logged)</td>
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<td>-0.0146</td>
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<td></td>
<td>(0.162)</td>
<td>(0.180)</td>
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<td>Organizational age</td>
<td>0.0513</td>
<td>0.102***</td>
</tr>
<tr>
<td></td>
<td>(0.0515)</td>
<td>(0.0318)</td>
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<tr>
<td></td>
<td>(0.0752)</td>
<td>(0.0940)</td>
</tr>
<tr>
<td>Voluntary service (logged)</td>
<td>0.0788</td>
<td>0.208</td>
</tr>
<tr>
<td></td>
<td>(0.384)</td>
<td>(0.262)</td>
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<tr>
<td>Marketization index</td>
<td>-0.223**</td>
<td>-0.145</td>
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<tr>
<td></td>
<td>(0.0914)</td>
<td>(0.164)</td>
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<td>0.738**</td>
<td>0.485</td>
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<td></td>
<td>(0.260)</td>
<td>(0.386)</td>
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<td>Constant</td>
<td>-20.68*</td>
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<td></td>
<td>(11.80)</td>
<td>(14.72)</td>
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</table>

R-squared: 0.116 0.171
Observations: 224 234

**Note(s):** Robust standard errors in parentheses

***p < 0.01, **p < 0.05, *p < 0.1

**Source(s):** Arranged by authors

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