

## TO SUBSIDIZE OR TO INVEST? THE FACTORS IN TAIWAN'S SOCIAL ENTERPRISE DEVELOPMENT POLICY EVALUATION

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**Abstract:** Social Enterprise management often finds issues of poor finance or management ability along the way. The government of Taiwan wants to improve the influence of social enterprises via policy and to achieve social innovation goals. However, policy has their limit and failed to bring in the expected impact. The reason lies in the hybrid character of social enterprises. Thus, this paper, based on the hybrid character of social enterprises, examines the influencing factors in the evaluation of social enterprise policy. The study finds that there is a discrepancy in the expectations of the government on the NPO-type and corporate-type social enterprises. The government takes the financial pressure of NPO seriously, hoping to alleviate the management pressure through intervention. In contrast, the government stresses on accountability for corporate-type social enterprises. In the future, from the perspective of developing social enterprises, Taiwan's government has three concrete directions, including bestowing concrete substantial status on social enterprises, introducing investment from the private sector and constructing incubator platform.

**Keywords:** Social Enterprise; Non-Profit Organization (NPO); Government Subsidy; Double Bottom Line; Business Incubator

### I. INTRODUCTION

There are management challenges along the way of social enterprise development. The difficulties of social enterprise management include the lack of first pot of gold in starting-up business (Bugg-Levine, Kogut, and Kulatilaka, 2012), lack of business model and market size, short of productivity and financing tools (Cheng and Liu, 2012) and limited knowledge of investors toward social enterprise (Paetzold and Busch, 2014). These issues have brought challenges along the way of social enterprise management. To solve the difficulties in social enterprise management, governments of the world intervene actively in hopes of improving the predicament of social enterprises, so that they may function properly and solve social issues and facilitate social innovation efficacy.

Nonetheless, judged by the current situation, the policy failed to usher in the expected influence, so there are still many difficulties at hand. The root, cause after examination, lies in the hybrid character of social enterprise.

After decades of the social enterprise development, though the related concepts and theories grow, there is a lack of consensus on its core definition, nevertheless. After examining the root cause, we find that, originally, "social enterprise" is a concept brought up by various countries in dealing with social issues. The development contexts and forms are varied due to the different political and economic environments worldwide. Furthermore, social enterprise has the double bottom line and presents a character of hybrid structure (Dees and Elias, 1998; Defourny, 2001). Owing to the diverse development of

social enterprise, not only the policy is hard to provide support, but that there is an identity issue because of the unique hybrid character, such as the mission drift when a NPO tries to introduce business model (Dees, 1998), whereas the innovative financing activities of the corporate-type social enterprise walk on the line of the law (Cheng and Liu, 2012). Such uncertain status with the double bottom line derives the crisis of legitimacy (Dart, 2004; Defourny, 2001; OECD, 2003), while the unclear positioning of social enterprise affects the support system's establishment that follows. Whether there is a one-size-fits-all social enterprise policy as well as how the government sees social enterprises with different organization types and plans for the following support is a vital issue.

As such, this paper would like to examine the hybrid character of Taiwan's social enterprises first, and to find out the quality of double bottom line in different types of social enterprises, in particular, the NPO-type social enterprise and corporate-type social enterprise. Next, on the regard of social enterprise's double bottom line, we analyze the factors for policy makers to take into consideration in the evaluation of social enterprise policy and propose a social enterprise policy development framework.

## **II. LITERATURE REVIEW**

### **(A) Social Enterprise Goal**

Social Enterprise enjoys a hybrid character, presenting a structure of multiple goals (Evers, 2001). Despite the diversified threads of social enterprise's multiple goals, along with the socio-political and environmental factors (Defourny, 2001; Stephenson, Brock, and Loughead, 2008) perhaps, it is hard to distinguish between the social and economic goals. In particular, when socio-political goal is involved in the issue of public care, or when the environmental value clings to the business model, the boundary will be blurred. All in all, the multiple goals still put stress on the double bottom line.

### **(B) Social Enterprise Management**

The types and nature of the social enterprises of different countries are varied. Nevertheless, as social

enterprises become more mature and more complex in organization types, they may fall into two major categories in general. One is the social enterprise that is transformed from conventional organization such as Non-Profit Organization (NPO), cooperative and company. The other is a new legal entity like Low-profit Limited Liability Corporation (L3C), Benefit Corporation and United Kingdoms' Community Interest Company (CIC) (Galle, 2013). For most of the countries, it is more common to see social enterprises transformed from conventional organizations. The common examples in Asia are trading NPO, Work Integration Social Enterprise (WISE), non-profit cooperative enterprise, social enterprise stemming from non-profit partnerships and community development enterprise (Defourny and Kim, 2011). To dive in deeper, there are two development trajectories of social enterprise: one is NPO learning from corporations; the other is corporation learning from NPO. That is, NPO engages itself in business activity, while conventional business and cooperative usher in social mission into their works.

### **(C) Social Enterprise Policy**

Along the development of social enterprise, challenges in funds, capitals, business model or policy environment emerges. In terms of resources, social enterprise often finds insufficient funds and human resources (Weerawardena and Mort, 2006; Peattie and Morley, 2008). Regarding management capability, social enterprise lacks expertise such as marketing means, management strategies and trust from the market (Dees, 1998). As far as many SMEs are concerned, achieving the double bottom line is indeed a huge challenge, so difficult that people may wonder if the nature of social enterprise is full of paradox itself and that the hybrid structure not only fails to increase the ability to survive, but restrains its very own development? As such, countries worldwide proactively establish support system, especially through means of government subsidy, in hopes of dissolving the obstacles in social enterprise management so that it may be put on the right track. However, the result is less than satisfactory (Cheng and Liu, 2012).

### III. METHODOLOGY

In order to examine the double bottom line of the different types of social enterprises and to analyze the criteria of policy makers for social enterprise policy, the study employs Delphi method and in-depth interview as the research methodology.

#### 1. Delphi Method

Delphi method is a collective decision-making approach. This study designed a questionnaire based on the perspectives of the literature first with a framework of distinguishing the double bottom line via the organization type of social enterprise. Next, we determined the experts according to the expertise required for the issue and formed a Delphi expert panel with 17 members in total, including 8 practitioners in social enterprises and 9 scholars in social enterprise. Third, we conducted the first survey, collecting the feedback, and conducted the second survey, during which the participants were informed the overall result of the previous one. In other words, there were two rounds of questionnaire survey. Finally, after two rounds of feedback loop, we ended the Delphi research and transcribed and analyzed the data with SPSS18.

#### 2. In-depth Interview

Based on the research objective and the perspectives from the literature, a semi-structured interview guide was designed for this study, aiming to investigate the attitude of policy makers on social enterprise policy. As for the data retrieved from the in-depth interview, we analyzed it with MAXQDA 10. First of all, we transcribed the content of the audio-recorded interview into texts and sorted them out. Next, the data were fed to MAXQDA 10 for coding to build a preliminary framework of the text. The names (in alphabetical order) and the policy background of the interviewees were coded for anonymity's purpose. Code SHS-SW (social welfare) represents the responsible officials of social welfare policy, code YCT-SME the responsible officials of small-and-medium enterprise policy and code WCC-FP (financial policy) the responsible officials of corporate financing policy. Third, data was analyzed based on variables of different backgrounds and the definition of the questions

in reference with the interview records to examine the overall content.

**Table 1**  
**Interview Participants**

| <i>policy makers</i> | <i>position</i>    | <i>sector</i>                   |
|----------------------|--------------------|---------------------------------|
| SHS-SW               | presiding official | social welfare and labor policy |
| YCT-SME              | presiding official | SME policy                      |
| WCC-FP               | presiding official | Financial and financing policy  |

### IV. RESEARCH FINDINGS

#### (A) Analysis Result from Delphi Method

The research reveals that there is a difference in the weighing at the double bottom line for the NPO-type social enterprise and the corporate-type counterpart. The NPO-type is keener to the balance of social and economic goals, whereas the corporate-type stresses on the needs of weak market and sustainable operation.

##### 1. *NPO-type Social Enterprise Is the Product of Socio-economic Context*

Regarding NPO, the double bottom line of NPO is the product out of the context. "Mindset of Assisting the Disadvantaged in Employment and Alike" and "Mission-oriented Business Model" are of all the most important. "Strengthening the Efficiency and Efficacy of Resource Utilization" is second. The economic goal takes "Revenue-creating mindset" and "Strengthening Financial Autonomy" as the top priorities, whereas "Resource-oriented Business Model" ranks second. This result matches the commercialization of NPO, demonstrating the theoretical mean of NPO learning from corporation.

##### 2. *Corporate-type Social Enterprise Develops New Market Thinking*

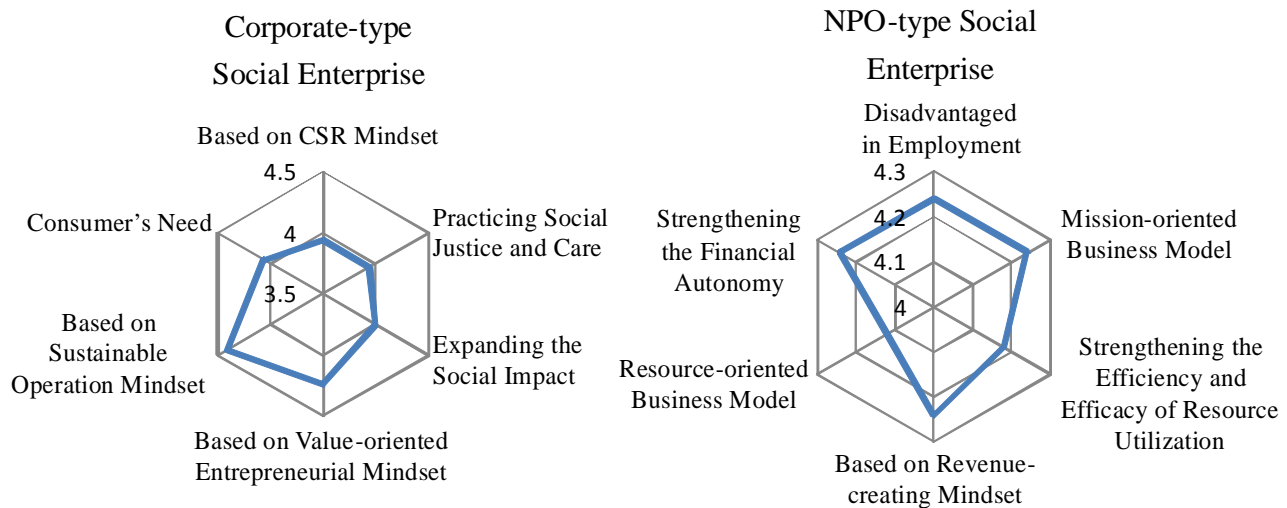
The double bottom line of the corporate-type social enterprise demonstrates not only its management inclination, but the goal of management. "Social Impact" is taken as the foremost social goal, followed by "Based on CSR Mindset" and "Practicing Social Justice and Care."

The economic goals in order are “Based on Sustainable Operation Mindset,” “Based on Value-oriented Entrepreneurial Mindset” and “Consumer’s Need.” After the examination of the result, we found that the double

bottom line of the corporate-type social enterprise is not in pursuit of maximum profit, but a sustainable operation to leverage its social impact, which is in accordance with the theory of social enterprise.

**Table 2**  
**Double Bottom Line of Social Enterprise**

| DBL           | Organization | 1 <sup>st</sup> Round of Delphi Method Questionnaire  | 2 <sup>nd</sup> Round of Delphi Method Questionnaire  |
|---------------|--------------|---|---|
|               | Type         | (adjusted, in order of importance)  | (adjusted, in order of importance)  |
| Social Goal   | Corporate    | (1) A3. Expanding the Social Impact<br>(2) A1. Based on CSR Mindset<br>(3) A2. Practicing Social Justice and Care   | (1) A3. Expanding the Social Impact<br>(2) A1. Based on CSR Mindset – A2. Practicing Social Justice and Care  |
|               | NPO          | (1) B2. Mission-oriented Business Model<br>(2) B1. Based on the Disadvantaged Employment Mindset<br>(3) B5. Strengthening the Efficiency and Efficacy of Resource Utilization | (1) B1. Mindset of Assisting the Disadvantaged in Employment and Alike – B2. Mission-oriented Business Model<br>(2) B5. Strengthening the Efficiency and Efficacy of Resource Utilization |
| Economic Goal | Corporate    | (1) C5. Consumer’s Need<br>(2) C3. Based on Sustainable Operation Mindset<br>(3) C1. Based on Value-oriented Entrepreneurial Mindset  | (1) C3. Based on Sustainable Operation Mindset<br>(2) C1. Based on Value-oriented Entrepreneurial Mindset<br>(3) C5. Consumer’s Need  |
|               | NPO型<br>NPO  | (1) D3. Strengthening the Financial Autonomy<br>(2) D1. Based on Revenue-creating Mindset<br>(3) D2. Resource-oriented Business Model   | (1) D1. Based on Revenue-creating Mindset – D3. Strengthening the Financial Autonomy<br>(2) D2. Resource-oriented Business Model  |



**Radar Chart of Social Enterprise’s Double Bottom Line**

**(B) Result of In-depth Interview**

The number of codes is 166 in total. In terms of the text, the frequency of the code SHS-SW ranks the first, followed by the code YCT-SME. In terms of selective

coding, the top 5 codes in order of frequency are Government Subsidy (20.48%), Financial Autonomy (19.28%), Capacity Building (16.87%), Government Investment (15.06%), Accountability (13.86%), Social

Participation (7.83%) and Social Impact (6.62%). If we cross analyze it, Government Subsidy, Financial Autonomy and Social Participation account the most for the code SHS-SW, whereas Government Investment, Financial Autonomy and Accountability account the most for the code YCT-SME. As for WCC-FP, Government Subsidy, Capacity Building and Social Impact account the most.

### **1. NPO-type Social Enterprise**

Government subsidy is often the vital income source for NPO. Yet, when a NPO starts to engage in business activity in hopes of transforming into a social enterprise, how does the government see the subsidized NPO becomes the vital point of entry for social enterprise policy.

*NPOs in the past relied on the support from the government, but in theory, it is not right for the government to support in the long run. Now that it has revenue, it should be able to have the self-efficient energy... (SHS-SW: 26)*

Apparently, the government values the financial autonomy of NPO. Besides, the existing policy inclines to withdraw or decrease, in order to avoid the reliance from NPO upon government's resource and to further introduce more resources.

*NPO can't always ask for subsidy from the government... Of course, it will better if we can subsidize less and less. And it can also make way to the resources of others available to NPO (SHS-SW: 42)*

Yet, the government's view on the NPO-type social enterprise still encounters several difficulties, especially in how NPO can achieve financial autonomy. It has to have effective managerial capability.

*What we can help is to assist him on financial regard, but he has to be on his own in terms of operation or marketing channel. It would be tough. (WCC-FP: 74)*

It means that when the government is considering to decrease its subsidy to an NPO, it also has to take into consideration the fact that whether the NPO has the capability of financial autonomy after transforming into a social enterprise. Or else, once the government subsidy shrinks or withdraws, the NPO will face challenges one after another, which echoes the economic goals of NPO

in gaining profit and financial autonomy. It is obviously that the NPO-type social enterprise is in accordance with the public policy.

### **2. Corporate-type Social Enterprise**

In comparison to the NPO counterpart, the government subsidy to the corporate-type social enterprise is not as significant. The most common one is the interest subsidy for government loan.

*The preferential loans from the government are too many and too much. The most important thing and the best for social enterprise are perhaps the ceiling of interest and interest subsidy. The fee rate is low as well. This is the most probable mean. (WCC-FP: 203)*

Obviously, the current policy intervention from the government to the corporate-type social enterprise is inserted in the context of conventional SMEs. That is, the government utilizes the supporting tools for SMEs to support the corporate-type social enterprise. In addition to that, compared to the conventional SMEs, how the government treats the double bottom line of the corporate-type social enterprise becomes the foundation of the policy development.

*Financial Autonomy is important. Wrong, wrong, wrong. It's more than that. Financial transparency is more important. Because when an investor wants to see you, in addition to the products and services, it is the transparency that matters... (SHS-SW: 145)*

The word Accountability is hard to define. After all, it is not just a legal issue that is involved, but a social perception as well. That is, the presumption of its legitimacy. In order to establish the concrete legitimacy of social enterprise, the government has to find a concrete and simple mean to ensure the social enterprise's double bottom line.

*Even though the social impact is stressed, the company has to earn profit after all. Now that you are a social enterprise, you should and you will make money, No one says a company cannot make money. It's just that after you earn the money, you cannot give it all to the shareholders, or else you can't say you are a social enterprise... (YCT-SME: 144)*

In the face of social enterprise with hybrid character, if the social impact is hard to assess, the government in

fact can only adopt relatively passive measures to ensure the corporate-type social enterprise's double bottom line. Taiwan at present has no regulation that limits the appropriation of social enterprise's net income but the mere policy propaganda to encourage the self-discipline of social enterprises.

### 3. Overall Policy for Social Enterprise

As far as the government is concerned, the most difficult part in developing social enterprise policy, in addition to the legitimacy of social enterprise, is how to define the boundary of social enterprise, which involves the legitimacy of the social enterprise policy its own.

*Without a definition, how can we support things like social enterprise? In fact there is one thing... That is, we don't have a focus... (WCC-FP: 25)*

Thus, as far as government agencies are concerned, the most important preparatory tasks of social enterprise development is to bestow substantial legal status on social enterprise, so as to ensure the legitimacy of social enterprise and the very policy of its own.

*We will do the certification of social enterprise in the future, we are currently working on it... (YCT-SME: 148)*

Although legislation can bestow legal status on social enterprise, the concept of social enterprise is a complicated, vast idea and differs in organization type and the activities engaged, which makes it hard to give a clear definition. Therefore, on the legislation for social enterprise, countries worldwide still have doubts (Shaw and Carter, 2007). Yet, social enterprise certification may be a viable path. In addition, how policy treats the role of market and the third sector in the development of social enterprise shall become the core issue in the overall policy development.

*Shrinking the subsidy every year is for widening the social participation... If the regulation is passed, social enterprise will have its legitimacy. I think if we're talking about policy value, or let's say, don't just the government do all the work to push for social enterprise... (SHS-SW: 28)*

On the other hand, the government also recognizes that neither government subsidy nor support is not a cure. The more proactive approach is to make social enterprise able to build the capacity and obtain the goal

of financial autonomy to avoid reliance. Hence, the government is starting to think about viable development strategies.

*I just talked about social policy integration. Let's say if we have a fund like social investment, the most important thing is how we can build a platform (incubator) for these people to access resources... (WCC-FP: 82)*

*The public often partakes in social enterprise from the angle of charity. Perhaps we should somewhat direct them from charity to investment. A concept change into investment. (YCT-SME: 62)*

The most effective platform to develop social enterprise is the vital tool for the government to develop SMEs – incubator. The government wishes to introduce funds, usher in more diverse social investment, replace subsidy with investment and realize the goal of public participation with incubator.

## V. CONCLUSION

As far as the NPO that is used to receiving government subsidy is concerned, the fund from the government is a subsidy, demonstrating a gap between the government subsidy and market mechanism. The profit of conventional enterprise comes from the evaluation of the market. However, NPOs receiving funds from the government is out of policy support purpose, not the fact that they are more competitive on the market. This reveals the fact that even if an NPO lacks competitiveness and is unable to provide appropriate goods and services, its income will not be affected whatsoever. Therefore, even though government subsidy may accomplish the policy objectives, it does not necessarily encourage NPOs to create a business model and develop sustainably. Regarding the corporate-type social enterprise, the government inclines to stay as it is and help alleviate the start-up pressure with SME subsidy. Compared to the limit on the appropriation of NPO's margin, the government put more stress on the financial transparency of the corporate-type social enterprise to ensure its accountability. As for the overall policy, from the perspectives of the government's future development for social enterprise, there are three relatively concrete directions, including bestowing substantial status of

legitimacy on social enterprise, introducing investment from the private sector and establishing incubator platform. Based on the viewpoint of traditional

organization development for social enterprise policy, the dynamic construction of social enterprise development policy is as followed:

**Table 3**  
**Social enterprise policy framework**

| <i>Strategy</i> | <i>NPO</i> →                    | <i>Social enterprise</i> | ← <i>Corporate</i>         |
|-----------------|---------------------------------|--------------------------|----------------------------|
| Subsidy         | Service outsourced              | Social incubator         | Interest subsidy           |
| Investment      | Short-term-performance-oriented | Social participation     | Accountability requirement |

Although the government keeps proposing investment policies, the policy values remain vague, nonetheless. Also, the competent authorities of the relevant measures are vast and complex. The issues of how to coordinate, policy value and unclear direction shall be the major challenges for social enterprise policy. The aforementioned questions raises a lot of doubts, including how to establish the theory of social investment and the values underneath, how to determine the policy direction, provide supporting measures and plan the investment strategies for social enterprise, what the issues are with each investment strategy, how a social enterprise chooses the most favorable investment mean and what kind of standards and ratings should the investors follow when selecting investment target. All these are linked with the development of social enterprise policy that follows, which is worthy of further observation.

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