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Revenue diversification or revenue concentration? Impact on financial health of social enterprises

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ABSTRACT

Researchers have paid little attention to the situation of revenue diversification in social enterprises. This paper addresses this issue by exploring the nature of revenue diversity in social enterprises in China, and its relationship with financial health. A logistic regression analysis for a sample of 372 social enterprises indicated that the enterprises had low levels of revenue diversification, and their revenue structures varied among the subsectors in which they operate. Revenue diversification had a significant negative impact on financial health, but the effects were more than offset after considering the total income. Implications for social entrepreneurs are discussed.

KEYWORDS Revenue diversification; financial health; Chinese social enterprises

Introduction

Uncertainty about the availability of government funding and the relative decline of philanthropy have led mission-driven organizations, including traditional non-profits and social enterprises, to explore a variety of strategies for sustaining their financial viability. Social enterprises, as a distinct form of organizations, follow the basic logic of pursuing social missions through a business approach (Kerlin 2006; Borzaga and Defourny 2001; Dart 2004). Choosing an appropriate income-generating strategy to support the chosen mission is always critical to a social enterprise's long-term sustainability. On one hand, social enterprises are expected to achieve their financial viability mainly through earning enough surplus/profit from the marketplace rather than highly relying on grants or donations, considering its 'business approach'. On the other hand, income generation of social enterprises may be based on the 'mixed receipts' strategy (Ridley-Duff and Bull 2011a). Income diversification combining government grants and contracts, earned income, contributions from individuals and institutions, and investment income is seen as an effective strategy to build long-term sustainability and stability for most non-profit organizations and commercial companies, and even for the government and individuals (Hendrick 2002). Although the impact of revenue diversification on financial health has been widely examined, such studies have yielded contradictory findings (Chang and Tuckman 1996; Froelich 1999; Chikoto and Neely 2014). This paper contributes to understanding the nature of revenue diversification in

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social enterprises and its relationship to financial health, which has been under-examined by previous studies, especially in the context of Chinese social enterprises.

Earned income generally plays a major, often dominant role in the financing of several types of social enterprises, and is subject to the nature of their economic approach. Some observers (Social Enterprise UK, Social Enterprise Mark CIC) have highlighted the level of market income and reported that at least 50% of a social enterprise's resources come from market sales, before they can be seen as a 'genius social enterprise'. However, such a dominant income stream is problematic and far from the field reality in many schools of thoughts. Defourny and Nyssens (2017) argue that social enterprise should be understood by combining the principles of interest. Financing hybrid mission-driven organizations encounter a varying range of constraints. The marketplace does not easily accommodate goods and services that cannot be sold for a profit (Wilsker and Young 2010). One of the more broadly accepted strategies to maintain revenue stability is based on the idea of revenue diversification.

The benefits of revenue diversification on financial health have been widely tested and discussed in the business and non-profit sectors. Some researchers found that revenue diversification can reduce financial vulnerability (Chang and Tuckman 1996; Froelich 1999; Kingma 1993; Gronbjerg 1993), minimize revenue volatility (Carroll and Stater 2009), increase financial autonomy (Froelich 1999; Mitchell 2014), and enhance community connection (Hager, Galaskiewicz, and Larson 2004; Galaskiewicz and Bielefeld 1998). However, the issue of diversification is complex and ambiguous. Managing revenues from different sources can significantly increase administrative and fundraising costs, along with the risk of mission drift (Chikoto and Neely 2014). Heterogeneous sources of revenue may shift a non-profit organization's attention to various founders rather than beneficiaries (Froelich 1999).

In recent years, the financing of social enterprises has been described as a severe constraint on sector growth. Understanding the income sources of social enterprises is crucial for their strategic management worldwide. However, revenue diversity and its relationship with the financial health of a social enterprise have not been examined sufficiently. Will a higher earned income improve the financial health of social enterprises, considering the nature of their economic and entrepreneurial dimensions? Should the revenue structure vary depending on the fields in which they operate? Should social enterprises pursue diversified revenue sources, or should they concentrate on a single or few revenue streams? To this end, this paper relied on data collected from 372 social enterprises working within various fields in China. By studying a large sample of social enterprises in China, this paper investigated whether this basic claim about the desirability of revenue diversification is beneficial for the financial health of a social enterprise.

Literature review

Revenue structure of social enterprises

The term social enterprise has varying definitions, and its interpretation varies across the globe (Kerlin 2006; Defourny and Nyssens 2010; Ridley-Duff and Bull 2011a). Nonetheless, scholars agree worldwide that a social enterprise is as an organization that uses a business approach to pursue social objectives (Kerlin 2006; Borzaga and Defourny 2001; Peattie and Morley 2008). Social enterprises are confronted by

a high level of complexity and competing logics in their operations and strategy formulation in terms of their missions, organizational structures, revenue resources, human resources, and performance standards, among other aspects (Doherty, Haugh, and Lyon 2014). For example, not only do social enterprises need to generate sufficient revenues to reinvest into their business operation to maintain organizational sustainability but also need sustained investment in their social projects to maintain organizational legitimacy, especially when their social missions are not consistent with their business activities. Unlike traditional non-profits, social enterprises should generate profits/surplus that make a social impact, rather than managing funds just to cover costs. The income may be generated from a variety of sources – earned income; government grants and contracts; contributions from individuals, foundations, and corporations; and return on investment (Young 2017). Each kind of income plays a specific role in financing a social enterprise.

Earned income is a broad concept and includes direct fees for mission-related services, commercial venture profits (profit generated from profit-maximizing activity unrelated to the social mission), membership fees, royalties and licence fees, rental income, and special events income (Young 2017). At present, social enterprises are encouraged to behave like businesses that trade (Dart 2004). Earned income often plays a dominant role, or at least a substantial role, in the financing of social enterprises. Earned income is seen as the most valuable source of income for social enterprises and contributes greatly to providing unrestricted funds with more autonomy to support an organization's mission; this allows organizations to not be limited to delivering only specific services that the founders or contractors agreed upon. Earned income is increasingly seen as a route to reduce dependence of social enterprises on grants or donations and increase autonomy. Successful trading generates a sufficient level of surplus and enables social enterprises to access debt finance (Ridley-Duff and Bull 2011a). However, being over-reliant on earned income can be problematic. Ridley-Duff and Bull (2011a) provide a range of trading options for social enterprises (direct sales, indirect sales, contracts for services, retailing, and running a charity shop) while distinguishing between mission-related and mission-unrelated trading activities. They critically argued that social enterprises must be cautious when choosing income-generating activities, especially when they are unrelated to the social purpose, as this may result in mission drift, which can damage a social enterprise's reputation. Moreover, the generation of earned income requires certain skills and expertise in business and marketing strategy, along with other business management skills, which may not available to all social enterprises (Peattie and Morley 2008). Adding or expanding earned income strategy in a social enterprise's portfolio requires a deliberate assessment.

Government support generally refers to the grants and contracts obtained from governmental and other public-sector institutions. Many social enterprises provide social services that beneficiaries are unable to fully pay for; therefore, social enterprises are largely dependent on revenue from government support (Fischer, Wilsker, and Young 2011). Between 2000 and 2011, organizations in the UK witnessed a shift from government grants and direct funding to contracts – grants decreased by 54% in this period, whereas contracts increased by 240% (NCVO 2014). Ridley-Duff and Bull (2011a) argued that a contract mindset is different from a grant mindset. Contracts are competitively tendered and involve a heightened sense of accountability to funders for outputs and outcome. Young (2017) also argued that social purpose organizations

highly reliant on government support must be fully understand their mutual relationship and be prepared with administrative capacity to effectively meet official requirements and work within their constraints.

Contributions generally refer to the monetary gifts and donations obtained from individuals, foundations, and institutions. Ridley-Duff and Bull (2011a) indicated that one advantage of donations is that they are received in advance of expenses, thereby improving the cash flow of social enterprises. This is not usually the principal source of income for most social enterprises. However, gifts and donations are appropriate for some types of social enterprises such as the Community Interest Companies in the UK that have assurance of non-distribution of profits, such as ‘asset-lock’ restriction, to ensure that the gifts will be used to advance the organization’s social missions (Young 2017).

Some social enterprises also have returns from *Investments*, although it may be a small part of their total revenue. For example, investments only account for 3% of the annual revenue of public charities in the US (Roeger 2012). Investment income is not directly generated from an exchange relationship with a social enterprise’s beneficiaries, although it often acts as an additional cushioning strategy, providing flexibility when other revenue sources are insufficient.

Among the above four income streams, earned income was seen as the primary source of income, as social enterprises are, essentially, ‘a market solution to social problems’. This point of view is widely accepted by the ‘earned income’ school of thought. The ‘commercial non-profit approach’ means that social enterprises rely mainly on market resources (Defourny and Nyssens 2010). However, the level of earned income cannot be considered as a criterion to distinguish social enterprises from traditional non-profits. From the perspective of the EMES (International Research Network) school of thought, social enterprises should bear a significant level of ‘economic risk’, rather than a ‘market risk’ (Defourny, Nyssens, and Brolis 2018). Bearing economic risk refers to the fact that the financial viability of social enterprises depends on the efforts of their members to secure adequate resources for supporting the social mission (Defourny and Nyssens 2010). Empirical research indicated that a mixed receipts approach is the most observed arrangement with 74% social enterprises in the UK (Ridley-Duff and Bull 2011a).

On the other hand, the share of each revenue will depend at least in part on the field in which a social enterprise operates. Young (2007) employed the benefits theory to explain the revenue streams derived from the nature of services offered by social purpose organizations. For example, organizations operating in the healthcare subsector can more easily attract grants and contracts from the government than organizations in other subsectors (Frumkin and Keating 2011). The first aim of this paper is to explore how the above income sources are mixed in social enterprises and the structure variance between the fields in which a social enterprise operates in China. Four similar hypotheses were then constructed to explore the variance of revenue sources:

Hypothesis 1-a (H1a): There is no difference between subsector groups in the mean of earned income.

Hypothesis 1-b (H1b): There is no difference between subsector groups in the mean of government support.

Hypothesis 1-c (H1c): There is no difference between subsector groups in the mean of contribution income.

Hypothesis 1-d (H1d): There is no difference between subsector groups in the mean of investment income.

Revenue diversification and financial health

Financial health is a multifaceted concept that has been defined differently in most studies (Bowman, Tuckman, and Young 2012; Prentice 2016a; Tuckman and Chang 1991; Keating et al. 2005). Bowman, Tuckman, and Young (2012) modelled long-term financial health into two broad elements – financial capacity and financial sustainability – which have been widely employed by many studies (Hung and Hager 2019). There are also some other measures used for predicting financial health, such as liquidity, solvency, margin, flexibility, volatility, and profitability (Prentice 2016b).

Social enterprise revenue diversification and financial health must be studied within a broader context. From a historical perspective and the evolution logics of social enterprises, a social enterprise was considered to be at the crossover point between state, private, and voluntary/community sectors, driven by a combination of general interest, mutual interest, and capital interest (Defourny and Nyssens 2017; Ridley-Duff and Bull 2011a). Social enterprises as hybrid organizations that may take many forms, such as trading non-profits/charities, social cooperatives, social businesses, and public-sector spin-off, depending on the extent to which they combine the interests and resources of other sectors (Defourny and Nyssens 2017; Ridley-Duff and Bull 2011a). The three sectors of modern economies actually shape the profile of social enterprises. It is inevitable to discuss diversification in the non-profit sector, as well as in the private sectors, before looking at the situation in social enterprises.

For industries and commercial enterprises, the impact of revenue diversification is controversial and varies by time periods, geographic areas, countries, and company characteristics (Bhide 1990; Matsusaka and Nanda 2002). According to the finance theory and resource dependence theory, some studies found that having diversified products or simultaneously operating in multiple marketplaces may reduce the risk of bankruptcy and assist in the battle against business failure (Ohlson 1980; Gilbert, Menon, and Schwartz 1990). Diversified firms are able to maintain more stable revenue streams by not being highly reliant on any single asset class (Pfeffer and Salancik 1978). However, some scholars argue that when external capital markets became efficient (beginning in the 1980s), inefficient internal capital markets (Shin and Stulz 1998), higher agency costs (Jensen 1986), and the strategy of diversification may have led to value loss and increased the possibility of bust-up takeovers (Berger and Ofek 1996).

A similar controversy existed in the non-profit sector. Researchers found that non-profit organizations can significantly reduce revenue volatility and vulnerability by diversifying income streams (Chang and Tuckman 1996; Froelich 1999; Jegers 1997; Kingma 1993). Furthermore, additional revenue sources may act as a cushion for non-profit organizations when facing financial uncertainty. Diversification is also said to reduce organizational dependence, and therefore, enhances their autonomy (Froelich 1999; Pfeffer and Salancik 1978). Building community connections and strengthening the community embeddedness was seen as another explanation for non-profits diversifying their revenue stream (Bielefeld 1992; Galaskiewicz 1990). Diversifying revenues by exposure to more audiences and network building provides more embeddedness in local communities, thereby expanding the mission of non-profit organizations (Chikoto and Neely 2014). In brief, many studies have regarded revenue diversification

as one of the effective indicators of financial health (Chang and Tuckman 1994; Greenlee and Trussel 2000; Prentice 2016a).

However, revenue diversification was considered a double-edged sword that brings higher rewards as well as higher risks and complexity (Froelich 1999). Different revenue streams result in different risks and costs. Modern portfolio theory suggests that non-profit organizations should maximize their returns by diversification only at the cost of acceptable risks (Grasse, Whaley, and Ihrke 2016). In addition to the increased risks, Frumkin and Keating (2011) found that revenue concentration is beneficial to organizational efficiency, especially because it can reduce the administrative (e.g. money, time, human resources) and fundraising costs (Chikoto and Neely 2014; Doherty et al. 2009). Gronbjerg (1990) observed that non-profits that relied largely on government funding were more predictable and stable. Young (2008) adds that although diversification of revenues can provide benefits, it can also result in conflicting goals leading to mission drift. Having heterogeneous revenue sources means non-profits must meet the demands of different stakeholders and funding sources, even though they may not necessarily be part of their major social missions.

Finance theory and the modern portfolio theory are also relevant in social enterprises. The role of diversification in non-profit organizations and commercial companies has some similarities with diversification in social enterprises. For example, heavy reliance on one source of grants or contracts may leave a social enterprise vulnerable, at risk, or unable to achieve autonomy (Ridley-Duff and Bull 2011a). Specially, a social enterprise needs to differentiate between mission-related and mission-unrelated activities among mixed sources of income. If social enterprises are over-reliant on income generated from activities that are unrelated to their social missions, it may lead to mission drift (Wei-Skillern et al. 2007).

In summary, although the favourability of revenue diversification has been reviewed by non-profit and business studies, there is little empirical evidence to explore the relationship between diversification and financial health in the operation of social enterprises in China. By studying a large sample of social enterprises in China, this paper investigated whether this basic claim about the desirability of revenue diversification is correct in social enterprise. Despite the impact of revenue diversification, additional studies contributed by exploring the impact of both intra-organizational factors, including investment assets and endowments (Bowman 2002), project spending, and overhead cost (von Schnurbein and Fritz 2017; Chikoto and Neely 2014); organizational efficiency (Chikoto and Neely 2014); significance of commercial revenues (Frumkin and Keating 2011); and accounting variables and environmental factors (Prentice 2016a). Consistent with previous studies, this paper employs revenue diversification as the key explanatory variable for financial health. Other indicators include the significance of earned income, perceived environment, governance factors, and some accounting variables.

Hypothesis 2 (H2): Revenue diversification plays a significant role in generating profit in social enterprises.

Methods and data

This article employed a two-step analysis of 372 social enterprises in mainland China. First, variance analysis was performed to explore the revenue structure variance among different subsectors. Logistic regression was then used to explore the impact of revenue

diversification on financial health. Two-tailed statistical significance was set at $p < .05$. All statistical analysis was performed using the Stata 12.0 statistical analysis software package.

Context, sampling, and data collection

The terminology of ‘social enterprise’ in China is still in its infancy. However, social enterprises in China have engaged in similar social practices (i.e. social welfare enterprises) since the 1960s and did not really spread until the 2000s (Ding 2007). In general, most scholars in China agree on a broad definition of social enterprise – ‘a hybrid organization using business techniques to pursue social business and social missions’ (Xia 2009; Cai, Sun, and Shen 2012; Ding 2007). Although there is no specific law or regulations to regulate social enterprises in China, official authentication and industry certification are starting to regulate and shape the operation of social enterprises in the country. The following are some common criteria for issuing a certificate to a social enterprise in China: (1) social enterprises are strongly driven by social purpose and especially driven to provide social services and solve social problems; (2) they have a sustainable business model that continuously provides goods and services to achieve social purposes; (3) they have a measurable social impact and social value; and (4) surpluses should be reinvested into social activities or the community (Beijing Social Enterprise Association 2018; General Office of Chengdu Municipal People’s Government 2018). Although social enterprises in China should partially derive their income from the market, the level of earned income is not a criterion to identify a social enterprise.

Social enterprises in China have sharply increased since 2013, when new policies designed to mobilize the private and the third sectors into public service were developed, thus creating more participating opportunities for social enterprises. Social enterprises in China are therefore strongly driven by providing public services and solving social problems that cannot be solved by government.

To our best knowledge, no research has used survey data collected in China to analyse the revenue structures of social enterprises. The sample data used in our analysis originate from an empirical research of 372 social enterprises working in a variety of subsectors in China. The cross-sectional data were collected in 2018 through an online survey that was the largest and most representative survey of its kind in China. These data cover a variety of social enterprises in terms of characteristics such as legal forms, registration areas, subsectors, and age. As there is no agreed operational definition or legal form of social enterprise in China, it is nearly impossible to collect data on all social enterprises in the country. Therefore, it was difficult to conduct a strict random sampling. Purposive sampling was employed in this study considering the time, resources, and research purpose (Matthews and Ross 2010).

The sample selection began with a directory list containing more than 1,300 social enterprises or quasi-social enterprises that have never been involved in any training programmes for social entrepreneurs, those that have never obtained a social enterprise award, or those that have never obtained a social enterprise authentication (by a well-known charitable association) in China. This directory was generated from more than 10 original sources provided by leading foundations and partners in the broader social enterprise community. We approached nearly 1,000 social enterprises by telephone and finally got 388 respondents, of which there were 372 valid responses.

The snowball sampling method was also employed during the data collection. Several social enterprises were approached through recommendations by their partners or peers.

Measures

Dependent variable

Although several strategies have been suggested to measure the financial health of social enterprises, Hung and Hager (2019) found that the effect sizes of revenue diversification are not influenced by the chosen measures of financial health after reviewing 40 original studies reporting 296 statistical effects of revenue diversification on financial health. Following the understanding of financial health by Bowman, Tuckman, and Young (2012), this research used *profitability* as the predictor of financial health, and as the dependent variable. Profitability refers to the net income after accounting for expenses and generally conveys the long-term sustainability of an organization (Prentice 2016b). As no questions were asked about their actual expenses, *profitability* was measured by a general judgement of a social enterprise's financial condition, rather than a scaled accounting variable, by asking them: 'What was your financial condition like in 2017? Made a loss, broke even, or made a profit?'. This measure is not similar to the strict accounting measures used in most previous studies; however, it considers the total income and expenses of the enterprises and reflects how these social enterprises operated financially, especially their profitability, in 2017. This study then used a binary variable to reflect the financial capacity to run logistic regression analysis. Social enterprises that earned profits in 2017 were coded as 1 and those that did not (including those incurred losses or broke even) were coded as 0.

Independent variables

Revenue diversification. Following previous studies on non-profit financial management (Carroll and Stater 2009; Chikoto and Neely 2014; Greenlee and Trussel 2000; Yan, Denison, and Butler 2009), a common way to measure *revenue diversification* is the Hirschman-Herfindahl index (HHI). The degree of revenue diversification depends on the number of revenue sources and the proportion of each type (Chang and Tuckman 1994). As we summarized in the previous section, the main sources of income include (1) earned income; (2) government support; (3) contributions; and (4) investment income. Therefore, the degree of revenue diversification is measured by:

$$\text{RevenueDiversification} = \frac{1 - \sum_{i=1}^4 R_i^2}{0.75}$$

This index implies that the higher the values of RD, the higher the levels of revenue diversification among social enterprises (Yan, Denison, and Butler 2009).

Significance of each revenue stream was measured by the four main types of revenue sources mentioned above: percentage of earned income (PEI), percentage of government support (PGS), percentage of contribution income (PCI), and percentage of investment income (PII). This paper explores the effect of each revenue stream on their ability to generate profit. The *perceived environment* variable was measured using a set of structured questions about their perceptions on the developments regarding investors, customers, employees and volunteers, government and policies, public and

social medias, and supportive organizations. The extra-organizational factors affecting the financial health of non-profits have been proposed in previous studies. LeRoux and Wright (2010) indicate that non-profits in highly competitive environments have less opportunities to make strategic financial decisions and therefore are more susceptible to financial vulnerability. This paper assumes that the more the perceived external environment support, the more likely it is for social enterprises to generate profits. The organizations' perceptions were coded from 1 to 5, with a higher score representing a more supportive environment. The mean values of the scores were used in this paper. Board size was used as the *governance factor* in this study to explore the contribution of the governance structure. Board members were seen as strategic resources for entrepreneurial performance in non-profit organizations (Coombes et al. 2011). The total revenue and assets were used as *accounting variables* to predict enterprises' organizational capacity. It is noteworthy that the total revenue was treated as an independent variable rather than as a dependent variable in this research. The present study did not include specific expenses, such as operating costs, in the analysis, which resulted in some limitations in reflecting the financial condition of the organizations.

Control variables

Based on previous research, we also controlled for organizational demographics including *age*, *size*, *industry type*, and *legal forms* (von Schnurbein and Fritz 2017; Carroll and Stater 2009; Prentice 2016). Organization *age* is one of the common control variables as an organization's life stage might influence its financial performance. This is calculated by the difference between the year it was established and the year 2017. *Size* was measured by the number of its full-time employees. Smaller organizations with fewer human resources are less likely to generate more profit and survive than other organizations (Searing 2015; Tuckman and Chang 1991). *Industry type* was measured by the mission variable which was coded as (1) Promoting Employment; (2) Social Care; (3) Community Development; (4) Education; (5) Poverty Relief; (6) Environment & Energy; (7) Support Organizations; and (8) Arts and Culture. The environment in which mission-driven organizations operate is dynamic and diverse. Previous studies and benefits theory have proved that the correlations between revenue diversity and non-profit financial health varied among subsectors, from .45 (for mutual benefit non-profit) to -.19 (for housing non-profit) (Chang and Tuckman 1994; Young 2006). This study also controlled for the legal form variable, which was measured by using five types of organization: (1) Social organizations (2) Commercial companies; (3) Cooperatives; (4) Microfinance, and (5) Other legal forms.

Table 1 shows the descriptive statistics of the organizations included in our analysis. More than 60% of the social enterprises are relatively young (founded after 2013) and the mean age is about 5.41 years. More than 52.1% of social enterprises are registered as a commercial company and 33.4% of them are registered as social organizations. The sample also reports the subsectors in which social enterprises operate: promoting employment (12.8%); social care (16.5%); community development (13.9%); education (21.9%); poverty relief (9.9%); environment & energy (10.5%); support organizations (9.7%); and arts and culture (4.8%). The sample shows a generally low level of revenue diversification with a mean value of 0.32 and a median value of 0.24. Earned income plays a dominant role in the revenue structure with a mean percentage of 59.6%, followed by government support income (22.4%), contribution income (15.5%), and

Table 1. Summary statistics.

		Mean	Median	SD	Min	Max	N
Age(years)		5.41	4	4.94	1	60	371
Size(number of full-time employee)		47	10	233.10	0	4071	367
Legal form (%)							
	Social organizations	33.4%					120
	Companies	52.1%					187
	Cooperatives	8.9%					32
	Microfinance	0.3%					1
	Others	5.3%					19
Mission (%)							
	Promoting employment	12.8%					45
	Social Care	16.5%					58
	Community Development	13.9%					49
	Education	21.9%					77
	Poverty Relief	9.9%					35
	Environment & Energy	10.5%					37
	Support organizations	9.7%					34
	Arts & Culture	4.8%					17
Revenue diversification (HHI)		0.32	0.24	0.30	0	0.96	347
PEI		0.596	0.72	0.392	0	1	357
PGS		0.224	0.02	0.317	0	1	357
PCI		0.155	0	0.281	0	1	357
PII		0.022	0	0.089	0	1	355
Environment		2.75	2.67	0.81	1	5	370
Board size		14.67	7.00	32.71	0	305	231
Ln (Total revenue)		4.41	4.61	1.93	-0.22	11.08	320
Ln (Total asset)		4.40	4.36	2.11	-0.69	12.91	318
Financial health							370
	Not made a profit	79.46%					294
	Made a profit	20.54%					76

a very small portion of investment income (2.2%). Participants perceived the external environment as less supportive with a mean value of 2.75. The average board size is 14.67 people.

Results

Revenue structure and variance among subsectors

This study examined the percentage and variance of revenue structures of social enterprises. Table 2 shows the descriptive statistics of the mean percentage of each revenue source and mean value of revenue diversification among different groups of social enterprises. As shown in Table 2, earned income plays a dominant role in each group of social enterprises, although there are slight differences between certain areas. For example, social enterprises operating in social care primarily rely on earned income (50.9%); however, government support (30.6%) also plays a significant role in generating additional income. Revenue diversification values also vary among groups. Social enterprises working in social care had the highest level of revenue diversification ($RD = 0.371$) compared to others, although is the revenue

Table 2. Descriptive statistics of percentage of each revenue source by mission.

Missions	Mean Percentage of Each Income Source					Mean of HHI	N
	Earned income	Government support	Contributions	Investment income			
Promoting Employment	75.7%	11.3%	11.2%	1.7%		0.300	44
Social Care	50.9%	30.6%	15.9%	2.5%		0.371	55
Community Development	62.6%	25.0%	10.7%	1.7%		0.363	47
Education	51.7%	27.2%	21.0%	0.9%		0.319	74
Poverty Relief	63.7%	10.9%	15.3%	7.2%		0.233	32
Environment & Energy	68.8%	9.9%	19.9%	1.7%		0.252	34
Support Organization	70.39%	15.39%	9.45%	2.68%		0.319	29
Arts & Culture	47.14%	30.14%	21.07%	1.64%		0.323	14
Mean	61.37%	20.04%	15.57%	2.50%		0.310	329

diversification was still low in general. Social enterprises working in poverty relief had the lowest level of diversification ($RD = 0.233$).

Differences among groups were examined with respect to the four dimensions of revenue sources: earned income, government support income, contributions, and investment income. Table 3 shows that the *level of revenue diversification* is not significantly different by missions ($F = 1.04, p > .05$). Social enterprises working in different areas generally have a relatively low level of revenue diversification ($RD = 0.315$). The ANOVA result (see Table 3) reject Hypothesis 1a and shows that the *mean percentage of earned income* varies significantly by mission group ($F = 2.87, p < .01$). Specifically, a *post hoc* test result (see Table 4) shows that social enterprises working in promoting employment areas significantly obtain a higher proportion of earned income than those working in social care areas by 24.8% ($t = -3.28, p < .05$), and also than those working in education areas by 24% ($t = -3.37, p < .05$). There is no significant difference of mean earned income percentage among the rest of the groups. This result indicates that social enterprises aiming to increase employment obtain income from the market and customers more easily than those who providing social care services and education services.

The ANOVA results also reject Hypothesis 1b and shows that the *mean percentage of government support* is significantly different by mission groups ($F = 3.36, p < .01$, see Table 3). Specifically, *post hoc* test results (see Table 5) show that social enterprises working in providing social care services significantly obtain more government support than those working in environment and clean energy areas by 20.7% ($t = -3.20, p < .05$), those working in poverty relief areas by 19.7% ($t = -3.05, p < .05$), and those working in promoting employment areas by 19.3% ($t = -3.25, p < .05$). There is no significant difference of mean percentage of government support income among the rest of the groups. Such organizations who provide social services may not be able charge beneficiaries at a market-related price due to the fact that the benefits are more public in essence. This is in line with many previous studies. For the mean percentage of contribution income ($F = 1.14, p > .05$) and investment income ($F = 1.79, p > .05$),

Table 3. Mean differences of revenue source among subsectors.

Income Sources	Mean	SD	F	p-value
HHI	0.315	0.301	1.04	0.402
Earned income%**	59.6%	0.392	2.87	0.006
Government%**	22.4%	0.317	3.36	0.002
Contributions%	15.5%	0.281	1.14	0.337
Investment income%	2.2%	0.089	1.79	0.088

Table 4. Earned income differences among social enterprises.

	Mean	Contrast	SE	t	Tukey P> t
<i>Promoting Employment</i>	75.7%				
Social Care	50.9%	-0.248	0.076	-3.280	0.025
Community Development	62.6%	-0.131	0.079	-1.660	0.713
Education	51.7%	-0.240	0.071	-3.370	0.019
Poverty Relief	63.7%	-0.120	0.086	-1.390	0.862
Environment & Energy	68.8%	-0.069	0.086	-0.800	0.993
Support Organization	70.4%	-0.053	0.088	-0.600	0.999
Arts & Culture	47.1%	-0.285	0.116	-2.460	0.216

Table 5. Government support differences among social enterprises.

	Mean	Contrast	SE	t	Tukey P> t
<i>Social Care</i>	11.3%				
Promoting Employment	30.6%	-0.193	0.059	-3.250	0.028
Community Development	25.0%	-0.056	0.059	-0.950	0.981
Education	27.1%	-0.034	0.052	-0.650	0.998
Poverty Relief	10.9%	-0.197	0.065	-3.050	0.049
Environment & Energy	9.9%	-0.207	0.065	-3.200	0.032
Support Organization	15.4%	-0.152	0.066	-2.280	0.306
Arts & Culture	30.1%	-0.004	0.089	-0.050	1.000

Table 3 shows that there is no significant difference in these two dimensions among social enterprises working in different areas, which supports Hypothesis 1 c and Hypothesis 1d.

Revenue diversification and financial health

The key research question of this article is to explore the relationship between revenue diversification and financial health in social enterprises, which is rarely explored in empirical studies. A logistic regression model was carried out to explore the impact of variables, including the significance of each revenue source, revenue diversification, perceived environment variables, governance variables, and accounting variables on financial health. As seen in Table 1, only 20.5% (N = 76) of social enterprises have made a profit in 2017. Most of the researched social enterprises are still struggling to survive. In order to explore the contributions of each variable, four nested models were carried out and the results can be seen in Table 6. Model 1 only includes the control variables into analysis to clearly reflect the contributions of other key explanatory variables. The result shows that *age*, *mission*, and *legal form* significantly contribute to increase the possibility of financial health. As the age of social enterprises increases, financial health increases. Compared with social enterprises promoting employment, those who provide social care services are more likely to generate a profit by nearly 3.4 times (odds ratio = 3.4, $p < .05$). Being an agricultural cooperative increases the odds of profitability by 5.6 times over social organizations (odds ratio = 5.6, $p < .05$).

Model 2 involves the control variables and the revenue stream proportion variables to examine the significance of income stream on financial health. The result shows that the earned income share does not increase the financial health. The odds of financial health do not increase with the earned income share or any other income share. Still, only the control variables including *age*, *mission*, and *legal form* have significant effects on financial health. Model 3 includes revenue diversification and control variables into the analysis. It excludes revenue share due to their multicollinearity within each other. Table 6 shows that revenue diversification has a significant negative impact on financial health (odds ratio = .337, $p < .05$), which is contrary to Hypothesis 2 and many previous studies (Carroll and Stater 2009; Chang and Tuckman 1994; Greenlee and Trussel 2000; Hung and Hager 2019; Wicker and Breuer 2014). This indicates that revenue diversification might not be a preferred revenue-generating strategy for all social enterprises. Model 4 involves all the explanatory variables in the analysis, except for the significance of revenue share. After considering all the variables, only total



Table 6. Analysis of financial health by logit regression.

Predictors	M1		M2		M3		M4	
	B (SE)	OR	B (SE)	OR	B (SE)	OR	B (SE)	OR
Age	0.0693* (2.20)	1.072*	0.0620* (2.00)	1.064*	0.0702* (2.14)	1.073*	0.0260 (0.46)	1.026
Size	0.000898 (1.19)	1.001	0.000804 (1.16)	1.001	0.000849 (1.07)	1.001	-0.000208 (-0.33)	1.000
<i>Promoting employment</i>								
Social Care	1.224* (2.08)	3.400*	1.271* (2.14)	3.566*	1.122 (1.85)	3.070	0.814 (0.95)	2.256
Community Development	0.627 (1.03)	1.872	0.690 (1.13)	1.994	0.708 (1.14)	2.029	0.625 (0.72)	1.868
Education	0.114 (0.18)	1.121	0.232 (0.37)	1.261	0.161 (0.25)	1.174	-0.456 (-0.47)	0.634
Poverty Relief	0.854 (1.37)	2.350	0.867 (1.36)	2.380	0.954 (1.50)	2.595	0.950 (1.11)	2.585
Environment & Energy	0.928 (1.45)	2.531	0.968 (1.51)	2.632	0.902 (1.39)	2.465	0.466 (0.48)	1.593
Support Organization	0.529 (0.72)	1.697	0.552 (0.74)	1.737	0.689 (0.92)	1.992	0.860 (0.75)	2.364
Arts & Culture	0.917 (1.12)	2.501	1.269 (1.51)	3.556	1.191 (1.42)	3.289	1.913 (1.31)	6.771
<i>Social Organization</i>								
Company	0.0534 (0.15)	1.055	-0.115 (-0.26)	0.891	-0.000641 (-0.00)	0.999	-1.058 (-1.61)	0.347
Cooperative	1.724*** (3.45)	5.607***	1.466* (2.56)	4.332*	1.699** (3.29)	5.469**	0.400 (0.54)	1.491
Other Legal Form	0.762 (1.25)	2.142	0.476 (0.74)	1.610	0.901 (1.44)	2.462	0.406 (0.49)	1.501
Earned income %			0.121 (0.04)	1.129				
Government support %			-0.402 (-0.15)	0.669				
Contributions%			-0.343 (-0.13)	0.710				

(Continued)

Table 6. (Continued).

Predictors	M1		M2		M3		M4	
	B (SE)	OR	B (SE)	OR	B (SE)	OR	B (SE)	OR
Investment income%				5.186				
HHI			1.646 (0.56)		-1.087* (-1.96)	0.337*	-1.523 (-1.84)	0.218
Environment							0.00860 (0.03)	1.009
Board Size							0.00313 (0.59)	1.003
Ln(Total revenue)							0.517* (2.26)	1.677*
Ln(Total asset)							-0.0212 (-0.13)	0.979
_cons	-2.794*** (-4.58)				-2.458*** (-3.74)		-3.806** (-2.72)	
N	336		324		316			175

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

revenue significantly increases the financial health. As the total revenue increases, the odds of financial health increases by about 1.7 times. Noteworthy is that the contribution of revenue diversification was offset after introducing more powerful variables. Although the contribution of revenue diversification is not statistically significant in predicting profitability at the .05 level, it is statistically significant at the .10 level. Revenue diversification still had a negative relationship with financial profitability. The perceived environment variable, governance factor, and total assets did not significantly contribute to improving financial health.

Discussion and conclusion

While a number of studies support the argument that a diversified revenue structure benefits financial health in non-profit organizations (Chang and Tuckman 1994; Frumkin and Keating 2011; Greenlee and Trussel 2000), scant attention have been given to revenue diversification in social enterprises. Our finding addresses this gap and contributes to understanding revenue diversification in social enterprises.

Overall, two important observations were made in this study. First, the revenue structures of social enterprises in China embody their hybridity, even though the level of diversification is relatively low. Social enterprises dealing with many complexities are asked to perform a delicate balancing act: achieving a social mission while sustaining themselves economically. The products or services they provide are both private benefits and mission-related benefits (Young 2006). Therefore, they need to pursue resources and income through a particular mix of revenue streams. However, the results indicate that the earned income stream still plays a dominant role in the revenue structure of social enterprises, regardless of the areas in which they operated. These gains can potentially be explained by the business approach adopted by social enterprises in the pursuit of social missions. Social enterprises are expected to generate a large share of their income from the marketplace rather than from traditional donations or government grants. In specific areas, our findings indicate that the amounts of earned income and income from government support significantly varied among social enterprises working with different missions. For example, social enterprises working in promoting employment earned more income from the marketplace and customers than those that provide social care services. On the contrary, social enterprises providing social services more easily obtain income and support from government grants and contracts than those operating in education areas. The relative share of each revenue source at least partially depends on the field within which an enterprise operates, and this finding is consistent with several previous studies on non-profits' revenue structures (Wilsker and Young 2010; Frumkin and Keating 2011). The public nature of products and services is considered when social enterprises apply for financial support from the government and donors. It is noteworthy that in the division of revenue streams in this study, government contracts were classified under government support rather than earned income. This division highlights the source from which social enterprises are most likely to obtain resources and revenues, which has implications for social entrepreneurs when they are struggling to decide which funders to approach. Regardless of which sources of income are easily available, social enterprises must acquire an appropriate mix or balance between the sources.

Second, our findings suggest that revenue diversification has a significantly negative impact on predicting financial health, which is in contrast to several previous studies

(Chang and Tuckman 1996; Carroll and Stater 2009). As one of the more broadly accepted ideas about how social enterprises can effectively manage their finances rests on the concept of revenue diversification, this research provides robust evidence showing that maintaining a single or smaller number of revenue resources will be beneficial for the financial health of social enterprises. A potential explanation could be that revenue concentration may reduce risks and costs better than pursuing a variety of revenue sources (Frumkin and Keating 2011; Chikoto and Neely 2014). The social enterprises in this study are generally small- and medium-sized organizations with limited human resources, financial resources, and market share. Therefore, it is a strategic financial decision to allocate these scarce resources in pursuit of a double or triple bottom line. Besides the negative impact of revenue diversification, our findings also indicate that there are some control variables that make significant contributions in predicting the financial health of social enterprises, such as legal forms and the organization's age. Nonetheless, the explanatory power of such variables, especially the revenue diversification variable, are no longer significant for financial health after considering the total revenue. This indicates that the revenue structure or resource structure became less important after considering the total revenue. As indicated in the descriptive analysis, about 60% of the researched social enterprises are young (less than 6 years old) and small. In the primary stage of social enterprises, earning enough resources and revenue is more important than earning resources from a single stream. Model 2 also proves that a higher percentage of earned income and government support does not significantly increase financial health. Social enterprises need sufficient resources to survive and provide mission-related services regardless of whether such resources come from the marketplace or any other income sources. However, as revenue diversification has a significantly negative impact on financial health at the .10 level, it is advisable for social enterprises to concentrate on their limited resources. In other words, social enterprises should maximize their returns from limited sources of income rather than from accessible resources, especially those that are unrelated to the mission of the enterprise. Failing to do so may increase the risk of damage to the organization's legitimacy.

Our analysis of the nature of revenue structure has a number of implications for social entrepreneurs. The first is that although diversification is seen as one of the common strategies to improve financial capacity and sustainability in many non-profit organizations, it may not be a preferable solution for all social enterprises, especially the younger and smaller enterprises. Social entrepreneurs should consider the risks brought about by pursuing several streams of income when they have scarce resources (human, time, money). Concentrating on one or two revenue sources might be efficient for social enterprises in China at this stage. However, social entrepreneurs should also be aware of the risks of revenue concentration, as it may increase the financial vulnerability if you highly rely on a single source of income. In general, social entrepreneurs should consider the life stage and current major conflicts when making financial decisions. There is no one-size-fits-all solution for social enterprises. The second implication is related to the reality of social enterprises in China. Social enterprise is still in its infant stage in China, without clear legal forms and definitions. Social entrepreneurs are still struggling to find a way to produce services and products that are both socially and economically valuable. Many social entrepreneurs either imitate international experience or follow what the literature suggests they should do. This paper suggests that perhaps in this early stage, the major concern is to survive first

and then consider revenue structure optimization. Social entrepreneurs should therefore pursue sufficient resources but at an affordable risk level. For example, social entrepreneurs might easily suffer from mission drift when pursuing resources from areas or funders that are not related to their core social mission. They might obtain enough resources in the short term; however, it will damage their legitimacy in the long run.

This study has some limitations. First, it was an initial survey of social enterprises in China, which was not able to examine fluctuations in their financial condition. It is therefore impossible to predict and explore the relationship between revenue diversification and organizational sustainability with the data currently available. This survey will be conducted every two years and the future studies will focus on the dynamic changes of revenue structure over time. Second, this study employs a binary variable to describe financial health rather than a scale variable, which also limited more multivariate analysis. Financial health is defined quite differently in most studies (Hung and Hager 2019). Although we are comfortable with our definition of financial health in this paper, we believe that other measures of financial health and financial performance might be more useful. The absence of expenses data and risks data makes the measures of financial health less robust. However, based on their meta-analysis of 40 studies, Hung and Hager (2019) found that the impact of revenue diversification is not influenced by the choice of financial health measures, which makes this study convincing.

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