



AN INVESTIGATION OF HOW NETWORKING IMPROVES SOCIAL ENTERPRISE PERFORMANCE

Dr. Ada HiuKan WONG*

Felix Wing Lam TSE**

Abstract: *The difficulties involved in operating social enterprises are well noted in the literature. Existing research focuses on improving the business performance of such enterprises through networking activities. However, no study thus far has investigated the implications of networking on social enterprises within the geographical context of Hong Kong. Given that social enterprises generally lack funding for marketing activities, the current study investigates how the use of a cost-effective marketing strategy, i.e., networking, may improve the marketing and business performance of social enterprises in Hong Kong. In-depth interviews were conducted with the social entrepreneurs or marketing staffs of five social enterprises. This study discovers that networking appears to be an effective way for social enterprises and other ordinary companies to explore business opportunities. Furthermore, compatibility between industry characteristics and the community being served reflects a successful business partnership.*

Keywords: *Business performance, Marketing performance, Networks, Networking, Social enterprise*

*Assistant Professor, Department of Marketing and International Business, Lingnan University, Hong Kong

**Recent graduate, Department of Marketing and International Business, Lingnan University, Hong Kong



INTRODUCTION:

Apart from profit maximisation, some businesses stress social well-being and ethical standards as being equal to or more important than financial goals. These businesses, which are categorised as social enterprises, have been increasing in number in Hong Kong. According to Power of Good (2013), the number of operating social enterprises has been increasing steadily over the years, from 222 in 2008 to 406 in 2013. Apart from non-governmental organisations (NGOs), the business models of these enterprises are self-sufficient, as they operate without long-term government financing. In their first two to three years of operation, social enterprises are allowed to apply for government funding of up to HK\$3 million for operational use (Home Affairs Department, 2014). Despite the rising trend of social enterprises, their business performance is not ideal. Of the 56 social enterprises that announced their financial records in 2011, 24 had deficits (Social Enterprise Insights, 2013). Furthermore, 50% of social enterprises suffer a loss or cease in their fourth year of operation (Fullness Social Enterprises Society, 2015). The business conditions of some social enterprises that do not receive government funding are even worse.

Faced with these operational challenges, it is important to determine cost-effective ways for social enterprises to improve their organisational performance and thereby continue their service to the community and achieve their selected social objectives. The literature recognises the effects of networking on NGOs. However, the forms of networking that may be especially relevant to the social enterprise sector in Hong Kong remain unknown. Accordingly, the current study aims to reveal the networking mechanism and how it may improve social enterprise performance in Hong Kong.

From a marketing perspective, it is essential for social enterprises to approach consumers to create and maximise brand awareness. However, this can be difficult for social enterprises due to their limited marketing budgets, which determine how well they communicate their



messages to their target customers. When the marketing performance of a social enterprise is enhanced, the overall business performance of the enterprise should also improve as a result. Therefore, this study has two research objectives: (1) to identify the specific types of networking platforms that are beneficial to social enterprise marketing and business performance and (2) to reveal the characteristics of successful business partnerships that can be identified through networking platforms.

LITERATURE REVIEW:

The social enterprise concept was introduced in the early to mid-1990s (Defourny and Shin-Yang, 2011). Social entrepreneurship constitutes an approach to earning income based on the essential element of a social mission (Galera and Borzaga, 2009). Social enterprises offer improvements in the economy, society and environmental well-being (Cornelius and Wallance, 2013). They consist of five aspects including (i) the worker and/or community ownership of the enterprise that offers certain degrees of worker ownership; (ii) social and commercial aims that are bound to provide benefits to a community in addition to self-sufficient financial sustainability; (iii) co-operative management that empowers workers as a democratic management structure; (iv) social, environmental and financial benefits that create social wealth and generate profits; and (v) subordination of capital to the interests of labour, meaning that capital ownership is not the major influencer in the decision-making process (Ridley-Duff and Southcombe, 2012). A social enterprise can also be defined as a business with primarily social objectives and whose surpluses are principally reinvested for that purpose (Ridley-Duff, 2008). This reinvestment is not restricted to monetary forms such as donations or staff salary increases. Reinvestment includes strengthening the business model and marketing investment of the enterprise to achieve a sustainable business structure, which can generate higher potential social benefits over the long term.



Social Enterprise Performance Problem: Social enterprises in the United Kingdom are making increasingly important and significant contributions to the nation's communities and economies (Mason et al., 2007). Interviewees from 80 social enterprises in the United Kingdom identified four common themes related to the entrepreneurial marketing of social enterprises: (i) opportunity recognition, (ii) entrepreneurial effort, (iii) entrepreneurial organisational culture and (iv) networks and networking (Shaw, 2004). Although they differ by region, social enterprises in Europe are making significant breakthroughs that are attracting rising public attention. Social enterprises in East Asian countries have been developing later and receiving more regulating policy and associated funds from the state power than those in European countries (Defourny and Nyssens, 2008). In the United States, social enterprises normally have a more profit-driven motivation to be self-sufficient and therefore engage in a broad range of non-profit activities with innovative approaches (Kerlin, 2006). The political and legal contexts of South Korea along with the country's Social Enterprise Promotion Act (SEPA) have a significantly positive influence on its social enterprises (Bidet and Hyung-Sik, 2011). Despite the continuous success of social enterprises in other regions, the business performance of social enterprises in Hong Kong is improving if not as sustainable as that of their counterparts in other countries. Indeed, 55% of social enterprises in Hong Kong cease operations within their first 10 years (Fullness Social Enterprises Society, 2015). This indicates the difficulties involved in sustaining their business.

Given that social enterprises focus on maximising both profit and social benefit, they tend to pay relatively less attention to increasing profits than do other private companies. As such, a number of social enterprises cannot sustain their business and must close down after a short period. Hence, social entrepreneurs must spend more efforts on monitoring their business performance to sustain their business.



Defining Networking: Networking describes the activity of developing and maintaining relationships with others who have the potential to provide work or career assistance. It is considered important for businesses to develop a networking management strategy (Forret and Dougherty, 2004). Networking competencies that help firms to develop a range of alliances and collaborative partnerships can offer a competitive advantage (Freeman, Edwards and Schroder, 2006). Strategic networking can strengthen the infrastructure of a social enterprise (Mawson, 2010), and a strong channel networking capability is positively related to firm innovation (Boso et al., 2013).

Marketing networking in small and medium-sized enterprises (SMEs) is defined as the network activities undertaken by SME owner-managers in managing their marketing activities (Carson et al., 2004). In the fair trade marketing network, fair trade social enterprises have the opportunity to expand into foreign markets for fair trade products (Alexander and Nicholls, 2006).

Social networks allow organisations to engage in the cross-company, regional and functional sharing of market knowledge (Day, 2011). A small group of founders can participate in on-line social networking via social networking sites by sending out invitations to recruit new members to conduct joint-member activities (Trusov et al., 2009). The success of an Internet social network depends on the number of users and their activity levels. A strong marketing capability of network partners can increase the adaptive capability of a firm and allow it to face changes in the market (Day, 2011). However, distrust within a social enterprise network may become a barrier to co-operation between social enterprises (Seanor and Meaton, 2008).

METHODOLOGY:

In-depth interviews that lasted around 45-60 minutes each were conducted with the social entrepreneurs and/or marketing staffs of social enterprises in Hong Kong. Five social



enterprises were interviewed through purposive and convenient sampling. The interviewees were assured confidentiality of identity to increase their willingness to share more insider ideas with the researchers. In terms of the specific social enterprise industries explored, two of the social enterprises were from the experiential activity service industry, one was from the catering industry, one was from the environmental education industry and one was from the on-line service industry.

FINDINGS AND IMPLICATIONS:

Networking Platforms Available for Social Enterprises in Hong Kong: In Hong Kong, most of the networks (or networking platforms) developed or used for marketing purposes are held by non-profit organisations. Most of the interviewees suggested that well-known networking platforms such as the *Ethical Consumption Month* and *Social Enterprise Endorsement Mark* increase the brand awareness of their social enterprises. Well-known marketing networks can endorse social enterprises to the public. One of the social enterprises in the experiential activity service industry indicated that it used networking platforms to introduce itself to the public and increase its public awareness when it started out. Social enterprises can leverage themselves on the high public awareness of certain networking platforms to generate more public attention at a lower cost and effort. For networking platforms such as exhibitions and other marketing activities, enterprises may experience a short-term potential increase in sales. All of the aforementioned networking platforms also allow for the potential establishment of business partnerships between social enterprises and other ordinary companies.

Another type of networking platform, the social network, is developed for information and experience sharing. For example, the *Social Enterprise Summit* is a networking platform that social enterprise leaders use to gather and share their ideas for maximising their impacts (Shah, 2009). This type of social networking platform also provides a window of opportunity



for social enterprises to develop partnerships with others. In Hong Kong, social networking platforms are offered by various organisations. In addition to the *Social Enterprise Summit*, social enterprises in Hong Kong also join social networking platforms such as various seminars and ceremonies. However, the interviewees indicated that these types of social networks were more useful for exploring potential business opportunities than for information sharing. They had used these social networking platforms to successfully build business partnerships, conduct joint-promotion campaigns and develop business collaborations for product customisations. Four of the five interviewees indicated that information sharing did not serve a significant function. The information shared on social networks was usually of low practical value for their businesses due to the uniqueness of each social enterprise, which limited opportunities to adopt the lessons learned by their counterparts.

Networking – Characteristics of Successful Business Partnerships: Based on the interviewees' opinions, business partnerships between social enterprises are more likely to arise from social networking activities when both partners serve the same industry and help the same community. Furthermore, the business scale of a social enterprise is positively related to its number of successful business partnerships. When a social enterprise is bigger in scale, a business partnership with that enterprise is more attractive to other social enterprises and ordinary companies. This allows such an enterprise to choose a more compatible business partner. Such was the case described by the interviewee from a big social enterprise in the experiential activity service industry, which received many joint-marketing campaigns invitations from various ordinary companies and social enterprises.

Is it better for social enterprises to look for business partnerships with other social enterprises or ordinary companies? Business partnerships with other social enterprises and with ordinary companies appear to better facilitate the achievement of social objectives



and the improvement of marketing and business performance, respectively. Business partnerships with other social enterprises expose the customers of each social enterprise to the products and social objectives of the other social enterprise. However, business partnerships with ordinary companies allow social enterprises to use more financial resources to approach and appeal to a new customer segment, such as the current customers of the ordinary company. The social enterprise from the experiential activity service industry indicated that its customer base widened considerably after working on a campaign with an ordinary company. The firm was too well known in social enterprise circles in Hong Kong for business partnerships with other social enterprises to generate much of an additional marketing effect.

Although networking platforms provide certain benefits to social enterprises, the interviewee from the on-line service industry pointed out that using networking platforms for business development could be time consuming. To build a more successful business partnership, a social enterprise can look for business partners who serve in the same industry and aim at helping the same community. However, partnering with another social enterprise is most preferable for furthering both parties' social objectives. Meanwhile, partnering with a traditional business party may improve both the marketing and business performance of the social enterprise. In this case, the social enterprise is able to tap into a larger market knowledge base and the resources of the traditional business model, improving the effectiveness of its marketing activities and customer awareness and thus enhancing its business performance.

LIMITATIONS AND CONTRIBUTIONS:

The effects of networking on the improvement of business performance are difficult to track. This study adopts a qualitative research method. Its findings were generated from observations and interviews. Hence, it cannot examine the degree of marketing and



business performance improvement resulting from the marketing and social networks of social enterprises. However, its qualitative research approach permits the generation of in-depth expert opinions. Consequently, this study contributes to the literature by (1) offering insider views on which types of networking platforms improve marketing performance (by enhancing customer awareness) and business performance (by developing business partnerships) and (2) identifying the characteristics of successful business partnerships.

CONCLUSIONS:

In-depth interviews with five social enterprise managers/owners revealed the mechanism of how networking benefits social enterprises in Hong Kong. Two broad types of networks in Hong Kong are identified in this study, namely marketing and social networks. Marketing networks allow social enterprise to leverage themselves on the high public awareness of a third party, which eases the problem of a lack of marketing resources. This is effective in enhancing customer awareness (i.e., marketing performance). Social networks offer social enterprises the opportunity to engage in business partnerships. When choosing business partners, social enterprises that aim at furthering their social objectives may focus on partnering with other social enterprises. In contrast, those social enterprises that want to improve their marketing and business performance should look for partnership opportunities with traditional business parties.

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