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## Social Entrepreneurial Orientation and Performance of Nonprofit Organizations: An Empirical Study in China

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**Abstract:** Most of existing literatures on entrepreneurial orientation have mainly focused on for-profit organizations. This study aimed to verify a scale of Social Entrepreneurial Orientation (SEO) and investigate its impact on performance in the nonprofit context. A cross-sectional survey methodology was used to collect data. Based on factor analysis, this study developed the SEO scale of nonprofit organizations with four factors and 11 items. SEO was found to be a significant predictor of organizational performance of nonprofit organizations. This study has implications in understanding the necessity of implementing SEO strategy in the nonprofit context and the SEO scale can be used as a diagnostic tool for nonprofit organizations to identify areas where specific improvements are needed so as to improve organizational performance. This is the first study that has examined the relationship between SEO and performance of China's nonprofit organizations. The antecedents and consequences of SEO in the nonprofit context need to be explored further.

**Key words:** Social entrepreneurial orientation, factor analysis, performance, nonprofit organizations

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### INTRODUCTION

Nonprofit organizations are often looked at as the “third sector” between market and government, playing an increasingly important role in the worldwide economy as well as in the social and political context (Salamon and Anheier, 1996). As the reforms of economic system and political system deepen, China's nonprofit organizations while performing more social functions, are facing more pressure from reduced traditional incomes, intensified competition and an ever more demanding customers. To survive in such an environment, nonprofit organizations must compete for access to scarce resources and constantly and proactively assess environmental influences and react quickly in accordance to multiple stakeholders' expectations (Mano, 2010).

There has been a great deal of academic and practitioners' interest in the topic of entrepreneurial behavior and its impact on firm's performance. Entrepreneurial behavior is critical for a firm to succeed in a fast-paced, global and uncertain environment. Despite the acknowledgment of the importance of entrepreneurial behavior to nonprofit organizations, practitioners and researchers are faced with a significant gap in knowledge about this subject, especially in developing countries like China.

In conducting this research, this study makes two contributions. First, this study develops a valid scale of Social Entrepreneurial Orientation (SEO) which can be used to assess entrepreneurial behavior of nonprofit organizations. Second, this study investigates the impact of SEO on organizational performance in the context of China's nonprofit organizations.

### LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

**Entrepreneurial orientation:** Entrepreneurship has long been described as an essential driving force for economic growth and social development. Although the concept of entrepreneurship has long been studied, the concept of entrepreneurial orientation has only recently been clarified (Thoumrungroje, 2010). The concept of entrepreneurial orientation refers to the strategic process by which organizations identify new opportunities and implement entrepreneurial behaviors (Dess and Lumpkin, 2005; Ruiz-Ortega *et al.*, 2013). Entrepreneurial orientation involves a continuous behavior in order to achieve the identification and generation of new business which will generate in the long run a sustainable competitive advantage (Ruiz-Ortega *et al.*, 2013; Wiklund and Shepherd, 2003). In many studies, entrepreneurial

orientation is conceptualized as containing three main characteristics: Innovativeness, proactiveness and risk-taking. Innovativeness is the propensity to support and implement creativity, new ideas and experiment processes (Bhuian *et al.*, 2012; Lumpkin and Dess, 1996). Proactiveness is the tendency of a firm to take the initiative to compete aggressively with other firms (Bhuian *et al.*, 2012; Covin and Slevin, 1989). Risk-taking is the propensity of a firm to commit large amount of resources to uncertain and novel business (Lumpkin and Dess, 1996; Bhuian *et al.*, 2012).

Lumpkin and Dess (1996) added autonomy and competitive aggressiveness to the dimensions of entrepreneurial orientation, of which autonomy is the ability to take independent action (Pearce *et al.*, 2010). Competitive aggressiveness is the act of risking conflict and retribution, rather than merely accepting a harmonious coexistence (Pearce *et al.*, 2010).

**Social entrepreneurship:** Researchers have only recently been interested in entrepreneurship which has received much scholarly attention, as a process of fostering social progress (Mair and Marti, 2006).

Different scholars define social entrepreneurship from many perspectives, such as phenomenon of applying business expertise and methods in the nonprofit sector in the narrow definition (Austin *et al.*, 2006). Besides, social entrepreneurship is defined as innovative activity with a social objective in any sector in the broad facet (Austin *et al.*, 2006).

Inspired by the entrepreneurial orientation theory and social entrepreneurship theory, it can be argued that the essence of social entrepreneurship is Social Entrepreneurial Orientation (SEO). Therefore, the following hypothesis was proposed:

**H1:** SEO is a multi-dimensional construct in the context of China's nonprofit organizations.

**SEO and performance of nonprofit organizations:** Research into entrepreneurial behavior and its impact on performance in the nonprofit sector remains scarce. Barrett *et al.* (2005) applied a correlation analysis to investigate the relationship between entrepreneurial management style and the performance of nonprofit sectors of health care and education. The results showed that entrepreneurial management style has significant and positive correlation with performance. Morris *et al.* (2007) focused on the antecedents and outcomes of entrepreneurial and market orientations in a non-profit context of 145 organizations in New York. It is found that entrepreneurial orientation has relationship with aspects

of market orientation but has no relationship with financial performance. Pearce *et al.* (2010) examined the relationship between entrepreneurial orientation and performance. They found that entrepreneurial orientation plays an important role in enhancing member attendance and contributions. However, for the specific entrepreneurial aspects, only innovativeness and autonomy significantly predict performance. Chen and Hsu (2013) examined entrepreneurial orientation versus market orientation and their impact on performance of 307 Foundations in Taiwan. Findings revealed an inverted U-shaped relationship which do not exist for each sub-dimension of market orientation, between each sub-dimension of entrepreneurial orientation and performance.

Nevertheless, currently no literature has provided empirical evidence on the relationship between SEO and organizational performance using China's nonprofit organizations as samples. Under the transition background, what is the relationship between SEO and organizational performance of China's nonprofit organizations? This is a question needed to be further explored. Hence, the following hypotheses were proposed:

**H2:** SEO has a significantly positive on performance of nonprofit organizations.

## RESEARCH METHOD

**Scale development and measures:** In developing the SEO scale of nonprofit organizations, this study followed the guidelines provided by Churchill (1979) and Gerbing and Anderson (1988). This study first conducted in-depth interviews with top managers from nonprofit organizations. This study analyzed the interview transcripts by content analysis method. The corresponding author, along with two research assistants, developed an initial 25 coding themes which belong to four categories: Innovativeness (INN), proactiveness (PRO), risk-taking (RIS) and reciprocity (REC). These 25 items (themes) were then submitted to the interview participants for face validity testing. As a result of this process, six items were removed, leaving 19 items measuring the four dimensions of SEO. To further test and refine the items, pilot test was conducted. The final survey questionnaire of SEO was consisted of four items each for INN and PRO and three items each for RIS and REC. All items were measured using a six-point Likert scale anchored at strongly disagree to strongly agree.

**Sample and data collection:** Samples for this study were taken from nonprofit organizations in China. Different

**Table 1: Profile of the respondents and organizations**

Characteristics	Frequency	Percentage
<b>Job title</b>		
Managers	127	81.4
Others	31	19.6
<b>Categories</b>		
Healthcare	22	13.9
Social service	47	29.7
Education	38	24.1
Culture/arts	25	15.8
Others	26	16.4
<b>Organizational age</b>		
1-3	13	8.2
4-5	25	15.8
6-20	73	46.2
>20	47	29.7
<b>Size</b>		
<50	94	59.5
51-100	21	13.3
>100	43	27.2

types of NPOs were surveyed. Totally 500 questionnaires were handed out and 197 were recovered, including 158 valid questionnaires. The ratio of questionnaire recovery is 39.4% and that of valid questionnaires is 31.6%. The questionnaires were mainly completed by managers who have comprehensive and in-depth understandings of their organization which ensures that information provided is highly reliable. The profile of the respondents and organizations is displayed in Table 1.

**Analytical technique:** According to statistical requirements for factor analysis, different samples shall be used in exploratory factor analysis and confirmatory factor analysis. Considering that the original SEO questionnaire of this study contains 14 items, 105 of the 158 valid questionnaires were randomly selected for exploratory factor analysis while the remaining 53 questionnaires combined with the previous 105 valid questionnaires were used for confirmatory factor analysis and SEM.

## RESULTS

**Exploratory factor analysis:** The 14 items comprising the four subscales were subject to exploratory factor analysis. The principal component analysis with varimax rotation was conducted. The valid number of common factors was determined by the eigenvalue above or equal to “1”. Items that fail to have substantial loadings on the factors to which they were originally assigned or items that load on more than one factor were deleted. Two items were eliminated according to the above criteria and the four common factors of EO were developed. The exploratory factor analysis was conducted again on the remaining 12 items and revealed four components with eigenvalues greater than 1.0 (Table 2), accounting for 63.18% of the variance.

**Table 2: Eigen values and total variance explained**

Eigen values	Variance (%)	Accumulativevariance(%)
3.157	26.305	26.305
2.063	17.190	43.495
1.249	10.412	53.907
1.113	9.273	63.180

Each item has a comparatively high loading on the corresponding factor, ranging from 0.527-0.862. In accordance with qualitative analysis, these factors were labeled as innovativeness (INN), proactiveness (PRO), risk-taking (RIS) and reciprocity (REC). This analysis reflected a composition of the scales in accordance with the starting assumptions.

**Confirmatory factor analysis:** With the aid of Software LISREL8.7, the confirmatory factor analysis was realized. To assess model fit, six indices were used:  $\chi^2/df$  ratio, as well as the Comparative Fit Index (CFI), the Normed Fit Index (NFI), the Non-Normed Fit Index (NNFI), the goodness of fit index (GFI) and the root mean square residual (RMR). The  $\chi^2/df$  ratio provides information about how closely the model fit compared with a perfect fit. Generally, values that are less than 3 indicate good model fit. Values of 0.90 and over (for CFI, NFI, NNFI and GFI) or 0.08 and under (for RMR) signify acceptable fit. One item was eliminated according to the criteria mentioned in exploratory factor analysis and the four-factor structure of SEO with 11 items was finally developed (Fig. 1). The goodness-of-fit indexes illustrated that the proposed structure demonstrated good fit. Based on these indexes, it can be concluded that the overall fit of the four-dimension measurement model of SEO was acceptable.

All standardized factor loadings were greater than 0.50 (T-values>1.96). The  $\chi^2$  for the unconstrained four factor model was significantly lower than the  $\chi^2$  of each constrained model. Summarizing the above analysis, this study concluded that the four-dimension SEO scale of nonprofit organizations demonstrated good reliability and validity. Thus, research hypothesis 1 is supported.

**Impact of SEO on performance:** Given that no simple indicator can adequately capture the multifaceted nature of performance of nonprofit organizations, two broad categories of measures were used in this study. The first measure is related to financial performance and the second measure is related to social performance. For this study, a subjective rather than an objective approach was used to measure organizational performance.

The impact of SEO on performance of nonprofit organizations was assessed through SEM (Fig. 2). For the proposed model, the overall chi-square divided by the 43 degrees of freedom yields a value of 2.67 which is lower

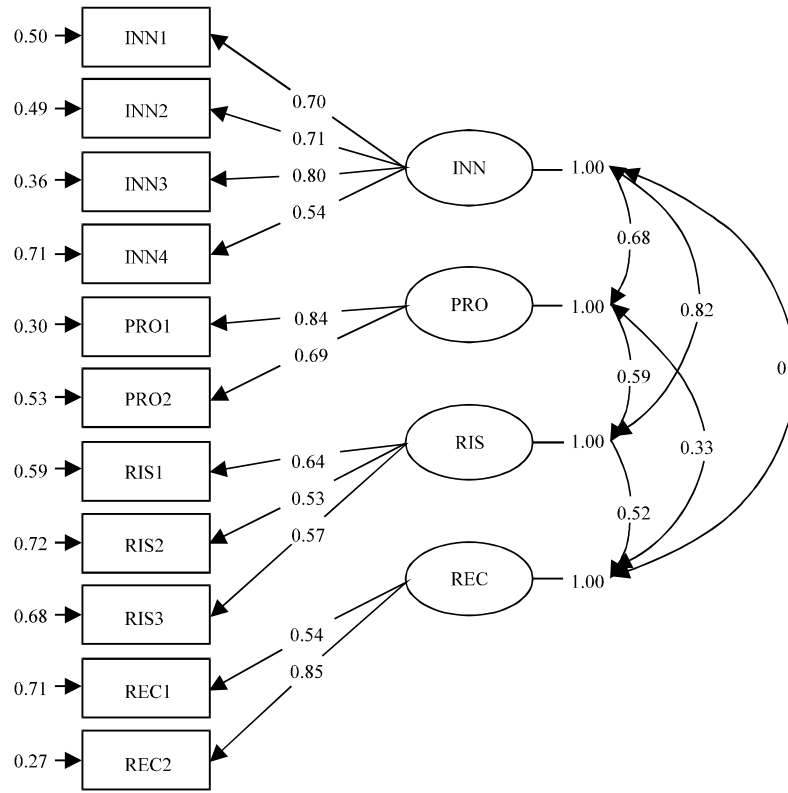


Fig. 1: Four-factor structure of social entrepreneurial orientation (SEO). INN: Innovativeness, PRO: Proactiveness, RIS: Risk-taking and REC: Reciprocity

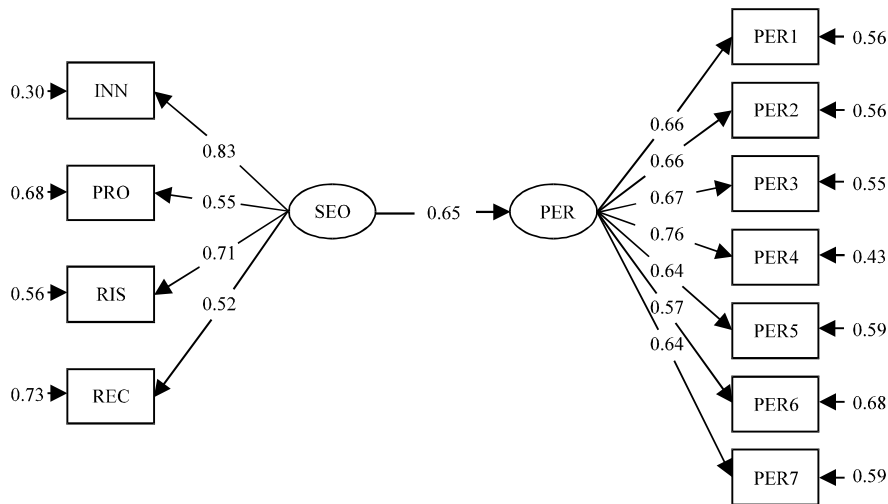


Fig. 2: Impact of social entrepreneurial orientation (SEO) on performance (PER). SEO: Social entrepreneurial orientation, INN: Innovativeness, PRO: Proactiveness, RIS: Risk-taking, REC: Reciprocity and PER: Performance

than the demanded maximum of 3.0. The other fit indices (CFI = 0.94; NFI = 0.90; NNFI = 0.92) and the root mean square residual (RMR = 0.071) are all within acceptable ranges. Hence, the model is a reasonable representation

of the data. The standardized path coefficient between SEO and organizational performance shows that a positive and significant impact exists ( $r = 0.65$ ,  $p < 0.001$ ), so research hypothesis 2 is supported.

## CONCLUSION AND IMPLICATIONS

Despite the increasing research attention paid to social entrepreneurship of nonprofit organizations, to date, little has been done to develop and validate a scale of Social Entrepreneurial Orientation (SEO) in the nonprofit context. The objective in this research is to develop a valid scale for measuring SEO and investigate its impact on performance in the context of China's nonprofit organizations.

**Conclusion:** The findings in this study support previous assertion that SEO is a multidimensional construct including innovativeness, proactiveness, risk-taking and reciprocity. The data indicate that the four-dimension SEO scale of nonprofit organizations developed in this study has acceptable reliability and validity. With respect to the SEO and organizational performance linkage, the findings indicate that the degree of SEO is positively associated with performance of nonprofit organizations. The findings support prior theoretical research which suggests that SEO is a factor in determining organizational effectiveness. The implication is that nonprofit organizations in China can improve their performance through the adoption of SEO strategy.

**Academic and managerial implications:** The present study makes both academic and practical contributions. As a managerial tool, SEO scale can be used to guide the social entrepreneurial behaviors of nonprofit organizations, as well as to benchmark their current practices. That is, managers of nonprofit organizations can use SEO scale to compare their social entrepreneurial practices against other organizations or to identify deficiencies in their current social entrepreneurial practices. This will enable an organization to improve the overall effectiveness of their social entrepreneurial activities and enhance its relative performance.

The academic contribution is to offer a significant advance on the current literature on social entrepreneurship in the nonprofit context. First, this study explored the definition of SEO and then developed a conceptual model with four components, namely innovativeness, proactiveness, risk-taking and reciprocity. Although some of the ideas expressed in the SEO conceptual model may be familiar to researchers and practitioners (Morris *et al.*, 2011), the value of the model is in its integration of these various notions to provide a more comprehensive picture of SEO in the nonprofit context. Second, this study provided empirical evidence on the SEO scale that is both reliable and valid. This gives new theoretical insight into how social entrepreneurial

strategy is implemented. Third, this study empirically tested the impact of SEO on performance of nonprofit organizations and found that SEO has positive associations with performance. This study has provided a useful foundation on which further theoretical and empirical research in the field of social entrepreneurship can be built.

**Limitations and future research directions:** This research is not without its limitations. First, antecedents of SEO in the nonprofit context require further theoretical and empirical researches, because the practitioners need to know how to transform these preconditions into instruments for shaping SEO strategy for nonprofit organizations. Second, only the overall impact of SEO on organizational performance was examined. Further studies could examine the interaction effects of the components of SEO on organizational performance in the nonprofit context. Finally, the moderating effect of organizational strategy type and other background variables on the relationship between SEO and organizational performance is a key target for future studies which has significant meaning for nonprofit organizations to allocate resources and time for different strategies to improve organizational performance.

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## APPENDIX

Four items for innovativeness (INN):

- INN1 = With particular emphasis on the development of new services or programs
- INN2 = Often seek innovative ways to solve problems
- INN3 = Often provide new service project or program for service target
- INN4 = Often adjust and amend the existing service project or program

Two items for proactiveness (PRO):

- PRO1 = To seek continuous improvement in daily operations and service delivery
- PRO2 = Achieve a position of leadership in similar organizations

Three items for risk-taking (RIS):

- RIS1 = Willing to take risks in order to seize and exploit opportunities
- RIS2 = Committing to seek new sources of revenue, rather than maintaining the traditional sources of revenue
- RIS3 = Make a full use of the potential opportunities in the environment with a positive attitude.

Two items for reciprocity (REC):

- REC1 = Able to establish a broad partnership with other organizations
- REC2 = Take into account the main interests of all parties before making important policy decisions

Seven items for performance (PER):

- PER1 = Have a good social reputation
- PER2 = To be considered as a trustworthy organization
- PER3 = Often coordinate and arrange activities according to organizational mission
- PER4 = Able to fulfill organizational mission
- PER5 = Have a variety of revenue sources to ensure financial safety
- PER6 = Able to obtain sufficient funds for daily operations and activities
- PER7 = Have enough cash reserves to react to decrease in income

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