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2014

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citation for published version (APA)

Khieng, S. (2014). *The dawn of social enterprise? NGOs balancing between social value creation and profit-making in Cambodia.*

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Chapter 5:

5 The Dawn of the Social Enterprise in Cambodia? Processes of Commercialisation in the Nonprofit Sector⁸

Abstract:

The increasing commercialisation among nonprofit organisations (NPOs) is shifting financial dependence from charitable donations to self-generated earned income. Little is known about the consequences of this shift. Indeed, there is a lack of literature that discusses how NPOs' ventures into social entrepreneurship evolve and what effects they have on multiple dimensions of these organisations. To address this gap, the aim of this paper is to describe and analyse processes of commercialisation of nonprofit sector organisations and their effects on social entrepreneurial NGOs in Cambodia. The data used in this study is based on a large-scale quantitative survey and qualitative key informant interviews with NGO leaders and administrators of NGOs in five regions across Cambodia. We found that the need to ensure social and financial sustainability is one of the major motivations organisations engaged in commercial ventures. Commercialisation has transformative effects on the goals, motives, methods, income distribution, and governance component of NGOs in the sample. At the same time, however, commercialisation tends to sideline the social mission of NGOs.

Key words

NGO, commercialisation, social enterprise, effects, Cambodia

⁸ This article is co-authored by Khieng and Dahles and, as of January 2014, is under review for the *Journal of Social Entrepreneurship*.

5.1 Introduction

In 2010, the Cooperation Committee for Cambodia (CCC), an influential umbrella and development think-tank, identified “a shift toward social enterprise programs as a new, more sustainable development model’ for the country” (Cooperation Committee for Cambodia, 2010, p. 7). This reorientation towards social entrepreneurship marks the latest development among non-governmental organisations (NGOs). What impacts the partial or full conversion into social enterprises are on the nonprofit and for-profit worlds are little known. This conversion could turn out as an alternative approach to development, breaking the fetters of donor-dependency and stimulating grassroots and community-driven entrepreneurship. However, the transformation could harm the reputation of and bring new risks to the nonprofit sector.

In Cambodia, examples of the conversion of NGOs to social enterprises abound. The NGO Youth with Disabilities Foundation for Education and Employment (Yodiffee) established handicraft business and farms to generate income and employment for handicapped youths. Similarly, another NGO, Buddhism and Society Development Association (BSDA) owns Smile Restaurant and runs English and computer courses, providing skills trainings for women and children of disadvantaged background. Khmer Arts, a registered nonprofit organisation (NPO),¹ strives to revitalise Cambodian classical dance and music through commercial tours and performances around the world. Such initiatives are part of an emerging trend of NPOs’ engagement in commercial activities in Cambodia.

Worldwide, particularly in North America and Europe, processes of commercialisation among NGOs have reached a new level, as has been widely reported in the media (e.g. the *Guardian*’s Social Enterprise Network) and discussed by current civil society scholarship (Cooney, 2011; Dart, 2004; Di Zhang & Swanson, 2013; Weerawardena et al., 2010). These organisations are “in transition” (Weerawardena & Mort, 2006) and experience a massive thrust toward commercialisation (Weisbrod, 2000, 2004), which is “the dominant force shaping the non-profit sector” (Anheier, 2005, p. 211). The “turbulent and competitive” external environment in which NGOs operate causes the leaders of these organisations to engage in more entrepreneurial activities (Weerawardena et al., 2010, p. 350). Consequently, a variety of organisational forms have emerged that exhibit some measures of

commercialisation. Two of the most common forms are referred to as *social enterprise* or *social entrepreneurial organisation*.

To date, empirical and theoretical studies on the subject are divided on the benefits and potential negative effects of commercialisation among NGOs. Some scholars propose that NGO engagement in business activities brings about advantages, such as a diversification of resources, a reduction of constraints imposed by donations and an ability to be more focused on the bottom line, and should therefore be encouraged (Alexander, 2000; Defourny et al., 2010; Evers, 2001; Frumkin, 2005; Haugh, 2007; Pfeffer & Salancik, 2003, 1978). Others, more sceptical, caution that business engagement may result in mission drift, exclusion of beneficiaries who cannot pay, promotion of unfair competition between nonprofit and for-profit organisations, risk to reputation and exploitation by nonprofit managers (Dees et al., 2002; Weisbrod, 2000, 2004; Young & Salamon, 2002).

Only scant literature exists on how commercialisation develops among NGOs (Di Zhang & Swanson, 2013) and little literature on the effects that NGOs experience upon engaging in commercial activities and the way in which their leaders deal with these effects. In addition, much of the available literature is based on the American and European contexts where commercial activities among NGOs are a long-standing phenomenon and social enterprises are more developed (Lepoutre et al., 2013). While some scholars suggest that social entrepreneurship is an embedded phenomenon shaped by the level of economic development as much as the social, political and cultural context (Lepoutre et al., 2013; Mair & Martí, 2006; Mair, 2010), only few empirical studies provide evidence of its situational and contextual nature. Particularly, the experience of countries in East and Southeast Asia brings additional value and insight to current scholarship and development practices.

In order to address the transformation of the nonprofit sector, this article aims at describing and analysing processes of commercialisation among NGOs in Cambodia. In particular, the question will be addressed as to how local NGO leaders perceive of and deal with the effects of this transformation on the objectives, strategies and management of their organisation. We choose to focus on Cambodia for several reasons. First, most of the NGOs in Cambodia were established in response to foreign aid initiatives (Malena et al., 2009) and have remained heavily dependent on such funding thus far. Second, NGOs in Cambodia are one of the most vibrant civil society actors. Third, they contribute substantially to economic

development and poverty reduction in the country. Fourth, Cambodian social enterprise development is under-researched.

The data on which this article is based have been generated in a large-scale study, comprising a quantitative survey among 300 NGOs as well as qualitative interviews with 42 selected local NGO leaders across Cambodia. The article contributes to existing literature on transformations of the nonprofit sector by revealing the efforts of local NGO leaders to escape the constraints of aid dependency and to deal with the perceived effects and challenges emerging in this process. The analysis is based on a conceptual model of organisational diversity in the social enterprise discourse (based on Alter, 2007). The study has important policy implications concerning the regulation of the related and unrelated business activities of NGOs as well as the emergence of social enterprises in Southeast Asia at large and Cambodia in particular, since the Government of Cambodia is planning to introduce a law to govern NGOs/Associations.

This article is structured as follows: in the next section, the background of the Cambodian NGO sector is briefly discussed to establish the context for the analysis. Then, a review of relevant literature is undertaken to devise an analytical framework for the empirical findings, which are presented and interpreted in the following section. In the conclusions, the social dimension of the commercial activities as deployed by the Cambodian NGOs will be reflected upon. Implications are discussed relevant to policymaking and development practice. Finally, recommendations for future research are extended.

5.1.1 Cambodia's NGO Sector

Cambodia's current challenges are rooted in the civil war and internal conflicts that have spanned several decades, extending into the late 1990s (Chandler, 2007). With peace and political stability achieved, Cambodia began its fast-leap reconstruction and reforms toward a free-market economy with substantial technical and financial assistance from international development partners (e.g. the World Bank, Asian Development Bank and International Monetary Fund) and large numbers of local and international NGOs. Cambodia benefits from the rapid growth of the garment, tourism and agriculture sectors, propelling the country into the echelon of the fastest growing economies in the world. In less than a decade, poverty has been reduced from 39% in 1994 to 27% in 2010 (Strange, Khieng, Saing, Hing, & Lun,

2011). The increasing prosperity, however, is not equally distributed across the nation and a widening gap between the rich and the poor is manifesting itself.

NGOs play a key role as an agent of development. They have contributed significantly to the economic development and poverty reduction in Cambodia. Between 1992 and 2011, NGOs provided about US\$1.1 billion, or 10%, of total aid from their own resources (Council for the Development of Cambodia, 2011). In an annual development effectiveness report, the government acknowledged the substantial contribution of NGOs to national and sub-national development through both service provision and policy advocacy. Based on their funding allocation and in order of importance, NGOs' main areas of activities are health and HIV/AIDS, education, and community development (Council for the Development of Cambodia, 2011). These sectors are very much in line with the priorities of the National Development Strategic Plan (NSDP). Beyond basic social services, NGOs have also developed strong roles in building a culture of peace, link Cambodia to relevant international networks and involve government and civil society organisations in dialogue for advancing accountability and good governance (Merla, 2010; Xinhua, 2009).

5.2 Literature Review: Towards a Conceptual Framework

Social entrepreneurship is a relatively new area of research where theory building is incipient. Consensus about definitions is still lacking and debates are abundant. Social entrepreneurship is best understood by analysing its two constituent components: *social* and *entrepreneurship*. The vital question is which new meaning the *social* component adds to *entrepreneurship*. Other concepts used as synonyms or epiphenomena of social entrepreneurship are as follows: social venturing, NPOs adopting commercial strategies, cooperatives, community entrepreneurship, public entrepreneurship, fair trade, microfinance schemes, corporate social responsibility, social responsible business, volunteerism, civic entrepreneurship, and social economy (Alter, 2007; Lundqvist & Middleton, 2010; Mair, 2010).

Following Joseph Schumpeter (Schumpeter, 1934, 2000), entrepreneurship is synonymous with innovation. Schumpeter defines entrepreneurs as innovators who take advantage of market opportunities and transform production pattern via means of technical and/or organisational innovation. This definition emphasises “innovation” or “new combinations” of products, production methods, markets, source of material supply, forms of

organisation and resources as critical characteristics, distinguishing entrepreneurship from “doing business” or “profit-making activities” in general.

The term *social* is perceived to add a new dimension to an enterprise in that it identifies value creation for the benefit of a social group or objective as the distinctive characteristic. However, as Dees (1998, p. 3) argues, “social entrepreneurs are one species in the genus entrepreneur”. The explicit and principal social goals of an entrepreneur is what makes him/her a social entrepreneur (Dees, 1998; Peredo & McLean, 2006). Still, some scholars claim that entrepreneurship is social by nature (Dahles et al., 2010, p. 3). Others argue that the difference between commercial entrepreneurship and social entrepreneurship is that the earlier focuses on “outcomes rather than process” while the latter focuses on “process rather than outcome” (Seymour, 2012, p. 20).

Dees and Anderson (2006) identify two schools of thought among the scholars studying social entrepreneurship. The first identifies social entrepreneurship in terms of earned-income generation for the purpose of supporting social missions. These social missions are defined and promoted by stakeholders external to the social enterprise (SE). The second understands social entrepreneurship in terms of activities and strategies to address social problems and needs. These improvements are designed and implemented by the social enterprise as an integral part of its objective and mission.

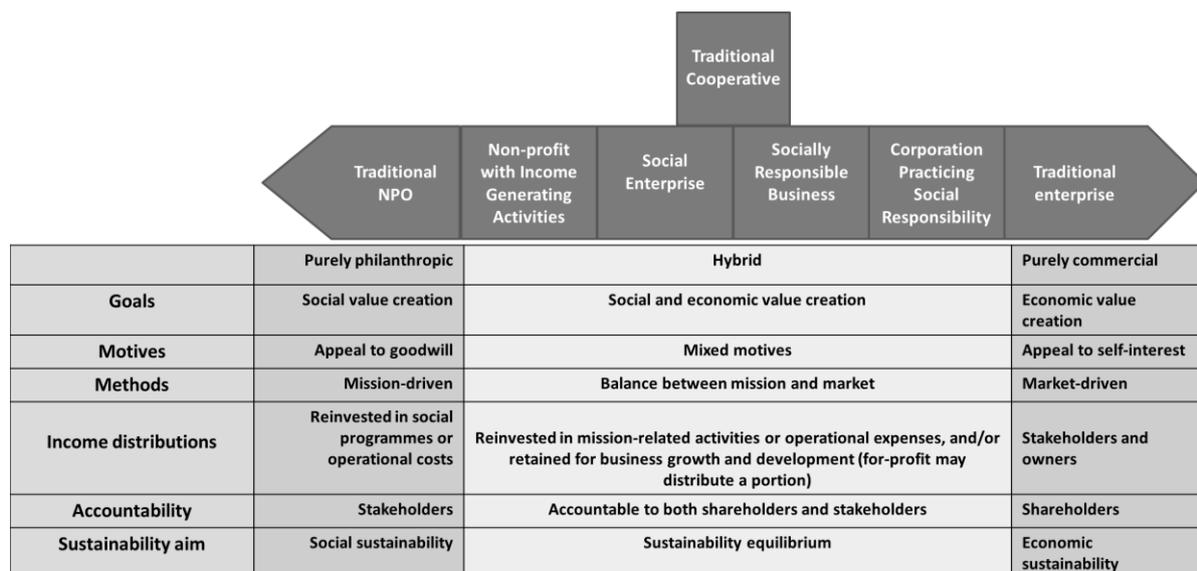
Brouard and Larivet (2010, pp. 39–50) provide a synthesis of current literature contributing to the conceptualisation of social entrepreneurship (see Table 5.1).

Table 5.1: Conceptualisation of Social Entrepreneurship

Concepts/ Number of References	Synthesised definitions
Social enterprises (31)	organisations which pursue social missions or purposes that operate to create community benefit regardless of ownership or legal structure and with varying degrees of financial self-sufficiency, innovation and social transformation
Social entrepreneurs (33)	individuals who with their entrepreneurial spirit and personality act as change agents and leaders to tackle social problems by recognising new opportunities and finding innovative solutions, and are more concerned with creating social value than financial value
Social entrepreneurship (31)	a concept which represents a variety of activities and processes to create and sustain social value by using more entrepreneurial and innovative approaches and constrained by the external environment

While it is useful to have some guiding definitions, it is important to note that social entrepreneurship has a different meaning to different people in different contexts (Kerlin, 2010; Mair, 2010). The different typologies of social entrepreneurship developed by scholars (see Figure 5.1) exemplify the transformation of organisational forms both in the not-for-profit and business sectors, and the emergence of various hybrid forms in between the two (Alter, 2007; Dacin et al., 2010; Dees & Elias, 1998). In Figure 5.1, organisations are positioned on a continuum based on selected indicators, such as their goals, motives, and methods of running the organisation, distribution of income, accountability and sustainability aim. The mission-driven traditional NPO is placed on the far left end of Figure 5.1. NPOs have the goal of creating social value for the benefit of different stakeholders and are concerned with social sustainability. On the opposite end, the market-driven and purely commercial enterprise is mainly accountable to its shareholders and concerned about the economic sustainability of the enterprise. Between the two extremes of the continuum, a wide variety of hybrid forms of organisation are distinguished, from not-for-profit with some minor income-generating activities to socially responsible enterprises toward the far right. These hybrid organisations have mixed missions and motives. Social enterprise and cooperatives hold the middle position due to their ability of balancing between social value creation and programme sustainability, thereby attempting to create a sustainable equilibrium.

Figure 5.1: Continuum of Organisational Diversity in Social Enterprise Discourse (adapted from (Alter, 2007))



Swanson and Zhang (2010) hypothesise that for an NPO to be social entrepreneurial, they “must strive for sustainability by applying business practices in a manner similar to those normally associated with for-profit businesses” (p. 81). These social entrepreneurial NPOs (Di Zhang & Swanson, 2013; Lepoutre et al., 2013; Weerawardena et al., 2010) distinguish themselves from traditional NPOs by pursuing social and economic missions simultaneously. They are also different because they bring in new strategies, norms, values, and innovation to the nonprofit sector (Dart, 2004). By acting entrepreneurial, traditional NPOs can become “more market-driven, client-driven, and self-sufficient” (Perrini, 2006, p. 60). Sustainability in NPOs pertains to the organisations’ ability to survive in order to meet their social objective (Weerawardena et al., 2010).

In the past decade, there has been “a quantum leap” in the “scope, scale and variety” of NGO engagement in commercial activities (Young & Salamon, 2002, p. 224). Various theories have emerged to address the commercialising NGO as a ‘new’ organisational form and sub-field of study. Among these theories are those that address increased intra-sector and inter-sector competition for donor funding and the consequential search for new strategies to sustain their organisations and their social programme, among them the turn to commercial activities (Dart, 2004; Eikenberry & Kluver, 2004; Kerlin & Pollak, 2011; Pfeffer & Salancik, 2003, 1978; Weerawardena et al., 2010; Weisbrod, 2000). Other approaches address, in particular, the institutional environment (Feeney, 1997), where social issues left unsolved by government, market or civil society sectors become integrated in the social mission of NGOs (Mair, 2010; F. M. Santos, 2012). NGOs are allocated the role to address these government and market failures (Ben-Ner, 1986; Hansmann, 1987; Salomon, 1987; Steinberg, 2006). NPOs also have their own inefficient and limited ability to response to goods and services under-provision (Steinberg, 2006).

However, thus far, very few scholars have attempted to theorise the effects experienced by NGOs engaging in commercial activities and the coping strategies developed by local NGO leaders facing these effects. Some scholars engaging in research on funding strategies among NGOs have paid cursory attention to the effects of commercial activities. Overall, it has been stated that the commercialisation of services provides NGOs with access to revenues and greater flexibility, thereby reducing donor dependence (Froelich, 1999). Mitchell (2012), however, cautions that NGOs could face mission-drift when engaging in business that is not related to their mission. Literature on “how social entrepreneurial values

evolve” (Di Zhang & Swanson, 2013, p. 122) is fragmented. To address these issues more systematically, this article will apply selected key indicators as listed in Figure 5.1 to the Cambodian NGOs in our sample. In order to better understand the benefits and challenges perceived by local NGO leaders engaging in commercial activities, the article will assess their perspective on the transformation of their organisation’s goals, motives, methods, income distribution, accountability and sustainability.

5.3 Research Methodology and Data

The research underlying this article applies a mixed methods approach following a sequential explanatory procedure (Creswell, 2009; Teddlie & Tashakkori, 2009). In the first phase, a face-to-face survey among 312 NGOs was conducted in five regions of Cambodia.² The objective of the survey was to map NGO strategies (in particular, commercial strategies) in mobilising resources to sustain their operations.

In the second phase of the research, 43 NGOs across different sectors were selected among those that, in the earlier survey, had indicated that their organisation generated income from commercial activities. A total of 43 in-depth interviews were conducted with the objective of investigating the NGO leaders’ perceptions of the effects of commercial activities on the mission, operation and governance of their organisation. The key characteristics of the NGOs selected for in-depth interviewing are listed in Table 5.2.

The data from the quantitative survey were processed using statistical software STATA. We generated descriptive statistics to map NGOs to generate themes and topics for the interview phase. The interview recordings in the second phase were transcribed and coded using the qualitative data analysis software Nvivo. We adopted an inductive analysis of thematic coding. The first level of thematic coding generated 24 themes (parent nodes). An additional level generated 108 ‘child’ nodes, while a third level of further in-depth analysis resulted in 68 nodes. These three-level coding and analysis provided key quotes. In order to illustrate our findings, we selected a number of these key quotes to serve as exemplary quotes. To protect the identity of our interview participants, the quotes are listed under a code.

Table 5.2: Characteristics of the Commercialising NGOs

Sectors	Percent
Education and training	22.1
Health, nutrition and HIV/AIDS	10.0
Child welfare and rights	9.7
Community development	7.6
Agriculture/animal health	7.2
Gender and women issues	5.5
Credit and savings	5.2
Environment and natural resources	4.8
Advocacy, democracy and human rights	4.8
Tourism, arts and culture	2.4
Humanitarian aid, and disaster preparedness	1.4
Others ³	19.3
<i>Total</i>	<i>100</i>
NGO Size (based on annual budget, in US\$)	
≤ 10,000	9.5
10,001–100,000	29.8
100,001–200,000	13.1
200,001–300,000	11.9
300,001–400,000	3.6
400,001–500,000	4.8
500,001+	16.7
N/A	10.7
<i>Total</i>	<i>100</i>
Beneficiaries	
Children	17.1
women groups	12.6
general population	11.5
students and youth groups	10.3
disabled persons	5.8
Farmers	5.7
HIV/AIDs victims	5.7
CBOs/LNGOs	5.8
Others ⁴	25.5
<i>Total</i>	<i>100</i>
Commercial activities	
% of NGOs who generate own income	21.2

5.4 Findings

5.4.1 Commercial Activities among Cambodian NGOs

During the last few years, commercial activities among Cambodian NGOs increased from 6% in 2006 to 21% in 2012 (Khieng, 2013). NGOs generate income mainly from tourism and hospitality, education and vocational training, and agriculture and fishery (Table 5.3).

Table 5.3: Categories of Commercial Activities

Main categories	Examples of specific activities
Tourism and hospitality	Handicraft and souvenir shops, coffee shops and restaurants, hotels, performing arts (traditional dance, orchestra and circus), visual art galleries
Education and vocational training	School fees, fees from English and computer training courses, subject specific tutoring, vocational training courses (e.g. sewing classes)
Publications and media	Sales of NGO reports, books, magazines, t-shirts, DVDs, radio spots
Agriculture and fishery	Rice farmer cooperatives, rice farms, organic and fair trade produce, poultry and domestic animals farms, fish farming
Consultancy	Bidding for government projects, research and training consultancies
Volunteer	Fees and contributions from international volunteers
Microcredit	Rice bank, micro and group loan, self-help and saving groups
Health	Fees from clinics, family planning, medical consultancy, and medical tests
Others	Data processing, construction, electronic equipment maintenance and repair, IT solution, wheelchair sales, legal consultancy, event organising, translation, well construction and maintenance

The effects associated with the commercialisation within the sector are uncharted territory among nonprofit sector scholars based in the region. In this section, we aim to bridge this gap by looking at the selected indicators as identified and summarised in Figure 5.1 in order to assess the effects that commercial activities have on NGOs; in particular, their goals, motives, methods of running the organisation, distribution of income, accountability and sustainability aim.

5.4.2 Effects on the Goal of Organisations

The first indicator of interest is how commercialisation affects the goal and mission of NGOs. In general, NGOs have been capable of aligning their activities to their goal. However, there are indications that, besides providing an income for their beneficiaries, NGO leaders also try to achieve their sustenance of their organisation. In other words, their value creation now consists of not just the social but also the economic or financial dimension. In this process, they try to strike a balance between the two diverging objectives. This poses major challenges as the following case illustrates. One NGO that provides technical and vocational trainings in many provinces of Cambodia experienced some benefits when its management introduced a fee as the result of reduced external funding, as its director relates:

Yes, the difference is that in the past attendance of community members was large because it was free. At the same time, it was quite chaos in each classroom. Now with the fee introduced, they seem to have more disciplines. This implies that when they pay, they expect something back and they cannot just come without clear a purpose. Also, they tend to be using our computer lab more productively (SE15).

But there were also negative effects. As the NGO director reveals, the NGO has lost some of its students as a consequence of the introduction of fees. In this case, various programmes of the NGO are currently scaled down to cater toward only those who can pay the fee.

5.4.3 Effects on the Motives of Organisations

The commercial turn among NGOs is overwhelmingly motivated by challenges in sustaining the organisation and ongoing projects in the face of an increasing competition for declining resources. More than 50% of the NGO leaders interviewed indicated that sustainability is their foremost concern. However, the motivation for NGO leaders to engage in commercial activities extends beyond solely generating funding to sustain the organisations and their communities; they also seek to gain ownership and autonomy. Consequently, the aspiration to become more self-sufficient and self-reliant enables NGO leaders to initiate new programmes independent of conventional funding sources and, by so doing, avoid stringent terms and conditions imposed on them by their institutional donors. The commercial activities can become as critical to their independence as they have become embedded in their mission. The increasing push towards self-financing activities further promotes the NGOs' capacity to negotiate terms of collaboration with their donors and thus to achieve organisational autonomy.

Other justifications for commercial activities are to create training venues, and provide employment and income for community stakeholders they work closely with. Many of the social enterprises such as restaurants, schools, health clinics, and handicraft shops, established by these NGOs aim to provide vocational and technical skills as well as on-the-job training and employment for women, youth and former street children, and disabled people. These skills and hands-on experience are important to prepare them for reintegration in their communities and to build an independent livelihood through either job placement programme or starting up their own business (Table 5.4).

Table 5.4: Why NGOs Are Engaged in Commercial Ventures

Why NGOs started earned income?(# of responses)	Exemplary quotes ⁵
Sustainability (24)	<ul style="list-style-type: none"> - This social enterprise is less about our organisation but our aim is to create a sustainable livelihood programme for communities. When the communities are sustainable, our programmes are sustainable too and so is our organisation. When our organisation is sustainable, we can run even without donor funding (SE3). - Our reason is mainly based on our study of the donor tendency. The result was that in order to sustain our organisation and the communities we work with, we had to do something. We need to sustain our organisation so that we can reach other target communities in other provinces (SE6).
Training venues and employment for beneficiaries (7)	<ul style="list-style-type: none"> - First, we opened it in 1998 as a TVET training programme. But then we opened the restaurant to provide training centre for the trainees and to generate some incomes to become more self-reliant. So it's good for both the students and our organisation (SE29). - The main intent it to sustain the programme. As a nation, we must not depend on external aid forever. So we teach our communities to have independent livelihood by generating employments and establishing their own businesses (SE3).
Income generation for beneficiaries (5)	<ul style="list-style-type: none"> - Our objective is to encourage community to sustain their livelihood through income generation activities (SE1). - We established farmer cooperative to generate income for the members of the group (SE6).
Ownership and autonomy (5)	<ul style="list-style-type: none"> - Our mission statement clearly states “Khmer must stop asking for donations. We must be strong, stand up and walk on my own” (SE23). - The establishment of this organisation is not really to seek donor funding. First, we want to have our own income from microcredit programme for us to stay independent. The income helps support 4–5 of our staff (SE10).
Self-reliance and self-sufficiency (4)	<ul style="list-style-type: none"> - We borrowed money to make our programme responsive to the needs of the community. This is because if we ask for donations, we must follow them [their conditions]. With our loaned money, we can decide ourselves (SE36). - The organisation was established to be a vocational training class... then we thought that we must be more self-sufficient. Although we can't be 100% self-funded, it [the income] can help us to some extent (SE29).
Others (3)	<ul style="list-style-type: none"> - It's a project of the NGO, which is not to seek profit. The income is minimal comparing to the expenditure. The income is to support staff salary and operation costs (SE6).

5.4.4 Effects on the Methods of Organisations

Commercial activities impact on NGOs in manifold ways. Structurally, NGOs have both expanded in scale and have become more business-oriented. This is manifest, for instance, by the increase of (social) marketing staff. More and more established organisations separate their business activities from the parent NGO by hiring a business manager or director to be in charge of the business. More far-reaching is the transformation of traditional nonprofit establishments into quasi-for-profit organisations. As they grow, these organisations become more decentralised as responsibilities increase. NGO leaders have to share responsibilities

with staff. At the same time, management professionalises and rules and regulations, policies and procedures are put in place.

The push towards increased accountability also includes access to enhanced human resource capacity. The NGO leaders in our example comment that their staff improved their skills in administration and financial management. However, these transformations are accompanied by challenges, such as the lack of business background, skills and entrepreneurial mind-set as well the lack of legislation on NGO commercial engagement and social enterprise (Table 5.5).

Table 5.5: The Effects of Commercial Activities on the Methods

Effects on the methods? (# of responses)	Exemplary quotes
More business-oriented (10)	<ul style="list-style-type: none"> - An important change is our staff because our engagement in income generation demands more of their commitment, motivation and capacity. We need to have a business or market strategy to work with our partners (SE33). - We have a business manager to focus solely on the organisation's finance and administration of the business (SE40). - May be the only change is that we have a social marketing team (SE38).
Governance (6)	<ul style="list-style-type: none"> - More decentralised now, with more staff meeting and more delegations toward lower level staff. (SE27).
Cross-cutting issues: Improved management practice, administration and financial systems (4)	<ul style="list-style-type: none"> - Now we see that if we want to increase income, we will change too much our way of working then we [decided to] separate the business from [SE32]. Within 11 years we built stronger financial system so this is changing but it's not ... only because we earn income... it's because our organisation is developing in Cambodia, and there's more and more skilled staff and when [SE32] becomes bigger and bigger we need more transparency etc. Then we improved our financial system, our human resource system, our regulation system, our policies within the last five years (SE32).

5.4.5 Effects on the Distribution of the Organisation's Income

Expenses on the administration, operation as well as salary constitute the biggest share of how income from commercial activities is used. However, beneficiaries, communities and other stakeholders also receive the effects from commercial activities through social programmes, income and employment. Some organisations invest 100% of the income to help vulnerable social categories, while others allocate a substantial part of their income toward social projects. In addition to community social programmes, social entrepreneurship also contributes significantly to income generation and micro and small business start-up of community members. Income for beneficiaries is the second major justification why NGOs started their businesses. Trainees and other beneficiaries of several social enterprises in our

sample (e.g. SE1, SE3, SE38 SE40 and SE42) receive financial support to start their own businesses. This support can take the form of a monthly deposit into the beneficiary's savings account or interest-free loans, assistance with technical support and regular follow-ups to ensure the start-ups sustain a success (Table 5.6). Overall, the non-social expenses tend to outweigh the budget allocated for social programmes.

Table 5.6: How Earned Income Is Distributed

How is self-generated income distributed? (# of responses)	Exemplary Quotes
Administration and Operation (24)	<ul style="list-style-type: none"> - Actually, the income we generate is barely enough to cover the basic expenses such as materials and labour cost. Other expenses include administration and certificate printing (SE11). - We sometimes use the income for administration costs because donors do not like to fund these and it is a problem for at least 95% of the organisations in Cambodia (SE6).
Social programme (15)	<ul style="list-style-type: none"> - Our status is nonprofit and NOT for-profit, but it does not mean that we do not need to make a profit. Our idea is also to generate revenue for expenses on scholarship for our trainees. Fifty percent of our actual expenses is on social programme for students (SE13). - Our first priority is to sustain our association and then we use it for our social activities (SE15).
Income for beneficiaries (4)	<ul style="list-style-type: none"> - We use it [the income] to share equally among the youths. Also, we have a saving bank account for each of the 60 students and they have a \$5 deposit into their account each month for their saving until they graduate (SE7). - The income we generate from our businesses is returned back to the main beneficiary groups [women] who make the products. The rest is used to invest into our social programme to support the women and children (SE29).
Reserved fund (12)	<ul style="list-style-type: none"> - Almost all donors have a one-year grant agreement with us. Thus, we don't know if they will continue funding the organisation in the following year. This is especially problematic for our communities and staff, so we've got to have some reserve fund to cover for at least six months after donor money dries up. Also, sometimes we use this reserve to cover when donor funding is late as well as in case of emergency (SE6).
Salary (11)	<ul style="list-style-type: none"> - When you buy a product at [SE24], basically if you pay \$50, you have 25\$ going back to the village. About 12\$ is for labour (production cost), and about 12\$ is for profit to support social activities. We have another half, the other 25\$ is actually to buy the materials, the fabrics to make this quilt we need to buy cotton... (Raw materials). And then another 12\$ is to support the salary of the shop, administration, rent etc. So basically, 4*25% equally shared (SE24).
Stakeholders and director (4)	<ul style="list-style-type: none"> - We have about 40%-50% left after all expenses of the project implementation. We then hold a meeting to share percentage of the benefits based on actual works and responsibilities (SE31). - Of course, we have to pay back to the [social] investors. Actually we will sign in July (2012) with Grameen Foundation who has a joint programme in France (can't recognise the name), the biggest social investor in France. We are discussing for USD700,000 and part of it as a share and part of it as a loan. ... So we are still looking for investors (SE32).
Others (9)	<ul style="list-style-type: none"> - The income we generate is used to convince our donors that we have matching fund available, for example if they can fund \$100,000, we will match that by \$10,000 and that means that their donation is \$110,000 (SE33).

5.4.6 Effects on the Accountability of Organisations

In the context of Cambodia, where the governance system is weak, accountability in NGO governance is critical. Our data suggests that NGOs with funding from grants and donations are most accountable to, in order of importance, their donors, beneficiaries and local authorities. NGOs with earned income are most accountable to their beneficiaries, donors, and line ministries. Another less visible but equally important effect relates to transparency. Commercialised NGOs tend to be more transparent to their staff and beneficiaries than externally funded NGOs. Transparency is also seen in decision-making processes in which senior management consult with their staff and beneficiaries on important project ideas and future direction of the organisation. As one of our interviewees relates:

... The director did not want to show the account, financial statement to the team because it was just uncomfortable. The situation was bad but nothing was wrong, but then we told him, please inform! Everybody didn't understand what is going, why we reduced the fund... The first thing I did when I became [acting] director last year is full meeting with a hundred people, staff and artists, showing our record and taking hours to explain exactly what it is. So this is what we did to change to make people from a situation with a lot of misunderstandings and on what is stressful and to make people more comfortable and more supportive. (SE32)

5.4.7 Effects on the Sustainability Aim of the Organisation

As discussed earlier, sustainability is the principal reason for NGOs to commercialise. In fact, many NGOs have started to find ways to generate their own income in response to reduced donations and grants from abroad (Table 5.7). In effect, these NGOs are seeking both programme and economic sustainability to ensure the continued operation of their organisation. A few NGOs mentioned that their business enables them to remain active and retain staff during times of financial crisis.

Table 5.7: Effects on the Sustainability Aim

Sustainability aim (# of responses)	Exemplary quotes
Responding to funding challenges (15)	- The general policy of many Cambodian NGOs in the next 5-10 years is to start thinking about how to sustain their programme in the future when they face with challenges in resource mobilisation from foundations. And the idea for sustainability and reduction for donor dependence is that NGOs can raise their own fund and generate their own income. And that the reason why [our NGO] started this programme too, NOT to make a profit but to help the society and to support the programme to be sustainable in the future (SE37).
Reliable and unrestricted (9)	<ul style="list-style-type: none"> - It [social entrepreneurship] is sustainable. If we received external money, it's not stable but with our own money, whatever amount, we always have activities. This means that [social entrepreneurship] never dries up... If we depend on external money, we wouldn't be able to survive without it and staff would be laid off (SE3). - Earned income is our favourite income because it does two things: For one, I don't have to spend anytime begging for it. Our mission is not to ask for money, our mission is to create and present dance. So if we're creating and presenting dance and getting paid for it, we're earning income from doing our mission. But if I have to write grant proposal, I'm spending my time for money to do our mission. The other thing is that earned income is unrestricted (SE21).

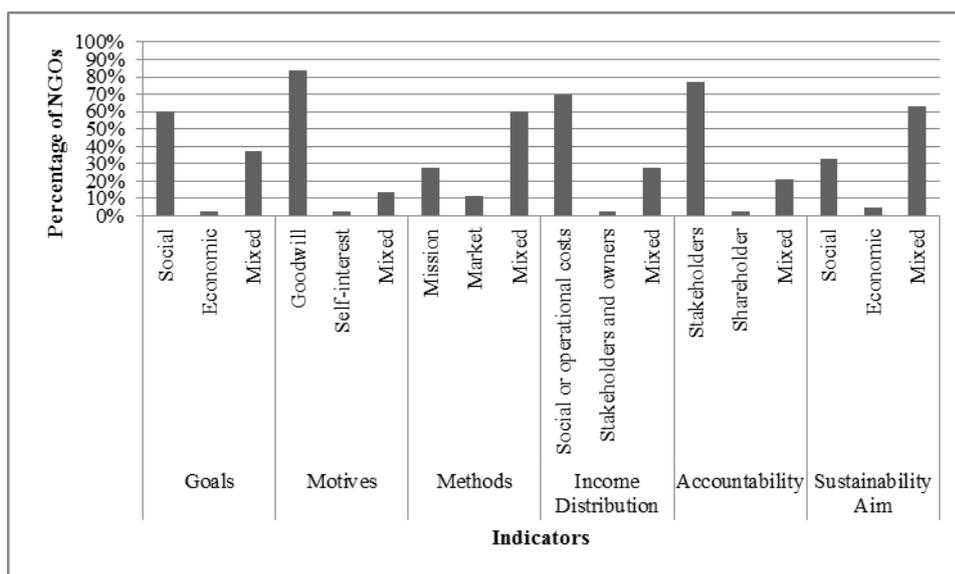
5.4.8 Significance of the Six Indicators

We conducted an analysis on each of the six indicators of the social enterprise spectrum for every NGO, classifying them into three broad categories that vary per indicator. On the *goal*, we classified the NGOs in our sample as dominantly concerned with social value creation, economic value creation or both. On the *motive*, NGOs were classified in terms of their appeal to goodwill, self-interest or mixed motives. Similarly, NGO missions were marked as *mission-driven*, *market-driven* or balanced mission between market and social. On *income distribution*, NGOs were classified according to whether it is reinvested into social programme or operational costs, shared among stakeholders and owners, or a mixture of both. On the *governance* indicator, NGOs were classified in terms of their principal accountability to stakeholders, shareholders or both of them. For the *sustainability* indicator, NGOs were classified according to the type of sustainability they attempt to achieve: social sustainability, economic sustainability, or a balance between the two. Overall, the outcome for each indicator is summarised in percentage points in the graph (Figure 5.2). Please find the full analysis in the appendix.

The results indicate that on the goal indicator of the social enterprise spectrum, close to 40% of the NGOs had integrated the economic aim in the activities of their organisation, resulting in a mixture of social and economic value creation. NGO leaders are mostly (85%)

motivated by the aim to help disadvantaged groups of people, such as widows, disabled persons, former trafficked people and street children. There is an emerging trend among NGOs (15%) to include personal benefits as well. In terms of methods, a sector that was once very much mission-driven has come to respond to both market and mission, as evidenced by the 60% of NGOs adopting such operational methods. Income from the commercial activities, as discussed earlier, is distributed to the beneficiaries and some social investors (30%), while a high percentage of the income is reinvested in social programmes and operational costs of the NGOs (70%). In terms of governance, NGOs are accountable to not only their traditional stakeholders (77%) but also, to a lesser extent, to social investors (shareholders) and members (e.g. cooperative members) who provide capital for the NGO businesses. The sustainability aim is shifting away from purely social to a mixture of both social and economic sustainability.

Figure 5.2: NGO Commercial Activities



5.5 Discussion

Our research findings provide the much-needed empirical evidence for the often-cited claim that “the need to build a sustainable organisation” among NGOs has led to the adoption of “entrepreneurial and business-like strategies that are aimed at achieving greater financial stability” (Weerawardena et al., 2010, pp. 351–353). The strong evidence for declining grants and donations spawning the commercial turn of NGOs represents a contribution to resource

dependence theory where commercial ventures are “a replacement strategy” for reduced traditional forms of funding (Child, 2010; Kerlin & Pollak, 2011).

Drawing on Mitch (2012) and Batley (2011) for funding strategies of NGOs, our study is in line with the proposition that NGOs depending on earned income are more likely to adopt innovative tactics in dealing with donors to avoid being driven largely by their agenda or conditions. Some of the NGO leaders in our sample are able to negotiate favourable terms of collaboration with donors because they have access to self-generated income. In effect, these organisations have been able to maintain their autonomy and independence from donor influence. The results of this study provide evidence of a positive association between organisational autonomy/independence and commercialisation. This particular finding contradicts existing studies, such as those by Mitchell (2012), that have not found any clear evidence on this positive effect.

While succeeding in achieving the sustainability aim, commercial activities have a far-reaching transformative effect on the definition of other indicators in our sample: goals, motives, methods, income distribution, and accountability of the NGOs. Most commercialised NGOs operate like for-profit firms and are driven by a blend of mission and market. The findings support existing literature that argues that commercialisation helps NGOs to redefine their mission, balancing between social and economic value creation (Weerawardena et al., 2010). In this regard, our findings tend to underscore earlier propositions (Swanson & Di Zhang, 2010) that social and financial objectives do not need to clash with each other. They are, in fact, potentially synergetic.

This study also contributes to the understanding of the effects of commercialisation on NGO governance. As has been noted, the governance of civil society organisations in Cambodia is generally lacking in transparency and accountability. Commercialised NGOs represent the beginning of more professionalised and standardised management practices among the local NGOs contributing to more transparency and accountability.

Moreover, this study contributes to literature on sustainability issues by addressing the process of commercialisation and the various strategies NGOs in three areas: people, profit and, to a lesser extent, the environment (Elkington, 1998). Our findings show that, while aiming at sustaining the organisation as such, the commercial activities displayed by the NGOs in our sample also promote community and environmental sustainability. The increasing number of

NGO-initiated business start-ups testifies to the struggle for community sustainability. The effects on the programme sustainability and benefits for communities also relate to how community issues can be solved through social entrepreneurship. A common perception found among the social entrepreneurial organisation leaders in our sample is that their organisations were not created to seek donor money but to be self-sufficient and sustainable through income generation. Environmental sustainability is the aim of a number of commercially active NGOs attempting to achieve a reduction in their carbon footprint and their water and electricity consumption.

Along with preferable effects, we have found that social entrepreneurship has also produced unintended negative consequences. We observed that among a few NGOs engaging in commercial activities, “the social was being pushed aside”, which aligns with the findings by Seanor et al. (2013, p. 338). There is some evidence that, for the majority of the commercialised NGOs, more income is spent on the operational costs and organisational management and less on social projects. Overall, the NGOs in our sample were aware of this risk and made attempts to avoid it. The findings present a mixed picture of many positive effects and some drawbacks of commercialisation in the NGO sector. Future research will have to investigate this issue of potential mission drift and associated negative effects in order to produce more conclusive findings. Such information will prove invaluable for NGO leaders and development practitioners who are seeking to engage in social entrepreneurship. Not only do they need to be aware of potential pitfalls and risks of commercialising NGOs, but also they need to be advised how to minimise and manage these potentially detrimental effects (Di Zhang & Swanson, 2013).

In summary, it is important to differentiate between two forms of commercialisation among the NGOs. The first form of commercialisation simply cross-subsidises or generates income to fund the social objectives of NGOs. In this case, there is not much value addition besides the revenue generated. The danger of mission drift looms in this category. The second form of commercialisation is not only social in itself but also brings about innovation, an entrepreneurial spirit and the prevalence of social values to the sector. Most of the NGOs in our sample match the first type. However, NGOs of the second category, while still a tiny minority, hold the promise of revitalisation and generation of alternative business models that may provide the mushrooming Cambodian economy a competitive advantage in the long term.

5.6 Conclusions

In Cambodia, where informal businesses dominate the economy, the scale and scope of commercial activities among NGOs is an important indication of the incipient transformation of the nonprofit sector. A turbulent external environment characterised by increasing competition for declining donor-funding forces NGOs to develop strategies for sustaining their organisation and, at the same time, achieves their social mission. Our study contributes three distinct findings to the burgeoning literature on the commercialisation processes in the nonprofit sector. First, at the organisation level, NGOs have experienced positive effects of commercialisation, such as improved governance, a better financial and administration system, improved efficiency, and more autonomy and independence. Second, at the community level, communities accrue benefits, including improved services, vocational and technical training, employment and income generation although such impacts may not be easily assessed. Third, at the national level, there are indications of a potential transformation of the development paradigm. The resourcing of development programs shifts from donor-funded, and, therefore, foreign dominated, to locally initiated and supported by various forms of social and conventional entrepreneurship. This transformation may have significant implications for the development practice in Cambodia. The findings confirm that commercialisation among NGOs promotes self-reliance and, at the same time, a shift away from the traditional development approach implemented by the NGO community and their patron donors towards a more sustainable model of development (Cooperation Committee for Cambodia, 2010). In addition, the findings support the idea that commercial activities reduce the dependence on donor funding while enhancing resource diversification and organisational autonomy (Cooperation Committee for Cambodia, 2012). This reduced donor dependence as well as the increased self-sufficiency can be a competitive advantage for social entrepreneurial NGOs because some donors avoid long-term grantee dependence on external funding (Kerlin, 2009). Equally important is that social enterprise may contribute to the emergence of an “entrepreneurial spirit” not only among NGOs but also among the communities and society at large (Kerlin, 2009).

Social entrepreneurship promotes the emergence of a variety of grassroot organisations, such as social enterprises, cooperatives, farmer associations, women associations, saving groups, self-help groups, community enterprises, micro and small businesses and socially responsible businesses. Despite the similarity of goods and services

they offer, these organisations are ‘new’ in the sense that they are based on local initiatives that respond to community needs. The fact that these organisations depend on local resources and self-generated income distinguishes them from the more traditional forms of NGOs that have almost exclusively been supported by foreign aid. They are innovative because they offer a new combination of social and economic values to the civil society sector. The governance practices of social entrepreneurial NGOs are equally unprecedented as they encourage active participation of their board members and promote transparency and accountability. This latest development, despite being rather small in scale, has potentially huge implications that may change the defining characteristics of NPOs in Cambodia. Improvement in governance coupled with the contributions to the poverty reduction and community economic development by this new grassroots movement will help address the accusations put forward against Cambodian NGOs of not representing their local constituencies and propping up Western agendas instead.

The findings on the effects of commercialisation among NGOs in Cambodia should serve as a call to policymakers to accelerate changes in the legal framework in order to facilitate the emergence and development of the nonprofit sector as suggested in earlier studies (Kerlin & Pollak, 2011). Previous studies (Kim and Cho, 2009; Sriram et al. 2007, as quoted in Di Zhang and Swanson, 2013 p. 122) suggest that government interventions and “a sound policy environment” with rich informational and financial opportunities stimulate and enhance social enterprise start-ups and entrepreneurial success. Specifically, the current draft law governing NGOs and Associations should include detailed clauses on commercialisation of NGOs and social enterprises. Similarly, the law on taxation regarding NPOs should be revised to support the growth of social enterprises and other similar forms of organisations.

Endnotes

- 1) In this article, we use both the term non-profit organisation (NPO) and non-governmental organisation (NGO). The two are not entirely the same, although the two categories often overlap. NGOs can be seen as a type of NPO.
- 2) The latest NGO census in 2012, conducted with the Cooperation Committee of Cambodia (CCC) in tandem with this study, indicates that approximately 1350 NGOs are currently operating in Cambodia.
- 3) “Others” includes disability and rehabilitation, water and sanitation, research and consultancy, business/organisational development, religion/faith, providing grants to NGOs/CBOs.
- 4) “Others” includes indigenous people, drug users, religious groups, land conflict communities, policymakers, prisoners, union members, homeless people, elderly people, victims of human trafficking and sex workers.
- 5) Most quotes were translated from Khmer (Cambodian language).

Appendix: Analysis of NGO Commercial Activities

NGOs	Date of Interview	Commercial activities	Goals			Motives			Methods			Income Distribution			Accountability			Sustainability Aim		
			Social	Economic	Mixed	Goodwill	Self-interest	Mixed	Mission	Market	Mixed	Social or operational costs	Stakeholders and owners	Mixed	Stakeholders	Shareholder	Mixed	Social	Economic	Mixed
SE0	12-Mar-2012	Marketing services, handcraft shops			X	X				X	X			X					X	
SE1	23-Apr-2012	Micro-credit and saving groups			X	X			X		X			X					X	
SE2	12-Mar-2012	Producing wheel-chairs and spare parts	X		X	X				X	X			X					X	
SE3	12-May-2012	Restaurants, handcraft and souvenir shop, English and computer schools			X	X				X			X	X					X	
SE4	12-Mar-2012	Well and toilet construction and maintenance services			X			X		X			X			X			X	
SE5	9-Apr-2012	Producing IEC materials, including radio spots, TV spots, TV and radio shows, organising	X		X	X				X	X			X					X	
SE6	26-Mar-2012	Rice mills, farmer cooperative, microcredit			X	X				X			X			X			X	
SE7	26-Apr-2012	classical dance and music band, tailor shop, handcraft shop	X		X	X				X	X			X					X	
SE8	9-Apr-2012	Legal services	X		X	X				X	X			X					X	
SE9	11-May-2012	Short course vocational training	X		X	X				X	X			X			X			
SE10	24-Apr-2012	Microcredit, pig farm, fish and chilli sauce factory			X			X		X			X			X		X		
SE11	13-Mar-2012	Soft-skills training	X		X	X			X		X			X			X			
SE12	1-Nov-2011	Second-hand furniture and clothe shops	X		X	X				X	X			X			X			
SE13	20-Mar-2012	Survey processing, digitisation and related IT services	X		X	X				X	X			X					X	
SE14	23-Mar-2012	Rice and vegetable farms, livestock farms, agricultural machinery rental			X	X			X		X			X			X		X	
SE15	6-Mar-2012	Handicraft shops, traditional dance and music band services			X	X			X		X			X					X	
SE16	25-Apr-2012	Tailor shop, handcraft shop, drama and musical performances, IT services			X	X				X	X			X			X			
SE17	15-Mar-2012	Consultancy and training services	X		X	X			X		X			X			X			
SE18	10-May-2012	General education, agriculture farms rental	X		X	X				X	X			X					X	
SE19	2-Mar-2012	English and computer training	X		X	X			X		X			X			X			
SE20	26-Mar-2012	Home tutoring, translation services, English and computer classes...			X	X			X	X				X			X		X	
SE21	19-Mar-2012	Classical dance performance and tours, sales of media and books	X		X	X				X	X			X					X	
SE22	24-Apr-2012	Handicraft, rice paddies, office and equipment rental	X		X	X				X	X			X			X			
SE23	21-Mar-2012	Electrical repairing, rural electricity service provider, electrician training			X	X			X	X				X			X		X	
SE24	25-Feb-2012	Handicraft shops	X		X	X				X				X	X				X	
SE25	9-Mar-2012	Restaurants, constructions, electrical repairing	X		X	X				X	X			X	X			X		
SE26	10-May-2012	Training and consultancy service			X	X			X	X				X			X		X	
SE27	27-Apr-2012	Hosting 'responsible tourist', medical clinics, livestock raising, fish ponds, sales of VCDs, t-shirts	X		X	X			X		X			X			X		X	
SE28	26-Apr-2012	shop, restaurant, hotel, and tourism and training school	X		X	X			X		X			X			X			
SE29	29-Mar-2012	Handicraft shops, restaurant and guesthouse	X		X	X				X	X			X					X	
SE30	16-Mar-2012	Dental and medical services, guesthouse, transport service	X		X	X			X		X			X			X			
SE31	11-May-2012	Agriculture related services and training		X		X			X				X		X			X		
SE32	21-Apr-2012	Circus, production company, graphic design studio, animation studio, visual art galleries			X	X				X			X			X			X	
SE33	30-Mar-2012	Sales of print media	X		X	X				X	X			X					X	
SE34	16-Mar-2012	Training services and sales of publications	X		X	X			X		X			X			X			
SE35	5-Mar-2012	Guesthouse, schools, and mini-bar	X		X	X				X			X	X					X	
SE36	23-Apr-2012	Microcredit, rice banks, saving groups			X	X				X	X			X					X	
SE37	2-Mar-2012	Volunteer placement services	X		X	X			X		X			X			X			
SE38	24-Apr-2012	Well construction and maintenance services			X	X				X			X			X			X	
SE39	26-Apr-2012	Classical music performances	X		X	X			X		X			X			X			
SE40	27-Apr-2012	Restaurant, handcraft and boutique shop	X		X	X				X	X			X					X	
SE41	15-Mar-2012	Radio spots and media-related services	X		X	X				X	X			X					X	
SE42	19-Mar-2012	Livestock farm, rice paddies, handcraft shop			X	X				X	X			X			X			
Total			26	1	16	36	1	6	12	5	26	30	1	12	33	1	9	14	2	27