

Micro-Diagnosis of the Financial Sustainability Dilemma in Social Enterprises: A Case Analysis Based on Beijing Stars and Rain

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Abstract: Social enterprises are unique organizations that balance social mission and commercial operation, with their financial sustainability being a subject of significant concern. Existing research predominantly adopts a macro perspective, lacking micro-level financial analysis of specific institutions. This paper takes "Beijing Stars and Rain" as a case study and, by analyzing its multi-year financial data, reveals the practical dilemmas faced by social enterprises from dimensions such as solvency and profitability, thereby offering a novel perspective for understanding their sustainable development challenges.

Keywords: Social Enterprises; Financial Sustainability; Micro-Financial Analysis; Beijing Stars and Rain; Solvency

1. Introduction

Social enterprises are unique organizations that pursue both social value and economic returns. In China, a core challenge for social enterprise development is achieving financial self-sufficiency and sustainable development. Existing research largely explores this issue from a macro perspective, seldom delving into the financial details of individual organizations to find answers.

This paper uses the case of China's first autism service organization, the "Beijing Stars and Rain" Education Institute, to reveal the specific financial difficulties and underlying causes faced by social enterprises at the micro level through the analysis of its multi-year financial data. This study aims to address the gap in existing research by providing an authentic and detailed observational perspective on the sustainability issues of social enterprises.

2. Literature Review

2.1 The Definition and Evolutionary Trajectory of Social Enterprises

As an organizational form that integrates social mission and commercial operation, the definition of social enterprises encompasses multiple perspectives. Wang Ming and Zhu Xiaohong defined them as hybrid organizations combining public welfare and profit-seeking motives [1], while Liu Zhiyang and Wang Lufeng further argued that the development of social enterprises in China is deeply rooted in the traditional concept of "balancing righteousness and benefit" (Yi Li Guan) and a unique historical path of state-market interaction, forming a generative logic distinct from Western models [2].

2.2 Theoretical Foundations and Research Status of Financial Sustainability: A Configurational Perspective

Regarding financial sustainability research, scholars have increasingly adopted a configurational perspective to analyze its complex causative mechanisms. Duan and Yang, through an fsQCA study of 148 Chinese social enterprises, found that "products or services" and "corporate philosophy" within mission statements are universally core conditions leading to high sustainability, with multiple equivalent pathways existing. Yu et al. further extended the research to the external ecosystem, indicating that the synergistic effects of multiple elements-such as policy, social culture, and industrial infrastructure-determine the sustainable performance of social enterprises, and that their impact pathways significantly differ based on the enterprise's revenue structure [3]. These findings resonate with the conclusions of Berbegal-Mirabent et al. from their study on Spanish social enterprises [4], collectively revealing the concurrent causal effects of multiple factors behind financial sustainability. Beyond internal mission alignment, research also highlights specific organizational strategies to achieve scale and sustainability. For example, in the context of Saudi Arabia, Alotaibi identifies commercial franchising as a viable model for social enterprises to replicate proven

business structures, thereby enhancing their economic prosperity and social impact [5]. This demonstrates a strategic pathway to alleviate financial instability through scalable, standardized operations.

2.3 Development Dilemmas of Social Enterprises in China

However, Chinese social enterprises face significant challenges on the path to financial sustainability. Based on neo-institutionalist theory, Xu Caiyun and Li Jian revealed that traditional organizations transitioning into social enterprises are prone to "decoupling" behavior between policy and practice, leading to transition failure [6]. Liu Yaodong and Shi Yuying constructed an analytical framework of the conflicts among commercial, public welfare, and government logics, pointing out the inherent tensions social enterprises face in resource allocation and legitimacy acquisition [7]. These challenges are exacerbated by systemic inequalities in the autism service sector itself, where resources in China are concentrated in urban centers, leaving other regions severely underserved [8].

3. Financial Analysis

Table 1. Short-term Solvency Indicators for Beijing Stars and Rain[Owner-draw]

	2018 Value	2018 YOY Change	2019 Value	2019 YOY Change	2020 Value	2020 YOY Change	2021 Value	2021 YOY Change	2022 Value	2022 YOY Change	2023 Value	2023 YOY Change
Current Ratio	1.01	-0.202	0.92	-0.090	1.01	0.102	1.37	0.359	1.06	-0.228	0.83	-0.200
Quick Ratio	0.81	-0.354	0.81	-0.003	0.85	0.044	1.17	0.387	0.35	0.706	0.28	-0.203

The years 2022-2023 represented a severe crisis. The current ratio fell below 1, and the quick ratio dropped below 0.5 during this period. This indicates that the organization's current assets were insufficient to cover its current liabilities. Furthermore, after excluding inventory, the assets readily available to cover debts provided very little protection, posing a high risk of short-term default. The significant gap between the quick and current ratios is partly due to slow repayment from borrowers and potential bad debts.

For instance, in 2018, an entity named "2018 Blue Action" owed Beijing Stars and Rain 43,609.68 yuan. The most recent 2023 financial statements show this amount remains unpaid. Notably, this receivable still accounted for 42.76% of total other receivables in 2022 (Table 2). This situation contributes significantly to the large difference between the organization's current assets and quick assets.

3.1 Introduction to Beijing Stars and Rain Education Institute

Beijing Stars and Rain Education Institute (hereafter "Beijing Stars and Rain") is China's first private non-profit organization serving children with autism and their families. Its core activities include providing one-on-one behavioral intervention training for autistic children, offering systematic rehabilitation skills training for parents, and actively conducting social advocacy to increase public awareness and acceptance of autism. Through its professional services, parent empowerment, and public education, the organization holds significant influence in China's autism service sector.

3.2 Solvency Analysis Based on Financial Ratios

Short-term Solvency To assess short-term solvency, the current ratio and quick ratio are used. A current ratio of around 1.0 and a quick ratio of around 0.7 generally indicate weak short-term solvency, suggesting difficulty in repaying short-term debts and interest on time. As shown in Table 1, Beijing Stars and Rain's current and quick ratios are poor.

Table 2. Other Receivables Table for 2022 [from Beijing Stars and Rain's 2023 Annual Audit Report]

Balance as of December 31, 2022: 1,016,409.84 yuan, Here's the Aging Composition:		
Aging	Year-end Balance	Proportion (%)
Within 1 year	433,784.31	42.68
Over 3 years	582,625.53	57.32
Total		
Top Five Other Receivables		
Unit Name	Amount	Proportion (%)
2018 Blue Action	43,609.68	42.76
Others	200,886.00	19.76
Ocean Paradise 2017	192,698.29	18.96
Ocean Paradise 2019	144,000.00	14.17
Xie Yuan	17,599.02	1.73

Long-term Solvency To evaluate long-term solvency, the asset-liability ratio and the

shareholders' equity ratio are used. Ideally, the asset-liability ratio should be between 40% and 60%, and the shareholders' equity ratio between 50% and 70%, indicating relatively healthy long-term solvency. However, Beijing Stars and Rain's asset-liability ratio exceeded 100% in 2022-2023, meaning its liabilities surpassed its assets. For many years, the shareholders' equity ratio has been 31% or lower, and shareholder equity has turned negative (Table 3). This indicates a significant decline in long-term solvency.

Other Relevant Factors

Asset Turnover and Liquidity A complete solvency analysis requires looking beyond standard ratios to asset turnover and liquidity.

Table 3. Long-term Solvency Indicators for Beijing Stars and Rain (Unit: %)[Owner-draw]

Year	2017	2018	2019	2020	2021	2022	2023
Asset-Liability Ratio	76.26	82.18	104.46	92.53	69.35	89.52	111.53
Shareholders' Equity Ratio	23.74	17.82	-4.46	7.47	30.65	10.48	-15.53

Table 4. Operating Capacity Indicators for Beijing Stars and Rain (Unit: times)[Owner-draw]

Year	2017	2018	2019	2020	2021	2022	2023
Asset Turnover Ratio	0.99	0.88	0.96	1.42	1.90	0.91	0.78

Table 5. Profitability Indicators for Beijing Stars and Rain (Unit: %)[Owner-draw]

Year	2017	2018	2019	2020	2021	2022	2023
Total Asset Profit Margin	0.03	0.53	-32.69	11.44	25.31	-31.39	-25.94
Return on Equity	0.06	0.49	-34.81	11.44	31.54	-38.28	-25.35

Table 6. Donation Indicators for Beijing Stars and Rain (Unit: %)[Owner-draw]

Year	2017	2018	2019	2020	2021	2022	2023
Donation Ratio	0.90	10.85	2.40	4.87	1.88	1.52	1.31

4. Enterprise Sustainability Analysis Based on Financial Ratios

Donation Ratio: The proportion of revenue from donations has generally declined. It was highest in 2020 (4.87%) and lowest in 2023 (1.31%). The total donation amounts also varied significantly from year to year. Apart from 2018, donations consistently constituted a small portion of total operating revenue, as shown in Table 6.

5. Problem Diagnosis and Cause Analysis

5.1 Specific Manifestations of Financial Distress

The financial distress of Beijing Stars and Rain is primarily manifested in the continuous deterioration of multiple financial indicators, reflecting a deep-seated sustainability crisis:

Consecutive Losses: The organization incurred severe losses in 2022-2023. Profitability sharply declined from the relatively strong levels in

This involves using operational efficiency ratios to understand how quickly assets are converted into cash and funds are collected. Beijing Stars and Rain's asset turnover ratio has been volatile. It was relatively high in 2022 but fell in 2023, indicating unstable asset utilization efficiency. Between 2017 and 2023, this ratio fluctuated between 0.91 and 1.90, as shown in Table 4.

Profitability is also crucial for solvency. Stronger profitability allows an organization to use its resources to create more economic value, generating funds to repay debts. In Table 5, we can observe that Beijing Stars and Rain demonstrated relatively strong profitability in 2020-2021. However, it suffered severe losses in 2022-2023.

2020-2021, resulting in negative net assets and an inability to support operations through internal accumulation.

Dependence on Unstable Donation Income: The proportion of donation revenue has generally declined (from 4.87% in 2020 to 1.31% in 2023), and the annual donation amounts fluctuate significantly, indicating unreliable donation sources and difficulty in forming a stable cash flow.

Solvency Crisis: Short-term solvency is extremely weak (current ratio below 1, quick ratio below 0.5), and long-term solvency has deteriorated (asset-liability ratio exceeding 100%, negative shareholder equity), exposing the organization to debt default risk.

Insufficient Asset Turnover and Liquidity: The asset turnover ratio is highly volatile (fluctuating between 0.91 and 1.90 from 2017 to 2023), reflecting low asset utilization efficiency; prominent issues in accounts receivable management (e.g., unpaid debt from the 2018 Blue Action in Table 1) lead to high bad debt

risk, further weakening cash flow.

5.2 Analysis of Internal and External Factors

The causes of the financial distress can be attributed to the interaction of internal management deficiencies and external environmental challenges

5.2.1 Internal factors

Low Management Efficiency: Poor management of accounts receivable and accumulation of bad debts (e.g., the 2018 debt remains unrecovered) exposes weaknesses in internal controls and collection mechanisms. Unstable asset turnover indicates a lack of continuity in operational planning.

Furthermore, challenges in strategic human resource management can exacerbate operational inefficiencies. Wijaya and Senen systematically review how social enterprises struggle with skill mismatches, high turnover, and the difficulty of recruiting personnel aligned with both social and commercial logics. These challenges can directly impair management efficiency and the organization's capacity to innovate or diversify its services [9].

Single Revenue Structure: Over-reliance on fees from one-on-one training and parent training, coupled with a low and declining proportion of donation revenue, and failure to diversify income sources (e.g., social enterprise products or government-purchased services), resulting in poor risk resilience.

Insufficient Cost Control: As a non-profit organization, potential neglect of cost-effectiveness due to the public welfare mission may lead to high operating costs, exacerbating losses. **iv. Lack of Financial Planning:** Absence of a long-term financial strategy prevents timely adjustment of debt structure or financing methods when facing crises.

5.2.2 External factors

Disconnected Policy Environment: According to Xu Caiyun and Li Jian [6], traditional organizations transitioning to social enterprises are prone to "decoupling" between policy and practice. Beijing Stars and Rain may face issues like insufficient policy support or ineffective implementation, such as government subsidies or tax benefits failing to materialize effectively.

Limited Financing Channels: The financing environment for social enterprises in China is challenging, with limited access to bank credit and commercial investment, while the donation market is unstable due to economic fluctuations

and social awareness factors.

Lagging Social Awareness: Insufficient public awareness of autism may limit service demand and donation willingness, affecting the organization's income. Although social advocacy activities are conducted, they have not been effectively translated into sustained support.

This is part of a broader systemic issue, as evidenced by the significant spatial inequality and heterogeneous distribution of autism service resources across China, which creates a challenging operational environment for organizations like Beijing Stars and Rain [8].

Triple-Logic Conflicts: Liu Yaodong and Shi Yuying [7] point out that conflicts among commercial, public welfare, and government logics place Beijing Stars and Rain in a dilemma regarding resource allocation and legitimacy acquisition. For instance, the public welfare mission may inhibit commercial operation, while government regulation increases compliance costs.

6. Conclusion and Recommendations

6.1 Conclusions

This study, through a longitudinal financial analysis of the Beijing Stars and Rain Education Institute, explores the causes and manifestations of the financial sustainability dilemma in social enterprises at the micro level.

6.1.1 The main conclusions include

Answer to the Research Question: The financial sustainability crisis of social enterprises results from the synergistic effect of multiple internal and external factors. The case of Beijing Stars and Rain shows that insufficient short-term and long-term solvency, fluctuating profitability, and unstable donation dependence are core issues. Internal causes (management efficiency, revenue structure) and external causes (policy disconnect, financing difficulties) jointly lead to the predicament.

Interpretation of Findings: Financial ratio analysis reveals the risk of insolvency and cash flow breakdown for the organization. This aligns with the "decoupling" behavior under neoinstitutionalist theory and the triple-logic conflict framework, indicating that Chinese social enterprises face unique institutional tensions when pursuing financial sustainability.

Theoretical or Practical Contribution: This study addresses the gap in existing literature regarding micro-financial diagnosis. It empirically

validates the multiple concurrent causal effects proposed by the configurational perspective [3] and emphasizes the critical role of micro-financial management for the sustainability of social enterprises in the Chinese context.

6.2 Research Limitations and Future Prospects

6.2.1 Limitations

Case Specificity: Focusing solely on Beijing Stars and Rain allows for in-depth analysis, but the findings may not be generalizable to all Chinese social enterprises, especially those in different sectors or of different scales.

Data Limitations: Reliance on publicly available financial statements, lacking in-depth interviews or internal management data, may overlook qualitative factors (e.g., leadership decisions or cultural influences).

Timeframe Constraint: The longitudinal data covers 2017-2023, but the crisis in 2022-2023 is prominent, and long-term trend analysis might be influenced by short-term fluctuations.

6.2.2 Future Prospects

Research Expansion: Conduct comparative multi-case studies incorporating domestic and international social enterprises to verify the universality of the financial diagnostic model.

Theoretical Exploration: Integrate qualitative methods (e.g., interviews) to investigate the role of the "Yi Li Guan" (righteousness-benefit view) in financial decision-making, deepening the understanding of institutional dilemmas.

Practical Direction: Future research could focus on evaluating the effects of policy interventions, such as government-purchased services or social investment impact on financial sustainability, to provide guidelines for practice.

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