

Research Article

Contractual Governance of Social Enterprises: Balancing Social Missions and Commercial Obligations in Chinese Civil Law

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Abstract: This research examines the role of contractual governance in enabling social enterprises in China to simultaneously pursue social objectives and commercial sustainability within the framework of Chinese civil law. Employing the PRISMA methodology to conduct a Systematic Literature Review (SLR), twelve peer-reviewed articles were analysed to uncover recurring patterns and themes related to governance arrangements, legal provisions, and institutional factors. The findings are organised into three main areas: (i) contractual tools employed to safeguard social missions; (ii) approaches for harmonising social and commercial goals; and (iii) legal and institutional limitations influencing the enforceability of contracts in China. The analysis indicates that internal instruments such as mission lock clauses, dividend restrictions, and stakeholder agreements are commonly utilised to prevent mission drift; however, their effectiveness is frequently constrained by the rigidity of the codified legal system and inconsistencies in judicial practice. The study concludes that although contractual governance provides a flexible mechanism in the absence of a formal legal status for social enterprises, its long-term effectiveness depends on legal reform and institutionalisation to ensure governance aligns with mission objectives.

Keywords: Legal Frameworks, Mission Drift, Stakeholder Accountability, Hybrid Business Models, Regulatory Gaps

1. Introduction

1.1 Background of Study

Social enterprises have emerged as a distinctive organisational form in which social objectives are pursued through market-based strategies. Unlike traditional charities, which primarily rely on government funding and charitable donations, social enterprises generate income through commercial activities while maintaining a commitment to social impact. In numerous jurisdictions, including China, these organisations operate without a separate legal status. Consequently, understanding how social enterprises reconcile their social and commercial goals has become a key concern for researchers and practitioners [1]. Within the Chinese context, the civil law system is based on codified statutes, allowing limited interpretive flexibility for hybrid organisational models.

At present, there is no dedicated legal framework recognising social enterprises as a distinct category under Chinese civil law. To embed social objectives within organisational operations, social enterprises frequently adopt legally binding instruments such as shareholder agreements, articles of association, and performance contracts. These agreements often incorporate mission-lock clauses, dividend limitations, stakeholder rights, and dispute resolution provisions, which collectively help align social objectives with commercial performance [2]. Nevertheless, the reliance on contractual governance for managing dual objectives introduces inherent challenges. The effectiveness of these agreements in protecting social goals is heavily influenced by judicial interpretation and the constraints of civil law principles. Unlike common law jurisdictions, where courts may enforce broader fiduciary duties towards multiple stakeholders, Chinese civil law predominantly emphasises contractual autonomy and shareholder priorities. This orientation may limit the extent to which social missions are safeguarded [3].

1.2 Problem Statement

The development of social enterprises in China represents an emerging sector that combines commercial and social objectives. However, these hybrid organisations operate within a legal grey zone, as

Chinese civil law has yet to establish a formal legal status for social enterprises [4]. As a result, the state relies heavily on private contracts and self-regulatory mechanisms to mediate between profit-making and social missions [5]. This creates a discrepancy between the operational needs of social enterprises and the limited legal instruments currently available under Chinese civil law. The absence of standardised frameworks raises issues regarding enforceability, mission drift, and the protection of stakeholders, thereby threatening the long-term sustainability of socially-oriented enterprises. The present study aims to examine how contractual governance addresses these challenges and identifies the legal mechanisms that support the alignment of social and commercial objectives [6].

1.3 Research Objectives

To conduct a systematic review and critical analysis of the literature concerning contractual governance mechanisms employed by social enterprises to balance social and commercial goals.

To identify principal legal obstacles and deficiencies within Chinese civil law that influence the formulation and enforceability of contractual arrangements in social enterprises.

To assess suggested frameworks, strategies, and best practices from both domestic and international contexts that could guide more effective contractual governance for hybrid organisations operating in China.

1.4 Significance of Study

The significance of this research lies in its examination of how social enterprises in China navigate legal ambiguity through the use of contractual governance. In situations where social enterprises lack a formal legal status, contracts function as an ad hoc mechanism to reconcile the state's interest in promoting the public good with the need for commercial viability. This study may be of interest to policymakers, legal scholars, and social entrepreneurs, as it provides insights into the ways in which the Chinese civil law framework either facilitates or constrains such governance practices. Additionally, the research addresses a notable gap in the literature by synthesising existing studies on enforceability and best

practices within hybrid legal structures. Previous research indicates that robust contractual arrangements are crucial in contexts where regulatory clarity is limited, particularly in developing economies such as China [3].

2. Literature Review

2.1 Conceptual Foundations of Social Enterprises and Hybrid Governance

Social enterprises are increasingly recognised as hybrid organisations that pursue both social impact and long-term business sustainability. This dual identity sets them apart from conventional non-profit and commercial entities, as they operate in markets while targeting underserved or disadvantaged communities [7]. Their primary contribution lies in problem-solving through entrepreneurial methods, which may involve innovative products, services, or delivery models. However, this dual mandate places the government in a challenging position, requiring effective governance to reconcile competing objectives. Hybrid governance refers to the structures and systems that allow social enterprises to manage tensions between competing institutional logics: the social logic focused on public value, and the market logic centred on efficiency and profit generation [8]. This tension, commonly described as mission drift, raises the governance question of how to ensure accountability to both social and commercial objectives.

Consequently, the demand for corporate governance has led to the adoption of hybrid internal governance models. Many scholars argue that the effectiveness of governance in hybrid organisations is closely linked to organisational legitimacy, stakeholder engagement, and overall viability [9]. Governance is thus not only a structural necessity but also a strategic imperative for long-term survival, particularly where social entities lack formal legal recognition. Understanding the conceptual foundations and governance systems of social enterprises provides a basis for evaluating the extent to which legal and contractual mechanisms can maintain equilibrium between social and commercial goals [10].

2.2 Theoretical Perspectives on Governance in Hybrid Organizations

Social enterprises challenge conventional governance frameworks due to their dual mission. Agency Theory is frequently employed to explain potential conflicts between owners and managerial agents, particularly the risk that managers may prioritise profit over the organisation's social objectives. This tension is further amplified in hybrid organisations, where stakeholders can include donors, beneficiaries, and community members. Mechanisms commonly proposed to mitigate such risks include contracts, incentive structures, and monitoring systems. However, scholars argue that a rigid application of Agency Theory in social enterprises may lead to excessive control, undermining trust and alignment with the organisation's mission [11].

Stewardship Theory offers an alternative perspective, suggesting that managers act as stewards who are intrinsically motivated to serve the organisation's interests. Within social enterprises, this approach emphasises internal commitment to the social mission rather than financial rewards. The theory aligns with the normative ethos of social entrepreneurship, where leadership is often guided by personal values. Research indicates that stewardship-based governance can protect social objectives from undue commercial influence by fostering trust and shared purpose. In this context, contracts remain useful but function as tools to promote joint accountability rather than enforce strict compliance [12]. Additionally, Institutional and Stakeholder Theories contribute to the understanding of governance in hybrid settings. Institutional Theory helps explain how social enterprises conform to societal norms and legal expectations to gain legitimacy, particularly in contexts such as China, where formal recognition may be limited. Stakeholder Theory highlights the importance of balancing the interests of diverse stakeholders, which is critical for governance in mission-driven organisations. Together, these theoretical perspectives justify the use of contractual governance not simply as a legal formality, but as a dynamic process shaped by cultural, institutional, and relational factors [13].

2.3 Contractual Governance Mechanisms in Social Enterprises

Contractual governance involves the use of legally binding agreements to structure internal relationships and allocate rights and responsibilities within organisations. Unlike traditional corporate governance, which relies on statutory duties and compliance, contractual governance allows parties to predefine terms for cooperation and conflict

resolution in a customised manner. This approach is particularly valuable for social enterprises, as it offers mechanisms to safeguard the social mission while pursuing commercial objectives, especially in contexts where statutory frameworks for hybrid organisations are absent. Various contractual tools are commonly utilised to protect organisational missions. Mission-lock clauses, often embedded in foundational documents or shareholder agreements, commit the enterprise to its social objectives and reduce the likelihood of mission drift.

Additionally, exit and dispute resolution clauses provide prearranged procedures for managing conflicts or investor withdrawal when disagreements arise over social or financial matters [14]. These contractual mechanisms serve multiple purposes: they uphold the core values of the enterprise, reassure socially minded investors, and create instruments for managing tensions between social and commercial goals. In jurisdictions such as China, where social enterprises lack formal legal recognition, these contracts offer a practical means of enforcing mission alignment. Consequently, contractual governance not only delivers a more adaptable model of accountability but also constitutes a critical strategy for achieving dual objectives within complex legal environments.

2.4 Balancing Social Missions and Commercial Obligations in Chinese Civil Law

Chinese civil law operates within a codified legal framework that provides detailed regulations regarding individual rights and obligations through comprehensive statutes. Key elements pertinent to organisational governance include Company Law, Contract Law, and Partnership Law. Collectively, these statutes define the structure, functions, and liabilities of legal entities, contributing to stability and predictability in commercial transactions [5]. However, while effective in protecting commercial interests, these legal provisions are not inherently designed to accommodate the dual objectives of social enterprises, which seek to reconcile social value with profitability.

A central challenge in China is that social enterprises lack a distinct legal status. Without a separate legal identity, these organisations are required to function either as limited liability companies or as non-profit entities. The traditional focus of these legal forms—either on shareholder wealth or philanthropic activity—creates structural limitations for enterprises pursuing both social and commercial goals simultaneously [15]. In response, many Chinese social enterprises adopt individual contractual arrangements to embed social objectives within their governance structures. These instruments may take the form of mission-oriented shareholder agreements, codes of conduct, or internal policies incorporating social impact metrics. Nevertheless, the enforceability of such mechanisms remains uncertain, as Chinese courts tend to prioritise commercial rules over socially oriented agreements [16]. Overall, while private contracts provide a partial solution, the broader legal system continues to struggle with meeting the distinctive requirements of social enterprises in balancing profit and social purpose [17].

2.5 Practical Implementation of Contractual Governance in Chinese Social Enterprises

In contexts where social enterprises lack formal legal recognition, many Chinese organisations adopt carefully structured contractual mechanisms to embed social missions within legally recognised corporate entities. Under Chinese Company Law, mission-oriented clauses are frequently incorporated into shareholder agreements or articles of association. Such clauses may restrict dividend distributions, tie voting rights to social performance, and mandate the reinvestment of profits into the organisation's social objectives. Despite this, these measures remain private, unilateral arrangements and lack consistent judicial reinforcement, which limits their effectiveness in resolving legal disputes [18].

Non-governmental organisations and legal practitioners play an important role in supporting social enterprises during the drafting and interpretation of such contracts. Law clinics and non-profit legal advisory services have emerged to assist mission-driven organisations in creating governance documents that comply with legal requirements while maintaining social value. However, their influence is often constrained by the absence of formal legal recognition for social enterprises and limited awareness among local courts and authorities [19]. Although Chinese social enterprises demonstrate a high degree of institutionalisation, even with innovative legal structuring, the absence of a dedicated legal identity forces organisations into frameworks designed either for profit generation or philanthropic activity, leaving hybrid objectives inadequately supported. Moreover, contract enforcement is inconsistent, with courts generally interpreting social mission clauses in commercial terms, treating them as aspirational rather than legally binding. In practice, judicial consideration of mission-related provisions is seldom prioritised unless they align with established commercial norms [20].

2.6 The Role of Chinese Legal Institutions and Judicial Practice

China’s civil law system is defined by its codified statutes, yet in practice, enforcement and interpretation frequently combine formal and informal mechanisms. For social enterprises, which integrate profit-making with public benefit, the lack of a specific legal category leads courts to apply general commercial laws, such as the Contract Law and Company Law. Judicial discretion is therefore pivotal in interpreting contracts, particularly when they contain social mission clauses that lack established legal precedent [5]. When resolving disputes, Chinese courts typically prioritise shareholder interests over social objectives. In the absence of a distinct legal identity for social enterprises, judges often apply conventional commercial standards, regarding mission-related clauses as secondary or non-binding compared with financial obligations. Even when social commitments are explicitly included in shareholder agreements or governance documents, their enforceability largely depends on judicial interpretation and the precision of the contractual language [21]. This inconsistency creates uncertainty for mission-driven enterprises, as enforcement practices vary across different jurisdictions and individual judges.

Despite these obstacles, some localised initiatives have sought to support hybrid governance. Pilot programmes in cities such as Shenzhen and Chengdu have issued regulatory guidance encouraging the formal incorporation of social missions into legal documents. Additionally, institutions including the Ministry of Civil Affairs have begun exploring policy frameworks for mission-driven organisations, although these initiatives remain fragmented. The broader challenge stems from the tension between the rigidity of the civil law system and the informal governance practices on which many social enterprises rely. Consequently, while China’s legal system provides some flexibility through contracts, the absence of consistent judicial interpretation and supportive legal infrastructure continues to impede effective governance of hybrid organisations [22].

2.7 Literature Gap

Although research on social enterprises and hybrid governance has gradually expanded, existing scholarship remains largely biased towards Western legal contexts, offering only a limited understanding of the contractual governance challenges faced by social enterprises operating under Chinese civil law. Most studies concentrate on organisational or theoretical dimensions, with little attention given to how mission-driven clauses are interpreted, applied, or contested within Chinese courts. Furthermore, the impact of regional legal experiments, such as those in Shenzhen and Chengdu, has received minimal academic scrutiny. Similarly, the role of legal practitioners and administrative bodies in navigating the absence of a formal legal identity for social enterprises remains underexplored. This study addresses these significant gaps by examining the practical, contractual, and institutional mechanisms through which social and commercial objectives can be balanced within China’s distinctive legal framework.

3. Methodology

3.1 Research Method and Design

This study employs a qualitative design based on a Systematic Literature Review (SLR). An SLR provides a structured methodology for identifying, analysing, and synthesising existing literature, facilitating the identification of key themes, patterns, and research gaps [23]. This approach is well-suited to the objectives of the study, as it ensures a comprehensive and transparent examination of scholarly work related to the contractual governance of social enterprises within the framework of Chinese civil law.

4. Data Collection

4.1 Search Strategies

The keywords for this study were deliberately chosen to correspond with the research objectives and included terms such as “Legal Frameworks”, “Mission Drift”, “Stakeholder Accountability”, “Hybrid Business Models”, and “Regulatory Gaps”.

4.2 Database Research

The study obtained its data from established academic databases to maintain both quality and reliability of the reviewed literature. The primary sources consulted were JSTOR, Google Scholar, Web of Science (WOS), and ResearchGate.

4.3 BOOLEAN Operators

Boolean search strategies were employed to refine the literature selection process. The operator AND was utilised to integrate the central themes, for instance, “contractual governance” AND “social enterprises” AND “Chinese civil law”, thereby ensuring that the identified studies simultaneously addressed all essential aspects of the research focus. To extend the scope, the operator OR was applied to capture synonymous or related terms, such as “social enterprises” OR “hybrid organizations” OR “mission-driven firms”. Conversely, the operator NOT was used to filter out irrelevant material, excluding studies centred on areas beyond the scope, including “corporate governance”, “multinational corporations”, and “state-owned enterprises”.

4.4 Inclusion and Exclusion Criteria

The inclusion and exclusion parameters guiding the selection of studies are outlined in Table 1.

Table 1: Inclusion and Exclusion Criteria

Criteria	Inclusion	Exclusion
Publication	Scholarly journal articles, academic books, and reputable reports published within the past 15 years.	Non-refereed publications, grey literature, or works published prior to 2015.
Research type	Empirical and conceptual studies directly addressing contractual governance of social enterprises under Chinese civil law.	Studies lacking academic rigour, those irrelevant to the research scope, or works centred primarily on non-governance issues such as aesthetics.
Language	Publications written in English to maintain consistency in analysis.	Publications in languages other than English.
Focus	Studies exploring contractual governance and its implications for balancing social and commercial missions.	Literature unrelated to contractual governance or the dual mission of social enterprises.

4.5 PRISMA Framework

A structured selection procedure was carried out following the PRISMA framework to maintain methodological transparency and rigour. From an initial pool of 35 studies, 12 were retained after applying the predetermined inclusion and exclusion criteria. The stages of this selection process are illustrated in the PRISMA flow diagram presented in Figure 1.

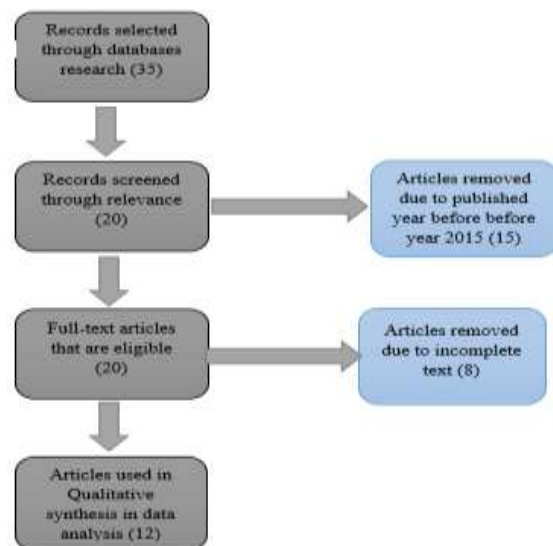


Figure 1: PRISMA Framework

5. Data Analysis Method

The data analysis procedure, summarised in Table 2, employs a structured thematic analysis to systematically identify, categorise, and interpret key insights derived from the reviewed literature.

Table 2: Thematic Analysis Steps

Steps	Description
Familiarization	Involves an immersive engagement with the collected data through repeated reading to gain a comprehensive understanding of its content.
Initial codes	Systematically identifying and assigning preliminary codes by marking significant points, concepts, and ideas aligned with the research objectives.
Initial themes	Consolidating the generated codes into broader categories to formulate potential themes.
Reviewing themes	Assessing and refining the emerging themes to ensure alignment with the central research focus and objectives.
Defining and Naming	Contextualising the identified themes by providing precise definitions and assigning labels that reflect the meaning within the selected literature.
Producing the Report	Integrating the finalised themes into the analytical framework and discussion to synthesise findings.

5.1 Ethical Considerations

This study complies with established ethical standards by upholding transparency, accuracy, and academic integrity throughout the systematic literature review. The review incorporates only peer-reviewed and credible sources to minimise the risk of bias and misinformation. As the research is entirely based on secondary data, no direct involvement of human participants is required, thereby reducing ethical concerns. Nonetheless, careful attention is given to the evaluation of cultural and political contexts within the analysed materials to ensure respectful interpretation and to avoid misrepresentation of national perspectives or ideologies. Table 3 presents three central themes emerging from the Systematic Literature Review (SLR). The first theme, Contractual Governance in Safeguarding Social Missions, highlights the use of contractual instruments as internal governance mechanisms to protect social objectives and mitigate the risk of mission drift. The second theme, Balancing Social and Commercial Objectives in Contractual Governance, addresses the ways in which social enterprises navigate the inherent tension between achieving financial viability and maintaining their social mission. The third theme, Legal and Institutional Influence on Contractual Governance, considers the role of legal frameworks, judicial discretion, and regulatory institutions in shaping both the enforcement and the overall effectiveness of contractual governance.

Table 3: Themes Extracted for SLR

Themes	Description
Contractual Governance in Safeguarding Social Missions	This theme explores the role of contractual governance mechanisms in protecting the social objectives of Chinese social enterprises. It highlights how contracts function as formal instruments for embedding and securing mission-driven commitments.
Balancing Social and Commercial Objectives in Contractual Governance	This theme investigates how contractual governance can be designed to maintain equilibrium between financial viability and the pursuit of social goals. It emphasises the governance processes that address these inherent tensions and ensure accountability among stakeholders.
Legal and Institutional Influence on Contractual Governance	This theme examines the influence of Chinese civil law, judicial interpretations, and administrative institutions on the implementation and enforcement of contractual governance. It draws attention to the challenges posed by courts, regional policy experiments, and existing regulatory gaps.

Table 4 shows that Theme 1 reinforces the significance of established contractual governance mechanisms, including ownership structures, participatory practices, and stakeholder alignment, as critical safeguards against mission drift in social enterprises. By embedding democratic processes and fostering active internal engagement, these mechanisms ensure that social values remain central despite external market pressures. Collectively, they enable hybrid organizations to preserve their core social objectives while adapting to evolving operational environments.

Table 4: Theme 1: Contractual Governance in Safeguarding Social Missions

Study	Objectives	Methodology	Data Analysis & Results	Conclusion
Spicer and Lee-Chuvala [24]	To investigate the influence of ownership structures on mission drift in social enterprises.	Qualitative case study of a social banking network.	Democratized ownership arrangements reduce mission drift and reinforce social objectives.	Ownership-based governance design is pivotal in safeguarding organisational missions.
Zhuang, Wang [25]	To examine how Chinese social entrepreneurs manage mission drift through governance practices.	Mixed-methods study using surveys and interviews in China.	Revealed that tensions arise from dual commercial and social logics; structured governance frameworks help alleviate these tensions.	Tailored governance systems strengthen mission alignment in Chinese social enterprises.
Wolf and Mair [26]	To assess proactive governance mechanisms that sustain the core purpose of hybrid organisations.	Qualitative case study of integrated hybrid enterprises.	Found that incremental achievements and clearly articulated purpose statements enhance coordination and stakeholder confidence.	Proactive governance tools are effective in preserving social missions in hybrid contexts.
Ramus and Vaccaro [27]	To explore how stakeholder engagement and governance structures address mission drift in social enterprises.	Inductive comparative case study of two Italian social enterprises.	Showed that participatory governance and stakeholder re-engagement realign internal operations with original social goals.	Transparent and inclusive governance mitigates mission drift and secures social commitments.

Table 5 illustrates that Theme 2 underscores the ongoing challenge of reconciling social missions with the need for financial sustainability in hybrid organizations. Addressing these dual objectives requires the adoption of credible governance structures and contractual arrangements that clearly regulate the roles and expectations of diverse stakeholders. Within this context, innovative approaches, including hybrid business models and adaptive governance frameworks, emerge as effective tools to safeguard mission integrity while simultaneously ensuring commercial viability.

Table 5: Theme 2: Balancing Social and Commercial Objectives in Contractual Governance

Study	Objectives	Methodology	Data Analysis & Results	Conclusion
Brunei, Moray [8]	To investigate how for-profit social enterprises navigate tensions between commercial viability and social missions through governance arrangements.	Qualitative longitudinal case study.	Demonstrated that weak governance structures accelerated mission drift, whereas hybrid governance frameworks restored balance between economic and social objectives.	Hybrid governance mechanisms are critical for maintaining equilibrium between dual goals in social enterprises.

Liu and Zhang [28]	To examine strategies for reconciling public welfare objectives with profitability in Chinese social enterprises.	Policy and literature analysis of Chinese cases.	Revealed significant structural and legal deficiencies; recommended the adoption of more robust contractual strategies to mitigate dual pressures.	Governance innovations tailored to China's institutional setting are necessary to sustain both welfare and commercial objectives.
Drupsteen and Meerstra-de Haan [29]	To analyse how Dutch Work Integration Enterprises (WISEs) manage competing stakeholder expectations across social and economic domains.	Qualitative multi-case study.	Identified persistent governance tensions arising from conflicting stakeholder logics.	Effective governance requires adaptive mechanisms that accommodate diverse stakeholder demands while safeguarding mission integrity.
Nair [30]	To propose a hybrid business model that strengthens the alignment of social and commercial imperatives.	Development of a theoretical and empirical framework.	Shown that the hybrid model canvas enhanced governance clarity and strengthened the connection between contractual commitments and dual-purpose objectives.	Business model innovation provides a structured pathway for balanced contractual governance in hybrid organisations.

Table 6 demonstrates that Theme 3 highlights the pivotal influence of legal frameworks and institutional capacity in determining the effectiveness of contractual governance in social enterprises. The literature indicates that robust legal systems foster enforceability and predictability, thereby strengthening governance stability. Conversely, deficiencies in legislation and inconsistencies in judicial practice undermine the reliability of contractual mechanisms. For hybrid organizations operating in China, the ability to adapt governance models to local legal and institutional contexts is therefore critical for aligning contractual provisions with the pursuit of both social and commercial objectives.

Table 6: Theme 3: Legal and Institutional Influence on Contractual Governance

Study	Objectives	Methodology	Data Analysis & Conclusion Results
Zhang, Jin [31]	To investigate how institutional legal development shapes the role of contracts and relational governance in improving supplier performance in China.	Survey-based empirical study in the Chinese supply chain sector.	Demonstrated that contractual arrangements were significantly more effective when embedded within robust legal and institutional frameworks.
Gong, Jiang [32]	To evaluate the effectiveness of contractual governance within Chinese mutual fund structures.	Quantitative analysis of contractual and governance performance in the financial sector.	Found that contract-driven governance could deliver effective oversight even in contexts of limited state supervision.
Qi, Tokto	To analyse the implications of	Doctrinal legal analysis	Identified that reforms improved institutions

baev [33]	China's Civil Code reforms for contract discharge and legal certainty.	combined with case interpretation.	formal clarity but judicial practices remained inconsistent across jurisdictions.	are central to ensuring predictability and effective enforcement of contractual arrangements.
Zhang [34]	To examine the shift from welfare-based models to social enterprise frameworks and their legal adaptation in China.	Policy and institutional review drawing on Chinese case examples.	Highlighted that legislative gaps obstruct the full institutionalisation of social enterprises.	Context-specific legal and policy reforms are essential to strengthen hybrid governance in China.

6. Discussion

6.1 Contractual Governance in Safeguarding Social Missions

Spicer and Lee-Chuvala [24] provide empirical evidence that ownership structures play a decisive role in shaping mission integrity, demonstrating that democratic ownership within a social banking network significantly reduces the risk of mission drift. Their findings support the Stewardship Theory, which stresses trust, shared purpose, and mission alignment over rigid control mechanisms. This perspective aligns with Ebrahim, Battilana [9], who argue that strong internal governance arrangements are essential for sustaining social impact. Building on this, Zhuang, Wang [25] examine the specific challenges faced by Chinese social entrepreneurs, emphasising that structured governance systems can help manage the dual pressures of commercial viability and social mission. Their results suggest that well-designed contractual mechanisms can narrow the gap between business and mission logics, reinforcing the observations of Bruneel, Moray [8] on the governance hybridity of for-profit social enterprises. This insight is particularly pertinent in the Chinese legal setting, where the absence of a distinct legal form for social entities necessitates reliance on internally crafted governance structures.

Wolf and Mair [26] shift attention towards proactive governance practices in hybrid organizations, highlighting that tools such as incremental achievements and clearly articulated mission statements strengthen organisational coordination and trust. These findings resonate with Stakeholder Theory, which underscores the importance of governance models shaped by diverse stakeholder interests, and also reflect Institutional Theory's emphasis on governance innovation in environments where external legal systems do not adequately support dual missions. This point is especially relevant in contexts, such as China, where legal recognition of social enterprises remains underdeveloped. Ramus and Vaccaro [27] extend the discussion by exploring how participatory governance mechanisms reinforce internal practices that align with the social mission. Their inductive case study from Italy complements the findings of Ebrahim, Battilana [9], demonstrating that participatory models are central to preventing mission drift. In regions where regulatory environments are uncertain or weak, as in many parts of China, stakeholder-driven governance becomes particularly critical for ensuring mission protection and organisational legitimacy.

6.2 Balancing Social and Commercial Objectives in Contractual Governance

Bruneel, Moray [8], through an extended case study, demonstrate that weak governance systems can expose hybrid organisations to mission drift, particularly when commercial imperatives overshadow social commitments. Their analysis underscores the value of hybrid policy frameworks capable of balancing economic viability with the safeguarding of social purpose. This position reinforces arguments advanced within Stakeholder Theory, which emphasises the design of governance models that address the concerns of both profit-oriented actors and mission-driven stakeholders [9]. Liu and Zhang [28] examine the structural and legal shortcomings that complicate efforts to reconcile public welfare objectives with profitability in social enterprises. Drawing on policy and literature review, they propose that contractual mechanisms can serve as a corrective strategy to manage this duality. Their observations reflect earlier concerns that Chinese social enterprises lack a distinct legal identity and remain confined within restrictive corporate or charitable frameworks [34]. These insights align with wider scholarly debates highlighting that

governance solutions in hybrid settings require adaptation to institutional contexts (Pache & Santos, 2013).

Drupsteen and Meerstra-de Haan [29] investigate the governance of Dutch Work Integration Social Enterprises (WISEs), showing how they navigate the competing demands of commercial sustainability and social objectives. Their findings reveal that hybrid organisations remain subject to persistent governance tensions when engaging with diverse stakeholder logics. This complements the conceptual contribution of Ebrahim, Battilana [9], who emphasised the inherent complexity of achieving stakeholder alignment within hybrid entities. Nair [30] contributes both conceptual and empirical perspectives by proposing a hybrid business model that integrates social and commercial aims. Evidence from the study demonstrates that structured tools, such as the hybrid model canvas, provide greater governance clarity by linking contractual arrangements to dual-purpose objectives. These findings reinforce Bruneel, Moray [8] argument for formal structures as safeguards against mission drift and are consistent with Ebrahim, Battilana [9], who stressed the importance of mission-centred governance in counteracting the dominance of commercial logics.

6.3 Legal and Institutional Influence on Contractual Governance

Zhang, Jin [31] investigate how the advancement of institutional legal systems influences the effectiveness of contractual governance in China's supply chain sector. Their findings reveal that contractual mechanisms yield stronger results when supported by a well-established legal framework. This reinforces earlier arguments by Zhao et al. (2022), who emphasised that both ex-ante and ex-post contractual arrangements depend on the reliability of enforceable legal structures. In a related study, Gong, Jiang [32] assess the governance of Chinese mutual funds, demonstrating that, even under weak state oversight, firms can achieve effective governance through robust internal contractual enforcement. Their conclusion is consistent with Zhang, Jin [31], who found that while institutional quality strengthens contract performance, carefully designed private governance systems can also generate positive outcomes in environments with limited regulatory oversight.

Qi, Toktobaev [33] focus on the impact of recent Civil Code reforms on contract enforceability and legal certainty in China. Through doctrinal jurisprudence analysis, they argue that although reforms have provided greater formal clarity, judicial interpretation remains inconsistent and eclectic. These observations align with the results of Zhang, Jin [31], who also stressed the role of institutional legal infrastructure in contract enforcement, while highlighting its uneven distribution across contexts. Zhang [34] explores the broader legal trajectory from a welfare-oriented model to an enterprise-oriented one, concluding that persistent legislative gaps undermine the institutionalisation of social enterprises. His analysis underscores the need for diversified statutory frameworks to accommodate hybrid organisations. This corresponds with the findings of Gong, Jiang [32], which demonstrate that contract-based internal governance can provide effective alternatives when formal regulatory frameworks remain underdeveloped.

7. Limitations and Future Research

This study provides a structured synthesis of existing scholarship on contractual governance in Chinese social enterprises; however, certain limitations must be recognised. The review is constrained by its reliance solely on peer-reviewed academic sources, which may exclude valuable perspectives from practice-oriented materials such as policy documents, field studies, or internal organisational records. Furthermore, given the evolving nature of China's legal environment, some of the conclusions presented here may lose relevance as new reforms are implemented. Another limitation lies in the absence of empirical validation, as the study does not directly investigate how contractual mechanisms operate in real-world settings, thereby limiting its capacity to evaluate their practical effectiveness. Future research would benefit from adopting empirical approaches, including interviews and case-based investigations, to capture lived experiences of social enterprises. Comparative analysis across regional legal jurisdictions in China could also reveal important variations in governance practices. Finally, linking doctrinal legal analysis with organisational performance and social impact assessment frameworks would enable a more comprehensive understanding of how contractual governance supports hybrid missions in complex institutional contexts.

8. Conclusion

This study examined the role of contractual governance in enabling Chinese social enterprises to balance their dual objectives of advancing

social missions while sustaining commercial viability within the framework of civil law. In the absence of a distinct legal form, these organisations are compelled to depend on internal contractual mechanisms, such as mission-lock provisions, dividend limitations, and stakeholder agreements, to safeguard their social purpose. While these tools can reduce the risk of mission drift and foster alignment among stakeholders, their effectiveness remains highly contingent on the broader legal and institutional environment. Challenges such as regulatory inconsistency, judicial fragmentation, and uneven policy enforcement further complicate governance stability in hybrid contexts. The analysis suggests that although contractual governance offers flexibility and adaptability, its long-term efficacy requires supportive legislative reforms and greater empirical investigation. Strengthening the legal framework and incorporating evidence from practice will be crucial for enabling social enterprises in China to pursue both their social and commercial mandates more effectively.

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