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Major Issues in Social Enterprise Development in the Mainland China

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Recent years have witnessed a boom in the field of social enterprise in the Mainland China, although there is no valid data available on its scope and scale. Among the indicators is the increasing number of social enterprise awards at national level and of the entries for them. Over the same period, many articles and books introducing the concept and practice of social enterprise have been translated and published. Conferences, forums and seminars in this field have been organized by parties from various sectors. Interest of the mass media in social enterprise has steadily grown. Stories of eminent social entrepreneurs around the world are well-known to their counterparts in China.

The achievement of the field may be best illustrated by the **Canyou Group** (残友集团), a Shenzhen-based software company. It was started back in 1997 by Mr. Zheng Weining, a man suffering from hemophilia, and is now the largest social enterprise in China with more than 3,700 staff, most of whom are people with disabilities. On 13th November 2012, the Canyou Group received an award by **Social Enterprise UK** at the International Social Enterprise Awards in London. As a local newspaper in Shenzhen wrote, "It is the biggest award a Chinese social enterprise has ever won."

The impressive development of Chinese social enterprise has been driven by several interconnecting forces. The concept of social enterprise was introduced into the Mainland China only about six years ago, and it was soon applauded and practiced by innovators and "early adopters" in the non-profit sector. Considering the shoestring operation of local NGOs, in particular against the backdrop of global financial crisis, it is not surprising to see in the Mainland China what Professor Dees termed "the rising tide of *commercialization of non-profit organizations*".

Additionally, *the influence of the UK*, as one of the leading countries in the field of social enterprise, is substantive. It remains the most popular destination for Chinese social entrepreneurs to visit. In 2009, the British Council developed the **Social Entrepreneur Skills Training Program**, the first of its kind in China. So far, the Program has spread to around 10 cities with over 400 participants. The annual round of trainings is followed by the Social Enterprise Award jointly initiated by the British Council and two local foundations. The winners are awarded not just a handsome sum of money but a study tour to the UK as well.

Another driving force comes from *the business community*, where there are companies that are not satisfied with traditional philanthropy as fulfillment of their social responsibilities and have integrated into their CSR strategy facilitating the development of social innovation and social enterprise. In 2007 **Lenovo** (联想) initiated the first venture philanthropy fund in the Mainland China, and has run an annual Social Enterprise Award ever since. In 2010 **Intel** started the Intel Innovation National Pitch in the hope of encouraging cross-sectoral collaboration and application of ICT in social innovation and social enterprise. **DBS** (星展银行) is a Singaporean bank with branches in Shanghai. With its expertise in serving SMEs in its home country, it has developed in 2012 exclusive banking services for Chinese social enterprises, and sponsored capacity-building of four local social enterprises. Hopefully, these examples will start a trend.

With the dissemination of the concept of “strategic philanthropy” and “venture philanthropy”, *a few innovative foundations* are shifting their focus from traditional philanthropy to nursing social entrepreneurship. Two outstanding examples are **YouChange China Social Entrepreneur Foundation** (友成基金会) and **Narada Foundation** (南都基金会), two flagship foundations in the Mainland China, both founded in 2007 by private commercial companies. YouChange spearheaded social entrepreneurship education and Narada, following the practice of Ashoka, launched Gingko Program in 2010 to invest in the development of social entrepreneurs. Considering the rapid increase in number of foundations in charity sector, it is fair to expect many others will follow the two examples.

It is noticeable that many social startups are run by *entrepreneurial individuals* who are passionate about solving social problems by starting a business-like organization. Many of them have experience of studying or working overseas, successful track record in career, and strong belief in a better world. Ms. Zhou Xian is typical of this kind of people. After obtaining her MBA in Germany, she came back to China and started a company of her own. Though successful in business, Ms. Zhou determined to devote to social enterprise for a change of the world and herself, a decision apparently influenced by a powerful book **How to Change the World**. She sold her company and studied for her Master Diploma in Public Service Management in the UK, where she was fascinated by omnipresent charity shops and came up with the idea of combining e-commerce and charity shop. Now she is running the first online charity shop in the Mainland China named Buy42 (善淘网), providing a 3-in-1 solution for recycling of second-hand item, creating job opportunity for the disabled people, and fundraising for charity. Interestingly, some people who are running very successful social enterprises were alien to the concept of social enterprise until being told about it.

Last but not least, the dynamics of the Chinese social enterprise sector cannot be fully understood without examining *the role of government*, which is slow in adopting new idea while very influential in encouraging or discouraging it. To many local government officials, social enterprise is just a fashion name for “social welfare enterprise” which is a legal status referring to those enterprises that have more than 35% of its staff with disabilities and are hence entitled to benefits like tax deduction and government grants. Conscious of the widening gap between the social need and its limited capacity, the government has come to outsource some public services to NGOs in the form of procurement or bidding, which stimulates the transformation of many NGOs into social enterprise and encourages the birth of new social enterprises. Nevertheless, it is necessary to point out that the social enterprises which the Chinese government favors mainly fall into the categories of welfare services in limited areas. Put it in another way, the government would like social entrepreneurs to be “helpers” rather than “competitors”, not to mention “challengers”.

Buzzword, but...

Although there are good reasons to be excited about the development of Chinese social enterprise, the field is still in its infancy. The followings are some major challenges to address.

1. There is strong misunderstanding and skepticism of social enterprise.

In one of my articles, I listed 10 questions most commonly asked about social enterprise, based on which it is fair to say that many people still have a vague idea of what the concept of social enterprise connotes even after they have known about the name for quite a long time. Social enterprise suggests no more than a means of revenue generation to some practitioners, equivalence of social welfare enterprise to some government officials, and fulfillment of social responsibility to some commercial companies.

2. There are a large number of social enterprises that may be “social”, but not “entrepreneurial”.

My favorite definition of entrepreneurship is by Professor Gregory Dees, who purports “entrepreneurship is the pursuit of opportunity without regard to resources currently controlled.” Judging by this definition, many Chinese social enterprises would appear to be not as entrepreneurial as they should and can be.

Some social enterprises depend heavily on grant or procurement from government and devote great efforts to satisfying the government at the expense of their independence and focus on those who they serve. The government, central and local, favors social enterprises of this kind and encourages their dependence.

Things are getting no better even for those social enterprises that depend less on government. They are normally not resourceful enough to mobilize stakeholders for resources, and a common deficiency lies in the utilization of social capital which is usually considered an advantage a social enterprise must learn to explore.

3. Few business models have proven to be viable and scalable.

There has been no world-class social enterprise in the Mainland China so far. Even the Canyou Group barely counts. Fairly speaking, it takes time for a business model to prove viable and scalable, and since social enterprise needs to satisfy triple-bottom lines, it is usually more challenging than commercial enterprise to survive and thrive. It is for this very reason that a business model of social enterprise must contain elements of innovation and requires greater mastery of leadership and management to make it happen.

Unfortunately, not every social entrepreneur is capable of designing and running a viable business, and more often than not, they hardly have someone knowledgeable and experienced to turn to. Meanwhile, some social enterprise awards pay less attention to idea implementation than idea generation, which brings about entries of ideas that may be fancy enough while hard to realize.

4. Social enterprise is lack of attraction to talents, especially young people.

The name of social enterprise may sound charming. However when taking a deeper look, one will find various reasons not to step inside the field: susceptible to national policy, less attractive salary, misunderstanding and skepticism of people around, enduring hectic work ..., just to name some. That's why there have been various researches showing one of the biggest challenges for social enterprise is to attract and retain talented people.

5. Education, training and research in this field lag far behind.

Compared to over 100 academic institutes in the USA that offer courses in the field of social entrepreneurship, there are only a handful of universities in the Mainland China providing elementary courses in this area. It doesn't get any better when it comes to training in the field. Besides the Social Entrepreneur Skills Training Program launched by the British Council, AHA Social Innovation Center (AHA 社会创新中心) has developed CHANGES: Seven Steps to Social Innovation, the first systematic training course on social innovation in the Mainland China, and Social Entrepreneur Institute (社会创业家学院) initiated by the Non-profit Incubator delivers serial trainings to social startups. But more diversified trainings are needed and the results must be appraised. In consistency with the level of development in this field, it is regrettable to say that academic research of social enterprise in the Mainland China remains nascent. Many papers and articles are merely introduction or compilation of existing literature, and the research subjects are often irrelevant.

6. Few social enterprises are working to tackle root causes of the social problems they are dealing with.

No one explains the value of social entrepreneurs better than Bill Drayton who proclaimed that "social entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry. "It is understandable that most of Chinese social enterprises are in the stage of giving a fish or teach fishing, considering the nascence and weakness of the field. For those social entrepreneurs who intend to address the root causes, they have to be cautious of how far they can go before provoking the sensitivity of government. In addition, the inferior position of social entrepreneurs in partnership with government or business sector is another reason that hampers them in cross-sectoral collaboration and limit their ability of agenda-setting, both of which are essential to "revolutionizing the fishing industry".

Buzzword, and...

To have more people embrace the idea of social enterprise and to make the existing ones more sustainable, the followings are some critical issues that need to be given priority.

1. Raise public awareness & clarify basic concepts

Social enterprise is yet to be well-known to the general public, and there needs to be effective ways to make people believe in social enterprise and themselves as change-makers. Good stories always go far and deep. Many people first heard of social enterprise and social innovation from the story of Muhammad Yunus and the Grameen Bank while many Chinese social entrepreneurs claimed to be inspired to do what they are doing by a globally best-selling book *How to Change the World*. Just imagine how many people would be influenced if there was a Chinese version of *How to Change the World*, in which the stories of the unsung heroes in the field of Chinese social enterprise were explored.

2. Enable social entrepreneurs

To run a social enterprise is to make maximum use of both your “heart” and “head”. There are two main streams of social entrepreneurs in China. One is from business background, while the other from charity. Many observers and researchers tend to believe, despite lack of conclusive empirical evidence, that it is easier for the former than the latter to run a successful social enterprise. Social entrepreneur skills training, which is effective, accessible and affordable, will benefit social entrepreneurs greatly, especially those from charity and young people.

There is no need for social entrepreneurs to be alone. A functional community of social entrepreneurs will satisfy their multiple needs from information sharing and peer learning to co-operation and collaboration. Some communities of this kind are in their early stage, including the Gingko Program fellows community, ESCEL (易社) fellow community and the Learning Network of participants of CHANGES: Seven Steps to Social Innovation. How to keep a community of social entrepreneurs dynamic and functioning remains a challenging issue.

3. Increase Social Investment/Impact Investing

Social investment is more like rhetoric than reality in the field of Chinese social enterprise. A handful of local foundations are practicing this new idea by means of investing in people training and organizational development, and sponsoring startup pitches and awards, rather than venture philanthropy, equity investment and loan. Grant with “deep engagement” may be a more proper name for their attempt. An even smaller number of social investors are testing the waters in the field, and there have been only a couple of social investment really made and known so far. Besides, the amount of social investment made is rather tiny compared to ordinary business investment.

4. Encourage certification of social enterprise

To a large extent, the field of social enterprise is still muddy, with no clear definition, identification or certification. As in most countries, there is no legal status for social enterprise, and the most relevant legal entities are social welfare enterprises which register with the Ministry of Industry and Commerce, and People-Run Non-Enterprise Units (民办非企业) which register with the local bureau of civil affairs and can do trading and charge for services on the principle of non-distribution of profit. Social enterprise is a hybrid type of organization that can hardly fit in the existing laws and regulations. While the government is trying to understand the new idea and formulate policies towards it, it may be more effective and efficient for a non-profit organization like Social Enterprise UK to set up a set of widely-accepted criteria and conduct certification of social enterprise.

5. Foster intermediary organizations

A functioning ecological system of social enterprise consists of the resources providers, the social enterprises, the clients of social enterprises, and the intermediary organizations which act as infrastructure of the system to enable social entrepreneurs and assist them in creating collaborative partnerships with the resources providers on the one hand and providing better services to their clients on the other. Incubators are needed to provide hands-on experience, effective training, startup capital and network for social startups. Professional services like management consulting, mentoring and capacity-building are in huge demand. Social impact measurement and reporting is crucial to social investment. At present, there are foundations, incubators and international organizations working actively in bolstering intermediaries in the field of Chinese social enterprise, while their efforts, normally in the form of short-term projects, haven't given birth to a mechanism that can work effectively in a sustainable manner. There is therefore still a long way to go before an ecological system of social enterprise is in good shape.

In a nutshell

The Mainland China is going through a critical transformation of social structure and culture. The amazing breakthroughs in the development of social enterprise reflect expectations to respond to the increasing unmet needs of people in a more effective way. Great efforts are required from various parties to address what is currently holding Chinese social enterprise back and advance the field before social enterprise can justify itself as a new breed of business that can both do good and do well.