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Social Entrepreneurship in China: Driving Institutional Change

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Abstract: In the aftermath of the Great Recession, the concern with exclusionary and unethical business practices has led to the growing popularity of social entrepreneurship, which focuses on the creation of social value, not wealth. In this article, I reflect on social entrepreneurship in China, a unique context given the strong Communist party leadership and the transition to a market economy. To begin, I discuss the legal and political framework for social entrepreneurship in China, followed by an overview of the sector's characteristics, including age, size, social issues emphasized, leader characteristics, and the role of women. Next, I provide examples of three social enterprises in China that illustrate the diverse possibilities for this sector as a force for social and institutional change. I conclude with some suggestions for strengthening China's social enterprise ecosystem.

Keywords: change, China, development; entrepreneurship, gender, institutions, policy, social change, social enterprise, social entrepreneurship, sustainable development, women

JEL Classification Codes: B52, L26, O35

In the post-Washington Consensus period, several factors including financial crisis, growing income inequality, and high-profile corruption have exacerbated concerns about the prioritization of “economic” over “social” in neoliberal approaches to development. The United Nations Sustainable Development Goals, adopted in 2015 by 193 countries, support a more holistic approach. These seventeen goals, with a target achievement date of 2030, highlight the interrelationship between (and equal importance of) social, economic, and environmental outcomes, reflecting the institutional economists' conceptualization of a socially embedded economy.¹

One emerging sector that aims to support social and institutional change is social enterprise. As I explain in a previous article (Warnecke 2016a), social entrepreneurship utilizes business skill sets to address social problems. Social enterprises may be for-profit or non-profit organizations, or hybrid entities with for-profit and non-profit branches. However, the core mission is to achieve social impact, not maximize profits. This mission influences all aspects of planning and operations, so social entrepreneurship fits into the institutional landscape differently from traditional business.

When thinking about an organization's capacity to achieve social impact, it helps to reflect on the three components of any institution: (i) people engaged in an activity, (ii) operational rules, and (iii) justifications for the activity and rules (Neale 1987). Because institutions tend to “preserve existing power relationships” (Street 1987, 1864), the specific rules and justifications matter. For social enterprise, the means of defining the social ends, and choice and justification of a method to achieve those ends, significantly shape the scope and scale of the institution's social impact (Barinaga

2013). Human-centered design thinking, a five-step iterative framework (empathize, ideate, design, prototype, and test) is often used to ensure that the process of social entrepreneurship is people-centered and co-created by the populations being served. This enables social entrepreneurs to learn about the various reasons (including systemic ones) underlying the problem being investigated, improving the quality and fit of proposed interventions. However, social entrepreneurship is situated in a complex political and socioeconomic environment, where “structure, agency, and values interact in processes of institutional change” (Dolfsma and Verburg 2008, 1050). Institutional rigidity can stymie efforts “to develop a more inclusive system, even when barriers are recognized” (Warnecke 2013, 460-461). As such, social enterprise activity looks different across countries, reflecting the intricate web of institutions in each country.

Here, I focus on social entrepreneurship in China. Given the combination of strong Communist party leadership and the transition to a market economy, China presents a unique context for social entrepreneurship. To begin, I discuss the legal and political framework for social entrepreneurship in China, followed by an overview of the sector’s characteristics, including age, size, social issues emphasized, leader characteristics, and the role of women. Next, I provide examples of three social enterprises in China that illustrate diverse possibilities for this sector as a force for social change. I conclude with some suggestions for strengthening China’s social enterprise ecosystem.

Social Entrepreneurship in China

Legal and Political Framework

While general ideas of social entrepreneurship have been around for centuries, it is often noted that Bill Drayton at Ashoka coined the phrase in the 1980s. In 2004, visiting British social entrepreneurs made the first efforts to introduce social entrepreneurship to China; these efforts were followed by the 2006 Chinese release of David Bornstein’s *How to Change the World* book, the 2007 founding of a non-profit incubator, and the 2008 Sichuan earthquake, which increased attention to the concept of social entrepreneurship (FYSE 2012; JRIMDF 2016). However, the Chinese government did not mention the term “social enterprise” in an official government document until 2011 (Zhang 2017, 138). Situating social entrepreneurship culturally and institutionally has been somewhat challenging in China.

There is no legal framework for social enterprise in China. Instead, social enterprises choose between various legal forms, including farmers’ cooperatives, welfare enterprises, non-governmental organizations (NGOs),² and commercial companies (FYSE 2012). Most social enterprises in China are urban and located in Beijing and Shanghai. In rural areas, social enterprises often take the form of agri-business cooperatives that are collectively operated by many families or an entire village (Lan et al. 2014). These enterprises are profit-seeking, with profits supporting community development (Lan et al. 2014).

Welfare enterprises have a long history in China, dating to 1949. They are for-profit companies receiving tax benefits as they create jobs for disabled people. However, producing demanded goods and services is often not emphasized. Being co-managed by the government and reliant on governmental fiscal support, they are largely uncompetitive in the marketplace (Xiaomeng 2016). Li Ding (2017) notes that 90 percent of welfare enterprises closed down after China’s economic

transition, and taxation changes in 2008 further reduced their appeal. While Chinese social enterprises today do not opt for this organizational form, many focus on the disabled as a continuation of this legacy. From the mid-1990s, NGOs became more visible in China, as the transition to a market economy led to fewer regulations, less national investment in social services, and more unmet needs (Qin 2017). While by 2016, more than 660,000 organizations were registered with the government, estimates suggest several million more exist, but are unregistered (Hsu 2017). Over the past decade, the government has increasingly cracked down on NGOs, concerned with Western influence and potential threats to governmental authority.

Before 2013, to register as an NGO, organizations had to find a governmental office willing to act as a supervisory agency. However, government agencies have little incentive to do this (FYSE 2012). Although “dual registration” for some organizations was abolished in 2013, those NGOs still are not fully autonomous from the government (Yang et al. 2015). In the 2016 Overseas NGO Management Law, the government further restricted foreign NGO operations in China, while the 2016 Charity Law facilitated some domestic NGO operations like collecting donations (Hsu 2017). Policy vacillations have shaped a weak, highly regulated, and non-transparent non-profit sector.

The challenges involved in registering an NGO, combined with well-publicized corruption issues in this sector, have led most non-governmental organizations and social enterprises in China to register as for-profit commercial businesses. They are not eligible for preferential tax breaks or monetary donation collections, despite their social missions, and most rely on revenue-generating, fee-for-service business models (Zhao 2012).³ About half of the social enterprises charge at least some beneficiaries for services rendered. Other charges are distributed to the government, private individuals or organizations, and businesses in a relatively equal fashion (SEFORIS 2016, 10).

Issues related to legal status and the political landscape continue to impact social enterprise operations in many ways. While many social enterprises transitioned from NGOs, some lack business experience and operational infrastructure (SUFESERS et al. 2013). Even when taking the form of commercial businesses, social enterprises often collaborate with the government to retain legitimacy and gain new market opportunities (Hsu 2017). Regardless of the specific legal status selected, Chinese social enterprises are unlikely to focus on political reforms or issues that would be considered an overt challenge to the Communist Party leadership, as this would jeopardize their survival. This is one example of a “Chinese” characteristic of social entrepreneurship.

Characteristics

While the lack of a specified legal status makes it harder to measure social entrepreneurial activity in China, the sector is relatively nascent. The Asian Venture Philanthropy Network estimates that about 530 social enterprises have been identified in China (Ding 2017). The Global Entrepreneurship Monitor provides two estimates of the proportion of individuals leading social entrepreneurial activities. These estimates reflect different conceptualizations of social entrepreneurship. The broad definition estimates that 6.6 percent of individuals in China are leaders of “any kind of activity, organization or initiative that has a particularly social, environmental or community objective,” while according to the narrow definition, 0.7% of individuals in China are leaders of an “activity, organization or initiative [which] (i) prioritizes social and environmental value over financial value; and (ii) operates in the market by producing goods and services” (Bosma et al. 2015, 5).

Education, environment, community development/housing, and health are the most targeted issue areas, encompassing nearly 70 percent of social entrepreneurial activity in China. Other issues include volunteerism promotion, social services, recreation, and advocacy/law (SEFORİS 2016). This work often includes disadvantaged groups and develops fair trade opportunities (FYSE 2012). A unique characteristic of Chinese social enterprises is that many (13 percent) function as intermediaries, “providing grants, encouragement, training, capacity building or other services to Chinese volunteers, social entrepreneurs and other change makers” (SEFORİS 2016, 8). This helps build the ecosystem for social enterprise, a much-needed contribution considering that more than half of all social enterprises in China are less than five years old, employ less than ten people, and earn less than 80,000 EUR (\$94,000 USD) per year, and three-quarters of Chinese social entrepreneurs are less than forty years of age (SEFORİS 2016). Social entrepreneurs in China are likely to be university graduates, and about 50 percent have studied or worked outside China, illustrating the combined power of international experience, higher education, and local expertise (FYSE 2012).

Chinese social enterprises offer significant leadership and operations opportunities for women. Studies estimate that women lead between 42-45 percent of social enterprises in China (FYSE 2012, SEFORİS 2016). This is much higher than the overall proportion (25 percent) of women entrepreneurs in China (*China Daily* 2015). Women also comprise the majority (72 percent) of employees in Chinese social enterprises (FYSE 2012). The potentially greater availability of female role models may be one contributing factor. A recent study of forty-four of the largest world economies – both developing and developed countries – ranked China as the sixth best place to be a female social entrepreneur, based on the gender pay gap and the representation of women in social enterprise leadership roles (Thomas Reuters Foundation 2016). However, female social entrepreneurs still face disproportionate barriers to finance and other forms of support. Male-owned social enterprises in China generally create more paid jobs, while female-owned social enterprises utilize more volunteers (FYSE 2012).

While in many countries, women’s participation in social enterprise is facilitated by microfinance, this is not the case in China. Microfinance is not very “micro” in China, allocating funds to companies with fifty to a hundred employees and profit less than twenty million yuan (\$3.02 million USD) a year (GDS Link 2016). This is very different from small-scale lending to budding new micro-entrepreneurs (often without employees or prior business experience) that microfinance offers in other countries, so most social entrepreneurs in China cannot access this type of finance. If the microfinance sector were further diversified, this could be a powerful scaling force for social enterprise and would provide more opportunities to women (and men), particularly in rural areas.

Examples

Table 1 illustrates key characteristics of three social enterprises in China, along with the path that each takes to achieve social impact. Shokay, a social enterprise based in Shanghai, provides income-earning opportunities in the Tibetan Plateau. Yaks are a commonly owned asset in this region, but less than 10 percent of yak down is sold on the market. Shokay boosts demand for yak down by building a socially responsible brand for yak fiber and marketing its superior warmth and breathability (Shokay 2017).⁴ Cofounded in 2006 by two women and led by a female CEO, Shokay

originally began selling knitting yarns, throws and scarves, but has transitioned from textiles into a fashion company that sells online, as well as at Shokay stores in China, Taiwan, Germany, and Japan. Shokay delivers to distributors in 130 global locations (Knowledge@Wharton 2009; Shokay 2017).

Table 1. Three Social Enterprises in China: Paths to Social Impact

Social enterprise	Structure	Social impact focus	Key impact measurement	Services offered beyond training and employment	Revenue generation strategy	Female-led	Founder studied abroad
Shokay	Commercial business, for-profit	Preserve traditional livelihoods (yak herding, knitting)	Percent increase in annual incomes; number of jobs created	Community education and health programs	Sales of yarn and fashion items	Yes	Yes
Buy42	Commercial business, similar to welfare enterprise	Provide employment opportunities to the disabled	Number of disabled employees	Reduces waste by facilitating circular economy (extending product life by reuse)	Sales of pre-owned, donated items	Yes	Yes
Starfish Project	NGO	Provide hope and independence to trafficked and exploited women	Number of employees; number served in community outreach programs	Shelter, health, and counseling programs; beneficiary support	Sales of fair trade jewelry	Yes	Yes

Source: Compiled by the author.

Directly sourcing materials and organizing “trainings in such a remote place” provides invaluable benefits (Knowledge@Wharton 2009, 5). For more than six hundred yak herder families, Shokay’s collaboration has increased household incomes by 20 percent, and fifty Shokay-trained women hand-knitters on China’s eastern coast have increased their incomes by 40 percent. Shokay also trains a cooperative to produce yak yarn (Shokay 2017). Additionally, 1 percent of sales revenues are distributed to Shokay’s Community Development Fund to further support health and employment initiatives in the Tibetan Plateau (Wong 2011). Shokay provides a good example of the way social enterprises can create new product markets, while honoring local culture and traditions.

Buy42, a social enterprise in Shanghai, is a commercial company sharing some characteristics of a welfare enterprise. Its primary purpose is to provide training and jobs to disabled individuals, with 50 percent of Buy42’s employees being disabled (Tin Jun 2017). Founded in 2011, the social enterprise was the first “charity shop” in China. However, given the lack of government assistance for this type of venture, Buy42 began with an e-commerce platform (Ringier China 2016). The female-founded social enterprise accepts donations of like-new clothing, accessories, toys, and furniture, and resells them at 30-50 percent off the original price. Many disabled individuals work in the Nantong operations center, where they clean, sort, iron, and photograph items for sale. They also

redistribute unsellable items to meet social needs. All profits are reinvested in the disabled, such as “high-value skills [training] including Photoshop and craft-making” (Ringier China 2016, 1). The shop also employs disabled individuals in other areas of China, given the needs for photo-editing and website work (Tin Jun 2017).

Product donations are accepted from individuals, but corporations are the main source of Buy42’s stock (Song 2017). The growing popularity of Buy42 (more than 20,000 items have been sold, raising more than 1.8 RMB or \$272,000 USD, and sales revenues double each year) enabled the company to open its first brick-and-mortar shop in 2017, in the Jing’an District of Shanghai (Song 2017). Affiliated with a foundation in Shanghai, the brick-and-mortar store does not have to pay rent, which is “subsidized by the local subdistrict office, and a part of the store expenses are covered by community development funds” (Song 2017). With more than one hundred disabled individuals (many of them women) employed by Buy42, and four different job training programs offered (Ringier China 2016), Buy42 provides a good example of the way social enterprises often integrate marginalized groups into the economy.

Starfish Project, an NGO with a social enterprise, provides holistic care and vocational programs for exploited and trafficked women. The NGO does not reveal its exact location in China given the sensitive nature of its work (Starfish Project 2017). Founded in 2006, Starfish Project uses a three-step process to assist women escaping exploitative situations: shelter, counseling, and employment. The employment training and subsequent work placement opportunities enable women to make fair trade jewelry or work as accountants, photographers, managers, or graphic designers for the jewelry business. Selling worldwide, the social enterprise yielded more than \$500,000 USD of sales in 2016, financing about half of NGO expenses, while donations funded most of the remainder (Starfish Project 2016, 2). Starfish Project also collaborates with other social enterprises (e.g., Tranquil Tuesdays in Beijing) to refer work placements.

Founded and led by a female CEO, Starfish Project has employed 125 women and served “thousands through [its] Community Outreach Programs” (Starfish Project 2016, 2). The NGO’s staff visits with hundreds of women in brothels each year to share available opportunities. Starfish Project demonstrates how social enterprise efforts are not solely focused on revenue generation. Because social problems are complex, addressing them often requires interventions in multiple spheres – in this case, by providing outreach and rehabilitation services prior to work placement.

Strengthening the Social Enterprise Ecosystem

Social entrepreneurship clearly has the potential to achieve social impact in diverse issue areas, supporting the Sustainable Development Goals and rebalancing the “economic” and “social” spheres. Although the sector is relatively new in China, it is contributing to institutional change as the state-guided market economy continues to evolve in the country. The social entrepreneurship ecosystem includes foundations, social enterprise research centers, incubators, training centers, schools, and funders, among other institutions. Such collaborators generally focus on urban areas and reach only a fraction of the population. Capitalizing on technology has enabled Shokay, Buy42, and Starfish Project to expand their social impact. Yet, even though China has the most internet users in the world, 47 percent of its population still lacks access to this utility (World Bank 2017). Diversified funding opportunities for social enterprises (especially female-owned) are also needed, ranging from microfinance and grants to crowdfunding and equity investment. Clarifying legal status

issues would greatly facilitate social enterprise work. Finally, improving public understanding of social entrepreneurship is necessary for the sector to grow. Otherwise, gaining community buy-in will be difficult.

Recognizing the diversity of barriers, change-making goals, and operations, social enterprises may be characterized as compensatory, transformative, or somewhere in between. According to Lance R. Newey (2018), compensatory social entrepreneurship focuses at a local or national level, engaging with the ecosystem surrounding a particular issue (e.g., poverty, health, environment), but not necessarily interrogating the global capitalist system itself. Transformative social entrepreneurship focuses on creating a new balance of the “social” and “economic” factors in the global system – for example, through a social and solidarity economy.⁵ Both approaches can yield social impact and systemic change, but for different levels of systems. Given the political context, Chinese social enterprises are more localized (FYSE 2012), and transnational networking strategies are underdeveloped (Warnecke 2016b). Therefore, China’s social enterprises fall closer to the compensatory end of the spectrum. This demonstrates that, while social entrepreneurship can contribute to development, it cannot substitute for a democratic developmental state (Nega and Schneider 2016). This is a critical component of the social enterprise ecosystem.

Footnotes

¹ See www.un.org/sustainabledevelopment/sustainable-development-goals/ for more detail.

² In China, NGOs often take the specific legal form of private non-enterprise organizations.

³ Some Chinese social enterprises divide their work and register two types of organizations – business and NGO – to achieve benefits of each (Chen, Yin and Kohlbacher 2016).

⁴ Yak fiber is “30% warmer than wool” and “130% more breathable than cashmere” (Shokay 2017).

⁵ A social and solidarity economy (SSE) is a holistic, rights-based approach to development that includes “a broad range of organizations and enterprises that have explicit social and often environmental objectives, and are guided by principles and practices of cooperation, solidarity, ethics and democratic self-management” (UNTFSSSE 2014, iv).

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