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The Chinese Social Enterprise: A Global Phenomenon with Chinese Characteristics

Amanda Jingtong O'Malley
Colby College

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The Chinese Social Enterprise: A Global Phenomenon with Chinese Characteristics

Amanda Jingtong O'Malley

Colby College

Global Studies Department

Senior Honors Thesis

Advisor: Patrice Franko

May 19, 2014

Abstract:

Social entrepreneurship, a concept that integrates business strategies with achieving social goals, is gaining traction in China. However, it is a distinctly Chinese variant of an approach exported by Western entrepreneurs. The purpose of this thesis is to analyze the Chinese social enterprise by identifying China's socioeconomic and political forces that create the unique environment in which this trend is taking root. By examining how these factors are changing in China's progressively more market economy, I conclude that key characteristics of the Chinese social enterprise are also shifting in response—moving from a civil society-originated model to a market-based social enterprise model. Most actors in this sector maintain a loose definition of “social enterprise” to accommodate their untethered development in an environment with minimal institutional support. This paper relies heavily on qualitative primary research collected in Shanghai, China, recently published primary-source reports, and secondary resources. Advancing the current understanding of how context influences the development of the social enterprise sector, this thesis challenges the conventional wisdom that suggests Chinese social enterprises are defined by their third sector origins. Instead, incubators' and social entrepreneurs' increasingly flexible and market-leaning criteria reflects the current shift of the Chinese social enterprise moving further away from the social sphere and closer to the market sector.

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Introduction

Over the past decade, a phenomenon of social entrepreneurship has been taking root in Chinese business, civil society, development, and philanthropic sectors. Trendy in practice and difficult to define, social entrepreneurship is based on the idea that business strategies can be applied towards achieving philanthropic objectives. Compared to conventional entrepreneurship, social entrepreneurship is a concept that is still in its infancy. China's social and business sectors were largely unaware of this concept until 2004 when David Bornstein's *"How to Change the World"* and Charles Leadbeater's *"The Rise of the Social Entrepreneur"* were published in Chinese.¹ Disseminating awareness through publications and academic curriculums, Western entrepreneurs and organizations have played a significant role in establishing resources for emerging Chinese social enterprises, including membership organizations, social enterprise incubators, symposiums, conferences, and even investment platforms.

Many practitioners in China's social and business sectors are actively adopting innovation and business approaches to solve social problems. From organizations like Hetong, a company that delivers institutional care to elders, to Beijing Stars and Rains, a nonprofit that provide services to autistic children and their families, a rich variety of social enterprises are emerging in China.² SHOKAY, a luxury design and clothing brand that sources yak fibers from Tibetan herders, was the first self-described social enterprise in China. Shokay currently bridges the gap between social enterprise, social business, and

¹ Rebecca Lee, "The Emergence of Social Enterprises in China: The Quest for Space and Legitimacy," *Tsinghua China Law Review* 2.1 (2009): 79-99. Web. 27 Oct. 2013. <http://tsinghuachinalawreview.org/articles/0201_Lee.htm>.

² Xiaomin Yu, "Social Enterprise in China: Driving Forces, Development Patterns, and Legal Framework," *Social Enterprise Journal* 7.1 (2011): 10. *Emerald*. Web. 6 Oct. 2013. <<http://www.emeraldinsight.com/journals.htm?articleid=1927622>>.

corporate social responsibility, all phrases that are often used interchangeably but in reality describe different concepts.³ Originating from a variety of sectors, in particular the civil society and business sector, social enterprises appear in diverse models that creatively employ market strategies towards achieving social objectives.⁴ But is the social enterprise in China similar to its emergence in the Western context? What factors are shaping the predominate models of social enterprises that are developing today in China? Are these models unique to China, or are Chinese social enterprises' development paths parallel to their counterparts' in Western nations?

In my thesis, I will examine how the social enterprise landscape is developing in China against the backdrop of social enterprises' global emergence. Building on the research of Janelle Kerlin (2009) and Salamon et al. (2010), this paper will investigate how China's current socioeconomic and political environment play an inextricable role in shaping the diverse models of social enterprises in China. These unique factors not only produce a ripe ecosystem for social enterprises to take root, but also influence the various forms that social enterprises take on. Chinese entrepreneurs are creatively harnessing resources from diverse sectors, such as the market, civil society, state, and international agents, to address social welfare needs currently unmet by the state.⁵ Despite the literature's assertions that Chinese social enterprises predominately originate from the civil society, the Chinese social

³ "The World of Shokay," *SHOKAY*, Web. 17 Dec. 2013. <<http://www.shokay.com/world/index.html>>.

⁴ Chan Kin Man and Yuen Yiu Kai Terence, "An Overview of Social Enterprise Development in China and Hong Kong," *The Chinese University of Hong Kong Scholarly Information Repository*, Institute of Humanities Human and Social Sciences Ritsumeikan University, 2006. Web. 27 Oct. 2013. And Xiaomin Yu and Qiang Zhang, "Development of Social Enterprises Under China's Market Transition," (paper presented at the 2nd EMES International Conference on Social Enterprise, Trento, Italy, July 1-4, 2009).

⁵ Jacques Defourny and Shin-Yang Kim, "Emerging Models of Social Enterprise in Eastern Asia: A Cross-country Analysis," *Social Enterprise Journal* (2011): Spring 2011. Web. 24 Sept. 2013. <<http://orbi.ulg.ac.be/bitstream/2268/91190/1/Defourny%20Kim%20final%20SEJ.pdf>>.

enterprise is actually operating with a broader and more market-leaning definition of “social enterprise.” This broad classification allows the social enterprise to simultaneously incorporate market strategies into its operations and capitalize on other available resources as it forges its path through an environment with little institutional support. Due to pressures from the state, market, and civil society, these structurally undefined models of social enterprises are gradually shifting away from the civil society-based social enterprise realm towards the market-based sector. Reflecting the influence of China’s increasingly capitalist economy on its social enterprise landscape, this movement towards the market sphere may be indicating a transformation of China’s top-down, corporatist social welfare structure to a more market-based service provision system.

Academic Contribution

While social entrepreneurship is still a relatively new concept, many academics in world regions have identified factors within their respective areas that have fueled domestic social enterprise development.⁶ However, only a handful of academics have conducted *comparative* studies on the global social enterprise phenomenon, such as Janelle Kerlin (2009), Defourny and Kim (2011), Marthe Nyssens (2006, 2009), and Alex Nicholls (2006).⁷ Largely lacking in the social enterprise literature is the comparative analysis of East Asian social enterprises, specifically China. With the exception of Defourny and Kim (2011), the development of the Chinese social enterprise landscape against the backdrop of East Asia's greater socioeconomic and political context is uninvestigated in the existing literature.

In this paper, I begin by examining how the literature views the recent development of social enterprise in China. While much of the current literature offers insight into *what* types of social enterprises exist in China, these articles have minimally touched upon reasons *why* social enterprises have the potential to succeed even in such a regulated authoritarian state. Utilizing the social origins approach proposed by Salamon (2000) and adopted by Kerlin (2009), I will seek to understand China's social enterprise landscape by

⁶ Janelle A. Kerlin, "A Comparative Analysis of the Global Emergence of Social Enterprise," *International Society of Third-Sector Research* no. 21 (February 2010): 164. Accessed October 13, 2013. *Springer*, <http://www.beitberl.ac.il/centers/ISERC/articles/Documents/Kerlin.pdf>.

⁷ Jacques Defourny and Marthe Nyssens, introduction to *Social Enterprise: At the Crossroads of Market, Public Policies, and Civil Society*, by Marthe Nyssens (New York: Routledge, 2006), 3-26. http://www.emes.net/uploads/media/social_enterprise_INTRO_June06.pdf. And Alex Nicholls, *Social Entrepreneurship: New Models of Sustainable Social Change* (Oxford: Oxford UP, 2006).

examining the socioeconomic and political factors that shape this phenomenon's development. Departing from the dominate discourse that suggests this trend that's taking place in China originated exclusively from international agents, I will interrogate the emergence of this concept through endogenous factors. These include China's corporatist political system, the state's encouragement of the private sector, and recent changes in philanthropy practices. I will then supplement my analysis of domestic conditions by exploring international agents' role in introducing and sustaining the social enterprise in China. Outlining the current conditions that both fuel and constrict the growth of social enterprises, I will explore how China's unique socioeconomic and political factors give rise to a unique social enterprise sector.

Lastly, I will consider the various forms of social enterprise incubation that is currently taking place in China and how these organizations are facilitating the growth of China's social enterprise sector. Particular attention is given to Chinese incubators, investors, and social entrepreneurs' personal definitions of "social enterprise." The investigation of incubators and investors' personal criteria is a specific and unexamined field of study. By analyzing these definitions, I challenge the conventional wisdom that suggests Chinese social enterprises are predominately defined by their third sector origins. Instead, I propose that incubators' and social entrepreneurs' increasingly flexible and market-based criteria reflects the current shift of the Chinese social enterprise moving further away from the social sphere and closer to the market sector.

Chapter One:

The Concept of Social Entrepreneurship

“Social enterprise” is a trendy and hotly contested term. Ranging from “corporate social responsibility,” “social businesses,” to “impact investing” and “venture philanthropy,” many similar terms are thrown around in today’s business, nonprofit, and philanthropy discourse. Buzzwords such as “triple bottom line” and “people, planet, profits” define marketing campaigns and are increasingly integrated into the models and missions of traditional businesses.⁸ Terms such as “social business” and “social enterprise” are used interchangeably, but where does the line begin and end? How do we dissect and differentiate these new forms of businesses? How exactly do these entities pursue simultaneous goals of profit and social value generation—two completely opposite objectives?

Chapter One provides a comprehensive outline of the different discourses surrounding the new concept of “social entrepreneurship.” Exploring the diverse methods with which academics and practitioners seek to understand this complex idea, this chapter clarifies the different ways that organizations can negotiate their financial and social goals. By navigating through academics’ “definition debates,” we can better understand how the lack of consensus regarding social enterprises’ structures affects the policies that either encourage and challenge these models’ roles in society.

⁸ John Elkington, the founder of a British consulting firm called SustainAbility, first coined the phrase “triple bottom line” in 1994. The first objective is the traditional metric of corporate success—the “bottom line” of profit. The second is the bottom line of a company’s “people account”, a measurement of how socially responsible a company is. The third is the company’s “planet account,” a measurement of its environmental responsibility practices. The Economist, “Triple Bottom Line,” The Economist, November 17, 2009, <http://www.economist.com/node/14301663> (accessed April 23, 2014).

1.1 Social Entrepreneurship: The History and Hybridity

Broadly described as the use of nongovernmental, market-based approaches to address social issues, social entrepreneurship is a concept that stresses the synergy between nonprofits and for-profits. Compared to conventional entrepreneurship, the social enterprise field is still in its infancy and the definition of a social enterprise is still highly contested among academics and practitioners.⁹

Although the concept of social entrepreneurship has experienced a wave of growth throughout the past two decades, the *practice* of social entrepreneurship has existed for a long time without being associated with its new trendy identity. In the Institute for Social Entrepreneurs' "Chronology of Key Events," forerunners of social entrepreneurial initiatives have hailed from both the private sector and nonprofit sector and used business strategies to help local populations.¹⁰ In the 1910s-1920s, Sears Roebuck and Company utilized "The Rosenwald Model" of inventing and investing in organizations that benefitted agricultural communities to ensure a market would exist for the company decades later.¹¹ From the 1960s to 1980s, the Control Data Corporation developed computer-based learning programs for universities, created businesses and training opportunities in prisons, launched the first small business incubator in the country, and introduced some of the nation's first corporate wind farms.¹²

⁹ Janelle A. "A Comparative Analysis of the Global Emergence of Social Enterprise." *International Society of Third-Sector Research* 21 (2010): 162-79. *Springer*. Web. 15 Oct. 2013.

<<http://www.beitberl.ac.il/centers/ISERC/articles/Documents/Kerlin.pdf>>., 164

¹⁰ The Institute for Social Entrepreneurs, "Evolution of the Social Enterprise Industry: A Chronology of Key Events," The Institute for Social Entrepreneurs, last updated 2008, accessed May 5, 2014, <https://www.se-alliance.org/upload/Membership%20Pages/evolution.pdf>.

¹¹ Ibid.

¹² Ibid.

From the nonprofit end, the modern co-operative model was arguably started in Rochdale, England in 1844 when twenty-eight men who were exploited by factory owners scraped together a total of 28 pounds to open their own shop. In the 1880s, Jane Addams and Helen Gates Starr, in an effort to improve local livelihoods, started the Jane Addams Hull House in Chicago. The Hull House was a multi-faceted operation that acted as a night school for adults, public kitchen, coal cooperative, girls club, swimming pool, community center, book bindery, café, music school, drama school, and library.¹³ Even the Goodwill thrift stores can be viewed as an early form of social enterprise; Reverend Edgar J. Helms started this initiative in Boston in 1895 as a way to employ impoverished immigrants to repair second-hand items for resale while receiving income from the sale revenues.¹⁴

The practice of social entrepreneurship has existed in many forms throughout history, but the distinct concept of social enterprise was first proposed by Bill Drayton, a former McKinsey and Company consultant and Assistant administrator at the U.S. Environmental Protection Agency. In 1981, Drayton founded “Ashoka: Innovators for the Public,” a global nonprofit dedicated to supporting social entrepreneurs with capacity training and financial resources.¹⁵ Ashoka’s specific mission eventually paved the way for a rapid emergence of publications such as Leadbeater’s “The Rise of the Social Entrepreneur,” and high profiled conferences such as the first National Gathering for Social Entrepreneurs in 1998.¹⁶ Micro-credit loans from Muhammad Yunus’s Grameen Bank in Bangladesh has impacted more than 40 million people since the late 1970s. The Grameen Bank’s successes

¹³ Ibid.

¹⁴ Ibid.

¹⁵ The organizations currently operates in over 70 countries and supports a network of almost 3000 social entrepreneurs who are elected as Ashoka Fellows. Ashoka, “About,” Ashoka, accessed May 5, 2014, <https://www.ashoka.org/about>.

¹⁶ The Institute for Social Entrepreneurs, “Evolution of the Social Enterprise Industry: A Chronology of Key Events.”

have also drawn positive attention to the idea that businesses can effectively integrate development goals into their missions. Ashoka and Grameen are only a few of the founding institutions that actively promoted social enterprise as a distinct vehicle for social change. Recently, the global nonprofit and business realm have begun catching wind of this new concept. In 2004, the Global Entrepreneurship Monitor (GEM) released the results of a survey that monitored the social entrepreneurship activity in the UK. This report released data suggesting that new “social” start-ups are emerging at a faster rate than more conventional, commercial ventures.¹⁷

Recently introduced to business, development, and philanthropic discourse, social entrepreneurship is still an elusive idea, especially to academics who seek to understand this multi-dimensional idea. While academics have not agreed upon an official definition for social entrepreneurship, they have generally reached a consensus on its goal—changing the social equilibrium or, simply put, creating social change.¹⁸ Martin and Osberg (2007) define social entrepreneurship as having these components: an unjust equilibrium, the identification of an opportunity to address this social problem, and the forging of a solution.¹⁹ Similarly, Roberts and Woods (2005) define social entrepreneurship as “transformative social change carried out by visionary, passionately dedicated individuals.”²⁰ Dees (2001) proposes a comparable definition that includes adopting a mission to create social value, recognizing new opportunities to create change, and acting

¹⁷ Alex Nicholls, *Social Entrepreneurship: New Models of Sustainable Social Change*, Oxford: Oxford UP, 2006, 3.

¹⁸ Paul C. Light, *The Search for Social Entrepreneurship*, Washington D.C.: Brookings Institute, 2008.

¹⁹ Roger L. Martin and Sally Osberg, "Social Entrepreneurship: The Case for Definition," *Stanford Social Innovation Review* 5.2 (2007): 35.

²⁰ Dave Roberts and Christine Woods, "Changing the World on a Shoestring: The Concept of Social Entrepreneurship," *University of Auckland Business Review* (2005): 46.

boldly without being limited by resources currently in hand (Box 1.1).²¹ Many academics stress the mission-related impact as the defining feature that separates social entrepreneurship from conventional entrepreneurship.

Figure 1.1 The Spectrum of Social Enterprise Practitioners			
	Purely Philanthropic	Hybrid	Purely Commercial
Motives	Appeal to goodwill	Mixed motives	Appeal to self-interest
Methods	Mission driven	Balance of mission and market	Market-driven
Goals	Social value creation	Social and economic value creation	Economic value creation
Destination of Income/Profit	Directed toward mission of nonprofit	Reinvested in mission activities or operational expenses, and/or retained for business growth, development, or redistribution	Distributed to shareholders and owners

Figure 1.1

The goals of a pure business and a pure charity are enumerated and merged into the “Hybrid” column, which represents the contested values of the social enterprise where the venture strives to maintain a “balance of mission and market.”²²

Source: Adapted from Alter (2007), Dees (2001), Davis and Etchart (1999)

One criticism of Dees (2008) and Martin and Osberg (2007) is that they do not directly encompass earned income in their definitions of social enterprise.²³ Another school of thought is grounded in the notion that the societal missions of social enterprises must be balanced with profit-seeking objectives. In Figure 1.1, the hybridity of the social enterprise is depicted as the merging of both nonprofits and for-profits’ goals into one dual-mission.

²¹ J. Gregory Dees, "The Meaning of Social Entrepreneurship," *Stanford Business School*, Kauffman Center for Entrepreneurial Leadership, 1998. Accessed April 23, 2014. <http://csi.gsb.stanford.edu/the-meaning-social-entrepreneurship%20>.

²² Kim Alter, "Social Enterprise Typology," Virtue Ventures, LLC, (November 27, 2007), http://www.academia.edu/5249856/Social_Enterprise_Typology_Updated_November_27_2007_Kim_Alter_Virtue_Ventures_LLC. Accessed April 23, 2014. And Lee Davis and Nicole Etchart, *Profits for Nonprofits* (Hungary: ProTertia, 1999). <http://issuu.com/nesster/docs/profitsforprofits>.

²³ Lee A. Swanson and David Di Zhang, "The Social Entrepreneurship Zone," *Journal of Nonprofit & Public Sector Marketing* no.22 (2010): 73. Accessed April 24, 2014. <http://www.tandfonline.com/doi/abs/10.1080/10495140903550726?journalCode=wnon20#preview>.

How to manage this balance between two opposing values is a point of differentiation between academics. Dees (1998) suggests that while social benefit is a social entrepreneur's constant objective, economic gains are an important product that are a "means to an end, but not the end itself."²⁴ The Social Enterprise Alliance, an organization dedicated to supporting social entrepreneurship in North America, succinctly defines social enterprise as a "business whose primary purpose is the common good."²⁵ Even more specifically, the Institute for Social Entrepreneurs stipulates that "social enterprises *directly* confront social needs through their products and services rather than *indirectly* through socially responsible business practices such as corporate philanthropy, equitable wages, and environmentally friendly operations—or through the unrelated business activities mounted by nonprofits."²⁶ Reflecting this complicated spectrum of businesses that, in theory, can all create social good, Figure 1.2 illustrates that there is no definitive way to achieve the double bottom-line of social and economic value. Rather, there are numerous means to negotiate these values; thus, there are diverse ways to not only structure a social enterprise, but to also function as a social enterprise.

Even within the camp that emphasizes the importance of profit generation, there are diverging views on how the social enterprise should distribute its profits. For example, the Hong Kong government's definition of social enterprise emphasizes that profits must be "principally reinvested in the business for the social objectives that it pursues, rather than

²⁴ J. Gregory Dees, "The Meaning of Social Entrepreneurship," 4.

²⁵ "The Case for Social Enterprise Alliance," *Why We're Here*, Social Enterprise Alliance, Web. 17 Dec. 2013. <<https://www.se-alliance.org/why>>.

²⁶ The Institute for Social Entrepreneurs, "Evolution of the Social Enterprise Industry: A Chronology of Key Events," The Institute for Social Entrepreneurs, last updated 2008, accessed May 5, 2014, <https://www.se-alliance.org/upload/Membership%20Pages/evolution.pdf>.

distributed to its shareholders.”²⁷ Similarly, the European Commission’s official definition emphasizes that the direction of profit flow is parallel to the mission of the organization. The surpluses should not be used for the purpose of maximizing profit, but must be reinvested in the social enterprise to achieve a wider social or community objective. On the other hand, some companies, such as SHOKAY, balance their profit distribution by simultaneously reinvesting in the social business and paying dividends to its shareholders.²⁸ Evidently, the relative importance of economic and social value in social enterprises is highly contested, dynamic, and circumstantial. Depending on what model a social enterprise is based on, these values are created and distributed in different ways, and some objectives may be prioritized over others.

²⁷ This 110 page report was the first comprehensive survey of the field completed in conjunction with leading Chinese universities. Sponsored by UBS, this was a joint effort between the Shanghai University of Finance & Economics, Social Enterprise Research Center, Peking University Center for Civil Society Studies, the 21st Century Social Innovation Research Center, and the University of Pennsylvania School of Social Policy & Practice. Social Enterprise Research Center (SERC), Center for Civil Society Studies at Peking University, 21st Century Business Herald, Social Innovation, and University of Pennsylvania Social Policy & Practice, *China Social Enterprise and Impact Investment Report*, Rep. UBS, Apr. 2013. Web. 15 Nov. 2013. <<http://www.serc-china.org/attachments/article/542/China%20Social%20Enterprise%20and%20Impact%20Investment%20Report.pdf>>.

²⁸ SHOKAY sets aside 1% of its retail and corporate gifting revenue to SHOKAY’s Community Development Fund to further support work in the rural areas. SHOKAY, “The World of SHOKAY.”

Box 1.1 A Sample of Social Enterprise and Social Entrepreneurship Definitions

Social Entrepreneurship is...

“Three components: (1) identifying a stable but inherently unjust equilibrium that causes the exclusion or marginalization of a community (2) identifying an opportunity in this unjust equilibrium and developing a social value proposition (3) forging a new, stable equilibrium that releases trapped potential or alleviates suffering of a targeted group. –Martin and Osberg (2007)

“(a) Adopting a mission to create and sustain social value (not just private value) (b) Recognizing and relentlessly pursuing new opportunities to serve that mission (c) engaging in a process of continuous innovation, adaptation, and learning (d) acting boldly without being limited by resources currently in hand (e) exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created. – J. Gregory Dees (1998)

Social Enterprise is...

“an activity intended to address social goals through the operation of private organizations in the marketplace” –Dennis Young, a nonprofit academic

“any organization, in any sector, that uses earned income strategies to pursue a double bottom line or a triple bottom line, either alone (as a social sector business) or as a part of a mixed revenue stream that includes charitable contributions and public sector subsidies.” –Jerr Boschee, Director of the Institute for Social Entrepreneurs

“any business venture created for a social purpose—mitigating/reducing a social problem or a market failure—and to generate social value while operating with the financial discipline, innovation and determination of a private sector business” —Alter (Virtue Ventures 2007)

“an organization or venture that achieves its primary social or environmental mission using business methods” –Social Enterprise Alliance (2009)

“The *economic* and entrepreneurial dimensions of initiatives are described as: (1) a continuous activity, producing and selling goods and/or services (2) a high degree of autonomy (3) a significant level of economic risk (4) A minimum amount of paid work.

The *social* dimensions of the initiative should have (5) an explicit aim to benefit the community (6) an initiative launched by a group of citizens (7) decision-making power not based on capital ownership (8) a participatory nature, which involves the various parties affected by the activity (9) limited profit distribution.” – The EMES European Research Network

...”Any entity that uses earned revenue to pursue a double or triple bottom line either alone (in a private sector or nonprofit business) or as a significant part of a nonprofit’s mixed revenue stream that also includes philanthropy and government subsidies. Social enterprises directly confront social needs through their products and services rather than indirectly through socially responsible business practices, such as corporate philanthropy, equitable wages, and environmentally friendly operations—or through the unrelated business activities mounted by nonprofits.” – The Institute for Social Entrepreneurs (2008)

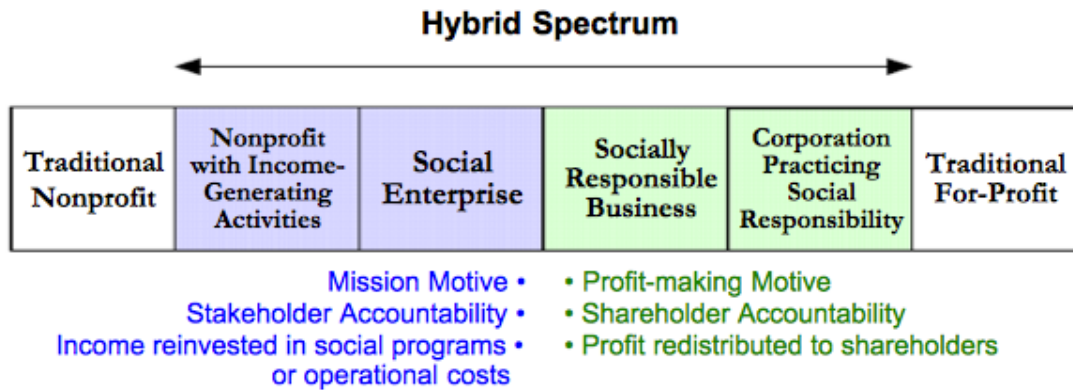


Figure 1.2

Alter (2007) illustrates the spectrum with the hybrid nature of social enterprises. There is no defined method of achieving the double-bottom line of profit and social value generation. Even within the hybrid nature of social enterprise, there are still nuances within this spectrum. This graphic is a good depiction of how social businesses relate to social enterprise, suggesting that a slight change in motive could result in a change of operational identity. Source: Alter (2007) "Social Enterprise Typology."

1.2 Definitions of Social Enterprise

Social entrepreneurship is truly a cross-sector phenomenon. Thompson (2002) states that social entrepreneurs are found in a multiplicity of spheres. The first sphere includes profit-seeking businesses that have some commitment to helping society with their strategies and financial donations (See corporate social responsibility in Figure 1.2). The second realm is comprised of *social enterprises* that are businesses. Unlike the first sphere of profit-seeking businesses, their primary goal is to benefit the society; the majority of their profits are reinvested toward the realization of that social goal (Social Enterprise in Figure 1.2). Finally, the third type is situated in the voluntary sector, also known as the third sector or civil society, where nonprofits are creating social value and using the majority of their

income to sustain operations (Nonprofit with income-generating activities in Figure 1.2).²⁹

Spanning across many different sectors, social enterprises use diverse methods to negotiate their double, sometimes triple, bottom-lines, posing significant challenges to academics and practitioners who attempt to define this practice. Social entrepreneurship is a concept that is truly short on theory and definition but high on motivation and passion.³⁰

Unlike the academic sphere's obsession over semantics and organizational forms, the practitioner community of the social enterprise movement focuses more on the personal attributes of social entrepreneurs and the processes they follow. Roberts and Woods (2005) observe that practitioners often use colorful descriptions to capture the essence of what defines the social entrepreneur: passionate, having conviction, persistent, sometimes arrogant (to hold on to a dream against evidence), and having a "third eye" or the ability to look at the status-quo differently.³¹ Bill Drayton, the founder of Ashoka, emphasizes the qualities of the individual behind the ideas. He demands that Ashoka Fellowship candidates must be "extraordinary individuals with unprecedented ideas for change in their communities."³² He underscores practitioners' focus on the entrepreneur's personal attributes because "people understand this field by anecdote rather than theory."³³

²⁹ John L. Thompson, "The World of the Social Entrepreneur," *The International Journal of Public Sector Management* 15.5 (2002): 413. *Emerald Insight*. Web. 27 Oct. 2013. <<http://www.emeraldinsight.com/journals.htm?articleid=867970>>. And SERC and UBS, *China Social Enterprise and Impact Investment Report*.

³⁰ Roberts and Woods, "Changing the World on a Shoestring: The Concept of Social Entrepreneurship," 46.

³¹ *Ibid.*, 47.

³² *Ibid.*

³³ *Ibid.*

Light (2008) makes an important distinction between “social entrepreneurship” and “social enterprise.”³⁴ While these terms have been used interchangeably in literature and common discourse, Light states that “whereas social *entrepreneurship* seeks tipping points for innovation and change, social *enterprise* seeks profits for reinvestment and growth.”³⁵ He alludes to the idea that “social entrepreneurship” can be associated with a type of social entrepreneurial “spirit” rather than the definitional focus on its social and economic value creation. Dees (1996) similarly describes how the social enterprise actually fits within a broader social entrepreneurship “spectrum,” as some social ventures can be highly entrepreneurial without generating independent profit streams.³⁶ For the purposes of this paper, we will seek to understand the emergence of social entrepreneurship in China by examining both social entrepreneurs (the people) and the social enterprises (the organizations). Studying social entrepreneurs through an anecdotal lens would allow us to appreciate their individual paths as they navigate through China’s complex environment. Surveying the actual social and economic value-generating mechanisms within social enterprises can tell us about what kinds of models are developing and succeeding in China. Although this paper will concentrate more on the social enterprise *organization*, recognizing that the entrepreneurs themselves play an undeniable role in these organizations’ development can also help us shed light on the multi-dimensional nature of social entrepreneurship in China.

³⁴ Light, *The Search for Social Entrepreneurship*.

³⁵ Janelle Kerlin and Kirsten Gagnaire, “United States” in *Social Enterprise: A Global Comparison*, Janelle Kerlin (Medford, MA: Tufts, 2009), 89. And Light, *The Search for Social Entrepreneurship*.

³⁶ Dees, *The Social Enterprise Spectrum: From Philanthropy to Commerce*, (Harvard, MA: Harvard Business School Press, 1996).

Establishing a clear definition of social enterprise is important for the development of groups that could serve marginalized communities more effectively than current forms of social organizations. Dacin (2011) explains that the academic community has fueled a growing movement to establish social entrepreneurship as a legitimate domain of academic inquiry.³⁷ Due to its interdisciplinary nature, it intersects a number of fields including anthropology, economics, political science, and sociology. Because of this multi-varied background, social entrepreneurship intrigues academics, especially as they regard it with many different opinions ranging from enthusiasm to skepticism.³⁸

For practitioners, the scope and depth of the definition parameters have direct implications for how valuable resources offered by supportive organizations, such as impact investment funds, are allocated. Light (2008) suggests that more “exclusive” definitions will maintain a strong core concept towards which institutional resources could be directed.³⁹ While an overly “inclusive” definition would encompass more models under the umbrella of social enterprise. However, this open definition could potentially dilute the unique, innovative characteristics associated with a social enterprise, limiting a ventures’ access to crucial support.⁴⁰

³⁷ Tina M. Dacin, Peter A. Dacin, and Paul Tracey, "Social Entrepreneurship: A Critique and Future Directions," *Organization Science* 22.5 (2011): 1203. *Inform Online*. Organization Science, Sept.-Oct. 2011. Web. 06 Oct. 2013. <<http://dx.doi.org/10.1287/orsc.1100.0620>>.

³⁸ Ibid.

³⁹ Light, *The Search for Social Entrepreneurship*.

⁴⁰ Ibid.

Chapter Two: **A Comparative View of Social Enterprise**

How do the development processes of social enterprises compare with those from different regions of the world? What domestic forces directly or indirectly affect the emergence of social enterprise? Specifically, how does the Chinese social enterprise sector compare to other regions' sectors according to the literature? While the first chapter addressed the conceptualization of social enterprise in academia and practice, Chapter Two will dive into the social enterprise's development within the global context. This chapter maps out the international social enterprise movement by associating regional influences to particular characteristics in the social enterprise. The analysis provides us with a foundation for the subsequent chapter where we will investigate the specificity of the Chinese social enterprise.

2.1 Kerlin's Comparative Analysis of Social Enterprises

Arguably the most prominent comparative research on the global emergence of social enterprise is conducted by Janelle A. Kerlin, the author of *Social Enterprise: A Global Comparison* (2009) and "A Comparative Analysis of the Global Emergence of Social Enterprise" (2010).⁴¹ In her work, Kerlin observes regional socioeconomic and political contexts to distinguish social enterprise development in different regions of the world. Kerlin uses the "social origins theory," an approach developed by Salamon et al. (2000), as

⁴¹ Janelle Kerlin et al., *Social Enterprise: A Global Comparison*. And Janelle A. "A Comparative Analysis of the Global Emergence of Social Enterprise."

an entry point for understanding the development of new institutions in dissimilar environments.

The social origin theory's main premise is that variations in nonprofit sectors across different countries in scale, composition, and financial base can largely be explained by their diverse social, economic, and political contexts.⁴² By looking at the development of civil society through a wider lens, the social origin theory treats the nonprofit sector "not as an isolated phenomenon floating freely in social space but as an integral part of a social system whose role and scale is a byproduct of a complex set of historical forces."⁴³ Kerlin (2009 and 2010) applies this theory in her holistic examination of the social enterprise, a sector often viewed as a derivative of civil society. Her analysis of regional social enterprises evaluates different models of social enterprises through four elements: the market, international aid, state, and civil society.⁴⁴

Kerlin's comparison is based on empirical data gathered from a plethora of databases including but not limited to: the World Development Indicators; World Bank national accounts; OECD national accounts; United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics; and Transparency International Annual Report. Each regional composite number for the four categories of "market function," "international aid," "state capability," and "civil society" were given a rating of one to four to depict their position relative to one another, with one being the lowest and

⁴² L. Salamon, S. W. Sokolowski, & H. K. Anheier, (2000), "Social Origins of Civil Society: An Overview," Working Paper of the Johns Hopkins comparative nonprofit sector project no. 38, The Johns Hopkins Center for Civil Society Studies, Baltimore. And Kerlin, "A Comparative Analysis of the Global Emergence of Social Enterprise," 165.

⁴³ Salamon, "Social Origins of Civil Society", 21.

⁴⁴ Kerlin, "A Comparative Analysis," 167.

four the highest. The average of these ratings for the specific categories enabled Kerlin to quantitatively compare regional social enterprises' characteristics across the world.⁴⁵

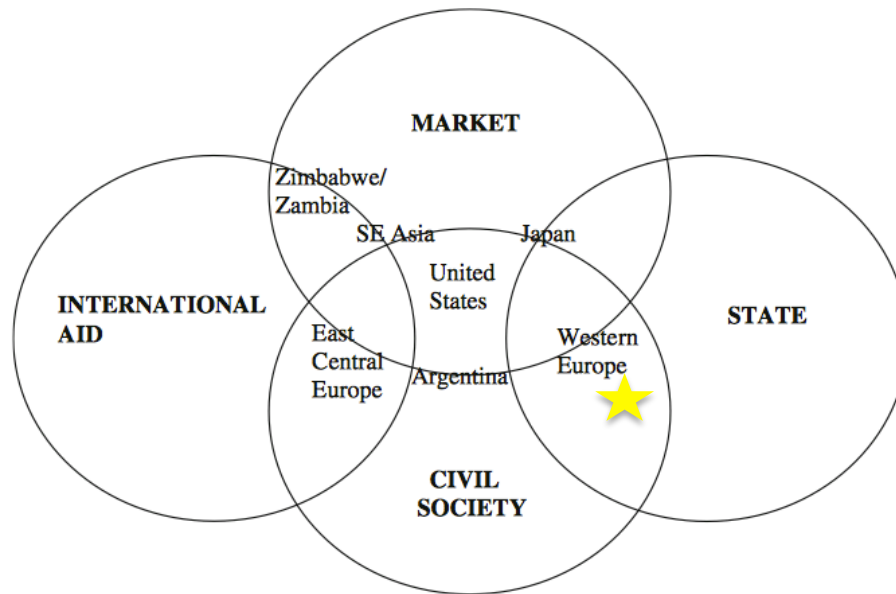


Fig. 1 Relative placement of social enterprise for seven world regions and countries with regard to market, state, civil society, and international aid

Figure 2.1

Kerlin (2009) suggests that regional socioeconomic and political influences affect sectors from which social enterprises develop from. Based on the work of Kerlin (2009), Defourny and Kim (2011), and Yu (2011), the yellow star indicates between which sectors the Chinese social enterprise landscape is currently situated.

Source: Kerlin (2010) "A Comparative Analysis."

In Figure 2.1, social enterprises in the U.S., in the face of a strong but reluctant state, appear to seize on the nation's strong market forces and well-developed civil society. This becomes evident in the emergence of many non-profits that utilize market strategies and for-profit businesses with a social mission (see Figure 3.5 for further comparison between regions' legal environments). On the other hand, Western European governments have demonstrated a greater propensity to actively shape social enterprises to address pressing

⁴⁵ Kerlin, "A Comparative Analysis," 173-176.

issues, such as unemployment.⁴⁶ As a result, Western Europe's position on Figure 2.1 between civil society and state reflects the long-standing tradition of state intervention in Western Europe. In contrast, in Argentina, a state where market forces, state power, and international aid are relatively weak, social enterprises originate predominately from Argentina's nonprofit community. Zimbabwe and Zambia's social enterprise development is largely fueled by international aid. Interestingly, because foreign donors are demanding more market-based models of social enterprises, social enterprises hailing from Africa are more market driven, despite the fact that these two countries have relatively weak market economies.⁴⁷ According to Kerlin, social, economic, and political characteristics of different regions play an undeniable role in sculpting their domestic social enterprises' models and sectors of origin.

Kerlin's work fills in a gap in the social enterprise literature from an international comparative perspective. Her country case studies include the United States, Western Europe, East-Central Europe, Argentina, Zimbabwe/Zambia, and Southeast Asia and Japan. However, these case studies did not include China, the largest and fastest growing East Asian nation, leaving a substantial hole in the understanding of global social enterprises. My research will build on Kerlin's mapping to characterize the Chinese case as positioned between state and civil society—but moving towards the market sphere.

⁴⁶ Alex Nicholls, *Social Entrepreneurship: New Models of Sustainable Social Change*, Oxford: Oxford UP, 2006. Print.

⁴⁷ Kerlin, "A Comparative Analysis," 175.

2.2 The Origins of the Chinese Social Enterprise

According to literature, where can we place China's social enterprise sector on Kerlin's diagram? The social enterprise phenomenon is particularly influenced by two actors in the Chinese context: the Chinese state and its developing civil society. Using Kerlin and Salamon's approaches, Defourny and Kim (2011) asserted in their cross-country analysis that the East Asian social enterprise landscape is specifically "marked by a strong and region-specific influence of state policy and that it is moving towards an increasing role of civil society."⁴⁸ Shahnaz (2009) also echoed this observation that most social enterprises in Asia today are nonprofit NGOs.⁴⁹ 68% of interviewees in the 2008 British Council report predicted that social enterprises evolved from existing NGOs, and even the "China Social Enterprise and Impact Investment Report," released five years later shares this perspective.⁵⁰ Currently, the literature concurs that the unique relationship between the Chinese authoritarian state and its civil society stimulates Chinese social enterprises' development.

While the international aid and market sectors certainly play a role in the development of the Chinese social enterprise, the literature considers their influence as minor compared to the those of China's state and civil society. International aid still exists in China in the forms of foundations and charities. However its role is relatively small

⁴⁸ Jacques Defourny and Shin-Yang Kim, "Emerging Models of Social Enterprise in Eastern Asia: A Cross-country Analysis," *Social Enterprise Journal* (Spring 2011): 23, accessed September 24, 2013. <<http://orbi.ulg.ac.be/bitstream/2268/91190/1/Defourny%20Kim%20final%20SEJ.pdf>>.23.

⁴⁹ Durreen Shahnaz and Patricia Tan Shu Ming, "Social Enterprise in Asia: Context and Opportunities," Lee Kuan Yew School of Public Policy, 2009. <http://www.asiaix.com/wp-content/uploads/2010/03/Social-Enterprise-in-Asia-Context-and-Opportunities3.pdf> (accessed April 23, 2014).

⁵⁰ The British Council is an United Kingdom-based organization specializing in international educational and cultural opportunities. Non-Profit Incubator, "The General Report of Social Enterprise in China," *British Council*, N.p., 2008, Web. 24 Sept. 2013, 1. <http://dsi.britishcouncil.org.cn/images/BC_China_Social_Enterprise_Research_Report.pdf>. And SERC and UBS, "China Social Enterprise", 25.

compared to other countries in South America and Africa.⁵¹ Compared to ventures from United States, Europe, and Japan, the role of the market is viewed as still largely unrealized by Chinese social enterprises as most ventures are originating from the non-profit sector.⁵² The fact that China's young, quasi-capitalist economy is barely in its fourth decade suggests that social enterprises are not yet completely embedded in the market sector. Thus, current academic literature proposes that the Chinese social enterprise lies somewhere in between the state and the third sector with markedly less influence from the market and international aid (yellow star in Figure 2.1).

2.3 Research Methodology

This thesis is largely built upon data I collected from primary and secondary resources. Primary resources collected remotely include: annual reports from organizations dedicated to supporting social enterprises globally and in China, newspaper and magazine articles, and websites. To prepare for my month of fieldwork in Shanghai, China, I contacted potential interviewees, such as the social entrepreneurs and staff from incubators, through their websites, LinkedIn pages, and email addresses. My three main contacts and organizations were Transist Impact Labs, The Nest/Gongyi Xintiandi, and Innovate99, the hub organizations that later directed me to a much wider network.

During my month of field research in January 2014, I aggregated a variety of primary sources. My most informative sources were the total of 19 interviews (one conducted over Skype) I conducted with social entrepreneurs and employees of social incubators and social

⁵¹ Kerlin, "A Comparative Analysis", 177.

⁵² Nicholls, "Social Entrepreneurship."

investment firms. I also collected observations and notes from attending social enterprise-related events in Shanghai, volunteering for marketing assignments at Transist Impact Labs, and amassing brochures and other publicity materials from social enterprise sites. I conducted half of my interviews in English, and the other half in Chinese with many social entrepreneurs who could not speak English. For most of my interviews I had a computer with me, and I transcribed as I listened to my subjects' responses. Other times, I recorded the conversation simultaneously with my iPhone.

The language barrier was a challenge during my interviews and observations. While I am relatively fluent in daily conversation topics, I am not particularly familiar with the language pertaining to industry or specific professional topics. During some conversations with interviewees who could not speak any English, I often had to ask them to repeat themselves or slow down their speech. While I made sure to confirm facts with my interviewees before I transcribed them into my notes, there is a chance that the transcripts of my conversations in exclusively Mandarin may be less accurate because of information omission or the inherent difficulty of translating the nuances of Mandarin into English.

For the purposes of this paper, I use Shanghai as a case-study to gain insight into the current and future social enterprise landscape in China. I was motivated to conduct fieldwork in Shanghai, China because I am very familiar with the city after living and working there for six months during my junior year. As a phenomenon that sits at the intersection of business, international influences, and a burgeoning civil sector, social entrepreneurship has roots in Shanghai, a first-tier city where those agents are particularly abundant and

active compared to other cities in China. In addition, the Shanghainese government is renown for being more experimental in its policies regarding social organizations and businesses. If there are any new trends in the Chinese social enterprise, they are likely be evident in Shanghai first. Because of Shanghai's position as China's international financial center and the most heavily foreigner-populated city in China, the data and observations I collected during my field research are indicative of trends in Shanghai. However, these trends may not necessarily be illustrative of the social enterprise landscape in all of China.

2.4 Looking Forward

While my research during the fall semester introduced me to the literature that illustrates China's social enterprise landscape today, my field research gave me a deeper insight into the daily operations of social entrepreneurs and those who support them. Not only did my field research confirm much of what I learned through my secondary research, my observations and interviews on the ground shed light upon more progressive and exciting dimensions of Chinese social enterprises.

Contrary to the characterization in the literature, the Chinese social enterprise landscape is increasingly more diverse and dynamic. Utilizing Kerlin and Salamon's approach of analyzing domestic factors to understand a regional social enterprise movement, I will closely examine how China's specific social, economic, and political elements are playing a much larger role in influencing Chinese social enterprise models. In fact, my findings from Shanghai reveal that unique socioeconomic and political factors in China are converging on the confined space of the third sector. Today, many social enterprises are beginning to get

squeezed out from China's constricted civil society space. Today, significant shifts in China's political, philanthropic, and business environments have actually prompted the growth of more market-based social enterprises. The next few chapters will dissect the variants of China's social economy individually, including its social enterprise sector, transitional economy, social welfare situation, civil society, state support for the private sector, and international agents' influences. By interrogating how each feature of China's social economy plays an integral role in sculpting today's market-leaning social enterprises, we can begin to understand how resourceful and nuanced China's social enterprise sector truly is.

Chapter Three: **The Chinese Social Enterprise**

In Chapter Three, we will take a closer look at the characteristics of the Chinese social enterprise. Man and Terence (2006) and Yu (2011) provide us with frameworks with which we will use to breakdown and understand the different models of social enterprises that currently operate in China. How exactly does each model create and distribute social and economic value? What legislative forms do Chinese social enterprises take on? Does the current legal system accommodate the development of Chinese social enterprises?

Chapter Three accomplishes three goals. First, the chapter illustrates that common models of social enterprises shared by other regions' social enterprises are also developing in China. Second, it demonstrates that the lack of an institutional definition for social enterprise in China is a challenge shared by other nations as well. Finally, after outlining how the Chinese social enterprise as an *end product* may share similar qualities to other regions' sectors, Chapter Three sets us up for the following chapters that explore how China's *unique* environmental variables are distinctly shaping these mechanisms of social change.

3.1 Chinese Social Enterprise: Undefined and Unstructured

The undefined and unstructured nature of Chinese social enterprises is not drastically different from the vague development of social enterprises in other regions, such as the U.S. Originating from a variety of sectors, Chinese social enterprises exemplify the cross-sector nature of this phenomenon. Drawing upon a diverse range of resources,

Chinese social enterprises take on many different forms. Similar to the most broad global definition of social enterprise, the general consensus in China is that a social enterprise is an organization that uses business strategies for a social purpose.⁵³ However, due to the fact that the concept of social enterprises in China is still in its infancy, their specific characteristics often remain indistinguishable.⁵⁴

At the root of the problem, the state does not have an official, legal definition of social enterprise. Chinese social enterprises currently operate under varied state bodies, such as the Ministry of Civil Society or the Bureau of Industry or Commerce, that manage oversight independent of each other.⁵⁵ This lack of official definition prompted Xiaomin Yu, a professor at the School of Social Development and Public Policy at Beijing Normal University, to use a very broad definition to describe social enterprises in China: a business venture or economic activities driven by social objectives (Figure 3.3).⁵⁶

Academics who study Chinese social enterprises have proposed several frameworks with which we can better understand this complex sector. Man and Terence (2006) offer a simple framework to depict Chinese social enterprises' institutional development. They distinguish two common organizational models of social enterprises in China: the NGO model (non-profit) and the enterprise model (for-profit).⁵⁷ First, in the NGO (non-profit) model, social ventures emerge from existing nonprofits that embark on a path towards commercialization for reasons including seeking alternative means of funding. These social

⁵³ Lee, "The Emergence of Social Enterprises in China: The Quest for Space and Legitimacy," 86.

⁵⁴ Yu, "Social Enterprise in China," 10.

⁵⁵ "UBS Supported Report on Social Enterprise and Impact Investing in China," *Asian Philanthropy*, 17 Oct. 2013. Web. 17 Dec. 2013. <<http://asianphilanthropy.org/?p=3374>>.

⁵⁶ Yu, "Social Enterprise in China," 10.

⁵⁷ Man and Terence, "An Overview of Social Enterprise Development in China and Hong Kong," 173-174.

enterprises straddle the line between non-profits and businesses. As new agents of socioeconomic development, civil society organizations/grassroots non-profits that commercialize are increasingly accredited with providing social services to local populations. One example of a non-profit that has begun to offer commercial services is Helinshe (Box 3.1).⁵⁸

Man and Terence propose that the Chinese social enterprises take on another form—the enterprise (for-profit) model. This type of social enterprise is based on a business model. Unlike social enterprises that originate from the civil society realm as non-profits, social enterprises from the Enterprise model initially start out with a for-profit objective coupled with a mission to create social value. Some examples of enterprise-based social enterprises in China include the Xuping Rabbit farm and Solar Ear (Box 3.1).

⁵⁸ Amanda O'Malley, "Interview Notes from The Nest," January 2014.

Box 3.1 Different Origins of Chinese Social Enterprises

Non-profit → social enterprise

Helinshe is a local Shanghainese organization that promotes cultural development for the city's youth. In addition to co-opting with local artists to create hand-drawn maps of public parks, Helinshe also promotes the education in traditional Chinese culture and customs for the youth by publishing children's cartoon books. As of January 2014, Helinshe was in the process of communicating with publishers and investors, and the organization planned to subsidize much of its community events with its picture book sales.

For-profit → social enterprise

Grassroots entrepreneur Ren Xuping founded a business that includes a rabbit farm, a rabbit husbandry school, a meat processing firm, a fur company, and the Rabbit King Poverty Relief Research Centre. Generating a sales volume of \$3.5 million, Ren's successful rabbit farm business prompted him to establish a training school in 1990 to teach rabbit husbandry to local peasants, including rural villagers and laid-off workers. His ventures also establish a strong market network for local rabbit breeders to connect to more widespread market demand.

Another social enterprise that is an enterprise-based model is Shanghai's Solar Ear (Figure 3.4), a company that hires deaf employees to produce hearing aids. While Solar Ear's hearing aid sales cover only a portion of its operating costs, the remainder of its costs are subsidized by foundations. Solar Ear's multifaceted revenue streams, such as its supporting foundations and product sales, and its employment of marginalized populations are common characteristics of Chinese social enterprises.

Source: Amanda O'Malley, "Interview notes with Helinshe and Solar Ear," January 2014.

On the other hand, Xiaomin Yu (2011) provides a more comprehensive framework of Chinese social enterprises (Figure 3.1).⁵⁹ To illustrate the multiplicity of Chinese social enterprise forms and origins, Yu categorizes Chinese social enterprises using five different groups: their development origin (what sectors social enterprise originate from), social mission, organizational nature, legal status, and operational model (how do they generate social and economic value?).⁶⁰ In this chapter, I will focus on two specific lenses to understand the developing landscape of Chinese social enterprises—what sectors the social enterprise originate from and how social enterprises operate.

⁵⁹ Yu, "Social Enterprise in China," 11.

⁶⁰ In fact, Man and Terence's non-profit and for-profit organization forms are encompassed in Yu's extensive framework with the addition of a "Hybrid" form between the non-profit and the for-profit.

Properties	Categories
I. Development origins	<i>State</i> Reform of the social welfare system Re-employment project for laid-off workers Cross-sector partnership <i>Non-profit sector</i> Commercialising NPO Revenue-making subsidiary of NPO Cross-sector partnership <i>Market dynamics</i> Corporate social responsibility Venture philanthropy Cross-sector partnership <i>International agencies</i> Forum, conference and training Micro-finance initiative Venture philanthropy
II. Social mission	Employment promotion (for WISE) Social care provision Health care delivery Poverty alleviation Education development
III. Organisational nature	Non-profit For-profit Hybrid
IV. Legal status	Civilian-run non-enterprise unit Farmers' specialised co-operative Social welfare enterprise Civilian-run educational institution Commercial company
V. Operational model	Fee-for-service Service subsidisation Market intermediary Entrepreneur support Employment service Co-operative

Table I.
The typology of social
enterprise in China

Figure 3.1

Yu (2011) emphasizes the development origins of Chinese social enterprises as a primary method of differentiating these ventures: state, market dynamics, non-profit sector, and agencies of international cooperation. Source: Yu, "Social Enterprise in China: driving forces, development patterns, and legal framework," 11.

The operational model is one area where similarities can be drawn between the Chinese and Western social enterprise. Kim Alter, the founder of Virtue Ventures LLC, a US-based management consulting firm specializing in social enterprise, explains the complexities of social enterprise models in a detailed typology. This typology is well-known

in the field, as many Western academics and practitioners have referred to Alter in their own works (Grassl 2012, Kerlin 2009-2010). Figure 3.2 and 3.3 are visual references for these models, illustrating how different mechanisms within social enterprise models actually generate social and economic value and how they function with one another. In Figure 3.4, I've supplemented these diagrams with brief descriptions of how these models are structured, as well as mapped out existing Chinese social enterprises that exemplify these models.

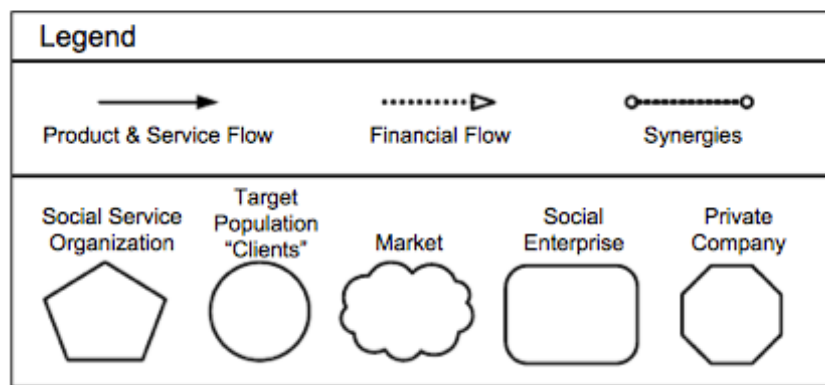
In addition to the structure, the integration of a social enterprise's business and social program is another way to categorize social enterprise models. Alter (2007) heavily emphasizes the "embedded-ness" of the profit-making entity and the social program in diverse models.⁶¹ Alter differentiates models by viewing them as "embedded social enterprises," "integrated social enterprises," or "external social enterprises" (respectively illustrated in Figure 3.3). When a social enterprises' social program and business activity is one and the same, these are considered "embedded social enterprises." An example of an "embedded social enterprise" is the Xinbao Shang Xue/Star Camp Autism schools, where providing the social service also simultaneously generates the profit (Figure 3.4). Another example of an "embedded" model is a solar panel company, where its social service (creating more sustainable energy sources) is directly proportional to the product it sells (number of green roofs or panels).⁶² In most "embedded" models, the more social services distributed, the more profit the venture makes.

⁶¹ Alter, "Social Enterprise Typology," 26.

⁶² Amanda O'Malley, "Interview notes," January 2014.

In “integrated social enterprises,” social programs overlap with business activities and often share costs and assets. Integrated social enterprises sometimes have a separate funding branch to support the nonprofit’s operations and mission. In some cases, social services that were originally offered for free become commercialized and then sold to a new fee-paying market. Lastly, “external social enterprises” are companies whose social programs are distinct from business activities. Puki Designs and Shanghai Baker are examples of external social enterprises that have a separate profit and nonprofit branch operating together fulfill their financial and social goals (Figure 3.4 and Chapter 4.6 and Box 4.2).

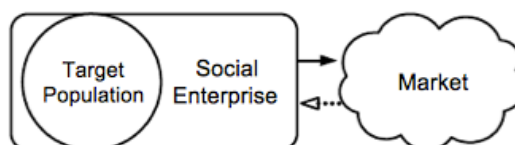
The legend shows how the symbols can be used to interpret the diagrams' financial and product flows in relation to the social enterprise, the market, and the clients.



Market Intermediary Model:



Employment Model:



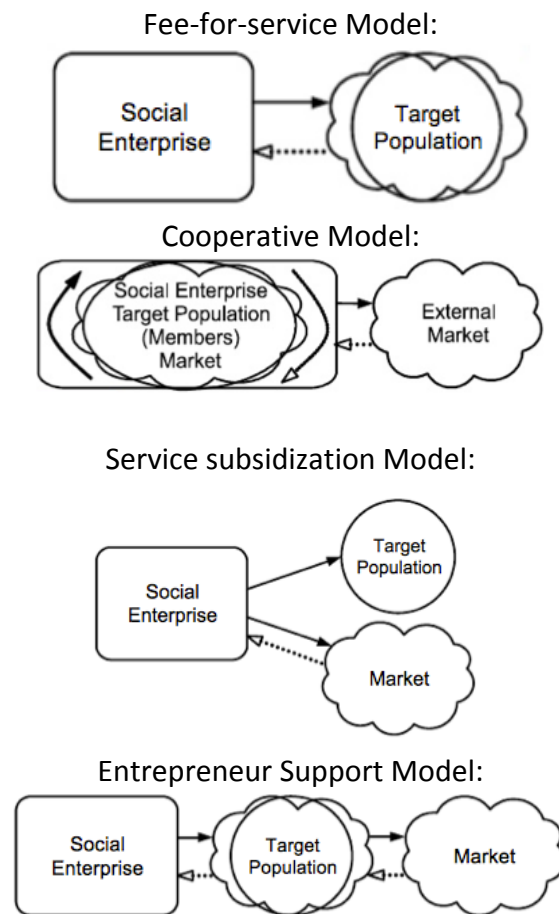


Figure 3.2

Alter's operational models are visually depicted in these diagrams that show the "flow" of the economic and social value created by social enterprises. Source: Alter (2007)

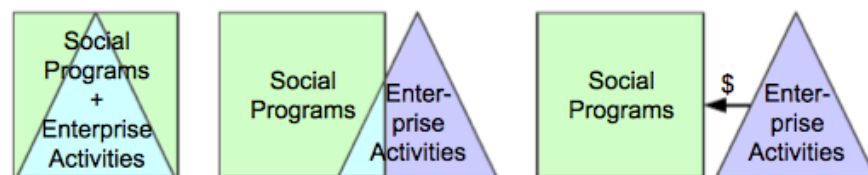


Figure 3.3

"Embedded," "Integrated," and "External" models of social enterprise, respectively. The integration between the money-making side and the socially-minded side of a social enterprise overlap in varying degrees depending on the venture. Source: Alter (2007)⁶³

⁶³ Alter, "Social Enterprise Typology," 18.

Whether we evaluate a social enterprise's product/service and financial flow or its integration, or lack of, between its profit and value-generating entities, we can conclude that these operational characteristics of social enterprises are evident in both Chinese and Western social enterprises (Figure 3.4). The fact that Alter's typology is applicable to both Chinese and Western social enterprises demonstrates that similarities in the operational model can be drawn between Chinese and Western social enterprises.

Figure 3.4 Typology of Social Enterprise Operation Models in China						
Operational Model	Description of Model	Example of Model in China	Social Mission	Development Origins	Legal Status	Funding Sources
Fee-for-service*	<i>Commercializes its social services, then sells them directly to target populations, such as individuals, firms, communities, or third party payer</i>	Star Camps Autism Development Center 星宝上学	Helps autistic children learn skills to eventually integrate into regular school	nonprofit	civilian run nonprofit and commercial enterprise (hybrid)	founder's own funding and government-contract
		Hetong Aged People Welfare Association	Establishes elderly homes and charges below market prices for its elderly welfare products and services. Hetong also includes charity foundations, 7 elder care homes, 1 geriatric hospital, vocational schools, and more.	forprofit	civilian run nonprofit and commercial enterprise (hybrid)	fee-for-services, social donations, government funding
Service Subsidisation	<i>Sells products or services to external market and uses the income it generates to fund its social programs</i>	Shanghai Baker	Provides French bakery training to disadvantaged students (orphans) to find employment. Sells baked goods and renting space.	nonprofit/charity	part charity in Hong Kong and part Wholly-Owned Foreign Enterprise (WFOE)	80% partner corporations foundations, 20% enterprise revenues
Market Intermediary*	<i>Provides services to its target population, i.e. small, individual producers, to help them access markets. Purchases the client-made products sells the products in markets at a price mark-up</i>	SHOKAY	Purchases yak fiber from Tibetan yak herders and connect them to international market, increasing their income by 10-30%.	forprofit	commercial enterprise	foundations, govt industry grants, product sales
Entrepreneur Support*	<i>Sells business support and financial services to its target population or self-employed individuals or firms</i>	Innovate99	Provides social entrepreneurs with consulting services (marketing, financial planning)	forprofit	commercial enterprise	partners' personal capital
		Social Venture Group	Consults and connects donors, businesses, and foundations with charities/nonprofits to donate to	forprofit	commercial enterprise	consulting fees and some donations
Employment*	<i>Provides employment opportunities and job training to marginalized populations, such as disabled</i>	Puki	Provides employment/internship opportunities and lifeskills training for the deaf. Sells graphic designs for profit	forprofit and nonprofit	civilian run nonprofit and commercial enterprise	almost completely funded by designs sales
		Solar Ear	Provides employment for the deaf and sells their products (hearing aids) to community	forprofit	commercial enterprise	foundations and product sales
Co-operative*	<i>Provides direct benefit to its target population through member services: market info, technical assistance, access to external markets, access to products and services, collective bargaining power</i>	The Nest	Provides incubation services for social enterprises and nonprofits, such as offices, training, networks	nonprofit (Non-Profit Incubator)	civilian run nonprofit	government funding and rent payments from member NGOs

Figure 3.4

Common social enterprise operation models that Alter (2007) outlined in her global social enterprise typology frequently appear in the Chinese social enterprise sector. Indicated by (*), “embedded social enterprise” models are common in China. Adapted from Alter (2007) “Social enterprise typology” and Yu (2011) “Social enterprise in China” and O’Malley “Interviews,” January 2014.

3.2 Common Legal Forms of Chinese Social Enterprises

Does the Chinese legal environment accommodate the growth of social enterprises? If not, how do Chinese social enterprises navigate through the legal system? While Chapter 3.1 illustrated how Western and Chinese social enterprises shared similar operational characteristics, Chapter 3.2 will delve into China's ill-defined legislative framework for social enterprises and compare the Chinese legal environment for social enterprises with those of Western nations.

The legislative environment for Chinese social enterprises is ill-defined and largely unsupported, which is surprisingly similar to the legal environment of social enterprises in the United States (Figure 3.5). Researchers and experts (FYSE 2012, Yu and Zhang 2011, SERC 2013) have all concurred that China's legislative system and the lack of legal definition are the biggest obstacles that social enterprises face. Yu and Zhang (2011) point out that China's existing legal system provides no concrete specifications regarding the development of social enterprises, especially its revenue-generating commercial activities.⁶⁴

⁶⁴ Yu and Zhang, "Development of Social Enterprises Under China's Market Transition," 10.

Figure 3.5 Comparison of Legislative and Institutional Environments for Social Enterprises in China, US, and UK		
Country	Legal Environment of Social Enterprises	Institutional Support for Social Enterprises
China	Weak legal support. Civilian-run non-enterprise unit (nonprofit), civilian-run educational institutions, social welfare enterprises, farmers' specialized co-operatives, and commercial enterprises (for-profit).	Weak. Mix of state and private. Nonprofits and private foundations, such as NPI (The Nest), Narada, etc. Emerging private capital (impact investors), expanding curriculums at education institutions.
United States	Relatively weak legal support. Nonprofit, tax-exempt organizations (501c charity); for-profit corporations; and limited liability companies (LLC). Virtually no new policy has been created over the past 50 years to accommodate the profit activities of nonprofits in SE sector. Some states passed laws for "B Corp," "Flex C," and "LC3."	Well supported by private sector and foundations. Professional membership orgs (Social Enterprise Alliance), private foundations (Rockefeller Foundation), emerging trend of "social enterprise accelerators" and incubators (Pittsburgh Social Innovation Accelerator), research in SE is conducted by business schools that have strong curriculums in SE.
United Kingdom	Strong legal support. Work-integration social enterprises (WISE); community interest company (CIC- introduced in 2004 designed specifically for SEs); company limited by shares (CLS- business w/shareholders); company limited by guarantee (CLG-business w/members not shareholders), charitable incorporated organizations (CIO- charity that wants to be incorporated but doesn't want to be a company).	Well supported by EU and national governments. Department of Trade and Industry (DTI) recognizes an official definition of social enterprise and manages a separate SE unit that runs a 3-year program "SE: A Strategy for Success." EMES is present in most EU countries and fuels research, consults organizations on tax and legal navigation. Emerging forms of membership associations (Community Action Network).

Figure 3.5

This table delves into the diverse legislative and institutional environments of social enterprises in U.S., UK, and China. US's social enterprise sector is primarily private-based, UK's sector is government-backed, and China's is relatively undeveloped and harnessing resources from both private and public sectors. Source: Kerlin, "Social Enterprise in the United States and Abroad," 1-12. And Social Enterprise UK and Royal Bank of Scotland, "Start Your Social Enterprise."⁶⁵

⁶⁵ Social Enterprise UK and Royal Bank of Scotland, "Start Your Social Enterprise," Last modified 2012, accessed April 25, 2014, http://www.socialenterprise.org.uk/uploads/files/2012/04/start_your_social_enterprise.pdf. And The Economist, "Firms with Benefits," January 7, 2012, accessed October 5, 2013, <http://www.economist.com/node/21542432>.

Consequently, social enterprises in China are pressured to register under existing legal forms that best accommodate their financial needs and operations capabilities.

Currently, there are five main legal forms that social organizations can adopt.⁶⁶

1. Civilian-Run Non-enterprise Units
2. Civilian-Run Educational Institutions
3. Social Welfare Enterprises
4. Farmers' Specialized Co-operatives
5. Commercial Enterprise⁶⁷

Figure 3.6 Legislative Framework for Social Enterprises in China					
Types of Organizations	Nature	Ownership Level	Tax Exemption	Profit Distribution	Autonomy from State
Commercial Enterprises	entirely for-profit	private-shareholders	none	no constraints	strongly autonomous
Farmer's Specialized Co-Operatives	entirely for-profit	shareholders and non-investors	yes, on agricultural products and production costs	limited profit distribution	strongly autonomous
Social Welfare Enterprises	moderately for-profit	private-shareholders	yes, depending on % of disabled workers employed	limited profit distribution	closely monitored by local civil affairs department
Civilian-Run Educational Institutions	moderately for-profit	private-shareholders	some, on business tax, development costs, govt funds	limited profit distribution	closely monitored by educational admin. Organs
Civilian-Run Non-Enterprise Units (nonprofits)	entirely non-profit	quasi-state owned	some, on income tax on govt funds and social donations, but not on income generated by commercial activities	existing law does not specify	closely monitored by govt sponsors

Figure 3.6

Unlike in the UK, there is no established legal form for social enterprise in China, so social entrepreneurs are pressured to choose existing legal forms based on their specific needs and circumstances. Yet, these forms all have pros and cons, especially when applied to the operations of a social enterprise.

Adapted from Yu, "Social Enterprise in China," 11.

⁶⁶ Yu, "Social Enterprise in China," 11.

⁶⁷ Adoption of "Commercial Enterprise" form would technically be illegal for a social nonprofit organization. See more in Chapter 4.4 Status Dislocation."

Concerning all five legal forms of social enterprises—social welfare enterprises, civilian-run non enterprise units (nonprofit), civilian-run educational institutions, farmer’s specialized cooperatives, and commercial enterprises—provisions on income-earning commercial activities are either too general or inconsistent (Figure 3.6).⁶⁸ If a social enterprise registers as a commercial enterprise, despite having a social objective, its legal form prevents it from accessing donor funding and preferential tax breaks. However, the social enterprise still competes with fully for-profit entities. 47% of respondents in the FYSE survey cited government policy or the lack of policy as a significant challenge to their operation.⁶⁹ Richard Brubaker, the founder of a CSR consulting firm in China called Collective Responsibility, comments on the challenges that social enterprises face when registering with the government:

“If you register as a business, you cannot do fundraising, so you cannot be traditional charity [or qualify for tax breaks]...If you are formally registered as a nonprofit, you will be limited in what you can do. If you stay with your business status, you can do whatever you want...We almost need to redefine what is a nonprofit and what is a social enterprise in China, because the regulation is so different.”⁷⁰

Brubaker touches upon the heart of the legislation problem: the definition issue of social enterprise. Without a concrete definition to describe what a social enterprise is exactly, legal frameworks are not able to adequately accommodate the distinct features of social enterprises in China.⁷¹ Diverse models of social enterprises that look and act differently yet address similar social issues have emerged, making the definition process

⁶⁸ Lane, FYSE 2012 China Social Enterprise Report, 27.

⁶⁹ Lane, FYSE 2012 China Social Enterprise Report, 5.

⁷⁰ Zhao, “The Social Enterprise Emerges in China,” 32.

⁷¹ Lee, “The Emergence of Social Enterprises in China,” 94.

even more challenging. The legal ambiguity of social enterprises will further hinder these ventures' access to funding, which already represents a severe challenge to 86% of social entrepreneurs.⁷²

Chapters 3.1 and 3.2 discussed two similarities that the Chinese social enterprise shares with its Western counterparts—the shared operational models and mutual challenges that a social enterprise faces when operating within an undefined legal framework in the case of the U.S. Now, how does the Chinese social enterprise differ? How does China's unique environment influence its developing social enterprise sector? We will begin to answer this question by looking at the Chinese social enterprise through another lens—its development origins. Yu (2011) specifically emphasizes the development origins, or sector from which it originates, as a method of differentiating social enterprises: state, market dynamics, non-profit sector, and agencies of international cooperation (Figure 3.1).⁷³ In Chapters Four through Six, we will intensively analyze China's unique socioeconomic and political factors that have produced a ripe environment for social enterprises to take root and expand despite the lack of clear legislation for social enterprises. In addition to creating the impetus for social enterprise's expansion in China, these factors also have an enormous influence on molding the kinds of social enterprises that are developing. These lenses include:

- Economic and social welfare situation
- Civil society registration system
- Current trends in China's philanthropy culture
- State support of private sector

⁷² Lane, FYSE 2012 China Social Enterprise Report, 5.

⁷³ Yu, "Social Enterprise in China," 11.

- Social enterprise incubators
- Impact investment

As this paper analyzes the recent developments in each of these individual lenses, we can begin to understand how these seemingly disparate elements of China's social and political economy influence the Chinese social enterprise sector. The following chapters will illuminate how social enterprises emerge in response to state policy and societal need, flex adaptively to institutional forces, and ultimately draw upon China's growing market sector.

Chapter Four:

Civil Society's Influence on Chinese Social Enterprise

Across all regions in the world, the link between the third sector, or civil society, and the emerging social enterprise sector is inextricable. In *Social Enterprise: At the Crossroads of Market, Public Policies, and Civil Society*, Defourny and Nyssens describe the social enterprise as a “bridge between co-operatives and non-profit organizations.”⁷⁴ Defourny and Nyssens suggest that the social enterprise does not seek to displace existing constituents of the third sector, such as nonprofits, worker-integrated cooperatives, foundations, volunteer groups, but rather intend to “enhance third sector concepts by shedding light on the particular dynamics within this sector.”⁷⁵ These “particular dynamics” could include the innovative ways employed by traditional social organizations to seek new resources, create social change, or generate socially-minded economic gains, etc. In the foreground of a diverse and constantly changing civil society, social entrepreneurship is simply a way of describing how the smaller pieces of the third sector are connecting and interacting in new ways that emphasize market strategies and innovation. In all regions, the social enterprise and the third sector are intimately connected; thus, investigating the third sector of a region provides one with a solid foundation to better understand the area’s distinct social enterprise landscape.

How does China’s civil society impact its growing social enterprise sector? How do the laws that China’s authoritarian state utilize to regulate its civil society actually produce more market-leaning NGOs and social enterprises? In Chapter Four, I will examine how

⁷⁴ Defourny and Nyssens, “Defining Social Enterprise,” 7.

⁷⁵ Ibid.

China's transitional economy, social welfare system, and legal environment has impacted its civil society throughout the last four decades. By simultaneously encouraging and constricting its civil society, China's central government has introduced a civil space that encourages innovation and marketization, thus paving the road for social enterprises to expand.

4.1 History of China's Civil Society

In the late 1970s, the economic reforms that precipitated today's market-socialist regime also restructured the system through which social welfare was distributed. The state's traditional social welfare frameworks were essentially dismantled, allowing the Chinese state to slowly retreat from the welfare provision realm.⁷⁶ Timothy Curtis, a Senior Research Fellow at the Skoll Centre for Social Entrepreneurship, describes a central feature of these frameworks as the "total workplace," the *danwei*, a system where the employer provided all the functions of social security, including education, housing, employment, health care, retirement care, and even entertainment.⁷⁷ Following the privatization of many state-owned enterprises (SOEs), China's leaders gradually removed the requirement of employers to provide these social benefits to their employees. This dismantling of the "Iron Rice Bowl" created social problems that were exacerbated under the market-socialist

⁷⁶ Yu and Zhang, "Development of Social Enterprises," 5.

⁷⁷ Timothy Curtis, "'Newness' in Social Entrepreneurship Discourses: The Concept of 'Danwei' in the Chinese Experience," *Journal of Social Entrepreneurship* 2.2 (2011): 199. *T and F Online*. Accessed September 17, 2013. <http://dx.doi.org/10.1080/19420676.2011.621444>. And The Skoll Centre for Social Entrepreneurship is a prominent global entity that fosters the advancement of social entrepreneurship through education, research, and collaboration. *Skoll Centre for Social Entrepreneurship*, Saïd Business School, 2013, Web. 17 Dec. 2013. <<http://www.sbs.ox.ac.uk/ideas-impact/skoll>>.

regime.⁷⁸ Some of these problems included urban unemployment due to mass lay-offs, social polarization and exclusion, and a welfare gap created by the efficiency-driven reforms of socialist enterprises.⁷⁹

Expected to fill this institutional void in welfare provision, the government faced a significant financial and managerial challenge of providing social services to the Chinese people. However, instead of meeting society's needs, the state actually retreated further from the social welfare sphere. The state's renouncement of its public welfare responsibility is evident as the government's budget for social welfare declined from 0.58% of GDP in 1979 to 0.19% in 1997.⁸⁰ Furthermore, rapid aging of the population, decreasing family size, and explosion of rural-urban migration eroded the function of the traditional family-centered networks that had previously provided services for the elderly, children, and other vulnerable groups.⁸¹ The economic reforms also introduced new types of vulnerable groups, such as migrant workers and their children who are excluded from the traditional welfare provision structures.⁸² Since the beginning of the state's economic transition, the Chinese state is experiencing immense pressure to address rapidly increasing societal needs as its economy continues to grow.

As the demand for social welfare has continued to increase in the last three decades, new institutions needed to fill in the gap left by the state. Using the "paradigm of conflict" theory, or heterogeneity theory, Salamon (1995) explains the inverse relationship between

⁷⁸ The "Iron Rice Bowl" is a term used to describe China's past system where one's occupation guaranteed a steady income and welfare benefits.

⁷⁹ Yu and Zhang, "Development of Social Enterprise," 5.

⁸⁰ X.Y. Shang, (2001), "Moving towards a Multi-level and Multi-pillar System: Changes in Institutional Care in Two Chinese Cities," *Journal of Social Policy*, Vol. 30 No. 2, 259-281.

⁸¹ Yu and Zhang, "Development of Social Enterprise," 12.

⁸² Ibid.

the nonprofit sector and the state.⁸³ He describes this relationship as fundamentally one of competition; a failure on the government's part to provide services results in greater impetus for civil society growth. As early civil society organizations began to appear in response to Chinese society's escalating needs in the late 1970s to early 1980s, then rapidly expanding in the late 1990s, the inverse relationship between the social sector's emergence and the Chinese state's retreat is very clear.

While there was an increasing acceptance of the expanding civil society sector, the Chinese authoritarian government was also anxious to "make it clear that [China] was not a free-for-all society to organize itself to articulate its interests."⁸⁴ Saich (2000) proposes that the Chinese state's natural Leninist tendencies to thwart organizational plurality was compounded by its fear of the potential for social opposition and unrest in response to its reforms. The Party suspected that social organizations could become covers for groups engaging in political activities or represent interests of disgruntled workers and/or peasants.⁸⁵ To rein in its rapidly developing social sector, the state created a restrictive legislative framework that cemented the central government's control.

4.2 Corporatism in China's Civil Society

To maintain control over its rapid growth of civil society organizations, the Chinese state has employed a corporatist system of welfare distribution, a legacy of the Mao era of socialist welfare system. Developed by Schmitter (1974), the concept of "state corporatism"

⁸³ Lester M. Salamon, *Partners in Public Service: Government-Nonprofit Relations in the Modern Welfare State* (Baltimore: The Johns Hopkins University Press, 1995).

⁸⁴ Tony Saich, "Negotiating the State: The Development of Social Organizations in China," *The China Quarterly* no. 161 (2000): 126.

⁸⁵ *Ibid*, 127.

is a system in which “singular, noncompetitive, hierarchically ordered representative ‘corporations’ ...were created by and kept as auxiliary and dependent organs of the state.”⁸⁶ Under this corporatist regime that first emerged in the Mao era (then solidified in the 1980s), collective efforts of large state-backed organizations and their smaller constituent entities are harnessed to address social needs in a top-down manner.⁸⁷ In China, GONGOs, the oxymoronic “government-organized non-government organizations” enjoy monopoly representation and direct government support. GONGOs, such as the All-China Women’s Federation and All-China Federation of Trade Unions essentially perform the roles of giant civil society organizations.

⁸⁶ Philippe C. Schmitter, “Still the Century of Corporatism?” *Review of Politics* 36, No. 1 (1974): 102-3. And Anthony Spires, “Contingent Symbiosis and Civil Society in an Authoritarian State: Understanding the Survival of China’s Grassroots NGOs,” *American Journal of Sociology* 117, No. 1 (2011): 6. *Chicago Journals*. <<http://www.jstor.org/stable/10.1086/660741>>.

⁸⁷ Saich, “Negotiating the State,” 127.



Figure 4.1

The wide spectrum between the independent (blue) organizations to state-organized organizations (red) illustrates that the level of autonomy from the Chinese Party State displayed by each entity varies immensely. Source: Schrader article from CSRwire⁸⁸

Depicted by the red bubbles in Figure 4.1, these large umbrella organizations restrict freedom of association as citizen energies are channeled into state-approved organizations and toward official goals. GONGOs exemplify the face of China's corporatist government style because the state officially recognizes one sectorial organization and utilizes that sole body to maintain communication with a select portion of the society.⁸⁹ By binding smaller key interests groups, such as NGOs, to its patronage, GONGOs are able to simultaneously regulate social organizations and extend as much state influence as possible.⁹⁰

Despite the existence of these large state organizations, the increasing gap between these GONGOs' missions and actual effectiveness have prompted the Chinese state to rely

⁸⁸ Anke Schrader, "Corporate Philanthropy in China: Who Is Doing What and How?" *CSRwire: The Corporate Social Responsibility Newswire*, 2 Jan. 2013. Web. 17 Nov. 2013. <<http://www.csrwire.com/blog/posts/660-corporate-philanthropy-in-china-who-is-doing-what-how>>.

⁸⁹ Spires, "Contingent Symbiosis," 9-12.

⁹⁰ Saich, "Negotiating the State," 125.

more on smaller grassroots NGOs to properly address social needs. The comparative advantage that localized NGOs exhibit over their bureaucratic and cumbersome GONGO counterparts became salient during the devastating Sichuan earthquake in 2008 that killed approximately 70,000 people. As thousands of volunteers converged on Sichuan to contribute to rescue initiatives of all sizes and origins, the grassroots efforts of smaller, local organizations were significantly more effective than the government's response.⁹¹

Spires (2011) describes the complex relationship between grassroots NGOs, particularly the unregistered, illegal ones) and the authoritarian state as a "contingent symbiosis."⁹² Under its corporatist system, the state maintains an official, overarching control over social welfare distribution through its GONGOs. In practice, however, the state displays a significant level of legal leniency to harness the comparative advantages that decentralized organizations exhibit in addressing social problems. By cooperating on mutual goals, the state effectively "crowd-sources" their responsibilities by co-opting grassroots NGOs and encouraging them to be responsible for their regions' social needs instead of cracking down the smaller, often illegal NGOs.⁹³ Local governments are especially guilty of "crowd-sourcing." Pressured by the central government to be accountable for addressing local communities' social needs, local governments are more than willing to exhibit this leniency. If local government officials are satisfied with the ways grassroots NGOs are solving social problems, they will turn a blind eye to their illegality, claim credit for the good

⁹¹ The Economist, "Chinese Civil Society: Beneath the Glacier," The Economist, April 12, 2014. <http://www.economist.com/news/china/21600747-spite-political-clampdown-flourishing-civil-society-taking-hold-beneath-glacier>

⁹² Spires, "Contingent Symbiosis," 12.

⁹³ Shawn Shieh and Deng Guosheng, "An Emerging Civil Society: The Impact of the 2008 Sichuan Earthquake on Grassroots Civic Associations in China," *China Development Brief*. N.p., 1 Nov. 2011. Web. 30 Sept. 2013. <<http://www.chinadevelopmentbrief.cn/?p=465>>.

work, and allow the NGO to continue its operations. But if an NGO's work draws too much attention with politically-sensitive initiatives or makes calls for political representation or reform, the NGO is very vulnerable to be shut down.⁹⁴ Consequently, NGOs' relationships with the state are *contingent* on how "useful" the governments deems them to be.

For example, Poon et al. (2006) discovered in their research that rural Chinese entrepreneurial firms achieved abnormal success rates because local community officials played a crucial role in preserving markets and providing firms with the necessary resources to survive.⁹⁵ This latitude displayed by local and state governments creates a dynamic third sector where NGOs are not tightly tethered to their GONGO parents. Rather, they are able to operate somewhat independently and, to some degree, are encouraged to adopt more innovative characteristics to accommodate society's fluctuating needs.

⁹⁴ Spires, "Contingent Symbiosis," 12.

⁹⁵ Patrick S. Poon et al., "Social entrepreneurship in a transitional economy: A critical assessment of rural Chinese entrepreneurial firms," *Journal of Management Development*, Vol. 28, No. 2 (2009): 94-108. Accessed October 27, 2013. www.emeraldinsight.com/0262-1711.htm.

Box 4.1 Different Groups in China's Civil Society

Civil society organizations, or grassroots NGOs/non-profits:

These organizations are closest to the ground and provide direct services to marginalized groups. Small and locally-based, these non-profit organizations provide direct services on a modest scale. Because of the difficult registration process, however, many organizations are unable to register with the Ministry of Civil Affairs and register as an enterprise instead. Unregistered grassroots organizations maintain high autonomy from the state. They do not receive funding nor tangible assets from the Chinese government agencies, but may receive funding from foreign governments, foundations, or local communities. However, without an official government sponsorship or approval, grassroots NGOs' survival is risky.

Government-organized NGOs (GONGOs):

GONGOs are quasi-governmental organizations that operate under the supervision of a government ministry. Over the past two decades, China has created a diverse portfolio of GONGOs, including sports, business, and academic associations. Some are established by the government to receive foreign donations, such as the China Family Planning Association; others perform administrative functions for important constituencies, such as the All-China Federation of Women's Associations and the Communist Youth League. Some GONGOs were created for philanthropic purposes, such as the Red Cross Society of China and the China Foundation for Poverty Alleviation. These organizations were created to represent the overall interests of their constituents, and to act as a bridge-organization between state and society.

Private foundations and corporate philanthropies:

Private organizations are a growing section of China's civil society as the expanding economy affords citizens more resources that could be directed towards philanthropic purposes. One example is Jet Li's One Foundation, an independent charity.¹

Intermediary support organizations:

These organizations that provide services to nonprofits, social enterprises, and foundations have recently started emerging in China. Examples including Nonprofit Incubator, YouChange China Entrepreneur Foundation, and Global Links Initiative all offer capacity-building and resources to a wide range of organizations.

Source: Yu, "Chinese Social Enterprise," 2011. and Saich, "Negotiating the State," 8-11.

4.3 Legislation for Social Organizations/NGOs

How does the Chinese Party state preserve what Spires (2011) calls the "contingent symbiosis" between the state and civil society? What political tools does the Chinese government use to maintain this upper-hand? And how does this legislation promote the development of social enterprises?

The most restrictive political tool that the Chinese state uses to maintain control of the civil sector is the Ministry of Civil Affairs' "dual management system" or "dual registration system."⁹⁶ The NGOs that have emerged to address the welfare gap left by the state must register with the government, and the process is very bureaucratic and complex.

⁹⁶ China Development Brief, "Beijing University Civil Society Center's 'Ten Major Events in China's Social Sector for 2013,'" China Development Brief, last modified March 25, 2014, accessed April 15, 2014.

Prior to 1989, there was no universal regulatory system to manage NGOs. However, in the aftermath of the bloody Tiananmen crackdown in 1989, the state wanted to regulate civil action. Many officials in the Party state began to view NGOs as a major threat, as they potentially provide alternative space for political mobilization.⁹⁷ As a result, the State Council issued the *Regulations on the Registration of Social Organizations* in October 1989.⁹⁸ This Regulation dictates that all NGOs must register as a civilian-run non-enterprise unit with the Ministry of Civil Affairs (MoCA) if they want to operate legally in China (Figure 3.6 and Box 4.1). Furthermore, NGOs are incentivized to register with the state, as registered organizations benefit from the legitimacy, protection, and sometimes subsidies offered by the government.⁹⁹

While the incentives to register with the state are high, the barriers of entry to do so are also significant, making this stipulation the most significant obstacle for grassroots organizations to become legal.¹⁰⁰ Before registering with the MoCA, non-profits must enlist a willing supervisor government agency to sponsor the organization. This is the “dual management system” designed to enable the government to better regulate, organize, and monitor NGOs.¹⁰¹ Not surprisingly, there are few incentives for government departments to take on the extra administrative work required to sponsor an NGO—not to mention the risk the sponsor is exposed to if the NGO becomes politically troublesome. Allowing the

⁹⁷ Spires, “Contingent Symbiosis,” 10.

⁹⁸ J. Hsu and R. Hasmath, “The Local Corporatist State and NGO Relations in China”, *Journal of Contemporary China* 23 (2014): 7.

⁹⁹ Spires, “Contingent Symbiosis,” 9.

¹⁰⁰ Spires, “Contingent Symbiosis,” 8.

¹⁰¹ Timothy Hildebrandt, “The Political Economy of Social Organization Registration in China,” *The China Quarterly*, 208 (2011): 973. Accessed October 30, 2013.

<<http://journals.cambridge.org/download.php?file=%2FCQY%2FCQY208%2FS0305741011001093a.pdf&code=9affadd9896d085ec3e652438a6bb5dd>>.

government to monitor the growth of non-state backed NGOs, this dual-registration system is brilliant. The state reinforces its corporatist governing style by both maintaining control through these stringent laws at the top and harnessing the comparative advantages of social organizations from the bottom.¹⁰² Although the Ministry of Civil Affairs began relaxing this registration system in 2012—a sponsoring official organization is no longer needed to register in some cities—this new break-through policy is too young to have perceptible effects on China’s greater civil society. As of now, the rigid legal structure that constricted the growth of NGOs for more than two decades still has enormous implications on China’s third sector today.¹⁰³

4.4 Status Dislocation: Nonprofits Registering as a Business

What other course of action can NGOs take if they cannot register with the government? How does registering with a business promote the growth of market-driven nonprofits and social enterprises? The combination of China’s swelling social problems, expanding civil society, and a restrictive legal framework produces a unique space where organizations are often seeking alternative methods to survive or operate more efficiently. This constricted civil space encourages ventures to seek new ways to bypass the dual-registration system or adopt more innovative characteristics.

Due to the challenges of the “dual registration system,” many civil society organizations register under an alternate legal form, motivating these groups to display the market-oriented characteristics of social enterprises. In what Yu and Zhang (2011) call a

¹⁰² Hasmath, “The Local Corporatist State,” 7.

¹⁰³ <http://www.economist.com/news/china/21600747-spite-political-clampdown-flourishing-civil-society-taking-hold-beneath-glacier>

“status dislocation,” many organizations that are unable to register with the MoCA list as a “commercial enterprise” with the Bureau of Industry and Commerce even if their function and mission more resembles a nonprofit social organization.¹⁰⁴ Registering as a “commercial enterprise” is not only a less time-consuming and restricted process, but operating as a company also allows the venture much more autonomy in its own affairs (Box 4.1 and Figure 3.6).

This discrepancy between the non-profit’s legal form as a commercial business and its functionality as a social not-for-profit organization can sometimes act as the catalyst for adopting market strategies and becoming a social enterprise. Due to the fact that organizations registered as commercial enterprises do not have the tax-exempt statuses that registered non-profits are subject to, nonprofits with status dislocation (whose sole revenue stream usually consists of donations) are pressured by their non-tax exempt status to pursue alternative funding options. Aside from GONGOs, NGOs are not legally allowed to fundraise publicly, so the majority of their operating capital comes from grants from official foundations (which can receive individual donations), government contracts, and personal loans.¹⁰⁵ However, because of their legal status as a “commercial enterprise,” these non-profits do not benefit from any tax exemptions on their donations no matter how social their operations or missions may be. Consequently, these ventures often suffer from funding shortages and are encouraged by the realities of their “commercial enterprise” identities to actually adopt innovative practices, such as commercializing a service or good.

¹⁰⁴ Yu and Zhang, “Development of Social Enterprise,” 16.

¹⁰⁵ Shieh and Deng, “An Emerging Civil Society.” And Adam Pillsbury, “Crowd-funding with Chinese characteristics,” The British Council, last updated 2014, accessed April 27, 2014, <http://www.theguardian.com/british-council-partner-zone/crowd-funding-chinese-characteristics>.

¹⁰⁶ When nonprofits, such as Sun Village, begin adopting market strategies to reflect their legal identity, they begin embark on the path to becoming a social enterprise. Sun Village is an organization that provides foster care, education, counseling, and protection services to children of convicts. Started in 1996, Sun Village initially attempted to register as a non-profit, or civilian-run non-enterprise, but eventually registered as a for-profit enterprise due to registration difficulties. Now considered a social enterprise, Sun Village bridges the gap between its social goals and business legal status by adopting commercial measures, such as renting over 40 acres of land in Beijing and operating a lucrative farm that produces fruit trees.¹⁰⁷

Today, registering as a “commercial enterprise” is an increasingly common practice. In the 2012 China Social Enterprise Report published by the Foundation For Youth Social Entrepreneurship (FYSE), the “commercial enterprise” was the legal entity of choice among 66% of social entrepreneurs.¹⁰⁸ Compared to the 20% who registered as a non-profit and the 14% who operated without registering at all, social entrepreneurs who registered as enterprises represented an overwhelming majority, regardless of their true functionality as a nonprofit or a business. Whether registering as a “commercial enterprise” is the end result of an already commercialized non-profit or a factor in encouraging the nonprofit to adopt new market strategies, the state’s strict registration system plays a crucial role in encouraging organizations in China to display entrepreneurial characteristics.

¹⁰⁶ Lane, FYSE 2012 China Social Enterprise Report, 21. FYSE is a Hong-Kong based charity that promotes social entrepreneurship.

¹⁰⁷ Yu, “Social Enterprise in China,” 30.

¹⁰⁸ Lane, FYSE 2012 China Social Enterprise Report, 27.

4.5 Registered NGOs' Quest to Commercialize

Why do nonprofits that properly register *still* feel pressure to adopt commercial practices and seek the path of the social enterprise? While the strict registration system prompts alternatively-registered organizations to become social enterprises, even NGOs that legally register with the Ministry of Civil Affairs still feel pressure to seek alternate funding methods. The combination of China's changing philanthropy climate and the state's corporatist management of its civil sector have created donation shortages for many GONGOs. Ultimately, this declining supply of funding financially squeezes out smaller NGOs that depend on resources from their GONGO parent organizations at the top.

The corporatist system that governs China's civil society is also effective in China's philanthropy sector, binding registered smaller NGOs to their parent GONGOs and charity foundations. The Chinese government has historically dominated the philanthropy landscape and permits only a small number of government-approved and private charities to publically fundraise. Surveys indicate that GONGOs have absorbed 90% of public donations in the past, leaving few resources to finance grassroots NGOs.¹⁰⁹ A study by the Yale Center for the Study of Globalization discovered that while U.S. foundations gave a total of \$443 million to Chinese charities between 2002 and 2009, 86% of that sum was awarded to academia and GONGOs. The small remainder of that sum was left to fund the grassroots NGOs that actually provide the most effective services.¹¹⁰

In addition, recent charity scandals, such as the Guo Meimei and Lu Xingyu China-Africa Project Hope incidents in the summer of 2011, that plagued China's philanthropy

¹⁰⁹ Brown and Xu, "Building Local Support for Chinese Civil Society," 722.

¹¹⁰ Lane, "FYSE 2012 China Social Enterprise Report," 8

sector have resulted in GONGOs' declining donations, financially squeezing out smaller NGOs that are beneficiaries of their big-brother state organizations.¹¹¹ After the 2011 scandals, total giving by China's Top 100 philanthropists plunged by 41% in response.¹¹² This dramatic decline in donations had negative implications at the state and grassroots level. Grassroots NGOs that were already financially struggling became even more squeezed for resources. These organizations' dependency on donations makes them vulnerable to the fluxing trends of China's philanthropy sector. In the end, immense funding cuts to the upper levels of GONGOs and state-backed charities are pressuring nonprofits lower down on the corporatist totem pole to explore alternative funding avenues.

These significant changes in China's philanthropy landscape are pushing many nonprofits to explore methods of commercialization, a characteristic of a social enterprise. A 2011 study of family philanthropy in Asia by Swiss bank UBS and the Insead business school revealed that 40% of the China-based respondents rated the emergence of social entrepreneurship as the most highly-anticipated trend.¹¹³ In the questionnaire commissioned by the British Council, over 90% of respondents who didn't consider

¹¹¹ The Economist, "Beneath the Glacier."

¹¹² In June of 2011, the Guo Mei Mei Red Cross scandal erupted. A 20 year-old woman named Guo Meimei who claimed to hold a senior position with Red Cross Commerce, a sub-institution under the Red Cross Society of China (RCSC), posted photos of her lavish lifestyle on her microblog. These photographs revealed her leaning on the hold of a Maserati while holding an Hermes bag, sipping a drink in a business-class cabin on an airplane, and posing on a horse riled up fiery suspicions amongst Internet users who suspected that she had embezzled money from the RCSC. One month later, media shed light upon the China-Africa Project Hope, a charity with a goal to build 1000 primary schools in Africa over ten years. The World Eminent Chinese Business Association (WECBA), the organizational founder of Project Hope was discovered to be unregistered with the MoCA, but was actually a private business registered in Hong Kong. Other discrepancies that suggested that this charity was a fraud included false or nonexistent phone numbers on the website, inaccurate claims by the WECBA on its website of having the United Nations as an official event sponsor, and alleged collection of membership fees despite the WECBA's status as a nonprofit.

Liu, "Social Entrepreneurship Takes Off in China", 2012. And David Bandurski, "Eight uncharitable lies by the WECBA," China Media Project, August 22, 2011, accessed April 19, 2014, <http://cmp.hku.hk/2011/08/22/15082/>.

¹¹³ Liu, "Social Entrepreneurship Takes Off in China", 2012.

themselves social enterprises expressed the desire to develop towards a model that relies less on donations and more on self-sufficient financing.¹¹⁴

Even in the philanthropy sphere, the wheels of social entrepreneurship have been greased. Man and Terence (2006) note that the same forces that propelled the development of nonprofits, such as decreasing state involvement in welfare provision, are also opening up the space for social enterprises. Furthermore, they propose that converting into social enterprises may indeed be the “logical next step for community groups seeking to achieve self-sustainability.”¹¹⁵ In conclusion, NGOs in China of all legal statuses are still extremely reliant on other non-state, non-domestic sources of funding. Chinese NGOs of all forms, from properly registered, illegally registered, and even unregistered, are noticeably seeking more sustainable revenue streams. When traditional methods of funding are becoming increasingly inconsistent, these NGOs become ripe breeding grounds for the roots of social entrepreneurship to take hold.

4.6 Hybridization: Simultaneously Making Money and Social Change

The Chinese civil society is becoming a contentious space where NGOs are constantly feeling the pressure to adopt market strategies and pursue other avenues of finance. Responding to the significant funding and legal restraints of the Chinese civil sector, NGOs and social enterprises have demonstrated innovative ways to continue offering their social services and achieve financial sustainability. One of the most innovative methods Chinese social enterprises utilize to circumvent the state’s legal constraints is to pursue

¹¹⁴ Non-Profit Incubator, “The General Report of Social Enterprise in China,” 1.

¹¹⁵ Man and Terence, “An Overview of Social Enterprise Development in China and Hong Kong,” 168.

the model of *hybridization*—registering as a commercial enterprise *and* a civilian-run enterprise (non-profit) simultaneously.¹¹⁶ The product of the Party State’s strict legal requirements, this hybrid model of social enterprise is popular because of its dual ability to fulfill legal conditions and operate efficiently. The collective social enterprise works towards its double bottom line of economic and social value by designating one division of the organization as the profit-generating branch and another as the charity-centered, non-profit branch. Consequently, each entity is able to exercise its comparative advantage by exclusively generating profit or providing social services. Examples of these innovative hybrid organizations include Shanghai Puki Deafs Coordination Agency, StarCamp Schools, and Shanghai Young Bakers (Box 4.2).¹¹⁷ The fact that all three social enterprises have been experiencing success in pursuing their dual missions in creating social and economic value and becoming mostly financially self-sustainable suggests that the hybrid model is one of the most effective ways to structure a social enterprise.

¹¹⁶ Yu, “Social enterprise in China,” 11.

¹¹⁷ O’Malley, “Interview Notes”, January 2014.

Box 4.2 Examples of Successful Hybridization Models

Shanghai Puki Coordination Agency for the Deaf:

Puki is an organization based in Shanghai that connects deaf people to vocational training and employment opportunities in the graphic design/branding industry. Puki also organizes community education regarding hearing disabilities. Founded by Leo Xiang, Puki began its operations with the support of Non-Profit Incubator (NPI) in 2010, then moved to the Nest (Box 5.1) in 2013. Puki's hybrid model consists of smaller divisions registered as different legal entities. Its Branding and Design department, a full-service agency, is registered as a commercial enterprise, and its social programming branch is registered as a civilian-run non-enterprise. The agency sells Puki's deaf employees' products and services to government bodies and domestic and multi-national companies. This profit-generating organ finances Puki's charity division, which is registered as a nonprofit, which organizes vocational training, English lessons, internship payments, and community development projects that seek to foster more communication between deaf communities to exchange best practices. In only less than four years of operation, Puki basically breaks even in its revenue and costs!

Shanghai Young Bakers:

Founded in 2008, Shanghai Young Bakers (SYB) first began as a social innovation project of the French Junior Economic Chamber of Shanghai. SYB is an organization that provides fully-sponsored French bakery training to disadvantaged Chinese youth from ages 17-23, allowing them to access more vocational opportunities and life skills. During the one-year training, SYB students take traditional French bakery classes, life skills courses (communication, identity, professionalism, etc) taught in Chinese to help students integrate to life in Shanghai, and English language classes. Students also participate in internships at international hotels. SYB's hybrid model consists of two parts—a charity side and a profit-generating side. In 2010, SYB's nonprofit training program was handed over to a Hong-Kong registered charity called the Chi Heng Foundation, an independent, non-governmental charity foundation. SYB is also co-sponsored by the Carrefour Foundation, the Accor Foundation, and other partner companies. Separately registered as a commercial enterprise, the profit-generating side of SYB finances its charity side by offering public bakery classes, teambuilding corporate events, catering, bakery deliveries, farmers market sales, and consulting services for other food and beverage professionals. Currently, SYB's collective costs are financed approximately 80% by its sponsors and 20% by its own enterprise. The social enterprise and its activities have only existed for about two and a half years; given the size of SYB's budget, the social enterprise is doing quite well. The project manager, Floriane Lemoine, cites SYB's goal as being 50% self-sustainable. With 100 young students already graduated from the program, SYB has demonstrated enormous success.

Xingbao Autism Schools (StarCamp Schools):

StarCamp is a social enterprise that manages schools and learning centers for children with learning and mental disabilities, such as autism. Operating in its ninth year, StarCamp is comprised of two learning centers where children ages 7-12 with special needs can receive special education on how to integrate into a regular school in the future. The academic and behavioral curriculum includes speaking and writing classes for the children, training for the family members on how to raise an autistic child, and legal training for school officials and families regarding autistic children integration. The school facilities use a unique video-monitoring system so that parents and supervisors can monitor the sessions with the children and teachers; StarCamp is the only autism center in China that utilizes such technology to improve their services. StarCamp has a dual legal registration as a civilian-run non-enterprise unit and a commercial enterprise. The for-profit branch manages the business portion of the organization, including collecting tuition fees from families, and the non-profit branch manages the training and legal counseling. StarCamp is currently looking to expand its franchise-model centers to other cities in China.

Sources:

The American Chamber of Commerce in Shanghai, "Puki Deafs Coordination Agency," Accessed April 10, 2014, <http://www.amcham-shanghai.org/AmChamPortal/CSR/NGOView.aspx?NGOId=95>.

James Clutterbuck, "NGOs move into the new Gongyi Xintiandi," City Weekend Shanghai, October 30, 2013, accessed April 24, 2014, <http://www.cityweekend.com.cn/shanghai/blog/ngos-move-into-the-new-gongyi-xintiandi/>.

Shanghai Young Bakers, "About SYB," Shanghai Young Bakers, Last modified 2011, accessed April 24, 2014. <http://www.shanghaiyoungbakers.com>.

4.7 Selective Commercialization: Social Enterprise-ing Smartly

The successes of hybridized models in China indicate that, while commercialization is a key component of a self-sustainable social enterprise, adopting market practices, if pursued, must be done deliberately and efficiently by a qualified organization. Corinne Hua, the executive director of Stepping Stones, commented on the trendiness of social entrepreneurship:

“Social entrepreneurship is very fashionable [today]. There is a sense that social entrepreneurship is the answer to all. However, for some things it can work. For some, it cannot. It is not the answer to everything...I think it’s dangerous when organizations or incubators specify that they only will support social enterprises....Sometimes they end up discriminating against organizations that may not have a [financially self] sustaining model, but are very successful with the model they do have.”¹¹⁸

She recalled that, over the past few years, Stepping Stones experimented with commercialization by charging for products and services, such as a photograph gift calendar and some weekend classes. However, Hua asserts that for some organizational models, such as Stepping Stone’s volunteer-reliant model, charging a fee for its product or service would actually hamper the organization’s effectiveness. Charging its volunteers and already-financially struggling migrant schools for English lessons would dramatically decrease Stepping Stones’ supply of volunteers and volunteer centers. Furthermore, the calendar initiative required design skills, time, and money, all resources that were either outside of the Stepping Stones team’s expertise or scarce to begin with. “[Printing calendars is] a very inefficient way to fund someone’s salary,” Hua reflected, “[Stepping Stones]

¹¹⁸ Stepping Stones is a non-profit organization that connects volunteers, mostly expats in Shanghai, to English-teaching opportunities in poorer migrant children schools. Interview with Corinne. Stepping Stones, “About Us,” Stepping Stones, Accessed April 24, 2014, <http://steppingstoneschina.net/meet-our-staff>.

doesn't need to work very hard to get donations to fund our programs, so let someone else who knows how to make calendars sell calendars."¹¹⁹ Instead of commercializing calendars or charging for its volunteers' time, Stepping Stones eventually chose to offer services closer to its business model to subsidize some costs. The organization currently sells its corporate volunteer-events packages, through which the organization can make a nominal profit with a service it provides anyways.¹²⁰

Rather than aimlessly adopting market strategies, many leaders in China's social enterprise sector share a resolve to commercialize "smartly." The discourse that explores the comparative advantages of non-profits and for-profits is getting increasingly more pronounced as social entrepreneurs are starting figuring out when and where social entrepreneurship can actually work in China. Leo Xiao, the founder of Puki, suggested that in China today, social enterprises that originate from the NGO model often have trouble succeeding and surviving. He observed that many NGOs are very good at implementing projects if provided with funding from traditional sources, but if they "try to do something they are not meant to do," they may not be as successful.¹²¹ Xiao suggests that the business model-based social enterprise is the most successful structure for a social enterprise in China.

During the FreshStart Club's meeting I attended in January, I saw a presentation of W.I.L.L., a U.S.-based charity that operates a school for Chinese orphans on Chong Ning Island off the coast of Shanghai. During the Q&A portion of the presentation, the audience

¹¹⁹ O'Malley, "Interview with Corinne Hua," January 2014.

¹²⁰ Ibid.

¹²¹ O'Malley, "Interview with Leo Xiang," January 2014.

strongly criticized the founders' plan, which was to transform the charity into a social enterprise by commercializing the farm goods produced by the children on the organization's small plot of land.¹²² Many individuals in the audience openly questioned the efficiency of commercializing farm products in this case. They suggested that the international school, whose employees are all foreigners, would be better off marketing a product that they already exhibit a comparative advantage in—foreign language lessons.

This idea of sticking to a social enterprise's comparative advantage when commercializing is an increasingly widespread notion. Sebastian Martin, the founder of Cambio Coffee, a premium direct trade coffee company that is based in Shanghai, reiterated that social enterprises are better off ensuring that their social impact is in the actual model of the business. "The product [of the social enterprise]," Martin commented, "should already have the social value embedded in it."¹²³ Martin's assertions echo the idea of "embedded value," a concept Alter (2007) distinguishes in her social enterprise typology (Figure 3.3).¹²⁴ Due to the fact that one of the greatest challenges that aspiring social enterprises face is that they lack business knowledge and acumen, it appears that the best model a social enterprise can start out with is the business-based model.¹²⁵ And, more specifically within the business model, the greater the overlap between the profit-generating mechanism and the social service provided, the more sustainable a social enterprise is in the long-run.

¹²² O'Malley, "Observations and Notes from Fresh Start Meeting," January 2014.

¹²³ O'Malley, "Interview notes with Sebastian Martin," January 2014.

¹²⁴ Alter, "Social Enterprise Typology," 18.

¹²⁵ Lane, FYSE Social Enterprise Report, 5.

In Chapter Four, we extensively explored the influence of China's unique civil society on its developing social enterprise sector. The corporatist style of service provision, strict NGO laws, and disruptive trends in the philanthropy sector have all converged on the tense civil space. Unregistered, legally registered, and even business-registered NGOs of all shapes and sizes are beginning to get financially squeezed out of the traditional civil society sphere. Changing trends in the charity sector are putting pressure on NGOs to seek alternate revenue streams and embark on the path of the social enterprise. Civil society has always played an enormous role in the development of the social enterprise sector because nonprofits have historically led the push to commercialize their products and services. However, many commercializing nonprofits are starting to realize ventures that begin as businesses often operate more efficiently than social enterprises. As commercializing nonprofits are sometimes not "making the cut," the market-model social enterprise is becoming increasingly more desirable and necessary.

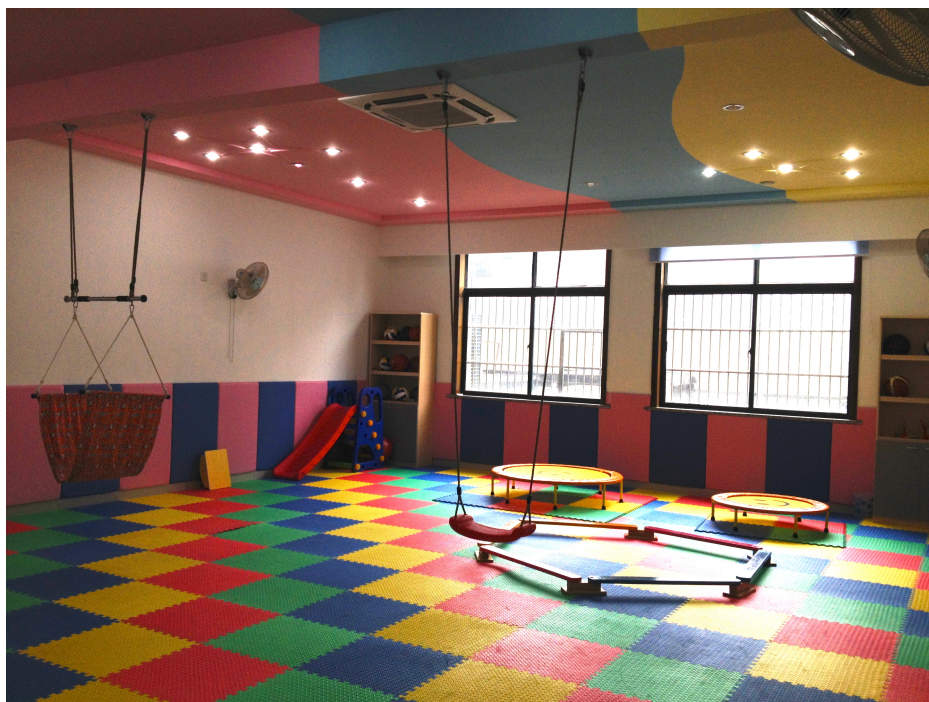


Image 4.1
One of the Star Camp Autism School centers.



Image 4.2
The video surveillance system allows the teachers and managers to closely monitor classrooms sessions. This is a technology that is uniquely utilized by Star Camp in this industry.

Chapter Five:

The Chinese State's Role in Social Enterprise Sector

How is the Chinese state responding to its rapidly evolving civil society and philanthropy sector? What does the Party state think of the emerging concept of social enterprise? Kerlin (2012) remarks that “models for social enterprise may be indirectly shaped to a great degree by what government chooses to do and not to do over time.”¹²⁶ In an authoritarian regime, the Chinese Party state's role in directly shaping China's social enterprise sector is undeniable and significant. Using the Nest/Gongyi Xintiandi as a microcosmic model of China's social enterprise sector, Chapter Five interrogates the implications of the state's part in both promoting and regulating social innovation.

5.1 The Chinese State's Role: “Social Innovation Management”

Despite China's constricting regulations on its civil society and nonexistent laws regarding social enterprises, the government has recently been demonstrating its commitment to supporting an innovative social sector through its rhetoric and initiatives. As evident by the strict legislation regarding NGO registration, more influential than any other factor in promoting the growth of social enterprises in China is the official support of the government. Since the mid-late 2000s, the state has not only acknowledged social entrepreneurship as a vehicle for socio-economic development, but has also taken proactive measures to build a more favorable environment for social enterprises.

¹²⁶ Janelle Kerlin, “Defining Social Enterprise Across Different Contexts: A Conceptual Framework Based on Institutional Factors,” *Nonprofit and Voluntary Sector Quarterly* 42. No. 84 (February 2012): 89, accessed February 1, 2013, <http://nvs.sagepub.com/content/early/2012/02/01/0899764011433040>.

The Chinese state has employed a variety of methods to support the expanding social enterprise sector, including promoting programs, providing subsidies, and loosening its NGO registration laws. In 2005, the State Council's Leading Group for Poverty Alleviation and Development, the MoCA, and the World Bank launched the first "China Development Marketplace" program which awarded a total of \$650,000 to 31 innovative development projects in China.¹²⁷ Especially with such a tight grip on its civil society (Chapter Four), the state's collaboration with global institutions in rewarding innovative grassroots initiatives is unprecedented. Social entrepreneurs often cite the government as a valuable patron of their ventures. Zheng Weining, the founder of Canyou, has publically stated that he is grateful for the help he received from the state.¹²⁸ The fact that he was able to buy land from the authorities at a sub-market price and have tax-exempt status due to Canyou's employment of disabled workers illustrates the government's official support for social enterprises.

Similarly, the differentiation between GONGOs and its more autonomous counterparts is increasingly less black and white. The fact that the head of the Narada Foundation and the founder of the China Non-Profit Organization Network were previously both Party general-secretaries of prominent GONGOs illustrates that central government officials and groups are playing a vital role in not only encouraging the sector in China but also leading its development.¹²⁹ Most importantly, the MoCA's loosening of its sponsorship

¹²⁷ Yu, "Social Enterprise in China," 10.

¹²⁸ Canyou is a business group that offers job opportunities in software development, animation design, and e-commerce to more than 3,700 disabled people nationwide and is recognized as one of China's most successful social enterprises. He Dan, "Social Entrepreneurship Increases in Popularity," *Chinadaily.com.cn*, China Daily, 20 Sept. 2012. Web. 24 Sept. 2013. <http://www.chinadaily.com.cn/china/2012-09/20/content_15769587.htm>.

¹²⁹ Meng Zhao, "Social Enterprise Emerges in China," 34.

stipulation for registering NGOs in 2012 signal the government's move towards reforming the dual registration system that restricts China's social sector.

Along with these tangible commitments to supporting the social sector, the state has also expressed positive rhetoric regarding the continuous development of social innovation. However, the manner in which the state encourages a stronger, more creative civil sector insinuates that the central government plans to play an instrumental role in guiding this process slowly and deliberately. At the 17th National Congress in 2007, President Hu Jintao announced a need for a policy that would embrace social organizations in solving China's social problems.¹³⁰ In his speech at the 17th National Congress, Hu stated:

*"...[China must] improve social management and safeguard social stability and unity... We need to improve the structure of social management comprising Party committee leadership, government responsibility, nongovernmental support, and public participation, and improve the system of social management at the primary level. We will stimulate the creativity of society to the greatest extent, maximize factors conducive to harmony and minimize those detrimental to it."*¹³¹

In his speech, Hu often mentions the words "social management," "nongovernmental support," and "creativity." In the 12th Five Year Plan (2011-2015), Hu similarly mentioned similar buzzwords such as "innovation in social management."¹³² On one hand, the Chinese state has clearly declared its intention to promote the social sector. Academia and those in the nonprofit field interpreted these words as the state's vocal confirmation of its support for innovative organizations to address society's needs. Man and Terence (2012) describe the Chinese state's new political goal as developing a model of

¹³⁰ Ryou, Lee, and Choi, "A Comparative Study on Chinese Social Enterprises," 358.

¹³¹ Hu Jintao, "Full Text of Hu Jintao's Report at 17th Party Congress," China View, 24 Oct. 2007. Web. 17 Dec. 2013. <http://news.xinhuanet.com/english/2007-10/24/content_6938749_7.htm>.

¹³² Fu Tao, "Learning Social Innovation from the West," *China Development Brief*, July 2, 2012, accessed September 30, 2013, <http://www.chinadevelopmentbrief.cn/?p=905>.

“service-oriented” administration. In this new public management reform agenda adopted by many Western countries, traditional government functions, such as social welfare provision, are delegated to the market and other community forces that may be more efficient and knowledgeable. Oftentimes, the government will introduce cost subsidies, vouchers, or even “purchase” the services of nonprofits.¹³³ For example, No Barriers Film, a nonprofit in Shanghai that records voiced-over-actions in films so that blind people can “watch” movies, is predominately funded by the government, which essentially purchases the organization’s service and products.¹³⁴ The increasingly service-oriented, perhaps even service-dependent, state supports social enterprises in prioritized industries to prosper with the help of official government endorsement. (More on government “purchasing” in Chapter 5.2)¹³⁵

On the other hand, a more critical interpretation of President Hu’s political rhetoric suggests that the central government will take a cautious and deliberate approach that embraces the development of the third sector by actually *increasing* state oversight. Wang Ming, the director of the Tsinghua University NGO Research Center, noted that while the state’s rhetoric and actions seem progressive, its commitment to “social innovation management” needs to be examined in a two-fold manner. The keyword “innovation” suggests a greater decentralization of social welfare provision to local organizations; however, the term “social management” implies that these organizations will not operate

¹³³ Man and Terence, “An Overview of Social Enterprise Development,” 167.

¹³⁴ O’Malley, “Interview Notes with No Barriers Film,” January 2014.

¹³⁵ Man and Terence, “An Overview of Social Enterprise Development,” 167.

independently. Rather, social organizations will be working within the current corporatist framework with, in fact, *increased* state supervision.

The concept that the Party state can encourage the expansion of NGOs without relaxing its political grip is closely examined by Jessica Teets, a professor at Middlebury College. She describes the contemporary Chinese local government-civil society collaboration as “consultative authoritarianism,” where the central government deliberately supports the expansion of a fairly autonomous civil society *and* increased indirect tools of state control.¹³⁶ Teets suggests that signs of a loosening civil society legislation, such 2012’s liberalization of the NGO dual registration system, will not necessarily have the democratizing effect on the Chinese state that many observers are predicting. On the contrary, the greater ease with which social organizations can now register with the MoCA simply enables the Party state to have even more oversight over civil activity under the conditions of authoritarianism. While citizen satisfaction is increased, state power and presence is also stronger and further solidifies the top-down civil society structure. Chan Kinman at the Chinese University of Hong Kong goes as far to argue that, as a result of laxer NGO restraints, the space in which a truly autonomous civil society may operate is actually shrinking.¹³⁷

¹³⁶ Jessica C. Teets, “Let Many Civil Societies Bloom: The Rise of Consultative Authoritarianism in China”, *The China Quarterly* 213 (2013):19-21, accessed April 1, 2014, doi: 10.1017/S0305741012001269.

¹³⁷ The Economist, “Beneath the Glacier.”

5.2 The Nest/Gongyi Xintiandi: “Social Innovation Management” in Action

Despite the doubled-edged sword of the Chinese state’s “social innovation management” approach, the central government’s support of an expanding civil society can still have immense positive implications for the social enterprise sector. One shining example of the state’s “social innovation management” motto in action is the development of the new Gongyi Xintiandi or “the Nest”, a nonprofit and social enterprise incubation complex in Shanghai (Box 5.1). According to its website, the Nest operates as a “tangible platform for cross-sector collaboration and community development in China that enables rapid growth of local NGOs and social enterprises.”¹³⁸ Contrary to the stereotypes of barely surviving social enterprises operating in a run-down, dirty space, the Nest is an incubation complex that resembles something between a beautiful public park and commercial offices nestled in stunning traditional 20th century style Chinese buildings.¹³⁹ Leigh-Anne Russell, the Nest’s project director during its first three years of operation, describes the Nest as a platform where non-profits currently pursuing more sustainable methods of operating—essentially aspiring social enterprises—and social enterprises across all industries can co-exist, support each other, exchange best practices, and access businesses and investors that are seeking partnerships or investment opportunities.¹⁴⁰

In addition, the highly anticipated “Nestworks” partner organization is currently developing within the Nest complex and plans to launch its operations in 2014. At

¹³⁸ While the Nest’s operating model ultimately needs to become akin to a social enterprise, it is technically not a self-sufficient social enterprise yet. In its first year of operations, the Nest is still heavily subsidized by the government. However, in the sense of its mission is to be a financially self-sustaining entity with a diverse set of revenue streams, such as its income from organizations’ rent and even management services, the Nest can be considered a social enterprise in the making. The Nest/Gongyi Xintiandi, “Our Story,” The Nest, last modified 2013, accessed April 24, 2014, <http://www.the-nest.org.cn>. And Leigh-Anne Russell, “Email exchanges on May 1, 2014.”

¹³⁹ James Clutterbuck, “NGOs move into the new Gongyi Xintiandi.”

¹⁴⁰ O’Malley, “Interview notes with Leigh-Anne Russell,” January 2014.

Networks, a “co-working community hub and fabrication workspace,” creative ideas that originate from the grassroots level of society can be transformed into actual prototypes in its new “technology fabrication lab” and launched onto a government-supported platform for further development, feedback, and access to investment opportunities (Box 5.1).¹⁴¹

¹⁴¹ Networks, “Networks Business Plan,” April 2014.

**Box 5.1 Gongyi Xintiandi/The Nest And Networks:
A “Tangible Platform for Collaboration and Innovation”**

Co-founded by the Shanghai Non-Profit Incubator Social Innovation Development Center and the Shanghai Civil Affairs Bureau, Gongyi Xintiandi or The Nest was opened in July 2010. The Nest is a collaborative project between the Shanghai government, non-profit organizations, and social enterprises. The goal of this cross-sector initiative is to create an attractive, accessible physical space to promote and connect the city’s developing non-profit and social enterprise sector with the local community. Nestled down a quiet residential street perpendicular to the busy street Lujiabang Lu, the Nest feels almost out of place with its city surroundings. The Nest is tranquil, well-landscaped, and large, taking up over 23,000 square meters. The government spent around 55 million RMB renovating this complex. Beautiful trees line the streets that connect the large buildings enclosing the serene gardens and public space. Rich with traditional Chinese architecture dating back to the early 20th century, some of the buildings that line the borders of the park are actually built with bricks salvaged from the Qing dynasty’s old Shanghai City Wall in 1911.

These buildings are filled with office spaces intended to be rented out to non-profits and social enterprises. Currently, approximately twenty organizations have offices in the Nest complex, while 5-6 more were approved in late January 2014 to move in this year. To be considered as a resident of The Nest, the non-profits, foundations, and social enterprises are required to be operating beyond their initial start-up development stages and have already achieved some successes with their organization. The many resources available to the Nest tenants include: a 40-50% below-market price for the office space, legal financial, and registration consulting services, networking opportunities, brand association with NPI and the Nest, and opportunities to cooperate with other Nest-based their organizations. Developing ventures can also gain publicity through the weekly guided tours through the complex with international tour groups, government bodies, educational institutions, corporations, and even businesses looking for nonprofit and social entrepreneurial partnerships. Organizations in The Nest must pay a rental fee that includes the property management costs but excludes utilities.

A new initiative that is currently being developed inside the Nest complex is the “Networks” organization. Described by its founder Leigh-Anne Russell (who formerly served as the project director of Nest for three years) as a “co-working community hub and fabrication workspace dedicated to social enterprise and acceleration of innovations in the ‘inclusive business’ (IB) and ‘assistive technology’ (AT) start-up landscape.” The “rapid prototyping fabrication lab” provides a hands-on platform for social entrepreneurs to create technologies on-site and receive immediate feedback from other entrepreneurs and community members. Projects that could be incubated in Networks range from mobile applications to 3D printing. Ultimately, physical infrastructure and tools such as metal and wood work, industrial sewing machines, and laser technologies would be available to entrepreneurs. One example of a technology that Networks proposes can be incubated is a new spoon that uses the same technology that stabilizes planes in flight to help patients with Parkinson’s and other tremor-causing conditions feed themselves. The goal of Networks is to become the “go-to landing platform and launch pad for social innovation in China and a global hub for AT development,” eventually channeling investment opportunities toward start-ups with a social bend. Networks founders hope to capitalize on its close proximity to the social enterprises in the Nest to share resources and become an accessible, affordable on-site rapid prototyping facility all in one location.

The Nest and Networks are government-backed initiatives that combine the beautiful public park space and the Silicon-Valley of non-profits and social enterprises into an appealing marketing campaign to connect social innovation projects to the public and potential investors. Its value derives from its hub-model that fosters cross-sector collaboration with centralized resources. Russell, the former program director, describes the Nest and Networks as a “think-and-do tank.” Unlike other incubators that often cater to organizations founded by foreigners in China, the Nest/Gongyi Xintiandi complex is an example of how collaboration between China’s private and public sector are helping to support its *domestic* social enterprise sector.

Sources: The Nest website and brochure. O’Malley, “Interviews with the Nest,” January, 2014. Leigh-Anne Russell, “Email exchanges with Amanda,” May 1, 2014. Networks, “Networks Business Plan,” April 2014.

Furthermore, the public park facet of the Nest incubator complex draws members of the local community through community events and tours. The Nest also serves as a vessel to introduce the relatively new concept of social innovation to the local Chinese. Residential organizations at the Nest are required to have an interactive element to their operations to facilitate this knowledge-sharing, whether it includes an office space that is open to walk-in visitors, organized events for the community, or a small café that is open to the public.

The consolidation of social organizations in the Nest exemplifies the Chinese state's watchful eye over this developing sector. Russell observes that the government's centralization of nonprofits and social enterprises at the Nest enables the state to "keep all social organizations in one place to keep them under watch."¹⁴² Channeling state resources into a central Silicon-Valley-esque space for social enterprises, the Chinese government is truly demonstrating its commitment to "social innovation management." By encouraging innovation that generates social good through an official, state-sponsored platform, the state can reassure social entrepreneurs that their work is supported. Simultaneously, the state can also be assured that these ventures are less likely to pursue initiatives that are subversive to the Party state. A social enterprise laboratory and breeding ground, the Nest represents the Chinese state's mission to expand its civil sector in a manner that can be carefully monitored and meticulously guided.

The Nest and its residential organizations is an accurate reflection of the dynamic models that currently exist in China's civil society and social enterprise landscape. Currently, a wide range of nonprofits and businesses that are all at diverse stages of development are

¹⁴² James Clutterbuck, "NGOs move into the new Gongyi Xintiandi."

incubated. One example of a social enterprise registered as a business is Solar Ear, which hires and trains employees who are deaf and have other disabilities to produce high quality hearing aids that are below market price. Solar Ear also pursues other initiatives, including education programs for the community about hearing health and CSR and marketing partnerships with businesses and the government.¹⁴³ Another business is a social enterprise café called Citybox that donates a portion of its revenue to social programming.¹⁴⁴

In addition to business model social enterprises, nonprofits that are in the process of seeking methods to commercialize and become self-sustainable were also being incubated at the Nest. One example is No Barriers Film, a nonprofit that provides voice-over services for films, adapts them to DVDs, and then sells these films to the blind so that they are able to “watch” movies by listening. No Barriers Film also organizes community events for the blind, such as public viewings of these voiced-over films. While this traditional nonprofit model is heavily reliant on the help of volunteers and government funding, the founder of No Barriers Film expressed that the government is encouraging them to find ways to be more financially self-sustainable.¹⁴⁵ That their operations are based in the Nest also contributes to the increasing pressure to “break out of their model and diversify their financial funding.”¹⁴⁶

Another nonprofit at the Nest currently in the process of commercializing is Helinshe, an organization dedicated to community development through art. Helinshe’s

¹⁴³ O’Malley, “Interview notes with Solar Ear,” January 2014.

¹⁴⁴ O’Malley, “Observation notes in the Nest,” January 2014.

¹⁴⁵ O’Malley, “Interview notes with No Barriers Film,” January 2014.

¹⁴⁶ O’Malley, “Interview notes with Leigh-Anne Russell,” January 2014.

services include partnering with local artists and young people to create maps for public parks, organizing local art galleries at prominent museums, and creating a Chinese culture and tradition education curriculum through cartoon and picture books. While they began as a registered nonprofit, the founder expressed that the organization is very eager to develop into a sustainable business in the future. Currently funded by foundations and businesses, Helinshe plans to commercialize by selling their picture books. They are in the process of speaking with publishers and potential investors, and they expect to begin generating initial profits this upcoming year.¹⁴⁷ Helinshe is only one example of the few traditional model-NGOs at the Nest that are actively seeking ways to adopt market strategies.

Although many of the residential organizations at the Nest originated from the social sector, the current membership of Nest residents is beginning to incorporate more *commercializing nonprofits and social enterprises that operate with a business model*. First, one of the requirements for Nest residential organizations is a sound financial plan or business model. In addition to showing how one's organization plans on paying the rent, the managing team also needs to ensure that its current funding model, whether it is self-sufficient or dependent on external resources, is sustainable in the long run. Second, founders at the nonprofits, such as No Barriers Film and Helinshe, are expressing an eagerness to adopt market strategies, moves that are highly encouraged by the state and the Nest operating team.

Russell observed that the state has recently taken a greater interest in supporting social organizations that have achieved success in key developmental areas. In fact, if a

¹⁴⁷ O'Malley, "Interview notes with Helinshe," January 2014.

particularly creative organization offers a product or service that the state cannot offer with its own resources, the government often “purchases” these services and supports them to the point where the organization can be developed into a mature and replicable model. Examples of this government “buy out” can be seen in No Barriers film, where the government provides funding for every community film event the nonprofit organizes. In the case of “V-Roof,” a social enterprise that installs rooftop gardens and promotes the use of rainwater harvesting systems and solar energy facilities in cities, its founder Huang Ke and her team won a 800,000 RMB contract with the Shanghai Municipal Government’s Science and Technology Commission in 2011 to continue their operations.¹⁴⁸ While the government is willing to “buy out” successful organizations and incorporate innovative models into its welfare provision system, the state is simultaneously pressuring these same organizations to seek more diverse portfolios of funding.

Furthermore, the types of new organizations seeking residency at the Nest also reflect the greater trends of China’s social enterprise sector, such as the growth of business-model social enterprises. Russell explained that in late January, six new organizations were approved to join the Nest. Some of these organizations were exclusively market-based models ranging from disabled-worker inclusions to CSR conglomerate programs. Despite the original agreement between the Civil Affairs Bureau and NPI that the Nest would be an incubator dedicated to cross-sector collaboration, the Nest’s inclusion of pure-business model social enterprises *still* provoked some hesitation on the Shanghai Civil Affairs Bureau’s part during the approval process. Eventually, they agreed to allow all the new

¹⁴⁸ SERC and UBS, “China Social Enterprise Report,” 36.

organizations to join the Nest. The businesses' approvals was contingent on proof that an embedded component of their business model generates a social value in a way that was more significant than superficial CSR initiatives.

The government's hesitation during this authorization process exemplifies a typical characteristic of the Chinese government in civil sector affairs—cautious and slow to embrace new models. As formal regulations regarding regular NGOs were only just introduced in 1989, the Party state is still grappling with how to best manage a burgeoning civil society within an authoritarian state. With the introduction of private ventures into what has been a traditionally nonprofit sector-based realm, the government was naturally hesitant to approve the entry of clear-cut businesses. However, the approval of the businesses suggests the Shanghai Civil Affairs Bureau eventually came to terms with the fact that the state must begin to recognize the cross-sector nature of social enterprises today. Signs that social enterprises may be shifting away from the civil society-based to a more market-based model are introducing more impetus for the government to accept, even reluctantly, a more inclusive definition of social enterprise. The commercial orientations of current and new resident organizations in the Nest suggest that market forces are playing a more significant role in Chinese social enterprise than ever before. In response, the state is indicating that it not only recognizes this shift to the market sector, but is also willing to capitalize on this movement.

5.3 The State's Support of the Private Sector

While the Chinese government's approach to managing its civil society is by no means consistent, its dedication to promoting business, in particular small and medium-sized enterprises (SMEs) has been unfaltering. As a result, many social entrepreneurs see the private sector as the path with the least obstacles and most potential to succeed. Official state policies in the last few decades reflect the government's conscious push to encourage the growth of small enterprises. In 1999, the state set up a special fund for encouraging the innovation of technology-intensive SMEs.¹⁴⁹ Between 1999 and 2013, China spent a total of 26.8 billion yuan (\$4.4 billion USD) to support SME development.¹⁵⁰ Furthermore, global economists and business leaders were very optimistic about the Party's policy plans announced at the Third Plenum in November 2013. Along with loosening the One-Child policy and abolishing prison camps, the Chinese government used favorable language regarding their promotion of private investment in state-owned enterprises, permitting more financial reform, and allowing the market to play a more decisive role in the future.¹⁵¹ A staff member at Transist, a technology impact lab in Shanghai, attributes the growth of market-based social enterprises to China's steady support of the private sector.

"When I think about China, I just think about the lack of options that people who want to make a change in their society have. In the US, you can do a ton as an individual...marching, protests, forming an NGO. The questions that I keep coming back to...as a Chinese citizen...I see a problem...What can I do? There aren't very many options. You can join the government...or you can join the business

¹⁴⁹ Xinhua, "China spends big to support SME's innovation," October 26, 2013, accessed April 25, 2014, http://www.china.org.cn/business/2013-10/26/content_30410637.htm.

¹⁵⁰ Ibid.

¹⁵¹ Business Insider, "Seven China Experts on Third Plenum," November 25, 2013, accessed April 25, 2014, <http://businessinsider.com/7-china-experts-on-third-plenum-2013-11>.

*[sector]...One can go through the private sector to try to alleviate these problems. That's a promoted avenue that is easier than others."*¹⁵²

In another example of the Chinese state's consistent support for local enterprises, the local Shanghai government's industry-support grant is a resource that would allow SHOKAY to pay less rent at their new headquarters in Shanghai's Fashion Industry Park. "This building," Carol, the founder, points to the high-ceilings covered in SHOKAY's new season of vibrant designer clothes, "used to be an old cotton factory. We wanted to be closer to the talent of this [Shanghai design and fashion] 'Silicon Valley'. We were recommended by the Park to seek out government grants funded by the Putuo District. These grants are given to support industries, not organizations that had anything to do with 'social impact'. Our 'social impact' had nothing to do with this industry grant."¹⁵³ Evidently, the state's institutional support for social enterprises is lacking, but social entrepreneurs have found other means to finance their social entrepreneurial initiatives, including tapping into the state government's financial resources directed towards the private sector. If looking and acting like a business is the key to accessing vital resources to keep the social enterprise alive, then entrepreneurs have learned to not hesitate to embark on the private sector path. Especially if the market is a route enthusiastically supported by the Chinese state.

Recently, there is a movement of social enterprises that are completely transforming into market-based enterprises in both its functional model AND its identity. For example, SHOKAY shed its self identity as a "social enterprise" in 2013. The founder cited the

¹⁵² O'Malley, "Interview notes with Transist," January 2014.

¹⁵³ O'Malley, "Interview notes with SHOKAY," January 2014.

undefined nature of social enterprises as a semantics debate she no longer wanted to be engaged in. “Social enterprise is in our model, but that’s not what we are. We are a textile company...a business. We have always been a textiles business.”¹⁵⁴ After discarding a identity that SHOKAY has used for more than seven years, the design company now describes itself as a “socially-responsible” textile company.¹⁵⁵ If we were to chart the progression of SHOKAY on Alter’s social enterprise hybrid spectrum, SHOKAY would’ve shifted right to the profit-leaning side of the spectrum, landing on either the “social business” or “corporation with social responsibility” section (Figure 1.2). Shokay’s wholehearted adoption of a private sector-based social enterprise model exemplifies, again, the undeniable influence the market has on today’s social enterprises in China.

Chapter Five has offered a critical analysis of the Party state’s role in promoting the development of China’s social enterprise. The central government’s motto of “social innovation management” suggests that the Chinese central government’s response to the rise of the social enterprise ranges from embracing social innovation with open arms to being very cautious about propping the creativity of China’s grassroots society. Using the Nest as a microcosm of China’s multifaceted social enterprise sector, we can see the market-based model emerging as the dominant force and “end goal” amongst many organizations residing in the incubator park. When the Shanghai government finally approved the businesses for residency at the Nest, the state’s recognition of the market-based model in its relatively traditional nonprofit incubation park is ground-breaking. The

¹⁵⁴ O’Malley, “Interviews with SHOKAY,” January, 2014.

¹⁵⁵ Ibid.

state's move sets a precedent for what constitutes as a social enterprise both in China's current landscape of developing ventures and possible future policy initiatives.



Images 5.1 and 5.2

The beautiful park and social enterprise incubator complex of the Nest/Gongyi Xintiandi is a striking example of state support and cross-sector collaboration.

Chapter Six: **International Agents' Role in the Chinese Social Enterprise**

While the Chinese state plays a crucial role in supporting the emerging social enterprise sector, what part do international agents play in promoting this concept? How has the international community contributed to the rise of social enterprise in China? How does their presence affect the diverse models of social enterprises that are developing? Chapter Six seeks to evaluate the influence of international agents in China's social enterprise sector. By examining the vehicles through which knowledge can be imported, the rising interest in venture philanthropy, and the criteria used by incubators and investors, this section reveals how the current role of international agents is having a commercializing effect on the Chinese social enterprise model.

6.1 International Agents: The Vanguard of Social Enterprise

As detailed in Box 6.1, elements of social enterprise have existed in China for many decades. Similar to its global emergence described in Chapter 1.1, the practices of social entrepreneurship were not understood as social enterprise until international agents exported this concept as a model with enormous potential to create social change. Following the influential translations of Leadbeater and Bornstein's books in 2004, a number of international organizations endorsing social entrepreneurship began to emerge. Consequently, more networking opportunities and financial resources became available for aspiring Chinese social entrepreneurs to bring their ideas to fruition.

Box 6.1 What are Social Welfare Enterprises?

Although the *concept* of social entrepreneurship in China is new in business and nonprofit discourse, the *practice* of social entrepreneurship has existed for a long time in Chinese organizations called the “social welfare enterprise.” Current social entrepreneurship discourse describes this concept of social enterprise as such a novelty to the point where embedded historical and modern forms of social entrepreneurship in China are completely eclipsed.¹ In his article “‘Newness’ in Social Entrepreneurship Discourses,” Curtis examines how contemporary academia fetishizes the “novelty” of social entrepreneurship and overestimates China’s dependency on foreigners to import this Western-based concept (Curtis, 199). The fact that social entrepreneurship is not necessarily foreign or new facilitates this concept’s surge (with a fancier name) into China’s business, philanthropy, and development environment.

Established in the late 1940s, early-stage social welfare enterprises (SWEs) were production units that offered support for the poor, disabled, families of revolutionary martyrs, veterans, and other beneficiaries. By the 1960s and 1970s, SWEs gradually institutionalized to businesses that employ the labor of disabled and marginalized individuals (Yu, 18). Social welfare enterprises must employ no less than 10 disabled people, comprising at least 25-35% of total employees, and these enterprises are granted preferential tax benefits if they reach or exceed these percentages (UBS Report). SWEs have historically played a crucial role in providing employment to China’s disabled population.

SWEs still exist today, but they are experiencing shrinking effectiveness due to unfavorable tax reforms and economic competition. After SWEs underwent reforms to improve their efficiency in the late 1990s, they experienced a significant decline in number to 31,211 in 2005, 51.8% of the number of SWEs in 1995. Recent tax policies, such as the 35,000 RMB tax rebate ceiling placed on each disabled person, have discouraged SWEs to apply for welfare enterprise treatment. Surplus disabled workers have lost their jobs as enterprises are starting to streamline their operations. Concurrently, the number of disabled employees have dropped from 939,000 to 619,000 (UBS Report, 14). In the past, SWEs responded to the employment needs of the Chinese disabled community. Even today, SWEs is still of the main legal models that social enterprises can register as, illustrating how indigenous models of social enterprises still exist and operate in China’s current political economy. Despite their waning functionality as an official institution, the SWE model of employing marginalized community members is prevalent in many of the social enterprises that are developing in China today, such as Puki and Solar Ear.

The contemporary concept of social entrepreneurship is not attempting to take root in completely unfamiliar ground. The detailed comparison between SWEs and social enterprises in UBS’s *China Social Enterprise and Impact Investment Report* reveals that “the experience [and organizational natures] of China’s welfare enterprises...lends itself perfectly to the development and refinement of a legal system for Chinese social enterprises.” While the legislation for today’s social enterprises is more complex than past laws that accommodated SWEs, many academics and practitioners believe that the embedded legislation of SWEs provide a supportive legal environment for social enterprises to take hold and expand.

Sources:

Yu, “Social Enterprises in China,” 18.

SERC and UBS, “China Social Enterprise and Impact Investment Report”, 12.

Curtis, “ ‘Newness’ in Social Enterprise Discourse,” 199.

The United Kingdom has arguably played the largest role in facilitating the growth of China's social enterprise sector. Home to 70,000 social enterprises that employ 1 million people and contribute over £24 billion to the economy, the UK has established itself as the vanguard of the international social enterprise and impact investment movement.¹⁵⁶ Along with facilitating dialogue and building social capital, international institutions from the UK have also established programs that provide financial resources to Chinese social enterprises.

The most prominent organization is the British Council, a global organization based in Great Britain that specializes in international education and cultural exchange. By leveraging expertise developed in the UK, the British Council has partnered with 25 organizations and over 800 individuals in China to support the development of social enterprise.¹⁵⁷ In 2009, the British Council launched a "Skills for Social Entrepreneurs" training program in China where they facilitated study trips for social sector leaders to visit the UK to learn about social enterprises.¹⁵⁸ The British Council also collaborates with domestic organizations, such as Youshichang, Narada Foundation, and Non-Profit Incubator (NPI) to provide a channel for local Chinese to learn about social entrepreneurship, sustainable development, and impact investment opportunities.¹⁵⁹

¹⁵⁶ British Council, "UK-China Dialogue to Develop Global Social Investment Market," British Council Press, last modified December 4, 2013, accessed April 23, 2014, <http://www.britishcouncil.org/organisation/press/uk-china-dialogue-develop-global-social-investment-market>.

¹⁵⁷ Ibid. And SERC and UBS, foreword to "China Social Enterprise report."

¹⁵⁸ Meng Zhao, "Social Enterprise Emerges in China."

¹⁵⁹ British Council, "Our Projects," *About Us - British Council China*, British Council, accessed December 13, 2013. <http://www.britishcouncil.org/china-aboutus-mediareom-our_projects.htm>.

Knowledge exchange between Western nations and China is a key factor in importing the idea of social entrepreneurship into China.¹⁶⁰ Another organization that first promoted this crucial knowledge exchange is the Global Links Initiative (GLI), the first membership organization in China that promotes social entrepreneurs. Established in the United Kingdom, GLI began its initiatives in China in 2004. Currently disseminating educational resources through its website and facilitating networking opportunities, GLI describes its mission as fostering “people-to-people” links. Its online networking platforms and news board reflect GLI’s model, which is based on facilitating social networks, peer support, and dialogue between foreign and domestic social entrepreneurs.¹⁶¹ Official knowledge exchange also takes place in the form of conferences. In July 2012, the European Union and the University of Nottingham collaborated on a three-day conference called the “EU-China Civil Society Dialogue on the Art of Social Entrepreneurship.” More than 100 participants from Chinese and European NGOs, universities, supporting organizations, and social entrepreneurs explored the concept of social entrepreneurship by sharing best practices and planning collaborative joint-projects for the future.¹⁶²

The United Kingdom’s position as the forerunner of the social enterprise movement derives from the country’s commitment to institutionalizing the social enterprise model domestically and globally. Not only has the UK played the most aggressive role in promoting

¹⁶⁰ “Global Links Initiative News,” *Global Links Initiative*, Web. 17 Dec. 2013. <<http://www.glinet.eu/news/?p=702>>.

¹⁶¹ In 2004, GLI worked with the British Consulate General in Shanghai to organize the first group of British social entrepreneurs to visit China to introduce their experiences to Chinese audiences. Recently, GLI China collaborated with University of Nottingham Ningbo in hosting the 5th European Union-China Civil Society Dialogue on Social Entrepreneurship in 2012. Sixty participants from the UK and China attended this conference. “The Global Links Initiative,” *Global Links Initiative*, Web. 21 Oct. 2013. <<http://www.glinet.eu/about.php>>.

¹⁶² European Union-China Civil Society Dialogue, “Report of the 5th EU-China Dialogue on the ‘Art of Social Entrepreneurship (July 10-13, 2012),” last modified 2012, accessed April 24, 2014, <http://www.eu-china.net/english/Resources/EU-China-Civil-Society-Dialogue-on-the-Art-of-Social-Entrepreneurship.html>.

social entrepreneurship in China, but its domestic policies (such as its new CIC legal form— Figure 3.5) shows that the country has fully embraced the social enterprise as a vehicle for sustainable social change. Even more broadly speaking, the European Union as a whole has demonstrated its mission to institutionalize the social enterprise by sponsoring the EMES International Research Network (Box 6.2). Initially an exclusively Europe-based scholarship network, the EMES is now pursuing a broader geographic influence with its memberships and strategic partnerships with the United Nations Development Programme and other research networks in Latin America and East Asia.¹⁶³ A strong domestic adoption of social enterprise in the EU, especially the UK, has spurred an exportation of this model abroad.

Box 6.2 The EMES International Research Network: “About Us- Who We Are”

“EMES is a research network of established university research centres and individual researchers whose goal has been so far to gradually build up a European corpus of theoretical and empirical knowledge, pluralistic in disciplines and methodologies, around our “SE” concepts: social enterprise, social entrepreneurship, social economy and solidarity economy.

EMES has existed since 1996, when an international group of scholars formed a research network that had been sponsored by the European Union. Having reached an unusual level of mutual understanding, trust and a common perspective of working together, a community of researchers sprang off from this working experience.

Formally established as a non-profit association (ASBL under Belgian law) in 2002 and named after its first research program on “the emergence of social enterprises in Europe” (1996-2000), EMES was originally composed of European university research centres and individual researchers. After many years of collaborative research and projects jointly conducted with researchers from other regions, EMES has decided in 2013 to open its membership to researchers from around the world.”

Source: EMES, “About Us- Who We Are,” EMES Website, last modified 2014, accessed April 27, 2014, <http://www.emes.net/about-us/who-we-are/>.”

¹⁶³ EMES, “About Us- Focus Areas,” EMES Website, last modified 2014, accessed April 27, 2014, <http://www.emes.net/about-us/focus-areas/>.”

In addition to establishing a strong social innovation movement domestically and internationally, the UK social enterprise leaders specifically espouse an ideal model of social enterprise. According to Defourny and Nyssens (2010), leaders from the UK consider social enterprises first and foremost as businesses.¹⁶⁴ The EMES emphasize the superiority of the market-based model as well, as its official definition of an ideal social enterprise encompasses an “economic risk-taking” element (Figure 1.1).¹⁶⁵ When organizations spearheading the social enterprise movement so strongly advocates for the market model, this institutionalized prioritization of enterprise models over NGO models has a perceptible influence on China’s developing social enterprises.

6.2 Overseas Knowledge Exchange

Many international institutions eager to import the idea of social enterprise into China organize training trips to promote awareness and disseminate knowledge regarding this concept. For example, the ECSEL Fellowship Program is a leading example of how knowledge and social capital is exchanged between Chinese and Western social enterprise sectors. Implemented by the British Council and Transist, the ECSEL program is a fully-subsidized, year-long, part-time fellowship program for social entrepreneurs in Greater China who are seeking to expand their social businesses. The ECSEL Fellowship Program has three main components: training trips, customized mentorship, and investment and networking opportunities.¹⁶⁶ Every year, thirty Fellows are selected from an applicant pool

¹⁶⁴ Defourny and Nyssens, “Social Enterprise in Europe,” 238.

¹⁶⁵ EMES, “About Us,” EMES International Research Network, last modified April 24, 2014, accessed April 25, 2014, <http://www.emes.net/about-us/who-we-are>. And Nyssens in Kerlin, “Social Enterprise: A Global Comparison,” 12.

¹⁶⁶ ECSEL Fellowship, “About the ECSEL Fellowship,” accessed December 10, 2014, <http://www.ecselfellows.org/en/>.

of thousands of proposals. A significant benefit of being an ECSEL fellow is participating in two training trips: an international trip to the United States and a domestic trip to Mainland China. Past training programs have included coordinating with the Design School at Stanford University, Yale University, the Hauser Center at Harvard University, Village Capital, and the Monterrey Institute. During these training programs, ideas between Chinese and American social entrepreneurs are exchanged, and the ECSEL fellows are encouraged to translate the best practices they learn abroad to their own initiatives upon returning to China.

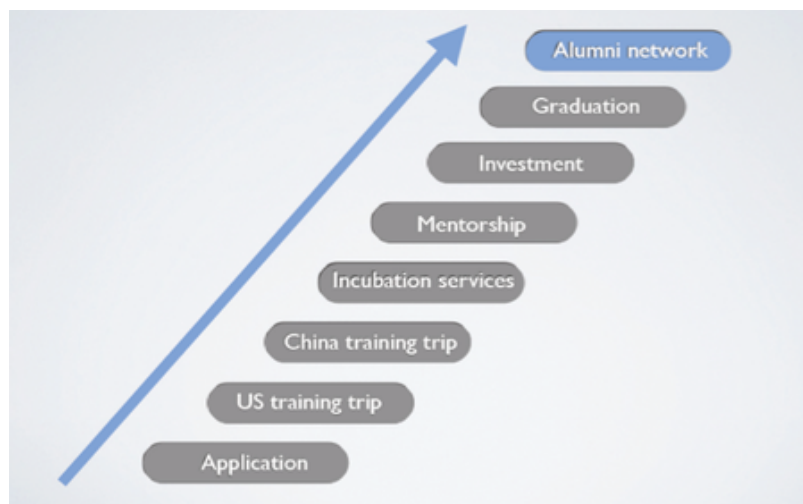


Figure 6.1

The ECSEL Fellow receives comprehensive exposure to social enterprise training, including training trips, incubation services, mentorship, and access to investors and the ECSEL alumni network. Source: ECSEL Fellowship, "About the ECSEL Fellowship."

Evidently, international agents are doing much more than just promoting this concept into China through word of mouth. Instead, these global agents are making accessible the practical knowledge and critical start-up funding that Chinese social enterprises need to continue their operations. International actors are actively influencing

and collaborating with Chinese leaders in social enterprise support organizations and incubators, ensuring that the global efforts to encourage social entrepreneurship are sustainable and well-integrated within domestic support systems.

6.3 Waning International Influence on the Chinese Social Enterprise

The import of the Western view of social enterprise may be weakening. Signs that the international influence on China's social enterprise sector is waning are becoming more salient, illustrating the fact that Chinese social entrepreneurs are taking more ownership of this movement. Resources that depended on the West's participation are becoming less relevant to the Chinese social enterprise sector. For example, Transist, the primary financier of the ECSEL program, is planning on drastically changing the model of the program (Box 6.1). Rather than dedicating valuable resources towards sending Chinese entrepreneurs abroad to learn from American institutions, Transist hopes to organize more domestic training trips so that ECSEL Fellows can learn more from other Chinese social entrepreneurs. Members of the Transist team expressed that two main factors have encouraged them to make these changes: the drastically different start-up environments in the U.S. and China and social entrepreneurs' increasing need to accumulate more industry-centered knowledge.¹⁶⁷

The start-up environment for social enterprises in the U.S. or Europe and China contrast because there are significantly more resources for new ventures in the Western economies than in China. For example, in the West, incubators and resources such as Y-

¹⁶⁷ O'Malley, "Interview notes with Transist," January 2014.

Combinator, Kickstarter, Crowdfunder exist to help young ventures (see Figure 3.5). A staff at Transist commented on this discrepancy of institutional resources:

*"I guess the strategies that are advocated for Western entrepreneurs, such as getting initial funding from Kickstarter or receiving resources from foundations...that's not possible here [in China]. Even if you are a for-profit, you can lean quite heavily on these organizations in the US."*¹⁶⁸

With this gap between start-up resources in the U.S., the UK, and China, much of the advice regarding legal registration and seed funding that ECSEL Fellows receive abroad may not necessarily be applicable to the Chinese context. This same sentiment was echoed by Leigh-Anne Russell as she mentioned that not everything the ECSEL fellows, Non-Profit Incubator, and Transist employees observe abroad can be adapted domestically, especially with China's unique legal framework.¹⁶⁹

As drastically different start-up environments have caused Chinese social entrepreneurs to start "weaning" off Western resources, there is now a greater emphasis on industry-specific exchange. A Transist employee commented that in the past few years, ECSEL Fellows who were engaged in one particular industry had a hard time adopting the advice given by social entrepreneurs who worked in a completely different industry, never mind a completely different country. Steve Koon, the founder of Innovate 99, is adamant that today's social sector must present industry-specific solutions.¹⁷⁰ Meet-ups between self-identified social entrepreneurs from all sectors are increasingly less effective; instead,

¹⁶⁸ Ibid.

¹⁶⁹ O'Malley, "Interview notes with Leigh-Anne Russell," January 2014.

¹⁷⁰ O'Malley, "Interview notes with Steve Koon," January 2014.

coordinated events between similar-industry entrepreneurs, field experts, and incubators seem to yield more fruitful results.

The combination of the contrasting start-up environments for Western and Chinese social enterprises and the growing need for industry-specific knowledge has also introduced a tension and even nationalistic sentiment in the Chinese communities. The dynamic flux between the strong international presence exporting this concept into China and the local Chinese that engage in social entrepreneurship wavers between collaborative and uncommunicative. The director of the Social Venture Group, a social enterprise that matches donors with nonprofit organizations to maximize the effectiveness of their donations, suggest that some members of the Chinese social enterprise sector have developed a strong sense of pride. “There is a sense of ‘we’re going to figure it out for ourselves,’” she observes, “which I think is understandable.”¹⁷¹

These developing factions between local and international efforts in building China’s social enterprise movement have also resulted in a lack of communication and coordination between same-industry entrepreneurs and NGOs. Particularly in Shanghai, a city with a large international population, NGOs led by local Chinese don’t always coordinate with expat-led NGOs with similar missions.¹⁷² The concentration of resources that is constricted within respective local and international communities is evident in clubs such as Fresh Start. Fresh Start is a Shanghai Rotary club that is comprised of social entrepreneurs, community, and business leaders that support social enterprises.¹⁷³ While the mission of the club is to

¹⁷¹ O’Malley, “Interview notes with Social Venture Group,” January 2014.

¹⁷² O’Malley, “Interview notes with the Nest,” January 2014. And O’Malley, “Interview notes with Social Venture Group,” January 2014.

¹⁷³ Fresh Start Shanghai, “What’s Fresh?” last modified 2014, accessed April 23, 2014, <http://www.freshstartshanghai.org>.

support social entrepreneurs of all backgrounds in the city of Shanghai, Fresh Start's exclusively English website and majority Western attendees at the weekly club meetings suggest that this initiative caters more to Shanghai's international community.¹⁷⁴ Staff members at the Nest and other social enterprise incubators have also observed this widening gap between the local and expat social enterprise communities. In fact, throughout my research month, I was able to act as a liaison between some of my interviewees when they expressed interest in connecting with the other contacts whom I was meeting in my field research. In response to this lack of communication, many organizations have started hosting more cross-culture events, such as the Nest's Vision Day and Transist's industry-specific presentation events that allow social entrepreneurs from all backgrounds to pitch their ideas and receive feedback.¹⁷⁵

6.4 Increasing Global and Domestic Interest in Venture Philanthropy and Impact Investment

Despite the signs of Westerners' waning influence in building China's social enterprise sector, one global influence that is gaining traction in China is the idea of "venture philanthropy" and "impact investment" (Figure 6.2). Particularly in large markets with an increasing demand for social welfare provision, the philanthropy and business realms continue to collide, giving impetus to new synergetic forms of finance. Emerging

¹⁷⁴ O'Malley, "Notes and Observations from Fresh Start Meeting," January 2014.

¹⁷⁵ The Nest's Vision Day was an event that was held end of 2013 where community members, social entrepreneurs, business leaders, and government officials all came together, brainstormed potential social innovation projects, and laid out an actionable plan for these initiatives. This event was perceived as one of the most cross-culture collaborative exchanges hosted by the Nest. Similarly, every two-three weeks, Transist organizes industry TECH nights, which consists of presentations and pitches by local and expat social entrepreneurs. Different TECH topics include education, energy, environment, etc. O'Malley, "Interview notes from Transist and Leigh-Anne Russell," January 2014.

initially in Europe and the United States, the concept of venture philanthropy has received more attention in Asia throughout the past few years. The Asia Centre for social Entrepreneurship and Philanthropy published a study proposing that philanthropy innovation is driven by a new generation of wealth-creating entrepreneurs searching for “high impact models of giving that connect with their commercial acumen.”¹⁷⁶ While social entrepreneurship as a concept is getting trendier and philanthropies are overhauling their traditional giving methods, the words “impact investment” and “venture philanthropy” are echoed more by market-driven actors.¹⁷⁷ International agents, such as incubators, impact labs, and banks have introduced these concepts to China in an effort to prune the domestic social enterprise landscape into one that is attractive for this new resource. Domestic interest in venture philanthropy and impact investment has also risen as a result.¹⁷⁸

¹⁷⁶ Rob John, “Innovation or Imitation? Does it Matter?” Alliancemagazine.com, March 2013, http://www.lombardodier.com/annexes/27827/37431/Rob_John_Philanthropy_March2013.pdf (accessed April 23, 2014).

¹⁷⁷ Ibid.

¹⁷⁸ Yu, “Social Enterprise in China,” 17.

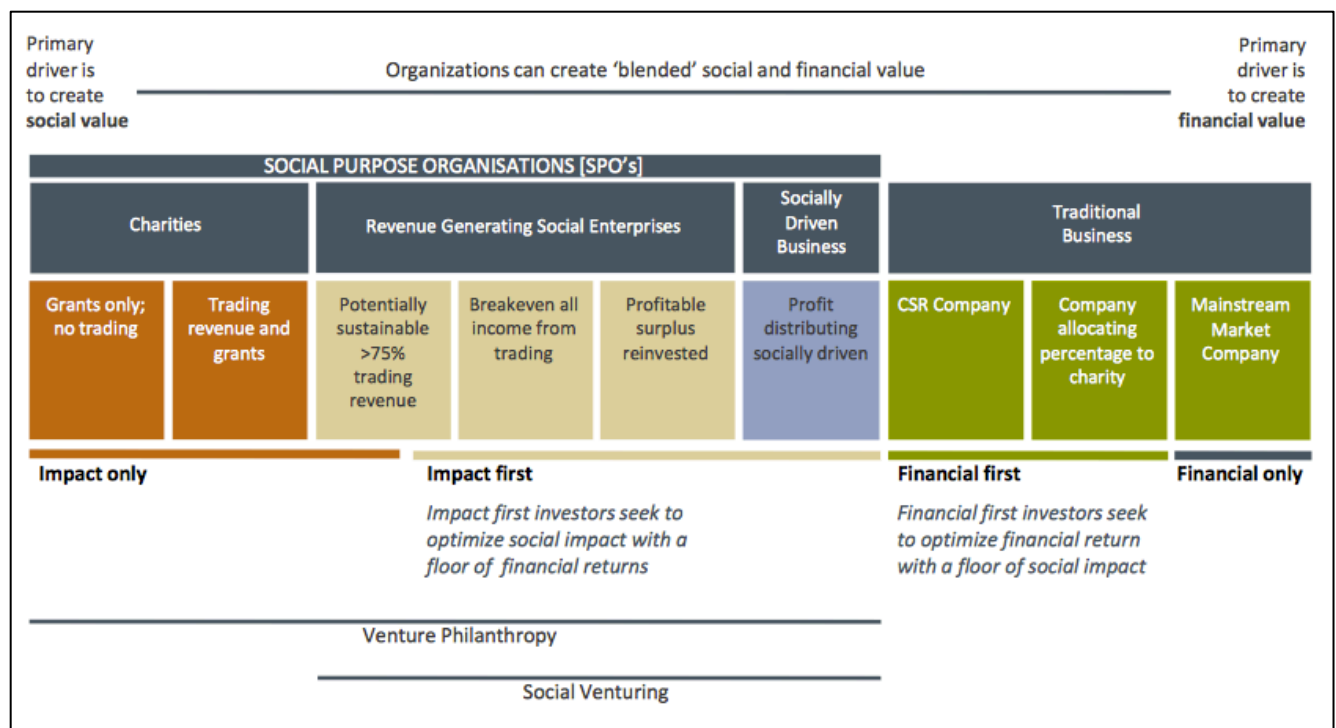


Figure 6.2

This illustration shows the spectrum of financiers of social organizations engaged in everything from impact investment to conventional venture capital. Venture philanthropy is the general practice of providing both financial and non-financial support for organizations with a social purpose, while impact investment is considered one of the several methods of conducting venture philanthropy.

Source: Shaerpa, "Venture Philanthropy," Shaerpa Home, last modified 2013, accessed April 24, 2014, <http://www.shaerpa.org/en/venture-philanthropy/> And John Kingston, Venturesome.

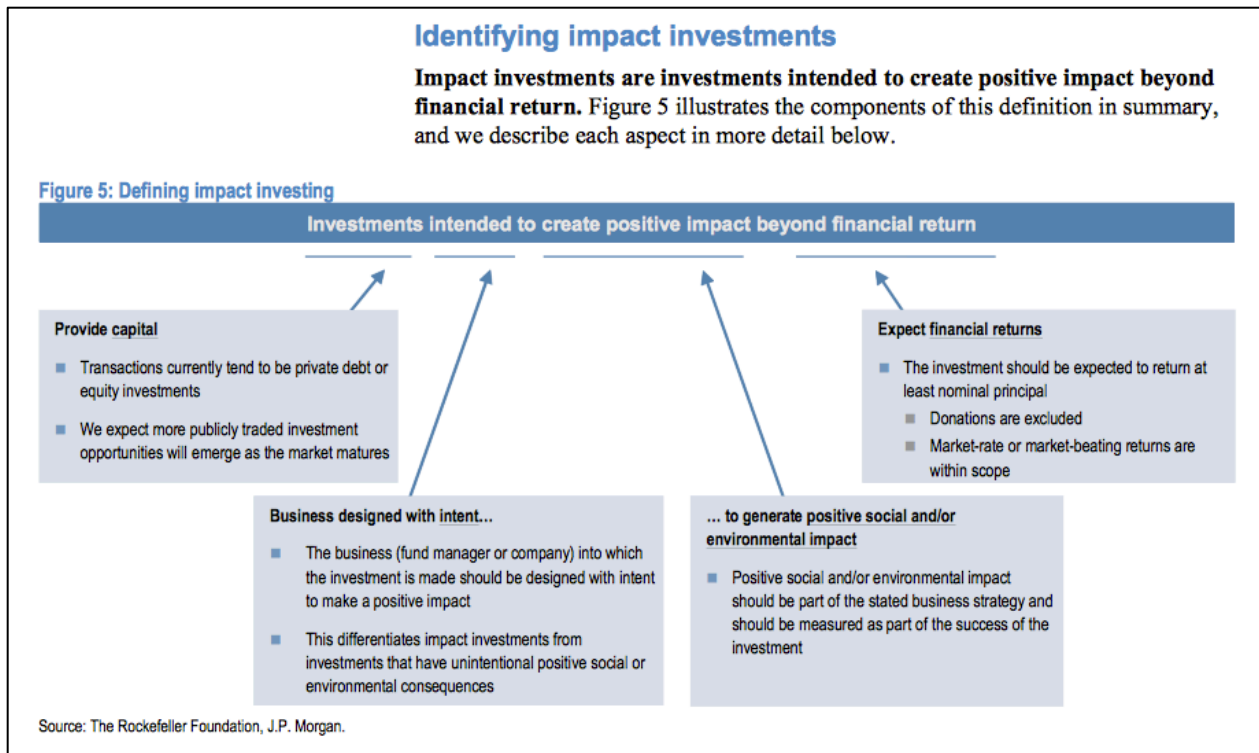


Figure 6.3

This figure, which appeared in J.P. Morgan and The Rockefeller Foundation's "Impact Investments: An Emerging Asset Class" (2010) white paper, outlines the definition of impact investing, from its objectives to its anticipated social and economic outcomes.¹⁷⁹

Although impact investment is a new concept in China, financial institutions and entrepreneurs nevertheless have begun to regard this concept as having enormous potential. Combining the ideas behind venture capital towards social value-generating organizations, impact investment has the ability to harness private sector resources to generate social value. It has recently been viewed by leaders in the financial industry as having potential to become a very lucrative future investment option. In its 2010 report "Impact Investments: An Emerging Asset Class," J.P. Morgan emphasizes that impact investment offers a new alternative for channeling large-scale private capital for social

¹⁷⁹ J.P. Morgan, "Impact Investments: An Emerging Asset Class," The Rockefeller Foundation, 7, last modified November 29, 2010, accessed April 24, 2014, <http://www.rockefellerfoundation.org/uploads/files/2b053b2b-8feb-46ea-adbd-f89068d59785-impact.pdf>.

benefit (Figure 6.3). It estimates that the impact investment market has the potential to absorb between \$400 billion and \$1 trillion over the next decade, even when accounting for only five sectors.¹⁸⁰ The important actors within the impact investment market ranges from philanthropic foundations to commercial financial institutions to even high net-worth individuals.¹⁸¹ Furthermore, the J.P. Morgan report suggests that because the market opportunity for impact investment is vast, especially as it serves mostly “bottom of the pyramid” (BoP) markets that are often excluded in conventional investments, impact investments should be treated as a separate asset class to better accommodate the unique objectives of investing in the double-bottom line.¹⁸²

J.P. Morgan is not the only financial institution that has begun to explore the possibilities of impact investment. In 2011, the Asian Development Bank published an extensive white paper called “Impact Investors in Asia: Characteristics and Preferences for Investing in Social Enterprises in Asia and the Pacific.” This report first highlights the disconnect that prevails between the supply of capital from investors and the demand for growth capital by social enterprises. It then makes recommendations to implement a regional social stock exchange to mitigate this disconnect.¹⁸³

Financial institutions have even embarked on creating impact investment funds as a form of corporate social responsibility in the banking industry. This strategy move

¹⁸⁰ The five sectors include: Housing, rural water delivery, maternal health, primary education, and financial services. J.P. Morgan, “Impact Investments: An Emerging Asset Class,” The Rockefeller Foundation, P. 4, last modified November 29, 2010, accessed April 24, 2014, <http://www.rockefellerfoundation.org/uploads/files/2b053b2b-8feb-46ea-adbd-f89068d59785-impact.pdf>.

¹⁸¹ Ibid., 5.

¹⁸² Ibid., 5-9.

¹⁸³ Asian Development Bank. “*Impact investors in Asia: Characteristics and preferences for investing in social enterprises in Asia and the Pacific.*” Mandaluyong City, Philippines: Asian Development Bank, 2011. Accessed April 24, 2014. <http://evpa.eu.com/wp-content/uploads/2011/05/Impact-investors-in-Asia.pdf>.

represents another signal that impact investment is likely to expand in the future. In 2009, DBS Bank (formerly known as Development Bank of Singapore) launched the DBS Social Enterprise Package in Singapore, which continues to be the first and only banking loan package tailored to the needs of social ventures.¹⁸⁴ In October 2012, the DBS Bank continued its commitment to the social enterprise by announcing that the bank would be providing four social enterprises in Singapore with project grants to help them with their business expansion plans while pursuing social goals.¹⁸⁵ Later that month, DBS China launched a social enterprise program to support local Chinese social enterprises. Partnering with Fudan University's Management School and Non-Profit Incubator, DBS provided project grants to four social enterprises, one of which was the Shanghai Puki Coordination Agency for the Deaf.¹⁸⁶ Overall, these extensive research and initiatives in impact investment spearheaded by prominent global banks demonstrate the surging interests of the private, financial sector in tapping into the world of impact investment.

The growing global interest in impact investment spurred a small wave of social impact investment in China that started in 2010. China's earliest social impact investors came from the philanthropy sector, especially traditional private foundations. SOW Asia Foundation is a primary example. Founded immediately after the 2008 global financial crisis, by Darius Yuen, SOW Asia Foundation is a pioneer in social impact investment and predominately focuses on initiatives in the fields of education, environment, and poverty

¹⁸⁴ DBS, "Championing Social Entrepreneurship," DBS in the Community, last modified 2011, accessed April 24, 2014, <http://www.dbs.com/community/socialenterprises/default.aspx>.

¹⁸⁵ Jacky Yap, "4 social enterprises receive Singapore \$340K grant in efforts to spur social entrepreneurship," E27 Asia Tech News, October 16, 2012, accessed April 24, 2014, <http://e27.co/4-social-enterprises-receive-s340k-dbs-grant-in-efforts-to-spur-social-entrepreneurship/>.

¹⁸⁶ Chris Qian, "Email with 'UBS Championing Social Entrepreneurship' PowerPoint slides," November 20, 2012, sent February 19, 2014.

alleviation.¹⁸⁷ Based in Hong Kong, SOW Asia invested in the Shanghai-based environmental technology company called GIGAbase in 2009.¹⁸⁸ In addition to supporting GIGAbase with a five-year interest-free loan, SOW Asian also used its networks to help the social enterprise overcome its legal and technological issues.¹⁸⁹

¹⁸⁷ SOW Asia, "Our Approach: Invest and Grow," last modified 2014, accessed May 12, 2014, <http://sowasia.org/our-approach-invest-and-grow/>.

¹⁸⁸ Gigabase is a social enterprise initially comprised of a team of architects who strive to build green buildings. After completing Asia's first carbon neutral hotel, URBN hotel, in Shanghai, GIGA's founders launched an open source database that listed the greenest building materials available in China's construction marketplace. Since receiving support from the Clinton Foundation, GIGA has evolved into the industry's first cloud-based material management software that is licensed to designers, developers, and manufacturers. GIGAbase, "About," last modified 2013, accessed April 22, 2014, <https://www.gigabase.org/about#we>.

¹⁸⁹ SERC and UBS, "China Social Enterprise," 52.

Figure 6.4 Major Social Impact Investment Institutions in China at a Glance				
Fund Name	Year Est.	Founding Institutions	# of Investments in China	Total Investment Amount
Transist	2012	Schoenfeld Foundation	≈6	Unknown
China Impact Fund	2012	World Resources Institute	4	Unknown
LGT Venture Philanthropy	2008	LGT Foundation	2	≈ \$300,000
SA Capital	2008	SA Capital	2	> \$500,000
Avantage Ventures Impact Fund	2012	Avantage Ventures	3	Expected ≈ \$20 million
Lanshan Social Investment Fund	2011	Private Equity	7	≈ \$26 million
Beijing Leping Social Entrepreneur Foundation	2008	Fuping Development Institute	5	Unknown
SOW Asia Foundation	2009	SOW Asia Foundation	1	≈ \$83,000
Xinhu-Yu Fund	2012	Xinhu Group, Venture Avenue	2	Unknown
Narada Foundation	2007	Shanghai Narada Group Co. Ltd.	Unknown	Unknown
YouChange Foundation	2007	Entrepreneurs from Mainland, Taiwan, and HK	Unknown	Unknown
Tsing Capital	2002	Tsing Capital	> 30	Unknown

Figure 6.4

Today, the number of actors in China's impact investment field are still limited. The impact investment field is still very young. Source: SERC and UBS, "China Social Enterprise and Impact Investment Report 2013," 51.

As a result of increased overseas participation in the Chinese impact investment market, domestic organizations became drawn to the concept as well. YouChange Foundation (or China Social Entrepreneur Foundation) was one of the leading domestic foundations to experiment with impact investment (Figure 6.4). Founded by the collective support of business entrepreneurs and successful private-sector-based council members, YouChange directed financial support, knowledge, and social resources towards Chinese

social enterprises, nonprofits, and research institutions. The foundation used long-term sustainable social value as the primary metric to gauge its return on investment.¹⁹⁰

Although financial institutions and social enterprise support organizations have expressed optimism towards the prospect of impact investment taking off in China, systemic challenges currently stand in the way of this new resource's ability to gain traction. These obstacles include the lack of information about the availability of impact investment opportunities in the region; the difficulty of conducting due diligence in China's opaque markets; the high perceived risks associated in impact investments especially in emerging markets; and the potentiality of investments in social enterprises and limited range of exit options for investors.¹⁹¹ Furthermore, unclear policies regarding foreign investments in Chinese start-ups, such as regulation on local currency conversions, make the Chinese market unappealing for impact investors.¹⁹² In addition to these institutional concerns, the concepts of impact investment and social enterprise are so novel in China that companies that inherently include environmental or social impact in their models are still not in a position to present themselves as "impact" companies.¹⁹³ A disconnect prevails between the supply of impact investment capital and the demand for growth capital by Chinese social enterprises. Today, ventures such as Transist and New Ventures China are working to bridge this gap by not just disseminating awareness of social enterprise-specific resources

¹⁹⁰ Ibid.

¹⁹¹ Asian Development Bank. "Impact investors in Asia: Characteristics and preferences for investing in social enterprises in Asia and the Pacific," 7.

¹⁹² Tracy Elsen, "Q&A with Tao Zhang: Scaling up Impact Investing in China," World Resources Institute, last updated January 13, 2012, accessed April 27, 2014, <http://www.wri.org/blog/q-tao-zhang-scaling-impact-investing-china>.

¹⁹³ Ibid.

and technical assistance, but also the necessary start-up capital to allow social enterprises to scale their operations so they can be sufficiently attractive to investors.¹⁹⁴

6.5 The Commercializing Criteria of Social Impact Investors and Incubators

Despite the fact that impact investment has only scratched the surface of China's social enterprise market (as illustrated by the column "# of investments in China" in Figure 6.4), the handful of organizations that have already begun utilizing impact investments are dramatically influencing the models of developing social enterprises. Impact investors and social enterprise incubators have raised the bar in terms of requirements ventures must meet before receiving investment. These stricter stipulations have encouraged social enterprises to adopt more market-models and behaviors as they attempt to appeal to the very small, competitive supply of impact funds in China today.

¹⁹⁴ New Ventures China has worked with over 400 environmentally-focused businesses and helped facilitate nearly \$170 million in investment into these ventures to support their growth. New Ventures China recently received funding from a Hong Kong-based foundation to look into the feasibility of creating China's first genuine environmental impact fund. Ibid.

Box 6.3 Transist Impact Labs

Based in Shanghai, Transist is a start-up accelerator that describes itself as an “impact lab”, which is essentially an incubator and early-stage impact investor. A recognized brand in China’s social enterprise incubation and investment field, Transist was founded in 2008 by Calvin Chin, the creator of the now defunct social enterprise Qifeng, a person-to-person student loans service. According to its well-designed, intentionally minimalist-style website, Transist strives to “build stuff that matters and support others who do too.” Located right in the middle of the bustling, international Jing’An district of Shanghai, the office building reflects the incubator’s commitment to fostering creativity and innovation. Vibrant hand-painted murals line the wall as you walk up the stairs to the office on the second floor. High ceilings, glass doors, and glass panels covered in colorful notes separate the work spaces of the few companies that occupy the giant, collaborative studio space. The studio is filled with not cubicles, but round tables, coffee stations, and comfortable furniture.

Transist’s operations and early-stage investments are financed solely by real estate entrepreneur William Schoenfeld, enabling investment processes to be stream-lined and efficient. Transist will typically invest from \$50,000-\$200,000 USD in a early-stage technology, model, or design that “drives economic and social advancement for the underserved.” Transist structures the investment in the form of a convertible loan or equity in the company. Most of Transist’s investments are channeled towards ventures that incorporate technology into the produce or service so that the model can be scalable. Since its founding, Transist has invested in eighteen social enterprises, with local Chinese companies comprising about a third of that total. Industries of invested ventures include biotechnology, financial services, and more.

In addition, Transist also incubates several social enterprises; most of them are internal companies, so these are ventures that are started by the Transist team themselves. For example, ArtDore is a mobile application that is used to enhance a visitor’s experience in a contemporary art gallery and museum. The Transist office is also used as a prototype-testing space where focus groups and potential customers can come in and give feed back on the incubated technologies.

Transist implements an array of programs to promote the local social enterprise sector, including its flagship ECSEL training program (Chapter 6.2), capacity-building events, industry-specific TECH presentation events, and Techyizu, a volunteer organization that supports Shanghai’s start-up community. Many of the Transist’s employees are entrepreneurs who have a technical background or previous experience working in the start-up world. The Transist team includes a mix of local Chinese, Western-educated, and foreigners. For example, Chin is a third-generation Chinese-American and Dongli Zhang is Chinese and received her undergraduate degree from Bryn Mawr.

Sources:

Transist, “INVEST,” Transist Impact Labs, last modified January 2014, accessed April 24, 2014, <http://transi.st/en/invest>.

Steven Millward, “Calvin Chin: The Motivation for Social Innovation in China and “Making Epic Shit,” Tech in Asia, <http://www.techinasia.com/calvin-chin-social-innovation/> (accessed April 23, 2014).

O’Malley, “Interview notes with Transist,” January 2014.

One primary type of organization that provides this technical and financial resource to social enterprises are social enterprise incubators. Similar to business incubators, social enterprise incubators are organizations that support entrepreneurial initiatives across different industries. Incubators provide management advice, financial and physical capital, legal advice, and operation knowledge.¹⁹⁵ The physical structure of an incubator can range from the services of a small team of consultants, such as Innovate 99; a larger team of entrepreneurs and consultants, such as Transist; to a large, physical complex like the Nest.

Transist, a self-described “impact lab” based in Shanghai, is a technology incubator and impact investor company (Box 6.3).¹⁹⁶ Transist’s investment is typically comprised of start-up capital that allows the venture to be eligible to receive a second round of investment elsewhere; occasionally, Transist may offer a second wave of money. Transist’s criteria for investable companies require all social enterprises to be business model-based but could still pursue a simultaneous double-bottom line of financial and impact growth. In fact, one of the employees of Transist was adamant about the fact that Transist “always invests in enterprises...and [that even] nonprofits that commercialize are not in [their] range of support.”¹⁹⁷ While Transist has made a significant number of impact investments compared to some of its other investor counterparts (Figure 6.4), the fact that its investment criteria demands a market-based model undoubtedly influences the kinds of social enterprises that develop and seek support.

¹⁹⁵ Rudy Aernoudt, “Incubators: Tool for Entrepreneurship?” *Small Business Economics* 23.2 (2004): 127-35, *Springer*, Sept. 2004, accessed October 29, 2013, <http://0-link.springer.com.library.colby.edu/article/10.1023%2FB%3ASBEJ.0000027665.54173.23#>.

¹⁹⁶ Transist, “INVEST,” Transist Impact Labs, last modified January 2014, accessed April 24, 2014, <http://transi.st/en/invest>.

¹⁹⁷ O’Malley, “Interview Notes with Steve Koon,” January 2014.

Transist is not the only incubator to stipulate a market-model investment option. Innovate 99, another incubator and impact investment company, has an even stricter criteria for the social enterprises it incubates and invests in, providing even more impetus for the market-based social enterprise. Innovate 99's founder Steve Koon served as the chief consultant to the British Council's "Social Innovation" program since 2008 and has since started his own consulting and impact investment branch with Innovate 99. He emphasized the biggest challenge that social enterprises face in China is the ability to scale. Koon offers a comparison of the social enterprise sectors in three regions:

"In the United Kingdom, all the social enterprises are very small-scale because the population of the U.K. is only about 60 million. So in each sector, perhaps a few hundred people are in need [of social welfare]. U.K.'s social issues are small-scale, but the country has rich resources. In the U.S.? There's a focus on scalability...everything wants to be big. It's very close to venture capital where social investment funds are investing in social business....In the U.S., the NGO is very different, almost anti-government. The U.K.'s social enterprise sector and its government are very closely tied (Figure 3.5). Now in China, you have a problem. You cannot do anything without the government, so its closer to the U.K. model. However, the scale is so much bigger like the U.S., but the resources [for NGOs] are significantly less. However, the Chinese government controls a lot of money and resources...how do we utilize that stable resource? This is a uniquely China problem."

Citing the sheer size of China's problems with the lack of institutional resources for its civil society as factors contributing to China's unique social enterprise challenge, Koon emphasizes that a specialized model of social enterprise can solve the unique realities of China's social problems. Koon proposes that the private sector needs to take the lead in providing social services, encouraging the resource-abundant state to purchase their social products and services. Referring back to the Chinese corporatist governing model that

essentially outsources its social welfare provision (Chapter 4), he sees this relationship as a tactic to supply entrepreneurs with a steady income in exchange for steady social value creation. In addition to demanding only business models in his client base, Koon specifically sees technology and the franchise-enterprise model as having immense potential in creating scalable solutions. For example, one of his current projects is an elderly care company in Gansu that organizes local emergency call centers for elderly populations in cities all within a fifteen minute radius of each other. When a client calls a local center in times of need, they can be responded to within fifteen minutes. While a central call center may hire a full time staff, the smaller satellite centers are more cost-effective and still meet the needs of the community. Servicing over 50,000 people with 100 different service centers, this franchise model is completely scalable, efficient, easily replicable, and, according to Koon, “one of the most successful models for the elderly care industry in the country.”¹⁹⁸

Another franchise model that has been successful is the StarCamp Autism school model that was started in Shanghai (Box 4.2). Koon mentioned that another StarCamp school in Tianjin is opening in the next year. This branch started when a mother of an autistic child became frustrated with Tianjin’s current special education system. Consequently, she came to Shanghai for six months, observed and learned from the pilot program, then returned to Tianjin to start her own franchise. The effectiveness of the franchise model is that if a model is replicable, regular citizens who are all affected by similar social problems can play a part in creating solutions on a large scale. Koon’s strong

¹⁹⁸ O’Malley, “Interview notes with Steve Koon,” January 2014.

opinions regarding what constitutes a successful enterprise in China reflects his highly specific approach to China's developing social enterprise sector. Simply a business model is not enough, it appears, but having a business model that can scale and impact more people is crucial to effectively addressing social needs in China.

While both Transist and Innovate 99 are private companies registered as commercial enterprises, their insistence on social enterprises having a market-based model is understandable. Surprisingly, however, even government-backed social enterprise incubators, such as the Nest and NPI, have adopted criteria that prioritizes the market-strategies of a venture (Figure 6.5).¹⁹⁹ Like Transist and Innovate 99, these two state-supported incubators' criteria all share market characteristics, such as innovation and scalability. With public funding and donations, these two organizations are geared towards helping NGOs develop a more financially-sustainable model. Thus, they have more leeway in selecting the types of client models they are willing to support than the exclusively privately-backed impact investors. However, all these influential incubators ultimately share the same end goal: a market model-based social enterprise that can be financially self-sustainable while creating social impact. With both private and state-backed incubators adopting market-leaning criteria for their clients, the social enterprise in China continues to feel further pressure from the incubation and investment resources to commercialize.

¹⁹⁹ Non-Profit Incubator, "Shanghai Head Office," NPI Office, last modified 2009, Accessed April 24, 2014, <http://www.npi.org.cn/english/shanghai.html>.

Figure 6.5 Incubators' Criteria for Investment and/or Support					
Incubator	Type	Legal Registration	Funding Origins	Type of Resource	Main Criteria
Transist	incubator and technology impact investor	commercial enterprise	Private, Schoenfeld Foundation (individual)	impact investment and incubation services	business model, scalability, social value, double bottom-line of financial growth and impact growth
Innovate 99	incubator and impact investor	commercial enterprise	private, individual partners	impact investment, consulting, incubation services	business model, scalability, social impact distribution, visionary entrepreneur
The Nest	incubator and nonprofit incubation park	civilian-run non-enterprise	public, government, donors	incubation services, physical facilities	legal entity as business or nonprofit, plans of current & future innovation, local community value, interactive element, social value generation in field of need
Non-Profit Incubator	incubator services	civilian-run non-enterprise	public, government, donors	incubation services, physical facilities, micro subsidies	business model, scalable, sustainable, flexible, triple bottom line: people, planet, profit

Figure 6.5

The main criteria stipulated by the incubators and impact investors were very similar. The Nest had more flexible criteria due to its function as a cross-sector incubation park, but overall, the criteria pushes the “ideal” model of social enterprise—an investable venture with a business-model. Source: O’Malley, “Notes from Interviews,” January 2014.

6.6 Investor and Incubator Definitions: A Reflection of Today’s Chinese Social Enterprise

Although the criteria that incubators and impact investors use to differentiate investable ventures leans heavily towards the market model, their *definitions* of “social enterprise” are more varied and flexible. This discrepancy demonstrates that while the conceptual end-goal of a social enterprise might be an enterprise model, the social enterprise currently has a relatively undefined organizational structure. Figure 6.6 outlines

the responses of impact investors, incubators, and social entrepreneurs when asked “what is your definition of a social enterprise?” Surprisingly, the most common definition cited (nine out of thirteen respondents) was some version of the relatively broad statement: “using business solutions to solve social problems.” This definition was shared by a wide range of investors, social entrepreneurs, and incubators. Compared to lengthy definitions offered by academia and other social enterprise-supporting organizations (Box 1.1), these loose definitions rarely mention other details, such as profit reinvestment, relative prioritization of economic gain or social impact, etc. According to most of the respondents, simply put, social enterprise is the broad application of market strategies to achieving social goals.

Furthermore, the other definition offered by the remaining respondents (four out of thirteen) was the “un-definition,” or the deliberate choice to not have a strictly defined model. Two of the respondents who had “undefined” definitions were managers at the Nest, which supports a mix of social enterprise models ranging from NGOs to enterprises, so their responses align with the types of social enterprises they worked with. However, a manager at Transist, despite working at an investment organization that exclusively works with enterprise models, also suggested that social enterprise is relatively undefined in his opinion.

This mix of market-based definitions and lack of definitions in the responses of my interviewees truly reflects the current social enterprise landscape in China. First, the definitions that are centered on the application of market strategies in social missions exemplify the trends that social enterprises are experiencing today. Due to China’s changing

philanthropy scene, both registered and unregistered nonprofits are feeling pressure from their less lucrative big-brother GONGOs to commercialize and be more financially self-sustainable. The state is consistently more supportive of the private sector, and impact investors, the new face of charity financiers, are more interested in enterprise-model organizations. The market is playing an undeniable role in providing nonprofits and social enterprises an end-goal to their development process.

On the other hand, the “un-definition” respondents represent a camp whose perceptions of social enterprise are formed by the ad hoc and creative ways through which organizations in China have become social enterprises. According to Nicholls (2008), social entrepreneurship has had a tremendous impact across the world because of the flexibility that characterizes the concept.²⁰⁰ In the case of the Chinese social enterprise, Nicholls’ statement rings true. Without a legislative form to register under or a formally-recognized structure to strive for, social enterprises in China are harnessing whatever resources they can access in this new sector. Because there is still little institutional support for NGOs

²⁰⁰ Nicholls, “Social Entrepreneurship,” Introduction. And Swanson and Zhang, “The Social Entrepreneurship Zone,” 87.

Figure 6.6 "What is your Definition of a Social Enterprise?" Responses from Social Incubators, Impact Investors, and Social Entrepreneurs				
Organization	Type	Respondent	Quote	General Classification
Transist	impact investor/incubator	entrepreneur/employee	"an organization whose core product and service is using a business model"	market model
Transist	impact investor/incubator	co-founder	"Best not to hash out the definition. More importantly is 'where does their money come from', 'where does it go', and 'what's the impact on the world.'"	undefined/situational
Transist	impact investor/incubator	employee	"using business and innovative strategies to solve social problems"	market model
The Nest	incubator/social enterprise	employee	"social enterprise is just a name... in china, mostly is an enterprise whose first goal is social but second is product or service"	undefined/situational
The Nest	incubator/social enterprise	employee	"the buzzword of SE...anyone who has any portion of their business that is socially beneficial is calling it SE...danger of becoming like 'CSR', but it's difficult to rein it all in and stipulate definitions. I guess you need to support anything at this point that blends social value with the need to continually survive , sustain, and give back"	undefined/situational
Innovate99	impact investor, incubator, consultant	consultant	"using business solutions to solve social problems...CEO of Tibetan medicine company said: use business success to realize your dream...a means to an end."	market model
Non-Profit Incubator	nonprofit with mission to support other nonprofits	employee	"people, planet, profit....three bottomlines. First one must know how to fix social problems, but then use commercial ways to do this."	market model
Social Venture Group	social enterprise	director, entrepreneur	"for me, it's a company that has a good model...It sees a need in this society, develops a kind of business model. On one hand they have income to break even, and on the other, their products and services help a group of people."	market model
Shanghai Bakers	social enterprise	founder, entrepreneur	"SE is an enterprise or business entity that aims at fundraising for charity cause, or an enterprise whose functioning helps a disadvantaged population"	market model
Social Enterprise Research Center	social enterprise resource	founder, social entrepreneur	"Three components to a SE...need a social goal, need business model to operate (meaning generating revenue to generate services) and reallocating the profit to the social causes"	market model
Cambio Coffee	social enterprise	founder, entrepreneur	"a business with a social purpose"	market model
Puki Designs	social enterprise	founder, entrepreneur	"no definition necessary, because no definition is going to fit all nations"	undefined/situational
Development Bank of Singapore	bank, impact investor	employee	"An SE is a business with a social purpose that 1) has a commercially sustainable business model; and 2) delivers social impact"	market model

Figure 6.6

Interviewees responded to the question "What is your definition of social enterprise?" Most answers were vague, revolved around market strategies, or undefined.

and businesses aspiring to become social enterprises, these organizations find themselves grasping for any support that is accessible, whether it's receiving seed funding from an incubator, legally posing as an enterprise, or commercializing a single product to subsidize larger operating costs. When the road to social entrepreneurship is so multifaceted and legal registration forms do not necessarily dictate function, a stricter definition of "social enterprise" can be too limiting at this early stage of development. Even the interviewee's generalness of the market-leaning definitions suggests that the ways in which organizations realize their market potential can also vary immensely. And, as of right now, there is no "right" way to become a market-based social enterprise. As one Transist employee remarks: "It is best not to hash out the definition. More importantly is 'where does [the] money come from,' 'where does it go,' and 'what's the impact on the world?'" Ultimately, the flexibility of the "un-definition" allows for the development of this new concept of social entrepreneurship to take its natural course and adapt accordingly to China's changing socioeconomic and political environment.

In Chapter Six, I have outlined the dynamic role of international agents in not only exporting this concept to China, but also introducing new resources to support the expansion of social enterprise. While imported international knowledge is becoming decreasingly crucial for today's more self-reliant Chinese social enterprises, new global methods of finance, such as venture philanthropy, are creating a buzz amongst incubators and support organizations. As evidenced by the data I gathered in my January field research, incubators have responded to the rise of new resources, such as impact investment funds, by stipulating stricter, market-based criteria for "investable" social enterprises. To be

considered investable, there is no question that one's organization model needs to be market-driven. Although investment requirements clearly influence China's social enterprise models, incubators' and investors' *definitions* of social enterprise are only somewhat market-demanding and strikingly more flexible. Analysis of these definitions suggest that the concept of social enterprise is still loosely defined but is increasingly influenced by the market sphere.

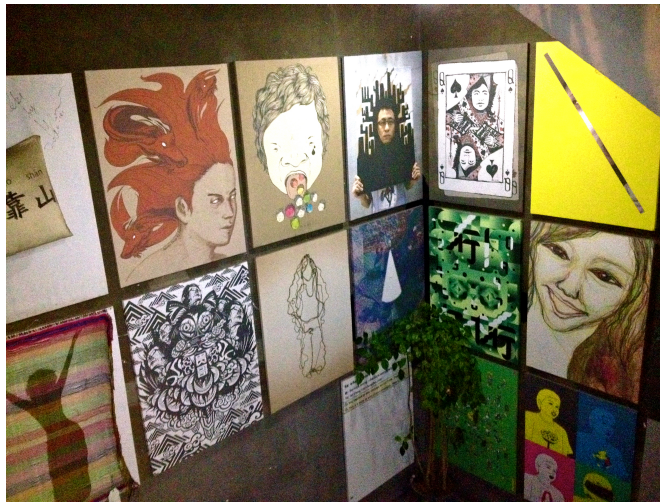


Image 6.1 Vibrant murals lined the walls of the stairs leading to Transist Impact Labs' trendy office in Shanghai

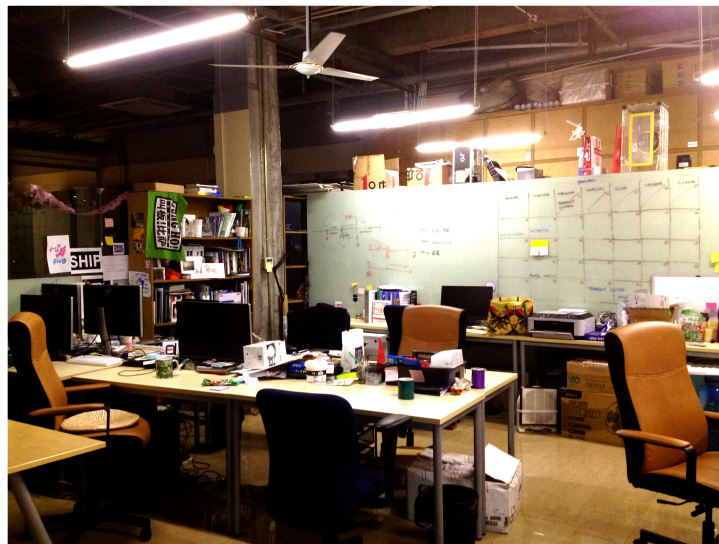


Image 6.2 The open, collaborative, and creative office space of Transist.

Conclusion:
Chinese Social Enterprise—Market Driven Yet Flexible

Today, the Chinese social enterprise is in a fascinating state of fluctuation. Occupying a tension-filled space between the sectors of business, civil society, philanthropy, and development, the social enterprise has an inherently contested nature that is further complicated by China's dynamic socioeconomic and political forces. While the Chinese social enterprise is conventionally associated with its expanding civil sector and strong authoritarian government in literature, this thesis examines this concept's emergence with a more holistic approach. Viewing the sector's development through the lenses of civil society, the authoritarian state, and international community, I argue that the Chinese social enterprise can no longer be exclusively characterized by its civil society and state origins. Rather, in response to the changes in these three sectors, the Chinese social enterprise is showing signs that suggest it is shifting further away from the civil society and moving closer to the market sphere.

In the civil society domain, the legislative strategies employed by the corporatist Party state have successfully accomplished three things. First, the registration system has deterred NGOs from properly registering as nonprofits, thus, creating an impetus for improperly registered NGOs to seek new revenue streams by operating like businesses. Second, even properly registered NGOs are buckling under financial pressures due to the changing philanthropy landscape and seeking new market strategies. Lastly, many organizations with dual missions of profit and social value generation effectively work within the legal structure by registering as both a nonprofit and a business, thus displaying

the quintessential qualities of a social enterprise. Changes within the civil sector are not only encouraging NGOs to embark on the road of social enterprise, but also emphasizing that a market-based structure with an embedded social and economic mission is the ideal model.

In the realm of the Party state, the government has continually expressed its optimism and leniency towards the social enterprise sector, a promising sign especially from an authoritarian government. Simultaneously, the state also emphasizes its expanding role in managing this sector in a cautious and deliberate manner. The residential organizations at the Nest incubation park provide an insightful sampling of China's social enterprise sector—a space predominately filled with commercializing nonprofits that is about to encounter an influx of market-based social enterprises. Furthermore, organizations like the Nest and its partner Networks are acting as platforms for the government to selectively “purchase” the services of nonprofits and social enterprises that demonstrate the potential to create scalable impact.

Finally, the international community has played a crucial role in introducing the concept of social enterprise to China and attracting attention from actors in the lucrative fields of venture philanthropy and impact investment. To appeal to these novel forms of finance, social enterprises are positively responding to investors' stipulations and increasingly adopting market-based models. Strongly encouraged by both private and state-sponsored incubators, organizations are prompted to utilize market strategies during their development when possible, and ventures are consistently striving to reach a point where they can compete for investment opportunities.

The fluctuating circumstances of the civil society, political climate, and the international landscape are all tugging at the strings of the Chinese social enterprise towards one general direction—the market. The private sector is a realm that permeates all of the other three sectors. International and domestic companies' CSR programs are collaborating with NGOs in the civil society; the state is avidly encouraging the growth of domestic SMEs; and international organizations are eager to tap into impact investors who are interested in capitalizing on China's vast market. In China's transitional economy where the state consistently gives the private sector the "green light," the market model is becoming the ultimate design for the social enterprise as it can effectively weather the storms of NGO-related policy fluxes, inconsistent state temperament regarding its civil society, and debilitating scandals in the philanthropy sphere.

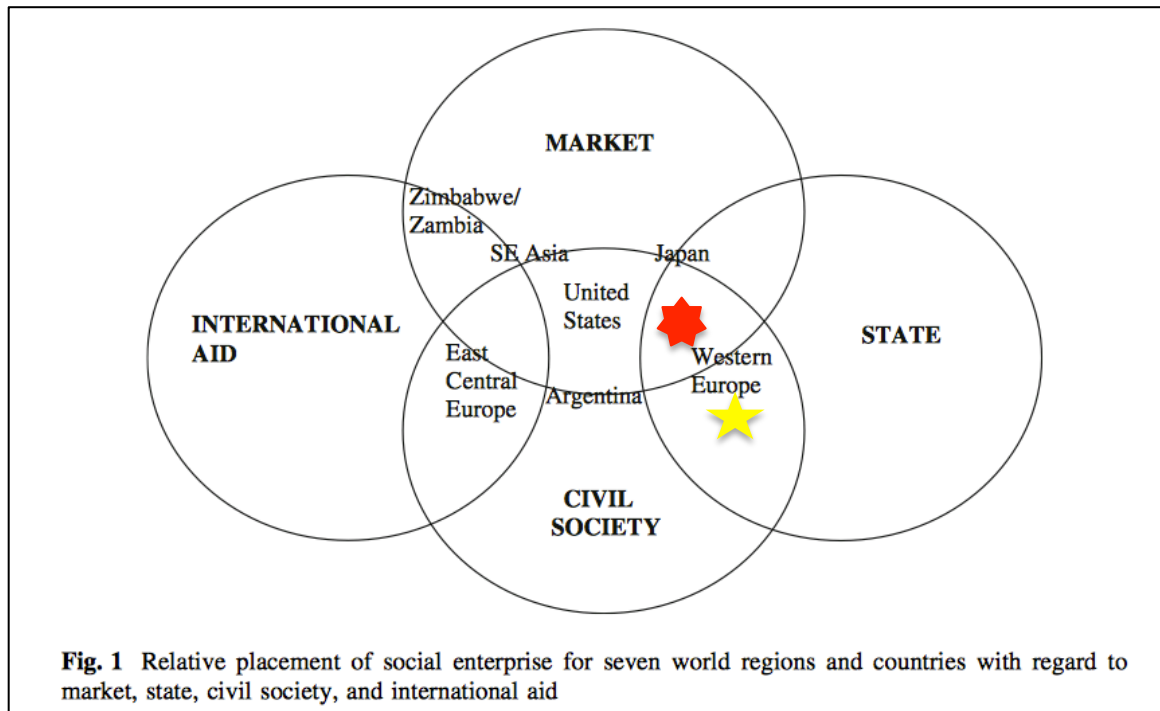


Figure 6.7

Referring back to Kerlin’s map of social enterprise origins, the current and limited literature suggests that the Chinese social enterprise is located at the yellow star. The red star is where this paper proposes the Chinese social enterprise is shifting towards.

Revisiting Kerlin’s model, this paper suggests that the Chinese social enterprise model, contrary to the literature, is actually shifting closer to the market sector (from the yellow star to the red star in Figure 6.7). Kerlin and Salamon’s “social origins” approach takes into account the variations in a region’s socioeconomic context. When this perspective is applied to the Chinese case, the fluctuating civil society, state policies, and international agents are continuously pressuring the social enterprise to adopt market qualities. I predict that, in response to these highly influential factors, the Chinese social enterprise is shifting its position closer to the market sphere.

Looking forward, what does this conclusion mean for Chinese social enterprises?

The findings of this paper suggests that although China's social enterprise sector is drawing more upon market dynamics than anticipated, this "market-based" model is still an *idealized* form for many organizations. Nyssens touches upon this idea of balancing ideal models of social enterprise with realistic circumstances and necessities:

"Though widely assumed in the U.S. and U.K. debates on social enterprise, the economic dimension of the concept does not necessarily refer to the growing importance of a trading activity. The central idea in Europe is, rather that the financial viability of the social enterprise depends on the efforts of its members *to secure adequate resources to support the enterprises social mission*. These resources can have a hybrid character and come from trading activities, from public subsidies, or from voluntary resources obtained thanks to the mobilization of social capital."²⁰¹

Nyssens emphasizes the need for social entrepreneurs to remain pragmatic while striving towards the end objective of the market-model social enterprise. Without an official legal definition proposed by the state, the structure of the Chinese social enterprise will continue to be heavily contested and undefined (Figure 6.6). In a state where institutional support for social enterprises is severely lacking, social enterprises cannot afford to blindly adhere to a rigid model. Observing the Chinese social enterprise landscape today, Nyssens would probably suggest that ventures should be opportunistic in China's restricted, yet rich environment. The personal definitions of "social enterprise" offered by Chinese social entrepreneurs, incubators, and investors are both market-centered and vague, allowing Chinese social enterprises to exhibit the untethered and innovative nature that makes the social enterprise model such a popular and adaptable concept. Chinese social

²⁰¹ Marthe Nyssens, "Social Enterprise: A Global Comparison," 15.

entrepreneurs are drawing upon market forces while still creatively harnessing available resources from *all* sectors, whether they are subsidies from the state, donations from the public, or start-up funds from an impact investor (Consequently, the red star's position is placed squarely in the middle of civil society, state, and market in Figure 6.7).

Commercializing slowly, but adapting constantly, the Chinese social enterprise is truly an innovative and cross-sector phenomenon.

While my thesis has illuminated the emerging trend of China's increasingly market-based social enterprise, what does this shift mean for China's social service provision system? As social enterprises are expanding into more industries and exercising their effectiveness, the state may feel increasingly less accountable in its responsibility to provide social welfare. "If the growing trend in China is look for market solutions [for social problems]," Elizabeth LaCouture, a professor at Colby College in history and East Asian Studies inquired, "what will happen to people who cannot afford services?"²⁰² In the future, will nonprofits that have traditionally occupied China's civil society sector be squeezed out by more profit-driven social enterprises? Will China's civil society and market sector ultimately converge so much that they become indistinguishable on Kerlin's diagram (Figure 6.7)? In the long run, I suspect (and hope) that these separate spheres of market and social welfare provision will remain distinct. Despite today's overwhelming drive for nonprofits to embark on the trendy social enterprise path, this mad rush towards the social enterprise will balance itself out eventually. Although the market is playing an undeniable role in China's social sector, Hua's observation that many traditional models of NGOs are

²⁰² Elizabeth LaCouture, "Email exchange with Amanda O'Malley," May 2, 2014.

very successful at providing social benefits without commercializing will continue to ring true (Chapter 4.7). As China's social enterprise landscape matures alongside its progressively more liberal market economy, the state is likely to tweak its institutions and laws to accommodate this ripe and lucrative field. Organizations that are meant to be successful social enterprises will survive, and groups that aspire to be social enterprises but do not play to their comparative advantages will have to adjust their development paths to fit their abilities and needs. In the meantime, as the Chinese social enterprise shows signs of shifting closer to the market sphere, it is doing what it does best—creatively harnessing available resources in a dynamic, rich, and unpredictable environment.

Appendix

Field Research Interview Questions:

Social enterprise landscape in China

- What kinds of social enterprises approach this incubator for resources? If resources are distributed via application processes, what kinds of enterprises apply?
- What sectors? Most and least common? (I essentially want to get a sense of what the market is like for social enterprises in China...What social demands are unmet by the state to encourage entrepreneurs to do something about it?)
- How do social entrepreneurs hear about this incubator?
- What percentage of social entrepreneurs come to social incubators? (opinion question)
- Who are the social entrepreneurs who are seeking incubation resources? (demographics, background, fields)
- How do applicants and resource-seekers identify themselves?
- Do the entrepreneurs who seek resources at this social incubator have models that are capable of creating profit? Creative value? How are these objectives balanced?

Incubator's Criteria

- How does the incubator determine which enterprises to support?
- What is the incubator's criteria in this decision-making process?
- Who came up with this criteria?
- Does the incubator have an established definition of social entrepreneurship? Is it an inclusive or exclusive definition?
- Does the incubator ever turn away projects that don't fit this definition (or lack of)? What kinds of projects do NOT get funding?
- How does this definition compare to criteria used by Western social incubators?
- Do you think these criteria differ in China than in other countries? How?
- If these criteria for social enterprise incubation cater to China's unique environment, what factors play a part in molding these projects? Legal atmosphere?
- What are some general characteristics of successful social enterprises that have taken off after being incubated? What about enterprises that didn't do so well?
- How has the incubator's criteria changed over time?

Incubator Model & Funding

- What is the history of this incubator? Who started it and when?
- What departments comprise this social incubator?
- How many people work here?
- What are the demographics of the people who work at this incubator?
- How is the incubator funded?
- What effect does the origin of the incubator's funding have on its work and the types of social enterprises that it supports?

- Does the incubator promote the development of goods and services that directly address social needs or are they more focused on enterprises that encourage socially responsible consumption?
- How does the incubator, as a registered non-profit with the local government, benefit from being legally recognized by the state?
- Do you make a profit? If so, how?
- Does this social incubator differentiate itself from other similar incubators in Shanghai? How?

Incubator Resources

- What kinds of resources do you offer entrepreneurs?
- What are the most sought-after resources?
- Are your resources mostly start-up resources?
- What kinds of partnerships does this incubator seek?

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