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# The Emergence and Development of Social Enterprise Sectors

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# The Emergence and Development of Social Enterprise Sectors

## **Abstract**

### **Introduction** (First paragraph only)

The concept of integrating social aims with profit-making has been an emerging trend in the world today, especially in the wake of the 2007-2009 financial crisis which shone the spotlight on the problems of pure profit-maximization. Social Enterprise is at the very core of this new movement to integrate social aims with profits, taking root in an increasing number of circles today, ranging from the field of international development, to impact investing, and even public policy.

### **Keywords**

financial crisis, social enterprise, China

### **Disciplines**

Business

# **The Emergence and Development of Social Enterprise Sectors**

**What historical global trends mean for the development of Social Enterprise in China**

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## Introduction

The concept of integrating social aims with profit-making has been an emerging trend in the world today, especially in the wake of the 2007-2009 financial crisis which shone the spotlight on the problems of pure profit-maximization. Social Enterprise is at the very core of this new movement to integrate social aims with profits, taking root in an increasing number of circles today, ranging from the field of international development, to impact investing, and even public policy.

In particular, Social Enterprise has grown spectacularly in India, with the country being referred to as “A Social Enterprise Superpower”<sup>1</sup> by Think, a social action think tank and action hub, as well as “A hotbed for Social Enterprise”<sup>2</sup> by Beyond Profit magazine, a leading Social Enterprise magazine. Social Enterprises have been extremely effective in driving development in India, home to one of the world’s largest populations still living in poverty. On the other hand however, a country with seemingly similar characteristics in terms of large populations of poor rural folk, China, has seen only a nascent Social Enterprise sector. In contrast, 4 out of the 10 most innovative companies in India as ranked by Fast Company are social enterprises, an indicator of the maturity of the Social Enterprise sector domestically. The question that arises from this observation, is thus one of “why has Social Enterprise grown so strongly in some countries and yet not others?” In particular, with China’s large rural poor demographic which bears a striking similarity to India, what is holding back the development of Social Enterprise in China?

As such, this paper will seek to understand how we can increasingly apply the tool of social entrepreneurship to address the many developmental problems we find in China. To do so, we will explore 4 key areas. First, to lay the foundations, this paper will address the wide range of Social

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<sup>1</sup> Think! Blog. “India: A Social Enterprise Superpower.” 28 October 2010. <<http://www.thinkresearch.org.uk/2010/10/28/india-social-enterprise/>>

<sup>2</sup> Clinton, Lindsay. (2010). “Is India Really a Hotbed for Social Enterprise?” Beyond Profit. 27 October 2010. <<http://beyondprofit.com/is-india-really-a-hotbed-for-social-enterprise/>>

Enterprise definitions to identify the specific definition relevant to our objective of the application of Social Enterprise to China. Second, this paper will look at Social Enterprise globally by individual regions to understand the conditions necessary for the emergence of a Social Enterprise sector. Third, the earlier understanding will subsequently enable us to apply these conditions to an analysis of India and China, to determine the reason for the divergence of social enterprise emergence in China and India. Fourth, and most importantly, this paper will examine the future of social enterprise development in China, and analyze what possible measures could facilitate the growth of the sector domestically.

This paper first suggests that Social Enterprise should be defined as social innovations addressing bottom of the pyramid issues, specifically, issues pertaining to basic development such as poverty, sanitation, and electricity. Such social innovation should be characterized by profits being a by-product of the innovative solution which transforms the way we traditionally see the existing model, aligning with Schumpeter's definition of entrepreneurship. In other words, profit-making and the achievement of the social goal are both increasingly achieved in tandem the more the activity is carried out. This is clearly differentiated from a wide range of commonly-used definitions of Social Enterprise which merely include a social aim within a traditional enterprise, for example pledging a certain amount of profits toward disadvantaged groups, which are often characterized by a trade-off between profit-making and social aims.

The second section of this paper will go on to suggest that Social Enterprise has emerged in very differing manners depending on the historical legacy of the region concerned, as well as the existing legal and socio-cultural contexts. A variety of 5 different factors is found to influence the emergence of such a social enterprise sector, and include the political environment, legal environment, cultural environment, social environment, and institutional environment. These can be categorized into three types of factors: first, those necessary for social enterprises to take root; second, those necessary for

social entrepreneurs to emerge; and third, that necessary for social enterprises to mature and develop into an industry.

The third section of this paper suggest that the key reasons for the divergence of social enterprise emergence in China and India is due in large part to first, the differing natures of the role of government in the respective countries, where the strong and pervasive government presence in China and its strict centralized control has left little room for the growth of civic life as well as the experimentation which is so crucial for social enterprise development; and second, the culture of Chinese society which is predominantly characterized by self-interested profit-seeking. As a result, we see a lack of the necessary ecosystem within China to support the growth of such a Social Enterprise sector. In contrast, the comparative ineffectiveness of the Indian government in adequately addressing the provision of basic necessities in rural India, coupled with the decentralized nature of government, the entrepreneurial nature of Indian culture, and the close associations with the Western world due to English as a language of intermediation, has allowed the growth of social entrepreneurial solutions toward addressing these problems.

The fourth section of this paper then goes on to suggest that just as the opening up of the Chinese economy to foreign MNCs had helped to catalyze and accelerate the pace of economic development, the social enterprise sector can similarly be supported and catalyzed by the entry of multi-national Social Enterprise organizations and related enablers which will be able to rapidly bring the local ecosystem up to speed with global trends in the industry, facilitating the eventual growth of domestic social enterprises. More importantly, however, for a social enterprise sector to develop effectively, what is necessary is to create the necessary conditions to supply a steady pipeline of potential social entrepreneurs, an outcome which can best be achieved via a targeted approach at cultivating a keen interest in social issues amongst students in schools.

To begin, we first examine the definitions of social enterprise.



## 1) Introducing Social Enterprise Definitions

Social Enterprise is a term that has been widely used and loosely applied to a wide variety of institutions and organizations that it has become difficult to engage in a proper dialogue without first establishing the precise definition to which one alludes to in coining an organization as a social enterprise. A 2008 study commissioned by the Office of the Third Sector in the UK reveals that the term is “poorly understood”, and that such “confusion and lack of understanding is a major short term barrier to the growth of social enterprise.”<sup>3</sup> As such, before we begin our exploration of the factors behind social enterprise growth, particularly in China, we first need to examine the range of social enterprise definitions to determine which will be applied in this paper.

J. Gregory Dees, Professor of the Practice in Social Entrepreneurship, founding faculty director of Duke University’s Center for the Advancement of Social Entrepreneurship, and often referred to as the “Father of Social Entrepreneurship Education”<sup>4</sup>, categorizes the plurality of Social Enterprise definitions into two main types in a paper co-authored with Beth Anderson: (a) Social Enterprise, and (b) Social Innovation.<sup>5</sup>

The Social Enterprise school of thought as laid out by Dees and Anderson is centered on the notion of entrepreneurship as individuals who “start their own business”. As such, the corresponding definition of a social enterprise tends toward a more generic model here, with organizations focusing on the dual focus of economic and social value creation being classified as social enterprises. This includes non-profit organizations which set up income generating business units to generate resources which go toward supporting the organization’s social mission. Such income generation activities undertaken need

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<sup>3</sup> British Council. “Is Social Enterprise at a Crossroads? The findings of COI Research published.”  
<[http://www.discoversocialinnovation.org/uk\\_policy\\_updates/20080919/307.jsp](http://www.discoversocialinnovation.org/uk_policy_updates/20080919/307.jsp)>

<sup>4</sup> Duke University Fuqua School of Business Alumni Newsletter. December 2007. “J. Gregory Dees Honored for Lifetime Achievement in Social Entrepreneurship”. <<http://www.fuqua.duke.edu/alumni/connect/pnews/120707-dees.htm>>

<sup>5</sup> Dees, Gregory and Anderson, Beth. 2006. “Enterprising Social Innovation: The Intersection of Two Schools of Practice and Thought”.  
<<http://www.caseatduke.org/articles/0806knowledge/index.html>>

not necessarily be part of the core activities undertaken to achieve the social mission, but merely a means of generating the resources needed to support these core activities. An example of such a venture would be the National Zoo in Washington D.C. which sells elephant dung to the public, providing it with a revenue stream to subsidize its own operations.<sup>6</sup>

The second school of thought laid out by Dees and Anderson is the Social Innovation school of thought. This Social Innovation school of thought is centered on the concept of an entrepreneur as defined by Jean Baptiste Say and Joseph Schumpeter. According to Say, an entrepreneur is one who “shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.” This view is similarly echoed by Schumpeter who sees an entrepreneur as one who “reforms or revolutionizes the pattern of production... and are change agents in the economy.” As such, the central tenet within this school of thought is the innovation which an entrepreneur brings to the table in value creation, and in the context of social entrepreneurship, it then involves the implementation of “new and better ways to address social problems or meet social needs”.<sup>7</sup> An example of such a venture would be Grameenphone’s revolutionary approach toward bringing mobile communications to Bangladesh. Moving away from the traditional business model of selling mobile phones to individuals, Grameenphone pioneered a new business model with its Village Phone program, where mobile phones were marketed as business opportunities. Women were provided with loans to purchase a mobile phone, which they then operated as payphones, charging fellow villagers on a per use basis. This brought both mobile communications access to villages, as well as a source of income for these “phone ladies”. As such, a social enterprise under this definition need not necessarily be a business enterprise per se, but can exist in various legal forms, as long as they are introducing an innovative and effective approach toward addressing social problems. Ashoka, for example, a non-profit organization that

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<sup>6</sup> The Four Lenses Strategic Framework. “Nonprofit with Income Generating Activities” <<http://www.4lenses.org/setypology/iga>>

<sup>7</sup> Dees, Gregory and Anderson, Beth. 2006. “Enterprising Social Innovation: The Intersection of Two Schools of Practice and Thought”. <<http://www.caseatduke.org/articles/0806knowledge/index.html>>

identifies and supports social entrepreneurs worldwide would be considered as such an example of an innovative approach that functions not within a traditional for-profit structure.

In ascertaining which definition of social enterprise shall be adopted for the purposes of answering this paper's central question of "what is holding back the development of Social Enterprise in China", we first need to recognize the purpose and motivations behind seeking to answer this question. While social enterprise can be adopted as an approach to solve a plethora of differing social issues, this paper seeks to understand social enterprise as a vehicle specifically for addressing the social problems faced by a large segment of the world's population faced with a similar characteristic – extreme poverty. According to World Bank estimates as at 2005, 1.4 billion people in the world live below the poverty line, of which 207 million are found in China, and another 455 million in India<sup>8</sup>. Together, these two countries make up nearly half of the world's population living in extreme poverty. As such, this paper seeks to understand social enterprise in the context of such extreme poverty, where social enterprise can be used as a vehicle of solving this massive social problem of delivering essential good and services to 1.4 billion people in ameliorating and improving their conditions in life.

With this in mind, we adopt here the social innovation school of thought as it is better able than the social enterprise school of thought in producing the systemic and large scale change necessary to address this social problem. As Dees and Anderson explain, such "enterprising social innovations...blend methods from the worlds of business and philanthropy to create social value that is sustainable and has the potential for large-scale impact." The social enterprise school of thought which uses economic value creation to support value creation is often characterized by a trade-off between the two, and is thus limited in its ability to scale significantly, as the dual purposes of economic and social value often places it at a disadvantage in comparison with purely profit-oriented firms. As such, the social innovation

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<sup>8</sup> Wroughton, Lesley. 26 August 2008. "More people living below poverty line – World Bank." Reuters. <<http://www.reuters.com/article/2008/08/26/idUSN26384266>>

approach is necessary because of the way it changes how business is conducted to allow the social problem itself to be seen as a business opportunity, drawing both socially minded individuals, as well as those solely driven by profit. This harnesses the full spectrum of individuals in society in addressing the problem, increasing the ability of such approaches to scale more quickly and to a larger magnitude. As Bill Drayton, founder of Ashoka: Innovators for the Public, aptly puts it: “Social Entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry.”

Such an approach toward defining social enterprises is supported not only from an academic point of view as championed by Professor Gregory Dees, but also from a practitioner point of view as seen from the activities of 3 of the most prominent award-granting organizations in the global Social Enterprise space. Ashoka, The Skoll Foundation, as well as the Schwab Foundation are recognized as leading organizations in the field of recognizing social entrepreneurs, and in granting their awards, all three organizations define the necessary qualities in the same manner. Ashoka actively looks out for “the new idea” and “entrepreneurial quality”; the Skoll Foundation looks out for “change agents for society” who “improve systems, inventing new approaches”; the Schwab Foundation looks out for “a pragmatic visionary who achieves large scale, systemic and sustainable social change through a new invention, a different approach, a more rigorous application of known technologies or strategies, or a combination of these”. The common thread running through all three organizations is thus that of the social innovation school of thought necessitating an innovation from current practices, and not merely entrepreneurs with socially-minded aim in running their organizations.

As such, we adopt for the purposes of this paper a particular definition of social enterprise that is supported by both leading academics and practitioners. This particular form of social enterprise is the type which we aspire toward eventually catalyzing in China. However, before we proceed to examine

how we can catalyze such a definition of social enterprises in China, we first adopt a broader definition in the initial chapters of this paper to better develop a holistic understanding of the development of social enterprise globally, before eventually focusing on our aforementioned defined notion of social enterprise in the application to the Chinese context.

## 2) The Emergence of Social Enterprise globally

Social Entrepreneurs and social enterprises have been in existence for many centuries, but only came into prominence in recent decades when the particular label of “social entrepreneur” has been intentionally used to identify them, an effort in large part pioneered and actively championed through Ashoka, a non-profit institution that identifies and supports leading entrepreneurs globally in an effort to support social change. However, even before Ashoka was founded in 1981 and subsequently popularized the term, history had witnessed numerous social entrepreneurs responsible for the many social innovations we have come to find commonplace today. The epitome of such historical social entrepreneurs is Florence Nightingale, who had revolutionized care-giving by founding the modern nursing profession. These however, tend to be isolated and individual examples of social entrepreneurship. For the purposes of this paper, we will examine the emergence of a social enterprise industry and sector, where social enterprise is recognized by the broader community as an effective tool toward addressing social problems.

Such development and emergence of social enterprise sectors have taken different paths in different geographic regions in the world, but can however be broadly clustered according to two main camps of social enterprise: the market-based form of social enterprise, and the hybrid-based form of social enterprise. The market-based form emerged in North America and Africa, whereas the hybrid-based form emerged in Europe and Latin America. We first examine each of these respective regions, before identifying key determining factors contributing to this emergence of the social enterprise sector. We examine within these regions social enterprise sector growth not merely in terms of the social innovation definition we have put forth, but in all broadly accepted definitions, to enable us to ascertain which type of conditions lead to the emergence of respective models of social enterprises.

## United States

In the United States, social enterprise in the form of commercial activity by non-profits saw its origins in various religious and community groups which held sales of home-made items to augment the voluntary donations they received. The emergence of social enterprise as a sector, however, began during the 1970s. The high oil prices of 1973 led to a prolonged economic downturn in the US, which consequently led to cuts in government funding for non-profit organizations by the Reagan administration. According to estimates by Salamon (1997)<sup>9</sup>, the magnitude of the cuts in social welfare spending was to the order of \$38 billion over the period from the 1970s-1980s. Such cuts, in tandem with the increasing competition for funds due to the growing number of non-profits and rising social needs, together prompted a shift toward commercial revenue generation. According to various scholars such as Crimmins & Keil (1983)<sup>10</sup> and Eikenberry and Kluver (2004)<sup>11</sup>, nonprofits saw commercial revenue as a means of replacing government funding. This thus paved the way for the emergence of social enterprise as a widely accepted tool toward addressing social problems due to a necessity resulting out of the withdrawn role of the state.

This withdrawal of the state role took place alongside another trend – the growing prestige of business and management. As Michael Lounsbury (2005)<sup>12</sup> asserts, the 1980s saw the “celebration of management expertise and the genius of particular CEOs was once again on the rise”, with businesses seen as a realm of “fearless entrepreneurial activity.” As such, due to the prevalent culture characterized by the prominence of business activity, novel business approaches were seen as an attractive alternative means of revenue generation to replace the withdrawal of government funding.

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<sup>9</sup> Salamon, L. 1997. “Holding the center: America’s nonprofit sector at a crossroads.” New York: Nathan Cummings Foundation

<sup>10</sup> Crimmins, J.C., & Keil, M. 1983. “Enterprise in the nonprofit sector.” New York: Rockefeller Brothers Fund

<sup>11</sup> Eikenberry, A., & Kluver, J. 2004. “The marketization of the nonprofit sector: Civil society at risk?” *Public Administration Review*, 64(2), pp132-140

<sup>12</sup> Social Entrepreneurship: Success Stories And Logic Construction\*

In addition, this shift toward social enterprise was strongly supported and reinforced by private foundations and academic institutions. Private foundations provided a range of operational support for emerging social enterprises and entrepreneurial non-profit organizations, while academic institutions developed a broad range of non-profit management degree and certificate programs as well as social entrepreneurship courses within their universities to develop the necessary talent for the sector. Private foundations such as the Kellogg foundation and the Kauffman foundation focused on basic information collection and the creation of networks, while others like the Pew Charitable trust conducted social enterprise business competitions. Meanwhile, Yale University started the Program on Non-Profit Organizations in 1978, the first research center focusing on non-profits, and over the course of the subsequent 12 years, 25 non-profit management programs had been set up around the country by 1990.

As such, we find that the emergence of the social enterprise sector in the US was in large part driven by the political withdrawal of the state due to economic conditions, the cultural context characterized by the prominence of business approaches, as well as a well developed ecosystem supported by private foundations and academic institutions.

## Africa

The emergence of the social enterprise sector in Africa was likewise with the US, due in large part to the withdrawal of the state's funding for related activities. To understand the history of social enterprise sector emergence in Africa, however, we have to understand the important role played by foreign actors. Foreign actors have traditionally had significant influence on government policies in Africa due to the tied conditions of foreign aid. In particular, the World Bank and International Monetary Fund, in the wake of the oil crisis of the 1970s, designed Structural Adjustment Policies (SAPs) as conditions for loans granted to developing countries in order to reduce the fiscal imbalances of the recipient nations and to



accelerate market-oriented reforms. As a result, Africa, which was a significant recipient of such World Bank and IMF funding adopted these policies of reduction in state expenditures, deregulation, and privatization. The consequence however, was the progressive destruction of local enterprises due to an inability to compete with Multi-national firms. These dual conditions of reduced state funding and increased socio-economic problems led many NGOs to incorporate social enterprise models to enable sustainability in continuing to deliver goods and services to the public.

At the same time, the deregulation and privatization drive of the SAPs led to the emergence of a pluralistic environment that diminished the role of the state as the sole party in socioeconomic development. As a corollary, against the backdrop of deteriorating socioeconomic conditions and the simultaneous withdrawal of the state, the non-state sector expanded rapidly. The inability of the state to address these socio-economic problems also attracted international attention and subsequently foreign aid to the non-state sector in the African countries. Chabal and Daloz (1999)<sup>13</sup> go on to argue that such international aid targeted at the non-state sector was the most important factor leading to the growth of NGOs and social enterprise development in Africa. Much of this aid originated from the US, and American concepts and models of social enterprises thus increasingly found their way to the African continent. As such, this expanded role of non-state actors and the catalytic effect of foreign aid led to a rapid emergence of a Social Enterprise sector.

Therefore, we find that in the African context, the withdrawal of the state as a result of external conditions imposed by foreign actors, as well as the institutional support provided by foreign aid organizations were the key drivers behind the emergence of the social enterprise sector in Africa.

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<sup>13</sup> Chabal, P & Daloz, J. 1999. "Africa works: Disorder as political instrument." Oxford: James Curry

## Western Europe

In Western Europe, the economic downturn of the 1970s was likewise a cause leading to the emergence of the contemporary social enterprise sector. The economic downturn led to decreased economic growth and increased unemployment, which placed a major strain on the welfare state system which characterized Western Europe. Against this backdrop, civil societies developed various programs and initiatives to cope with the attendant social problems. In particular, due to the high unemployment rates, Work Integration Social Enterprises (WISE) soon emerged throughout the region which sought to help the poorly-qualified unemployed in society to gain employment. As such, we see that social enterprises in Western Europe are often characterized by such an employment-creation focus.

The emergence of the social enterprise sector received strong support from governments which helped to foster and accelerate their growth. Government saw social enterprises as partners through which they could address the socio-economic problems brought about by the economic circumstances which their welfare states were unable to effectively address. This was achieved through both direct governmental support, as well as through the creation of a conducive institutional environment. For example, in the case of the UK, former Prime Minister Tony Blair launched the Coalition for Social Enterprise and created a Social Enterprise Unit in the Department of Trade and Industry to promote the development of Social Enterprises throughout the country, following a review of the social sector that found social entrepreneurship as an effective means of addressing socio-economic issues. As part of their efforts, the government implemented a program of "Social Enterprise: A strategy for success", and also set up regional units to support local efforts. On the other hand, many European countries adopted an institutional approach in promoting the growth of the social enterprise sector, by creating specialized legal structures and forms which facilitated the operations of such Social Enterprises, which in the West European context, was often seen as equivalent with cooperatives. Portugal created "social solidarity

cooperatives” in 1998; Italy created “social cooperatives” in 1991; Greece created “social cooperatives with limited liability” in 1990; Spain created “social initiative cooperatives in 1999”; and UK created the “community interest company” in 2004. Many of these were the results of the Digestus Project undertaken by the European Commission which sought to promote social enterprise based on the Italian model of cooperative enterprises. (Lindsay et al 2003)<sup>14</sup>. As such, we find that the social enterprise sector in Western Europe is one that is influenced in large part by the legal structures created by the state, and is predominantly characterized by a social purpose, often employment creation, and a limitation on profit distribution.

Therefore we see that the social enterprise sector in Western Europe, in contrast with the US and Africa, emerged not from a withdrawal of the state role, but rather, an active effort by the state to push social enterprise as an approach toward solving its massive economic problems. The key drivers behind this development were the twin pillars of first, the strong civil society culture, and second the legal environment created by a supportive political power within the region.

### Eastern Europe

The emergence of a social enterprise sector in Eastern Europe, just as the US and Africa, was brought about by the withdrawal of the state’s roles, in this case due to the fall of communism. The fall of communism led to similar conditions in Eastern Europe as that caused by the economic recessions of the 1970s, with the transition to a market economy causing massive dislocations in the economy and high levels of unemployment, while also simultaneously reducing the role played by the state in addressing these various socio-economic issues. Similar to the case with Africa, foreign actors played an important

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<sup>14</sup> Lindsay, G., & Hems, L., Noges, H., Liret, P., & Margado, A. 2003. “Societal cooperative d’interet collectif: A research methodology.” I communicatin to the 32<sup>nd</sup> annual ARNOVA Conference, Denver, CO, November

role in catalyzing the development of the social enterprise sector, with the international community drawing on the West European experience of social enterprise as a viable tool toward addressing socio-economic problems. As a result, such foreign aid provided technical expertise as well as financial resources to stimulate the growth of the local social enterprise sector. Further, many of these east European states sought to join the European Union, of which a condition was to address the various socioeconomic issues such as unemployment, which thus further reinforced the growth of the sector in addressing these problems to prepare the countries for accession to the European Union.

However, we find that the social enterprise sector in Eastern Europe is nonetheless a relatively underdeveloped sector, due to legal and institutional constraints. In particular, many East European countries do not permit the conduct of economic activity as a primary operation by the third sector, with many also bounding the third sector with non-distribution constraints on profits (Golubovic & Bullain, 2006)<sup>15</sup>. For the social enterprise sector to further develop more robustly, various scholars have argued for the need for a fiscal system and supporting entities dedicated to social enterprises that parallels those available to traditional profit-driven local businesses (Borzaga et al., 2008; Les, 2008)<sup>16</sup>.

Therefore, we find that the social enterprise sector in Eastern Europe has been largely driven by the withdrawal of the state role with the fall of communism, as well as the institutional support provided by foreign actors.

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<sup>15</sup> Golubovic, D & Bullain, N. 2006. "Perspective on regulatory issues for social enterprise development in CE." Paper presented at the International Seminar Emerging Models of Social Entrepreneurship "Possible Paths for Social Enterprise Development in Central East and South East Europe," OECD-Leed Programme, USAID, ISSAN, Zagreb, September 28-29

<sup>16</sup> Borzaga, C., & Defourny, J., Galer, G., Les, E., Nogales, R., Nyssens, M., et al. 2008. Part III. "Recommendations on how to support social enterprises. In *Social Enterprise: A New Model for poverty reduction and employment generation: An examination of the concept and practice in Europe and the Commonwealth of Independent States.*" UNDP and EMES

## Latin America

The social enterprise sector in Latin America parallels that found in Europe, with a strong focus on cooperative-type organizations. The origins of the emergence of social enterprise in Latin America can thus be traced in large part to the influence of European traditions and practices brought along by immigrants from Western Europe. The acceleration of the growth of the sector was however hastened by global developments which led to political changes within the continent, as well as the economic dislocations caused by Washington Consensus measures imposed on these countries. As Defourny (1992)<sup>17</sup> proposes, political conditions beneficial to social enterprises emerged due to the failures of the welfare state system as well as the failures of centrally-planned communism. As such, this led to an opportunity for social enterprises to provide a viable alternative to intervention by the government in addressing socio-economic concerns. This was further reinforced by the results of measures implemented in response to the Washington Consensus, where “the ultimate objective of all these changes was to reduce public spending and to provide new areas of activity for the private sector” (Hintze, 2003)<sup>18</sup>. The resulting economic crises further exacerbated the socio-economic problems, with 53% of the Argentinian population living under the poverty line following the 2001 devaluation for example. Against the backdrop of these conditions, social enterprise in the form of cooperative-type organizations emerged as a viable solution, as a private sector solution toward increasingly dire socio-economic problems.

Roitter & Vivas (2009) put it succinctly as a parallel to what we have thus far encountered in the other regions worldwide – “to a large extent the space occupied today by social enterprises appeared and grew as an alternative to unemployment and social exclusion in Argentina. Their activities highlight

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<sup>17</sup> Defourny, J. 1992. “The origins, forms and roles of a third major sector.” In Jacques Defourny & Jose L Monzon Campos (Eds), *The third sector: cooperative, mutual and nonprofit organizations*. Belgium: De Boeck Universite

<sup>18</sup> Hintze, S. 2003. “Estado y politicas publicas: Acerca de la especificidad de la gestion de politicas para la economia social y solidaria.” Presentation at the Segundo congreso Argentino de Administracion Publica. Sociedad, Estado y Administracion, Cordoba, Argentina

problems related to poverty income inequalities and production conditions that were no longer being addressed by the economic sphere and the public sector.”<sup>19</sup>

### **Factors behind the emergence of Social Enterprise Sectors Worldwide**

From these examinations of the emergence of social enterprise in various regions worldwide, we can extrapolate 5 factors that impact the emergence of a social enterprise sector:

- a. Political Environment: The extent of the government’s role
- b. Legal environment: The ease of experimentation
- c. Social Environment: The Presence of widespread focus on socio-economic problems
- d. Cultural Environment: The presence of an active Civil Society and of linkages with countries bearing developed Social Enterprise sectors
- e. Institutional Environment: The presence of a supporting eco-system of enabling organizations

#### **Political Environment**

The first factor necessary is a supportive political environment. The issues which social enterprises and social entrepreneurs seek to address are often basic social problems, which are also frequently the very issues which the government sector seeks to address. However, there clearly exists an imbalance in power relations between the state actor and the social enterprise sector – the state has the first pick of which issues it chooses to address, and which issues it is willing to leave to the third sector. As such, for a social enterprise sector, or even for a civil society, to develop, the state has to necessarily be willing to

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<sup>19</sup> Roitter, M. & Vivas, A. 2009. “Argentina”. Social Enterprise A Global Comparison. University Press of New England.

accommodate the presence of such extra-statist actors. Therefore, the political climate is a crucial fundamental factor necessary for the emergence of the social enterprise sector. A favorable political climate can be achieved in two forms – first, the government can choose to step aside and leave a void for civil society to fill which social entrepreneurs can then step into, or secondly, the government can go further to actively promote, support, and facilitate the development of social enterprises as demonstrated in Europe. We see an example of the former in the United States, where the Republican government's drive to cut the scope of government led to a relinquishing of duties to civil society, and we see an example of the latter in UK and Italy - the UK actively promotes social entrepreneurial solutions through regional government units under former Prime Minister Tony Blair, while Italy has set up official classifications for the purpose of promoting social entrepreneurial organizations.

As such, it is of crucial importance that for a social enterprise sector to develop, the government has to necessarily withdraw from certain roles, either voluntarily or involuntarily, which is necessary to provide civil society and the private sector with the opportunity and space to enter and emerge.

### Legal Environment

Following the fundamental factor of the political environment, the next level in influencing factors is that of the legal environment. Social Entrepreneurship, just as traditional entrepreneurship, is not a moment of eureka-like discovery, but rather, a long-drawn iterative process in refining an idea and bringing it to fruition. As such, it requires an environment that will allow for such an iterative process of continuous trial and experimentation which is necessary for incremental fine-tuning and for it to eventually succeed. Therefore, the legal environment should not be overly oppressive with excessive regulation, oversight, or obstructive policies that hinder such a process of experimentation due to difficulties in operations for the organization. As Roitter & Vivas (2009) argue "the problem of legal

status is undoubtedly one of the main issues facing the development of social enterprise in Argentina.” Obstructive legal and regulatory conditions can and do often lead to “exclusion from the formal economy, which creates challenges for market insertion, invoicing systems, impossibility of accessing sources of financing and their ineligibility for public sector programs.”

Drawing a parallel with traditional entrepreneurship and business operations, we find that the legal environment is an often-used indicator for the potential of doing business. The annual Ease of Doing Business Survey conducted by The World Bank group ranks countries based on their regulatory environment, taking into account various indicators of the local legal regulatory environment along the lines of the ease of starting a business, getting credit, paying taxes, enforcing contracts, and closing a business.<sup>20</sup> Such an approach likewise applies to the context of social enterprises, where the legal and regulatory environment needs to allow an ease of experimentation, failure, and incremental improvements by the social enterprises. As such, an ideal legal environment would be one that allows a multitude of organizational forms which social entrepreneurs can take advantage of depending on their own circumstance, and not one bound by various constraints such as the profit non-distribution constraint found in Eastern Europe for example which limits the nature and innovative potential of social enterprises.

The legal environment can also go even further in encouraging the development of social enterprises as illustrated in Western Europe, but it should be recognized that while this may be beneficial in growing such categories of entrepreneurship, it will nonetheless stifle social enterprises to a certain extent by pigeon-holing them into such predefined categories, which limits their scope of innovation. Thus, according to the definition of social enterprises as examined by this paper, the ideal legal environment would be one that is as deregulated as possible, leaving ample room for social entrepreneurs to explore and experiment with their ideas.

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<sup>20</sup> The World Bank. 2011. “Economy Rankings”. <<http://www.doingbusiness.org/rankings>>



## Social Environment

The political and legal environment creates the necessary opportunity for social enterprise to take a stab at addressing social problems, but on the other side of the coin, a conducive social and cultural environment is necessary to facilitate the emergence of social entrepreneurs who will be able to capitalize on such opportunities provided. Social enterprises are fundamentally driven by the strength of individual social entrepreneurs, and a conducive social and cultural environment helps to nurture and enable such social entrepreneurs to emerge.

First, there must be sufficient focus and emphasis on various socio-economic issues to draw the attention of potential social entrepreneurs. Such a focus and emphasis must be sufficiently significant to go beyond attracting the attention of a few social entrepreneurs, but has to be of a magnitude that attracts a tipping point of individuals and groups within society to recognize social enterprise as a scalable solution toward addressing these. We see a common thread through the respective geographic analyses that economic dislocations in the form of communism's fall or the oil crisis of the 1970s focused attention on amplified socio-economic problems within the society, which led to the emergence of groups and individuals to address these issues. As such, it can be extrapolated that there must exist a significant level of attention and emphases on various socio-economic issues within the society to foster the development of a whole sector developing around social enterprises, and not just individual initiatives by a few individuals.

## Cultural Environment

A favorable cultural environment is necessary as a complement to a favorable social environment in facilitating the emergence of social enterprise. The cultural environment differs from the social environment in that the culture within the population comprises of habits or customs that are ingrained and have been part of their everyday lives for a prolonged period such that they are second nature to the population, whereas social environments can be altered within a shorter time frame, an example being severe economic recessions drawing attention to socio-economic issues which are amplified.

The most important characteristic of a cultural environment that affects the emergence of social enterprise is the presence and vibrancy of a civil society and activism. We see that in each of the respective geographic analyses of the emergence of the social enterprise sector that all of these social enterprises emerged from civil society roots, where civil societies in the form of various non-profit and non-governmental organizations responded to addressing socio-economic issues with the new approach of social enterprise. None of these social enterprise sectors examined thus far emerged from business roots where business players branched out from traditional business activity into corporate social responsibility and subsequently catalyzed the emergence of a social enterprise sector. While such CSR activities by business entities are indeed beneficial in ameliorating certain socio-economic issues, there is little evidence from our prior analyses to show that these are able to effectively catalyze the emergence of a whole industry around social enterprises. A vibrant and active civil society is necessary to champion and take the lead in pioneering and refining social enterprise models and organizations, and also to contribute their on-the-ground expertise from a depth of experience arising from dealing with such socio-economic issues over a prior prolonged period. Often, it is from amongst civil society that leading social entrepreneurs emerge.

A second important characteristic that seem to possibly have an important influence on the emergence of a social enterprise sector is linkages with regions that already have established social enterprise sectors. We see a distinct pattern in social enterprise emergence globally, where the United States and Western Europe are the main centers from which social enterprise emerged and subsequently spread into Eastern Europe, Africa, and Latin America. The long histories of democracies in the US and Western Europe had led to strong civil societies, which coupled with the developed capitalist system and corresponding business skills, provided a conducive environment for social enterprise to emerge. In contrast, other regions such as the latter three have either much shorter histories of democracy or capitalism, and thus relied heavily on influences and aid from both US and Western Europe in leading to the emergence of local Social Enterprise sectors. These ranged from passive influence due to immigrants bringing over cultural influences in the case of Latin America, to a semi-active approach in the form of European Union conditions for accession as in the case of Eastern Europe, to active importing of models and expertise in the form of foreign aid and foreign talent in the case of Africa. As such, we can see that linkages with these regions bearing developed social enterprise sectors through various conduits such as political connections, cultural immigration links, economic connections, or even language commonalities, can play a significant role in facilitating the domestic growth of social enterprise by accelerating the transfer of influence and expertise from regions with more developed sectors. This is especially important in particular for regions without a significant history of democracy and capitalism which provides the necessary conditions for the organic emergence of social enterprise sectors.

### Institutional Environment

The political and legal environments provide the opportunities and space for social enterprises to emerge; the social and cultural environments provide the necessary conditions for enabling social

entrepreneurs to emerge; but to foster the growth from the stage of emergence to a highly developed state, the institutional environment plays a crucial role in supporting the scaling and development of these social enterprises.

We see this most clearly in the example of the United States, where a supportive ecosystem of academic institutions and private foundations established a range of measures and supporting services ranging from research on non-profit management which supports the work of practitioners and also provides a testing ground for new innovative models and solutions, to business plan competitions which serve as platforms to harness expertise as well as financial resources. Such supporting institutions play an important role in facilitating the development of a sector around social enterprises, as they are able to serve as a focal point for best practices and financial resources in channeling these toward individual social entrepreneurs to aid them in their incremental processes of experimentation in running their organizations. Social Enterprise related programs at academic institutions also help to supply a stream of potential social entrepreneurs equipped with the relevant knowledge and networks which can further reinforce and support the development of such a sector.

Such an institutional environment would include, not be confined to, organizations which serve as incubators, consultants, financiers, and researchers.

#### Summary of Factors influencing the emergence of Social Enterprise Sectors

Therefore, we see that the five factors influencing the emergence of social enterprise sectors can be broadly grouped into three main categories.

First, there are the prerequisites for social enterprise to exist as a sector – a conducive political and legal environment. The government must necessarily allow for the role of a third sector, and this can be best

seen in the regulatory environment which the political powers control, where a deregulated legal environment is necessary to enable the natural process of social enterprise development. Swinging toward either extreme in the form of obstructive and excessive regulation, or proactive regulations in support of social enterprises can both be destructive. The former prevents the natural experimentation process necessary for social enterprises to succeed, while the latter imposes a preconceived stereotype of what social enterprises can be, which undermines the concept of innovation so crucial to social entrepreneurship.

The second category consists of the two prerequisites for social entrepreneurs to emerge in sufficient numbers - a conducive social and cultural environment. Social entrepreneurs emerge under two pre-conditions: the presence of severe socio-economic problems which they wish to solve, and sufficient internal motivation to take the step forward to be the one addressing these issues. While there will always be individuals within society focused on various socio-economic issues, and thus there is likely to be social entrepreneurs in every society, unless there is a widespread focus on socio-economic issues, it is less likely that we will see the tipping point necessary for a whole sector to emerge around social enterprises. Therefore a social environment that focuses widespread attention on socio-economic issues is more likely to lead to the emergence of a social enterprise sector. But beyond just having problems to address, the cultural conditions of a strong civil society provides the very people whom we are likely to find starting and running social enterprises, because these are the people who feel strongly for socio-economic issues and are willing to put in the time and efforts to tackle them. In the case where local civil society is lacking however, this can be compensated for to some extent by linkages with other regions with more developed social enterprise sectors which allows for the importing of talent and expertise. As such, we find that the social and cultural environments go hand in hand in providing for the supply of social entrepreneurs so crucial to social enterprise formation.

The third category consists of the prerequisite for social enterprises to scale and develop successfully – the institutional environment. Social Entrepreneurs, just as regular entrepreneurs in the business world, require a breadth of supporting institutions in taking their ideas from conceptualization to actual execution and eventual success. Just as there exists a whole ecosystem of venture capitalists, consulting firms, and growth capital financiers in silicon valley to take tech ideas into fruition, social enterprises will likewise benefit from an ecosystem of institutional support in the form of financing, expertise, and networking, which will serve to accelerate and facilitate the successful development of social enterprises to create a domestic sector.

### 3) Analysis of India and China in the context of Social Enterprise emergence

#### **Analysis of India**

India has often been referred to as a hotbed of social enterprises due to the wealth of successful social enterprises that have emerged from the country. This has been made possible in large part due to the confluence of a variety of favorable conditions and environments within the country that has facilitated the development and growth of these social enterprises. Applying the aforementioned five factors distilled from the global analyses of social enterprise sector emergence, we examine the reasons for the emergence of such a vibrant sector within India.

#### Political Environment

First, India bears the necessary prerequisite of a withdrawn state role which allows for the development of the third sector and private sector in addressing various socio-economic issues. Since its independence in 1947, India had adopted a political approach known as the “license raj”, where a centrally planned economy was the method of governance, and all aspects of the economy was controlled by the state. Jawaharlal Nehru, India’s first prime minister had been inspired by the Soviet economy, and instituted the Planning Commission which issues five year plans which guide and administer the country. The state took on a pervasive role akin to that in the Soviet Union, where basic industries such as water, telecommunications, energy and others were nationalized, and others were closely regulated. However, this approach had proven ineffective and plagued with inefficiencies, with state enterprises failing to meet their targets and making large losses. The Economist magazine goes so far as to argue that "India ... has an abysmal record of serving the public"<sup>21</sup>, while Lant Pritchett

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<sup>21</sup> “Battling the Babu Raj” The Economist. 6 March 2008. <[http://www.economist.com/node/10804248?story\\_id=10804248](http://www.economist.com/node/10804248?story_id=10804248)>

likewise argues that India's public sector is "one of the world's top ten biggest problems - of the order of AIDS and climate change".<sup>22</sup>

Similar to the stories we have seen in other regions globally, the inefficiencies of the government led to an eventual scaling down and withdrawal that provided the opportunity for the private and third sector to step to the fore. This withdrawal of the state role and subsequent increased role of the third sector and private sector saw its roots during the 1980s, when the seventh five year plan "formally acknowledged the importance of popular participation, especially in rural areas, for the successful execution of its programmes, and explicitly sought to engage NGOs in the implementation of various anti-poverty programs" (Keshab Das<sup>23</sup>), and fully took flight in 1991, with the onset of economic liberalization. A balance of payments crisis had necessitated a loan from the IMF, and as part of the terms of a bailout deal negotiated, India agreed to reform the economy. As a result of this, India embarked on massive deregulations and privatization, shrinking the role of the government while empowering non-state actors to take on a larger role. While this liberalization process was an economic one, it was at the same time also a change in the political climate due to the empowerment of non-state actors.

As Keshab Das argues of the role of non-state actors, "with the government and bureaucracy coming under severe criticism for their laxity, mismanagement and general distancing from the concerned people, the hither-to inconspicuous, the so called non-governmental and voluntary organisations (NGOs, for short), were considered to be 'closer' to the people and could deliver effectively." As a result, the shrinking of the state paved the way for private enterprises and organizations to emerge on a widespread basis and large scale. With an increasing move toward economic liberalization, the

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<sup>22</sup> "Battling the Babu Raj" The Economist. 6 March 2008. <[http://www.economist.com/node/10804248?story\\_id=10804248](http://www.economist.com/node/10804248?story_id=10804248)>

<sup>23</sup> Das, K. "Issues in Promoting Rural Infrastructure in India." Gujarat Institute of Development Research. Admedabad, India. <<http://ged.u-bordeaux4.fr/ceddt67.pdf>>



government also correspondingly had greater expectations of the NGOs to take on the governmental role in rural development (Sen, 1999: 344).<sup>24</sup>

Therefore, we see that the political environment was supportive of the conditions necessary for the emergence of social enterprises due to the withdrawn role of the state, and the increased expectations of the third sector to address various socio-economic issues in the area of rural development.

### Legal Environment

From a pure business perspective, India does fairly poorly in terms of its legal and regulatory environment, with the legacy of its “license raj” regime still weighing heavily upon it despite deregulation since 1991. It ranks at the 134<sup>th</sup> spot in the global rankings in terms of business-friendliness, and takes an average of 34 days to start a business in India.<sup>25</sup>

However, despite these regulatory conditions, its impact on a large number of social enterprises in India is limited. Due to the primary use of the non-profit conduit, the regulation and oversight present in these sectors are significantly fewer. The government’s NGO policy is to simplify procedures as much as possible, and to adopt a self-regulatory system.<sup>26</sup> There are also a wide variety of non-profit structures available to choose from, ranging from trusts, to societies, and private limited non-profit companies.<sup>27</sup>

As such, due to this limited regulation and oversight, as well as breadth of options available, it is possible for social enterprises registered under the non-profit system to experiment within India, testing pilot programs and improving upon them subsequently. This is especially crucial to the growth of social

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<sup>24</sup> Sen, Siddhartha. 1999. “Some Aspects of State-NGO Relationships in India in the Post-Independence Era”. *Development and Change*, 30(2), pp. 327-55

<sup>25</sup> The World Bank. 2011. “Ease of Doing Business in India”. <<http://www.doingbusiness.org/data/exploreeconomies/india/>>

<sup>26</sup> NGO Regulation Network. “India”. Charity Commission for England and Wales. <[http://www.ngoregnet.org/country\\_information\\_by\\_region/Asia\\_and\\_Oceania/India.asp](http://www.ngoregnet.org/country_information_by_region/Asia_and_Oceania/India.asp)>

<sup>27</sup> NGOs India. “NGO Registration Methods”. <[http://www.ngosindia.com/resources/ngo\\_registration.php](http://www.ngosindia.com/resources/ngo_registration.php)>

enterprise as a sector as it enables experimentation and refinement to produce effective social enterprise models.

### Social Environment

The social environment within India is undoubtedly one that draws significant attention toward addressing socio-economic issues, in particular, rural poverty. According to the CIA World Factbook, as of 2010, 70% of the country's 1.19 billion<sup>28</sup> people live in rural areas, and 54% are classified as living under the poverty line of \$1.25 a day as of 2005<sup>29</sup>. That translates to around 650 million individuals living below the poverty line, a number larger than the population of most countries. Beyond the issue of rural poverty, the rural populations are also plagued by a host of other basic socio-economic problems. The World Bank projects a shortfall of housing units in the order of 70 million units<sup>30</sup>; and even for those with housing, many are of low quality. According to a study by the Indian government in 2000, only 19% of the rural population live in *pucca* (strong) houses, while the remaining live in *kaccha* (weak) and *semi-pucca* houses with mud walls and thatched roofs.<sup>31</sup> Sanitation levels are also low and pose a significant health problem, with 87% of rural homes lacking toilet facilities<sup>32</sup>. According to the 2001 census, more than 230 million people lack access to clean drinking water.<sup>33</sup>

As such, we see the socio-economic problems in India are stark and apparent, and attract a significant amount of attention. The attention attracted by these problems is not merely contained to the domestic

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<sup>28</sup> CIA. The World Factbook. <<https://www.cia.gov/library/publications/the-world-factbook/geos/in.html>>

<sup>29</sup> Garia, N. 2011. "India Makes Some Progress on Poverty". Wall Street Journal. 11 July 2011.  
<<http://blogs.wsj.com/indiarealtime/2011/07/11/india-makes-some-progress-in-reducing-poverty/>>

<sup>30</sup> "India faces housing shortage of 20-70mn: World Bank". The Economic Times. 8 October 2010.  
<[http://articles.economictimes.indiatimes.com/2010-10-08/news/27610336\\_1\\_housing-world-bank-middle-and-lower-income](http://articles.economictimes.indiatimes.com/2010-10-08/news/27610336_1_housing-world-bank-middle-and-lower-income)>

<sup>31</sup> "India's rural Poor: Why Housing Isn't Enough to Create Sustainable Communities". India Knowledge@Wharton. 23 August 2007.  
<<http://knowledge.wharton.upenn.edu/india/article.cfm?articleid=4219>>

<sup>32</sup> "India's rural Poor: Why Housing Isn't Enough to Create Sustainable Communities". India Knowledge@Wharton. 23 August 2007.  
<<http://knowledge.wharton.upenn.edu/india/article.cfm?articleid=4219>>

<sup>33</sup> Gupta, P. 2005. "Underground Water Development in India – Trends, Crops". Kellogg School of Management, Northwestern University.  
<[http://www.gopio.net/india\\_development/Water\\_Study\\_NU\\_2005.pdf](http://www.gopio.net/india_development/Water_Study_NU_2005.pdf)>

sphere, but in fact also attracts a great deal of attention from Indians abroad, as well as other foreign individuals and organizations interested in Indian development. We see numerous academic and research centers based abroad focusing on development issues in India, such as the Center for Advanced Studies in India housed at the University of Pennsylvania, the MIT-India Initiative, and the MIT Poverty Action Lab's focus on randomized testing in India for example. According to a report on Indian Diaspora Philanthropy by GiveAsia, diaspora remittances to India rank top worldwide, standing at \$49.3 billion in 2009. The interest of the Indian diaspora to give back to Indian development has also been recognized by the Indian government, with the Pravasi Bhartiya Divas event organized in response to engage these individuals.<sup>34</sup>

### Cultural Environment

Amongst the five influencing factors on the emergence of the social enterprise sector in India, the cultural environment in India is arguable one of the most important due to its role in fostering the strength of growth of the industry. India has firstly, an extremely strong NGO culture which provides a perfect base for social enterprises to emerge from; and secondly, the widespread use of the English language has established a strong linkage with the US which has played an important role in facilitating the transfer of expertise, resources and manpower.

First, India has a pervasive NGO culture, with 3.3 million NGOs registered in the country, translating to an average of 1 NGO for every 400 persons.<sup>35</sup> As a result, this provides an extremely large pool of individuals working to address the socio-economic problems in the country, and consequently provides a large pool of potential social entrepreneurs. As seen from the geographic analyses of social enterprise

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<sup>34</sup> Bakshi, N. & Baron, B. 2011. "Enabling Indian Diaspora Philanthropy". Give2Asia. <<http://www.give2asia.org/documents/Give2Asia-IndiaDiasporaGiving-Report.pdf>>

<sup>35</sup> Villani, A. 2010. "Seriously? An NGO for every 400 people in India?" Beyond Profit. 19 July 2010. <<http://beyondprofit.com/seriously-an-ngo-for-every-400-people-in-india/>>

emergence globally, social enterprise sectors have often sprung up from the non-profit community and civil society in their attempts to best achieve their social goals, and thus the sheer size of the NGO sector alone would naturally lead to more social enterprises emerging from the efforts of these civil activists. Further, the proportion of the Indian population involved in nonprofit work creates an environment whereby citizens see a career in the non-profit sector as relative common and thus viable, which helps facilitate a pipeline of young people entering into the sector as it is seen as a common approach toward addressing social problems. Therefore, we see that the NGO culture plays a significant role in providing the very essence of social enterprises: individuals motivated to address social problems.

Second, beyond just the local individuals entering into the social enterprise sector, we find that an important driver of the growth of local social enterprises is the support from abroad, which has been made possible in large part because of India's fortune in being an English-speaking country. As seen from the examples in Africa and Eastern Europe, an important driver and accelerator of domestic social enterprise industries can come from the external transfer of manpower, expertise and resources. Due to India's historical legacy as a British colony, English is a commonly used language within the country, and this provides for a very important linkage to the United States as well as to Western Europe. Because of this common language, India has been the beneficiary of many efforts from these aforementioned countries. Research centers are more likely to use India for field testing due to the relatively ease of communication with locals, as evidenced from MIT's Poverty Action Lab which runs most of its tests in India; and financiers are similarly more likely to support Social Enterprises working in India again due to the ease of communication, and greater awareness of these organizations as a result of the English language medium.

## Institutional Environment

India possesses a very developed institutional environment that is supported by both domestic-based as well as foreign-based institutions. There exist a significant network of social enterprise incubators, consulting service providers, and research organizations to provide the necessary support to social entrepreneurs in developing their own organizations. These organizations and the services which they provide help to facilitate the process of social entrepreneurship, and also serve as a knowledge hub which accelerates the development of the industry through the sharing of best practices and collaborations to tackle various socio-economic issues. We highlight here a few of the prominent organizations:

Two of the most prominent social enterprise incubator programs in India are UnLtd India and Villgro Innovations Foundation respectively, which go beyond mere incubation services to offer a wide range of services in seeking to support the growth of social enterprises. UnLtd India was featured as a top 5 incubator by the Beyond Profit magazine, the only India-based incubator to achieve the accolade alongside incubator powerhouses like Echoing Green and Unreasonable Institute.<sup>36</sup> It provides seed funding, acceleration services, working spaces for the social enterprise, and also organizes a national conference for early-stage social entrepreneurs. Villgro likewise goes beyond incubation services and has first, launched a social sector research and education initiative titled 'Learning from pro-poor, market-driven innovation in India' which focuses on generating research on social businesses in India,<sup>37</sup> and second, organizes the annual Unconvention Conference which brings together rural entrepreneurs, government officials, and investors to promote social innovation in rural development.<sup>38</sup>

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<sup>36</sup> "Beyond Profit features UnLtd India in Top 5 Incubators for start-up social entrepreneurs". Beyond Profit. 8 March 2011.

<<http://unltdindia.posterous.com/beyond-profit-features-unltd-india-in-top-5-i>>

<sup>37</sup> "New incubator to promote Social enterprises". Express Buzz. 4 March 2011. <<http://expressbuzz.com/finance/new-incubator-to-promote-social-enterprises/253107.html>>

<sup>38</sup> Chen, J. 2010. "2<sup>nd</sup> Annual Unconvention – Promoting Social Entrepreneurship in India". Acumen Fund Blog. 4 November 2010.

<<http://blog.acumenfund.org/2010/11/04/2nd-annual-unconvention-promoting-social-entrepreneurship-in-india/>>

Beyond local incubators, India's institutional environment also benefits from the widespread use of the English language, as we find international organizations that also operate within India to support the local social enterprise industry. The most prominent of these global organizations is Intellectap, a social sector investment advisory firm that "facilitates investments, provides consulting services, and builds knowledge and information on sustainable, profitable and scalable enterprises, both in India and globally."<sup>39</sup> It has been involved in over 200 development projects, and is the publisher of the industry-leading Beyond Profit magazine, and also organizer of the prestigious Sankalp Social Enterprise Awards and Investment Forum, "one of India's largest platforms designed to catalyze impact investments into sustainable and scalable enterprises globally."<sup>40</sup>

Therefore, we find that the Indian social enterprise space is populated by a strong network of organizations providing invaluable support to social entrepreneurs in the form of expertise, resources, and networks in helping them to start and grow their social enterprises. As an article by Yourstory.in, the "fastest growing online platform committed to young Indian entrepreneurs", writes, "apart from providing affordable office space for rent/lease, technical support and assistance, business incubators also bring in the expertise and networks that are vital for a startup to scale. Eventually, the collection of startups at an incubator serves as a knowledge bank..."<sup>41</sup> It is the crucial role provided for by the institutional environment that plays an important contributing role to the development of the social enterprise industry in India, allowing a collective growth process within the industry rather than a piecemeal approach by individual social entrepreneurs relying purely on their own resources, networks, and ideas.

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<sup>39</sup> "Social Enterprise Awards & Investment Forum". 5-6 May 2011. Mumbai, India. <<http://www.slideshare.net/intellecap/sankalp-forum-2011-introduction>>

<sup>40</sup> "Social Enterprise Awards & Investment Forum". 5-6 May 2011. Mumbai, India. <<http://www.slideshare.net/intellecap/sankalp-forum-2011-introduction>>

<sup>41</sup> "The rise of business incubators in India". Your Story. <<http://www.yourstory.in/resources/1035-experttalk/5471-the-rise-of-business-incubators-in-india>>

## Summary of Indian Social Enterprise Sector Analysis

Therefore, we find that India possesses a strongly conducive and favorable environment for the development of a social enterprise sector based on the 5 identified influencing factors derived from the historical analyses of the development of social enterprise sectors globally. Amongst these five, the social, cultural and institutional conditions present within India have been the greatest distinguishing factor between the sector's development in India as compared to other regions. While the political and legal environments are important, these same conditions have been found likewise in many other regions, such as Latin America, where global economic development has seen a trend toward smaller government roles, and greater deregulation, often imposed externally through foreign aid agencies. The differentiating factors from other regions therefore can be found in the social, cultural and institutional arenas.

First, the scale and magnitude of the socio-economic problems are massive and apparent. Based on a 2008 World Bank survey, India is home to 33% of the global poor, with 828 million people living with less than \$2 a day.<sup>42</sup> Coupled together with the cultural environment of a strong NGO culture and the associated emphasis on rural development amongst Indian citizens, we find that these social and cultural characteristics provide a fertile breeding ground for the emergence of large numbers of socially minded individuals looking to drive societal change. Adding on to this mix the natural linkages with the US and Western Europe through the English language, and the strong network of institutional support organizations, we find that these latter two institutional and cultural characteristics of enabling organizations and external linkages catalyze the transformation of these socially minded individuals into social entrepreneurs through the transfer of expertise, knowledge and resources, which these

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<sup>42</sup> "One-third of world's poor in India: Survey" The Times of India. 27 August 2008. <[http://articles.timesofindia.indiatimes.com/2008-08-27/india/27893090\\_1\\_poverty-rate-power-parity-decline](http://articles.timesofindia.indiatimes.com/2008-08-27/india/27893090_1_poverty-rate-power-parity-decline)>

entrepreneurs then utilize in tackling these massive socio-economic issues, creating numerous effective and successful social enterprises in the process.

Thus, we see in the Indian context a near perfect confluence of factors that have led to its strong social enterprise sector.



## Analysis of China

Having examined the emergence of social enterprise sectors globally and extrapolated the 5 generic influencing factors for the emergence of these sectors, subsequently applying them to the Indian example, we now apply the same analysis to understand the reasons for the relatively underdeveloped social enterprise sector in China despite its seeming similarities to India as a country with significant socio-economic problems, particularly in terms of a transitional economy experiencing widespread rural poverty. Compared to India which has 300 million Indians living under the UN poverty line of \$1 per day<sup>43</sup>, China has 150 million within this category, while compared to the 880 million Indians that live on less than \$2 per day<sup>44</sup>, there are 500 million Chinese in the same category. Therefore from a surface level perspective, we would expect that social enterprise would likewise be accepted as an effective approach in China and thus have developed into a budding industry – but yet it hasn't.

Before we examine China according to the 5 influencing factors, we first take a brief overview of the Chinese Social Enterprise sector. According to a report by the British Council on Social Enterprise in China, the social enterprise movement within China is a relatively recent phenomenon that emerged around 2004 with the publication of the Chinese editions of “How to Change the World: Social Entrepreneurs and the Power of New Ideas” by David Bornstein, as well as “The Rise of the Social Entrepreneur” by Charles Leadbeater.<sup>45</sup> These two books catalyzed discussions around the concept of social entrepreneurship by academics, practitioners, as well as the media, resulting in various studies, forums and conferences emerging to explore this concept. In 2004 itself, the “Sino-British Symposium on Social Enterprises/NPO” was organized; in 2006, a conference on “Social Entrepreneur and Public Welfare” and a conference on “Social Innovation and Building Innovation-oriented Country” was

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<sup>43</sup> Radjou, N., Prabhu, J., Kaipa, P., Ahuja, S. “Indian Tales of Inclusive Business Models”. Harvard Business Review. 5 January 2011. <[http://blogs.hbr.org/cs/2011/01/indian\\_tales\\_of\\_inclusive\\_busi.html](http://blogs.hbr.org/cs/2011/01/indian_tales_of_inclusive_busi.html)>

<sup>44</sup> Granito, A. 2007. “80% of Indians live on less than \$2 a day” WB”. The Wall Street Journal. 16 October 2007. <<http://www.livemint.com/articles/2007/10/16235421/80-of-Indians-live-on-less-th.html>>

<sup>45</sup> Non-Profit Incubator. 2008. “The General Report of Social Enterprise in China”. Cultural and Education Section, British Embassy. <[http://dsi.britishcouncil.org.cn/images/BC\\_China\\_Social\\_Enterprise\\_Research\\_Report.pdf](http://dsi.britishcouncil.org.cn/images/BC_China_Social_Enterprise_Research_Report.pdf)>

organized; and in 2007, an “International Forum on Social Entrepreneurship” was organized in Hangzhou by Oxford University and Zhejiang University.<sup>46</sup> Since 2004, we have seen an increasing public discourse around social enterprise, and the emergence of more such organizations. By 2011, social enterprise had taken significant root within China, with FYSE (Foundation for Youth Social Entrepreneurship), a nonprofit supporting Asia Social Entrepreneurs, publishing a list of “6 Social Enterprises to Watch in 2011”.<sup>47</sup>

However, as a Shanghai Daily article puts it “Social Enterprise [are still] in [an] infant stage”.<sup>48</sup> Further, many of these social enterprises are still in essence operating on traditional NGO models. Many of these organizations are registered as commercial enterprises, but are in fact still functioning along the model of an NGO due to the myriad difficulties in registering as a non-profit. A Bain & Co. study on Social Enterprise in China conducted in 2011 found that 85-90% of China’s social enterprises are overly dependent on donations<sup>49</sup>, a far cry from the sustainability to central to a social enterprise model. As such, we take a look at the 5 respective environments in China to better understand the reasons for the yet nascent sector, and from these, seek to understand how best the growth of the sector can be better stimulated.

### Political Environment

The first limiting factor to the growth of the social enterprise sector in China is the political environment which is characterized by a very strong state presence, particularly in social issues. While deregulation

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<sup>46</sup> Non-Profit Incubator. 2008. “The General Report of Social Enterprise in China”. Cultural and Education Section, British Embassy. <[http://dsi.britishcouncil.org.cn/images/BC\\_China\\_Social\\_Enterprise\\_Research\\_Report.pdf](http://dsi.britishcouncil.org.cn/images/BC_China_Social_Enterprise_Research_Report.pdf)>

<sup>47</sup> “6 Social Enterprises in China to watch 2011”. Foundation for Youth Social Entrepreneurship. 1 Jan 2011. <<http://www.fyse.org/2011/01/6-social-enterprises-in-china-to-watch-2011/>>

<sup>48</sup> Zhu, L. & Zeng, J. 2011. “China’s social enterprises in infant stage” Asia Views. 9 March 2011. <[http://www.asiaviews.org/index.php?option=com\\_content&view=article&id=28362:chinas-social-enterprises-in-infant-stage&catid=3:column-a-commentaries&Itemid=10](http://www.asiaviews.org/index.php?option=com_content&view=article&id=28362:chinas-social-enterprises-in-infant-stage&catid=3:column-a-commentaries&Itemid=10)>

<sup>49</sup> Zhu, L. & Zeng, J. 2011. “China’s social enterprises in infant stage” Asia Views. 9 March 2011. <[http://www.asiaviews.org/index.php?option=com\\_content&view=article&id=28362:chinas-social-enterprises-in-infant-stage&catid=3:column-a-commentaries&Itemid=10](http://www.asiaviews.org/index.php?option=com_content&view=article&id=28362:chinas-social-enterprises-in-infant-stage&catid=3:column-a-commentaries&Itemid=10)>

and privatization have indeed led to an incremental withdrawal of the state role to allow more room for non-state actors, this has been largely confined purely to the economic and business sphere, and even so, the government nonetheless still exerts strong control through various legislative requirements such as licensing and joint-ventures. Within the social sphere, the Chinese government maintains an even stronger control in large part due to concerns over potential undermining of its political legitimacy by allowing other actors to play important roles in addressing social issues. As Professor Tarun Khanna of Harvard Business School succinctly points out: "In China, the government *is* often the entrepreneur".<sup>50</sup> Entrepreneur not just in the economic sense, but also in the social sense.

This pervasive government control over the social sector is best illustrated by the unique category of organization within China known as the Government-Organized NGO (GONGO), where the government sets up NGOs as part of its strategy to raise funds for public benefit programs. Thus even over the NGO sector which is meant to be independent from the state, the Chinese government nonetheless seeks to retain a measure over control over it. Over the non-government controlled NGO sphere, meanwhile, the state uses an elaborate mechanism of regulatory measures to control and restrict the formation and activities of such organizations. Essentially, the bottom line of the Chinese Communist Party is that NGOs and similar independent organizations are acceptable and promoted only insofar as they are in line with the interests of the Chinese Communist Party.<sup>51</sup> As a result, the ability of a strong social enterprise sector to emerge is limited to some extent by political considerations.

However, we do witness an incremental acceptance of independent non-state actors in addressing social issues by the Chinese government. In particular, social issues are rising in the priority list of the Chinese government after three decades of economic growth having held the unrivalled top spot. In the

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<sup>50</sup> Lagace, M. 2008. "Billions of Entrepreneurs in China and India". Harvard Business School. 28 January 2008. <<http://hbswk.hbs.edu/item/5766.html>>

<sup>51</sup> Pasternack, A. 2008. "China's grassroots Green NGOs Double in Three years". Treehugger. 11 October 2008. <<http://www.treehugger.com/files/2008/11/china-environmental-ngo-growth.php>>

government's most recent 12<sup>th</sup> 5-year plan, there is a strong focus by the government on social issues and a "harmonious society", encouraging innovation and reform around social services provided to the public. There is also decreasing wariness from the government over political threats posed by NGOs, and an increasing willingness to work with them. For example, in 2004, the Ministry of Civil Affairs launched a framework to recognize, support, and promote foundations supporting charities in China through various tax benefits.<sup>52</sup> The NGO sector has also grown at an exceedingly rapid pace, with estimates that "the number of officially registered social organizations rose from 100 national and 6,000 regional organizations in 1965 to over 1,800 national and 165,600 regional ones at the close of the past century."<sup>53</sup>

As such, while the political environment in China is not ideal for the emergence of social entrepreneurs, it is nonetheless evolving in a direction beneficial for social enterprises to emerge, with an increasing government acceptance of non-state actors, particularly if they focus on ameliorating social issues and steers clear from political organization.

### Legal Environment

As a corollary to the strong political presence and desire for control over the social sector, we find that there exists within China a complicated and obstructive legal environment that is limiting the growth of the social enterprise sector within the country.

First, the requirements for registration itself are prohibitive. All NGOs are required to be sponsored by a member of the Chinese Communist party to be officially registered, and also further have to meet a

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<sup>52</sup> Chen, M., Pan, L. & Wu, H. 2006. "Developing China's Nonprofit Sector". McKinsey Quarterly. August 2006.

<[http://www.mckinsey.com/locations/greaterchina/mckonchina/industries/Public\\_Sector/developingchina.aspx](http://www.mckinsey.com/locations/greaterchina/mckonchina/industries/Public_Sector/developingchina.aspx) >

<sup>53</sup> Ho, Peter and Richard Louis Edmonds, eds. "China's Embedded Activism: Opportunities and Constraints of a Social Movement". London: Routledge, 2008.5.

funding threshold of 30,000RMB for local NGOs and 100,000RMB for national NGOs. Second, the scope of the work embarked by NGOs is limited by geography. All NGOs are required to be registered with the Civic Affairs department either as a local or national organization, and once registered as either, it is only allowed to conduct activities within that designation. In other words, local NGOs are not allowed to operate outside of the locality, while national NGOs are not allowed to work at the local level. As a result of these difficulties in both registration and operations, many organizations choose to register as a commercial entity instead, which poses significantly less obstructions.

### Social Environment

The social environment present in China bears resemblance to that in India, with the rural-urban divide and rural poverty being key socio-economic problems, and receiving widespread attention. Compared to India which has 300 million Indians living under the UN poverty line of \$1 per day<sup>54</sup>, China has 150 million within this category, while compared to the 880 million Indians that live on less than \$2 per day<sup>55</sup>, there are 500 million Chinese in the same category. Basic necessities are also a significant social issue in China, with 460 million Chinese lacking improved sanitation,<sup>56</sup> and 143 million lack access to drinking water from improved sources.<sup>57</sup>

Focus on social problems is in fact at a significantly high level both within the state apparatus as well as among the general population. We see the explicit focus on social issues and a “harmonious society” being laid out as a key concern of the government’s in the 12<sup>th</sup> 5-year plan. In March 2011, Premier Wen

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<sup>54</sup> Radjou, N., Prabhu, J., Kaipa, P., Ahuja, S. “Indian Tales of Inclusive Business Models”. Harvard Business Review. 5 January 2011.  
<[http://blogs.hbr.org/cs/2011/01/indian\\_tales\\_of\\_inclusive\\_busi.html](http://blogs.hbr.org/cs/2011/01/indian_tales_of_inclusive_busi.html)>

<sup>55</sup> Granito, A. 2007. “80% of Indians live on less than \$2 a day” WB”. The Wall Street Journal. 16 October 2007.  
<<http://www.livemint.com/articles/2007/10/16235421/80-of-Indians-live-on-less-th.html>>

<sup>56</sup> “China: Rising to Meet the Sanitation Demand of 460 Million Rural People. IRC International Water and Sanitation Center. 26 November 2009.  
<<http://www.source.irc.nl/page/50770>>

<sup>57</sup> “China contributes hugely to MDG in access to safe drinking water: UN officials”. People’s Daily Online. 23 March 2010.  
<<http://english.peopledaily.com.cn/90001/90776/90883/6926993.html>>

Jiabao also introduced a new ten year plan to eradicate poverty by 2020.<sup>58</sup> In the public sphere meanwhile, new technologies such as microblogging are playing a key role in helping to drive increasing social awareness about social issues<sup>59</sup> particularly within the younger generation, as pictures, stories, and articles are shared in a viral manner online. According to the 2010 Micro-blog Annual Report released by Shanghai Jiaotong University, “micro-blogging has become a new channel for citizens to express their opinions on hot social issues”, and “in 2010, among the top 50 hot social issues in China, 11 involved micro-blogs, and this number will probably increase in 2011”<sup>60</sup> A spate of recent high profile incidents such as the Sichuan Earthquake and various health scandals have further contributed to rising levels of social awareness and interest in social issues.

However, whereas interest in social issues is growing substantially, the effectiveness of the government in tackling many socio-economic issues have resulted in a dependency mentality upon the state by Chinese citizens, where although many may comment on these issues, few actually emerge as activists, preferring instead to leave many of these issues to be resolved and addressed by the government authorities.

Therefore, we find that while social problems are stark and significant, the effectiveness of the government in addressing many of these issues have in some senses crowded out the private sector and civil society from playing a larger role in this area. However, with new technologies such as microblogging, there is an increasing awareness within society about various social issues, which creates an increasingly conducive environment for the development of a social enterprise sector.

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<sup>58</sup> “China to basically eradicate poverty in 10 years, Wen say”. Xinhua News Agency. 6 March 2011.  
<[http://news.xinhuanet.com/english2010/china/2011-03/07/c\\_13764224.htm](http://news.xinhuanet.com/english2010/china/2011-03/07/c_13764224.htm)>

<sup>59</sup> Siow, M. 2011. “Microblogs raise social awareness in China”. Channel Newsasia. 10 March 2011.  
<<http://www.channelnewsasia.com/stories/technologynews/view/1115526/1/.html>>

<sup>60</sup> Yuan, Y. 2011. “Microblogs Fire up the Internet”. Beijing Review. 27 January 2011.  
<[http://www.bjreview.com.cn/Cover\\_Stories\\_Series\\_2011/2011-01/24/content\\_328034.htm](http://www.bjreview.com.cn/Cover_Stories_Series_2011/2011-01/24/content_328034.htm)>

## Cultural Environment

Arguable the biggest obstacle to the development of the social enterprise sector in China, however, is its cultural environment. In particular, the strong self-interested profit-driven culture with little emphasis on societal contributions; the weak culture of philanthropy; and the limited linkages with external social enterprise sectors, pose the biggest obstacles. On the bright side however, increasing numbers of the Chinese diaspora returning to contribute to the social enterprise scene and a rising civic consciousness within university students contribute to an outlook that looks set to improve.

First, we find that the economic reforms implemented by Deng Xiaoping in 1978 has led to a strongly entrenched culture of self-interested profit maximization. The fundamental tenets of the economic reform, “Let a few get rich first” and “No matter if it’s a black cat or white cat, as long as it catches mice”<sup>61</sup>, has led to a culture where societal contributions have been relegated to the sidelines, and where the accumulation of wealth is prized. Correspondingly, the burden of providing for the poor in society has been entirely relinquished to the state, with private citizens solely focused on individual economic concerns. This phenomenon has been exacerbated by two other factors: first, the highly competitive society due to the large population and limited job opportunities, where citizens have thus been trained to fend for themselves, and become increasingly self-centered; and second, the one-child policy which has brought up a younger generation used to being the center of attention and thinking only for themselves. As Liu Dingxin, former Army General and author of “On People’s Thoughts” states, “Chinese people have never been so selfish as they are now. Everybody is trying to make as much money as possible and the meaning of life lies purely in the pursuit of profit.”<sup>62</sup> As a result of this culture, we find that this reduces the potential supply of potential social entrepreneurs, as fewer citizens are

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<sup>61</sup> Ip, Po Keung. 2009. "The Challenge of Developing a Business Ethics in China." *Journal of Business Ethics*. 88. (2009): 211-24. Print. 214.

<sup>62</sup> Yuan, Z. 2010. "Selfishness no longer a big problem". China Daily. 8 September 2010. <[http://www.chinadaily.com.cn/opinion/2010-09/08/content\\_11271478.htm](http://www.chinadaily.com.cn/opinion/2010-09/08/content_11271478.htm)>

interested and willing to put their efforts into addressing social issues, but rather, would prefer to invest their efforts in their individual economic pursuits.

Second, we find that there exists a relatively weak culture of philanthropy in China due to the lack of religious, historical or cultural precedence for philanthropy in China<sup>63</sup>, which has correspondingly limited the development of the third sector in China. China's charitable donations only constitute 0.05% of its GDP, a far cry from the 2% found in the US, while donations from domestic companies make up less than 0.3% of post-tax income, compared to the 2% across the Fortune 500 companies.<sup>64</sup> Traditionally, philanthropy had always been a key driver in the development of the third sector, with religion often a key motivating force, as seen in the example of the US, where Andrew Carnegie, Henry Ford, and John Rockefeller, all significant contributors to the development of the third sector in the US, had been motivated by their religious beliefs. However, with the cultural revolution and limited religious roots in the country, we find a culture of philanthropy sorely lacking in China, reflected in the unwillingness of the wealthy within China to contribute to social causes even when invited by Bill Gates and Warren Buffett to do so, a stark contrast to the western world where many other billionaires have pledged to donate their wealth to charity.<sup>65</sup> Beyond the lack of religious precedence, from a cultural and historical perspective, China has been a predominantly agrarian society where "hoarding is a strong cultural imprint"<sup>66</sup>, and also one that has traditionally emphasized on the reliance on the family unit, both of which weigh negatively on concern for others and social issues. Therefore, this has again limited the pool of potential social entrepreneurs, as fewer individuals are interested to devote their efforts toward social causes.

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<sup>63</sup> Lee, K. 2010. "Turning down Gates & Buffett: Philanthropy in China requires For-Profit Social Enterprises". Forbes Magazine. 4 October 2010. <<http://blogs.forbes.com/china/2010/10/04/turning-down-gates-buffett-philanthropy-in-china-requires-for-profit-social-enterprises/>>

<sup>64</sup> Chen, M., Pan, L. & Wu, H. 2006. "Developing China's Nonprofit Sector". McKinsey Quarterly. August 2006. <[http://www.mckinsey.com/locations/greaterchina/mckonchina/industries/Public\\_Sector/developingchina.aspx](http://www.mckinsey.com/locations/greaterchina/mckonchina/industries/Public_Sector/developingchina.aspx) >

<sup>65</sup> Lee, K. 2010. "Turning down Gates & Buffett: Philanthropy in China requires For-Profit Social Enterprises". Forbes Magazine. 4 October 2010. <<http://blogs.forbes.com/china/2010/10/04/turning-down-gates-buffett-philanthropy-in-china-requires-for-profit-social-enterprises/>>

<sup>66</sup> Lee, K. 2010. "Turning down Gates & Buffett: Philanthropy in China requires For-Profit Social Enterprises". Forbes Magazine. 4 October 2010. <<http://blogs.forbes.com/china/2010/10/04/turning-down-gates-buffett-philanthropy-in-china-requires-for-profit-social-enterprises/>>



Third, we find limited linkages with the external social enterprise sectors found in the US as well as Western Europe. Whereas the common language of English has facilitated the transfer of expertise, manpower and resources between these more developed social enterprise sectors and India, the difficulty of learning the Chinese language and the limited English capabilities of the local population have provided a major obstacle toward the same phenomenon developing with China. Leading social enterprises operating on a global scale such as the Acumen Fund and Leapfrog Microinsurance have yet to open operations in China, in large part due to the language and cultural differences which cause significant difficulties and cost significant resources to expand into the country.

However, the sizeable Chinese diaspora and China-based foreign population is proving to be an emerging linkage with more developed social enterprise sectors, with increasing numbers of foreign educated Chinese returning to China to start various social enterprises, and more foreigners looking to venture into China. Amongst the 6 listed social enterprises to watch by FYSE in 2011, 3 were founded by foreigners who worked in China, and 2 by foreign born and foreign educated Chinese. Sahra and Alia Malik, founders of Shangrila Farms, are both born and raised in the US; Jeff Delkin and Rachel Speth, founders of Bambu, are also both born and raised in the US; Raefer Wallis, founder of GIGA, is Canadian; Marie So and Carol Chyau, founders of Shokay graduated from Harvard and are from Hong Kong and Taiwan respectively; and Calvin Chin, founder of Qifang, is an American-born Chinese who studied at Yale. As such, we see that foreign linkages have played an important role in the nascent social enterprise sector in China, having pioneered some of the most innovative and successful social enterprises thus far, and could potentially go on to play a much larger role in facilitating its development.

This emerging linkage with developed social enterprise sectors is also indicative of an emerging movement amongst students toward social issues. Sustainable Business clubs and related organizations are sprouting amongst universities across the country, and students are becoming increasingly involved

in campuses in issues of social entrepreneurship. In particular, top schools across the country such as Fudan University, Beijing University, and Zhejiang University, have been holding an increasing number of events centered around social entrepreneurship, such as the “Focus on China: Social Entrepreneurship in High Gear” conference jointly organized by students at Harvard and Beijing University; and the Nottingham Social Entrepreneurship Competition hosted by the University of Nottingham Ningbo, CEIBS, Zhejiang University, and Shanghai Jiaotong University and others. However, such interest is often being constrained by economic realities, where the younger generation often have to support multiple dependents due to the one-child system in China, and are thus pressured to take on better paying jobs to pay for family expenses as opposed to pursuing their social aspirations, leading to many of them being unable to pursue the path full time after they graduate. This predicament of economic realities limiting the social activism dreams of the younger generation has even been highlighted in media outlets,<sup>67</sup> testament to its increasing prevalence within the population.

In addition to increasing concern over social issues through first, the emerging foreign linkages via the Chinese diaspora and, second the younger generation through schools, there has also been an increasing awareness and development of business and management skills within the Chinese population, which is providing a conducive environment for the growth of social entrepreneurial approaches. The number of applications to MBA programs has quadrupled between 1997 and 2005, and even Chinese students studying abroad are also focusing on business educations, with nearly “one third of the 106,500 Chinese who left China in 2005 to study overseas at their own expenses were majors in business and related subjects.”<sup>68</sup> As such, while the social inclinations within Chinese society is limited due to various cultural factors, there exists a growing managerial and business expertise which provides one section of the conducive environment important for social entrepreneurial solutions to emerge.

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<sup>67</sup> Murphy, D. 2008. “Challenges for young people at China’s NGOs. China Dialogue. 13 March 2008.

<<http://www.chinadialogue.net/article/show/single/en/1802-Challenges-for-young-people-at-China-s-NGOs>>

<sup>68</sup> Wang, Jianmao. 2006. “China’s Thirst for Middle Managers. ” *Far Eastern Economic Review* 1 Jul 2006: ABI/INFORM Global, ProQuest.

## Institutional Environment

In contrast to India, the institutional environment present for the support of the social enterprise sector in China is significantly underdeveloped, as there are few well established social enterprise incubators, consulting firms, financing sources, or research institutions within the country. According to Larry Zhu, Partner of Bain & Co. Shanghai, author of the Social Enterprise in China report, some of the key challenges faced by non-profits in China are lack of management talent, as well as the underdeveloped ecosystem to support social enterprises.

First, management talent in the Chinese non-profit sector is difficult to obtain, with most organizations possessing dysfunctional or nonexistent corporate structures, and often lack a board of directors to set strategic goals and evaluate the success of projects.<sup>69</sup> This is in large part due to the lack of fiscal sustainability of many of these non-profits, as well as the rapid economic growth in China, which has resulted in stiff competition from the private sector for talent. According to Mr Larry Zhu, the relatively underdeveloped non-profit sector has also meant that whereas executives in the non-profit sector in the west have a market value, the same cannot be said of Chinese working in the non-profit sector. Interviews with emerging social enterprise student leaders in leading universities such as Fudan University and Zhejiang University have also revealed that many are looking to enter the private sector whilst doing social enterprise work on the side due to the economics of the situation. As such, we see that a large factor hindering the development of the non-profit and social enterprise sector is the absence of talent within the industry, which is a result in large part of the lack of financing infrastructure and support systems, which limit the remuneration available to those entering the industry. In the US, in contrast, there is a wealth of seed financing through social enterprise competitions and foundations, which provide the necessary funding to get social enterprises off the ground and to hire capable talent.

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<sup>69</sup> Chen, M., Pan, L. & Wu, H. 2006. "Developing China's Nonprofit Sector". McKinsey Quarterly. August 2006.  
<[http://www.mckinsey.com/locations/greaterchina/mckonchina/industries/Public\\_Sector/developingchina.aspx](http://www.mckinsey.com/locations/greaterchina/mckonchina/industries/Public_Sector/developingchina.aspx)>

Second, whereas social enterprise sectors in other regions such as the US have an active ecosystem of consulting firms and social enterprise networks to support the work of social entrepreneurs, the same is lacking in mainland China. There are no organizations along the likes of Bridgespan which are able to provide professional expertise, and there are few social enterprise networks such as the Starting Bloc network in the US to enable Chinese social entrepreneurs to connect and share ideas.

However, in recent years, we see increasing institutional structures emerging in support of a social enterprise sector in China. First, an increasing number of foreign-domiciled organizations are taking a greater interest in providing various services and support to the Chinese market, such as the Harvard Hauser Center for Non-profits which holds seminars and events on China's social enterprise sector.<sup>70</sup> Domestic social enterprise enablers are also gradually emerging, such as Ventures in Development, founded by Carol Chyau and Marie So which looks to "identify, incubate, and implement ideas that have the potential to become sustainable business enterprises yielding quantifiable direct social benefits in the needed regions of Greater China."<sup>71</sup> Students are also increasingly embarking on their own ventures, which while not pure social enterprises, are often hybrid non-profits incorporating increasing aspects and characteristics of social enterprises, which bode well for the future development of the sector.

Therefore, we find that the institutional environment in China is still very underdeveloped, particularly in terms of financial support as well as expertise support, which is a significant headwind on the development of the social enterprise sector in China.

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<sup>70</sup> "Hauser Center Event on 2 Dec: Lunch Dialogue on Social Enterprises & Philanthropic Investment in China." *Hauser Center for Non Profits at Harvard*. Harvard University, 24 Nov 2009. <<http://hausercenter.org/chinanpo/2009/11/hauser-center-event-dec-2-social-enterprises-philanthropic-investment-in-china/>>

<sup>71</sup> "Who We Are: Mission and Vision." *Ventures in Development*. N.p., 2008. <<http://www.venturesindev.org/who.htm>>

## Summary of China Social Enterprise Sector Analysis

Therefore, examining the Social Enterprise sector in China from the perspective of the 5 factors previously identified, we find that the environment within China poses significant obstacles to the development of the sector. The most significant amongst these five factors, is the political environment, as well as the cultural environment, which together in turn causes the limited and underdeveloped institutional environment. Coupled together, the characteristics of these environments in China limit the emergence of social entrepreneurs, and even if some manage to emerge, limit the support available to them in helping them to realize their plans.

From the most fundamental perspective, political power is directly linked to the ability to address socio-economic issues. In China, where political legitimacy and political power are fiercely guarded by the ruling party, there is thus naturally hesitancy in giving non-state actors a bigger role to play in addressing socio-economic issues for fear of undermining its own political capital. As a result, this affects the legal and regulatory environment, where excessive control exerted from the state limits the ability to effectively experiment and innovate, a necessary process for social enterprises to emerge.

But more importantly, it is the cultural characteristics of Chinese society that is posing a major obstacle. The prevalence of economic priorities over social priorities on the individual level, the short history of philanthropy and NGOs, as well as the relative lack of linkages with external social enterprise sectors has stunted the pipeline of potential social entrepreneurs, which is the very heart of social enterprises.

Therefore, looking at the political, cultural and institutional environments alone, it would seem like an uphill task to develop the social enterprise sector. However, despite these unfavorable environments, we should recognize that these environments are not static, but rather, are dynamic and continually evolving. In the case of China, we see emerging trends of these factors becoming increasingly favorable to social enterprises. Increasing recognition by the political powers of the pressing social needs and the

little political threat posed by many of these NGO and Social Enterprise non-state actors has persuaded the government to increasingly involve non-state actors in these social efforts; clusters of students interested in social enterprise and social issues are emerging within top universities; foreign-born Chinese are returning to start social enterprises locally; foreign individuals and institutions are likewise taking a greater interest in supporting social efforts in China. Thus, we see the trajectory of the Chinese environment moving towards one that is more conducive for a social enterprise sector. The question then is *when* China would eventually have conditions sufficiently favorable to support a strong social enterprise sector. As such, we now turn to examining what approaches could possibly be taken in accelerating this process of environmental change within Chinese society to facilitate the development of the sector.

#### 4) **The Future of Social Enterprise in China**

Having now developed a better understanding of the current conditions and environment in China, we now proceed to suggest possible approaches to catalyze the development of the social enterprise sector in China. Previously, three key bottlenecks to the development of the social enterprise sector in China had been identified – political, cultural and institutional. However, in suggesting an approach moving forward, we focus instead on cultural, institutional and legal. Changes in the political environment are difficult to implement externally, and thus the best approach is to target the outcome instead: the regulatory environment, which is easier to influence than the political environment.

First, we examine changing the cultural environment. The most important step is to increase the potential pipeline of social entrepreneurs, which consist of imbuing people with two key characteristics – passion for social change, as well as an entrepreneurial mindset. Therefore, the first approach toward catalyzing social enterprise development is to proactively promote the driving of social change as a rewarding pursuit, both emotionally, as well as materially. This should start from targeting students through educational institutions, as it is important to imbue such a concern for society from a young age when citizens are still more open to ideals, and less preoccupied with purely economic and financial aspirations, and is also the most effective means of reaching a large segment of the population by leveraging on the education system. This approach would leverage on the already growing interest in social entrepreneurship in certain universities, to expand it across the board to all educational institutions. It would entail the raising of awareness of such issues through various school activities and student organizations focused on these issues, such as clubs, conferences, and forums. School trips to visit and volunteer at impoverished or needy communities should also be implemented as part of the school's offering of programs, which gives students an opportunity to witness first-hand the social problems which they tend to be insulated from in a schooling environment. Students can then be

leveraged on to spread the awareness to the wider community at large, through projects such as film screenings, and community engagement. Through these, more students would be exposed to the severe social problems, and correspondingly develop stronger convictions toward devoting their efforts toward the pursuit of ameliorating such issues.

The school-based approach addresses the first characteristic of a social entrepreneur – the social concern aspect. The second aspect necessary to develop social entrepreneurs then, is the entrepreneurial component. Here, China is doing relatively well due to its explicit focus on economic growth and the competitive nature of Chinese society. As Professor Tarun Khanna titles his latest book: “Billions of Entrepreneurs: How China and India are Reshaping their Futures and Yours”<sup>72</sup>, entrepreneurship has flourished in China, a sentiment which is echoed in The Economist magazine in an article titled “Let a Million Flowers Bloom”<sup>73</sup>, detailing the economic dynamism arising out of entrepreneurs in the private sector. An effective approach in harnessing this entrepreneurial energy to nudge it toward the direction of social entrepreneurship then is to generate greater awareness of the possibility of aligning business opportunities with social change. This is epitomized in an article by Michael Porter and Mark Kramer featured in the Harvard Business Review titled “Creating Shared Value”, where the authors emphasize the importance of “the principle of shared value, which involves creating economic value in a way that *also* creates value for society by addressing its needs and challenges.”<sup>74</sup> Thus a second approach toward promoting the social enterprise sectors is to actively promote such concepts of alignment of social change with economic rewards, which will enable the harnessing of traditional entrepreneurs toward social entrepreneurship. This can be achieved through more proactive dissemination of such perspectives during various industry conferences, government media releases, as

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<sup>72</sup> Lagace, M. 2008. “Billions of Entrepreneurs in China and India”. Harvard Business School. 28 January 2008. <<http://hbswk.hbs.edu/item/5766.html>>

<sup>73</sup> “Let a million flowers bloom”. The Economist. 10 March 2011. <<http://www.economist.com/node/18330120>>

<sup>74</sup> Porter, M. & Kramer, M. 2011. „The Big Idea: Creating Shared Value“. Harvard Business Review. January 2011. <<http://hbr.org/2011/01/the-big-idea-creating-shared-value>>



well as business schools. Bearing in mind the language barriers, a proactive effort to translate publications and articles into English would also be important in supporting this effort, in particular authoritative classics such as C.K. Prahalad's "Fortune at the Bottom of the Pyramid". Just as the translation of David Bornstein's "How to Change the World" had catalyzed the emergence of social enterprise as a sector in China, further translations of new knowledge generated in other countries can likewise catalyze traditional entrepreneurs into realizing the benefits of "creating shared value" through social enterprises.

Second, we look at improving the institutional environment. Here, a key approach to catalyze the institutional environment is to learn from the economic sphere. Just as foreign Multi-national companies were invited into the local economy, likewise, foreign social enterprise enablers should be actively brought into the Chinese market. As Larry Zhu, Partner of Bain & Co. Shanghai puts it, "Even in consumer industries in the private sector you have companies like AC Nielsen which are important in helping to provide tracking data and services, and such organizations are likewise necessary in the Social Enterprise sector but yet are missing." Social Enterprises can grow at a much higher speed and success rate if there is a supportive ecosystem around to support it. However, with the lack of a strong history in the NGO sector and philanthropy, the emergence of such an ecosystem is likely to be slow. Therefore, the building of such an ecosystem should be sped up by actively bringing foreign-based social enterprise enablers into the Chinese market. This could be achieved via setting up agencies to actively entice and support these foreign-domiciled Social Enterprise enablers in setting up local operations. Interviews with several such organizations such as Acumen Fund and Leapfrog Microinsurance have revealed that difficulties and costs of operating in China have been a significant deterring factor from expanding operations into the country. As such, a social enterprise promotion agency within China, functioning in a similar vein to the Economic Development Board found in Singapore which actively promotes the country as an investment destination to MNCs and facilitates the process of setting up operations locally,

would go a long way in speeding up the entry of foreign expertise and networks, catalyzing social enterprise growth in a parallel fashion with its MNC-stimulated economic growth over the last decades.

Concurrent to bringing in foreign expertise, the domestic organizations need to be nurtured to absorb these foreign expertise in building a strong local institutional environment. In addition, the local Chinese context would necessarily differ from other countries, and would thus require local organizations and manpower to work together in tandem with these foreign social enterprise enablers to effectively provide their services tailored to a local Chinese context. To achieve this, incentives can be provided to encourage traditional professional services to venture into providing expanding their services to social organizations as part of their Corporate Social Responsibility initiatives. For example, consulting companies could be encouraged to set up pro-bono initiatives for their employees, venture capitalists could be offered tax incentives if their portfolios actively considered social enterprises and etc. Examining the history of many important social enterprise enablers in other developed countries, we find that many emerged from private sector roots, such as Bridgespan for example. Such an approach would fill the gap in the immediate future, whilst providing the opportunities for many such consulting and financing professionals to see the value of applying their skill sets to social issues, training a local talent pool to absorb the foreign expertise being brought in.

Third, we look at improving the legal environment. Greater deregulation within the sector to allow a greater freedom of experimentation by individual social entrepreneurs and social activists would go a long way in facilitating the growth of social enterprises. Beyond deregulation, a proactive approach should also be adopted to understand the key operational problems faced by social enterprises as a result of various regulations and a task force set up to address these issues. For example, as Larry Zhu of Bain & Co. quotes as an example, Social Enterprises registered as NGOs are unable to issue receipts officially, which is a key operational obstacle for social enterprises that function on a business-to-

business model where client businesses are unable to approve of purchases if receipts are unable to be obtained. As such, a task force that understands this problem would be able to modify the relevant regulation to facilitate the operations of these social enterprises.

As such, we find that the key toward catalyzing the growth of the social enterprise sector lies in an integrated approach targeting the cultural, institutional, and legal environments. In the near term, the active importing of foreign expertise, talent and services would be the most productive measure in speeding up the immediate growth of social enterprises, but in the longer term, the alteration of culture is necessary to provide the necessary conditions for a steady pipeline of social entrepreneurs to emerge from the local society.

## 5) Conclusion

In conclusion, this paper has thus far explored first, the key categorical definitions of social enterprises; second, the emergence of social enterprises across the world; third, the emergence of social enterprise sectors in India and China; and lastly, possible measures to speed up the development of the social enterprise sector in China. While the environmental conditions within China may not be the most favorable at the moment for the emergence of a social enterprise sector, we do indeed find it moving increasingly in the right direction, with the emergence of a strong sector only being a matter of time. With increasing focus worldwide on the need to marry business approaches with sustainability and a consideration of social problems, aims and goals, we find the emergence of social enterprises as an unavoidable trend. In 2009, the Wall Street Journal featured an article on enterprises with a cause gaining ground on business schools<sup>75</sup>, while in 2011 the New York Times likewise featured an article on increasing emphasis on social entrepreneurship in business schools<sup>76</sup>. China, while having been relatively significantly removed from developments in the western world during its early years of communist rule, is now increasingly integrated with the global community and plugged into global trends and ideas, and is thus likely to likewise eventually catch on with the social enterprise approach toward addressing social issues. Social enterprises are to a certain extent a no-brainer proposition – they are beneficial for the political powers due to their ability to support the government’s end of the social contract in providing for the society and addressing socio-economic problems; while on the part of the private sector, social enterprises provide a means of commercializing existing social issues into profitable business opportunities by capturing a portion of the shared value created for the beneficiary populations. Social Enterprise in China may have grown slowly thus far due to the environmental characteristics present in China, but just as economic development over the past three decades have been phenomenal, the

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<sup>75</sup> Middleton, D. 2009. “MBAs Seek Social Change”. Wall Street Journal. 15 October 2009. <<http://online.wsj.com/article/SB10001424052748704107204574469602649140462.html>>

<sup>76</sup> Guttenplan, D. 2011. “Business Schools with a Social Appeal”. The New York Times. 23 January 2011. <<http://www.nytimes.com/2011/01/24/education/24iht-educLede.html?pagewanted=all>>

growth of the social enterprise sector likewise has the potential to grow exponentially by leveraging on the advances that have already been made in other regions around the world. The future for social enterprise in China certainly looks bright.