

An Overview of Social Enterprise Development  
in China and Hong Kong

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## Abstract

The development of social enterprises has emerged as an important policy subject in both Hong Kong and China during the past decade. This paper first reviews the background conditions leading to the rising prominence of the policy discourse from a macro-perspective, and then offers a review of the practices on the ground from a micro-perspective. It is suggested that improved cross-sector collaboration between the corporate and the nonprofit sectors holds the key for the further development of social enterprises in the two places.

**Key words:** social enterprise, social policy, welfare reform, China, Hong Kong

## 1. The Promise of Social Enterprise

Across many Asian countries, the phrase "social enterprise" entered into public policy discourse and attracted public attention during the first decade of the new millennium. For example, a regional conference titled Asian Social Entrepreneurship Forum was held in Taipei City in February 2005, in which practitioners and researchers from seven Asian locations delivered reports on the state of development of social enterprises in their respective societies.<sup>1)</sup> Surveying existing social businesses and facilitating the creation of new social ventures soon became topics of public interest.

Two large scale conferences held in Hong Kong and Mainland China in 2006 marked a new stage of development for both societies in which official recognitions were given to policy initiatives in supporting the development of social enterprises. In Hong Kong, the government's Central Policy Unit joined hand with the then Commission on Poverty to organize a Social Enterprise Conference in April, attracted broad coverage by the media.

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Six months later, in mid October, the International Conference on Social Innovation was organized in Beijing, receiving positive recognition by high ranking officials.<sup>2)</sup> Since then, policy ideas invoking social enterprises have become common talking points of many officials and civil society leaders, and the advocates believe that social enterprise holds the promise to resolve many high stake issues including unemployment, social division, structural poverty, etc.<sup>3)</sup>

The purpose of this paper is to give a general overview of social enterprise development in Hong Kong and China. As will be discussed in the paper, it is surely not a new thing for social organizations in Hong Kong and China to engage in market-based activities for serving social purposes. Yet, in this new discourse, the concept of social enterprise is being viewed as a foreign (mainly Western) construct that was introduced to the two societies as a means to tackle social issues that are not well served by existing solutions organized through government or philanthropic means. To many policy entrepreneurs and social sector practitioners, acceptance to this policy discourse in embracing the development of social enterprises is nearly unconditional. It is regarded as the panacea for resolving many social ills that are considered intractable by the existing institutions, despite the fact that there still exists a huge gap between the proclaimed policy impacts and achievements thus far.<sup>4)</sup>

It is not the aim of this paper to praise the merits of social enterprises or to critique their limitations. Instead, we attempt to offer a review of the background conditions leading to the nearly unquestioned acceptance of the policy discourse in the two societies. Short case studies on practices on the ground are then offered using a micro perspective. Some tentative concluding remarks are given in the final section.

## 2. Macro Perspective: The Structural Conditions

In the past two decades, both Hong Kong and Mainland China witnessed significant changes in their social and economic conditions. The social relations between different segments of the community and the roles played by the state, market and civil society have also drastically changed. In the case of China, uninterrupted economic growth has led to unprecedented wealth accumulation, but it also brings about significant problems including the rising income gap, inequalities in the rapid urbanization process, pointed disparity in rural-urban development, and massive population migration, etc. Despite a direct beneficiary of China's booming economy, Hong Kong had experienced repeated economic turmoil since the political handover in 1997. Large segments of the two societies have been facing economic marginalization, and problems of structural poverty, unemployment, inadequacy of the welfare safety net, and social disharmony are evident

and brewing. Eliminating class conflicts and maintaining social harmony have become key political concerns in both places. It is under these conditions that social enterprise is being called upon to provide solutions by drawing on social capital of civil society and financial resources of the market.

### *Hong Kong: Welfare Reforms after the Political Handover*

From a macro-perspective, several factors have led practitioners and policymakers to embrace the idea of promoting the development of social enterprises. These factors include: i) economic downturn and structural unemployment; ii) change in the Hong Kong government's underlying welfare philosophy; and iii) the end of government-led welfare expansion model.<sup>5)</sup>

After the handover, Hong Kong was hit hard by the Asian Financial Crisis, and it has greatly altered the structure of the employment market. Structural unemployment has become a lingering social issue ever since, while income disparity continues to grow. In adopting an increasingly neo-liberalist policy orientation, "welfare-to-work" has been purported as the preferred approach to assist the unemployed. The development of work-integration social enterprises (or WISE) is thus supported and has been extended from the rehabilitation field to assist the unemployed from other disadvantaged groups. Government seed money was offered to encourage nonprofit organizations to establish WISE and create job opportunities for the able-bodied unemployed, which until today remains a key category of social enterprises running in Hong Kong (Ho & Chan 2010).

Welfare funding reform was also enacted after the handover. The cutbacks on regular welfare funding after the Asian Financial Crisis would demand that nonprofit service providers to develop market-oriented activities in serving client groups who can afford to pay. Again deeply grounded in neo-liberalist thinking, the SAR Government's new funding philanthropy of using cost subsidies and other market-oriented funding modes also led service providers to develop commercialized and quasi-market operations that would receive income via both state subsidies and private fee income (Lee 2005). The outcome is that increasingly more NGOs are committed to finding ways to broaden its revenue base, and running commercialized services and social enterprises would no longer be seen as working against the achievement of service missions.<sup>6)</sup>

Last but not least, when the government worked to remodel its welfare funding system, a more subtle impact on service development has been that the welfare system would no longer use a government-led approach to fund continued service expansion according to certain pre-determined criteria. For decades, a central welfare planning system was used in which government and the welfare sector worked closely together to develop service protocols, and successful service models would be replicated through a

network of NGO service providers. The system can be sustained during the 1980s and 1990s with a robust economy, but was deemed not viable after the economic downturn. The old input-based funding system was thus replaced by a new lump sum grant arrangement, and service providers were asked to re-deploy their existing resources to meet new emerging needs. As a result, service providers would become very keen to develop service ventures that use alternative funding sources to meet new service needs and, as a consequence, more social ventures experimented.

#### *Mainland China: Filling the Institutional Void in Welfare Provision*

While the social conditions in the Mainland differ greatly in the details vis-à-vis Hong Kong, but striking similarities could be identified if we move beyond the surface and pay attention to the broader scheme of things. With market reforms and unconditional embrace of market economy in the past two decades, China also charts a neo-liberalist path of development of its own. The impacts of economic reforms and liberalization on the provision of welfare and the development of civil society are important subjects of research and policymaking (see, for example, K.M. Chan 2005, K.T. Chan 2003). Insofar as the development of social enterprise is concerned, the relevant macro development trends include: i) retreat of the state in welfare provision and the consequent opening up of social space for new service models; ii) the policy aim to develop "service-oriented government" (*fuwuxing zhengfu*) as the new protocol of public administration; and iii) the emergence of a strong corporate sector extending their influence through corporate giving and CSR activities.

In China, the same socio-political and economic forces that have propelled (though often times also constrained) the development of NGOs also help open up the space for social enterprises. In a sense, converting into social enterprises may indeed be the logical next step for many community groups seeking to achieve self sustainability. As has been well documented (for example, K.M. Chan 2005; Chan, Qiu & Zhu 2005), China's sweeping economic reforms and the "separation of state from enterprises" had fundamentally altered state-society relations and the models of welfare provision. As a post-totalitarian regime with some degree of social and economic pluralism, social groups and NGOs are given the space to spring up in various parts of China, albeit they need to constantly confront with ideological, legal, political and organizational constraints (Chan, Qiu & Zhu 2005). While most grassroots organizations would still need to rely on donations as their major income source, over time more and more nonprofit groups would explore opportunities in the market and seek to operate social businesses.

With the retreat of the state in the economic sphere and the streamlining of the public bureaucracy, it creates an institutional void under which the welfare needs of

multiple segments of the citizenry, including but not limiting to the weak and the marginalized, are not being taken care of by either the state or the market. For the sake of maintaining social harmony, there is an eminent political need to lessen social contradiction through the development of alternative service delivery models in ways that are compatible with the neo-liberalist reform agenda. Consequently, the political mission to develop a new mode of public administration bearing the name of "service-oriented government" has been purported (Wang & Zhu 2010), which in many ways resemble the New Public Management (NPM) reform agenda adopted by many Western countries. NPM reforms, long practiced in Hong Kong, emphasize devolving government functions to the market and other community forces, hence encouraging pluralism in service provision. Through initiatives such as service purchasing and the introduction of cost subsidies and voucher, the government would inject financial resources to create quasi-markets for allowing social businesses to operate. The rise of service-oriented government thus further helps social ventures to prosper through government official endorsement and the injection of public financial resources.

The emergence of a strong market sector and the advancement of CSR over the past decade represent another influential force that could fuel the growth of social enterprises in China (Wang & Zhu 2010). As more corporations and business entrepreneurs pay attention to CSR, and with more high net worth individuals engage in philanthropy and social investing, promoting social entrepreneurship and investing in social enterprises have become a trendy philanthropic practice. Foreign supporting organizations like the British Council and Global Links Initiative help bring in overseas experience, and local nonprofit intermediaries like the Nonprofit Incubator and Jet Li One Foundation play the role in assisting the corporate sector to identify and provide various kinds of support to existing social enterprises and would-be social entrepreneurs that have been working to tackle problems in various service fields.

#### *A Brief Recap: From Small Government to Big Society*

In short, in both Hong Kong and China, the neo-liberalist reform agenda not only has altered the social conditions but also the capacity of different sectors (state-market-civil society) in dealing with social problems. On the one hand, social transformations have created social cleavages and deepened social contradictions that require urgent attention, but on the other hand, the reforms undertaken in both places have greatly weakened the state's capacity to address complex social issues and the ever-changing demands of the citizenry. The resulting institutional void has to be filled and just like the current UK Conservative Government, the idea of "Big Society" has been publicized in both places (as in the case of China, the official term adopted most recently is *daminzheng*

which literally translates as "Great Civil Affairs").

The policy discourse of developing social enterprise offers the imaginary of employing social innovations and using the process of social entrepreneurship to leverage market and other societal forces to achieve large-scale social changes for the good of the people. According to this imaginary, it would realize social harmony through coalescing sector collaboration and achieve financial sustainability in one go. Even if the imaginary is by and large unproven, for practical and political reasons, government officials and policy advocates have thrown in almost unquestioned acceptance and support to the cause of promoting the sector's development. The question we need to ask, then, is if the policy imagination has any truth in it, and whether the practices on the ground would have the potential to live up to the high expectations.

### 3. Micro Perspective: Practices on the Ground

Owing to difficult definitional challenges and hurdles on data collection, to date we do not have comprehensive data in hand depicting the number, size, origins, and business nature of social enterprises currently operating in China and Hong Kong. In the case of Hong Kong where information is partially available, it is estimated that there are around three to four hundred social enterprises, and the total annual revenue is around HKD300 million in 2010, or about 0.02% of Hong Kong's GDP.<sup>7)</sup> Since the top 20 social enterprises already account for around two-third of the total annual turnover, most of the existing social enterprises are small in operating scale (most of them are operated by NGOs) and only very few of them are profitable. Comparable data simply does not exist in China, yet successful social ventures do receive a lot of public recognition via news reports and special publications.<sup>8)</sup> To gain better understanding of the practices on the ground, four renowned social enterprises in Hong Kong and Mainland China are briefly examined in the following discussion. After providing abridged reviews of their background and operations, the unique paths of their development including institutional modes, realms of intervention, and linkages to the broader social enterprise development trends would be discussed.

#### *Four Exemplary Social Enterprise Case Studies*

The four cases covered in this discussion are chosen for the ease of providing a simple analysis of their institutional modes and realms of intervention (a typological model will be introduced below). With a combined annual turnover of over HKD100 million, the two Hong Kong cases are among the top three social enterprises in town. For the two cases from China, Hetong Senior Citizen Welfare Association is often considered one of

the earliest social enterprises established in China, and it is attending to an urban issue in the city of Tianjin. On the contrary, the Xuping Rabbit Training School operates in the rural area in Sichuan Province. Its founder Ren Xuping has been given the nickname Rabbit King, and his story has been featured in a recent publication that covers the top ten social entrepreneurship stories in China (Tse & Li 2010).

MentalCare Connect (MCC) [Hong Kong]. MCC was established in 2002 by its parent NGO that serves the mentally ill in the rehabilitation field. The NGO has been running various kinds of job training programs for disabled people for many years. Throughout the 1990s, new service models like "supported employment" and "simulated business" were introduced to the service field, and the NGO gradually gained more experience in running business ventures. Seeing the potential in running commercial undertakings for providing both short- and long-term employment opportunities for its disabled clients, MCC was set up with retail (convenience stores and outlets of rehabilitation products) and cleaning services. As an early market entrant with ample of experience, MCC is a very successful work-integration social enterprise in town, employing over a hundred employees with the majority being disabled or needy in the community.<sup>9)</sup>

Hetong Senior Citizen Welfare Association [Tianjin, China]. Established in 1995, Hetong is a consortium of non-governmental and not-for-profit entities that offer comprehensive elderly services in Tianjin. Headed by the Association, the group currently operates five high-quality elderly residential homes and a range of fee-charging service units that are registered as "people-run non-enterprise units" (*minban feiqiye danwei*). To assist those service users who could not afford the service fees, the Hetong Charitable Foundation for the Elderly was also set up to solicit community resources to support eligible users. Apart from fee income and charitable donations, government subsidies through service purchasing also become an important funding source for sustaining the self-financed operations of the group.<sup>10)</sup> The association was awarded a Philanthropy Grant by Jet Li One Foundation in 2009 as recognition to their distinguished contribution to elderly service.

Senior Citizen Home Safety Association (SCHSA) [Hong Kong]. SCHSA was established in 1996 after a sudden cold spell killed more than a hundred elders living alone in the previous winter. The tragedies revealed two well-known facts: i) more and more elderly have been left alone in the community; and ii) existing community-based services were largely inadequate in attending to the emergency risks of the elders. To meet this service gap, SCHSA launched a territory-wide 24-hour Personal Emergency Link service (the PE Link) to connect the elders with emergency assistance providers. It struggled to attain sustainability in the early years, but in time built the service reputation and gradually

built a customer base that includes both fee-paying users as well as other needy elderly receiving subsidies from government or philanthropic resources. In addition to offering emergency service via the PE Link, important value-add services are also provided to take care of the everyday needs of the elderly by using available community resources like volunteers. With well over 60,000 users contracting the PE Link service, SCHSA is in good financial shape, and it continues to identify ways to respond to the ever-changing needs of the needy elders, including those who are not its service users.<sup>11)</sup>

Xuping Rabbit Training School [Sichuan, China]. Grassroots entrepreneur Ren Xuping founded a business that includes a rabbit farm, a rabbit-breeding training school, a meat processing firm, a fur product firm, and the Rabbit King Poverty Relief Research Centre. Ren once received assistance from Heifer International and as he achieved his business success, he followed Heifer's "passing gifts" model to pass on gifts (offspring of gift animals) and expertise to others for achieving income improvement. Ren started the training school in 1990 to teach rabbit husbandry, and his rabbit meat and fur product businesses help build a strong market network that serves to channel market demand to the local rabbit breeders. Now, up to 40% of the peasants in Dayi County in Sichuan raise rabbits, and over 300,000 trainees have attended Ren's training school, benefiting a wide range of needy groups including rural villagers and laid-off workers, among others.<sup>12)</sup>

### Two Distinct Paths of Development

Very briefly, we have introduced four exemplary cases all of which have received praise and recognition by policy advocates and reporters in numerous conferences and reviews. In this discussion, we are less concerned with the operational details (and the success or constraining factors in their operations), but to highlight the "situational openings" and the specific paths they have chosen to travel. More specifically, with the macro trends and social conditions depicted in the earlier discussions, how did these social businesses actually come into being through the acts of agency? What institutional forms did they take to carry out their work, and what sorts of production and market openings did they utilize to secure the activity space allowing their development and growth?

From the available information sources depicting the cases, it is known that capable and charismatic founders, better known as social entrepreneurs in this field (like Ren of the Rabbit Training School), play a pivotal role in the success of these enterprises. Highly committed and capable individuals have been working untiringly behind the enterprises to make them a success.<sup>13)</sup> This agency factor aside, however, the social conditions also have to work supportive of the causes promoted by these change agents. These social businesses have taken different pathways to make success a reality. Using a very simple

typology, we present one particular framework in depicting the development paths of these four enterprises by way of analyzing their mode of organizational development and realm of economic intervention.

		Realm of Economic Intervention	
		Income Support (Production Realm)	Service Invention (Consumption Realm)
Mode of Institutional Development	NGO Model	MentalCare Connect (MCC)	Hetong Senior Citizen Welfare Association
	Enterprise Model	Xuping Rabbit Training School	Senior Citizen Home Safety Association (SCHSA)

Exhibit 1 A two-by-two typological schema depicting social enterprise development paths

In Exhibit 1, it is suggested that there are two common organizational models (NGO vs. Enterprise) that any social enterprise can choose from, and they represent the two basic pathways of enterprise development. In the NGO Model, social ventures emerge from existing nonprofit operations, and the socio-economic conditions mandate that they take the necessary steps to further evolve into business-like social ventures for ensuring organizational survival. On the contrary, the Enterprise Model is more likely followed by social ventures that break away from the established service patterns, and a more entrepreneurial path of development is expected. In addition to the mode of institutional development, the other dimension of interest is the realm of economic intervention (i.e. production vs. consumption). While the former operates in the production realm to help bring about income improvement for vulnerable labors (mainly through engaging them in new productive activities), the latter arranges new service alternatives in the consumption realm that fill existing service gaps of certain social groups (e.g. elderly).

The four exemplary cases can easily fit into this framework. Regarding the dimension on mode of institutional development, we have already noted that both MCC and Hetong are emerging out of NGO or not-for-profit operations, and both are thus typical cases utilizing the NGO Model. At present, most social enterprises in Hong Kong also follow the NGO path, and many work-integration "social welfare enterprises" (*shehui fuli qiye*) in the Mainland could also be viewed as following this model.

As regards the Xuping Training School and SCHSA, their work are not linked to any of the existing NGOs, and their entrepreneurial path of development would make them good examples of social ventures adhering to the Enterprise Model. There is a constant call in both places that more entrepreneurial social ventures should be instigated outside of the social sector (say by entrepreneurs in the corporate sector), with the belief that

most social enterprises developed by social workers in the welfare sector are simply not sustainable. To many, the superiority of the Enterprise Model over the NGO Model is inevitable, a claim which is surely subject to further debate.

Apart from making the distinction between institutional forms, the other dimension of interest is the realm or domain of economic intervention. With the emergence of service gaps following the dismantling of state welfare provision (the consequence of neo-liberal reforms), alternative service models are encouraged and often times state funding would be made available for subsidizing the "social innovations" pioneered by market-oriented service providers. Service inventions that could help tackle long-standing social ills would also be highly treasured by the "service-oriented" public administrations washed up by the NPM reforms, and subsidies would be made available to create quasi-markets for allowing social enterprises to thrive. Both Hetong and SCHSA offer such examples in the use of service innovations to address long-standing service needs of the elderly.

Similarly, owing to the deterioration of social safety net, innovative solutions to provide income support to various disadvantaged groups are also in great demand, as officials are constantly looking for new recipes to tackle unemployment and poverty issues. And as noted in the earlier discussion, the retreat of the state has created an institutional void inviting interventions by other societal forces (namely community and market) to offer support. It is against this background that MCC and the Xuping School could find the space to develop their "work-integration" and "income-enhancement" social businesses once they succeeded in their experiments in building a good enterprise model capable of withstanding the litmus test of the market.

#### *A Brief Synthesis: Choosing the Path and Creating the Space for Success*

The case stories provided here largely fall in line with the mainstream imaginary on the crucial success factors for social enterprises, e.g. the importance of social innovation, the acts of capable social entrepreneurs, a viable business model backed by market demand, the roles of government to build a facilitative environment and create quasi-markets, etc. (Bornstein 2004; Tse & Li 2010). The simple framework and case analysis given in this discussion further show that there are at least two distinct institutional paths (NGO vs. Enterprise) that any social venture could choose amongst, as it also needs to ponder the realm of intervention (income support vs. service invention) for achieving blended value creation in uniting social values with market principles, and consequently opening up the space for organizational survival and success.

In reference to the local contexts in Hong Kong and China, we add to this discussion an analysis of the background conditions and the situational openings that, in the long run, would facilitate or impede the continued growth of these social enterprises. It is believed

that a full explanatory model would need to take into consideration how the contextual factors in the two societies work *in interaction with* the crucial success factors at the micro analysis to make possible the success of each social enterprise. Missing either the macro or the micro analysis would render the explanation incomplete.

#### 4. Not a Conclusion: Important Lingering Issues

With this abridged and incomplete analysis, a host of lingering questions remain. In this closing section, we'll attempt to bring up just a few contending issues in a hope that via debates and discussions, the wider research community and the practitioner circle could help us enhance our understanding of the nature of the issues, and eventually we could work together and come up with better answers and practical responses.

First, if our contention that *both* the NGO Model and the Enterprise Model could provide feasible paths of enterprise development has any currency, one might raise the question as to whether the nonprofit sector or the corporate sector should take the driving seat to steer the development of social enterprises. As mentioned, there is a general feeling that the NGO Model is not the preferred mode of enterprise development given most social enterprises set up by NGOs struggle mightily in their quest to become self-sustainable. It is believed that the superiority of the Enterprise Model is by and large supported by empirical experience, and logical deductions could also be drawn by way of analyzing the linkages between organizational structures and economic incentives (see Xu 2010).

In contrast, we believe that it is a false question to ask given that no matter the point of departure (whether to adopt an NGO or an Enterprise Model), cross-sector collaboration would still be the key for developing a successful social enterprise. More importantly, the partnership between the NGO and the corporate sectors must be genuinely forged, and participation and engagement by either sector could not be achieved in a truncated manner. For this reason, we believe a more fundamental question is to find the various potential mechanisms for achieving blended value creation and allow the social and the corporate sectors to come together and achieve synergy. The exemplary cases presented in this paper would certainly support the claim that with the right combinations of enterprise forms and intervention mechanisms, not one but many paths of enterprise development can be realized.

Finally, insofar as the development of civil society is concerned, there is always a need to continue to strengthen the capacity of the NGO sector no matter the path of enterprise development. While the NGO Model would surely support the view that a strong civil society would serve as the foundation for social enterprise development, the

Enterprise Model also demands that the social entrepreneurs get to learn about both the people and the social contexts that he/she needs to navigate, no matter the realm of intervention is anchored in income support or service invention. Ultimately, both the nonprofit sector and the market sector need to learn the skills and knowledge of the other sector in order to succeed. The important thing is to identify the mechanisms for facilitating cross-sector collaboration, and in the end we need the market sector joins hand with the civil society and genuinely gets involved in the business of servicing people, and not merely as an outside funder as current corporate giving and CSR practices might dictate.

### Notes

- 1) The conference was organized by the Conference of Asian Foundations and Organizations (CAFO) with participants from India, Indonesia, Japan, Hong Kong, The Philippines, Singapore, Taiwan, Thailand and United States (see CAFO 2005).
- 2) Other meetings and conferences on social enterprises had been organized in the two places well before 2006, but were mostly attended by practitioners (Wang & Zhu 2010; Yuen & Lee 2005).
- 3) Wang & Zhu (2010); Yuen (2009); Yuen & Lee (2005).
- 4) In the case of Hong Kong, the idea of promoting the development of social enterprises to tackle structural unemployment and achieve social inclusion has been easily accepted by all sectors of the community (Yuen 2009). Numerous academic and press reports were also published in China in support of developing social enterprises; see, for example, NPI (2008); GLI (2009); Wang & Zhu (2010).
- 5) See Yuen (2009) and Yuen and Lee (2005) for more detailed discussions.
- 6) For a discussion of similar developments in the US, see Eikenberry & Kluver (2004).
- 7) The Hong Kong Social Entrepreneurship Forum, an intermediary supporting the development of social enterprises, compiled these estimates and statistical information for its own reference purposes.
- 8) See, for example, NPI (2008), GLI (2009), Tse & Li (2010), and Wang & Zhu (2010).
- 9) See Kee & Yeung (2010), Yeung (2005), and Yuen (2008, 2009) for further information.
- 10) See NPI (2008) and Wang & Zhu (2010) for a brief discussion on this case.
- 11) See S. Chan (2005), Kee & Yeung (2010), and Yuen (2008, 2009) for greater details on this case.
- 12) See Tse and Li (2010) and Wang & Zhu (2010) for further information on this case.
- 13) In this discussion, given the act of agency is not the main focus of analysis, we only provide highly abridged background information on the cases, and the inspiring stories of the founders and social entrepreneurs were not detailed. Readers interested in the stories are recommended to check relevant reports and reviews referred to in the earlier case discussions.

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