THE DEVELOPMENT OF SOCIAL ENTERPRISE IN CHINA: CHENGDU CITY’S INNOVATIVE PRACTICE

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ABSTRACT

This article delivers a comprehensive understanding of the development of social enterprise in China. Through the introduction of four representative governments’ practice, especially the city of Chengdu’s innovative practice and the challenges it has been facing, the author tries to argue that in the policy-driven mode, it could be pursuing the quantity increase and explicit standardization at the risk of neglecting humanities venture inside social enterprises. Meanwhile, the relationship among government, market and society determines the social enterprise policy environment and the implementation effects. Further exploring the sustainable social entrepreneurship would become an important subject especially in the current policy-driven mode in China. The further research in the integrative, multistage and multilevel framework could facilitate the built-up of cross-sector partnerships.

Keywords: Social Entrepreneurship, Social Venture, Social Enterprise, Social Governance, China.

INTRODUCTION

In the last few years, the studies on social venture (Dees, 1998; Perrini, 2006), social entrepreneurship (Brooks, 2008; Gunn & Durkin, 2010; Fayolle & Matlay, 2011; Kickul & Lyons, 2014); social enterprise (Nyssens, 2006; Social Enterprise Alliance, 2010; Ridley-Duff & Bull, 2015) have gradually drawn more attention in both research and practice. Pierre, et al. (2014) point out that social venture is by nature an interdisciplinary field. To strengthen the understanding of social venture, the primary task for the academic community is to reach consensus on the definition of some main concepts in this field, while acknowledging the diversity of research subjects on social venture (Short et al., 2009).

Jingjing Wang & Ying Wang (2015) point out the contradiction between the vigorous development of social venture practice and the lack of social venture theory is particularly prominent in China, as China’s economic system, institutional environment, and historical and cultural background are quite unique. Therefore, they suggest paying more attention to the research on social venture based on China’s situation. Wang & Wang (2015) believes it is helpful to improve the theoretical framework of social venture and continue to deepen the level of related research.

Beiwei (2018) points out that China’s theoretic circles generally strengthen the necessity that policy facilitates the development of social enterprise, and the research have mainly focused on the introduction of the experience of foreign countries for the development of social enterprise (Peng & Liu, 2009; Chen, 2014; Guan, 2007; Xu, 2012; Jin, 2016). Scholars and researchers have discussed the definition and scope of social enterprise, as well as supportive government policy contents and systems. Yuan (2019) summaries the characteristics for the development of social enterprise in China, in which she claims the policy-driven mode is
emerging in China. As some representative cities are executing their practice on encouraging the development of local social enterprises, Chengdu city’s innovative practice which has taken social enterprises as the new grip to strengthen and improve urban and rural community governance as well as setting up a new government institution to overall manage and coordinate all the resources for the urban and rural community development has drawn much attention. Meanwhile, the City Industry and Commerce Bureau has been in charge of the preliminarily construct of the policy system for the local social enterprises. With a series of preferential policies towards the development of the social enterprise in the community building in the context of social innovation, the challenges and issues it has been facing would also be significant to other places as well as for the overall development of social enterprise in China especially in the current policy-driven mode.

How the related research in the areas of social venture, social entrepreneurship and social enterprise could inspire today’s China in the policy-driven mode, and further reshape the relationship among government, market and society is worth to be discussed. This article tries to discuss if the policy-driven mode is sustainable for the development of social enterprise in China. By introducing social enterprise’s development in China and Chengdu city’s practice, the author attempts to find out the issues and challenges for the development of social enterprise in current situation, as well as possible directions for the future research in China’s context.

LITERATURE REVIEW

Drawing from a range of social entrepreneurship scholars, there are two schools of thought related to the development of social entrepreneurship (Dees & Anderson, 2006). The social innovation school have focused more on how to address social problems and needs with innovative ways, while the social enterprise school of thought have considered organizations that support social missions using earned income represent social entrepreneurship.

The definition of social enterprise varies according to the situation and research issues (Meyskens et al., 2010). Majority of researchers agree that social mission (solve social problems and satisfy social needs), gain economic benefit and innovation are the three features of social venture compared to traditional business venture (Wang & Wang, 2015). Some researchers deny the dichotomy of economic benefits and social benefits, but instead emphasize the dynamic nature of social enterprises in terms of social mission and profits (Swanson & Zhang, 2010). Borzaga & Tortia (2009) point out that social enterprises have linked their resources to social missions, combined with local development levels, and has given full play to the important role of endogenous local development. Social enterprises could make significant contributions to local development by creating employment opportunities, using resources for the benefit of the public, and reducing social welfare costs.

Lundstrøm & Zhou (2014) propose a three dimensional perspective on social enterprise. They point out that social venture is an ecologic whole by business venture, humanity venture and social venture, and the study of social venture must apply in the dual logic of social and entrepreneurial aspects. The humanity value has the determining effect on the business behavior and the emerging humanistic dimension is particularly important in demonstrating the social enterprise’s value (Lundstrøm & Zhou, 2014). Meanwhile, Lundstrøm & Zhou (2014) argue there are fewer policies to encourage the humanity venture when compared to business venture and social venture. In regards to social entrepreneurship in the start-up phase, a consensus among researchers is that cross-sector partnerships (between social entrepreneurs in the business, government, public and non-profit sector) could provide innovative solutions to
social issues (Maase & Bossing, 2010). Additionally, a large body of literature did the empirical research on the individual characteristics of social entrepreneurs (Bosma & Levie, 2010; Harding & Cowling, 2006; Shaw & Carter, 2007; Weeawardena & Sullivan Mort, 2006; Mair & Schoen, 2007). Kachlami (2014) further classifies the determining factors of social venture and related research into individual attributes and environmental factors. The individual attributes for social venture include gender, age, education, social network, risk exposure, affinity and employment state, while the environmental factors are fortune, government welfare expenditure, individualistic culture and urbanization. Kachlami (2014) points out that the research on the determining factors of social venture could provide a proper perspective for policy-making as to invest the limited resources into promoting social venture.

Based on the integrative multistage, and multilevel framework developed by Saebi, et al. (2018) in which they briefly summarize the SE literature at individual, organizational and institutional level, and embed Hedstrom & Swedberg (1998)’s three types of mechanisms spanning macro- and microlevels of analysis (situational mechanisms, action-formation mechanisms and transformational mechanisms) at the pre-formation stage and post-formation stage, the author would take the “Explanatory shorthand” among social context/institutional context, social enterprise and social outcome/institutional outcome to draw the picture of policy-driven mode in Chengdu city. The “Explanatory shorthand” indicates interrelationships which social enterprises (missions, goals, resources, governments, leadership team, composition, firm culture and incentive systems etc.) generated and influenced by social context (poverty, injustice, etc.) and social outcome (social change created)/institutional outcome (institutional change triggered).

**METHODOLOGY**

This research has adopted qualitative methods, which include literature research, policy analysis and comparative analysis. Policy analysis and comparative analysis have mainly focused on the four cities’ policies towards the development of local social enterprises (Beijing, Shunde, Foshan & Chengdu) the purpose is to introduce the representative practices in the current policy-driven mode in China. Referring to the latest published China Social Enterprise and Social Investment Sector Research Report No.1 (2019) and White Book on Social Enterprises in Chengdu (2018), the author collected the data of the number of certified social enterprises in different cities in China, analyzing Chengdu’s leading place both in the number of certified social enterprises and the innovative practice in the government institutional reform.

Additionally, the author went through the whole process of certification with a local social enterprise in Chengdu. During the four months of work, the author had opportunities to participate meetings and conferences at the local and national level with local government officials, local social entrepreneurs and scholars, which helps finding out the issues and challenges for the development of social enterprise in Chengdu under the policy-driven mode, as well as possible directions for the future research in China’s context.

**SOCIAL ENTERPRISE IN CHINA**

The concept of social enterprise was introduced to China in 2004, after Liu Jitong from Beijing University translated part of a research report on economic cooperation and organization development (Yuan, 2019). Along with the research of social enterprise in China, some NGOs have drawn greater attention to the practice of social enterprise, and strengthened the
communication and exchange with foreign social enterprises. In 2006, Hu Xin published an article on the journal of Comparative Economics & Social Systems, discussing what is social entrepreneurship, which was one of the early studies on social enterprise in China. Followed by some significant books translated and published in China, such as How to Change the World: Social Entrepreneurs and the Power of New Ideas by David Bornstein, The Rise of the Social Entrepreneur by Charles Leadbeater and Social Silicon Valleys by Geoff Mulgan etc, the thoughts of social enterprise have been spread to more people who are interested in this concept and practice (Yuan, 2019). In 2009, British Council started a program of Skills for Social Entrepreneurs (SfSE) in China, which has trained more than 2,000 potential social entrepreneurs. Many of the trainees have become the pioneers in exploration of social enterprise in China (Xu, 2017).

In regards to the definition of social enterprise, there is still no unanimous agreement. Zhao (2018) summarizes the following three schools for the concept of social enterprise in the social-commercial perspective:

Put social purposes first (co-operative, association, trading NPO, community enterprise, development trust and fair trade organization) Social-commercial balance (B-corp, L3C, flexible purpose corporation, community interest company) Social purpose only (non-profit corporation, charitable organization, non-profit corporation)

Zhao (2018) continues to analyze the limits of the social-commercial perspective, he suggests adding ability elements and security elements of social entrepreneurship into the definition of China social enterprise as following:

Social enterprise is an organization whose mission is to solve social problems as its mission, and has the ability to identify opportunities for change brought by the dual failure of the government and the market. It has innovative problem-solving models which are different from traditional charities and has behaviors or mechanisms to protect its social mission from the harm if pursuing business objectives. (Zhao, 2019)

Yuan (2019) thinks social enterprise in China was formed as an industry since 2015. In 2015, China Social Enterprise and Social Investment Forum were founded by 17 institutes for the purpose to promote the development of social enterprise and social investment by integrating resources. The forum has hosted an annual event since then, and has organized related research and study for the development of Chinese social enterprise and social impact investment. Also in this year, China Charity Fair (CCF) started certification for social enterprise with 6 other institutes. 7 out of 69 applicants acquired the certification. Table 1 shows the city and the number of social enterprises certified by CCF from 2015 to 2019 (data from China Social Enterprise and Impact Investment Forum 2019).

<table>
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<tr>
<th>Rank</th>
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<td>9</td>
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Table 1
Till the end of 2018, there are 234 social enterprises in China which have certification by China Charity Fair. In a wide sense, this number could reach 1,750,000 which include Chinese Farmer Specialized Cooperatives, People-run non-enterprise units and social welfare enterprises (China social enterprise and social investment sector research report No.1, 2019).

In late 2017, the development of social enterprise has been entered the agenda of public policy. Beijing, Chengdu, Shunde District-Foshan and Futian District-Shenzhen have published a series of policies to encourage and help the development of local social enterprises. Each local government has its emphasis on the policy. Beijing as the first city to propose in the documents to develop social enterprises, has carried out special research and the pilot projects, as well as promoted the development of social enterprises that focus on serving people’s livelihood and public welfare. In 2018, Beijing Social Enterprise Promotion Association was set up and published the local certification method. Shunde District in Foshan was the earliest to conduct social enterprise certification. The local government has been trying to construct an inter-departmental support system for the development of social enterprises, and set up the Social Innovation Center as the leading institution. Fujian District in Shenzhen has focused on the social impact investment. The local government has tried to build up a cross-border platform to promote social enterprise and social impact investment. Among the four representative local governments’ practice, Chengdu has explored a new way to bridge its urban and rural community governance with the development of social enterprise.

In the next part, the author would introduce Chengdu’s practice on social enterprise, trying to discuss its construct, process and challenges, and how it could be inspiring the the development of social enterprise in China as well as the further research in this area.

**SOCIAL ENTERPRISE IN CHENGDU: A LEADING CITY’S PRACTICE**

According to the official data, Chengdu is located in the western part of the Sichuan Basin, in the eastern edge of the Qinghai-Tibet Plateau. In 2017, the city’s land area was 14,335 square kilometers, accounting for 2.95% of the province’s total area (485,000 square kilometers); the urban area was 3,369.81 square kilometers, of which the city’s built-up area was 885.6 square kilometers. Chengdu is a sub-provincial city which serves as the capital of the Chinese province of Sichuan. It is one of the three most-populous cities in Western China. As of 2018, the administrative area housed 16,040,500 inhabitants, urbanization rate is 71.9%. Chengdu has 11 districts, 5 county-level cities and 4 counties.

As the largest city in the southwestern China, Chengdu has taken social enterprises as the new grip to strengthen and improve urban and rural community governance, proposed “Encourage communities to explore and establish social enterprises that serve for the residents” in the government documents. Chengdu set up the Urban and Rural Community Development Governance Committee led by the minister of Organization Department of the municipal party committee, which is an innovative new institution in China to overall manage and coordinate all the resources for the urban and rural community development. Accordingly, this institute has made arrangement taking account of the development of social enterprises in Chengdu. Meanwhile, the City Industry and Commerce Bureau has been in charge of the preliminarily construct of the policy system for the local social enterprises. In 2018, Chengdu cooperated with China Charity Fair for the local certification of social enterprises. Moreover, Chengdu handed out the “Opinions on Cultivating Social Enterprises to Promote Community Development and Governance” by the local government office. The division of responsibilities involves 8
departments. It requires that “All district (city) county governments should include the development of social enterprise and the project operation on the important agenda, and incorporate into the annual target management system for performance appraisal”. Due to the close connection with the community governance and the request in the performance appraisal for the primary-level officials, Chengdu currently has the strong supportive policies at the district level, nearly 20 specific policies were introduced including registration convenience, certification award, incubation support, rent subsidy, talents support and events support.

According to the Opinions on Cultivating Social Enterprises to Promote Community Development and Governance, Chengdu defines social enterprise as a specific business type that is registered by the enterprise registration authority, whose main purpose is to help solve problems, improve social governance, serve for the disadvantaged and special groups or community interests, taking the innovative business models and market-oriented operations as the main tools, and the profits is reinvested in their own business, the community or public welfare based on their social purpose which should be continuously stable. The process for completing certification takes about 4 months.

In 2018, 12 companies got certified as social enterprise in Chengdu. In 2019, the number rises up to 27, and their qualification as Chengdu Social Enterprise is valid for two years from the date of approval. Those 39 certified social enterprises are expected to play active roles in the area of community development, rural area development, elderly care, environment protection, youth and child education, cultural preservation and arts development as well as underprivileged groups.

**CHALLENGES FOR THE DEVELOPMENT OF SOCIAL ENTERPRISE IN CHENGDU**

From the above introduction, we could see that the development of China’s social enterprise is local policy driven (there is currently no state-law towards social enterprise in China). Among the four representative local practices, Chengdu’s series of preferential policies towards the development of the social enterprise in the community building in the context of social innovation have taken the leading place in this area. The challenges and issues it has been facing would also be inspiring to other places as well as for the overall development of social enterprise in China.

The policy environment for social enterprise in Chengdu (as well as in other representative cities) mainly depends on the understanding of government officials at all levels and fields, as well as the reshaped relationship among government, market and society. In this background, policy formulation and implementation would be unstable due to the change of major leadership and the functions of departments. Additionally, Chengdu specially set up a new government department (Urban and Rural Community Development Governance Committee) for the integral management of social enterprise in the community building, which could be a good example for the management services since the competent authority of social enterprises has broken through the social field and expanded to the economic management department for that the statutory responsibility could be unclear in the existing departments. However, it hence requires deeper cross-departmental collaborative innovation, which poses greater challenge to the learning abilities, innovations and coordination of the lead department cadres. Currently, the officials in the primary level are struggling catching up with the fast development of social enterprise, more related training towards this group of people is essential. Just connecting with their performance appraisal in the annual target management system would possibly have reverse effect at this stage. Moreover, the relationship among government, market and society
determines the social enterprise policy environment and the implementation effects. In the primary-level practice, it takes time to truly build up tripartite partnership, and to break the administrative inertia.

In the policy-driven mode, it could be pursuing the quantity increase and explicit standardization at the risk of neglecting humanities venture inside social enterprises. Lundstrom et al. (2014) propose a three dimensional perspective to point out that social venture is an ecologic whole by business venture, humanity venture and social venture, in which the key element of this perspective is the humanity venture defined as the creation of shared inner value system in an organization. In this sense, it is questionable that the policy-driven mode would be sustainable for the development of social enterprise in China.

**CONCLUSION AND FUTURE RESEARCH**

The definition of social enterprise varies according to the situation and research issues (Meyskens et al., 2010). Majority of researchers agree that social mission (solve social problems and satisfy social needs), gain economic benefit and innovation are the three features of social venture compared to tractional business venture (Wang & Wang, 2015). As the functions and effects of social enterprise have been more and more recognized both in theory and practice, how the related research in the areas of social venture, social entrepreneurship and social enterprise could inspire today’s China in the policy-driven mode, and further reshape the relationship among government, market and society is worth to be discussed.

The concept of social enterprise was introduced to China in 2004. According to the key domestic researcher Yuan Ruijun (2019)’s analysis, “Social Enterprise Industry” has emerged and developed since 2015. She marks 2018 as social enterprise comes to the agenda of public policy in China. Li (2018) analyses the Chinese ecology of social enterprise, his summary draws a big picture of social enterprise in China in both theory and practice. Four local governments have their featured practice on the development of social enterprise. Beijing’s practice has more focused on the related research and conducted pilot projects, while Futian District, Shenzhen and Shunde District, Foshan have more centered on social impact investment and building up inter-departmental support system respectively. Chengdu is currently the leading city in this field due to the close connection with the community governance and the request in the performance appraisal for the primary-level officials. It has the strong supportive policies at the district level, nearly 20 specific policies were introduced including registration convenience, certification award, incubation support, rent subsidy, talents support and events support.

Even though the macro policy environment seems promising, the conditions for the introduction of special laws and regulations for social enterprise are still immature. Considering the ambiguity of the concept of social enterprise, the complexity of its management, as well as the connection with China’s existing policies, they all have affected the perception and attitude of high-level government officials on making the state-law towards social enterprise. China is still at the primary stage of market economy and the regional differences are great. Social enterprises have good prospects in developed areas with high level of economic development and strong purchasing power of social services, but they could be struggling in underdeveloped areas (Narada Foundation, 2019). Moreover, the social and economic benefits of social enterprise and social investment remain to be further assessed. The impact of existing regulatory policies and systems on social enterprise and social investment also needs to be further clarified in practice.

On the other hand, further exploring the sustainable social entrepreneurship would become an important subject especially in the current policy-driven mode in China. The further
research in individual attributes and environmental factors of determining social ventures could facilitate the built-up of cross-sector partnerships. More importantly, the integrative multistage, and multilevel framework developed by Saebi et al. (2018) would be an inspiration in both theory and practice, as it suggests to break through the limits of current SE research, considering the factors and interrelationships among micro (individual), meso (organizational) and macro (social) levels in SE domain.

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