THE EMERGING COMMUNITY-BASED SOCIAL ENTERPRISES IN CHENGDU: ETHICAL CONCERNS AND FUTURE CONSIDERATIONS

Shuhui Pan, Doshisha University

ABSTRACT

This paper aims to analyze the ethical concerns in the emerging community-based social enterprises in Chengdu and then propose a strategic focus of public policy towards the cultivation and development of social enterprises. The concept of community entrepreneurship is defined as a community cooperative action in which entrepreneurs and entrepreneurial enterprises pursue common public welfare, and indicate that it involves the process of establishment of new enterprises and the activities that enable them to operate within the existing social structure of the community. This article adopts a mixed methods approach including 5 qualitative interviews with key stakeholders in the local community-based social enterprises, a focus group as well as a six-month field work to better understand its operational characteristics and social impact in a particular social enterprise ecosystem. This paper explores the management structure of the local community-based social enterprise and its connections with the community residents committees, especially on the usage of public assets, distribution issues, as well as the changing roles of the community residents committees. The author proposes a strategic focus of public policy based on the characteristics of different kinds of social organizations. This paper provides empirical evidence on the ethical concerns of community-based social enterprises in Chengdu in the context of policy-driven environment for the development of social enterprises in China, and contributes to the research on social enterprises and relevant policy-makings.

Keywords: Social Entrepreneurship, Social Enterprise, Community Entrepreneurship, China

INTRODUCTION

Social entrepreneurship and social enterprise have gained more attention in Chinese academia and industrial practice in recent years. Since 2014, local governments in Shunde District of Foshan City, Futian District of Shenzhen, Chengdu and Beijing have issued preferential policies to support the cultivation and development of local social enterprises. Chengdu regards social enterprises as an important tool to promote community development. It has been coordinated by the newly established Urban and Rural Community Development Governance Committee, and under the guidelines of the city’s Industry and Commerce Bureau, a policy framework for the development of social enterprise has been established. With the support and guidance of these policies, as of the end of 2019, Chengdu had 63 social enterprises certified by the China Charity Fair (CCF), ranking first among all cities in China. Meanwhile, under its own certification system, there are 39 social enterprises, covering urban and rural community development, elderly care, education, cultural and artistic development, medical and health, environment protection, and disabled services. Noticeably, a new type of community-based social enterprises has emerged in Chengdu. This type of social enterprise re-uses community
space resources, that is, the district or county governments pay the sunk cost of space renovation and hand it over to the community for operation, and thus the community-based social enterprises have been established by the pilot community residence committees. Different from social enterprises in the general sense, community residence committees have played a key role in leadership and supervision. The persons in charge of these community-based social enterprises are the directors of the local community residence committees. However, in actual operation, due to the asset and equity structure of community-based enterprises, as well as the role of community residence committees, there are certain concerns. This article will take the Hongmen community-based social enterprise in Chengdu as a case to analyze the ethical concerns of this type of social enterprises, as well as some possible strategic focus of public policy for the government in cultivating social enterprises, which is also a core issue for the development of social enterprises in China.

LITERATURE REVIEW

The notion of social entrepreneurship (SE) has been arisen since the 1950s (Bowen, 1953), and within the last two decades SE research has become an independent and influential literature stream. The emergence of SE comes from the “triple failure” of the market, government and public welfare departments. SE takes social value as the primary goal, and at the same time advocates the use of innovative methods to solve social problems (Dees & Anderson, 2006). In this sense, SE helps to solve those social problems that may be ignored or inadequately solved by the market, government and public welfare departments.

Scholars have made attempts to describe the core content of SE in detail and accurately (Dess, 2001; Dees & Anderson, 2006; Dacin et al., 2011; Santos, 2012; Kroeger & Weber, 2014; Stevens et al., 2015). Even though there is not an agreed-on definition of SE, the dual mission of social and economic value creation reflects the core characteristic of SE which have been recognized by many scholars (Dess, 2001; Tracey et al., 2011; Pache & Santos, 2013). Saebi et al. (2018) summarize the key definitions drawing on 395 peer-reviewed articles on SE, as “most definitions stress the hybrid nature of combining a social mission with entrepreneurial activities” (Saebi et al., 2018). Social enterprises as the result of social entrepreneurship, including social business and non-profit organizations using commercial methods (Lundstrom et al., 2014). Through creating job opportunities, using resources for the benefit of the public, and reducing social welfare costs, social enterprises have made significant contributions to local development (Borzaga & Tortia, 2009). Kachlami (2014) demonstrates the direct and indirect contributions of the economic and social values generated by social enterprises to the regional development. Direct contributions are reflected in alleviating social problems and creating employment opportunities through direct entrepreneurial activities. Indirect contributions are manifested in some social values created through the entrepreneurship and operation of social enterprises, such as increasing the operation of social capital, improving regional brands, promoting the creation of commercial enterprises, and so on.

Similarly, community entrepreneurship has come into sight especially for the local and regional development. Peredo & Chrisman (2006) define the concept of community entrepreneurship as a community cooperative action in which entrepreneurs and entrepreneurial enterprises pursue common public welfare, and indicate that it involves the process of establishment of new enterprises and the activities that enable them to operate within the existing social structure of the community. Moreover, community entrepreneurship is also recognized by the government for its ability of social reform (Ratten & Welpe, 2011). The OECD (OECD,
points out that there are more local and community-based enterprises and groups between the public and private sectors. Helping the local economy transform into an enterprise-oriented innovation community, and providing these communities with more and better jobs. Therefore, social forces have confidence to regard community-level enterprises as a way to transfer economic and social crises and achieve sustainable development. Community entrepreneurship is considered to enable individual entrepreneurs to seize the opportunity to create social benefits for the community, so as to meet needs of the society due to structural changes, lack of innovative culture, lack of resources, or weak organization (OECD, 2011). After extensive literature review and analysis, Pierre et al. (2014) emphasized that local sustainable development, socio-economic value, community development, networking, collectivism and enthusiastic individual entrepreneurs are important attributes of community-based enterprises.

The research on community entrepreneurship is not only multidisciplinary, but also a constantly evolving field. For example, in business management, there are topics such as venture capital, individual-collective innovation, and entrepreneurial activities; and in social sciences, topics such as community entry procedures, social capital utilization, empowerment, and poverty alleviation strategies are also explored. Moreover, relevant studies on community entrepreneurship have also conducted in the fields of economics, environmental science and engineering (Pierre et al., 2014). In such background, in terms of social capital, social enterprise, policy, network and sustainable development, what are the latest developments and practices on community entrepreneurship in China? Before answering this question, it is necessary to understand the development characteristics of China's social entrepreneurship and social enterprises, and the role of policies.

The Practice of Social Enterprise in Chengdu

The concept of social enterprise was introduced into mainland China in 2004. From 2015 to today, the relevant research in China has been more focused on social enterprise’s connotation and extension (Zhao, 2018), as well as comparative policy studies (Chen, 2014; Jin, 2015; Li, 2018). Yuan (2019) points out that one of the main characteristics of the social enterprise’s development in China is the government has played a very important role in this phenomena. In 2016, Central Committee of the Communist Party of China (CPC) has issued “Recommendations for the 13th Five-Year Plan for Economic and Social Development” in which five development concepts of innovation, coordination, greenness, openness, and sharing intensively reflect China's development direction during the 13th Five-Year Plan (2016-2020) and beyond. Under the national guidelines, the governments at different levels (provinces, prefectures/prefecture-level cities, counties/districts) have issued their local policies to explore and build a social governance system based on collaboration and broader participation. In this background, social enterprise as an important participant in such a social governance system has gradually come into the vision of the local public agenda.

Beijing, Chengdu, Shunde District in Foshan and Futian District in Shenzhen have published a series of policies to encourage and help the development of local social enterprises. Among the practice of these representative local governments, Chengdu, a sub-provincial city which serves as the capital of Sichuan province, has taken the lead in many aspects in the practice of social enterprise. It has been taking social enterprises as the new grip to strengthen and improve urban and rural community governance and has built up a relatively strict certification system for social enterprises. Meanwhile, it encourages some non-profit organizations to transform into economically more sustainable social enterprises. 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 (such as elderly, migrant workers, unemployed, disabled and low-income families, etc.) 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. By the end of 2019, Chengdu has 63 social enterprises certified by China Charity Fair (CCF), which takes the first place among all the other cities in China. Meanwhile, starting from 2018, through its own annual certification which has been developed by a third party (a NPO called Social Innovation Star) authorized by the city’s Industry and Commerce Bureau, it currently has a total of 39 certified social enterprises.

The Emerging Community-Based Social Enterprises in Chengdu

In the process of cultivating local social enterprises, a new kind of community-based social enterprises has been emerging in Chengdu. This type of social enterprises are based on the re-use of community space resources, that is, district and county governments and other higher-level governments pay for the sunk cost of space renovation and hand it over to the community for operation. Different from social enterprises in the general sense, the community residents committees play a key role in leadership and supervision. The ones who are in charge of those community-based social enterprises in Chengdu are the directors of the community residents committees. Community residence committee is a mass organization for self-governance at grassroots level (not a government department), which was created in 1950s to ensure local neighborhood monitoring. It is composed of 5-9 members including the director, deputy directors and committee members who are directly elected by residents with a five-year term. Higher-level governments have provided the funding for the community residents committees. In the 2000s, the community residence committees are responsible for a new policy “community building” thus saw themselves as having to provide both administration and services. Specifically, the current working content\(^1\) of the community residence committees is as follows: (1) Promote the Constitutions, laws, regulations and national policies, protect the legitimate rights of residents, educate residents to fulfill their obligations in accordance with the law, protect public property, and carry out diverse cultural activities; (2) Handle the public affairs and public welfare undertakings of residents; (3) Mediate civil disputes; (4) Assist in maintaining public security; Assist the government or its dispatched agencies to do well in public health, special care and youth education which are related to the interests of residents; (5) Reflect residents’ opinions, needs and suggestions to the government and its dispatched agencies; (6) Conduct community service activities that benefit the residents, and could establish related service undertakings.

Out of 39 certified social enterprises in Chengdu (by the end of 2019), there is one community-based social enterprise in Hongmen Community. In the next part, the author would like to take it as a case to analyze this type of social enterprise’s emergence, management structure and its development challenges.

**METHODOLOGY**

This study adopts qualitative analysis methods, mainly including:
Literature Research

The scope of the literature research includes the core content of social entrepreneurship, as well as the economic and social values created by social enterprises to the regional development, mainly focusing on the impact of community entrepreneurship on the local and regional development.

Policy Analysis

This research sorted out the relevant policy of Chengdu to promote the development of social enterprises, as well as the changing roles of the community residence committees.

Interviews with Relevant Stakeholders

This research conducted 5 in-depth interviews with key stakeholders such as a government official, a former director of a community residents committee, a community staff of the case social enterprise, a senior manager of a social enterprise incubator and a founder of a non-community-based social enterprise in Chengdu, getting to know their opinions through their direct and indirect interactions with this type of community-based social enterprises, its operational characteristics and the impact in the region; Meanwhile, a focus group especially on the ethical considerations and relevant challenges of this type of community-based social enterprises was held with the above stake-holders as well.

Case Study

This study was based on a 6-month field work in Chengdu for better understanding the local social enterprise ecosystem. Taking the representative Hongmen community-based social enterprise as a case, we aimed to analyze this type of social enterprises’ emergence, management structure and its development challenges, trying to propose a feasible strategic focus of public policy towards the development of social enterprises in this area and beyond.

Concerns of Hongmen Community-Based Social Enterprise

Hongmen Community is located in Yulin sub-district in Wuhou District. It covers an area of 0.7 square kilometers, with 45 residential courtyards, more than 6,328 households, and a population of more than 15,000. There are 4 grid areas under the community and 7 autonomous resident’s management team. It is a medical resource concentration area that gathers 4 high-level hospitals such as West China Hospital of Sichuan University and a large number of high-end medical institutions. Hongmen Community is a practitioner that actively explores the construction of a model of com-munity governance in Chengdu. For example, Hongmen community residents committee has pro-posed a “3+N” system for the community-based social enterprise, which means to establish a com-pany (Sichuan Hongmen Yilin Residents Service Co., Ltd.), establish a fund (Hongmen Community Public Welfare Fund), and a system for supervision (funds supervision, internal supervision of the company, supervision of the use of public welfare funds, etc.), as well as implement multiple projects. Through the “public welfare + marketization + sustainability” operational model, which cooperates market mechanisms and social capital to attract social resources into community services and thereby enhance community service functions. The management structure of Hongmen community based social enterprise is
shown as Figure 1. We could see the specialty for this type of social enterprise is that the chairman (legal representative) is the director of the community residence committee, and the shareholders of investment come from different sources, of which private capital has accounted for a large share.

Hongmen community-based social enterprise states that their social attributes have been reflected by the participation of the community residences and the establishment of community public welfare fund. The former specifically refers to the community-based social enterprise that has opened share subscription to the community residents. As of October 2020, 18 residents have subscribed for 285,000 RMB (around 42,244 USD) worth of corporate shares of this social enterprise. The latter is specifically reflected in the company’s remaining after-tax profits after making up for losses and withdrawing the statutory provident fund, and 20% of it would be devoted into the community public welfare fund for the community to carry out projects such as poverty alleviation, elderly and disabled services, education for the community residents and children.

Cooperating with different partner companies, 6 projects have been executed by the community-based social enterprise by the end of 2019 around the areas covering from elderly care, health management, cultural activities to the new retail service. According to the report of the Hongmen community-based social enterprise, it has a market valuation of 30 million RMB (around 4,639,368 USD), an output value of more than 2 million RMB (around 309,291 USD), which basically balanced revenue and expenditure with a slight surplus. More than 100,000 RMB (around 15,465 USD) has been invested in the community public welfare fund to carry out 52 charity activities such as helping the poor, supporting the disabled, caring for children, etc., serving more than 5,000 people.

FIGURE 1
THE MANAGEMENT STRUCTURE OF HONGMEN COMMUNITY-BASED SOCIAL ENTERPRISE
Hongmen community-based social enterprise have already won some local awards for its achievements. The role of such a community-based social enterprise with development resources seems overt in driving the vitality of community development and promoting community governance. Innovative attempts should be one of the important ideas for solving various problems faced by the community. However, there are some ethical concerns existed in its emergence and development. They can be classified into five specific points as follows.

The Concerns of Public Assets

We can see from the examples of some community-based social enterprises in Chengdu (different from Hongmen community-based social enterprise, there are also some others in Chengdu which are wholly-owned by communities, such as Zhengyin Community and Zirui Community). In order to support the development and governance of the community, governments at all levels have invested a large amount of financial funds to upgrade the infrastructure of the community or invest in the space resources for the community-based social enterprises. However, the previously deposited fix investment in state-owned assets, national financial resources and the public resources (such as the community public spaces) used by the community-based social enterprises are not included in their equity structure, which makes the current share-holders of community-based social enterprises only be the community residence committee or other market investment entities, while the proportion of public assets owned by the community collective or space resources of the community in the entire equity structure is almost zero. Meanwhile, since there are risks in running an enterprise, once it closes, the public assets would be divided up.

The Concerns of Distribution

One of the important criteria for measuring social enterprises is their social attributes, which include the nature of social services, community integration and governance functions, as well as the distribution of operating income. At present, the distribution plan is different among communities. For example, in addition to spending on staff salaries and a small number of public welfare activities in the community, the community-based social enterprise in Zhengyin community mainly plans to reinvest in the enterprise, and prepares to gradually use this income to provide the overall transformation and services improvement in the future. Comparably, community-based social enterprise in Zirui community not only pursues economic effects, but also time length for public welfare activities, which can be converted to benefit almost half of the residents in the community. On the other hand, the operation of community-based social enterprise in Hongmen community is relatively commercial, strictly implementing 20% of the profits as the community’s public welfare expenditure. Some public service projects are mainly for the entire market, with a lower degree of relevance to the community itself.

The Concerns of Work Focus in the Community

Since the community-based social enterprise is funded by the community, and the director of the community residence committee is in charge of the management, there are concerns that the focus of the community’s work would be changed from serving the residents to making more money from the business, and the community’s daily work would be affected. One of the interviewees thinks there could be huge risks, “Under the current mode of community-
based social enterprises, if directors of the community residence committees are not allowed to share the benefits, they won’t have any motivations; if they are allowed to share the benefits, what should the social enterprise do about it? When those directors have all gone to run the business, who will manage these daily tasks of the community residence committees? I’ve only seen the facts around me, and these problems do exist2”.

The Concerns of Moral Ethics of Directors of the Community Residence Committees

A former director of a community residence committee said she would never across the line to become the chairman and legal representative in a community-based social enterprise, “I am worried that it later becomes hard to explain even though I do it out of a simple and good intention: to better serve the community. I would rather be a member of the board of directors in a (community-based) social enterprise, but would not be the legal person and manager. After all, a director of community residence committee is recruited by the community; his/her salary is from government financial allocation and must be managed in accordance with the system. These things are not easy to define...If you want to do a business, you probably will do something that may conflict with your community work. There are many stakeholders...If others want to check you or do some-thing to you, you (as a director of the community residence committee and manager of the community-based social enterprise) may not be able to with-stand the check. Nowadays, digging the dirt is often seen in the field of public welfare. This kind of role is difficult to find a clean position which would not be criticized3”.

Her comments have been backed up by a founder of a social enterprise (non-community-based one). This founder has been very much concerned about the possible corruption in the current mode of community-based social enterprise. His main argument is also about the dual role of the director of community residence committee, as he/she both takes the salary from the government and works at a community-based social enterprise.

In a nutshell, considering the above concerns and criticisms, the mode of community-based social enterprise in Chengdu still has many ethical considerations that need to be broken through while in the experimental stage.

Considerations for Strategic Focus of Public Policy

The development of social enterprises in Chengdu is based on policy-driven and government guides. In order to cope with conflicts and challenges in practice, the government needs to maintain continuous improvement in the creation of a policy environment and the establishment of communication mechanisms.

Based on Lundström & Zhou (2014)’s analysis model, the strategic focus of public policy for the development of social enterprises in Chengdu could be shown as follows (Figure 2).

Quadrant 1 and Quadrant 2 are the main areas of social enterprises in Chengdu which are with a certain extent social impact and general profits, while non-profit organizations are in Quadrant 3 and Quadrant 4 based on their characteristics. It is important to clarify the policy measures between different quadrants. For example, in Quadrant 1 and Quadrant 2, it must be a certain distinction between the certification and supporting policies of general social enterprises and community-based ones. For general social enterprises, it could continue to be reviewed and certified by a third-party agency; but for community-based ones, due to their direct use of state-owned assets and resources, and they rely more deeply on government credit endorsements, they need to reflect government responsibilities and have differences in certification and cultivation.
In addition, it is necessary to regulate the shareholding structure and the use of operating income of community-based social enterprises. The key issue is how to determine which of the resources used by community-based social enterprises are community public resources, state-owned resources, and private resources. It is a core issue that how these resources could be priced into community-based social enterprises, so that residents in the community can benefit more from the development. The next challenge would be how the distribution of the operating income of community-based social enterprises reflects the social attributes of serving the entire community. It needs to be designed at the systematic level. Presently, the existing channels for using funds are through community funds, but the channels are relatively narrow and lack of participation. Meanwhile, the role of community residence committees in the community-based social enterprises should be handled carefully. It also requires specific planning on how to balance the time spent by the directors of community residence committees between community work and social enterprise work. Moreover, the author won’t argue the good effects the community residence committees could bring into the community development, networking, and collectivism, however, in term of having enthusiastic individual entrepreneurs as an important attribute of community-based enterprises (Friedrichs & Wincent, 2014), a sustainable mechanism for the cultivation and communication of community talents is still in need especially for the further development of those community-based social enterprises.

![Figure 2: The Strategic Focus of Public Policy in Chengdu](image)

**FIGURE 2**

**THE STRATEGIC FOCUS OF PUBLIC POLICY IN CHENGDU**

Additionally, between Quadrants 1, 2 and Quadrants 3, 4, non-profit organizations should still be used to provide social public services that are not suitable for market commercialization, such as indemnificatory medical care, education, and elderly care services. Traditional Chinese non-profit organizations do have a need for transformation, but encouraging them to transform into social enterprises just due to the economic factors is undoubtedly risky.
CONCLUSION

This article discusses the emerging community-based social enterprises in Chengdu in the context of policy-driven environment for the development of social enterprises in China. By exploring the management structure and its connections with the community residents committees, the author analyzes the ethical concerns in this type of social enterprises, especially on the usage of public assets, distribution issues, as well as the possible changing roles of the community residents committees.

Thus, in terms of strategic focus of public policy towards the cultivation and development of social enterprises in Chengdu, the author proposes that three kinds of social organizations should be identified clearly: general social enterprises, community-based social enterprises and non-profit organizations. Each of them could have specific supporting policies. For example, as for general social enterprises, it could continue to be reviewed and certified by a third-party agency (as in the current certification system); but for community-based ones, due to their direct use of state-owned assets and resources, they need to reflect government responsibilities and have differences in certification and cultivation. Additionally, it is necessary to regulate the shareholding structure and the use of operating income of community-based social enterprises. As for non-profit organizations, even though many of them have been criticized as low-efficient, unprofessional and unsustainable organizations due to certain historic and social factors, they should still have their special place in providing social public services that are not suitable for market commercialization. In this sense, making preferential policies to encourage them to transform into the form of social enterprises should need more comprehensive discussions.

The development of social enterprises in China has been at the early stage, and the newly emerging community-based social enterprises in Chengdu are in the pilot phase, with very few samples. This research focused on the analysis of Hongmen community-based social enterprise, and also compared with different models of community-based social enterprises in Zhengyin Community and Zirui Community. However, due to the limitation of the sample size, the research results may not be comprehensive. As a new type of social enterprises, in the context of the transformation of government functions and the diverse participation in community building, how the community-based social enterprises overcome their own structural problems, and how the government makes more targeted adjustments to relevant policies in order to make this type of social enterprises effectively integrate into the existing social enterprise ecosystem, which refers to a specific type of environment support social enterprises to benefit from clustering, including beneficiaries and customers, government, funders, enabling organizations and peer organizations, would certainly require more comprehensive and further studies.

ENDNOTES

1 Article 3 of the current “Organic Law of the Urban Residents Committee of the People's Republic of China” (implemented on January 1, 1990)
REFERENCES


