The Social Enterprise Emerges in China
By Meng Zhao

Stanford Social Innovation Review
Spring 2012

Copyright © 2012 by Leland Stanford Jr. University
All Rights Reserved
The Social Enterprise Emerges in China

Social enterprises in China are being shaped by several interconnecting forces: the country’s cultural and linguistic history, new state approaches to economic and social development, and the strategic framing of social enterprises by leaders and supporters.

By Meng Zhao

Illustration by Nancy Stahl
China

“In foreign countries, the charity has developed for hundreds of years and then the social enterprise organically came up. In China, we have everything within a few decades. We now have grassroots nonprofit organizations, social enterprises, venture philanthropy funds, and so on—all of a sudden.” So explained Li Fan, co-founder of the Global Links Initiative, the first social entrepreneur membership organization in China.

Since China began to transition toward a market-based economy and to support entrepreneurial activities in the early 1980s, there has been an explicit, albeit gradual, governmental retreat from social and economic life. Social services, such as education and health care, traditionally managed by state-owned enterprises or funded through government budgets, are now partially left to civil society. Yet grassroots (i.e., independent) institutions are not ready to take over. China’s problems are mounting: There are abusive labor practices, environmental pollution, and growing numbers of drug-addicted people—problems hardly heard about just a few decades ago. Meanwhile, the World Bank and the Chinese government report that the wealth gap between the rich and the poor in China is among the world’s highest. In response to these problems, grassroots nonprofits have proliferated since the mid-1990s. But they have struggled with restrictive regulations and low trust from citizens and government. Several years ago, a group of people from the social, business, and government sectors started introducing the idea of the social enterprise as an alternative solution to most nonprofits’ failure to address the social and environmental problems left unattended by the government and businesses.

The concept of the social enterprise—with its emphasis on applying business strategies to achieving philanthropic goals—has kept pace with the evolution of the idea in the Western academic community. In January 2004, the Peking University-based journal China Social Work Research translated the first academic article on the subject, “The Social Enterprise” by Peking University Professor Liu Jitong. At the end of the year, the first group of British social entrepreneurs visited China. To give a rough chronology, these activities were about a decade after Harvard Business School launched its social enterprise initiative and about one year before the inaugural issue of the London-based Social Enterprise Journal, the first journal specializing in the subject.

In March 2006, Lv Zhao and his colleagues went to the Skoll World Forum at Oxford University, marking the first time a group from the nonprofit community in
mainland China attended the conference. Lv was then deputy director of the China NPO Network, one of the first professional training providers for Chinese nonprofit organizations, and founder of the Non-Profit Incubator, the first venture philanthropy investor in China. The same month, the Chinese journal *Comparative Economic & Social Systems* published the article “What Is Social Entrepreneurship?” by Hu Xing, then a research assistant at the Terry Sanford Institute of Public Policy at Duke University. Hu’s article sent an important signal to the Chinese government, as the journal is under the supervision of the Central Compilation and Translation Bureau, which reports directly to the Central Committee of the Communist Party (CCCP) and is responsible for informing China’s top authorities of international academic thought in social and economic areas.

The concept of social enterprise is now emerging in China. But it is not yet widely known to the general public or regularly covered by mainstream media. The Chinese government is still trying to understand the new phenomenon and formulate policies toward it. It is choosing neither to promote nor to restrict the discussion and practice of social enterprises, as opposed to the nonprofit sector, which is the subject of significant administrative focus.

I believe that the dynamics of the social enterprise sector cannot be understood without examining the cultural, political, and organizational forces that jointly define the meaning and form of Chinese social enterprises. To do this, my colleagues and I have conducted 12 interviews with Chinese social enterprise pioneers and analyzed 440 social enterprise–related Chinese media reports. My aim in this article is both to demystify the emergence of social enterprises in China and to examine its dynamics against the background of Chinese culture, language, and broader institutional change.

**TRANSLATING THE CONCEPT**

The term *social enterprise* has taken on three forms in China. There is 社会企业 (the social enterprise), 社会创业 (the startup), and 公益创业 (the startup for public good). The reason for these distinctions is that in Chinese the words “social” and “enterprise” have different meanings than in English. The word “social” in Chinese does not connote nonprofit, philanthropy, or charity, nor is it used in phrases like social sector or social economy. In Chinese, the term 公共好 (public good) has been used more frequently to refer to philanthropy or charity. The word “enterprise” in Chinese contains little implication of innovation, risk taking, or venture. It narrowly indicates business or company. On the other hand, “startup” has a clearer reference to innovation and venture.

The enterprise (企业), as a for-profit entity, is a hard-won concept in China. The Chinese Revolution of 1949 mandated that profit-making activities be run by or be affiliated with the government. Before the economic reforms of 1978, the private, for-profit enterprise was viewed as a capitalist symbol and was officially forbidden. It has taken a long time for people to accept that conducting for-profit businesses is an officially legitimate practice. In 1982 and 1987, the government respectively issued the “Provisions on Several Issues Concerning Urban Individually-Owned Enterprises” and the “Tentative Regulations on the Administration of Urban and Rural Individually-Owned Enterprises,” which formalized the administration of private businesses.

When people began to change their minds about enterprises in the 1980s and 1990s, the term 社会企业 (social enterprise) started appearing in mass media and official announcements. In media, 社会企业 was used to refer to “enterprise in society,” meaning a private sector enterprise, rather than an “enterprise for society.” The purpose of this distinction was to provide a contrast to public sector organizations, such as party agencies, government agencies, universities, hospitals, or state-owned enterprises. For example, a 2009 article published in the *Guangming Daily* stated, “Social service fees charged to government departments are made according to the principle of cost recovery, whereas fees charged to social enterprises or companies are based on the market rate.”

Today, enterprise (企业) is widely understood as a for-profit company. But it still does not have the features of enterprise in English with respect to innovation, value creation, risk taking, and the pursuit of opportunity and social change. Qiu Qingqing, head of the social innovation unit at the China Social Entrepreneur Foundation, says: “I think when people talk about 企业家 [entrepreneur], they think of things that are different from entrepreneur in English. The first response of most Chinese-speaking people would be a businessman. As to 企业家精神 [entrepreneurship], people tend to think of making money than innovation or creativity. So we are not very keen to use the term ‘social enterprise’ because it may lead to misunderstanding.”

The concept of social enterprise came to China at a time when people and government agencies were just becoming familiar with the idea of the nonprofit organization (非营利组织). Chinese are more familiar with terms such as 公益 (philanthropy) or 公益慈善 (慈善). These concepts focus on the nonprofit nature of practices, while downplaying the organizational form of nonprofits in which income and financial sustainability play a role. Likewise, these traditional concepts do not lend themselves to parallel translations of such Western concepts as the third sector or the social economy. In China, there remains a sharp distinction between charitable and economic activities. Qiu explains: “The public has an ideal and heroic view of people working in the charity sector.... It is difficult for them to accept that nonprofit practitioners would talk about salary or other business issues.”

Businesspeople and government authorities are still suspicious of the nonprofit sector and, laterally, social enterprises. Ding Kaijie, the head of the social innovation research division at the CCCP’s Central Compilation and Translation Bureau, explains: “The reality is that NPOs have low accountability and social trust. In the course of NPO development in China, a few bad cases raised great concerns among

---

*Meng Zhao is an assistant professor at the Moscow School of Management SKOLKOVO and a research fellow at the SKOLKOVO Institute for Emerging Market Studies. He was a visiting scholar at Harvard University’s John F. Kennedy School of Government and at Stanford University’s Center on Philanthropy and Civil Society.*
people and government agencies. If NPOs were commercialized, we could hardly tell them apart from for-profit businesses. There would be doubt about their commitments to social good.... Thus some officials think that the commercialization of NPOs is a mistake.”

Nonprofit practitioners in China use startup (创办) as an appropriate concept to convey the meaning of social enterprise; 创业 has the clear implication of taking risks to create something new, regardless of nonprofit or for-profit status. The first time the term startup appeared in the premier’s government work report was in 1997. Support for private business startups then became a consistent part of the government work report for 2001 to 2005, 2009, and 2010. In June 2002, the standing committee of the National People’s Congress signed the Law on the Promotion of Small- and Medium-Sized Enterprises, officially endorsing private business startups for the first time in modern Chinese history. There is no doubt that there is surging interest in starting a business among younger generations, who consider billionaires like Robin Li, co-founder of the Chinese web service company Baidu, a national hero. Nonprofit practitioners are finding opportunities in this new economy as well. Scholars at the Central Compilation and Translation Bureau and social enterprise advocates such as Lv Zhao, the founder of the Non-Profit Incubator, have begun to translate social enterprise into 社会企业 (social startup) or 公益创业 (startup for public good). Lv says he believes this translation “provides a solid cultural basis for the development of social enterprise.” The Non-Profit Incubator launched a magazine called 社会创业家 (Social Startup-er) in October 2009.

“Startup” also downplays the business and commercial connotations of the term social enterprise in Chinese. Yet the word confers substantial legitimacy to the idea of social enterprise. “Government officials feel confused about the concept of social enterprise,” says Lv. “Why should they support a 企业 [enterprise] in the charity area.... You need to first explain to them what social enterprise is not about—namely, it is not a for-profit corporation—and then you need to explain what it is about.”

The complexity of nonprofit registration in China adds confusion to the establishment of social enterprises. To obtain nonprofit status, a grassroots group has been required to register both at the Ministry of Civil Affairs or its local agency and at a professional supervisory agency, also a government office. This is called the “dual administration system,” which is a major barrier to nonprofit registration in China because the professional supervisory agency usually rejects affiliation requests from nonprofits, especially those working in politically sensitive areas. Because most grassroots nonprofits find it difficult to register with a professional supervisory agency, their only option to have a legal identity is to register as a for-profit company. This results in nonprofits that have the legal appearance of for-profit social enterprises but that usually do not have a sustainable business model. Richard Brubaker, an experienced foreign observer of the Chinese nonprofit sector, comments: “If you register as a business, you cannot do fundraising, so you cannot be traditional charity. ... If you are formally registered as an NPO, you will be limited in what you can do. If you stay with your business status, you can do whatever you want.... We almost need to redefine what is a nonprofit and what is a social enterprise in China, because the regulation is so different.”

Meanwhile, a social welfare enterprise resembles a social enterprise. A social welfare enterprise is a for-profit enterprise that receives social welfare status from the government and hence enjoys tax benefits, government loans, and other kinds of support. This status is granted according to the organization’s mission or staff structure, such as having more than 35 percent of its employees be physically or mentally impaired. Social welfare enterprises register with the Ministry of Industry and Commerce and receive supervision from a local bureau of civil affairs. The entity therefore possesses the social and commercial features of a social enterprise, but social welfare enterprises usually have an administrative relationship with their supervisory government agency, which makes them unlike independent social enterprises. Some Chinese scholars view social welfare enterprises or cooperatives as a “quasi-social enterprise” (准社会企业). This is also where some argue for the use of “social startup” or “startup for public good” to avoid confusion and to stress the entrepreneurial features of social enterprises.

THE GROWTH OF SOCIAL ENTERPRISES

Although the linguistic translation of social enterprise is challenging, since at least 2004 people from various professional backgrounds have started to engage in two streams of work to promote the concept: theorization through writing and training, and formalization through founding organizations.*

As mentioned earlier, in January 2004 China Social Work Research published the first academic journal article to introduce the idea of a social enterprise. In July 2004, the Global Links Initiative, the first membership organization that promotes social enterprises in China, was founded in the United Kingdom. In November, the initiative invited the first group of British social entrepreneurs to visit China. Then, in December, it hosted the first social enterprise forum in China. In January 2006, the 21st Century Business Review, a leading Chinese business magazine, published about 10 articles on the concept and practice of social entrepreneurship. Two months later, Comparative Economic & Social Systems published an article titled “What Is Social Entrepreneurship.” In April, David Bornstein’s book How to Change the World: Social Entrepreneurs and the Power of New Ideas came out in China, followed in September by a Chinese translation of Charles Leadbeater’s book The Rise of the Social Entrepreneur.

The United Kingdom has had a substantive influence in the early dissemination of the social enterprise concept in China. In 2007, the Global Links Initiative organized a group of Chinese social entrepreneurs, journalists, and government officials to visit social enterprises in the United Kingdom. This visit led to a 20-page discussion on social enterprise in the 21st Century Business Review. That summer, the first International Forum on Social Entrepreneurship was held in Hangzhou, organized by the Global Entrepreneurship Research Center of Zhejiang University, the Skoll Centre for Social Entrepreneurship of Oxford University, and the Entrepreneurs School of Asia. In October 2007, Comparative Economic & Social Systems published a special issue, titled “Social Enterprise Overview: A UK and China Perspective.” In 2009, the journal published another special issue, this time devoted to social enterprise topics, and in 2010, it published the first (and so far the only) journal issue in China about American and European venture philanthropy.

In addition to knowledge dissemination through books, magazine
articles, and academic journal papers, the past several years have witnessed the creation of the first social enterprise membership organizations, incubators, training sessions, and teaching curricula. In 2007, two influential social enterprise support agencies were founded: the China Social Entrepreneur Foundation and the Non-Profit Incubator. In 2008, the foundation and the British Council jointly developed the Social Entrepreneur Skill Training Workshop, the first of its kind in China. In 2009, in collaboration with the Research Centre of Civic Society of Peking University, the China Social Entrepreneur Foundation launched an elective course, Social Entrepreneurship and the Practice of Social Innovation. This was the first time the concept of social enterprise entered a higher education curriculum. In the same year, the Non-Profit Incubator, in partnership with the Bureau of Civil Affairs of Shanghai, organized the first Shanghai Community Venture Philanthropy Contest, marking the first time the Chinese government publicly supported grassroots social entrepreneurial initiatives. In 2010, the China Social Entrepreneur Foundation worked with the British Council and Ashoka to launch the Greater China Social Entrepreneur Forum, which hosted hundreds of participants and formally consolidated the social entrepreneurship community in greater China.

INSTITUTIONAL CHANGE IN THE NONPROFIT SECTOR

The chronology above took place alongside profound transitions in China. The country’s political and regulatory institutions are opening up new opportunities for the development of a grassroots nonprofit organization sector. And over the past 20 years, important government officials have taken a proactive role in building a more favorable environment for nonprofits. Ding from the Central Compilation and Translation Bureau explains: “The government is trying to improve the environment for the NPO development. For example, we are entrusted by the government to study the experience in other countries, so that we can amend the dual administration system in China.”

Central government officials have been pushing an “open up” policy for social organizations for years. For example, Fan Baojun, who was the vice minister of the Ministry of Civil Affairs from 1987 to 1997 and is now chair of the China Charity Federation, has frequently criticized the restrictive dual administration system and appealed for speeding up the process of passing NPO legislation. Wang Zhenyao, former director of the Ministry of Civil Affairs’ Disaster Alleviation Office, led the establishment of the Social Welfare and Philanthropy Promotion Office in that ministry in 2008. The same year, he said a ministry goal was to build an advanced social service system and facilitate grassroots philanthropy. Partly due to these efforts, the draft of a new Philanthropy Law, which is expected to reduce the regulatory obstacles for developing nonprofits and philanthropy, is now under review by the State Council.

These are not the only examples. Xu Yongguang is the general secretary at the Narada Foundation, one of the leading nonprofit and social enterprise facilitators in China. Xu was the head of the organization department of the Central Committee of Chinese Communist Youth League, the general secretary of the China Youth Development Foundation, and the vice chairman of the China Charity Federation. This former central party official and the head of the two largest GONGOs (government-organized nongovernmental organizations) in China is now leading a foundation set up by a private company, the Shanghai Narada Group, showing the increasing fluidity between the government, corporate, and nonprofit sectors. Another example is Shang Yusheng, who was the general secretary of the Research Institute of China Science Foundation. In 2001, he founded the China NPO Network, which provides free training to grassroots nonprofits across China and developed the country’s first nonprofit accountability standards.

Perhaps the biggest change to the Chinese nonprofit sector took place last summer. On July 4, 2011, Li Liguo, the head of the Ministry of Civil Affairs, announced that charity, social welfare, and social service organizations would be permitted to register directly at local civil affairs agencies. The announcement is seen as a step toward the abolishment of the dual administration system. It means that millions of unregistered grassroots nonprofits will have a greater chance to register as legal nonprofit entities.

By the end of 2010, the Non-Profit Incubator’s Venture Philanthropy Fund was managing more than 50 million RMB ($8 million) and had supported more than 300 nonprofits and social enterprises.

Yet even before this national reform, Shenzhen and Beijing started their own institutional experiments. Since 2008, Shenzhen has allowed industrial and commercial, social welfare, and charity nonprofits to register without a supervisory agency. In July 2009, the Shenzhen government signed an agreement with the Ministry of Civil Affairs to promote civil administration reform, permitting public foundations to register directly with the city’s civil affairs authorities without ministerial permission.

In February 2011, the Beijing Bureau of Civil Affairs announced that four types of nonprofits, including the three types in Shenzhen and another one specializing in social services, do not need permission from a professional supervisory agency to register. The Beijing city government also has requested that CCCP and government officials working part time on nonprofit boards not be elected as board members anymore, indicating a further depoliticization of the sector.

SOCIAL ENTERPRISE PROMOTION

While the government has reassessed the nonprofit sector, two highly influential social enterprise support agencies—the China Social Entrepreneur Foundation and the Non-Profit Incubator—have been developing extensive connections with the public and the business sector. The Non-Profit Incubator was founded in 2006 by Lv Zhao, with the goal of cultivating grassroots nonprofits and social enterprises in China. Previously, Lv worked as a journalist and a business entrepreneur. In the early 1990s, he helped launch the first professional financial magazine in the country, China Securities and Futures, and in 2003 he became editor in chief of Philanthropy Times, the first national, government-backed newspaper to focus on philanthropy issues. In 2007 Lenovo, the Chinese multinational computer company, entrusted
Lv’s organization with planning and running the Lenovo Venture Philanthropy Fund, the first venture philanthropy fund in China.

The Non-Profit Incubator has proposed a “New Privatization Movement” for China, in which social entrepreneurs are primary players. The incubator compares this movement to the privatization of business enterprises in the 1980s and describes both movements as top-down phenomena, endorsed and assisted by the government. In essence, the Non-Profit Incubator is appealing to the CCCP to pave the way for acceptance of grassroots nonprofits and social enterprises. It has been asked by the Bureau of Finance of Shanghai’s Pudong New District to draft a “Guideline on Government’s Purchasing Social Organization Services.” The minister and the vice minister of the Ministry of Civil Affairs and the vice mayor of Shanghai applauded this incubation model for grassroots social innovation and encouraged a nationwide replication. By the end of 2010, the Non-Profit Incubator’s Venture Philanthropy Fund was managing more than 50 million RMB (about $8 million) and had supported more than 300 nonprofits and social enterprises through grants and strategic advice. Projects like 1 Kilogram, which encourages tourists to visit rural schools and make donations, and China Dolls, which advocates for people with Osteogenesis Imperfecta (brittle bone disease), have become national examples of social enterprises.

The other main supporter of the sector is the China Social Entrepreneur Foundation, which was founded in 2007 by Wang Ping with a group of business entrepreneurs and senior officials from the State Council’s Poverty Relief Office. (Wang started her career in academia—earning a master’s degree in politics from the University of Maryland and serving as a visiting scholar at the European Union’s agricultural division—and then held positions in the International Department of the CCCP, at the Hong Kong investment and brokerage firm BNP Paribas Peregrine, and at the Beijing office of the law firm Cha & Cha.) Wang has framed the China Social Entrepreneur Foundation as combining philanthropic and investment models. She says it adopts a “high-engagement model of investments in its strategic philanthropy programs” and supports social enterprises through “industry investments ... for public good, using private equity-like approaches.”

Wang sees social enterprises as part of a new wave of social innovation in China—what she calls the “New Philanthropy.” In the beginning, the China Social Entrepreneur Foundation focused on poverty relief, in which it had particular expertise and for which there was significant government investment and support. Over the past few years, the foundation has leveraged government resources to expand its services to include a supporting agency for microfinance institutions, a research and education institute on social innovation and philanthropy, a nationwide volunteer project, a disaster management center, and a new philanthropy incubator. Among the foundation’s grantees is the Social Entrepreneur Skill Program, in partnership with the British Council, which aims to train 600 Chinese social entrepreneurs between 2009 and 2012. Other projects, such as Le Ling, a home-based elderly care service, have been recognized for pioneering social innovation models in China.

WHAT THE FUTURE HOLDS

Social innovation in China is heavily intertwined with changes in government regulation and politics. Thus the people who identify themselves as social entrepreneurs in China need to work strategically within the system, positioning the need for social enterprises within broader changes in regulations, the nonprofit sector, government, and public opinion. A critical barrier to the large-scale development of social enterprises is the weak nonprofit sector. Although the state probably will not dramatically revise the regulation of nonprofits and other forms of organized grassroots initiatives in the short term, it is probing different possibilities. The recent loosening of the dual administration system is a promising sign. And several influential government officials are working in the nonprofit sector and experimenting with new philanthropy models. Meanwhile, the government seems to be stepping up its support of social innovation programs through organizations such as the Non-Profit Incubator and the China Social Entrepreneur Foundation.

It is reasonable to believe that the social enterprise movement could be fueled by the tens of millions of newcomers to China’s middle and upper classes. It is also clear that younger generations understand the social enterprise model better than older ones. Ding of the Central Compilation and Translation Bureau says: “Young generations of NPO practitioners have a strong interest in social enterprises. Their educational background and work experience make them believe that there should be innovative approaches to solving social problems, considering that the traditional charity model does not work well in China. Most attendees in our training are in their 30s, and they have a clear understanding of what social enterprise is.”

Lv had a similar observation: “The practitioners’ background is changing. A few years ago, most charity leaders were retired government officials or people who had personal encounters with social issues that they tried to address. Today, many well-educated young people enter this area and quickly embrace the social enterprise model.”

Meanwhile, representatives of the old government-organized charity organizations, such as the China Disabled People’s Federation, have announced that the federation needs to move toward a social enterprise model. What is too early to foretell is to what degree and in what areas the boundary between the state and grassroots social innovations can be negotiated. China’s 12th five-year plan stresses innovation in the public administration system. Nevertheless, while government officials talk about social reform, scholars and observers argue that such reforms could turn into a new form of government administration rather than genuine empowerment for grassroots initiatives. The question is how far grassroots initiatives can go when the government can stop their activities at any time and while there is an unreliable governance system to protect them.

Still, I have confidence that social enterprise practitioners working in relatively nonpolitical areas, such as environmental protection or philanthropy, will be able to take advantage of the further relaxation of bureaucratic strictures on nonprofits and the emerging market for public services. The time is ripe for domestic and foreign social entrepreneurs to mobilize government support through legitimate cultural and organizational channels for bold social innovation in China.