

Economic Sustainability and Social Innovation in Social Enterprises

-The Dual Nature of Hybrid Organizations

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Self-regulated market vs self-protection of society

As China is memorizing its 30th anniversary of economic reform (1978-2008), developed countries are encountering the most serious financial crisis since the Great Depression. A lot of lessons for the successes and failures of market economies can be learnt by China. These lessons also remind us about Polanyi's classic book *The Great Transformation* (Polanyi, 1944/2001). It told us that free market economy is never self-regulated, it is always a political project as manipulated by the states. It started not until late 18th century and is a process in which mankind, land, natural resources all being transformed into fictitious commodities. Markets that are originally embedded in social relationships now become disembedded. Prices become the single rule governing economic activities and inevitably give rise to financial crises. Consequently, self-protection movements of the society develop, in hoping to restore the human rather than commodity nature of material lives.

For Polanyi again, markets are not evil in themselves, state regulations are not omnipotent either. His brings our attention to the long history of mankind, where markets carried various social, political and cultural functions, profit is just but a minor component. Different markets are operated under reciprocity, redistribution and exchange principles, exchange is not always the norm. It was not until 19th century that the various original functions were expelled, that markets became solely regulated by price and profit, and ultimately, they became out of control and ended in wars and depressions.

Cooperative Economy

Starting from the dawn of market economy, mankind have begun to explore various alternatives and experimented different possibilities of development. By now, they can more or less be identified as the "cooperative economy", "social economy" or "public economy". It summaries a varieties of economic activities not performed by the state or the private sector. It includes cooperatives, mutuals, associations and foundations, etc. In sum, these organizations serve their communities or members,

rather than the capital. They emphasize democratic and participatory principles, rather than rational, bureaucratic structures. For Polanyi, Robert Owen was singled out as the lonely prophet during the industrial revolution, who experimented humanized management, [New Lanark](#) community and workers participation. Although Owenism did not sustain through the intensified social conflicts, it nevertheless stimulated later worldwide movements for the searches of alternative developments.

In Mainland China, cooperative economy is nothing new, although after the last 30 years, its significance has gradually been forgotten, and is thought as something on the “left”. In the last 30 years, the socialist market economy with Chinese characteristics was established, which however, should never be equated with private ownership system. Multiples of ownership systems are recognized in the official ideology, diversified models are encouraged to tackle different economic conditions. The new rural cooperative legislation was just passed in 2006, not-profit enterprises are multiplying everywhere. In sum, social and economic goals are considered as complementary to so many activities in the market economy.

Non-profit Sector

Markets can be diverse, commodity markets are only one of them. The same principle also applies to the non-profit sector. Non-profit organizations are also diverse, engaging in a wide variety of activities including economic and non-economic ones. As a field relative autonomous from the state and the market, the non-profit sector is however not segregated, oppositional or even antagonistic against the state and the market. It not only maintains close interactions with the mainstream market, but also performs much economic functions on its own. It produces, circulates and distributes goods and services, but not according to the sole principle of price and profit. It sometimes serves as a supplement to the state and the market, but in most cases, it is a close partner of theirs.

According to the classification of Hansmann(1987), NPOs can either be donative or commercial. Commercial NPOs produce not only public goods but also private goods. They compete with private companies in the distribution of goods and services, only that they often serve people with less material wealth. They also charge for their services, only that they do not distribute their profit. In the past 30 years, neo-liberalism and welfare reform has virtually driven NPOs to be more commercial than ever. In Mainland China, NPOs are still under-developed, and they are mainly

considered as “part of the civil society” and “representatives of the public interest”. Material interests and service provisions are not the key concerns. Private goods and services are considered as matters that belong to the market. But if we remember once again for Polanyi, markets can be diversified, economic activities should be embedded in social relationships and NPOs can also be part of the market.

The Emergence of Social Enterprises

According SMES, SEs can be considered a new form of organization located between cooperatives and NPOs, adding some features of private companies (Borzaga and Defourny, 2001). SEs aim at realizing social and economic objectives simultaneously, and achieve balanced and sustainable development in the society. Generally, SEs can make profit but cannot distribute it. The profit can only be reinvested in the same business or utilized in social activities of similar values. From a macro point of view, SE is a child of the global capitalist economy but at the same time a potential of reforming it. It can also be a crucial component in developing the socialist market economy with Chinese characteristics.

During 1990's, SEs grew rapidly under the new labour government in UK and venture philanthropy sector in US. With the emphasis on community empowerment and asset building, they formed an integral part of the new governance and welfare models in post-welfare states. The non-profit sector no longer relied on the state fundings to promote social well being. As an alternative they increasingly employed the management and marketing techniques of private sector. Corporate philanthropists also started to experiment more innovative methods to work with the poor people. Instead of keep donating they try to strengthen the self help capacity of marginalized communities. This trend is termed by Bill Gates as “creative capitalism”. Researches and pilot projects on SE will undoubtedly throw insights not only on the future of corporate philanthropy, but also on the wider scope of social policy, social development, multi-level governance and service delivery models in China.

After Yunus was awarded the Nobel Prize in 2005, he went to Peking University and conducted a renowned speech. Just a few months later, the book “How to Change the World” (Bornstein, 2004)-featuring Ashoka Foundation, the most successful SE supporting organization in the world-was also translated and published in China. Stimulated by these two incidents, SE has becoming the talking point among business elites and social activists in China.

The fever of SE in China can be understood from its unique context. The policy space for public fundraising of NPOs is scarce. Instead of depending on the donations of international foundations, there is a strong desire among NPOs to attain independent finance sources and achieve self-sustainable development. The success of private sector growth in reform China also encourages activists to employ more market-oriented means to promote social ends. Unlike the heavy involvement of the Hong Kong government, the SE movement in mainland China is predominantly spontaneous and bottom-up, and is particularly hot among academics, NPOs and corporate philanthropists. With the visiting of Ashoka Foundation to HK in 2007, active dialogue among Hong Kong and mainland China SEs also started. Many organizations start to transform themselves as SEs or being supporting organizations for SEs.

Although highly concerned by among academics, NPOs and corporate philanthropists, SEs are still relatively unknown for the wider business community and the general public. It is crucial for SEs to develop wider social support base to achieve success. Although there are many quasi-SEs among the semi-governmental organizations and the non-profit enterprises, officials are still relatively indifferent to the emergent SE sector, probably except some departments under the ministries of civil affairs, poverty alleviation and commerce at the central level. New policy initiatives and legal provisions are needed for a more healthy environment of SE development.

In meantime, some supporting organizations like Lenovo, Yuchang and Nandu Foundations have become prominent figures on the scene, but really successful SEs being raised in China are still scarce. The culture of traditional charity and donation is still dominant. The required innovativeness and entrepreneurship to start SEs requires further time and effort to incubate. In short, a more systematic and creative system of promoting SE is particularly crucial.

Entrepreneurs for Social Change

As suggested by Steyaert and Hjorth(2006), there are numerous discussions on the concept “social entrepreneurship”, but most focus on “entrepreneurship”, as predominantly defined by business schools with textbook routines and professional jargons, the “social” component is by and large neglected. Therefore, they strongly

advocate the idea of “entrepreneurship as social change”, and emphasize the bottom-up, grass-root, emergent and spontaneous nature of entrepreneurship. They suggest instead of focusing on the personal and material achievement dimensions, stress should be put on the community and collective action dimensions of entrepreneurship. Instead of focusing on the corporate philanthropy dimension, stress should be put on the social movement dimension. Instead of confined to academic and professional definitions, stress should be put on challenging traditional institutions and practices. All in all, social entrepreneurship should be embedded in the wider social context, and innovativeness should “let itself be surprised”.

In fact, the name Bornstein gave to the book “How to Change the World” has already clearly revealed the kind of underlying believes of the author as well as Ashoka Foundation being featured in it. As Bill Drayton, the founder of Ashoka Foundation recently re-phase their understanding about social entrepreneurs, he said: Everyone is a changemaker! It makes a crystal clear statement that social entrepreneurs are not only a matter of adopting market principles in tackling social problems, but a root belief to change the whole system as a fundamental solution.

References

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