

Hong Kong Social Enterprises - Profitable or Valuable?

Summary

- In this paper, we argue that **Social Enterprises (SEs) should be primarily assessed in terms of their social value creation, rather than profitability**, because the purpose of SEs is to create social value.
- **70% of SEs aim at delivering workfare and have achieved it cost-effectively.** Wage is considered one of the most important component of workfare. For each dollar of SE investment, it created \$0.5 wage to the disadvantaged in a single year. After two years, such amount surpasses the initial investment. Comparing to traditional charity that only gives out \$0.78 out of each dollar of donation; the **SE model is better in providing help to disadvantaged groups.**
- **SEs' job provision also reduces government expenditure as some employees leave the safety net.** Apart from wage, workfare also enhances disadvantaged peoples' dignity, self-confidence, social network, and facilitates social inclusion and promote independence.
- **SEs also helps increase the social capital of Hong Kong**, first through facilitating social inclusion of the disadvantaged into the mainstream workforce, and second through providing opportunities for knowledge volunteers and ethical consumers to contribute back to the society.
- In the business operation, SEs just like other business enterprises need a long investment period before breakeven. **While it is important to shorten this learning curve, it is critical to have endurance during the financial difficulty.** Endurance comes from the passion to serve and donation support, **both of them are in turn support by the social value created, that is, how and how many disadvantaged are being helped.**
- We recommend stakeholders and policymakers to reframe their perspectives on SEs in Hong Kong. Instead of insisting on breakeven within a short time frame, we should understand that **SEs also need time for the typical learning curve before reaching breakeven and more importantly, SEs are higher cost-effective comparing to traditional charity.**

Characteristics of Hong Kong Social Enterprises (SEs)

According to Muhammad Yunus, social entrepreneurs are those entrepreneurs who have initiatives with social visions, and “[this] initiative may be a non-economic initiative, a charity initiative, or a business initiative with or without personal profit. Some social entrepreneurs house their projects within traditional non-governmental organizations (NGOs), while others are involved in for profit activities.¹”

SEs are businesses set up ‘for’ a social mission

In this research, we would take a narrower definition to include includes only those who run a social enterprise (SE) as commercial businesses set up for a social mission.

According to the 2011 report² from Hong Kong Council of Social Services, there are 329 SEs under 116 organizations pursuing business in Food or Restaurant 23%, Medical or Care 20%, Retail or Grocery 17.6%, Business support 9.9%, Environment 8.5%, Living 7.8%, Education and Training 4.8%, Transportation 2.5%, Clothing 1.4%, and Others 4.4%.

In the 2010 report³ from The General Chamber of Social Enterprises, over 70% of SEs aims at poverty alleviation through creating employment for the disadvantaged group. The remaining SEs focus on environmental issues, education, animal rights, and public awareness or advocacy.

70% of SEs provides workfare to disadvantaged group

	2009/2010
Mental Illness or Retarded	17.8%
Physically Handicapped	17.4%
Elderly	14.0%
Youth	9.3%
Single Parent	5.5%
New Immigrants	4.2%
Ethnic Minorities	1.7%
Ex-offenders & Ex-addicts	0.8%
Others	29.3%

Most SEs are competing in mature market, only 7% of them do not have any competitor.

¹ Yunus, Muhammad; and Weber, Karl (2010), *Building Social Business: The New Kind of Capitalism that Serves Humanity's Most Pressing Needs*, New York: Public Affairs, p.4

² 陳家俊 (2011), 《社企增幅放緩 清潔公司慘蝕 60 萬》, 明報, 2011-02-08

³ The Hong Kong General Chamber of Social Enterprises (2010), *Benchmark Survey on Social Enterprises in Hong Kong*. This survey was prepared by Policy 21 and has 236 samples

Most are small enterprises with 81% of them employ less than 10 full-time-equivalent employees, and over 92% of SEs are run by NGOs, typically supervise or run by social workers.

See It Right – Profitable or Valuable?

The assessment of SEs should be based on whether they achieved their purpose instead of their means. While profitability is always desirable in any business, let's not forget the purpose of SEs is mainly for providing workfare to the disadvantaged group. To put it in perspective, workfare should be treated as complement or part of substitute for welfare. As such, social impact of SEs should be compared to traditional welfare.

Workfare is a complement or a part of substitute for welfare

This leads to our recent study on SEs' social impact or social value creation in Hong Kong. Our research on social impact reveals that:-

1. Each dollar (\$1) of investment in SEs generates an average of \$3.0 revenues⁴ each year.
2. The SEs pay out \$0.5 as wages to the disadvantaged group.
3. For SEs that can sustain for more than two years, the total wage paid can cover the initial investment. As a comparison to traditional charity giving; each dollar (\$1) of donation translates only into \$0.78 that goes to the disadvantaged group after deducting the overhead and necessary administrative costs⁵.
4. SEs deliver more cost-effective results⁶ in social value creation than traditional charity giving.

SEs' workfare is more efficient than welfare in providing direct financial benefits to the disadvantaged

Moreover, SEs deliver three types of social impacts, 1) workfare, 2) social cost saving, and 3) increase in social capital.

⁴ The study covers 10 SEs. For the 6 SEs which the accumulated investments are more than HK\$1 million, in average the annual revenue is 310% of the investment dollar and the annual wage to the disadvantaged is 55% of the investment. For the 4 SEs which investments are less than HK\$1 million, in average the annual revenue is only 135% but the annual wage to the disadvantaged is 63%. The medians of all 10 SE include HK\$1.64 million on investment, revenue at 164% of investment, wage at 49% of investment paid to 32 disadvantaged people.

⁵ The top ten NGOs in operation efficiency, based on iDonate <http://www.theidonate.com/en/>, are 78.3% in average. That is, for each dollar of income, 0.783 dollar will go to projects which benefit the service targets. The rest are consumed in overhead including fund-raising (5.6%) as well as staffing and admin cost (16.1%).

⁶ Take Fullness Hair Salon as an example, the investment was HK\$600,000. The annual revenue was HK\$2.2 million. Salary accounts for HK\$1.2 million, of which HK\$400,000 was given to the juniors who are targeted service recipients.

First, jobs provided by SEs allow the disadvantaged group to earn income with dignity, to have growth challenge in life, to learn new knowledge and skills, to expand their social network, and to help them to regain self-confidence. As a result, workfare promotes independence among the disadvantaged group and is proven to be an effective way to facilitate re-integration to the society.

In addition to financial return, SE offers Triple Social Impact which includes workfare, social cost reduction, and social capital increment.

Second, there are social costs savings. In a survey done by MentalCare Connect (MCC), 62% of the mentally-retarded employee responded that they were healthier. Social costs are also lowered because some SEs employees, such as those in MCC and Rehab Power, stop soliciting the Comprehensive Social Security Assistance (CSSA) from government. In MCC, such CSSA cost savings in a single year equal to 13% of MCC initial investment in the SE. Moreover, there are cases reported that elderly working in SEs, comparing to those staying in elderly home, have fewer sicknesses. This in turns reduces medical expenses of Hong Kong.

Third, social capital is built-up. SEs provide workplace where the marginalized work with other 'normal' people, this promotes an inclusive culture and better understanding among different communities of people in Hong Kong.

SEs reduce government expenditure in CSSA and other medical spending.

For example, in the case of Dialog-in-the-Dark (DiD), 90% of its visitors (40,000 last years) change their perspective on visual impairment. They start to appreciate the superior ability of the visual impaired instead of sympathize their disabilities.

In Fullness Hair Salons, 50% of consumers come to support the social mission of helping ex-offenders and deviate youth. In an ethical consumption survey⁷, 64% respondents believe that their ethical consumption is promoting self-help for the deviate youth, 57% support it because it is meaningful, 23% like that because the youth can live with dignity, 15% because it improves the competitiveness of the beneficiaries, 8% because it increases social capital, and 7% because they can contact the beneficiaries directly⁸.

SEs build up social cohesion by allowing the middle-class & affluent group to participate.

In fact, it is not just the disadvantaged group, but the middle class or the more affluent people can be benefited from supporting SEs. They enriched their spiritual richness through participation as venture philanthropists, knowledge volunteers⁹, relationship brokers, ethical consumers, or business partners. The SE movement provides a platform for collective engagement of the affluent, middle-class, and also the grass-root group.

⁷ Kee, Chi Hing (2011), *Fullness Way*, Hong Kong: SEE Network, p.92-95

⁸ Ibid, p.10

⁹ Both Dialog-in-the-Dark and Fullness also have many knowledge volunteers providing free professional services. See “董事Ted 作為知識義工的的轉化” in *Fullness Way*, p.106-107

Profitability of surviving SEs

In 2010 GCSE report, 49.7% of the surviving SEs with funding supports from government or other funding sources were either breakeven or profitable throughout 2004-2008 while 78.6% of SEs without any funding support were breakeven or profitable in the same period. The former was probably set up as a up as a NGO or by a NGO, the latter was not set up by NGO and run by non-social workers.

To take its face value, the conclusion is that those surviving SEs run by non-social workers especially businessperson is more successful in terms of financial performance than those by social workers in NGOs.

However, according to a study by Harvard Business School¹⁰, the average success rate of first-timer business entrepreneurs is only 22%. Among them, their success rate for the second venture will only increase to 34%. Although the definition of success by the Harvard study is different from the GCSE report, how comes the Hong Kong SE without funding support can be so much better than the Harvard cases and our daily experience on the small business ?

One of the reasons for the phenomenon is the survival rate. The GCSE report is based on surveying surviving SEs. SE closed before the survey are not reported. On the other hand, the Harvard study used the number of all enterprises set up as the denominator.

Youth Business Hong Kong (YBHK) has a 67% survival rate for their projects with more than 3 years in business. Enhancing Self-Reliance (ESR) program has funded about 110 SE projects so far and about 70 projects (64%) are still surviving.

On the other hand, a Fullness survey¹¹ on the Sai Wan Ho hair salon market found that only 47% of the salons in 2008 are still surviving in 2011. That is, 53% of private salons closed down in three years time.

Putting all surveys together, it is more realistic to say about two-third of enterprises could survive if they have support from professional management, government funding or NGO support, while for those without any helps, about half could survive.

The survival rate of SEs depends on profitability. But for those run by NGOs, there is a second lifeline called donation.

¹⁰ Gompers, A. Paul et al (2008), *Performance Persistence in Entrepreneurship*, <http://www.hbs.edu/research/pdf/09-028.pdf>

¹¹ Kee, Chi Hing (2011), *Fullness Way*, Hong Kong: SEE Network, p. 3

Endurance required in the Learning Curve

Many SEs in Hong Kong are providing decent wages to disadvantaged group, even some SEs are running at a loss, most SEs sponsors, such as NGOs, tend to endure because of the social value created for the people. This explains why 50.3% of SEs are running a loss from 2004-2008 and yet they are still surviving.

SEs owners tend to endure its business even at a loss because the social value created is huge

If these SEs were purely assessed from a profitability viewpoint, most of them will be shut down in the early stage of the venture's life cycle. From our observation, many SEs are enduring their business because of the social value created. Most of them seek financial support from donation.

An example is the Fullness Auto Service Centre which was set up in 1988 and took four years to reach operation breakeven in 1991. Fullness Hair Salon was set up in 2001 and reach operation breakeven in 2006. Fullness survived through these difficult times with donation.

Another example is Senior Citizens Home Safety Association which was set up in 1996 and reached operation breakeven in 2002¹² if all donations were taken out from the income. MentalCare Connect also took about 5 years to reach breakeven.

The few samples in average take about 5 years to go through the learning curve before reaching breakeven.

Such ability to endure should be treated as a key success factor in SEs. It is normal that any business, including private business, has to go through a few years of learning curve in order to understand the industry and to grow the size of business to achieve economies of scale, so that the revenue is large enough to cover its overhead. In Hong Kong, many of the survived and successful SEs, like those listed above, took about 4 to 6 years to achieve operation breakeven.

Finally, taking into account that existing 329 SEs in Hong Kong are still in their initial stages of development as the Government starts promoting SEs since 2005, it is far too early to conclude that the success rate of SEs is relatively low in Hong Kong. As such, our effort should be directed to sharing of proven managerial knowledge to SE practitioners so as to shorten their learning curve.

Social mission leads to endurance, which provides more time to learn and a higher chance to reach breakeven in the long run.

We conclude that it is the social mission of the SE which supports the social entrepreneur to endure through the difficulties, and it is also because of the social impact that donors support the SE financially. Hence the social mission leads to the endurance which in turn gives enough time for the SE to develop proficiency and to create more social impact through workfare or other services.

¹² The financials of Senior Citizens Home Safety Association can be found in Company Registrar.

The Case for Social Enterprises

To sum up the above arguments, we want to reiterate the followings:

1. SEs are set up for social value creation. Hence the primary measurement of the success of SEs should be social impact.
2. The most tangible measure of social value is the workfare, which in two years time, the amount of wage paid out already reach its initial investment. This is about 28%¹³ more cost effective compared to traditional donation model. There are also intangible cost saving in government expense and increase in social capital due to social inclusion.
3. The financial successful rates of SE or commercial enterprise are low, especially so if only an investment period of 2-3 years can be afforded. The few leading social enterprises take about 5 years to reach breakeven. This is a good benchmark on the learning curve needed before sufficient knowledge, network, customer base, and finally business volume can be developed for breakeven. Any time frame shorter than that is exceptional rather than normal, unless it is a replicated branch or franchisee.
4. While entrepreneurship may be the strength of businessmen, endurance is the strength of NGOs. The former is a like a lion which is a king of the jungle, and the latter a camel¹⁴ which is the survivor in the desert. SEs run by NGOs can live longer to generate more social impacts on workfare, social cost saving, and social capital development.

Recommendation

We advocate a shift of existing perspective that compares SEs to other business enterprises. The new perspective requires stakeholders, including government officials, philanthropists, NGOs, and civic society to properly evaluate the SE movement primarily in terms of its social value creation. Policies and public money should be rationally directed for maximizing the social value creation for the disadvantaged group, facilitating social inclusion and educating the public.

There is no short-cut for any SE to grow rapidly. Sufficient time for learning and a better ecology among government, business, and civic society are needed. But it all starts with speaking right with social enterprises, otherwise, most SEs will died out in a few years because of an inappropriate interpretation, and that will be a huge loss to the society.

- END -

¹³ $(100\% - 78\%) / 78\% = 28\%$

¹⁴ 紀治興、鄭敏華 (2008), “社企渡過經濟嚴冬的駱駝政策”, 《營商能耐可以改變社會》, 香港: SEE 網絡, p.102

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His social enterprise experience includes being the board director, treasurer and the honorary General Manager of Fullness Christian Social Enterprise, and being a member of Finance Committee of Stewards Ltd. Besides, he regularly teaches social enterprises courses in mega churches and non-profit organizations.

About FSES

Fullness Social Enterprises Society (FSES) is non-profit organization aiming to be the opinion leader in the social enterprises movement in Hong Kong. Through applied research, publication, and dedicated training, FSES provides insight and intelligence to social enterprises practitioners in Hong Kong. The Society was set up by Fullness Christian Social Enterprise which was the first social enterprise to raise capital through issuing stocks in 2008, promoting responsible consumption in 2009, and advocating knowledge volunteering in 2010.

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