

## Social Return on Investment (SROI) of Enhancing Self-Reliance (ESR) through District Partnership projects

### Summary

- In 2012, Professor Filipe Santos of INSEAD proposed a positive theory on social entrepreneurship: “The distinctive domain of action of social entrepreneurship is addressing **neglected problems** in society **involving positive externalities** that **benefit a powerless segment** of the population.”
- The US benchmark data shows that **only 50% commercial firms can survive by the end of the fourth year**, and only 18% can survive by the end of tenth year. The former number means the median life of commercial enterprise is 4 years.
- Social enterprises funded by Enhancing Self-Reliance through District Partnership scheme have **a survival rate of 77% by the end of fifth year**. The median life of social enterprises is from 6.4 years to 7.2 years with the former assuming all cease by tenth year and the latter assuming there is still 18% survive by tenth year. That is 60% to 80% longer than the commercial firms.
- There are two possible reasons on the higher survival rates of social enterprises run by NGOs. First, the **primary concern of NGOs is the “benefit of the powerless segment of the population”** instead of the businesspeople whose primary concern is the self benefits. Second, **social enterprises have a larger social capital base** due to its selflessness, as compared to the limited selfish of commercial firms which may have a strong corporate social responsibilities.
- The social return on investment (SROI) of ESR scheme shows that the public money is well spent. **For each ESR dollar granted out, the socially disadvantaged people can earn 41 cents per year, for a median of 6.4 years that make a total of 2.6 dollars benefit generated on each dollar.**
- There are 2,064 socially disadvantaged people and their families benefited for 6.4 years from the HKD156 million ESR funding. In other words, each socially disadvantaged enjoyed the benefits of workfare resulted from a government grant which is equivalent to **HKD993 per month if spread over 6.4 years**. This costs less as compared to CSSA.

## Introduction

Professor Filipe Santos (2012)<sup>1</sup> of INSEAD University explains that:

*“The distinctive domain of action of social entrepreneurship is addressing neglected problems in society involving positive externalities that benefit a powerless segment of the population.”*

According to Stephen Fisher<sup>2</sup> (Chan, Chen, and Young 2010: 11-12), the then Secretary to the Commission on Poverty explained that the intention of the government is to have social enterprises to solve “problems that the market fails to resolve or the government cannot resolve satisfactorily.”

He recalled that back in 2007 there were 32% of the households who were on Comprehensive Social Security Assistance (CSSA) but whose adults in the households are employable, including single parents who have small children; people with low incomes; and people unemployed. They suffered from structural unemployment which resulted from Hong Kong’s transformation of the manufacturing economy to service economy that usually required highly educated staff.

Fisher further explained that while the social enterprise can help alleviate the poverty problem, the government’s consideration is more than just social cost saving or reduction of wastage of human resource, but helping the disadvantaged to have a dignified way of living because work is an important element in the core value of Hong Kong (Chan, Chen, and Young 2010: 15). From a broader perspective, social enterprise can also bring other positive outcomes including social capital and tripartite partnership among government, business, and civil sectors.

*SE is more than social cost savings, but helping the disadvantaged to have a dignified way of living because work is an important element in core value of HK*

In 2010, the Centre for Third Sector Studies of Hong Kong Polytechnic University found that 93.3% of the 44 social enterprises surveyed focus on job creation for the disadvantaged (Chan, Kuan, Ho, and Wang 2010: 16)<sup>3</sup>. Based on the annual sales revenue, the median of the annual sales volume of the respondents was around HKD1.7 million (2010: 36).

In 2013, Hong Kong Council of Social Service published that there were 406

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<sup>1</sup> Filipe M. Santos (2012) *Journal of Business Ethics*, 111: 335–351

<sup>2</sup> Stephen Fisher, was the former Director of Social Welfare Department of Hong Kong government before retirement. Before that, he was the Deputy Secretary of Home Affairs Bureau, and Secretary to the Commission on Poverty.

<sup>3</sup> Chan, Kam-Tong; Kuan, Yu-Yuan; Ho, Po-Ying; and Wang, Shu-Twu (2010), *Comparative Analysis of Social Enterprises in Hong Kong and Taiwan: Scope and Dynamic*, Hong Kong Polytechnic University

social enterprises registered in its Social Enterprises Directory.

## Research Question

Since the inception of the Commission on Poverty in 2006 on the promotion of social enterprises in Hong Kong, there has been worry that social enterprises operated by NGOs may have great challenges in the business part of the social return on investment.

In 2008, the Central Policy Unit<sup>4</sup> (Tang et al 2008: xiv-xv) reported constraints faced by NGOs in running the social enterprises:

- a) “Some SE managers pointed out the indecisiveness in NGOs – social workers from NGOs do not always follow decisions, particularly relating to the discipline of workers.
- b) There is some difficulty in changing the mentality of NGOs that pay too much attention to social mission.
- c) Social workers working for SEs lack the business knowledge and related mindset, and they may not be able to survive in open-market competition after the first two years of using all the seed money.
- d) The specific abilities these NGOs lack include: expertise in running a business, managing skills and knowledge in formulating market strategies.”

Chan (2008:19)<sup>5</sup>, elaborated that

“As afore-stated, it is essential for the social entrepreneurs to strike a balance between social goals and economic goals in the social enterprises. The mindset in need was almost claimed to be the biggest challenge to social enterprises. Even if the top management has the right mindset, lots of efforts have to be made to convince the middle management or front-line staff of such beliefs.”

Therefore, the research question is whether social enterprises funded by the government scheme, Enhancing Self-Reliance through District Partnership (ESR) have achieved its double bottom-lines in economic valuation creation and social value creation?

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<sup>4</sup> Tang, Kwong-Leung; Fung, Ho-Lup; Au, Y.F. Kevin; Lee, Kin-ching James; and Ko, S.F. Lisanne (2008), *Social Enterprise in Hong Kong: Toward a Conceptual Model*, Central Policy Unit of The Government of the Hong Kong Special Administration Region of the People’s Republic of China

<sup>5</sup> Chan, Kam-tong (2008), *Creative Philanthropy: Development of Social Enterprise in Hong Kong*

## Data Collection

The secretariat of ESR in Home Affairs Department conducted annual surveys on its grantees to collect the performance of these funded projects. In 2013, there have been 144 projects funded with HKD156 million. Half of them had responded to the survey.

## Economic Performance

After aligning the data of the responded projects so that all data are counted from the starting year, the survival rate at the fifth year of projects is 77%, of which 24% is at loss and 53% is either breakeven or profitable (which is marked as projects not at loss in the table below).

Table 1: Survival rates and self-sustainability rate of ESR projects

|                      | End of Funding <sup>6</sup> | 1 year after | 2 year after | 3 year after |
|----------------------|-----------------------------|--------------|--------------|--------------|
| Projects ceased      | 0%                          | 13%          | 20%          | 23%          |
| Projects at loss     | 81%                         | 51%          | 30%          | 24%          |
| Projects not at loss | 19%                         | 36%          | 50%          | 53%          |

This percentage data is very different from most previous studies in that it uses the number of all projects, including those still survive and those ceased, as the denominator; while most reports only use the survived projects as the denominator.

In the US, 70% of new commercial firms survives by end of second year, 50% survives by end of fourth years<sup>7</sup>. Hence the median on the life expectancy of commercial firms is 4 years. In another survey, only 40% of commercial firms can survive after 6 years, and only 18% after 10 years<sup>8</sup>.

Based on these comparisons on survival rates, the survival rate of ESR projects

<sup>6</sup> In year 2011, the Funding Period of ESR has been changed from 2 years to 3 years. Hence the data in the column "End of Funding" include both projects with 2 years of Funding Periods and projects with 3 years of Funding Period. However, since the survey was in 2013, the data in the column "2 year after [Funding]" were all at their 4th years, and the last column were all at their fifth years or even longer.

<sup>7</sup> Barringer, Bruce; and Ireland, Duane (2010, 3rd edition), *Entrepreneurship: Successfully Launching New Ventures*, New Jersey: Prentice Hall

<sup>8</sup> Marcum, Dave; and Smith, Steve (2002), *businessThink: Rules for Getting It Right – Now and No Matter What!*, New York: Wiley

is much better than that of the commercial projects in the US. Since the survival rate is 77% by fifth year, median life expectancy of social enterprise is longer than 5 years, from 6.4 years by assuming conservatively that all cease by the end of tenth year, to 7.2 years by assuming most likely there is still 18% surviving by end of the tenth year.

An explanation on the higher survival rate of ESR projects is the perseverance of the NGOs because their primary missions are to help the disadvantaged, prescribed by Santos' definition of social entrepreneurship. But commercial firms will cut loss as their primary concern is profitability, though they may have a corporate social responsibility (CSR) as their secondary concern.

Another factor influencing the financial performance of the social enterprises is the social capital. While most entrepreneurship requires resources beyond its control, social entrepreneurship is able to mobilize additional resources because of its primary mission is "social". It means "addressing neglected problems in society involving positive externalities that benefit a powerless segment of the population". This selfless noble intent attracts venture philanthropists, knowledge volunteers, ethical consumers, media, and business corporations looking for creative CSR programs.

*Higher survival rate of SEs is the result of perseverance of NGO's objective to help the disadvantaged, while commercial firms will cut loss as their primary concern is profitability.*

## Performance in Social Value Creation

One of the criteria on funding projects in ESR is the employment created for the socially disadvantaged (SD). Hence all these projects are Work-Integration Social Enterprise (WISE). The 144 ESR projects employ 2,370 people, of which 604 employees are full time and the remaining 1,766 are part-time. This numbers include 2,064 SDs, of which 368 are full time and 1,696 are part-time.

*A way to measure the social impact is the wage earned by the socially disadvantaged.*

A way to measure the social impact of the WISE is the wage earned by the SDs. It is called Workfare, or Work-as-Welfare. Though we use the wage as a proxy, the actual values received by the SD are more than money, but "a dignified way of living" as recalled by Fisher.

At present the total annual workfare to the 2,064 SDs is HKD64 million. The accumulated ESR grant is HKD156 million. That means each ESR grant dollar leads to 41 cents of SD wage. In 6.4 years, the total workfare generated is 2.6 dollars<sup>9</sup>. Based on the previous research, each social enterprise investment dollar leads to annual revenue of about 3 dollars<sup>10</sup>.

*Each dollar of ESR granted will lead to annual revenue of 3 dollars, of which 41 cents go to the wages of the socially disadvantaged.*

<sup>9</sup> Calculated by  $\$0.41 \times 6.4 \text{ years} = \$2.6$ .

<sup>10</sup> This is based on the research document the article Kee, Chi Hing; and Kwan, Ted (2011) "Profitable or Valuable", *FSES Newsletter*, 2011 July

In terms of real dollar, a SD (average out between the full time and part time employees) gets HKD2,584 per month through workfare, which cost government HKD76,246<sup>11</sup> as a lump sum ESR grant, or HKD993 per month if spread over the 6.4 years.

## Conclusion

In the perspective of the social value created by public money, the ESR fund is well spent. It beats the survival rate of commercial enterprises with a median of life expectancy at least 60% longer, and creates 2.6 times of social return on investment on workfare, which is “a dignified way of living because work is an important element in the core value of Hong Kong”.

*ESR fund is well spent, it creates 2.6 times of social return in workfare, which is dignified way of living for the socially disadvantaged.*

## Recommendation

Fullness Social Enterprises Society (FSES) advocates that government should use the perspective of Social-Return-On-Investment (SROI) to design the data to be collected upfront, then collect data, quantify the impact with meaningful benchmark, and fund initiatives communicating the SROI to the public.

While ESR scheme is chartered to fund projects which create employment for the socially disadvantaged, government should also fund projects which can benefit the socially disadvantaged with products or services which are priced lower than the market rate, especially on the daily necessities like housing, food, transportation, and daily goods. The price discounted is the “positive externalities that benefits a powerless segment of the population of the society.” A good example of such project is the Twilight Market in Tin Shui Wai by Community Development Association in 2008 to 2012. The residents there had enjoyed foods and goods which were about 12% less as compared to the market prices in that area.

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<sup>11</sup> Calculated by HKD156 million divided by 2,046 people.

## Our Research Team

### Kee Chi Hing

Kee is a member of the Social Enterprise Advisory Committee in Home Affairs Bureau, and a member of the Community Investment and Inclusion Fund in Labor and Welfare Bureau; a co-opted member of the Social Innovation and Entrepreneurship Development Fund Task Force in the Commission on Poverty, and a co-opted member of the Digital Inclusion Task Force of Office in the Government Chief Information Officer.

He is a part-time lecturer of the MBA program in Baptist University, and MSW program in City University. His publications include “營商能耐可以改變社會”, “20 Business Strategies for Social Enterprises”, “Fullness Way”, “Social Enterprise and Spirituality” and “使命商道”.

Before retirement, he was a Corporate Vice President and Hong Kong Managing Director of Hewlett-Packard (HP) responsible for the P&L of HK\$4B business. Out of his 26 years in HP, 9 years was in Beijing and 1 year in Shanghai.

### 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 can be traced back to Fullness Christian Vocation Training Centre (FCVTC), which was the Hong Kong pioneer of social enterprise setup in 1987. After applying business skill to turnaround the profitability in 2007, it was the first social enterprise to raise capital through issuing stocks in 2008 to set up Fullness Christian Social Enterprise (FCSE). The latter promoted ethical consumption in 2009, and knowledge volunteering in 2010. It then set up FSES in 2011. FSES continues the pioneering and promoted social return on investment in 2011, and social marketing in 2012.

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