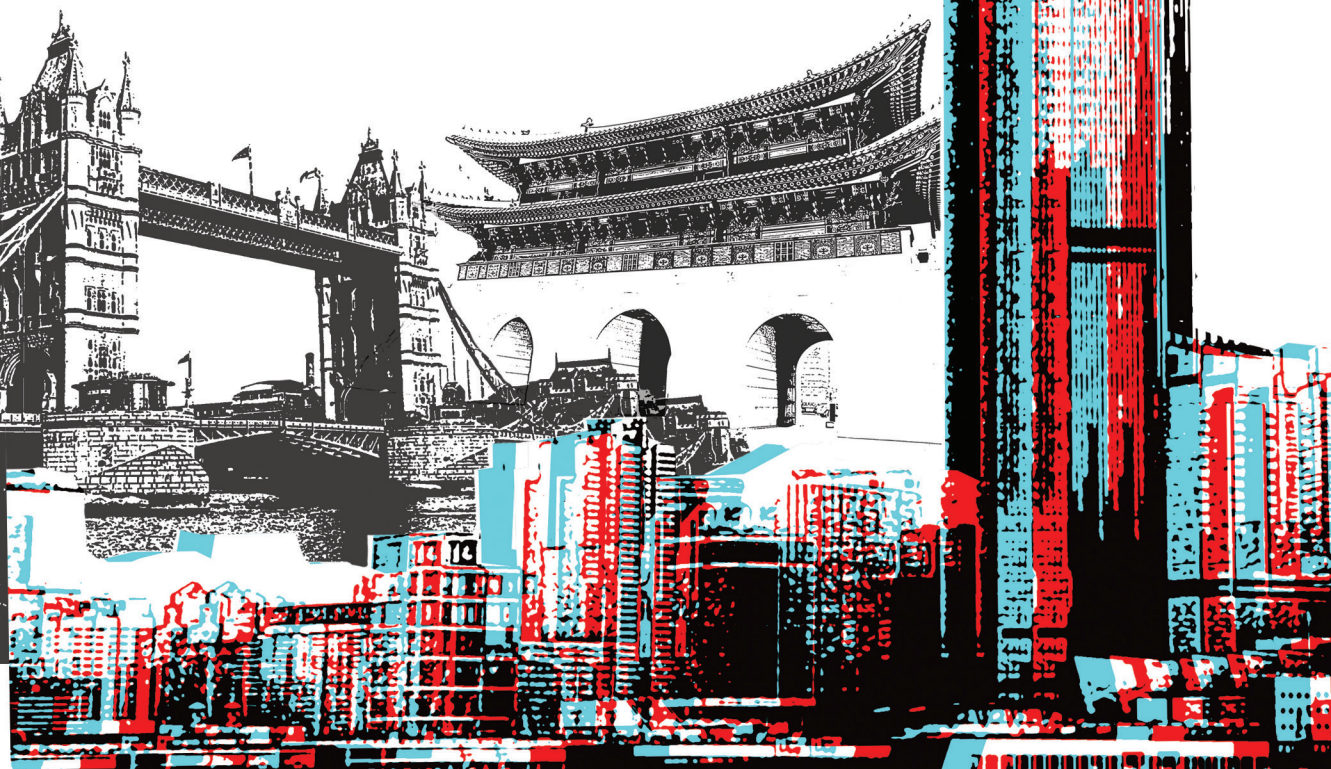


Comparing the Key Performance Indicators of
the Social Enterprise Sectors

among

HONG KONG,
UNITED KINGDOM,
and KOREA

Kee Chi Hing Kwan Chi Hong Kan Chung Kan Clara



Comparing the Key Performance Indicators of the Social Enterprise Sectors among Hong Kong, United Kingdom, and Korea

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Preface

The method used for assessing the social enterprises (SE) sector is arousing enormous attention in many countries as the momentum of social entrepreneurship gathers. This paper takes the approach of comparative analysis in assessment. It is because while absolute number is important, comparisons of numbers provide even more value in guiding decisions and future actions.

The first comparison is on the density of SEs in countries, calculated by the number of listed or registered SEs over the population in the country. While the absolute numbers are important, putting the numbers in ratios might show another picture. The comparison shows that Hong Kong has the highest SE density in Asia (see p. 9). Furthermore, the process of data collection found that not many countries maintain a directory of SEs. In other words, the presence of a regularly updated directory, and SE sector-wide data are another indication on the maturity of SE development.

The second and the main comparison is on the key performance indicators (KPIs) of Hong Kong's (HK) SE sector to those of United Kingdom (UK) and of Korea. In doing so, we adopt a practical approach for assessment. The three KPIs used are (1) financial self-sustainability of the sector measured by the percentage of the SEs which is profitable or at breakeven; (2) scale of the SE sector measured by the total SE revenue divided by the GDP of the country; and (3) social impact generated.

HONG KONG, UNITED KINGDOM and KOREA'S SOCIAL ENTERPRISE SECTORS

Key Performance Indicators: (1) Financial self-sustainability, (2) Scale of the SE sector, and (3) Social impact

Self-sustainability Rate

24% of business comes from government

73%

SMEs' life span: 7.3 years

11,230 Registered Companies in UK (Jul 2015)

No data on the social return on investment.

457 Registered Social Enterprises in HK (2014)

63%

SMEs' life span: 3.7 years

The social return on investment for SEs was 48% annually or a total of 443% over the 9.3-year median life span.

5 years wage subsidy

28% of business comes from government

SMEs' life span: 6.3 years

14%

Data from 2012

1,082 Registered Social Enterprises in Korea (Sep 2014)

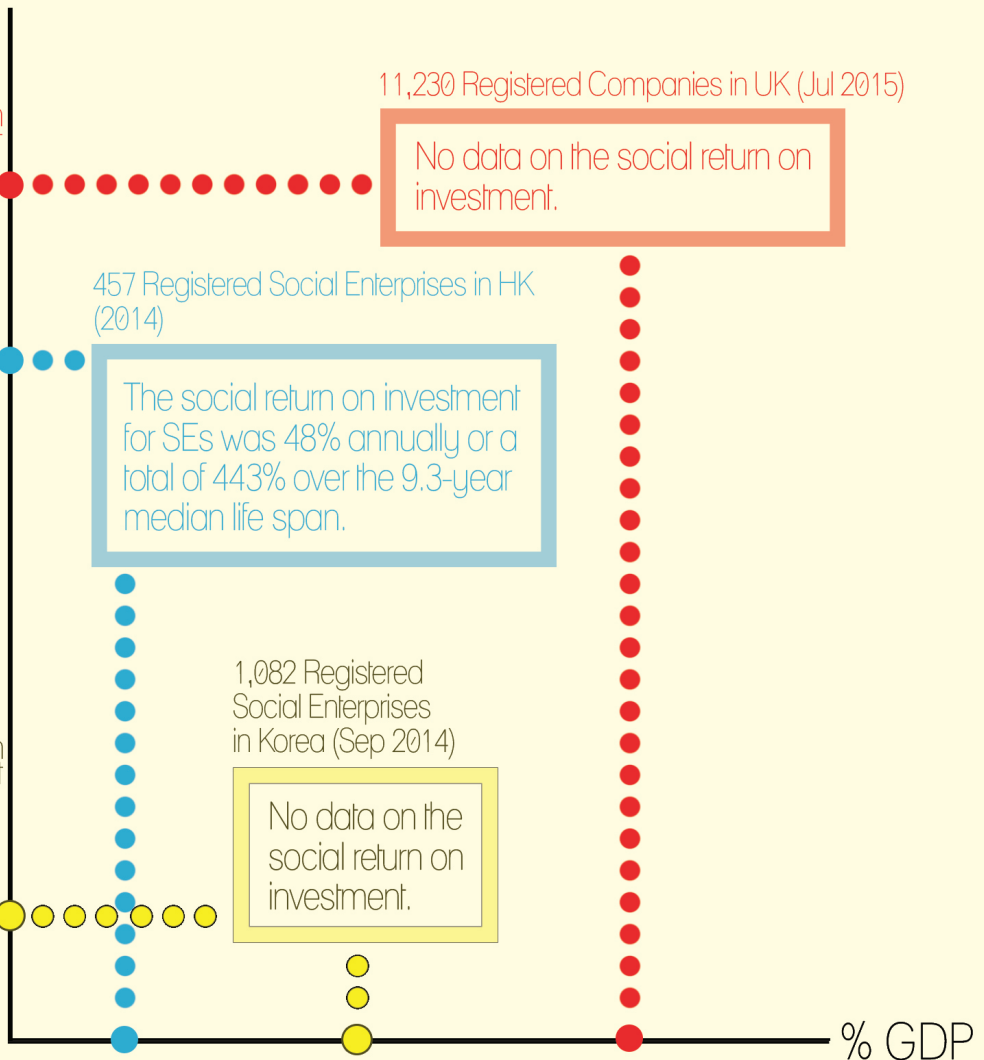
No data on the social return on investment.

0.05%

0.07%

0.11%

% GDP



Financial self-sustainability

Taking HK as an example, based on a survey in 2013, 62.9% of the local SEs were either profitable or at breakeven. Similarly, UK and Korea had also published their numbers. To facilitate comparison, these percentages should be interpreted together with the data on the private-sector market competitiveness. So, the benchmark used is the average life spans of commercial enterprises in the countries based on the data from Global Entrepreneurship Monitor reports. While HK ranked second on the financial self-sustainability, HK has the most competitive market that the average life span of commercial enterprise is 3.7 years only, while in UK and Korea the life span is 7.2 year and 6.3 years respectively.

Scale of SE sector

The total revenue generated by the SEs was HK\$1.3 billion, which is equal to 0.056% of HK's GDP. This is the scale of the HK SE sector as a percentage of GDP. Similar numbers were calculated for UK and Korea in this paper.

Social Impact Measurement

In Hong Kong, for every 100 dollars invested in setting a SE, the average annual revenue is 285 dollars. This is the multiply effect of commercial business. Of which, 48 dollars were the annual wage of the socially disadvantaged. Since the median life span of SEs in Hong Kong was 9.3 years, the accumulative wage was 446 dollars. Taking the wage of the socially disadvantaged as the social impact, the social return on investment was 446% over 9.3 years. The diagram on the results is shown on next page. while this paper explains how the numbers are calculated.

Finally, SE development in a country normally goes through three stages. In the first stage of Marketization, social entrepreneurs have to learn how to commercialize their social value creation process to reach at least financial breakeven. This is not an easy job. Hence in some countries, the policy focus shifts to social innovation instead and the sustainability issue rests on donations and government subsidies. Hence, financial self-sustainability through trade activities is not a pre-requisite.

In the second stage of Actualization, social entrepreneurs have to demonstrate the social impacts generated because it is the mission of a SE. Probably the most important perspective is that of the funders. One of the most adopted approaches is Social Return on Investment (SROI). Another approach is the Unit Cost per beneficiary or per deliverable. For countries such as Korea which SE development is led by Labor Department, the unit cost for each job created by SE can be a measurement. Furthermore, social capital can also be one of the intended and measurable outcomes of the SE sector. In countries like UK that SE development is led by Department of Trade and Industry, then incremental GDP contributed by the SE may be the intended outcome of the SE sector. Another perspective is from the consumers. For each purchase of SE products or services, what will be the percentage of the price paid channeled to social value creation. This is the 'social content' of the consumption.

While most countries are stuck in Marketization, Hong Kong had already passed the first two stages, and is in the third stage of Diffusion, in which social entrepreneurship extends its influence outside the SE sector to foster of a favorable ecosystem for scaling up the social impact. In Hong Kong, the public/government sector is playing an active role in the policy making, funding and recognition; the social/NGO sector is building up a social entrepreneurial culture from within; the commercial sector is adjusting their practice for shared social and business value creation; the educational sector is supporting the notion of social entrepreneurship in the curriculum; and the general public will be the ethical consumers supporting the SE sector.

Keywords

Social enterprise sector,
Key performance indicator,
Financial self-sustainability,
Social impact assessment,
Social return on investment,
Stages of social enterprise development



Introduction

The development of SE sector in the past few decades has sparked off intense interest in societies at large. This paper¹ explores the underlying concepts, data, and possible actions related to SE development in HK. It takes stock of SE development in HK and compares it with similar ventures in UK and Korea, for the purpose of assessing the current status of the HK SE sector and determining the lessons learned from its experiences.

The practical approach suggested puts the future assessment of SE sector into a more structured context for relevant stakeholders' reference. The discussion sets out to inspire understanding, thought leadership and possible actions of SE development in HK. This is an on-going agenda in effecting positive societal change to benefit the disadvantage community through SE development.

¹ This is a briefing paper originally developed for postgraduate students attending the course of Management of Social Enterprises at HKUSpace. The course is taught by Directors of Fullness Social Enterprises Society.

1.1 Hong Kong SE Development Backdrop

HK has been a leader in SE development since 2010. Indeed, HK is commanding a leadership or pioneering position far beyond Asia in one of six areas of SE development:

(1) SE penetration and density

As of 2010, there are 329² registered SE projects in HK against a population of 7 million. There are more than 45 SEs per 1 million populations, the highest reported density as compared to the neighbours in Asia. The latest number of SE projects in 2015 is 527, increasing the density to an impressive 73 SEs per 1 million populations (Table 1).

(2) Marketization of Work-Integration Social Enterprise (WISE)

There are 70%³ of the SEs in HK provides job opportunities for the disadvantaged groups in 2010. The number is 83%⁴ in 2014 based on a survey by another organization.

(3) Actualization of social impacts of SE projects

The HK Government is reporting a \$4 to \$7⁵ return on investment for the Enhancing Employment of People with Disabilities through Small Enterprise (3E) project in 2015.

(4) Citywide promotion of ethical consumption

The Home Affairs Bureau (HAB) is sponsoring ethical consumption promotion campaigns for four consecutive years to help generate market demands for SEs' products and services.

(5) Diffusion of social entrepreneurship into different sectors through reinvention

The diffusion of social entrepreneurship into the commercial sector through reinvention of business process is best illustrated by the exam-

ple of telecom operator Hong Kong Broadband (HKBN). HKBN is stepping up in multi-dimensional collaborations with social enterprises⁶ through adoption of the M.O.V.E.S. model (Marketing Social Mission, Outsourcing Business Processes, Voluntary Coaching; Ethical Consumption and Social Firm) initially conceived by FSES. HKBN is now running an augmented 1083 telephone customer enquiry service operated by iEnterprise, a social enterprise which employs physically disabled individuals. This is an award-winning project that breaks even in less than six months. In addition, HKBN has an in-house canteen run by SE; developed a team of knowledge volunteers to coach SEs in need with their business expertise; and co-organises the citywide Tithe Ethical Consumption Movement (TECM) by encouraging staff members and business partners to patronize SEs.

(6) Overall management of SE development

The HK Government plays an active role policy making, initiating government funded research studies, programs and SE projects to gradually build up the SE ecosystem in the last 10years. Projects include Enhancing Employment of People with Disabilities through Small Enterprise (3E), Enhancing Self-Reliance (ESR), Social Innovation and Entrepreneurship Development Fund (SIEF), Social Enterprise Summit (SES), Hong Kong Council of Social Service established HSBC Social Enterprise Business Centre (SEBC), Tithe Ethical Consumption Movement (TECM) and many more.

² Social Innovation and Entrepreneurship Development Fund Task Force Current Landscape, SIEDF TF Paper No. 2/2013. http://www.povertyrelief.gov.hk/pdf/20130219_2-2013_eng.pdf
<http://socialenterprise.org.hk/sites/default/files/sedirectory/2015%20SE%20Directory.pdf>

³ The Hong Kong General Chamber of Social Enterprises: Benchmark Survey on Social Enterprises in Hong Kong (2010).

⁴ The Research Study Report on the Social Enterprise Sector in Hong Kong - to Capture the Existing Landscape of the Social Enterprises in Hong Kong. Research study commissioned by the Social Enterprise Advisory Committee of HAB in 2013-2014.

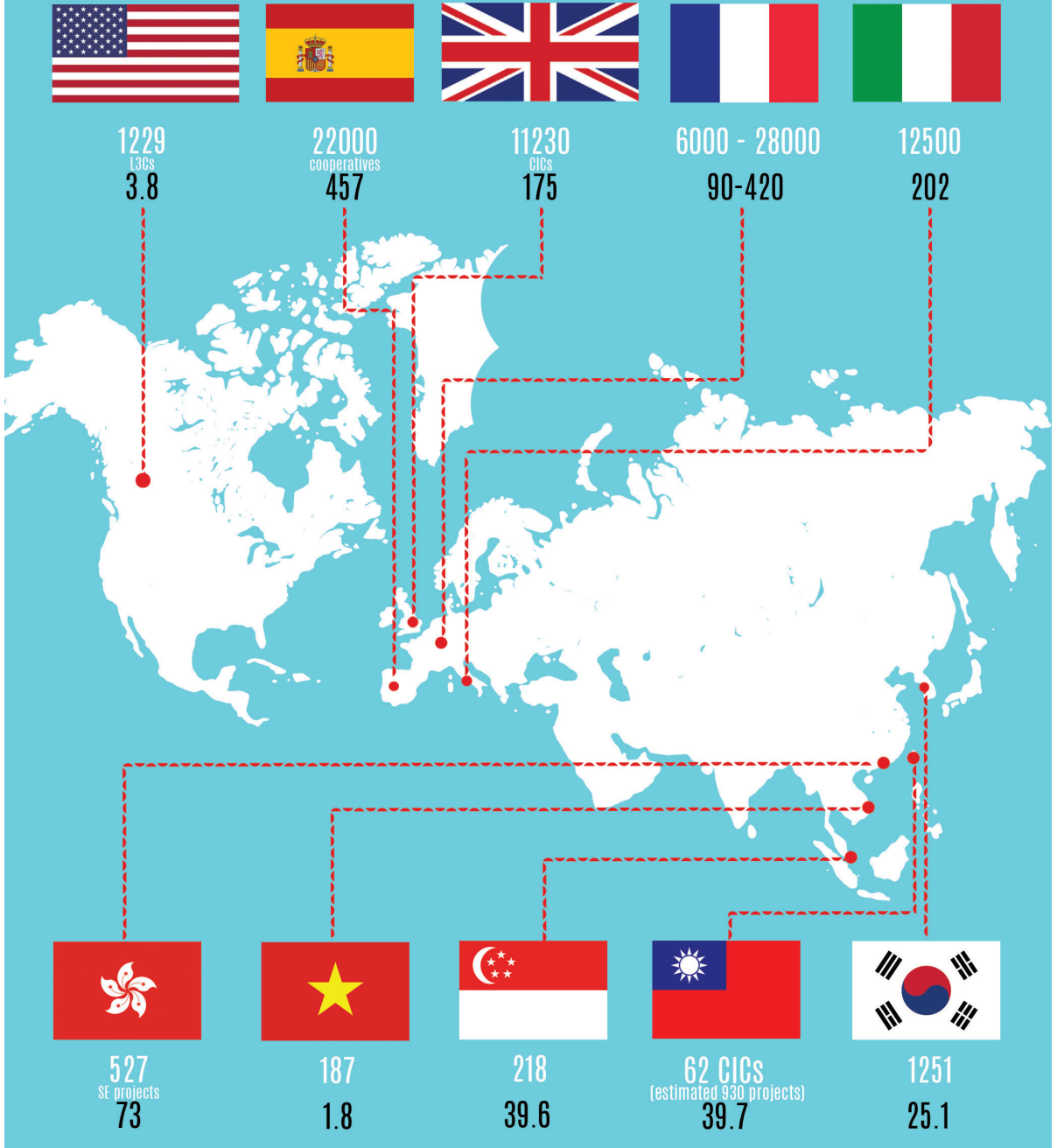
http://www.social-enterprises.gov.hk/en/research/research_part1.html

⁵ Press Release, Budget Speech by the Financial Secretary, February 25, 2015.

⁶ <http://www.hkbn.net/new/en/about-us--corporate-social-responsibility--a-better-place.shtml>

Social Enterprise Development in Selected Western and Asian Countries

Total No. of SEs / No. of SEs per 1 million Population



In India¹⁶, one third of the SEs are operating at a loss.

The Thai government established the Social Enterprises Promotion Committee in 2009.

In the Philippines, SE practitioners are pushing the government to develop more formal SE policies.

Remarks: Details on Social Enterprise Development
in Selected Western and Asian Countries

Country	Total No. of SEs	No. of SEs per 1 million Population	Source of Data and Date of Data Release	
Selected Western Countries				
Spain ⁷	22,000 cooperatives	457	Article on <i>Guardian</i> website	Jan 2013
Italy ⁸	12,500 SEs	202	Article on <i>Guardian</i> website	Dec 2012
UK ⁹	11,230 CICs	175	UK CIC registrar website	Jul 2015
France ¹⁰	6,000 to 28,000 SEs	90 to 420	ICF report to European Commission	Oct 2014
US ¹¹	1229 L3Cs	3.8	Inter-Sector Partners: L3C website	Sep 2015
Selected Asian Countries				
HK ¹²	527 SE projects	73	Hong Kong Council of Social Services	2015
Taiwan ¹³	20	39.7	Economic Department	Sep 2015
Singapore ¹⁴	218 SEs	39.6	Singapore Centre of So- cial Enterprises	Sep 2015
Korea	1251 SEs	25.1	Minister of Employment and Labour	2014
Vietnam ¹⁵	167 SEs	1.8	British Council report	2012

⁷ Rebel, Christina. (2013). Spain's entrepreneurs carving a new path amid economic crisis, *Guardian* sustainable business—social enterprise blog. <http://www.theguardian.com/social-enterprise-network/2013/jan/02/spain-entrepreneurs-economic-enterprise-cooperative>

⁸ Venturi, P., and Zandonai, F. (20 December 2012). The challenges for social enterprises in Italy. *Guardian*. <http://www.theguardian.com/social-enterprise-network/2012/dec/20/challenges-social-enterprises-italy>

⁹ Community interest companies (CIC) registered. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/458575/companyListMonthly_Aug2015.csv/preview

¹⁰ Wilkinson, Charu. (2014). *A map of social enterprises and their eco-systems in Europe: Country report, France*. London: ICF Consulting Services.

¹¹ The updated number of L3Cs is found on the Inter-Sector Partners, L3C website: http://www.intersectorl3c.com/l3c_tally.html

The distribution is as follows: Michigan, 320; Louisiana, 240; Vermont, 201; Illinois, 201; North Carolina, 95; Utah, 71; Maine, 57; Wyoming, 36; Rhode island, 7; Oglala Sioux Tribe, 1.

¹² Hong Kong 2015 SE Directory. <http://socialenterprise.org.hk/sites/default/files/sedirectory/2015%20SE%20Directory.pdf>

¹³ The report from ICF Consultant Services to European Commission can be found at <http://gcis.nat.gov.tw/pub/cmpy/cmpyInfoListAction.do>

¹⁴ Singapore Centre of Social Enterprise. <http://www.raise.sg/directory/>

¹⁵ British Council. (2012). *Social enterprise in Vietnam: Concept, context and policies*, p.1.

¹⁶ Asian Development Bank. (2012). *India social enterprise: Landscape report*.

1.2

Definition of **Social Enterprises** in Hong Kong



Fullness Garage was the pioneer of Work Integration Social Enterprises in Hong Kong in 1987

The Home Affairs Bureau (HAB) in HK describes SEs as follows:

“There is no universal definition of social enterprise (SE). In general, an SE is a business to achieve specific social objectives such as providing the services (such as support service for the elderly) or products needed by the community, creating employment and training opportunities for the socially disadvantaged, protecting the environment, funding its other social services through the profits earned, etc. Its profits will be principally reinvested in the business for the social objectives that it pursues. In other words, the primary objective of an SE is to achieve its social objectives, rather than maximizing profits for distribution to its shareholders. This above description of SE has been

adopted by the Home Affairs Bureau (HAB) for supporting general or sector-wide promotion activities for SE.

Individual Government’s initiatives for providing direct support to individual SE will follow the relevant eligibility criteria. In so doing, it may draw reference from the following which has been adopted by some SE organizations locally and overseas - “An SE is a business targeted to achieve specific social objectives through entrepreneurial strategies and self-sustaining operations, and not less than 65% of its distributable profits are reinvested in the business for the social objectives that it pursues.”¹⁷



The definition of a SE has been subject to debate in recent years. The way that the number of SE projects reported in previous figure shows that there are inconsistencies in how different countries define SEs. In many cases, such efforts have been confused with other, similar activities such as those focused on creating shared value (CSV), corporate social responsibility (CSR), cross-subsidy model among different service units in non-governmental organisations (NGOs), and family foundations directly belonging to commercial corporations. For further discussion of the definition of SEs, please refer to Appendix I.

For comparison of HK SE sector with other countries, the definition provided by HAB is adopted as it is widely accepted in HK.

¹⁷<http://www.social-enterprises.gov.hk/en/introduction/whatis.html>

Comparisons among the United Kingdom, Korea & Hong Kong

In developed countries or regions, SE-related policies are typically found under one of three departments or ministries:

Type 1: economic development or trade and industry

Type 2: labour or welfare

Type 3: home affairs

When the SE development is perceived positively as a policy tool, however, usually more than one ministry or department will be involved.

Differences in SE Development Focus

2.1

United Kingdom

In UK, the SE policy was managed by the Department of Trade and Industry, which focuses on economic development of the country. Hence the scale of the sector was the primary concern. In 2001, a Social Enterprise Unit was set up in the Department of Trade and Industry. Patricia Hewitt¹⁸, the Secretary of State for Trade and Industry at the time, wrote:

“...the realities of a 21st-century economy mean that social and environmental issues should be

increasingly viewed as commercial opportunities, and drivers of business success, rather than as threats. Social enterprises are dynamic, progressive businesses that we can all learn from.”

She went on to say:

“I want to ensure that we do more to encourage, grow, and sustain social enterprises - to ensure that social enterprise is not seen as a ‘side show’ to the ‘real’ economy but rather an integral and dynamic part of it”.

Korea

In Korea, the SE policy is found under the Ministry of Employment and Labour, which focuses on job creation for those individuals who cannot always compete in the mainstream job market, such as disabled or socially disadvantaged individuals, as well as unskilled persons. The main social impact targeted is ‘work as welfare’, or workfare, defined as the wage provided to the employees from the socially disadvantaged group. According to Lee Chaephil, the former Minister of Labour and Employment,

*“The Korean government established two five-year mid-to-long-term development plans for the social enterprises (2008–2012 and 2013–2017) and is steadily promoting the policies under the foregoing blueprints. The Korean government aims at creating 3,000 social enterprises and 100,000 jobs by 2017.”*¹⁹

This number represents approximately 0.38% of the total labour force (estimated at 16.27 million people). The unemployment rate in Korea was 3.5% in 2014.

Hong Kong

In HK, SE policy is managed by the Home Affairs Bureau, which is charged with maintaining social cohesion. The original statement of purpose on social enterprise development on the HAB website indicated that the goal of SE policy was to enable socially disadvantaged individuals to become self-reliant through employment, to provide new channels for various sectors of the community to meet the needs of different community groups through entrepreneurial thinking and innovative approaches, to cultivate a caring culture, and to promote an at-

mosphere of social cohesion and mutual help. The focus on the job environment fosters development on the personal level, or micro level, of social capital for the socially disadvantaged. The cross-sector collaboration is intended to build the organisational level, or meso level, of social capital. Finally, the caring culture and social cohesion emphases deal with the macro level of social capital for a society.

¹⁸ DTI. (2002). *Social enterprise: A strategy for success*, p. 6.

¹⁹ Lee, Chaephil, (2014). Strategy of Korea for vitalization of social enterprises. *Social Enterprise World Forum* DVD, p. 42.

Key Performance Indicators for Assessing the SE Sector

2.2

We propose that the following key performance indicators may be used to assess the SE sector:

(1) Financial self-sustainability

This is reflected by the average lifespan of SEs and the percentage of which that are able to achieve breakeven or become profitable. For the emerging SE sector, sustainable development is essential for the sector to thrive and grow by itself, without outside assistance. Hence the survival rate and financial viability of the SEs within the sector has to be tracked.

(2) The scale of the SE sector

This is reflected by the total number of SEs within the sector and the total revenue as a percentage contribution to the national gross domestic product (GDP)²⁰. In this way, the sector's relative significance in wealth creation and job creation can be assessed. This is important to Type 1 countries (those in which SE policy is managed by the economic development or trade and industry ministry).

(3) Actualization of social impact

This refers to the social return on investment (SROI) of the SEs in aggregate. The fundamental purpose and driver of SEs is social value creation. For type 2 countries (those in which SE policy is managed by the labour or welfare ministry), the social impact of interest is the ratio between the funding amount and the number of jobs created.

²⁰ In Hong Kong, sectors of trading and logistics contributed 23.9% of GDP, financial services 16.5%, professional services and other producer services 12.4%, and tourism 5.0%. The total percentage of GDP attributable to these sectors was 57.8% in 2013.

Financial Self-Sustainability

A major difference between SEs and NGOs is SEs' ability to earn the income needed to support their social value creation processes. Hence the challenge for any SE is whether it can compete in the market. The journey of the SE sector to reach breakeven or profitability, thereby achieving financial self-sustainability is the marketization process.

Four factors must be considered when describing the financial healthiness of the sector:

- (1) the types of indicator to be used;
- (2) the reliability of the self-reported data;
- (3) the business environment of the country; and
- (4) the life span of SEs compared to that of commercial enterprises.

(1) Types of indicator used

There are two options for the types of indicator. First is the overall profitability of all the SEs in the sector. Second is the percentage of SEs achieving breakeven or making a profit which makes them financially self-sustainable. The former requires all or a sample of SEs to report their profit or loss so that the sum of their profitability may be calculated. The latter requires all or just a sample of SEs to indicate whether they are operating at a loss or are financially self-sustainable. Both UK and Korea have collected at least some data that may be used for both indicators, but only HK has published data on the percentage of financially self-sustainable SEs. Hence this indicator is used for comparison purposes.

(2) Reliability of self-reported data

The reliability of self-reported profitability data have been questioned in some countries. Most SEs are not publicly listed companies and they are not required to publish their audited financial reports. The exceptions are those that are

registered as NGOs but do not have traditional charity operations; and those that have traditional charity operations but decide to report the SE financial data explicitly. However so described, we still have to rely on SEs' self-reported status.

We acknowledge the possible gaps in the public records. The main challenge is determining whether there are distortions in the reporting, such as government subsidies during the SE's start-up period that bolster the SE's financial picture, or central administration overhead attributed to the headquarters that should actually be charged to the SE projects. Some researchers may try to clarify and restate the financial data, but profitability data are often considered highly sensitive information. A very profitable SE - one that is perceived as overly focused on making money - may turn off donors and ethical consumers, whose charitable intentions may lead them to discontinue their support of the SE. Conversely, operating at a loss for long periods of time will lower employee morale at the

SE, lead to tightening of credit facilities from suppliers, and diminishing interest of the media in reporting the SE's story. Not surprisingly, then, efforts to collect more financial information from SEs may reduce the number of willing participants in a study of their sustainability. In turn, the sample size may be greatly reduced and the representativeness of the sample itself decreased.

(3) Business environment of the country

Different countries have different levels of market competition. A lower percentage of profitable SEs will be expected in a highly competitive market, and vice versa. Thus, financial self-sustainability of SEs should be interpreted with reference to the level of competition and the toughness of business survival in respective domestic markets. Hence, a reference to

the average lifespan of similar commercial enterprises will be used as an indication of the business environment. Table 1 summarizes the average life spans of commercial enterprises in the United Kingdom, Korea, and HK; these data are used for reference later in this paper.

(4) Lifespan of SEs

Lifespan of a business is an objective observable data to evaluate financial healthiness. For SE sector with the preeminent purpose of social mission, the longer the lifespan, the better is the contribution to generate social impacts. Therefore, the lifespan of SEs is in fact a more direct measurement. However, only HK has the data on the median lifespan of SEs. Other countries do not usually report lifespan data, thus making comparison impossible.

Table 1: Calculation of Average Life Spans of Commercial Enterprises - Global Entrepreneurship Monitor

	United Kingdom ²¹	Korea ²²	Hong Kong ²³
Early-Stage Entrepreneurial Activity	7.1%	6.9%	10.0%
Established Business Ownership Rate	6.6%	9.0%	5.6%
Discontinuation of Business	1.9%/year	2.5%/year	4.2%/year
Average Life Span	7.2 years	6.3 years	3.7 Years

²¹ Amoros, J. Ernesto, and Bosma, Niels. (2014). *Global Entrepreneurship Monitor: 2013 global report*. Total percentage of the population aged 18–64 owning a business/those ceasing ownership in one year: $(7.1\% + 6.6\%)/1.9 = 7.2$ years.

²² Amoros, J. Ernesto, and Bosma, Niels. (2014). *Global Entrepreneurship Monitor: 2013 global report*. $(6.9\% + 9\%)/2.5\% = 6.3$ years.

²³ Autio, E., Bosma, N., Jones, K., & Levie, J. (2008). *Global entrepreneurship monitor 2007 executive report*. Report, GERA. p. 32. $(10\% + 5.6\%)/4.2\%/year = 3.7$ years.

2.3.1 United Kingdom

2.3.2 Korea

According to analysed data from SE100²⁴ for the period 2010 to 2014 in UK, the total reported revenue from its 1161 SEs was £12.5 Billion and the total reported profit was £2.5 Billion, or 20% profitability.

According to a 2013 survey report by SEUK²⁵, the financial self-sustainability of the SE sector improved from 72% (19% + 53%) in 2011 to 73% (18% + 55%) in 2013 (Table 2). The SEUK survey, however, covered only those SEs with revenues less than £5 million.

Up to March 31, 2015, there were 15,104 community interest companies (CICs)²⁶ approved, 4401 of them dissolved²⁷. Therefore the survival rate was 70.9%. There were another 53 CICs converted to charities. Hence there were 10,639 CICs, of which 8,322 CICs (78.2%) were limited by guarantee, the rest were limited by share CICs.

In 2012, the average revenue per SE in Korea was KRW 820 million²⁸ (HK\$5.3 million). During that year, 86%²⁹ of the SEs were operating at a loss, with the average loss per SE estimated at KRW 140 million³⁰, which was 17% of the average revenue. The average monthly wage at SEs was KRW 1,154,110³¹ (HK\$7481) per employee. There were 18,680³² employees in 744 SEs; hence the average was 25.1 employees per SE. The annual salary paid out was KRW 348 million³³, which was 42% of the SE revenue.

Table 2:
Percentage of SEs in UK Operating at a Loss, at Break-Even, and Profitable, 2011–2013

	2011	2013
At Loss (Change)	23%	22% (-1%)
Break-Even (Change)	19%	18% (-1%)
Profitable (Change)	53%	55% (+2%)
Unknown	5%	5%

2.3.3 Hong Kong

According to a research study³⁴ of SE sector in HK from HAB published in 2014, 62.9% of SEs in HK (30.2% + 31.4% + 1.3% = 62.9%) are financially self-sustainable in 2013. The data is compiled from 159 valid responses out of the sample of 174 SEs. Another survey³⁵ in 2013 reported that 56.5% of SEs in HK (32.6%+23.9%=56.5%) are financially self-sustainable in 2013.

Table 3 and Table 4 below show the breakdown of the percentage of SEs operating at loss, at breakeven, or at a profit.

In addition, according to a report by HAB submitted to the Legislative Council in 2015, as of September 1, 2015 the ESR scheme has approved 176 projects out of 530 applications, representing an approval rate of 33.2%. Out of the 176 projects approved, only 24 of them had ceased operation. Therefore the survival rate is 86.4%.

Table 3:
Percentage of SEs in HK Operating at a Loss, at Break-Even, and Profitable
(HAB, 2014)

Big Loss	Loss	Break-Even	Profitable	Big Profit
6.3%	30.8%	30.2%	31.4%	1.3%

Table 4:
Percentage of Hong Kong SEs Operating at a Loss, at Break-Even, and Profitable
(Chan, 2015)

	Loss	Break-Even	Profitable	Break-Even + Profitable (versus 2010)
2013 (minus government subsidies), N = 24	50.0%	29.2%	20.8%	50.0% (+9.4%)
2013 (with government subsidies), N = 46	43.5%	32.6%	23.9%	56.5% (-4.9%)
2010 (minus government subsidies), N = 32	59.4%	34.4%	6.2%	40.6%
2010 (with government subsidies), N = 44	38.6%	40.9%	20.5%	61.4%



Fullness Salon was the first SE-related impact investment in Hong Kong in 2008.



²⁴ <https://se100.net/analysis/annual-2014>

²⁵ http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf

²⁶ Places for People. http://www.placesforpeople.co.uk/about_us/latest_publications.aspx

²⁷ Regulator of Community Interest Companies- Annual Report 2014/5, p. 38

²⁸ Kang, Daesung. New model of social enterprise innovation and expansion. *Social Enterprise World Forum DVD*, p. 90.

²⁹ Kang, Daesung. New model of social enterprise innovation and expansion. *Social Enterprise World Forum DVD*, p. 89.

³⁰ Kang, Daesung. New model of social enterprise innovation and expansion. *Social Enterprise World Forum DVD*, p. 90.

³¹ Kang, Daesung. New model of social enterprise innovation and expansion. *Social Enterprise World Forum DVD*, p. 89.

³² Yu, Jungkyu. Corporate governance for social innovation. *Social Enterprise World Forum DVD*, p. 321.

³³ $(25.1 \text{ employees/SE}) \times (\text{KRW } 1,154,110/\text{month/employee}) \times (12 \text{ months}) = \text{KRW } 348 \text{ million/SE}$.

³⁴ Au, Kevin. (2014). *Research study on social enterprise sector in Hong Kong*, p. A2-8.

³⁵ Chan, Kam-Tong. (2015). Presentation: *Development and outlook of social enterprises in Hong Kong: from an academic perspective*, 23 Jan 2015.

Scale of the SE Sector

2.4

Three factors have to be taken into account when estimating the scale of the SE sector (the total number of SEs within the sector and the total revenue as a percentage contribution to GDP):

- (1) What types of organizations are regarded as SEs;
- (2) Whether the SE revenues are based on reported or estimated data; and
- (3) Putting the revenue number in a common context for interpretation.

(1) Registered or assumed SEs

1a. *Registered SEs*:

those registered in a SE directory with name and contact information. In a single country, there may be several SE directories. Each directory will contain different numbers of SEs due to different criteria for registration in that directory and the different standing of the directories themselves. The SE directory compiled by the government has the highest credibility.

1b. *Assumed SEs*:

those not officially registered but assumed as SEs according to some kind of definition. This number can be much larger than the number of registered SEs, even by an order of magnitude. Those organisations in 'grey areas' may include housing societies, educational institutions, medical institutions, and some traditional NGOs with significant earned income. At the extreme³⁶, all commercial enterprises may be considered to create social value by meeting the needs of some people who are called "customers". These businesses also contribute to poverty alleviation by creating jobs.

(2) Reported or estimated total revenue

2a. *Reported Revenue*:

the sum of the reported revenue numbers reported by the SEs when they applied for the registration, or listing,

2b. *Estimated Revenue*:

a projection based on multiplying the number of registered SEs or estimated number of SEs, and the average or median revenue per SE, a figure obtained by surveying a sample of SEs. The credibility of the estimated revenue number is lower than the reported revenue. Nevertheless, the reality is that not all SEs are willing to provide financial data, especially on revenue and profitability. Hence, if the reported revenue is not available, then the estimated revenue will be the best available number to work with.

(3) A common context of interpretation

In addition to reporting the absolute revenue of the SE sector, the ratio of the absolute revenue to the GDP of the country can help us interpret the relative significance of the SE sector in the context of the country's overall economy. This approach of putting numbers in context is similar to reporting number of SE employees as a percentage of the country workforce.

³⁶ An organization in the gambling industry once suggested that it was a social enterprise selling 'hope' to those in need of money, so that those individuals had a goal in life to pursue.



2.4.1

United Kingdom

In 2010, three scholars of the Third Sector Research Centre in University of Birmingham began a review of the approaches to measuring the scale of the SE sector in UK. Their findings were published in 2013. The UK government-sponsored estimates of the number of SEs were as follows³⁷:

- 5300 SEs in 2003 based on ECOTEC commissioned by Department of Trade and Industry (DTI)
- 15,000 SEs in 2005 based on IFF Research commissioned by DTI, covering only companies limited by guarantee (CLG) and industry and provident societies (IPS); the total revenue was £18 billion, with the median revenue of the SEs being £285,000
- 55,000 SEs in 2005 based on the Annual Small Business Survey commissioned by DTI
- 62,000 SEs in 2007 based on the Annual Small Business Survey, whose sponsoring organisation was changed from DTI to the Office of Third Sector (OTS) in the Cabinet Office
- 16,361 SEs in 2009 when only third-sector organizations were counted, in a survey commissioned by OTS

The abstract of the 2013 paper summarized the findings:

Government publications show the number of social enterprises to have increased from 5,300 to 62,000 over a five-year period [from 2005 to 2010] ... We find that growth is mainly attributable to political decisions to reinterpret key elements of the social enterprise definition and to include new organizational types in sampling frames.

³⁷ Lyon, Fergus; Teasdale, Simon; and Baldock, Rob. (2013). Playing with numbers: A methodological critique of the social enterprise growth myth. *Journal of Social Entrepreneurship*, vol. 4, no. 2, 113–131. <http://www.tandfonline.com/doi/abs/10.1080/19420676.2012.762800#.Vev6oDPovv0>

In the conclusion of their paper, the authors noted:

“The widely referred to figure of 62,000 social enterprises does not accurately represent the types of (socially owned) organizations which government policy is aimed at”.

In other words, the rapid growth in the number of SEs actually reflected loosening of the definition, rather than absolute growth. Most of the new SEs were existing small to medium-size enterprises that had been reclassified as SEs.

These findings affected the public impression of the growth of the SE sector. Indeed, the Guardian website published an article on this phenomenon titled “Mythbusting: There are 68,000 social enterprises in Britain”³⁸.

³⁸ Mythbusting: There are 68,000 social enterprises in Britain. file:///C:/Users/HP%20User/Desktop/Mythbusting_%20there%20are%2068,000%20social%20enterprises%20in%20Britain%20_%20Guardian%20Sustainable%20Business%20_%20The%20Guardian.html

To understand the scale of SE sectors in UK, the other possible data sources to draw from are listed below:

(1) Social Enterprise Coalition and Social Enterprise London

The first source of data is Social Enterprise Coalition³⁹ and Social Enterprise London⁴⁰. In 2011, Social Enterprise Coalition reported that the total revenue of the SEs was £24 billion⁴¹, representing 1.45% of UK's £1653 billion total GDP. In 2012, Social Enterprise London reported that there were approximately 62,000 SEs. Later, both of these organisations merged to form Social Enterprise UK.

(2) SE100

The second source of data is the SE directory published by SE100⁴². In August 2015, this organisation had 1,163 SE members, which is about one-tenth of the number of CICs. The total reported revenue was £9.338 billion, which was 0.78% of the UK GDP in 2014. The median revenue for SEs was £129,979, but the average revenue was £8,029,879, which was 62 times the median value. In the normal distribution curve, the median is equal to the average. Thus it appears that the UK data are skewed by some super-large SEs.

In fact, the largest SE in SE100 was Places for People⁴³, a company limited by guarantee that was founded in 1920s, which had revenue of £485 million in 2014 (Table 5). Places for People is a major property management, development, and regeneration company, owning or managing more than 144,000 homes in UK and with assets of more than £3 billion. Of the top 10 largest SEs in the SE100, three are in the property business and four are involved in education. The total revenue of the top 10 SEs in this listing was £3.4 billion.

(3) Social Enterprise UK

The third source of data is Social Enterprise UK⁴⁴ (SEUK). According to the 2013 survey by SEUK, the median annual revenue of UK SEs was equivalent to £185,513 (HK\$2.25 million). This value was 42% greater than the median value identified by SE100. A significant portion of the SEs' revenues came from government procurement. The bigger the SE, the larger this portion. The SEs that had revenue of more than £1 million accounted for 18% of the survey sample, and the main source of income for 39% of them was the UK government. Approximately 11% of the SEs had annual revenues of less than £10,000, and only 11% of them listed the government as their main source of income. On average, 24% of the SEs relied on public funding as their main revenue source.

(4) Community Interest Company

The fourth source of data is registered community interest companies (CICs)⁴⁵. It is a new type of company introduced by the UK government in 2005 under the Companies (Audit, Investigations and Community Enterprise) Act 2004. This classification is designed for SEs that want to use their profits and assets for the public good. By the end of July 2015, the number of CICs in UK had reached 11,230.

New SEs may arise in three ways. First, most new SEs begins as very small start-ups. Second, SEs may be formed as spin-offs from a traditional NGO. Third, traditional NGOs may undergo conversion to SEs. These NGOs were typically founded decades ago, grew in scale over the years, and have significant amounts of earned income. After conversion, they become super-large SEs. Approximately 13%⁴⁶ of the registered CICs were created from conversion.

Based on the median revenue for SEs in the SEUK 2013 survey, the total revenue of the CICs can be estimated at £2083 million (HK\$24.8 billion). This amount is equivalent to 0.11% of the UK GDP, which totalled £1877 billion in 2014.

Table 5: Distribution of revenue of the SEs in SE100				
Percentile	0.1 percentile (The top one)	14 percentile	50 percentile (Median)	67 percentile
Annual revenue	£485,410,000	£5,000,000	£130,595	£50,000

³⁹ Social Enterprise Coalition. (2010). *No more business as usual: A Manifesto of social enterprise*, p. 5: ‘They contribute 24 billion to the economy’. This figure is based on the annual small business survey 2005–2007, which was sent to social enterprises with fewer than 250 employees.

⁴⁰ Social Enterprise London. (2011). *Transition*. ‘UK had 62,000 social enterprises’ (p. 8, p.16).

⁴¹ This should be based on IFF 2011 survey.

⁴² SE100. <https://se100.net/>

⁴³ Places for People. http://www.placesforpeople.co.uk/about_us/latest_publications.aspx

⁴⁴ Social Enterprise UK. <http://www.socialenterprise.org.uk/>

⁴⁵ Community Interest Company. <https://www.gov.uk/government/organisations/office-of-the-regulator-of-community-interest-companies>

⁴⁶ Conversions in CIC can be found in Office of the Regulator of Community Interest Company: *Operation report of first quarter of 2015–2016*. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/445887/cic-15-16-operational-report-april-to-june-2015.pdf



2.4.2 Korea

According to Choi Young-Chool and Jang Ji-Hyun⁴⁷,

“In Korea, the term ‘social enterprise’ is still not one with which the general public is familiar. The term was only introduced 15–20 years ago.... It is generally accepted that social enterprise in Korea began as a means of solving the problem of unemployment of vulnerable social groups and expanding the supply of social services”.

In 1997, during the Asian financial crisis, many people in Korea lost their jobs. In 2000, the National Basic Living Security Act was passed to strengthen the safety net for the low-income group. In 2003, the Social Enterprise Project was introduced by the Ministry of Labour as a means to help socially and economically disadvantaged groups. In 2007, the Social Enterprise Promotion Act was passed; its focus is to create jobs for the unemployed.

Types of SEs

With the clear objective of creating jobs for the unemployed by the Korean Ministry of labour, there are two types of SEs set-up: (1) Registered SEs; and (2) Preliminary SEs that are not yet registered. Both types of organisations can receive government subsidies when they employ socially disadvantaged workers. Preliminary SEs receives full 100% subsidy for their employee salaries in the first year, and a 90% subsidy in the second year. After registration, the SEs receives a 90% subsidy in the first year, 80% in the second year, and 70% in the third year.

Government support to SE revenue

The Korean government expended KRW 263 billion⁴⁸ (HK\$1.7 billion) on procurement of SE products and services in 2013. This amount represented 0.68% of the total public procurement budget, but accounted for 28% of the SE sector’s total revenue.

Total revenue of the SE sector

According to Lee Chaephil, the former Minister of Ministry of Employment and Labour (MoEL), the Korean government has a good collection of statistics on the SEs operating in the country. In 2007, there were only 50 SEs, the number had increased to 1082⁴⁹ SEs in 2014 (Table 6). The goal is to have 3000 SEs in 2017.

In 2014, the average SE revenue was KRW 880 million⁵¹ (HK\$5.75 million). The total revenue of the SE sector was KRW 952 billion (HK\$6.2 billion). This amount was equivalent to 0.07% of the 2014 Korea GDP, which totalled KRW 1352 trillion (HK\$8837 billion).

Table 6:
SE Growth in Korea, 2007–2014⁵⁰

	Preliminary SE	Certified SE	New certified SE	Disadvantaged employee	Total employee
2007	396	50	55	1403	2539
2008	602	208	166	4832	8320
2009	646	285	77	6467	10,150
2010	961	501	216	8227	13,443
2011	1260	644	155	10,018	16,319
2012	1425	774	142	11,091	18,297
2013	1463	1012	269	13,619	24,048
2014	1466	1251	265	15,815	27,923

⁴⁷ Choi Young-Chool and Jang Ji-Hyun. (March 2014). Analysis of current conditions facing social enterprise in Korea: Policy issues regarding the sustainability development. *International Journal of Business and Social Research*, vol. 1, no. 3.

⁴⁸ Lee, Chaephil. (2014). Strategy of Korea for vitalization of social enterprises. *Social Enterprise World Forum DVD*, p. 44.

⁴⁹ Lee, Chaephil. (2014). Strategy of Korea for vitalization of social enterprises. *Social Enterprise World Forum DVD*, p. 38. This number was updated on September 2014 when Lee presented the data at the World Forum. It was different from the year end number in Table 7.

⁵⁰ This is based on the presentation by Professor Chung Moo-Kwon, Department of Global Public Administration, Yonsei University, South Korea on 3 September 2015 at the 2015 International Conference on Social Entrepreneurship in Asia Pacific Region: Innovation, Cultivation and Social Impact.

⁵¹ Lee, Chaephil. (2014). Strategy of Korea for vitalization of social enterprises. *Social Enterprise World Forum DVD*, p.40.



2.4.3

Hong Kong

2001

In 2001, the Social Welfare Department introduced the Enhancing Employment for People with Disabilities through Small Enterprise Project (3Es) to improve the employment of the disabled. Each year, 3Es gives grants totalling approximately HK\$5 million to about 10 projects.

2006

In 2006, the first Commission on Poverty published a report focusing on how to alleviate poverty in HK. One of the strategies was to promote SE development. In 2007, the Enhancing Self-Reliance through District Partnership Scheme (ESR) was set up in the Home Affairs Bureau to create jobs for the socially disadvantaged. Each year, it shares grants totalling approximately HK\$20 million with about 15 projects. A Social Enterprise Advisory Committee was set up in HAB in 2010 to provide further advice on the SE strategy.

2013

In 2013, the Social Innovation and Entrepreneurship Development Fund (SIEF) was set up under the second Commission on Poverty. In fiscal year 2014-2015, it committed approximately HK\$50 million to the four grantees functioning as intermediaries over the coming three years. As this was only the first round of grants, the annual amount may be bigger when both the Fund and the potential grantees better understand the funding criteria and mechanism. Table 7 summarizes the government funding of SEs in HK.

Table 7:
Government Funding for Social Enterprises in HK

Founding Year	Funding Scheme	Cumulative Funding (HK\$)
2001	Enhancing Employment of People with Disabilities through Small Enterprise (3Es)	154 million
2002	Community Investment and Inclusion Fund (CIIF)	500 million
2006	Enhancing Self-Reliance through District Partnership Program (ESR)	450 million
2008	Revitalizing Historic Buildings through Partnership Scheme	2,000 million
2012	Microfinance Scheme	100 million
2013	Social Innovation and Entrepreneurship Development Fund (SIE Fund)	500 million

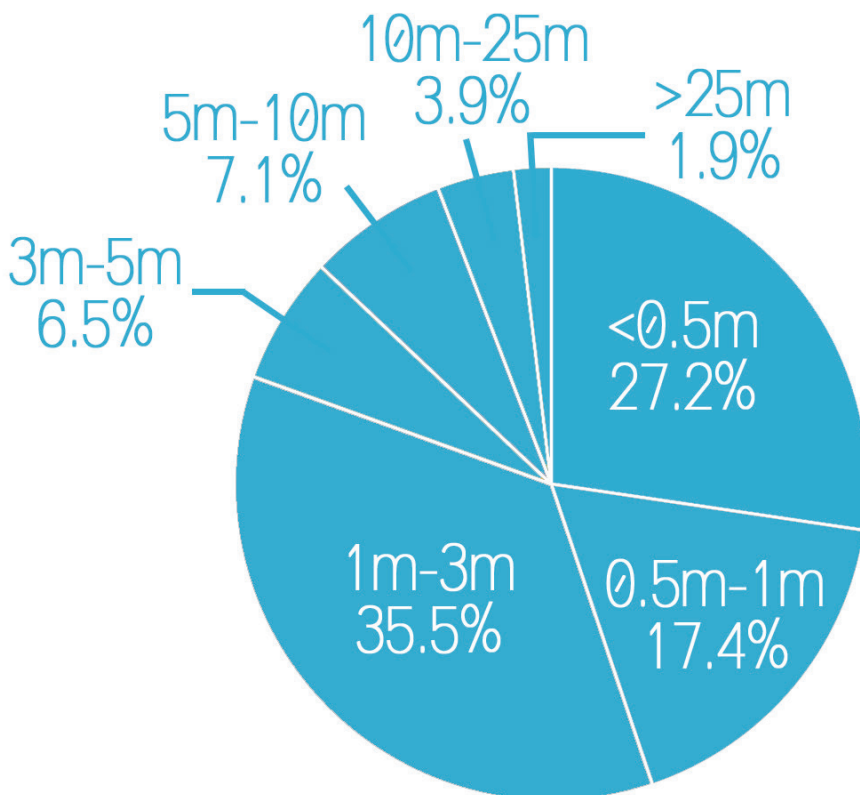
Average SE Revenue

In 2013, HAB commissioned Chinese University of Hong Kong to conduct a landscape research study of the SE sector. The report⁵² was published in 2014. According to this report, the distribution of the revenue from a sample of 155 SEs was collected and shown in Table 8.

The median was in the range of HK\$1 million to HK\$3 million. Those SEs with revenues less than HK\$1 million accounted for 44.6% (27.2% + 17.4%) of the total number of SEs. The gap from the HK\$1 million mark to the median was 5.4%. Assuming the revenues within the 35.5% of SEs in the HK\$1 million to HK\$3 million range were evenly distributed, then the median SE revenue was approximately HK\$1.3 million⁵³. The average SE had revenue of approximately HK\$2.85 million⁵⁴.

Table 8:
Distribution of Annual SE Revenue in HK (HAB, 2014)

HK\$ 'million



Number of Registered SEs

The HAB also sponsors the Hong Kong Council of Social Services’ publication of its annual SE Directory. Table 9 shows the breakdown of the SEs into NGO-based and FPO-based. The former are SEs that are either NGOs or limited-by-share companies that are owned by NGOs. The latter are limited-by-share companies in which the majority of shares are not owned by NGOs—that is, they are for-profit organizations (FPOs). Table 9 shows that the number of FPO-based SEs has grown rapidly in last four years. Because the SIE Fund also provides grants to FPO-based SEs, the growth of this type of SEs may be further accelerated in the future.

Table 9: Growth in Number of SEs in HK (2010 to 2015)			
	2010 (percentage of total)	2015 (percentage of total)	Compound Annual Growth
Number of NGO-based SEs	313 (95.1%)	425 (80.6%)	6.3%
Number of FPO-based SEs	16 (4.9%)	102 (19.4%)	59%
Total number of SEs	329 (100%)	527 (100%)	13%

Total Revenue of the SE Sector

In 2014, there were 457 SEs in HK. Hence the revenue of the SE sector can be estimated as HK\$1.3 billion⁵⁵. This amount represents 0.056% of the HK GDP, which totalled HK\$2300 billion. In HK, there was no conversion from traditional NGOs into SEs. Some NGOs are similar to SEs, but are not classified as SEs. For example, the Hong Kong Housing Society operates a business similar to that of Places for People in UK; its annual revenue is HK\$3.7 billion. Likewise, the Urban Renewal Authority is an NGO that operates much like an SE; it has annual revenue of HK\$1.17 billion. The conversion or reclassification of existing NGOs or commercial enterprises with corporate social responsibility (CSR) may cause difficulties in assessing the actual incremental social changes associated with SEs.

⁵² Au, Kevin. (2014). *Research study on social enterprise sector in Hong Kong*.

⁵³ $\{ \$1M + [(\$3M - \$1M)/35.5\%] \times 5.4\% \} = \text{HK\$}1.3M$

⁵⁴ $[(\$0.5M/2) \times 27.2\% + (\$1M + \$0.5M)/2 \times 17.4\% + (\$3M + \$1M)/2 \times 35.5\% + (\$5M + \$3M)/2 \times 6.5\% + (\$10M + \$5M)/2 \times 7.1\% + (\$25M + \$10M)/2 \times 3.9\% + \$25M \times 1.9\%] = \text{HK\$}2.85M$

⁵⁵ $456 \text{ SE} \times \text{HK\$}2.85M = \text{HK\$}1302 \text{ M in 2014.}$

Actualization of Social Impact⁵⁶

2020

2.5.1 Non-profit Institutions as Human-Change Agents

According to Peter Drucker, the product of NGOs is “changed human life” and NGOs need to manage the production:

“The non-profit institutions are human-change agents. Their ‘product’ is a cured patient, a child that learns, a young man or woman grown into a self-respecting adults; a changed human life altogether.”⁵⁷

Drucker further pointed out that there has been misconception that management is only necessary for business. In fact, any organisation in the public sector, business sector, or social sector needs management:

“Forty years ago, ‘management’ was a very bad word in non-profit organizations. It meant ‘business’ to them, and the one thing that they were not was a business. Indeed, most of them then believed that they did not need anything that might call ‘management.’⁵⁸”

Then he commented on the “no bottom line” thinking in NGOs:

“Non-profit organizations have no ‘bottom-line.’ They are prone to consider everything they do to be righteous and moral and to serve a cause, so they are not willing to say, if it doesn’t produce results then maybe we should direct our resources elsewhere. Non-profit organizations need the discipline of organized abandonment perhaps even more than a business does. They need to face up to critical choice.”⁵⁹”

⁵⁶ This paper focuses on social value creation related to socially disadvantaged groups; hence environmental issues or concerns of the middle class or affluent class are not covered.

⁵⁷ Drucker, Peter. (1990). *Managing the nonprofit organization*, p. xiv.

⁵⁸ Drucker, Peter. (1990). *Managing the nonprofit organization*, p. xiv–xv.

⁵⁹ Drucker, Peter. (1990). *Managing the nonprofit organization*, p. 10–11.

2.5.2 **Work-Integration** Social Enterprise: Improvement in Well-being

The primary bottom line for WISE is the changes in the life (or well-being) of beneficiaries. The secondary bottom line is the organisation's cost-effectiveness in delivering these changes. In

other words, a good social impact assessment method for a WISE should cover the interests of the key stakeholders, including and not limited to the following:

- The beneficiaries from the socially disadvantaged groups
- The funders or impact investors, who may be the taxpayers if the fund is from government
- The ethical consumers who purchase the SE's products and services partly because of its social mission

Application of Donald Kirkpatrick's⁶⁰ four-level model assessment method is recommended for this purpose. It is originally designed for training and development purpose. It covers all of the effects of empowerment, including changes at the affective level (reaction), cognitive level (learning), and behavioural level (change) of the beneficiaries. Furthermore, its fourth level covers cost-effectiveness (results) from the perspective of the impact investor or the ethical consumer, or both.

For the impact investor, the cost-effectiveness takes the form of blended return on investment (BROI), which incorporates the double bottom line of both the financial return on investment (FROI) and the social return on investment (SROI).

Ethical consumers purchase the SEs' products or services partly because of their social mission. Their continuous purchases partially fund the on-going operation of the SEs. The SEs are also accountable to ensure significant portion of the prices those consumers pay is used on the beneficiaries.

⁶⁰ Kirkpatrick, Donald. (2005). *Transferring learning to behavior*. Barrett-Koehler Publishers.

2.5.3 **Social Impact** Measurements

Currently, the SROI proposed by the Office of the Third Sector (OTS) is one of the most popular assessment methods for SEs' SROI⁶¹. This method focuses on measuring the direct impacts on the SE's stakeholders; it monetize those impacts by using different proxies and aggregates the results as a single number to represent the social impact created by a SE. The SROI methodology is appealing in that it produces a single dollar measurement, but it is not without limitations⁶². For example:

- The process of measuring SROI requires too much resources; it consumes valuable resources that could otherwise be put back into the SE to create the social impacts.
- The stakeholder analysis should be conducted by an independent party to verify the impacts.
- The explanation on how social impacts are created, either with an impact map or theory of change is non-existent.
- A more practical way of measurement would be to select a few (one to three) key performance indicators (KPIs), and assess the results based on a solid theory of change process, rather than aggregating all impacts into a single dollar number.
- Comparison of different SEs based on SROI could be misleading, as the monetary proxies used in this methodology have very different meaning to the respective stakeholders. Aside from the fact that the SEs are in the same industry and have the same social objective, the results of such cross-sectional comparisons could be confusing. The alternative approach of using one to three KPIs for the same SE to create a track record and then conduct a time-series comparison would be much more practical, let alone convincing.

The practical approach we suggested here for social impact measurement embraces the following five considerations:

- (1) Relevancy;
- (2) Representativeness;
- (3) Comparativeness;
- (4) Precision; and
- (5) Un-ambiguity.

⁶¹ *A guide to social return on investment*, Cabinet Office, Office of the Third Sector.

⁶² *Social return on investment: A review of methods to measure social impact*. Methodology working paper. Den Sociale Kapitalfond Management ApS. August 2012.

(1) Relevancy

Relevancy reflects the fitness for purpose - that is the extensive applicability in multi-dimensional measurements for the desired outcomes. Many methods have been proposed for evaluating SEs. Some of them address only management systems and practices, such as social accounting and the balanced score card (BSC). Others address only the means used to help the beneficiaries but not the exact benefits they get, such as the logic model and the theory of change. All of these methods focus on how the organisation seeks to deliver the bottom line, but not on the bottom line itself. In essence, they miss the meaning of “bottom line”. Ultimately, the bottom line is the final results, after all income, cost of goods sold, sales, and general administration expenses have been accounted for.

Even SROI does not address the real bottom line. The most important measure in the SE sector is the improvement in the life satisfaction (well-being) of the socially disadvantaged individuals who are served by those organisations. On a scale of 0 to 10, studies show that the average life satisfaction of HK residents is 5.6.

(2) Representativeness

In any business, project, or social service, different levels of measurement are possible. For a business, there can be measurements based on financial achievements, on customers, on processes, and on employees. In most cases, the most important measurements are the financial ones. If only one measurement is permitted, then the organisation's profit is considered the most important. After all, the salaries, rent, and other necessary expenses incurred to keep the business running must come from the profits of that business. The second most important measure for the business is likely to be revenues: This measurement indicates the scale of the business and implies the number of customers that need to be acquired, retained, and sold to. The difference between the business's profit and revenues can be calculated and is called profitability. For a utility such as an electricity company, the profitability rate might be as high as 50%. For a retail business such as a supermarket, it might be as low as 1% to 5%. In the stock market, the P/E (Price-to-Earning) ratio is defined as the ratio between the stock price and the earnings per share for the listed company; this ratio quantifies the profitability of the business.

The reason for focusing on only a handful set of representative numbers is to get a snapshot of the situation, instead of becoming buried in pages of reports and getting lost in minutiae. The accounting principle of 'material' must be considered when selecting the sample, however. For example, there can be multiple types of beneficiaries for SEs, but the primary beneficiary has to be the focus in the assessment.

Some critics suggest that using SROI as a representative measurement leads to the loss of other valuable information. Having a representative measurement, however, does not mean there can be only one. There can still be other measurements as long as one can master their use effectively.

(3) Comparativeness

The SROI data are especially important for WISEs when viewing their operations in the context of poverty alleviation policies. Suppose the impact of HK\$100 spent on different poverty alleviation policies will result in an income of HK\$96, or HK\$370, or HK\$445 to those in need. The taxpayer can compare those outcomes and decide which policy is the best investment.

Comparison on the basis of SROI can be meaningful only when the current performance of an SE is compared with its past performances, or when a comparison is made between SEs with the same type of beneficiaries and the same type of business.

(4) Precision

Truly precise measurement is rarely possible in the social sector. Hence the next best choice is the one that results in the least amount of error. In addition, it is essential to avoid double-counting the derived benefits, such as the happiness of the whole family due to the employment of one member with a salaried job in the WISE.

(5) Unambiguity

The use of workfare (the wage provided to the employees from the socially disadvantaged group) as a measurement is unambiguous, as it measures the exact dollar benefits accrued to the disadvantaged group. Donald Kirkpatrick's model is helpful in this sense, because it does not confuse the different types of benefits generated by the SEs. In contrast, SROI aggregates the workfare to the beneficiaries, the dollar proxy of friendships or social networks created among the colleagues or community, and the dollar proxy of medical savings from improved health into a single number, which make it impossible to assess the true impact of the SE's original social mission.

The use of several, but not all, levels of measurement is more practical and useful in reality. Moreover, use of too many measurements would be confusing to the audiences for those results and actually reflect a lack of a solid theory of change about how social improvement impact is created. When everything is aggregated into a single number, that number has an ambiguous meaning.

2.5.4 Evolution of **Social Impact Measurements**

SE practitioners and academics have yet to agree on a unified measurement system for social impact; indeed, there are many competing systems in use around the world. In many countries, the SE movement is applying public money with a view toward achieving slightly different social objectives than in other countries. Given these differing objectives, it is nearly impossible to say which measurement system is the best.

Even in a single country or city, there may be no agreement on the best methodology for assessing social impact. Consider the evolution of accounting standards for business corporations. The first double-entry system was invented in 1494, only to then splinter into different systems of cost accounting for manufacturers, management for modern businesses, financial accounting for creditors and investors, and so on. It takes time for commonly accepted standards to evolve, and they continue to change even after they are supposedly “settled”. For example, business executives nowadays may need to further adjust their depictions of their organisations’ financial accounts to create meaningful presentations under different purposes.

Instead of relying on a single standard, then, it seems more sensible to allow competing standards to evolve to fit the specific HK context. Allowing competing, but independent, agencies to measure the social impacts of HK SEs would be the best way to promote the use of such standards and to allow this concept to gain popularity.

The risk of setting an official standard too early is that this standard may distort the true social impacts created by SEs. A partial or incomplete measurement may, in turn, divert the SE practitioners’ energy and send them off in the wrong direction. As a result, resources or public money may be channelled into ineffective efforts that do not benefit the maximum number of disadvantaged individuals.

Acceptance of competing measurement systems would allow different stakeholders, including private foundations, government, beneficiaries, social entrepreneurs, and knowledge volunteers, to evaluate the SEs from multiple perspectives. Commonality among stakeholders’ views can then be further developed, while diversity is not ruled out.

2.5.5 Case Study: **The Social Impact of Fullness Hair Salon**

FULLNESS HAIR



Vertical text on the pillar, likely a list of services or contact information.

ASSICOM
21
VISA
MasterCard
American Express

FULLNESS



As an example of how social impact can be assessed, we will apply Donald Kirkpatrick's model to measure the social impacts of Fullness Hair Salon. Santos⁶³ defines social entrepreneurship as an effort to address a neglected social problem with a sustainable solution based on the logic of empowerment, thereby generating positive externalities that benefit a powerless segment of the society. The Fullness Hair Salon case demonstrates the social impact assessment of a SE based on Kirkpatrick's model.

Fullness Hair Salon addresses the career problems faced by young ex-offenders. Its social mission is to help young ex-offenders become reintegrated into the mainstream society, through vocational training and Christian faith. The young ex-offenders are employed as salon junior staff, going through an 18-month apprenticeship program to learn how to be hair stylists. This experience empowers the youths to take positive steps in both their personal and professional lives.

The proxy for the social impact of a work-integration social enterprise is the wage provided to the employees from the socially disadvantaged group. This wage is called workfare - that is, work-as-welfare. The social value of the workfare in Fullness Hair Salon is more than just the cash-as-wage assessed in level 4 (Table 10); it also encompasses the capability and character building that occurs in levels 2 and 3, the strengthening of confidence in level 1, and the development of the beneficiary's curriculum vitae.

⁶³ Santos, Filipe. (2012). A positive theory of social entrepreneurship. *Journal of Business Ethics*, vol. 111, 335–351.

Table 10:
Social Impacts Assessment of Fullness Hair Salon
Using Donald Kirkpatrick's Four-Level Model

Level 4 (Result)	Cost-effective- ness	<p>Blended ROI = HK\$167,464 (profit) + HK\$383,514 (workfare) Investment = HK\$800,000 Financial ROI = $167,464/800,000 = 20.9\%$; SROI = $383,514/800,000 = 48.0\%$; BROI = 68.9% Social content = $[HK\\$383,514 \text{ (workfare)}] /$ $[HK\\$2,968,933 \text{ (revenue)}] = 13\%$</p>
Level 3 (Application)	Behavioural change	<p>Reoffending rate of Correctional Service De- partment (CSD) = 50% Reoffending rate of juniors from Fullness Hair Salon (Fullness) = 22% Success rate of Fullness is better than CSD = 28% Median number of new friends after joining = 14 Median number of new good friends after joining = 4</p>
Level 2 (Cognitive)	Knowledge/skill/ attitude change	<p>Skill at present = 3.3 on a scale of 1–5 Skill before joining = 3.1 on a scale of 1–5</p>
Level 1 (Affective)	Feeling/reaction	<p>Job satisfaction = 3.9 on a scale of 1–5 Feeling respected = 4.0 on a scale of 1–5 Holistic development = 3.6 on a scale of 1–5 Peer relationship = 4.1 on a scale of 1–5 Customer relationship = 3.9 on a scale of 1–5 Life satisfaction⁶⁴ at present = 3.2 on a scale of 1–5 (5.5 on a scale of 0–10) Life satisfaction before joining = 2.4 on a scale of 1–5 (3.5 on a scale of 0–10) (Average life satisfaction in HK is 5.6)</p>

The initial investment in the salon was HK\$800,000. In 2014, the annual revenue was HK\$2.97 million, with a profit of HK\$167,464. Hence it is a sustainable business.

The salon could have been more profitable if it had hired only 2 juniors. Nevertheless, it hired 6 juniors to maximize the social impact of the SE by helping more youths. If it had not hired the 4 extra youths, it could have saved approximately HK\$280,000. The profit would then be HK\$167,464 + HK\$280,000 = HK\$447,464. The return on revenue in this scenario would be HK\$447,464 on revenues of HK\$2,968,933, equal to 15%. The return on investment, however, was HK\$447,464 on the investment of HK\$800,000, equal to 56%. The decision to trade off financial ROI for SROI demonstrates a key characteristic of serious SEs - the drive to generate greater “positive externality”, in this case by “benefiting young ex-offenders”.

From the perspective of the funders, the SROI shows the workfare received by the socially disadvantaged employees. In addition, there is also a social cost saving, which takes the form of crime reduction in the case of Fullness Hair Salon. This benefit is not counted for two reasons. First, the social cost is a sunk cost, and it is not material. Second, the social cost saving, as a positive externality, benefits the government or the taxpayers, not the powerless individuals served by the SE. From the perspective of ethical consumers, the ratio of revenue to workfare can be read as follows: For every 100 dollars, 13 dollars is the wage of the socially disadvantaged employee.

In Kirkpatrick’s model, only the level 4 data from different SEs can be summed up if individual investment amounts and workfare amounts are available; otherwise, the SROI ratios can be constructed from averages. The data for the other three levels usually cannot be aggregated, due to the different types of businesses and different types of beneficiaries involved.

⁶⁴ Within the Fullness Hair Salon, the life satisfaction of the juniors increased from 2.8 to 3.3 (i.e., from 3.5 to 5.75 on a scale of 0–10, 64% growth) but that of the stylists increased from 2.3 to 3.1 (i.e., from 3.25 to 5.25, 61.5% growth). As a benchmark, the life satisfaction score of the hawkers in the Tin Shui Wai Dawn Market increased from 2.4 to 3.6 on a scale of 1–5 (i.e., from 3.5 to 6.5 on a scale of 0–10, 85.7% growth). The initial life satisfaction was same as that of Fullness Hair Salon employees, but the final satisfaction rating of 3.5 was higher than the 3.2 rating of the salon.

2.5.6 United Kingdom

Back in 2010, the Scottish government published a briefing paper called Embracing Social Return on Investment (SROI). It endorsed SROI as a single ratio to report social impact from the perspective of value for money. In 2014, the survey data on SE100 members showed that 87% of the respondents had made public statements about their social, environmental, and ethical values; 62.5% had indicators for measuring their social value; and 25% had their social and environmental impact independently verified. Ultimately, none of these numbers show the social impacts, not to say monetized social impacts which can be aggregated

2.5.7 Korea

There are no SROI data available for Korean SEs. The workfare generated is known, but the initial investment to set up the SEs is not. In contrast, the social content, or workfare content, when purchasing SE products or services is available. It was 17%⁶⁵ in 2012, as mentioned earlier.

2.5.8 Hong Kong

In Hong Kong, the development of social enterprises (SE) had been accelerated since 2013 when the social return on investment (SROI) of the government funded SEs was calculated and reported (Table 11). The public awareness has also becoming more and more positive because of the promotion by the mass media including television channels and major mass press media.

In average, the investment is HK\$ 950,000, with annual revenue at HK\$2,850,000 and workfare at HK\$477,168. The social content when purchasing SE goods or services is HK\$477,168 over HK\$ 2,850,000 which is equal to 16.7%.

Table 11
Calculating the Accumulative SROI over the Life Span of
the 3Es Project and ESR Scheme in HK

	ESR	3Es	Total
Period of data	2007–2013	2003–2013	—
Grant given (HK\$)	HK\$156M	HK\$52M	HK\$219M
Number of SEs	144	75	219
Average grant/SE	HK\$1.08M	HK\$0.69M	HK\$0.95M
Socially disadvantaged/ disabled employees	2,064 (FT + PT) ⁶⁶	541 (FT)	2,605
Workfare (HK\$)	HK\$64.0M	HK\$40.5M	HK\$104.5M
Workfare/SE (HK\$)	HK\$444,444	HK\$540,000	HK\$477,168
Annual SROI	41%	78%	48%
Wage/month/employee (HK\$)	HK\$2,584	HK\$6,238	HK\$3,342
Survival rate at 5th year	77%	75%	75%–77%
Median life span	N/A ⁶⁷	9.3 years	~9.3 years ⁶⁸
Accumulative SROI over 9.3 years	382%	724%	446%

⁶⁵ Section 2.3.2

⁶⁶ FT, full-time; PT, part-time.

⁶⁷ The data are not available because the ESR lasted only 6 years—too short a duration for identification of the median life span. As a benchmark, the median life span was 9.3 years.

⁶⁸ Since both 3Es and ESR are government schemes, it is assumed that the median life span of ESR is similar to that of 3Es.

Key Performance Indicators for UK, Korea, and Hong Kong Social Enterprises

Among the three countries, UK has the biggest and most diversified SE sector. Its total revenue was equivalent to 0.11% of the country's GDP based on the projection for the number of CIC-registered SEs. One possible reason for this success is the 13% rate of conversion of traditional NGOs, which are already big organisations owing to growth over several decades, into super-large SEs.

If Korea can execute its plan of having 3000 SEs by 2017, its SE revenue may be equivalent to 0.21% of the GDP and it may overtake UK on this measurement. At the same time, Korea needs to improve the financial self-sustainability of its SEs.

HK has the smallest SE sector (Table 12) in absolute number. It is relying on organic growth strategy, which means focusing on new start-ups instead of a conversion like the UK. Furthermore it relies on profitable growth instead of a philosophy of 'growth first, profit later' like Korea.

In terms of financial self-sustainability, the UK SE sector was approximately 10% better than the HK SE sector. However, these numbers have to be interpreted with reference to the local business environment. Based on the Global Entrepreneurship Monitor reports, it appears to be tougher to run any kind of commercial enterprise in HK, as the average life span of such a commercial enterprise is only 3.7 years. It is comparatively easier to run a commercial enterprise in UK, where the average life span of such enterprises is 7.2 years—almost double that of HK commercial enterprises. With this benchmarking information as a background, the 62.9% financial self-sustainability rate of SEs in HK appears to be a respectable achievement as compared to the 73% rate in UK.

HK is the only one of these countries that has published SROI results for its SEs. The SROI ratio is respectable; the public money was well spent. Moreover, from the perspective of ethical consumers, approximately 16.7% of the price paid for SE products or services turns into income for the socially disadvantaged employees.

Table 12:
Comparing the Key Performance Indicators among UK, Korea, and HK

KPI	UK (Led by DTI)	Korea (Led by MoEL)	HK (Led by HAB)
Scale of the SE Sector	<u>Based on CIC-registered SEs</u> Total 11,230 SEs (7/2015 data) Total Revenue £2.083 billion, 0.11% of GDP (2014 data)	<u>Based on registered SEs</u> Total 1082 SEs (9/2014 data) Total KRW 952 billion, 0.07% of GDP (2014 data)	<u>Based on registered SEs</u> Total 527 SEs (2015 data) Total HK\$1.5 billion, 0.06% of GDP (2014 data)
	<u>Based on assumed SEs</u> Total 62,000 SEs (2007 data) Total £24 billion, 1.45% of GDP (2007 data)	<u>Based on assumed SEs</u> Not available	<u>Based on assumed SEs</u> Not available
Financial Self-Sustainability	<u>SEs at break-even/profitable</u> 73% of SEs (2013 data)	<u>SEs at break-even/profitable</u> 14% of SEs (2012 data)	<u>SEs at break-even/profitable</u> 62.9% of SEs (2014 data)
	<u>Market toughness benchmark</u> SME ⁶⁹ life span: 7.2 years	<u>Market toughness benchmark</u> SME life span: 6.3 years	<u>Market toughness benchmark</u> SME life span: 3.7 years
Social Impact	<u>Social return on investment</u> Not available	<u>Social return on investment</u> Not available	<u>Social return on investment</u> Annual SROI: 48% Cumulative SROI: 446% over 9.3 years median life span
	<u>Workfare content in price</u> Not available	<u>Workfare content in price</u> 17%	<u>Workfare content in price</u> Average 16.7% (2014 data)

⁶⁹ SME, small to medium-size enterprise.

Discussion of Marketization, Actualization and Diffusion

Assessing the SE sector using the three key performance indicators (financial self-sustainability, scale of the SE sector and social impact) is highly relevant to the discussion of the three intertwining and evolving stages of marketization, actualization and diffusion of SE development in HK.

Financial self-sustainability is primarily an illustration of marketization. It is also an important factor to grow the scale of the SE sector. Success in sustainability and scale means the SE development can move to subsequent stage of actualization and then diffusion.

The driving forces for marketization and actualization are funding and entrepreneurship. The early traits of marketization of SEs in HK could be traced back to year 2001 when the Enhancing Employment of People with Disabilities through Small Enterprise Project (3E) was first established by the HK Social Welfare Department. The government department as the funder is providing startup grants or investment funding to the would-be social entrepreneurs. The social entrepreneurs are striving to acquire sufficient knowledge to manage the double bottom-line of FROI and SROI. In this stage SEs are experimenting how to survive in the commercial market. According to a survey by FSES

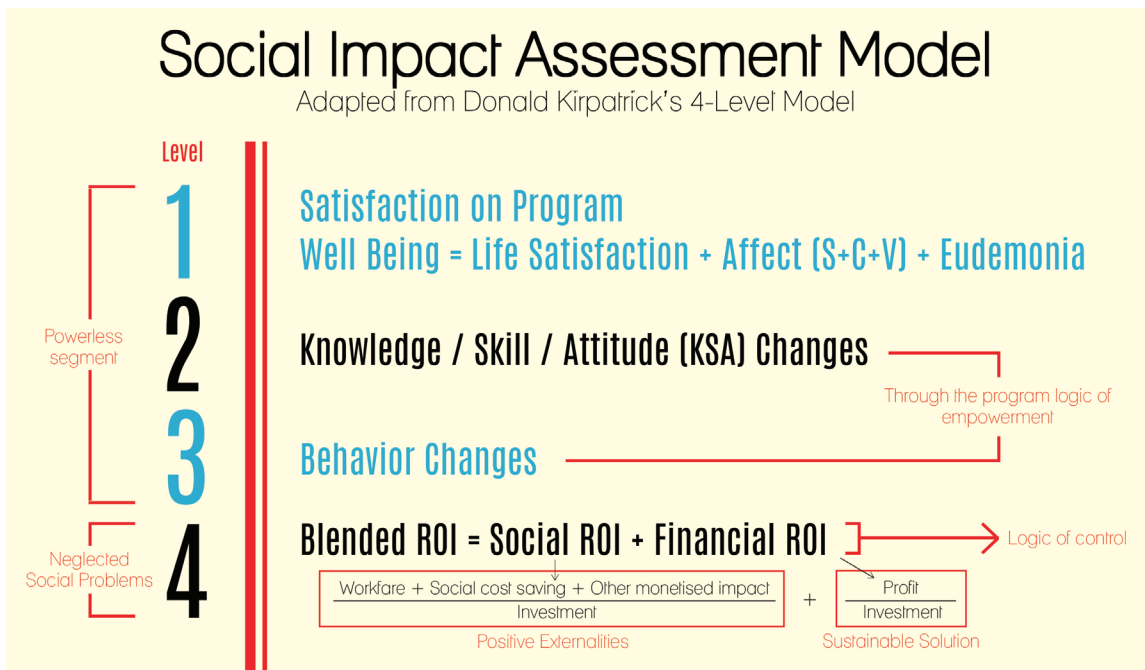
in 2010⁷⁰ (almost 10 years later), the top three challenges of SEs are sales and marketing, business management and financial control. New social entrepreneurs entering the sector would always need to be equipped with the necessary marketization skills to reach breakeven or profitability. Nevertheless, now 62.9% of the SE Sector are capable of achieving financial self-sustainability.

The scale of the SE sector in HK is relatively small in absolute number, but the density of the SE sector per 1 million populations (73 SEs per 1 million populations) and the average lifespan of 9.3 years are way ahead of other Asian countries. Coupled with the annual and cumulative SROI throughout the 9.3 year median lifespan, are significant indicators of actualization. The first two social enterprises which reports early success of financial self-sustainability and SROI actualization are Benji Centre⁷¹ and Fullness Auto Service Centre in the 2007 Social Enterprise Summit. Six years later in 2013, FSES reported favourable results of two SE funding schemes from the HK government (3E and ESR). The report illustrated public money is well spent in support of the actualization of both social and financial value creation of the SE sector.

⁷⁰ Knowledge Volunteer Survey 2010, Fullness Social Enterprises Society.

⁷¹ Benji Center <http://www.benjiscentre.org.hk/>

The diagram below is a suggested model we put forward regarding how social impact could be measured with reference to actualization. This model answers the “human-change agent” role of SEs. It gauges actualization from the perspectives of affective, cognitive, behavior and results. It reflects the empowerment effect of SEs in benefiting the disadvantaged segment being served. In 2012, Community Development Alliance reported its Tin Shui Wan Dawn Market project based on the Kirkpatrick model⁷². The case demonstrated the mutually exclusiveness and comprehensively exhaustiveness of the assessment. The same model has been applied in various funding proposals thereafter for illustration of potential benefits of the particular SE projects.



The Social Innovation and Entrepreneurship Development Fund (SIEF) set up in 2013 under the Commission on Poverty is a further step towards effecting diffusion. It is a HK\$500 million fund focusing on capacity building of social innovation and social entrepreneurship. It aims at scaling up the impacts by strengthening the ecosystem within the SE sector and building a SE favorable environment external to the sector.

⁷²http://www.sie.gov.hk/_news_pdf/SESI.pdf (p.7)

Envisioning the way forward in the diffusion of SE development, we would like to see,

- the social/NGO sector work on building up the social innovation culture from within. NGO such as YWCA is active in training up its management team on social entrepreneurship skills for running its traditional social services.
- the commercial sector skew their business or corporate social responsibility practices for shared social and business value creation. Commercial organizations like Hong Kong Broadband Network and Hong Yip Services are actively formulating their corporate social responsibility program based on supporting SE sector development. The re-invention includes changing volunteer works as children's life mentor to SE coaches, changing donation to ethical procurement by the company or promotion of ethical consumption to employees or customers.
- the public/government sector continue to play an active role in policy making, funding and recognition to strengthen the ecosystem favourable to SE development.
- the school sector to support the notion by incorporating social innovation and entrepreneurship into their general education curriculum. Chinese University of Hong Kong, rides on its life-education initiative, had re-invented the secondary school liberal studies curriculum using social enterprise as a solution for poverty alleviation. FSES has set up a school team to extend the impact of such diffusion using the funding support from SIEF.
- the general public to consider patronizing SEs as ethical consumers a preferred option to support societal transformation. FSES, with funding support from HAB, has been organizing citywide Tithe Ethical Consumption Movement for four consecutive years to generate demand for SE products/services. In a survey done by the Chinese University of Hong Kong in 2014, 78% of the public had heard about social enterprises, and 18% had purchased SE products or services. The ethical consumption promotion program aims at narrowing this 60% gap between "knowing" and "doing" of potential ethical consumers.

In summary, the SEs in HK have largely performed well. As of 2014, more than 80% of SEs that are operated by NGOs had been able to adapt well to the competitive marketplace, a feat evident in the median life span for SEs and the percentage that can be characterized as financially self-sustainable. This result echoes HK's ranking as number four in the list of most competitive countries published by IMD in 2014⁷³. Apart from its healthy financial bottom line, HK is also doing well in terms of its social bottom line. While the social return on investment (SROI) confirms that public money was well spent, the primary reason for the existence of SEs is the changed and empowered human lives they support. These two premises of SEs—financial self-sustainability and social impact—have been actualized. HK is taking a leadership position on two out of the three key performance indicators (KPIs) for assessing the SE sector.

Furthermore, the overall SE development is properly paced in terms of timing and the amount of government intervention. This deliberate pace reflects the maturity and functioning of the NGO/social, commercial, public/government, school sectors in HK.

HK is already pioneering on multiple fronts in SE development. The diffusion of social entrepreneurship into different sectors and segments through reinvention to fit the specific needs of the targeted group is building a favourable environment outside the SE sector. The potential for cross-sector value spill-over will hopefully create a common set of concepts, language and behaviour for societal transformation.

⁷³The ranking was based on government efficiency, business efficiency, economic performance, and infrastructure. <http://www.imd.org/news/2014-World-Competitiveness.cfm>
http://www.imd.org/uupload/IMD.Website/wcc/WCYResults/1/scoreboard_2014.pdf



The Social Entrepreneurship School Education, SENSE, educates students in a third of the secondary schools in Hong Kong 2015.



The Social Entrepreneurship School Education, SENSE, educates students in a third of the secondary schools in Hong Kong 2016.

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Appendix I: Definition of a SE

Fullness as a Social Enterprise

In 1987, a group of Christians founded Fullness Christian Vocational Training Centre,⁷⁸ with the aim of helping deviant youths, including young ex-offenders and young ex-addicts, become reintegrated into the mainstream society through Christian faith and vocational training in an auto service centre. They had set up a limited-by-guarantee company with the Section 88 tax exemption granted by the Inland Revenue Department. The youths were employed as apprentices in a 42-month program. The founders' plan was to operate the auto service centre at a profit, and then use the profits to set up more social enterprises. Four years after the centre's founding, it achieved profitability.

Fullness was a pioneer in social entrepreneurship in HK. Its initial efforts were 14 years ahead of the first government scheme for funding start-up social enterprises in 2001. The founders of Fullness were neither social workers nor businessmen, but pastors and Christian leaders. Their vision was to run a profitable business employing and training socially disadvantaged youths so that they could earn their living through the skills learned. In 2007, Fullness was described by Next magazine as a social enterprise that could earn money while helping the disadvantaged. Later, when Home Affairs Bureau organized the first Social Enterprise Summit in HK, Fullness was showcased as one of the two financially successive social enterprises.

From 1987 to 2007, Fullness received HK\$4 million in donations, with most of those funds being committed in the initial few years of its existence. None of the funds came from government; rather, most were provided by churches. By 2007, Fullness already had assets worth more than HK\$10 million and had helped about 100 deviant youths. The vision of the founders was actualized. This social return on investment (SROI) was also shared with the attendees of the Summit.

The Fullness effort has several notable characteristics:

- (1) Its primary purpose is to help deviant youths.
- (2) The auto service centre is both the means of positive intervention to the youths' life and the means to achieve sustainability.
- (3) Fullness is a limited-by-guarantee, tax-exempt charity organization that by default does not have any shareholders; hence all profits are retained for organizational development. None of the members of the board of directors receives any compensation.

In contrast, family charity foundations set up by the rich operate much differently. That is, their sponsors earn money from commercial enterprises and donate money to the related charity foundation. In this case, there are two separate legal entities.

Fullness also differs from the YMCA model. The YMCA operates hotels that serve as significant income sources to subsidize social services. In this case, although there is only one legal entity, the income generation mechanism is different from the social service delivery mechanism, so it is more like a cross-subsidy model.

Finally, Fullness differs from self-financed social services such as the counselling services. In fact, Bent-Goodley labelled its model as social work entrepreneurship (SWE). In this model, the income generation mechanism is also the intervention mechanism. Schools and medical organizations have similar configurations. In the helping professions, there is only one product—‘changed human life’⁷⁹; this is the “product” of the social sector. Fullness, however, has two products: The primary product is also ‘changed human life’, which does not generate income; the second product is the ‘repaired car’, which generates income.

Defining SEs

There is no single definition of social enterprises that is acceptable to all practitioners and governments worldwide. Consequently, it is advantageous to identify the desirable features of SEs and suggest a prudent way to use public money in funding these organisations.

1. Empowerment of socially disadvantaged individuals

An SE is an entity with a primary purpose of empowering the disadvantaged, but the means to finance such empowerment activities should be obtained from other sources. For example, the SE may collect revenues from external customers and produce empowerment for deviant youth. A cautionary note is that empowerment effects may also be realized by collecting revenues directly from the socially disadvantaged individuals, such as providing services to them but also charging them according to the going market terms.

2. Social capital as a second-order benefit generated by SEs

This is not to say that social capital is not important, however. An SE usually has a distinct group of people in mind as its beneficiaries. The primary objective should be to bring direct empowerment to them, even though there are always second-order benefits that project into those individuals’ social circle, family or community. The exception is when the SE’s sole purpose is to increase social capital in general, in which case the organisation does not have a specific group of beneficiaries that it is seeking to help.

3. Sustainability, recurring capital expenditures, and profit distribution

The primary purpose of SEs is empowerment of the disadvantaged, while sustainability is simply the means to achieve that goal. As such, once sustainability is achieved, profits should be reinvested in the SE to serve its primary purpose and enlarge its social impacts.

The profit calculation in SEs should take into account the need for recurring capital expenditures to ensure sustainability. Therefore, the profit for SEs should be calculated as the accounting profits minus all such necessary expenditures, but the remaining ‘profit’ should not be pegged for distribution to investors. A written commitment by the organisation’s directors or sponsoring NGO to this policy would be desirable.

4. Use of public money and other preferential treatment

Since public money or other preferential treatment is often involved in supporting SEs, it is prudent to start with a narrower definition of these resources; this would avoid the unfair competition with SMEs and also with NGOs. For example, preferential treatment for SEs might include the receipt of rental support or rental-in-kind—a practice that SME owners might see as unfair. This perception would be even stronger if SEs are allowed to engage in profit distribution. When seeking government grants, NGOs may perceive SEs as having advantages owing to the flexibility of their operation; meanwhile, SEs are also likely to be subject to less onerous corporate governance requirements.

Suggested Accreditation or Registration System

Taking into account the current lack of precise definitions of SEs, a more practical system for classifying SEs might range from self-registration, to central registration, to basic means tests, to accreditation, to legal definition. We will not argue as to which system is the best at this stage, but rather suggest allowing independent parties to choose their own system. However, each system must allow appeals to be filed and re-examinations to be performed, and its decision making must be transparent to the public.

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