

Social Entrepreneurship in Hong Kong: Perspectives, Trends and Prospects

Terence Yuen, Fellow, Centre for Civil Society and Governance
Josephine Lee, Manager, St. James' Settlement

November 2004

Historically a Chinese refugee community, Hong Kong has a long tradition of people's organizations providing various kinds of essential goods and services to citizens, both on a voluntary basis and working in collaboration with government. Throughout the previous half century, with staggering pace of economic development and changing role of government in welfare provision, the ways non-governmental organizations (NGOs) organizing for their human service provision have also changed considerably. However, while the proliferation of various kinds of social enterprises (SEs thereafter) is only conceived as a recent phenomenon, the practice of NGOs pursuing money-making initiatives is certainly not new in Hong Kong. As we shall review in this paper, various external and internal factors have combined in contributing to the increased emphasis being given to the practice of social entrepreneurship, shaping the development of SEs in the territory. Documenting the state of development of SEs in Hong Kong is thus a timely exercise. With similar phenomena also being observed in other parts of the world, it is a good moment in time for NGOs in Hong Kong to take stock, and be prepared for the next stage of SE development. In the spirit of sharing with people's organizations around the world, this exploratory study outlines the perspectives, trends and prospects of the development of SEs in Hong Kong.

Drawing from findings from literature review, documentary search and in-depth case studies¹, this paper examines the social origins of SE emergence in Hong Kong, the latest development trends, and the issues and challenges being faced by the nonprofit practitioners. In-depth interviews were successfully conducted with SE practitioners

¹ With reference to a set of common research themes developed by CAFO, the findings in this paper mainly drew on case studies of 25 SE projects operated by the seven chosen nonprofit organizations. A group interview with seven representatives of a community-based multi-service organization (which undertakes a wide range of SE-related activities) was first undertaken, serving the purpose of helping the research team to better refine the research questions in response to local development contexts. It was then followed by a series of in-depth, individual interviews with the seven organizations. In addition, a simple questionnaire was distributed to a group of NGO executives examining the feasibility of developing training programs for the specific purpose of promoting SE development in Hong Kong. References were also drawn from a number of local studies on community economic development projects, intensive employment assistance projects, and a recent study depicting the state of development of the third sector in Hong Kong.

from seven agencies. Of the seven organizations, five of them were selected from the social welfare field (covering youth, women, community development and rehabilitation services), with the remaining two coming from the arts and the environmental protection sectors.² Other well-known local SE examples outside of our case list will also be referred to from time to time to illustrate points relevant to the study.

Overall, our findings show that the SE practices in Hong Kong are not one of a kind, but instead several distinctive types of SEs can be readily identified whose respective development paths, not surprisingly, can be tied back to the development history of the particular types of NGOs. Likewise, recent changes in trends and perspectives can also be understood with reference to changes in wider contextual issues influencing the development of civil society organizations. In the discussions to follow, the context of SE development is first examined, in which different perspectives and roles of SEs, as well as their current state of financing, are depicted. In the second section, the trends in SE practices are further unveiled by way of the introduction of a typological schema. In the final section, the prospects and challenges of SE development in Hong Kong, addressing both the organization level and the sector level, are examined.

A. Context of Social Enterprise Development

While definitions of social enterprise abound³, instead of adhering to any particular SE definition, we embarked on the Hong Kong SE study by first developing a locally adapted SE classification. Five distinctive types of SEs can be readily identified in Hong Kong: i) SE as business undertakings for revenue generation with limited direct service impact; ii) SE as a strategy for employment-related services in the rehabilitation field; iii) SE as a vehicle for promoting community economy and tackling unemployment; iv) SE as moves followed by NGOs to commercialize existing fee-charging activities; and v) SE as cause-related commercial undertakings with the expressed purpose of making significant direct service impact. We shall explain the nature of these five types of SEs along with an investigation of their respective historical roots, which effectively will tie the discussions back to the contextual issues leading to the emergence of SEs in Hong Kong.

² The seven agencies are Mental Health Association of Hong Kong (rehabilitation), Youth Outreach (youth), Yan Oi Tong (women and family services), St James' Settlement (multi-service), Hong Kong Christian Service (multi-service), Hong Kong Arts Centre (arts promotion) and Green Power (environmental protection).

³ As an example, a recent CAFO publication examining SE development in the Philippines refers social entrepreneurship as "the promotion and building of enterprises or organizations that create wealth, with the intention of benefiting not just a person or family, but a defined constituency, sector or community, usually involving the public at large or the marginalized sectors of society."

Emergence of different kinds of social enterprises

It is virtually impossible to understand SE development in Hong Kong without drawing reference to the historical development of the local NGO sector. Likewise, there is no way to understand the development of the NGO sector in Hong Kong without first examining the recent history of the colony turned special administrative region. A brief overview of the development of civil society since the late colonial time and a quick sketch of some of the changing forces in the past few decades could help shed light on our task to account for SE development in the territory.

In the welfare field where most SE activities are registered at present, NGO's reliance on government subvention has been substantial ever since the local economy took off in the 70's and 80's. Out of political considerations, it is the intention of the then colonial government to provide adequate level of welfare to the people, and it has chosen to work in cooperation with a large number of voluntary associations in delivering the welfare services to citizens. Fueled by a robust economy, and after more than two decades of rapid service expansion, it was not uncommon for government to have provided financial support that accounted for up to 80% to 90% of the total operating expenditure of the subvented welfare agencies. A bilaterally dependent relationship has thus been established between the colonial government and the voluntary sector. As a consequence, subvented welfare agencies would gather their effort to propel service expansion that were funded by government, while at the same time they would continue to advocate for the extension of services recognized by government for public funding support. Given advocating for government recognition was by then a far more effective way for service development and expansion, nonprofit organizations had little incentive and were not keen to develop income-generating activities.

Type 1/ Business undertakings not directly linked to core services

The early SE initiatives were thus exception rather than the norm. For the few voluntary agencies that have operated commercial undertakings prior to the 90's, they were mostly the results of organizational legacy. Historically, the government would have granted plots of lands to some of the more influential voluntary associations for their service provision. For some prominent international organizations, it is also common for their local chapters in different places to operate hotels and guesthouses. In the case of Hong Kong, internationally affiliated NGOs such as the two local YMCAs, the YWCA, the Salvation Army, etc. all operate profit-making hotel businesses for long periods of time. And by the 90's, owing to the booming property market, some of the nonprofit agencies opted to re-develop their service facilities by turning them into commercially viable investment properties such as offices and rental apartments. Usually certain facilities would be built within the properties for service use, but the operation of the hotels and the investment properties had little links to the core services provided by the NGOs. In summary, in the period of rapid service development that was fueled by government

funding support, most NGOs have kept their hands full for service expansion that was embarked by government support, and the management of welfare organizations have simply ignored the need for developing alternative income sources using the vehicle of social enterprises.

Type 2/ SE as employment related rehabilitation services

Perhaps the first wave of social enterprise development (though not recognized as such by then) was from the field of rehabilitation service which has long been very proactive in finding ways to enhance employment opportunities for people with disabilities. And by the 90's, services in promoting open employment has been recognized as a better alternative to running sheltered workshops, which until today are still the mainstream service mode for some disabled client groups. Many rehabilitation agencies have thus established posts or even specialized divisions within their organizations to promote open employment for their disabled clients, and related services on job training and personal development have been strengthened. Throughout the last 15 years or so, the movement has only grown stronger despite the declining economic conditions, with the Asian financial crisis sweeping the region in the late 90's. A landmark development took place in 2002 when a review of the prevailing employment legislation prompted the rehabilitation agencies to set up separate legal entities to hire their disabled clients as formal employees, instead of maintaining the open employment services as internal divisions.⁴ By now, given that open employment has been recognized as the preferred service approach, nearly all rehabilitation agencies have opted to establish affiliated entities to solicit business contracts for their disabled employees. While a development unrelated to service improvement at the outset, the incidence has marked the emergence of legally independent commercial operations that explicitly recognize the commercial nature of the SE activities.

Type 3/ Community economy and employment assistance projects

The prolonged economic downturn as a result of the Asian financial crisis has multiple effects on the NGOs and the society in general, and prompted several emerging trends in SE development. First, economic recession has hit hard not only the poorest and the most disadvantaged, but also a large share of the youth population and the middle aged unskilled workers, especially women. Historical level unemployment rate has been recorded. In an effort to address the issues, project based funding was offered by various funding bodies, including the government and other public or private funding

⁴ The central issue was that without establishing the formal employment relationship, the disabled people could not gain the usual protection provided under the prevailing employment legislations. To encourage the rehabilitation agencies to set up affiliated social enterprises, the government has launched a scheme called "Enhancing Employment of People with Disabilities through Small Enterprise", which provided seed money for the NGOs to set up subsidiary to commence the SE operations and employ their disabled clients.

sources to promote different kinds of community economic development projects.⁵ The intensive employment assistance programmes have also been launched. With seed funding available, many nonprofits have ventured into the field of helping various disadvantaged groups to form cooperative societies, as well as to set up business operations or joint venture businesses that could employ target groups like the youth or the discharged prisoners. On a parallel development, an emphasis on self-reliance and the promotion of social cohesion has led to the proliferation of community economic development projects that aim to promote self-help and mutual help, and very often local economic initiatives are promoted.

Types 4 & 5/ Commercialized fee-charging services & SE as genuine business ventures

While project-based funding is available for various kinds of employment support and community economic development projects, the recurrent funding support to NGOs has been shrinking due to continued cutback of government subvention funding since the late 90's. In response to the financial hardship, many welfare agencies attempted and more contemplated to commercialize their existing fee-changing services, extending their services into running self-financed operations on top of the subvented services. Services such as residential homes for the elderly and self-improvement courses for the middle and upper classes are offered at least on a self-financed basis, with some even making a good profit margin. Given the fact that subvented welfare agencies in the past would not have to bear any financial risk in running government-funded services⁶, the significance of running commercialized services bearing full financial risks should not be underrated.

Finally, the idea of running cause-related commercial undertakings to meet both social and economic ends has been followed by other voluntary agencies who recognized that the traditional ways of financing service development could no longer serve the all round needs of the community. It is increasingly clear that neither the traditional sources of philanthropy nor recurrent government subvention could be relied upon to support continued service development. While commercial viability is still a major question for most for-profit ventures undertaken by the nonprofits, it is likely that more voluntary associations will opt to pursue this route. In fact, in other service fields like environment protection or arts development where substantial government support has never been provided, attempts to develop self-sufficient social enterprises have been

⁵ The government has set up the Community Investment and Inclusion Fund which supports projects that could enhance social cohesion and the development of social capital. The Jockey Club Charities Trust, the biggest philanthropic institution in town, has funded several rounds of the intensive employment assistance programmes. Private funding sources like Oxfam Hong Kong and Kardoorie Charitable Foundation have also contributed funding for initiatives such as setting up women's cooperative societies.

⁶ The old subvention system adopted from 70's through 90's ran on a reimbursement basis, and the government would fully fund all recognized service expenditure. The system has now been replaced by the lump sum grant funding system which effectively put a cap on the government funding and as a result subvented agencies would have to bear the financial risk for over-spending.

recorded even earlier than the cases in the social welfare arena. Our two cases on arts and environmental protection would help illustrate this point.

Illustrative examples and the state of financing of SEs

Illustrative cases for each of the five types of SEs identified in the above discussion are provided here, in the same order listed above, together with an overall analysis of their state of financing.

- (a) The Chinese YMCA is one of the traditional NGOs that run hotel businesses in Hong Kong.⁷ It operates two hotels, with both of them located at prime sites close to the commercial districts. While facilities are built inside the hotel premises for service related uses (e.g. learning facilities and sports complex for its youth members), the hotels are run in ways not dissimilar to the commercial operators. Hotel revenues are used to fund the deficits of their service operations. As a registered charity, the hotel business is exempt from the charge of profits tax, but all earned income has to be poured back to charitable causes. The hotel rates have to be very competitive, and they would have to bear the financial risks should there be some bad seasons, like the period during the SARS outbreak. For voluntary organizations, the cost of constructing a commercial building is huge, and during the 90's when the property market was very active, some NGOs would work with the real estate developers in projects to re-develop their old properties. In helping out, the property developers got a share of the future revenue stream coming from the new property while they would help take care of the finance of the construction costs.

- (b) In 2002, Mental Health Association of Hong Kong established its first wholly owned subsidiary, MentalCare Connect, which was registered as a company limited by guarantee. Seed money was granted by the government's Small Enterprise funding scheme (see footnote no.4) to provide for the initial set-up capital, and its businesses include running convenience stores, retail businesses and cleaning services. At present MCC employs more than 80 staffs, with over 50 of which are disabled people. The operation ran into deficits for the first two years (for 2003/04 a loss of slightly less than US\$100,000 was reported out of an annual expenditure of just over US\$1 million), and it is anticipated that the business can breakeven by the year 2005/06. The primary objective of the business is to create employment opportunities for its disabled clients, and it is not anticipated to have any financial contribution to the parent organization. The annual expenditure of MHAHK of over US\$15 million is still largely funded by government subvention.

⁷ There are two local YMCA organizations in Hong Kong, the YMCA and the Chinese YMCA; both of them operate hotel businesses in the territory.

- (c) Community economic development projects and intensified employment support programmes are identified as a distinctive type of SEs which are the direct outcome of economic hardship and the resulting high unemployment rate. While sharing similarities to SEs in the rehabilitation field, much diversity can be observed. For instance, Yan Oi Tong, an indigenous Chinese association operating mainly in the New Territories (more remote areas in Hong Kong), has helped set up over ten cooperative societies serving women from poor, and often single parent, families. The first cooperative was set up with seed funding from a private foundation. The business was quite successful, and was able to generate surplus funds to help setting up more cooperatives, allowing more women to participate. Additional seed funds from Oxfam and the Jockey Club's Intensive Employment Assistance Programme were also applied for to set up more cooperatives. Typical services offered by the cooperatives include childcare, part-time home help, tutorials for primary school children, etc. In another case example, Youth Outreach applied for foundation funding to operate a courier service and a 24 hours convenience store for employing the school dropouts. With less than satisfactory financial performance from the courier service, the agency's latest attempt is to collaborate with a local chain restaurant to operate a food outlet that would hire the agency's youth clients as servers. An agreement has been made whereby the business partner will bear all the loss should it arise.
- (d) Examples of NGOs commercializing their traditional fee-charging services include elderly homes, self-improvement courses, and other educational programmes. Offering top quality residential services including care for elderly having Alzheimer diseases as well as other physical and mental failures, the self-financed home of Haven of Hope Christian Service has set a fee level three to four times of the rate charged by the average private homes. Having offered adult continuing education for more than 50 years, St James' Settlement has completely transformed its education offerings to becoming fully market driven, organizing mainly self-improvement and professional advancement courses that have high market values. Similarly, the Hong Kong Arts Centre has converted its education department into The Arts School, generating revenue that accounted for nearly half of its annual turnover. Instead of relying solely on rental income from its 14-storey building, the continued growth of TAS has helped offset part of the loss in rental income due to the sluggish market of office properties.
- (e) Examples of successful cause-related business undertakings that excelled in both the social and economic ends are difficult to identify. Instead, we can only note some attempts by the NGOs in establishing such enterprises. The Hong Kong Council of Social Service, relying on a seed grant from government, established the Information Technology Resource Centre that operates based on market principles and on a self-financed basis. Its business areas include procurement of IT products, system and software development, system support and maintenance, IT related training, and

professional consulting services for registered charitable institutions.⁸ Similarly, targeting the corporate sector, Hong Kong Christian Service has set up its Employee Assistance Programme which offers fee-charging services like running a day nursery for serving employees of banking giant HSBC. From a less successful experience, Green Power has once invested in the Green Field project, attempting to develop an organic farm that in its hope is to generate sufficient revenue for supporting its various green campaigns. Eventually the project failed to generate sufficient surplus income, and instead of backing Green Power, it later turned into a separate NGO which itself struggled to attain financial sustainability.

Overall, most of the SEs examined in this study struggled to attain financial sustainability, and only few managed to contribute to the financial well-being of the parent associations. The Hong Kong case is rather special in the sense that most NGOs are relatively well developed before they attempted to establish the social enterprises. Most of the SE projects could not be considered as an integral part of the core operations of the NGOs, and their success or failure would only have minor impact to the financial well-being of the entire organization. Given the course of the development as depicted above, SEs in Hong Kong are mainly outgrows from the existing operations of already well-established NGOs and, not surprisingly, few of them were exactly entrepreneurial in their attempts to develop SEs. Given the risk adverse nature of most NGOs, the level of risk-taking has been limited to the amount of seed funding that were able to secure for embarking the projects. Few projects have long-term financial planning, which sadly meant that many of the projects would be left to die out after the exhaustion of the initial funding. And even if some SE projects manage to survive and achieve self-sufficiency income-wise, their contribution to the financial viability of the parent organizations is minimal. So far, saved for a few exceptions, sound business models are rarely observed among SEs in Hong Kong.

B. Trends in SE Practices

While the “first impression” classification offered in the earlier discussion would have provided hints on the development trends of SE practices in Hong Kong, a more in-depth analysis should direct our attention to the linkages between the organizational objectives in SE development and the resulting organizational types of SEs being created. Therefore, in addition to the social historical account provided in the last section, the emerging trends in SE practices are further analyzed here according to the emphasis on organizational objectives in SE development as perceived by NGOs embarking the SE

⁸ ITRC is one of the few authorized distributors of Microsoft products in Hong Kong; however, it is restricted to serving only approved charitable institutions and their employees.

initiatives. Naturally, two dimensions would be examined, viz. the relative emphasis on economic vis-à-vis social objectives.

A proposed typological schema: linkages between types of SEs and objectives

The emerging trends in SE practices can be readily unveiled by way of a typological schema that analyses the relative emphasis of economic vis-à-vis social objectives in any particular SE initiative. Unlike either pure business entity or traditional charity that focuses on mainly economic and social ends respectively, SEs are established with the expressed mission to excel in both dimensions. Accordingly, a two-by-two matrix can be developed across the two dimensions, which then produces a typological schema for making sense of different types of SEs, as shown in Figure 1.

		Emphasis on Economic Objectives	
		Low/Moderate	High
Emphasis on Social Objectives	Low/Moderate	[a] Service diversification strategy	[b] Income diversification strategy
	High	[c] Community economy	[d] Social entrepreneurship

Figure 1 Two-by-two typological schema showing four distinctive categories of SEs

According to the schema, any particular SE initiative can be regarded as having either “low/moderate” or “high” emphasis on its economic as well as social objectives. It gives four distinctive possibilities: (a) service diversification, (b) income diversification, (c) community economy, and (d) social entrepreneurship. These four types of SEs are further examined below, with reference to our case studies.

(a) Service diversification strategy refers to the scenario whereby an NGO embarking on income generating activities with the chief objective to provide alternative choices to its service users. St James’ Settlement, a community-based multi-service agency, is a case in point. Serving the Wanchai community, it finds itself amidst a community that includes the very rich and the very poor. It has faced with the problem that many of its government subsidized services were too restrictive in its provision and long service queues were often resulted. Various “non-subvented” services were thus developed to supplement the government funded services on fee-charging basis, e.g. self-financed residential care for frail elderly was set up ten years ago. Without the new alternatives, the families from the middle class would have no other alternatives but to stick with the long service queues, or resort to private home operators with questionable service qualities. Similar fee-charging services operated

by St James' Settlement includes day care service for the elderly, catering services for nearby schools, health programs, sports and gym facilities, and even beauty classes.

- (b) Unlike service diversification strategy, income diversification refers to the case where an NGO strategically restructures its service mix for the purpose of improving its financial viability, while at the same time striving to maintain its service mission. In the case of the Hong Kong Arts Centre, rental income derived from its 14-storey building (a performance venue plus office complex) used to provide sufficient income for subsidizing its arts promotion and performance programmes. However, after the economic downturn by the late 90's many commercial tenants have moved out from the building, and the Arts Centre realized it could no longer rely on rental income as the sole source of funding for supporting its activities. Realizing the market potential of arts education, it transformed its education department into a separate Arts School. While still at its development stage, the School has the potential to turn into a principal income source for the Arts Centre. In fact, with the development of the Arts School, the Arts Centre has even shifted the marketing strategy of its rental properties to attract more artists and arts organizations to rent its office space while making some sacrifices on the rental values. With hindsight, the Arts Centre indeed has performed a very delicate balancing act to try to achieve financial viability while not unduly sacrifice its social mission, and the eventual outcomes may be even better than the original expectations.
- (c) The case of community economy is intriguing, as it depicts a situation where the NGOs engaged in the SE initiatives are chiefly concerned with the economic well-being of the target groups they serve, instead of the NGOs themselves. In other words, social returns to the service recipients count more than the financial returns to the NGOs embarking on the SEs. In fact, community economy is more commonly being recognized as an approach to service in the development field, as it is promoted by international development agencies like Oxfam to counter the increasingly globalized economy. The establishment of women's cooperatives by Yan Oi Tong is a good case in point. The employment related SEs operated by Youth Outreach (YES Courier Service and Cousin Restaurant) and by Mental Health Association (MentalCare Connect) also fit into this category.
- (d) The term "social entrepreneurship" is reserved as a label for an exclusive group of SEs that has expressly set out to generate substantial financial returns from the initial capital investment and at the same time, the activities of the SEs have to produce direct and significant service impacts in alignment with the SE's (or the parent NGO's) social missions. Thus, instead of serving its target groups, the SEs have to contribute to the financial well-being to its "owners", namely the NGOs embarking on the SE initiatives. Not surprisingly, a high level of risk taking is inevitable in many SE attempts. In the case of Green Power, it started the Green Field project to promote organic farming and the consumption of organic foods in a modernized city

of Hong Kong. It has hoped that not only the education elements of the project would succeed, but also that the market of organic foods can generate substantial revenues that can support its green campaigns. In the case of the Information Technology Resource Centre set up by the Hong Kong Council of Social Service, the Centre operates on market principles (e.g. maintaining a reasonable profit margin), and at the same time it has served important role in facilitating IT development in the social sector.

It is worthwhile to note that once it is established, a particular SE may be able to transform from one type of SE to another. An interesting case would be NGOs involving in hotel businesses. Set out as a way to generate revenue for supporting service programmes, it is typically an income diversification strategy for the NGOs operating hotels. Yet, it turned out that the NGOs could also make use of the hotel business to offer career training and job placement opportunities for the unemployed youth. Depending on its emphasis on such social programmes, arguably the hotel businesses can be rightly classified as social entrepreneurship under our typological schema.

Other observable trends in SE practices

Among the cases examined, NGOs embarked on SE with reference to their client needs, what talents they possess, the service needs of a particular locality, and whether they possess specific physical or intangible assets with which they can leverage on to generate revenue. Roughly three typical trends of SE development can be observed, viz.: asset-driven, supply-driven, and demand-driven.

- Asset specificity (asset-driven strategy)

What economists call asset specificity is an important determinant of the nature of SEs being chosen to be established by the NGOs. Specific knowledge possessed by NGOs are important assets that could be turned into viable business opportunities, e.g. the Arts Centre setting up the Arts School, or Green Power selling organic farm products. Physical assets are also relevant. Just a few months ago, Youth Outreach had sensibly entered into a joint venture agreement with a popular chain restaurant to open a new restaurant at the floor shop space at its new service building. Throughout the 80's and 90's, many NGOs entered into property development projects, usually in cooperation with real estate developers, to redevelop their old service facilities for commercially viable properties.

- Talents of target groups (supply-driven strategy)

The dominant trend in employment-related services and community economic development projects is to develop local economic initiatives that can make use of the talents of the underprivileged groups, e.g. women, youth, the disabled, ex-mentally ill, ex-prisoners, etc. Successful business models include domestic help and childcare

services (women cooperatives), removal services (ex-prisoners), catering and hospitality businesses (youth services), retail and cleaning businesses (rehabilitation services), etc.

- Emerging service gaps (demand-driven strategy)

Entrepreneurial service initiatives would also be developed when there are emerging service gaps that cannot be adequately addressed by existing service models. Community-centered and multi-service agencies such as Hong Kong Christian Service and St James' Settlement would be able to adjust its service mix and develop new service models for addressing the emerging needs, while "user charges" would likely be the dominant funding model for such kind of self-financed service programmes.

Not surprisingly, there are similarities and differences in the organizational development processes adopted by these different kinds of SEs. Some of the relevant points will be examined in the final section on prospects and challenges of SE development in Hong Kong.

C. Prospects and Challenges

While most practitioners participating in this study believed their understanding of and their present capacity to develop SEs were still inadequate, most of them supported to embrace SE development in their agencies. Overall, it is considered an important means to achieve financial independence and help develop a genuinely independent civil society.

Embracing SE: issues to address

Social welfare NGOs relying on government subvention are eager to diversify their funding sources and lessen the impact of budget cuts by government. NGOs from other service fields like the arts organizations and green groups envision social entrepreneurship as an important means to further their social missions. In furthering the development of SEs in Hong Kong, issues and challenges at both organizational and sector-wide levels are identified.

From the point of view of the nonprofit organizations, issue areas include:

- Cultural change
- Internal management systems for SE development
- Choosing the right organizational form

With no exception, all SE practitioners identified cultural adjustment as a key management issue to be handled with caution. From the outset, as charitable institutions, it is difficult for NGOs to adapt to operating on market principles,

especially when many of them perceive the market being a source of social injustice. At the practical level, given the fact that many NGOs will simultaneously operate traditional charitable programmes and the new SE initiatives, two internal management systems are usually maintained and as a consequence two sets of culture are evolved. For those NGOs that have offered traditional charitable services for decades and only ventured into the territory of SE recently, cultural conflicts were inevitable. At present, staff briefing and sharing are the usual means adopted to try to induce cultural change, but results varied.

In addition to conflicts in organizational culture, other internal management issues would also arise. Many NGOs have to decide if they would need to establish two sets of pay systems for its traditional programmes and the new SE programmes. While pay by performance and incentive payment are the usual practices in the commercial world, such HRM practices are strange inventions to many NGOs. Duties in relation to compiling feasibility studies, business plans, financial projection and calculating returns on investment are simply not the skill sets possessed by professionally trained social workers, social cause campaigners, or the arts administrators. Most nonprofit practitioners simply lack proper business training and they very often also find themselves uneasy running business-like services.

Another important decision concerns whether to set up a separate legal entity for the SE operation, and if affirmative, what legal form should it choose to facilitate organizational development of the SE. NGOs promoting community economy would prefer legal structures like cooperative societies which provide a democratic base of participation. To fulfill the requirement of employment legislations, rehabilitation service agencies have established separate legal entities in the form of company limited by guarantee before hiring its disabled clients as its formal employees. Still other NGOs ponder if they should have their SE initiatives separate from the parent organization and become separate legal entities. There are fears that there would be loss of control over the SE, the SE turning into a self-serving entity, and possibility of future competition with the founding NGOs.

In addition to individual organization's internal issues and problems, from a sector-wide perspective, challenges to SE development include:

- Funding to finance SE
- Facilitative legal environment
- Collaboration amidst competition

Despite the fact that a number of funding bodies have offered seed grants for supporting community economic development projects, their funding criteria are usually quite restrictive and generally not applicable to SEs other than those relating to financial empowerment of target groups. Given Hong Kong does not have a strong culture of endowment building and foundation giving, it is indeed very questionable if a

philanthropic capital market can be developed to support SE development. In the foreseeable future, it is likely that most NGOs would still have to squeeze its internal resources to operate SEs that are of limited scale.

Another critical issue pending urgent attention concerns the development of a more facilitative legal environment. At present, many of the legal provisions for SE establishment are in fact outdated and cannot keep pace with the development of the social sector. An obvious example is the ordinance governing the establishment of cooperative societies, which was enacted decades ago to assist local farmers and fishermen to set up producers' cooperatives. Because of this historical background, the women's cooperatives mentioned earlier in this paper still have to register with the Agricultural and Fisheries Department. For NGOs that intend to set up incorporated legal entities to undertake SE activities, they would still need to rely on the Companies Ordinance which is simply not tailored for the needs of social enterprises.

Last but not least, it is worth mentioning that due to new government funding policies and the rise of new managerialism in the social sector, a competitive mindset has been developed among NGOs in recent years. As the NGOs would compete in all areas including funding and service contracts, it is conceivable that SEs developed by different NGOs might also enter into fierce competition, and eventually jeopardizing the social cause they serve. It is thus essential for the social sector to develop certain cooperative platforms for experience sharing and offering mutual support, while making sure that competition for market share shall not in any way hamper the development of the sector.

The Way Forward

Many SE initiatives have been tried out and still more will be established, hopefully with far greater accomplishments. In Hong Kong, SEs have been perceived as a means for resource mobilization, as well as financial empowerment for the disadvantaged. As people's organizations try to enhance their service impact, embarking on SEs is also an important means for diversifying their service provision and income sources. While marketization of nonprofit activities is a genuine threat to civil society, with adequate development strategy and appropriate sector-wide support, NGOs should be able to reap the benefits of social entrepreneurship while avoiding the drawbacks. As guardians of our social values, there is no doubt that the NGO practitioners will put their social missions as their foremost concern, and distance themselves from the malpractices of the market. As it is evident in our case studies, with the accumulation of local experience, nonprofit practitioners would eventually become more accommodative and versatile to the tasks of developing SEs in the social sector.