

SOCIAL INNOVATION IN CHINA

Commissioned by:



Generous support from:

British Council, China

Centre for Innovation in Voluntary Action

China Philanthropy Research Institute at Beijing Normal University

International Centre for Social Franchising

Leping Foundation

Authors: Rich Brubaker, Fan Li

Designers: Candy Lee, Erica Wong, Tina Park

Collective Responsibility

Published: 2016

TABLE OF CONTENTS

03

INTRODUCTION

A MESSAGE FROM THE SPONSOR

EXECUTIVE OVERVIEW

WORKING DEFINITIONS

07

GROWTH & SCALABILITY

ICSF'S 5 STAGES OF SOCIAL REPLICATION

SCALABILITY IN CHINA

KEYS TO SCALE

26

REPLICATING THROUGH FRANCHISING

REPLICATION

MODELS OF REPLICATION

33

SUPPORTING REPLICATION

43

CONCLUSION

INTRODUCTION

A MESSAGE FROM THE SPONSOR



If there is a problem in society, we should all be trying to find solutions. If there are needs, we should all be doing our best to meet them. Government, business, social organizations and individuals can all play a part in creating solutions to these problems or needs – whether the issue is global warming, response to natural disasters, support for people with special needs and disabilities or the general well-being of people and communities.

The process usually starts with a good idea. The challenge is then to make that idea work, both in how well it is able to meet the need or address the problem (social impact) but also in its ability to develop some sort of financial sustainability such that the costs of providing the service can be met, in both the short and long term.

But if there are problems somewhere, it is likely that similar problems will exist elsewhere. These similar problems or needs can be addressed in one of two ways: either people will create their own solution. Or they can look for something that has worked somewhere else and adapt or

copy it for their country or community. And if you have created a project that works, you can try to spread it so that it creates a wider social impact.

A socially-minded enterprise, just as any purely commercial enterprise, will need to select an appropriate replication strategy if it wishes to scale up its operations. In order to promote the idea that socially-minded enterprises should consider scaling up and to help them find appropriate ways of doing this and to provide them with professional technical expertise to develop this, in 2011 we created the International Centre for Social Franchising (ICSF) in the UK. ICSF is now creating a network of branches and affiliates across the world – already established in the USA, South America, Kenya, South Africa, Australia and now in China.

China presents a huge opportunity for successful socially-minded enterprises to scale up their work. The size of the country and its population require solutions to be delivered at scale if any real impact is to be made on the problems and

needs. The recent economic success of the country now needs to be accompanied by “social success”, where growing wealth of citizens, businesses and government is used to address society’s needs and the well-being of people and communities.

Our plan is to develop support for socially-minded enterprises in China, whether they are operating for profit or not for profit and to help them plan and implement the scaling up of their operations. We will be doing this by providing training and consultancy, working closely with organisations such as the Shanghai based Non-Profit Incubator, with Chinese foundations which are supporting the social enterprise sector, such as the Narada Foundation and the LePing Foundation, and with the British Council, who have developed a social enterprise training and support programme across China, and the entrepreneurs themselves who have been working hard to create businesses, profit and non, that are solving the problems we collectively face.

Michael Norton

Co-founder, International Centre for Social Franchising, October 2014

EXECUTIVE OVERVIEW

IAS China's economy transitions towards maturity, where conversations of balanced growth replace growth at all cost, awareness of social entrepreneurs and enterprises is possible solutions to the environmental, societal, and economic challenges faced. A change in dynamic that will lead to increase opportunities, and markets, for scale.

In fact, as borne through our research, the first organizations are already breaking out. Organizations that were once struggling to be recognized, struggling to find traction in programming, or struggling to find funding, are now finding scale in program portfolios, organizational size, funding, and most importantly impact.

“ IF YOU WANT TO BE A GREAT COMPANY
THINK ABOUT WHAT SOCIAL PROBLEM YOU
CAN SOLVE.

Jack Ma, *Founder of Alibaba*

It is a shift of mindset that is also occurring across a range of critical stakeholders:

» **Business leaders** are looking at social issues as new markets, and successful social minded enterprises as potential investments

» **Consumers** have begun looking for safe, reliable, high value products, and more importantly they are showing that they are willing to pay a premium

» **Non-profit leaders** are finding that their organizations are gaining traction as service providers to the government are overcoming their fear of “profit” when planning for the future, and as a result are paying market wages for themselves and their staff

» **Employees** are now willing to leave comfortable lifestyles and jobs behind for the prospect of building a new model for change

» **Universities** are forming new programs that move beyond research and into the classroom, with several funding centers and creating master's levels programs

» **Government agencies** hiring social enterprises and creating new opportunities for entrepreneurs through the government infrastructure, be paid well for their service, and be given access to training opportunities, new programs, and the ability to advocate

A final trend that we found to be on the cusp of scale is that of Chinese rooted organizations taking their platforms abroad. Until recently there has been very little (if any) interest in outreaching to other countries as China's own needs have been so large, but this is changing and going forward we see the potential for scaling the lesson and platforms that Chinese entrepreneurs have created into other areas of the world where job creation is a critical need. Where urbanization and settling large migrant populations will be a critical need. Where the expectations of the middle class rise, and new systems for safe food delivery, affordable education, and accessible healthcare are required.

All trends that we believe will provide the foundation for a significant amount of additional traction, and scalability, in the next 3-5 years.

As presented in this report, with opportunity comes challenges, and through our research we have come to understand that the obstacles that entrepreneurs face are often rooted in both the ecosystem that they are operating in as well as in their own business and management models.

To help entrepreneurs manage these dynamics and overcome the challenges of growth, to fully realize their vision, it will take multiple stakeholders to bring a coordinated impact.

It will take intermediaries to build knowledge bases, opportunities for peer-sharing, mentorships, and bring focused support to organizations when they are in need, and it will take customers who are not only willing to pay, but do pay, for the products and services that these entrepreneurs are bringing to the market.

For us, we remain hopeful and optimistic about the prospects for socially minded entrepreneurs and enterprises to find opportunities to scale, and we hope that through this report you find ways in which you are able to participate in the process.

There were 10 dynamics of scaling that we felt posed the greatest challenges, or were areas where one could look at the organization to understand better about how they were scaling:

GREATEST CHALLENGES POSED TO SCALING

1. Did the organization have a clear value proposition?
2. Were organizations effectively localizing platforms as they scaled into or across China?
3. Has the entrepreneur, or organization, proven a concept that can be scaled?
4. What is the business model, wholly owned or franchised, that will serve as the best medium for growth?
5. Will the organization's legal structure support its expansion?
6. Does the organization possess the internal processes necessary to grow?
7. Does the organization have the middle management capacity necessary to manage the growth?
8. Is the funding right-sized and diverse enough to support, and maintain, growth of operations?
9. Is the firm's mission, and products or services, aligned with the needs of the government?
10. Is the entrepreneur committed to the growth process?

WORKING DEFINITIONS

| WHEN identifying firms to interview we have taken a wide definition of what social innovation, entrepreneurs and organizations are. For us, and for the purposes of this report, we believe it best to take a definition that would allow for the greatest possible cases and lessons to be leveraged from.

SOCIAL ENTREPRENEUR

Someone who establishes a social-purpose organization.

SOCIAL ENTERPRISE (SE)

Businesses that trade to tackle social problems, improve communities, people's life chances, or the environment. They make their money from selling goods and services in the open market, but they reinvest their profits back into the business or the local community (SEUK reference).

SOCIAL FRANCHISE

The adaptation of commercial franchise techniques for the aim of maximizing social impact whereby independent organizations, groups of people, or individuals are enabled to act as the franchisee to deliver their proven model or solution under a license.

SOCIAL IMPACT

The consequence that moves us closer to or further away from the conditions of an ideal society and world.

SOCIAL NEED

The gap between reality and ideal conditions, as defined by human society.

SOCIAL-PURPOSE ORGANIZATIONS

Non-profit, for-profit, or hybrid organizations that seek to create social impact for human society, animals, or the natural environment in the form of value not limited to economic wealth for owners or consumption benefits for customers.

SOCIAL REPLICATION

Replicating a successful social purpose organisation, project or approach in a new geographical location.

SCALING SOCIAL IMPACT

The process of increasing positive social impact to better correspond to the magnitude of the identified social need.

GROWTH & SCALABILITY

ICSF'S 5 STAGES OF SOCIAL REPLICATION

1 PROVE/PROMOTE

Prove: Validate business model and social impact
Promote: Funders and others to promote replication and provide support

3 SYSTEMATIZE

- Package up all collateral required from brand to systems to create a "business in a box"
- Create legal documents
- Develop marketing materials

5 SCALE

- Rapid roll out of replications
- Ongoing support for network
- Continued learning and innovation

2 DESIGN

- Design social replication system for scale
- Prepare business plan/funding proposal
- Identify internal strengths and weaknesses

4 PILOT

- Pilot replication in 3-6 varied locations
- Monitor and evaluation
- Feedback to improve systems

| WHEN considering the potential for scale of social innovations, and the opportunities that should be and will be available for socially minded entrepreneurs, all one needs to do is look at a map and ask themselves how one person or team could organically grow to China's need in China's time.

China is a country with a population of 1.35 billion people spread across a land mass larger than the United States or the European Union. It's economy has grown more than 10% for most of the last 25 years, and by 2030 more than 300 million residents will have moved into the city from the countryside. It is a country that moves at a scale and speed like no other, and that is also true of the social, environment, and economic challenges that are faced.

NPI, one of China's largest social enterprise, has multiple operating units in 20 cities. Yet, they are only scratching the surface of China's needs. HandsOn China, an organization that engages young professionals in community-based volunteering events, has established

operations in Shanghai, Chengdu, and Hong Kong, with projects in 12 other cities. They are currently engaging more than 50,000 volunteers per year through 200 monthly events focused on the elderly, education, environment, and other needs of the community. A fraction of the opportunity that serves to highlight that scale here has a different definition, and to scale, it is going to take a different model.

A model where entrepreneurs learn to grow at a pace that they can manage internally, and then to develop systems that would allow for other entrepreneurs to take their platform to areas that they neither understand nor have time for. A model which only a few years ago would have been impossible as organizations struggled to build and stabilize a single footprint.

To have an opportunity to fulfill this mission, organizations will need to have and do the following:

1 | CLARITY OF VISION AND VALUE PROPOSITION

Having a clear understanding of the problems that one wishes to solve, a strategy for bringing a solution, and a value proposition recognized by clients and stakeholders.

2 | PROOF OF CONCEPT

For an entrepreneur looking to scale, moving from idea to impact is the measure of success, and for those that are able to prove that their vision has the ability to solve or alleviate the issues face the opportunities offered to make the scaling of idea growth easier.

3 | MODEL OF REPLICATION

Whether it is through organic, wholly owned, growth or through developing a franchising system, organizations need to have a model for scale that will provide the best chances for success and the lowest risk profile.

4 | LEGAL STRUCTURE

While an academic debate may still be taking place about how to define a social enterprise, one of the toughest decisions a socially minded entrepreneur has to take is how they will register their organization as a for-profit entity, or as a non-profit entity. It is a decision that can enable or inhibit growth in China through funding, partnerships, and access to government support.

5 | FUNDING

One of the issues that entrepreneurs consistently report as being their most serious is their inability to access and stabilize funding sources, for enterprises to grow.

6 | LEADERSHIP CAPACITY

Whether it is an experienced entrepreneur feeling overstretched, understaffed, and unable to focus on the critical business issues needed to scale, or being young and lacking the basic business and management skills to build a value proposition, core team, or brand, many leaders feel that they are lacking the capacity to achieve their mission.

7 | MANAGEMENT CAPACITY

For many organizations, profit and non, one of the hardest parts about growing as an organization is maintaining focus. But, even for those that do there is another problem. Maintaining the culture of the organization, and ensuring that the teams are working together for the same mission.

8 | GOVERNMENT ALIGNMENT

With the government significantly increasing the resources that it has to devote to working with, and supporting, socially minded enterprises, understanding and aligning to the governments needs is critical for any enterprise, profit or non, to scale.

9 | DESIRE TO SCALE

For many entrepreneurs, the ultimate determinant of whether or not they scale, will be in how they define scale and whether or not they are committed to the process of scaling.

ONE of the early issues that was faced in China was that having a clear idea of what an organization did or what its value was seemed to be of secondary importance to the need to find ways to engage individuals to “do well by doing good”. It was a time that was known more for donors investing in platforms they “believed” in, even if they were unsure of how to support the entrepreneur or measure impact. Entrepreneurs who had ideas, but lacked capacity to scale into an organization, struggled to gain traction in the market.

This is where the first level of separation began to occur, with entrepreneurs understanding that the most important step after finding their mission was finding those who would benefit from (and value) their efforts.

For us, there are a few determinants that are important to finding, and proving ones value proposition:

1. KNOWING WHAT THE PROBLEM IS
2. KNOWING HOW TO BEST HELP
3. KNOWING WHERE TO START

“ A BRAND NEEDS ALL THE STORIES BEHIND IT TO SUPPORT IT. THE SOCIAL ENTERPRISE IS EASY TO BUILD A BRAND BECAUSE YOU HAVE SO MUCH REAL GENUINE CONTENT. IT’S JUST HOW YOU CAPTURE THE CONTENT AND CONVEY IT TO THE PUBLIC IN A WAY THAT DOESN’T SOUND LIKE A CHARITY.

Carol Chyau, *Shokay*

»» KNOWING WHAT THE PROBLEM IS

For an entrepreneur who is passionate about doing something, sometimes the hardest step to take is to narrow down on an issue that will be the focus of the organization. An issue that is both tangible, and to some degree solvable, and will serve as the organizations anchor going forward.

For FoodLink, an organization focused on delivering food that would otherwise be wasted to those in need, the founder's understand that their mission is to alleviate hunger, not solve poverty, yet they still ask themselves why after for 4 years the statistics still the same. "Why is 1 in 5 people still under the poverty line? Or how much impact have we really made? I don't think our job is to end poverty or alleviate it. We alleviate hunger but why is it that 1 in 5 people is still vulnerable to hunger."

»» KNOWING HOW TO BEST HELP

The last piece of creating an effective value proposition is to have a clear idea for how the organization will most effectively deliver its impact, be it through a for-profit or non-profit enterprise, via product or service.

This can be just as difficult for inexperienced entrepreneurs who have a clear vision, but are not sure how to execute it, as experienced entrepreneurs who have a technology, but do not understand how to commercialize it. Both can make gaining traction difficult as the development of the platform, or market, struggles to gain acceptance or is too difficult to bring to market.

For James Chen, when commercializing a technology that would bring adjustable eye wear to developing nations, they were immediately challenged: "the developing world was a different model, and tough to understand". He thought that the application would be obvious, and that developing world would embrace it because the developing world is driven by evidence-based benefits.

»» KNOWING WHERE TO START

Returning to the idea that China is a large country with 31 provinces, and provincial capitals with populations of 5 to 8 million, it is important to first look at the fact that China will have a range of franchising opportunities across the country, and that many of them may go to scale unnoticed at first. So, while many of the more recognized brands may be found in the cities of Shanghai, Beijing, and Guangzhou, it may actually be in the cities of Chengdu, Wuhan, and Xi'an where the best markets exist for franchising.

For Xiezhi, their first hostel was in Hangzhou in 2008 because Hangzhou is a magnet for out-of-town college graduates seeking jobs, and next to getting a job, finding a cheap and comfortable place to live is the second priority.

MOVING from idea to impact is a tough road, but for those that are able to prove that their vision has a value proposition, the opportunities offered to scale the idea forward grow easier as long as the entrepreneur can prove:

1. MEASURABLE SUCCESS

One of the most difficult aspects of proving success is being able to measure it, particularly if delivering services.

2. PROVING THE PILOT CAN BE SCALED

Something that goes beyond the need for funding and customers, and speaks to the organization's own capacity to grow with the resources they have.

3. FLEXIBILITY IN APPLICATION

Whether seeing an opportunity to cross geographical borders, or to scale through the development of a more robust/stronger portfolio of services. A key to scaling is to be able to make adjustments to the model after initial pilots and investments have proved successful.

“INITIALLY [I] SAW THIS AS DISRUPTIVE PRODUCT/IP THAT COULD CHANGE THE WORLD AND HAD COMMERCIAL/ SOCIAL BALANCE, POTENTIAL FOR SUCCESS. [I] IMMEDIATELY SAW THE SOCIAL BENEFIT VIA THE PROTOTYPE. DEVELOPING WORLD ASPECT MADE IT VERY ATTRACTIVE. DEVELOPING WORLD WAS A DIFFERENT MODEL, AND TOUGH TO UNDERSTAND. I THOUGHT THAT THE APPLICATION WOULD BE OBVIOUS, AND THAT DEVELOPING WORLD WOULD EMBRACE IT BECAUSE THE DEVELOPING WORLD IS DRIVEN BY EVIDENCE BASED BENEFITS.

James Chen, *Adlens*

IN China, where the replication structures and processes are still in the earliest phases, the sophistication of replication models has largely been lacking. In part, this is due to the fact that only in the last few years have socially focused organizations been allowed to scale, while at the same time there was a gap in the legal structures available to those who wanted to entrust another to take their brand forward without their (full) control.

Using the last 5 years of growth in the non-profit industry as a turning point for the sector's potential, we see this evolving quickly to the point where we fully expect to see a wide range of structures being deployed across China, for the betterment of the organizations and society.

For us, through our interviews, what was clear was that most entrepreneurs are still highly risk averse, are (overly) concerned about their brand, and are struggling to trust others to protect the brand or vision. As such, in the next few years it will likely be the wholly owned approach that will remain the most popular. It

is the structure that allows entrepreneurs and enterprises to manage their risk best, even if it comes at the cost of quicker growth. This will of course change over time, particularly as legal structures for franchising social enterprises become available, but more importantly, as the awareness of external stakeholders rises about the industry and the role of franchising in increasing benefits.

A step down from franchising, there are already a number of partnerships and coalitions that are forming that are providing opportunities for players to learn how to work together, which could, and should, be the gateway towards deeper collaborations, but as there are so few cases of this occurring and the given legal and political complexities of socially focused organizations aligning in China, there are a number of key forces inhibiting the opportunities for scaling within domestic borders.

Dissemination structures are gaining popularity in China as they offer organization's the abil-

ity to move more quickly through the dissemination of training platforms, programs in a box, and technology transfers. However, given the political and legal issues that exist, and inhibit many from growing physically through other structures, dissemination structures do offer a "below the radar" means to scale.

For foreign organizations looking to expand into China though, the conditions are different. In fact, if one were to look at China, one would find that some of the most successful groups in China are franchises of foreign groups: HandsOn, Dialogue in the Dark, Raleigh China. For each, their entrance into China was established by someone based in China reaching out to the organization directly and working with HQ to own the expansion into China. As will be mentioned in more detail later, these entrepreneurs each felt that they greatly benefited from having the brand association and access to materials and support from HQ, but once the first franchise was established in China they were themselves subject to the same questions over the right model of expansion.

WITH the core of China's social entrepreneurship industry operating as non-profit entities, finding the right legal structure has been an ongoing issue that entrepreneurs have struggled with.

A by-product of a system where getting registered was all but impossible for China's early socially minded entrepreneurs, the last several years the restrictions around registration have loosened as various cities have come to understand the value that these organizations can bring as a service provider.

For those looking to build a socially-minded, for-profit enterprise, the challenges are different. The actual process for registering a for-profit entity in China is a well-trodden path, but Western foundations cannot give money to for-profit enterprises. As such, many for-profit social enterprises are finding that they are unable to access traditional pools of funding that would help their organizations build, stabilize, or scale their operations.

For Chinese entrepreneurs and enterprises, being registered as a Chinese entity offers several distinct advantages when looking to scale the organization's

impact. First and foremost, the benefit of being able to access various forms of government funding and programming that is not available to foreign organizations.

While regulation and legal status has become less and less of a problem for local organizations and enterprises, it still remains a noticeable challenge for foreign organizations. This was the problem that troubled Embrace when they came to China. The mission of Embrace is to help save the lives of low birth weight and premature infants by distributing an inexpensive and effective infant warmer. "We wanted to do it 'in a legitimate way', which means to register either as a nonprofit or a for-profit", recalled Linus Liang, co-founder and former China director of Embrace. For foreign organization, to register as a nonprofit is VERY difficult in China while "...the latter requires 1MU\$ for registration as a medical company. The HQ and the board don't think it will bring enough value in return to justify such a big investment."

Key to success requires transition of the ownership to the locals, something that HandsOn China has built into its operation model, an organization founded by a group of foreigners, it is an organization whose

entire board and management team are entirely local. Through this approach, they believe that even though it has been difficult to identify and prepare the staff for the level of responsibility afforded to them, it is by being committed to this process that they have been able to succeed at the level they have.

All of which means that finding the right legal structure is still highly dependent on the organization, their previous work in China and support of partners, and goals. If they are interested in staying small, and operating as a non-profit, then a locally registered NGO may be the right vehicle. But should that organization want to scale up across multiple cities, then this structure could prove restrictive and bring additional risk to the organization.

| WHEN speaking with entrepreneurs who had imported a model, or were franchisees, one of the greatest benefits they received came in the form of process. Investments made by headquarters, over the course of years, that helped the entrepreneurs build their first programs, partnerships, websites, funding models, and training packages. All of which needed to be localized and smoothed out to find the right balance between replication and modification.

Program/Product delivery:

For an organization to be able to effectively and efficiency scale, processes need to be developed. For HandsOn, it was a training platform for volunteers, for FIELDS and BioFarm it was in the processes needed to source and deliver products, and for Yi future and the Library project it was in developing a product and training platform that can be delivered quickly.

With her experience in caring for her own child, Amy Zhou founded Yi Future, as a way to promote exercise in children. It is an enterprise that she built with speed of scale in mind, and she had built a process to support that.

Starting with her process for finding locations, she focuses on government agencies with whom she already has contact and knows to be aligned to her issue. Then, to speed up the process, she works with existing facilities, community centers, takes over a room, buys the equipment, and the salary required for one to two staff to help manage the site's programming activities.

It is a process that can be rolled out quickly by design, and for anyone looking at a similar model for their own organization, a lot of care must be taken to ensure that the process is planned, has controls, and can be corrected without extreme measures.

“**PEOPLE TREAT EVERY PART OF THE MANUFACTURING PROCESS LIKE ART, BUT IT'S ACTUALLY SCIENCE. THE PROCESS GOES BY MANY FACTORIES, IF THERE'S NOT A SET METHOD AND EVERYONE DOES IT BY THEIR FEELING, PRODUCTS COME OUT ALL DIFFERENT. THAT INFRASTRUCTURE ISN'T THERE SO IT'S A LOT OF LITTLE BATTLES.**

Carol Chyau, *Shokay*

TRAINING AND DEVELOPMENT

Whether it is in the training of a program manager, a social worker, or an organic farmer, ensuring that the people who are core to the delivery and quality are trained and empowered of work is of critical importance for their retention and scalability of capacity.

For Wang Gan of Thousand Trees, creating a teacher's training program was a critical element of their scale. In 2012, with support from the Western Sunshine Foundation, they began a program to train teachers in Gansu province. A process that can be resource intensive, they realized that they needed a new model to be able to train at a large scale. What resulted was a train the trainer partnership with Provincial educational bureaus in HuBei, GanSu and Sichuan, which resulted in over 1100 teachers from 47 rural preschools received training.

TECHNOLOGY

Using technology to increase efficiency or to be the delivery mechanism for going forward, technology will play a larger part in scaling social impact.

For Shokay, an organization that has developed a portfolio of luxury garments from the down of Tibetan Yaks, one of the most difficult parts of their business is the varying quality of their raw material. "We need to judge the quality to determine fair price. We don't want to buy from the herders at a higher price because we're a social enterprise. But in the field, how do you determine quality on the spot? Right now there's no scientific way to do it, we only have samples."

It is a problem that has led Carol to Australia, to study the wool industry and learn about the processes they have employed over the last 50 years to overcome the same issues. In her words, "In Australia the extent of quality control on the field was transparent and scientific." A process that Carol believes the industry needs before Yak fiber is economic and consistent enough to bring the industry itself to scale.

| ALTHOUGH China is a growing market that appeals to foreign investors, NGOs and entrepreneurs, only a handful of foreign social enterprises have managed to expand into China so far. However, as we found out from our meetings with entrepreneurs whose organizations have foreign roots, formal or informal, the key to surviving and success in China is not just overcoming these technical barriers, but a clear path towards localization supported by the right value proposition and strong leadership.

For an organization to scale, particularly across a geographic range, it will be required to go through a “localization” process for it to be able to penetrate the local market, establish its value proposition, and build partnerships. This is particularly true for foreign non-profits who are operating in China, and for many it is the most difficult step as it often comes with a need to release control of the brand and trust local employees to act in their best interests.

Something evidenced by the fact that most of the successful “foreign” organizations were started by locals themselves who were inspired by the model and determined to bring it back to China to solve

the social issue that they care deeply about. As evidenced by the work of Shiyin Cai of Dialogue in the Dark and Garrison Lu of Raleigh. Both of whom were inspired by their experience with these organizations outside of China, and then made it their mission to bring the organization to China.

- Successful expansion to China requires a clear vision and a dedicated leader with full commitment to the process.
- Whether Chinese or foreigner, the China based leader needs to have the ability to shape and execute on the overall China strategy and programs.
- Headquarters or the place of origin needs to work together with the local leader to create a balance between replication and modification.
- A “translator” who is familiar with both cultures and the model can play an important role in making the process smoother.

There are immediate advantages to launching an organization with an existing brand, processes, and network. Particularly in the start-up phase, training packages, branding, funding strategies and contacts can all help make the set-up process

for the entrepreneur far easier than if they were to go it alone.

For Social Venture Partners (SVP), who began in Seattle in 1997 and entered China in 2013, the underdeveloped environment of philanthropy and giving in China compared to the US means that donor education and engagement will become more important for SVPs in China. Unlike in the States, most partners in China have the passion to give but know almost nothing about non-profits or have very little volunteering experience. In order to shorten the process of identifying the right organizations to support, SVP China is currently working with Narada Foundation by selecting candidates from its grantees.

So, while it’s assumed that it’s difficult for foreign organizations to survive in China because it’s harder to “gain trust”, it is not necessary true. It is certainly harder for international players to justify staying in China should they look to chose to remain firm about the model in China, but for those that are flexible in their approach, China can become a leading market for the organization.

WHILE not directly discussed, what became evident through discussions was that entrepreneurs were often unable to accomplish everything they wanted. In part this was due to their nature, and setting large goals, but as described in the above, more often than not, it was from a gap in confidence or stability in the team. That, whether by nature or need, having to be so involved with the details of the daily operations, there was little time left to do anything else.

If there is one challenge that few have been able to overcome, it is the issue of building a core management team that is aligned, producing, and can be trusted to move up into the executive leadership. By and large, these organizations are still overseen by the entrepreneurs themselves, something that we believe will change in the coming years.

“**INTERNAL TALENTS, AND FINDING THE RIGHT PEOPLE IN THE LEADERSHIP TEAM, IS OUR GREATEST CHALLENGE. WE HAVE A VERY THIN LEADERSHIP BENCH RIGHT NOW.**”

Shiyin Cai, Dialogue

NON-PROFIT LEADERSHIP

With the relatively new entrance of non-profits in China, particularly independently run, there are signs that the first generation of leaders is nearing the end of their tenure. There will be set backs in these transitions, as the recent experience of HandsOn highlights. While successful at transitioning to his successor, a failure or transition occurred later required several members of the founding team (who had transitioned to the board) to return to day to day operations to ensure the survival of the organization.

TRUST AND ABILITY TO DELEGATE

Through our discussions, one of the common themes that arose was the difficulty that entrepreneurs faced in building a management structure that was stable, could be trusted to execute, and as a result, could free the entrepreneur to focus on the bigger strategy. For those that did have a core and stable team, like NPI, this was a source of strength.

For Dialogue in the Dark, this is made all the more difficult as for Shiyin her goal is to have the entire organization run by visually impaired employees. A challenge that is both real and perceived as external perceptions of the capacity for the visually impaired are still low, but due to the fact that many of her staff have never been given a proper education, the skill sets required to running a business are still not at needed levels.

STRENGTH OF EXISTING TEAM AND ORGANIZATION

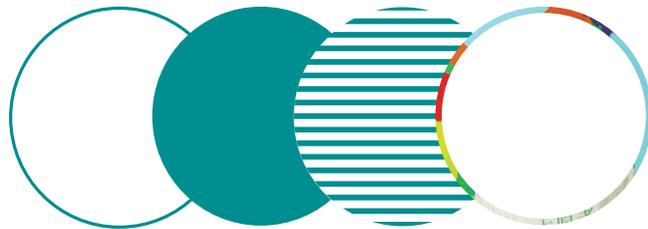
With few exceptions, when speaking with entrepreneurs, teams' stability and productivity was something reported as being a core concern. At times, this was a reason for the organization's "slower" pace.

BANDWIDTH OF ENTREPRENEUR

A problem faced by entrepreneurs around the world, it is particularly acute in for socially minded entrepreneurs in China who are working with limited resources while trying to build their business, and without the support needed by teams, boards, funders, and clients, it is the bandwidth of the entrepreneur that often becomes the greatest bottleneck for those firms who have proven their models and have the potential for scale.

| FOR Sherry Poon of EcoDesign Fair, this was an issue that was particularly acute as she was already managing another successful social enterprise, Wobaby Basics, when she started EcoDesign Fair and instead of hiring full time staff to help build the organization she relied on a committee of volunteers.

A committee that has been critical to its success, but the committee's instability and lack of capacity has meant that the organization has been unable to grow beyond Shanghai. In Sherry's words "EcoDesign fair is just held in Shanghai because the core team know well about Shanghai people. And Beijing is a totally different world for the team, [...]"



“ ECODESIGN FAIR IS JUST HELD IN SHANGHAI BECAUSE THE CORE TEAM KNOW WELL ABOUT SHANGHAI PEOPLE. AND BEIJING IS A TOTALLY DIFFERENT WORLD FOR THE TEAM.

Sherry Poon, *EcoDesign Fair*

| FOR many organizations, profit and non, one of the hardest parts of the business is finding and building the core team that will stay with the organization, remain passionate about their work, and be able to anchor the organization as it grows.

For the library project, an organization that donates books to rural schools across China and Vietnam, the strength and stability of their team is a core reason why it has been able to install more than 1000 libraries.

The founder, Tom Stader, has spent the last 5 years building the organization, and one of the turning points he saw was through an employee who was a driving force for the organization.

As such, for him to entertain any thought of replicating, a team of full time, committed, and capable staff would need to be in place:

“ TO MANAGE GROWTH AND DO IT RIGHT YOU NEED THE RIGHT PEOPLE. YOU CAN'T RUN AN ORGANIZATION ON INTERNS AND YOU CANNOT EXPECT ONE PERSON TO MANAGE IT ALL. YOU NEED A STRATEGY AND YOU NEED A TEAM THAT CAN EXECUTE.

Tom Stader, *The Library Project*

ATTRACTING THE RIGHT PEOPLE

When asked about the biggest obstacles to date, the majority of the interviewees pointed out the lack of talented and experienced people. “We need funding too but it’s really about people. “However, we found out that the main reason behind lack of talents is still money: under market value salary has been a “common sense” in the non-profit and social sector in China: either the organizations can’t afford a decent salary, or even they can, as founder who have worked on a pro-bono base for many years. “It just doesn’t feel right.”

BUILDING THE CORE TEAM

In this industry, many entrepreneurs find it difficult to stabilize teams and achieve full productivity. Engaging new employees emotionally: for organizations whose teams are no longer confined to core founders, or are hiring past the first generation, we found that a lot of effort was spent in finding ways to align employees with the organization’s culture at the emotional level.

STABILIZING TEAMS AND PROCESS

For those that are able to attract and develop the right teams, the next problem is keeping them and ensuring that the teams are working together for the same mission.

MAINTAINING THE VISION OF THE CORE

“The split”, as management guru Simon Sinek calls it, occurs as a firm’s numbers grow and new members are brought on board to help with the growth. For the founders that we spoke with, this is often the most difficult time as they are forced to move into a position where they need to continually “manage” staff. Help them see the bigger picture, and when they do not, they have to find other means (carrots and sticks).

It is at this time that employee turnover increases, and where the organization slows down. Thus, this is one of the most important challenges to overcome for any growing organization.

ONE of the issues that entrepreneurs consistently report as being their most serious is their inability to access and stabilize funding sources so that they feel comfortable growing. For non-profits this is made all the more difficult as restrictions exist on the amount of money available for overheads, and a cycle of constant fundraising is needed. This is where having a strong fundraising strategy that engages different sources of revenue from different types of stakeholders is required.

For those that are unable to develop and realize a successful fundraising strategy, the organization faces several issues:

- Entering a cycle that is determined by funding shortages where the organization's core mission shifts to meet the requests and expectations of donors and investors
- Inability to stabilize the resources needed to stabilize programs or scale platforms
- Feeling that you are always running, and never building
- Organization is forced to forgo critical investments in salaries, training, and equipment needed to hire and retain the best talent

“PEOPLE WILL DONATE TO US ONE YEAR, BUT THE NEXT YEAR THEY LOOK AT YOUR FINANCE AND SAY ‘OH YOU GUYS ARE QUITE HEALTHY, WE’RE GONNA FUND ANOTHER CHARITY’. YET, IF WE’RE EXPECTED TO GROW, I CAN’T JUST SPEND EVERY LAST DOLLAR AND THEN, OH CRAP WHAT AM I GOING TO DO?”

Robin Hwang, *FoodLink*

Complicating the efforts of entrepreneurs and enterprises is the fact that China's donor investor ecosystem is still relatively immature. Chinese foundations who are largely funding their own programs, and have yet to develop the capacity to fund long-term initiatives, and many of the initial impact investors and talk of impact investment have yet to translate into transactions.

For GIGA, one of the biggest challenges is to find the right investors and stay focused on software. They couldn't access foundation-based funds because the funders thought that GIGA wasn't an NGO, but for traditional investors the valuation was low because of GIGA's lower financial performance.

A challenge that James Chen identified is a lack of patient capitalists who "plant seeds for both long-term economic growth and societal well-being with a much longer time horizon than traditional investment. For patient capitalists, social impact is the goal, not simply a by-product of investment decisions".

Which is where the entrepreneur needs to create an effective strategy, in the absence of a market that is proactively looking to engage with them, to develop all manners of funding. Be it revenue based funding from sales of products and services, applying for grants from multilateral institutions, working with foundations or government agencies, or launching a Kickstarter campaign. The sources need to be many, and the strings varied, so that the entrepreneur has the foundation and flexibility they need to take the organization forward.

ONE of the more interesting areas of development has been the interest and involvement of government agencies as “clients” to social enterprises. While initially starting with the development of city-level funds, and increased licensing opportunities at the district level, the government has significantly increased the resources that it has to devote to working with, and supporting, socially minded enterprises.

It is this dynamic, and the fact that the government has grown open to supporting enterprises (profit and non), that entrepreneurs need to be keenly aware of and align to when possible. For with alignment will come resources that can help bring a organizations mission to scale, or it may result in the end of a business model for those who fail to find alignment.

The US-based organization Embrace were unable to gain the support of government agencies to help distribute a product they felt was needed in China. They had the product, and China had the need, but without the ability to find a government agency to champion or sponsor their organization, the orders never came, funding for R&D could not be accessed, and users remained out of reach.

1. MEASURABLE SUCCESS

China’s government, while represented by a single party, does not have a single need or a single entry point. Needs do, and will, vary widely depending on the city, province or region one is in, and more often than not, the value proposition will be least effective in China’s tier 1 cities.

2. PROVING THE PILOT CAN BE SCALED

Social issues are often local issues, and for young entrepreneurs and enterprises, sometimes the most effective way is to bypass the city or provincial level government altogether and work with the agencies who are already tasked with the responsibility of carrying out policies on the issue. Quite often these agencies are poorly funded, open to partnerships, and are small enough that a small program aligns to their needs and capacities.

3. FLEXIBILITY IN APPLICATION

Small partners, who see the benefit of a product or service, have the ability to carry the message up the chain through various means. Means that can bring introductions to others they feel would have similar needs, as well as into funding mechanisms that are controlled at the local level.

REPLICATING THROUGH FRANCHISING

OVERVIEW

IAS previously mentioned, with the size and speed of China's challenges growing, the need to scale solutions is growing as well. A challenge in the environment, as it was only a few years ago that the majority of social entrepreneurs were struggling to build and stabilize their first footprints.

Fortunately, more and more entrepreneurs are now able to say that they are ready to take their ideas to scale. They have successfully piloted their ideas, built a platform that is scalable, and have thought through various strategies for going forward. Now all that needs to be done, is for the entrepreneurs to chose the right model for their next stage of development.

When an entrepreneur is looking for the right model to take their organizations to scale, be it through a wholly owned model or through an asset light discrimination model, the entrepreneur's mindset is a critical factor.

““ HOW DOES THE LICENSER CONTINUE TO ADD VALUE TO THE LICENSEE THAT MAKES THE BRAND WORTHWHILE. WHEN LICENSEES DON'T SEE LOT OF VALUE COMING, THEY QUESTION WHY THEY ARE PAYING.

Shiyin Cai, Dialogue in the Dark

Three models we will explore:

WHOLLY OWNED

Occurs when the remote sites implementing the innovation are legally part of one large organization.

AFFILIATION

Occurs when an ongoing agreement exists between two or more parties to be part of an identifiable network. Affiliation agreements can be more or less restrictive or prescriptive on many dimensions, including things such as the use of a common brand name, program content, funding responsibilities, quality control, and reporting requirements.

DISSEMINATION

Involves actively sharing information. The originating organization has at most a short-term agreement to provide technical assistance to those who would use this information to bring the innovation to a new locale.

WHOLLY OWNED

| WHETHER due to challenges of ecosystem, regulation, or building (and protecting) the organization, our research has shown us that wholly owned expansionary strategies are by far the medium that the vast majority of entrepreneurs see as the right model.

It is a mindset that is largely shaped by their efforts to create a value proposition that others understood, teams that could execute on the vision of the organization, and efforts to build and manage the development of programs, brand, and funding. For many, simply surviving was a sign that they had succeeded, and the idea that someone else could replicate that process, at the same level of quality, is still inconceivable for many.

1. INTEREST IN SCALING SLOWLY | With many organizations and entrepreneurs we spoke with coming from the non-profit sector, it should come as no surprise that leaders are highly risk averse. It is a psychological barrier that has deep and legitimate roots, but is a key reason for why so few organizations have scaled. They are afraid to that, should they grow, or grow too big too fast, they will draw the attention of stakeholders who they feel will take a negative view of their increased size.

2. MANAGEMENT CAPACITY | Through our interviews, it is clear that many as leaders are micro-managing large aspects of the operations, they have not been able to develop a system that would allow them to manage anything but a wholly owned operation. In part this is rooted in the belief that no one but them could execute on their vision, but it is also rooted in the fact that entrepreneurs are risk averse. Which translates into staff and management structures that are inefficient, disengaged, and unable to support the growth of the organization.

3. BRAND PROTECTION | Another issue that is tied to the high risk aversion of the entrepreneurs is the belief that their “IP” and brands needs to be protected, and that the only way to do that is through ownership. That, to trust another organization, or entrepreneur, with representing their brand is risk they prefer not to manage.

To overcome these constraints, we feel that it requires a combination of successful case studies where one of their peers has been able to successfully manage the process of releasing control to another group, and that the brand is protected. To date, that has not happened.

AFFILIATION

| WITH respect to the potential of various affiliation themselves:

FRANCHISING

When considering the potential for franchising in China, it is important to look at this from two different segments. The first is from the Chinese segment where the entrepreneurial mindset is still maturing, is highly risk averse, and believes their model can only succeed at scale as a wholly owned operation. For these organizations, scaling through franchise agreements is still a dim prospect as there has yet to be a widely recognized Chinese domestic group that has franchised.

However, for foreign based organizations, the franchise option is something that has already proven successful as “Chinese entrepreneurs reach out to these brands and are bringing them to China. A few reasons why we feel this has happened is that this is a popular model in the “traditional” business, the foreign brands have experience and structures for franchising, and for some of these brands, franchising is a core mean through which they believe they should scale their impact.

“ SURE, WE CAN HAVE FRANCHISE MODELS. WE CAN SHARE THE BRANDING, WE CAN SHARE THE EXPERIENCE, WE HAVE AN OVERSEAS CONSULTATION PLAN ALREADY AND WOULD BE HAPPY TO WORK WITH ENTREPRENEURS WHO ARE (1) VERY LIKE MINDED (2) HAVE DONE THE RESEARCH AND (3) HAVE THE FINANCING READY. I CAN OFFER THE SUPPORT TO YOU, COME TO YOUR COUNTRY AND GIVE YOU TRAINING.

Dorothy Chan, *Diamond Cab*

PARTNERSHIPS

Similar to franchising, while we have seen a large number of cross border partnerships between foreign and Chinese organizations, as well as China based foreign founded partnerships with Chinese organizations, the number of formal partnership or coalitions between Chinese organizations has yet to see the same growth.

As with franchising, we attribute this to a few key reasons:

1. **Foreign** organizations interest in scaling into China, and difficultly entering as a wholly owned operation.
2. **Foreign** organizations having wider levels of experience with partnerships, and feeling more confident when the partnership is structured.
3. **Chinese** firms being averse to partnerships or coalitions as a function of brand or political risk.
4. **Chinese** firms being less experienced in developing partnerships, particularly in a highly competitive market.

To overcome these challenges, we expect that it will not only require a change of mindset, but will also require a wider change in the ecosystem where both NGO leaders, government agencies, and donors learn how to more effectively work together for scalable impact.

“ I THOUGHT OF RECRUITING PARTNER FOR FUTURE DEVELOPMENT, BUT IT'S VERY DIFFICULT. MY PARTNER NEEDS TO SHARE THE SAME SET OF VALUE WITH ME AS WELL AS TO SHARE THE RISKS OF RUNNING AN ORGANIZATION LIKE THIS. THIS ORGANIZATION CAN'T SURVIVE WITHOUT ME SO FAR.

Yanrui Wang, *LeLing Elderly Care*

DISSEMINATION

| FOR entrepreneurs who are looking for a lighter touch to their scale, or who have a scalable process that they believe can be embedded into other organizations, employing a dissemination model can be a very effective tool.

In China, at present, this is an area where a number of organizations, profit and non, are now focused. One of those is Yi Future, founded by Amy Zhou, where she has developed a program that creates a branded room within government community centers to promote activities and exercise for children in the community.

It is a model where she has developed a platform where one to two staff members are given training in their method, a small investment is made into equipment. In 3 years of operation, baby gyms have already spread to more than 30 communities in 17 cities and serve over 30,000 families (100,000 people).

“ IF WE GIVE THE TEACHERS ACCESS TO A HOW-TO GUIDE, A PROPERLY WRITTEN BUT IN CHINESE, ALL THESE ARE IN CHINESE, THESE ARE THE BOOKS THAT BIG SCHOOLS GET, THESE ARE GOVERNMENT MANAGED BOOKS, SO THEIR PROGRAMS ARE IMPROVED, EDUCATION IS IMPROVED, TEACHERS WILL BE MORE LITERATE, THE EDUCATION IS IMPROVED.

Tom Stader, *The Library Project*

For Dissemination models to become a popular medium for scale, we see that there are a few critical success factors in need:

1 SCALABLE MINDSET

For an entrepreneur who is building a model where dissemination is the focus, a mindset of trusting others with mission, vision, and brand is needed. In the case of Amy Zhou, her goal is to scale her model to every community in China. Something that she cannot do on her own, and will require trusting many others to execute on her vision.

2 STRONG HOSTS

For a dissemination model to effectively scale, their must be a strong host. One that is able to understand the value of the product or service to their organization, and is willing to make the investment necessary to ensure the organization is able to derive benefit. Given the fact that China's market is still maturing, if the requirements for the host are rigid, then it may be difficult to find a suitable number of hosts. But, if the tolerance is too wide, then the long term impact measurements may fail to impress

3 COMMITMENT TO QUALITY

One of the most difficult aspects of a dissemination models is to ensure that partners are not only using the tools and systems that have been embedded into their models, but that they are being used correctly and having the highest measure of impact. This is why it is imperative that entrepreneurs have a commitment to quality, a systems to measure quality, and are willing to take corrective action when needed.

SUPPORTING REPLICATION

ROLE OF GOVERNMENT

I**AS** the government's pressure to solve social needs increases, we expect that they will continue to seek opportunities to engage socially minded entrepreneurs and enterprises as service providers. Be it financially supporting the development costs of an elderly care facility, or engaging an organization to increase the quality of migrant educators through a teacher training program.

It is a trend that will help the government itself become more efficient at identifying best practices, and create better tools to support those who are still struggling to build their value proposition, teams, and funding. This trend is one the best opportunities for scalable impact in China, and perhaps in other regions.

“ WE HAVE HAD SO MANY SUPERMARKETS AND RESTAURANTS TURN US DOWN BECAUSE THEY ARE SO SCARED OF LIABILITY, AND SO BY NOT PARTICIPATING THEY'RE PROTECTED TO A CERTAIN EXTENT. WERE THE LAWS AROUND FOOD SAFETY AND DONATIONS OF FOOD TO CHANGE, THEY WON'T HAVE AN EXCUSE TO TURN US DOWN ANYMORE.

Robin Hwang, *FoodLink*

I **IN** our opinion, there are several ways that governments, local and otherwise, could help foster social innovation:

1

**AWARENESS &
ADVOCACY**

Creating a higher level of awareness of new business models (profit and non) that are bringing a positive contribution to society, inspiring others to get involved.

Opening of incubators that are dedicated to supporting entrepreneurs with socially and environmentally minded enterprises. Where networks of entrepreneurs can be intertwined with investors, advisors, and experts who would help the entrepreneurs bring their ideas to reality.

INCUBATION

2

3

**PROGRAM
PARTNERSHIPS**

Providing opportunities for organizations to align and partner with government agencies to improve the capacity and quality of services provided by the government.

Increased funding of social enterprises, profit and non, who are providing local level services in alignment with government needs and capacity.

FUNDING

4

5

REGULATORY CHANGES

Expanding on the reformations that removed the need for partnering agencies, by allowing non-profits to create branch offices would remove the onerous processes that some are now required to expand outside of the organizations city of registration. Separately, to support a pure franchising model, new regulations would support the franchising organizations manage risk and take action to terminate franchisee agreements.

Training sessions meant to help develop capacity around the needs of the government, through issue specific training, as well as those meant to improve the quality of leadership of organizations that are now working with the government as service providers on the issues that are of mutual interest.

CAPACITY TRAINING FOR ENTREPRENEURS AND ORGANIZATIONS

6

7

CAPACITY TRAINING FOR GOVERNMENT

Whether it's a 3-day workshop on how to communicate with local residents of a community, or a lecture on the concept of social enterprise, these all help to improve government understanding of and willingness to work together with non-profit organizations.”

SUPPORTING REPLICATION

ROLE OF INTERMEDIARIES

ENTREPRENEURS are the soul and driving engine of the social enterprise. Leading foundations and supporting organizations globally such as Ashoka, Schwab, UnLtd have developed a variety of different methods to support the growth of social entrepreneurs at different stages.

Without considering how to effectively manage the scale of organizations, one of the big opportunities that we see is for intermediaries to take a leading role and provide the help organizations need to become stable enough to scale.

“**MORE THAN MONEY, WHAT I WANT IS 16 HOURS OF SUPPORT FROM A SENIOR ACCOUNTANT OR ACCOUNTING FIRM TO HELP US DO OUR PROCESSING, PROJECT MANAGEMENT, AND TRAIN OUR EMPLOYEES FINANCIAL PLANNING SKILLS.**

Tom Stader, *The Library Project*

SUPPORTING THE ECOSYSTEM

EVENTS & AWARENESS | Whether it is hosting roundtables, writing articles, or taking successful entrepreneurs on tour to college campuses around China, there is still a gap to be filled in creating more awareness. Particularly awareness that is grounded less in storytelling, and more in practical applications, outcomes, and a vision for the future.

COORDINATION | While there is a large number of intermediaries in and around China looking to support the industry, a lack of coordination has meant that efforts are duplicated, overlapping, and are often seen as low value. This is a condition that will need to change over time, particularly if intermediaries have a long term view for the Chinese market.

SUPPORTING START-UPS/EARLY STAGE

START-UP TOOL KITS | With one of the key benefits to franchising being the tool kits provided to franchisees by the parent company, intermediaries who are interested in helping entrepreneur and early stage organizations grow, should look at developing a tool kit that could be used to support organizations as they scale.

CASE STUDY DEVELOPMENT | Borrowing from the business school model of leveraging businesses cases as a medium of learning, the development of a case study library could provide entrepreneurs with insights into the work that others did to build their own platforms.

PEER SHARING/LEARNING SESSIONS | With the opportunity to learn from the steps of others is considered valuable, the development of a structure that promotes peer to peer learning would be invaluable.

MENTORING | Working with the entrepreneurs on a one on one basis to help them work through critical issues of organizational strategy, and providing introductions to networks of partners and donors.

FUNDRAISING STRATEGY AND ADVOCACY | For more early stage organizations, options for external sources of funding, debt or equity, are often constrained, but for advisors working with start-ups, this is perhaps the best time to work with the entrepreneurs to help them understand what their options are and will be.

SUPPORTING ESTABLISHED/GROWTH STAGE

| WITH any growing organization, as the number of employees increases, the complexity of programs does also. Equally with increased diversity of funding sources, entrepreneurs and organizations need a different level of support. Support that will help them understand how to better develop strategies, and execute tactics, when there is too much for the core leadership team to manage and a reliance on teams to take the organization to the next level is required.

It is a higher order of commitment, and here are several areas where we feel intermediaries can assist:

LEADERSHIP DEVELOPMENT PROGRAMS |

Send fast track managers and executives to attend 3 day classes and/or to attend master's level programs is one way that an organizations capacity can be supported over the long term.

SKILL-VOLUNTEER PLACEMENTS |

Send fast track managers and executives to attend 3 day classes and/or to attend master's level programs is one way that an organizations capacity can be supported over the long term.

OVERSEAS PRACTICUMS AND INTERNSHIPS |

Build programs where the management of growing enterprises are able to serve in extended overseas secondments and create lasting ties that improve the wider ecosystem

FEE-BASED CONSULTANCY |

While considered a valuable service in the “traditional” economy, and one that is established in many Western markets, fee-based consultancy in China is still in its earliest phases (foundations and investors). However, with the rapid development of the sector over the last few years, and continued growth over the next 5 expected, the opportunities for professional consultants to charge for services is growing.

BOARD REPRESENTATION AND TRAINING |

Create opportunities for intermediaries to support the organization through board representation and training where intermediaries can work with the founder(s) to develop a board that is well positioned to offer active advice and assistance as the organization develops.

SUPPORTING REPLICATION

ROLE OF DONORS & INVESTORS

“**DUE TO THE UNDERDEVELOPED ENVIRONMENT OF PHILANTHROPY AND GIVING IN CHINA COMPARED TO THE US, DONOR EDUCATION AND ENGAGEMENT IS MORE IMPORTANT. MOST DONORS IN CHINA HAVE THE PASSION TO GIVE, BUT THEY HAVE NO PREVIOUS EXPERIENCE IN PHILANTHROPY OR VOLUNTEERING, AND ARE CHALLENGED TO FIND MEANINGFUL ENGAGEMENT.**

Jingjing Wang, *SVP China*

I **OVER** the last 2-3 years, one of the more interesting developments in China's philanthropic landscape has been the explosion of foundations. Created by celebrities/CEOs who believe in their ability to improve the mechanisms for giving transparency and impact.

However, even as the number of interested private foundations and investors increased, many of these investors still remain idle as they are unable to find projects that they are comfortable investing in.



| **HERE** are some areas where we feel they can offer the most support:

1

SUPPORTING RESEARCH

While many donors and investors are more interested in finding deals to invest into, an opportunity to fund issue focused research is an area that could lead to higher deal flows through increased awareness of issues, the skill to assess platforms, and an ability to assess the risks associated with funding a particular deal.

2

INCUBATION

Moving beyond a mindset of short term deal execution, donors and investors need to be more involved with helping the ecosystem and entrepreneurs develop at the core level. This is both an issue for the entrepreneur who is unable to get the support they need, but also an issue for the investor as they struggle to understand the needs of the entrepreneurs.

3

COLLABORATION

With many investors still in their earliest phases of investing there is great opportunity for improved collaborations between them. This comes through co-investment structures, sharing of case studies, and development of due diligence structures to be leveraged by many.

4

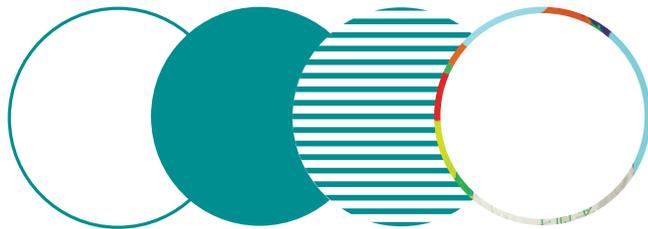
MAKE DIFFERENT INVESTMENTS

While many investors and donors are looking for the disruptive idea there is a lot to be said for investors who are making investments in proven areas that are developing at a slower pace. This is particularly true for first investors who could use such a strategy as an opportunity to learn via investments, and gain an understanding of how to best aid socially minded entrepreneurs and enterprises.

SUPPORTING REPLICATION BUSINESS LEADERSHIP

| WHILE not traditionally considered a key stakeholder in the social innovation space, we believe that the role of “traditional” business is an important one. Particularly those who are looking for ways to create commercial models for their sustainability, social responsibility, and shared value strategies and products.

In China, we are already seeing a lot of corporate activity in organic products, education, and healthcare, and with this trend likely to continue as the growth of challenges is matched by the size of opportunities, we see several role for firms to play:



“ WE DID A LOT OF EXPLORATORY WORK TO GET INTO CHINESE SUPERMARKET, BUT SELLING PRODUCTS IN SUPERMARKETS THERE HAS HISTORICALLY NOT MADE MONEY. BUT, GETTING OUR PRODUCTS IN WAS A ACHIEVEMENT BECAUSE IT SHOWED THAT CHINESE (LOCAL) BUYERS ARE INTERESTED. WHICH IS IMPORTANT BECAUSE THAT CATCHES THE ATTENTION OF TRADITIONAL INVESTORS.

Jeni Saeyang, *Eco & More*

1. VALIDATION OF MARKETS

One of the first things that will come from the entrant of a brand is the validation of the market.

2. AWARENESS OF ISSUES

As more corporate entities enter these markets, they will have to drive awareness of the issues as part of their promotional strategies. A benefit to social innovation as every dollar they spend in building awareness will relieve social organizations from having to spend multiples.

3. ECONOMIES OF SCALE

As “traditional” firms look to develop economies of scale, sources of supply, in marketing campaigns, training programs and distribution of products/ services all become more cost-effective at the industry level. These economies of scale will offer significant knock-on effects that social enterprises can capitalize on as they scale.

4. PROFIT

“Do well while doing good” is something that will only benefit everyone. That, with corporate profits, will come many knock-on benefits that will help entrepreneurs raise the capital they need through donations or investments that help bring their platform to scale.

5. EXIT OPPORTUNITIES

As the economic model for socially innovative organizations becomes more profitable, the leaders of traditional businesses will look to identify and acquire leading niche players in the market as part of their own go-to market strategies. A trend that will help generate greater investor interest, particularly with investors who were unwilling to make investments without a clear vision for exits and the return on their investment.

CONCLUSION

UNDER the big background of China settling into “the new normal”, with a growing shift of mindset on social problems and social changes, as well as development of public private partnerships, social enterprises in China that were once struggling to survive and grow are now finding scale in program portfolios, organizational size and most importantly, impact.

However, with opportunity comes challenges, as we have identified in this report. Challenges that were common themes in our interviews with founders and CEOs of social enterprises.

In particular we found that:

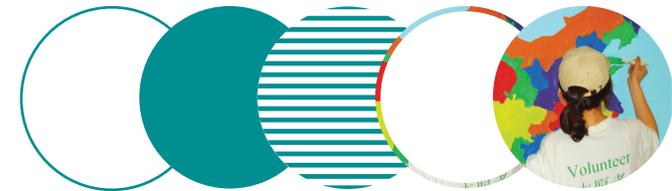
» Both structures and processes are still in the early phases, with lack of sophistication models, highly risk averse, and fear of trusting others to protect the brand or vision. Wholly owned approach will likely to remain the most popular in the next few years.

» There are growing number of good examples of partnerships and coalitions that are providing chances for players to learn how to work together. Dissemination structures are becoming very popular since it allow organizations the ability to move fast and reach further.

» Although China is a growing market that appeals to the outside world, only a handful of foreign SEs have managed to expand into China. At the same time, it was interesting to find out that some of the most successful examples of social franchising in China are also foreign models that introduced and established by China-based social enterprises. The greatest benefits came in the form of investment in process, the key of successful localization is to find the right balance between replication and modification.

» Given the size of China and the social issues that social enterprises are addressing, to help social enterprises scale to the next level it will take multiple stakeholders to bring together a collective impact.

We remain optimistic that the potential and opportunities for social innovation through enterprises, profit and non, will continue to grow and scale in the coming years as the challenges faced continue to grow and scale in the coming years.



CONTACT US

121 Jiangsu Road, Suite 18/F
Shanghai, P.R.C. 200050

www.coresponsibility.com

insights@coresponsibility.com

FOLLOW US

 @beyondbau

 /CollectiveResponsibility

 Collective Responsibility

 /collective-responsibility

