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25 March 2014

Mr Colin CHUI
Clerk to Subcommittee on Poverty
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Mr CHUI,

Legislative Council Subcommittee on Poverty

At the meeting of the Legislative Council Subcommittee on Poverty held on 28 January 2014, the Social Welfare Department was requested to provide the report with respect to the discussion item on “Enhancing Self-Reliance Through District Partnership Programme and the work of the Social Innovation and Entrepreneurship Development Fund Task Force under the Commission on Poverty”.

With the consent of the writer, Mr KEE Chi-hing, the report “Social Return on Investment of Enhancing Employment of People with Disabilities through Small Enterprise Project” (English version only) is attached for Members’ reference.

Yours sincerely,

(LAM Bing-chun)
for Director of Social Welfare

Encl.

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Social Return on Investment (SROI) of “Enhancing Employment of People with Disabilities through Small Enterprise Project” (3E Project)

Summary

- **Benchmarking:** Social Enterprise UK had commissioned “The State of Social Enterprise Survey 2013” which provides data on performance of SEs in the UK.
 - 38% of SEs had revenue increment in past 12 months, as compared to the 29% SMEs; 22% of SEs had revenue decrement as compared to 31% in SMEs. That is, SEs had higher growth rates compared to SMEs.
 - The median revenue of surviving SEs grows 5 times in about 10 years.
 - In 2013, 78% of respondent used SE status in their marketing, as compared to 53% in 2011. Consumers start to internalize the concept of “Buy Social”.
- **SE Definition:** The increased awareness of entrepreneurs on the brand value of “SE” triggers the academic effort on defining the sufficient conditions, instead of only necessary conditions, on what is a SE to avoid the abuse of the SE label. According to Professor Filipe Santos of INSEAD, social entrepreneurs should generate positive externalities benefiting the powerless community through sustainable solutions based on empowerment.
- **Empowerment:** Providing a job to the jobless is an empowerment.
- **Sustainable solution:** The SEs funded by 3E has a median life of 9.3 years, as compared the median life of 4 years of the US commercial enterprises. So 3E Project achieves a much higher sustainability relatively.
- **Benefit on Workfare to the Powerless:** Each grant dollar generates 77.4 cents/year of workfare for the people with disability. Over the 9.3 years, the total workfare is 7.2 dollars. That is, one dollar grant results to 7.2 dollars workfare.
- **Benefit on Social Costs:** The comparison between sheltered workshop and the SE portfolio in Stewards Ltd, a Christian Charity Organization (hereafter Stewards), reflect the significant difference in cost-effectiveness if only counting the workfare. However, social enterprises cannot help those in severe disability. So, there is a limit on social enterprise application.
- **Recommendation:** Hong Kong government has done a good job in designing and running funding schemes to incubate social entrepreneurship, but not a good job in evaluating and promoting its own achievements. The evaluation and marketing job should be revised to increase the return-on-investment of the marketing dollars.

Introduction

The first government policy on social entrepreneurship was the Enhancing Employment of the People with Disabilities through Small Enterprise Project (3E Project) in 2001 in Social Welfare Department. The second one is the Community Investment and Inclusion Fund (CIIF) in 2002 also in the then Health, Welfare and Food Bureau (now the Labour and Welfare Bureau). The third one is the Enhancing Self-Reliance through District Partnership Scheme (ESR) in Home Affairs Department, the fourth one is the Microfinance Scheme in Hong Kong Mortgage Corporation in 2012, and the latest one is the Social Innovation and Entrepreneurship Development Fund (SIE) in the Commission on Poverty in 2012. The funding allocated to all these initiatives exceeds HK\$1,645 million.

There is a growing appreciation on social enterprises. In the 2013 survey commissioned by Social Enterprise UK, **78%¹ of social enterprise used the SE status in their marketing, as compared to only 53% doing so in 2011.** The concept of “Buy Social” in the UK has increased the commercial value of the label of Social Enterprise.

Scholars found that concepts like double bottom-lines or a business set up for a social mission are insufficient as a stringent definition. In 2006, Gregory Dees² proposed how to differentiate social enterprise from social innovation. **While business income generation is a must for social enterprises, it is not the case of social innovation which focuses on ‘systemic changes’.** But, while the US practitioners talk much on social innovation, about three quarter of the projects are in developing countries where ‘systemic changes’ are more likely to achieve. In 2011, Brenda Massetti³ proposed how to differentiate social enterprise from corporate social responsibility (CSR). **Social enterprises focus on social impact maximization as long as sustainability is achieved, while companies with CSR still focus on profit maximization.** In 2012, Filipe Santos⁴ proposed a positive theory on social enterprise that “social entrepreneurs address the neglected problem in the society, with **sustainable** solution based on **empowerment**, which generates **positive externalities to the powerless segments** of the population”. This is a much improved criteria to distinguish between the selfless social enterprises aiming at the common good and the limited-selfish enterprises which capture most of values created though they claim themselves as social enterprises.

This report aims at discussing how social enterprises funded by 3E exhibit the positive externalities and the relatively better sustainability.

¹ Social Enterprise UK, (2013), *The People’s Business: The State of Social Enterprise Survey 2013*, p.26

² Dees, J Gregory and Anderson B Beth (2006), ‘Framing a theory of Social Entrepreneurship: Building in Two Schools of Practice and Thought’, *REDF*, can be retrieved from <http://www.redf.org/from-the-community/publications/457> on 22 August 2013/

³ Massetti, Brenda (2011), ‘*The Duality of Social Enterprise: A Framework for Social Action*’, *Review of Business*, Vol. 33, No. 1

⁴ Filipe M. Santos (2012), “A Positive Theory of Social Entrepreneurship”, *Journal of Business Ethics*, 111: 335–351

Research Question

In the social enterprises funded by 3E, the powerless segment is the people with disability. The neglected problem is the unemployment rate of the people with disabilities. **Job creation is a way to empower the people with disabilities**, the benefits include the four C's: **cash** (earned income), **capability** development, **confidence** resulted from trust and respect, and **CV** (job credential).

The research questions are as below:

- 1) Whether the social enterprises are sustainable?
- 2) Are there positive externalities?
- 3) How much positive externality benefits the powerless, and how much positive externality benefits those not the powerless?

Data Collection

The data provided by the 3E team in Social Welfare Department on the survival pattern of all the approved ventures are listed below. Up to now 76 ventures were approved and 75 of them were set up. About 76% of SEs was⁵ approved in the initial 3 years.

Table 1: The Survival pattern of ventures funded by 3E Project up to 2013

Year	Accumul- ative no. of ventures	Accumulative funding amount approved	Years in operation										
			Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Y11
2003	10	\$6,196,945	10	10	10	9	9	9	8	8	8	8	7
2004	20	\$9,960,925	10	10	9	8	8	7	7	6	6	6	
2005	27	\$14,084,250	7	7	7	7	7	7	7	6	6		
2006	35	\$18,269,906	8	8	7	6	4	4	4	3			
2007	42	\$21,723,978	7	7	7	6	6	6	5				
2008	45	\$24,762,997	3	3	3	3	3	2					
2009	52	\$30,355,414	7	6	5	4	3						
2010	60	\$34,481,387	8	8	7	5							
2011	66	\$41,104,545	6	6	6								
2012	70	\$45,828,331	4	4									
2013	75	\$52,346,580	5										

Sustainability of the Social Enterprises

To calculate the social-return-on-investment (SROI) over the life span of the social enterprises, there must be a number on the life span. Since 69% (52/75) of the social enterprises still survive, the median life span has to be projected from the annual

⁵ As a reference, the presentation on 3E Project in June 2005 showed that there were 32 ventures approved with \$16 million grants. Of which, 5 were profitable, 8 at breakeven, 9 were at loss⁵, and the remaining 10 were less than one year in operation hence could not be concluded on the profitability. These ventures employed 300 people with disability, and each get average \$3,600/month.

“dying” trend; especially the younger batches of social enterprises by referencing the trend of those with longer histories.

This is done up to year 8 in the table shown above. It is because in year 9, the size of the reference sample (ie, the batches of 2003, 2004 and 2005) drops to 36%⁶ of the total number of social enterprises. Hence a more conservative dying rate⁷ is used. So is the case for year 10 and year 11. **The resulting median life span is between year 9 and 10. It is calculated to be 9.3 years.** This is not the actual median of survival years, but the best available estimate⁸ based on those with long histories.

Table 2: The projected survival rate of the SEs funded by 3E Project

Year	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Survival	100%	99%	93%	81%	75%	71%	67%	59%	52%	45%

The social enterprises funded by 3E have a much better sustainability, because as a comparison the median life span of US commercial firms is only 4 years⁹.

Positive Externality benefiting the Powerless

The social mission of the 3E grantees is to enhance the employment of the people with disabilities. The main component of workfare (work-to-welfare) is the wage, which is a good proxy for the social impact. First, it can be monetized to calculate the ratio between the investment and the social impact. Second, it is much better than using the number of employees as most SEs cannot provide the full-time-equivalent (FTE) number on the part-time employees. **There were 541 people with disability employed with an average income of \$6,245/month. The total workfare is \$40,542,540/year¹⁰.**

As the total amount granted to the 75 social enterprises were \$52,364,580, therefore each dollar granted generates workfare valued to 77.4 cents/year¹¹. In short, **each dollar granted will lead to 7.2 dollars¹² over the median life span of 9.3 years.** The social-return-on-investment (SROI) of the 3E grantees is very good.

⁶ The total number of venture is 75. The sample sizes for calculating the overall annual dying rate are: 70 samples in 2nd year, 66 in 3rd year, 60 in 4th year, 52 in 5th year, 45 in 6th year, 42 in 7th year, 35 in 8th year, and 27 samples in 9th year over the total 75 ventures which means 27/75=36% sampling rate only.

⁷ The annual dying rates are: 2nd year 98.6%, 3rd year 93.8%, 4th year 87.3%, 5th year 93.0%, 6th year 94.6%, 7th year 93.9%, and 8th year 88.5%. Hence the worse annual dying rate is 87.3%. This rate is used to estimate survival rate for 9th year which is 52%, 10th year is 45%, and 11th year is 39%. So the median is between 9th and 10th year.

⁸ Miller, David (1985), *Popper Selection*, Princeton, p.30: “We do not know, we only guess... if you criticize my guess, and if you offer counterproposals, I in turn will try to criticize them”

⁹ Barringer, Bruce; and Ireland, Duane (2010, 3rd edition), *Entrepreneurship: Successfully Launching New Ventures*, New Jersey: Prentice Hall

¹⁰ 541 people with disability employed with an average income of \$6,245/month. Hence the total workfare is 541 people with disability x \$6,245/month x 12 months = \$40,542,540/year

¹¹ \$40,542,540/\$52,364,580 = 77.4%

¹² 77.4 cents/year x 9.3 years = 7.2 dollars

Positive Externality benefiting the Taxpayers

In 2009, Stewards commissioned a comparative study to KEEP Consulting Ltd in Stewards on the SROI of the two sheltered workshops, and that of their five social enterprises, such as Catering service in schools and Car beauty service with the purpose for providing job opportunity for disadvantaged groups.

Sheltered workshop aims to provide persons with disabilities with appropriate vocational training and enhance their working capacity in order that they can move on to supported or open employment. Various training and activities are provided to them, such as training in work habit, training allowance and activities to meet the services users' developmental/social needs. In this study, focus is on the comparison on the workfare between Sheltered Workshop and Social Enterprise because it is "numerically comparable" on the economic impact to the society.

In the first sheltered workshop, for \$1/year of workfare, the on-going funding needed is \$6.4/year. In the second workshop, the funding needed is \$5.0/year. At that time, the portfolio of social enterprises consisted of some profitable ones and some at loss. But the overall number was still at loss. For \$1/year of workfare, Stewards had to inject \$1.7/year to maintain all social enterprises. Therefore, the cost to maintain the same amount of workfare is less through social enterprises. **The ratio was \$5.0 to \$1.7.**

After the comparison, Stewards tuned its social enterprises portfolio based on the Blended Return on Investment (BROI) consisted of two measures: the financial return and the workfare (as the social impact). Both of them can be expressed in dollar value. For continuous improvement of the enterprise, Stewards closed down those social enterprises with negative BROI and shifted the people and resources to other social enterprises. After the tuning, the portfolio was still at loss at the first place. But within months, for \$1/year of workfare the funding needed to cover the loss significantly reduced to \$0.7/year. The ratio between sheltered workshop and the social enterprises was widened to **\$5.0 to \$0.7**, a difference of seven times.

Later, the profitability of portfolio of social enterprises was turned around. The portfolio is self-sustainable financially. Now for \$1/year of workfare, Stewards does not need to inject funding. The ratio between sheltered workshop and the social enterprises is **\$5.0 to \$0.0**. Moreover, **each dollar of investment generates \$2.79 of annual revenue, and \$1.08 workfare/year.**

In summary, from a taxpayer's point of view we have a social responsibility to help the disabled and socially disadvantaged. Social enterprises can provide a relatively better sustainable solution and more cost-effectiveness to address a social problem. Even if the social enterprise is not yet breakeven, the cost for the same workfare is less. As a reference, this is why the UK government is so keen to promote social entrepreneurship. A consideration behind is the financial difficulties faced by the government.

Discussion

Drivers behind the longer sustainability

There are three reasons why the 3E grantees have a life span better than commercial firms. This first reason is similar to the case of Stewards. **Even the social enterprise is at loss, the amount of money needed is still much less compared to traditional social welfare approach.** Hence it is funded to cover the loss. It is the characteristic of NGOs in emphasizing positive externality benefiting the powerless.

The second reason is **the bigger social capital owned by social enterprises.** Because the primary motive of social entrepreneurs is to generate benefits for the powerless people instead of for themselves, their selfless motive earns the respect and voluntary supports from others. Though commercial entrepreneurs also perform corporate social responsibility, their primary motive is self interest. So the difference in social capital is due to the perception and reaction of others to “selfless” and “limited selfish”.

Finally, **social enterprises have higher revenue growth rates as compared to the small-medium enterprise.** There is no Hong Kong data, but Social Enterprise UK 2013 survey¹³ has as below.

Table 3: Comparison on revenue growth between SE and SME in UK

	% of Social Enterprises	% of Small-Medium Enterprise
Revenue increased in past 12 months	38%	29%
Revenue decreased in past 12 months	22%	31%

As a reference point, the first batch of 10 projects was approved in 2003. Seven of them are still in operation.

- Cheers Gallery Convenience Store (「卓思廊」便利店 - 律敦治醫院)
- MentalCare Cleansing Service (明途聯繫清潔服務)
- Enterprise Vegetable and Fruit Processing Service (創毅蔬果加工及批發服務)
- Oi Kwan Catering Service (愛群美食服務)
- Mobile Massage Service of Hong Kong Society for the Blind (香港盲人輔導會流動按摩服務)
- Richmond Welbiz Cleaning Service (利民卓業流動清潔服務)
- Hong Yip Cleaning Service (匡業流動汽車清潔)

Social enterprises like MentalCare continue to grow rapidly since 2002. Last year its revenue was \$71 million/year, with a workfare of \$6.9 million/year. Tung Wah which operates Enterprise Vegetable and Fruit Processing Service has capitalized on the industry knowledge and evolved to set up Cookeasy and then later iBakery line of shops. These organizations are able to keep expanding their social enterprises portfolio to benefit increasing number of people with disability.

¹³ Social Enterprise UK, (2013), *The People's Business: The State of Social Enterprise Survey 2013*, p.16

Driver behind the growth of workfare per dollar invested

The level of workfare for the same investment will grow over the years. It is because **the level of workfare is proportional to the business revenue, which in turns is a function of the years of operation** due to the learning curve of the business knowledge and the accumulation of the customer base. The Social Enterprise UK survey¹⁴ also reported the revenue of social enterprises with different ranges of years in operation. The longer the years of operation, the bigger is the size of the revenue.

Table 4: The correlation between the revenue size and years of operation

Years of operation of the SEs	< 3 years	4-5 years	6-11 years	>11 years
Medium annual revenue size	£ 44,000	£ 89,000	£ 205,000	£ 360,000

Conclusion

The 3E Project is very successful in sustainability relative to commercial enterprises, and in generating workfare for the people with disabilities relative to traditional welfare approach.

Recommendation

Knowledge is developed in four stages. First, cases in a new phenomenon are studied and followed by landscape surveys. Second, tentative theories are proposed and then debated for the phenomenon. Third, the theories are validated by large scale surveys. Finally, practical values of the new knowledge are exploited by applied researches. But SE researches in Hong Kong have been staying in stage two ever since 2006 when Commission on Poverty first showed interest in SEs.

One of the tentative but prevailing theories is non-profit organizations are not good at running social enterprises. This theory is seldom debated, or validated through available data. **The common blind spot is the ignorance on benchmark data** like SE data in the UK, the commercial enterprise data in the US, and Hong Kong data from Stewards and other welfare service providers.

Government has commissioned evaluations of its funding schemes. But usually it does not know how to specify the core expertise needed. **Actually, the trick is how to monetize the intangible social benefits.** In business, similar problems on monetizing intangible benefits were encountered during the days of Total Quality Management (TQM). Hence the job should consult scholars and business executives with **rich practical experience in the rhetoric articulating TQM benefits.**

Government's two SE schemes are successful in terms of SROI. Public money is well spent on the schemes. However, the public appreciation of the achievements is low. **The blank spot to be corrected is the current promotion strategies** which should be revised to improve the return-on-investment of the public money on marketing!

¹⁴ Social Enterprise UK, (2013), *The People's Business: The State of Social Enterprise Survey 2013*, p.16

Our Research Team

Kee Chi-hing

Before retirement, Kee was a Corporate Vice President and Hong Kong Managing Director of Hewlett-Packard (HP). Now he is a part-time lecturer of the MBA program in Baptist University. His publications include “營商能耐可以改變社會”, “20 Business Strategies for Social Enterprises”, “Social Enterprise and Spirituality” and “使命商道”.

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

Chiu Lap-kee, Jimmy

Jimmy is the Chief Executive of Stewards Ltd., which is a non-profit making Christian Organization with 700 staff members providing social welfare, education, health care services and social enterprise for the Hong Kong community. Before taking this post, he had served in Social Welfare Department for 15 years. Jimmy obtained BA in Social Policy and MA in Social Work in UK. He was awarded MA in Arbitration and Dispute Resolution, and Juris Doctor in 2003 and 2009 respectively.

Currently, Jimmy is a member of Community Investment and Inclusion Fund in Labour and Welfare Bureau; the NTW Cluster Clinical Research & Ethics Committee in Hospital Authority; and Midwives Council of Hong Kong Preliminary Investigation Committee. Besides, Jimmy is a member of the Hong Kong Institute of Arbitrators. He is also the Hon. Advisor of Hong Kong Association for Parents of Persons with Physical Disabilities.

About FSES

Fullness Social Enterprises Society (FSES) is non-profit organization aiming to be the thought leader in the social enterprises movement in Hong Kong. Through applied research, publication, and dedicated training, FSES provides insight and intelligence to social enterprises practitioners in Hong Kong.

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

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