Transforming or Complying? The Rise of Social Enterprises in Shanghai

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A relatively new concept in China, Social Enterprises (SE) have been on the rise in Shanghai. This trend seems to mark a new turn since the so-called ‘association revolution’, which had brought about an exponential development of NGOs in China over the last three decades. In recent years, a growing number of different actors have emerged, actively promoting a new entrepreneurial approach to social issues and positive community changes. Drawing on ethnographic fieldwork and interviews, the following article reflects on the concept of organisational hybridity in Shanghai’s third sector development. By analysing the emergence of SEs in this Chinese mega-city, this study aims to understand whether the growing hybridisation of civil society involved in the development of SEs represents a global trend or a reaction to the Central State new policies. Research findings show that the elasticity of a SE identity can help organisations adapt to shifts in the macro-level political discourse of authoritarian regimes.

Keywords: social enterprises; NGO; China; hybrid organisations; third sector

Introduction

While the literature has been studying the growth of Social Enterprises (SE) around the globe for several years already, in China, it is a considerable new trend. 50 per cent of them were founded between 2013-2015 (Huysentruyt et al. 2016). The following article tries to understand the causes lying behind their growth. In particular, it aims to comprehend whether the rise of SEs represents a strategic adaptation move by civil society actors to respond to a complex and restrictive legal environment; or if it rather features a global trend.

Since the early 1980s, in response to a transition towards a market-based economy and a gradual retreat of the state in delivering welfare provision, non-governmental
organisations (NGOs) have flourished in China. Though difficult registration requirements and legal ambiguity assured they would not represent a threat to the Party-state (Ho 2007), such organisations, widely defined as NGOs in the Chinese civil society literature, enjoyed a remarkable growth (J. Y. J. Hsu and Hasmath 2017; Ma 2005).

For several years, organisations unable to follow registration requirements developed by registering as for-profit legal entities or not registering at all (Fulda 2017). Yet, in 2016, two laws came to trouble organisations operating in this ‘grey’ legal area. In mid-March 2016, the long-awaited Charity Law laid out the legal foundation for the development of the philanthropy sector. Despite positive sides (e.g. eliminating taxes on donations), the law created a legal barrier to foreign funding and resources. Shortly after, in January 2017, the Overseas NGO Management Law required overseas NGOs to register, submit to police supervision, and declare the sources of their funding. For Shawn Shieh (2018), these laws represent the State ‘ambitious effort to remake civil society in the Party-state's image’. In particular, Xi’s administration’s new approach to governing NGOs and civil society, putting an end to what was until then christened as an ‘association revolution’ (Tai, 2015).

This article explores the growth of SEs in China by taking Shanghai as a case study. With over 25 million inhabitants, the metropole is recognised for being a cluster of SEs. The city’s long history of foreign settlements and cosmopolitan culture, specific economic, social and political conditions, as explored further, are favourable to their growth. As such, Shanghai represents an interesting ground to analyse whether the growth of SEs represents an international trend to overcome a lack of funding and/or engagement, or whether it is a direct response to a new state-led agenda of service sub-contracting and control.
This paper begins with a brief overview of the literature on SEs, followed by an outline of the theoretical approach and the methods used. The paper then is followed by an empirical analysis of Shanghai’s social entrepreneurship landscape. The study relies on data collected over long-term fieldwork in Shanghai from which 15 organisations identifying themselves as SEs were assessed. The conclusion calls for a more nuanced understanding of China’s organisational ecology by outlining how social entrepreneurs navigate between the private, public and non-profit sector to adapt to pressures and protect their interests in China’s authoritarian context.

Setting the Context

Social Enterprises: A Brief Overview

SEs reassemble varied definitions in the literature. Thus, it is important to outline the main characteristics of the concept (Tauber 2019). Emerging from hundreds of years of charitable organisations development in Western countries, SEs are a renewed concept that uses business as an instrument for social development (Dart 2004). Coined as the future of social welfare, their number has been growing exponentially around the world (Kerlin 2010). In particular, since the global financial crisis of 2008 (Oberoi et al. 2019; Poon 2011; Kim and Defourny 2011). Then, exacerbated by the Asian financial crisis in the late 1990s, it developed in East Asia (Kim and Defourny 2011), and especially in China (M. Zhao 2012; Wang, Alon, and Kimble 2015; FYSE 2012).

Although SEs have been thriving since the 1990s, a clear-cut definition is lacking in the literature. Closely linked to the concept of ‘social economy’, their description remains ‘fuzzy’ (Huybrechts et al. 2016). Depending on the country where they are based
and their respective legal forms, an organisation can be qualified as a SE or not. Thus, the term SE is being used in different ways in many parts of the world.1

SEs can take several forms: some are created, operated and/or owned by non-profit, charitable organisations to generate income and/or further their social mission; others are incorporated as a for-profit entity, but the business strategy is designed to achieve a social purpose. The majority act as operators in the social economy whose main goal is to have a social impact rather than make a profit for their owners or shareholders.2 As a result, SEs take various ‘hybrid’ forms, having dual social and economic goals, which can result in multiple and conflicting logics (Defourny 2014; Douglas 2015).

Social Enterprises Scaling Up in China

In China, the concept was introduced at the beginning of the 2000s through several papers and conferences (Z. Zhao 2014). In 2006, after two bestselling books - How to Change the World by David Bornstein and The Rise of the Social Entrepreneur by Charles Leadbeater - were translated into Chinese, the concept gained wider attention. Then, in 2008, the post-disaster construction following the Sichuan earthquake fostered SE practices (Yu 2016; C. L. Hsu 2017). According to Ding Li, vice-president of the Non-Profit Incubator (NPI), a Shanghainese incubator for NGOs and SEs, the concept has been particularly encouraged by Xu Yongguang from Narada Foundation (China’s first private foundation) and the British Council’s ‘Skills for Social Entrepreneurs Training Programme’ (2009 – 2015)

1 Attempts have been made to create an ‘ideal type’ of SE by the EMES (l’EMergence de l’Entreprise Sociale en Europe). Refer to EMES’ research, available at https://emes.net/.
since 2010. The Narada Foundation stimulated social entrepreneurs with allowances, capacity training and networking opportunities (Sugeno and Yahata 2016). In 2017, the British Council had trained more than 3200 social entrepreneurs and pledged 37 million RMB to 117 SEs.

Yet, unlike the UK, one of the precursors of the concept, there is not a specific legal form for SEs in China. From the 102 SEs interviewed in Seföris Report (Huysentruyt et al. 2016), the majority were registered as a business (gongsī), and in most cases as a limited company. Only one third were registered as private-non-enterprise units (mīnbān fēi qǐye danweǐ), a Chinese legal form for NGOs (Z. Zhao 2014, 13). Similarly, the sampled organisations have business entities or are registered as NGOs (refer to Appendix A).

The Chinese government, despite the considerable growth of SEs, has not yet established a clear legal position or relevant legislation. Nothing to be surprised of according to a Chinese scholar: ‘it took years of interactions and learning processes between the central-local government to develop a legal system to regulate the NGO sector’ (interview 11). The social welfare enterprise model (shéhuì fúlì qìye), in place since 1949, provide employment opportunities to disadvantaged groups and represents the closest resemblance with SEs in other countries (Zhou et al. 2013). Using Zhao Meng’s (2012) words, they are ‘a for-profit enterprise that receives social welfare status from the government and hence enjoys tax benefits, government loans, and other kinds of support’.

3 Ding Li presentation titled ‘Shanghai’s Social Enterprise Landscape: Reflections on the Past and Present’ at the Fresh Start Rotary Club of Shanghai meeting, May 26, 2017, Shanghai
4 Seföris (Social Entrepreneurship as a Force for more Inclusive and Innovative Societies) is a multi-disciplinary research programme, funded by the European Commission, that investigates the potential of social enterprise in the EU and beyond.
Among the diverse forms of SEs currently operating in China, social welfare enterprises represent a category of them. They are business enterprises that register under the Ministry of Industry and Commerce but maintain an administrative relationship with their supervisory government agency (similarly to registered NGOs). For more than 65 years, they acted as key players in the development of jobs for disabled individuals. Since 2007 their numbers dropped because they were forced to operate under the double constraints of regulations vis-à-vis disabled people and welfare enterprises.

Because they rely on government support, social welfare enterprises are different from the organisations’ understudy who, as described further, strive to become more independent from state resources. Theoretically, SEs refers to businesses whose primary focus are to use the business to solve social or environmental problems (Rhoden 2014). Contrary to traditional non-profits, SEs apply market-based strategies to achieve social change. Yet, as SEs can take various legal forms and vary based on their environment and the country in which they operate, their definition is open to different interpretations. This article further describes how a lack of agreement around a definition of SE is being appropriated by social entrepreneurs to navigate in China’s authoritarian environment.

Methods

This research was developed from March 2016 to July 2017, during a period of institutional and regulatory change. At the time of the study, nobody was certain how the Charity Law and Overseas NGO Law would hit organisations on the ground. Therefore, the goals of the research were twofold: first, to identify the impacts of these macro-level regulatory changes; and second, to assess organisations’ response at the micro-level. To do so, a qualitative and inductive route was taken.
An ethnographic approach was combined with a total of 21 one-on-one interviews and two email interviews with the General Secretary of the Social Enterprise Research Centre (shehui qiye yanjiu zhongxin) (SERC), a collaborative platform for social entrepreneurs, investors, media, and researchers based in Shanghai. The interviews were conducted between March 2016 and July 2017 with organisations’ leaders, members and representatives, as well as with academics and social entrepreneurs in both Chinese and English. Throughout the interviews, the diverse challenges social entrepreneurs need to face in an authoritarian context were inquired. The interviews showed that even though (legally speaking) organisations take a non-profit or a for-profit entity, the reality is far more complex.

The ethnographic data was collected, uninterruptedly, between September 2016 and July 2017 in Shanghai. During this period, a total of 15 organisations working in a variety of domains, such as environmental issues, disability, agriculture or education were assessed. Even though they operate at the intersection of different sectors and institutional logics, they all identify themselves as SEs or adopt a mixed model (non-profit and for-profit). Data collection consisted of participant observation, ethnographic field notes and informal conversations. More than 50 events (presentations, funding activities, workshops, etc.) organised by the sampled organisations or in which they presented their work were assessed. Besides, their social media networks were followed daily.

Complete immersion in the daily life of the sampled organisations was key to complement the data obtained in formal interviews most notably, officially not accepted pressures and influences. Long-term observation and active participation methods enabled
to grasp social entrepreneurs’ insights, thoughts, attitudes and, most importantly, organisations’ level of hybridity. Because of the political sensitivity, the names of the organisations and informants were anonymised. An exception is made for the NPI, China’s largest non-profit incubator. The NPI is highly institutionalised and, thus, not politically sensitive. A detailed list of the sampled organisations is available in Appendix A and the interviews quoted in Appendix B.

To articulate the changes observed in the field, a third sector concept defined as: ‘a sector of organised human action composed of collective actors beyond the family and distinct from the state and the market’ (Viterna, Clough and Clarke 2015) was adopted. The concept of Third Sector Organisation (TSO) was used to avoid a misleading categorisation of China’s organisational diversity and describe how organisations ‘possesses “significant” characteristics of more than one sector (public, private and third)’ (Billis 2010, 3). As the article later indicates, organisations change or adapt their identity through history to enhance their room for manoeuvre. Thus, their legal identity does not always reflect how they describe themselves. The concept of TSO is important to bypass these discrepancies and grasp China’s organisational complexity.

Still, it is important to note that, because of practicality, the term NGO is used throughout the article to refer to TSOs that are registered as non-profit entities according to Chinese regulations, that is: social organisations (shehui tuanti) (e.g. academic associations), private non-enterprise units (non-profit service providers) and foundations (jijinhui).

**Results and Discussion**

From the 15 observed TSOs, nine are international (mostly managed by foreigners and
Chinese) and six are Chinese. Two are registered as private non-profit units and 13 as for-profit entities. Three different types of TSOs were found: first, three organisations that identify themselves as SEs since their establishment and apply commercial strategies to improve social and environmental well-being. Contrary to other organisations from the sample, they don’t use ‘hybrid’ identities (refer to group 1, Appendix A); second, eight international TSOs that adopted a SE identity to respond to the hurdles imposed by the Overseas NGO Law (explained further) and one Chinese TSO unable to register given the political sensitivity of the issue they address (gender) (refer to group 2, Appendix A); third, three NGOs that use SE mechanisms and/or a mixed identity to achieve self-sustainability (refer to group 3, Appendix A).

The article proceeds with sections outlining how the sampled TSOs use the concept of SE to navigate in a particular institutional and cultural environment. A special focus is given to describe Shanghai’s landscape and how it delineates TSOs opportunities and constraints. The paper proceeds by outlining the factors that explain the growth of SEs in the metropole. Two factors are explored: first, a strategy to bypass registration barriers and keep developing in a ‘grey’ institutional area; second, a resource mix which enhances organisations autonomy from the influence of the Party-state. The section concludes by analysing the prospects and limits of the concept given China’s authoritarian context.

**Shanghai Landscape**

*Service contracting background*

Each region in China is enclosed in a particular socio-economic environment that influences the State-TSOs relationship, their level of resources and development
opportunities. Shanghai has been carrying out some local legislative experiments on the registration and management of different categories of TSOs and has become a pioneer in government procurement of public services from NGOs in China. For instance, in June 2005, the Pudong New District Civil Affair Bureau was chosen by the State Council to implement a pilot project on Comprehensive and Coordinated Reform. The administrative management system for the development of organisations working in strategic areas (e.g. waste management, etc.) was partially removed (Li 2016).

Ma Yili, director of the Pudong Civil Affairs Bureau in 2005, was the driving force behind local government efforts to promote non-profits to contribute to the development of local communities (Shieh 2011). The Shanghai Municipal Government has been intentionally selecting organisations capable of patching up holes in issues on which the State had given up or was not able to respond (interview 1, 11 and 12). Since the early 2000s, several initiatives aimed to promote social innovation: the Civil Affairs Office of the new district of Pudong partially removed the system of dual registration of NGOs; incubators were created to reinforce the development capacity of NGOs and SEs; government procurement of NGOs services was developed (Li 2016, 129).

In 2006, in response to this constructive environment, the NPI was established with a ‘fast pass’ given by Ma Yili (Li 2016, 130) (the term ‘fast pass’ was used by informant 7). The NPI is the cluster of several intermediary agencies that grants support for start-up and small to medium-sized TSOs. It provides selected Chinese NGOs with free or

5 The term ‘social innovation’ was repeatedly used during the interviews and mainly describes the promotion of TSOs that could succeed in dealing with social problems in innovative ways. This terminology is often used in a pragmatic way to describe the innovative activities and services that an organisation develops to respond to a social or environmental need.
subsidised office space and supplies, IT support, mentoring, training, capacity building, small subsidies, registration support and, most importantly, a well-established network of government officials, business, individual donors and other NGOs (Kolhoff 2016). Two directors of environmental NGOs (interview 4 and 6) declared that they received the help of the NPI. At the time of the study, the NGO of informant 6 was still based in one of the NPI’s subsidised office spaces. In 2018 they had to move because the NGO had sufficiently developed.

The NPI was founded by Lü Zhao in 2016. Lü worked as the chief editor of the official newspaper of the Ministry of Civil Affairs, *Philanthropy Times*, before joining the NPI. During that time, he met senior officials and prominent Chinese public intellectuals and NGO leaders, including Shang Yusheng (general secretary of the Research Institute of China Science Foundation) and Xu Yongguang (referred above). Xu and Shang served as, respectively, the NPI’s board director and vice-board director. Good government relations enabled the NPI to become one of the biggest and most influential NGOs in China (interview 12). Satisfied with the NPI model, the Ministry of Civil Affairs ‘formally recognised the Incubator model and started to promote it nationwide’ (Li 2016, 132). Currently, around 30 incubators are operating in China (interview 7).

In Shanghai, NGOs receive the NPI’s support from an early stage, thus, they maintain a close link with government representatives (interview 4 and 6). As Hsu and Hasmath (2016, 4) argue: ‘Shanghai was one of the first cities in China to undertake government contracting of social services on a large-scale’. In 2007, Lü Zhao carried out a research project on government purchase of NGO service with detailed suggestions that were later adopted by the supervising government agency (Li 2016).
As a result, unlike many NGOs in Beijing or Yunnan, which seek to go beyond a single community, NGOs in Shanghai, for the most part, focus on specific areas and local communities (Zhang 2015, 2511). Mainly, communities (*shequ* in Chinese), schools and small voluntary groups. Informant 6 argued that the activities of his/her organisation are limited to Shanghai due to governmental constraints. They are not allowed to organise a national plan or develop activities with NGOs from other provinces. Besides, bigger NGOs tend to be located closer to the central government in Beijing where decisions are made (interview 2).

**Between opportunity and constraint**

In Shanghai, the government plays a keep role in the development process of NGOs (interview 4 and 6). For instance, the director of a Chinese environmental NGO working on waste issues, argued that their project scaled following governmental support (interview 4). Yet, for several sensitive or international TSOs (group 2, Appendix A), it is more difficult to establish a good relationship with governmental agencies. For them, the government usually brings more difficulties than it provides benefits. As informant 14 declared in a charity event: ‘If you think doing business in China is difficult, try to establish a non-profit’.6 In Shanghai, the expatriate community, despite playing an important role in social innovation, does not have such close ties with the government. Some of the sampled TSOs were aware that their activities are tolerated, sometimes supported by the local government, as long as they stay in a non-sensitive area and follow government priorities. Both F and I were asked to collaborate with the local government. The only reason for

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6 Monthly green drink event ‘The case against charities’, December 15, 2016, Shanghai.
them not to was due to their size and lack of professional capacity (interview 3 and 8). As stressed by the director of F (interview 3): 7

As long as you don't show the government a negative light, as long as you don't do controversial stuff it's perfectly fine. I think bigger organisations like Greenpeace, for them there is a little more at stake. They are always in the government agenda because they are really big organisations […] and the things they do get noticed by a lot of people. So, naturally, the government is going to be much more focused on them. But, small organisations like ours you know […] So, so far, we didn't have any issues.

Most of the international TSOs met on the field were small organisations, in some cases constituted by one or two full-time employees and relying on volunteers and interns. Because of their size, the organisations saw themselves as not threatening to the Party-state and felt safe concerning their activities. Yet, as discussed further, the Overseas NGO Law compromised their survival capacity.

For Chinese NGOs, a close relationship with governmental agencies can bring advantages and constraints. Government funding may come in the form of gifts or it may be received through government contracting of services (Shieh and Brown-Inz 2013). With sub-contracting becoming increasingly popular (particularly in Shanghai), Chinese NGOs focus a lot of time and energy in acquiring governmental contracts (informal interview with a Chinese NGO employee, 2016). By cutting access to foreign funds and developing a competitive sub-contracting strategy, the government keeps them under scrutiny (interview 2, 6 and 7). As NGOs need to win contracts from the state to get funding, they tend to adapt

7 F, as other TSOs met in the field, used to be registered as a for-profit company in Hong Kong while using an NGO identity in public events in Shanghai. During the fieldwork, the organisation was restructuring its identity to meet a SE model.
their plans to government requirements (informal interview with a Chinese NGO employee, 2016). Because they need to compete with each other for funding, organisations need to professionalise (and, consequently, depoliticise). In this complex relationship, the Chinese government’s benefit is twofold: on one hand, it can respond to a growing demand for social services it cannot address by itself; on the other hand, it maintains NGOs active in certain areas and issues that fit its interests.

NGOs’ funding can come from different sources (private companies, foundations and public funds). Government contracts represent nearly 50 per cent of the income of informant’s 4 NGO. Born at a community level to promote recycling habits in Chinese communities, at some point, the organisation was approached by the head of a district-level government department to register as an NGO. Because NGOs cannot change policies on waste, obtaining government support was important to scale their goals. Yet, combine the role of being an advocate for change with that of a service provider is demanding and leaders need to balance their partnerships to survive and remain true to their original purpose. Thus, NGOs often find their values marginalised when governments compile lists of standards guidelines they need to follow (Martin 2011).

Still, contracting can bring good effects (R. Zhao, Wu, and Tao 2016), such as: increase NGOs financial resources, government legitimacy and accountability which end-up helping NGOs to raise other sources of private funding (interview 2 and 4). The private sector, particularly in authoritarian contexts, is more willing to provide funding to TSOs that are sponsored by the government. Besides, government legitimacy provides them with easy access to Shanghai residential communities. As argued by informant 4, property committees are not always willing to change their waste organisational structure because
it brings constraints and costs. Presenting the project as a government programme is helpful (interview 4).

Inversely, service contracting causes resource dependency on government, impacting negatively NGOs freedom and advocacy capacity. Several studies enhance the distortion and the reverse influence that contracting systems may have on NGOs core mission (Grønbjerg 1993; Marwell 2004). As a worker from an NGO alleged during a volunteering activity: ‘If the government thinks our program fits their needs, they will give us the funds, but, if they don't agree with our methods, our programs will be rejected or adapted to their demand’.

In Shanghai, the complex state-third sector relationship may bring extra positive and negative impacts. The level of government influence depends on the type and scale of each organisation. TSOs focusing on specific accepted and/or tolerated non-sensitive issues (elderly, disabled, environment, etc.) can register without difficulties and tend to gain more than what they lose from their close relationship with governmental agencies (e.g. free rent, materials, staff or funding). For TSOs that tend to cross the line of the tolerated and accepted fields (human rights, advocacy, etc.), or may rely on foreign connections, pressures and restrictions are higher (interview 12). Those TSOs are not able to register and unable to take advantage of the benefits that the government offers to legally registered organisations. Yet, these various restrictions are also prompting NGOs to embrace market mechanisms to enhance their self-sustainability capacities and, thus, depend less on state resources (interview 10). As explained below, Shanghai’s particular socio-economic and cultural background creates a favourable environment for SEs.
Shanghai’s socio-economic and cultural background

Shanghai, a bustling metropolis, and an example of modernisation in China gather several factors favourable to the growth of SEs. Though Shanghai and Beijing represent the cities with the highest number of SEs in China (FYSE 2012, 5), contrary to China’s capital, Shanghai is less subject to the political and cultural influence of the central power. Thus, innovations and first trials are often initiated in this city before spreading across other regions (Bergère 2002). With a long history of foreign settlement and cosmopolitan culture, Shanghai is strategically advanced as a vanguard and a pioneer in reform, opening-up and innovation in the building of a modern socialist country. Being an international metropolis gives entrepreneurs access to a large pool of human resources and more entrepreneurial-thinking governments at a local level (interview 3, 7 and 11).

The development of innovation hubs, advantageous government policies and incentives, incubators, tech parks, corporate investment and so forth, also create a positive milieu for SEs growth. Shanghai is home to an important number of major Social Impact Investment Institutions: Transi.st, Narada Foundation, More Love Foundation, Yu Venture Philanthropy, Dianzan, and so on.

Shanghai is considered the economic, trade, financial and shipping centre of China and has an important flow of foreigners. It represents China’s most popular city for expatriates and international businesses. Between 2011 and 2015, the city attracted the highest level of foreign direct investment per 100,000 people of all provinces in China.8

While Beijing or Yunnan are recognised for their large-scale international NGOs (Jie 2006), Shanghai has a burgeoning and dynamic sphere of small-scale and bottom-up international TSOs. Contrary to bigger international NGOs who need to maintain a certain image internationally (e.g. Greenpeace), it is easier to adapt or change towards a SE model for these smaller and mixed organisations. As Ding Li states: ‘Small organisations do not need to register as an NGO. You can actually register as a company or a club. As long as you don’t become too big, it is ok’.9

Shanghai characteristics create a good setting for Corporate Social Responsibility (CSR) programmes which gained significant momentum in recent years (interview 5). CSR went through different interpretations and practice waves (Capron and Petit 2011) but can be broadly defined as the idea that companies are attached to society and, therefore, need to respond and integrate social and environmental concerns in their operations. As international companies need to respect CSR obligations each year (mandatory in European countries), they represent, for the moment, the main clients of some of the sampled TSOs (interview 5). The number of foreign-funded enterprises was 74,885 in 2015, according to the National Bureau of Statistics. Moreover, Chinese expatriates that come back to China after spending a few years abroad, also show enthusiasm for the development of new ideas and new ways of addressing social problems/issues.

In the field, it was observed that a diverse and growing number of actors provide support to enhance social entrepreneurship awareness, such as government departments (e.g. Pudong district & Shanghai Municipal Foreign Affairs Office), semi-government

9 ‘Shanghai’s Social Enterprise Landscape: Reflections on the Past and Present’ at the Fresh Start Rotary Club of Shanghai meeting, May 26, 2017, Shanghai
bodies (e.g. British Council), universities (e.g. Shanghai & Jiaotong University), research centres (e.g. SERC), international organisations (e.g. Rotary Club & Impact Hub) and public/private foundations (e.g. Narada foundation). Following the 2016 report of Seforis (Huysentruyt et al. 2016), one of the interesting features of SEs in China is that nearly 13 per cent of them work as intermediaries providing training, capacity building, grants, etc., to other TSOs. This growth is particularly felt in Shanghai, as informant 8, co-founder of J, one of the many organisations that aim to connect people with social impact initiatives, explained in an interview. They had to adapt their practices to respond to growing competition by, for instance, providing free training to have people participate in their activities.

**Becoming a SE: A Strategic Adaptation Move?**

So far Shanghai has slowly developed a strong network of institutions and social investment vehicles that are granting more opportunities for the development of SEs. This favourable environment coupled with a remarkable economic development – generating growing inequality, pollution and labour strife – create a favourable environment for social entrepreneurs to embrace a SE identity. Though it would be wrong to argue that an international metropole such as Shanghai is not influenced by the global trend of social entrepreneurship (as observed in group 1, Appendix A), in the following sections, the article argues that several TSOs are switching toward or embracing a SE to respond to several constraints and/or limitations, notably to circumvent registration requirements or to rely less on state resources.
**Evading regulations**

Due to high barriers to register as NGOs, in the last few years, many TSOs choose to not register or to register as private enterprises with the Ministry of Industry and Commerce. Per se, they were not required to declare an affiliation with a governmental sponsor. So, these organisations were surviving without legal status, either by working in the shadow of the government to obtain legal status or by surviving in a ‘grey’ zone.

As briefly highlighted before, since 2016, the Overseas NGO Law came to trouble international TSOs operating in this informal regulatory area. As informant 17 put it: ‘now it became black and white’. Nowadays, they only have two ways to legally operate in China: register as a representative office with the provincial Public Security Bureau or establish temporary activities with the provincial Public Security Bureau (the police). To register with the Public Security Bureau, the organisation needs to get the approval of a Professional Supervisory Unit in its main field. For example, an environmental organisation must receive approval from the Environmental Protection Bureau to register with the Ministry of Public Security. For temporary activities, they need to find a Chinese partner (government agency, social organisation, public institution, etc.) and, thus, avoid a ‘dual management system’ because they do not need to get approval from both the Public Security Bureau and the Professional Supervisory Unit.

Given the characteristics of several of the sampled TSOs (small organisations created in Shanghai), they were deeply affected by the new law whose article 10 requires organisations, among others, to be legally established outside of mainland China and having carried out, continuously, substantive activities outside of mainland China for two or more years. As described in detail in Appendix A, several TSOs were registered as for-
profit companies or NGOs in Hong Kong while operating in mainland China. So, considering the new requirements, it is impossible to gather the necessary documents to register as an NGO even if they find a Chinese partner and get the approval of the Public Security Bureau.

In the field it was observed that switching towards a SE identity becomes a pragmatic choice to stay in an unregulated zone. Because many are registered as for-profit entities but there is still no clear government legislation for registering and supervising SE in China. For instance, F used to be registered as a company in Hong Kong while developing non-profit activities in Shanghai. Following the Overseas NGO Law, the organisation decided to set itself as a Wholly Foreign Owned Enterprise (WFOE) in China. For the director of the organisation, it became difficult to keep on developing without a local set-up. Besides, acquiring a WFOE status was facilitated by governmental agencies. It was cheaper and easier. As he/she states (interview 3):

[…] we are going to have this meeting tomorrow to set up an organisation in China. But again, not as a non-profit, because it is almost impossible, but as a WFOE. Basically, if you want to set up a company in China you have two options: one is that you can do it as a Chinese company, so you need to have a Chinese person to register, and your capital and economy must be really small; or, you register as a WFOE: so, as a foreigner, I can set up a company. But, of course, there are different implications. […] before, setting up a WFOE was very expensive, time-consuming, etc. but now, specifically, as an entrepreneur and environmental focused worker, the government has made it much cheaper. I also met a really good lawyer two weeks ago who gave me a very good guideline on how I can do it with less cost.

Although in March 2017, the leaders of F kept identifying themselves as a non-profit, a SE identity was seen as an escape to circumvent the law. As the founder of the organisation pointed, they would just need to change their official name from NGO to SE (informal
interview during an event, May 2017). Similarly, other informants claimed that a SE status can provide international NGOs, registered as for-profits, liberties and potential spaces for development without even having to change their main structure (interview 3, 5 and 14).

The various TSOs identified in group 2 fall in this category because they don’t meet the requirements to register as an NGO. Either because they focus on sensitive issues (L) or are unable to respond to the Overseas NGO Law requirements (D, E, F, G, H, I, J, K). The TSOs who had, for several years, being surviving as for-profits while maintaining non-profit activities were put in a precarious condition. If some choose to leave China, empirical data shows that others found in the concept of SE an innovative way to ‘resist’ and adapt to rising pressures.

**Expanding autonomy**

The complex state-TSOs relationship referred to above, depending on the type of each organisation, can create different scales of support and/or constraints. Even though governmental resources bring advantages, TSOs risk becoming depoliticised and unable to pursue a more radical role as advocates and agents of change (AlNasser 2016). In the field, it was observed that some TSOs, registered as NGO, used a mixed identity to depend less on state resources.

O is an NGO (private non-profit unit) registered with the Shanghai Municipal Government. O successfully registered as an NGO in 2010 with the help of the NPI. Their registration process took only a month (presentation by O’s founder, October 2016, Shanghai). Still, in public events, the founder of O described himself as a social entrepreneur and defined O as a SE. Contrary to the aforementioned NGO working on waste, the structure of their organisation, but also the issue they aim to resolve (hearing
disability), enables them to work closely with the private sector and produce around 90 per cent of their income. Even though they are registered as an NGO, looking at their own goals, it is more effective to develop business strategies. O generates its own revenue by selling the graphic design services of deaf and hearing-impaired designers to the private sector. Although O is registered as an NGO it seeks to develop more independently from government resources.

Other organisations, such as the NPI, take a hybrid model and register as two entities: a company and an NGO. In China, NGOs can create a business to fund themselves. This is what the NPI did. As previously mentioned, the NPI works closely with the government but the organisations to be included in their incubator programmes are restricted. So, in 2016, the NPI started the 724 Hub, a co-working space for social entrepreneurs. 724 Hub was identified as a Shanghai-based SE incubator providing capacity building to social entrepreneurs. By adopting a SE approach, they create revenue and become less dependent from government resources. As one of the informants working for the NPI stressed (interview 7):

[...] NPI helps NGOs but still need to maintain a good and close relationship with the government. But they are being really supportive. But as we have to maintain this close relationship with the government, we then realised that we do not have the choice to choose which organisations will be or can be integrated in our programmes. Normally, we also have to focus on specific fields such as: elderly issues, the disabled, and some … some a little bit about great industry but not that innovative [...] China has changed a lot and we have more and more social problems and they (NGOs) are

10 Ding Li presentation titled ‘Shanghai’s Social Enterprise Landscape: Reflections on the Past and Present’ at the Fresh Start Rotary Club of Shanghai meeting, May 26, 2017, Shanghai
not really innovative, but it is difficult for them to find the space because you have to be registered, and you better focus in these fields.

If in 2008 they were opening free spaces, also called incubators, to help NGOs development, nowadays they are opening co-working spaces, to ‘start a place in which we can apply a concept 100% initiated by ourselves’ (interview 7).

Yet, it is important to stress that they continue to work closely with governmental agencies. As informant 12 argued: ‘we will never have reached such levels of development without the help of the Ministry of Civil Affairs’. This change of strategy cannot be interpreted as a direct reaction to governmental pressures. As two of the informants working for the NPI stressed, the government tends to be conservative and not yield to implement innovative and riskier strategies. Taking a mixed approach was seen as a method to innovate while reducing their dependence from government support.

**Prospects**

As the following article shows, the legal framework concerning SEs status is extremely complex and embedded in a vague game of definitions as more TSOs take a hybrid profile. Some are registered as NGOs while having a SE (self-funding) model, others, registered as enterprises, define themselves as NGOs. Others follow a mix of the two models. Based on the empirical data, the following paper argues that each TSOs, depending on its own opportunities and constraints, develops an institutional strategy and/or a specific self-image to better achieve its goals.

At the time of the study, many organisations faced with difficulties would either restructure or readapt their identity. This situation is giving rise to different types of hybrid organisations, as this paper tries to demonstrate. By embracing a SE ‘hybrid’ identity,
TSOs purposefully blur of the *public-private* line. While some show a low or superficial process of hybridisation, others go through more profound hybridisation processes to respond to regulatory requirements. Still, hybridity is not fixed and may evolve over time to respond to changing pressures and demands. Thus, given the elasticity of the concept of SE, it is extremely difficult to give a clear definition of SE in China.

In the attended events, several factors kept coming back when it came to define what a SE is and what it is not: first of all, it needs to respond to a public or social need; second, it needs to have a concrete social and environmental goal; third, the organisation needs to rely on its business model to create a social impact. Contrary to typical business, a SE does not pursue profit-maximisation and, therefore, do not pursue profit-maximisation. According to the General Secretary of the SERC, SEs distinguish themselves from NGOs because their status, resources and activities are more flexible and profitable (email interview). Although SEs use innovative market strategies to solve social problems, their financial return should not be higher than 10%, contrary to 25% for a normal enterprise\(^\text{11}\) and they should ‘have their own charter and council, rather than being part of the government, charitable organisations or other agencies (\textit{you ziji duli de zhangcheng he lishi hui, er bushi zhengfu, cishan zuzhi huozhe ta jigou de yibufen}).\(^\text{12}\)

Attempts have been made to recognise the work of high achieving SE with awards and prizes. For instance, the Social Enterprise Awards (\textit{zhongguo shehui qiye jiang}) organised by the China Social Enterprise and Impact Investment Forum (\textit{zhongguo shehui qiye jiang}.)

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\(^{11}\) Ding Li presentation titled ‘Shanghai’s Social Enterprise Landscape: Reflections on the Past and Present’ at the Fresh Start Rotary Club of Shanghai meeting, May 26, 2017, Shanghai

The criteria for receiving the award include a company’s social mission, social impact, business model, innovation, sustainability and human resources. Yet, during the fieldwork, a big criticism emerged when Mobike, a bike-sharing platform, was awarded the first 2016 award. The debate was brought to light when Zhang Yixun, a writer for Philanthropy Forum, posted a text on WeChat asking: ‘how is providing a bike-sharing system solving a social issue? (gongxiang danche jiejuele shenme shehui wenti?)’.

Although scholars and practitioners have been trying to develop a SE definition that could be standardised in China, as the case of Mobike demonstrates, an ambiguity resides when it comes to defining what a social goal is. The concept of SE is also ambiguous when it comes to its Chinese translation. Normally, it is translated into three different forms in Chinese: social enterprise (shehui qiye), social start-up (shehui chuangye) and public interest start-up (gongyi chuangye). Shehui qiye was mostly used in the field but does not connote a non-profit or a charity notion as in English. Several of the informants defended that they prefer to use the term shehui chuangye because it better represents SEs’ public interest side (interview 9 and 13). For Zhao Meng (2016), the terms shehui chuangye and gongyi chuangye are more adapted to cultural-cognitive expectations and social-political conditions in China. The same issue happens, for example, with the term NGO. It is widely accepted and used in its English acronym form but never as its literal Chinese translation (fei zhengfu zuzhi).

13 Xu Yongguang, referred to above, leads the organisation.

Still, as this paper tries to show, rather than trying to establish a clear-cut definition, it is relevant to observe how the concept is used at the grassroots by social practitioners to survive despite China’s increasing authoritarian turn. As this article shows, to respond to moving pressures, TSOs take advantage of a SE status to develop at the intersection of different sectors and institutional logics. Though more studies with a larger number of cases and other regions need to be developed to assert the future impact of the concept, the following article shows that establishing a SE could become a pragmatic method for TSOs operating in authoritarian regimes.

**Challenges**

By no means the paper suggests that establishing a SE and relying on market strategies is a solution to all China’s civil society problems. As many practitioners emphasised, establishing a SE creates many challenges. From a lack of sustainable and effective funding mechanisms, difficulties to recruit talent, limited resources and services, to insufficient business skills, few SEs are currently successfully scaling their projects. Because formal recognition of their status doesn’t exist, there are no pipeline development opportunities. As it happened with NGOs for nearly 30 years, SEs are currently developing in a ‘grey’ zone.

The majority of the sampled TSOs come from the non-profit sector but not all can shift to or develop a viable for-profit model. For instance, the Chinese TSO working on gender issues decided to develop as a SE because it is unable to register as an NGO (informal interview with the founder, February 2017, Shanghai). To survive, they mainly develop their activities in social media and sell merchandise to make a profit. The majority of the analysed TSOs were selling services to the private sector and four of them were still
trying to figure out how to scale their business model.

So, their capability to start a business depends on the founder’s own capital or personal resources. To start their activities, generally, the sampled organisations depended on sponsorship, crowdfunding actions or donations. It was the case of D which continues to receive 70 per cent of its funding from charity. D is registered as an NGO in Hong Kong and as a for-profit company in China. At the time of the study, only 20 to 30 per cent of their revenues came from business practices. Switching towards a SE model was an adaptation for regulatory and credibility reasons. But, as the co-founder of D argued, ‘business should not take too much place in order not to change our social aim’ (charity programme helping young migrants in Shanghai).

Adding to the difficulty of developing a viable business model (even when the core mission does not justify a SE model), a SE status is not recognised. So, the money TSOs get from their sells or services and the way they use it is not supervised by any identity. As informant 15 stressed: ‘Actually, you can do whatever you want with the money. Everything is based on trust’. A scandal of money mismanagement, as it happened previously with NGOs (e.g. Red Cross), could seriously impact the sector. Another issue could be the nature of the Chinese government. Future government legislation could seriously impact their growth. As it happened recently with NGOs, but also with social welfare enterprises, constraining regulations could foreclose a considerable number of possibilities for future SE development. The 2017 China Volunteer Service Law (zhuyuan fuwu tiaoli),\(^\text{15}\) which impacts the work of NGOs and CSR programming in China, came to

\(^{15}\) Available here: http://www.gov.cn/zhengce/content/2017-09/06/content_5223028.htm, (accessed January 12, 2018).
remind us that the Party will maintain its grip on the sector.

**Concluding Remarks**

Considering the current regulatory environment under Xi Jinping’s government, it is important to understand the adaptation of society to new pressures. As this article demonstrates, despite increasingly restricting laws, TSOs keep on operating at the intersection of different sectors and institutional logics. They respond to moving pressures by constantly redefining and renegotiating their boundaries. A hybrid sphere allows them to challenge the institutional constellations underlying the current regulatory system. The Chinese and international TSOs from the sample stress that adopting a SE status could help ease some constraints. For Chinese TSOs registered as NGOs, it enables them to develop more autonomously from governmental agencies by relying less on them for resources. For those unable to register, this model can also be seen as an open door. For international TSOs already registered as companies and/or unable to fulfil the Overseas NGO Law requirements.

Nevertheless, it would be wrong to claim that independence and governmental pressures are the only factors prompting organisations to adopt a SE model. The possibility of being financially self-sufficient is also important. As shown in literature, funding and a lack of talented workers represents important limitations to enlarge NGOs scope and action. Using business model techniques, TSOs can pay higher salaries and attract talented workers. Compared to multinational corporations, NGOs salaries are not as attractive, neither seen as a good opportunity for young professionals to develop their career. It was argued by several practitioners in the field that it partly explained why the sector is mostly dominated by women. As Salmenkari (2017) argues: ‘Many charities are run or
volunteered by expatriate women whose husbands work in Shanghai. The gendered patterns of work, no longer prevalent in the West, re-emerge in the expatriate community’. This point is extremely important, and the self-sustainability prospect of a SE model was seen as a good method to recalibrate gender inequalities. NGOs surviving on government funding have a limited scope and capacity to develop innovative programmes. Contrary to grants, government contracts forbid the use of funding for salaries or restrict administrative costs to 10% of the total value of the contract. By becoming more financially independent, organisations can put new resources, increase the salaries and further develop the organisation.

As a new concept, this new hybrid corporation model could have a considerable impact in China but could also represent a macro-level strategy to weaken TSOs working in sensitive issues and unable to develop a business model. As numerous actors in the field pointed out, donors are pressuring TSOs to become more self-sustainable. The Shanghai local government is also pushing for organisations to become more auto sufficient. The Shanghai Bureau of Civil Affairs and the Shanghai Charity Development Foundation launched in 2012 the Shanghai Venture Philanthropy Fund. The same year, the fund offered a USD 0.75 million total budget to support social service organisations and projects aimed at elderly care, supporting the disabled, orphans, and poverty alleviation.

In addition to this growth of interest by private and public foundations, an emerging network backing SEs growth is emerging: incubators, universities, co-working spaces, consulting companies and research centres. New organisations (e.g. Impact Hub Shanghai, established in late 2016 in Shanghai) are also impacting collaborations and exchanges between Chinese and international organisations. The development of TSOs in Shanghai,
a new encouraging environment and growing collaboration between Chinese and international TSOs need to be deeply investigated in future research. In-depth ethnographic work with a larger number of organisations could help better understand future prospects for social innovation. The abilities of SEs to impact social change, and their relative influence in relation to traditional NGOs, could be important to understand third sector and civil society development in China.

Meanwhile, the consequences of a SE model also need to be further investigated as many questions still need to be answered. Out of pressure, a number of TSOs have been embracing a SE model without developing a viable business or market expertise. Is it viable for TSOs, including traditional NGOs, to use business methods in the long run? Is the primacy of the social mission maintained? How can new regulations at a state level impact their development? The growing involvement of the Party-state with strategic partnerships, symbolic recognition (e.g. awards or prizes), human capital formation (e.g. training) or regulations could lead to patterns of co-optation and a strong reliance on government’s support. Many questions need to be answered regarding how the central and local governments are dealing with the rise of SEs.

References:


https://doi.org/10.1080/19420676.2019.1668829.

https://doi.org/10.1525/sod.2015.1.1.173.


## Appendix A: Features of the sampled TSOs

<table>
<thead>
<tr>
<th>Group</th>
<th>Name</th>
<th>Sector</th>
<th>Date</th>
<th>Staff</th>
<th>Funding</th>
<th>Members</th>
<th>Origin</th>
<th>Registration</th>
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<tbody>
<tr>
<td>1</td>
<td>A</td>
<td>Ecological products</td>
<td>2011</td>
<td>10-30</td>
<td>Business model</td>
<td>International</td>
<td>Shanghai</td>
<td>For-profit</td>
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<tr>
<td></td>
<td>B</td>
<td>Organic and sustainable food</td>
<td>2015</td>
<td>5-10</td>
<td>Business model</td>
<td>Chinese</td>
<td>Shanghai</td>
<td>For-profit</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>Community platform</td>
<td>2016</td>
<td>5-10</td>
<td>Business model</td>
<td>International</td>
<td>Shanghai</td>
<td>For-profit</td>
</tr>
<tr>
<td>2</td>
<td>D</td>
<td>Charity and migrants</td>
<td>2009</td>
<td>8-11</td>
<td>Foundations &amp; business model</td>
<td>International</td>
<td>Hong Kong</td>
<td>Non-profit in Hong Kong since 2009; For-profit in China since 2011</td>
</tr>
<tr>
<td></td>
<td>E</td>
<td>Homeless</td>
<td>2008</td>
<td>2-8</td>
<td>Donations &amp; business model</td>
<td>International</td>
<td>Shanghai</td>
<td>For-profit</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>Education and Environment</td>
<td>2009</td>
<td>2-3</td>
<td>Sponsorship</td>
<td>International</td>
<td>Shanghai</td>
<td>For-profit in Hong Kong since 2009; For-profit in China since 2017</td>
</tr>
<tr>
<td></td>
<td>G</td>
<td>Education</td>
<td>2011</td>
<td>2-3</td>
<td>Business model</td>
<td>International</td>
<td>Shanghai</td>
<td>For-profit</td>
</tr>
<tr>
<td></td>
<td>H</td>
<td>Waste and Poverty</td>
<td>2012</td>
<td>5-10</td>
<td>Business model</td>
<td>International</td>
<td>Shanghai</td>
<td>SE in Hong Kong since 2012; For-profit subsidiary operational company in China in 2013</td>
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<tr>
<td></td>
<td>I</td>
<td>Social and cultural events</td>
<td>2015</td>
<td>2-5</td>
<td>Business model</td>
<td>International</td>
<td>Shanghai</td>
<td>For-profit</td>
</tr>
<tr>
<td></td>
<td>J</td>
<td>Entrepreneurship incubator</td>
<td>2015</td>
<td>2-5</td>
<td>Business model</td>
<td>Foreign</td>
<td>Shanghai</td>
<td>For-profit</td>
</tr>
<tr>
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<td>K</td>
<td>Waste reduction</td>
<td>2016</td>
<td>2-3</td>
<td>Business model</td>
<td>Foreign</td>
<td>Shanghai</td>
<td>For-profit</td>
</tr>
<tr>
<td></td>
<td>L</td>
<td>Gender</td>
<td>2016</td>
<td>2-3</td>
<td>Business model</td>
<td>Chinese</td>
<td>Shanghai</td>
<td>For-profit</td>
</tr>
<tr>
<td>3</td>
<td>NPI</td>
<td>Entrepreneurship incubator</td>
<td>2006</td>
<td>105</td>
<td>Chinese foundations &amp; business model</td>
<td>Chinese</td>
<td>Shanghai</td>
<td>Non-profit (private non-enterprise unit)*</td>
</tr>
<tr>
<td></td>
<td>O</td>
<td>Disabled</td>
<td>2010</td>
<td>12</td>
<td>Business model</td>
<td>Chinese</td>
<td>Shanghai</td>
<td>Non-profit (private non-enterprise unit)*</td>
</tr>
<tr>
<td></td>
<td>P</td>
<td>Agriculture</td>
<td>2016</td>
<td>5-10</td>
<td>Community Supported Agriculture</td>
<td>International</td>
<td>Hunan</td>
<td>Non-profit (social organisation) in China in 2015* For-profit in China in 2016 SE in Hong Kong since 2018</td>
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</tbody>
</table>

* Legal form for an NGO in China, that is: social organisations, private non-enterprise units and foundations.
## Appendix B – Interviews Quoted

<table>
<thead>
<tr>
<th>Code</th>
<th>Position Held</th>
<th>Date</th>
<th>Location</th>
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<tr>
<td>1</td>
<td>Professor in Environmental Education</td>
<td>5 April 2016</td>
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<td>2</td>
<td>Programme Manager of an environmental international NGO</td>
<td>18 April 2016</td>
<td>Shanghai</td>
</tr>
<tr>
<td>3</td>
<td>Director of F*</td>
<td>19 April 2016</td>
<td>Shanghai</td>
</tr>
<tr>
<td>4</td>
<td>Director of a Chinese environmental NGO working on waste issues</td>
<td>26 April 2016</td>
<td>Shanghai</td>
</tr>
<tr>
<td>5</td>
<td>General Manager at H*</td>
<td>6 May 2016</td>
<td>Shanghai</td>
</tr>
<tr>
<td>6</td>
<td>Director of a Chinese environmental NGO working on Ocean issues</td>
<td>16 May 2016</td>
<td>Shanghai</td>
</tr>
<tr>
<td>7</td>
<td>Marketing and Communication Manager of NPI</td>
<td>27 October 2016</td>
<td>Shanghai</td>
</tr>
<tr>
<td>8</td>
<td>Co-founder of I*</td>
<td>21 November 2016</td>
<td>Shanghai</td>
</tr>
<tr>
<td>9</td>
<td>Social entrepreneur</td>
<td>21 November 2016</td>
<td>Shanghai</td>
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<tr>
<td>10</td>
<td>Director of P*</td>
<td>24 November 2016</td>
<td>Shanghai</td>
</tr>
<tr>
<td>11</td>
<td>Professor in Government and Public Administration</td>
<td>1 December 2016</td>
<td>Beijing</td>
</tr>
<tr>
<td>12</td>
<td>Programme Manager at NPI</td>
<td>21 December 2016</td>
<td>Shanghai</td>
</tr>
<tr>
<td>13</td>
<td>Design social entrepreneur</td>
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<td>14</td>
<td>Managing Director of G*</td>
<td>29 March 2017</td>
<td>Shanghai</td>
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<tr>
<td>15</td>
<td>Co-founder and Operations Director of K*</td>
<td>9 May 2017</td>
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<tr>
<td>16</td>
<td>Co-founder and Programme advisor of D*</td>
<td>22 June 2017</td>
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</tr>
<tr>
<td>17</td>
<td>Past president of an international social entrepreneurship platform</td>
<td>20 June 2017</td>
<td>Shanghai</td>
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</table>

*Refer to Appendix A*