Dialogue in the Dark: Shedding Light on the Development of Social Enterprises in China

The application of for-profit business practices to nonprofit organizations, social enterprises are a way for nonprofit organizations to find funding in a time of rising costs, falling donations, and increased competition from for-profit businesses in the social sector. Although well established in the mature economies of the West, these enterprises are a novelty in the emerging economies of Asia and in the transitional economies of the former communist world. The experiences of Dialogue in the Dark, a social enterprise concerned with the problems associated with blindness, highlight the unique challenges that social enterprises face in China and offer lessons for entrepreneurs who may wish to embark on a similar venture. ©2015 Wiley Periodicals, Inc.

Nongovernmental organizations (NGOs), social enterprises, nonprofit organizations, and charities with primarily humanitarian goals that set out to solve or reduce the impact of social problems, such as poverty, hunger, homelessness, pollution, or ill health, are all part of what is variously called the third sector, the civil sector, or the social sector. Although these organizations share a similar focus on the achievement of social objectives and are all part of the same economic sector, they differ in terms of their revenue models.

NGOs and charities (that is, organizations with a particular tax status) rely primarily on donations, contributions, public funding, and grants to support their programs. Although some may charge fees, government grants and private donations account for most of their funding. Consequently, they tend to pursue their philanthropic goals without an excessive concern for generating revenue from their activities. Similarly, nonprofit or not-for-profit organizations (that is, organizations that provide goods and services in such a way that any financial surplus is not distributed to owners or shareholders) have traditionally tended to focus more on voluntary work and service provision than revenue generation.

In the past 10 to 15 years, however, an increasing number of such organizations have been forced to seek additional sources of revenue by acting more like for-profit organizations; they have become social enterprises. Social enterprises are less reliant on donors because they are self-sustaining; they aim to generate the revenue they need to support their own activities. As in traditional nonprofit organizations, the profit they create is geared toward meeting social objectives, rather than being distributed to owners or shareholders. Unlike the traditional not-for-profit organization, however, social enterprises actively focus on revenue generation. Thus, social enterprises should be viewed primarily as businesses that aim for both financial and social sustainability.

Although social enterprises are now relatively well established in North America, Canada, Australia, and Europe, they are unusual in the emerging economies of Asia and in the transitional economies of the former communist world. The experiences of Dialogue in the Dark, a social enterprise concerned with raising public awareness of the problems associated with blindness, reveal that it is possible for a social enterprise that originated in Europe to succeed...
in China. Before addressing the changes that had to be made to enable a social enterprise created in the mature economy of the West to adjust to China’s evolving economy, it is helpful to consider the distinction between the type of organization that would normally be associated with this type of activity—that is, NGOs—and social enterprises.

NGOs Defined

The term NGO is used for any organization, usually international in character, that is neither a part of a government nor a conventional for-profit business. It was coined with the creation of the United Nations (UN) in 1945. Articles 70 and 71 of the UN charter made it possible for approved, nonstate agencies—nongovernmental organizations—to be consulted and/or to have observer status at certain UN assemblies and meetings. Although the term is now sometimes inaccurately used to cover a variety of different types of organization, in general, NGOs share certain common characteristics (Martens, 2002). They are:

- **Independent from government.** Although NGOs may receive some funding from official institutions, this is limited and usually indirect so that they are not under any form of direct governmental control. NGOs’ main source of funds is often their members and/or private donations.

- **Nonprofit organizations.** Although they may have the same organizational structure as for-profit organizations—with a headquarters, a formal hierarchy, and paid and often highly qualified staff—the principal goal of an NGO is advancing its designated social objectives rather than the accumulation of capital or pursuit of profit for owners or shareholders.

- **Nonviolent and apolitical.** The original UN definition of an NGO was designed explicitly to exclude political parties, terrorist groups, national liberation movements, and organized crime. Although the extent to which a group advocates, or engages in, what might be considered as violent acts is sometimes difficult to proscribe, NGOs are still associated with nonviolence and the acceptance of the legitimacy of the political process.

**NGOs in China**

The growth of NGOs and other social organizations in China has taken place in three stages since the establishment of the People’s Republic of China in 1949.

Initially, under the leadership of Mao Zedong, all independent social groups, including religious organizations, professional societies, and labor unions, were abolished or co-opted by the Communist Party. Foreign NGOs were required to leave China, and all remaining social organizations were placed under state control.

Until the late 1990s, most social organizations were initiated and subsidized by the government; the government paid their staff and their leaders were Communist Party officials. In the late 1990s, however, a fundamental change took place. At the 15th Party and National People’s Congress, former Communist Party General Secretary Jiang Zemin openly advocated the presence of foreign NGOs in China.

In 1998, the State Council issued the Provisional Regulations on the Registration and Management of Privately Owned and Non-Enterprise Organizations, and, Regulations on the Registration and Administration of Social Organizations. Following this, the central government began to allow more flexibility in the control and management of NGOs. NGOs in China were still subject to a dual registration and supervision regime, however. Only after an NGO had found a government department to act as a sponsor and supervisor could it register with the Ministry of Civil Affairs (MOCA).

Although the dual registration and supervision existed in theory, in practice it was almost unworkable. Deterred by the complexity of the registration process, most government agencies were unwilling
to act as a sponsor and supervisor for an NGO. In addition to being regarded as an additional workload, NGOs were also seen as a source of potential political trouble, since the agencies would be held responsible for any misconduct by the NGOs they sponsored (Schwartz, 2004).

The third stage in development of NGOs in China began during the period of national reform in 2011. In July 2011, Li Liguo, the head of the Ministry of Civil Affairs, announced that charities, as well as social welfare and social service organizations, would be permitted to register directly with local civil affairs agencies. The dual administration system was progressively abolished and, beginning in 2012, large numbers of private, nonprofit organizations began to establish themselves in China (Xin & Zhang, 1999).

Since the late 1990s, the number of foreign NGOs in China has increased dramatically and a growth in interest in volunteerism and new forms of social organization has been observed. NGOs in such areas as education, the environment, public health, poverty relief, and services for the disabled, the elderly, and children are now welcome, although politically sensitive areas such as labor, human rights, and religious issues are still tightly controlled (Schwartz, 2004).

The Legal Environment for NGOs in China

The government, through MOCA, recognizes three types of social sector organization: social organizations, private nonenterprise organizations and foundations, and international NGOs. Article 2 of the Regulations on the Registration and Administration of Social Organizations defines social organizations as voluntary groups formed by Chinese citizens in China. This means foreign organizations need to operate under a separate set of rules; however, no such rules have been produced so far.

Given the lack of a clear legislative framework, foreign NGOs operate in a gray area. This acts as a barrier to foreign social organizations that wish to operate in China. Without legally registered offices, they cannot admit members or raise funds in China. The only exception to this is in the Regulations for the Administration of Foundations, but the only foreign NGOs that are permitted in this category are international, humanitarian fundraising organizations, such as Action Aid, CARE, Oxfam, or Save the Children.

The easiest way for a foreign NGO to operate in China is by funding projects in China directly from overseas. This means a foreign NGO, based outside China, can reach an agreement with a legally recognized entity in China to fund projects. Using this route, foreign NGOs are able to negotiate agreements with the legally recognized entity in China for further involvement, including monitoring progress and acting as consultants or trainers.

Another option for foreign NGOs is to open a program or project management office in China with the help of a local partner agency. Since there is no requirement for formal registration procedures, this method is widely used. The final option is for an NGO to register as a foreign enterprise with the Bureau of Industry and Commerce. This offers significant operational advantages, such as the ability to open bank accounts in the organization’s name, issue official receipts, and legally recruit local staff, but the registration process is complex and time consuming.
The Appeal of Social Enterprises

The notion of the social enterprise has gained prominence in both popular and academic texts in recent years. Frequently described as the application of business practices to nonprofit organizations, social enterprises are a way for nonprofit organizations to leverage or replace their traditional sources of funding in a time of rising costs, fewer donations and grants, and increased competition from for-profit businesses in the social sector (Dees, 1998).

As Peredo and McLean (2006) indicate, the term can cover different types of organizations engaging in a variety of activities. For example, the term is applied to both strictly nonprofit activities, such as the provision of free shelter, health care, or education to the disadvantaged, and to offshoots of for-profit activities, such as Ben & Jerry’s PartnerShop Program, where Ben & Jerry’s, a wholly owned subsidiary of Unilever, waives its standard franchise fee for nonprofits that wish to open a franchise. Like NGOs, however, social enterprises do tend to share certain common characteristics. They are:

- **The application of business principles.** The application of business practices to social ventures is probably the most easily identified feature of social enterprises. Social enterprises are hybrid organizations that span the boundaries of the private, public, and nonprofit sectors, drawing lessons from each (Doherty, Haugh, & Lyon, 2014). They use earned income strategies from the for-profit sector, such as franchising, to serve a double bottom line: simultaneously pursuing both financial and social returns on their investment.

- **Social goals.** Social enterprises are driven by social goals—that is, they aim to provide what is sometimes termed social value by contributing to the welfare or well-being of a given community or to society as a whole. The differences between different types of social enterprise often hinge on the exclusivity of this proposition, ranging from, at one extreme, wealth creation solely as a means to a social end to, at the other extreme, social goals that are no more than an extension of corporate social responsibility.

- **Entrepreneurship.** The term entrepreneur is usually associated with risk-takers and innovators who, when successful, create significant economic value and make rare and exceptional contributions to the enterprises in which they are engaged (Peredo & McLean, 2006). The idea of innovation in the face of risk also applies to social enterprises that need to find innovative ways to deliver social value while maintaining their moral integrity and balancing the interests of multiple stakeholders (Dees, 1998).

Social Enterprises in China

Compared to NGOs, which are recognized and already established in China, the idea of a social enterprise is relatively new and is not widely known or understood. The term first appeared in China in January 2004 in an article published in the Peking University–based journal, *China Social Work Research*. Since then, the idea has spread through forums, journals, and books. The business model for a social enterprise originated in the developed capitalist economies of the West, which meant that it needed to be interpreted, both as a concept and as an activity, before it could be applied in the transitional economy of the People’s Republic of China.

China was already acquainted with NGOs and nonprofit organizations. There was a clear and well-recognized distinction between nonprofit organizations from the social sector, and profit-driven
organizations from the business sector; however, from an ideological perspective, the concept of a social enterprise was new and a source of some confusion. As Qiu Qingqing, head of the social innovation unit at the China Social Entrepreneur Foundation, explained, “The public has an ideal and heroic view of people working in the charity sector. … It is difficult for them to accept that nonprofit practitioners would talk about salary or other business issues” (Zhao, 2012, p. 32).

Doubt and uncertainty also existed at other levels, particularly as direct translations of such terms as social and enterprise may have the opposite meaning to those found in the West. Are social enterprises corporations? Can they accept government subsidies and donations? Whom do they serve? How does the profit motive feature in their activities? In addition to ambiguity at the conceptual level, there were also generational differences among those who worked in the sector. As Lv Zhao, the deputy director of the China nonprofit network, explained, “The practitioners’ background was changing. A few years ago, most charity leaders were retired government officials or people who had personal encounters with social issues that they tried to address. Today, many well-educated young people enter this area and quickly embrace the social enterprise model” (Zhao, 2012, p. 35).

With an emergent middle class and numerous outlets, China’s growing market is one of the largest franchise opportunities in the world. The result of these uncertainties is administrative inaction. The Chinese government has chosen neither to promote nor to restrict discussion on social enterprises, in contrast to NGOs, which are the subject of significant administrative activity. Without resolving the many questions about the ideological status of social enterprises in China, decisions on policies such as tax exemptions and subsidies will not be made.

Franchising in China
One of the most common methods used by social enterprises for revenue generation, franchising is also the key to the way the Dialogue in the Dark social enterprise functions. The model is simple and effective: The franchiser provides the franchisee with the right to use a well-known brand and an established business model for a fixed period, in return for the payment of a fee.

Franchising is a relatively new concept in China, and laws to govern it were only introduced in 1997. China’s economy is thriving, however, and has become more open to franchisors as the regulatory framework has begun to improve. With an emergent middle class and numerous outlets, China’s growing market is one of the largest franchise opportunities in the world. Yet, although the franchising model has already been adopted in many business sectors in China, franchising remains problematic.

Regulations change constantly, creating an unstable environment for potential franchisees; in addition, existing franchising law is often poorly enforced. The Ministry of Commerce (MOFCOM) is responsible for enforcing the rules and regulations for foreign franchisors. Franchisors wishing to enter the Chinese market can do so by one of two routes. The first is to create a cross-border franchise; the second is to establish a foreign-invested enterprise. For either route, foreign franchisors are required to have the involvement of two local businesses before they can legally establish a presence in China. These additional bureaucratic hurdles compound the difficulty of adopting franchising as part of a social enterprise strategy.

Dialogue in the Dark in China
Dialogue in the Dark (DID) is a social enterprise whose aims are to empower the blind and to raise
public awareness of the problems associated with blindness. DID operates primarily through franchising in Europe, North America, and the Middle East.

Blindness and Visual Impairment in China
There are currently more than 82 million disabled people in China, at least 16 million of whom are blind or visually impaired. There are no accurate figures for the number of people affected by sight loss, but some estimates put the figure as high as 20 million. Even using the lowest estimates, China probably has the largest visually impaired population of any country in the world (ChinaVision, 2005).

DSE's first products were participative role-reversal exhibitions where sighted visitors learned how to deal with everyday tasks in completely darkened rooms with the help of visually impaired guides.

According to Bjorn Thylefors, director of Disability, Injury, and Rehabilitation at the World Health Organization, China faces a number of problems. The system for the delivery of eye care is weak, with too few ophthalmologists and much of the medical equipment out of date. As in most developing countries, the vast majority of China's visually impaired people live in the countryside, where medical, educational, and other services are often inadequate. Although 70 to 80 percent of visually impaired people live in rural areas, most ophthalmologists work in the large cities. In China's rapidly growing economy, sight loss associated with poverty and social exclusion has added to the problem: Because of the high cost of cataract surgery, treatable blindness often becomes permanent blindness. Finally, the rapid increase in the proportion of elderly people in China has meant that age-related visual impairment is becoming increasingly common (Thylefors, 2000).

Blindness and poverty tend to go hand in hand. Most visually impaired people do not receive an education. In Shanghai, the largest city in China and arguably the largest city in the world, there is only one kindergarten, with an annual admission of around 150, to serve the estimated 160,000 to 190,000 blind children that live there. In the whole of China, a country with a population of close to 1.4 billion people, there are only 28 schools for the blind. At a more general level, the percentage of children with cognitive, cerebral, or physical disabilities entering the education system is between 1.4 and 2.1 percent, in contrast to the ratios of close to 100 percent found in countries such as the United States, the United Kingdom, and Australia (Baidu, 2015). These are the problems that Dialogue in the Dark set out to address by raising public awareness of blindness and changing the public's perceptions of the blind.

The Origins of Dialogue in the Dark
Based in Hamburg, Germany, DID's parent company, Dialogue Social Enterprises (DSE), was founded by Andreas Heinecke in the mid-1980s. His own experience of training a blind journalist when he worked for a German radio station changed his perception of both blind people and what the sighted world could learn from them (DID, 2015).

DSE's first products were participative role-reversal exhibitions where sighted visitors learned how to deal with everyday tasks in completely darkened rooms with the help of visually impaired guides. Designed as a platform for communication, the experience did not emphasize blindness but building communication and understanding between the blind and the sighted.

The first exhibition, held in Frankfurt in 1988, was a great success, and requests for more exhibitions soon followed from other European countries. The cost of these exhibitions was high, so DSE opted for a franchise approach, with DSE providing the core concepts and expertise in return for a fee. DSE's exhibitions are now standardized to reduce costs and provide consistency.
In 2010, Shiyin Cai joined DSE in Hamburg as chief operating officer (COO). The founder of Shiyin GmbH Global Fashion Project, Cai was a Chinese national who had earned an MBA from the State University of New York at Albany; had worked for AIG, Siemens, and GE; and had been a volunteer advisor for Braille Without Borders, a school for the blind in Tibet. During the year she was COO, she made a plan for transferring the DID concept and business model to China. Two years later, she returned to China to open the first DID franchise there.

Establishing DID in China

DID began its Chinese operations in September 2010, hosted by NPI, a cluster of intermediary agencies formed in 2006 to support the emerging social sector in China (NPI, 2015). Under this arrangement, contracts were executed by DID, while NPI issued the invoices and collected the fees. NPI deducted a transaction handling charge and passed the remainder of the fee to DID. Shiyin Cai was now able to begin the registration process to become a legally recognized NGO.

Between September 2010 and June 2012, more than 2,500 people attended programs run by DID China, including 86 workshops, a “cocktail in the dark,” and three “cafés in the dark.” Revenue jumped from a 146,000 renminbi (RMB, US$23,500) in 2010 to 808,000 RMB (US$128,000) in 2011. The main sources of income during this period were investors, government support, ticket sales, and donations. Despite these early signs of success, however, DID’s finances were still unsatisfactory. Revenue did not fully cover the cost of operations, and employee salaries were significantly below the market rate.

Seventeen months later, in February 2012, the Shanghai Civil Affairs Bureau (SCAB) officially recognized DID China as an NGO and invited it to establish its operation in mainland China. Currently, DID offers four types of service: exhibitions, workshops, educational activities, and special events that can be targeted to the needs of individuals or groups.

Exhibitions. The exhibitions, which began in Shanghai in 2012, are similar to those provided by the parent company. With an area of roughly 800 square meters, the exhibition takes groups of visitors on a guided tour through a public park, a busy city street, a food market, and a café. The tour takes place in absolute darkness and lasts 75 to 90 minutes, during which time visitors must rely on senses other than sight. Each environment has its own unique texture, sound, smell, and taste. All the guides are blind or partially sighted, professionally trained, and employed by DID. The total cost of mounting the exhibition is in the region of 4 million RMB (US$631,000). The price of admission varies between 100 and 120 RMB (US$16 to US$20). The tours take place in Mandarin or English, and the exhibition is open seven days a week.

Workshops. There are two forms of workshop: business and open. The business workshops usually involve a group of participants from the same company, while open workshops consist of participants from several companies or organizations. The workshops are conducted in complete darkness by visually impaired trainers. A standard workshop consists of 12 to 27 people and lasts three hours. The last hour takes place in the light and is devoted to reflection on the experience. Participants are helped to adapt to sudden blindness, a situation in which their skills in listening and talking take on added significance. Targeted to corporate executives, managers, and employees, the workshops give participants a
new understanding of communication, cooperation, and leadership.

The workshops require a specially created, light-free environment, three or four visually impaired trainers, and a sighted facilitator. The qualifications of trainers and facilitators are higher than those required for the exhibitions. The price for the business workshop is about 25,000 RMB (US$4,000); the price for an open workshop is about 500 RMB (US$80) per person. Dates for open classes are planned several months in advance. The training dates for the business workshop are determined by the client and DID. Tailor-made workshops of one to three days also can be provided.

Educational Activities. The educational activities are designed mainly for students ranging from primary school to college age, as well as for adults from training institutions. A typical three-hour session consists of about 30 participants and consists of two hours in the dark with a one-hour debriefing in the light to discuss learning outcomes. Since the income of the participants for educational events is generally lower than the participants in business and open workshops, the fees for these events are lower. There are no open classes available, but tailor-made workshops can be created according to a client’s requirements.

Special Events. DID organizes a number of special events around various social settings in the dark. These include café gatherings, cocktail parties, birthday celebrations, and concerts. The setting of a completely dark room is the same as for the workshops and educational activities, but these events require additional equipment and materials, depending on the nature of the activity.

DID’s Ongoing Development

DID has made great efforts to establish a presence in social networks in China, which is a cost-effective and powerful way to communicate. Sina Weibo, the nation’s largest social network, has more than 368 million users in China.

DID has also developed a unique system for recruiting, training, and developing visually impaired trainers, which is one of its key resources. High-quality, visually impaired trainers are rare in China. Most of DID’s trainers come from the south, and they often need to travel to other provinces for the corporate workshops. The scarcity of high-quality trainers soon became a bottleneck for the business’s expansion.

In response, DID created a training institute, not only for its in-house trainers, but also to help train other visually impaired people. Training recruits are evaluated on educational background, experience, analytical skills, and the capacity to communicate. The internal training program has helped improve both their skills and level of confidence.

Lessons for Aspiring Social Entrepreneurs

In Chinese society, awareness of social enterprises is still limited. Although DID has gained a foothold in the market, few Chinese understand the nuanced differences between NGOs and social enterprises, there are no courses or training in social enterprises provided in Chinese business schools, and the government and public remain uncertain about them. DID needs to work hard to establish its position in China and has begun to make some headway.

DID China started with one full-time staff member and several volunteers. By the end of 2012, the organization had 26 members: 18 full-time or part-time visually impaired trainers, five full-time staff, and three long-term volunteers. Recently, other companies, such as Black Cafes (smartshe.com, 2011), have begun to copy aspects of DID’s operations. Compared to other social entrepreneurs in China, DID has experienced a relatively smooth growth under the leadership of Shiyan Cai. This is due not only to the support she was able to get from both the...
government and other social-sector organizations, but also because of her personal and academic background, which shaped both her resolve and her business model. Of the 26 members of DID China, 22 are Christian like Cai. Thanks to the strong branding and the unique positioning of DID Global and the persistence of Cai and her team, DID China has flourished. When businesses move from one market to another, they tend to duplicate their existing internal competencies, which they understand and are the source of their competitive advantage.

What lessons might aspiring social entrepreneurs wishing to establish social enterprises in China or other transitional economies learn from the DID experience? Peredo and McLean (2006) note that in addition to risk tolerance and innovativeness, one of the defining features of an entrepreneur is unity of purpose in the face of complexity and the ability to make sound, balanced judgments. These latter qualities were certainly required in the case study. In order to succeed, Shiyin Cai needed not only to be prepared to take the risk of working in the gray legal area of social enterprises in China, but she also needed to find innovative solutions to problems in her working environment.

The idea of franchising—taking a successful formula and applying it elsewhere—seems straightforward; however, moving from a stable, mature, developed economy to a dynamic and rapidly changing emerging economy is not quite so simple. When businesses move from one market to another, they tend to duplicate their existing internal competencies, which they understand and are the source of their competitive advantage. This approach works well when the new environment is familiar and all that is needed is some fine-tuning, but more radical measures are required when the new environment is fundamentally different.

Many of the factors that influence DID’s operations come from outside the enterprise and are beyond its control. DID not only has to contend with the literal translation of its ideas, but also has to adjust to working with a different set of legal, social, and political institutions than would be found in the West. To use commercial terminology, the industrial sector in which it operates—the social sector—is poorly developed and lacks an established infrastructure. Similarly, its market, the target of its social activities—that is, the blind and visually impaired in China—knows little of its product or how it might help them meet their needs.

DID has achieved its success through a mixture of reactive and proactive approaches to its environment. Certain features, such as the regulations produced by Chinese institutions, act as constraints, while others, such as the immaturity of the market and the social sector, represent opportunities for innovation. Meeting the challenge of transferring operations from developed to developing economies requires leaders who are flexible and understand the factors that govern the activities in that economy. Fortunately for DID, their first franchisee in China appears to meet that stringent criteria.

References


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