EMES CONFERENCES
SELECTED PAPERS SERIES

3rd EMES International Research Conference on Social Enterprise
Roskilde (Denmark) - July 4-7, 2011

THE GOVERNANCE OF SOCIAL ENTERPRISE IN TAIWAN AND HONG KONG - A COMPARISON

Yu-Yuan KUAN
Department of Social Welfare, National Chung Cheng University, Chiayi, Taiwan

Kam-Tong CHAN
Department of Applied Social Studies, Hong Kong Polytechnic University, Hong Kong

Shu-Twu WANG
Department of Social Work, National Pintung University of Science and Technology, Taiwan

Copyright © 2011 Yu-Yuan KUAN, Kam-Tong CHAN and Shu-Twu WANG
Any portion of these materials is freely available for information and educational purposes, but cannot be re-published in any format that may entail fees or royalties without the express permission of the copyright holders.

ABOUT THE EMES CONFERENCES SELECTED PAPERS SERIES:
This series aims to ensure that selected papers from conferences in which EMES has been involved will be accessible to a larger community interested in the third sector and social enterprise.
EMES Conferences Selected Papers have not undergone any editing process.
All the papers of the series are available for download at www.emes.net.

1. INTRODUCTION

In Taiwan and Hong Kong, social enterprises are in a stage of growth, and are becoming more diversified in both regions. Solving the problem of unemployment and alleviating poverty seem to be two major goals pursued by NPOs when they set up a social enterprise (Chan et al. 2007; Kuan 2007; Kuan and Wang 2010). In addition, in both regions, the significance of the role of social enterprises in helping marginal groups to become financially self-reliant is very much emphasized. However, there are also apparent differences between social enterprises in both regions. In our paper "Similarities and Divergences: Comparison of Social Enterprises in Hong Kong and Taiwan" (2011), Chan, Kuan and Wang pointed out that:

> "Social enterprises have been developing rapidly in both Hong Kong and Taiwan in the past decade; yet, social enterprises in these two regions differ in terms of nature and type. Social enterprises in Hong Kong have a more entrepreneurial orientation and are more market-driven than their Taiwanese counterparts. By contrast, due to the development of civil society, community development social enterprises are more popular in Taiwan than in Hong Kong." (Chan et al. 2011: 33-49)

> "Indeed, in Hong Kong, the private sector's involvement in the field of social enterprise is increasing, so it can logically be expected that the approaches adopted in this region will be have a stronger market orientation than in Taiwan, where the vibrant dynamics of the third sector and NPOs will probably make the approaches adopted more 'civic-oriented'." (Chan et al. 2011: 33-49)

For making further inquiry into the similarities and diversities of social enterprises within these two Chinese communities, we consider it significant to shed light on the issues of the governance of social enterprises. The governance of social enterprise plays a crucial role in ensuring that management and strategic guidance maximizes the organization's capacity to realize its defined mission (Schmidt and Brauer 2006). The governance structure of a social enterprise can also be seen as a set of organizational devices that ensures that its organization's mission is pursued (Defourny and Nyssens 2009). In accordance with the previous ideas, this paper aims to explore the governance of social enterprises in Taiwan and Hong Kong, including the analysis of several dimensions on issues such as the dynamics of the governance structure and function, board composition and CEO, and institutional adjustments in the board and CEO within the social enterprise sectors in both regions.

In order to achieve this aim, the theoretical concepts employed in this paper will be critical review and the prevailing governance theory in a social enterprise context will be applied. This includes the corporate governance model, which contains the agency theory and stakeholder & stewardship theories, and the democratic governance model, which mainly highlights the involvement of different stakeholders in the governance of the organization. The data used for this paper will be the surveys conducted in 2010. In addition, this paper will be supplemented with the collection of the qualitative data from interviews with key leaders (e.g., board member and CEO) of eight social enterprises in these two Chinese communities.

Through such comparisons, we expect to obtain significant findings on governance issues such as the transformation of organizational structure and the institutional adjustments of the board members and CEO in order to cater to the needs of the development of social enterprises in Taiwan and Hong Kong. Furthermore, we will argue that the prevailing governance theories, both the corporate and democratic models, are not able to fully explain the governance dynamics of social enterprises in both regions. When elaborating on the related issues in the governance

functions of social enterprise, it is necessary to take into account the factors of different contexts and varying institutional settings.

2. GOVERNANCE THEORY OF SOCIAL ENTERPRISE

Nonprofit organizations were characterized by Dart (2004: 414-415) as "voluntaristic, prosocial, civic, and so on". In Dart's argument, nonprofit organizations (NPO) are "distinct from business organizations- distinct in goals, values, motivators, clientele, and types of clientele focus". Furthermore, it is argued by several scholars (e.g., Dart 2004; Emerson & Twersky 1996; Johnson 2001; Low 2006; Spear et al. 2009) that although social enterprise is a sub-set of the nonprofit sector, the two can be defined in very sharp contrast because the former "enact hybrid nonprofit and for-profit activities; change from a prosocial mission bottom line to a double bottom line of mission and money; from conventionally understood nonprofit services to the use of entrepreneurial and corporate planning and business design tools and concepts; and from a dependence on top-line donations, member fees, and governmental revenues to a frequently increased focus on bottom-line earned revenues and return on investment" (Dart 2004: 415). As a consequence, it is argued that if we focus on the examination of organizational management style, we may easily find that social enterprises need to embrace skills in both social provision and commerce. The difficulty then is in managing the competing sets of values-"social action set against the demands of market behavior" (Fowler 2000: 652).

The term "governance" refers to the process of governing an organization. The governance of social enterprise is believed to achieve the goal, ensuring the management and strategic guidance to maximize the capability of the organization to realize its defined missions (Schmidt & Brauer 2006). Then, the question is: What are the major characteristics of the governance of social enterprise? Before delving further into this topic, we have to differentiate the governance of an NPO from one of for-profit organizations (FPO).

Two dominant paradigms exist in the governance of an FPO. One is the agency theory, which underscores that the conflicts of interest commonly arise in the interactions between agent and principal (Chrisman et al. 2004; Fama & Jensen 1983; Jensen & Meckling 1976; Wu 2008). Therefore, the prescription offered by this corporate governance model is to force the managerial ownership to expand, which is held to "increase value-adding risk taking" (Diochon 2010: 97). The second paradigm is that of the stewardship governance model, which emphasizes the point that managers are not only capable but also willing to balance different interests when they pursue the company's strategies (Clarke, 2005; Davis et al. 1997; Muth & Donaldson 1998). However, according to Low (2006), regardless which models is applied, the ultimate goal remains the same—"to make the wealth of shareholders… and the role of the board in their capacity as agents of shareholders and whose primary task is to utilize share capital in ways that will result in increased values" (p. 378).

With regard to the non-profit boards, a counter view of governance highlights that the board ought to be modeled as a tool of democratic participation. Theoretically, nonprofit organizations are owned by the community rather than by shareholders; they are developed in trust and so are constructed for the benefit of the community (Abzug and Galaskiewicz 2001; Dunn & Riley 2004; Pearce 2003). Therefore, the democratic model emphasizes that the significant role played by NPO governing boards is to represent various constituencies' interests (Iecovich 2005). Low (2006) thus distinguished in advance the difference between the NPO democratic governance and the FPO corporate governance: "Implicit to the democratic model is the notion that individual

expertise in governance is secondary to a claim to be representative of a particular stakeholder group. Corporate governance believes in board members qualifying purely on the basis of expertise in managing and accumulating assets". (p. 379)

In a word, the governance of an NPO places the most values in the significance of representation, rather than the expertise in some kind of skills or business. A variety of stakeholders should have a legitimate participation in the organization. As a result, one of the important roles of the board of an NPO is to balance different interests represented by various stakeholders (Spear et al. 2009).

Social enterprises are usually viewed as a sub-set of the nonprofit sector (Borzaga & Defourny 2004; Dunn & Riley 2004; Pearce 2003) and are widely held as stakeholder or multi-stakeholder organizations (Bacchiegga & Borzaga 2003; Defourny & Nyssens 2009). As a consequence, the social mission of social enterprises is often put in the central position because "it has a significant legitimizing role on board performance, and if the board is able to effectively demonstrate their impact on social mission, they are more likely to have legitimacy conferred upon them by their stakeholders" (Mason 2010: 9). Accordingly, social enterprises are considered to exhibit a democratic model of governance.

However, Dart (2004: 415) reminds us that social enterprises "enact hybrid non-profit and for-profit activities", suggesting that social enterprise governance may become "a hybrid of for-profit stewardship and non-profit democratic models" (Low 2006: 379). In other words, social enterprises must develop a specific type of capability, which pinpoints the ability to manage an organization that combines the non-profit and for-profit characteristics all under one roof (Fowler 2000). The unique issues undergone by social enterprises are connected particularly with maintenance when creating social benefits and increasing environmental pressures towards the simultaneous acquisition of efficiency, competition and professionalization (Jones and Keogh 2006; Mason 2010; Mason & Royce 2007). The social enterprise boards are diverse due to the necessity of keeping the balance between business effectiveness and social benefit maximization. Moreover, if social enterprises want to become further engaged in the opportunities of new market with larger and better-resourced competitors, the boards must take the responsibility in supporting managers and nurturing competitive market circumstance (Borzaga and Solari 2004; Low 2006; Mason 2010). The democratic form of governance would appear to be of limited use in these conditions. Consequently two propositions regarding the governance of social enterprise were made by Low (2006) as follows:

Proposition 1: "Social enterprises boards are more likely to exhibit a stewardship model of governance than the democratic model found in other non-profits" (p. 381).

Proposition 2: "In order to enact the stewardship model, social enterprise boards are more likely to recruit members on the basis of expertise rather than representative status" (p. 382).

The reasoning behind the two propositions argued by Low (2006) is that organizations like social enterprises that try to work by utilizing a commercial model will require a different form of governance, which is less dependent on grants and donations. In addition, because of the existing complexities of the trading activities, social enterprises are more likely to require for a more corporate governance model that "relies less on representing diverse interests and more on a board that is capable of managing assets for greater return" (p. 382). Therefore, it follows that the composition of the social enterprise board will be different, and that this kind of organization will more likely recruit board members based on expertise rather than on the status of representation.

Nevertheless, the two propositions regarding the explanation of social enterprise governance

need to be examined carefully using ample empirical evidence to demonstrate the "appropriateness" or "fit" of the causal links in this governance model. In addition, we have to pay attention to the contextual factors and varying institutional settings in the elaborations of the governance function of social enterprise (Overall et al. 2010). To understand real governance dynamics, context, process and time are three important frameworks (Pye & Peyyigrew 2005). For instance, "organizational size, developmental stage of the firm life circle, ownership structure, drivers and processes of industry revolution and institutional pressures are the key elements that shape organizational functioning" (Overall et al. 2010: 148). Also, we fully concur with the argument made by Spear et al. (2010: 150) which indicate the origins and path of development of social enterprises are crucial in affecting its governance structures and processes.

3. COMPARISON OF GOVERNANCE OF SOCIAL ENTERPRISE IN TAIWAN AND HONG KONG— ANALYSIS BASED ON THE 2010 SURVEY

In order to understand the developmental trends of social enterprises both in Taiwan and Hong Kong and their effects over the recent years, a one-year research project, entitled "Analyzing the Roles of Social Enterprises in Taiwan and Hong Kong in Employment and Poverty Reduction," was commissioned to the authors by Taiwan's Ministry of Economic Affairs in July 2009. The survey data for this project was produced in May 2010. One of the issues covered in this study was whether or not adjustments to the governance structure of parent organization have been made to accommodate the operation of social enterprise in both regions. This was explored in the three aspects of "board of directors," "CEO (secretary-general)," and "manager of social enterprise."

3.1. Governance: Changes in organizational structure

When comparing the two surveys in Hong Kong and Taiwan, it was observed that similar patterns of changes in organizational structure were made in response to the establishment of social enterprises. In both Hong Kong and Taiwan, organizations which did not set up any designated unit yet were still the most common among all responded organizations. The percentage in Hong Kong was 45.5% in 2010, compared with that in Taiwan, which was 49.1% in the same year. These organizations either asked the administrative department to oversee the overall planning and management directly (36.4% in Hong Kong; 40.0% in Taiwan) or to set up a steering committee such as "business and sales advisory and steering committee" under the board of directors. In addition, it is interesting to note that the percentage of "the organization that has established a profit-making company which is solely responsible for the operation of social enterprise(s), the profits of which shall be contributed to the host organization or used to sponsor other non-profit organizations in the community" in Hong Kong was 13.6%, which is apparently higher than that in Taiwan (9.1%). When looking at the entire picture, the changes in organizational structure in both Taiwan and Hong Kong show a tendency of the organizations to increase specialization inside an organization in response to the development of social enterprises.

Table 3.1.: Changes in the organizational structure, 2010

	Hong Kong		Taiwan	
	F	%	F	%
The organization has set up designated unit(s) to carry out specialized duties in cooperation with other department(s).	16	36.4%	44	40.0%
The organization has not yet set up any designated unit.	20	45.5%	54	49.1%
The organization has established a profit-making company that is solely responsible for the operation of social enterprise(s), the profits of which shall be contributed to the host organization or used to sponsor other non-profit organizations in the community.	6	13.6%	10	9.1%
Others	2	4.5%	2	1.8%
N	44	100.0%	110	100.0%

3.2. Governance: Board and CEO

Regarding to the institutional adjustments resulting from setting up social enterprises are concerned, respondents were asked in the 2010 survey to indicate if there was any adjustment in the functions of the board members and CEO.

When comparing the adjustments inside the board members, it was found that in both Hong Kong and Taiwan, the samples indicated the predominance of organizations that responded that it had made no adjustment in the Board of Directors when establishing the social enterprises (Hong Kong: 54.5%; Taiwan: 78.1%). Compared to Taiwan, a much higher percentage of the organizations in Hong Kong indicated "raising the proportion of board members who have relevant background in business administration and financial taxation" (Hong Kong: 25.0%; Taiwan: 14.3%). The same pattern was observed with the item of "raising the proportion of board members who have relevant background in legal and public administration" (Hong Kong: 11.4%; Taiwan: 2.8%). These figures show that organizations in Hong Kong had increasingly placed importance in recruiting people who had background knowledge about running business onto their board.

Concerning the adjustments in the functions of the CEO, in both Hong Kong and Taiwan, a high percentage of the organizations responded that "the current CEO does not have any background in business administration nor any relevant expertise in the products and services" (Hong Kong: 40.5%; Taiwan: 30.6%). However, a substantial proportion of the samples indicated that "although the current CEO did not have any background in business administration, or any relevant expertise in the products and services, s/he has spent spare time to pursue further studies on relevant management knowledge" (Hong Kong: 23.8%; Taiwan: 43.5%). This was especially

obvious in Taiwan. As for managers of social enterprises, 34.3% of the respondents said their managers, though inexperienced in business management or sales and distribution of products and services, had taken the initiative to study management and related fields of knowledge in their spare time, while 28.4% of the respondents simply replied that their SE heads have no expertise in business management or sales and distribution of products and services.

Table 3.2.: Institutional adjustments in Board of Directors, 2010

	Hong Kong		Taiwan	
	F	%	F	%
(1) Raising the proportion of board members who have relevant background in business administration and financial taxation	11	25.0%	15	14.3%
(2) Raising the proportion of board members who have relevant background in legal and public administration	5	11.4%	3	2.8%
(3) There has been no adjustment in the Board of Directors arising from setting up the social enterprise(s)	24	54.5%	82	78.1%
Others	4	9.1%	5	4.8%
n	44	100.0	105	100.0%

Table 3.3.: Institutional adjustments in CEO, 2010

	Hong Kong		Taiwan	
	F	%	F	%
(1) Recruiting CEO who has relevant background in business administration and financial taxation.	3	7.2%	11	10.2%
(2) Recruiting CEO who has the background relevant to the products and services.	4	9.5%	16	14.8%
(3) The current CEO does not have any background in business administration nor any relevant expertise in the products and services.	17	40.5%	33	30.6%

	Hong Kong		Taiwan	
	F	%	F	%
(1) Recruiting CEO who has relevant background in business administration and financial taxation.	3	7.2%	11	10.2%
(4) Although the current CEO did not have any background in business administration nor any relevant expertise in the products and services, s/he has spent spare time to pursue further studies on relevant management knowledge.	10	23.8%	47	43.5%
(5) Others	8	19.0%	1	0.9%
N	42	100.0%	108	100.0%

These results indicate that upon launching social enterprise in Hong Kong and Taiwan, NPOs in general made no major structural adjustments to their board of directors. Moreover, organizations which had not yet set up any designated units were still the most common among all responding organizations. However, organizations in Hong Kong had increasingly placed more importance on recruiting people which had background knowledge about running a business onto their board. More significant changes were found with their CEOs and SE managers, who had decided to study management in their spare time to develop their business management competence. This is especially obvious in Taiwan. These facts reflect the difficulty of finding business management talents on the labor market who also appreciate the social mission of the organization.

4. CASE ANALYSIS OF SE GOVERNANCE- TAIWAN AND HONG KONG

In addition to the description of the survey findings and its implications for the governance of social enterprises in Taiwan and Hong Kong shown above, we consider it necessary to use the case study approach to explore the pattern and behavior of governance of social enterprise in these two Chinese communities. We utilized the qualitative data drawn from interviews with key leaders (e.g., board member and CEO) of eight social enterprises (four respectively in Taiwan and Hong Kong). The four cases covered in this study in Taiwan are *Yu Cheng Social Welfare Foundation* (YCSF), *Syin-Lu Social Welfare Foundation* (SLSF), *Taipei Victory Home* (TVH), and *Children Are Us Social Welfare Foundation* (CAUF). These four cases are all classified as "work integration social enterprises (WISE)", the most salient type of social enterprises in Taiwan which are dedicated to employment and poverty alleviation. As for Hong Kong's case, four social enterprises are included-- 1) *Lady MacLehose Social Services Centre* (LMSSC), 2) *Kwun Tong Methodist Social Service Centre* (KTMSSC), 3) *Mentalcare* (MC), and 4) *Fullness* (Full).

4.1. SE Cases in Taiwan

Organizational Characteristics

On average, the four Taiwanese social enterprise (SE) nonprofits have been in existences for 17 years; the oldest has been in existence for 24 years (SLSF), while the youngest has existed for 11 years (TVH). As for the time of initiation of the SE unit, the four nonprofits established their for-profit operations during a period from the mid-1990s to 2000. The number of SE unit of these nonprofits varies considerably, ranging from 5 units (SLSF) to 23 units (CAUF). However, the majority of the SE nonprofits (three out of the four) point out that their services and products range from 5 to 6 types. Overall, among the four SE nonprofits in Taiwan, three (YCSF, TVH, CAUF) are similar in size: annual revenues range from NT$350 million (approx. US$12 million) to NT$400 million (approx. US$13.8 million) in 2010. SLSF is indeed the smallest among the four cases, obtaining its total revenues of NT$280 million (approx. US$9.33 million). The percentage of revenue from SE as a fraction of the total revenue of the organization varied greatly between the four SE nonprofits, ranging from 14.3% to 98%. In 2010, half of the four nonprofits had over 400 paid staffs, while the remaining two had fewer paid employees, ranging from 214 to 220. Three out of the four nonprofits reported an average of 43 percent for the number of "staff of SE unit" out of the "total staff", while the exceptional case is in TVH (97 percent) in the same year. (See Table 4.11)

Table 4.1.1.: Organizational Characteristics-- 4 Cases, Taiwan

	YCSF	SLSF	TVH	CAUF
1. Year of Org. Establishment	1994	1987	2000	1995
2. Time of Initiation of SE	1996	1997	2000	1996
3. No. of SE Unit	8	5	10	23
4. Types of Service/Product	1) car washing service, 2) bus service for the disabled, product 3) manufacturing and sales (organic food, bread and cake), 4) printing service, 5) resource recycle and sales	1) cloth washing service, 2) cleansing service, 3) car washing service, 4) product manufacturing and sales (manual scented soap, popsicles, gifts), 5) printing service, 6) catering service	1) data entry 2) gas station 3) convenience store 4) product manufacturing and sales (art design, manual colored glaze, cultivating orchid seedling) 5) catering services	1) product manufacturing and sales (bread and cake), 2) catering services
5. Total Revenues (2010)	NT$ 350 M (approx. US$ 12 M)	NT$ 280 M (approx. US$ 9.33 M)	NT$ 400 M (approx. US$ 13.8 M)	NT$ 390 M (approx. US$ 12.7 M)
6. Revenues from SE (2010)	NT$ 140 M (40% of total revenues)	NT$ 40M (14.3%)	NT$ 390 M (98%)	NT$ 230 M (59%)
7. Total Staff (2010)	450	400	220	214
8. Staff of SE (2010)	170 (38% of total staff)	160 (40%)	213 (97%)	110 (51%)

Structure of the Board of Directors

The board of directors for each of the four Taiwanese SE nonprofits is the highest decision-making within their organizational structure. Three out of the four nonprofits with a board of directors have less than 16 members. Of the remaining nonprofit organizations, two have 9 members (SLSF and TVH) and another two has 15 members (YCSF and CAUF). In terms of the background of the board of directors, there are also three nonprofits (YCSF, SLSF, CAUF) have boards in which 67% of board members represent the guardians for the mentally disabled, while the remaining 33 percent is recruited from various professions. If we use the CAUF as an example, though there are no specific rules in the organizational articles, the Board of Directors of CAUF holds the consensus that the guardians for the mentally disabled should remain represented for more than half of the Board of the Directors. Mr. Su, the Executive Board Member & CEO of CAUF emphasized, "We hope that the guardians of the mentally disabled can represent half of the Board of Directors as the core values of CAUF remain that we care and help with those with mental retardation. Thus, the comments of the guardians of the mentally disabled should be voiced. The other professions will supplement our mission in caring for the mentally disabled and provide the supports if necessary. "(Interviews with CAUF, 2011/03/26) TVH, whose board members are 100 percent recruited from various professions, is the exceptional case. Consequently, the characteristics of the boards of directors of YCSF, SLSF, CAUF can be described as "single stakeholder" and "philanthropic governance" whiles TVH be portrayed as "multiple stakeholders" and "philanthropic governance"[1]. (See Table 4.12)

[1] According to EMES definition, the ideal-typical social enterprise is formed on a collective dynamics as well as on the participation of different stakeholders in the organization's governance, which may include beneficiaries, volunteers, public authorities, donors etc. This is normally portrayed as the "multiple-stakeholder ownership" (Bacchiegga and Borzaga 2003). Therefore if the board of directors of social enterprises is comprised of a narrow group of people, e.g., volunteers or donors, it is considered a "single-stakeholder ownership". As for the definition of "philanthropic governance", Alexander and Weiner (1988) indicate that, compared to "corporate governance", the model of "philanthropic governance underscores: large board size, separation of management and governance, no limit to consecutive terms, no compensation for board service, and emphasis on assets and mission preservation (pp. 225).

Table 4.1.2.: Structure of the Board of Directors-- 4 Cases, Taiwan

	YCSF	SLSF	TVH	CAUF
1. No. of the Board of Directors	15	9	9	15
2. Background of the Board of Directors	1) 10 board members (67%) represented the Association of the Mental Disabled Guardian; 2) The remaining 5 recruited from various professions.	1) 6 board members (67%) represented the mental disabled guardian; 2) The remaining 3 recruited from various professions.	1) all 9 board members (100%) recruited from various professionals	1) 9 board members (67%) represented the mental disabled guardian; 2) The remaining 6 recruited from various professions.
3.Characteristics of the Board of Directors	1) Single Stakeholder; 2) Philanthropic Governance	1) Single Stakeholder; 2) Philanthropic Governance	1) Multiple Stakeholder; 2) Philanthropic Governance	1) Single Stakeholder; 2) Philanthropic Governance

Changes in the Governance Structure and Function

Among the four SE nonprofits in Taiwan, three-quarters (YCSF, TVH and CAUF) had already set up designated units to carry out specified duties in cooperation with other departments. Respectively, the "Enterprise Department" in YCSF, the "Social Enterprise Department" and the "Sheltered Workshop Department" in CAUF, and the "Welfare Enterprise Department" in CAUF were established. Only one nonprofit (SLSF) had not yet set up any designated units. In addition, only one (YCSF) of the four nonprofits had set up an "Enterprise Advisory Committee" under the board of directors to help the administrative department to oversee overall planning and management.

As a consequence, from the viewpoints of the four SE CEOs, their boards of directors played a weak role in running the social enterprise units. For example, in TVH, the Board of Directors does not hold dominant roles in the decision-making process; most of the works are operated independently by the administrative departments. Director Chang of TVH highlighted, "We have always perceived that we should correct the problems independently since we started our work. We would also report regularly to the Board of Directors to update them on our work, but that is not to say that we require a great deal of intervention or support from the Board of Directors." (Interview with TVH, 2011/03/25)

Whether or not adjustments have been made to the governance structure of the SE nonprofits in order to accommodate the operation of social enterprise is one of the issues covered in this study. In viewing the adjustments within board members, it was found that in Taiwan, the four SE

nonprofits predominantly pointed out that they had made no adjustment in the board of directors that arose from the establishment of the social enterprises. The four SE nonprofits either emphasized that the CEOs played the dominant role in managing social enterprise units, or indicated that the main role played by the CEO was that of the support of certain key board members.

The majority of the SE nonprofits (YCSF, SLSF, CAUF) expressed that the main concern of their boards of directors when dealing with affairs regarding social enterprise is to place the fulfillment of social goals as the first priority and the economic goals as the second. This was the same for TVH, where the intent was to achieve social goals, but these were the added significance of financial sustainability for the satisfaction of the organization. (See Table 4.13) Concerning the importance of achieving social goals, two cases deserve to be stated further.

Case 1: The Board of Directors of SLSF desires that the SE units can generate some profits, or at least make ends meet. Even if a SE unit (such as the Laundromat) had suffered some losses for several years, the Board of Directors is determined that the SE unit should continue carrying out its services and reiterate the importance that the fulfillment of social goal ought to surpass the economic goal.

Case 2: Though the Board of Directors of YCSF is still somewhat concerned about the profits and losses of the SE units in YCSF, the decision-making model still focuses on whether these SE units can assist the disadvantaged groups that YCSF supports in gaining employment and making a living. For instance, although the car washing services have suffered losses in several years, the Board of Directors has reached a consensus that this SE unit should continue carrying on its business. The top priority of YCSF is caring for and helping disadvantaged groups to gain jobs; in other words, the fulfillment of social goals surpasses economic goals.

Table 4.1.3.: Changes in the governance structure and function- 4 Cases, Taiwan

	YCSF	SLSF	TVH	CAUF
Has the organization set up designated unit(s) to carry out specialized duties in cooperation with other department(s)	Yes. "Enterprise Department"	Not yet.	Yes. (1) "Social Enterprise Depart." (2) "Sheltered Workshop Depart.	Yes. "Welfare Enterprise Department"
Has the organization set up a steering committee such as "business and sales advisory and steering committee" under the board of directors	Yes. "Enterprise Advisory Committee"	Not yet.	Not yet.	Not yet.
Has there been an apparent adjustment in the Board of Directors which arose from the establishment of the social enterprise(s) since the beginning of running social enterprises?	No.	No.	No.	No.
Major concerns of the board of directors in dealing with affairs regarding SE	The fulfillment of social goal surpasses economic goal	The fulfillment of social goal surpasses economic goal	Emphasizing the importance of both social goal satisfaction and financial sustainability.	The fulfillment of social goal surpasses economic goal
Role and Function of the CEO in managing SE	CEO plays the dominant role in managing SE units with the support of some key board members.	CEO plays the dominant role in managing SE units.	CEO plays the dominant role in managing SE units.	CEO/Executive board member plays the dominant role in managing SE units.
Role and Function of the Board of Directors from the viewpoint of CEO	The Enterprise Advisory Committee is obviously influential.	Very weak role and function played by the board of directors in running the social enterprise units.	Very weak role and function played by the board of directors in running the social enterprise units.	Very weak role and function played by the board of directors in running the social enterprise units.

Professionalization in the Human Resource Development

When conducting the interview with the four SE nonprofits in Taiwan, we were mainly interested in answers to the following two questions: (1) Does the current CEO have any background in business administration or any relevant expertise in the products and services? (2) Do the current heads of SE units have experiences in business management or sales and distribution of products and services? To the first question, we found that two nonprofits (YCSF, SLSF) reported "the CEO does not have any background in business administration or any relevant expertise in products and services". One (TVH) highlighted that, "although the CEO does not have any background in business administration, he does have relevant expertise in the products and services". The last organization (CAUF) indicated confidently that, "the CEO has the background both in business administration and the relevant expertise in the products and services".

To the second question, we discovered that three out of the four nonprofits (YCSF, TVH, and CAUF) stressed either all or most of their heads of SE units "have experiences in business management or sales and distribution of products and services". For example, because TVH's top priority in development is to provide employment services for the physically disabled people, the heads of the SE units are required to have professional experiences in business management or sales and the distribution of products and services when recruited. Only one (SLSF) responded in the negative, saying that, "These 5 heads have less experience in business management or sales and distribution of products and services, but more in social welfare professions". It seems that the evidence found in this study is capable of proving that the level of the CEO/Deputy CEO's profession and the experience of SE unit head in business management or sales and distribution of products and services are positively related with the development of the SE nonprofits. (See Table 4.14)

Table 4.1.4.: Professionalization in the Human Resource Development of SE—4 Cases, Taiwan

	YCSF	SLSF	TVH	CAUF
Does the current CEO have any background in business administration or any relevant expertise in the products and services?	The CEO does not have any background in business administration or any relevant expertise in the products and services of the SE.	The CEO does not have any background in business administration or any relevant expertise in the products and services of the SE.	Although the CEO does not have any background in business administration, he does have relevant expertise in the products and services of the SE.	The CEO has the background both in business administration and the relevant expertise in the products and services of the SE.
Do the current heads of the SE units have experiences in business management or sales and distribution of products and services?	There are eight SE units. These 8 heads all have experiences in business management or sales and distribution of products and services.	There are five SE units. These 5 heads have fewer experiences in business management or sales and distribution of products and services, but more in social welfare professions.	There are ten SE units. These 10 heads all have experiences in business management or sales and distribution of products and services.	There are twenty three SE units. Most heads of the SE units have experiences in business management or sales and distribution of products and services.

4.2. SE Cases in Hong Kong

Nature of Four Social Enterprises

The four social enterprises selected in the case analysis in Hong Kong are based on their various forms of ownership. The Lady MacLehose Social Services Centre (LMSSC) is a traditional multi-service non-governmental organization that is heavily subsidized by the government (over 80% of the total revenue).The form of ownership is merely a subsidiary unit of existing service delivery system. Though the Kwun Tong Methodist Social Service Centre (KTSSC) is also a traditional non-governmental organization, the approach adopted is that of a "social co-operative". The service targets form their own co-operative, but registered as an independent legal entity and are managed by the members themselves. Mentalcare (MC) adopts a more aggressive manner where the NGO forms a separate company but with the mother organization as the major shareholder. Three members of the board then become the directors of the new company. By adopting a fully entrepreneurial model, the Fullness (Full) is formed as a limited company by share and the members of the board of directors are classified into individual directors or corporate directors. Services by the four social enterprises are rather diversified, including sales of various handicrafts of the minority groups, interpretation, restaurants, baby

sitting services for the new-born babies and mothers, cleaning, convenience stores at hospitals, and hair cut salons. (See Table 4.2.1.)

Table 4.2.1.: Nature of the 4 SEs, Hong Kong

	LMSSC	**KTSSC**	**MC**	**Full**
Types	Multi-service Social Service Organization funded by govt.	Multi-service Social Service Organization funded by govt.	Rehabilitation Organization funded by govt.	Non-subvented Christian organization
Typology	Subsidiary unit of NGO	Social-cooperative	Limited Company by guarantee	Limited company by share
Natures of Service	-sale of handicraft of the minority group -interpretation -restaurant	-baby sitting service for the new born babies and mothers	--cleansing -convenience store at hospitals	-hair cut saloon

Structure of the Board of Directors

Regarding the structure of the board of directors, three out of the four cases show mainly professionals coming from backgrounds in education, social welfare, law or religious background. Two of the four cases have boards of directors with less than 10 members (KTSSC and MC) and the remaining two (LMSSC and Full) have 15 and 17 members respectively. The orientation of "multiple stakeholder" is adopted for the 3 cases (LMSSC, KTSSC and MC), but because of their professional backgrounds, these three SEs are regarded as having characteristics of philanthropic governance. Even if some of the directors of Full are serving in the educational or social service sector, many of the other directors are businessmen with strong entrepreneurial orientation (or called as "hybrid governance"). (See Table 4.22)

Table 4.2.2.: Structure of the Board of Directors-- 4 Cases, Hong Kong

	LMSSC	KTSSC	MC	Full
1. No. of the Board of Directors	15	7	6	17
2. Background of the Board of Directors	-bishop of the Church-professional in education sector	**Mother Organization**-pastors from Church-social service professionals **Co-operative** -7 elected Board of Directors among 78 members	medical doctors -retired senior government officials	-individual members -corporate members
3.Characteristics of the Board of Directors	1) Single Stakeholder; 2) Philanthropic Governance	1) Multiple Stakeholder in the form of "social co-operative"; 2) Philanthropic Governance	1) Multiple Stakeholder in the form of separate business company; 2) Philanthropic Governance	1) Multiple Stakeholder; 2) Hybrid Governance

Changes in the Governance Structure and Function

Three among the four cases have made changes in governance structure and function upon the development of the social enterprises. KTSCC assists the target service users in forming their own social co-operative, but it is registered as a limited company due to the difficulty of forming social co-operatives in accordance with Hong Kong law. Seven members are elected to become the management committee for co-ordination and communication purposes. For MC, the social enterprise is formed as a separate legal entity i.e. "Limited Company by guarantee". One of the senior staff members, who also happened to be the founder of the social enterprise, became the executive director of the new company. With the assistance of two members of the board of directors, his main responsibility is to liaise with the new company and the mother organization in daily operations as well as to ensure financial sustainability. For Full, members of the board have undergone radical transformation and most of the existing members come from the business sector. The current CEO as well as the Chairman of the Board, is a retiree who has been the Regional Director of a large multi-national corporation for many years. However, for LMSSC, there is no change in terms of the governance structure upon the development of social enterprise. Has the organization set up a steering committee such as "business and sales advisory and steering committee" under the board of directors? LMSSC and KTMSSC responded to this in the negative, but KTMSSC noted that their mother agency provides them with the necessary consultancy based on a fee-for-service principle. Both MC and Full replied in the positive, indicating that they have either set up a new management board or involved both individual and organizational members from diversified backgrounds.

Table 4.2.3.: Changes in the governance structure and function- 4 Cases, Hong Kong

	LMSSC	KTMSSC	MC	Full
Has the organization set up designated unit(s) to carry out specialized duties in cooperation with other department(s)	No, as one of the social services for the deprived people	Yes, transform to "social co-operative"	Yes, set up a separate business company	Yes, transform to a limited company by share
Has the organization set up a steering committee such as "business and sales advisory and steering committee" under the board of directors	Not yet	The new social co-operative will pay the Agency the consultancy fees	Set up a new management board but duplicated membership	Involve members with diversified background, with both individual and organization membership

Table 4.2.3.-1: Changes in the governance structure and function-4 Cases, Hong Kong

	LMSSC	KTMSSC	MC	Fullness
Major concerns of the board of directors in dealing with the affairs regarding SE	The fulfillment of social goal surpasses economic goal	The fulfillment of social goal surpasses economic goal	Emphasizing the importance of both social goal satisfaction and financial sustainability.	The fulfillment of economic goal and may surpass social goal
Role and Function of CEO in managing SE	CEO plays the dominant role in managing SE units with the support of some key board members.	CEO plays the dominant role in early stage, but play the roles of a consultant now	A senior staff (delegated by CEO) plays the dominant role (as the Managing Director) in overseeing SE operation.	CEO/Executive board member plays the dominant role in managing SE units.
Role and Function of Board of Directors from the viewpoint of CEO	The board play supportive role and would listen to the views of CEO	Very weak role and function played by the board of directors in running the social enterprise units.	3 members from the Board serve as Board of Directors in the SE (the separate company).	Key role and function played by the board of directors in running the social enterprise units.

Professionalization in the Human Resource Development

Since many of the Directors of the Full come from the business sector, there are no particular changes in the business management training. Vice versa, Full has invited 2 scholars from the universities to provide advices on the domain of social services. For MC, the Executive has both social work and business management training. However, in order to further strengthen the business orientation, a General Manager with a master's degree in business administration was recruited. Due to the limited financial resources, KTSSC has obtained free consultancy service from the alumni of the business school of a local university. In contrast, LMSSC has no particular new inputs for professionalization of human resources.

Table 4.2.4.: Professionalization in the Human Resource Development of SE-4 Cases, Hong Kong

	LMSSC	**KTMSSC**	**MC**	**Fullness**
Does the current CEO have any background in business administration or any relevant expertise in the products and the services of the SE?	The CEO does not have any background in business administration or any relevant expertise in the products and services of the SE.	The CEO does not have any background in business administration or any relevant expertise in the products and services of the SE.	The Managing Director has background in business administration; he also has relevant expertise in the products and services of the SE.	The CEO/Board Chair has strong background both in business administration and religion
Do the current heads of SE units have experiences in business management or sales and distribution of products and services?	There are eight SE units. These 8 heads all have experienced in business management or sales and distribution of products and services.	There are five SE units. These 5 heads have less experience in business management or sales and distribution of products and services, but more in social welfare professions.	There are ten SE units. These 10 heads all have experience in business management or sales and distribution of products and services.	There are twenty three SE units. Most heads of the SE units have experience in business management or sales and distribution of products and services.

5. IMPLICATIONS AND CONCLUDING REMARKS

The research findings indicated that, in both Hong Kong and Taiwan, organizations which had not yet set up any designated unit were still the most common among all responding organizations. This is most likely because they are in the initial stage of running social enterprise or because the two regions on the whole are still relatively new at running social enterprises. However, organizations in Hong Kong had increasingly placed more importance in recruiting people who had background knowledge for running businesses onto their board. As for the SE's governance in Taiwan, there was an increasing tendency for the CEOs of the organizations to spend spare time pursuing further studies on relevant management knowledge.

Concerning the findings regarding the governance of 4 cases in Taiwan: (1) The social mission of social enterprises was obviously put in the central position; (2) They had made no adjustment in the board of directors that arose from the establishment of the social enterprises; (3) Most had already set up designated units to carry out specified duties in cooperation with other departments; (4) The professional level of the CEO/Deputy CEOs and the experience of the SE unit head in business management or sales and distribution of products and services are highly positively related with the development of the SE nonprofits. In addition, we found the boards of directors of the four cases played a weak role in running the social enterprise units. They basically do not hold dominant roles in the decision-making process; most of the works are operated independently by the administrative departments. This finding is echoed with the result from Kuan's study on the NPO governance: In Taiwan, many NPO boards are rather passive. In his several empirical researches on governance in Taiwanese social welfare foundations and associations, Kuan (1998, 2004, 2005, 2009) found that NPO boards play a limited role, often giving final approval to decisions already made by the executives, and as such, their function of internal financial and administrative supervision is rather weak.

As for the four cases of Hong Kong, we have the following general observation: (1) The governance structure of SEs in Hong Kong is diversified; (2) The governance of the organizations shifted from being a non-profit to a profit-orientation (e.g. setting up company), indicating the strong influence of market forces; (3) Most traditional NGOs operating SE do not have business backgrounds while there are growing trends of businessmen joining the SE initiatives; (4) Similar to those in Taiwan, CEOs in Hong Kong have strong impacts on decision-making.

We finally conclude that the prevailing governance theories, both the corporate and democratic models, are not able to successfully explain the governance dynamics of social enterprises in both regions. When elaborating on the related issues in the governance functions of social enterprise, it is necessary to take into account the factors of different contexts and varying institutional settings for. Organizations in Hong Kong had increasingly placed more importance on recruiting people with background knowledge about running a business onto their board. More significant changes have been found with the CEOs and the SE managers who have decided to study management in their spare time in order to develop their business management competence. This is especially obvious in Taiwan.

REFERENCES

Alexander, J.A., and Weiner, B.J. (1998), "The adoption of the corporate governance model by nonprofit organizations", *Nonprofit Management and Leadership*, Vol. 8, No. 3, pp. 223-242.

Abzug, R. and Galaskiewicz, J. (2001), "Nonprofit boards: crucibles of expertise or symbols of local identities?", *Nonprofit and Voluntary Sector Quarterly*, Vol. 30, No. 1, pp. 51-73.

Bachiegga, A. and Borzaga, C. (2003), "The economics of the third sector" in H.K. Anheier and A. Ben-Ner (eds), *The Study of the Nonprofit Enterprise, Theories and Approaches*. New York: Kluwer Academic/Plenum Publishers.

Borzaga, C. and Defourny, J. (2004), *The Emergence of Social Enterprise*. London & New York: Routledge.

Borzaga, C. and Solari, L. (2004), "Management challenges for social enterprises", in Borzaga and Defourny, J. (Eds.), *The Emergence of Social Enterprise*. London & New York: Routledge.

Chan, K. T., Kuan, Y. Y., Fan, M. L., Mak, P. S., Wang, S. T. and Lam-Yeung, K. S. (2007), *Exploratory Study on Social Enterprises in Hong Kong, Taiwan and Shanghai*, Hong Kong Polytechnic University, Hong Kong.

Chan, K.T., Kuan, Y.Y. and Wang, S.T. (2011), "Similarity and divergence: comparison of social enterprises in Hong Kong and Taiwan", *Social Enterprise Journal*, Vol. 7, No. 1, pp. 33-49.

Chrisman, J.J., Chua, J.H., and Litz, R.A. (2004), "Comparing the agency costs of family and non-family firms: conceptual issues and exploratory evidence", *Entrepreneurship Theory & Practice*, Vol. 28, No. 4, pp. 335-54.

Clarke, T. (2005), "Accounting for Enron: shareholder value and stakeholder interests", *Corporate Governance*, Vol. 13, No. 5, pp. 598-612.

Dart, R. (2004), "The Legitimacy of Social Enterprise", *Nonprofit Management & Leadership*, Vol. 14, No. 4, pp. 411-424.

Davis, J., Schoorman, F. and Donaldson, L. (1997), "Toward a stewardship theory of management", *Academy of management Review*, Vol. 22, No. 1, pp. 20-47.

Defourny, J. and Nyssens, M. (2009), "Conceptions of social enterprise and social entrepreneurship in Europe and the United States: convergences and divergences", Second EMES International Conference on Social Enterprise, University of Trento, Italy, July, 1-4, 2009.

Diochon, M. (2010), "Governance, entrepreneurship and effectiveness: exploring the link," *Social Enterprise Journal*, Vol. 6, No. 2, pp. 93-109.

Dunn, A. and Riley, C.A. (2004), "Supporting the not-for profit sector: the government's review of charitable and social enterprise", *The Modern Law Review*, Vol. 67, pp. 632-57.

Emerson, J., and Twersky, F. (eds.) (1996), *New social entrepreneurs: The success, challenge, and lessons of nonprofit enterprise creation*. San Francisco: Roberts Foundation.

Fama, E. and Jensen, M. (1983), "Separation of ownership and control", *Journal of Law & Economics*, Vol. 26, pp. 301-26.

Fowler, A. (2000), "NGDOs as a moment in history: beyond aid to social entrepreneurship or civic innovation?" *Third World Quarterly*, Vol. 21, No. 4, pp. 637-54.

Ieovich, E. (2005), "The profile of board membership in Israel voluntary organizations", *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, Vol. 16, No. 2, pp. 151-80.

Jensen, M. and Meckling, W. (1976), "Theory of the firm: managerial behavior, agency costs and ownership structure" *Journal of Financial Economics*, Vol. 3, pp. 305-66.

Johnson, S. (2001), *Social Enterprise Literature Review*. Edmonton, Alberta: Canadian Centre for Social Entrepreneurship.

Jones, D. and Keogh, W. (2006), "Social enterprise: a case of terminological ambiguity and complexity", *Social Enterprise Journal*, Vol. 2, pp. 11-26.

Kuan, Y. Y. (1998), "An empirical study of boards of directors of nonprofit social welfare foundations in Taiwan", *Journal of National Chung-Cheng University*, Vol. 9, No 1, Section II Social Sciences, December 1998. (In Chinese)

Kuan, Y. Y. (2004), "The governance of GONGOs: A Case Study of the Foundations for Agricultural Affairs in Taiwan", (Co-author with Lu, Wan-pin) *Third Sector Review*, Vol.1, No.1, pp. 128-168.

(In Chinese)
Kuan, Y. Y. (2005), "The profile of foundations in Taiwan based on 2001 survey data", (Co-author with Chiou, Yu-chin/ Lu, Wan-pin) *Taiwan Journal of Social Welfare,*
Vol. 4, No. 1, pp. 169-192.
Kuan, Y. Y. (2007), "Social enterprise development in Taiwan", *China Non-profit Review*, Vol. 1, pp. 146-81.
Kuan, Y. Y. and Associates, (2009) "Study on the nonprofit sector in Taiwan: structure and function", Paper presented at The 6th ISTR Asia and Pacific Regional Conference Changes, Challenges, and New Opportunities for the Third Sector, Taipei, 1-3 November, 2009. (In Chinese)
Kuan, Y. Y. and Wang, S. T. (2010), "The impact of public authorities on the development of social enterprises in Taiwan", *Journal of Public Affairs Review*, Vol. 11, No. 1, pp. 1-23.
Low, C. (2006), "A framework for the governance of social enterprises." *International Journal of Social Economy*, Vol. 33, pp. 376-85.
Mason, C. (2010), "Choosing sides: contrasting attitudes to governance issues in Social Firms in the UK," *Social Enterprise Journal,* Vol. 6, No. 1, pp. 6-22.
Mason, C. and Royce, M. (2007), "Fit for purpose- board development for social enterprise", *Journal of Finance and Management in Public Services*, Vol. 6.
Muth, M., and Donaldson, L. (1998), "Stewardship theory and board structure: a contingency approach", *Corporate Governance*, Vol. 6, No. 1, pp. 5-28.
Overall, J., Tapsell, P., and Woods, C. (2010), "Governance and indigenous social entrepreneurship: when context counts." *Social Enterprise Journal*, Vol. 6, No. 2, pp. 146-161.
Pearce, J. (2003), *Social Enterprise in Anytown*, Calouste Golbenkian Foundation, London.
Pye, A. and Pettigrew, A. (2005), "Studying board context, process and dynamics: some challenges for the future", *British Journal of Management*, Vol. 16, pp. S27-S28.
Schmidt, S.L., and Brauer, M. (2006), "Strategic governance: how to assess board effectiveness in guiding strategy execution", *Corporate Governance: An International Review*, Vol.14, pp. 13-22.
Spear, R., Cornforth, C., and Aiken, M. (2009), "The governance challenges of social enterprises: evidence from a UK empirical study," *Annual of Public and Cooperative Economics*, Vol. 80, No. 2, pp. 247-273.
Wu, H,-L. (2008), "When does internal governance make firms innovative?" *Journal of Business Research*, Vol. 61, pp. 141-53.