

What makes social enterprises successful? A view from Southern China



The pursuit of profit and redressing social problems, at first glance make uneasy bedfellows. However, for successful social enterprises (SEs) they are two halves of a workable whole that embodies the effective management of the paradoxical tensions between commercial profit and social purpose.

One of the most critical and pressing problems in society is the yawning chasm that exists in most countries in the form of large and complex social problems that are left underattended. These range from poverty to poor healthcare access to exclusion from formal education. An institutional solution may lie in the form of SEs.

Why is China such a fertile ground for social enterprises?

China enjoys some of the highest economic growth rates in the world. Its economic reforms have raised millions out of poverty while creating a wealthy and expanding middle class. While

the Chinese government remains committed to tackling social problems directly, there is room for social enterprises to contribute solutions.

Specifically, with China's rapid economic development there remains a legacy of social challenges such as rural poverty and elderly healthcare. While these problems are sizeable and are being tackled by government policy, the response from the private sector in the form of social enterprises is also important.

Most Chinese SEs are younger, smaller ventures. Just over half were founded after 2015, and only around 7% are more than 10 years old. Most have less than 10 employees, and only 6.4% staff over 100 people. Furthermore, SEs are also a nascent business trend in terms of their financial maturity; only 23.8% of China's SEs maintain profitability, and around half haven't yet reached break-even.

However, high levels of digital literacy among Chinese consumers – particularly in Tier 1 and

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2 cities, where most SE activity occurs – have allowed word to spread quickly about the social mission and contributions of SEs. At the same time, China’s increasingly influential Generation Z is more likely than previous generations to spend on products and services delivered by SEs because of their clearly defined social missions that benefit society.

Xihaner Car Wash – An example from Shenzhen

In 2017, the China Disabled Persons’ Federation reported that there were over 10 million *Xihaners* – people who live with intellectual disabilities – in China. While specialised care is available in China for Xihaners, not everyone has immediate access to the institutions designed for this purpose. With problems ranging from lack of awareness and on-hand support to outright social stigma, in 2018 only around 10% of China’s Xihaners were gainfully employed.

The founder and CEO of Xihaner Car Wash, Jun

Cao, himself a father of a son with a mild intellectual disability, was determined to help redress this imbalance. Inspired by other successful Xihaner-focused SEs, Cao banded together with nine other Xihaner parents to launch the Shenzhen Xihaner Car Wash Centre in 2015.

Through the creation of a special training programme, Cao and his partners developed a sustainable business model staffed by 16 Xihaner employees. After a careful assessment of their abilities, employees were formed into teams in a way that ensured each team could collectively perform the task of washing an entire car.

In its first year of operations, Xihaner Car Wash handled 12,000 cars, generating profits while paying all of its Xihaner employees (and their mentors) industry-competitive salaries. As well as providing its staff with marketable skills and real-life work experience, the car wash gave them a sense of daily purpose, greater confidence, and meaningful interaction with customers.



Since its founding, Cao has supported the replication of the Xihaner Car Wash Centre to 30 locations throughout China, with more centres under construction.

What makes social enterprises successful?

Developing, launching and maintaining an SE is no easy task, even in China, where conditions are supportive of SE activities.

A recent CEIBS study of SEs in China (including the one above) demonstrated that successful SEs are most often those that can ‘walk on the edge’ of simultaneously being socially driven and business savvy. While SEs don’t necessarily have to be innovative to succeed, they do need to garner strong community support and adopt a business model that is both comprehensive and inclusive – strategically embedding both their commercial business logic with their social purpose. They do so through several strategic actions.

First, when considering the advantages of starting an SE, it is not enough to simply criticise the inadequacies of existing solutions, rejecting them out of hand. Instead, effective SEs carefully and rationally consider prevailing conditions, weigh the pros and cons of existing solutions, and then look for ways to introduce their products/services in ways that benefit everyone. Essentially, SEs don’t have to reinvent the wheel; they simply have to recognise the underlying causes of their targeted social problem and seek to engage all the relevant stakeholders in a coordinated, collaborative way.

Second, SEs that employ clear, unambiguous guidelines that protect their social and commercial goals are in a much better position to succeed. This entails setting up clear guidelines that stop them from participating in activities that can hinder their social value or make them financially insolvent.

It is clear that addressing societal ills represents an underserved market, but the rise of SEs in China provides a different logic that may help contribute to a solution. China’s credentials for fostering community-grown enterprises, combined with its large, receptive, and digitally literate consumer audience, means that individual SEs – such as Xihaner Car Wash in Shenzhen – can be sustainable and replicated at scale to make positive contributions to social problems that we all care about.