Business Planning and the Sustainability of Social Enterprises in Hong Kong

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Declaration

Statement of Originality
This work contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution and to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. I give consent to this copy of my thesis, when deposited in the University Library, being made available for loan and photocopying subject to the provisions of the Copyright Act 1968.

Acknowledgement of Authorship/Collaboration
I hereby certify that the work embodied in this Thesis is the result of original research, the greater part of which was completed subsequent to admission to candidature for the degree (except in cases where the Committee has granted approval for credit to be granted from previous candidature at another institution).

Signature:_________________      ____  Date: 3 August 2014
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Synopsis

Social enterprises (SEs) are emerging rapidly in many countries. They help fill the gaps in service needs that arise because of governmental unresponsiveness or the inadequacy of the markets. One of the many challenges faced by social enterprises is sustainability.

Numerous articles and social enterprise practitioners have recognized the importance of business planning for small and medium-sized businesses. It seems that little empirical work has examined the relationship between the business planning and performance of social enterprises. Therefore, the main purpose of this study is to explore whether business planning leads to enhanced financial performance and sustainability in SEs.

This study analyses the performance of 20 SEs of different types of ownership and business with regard to their start-up planning in Hong Kong. These social enterprises had been in operation for at least two years and were selected through purposive sampling. Face-to-face semi-structured interviews with the founders and/or managers of these social enterprises, official documents and newspaper cuttings related to these social enterprises were used in data collection.

The study found that business planning helps SEs clarify social objectives rather than economic objectives and it can help them achieve better financial performance if the founders have adequate knowledge and solid experience of the proposed industry. There is evidence that business planning does not seem to have helped reduce discrepancies between the outcome and the target, especially since most of the SEs did not prepare their business plans appropriately. Business planning helps SEs communicate their goals, strategies and operational tasks to both internal and external stakeholders. Besides, a business plan serves the function of attracting new investors to support the social enterprise in its sustainability, especially for those SEs that do not have a formal business plan. Finally, the study suggests that SEs’ founders should have adequate knowledge of their proposed industry and suggests that funding bodies extend the gestation period from the existing three-year period to five years or more.
Chapter 1 Introduction

1.1 Background

Social enterprises have been expanding rapidly in many countries over the last two decades, especially where governments, the private sector and even the third sector are viewed as inefficient, ineffective and unresponsive to the great demands arising from complex social needs (Salamon, Sokolowski and List, 2003). SEs are established to address these social needs and problems.

SEs evolve because of particular socio-economic conditions in a given society and provide more creative and flexible ways of responding to social needs which cannot be addressed by the public, private and third sectors. SEs are a response to requests from service recipients placing emphasis upon hybrid models of business and non-profit activities, to address unmet social needs (Johnson, 2000; Seelos and Mair, 2004).

However, the concept of SE is a contested one and there is no commonly accepted definition as SEs’ modes of operation are very diverse (Prabhu, 1999; Thompson, Alvy and Lees, 2000). I try to identify key features of SEs in order to provide an inclusive definition of SE for the following operational definition of the study:

An SE is an organization (regardless of whether it is a non-profit organization or a profit making company) with social objectives, having adopted entrepreneurial behaviour that provides services and/or products (Boschee, 1998; Mair and Marti, 2006; Bielefeld, 2009; Hong Kong Council of Social Service and Hong Kong Shanghai Banking Corporation, 2011) and whose profit is largely reinvested into the business, the community or disadvantaged groups, to serve social objectives, rather than being driven by the need to maximize profits for shareholders and owners (Smallbone, Evans, Ekanem and Butters, 2001; Department of Trade and Industry, UK, 2002; Hong Kong Council of Social Service and Hong Kong Shanghai
Given the broad definition above, SEs can be said to have existed as far back as the Victorian era: Thompson, Alvy and Lees (2000) point out that Victorian private hospitals and the hospice movement are both examples of social entrepreneurship, as does Drucker (1994); Dees and Elias (1998) regard universities as SEs for they endeavour to enhance societal well-being, driven more by their mission than the market or profit.

A few other examples are operated by some big non-governmental organizations (NGOs), such as the Salvation Army, which runs used goods shops, and the YMCA and YWCA, which run hostels. Both operate as commercial organizations to generate income to subsidize their philanthropy. In Hong Kong, though commercialization of non-profit services started in the 19th century, no formal or institutionalized forms of social enterprise were mentioned until the early 21st century, when the Social Welfare Department of the Hong Kong Government introduced the $50 million grant for “Enhancing the Employment of People with Disabilities through Small Enterprise Projects” (Social Welfare Department, 2001). SEs were promoted by Mr. Tung Chee Hwa, Chief Executive of Hong Kong Special Administrative Region after the British withdrew in 1997. He introduced another source of funding named the “Community Investment and Inclusion Fund” in his 2001 Policy Address, which provides $300 million in seed money to promote joint efforts between the community, corporations or professionals and the government, and contributes to people in need (Tung, 2001). The above grants serve as a warm-up exercise for the establishment of SEs.

The real spurt in the development of SEs came in 2003, when the effects of the economic downturn caused by the Asian financial crisis in 1997 and the outbreak of Severe Acute Respiratory Syndrome (SARS) in 2003 resulted in a peak of 8.7% in unemployment between May and July (Economic Analysis Division, 2003). The socio-economic context in Hong Kong gave a direct impetus to reforms of welfare and employment policies aiming to better cope
with new social problems (Defourny and Kim, 2011). The Commission on Poverty (2005) advocates the use of SEs as a means to alleviate poverty and to improve skills and employability (Ho and Chan, 2010). A number of NGOs responded to the unemployment and poverty problem with plans to develop SEs as a means of addressing structural unemployment. The development of SEs reached a tipping point in 2007, when the then Chief Executive Donald Tsang highlighted social enterprise as a key policy agenda (Tsang, 2007).

Apart from the above financial and social conditions in Hong Kong, Johnson (2000) mentioned that a shift away from the welfare state model of resource redistribution to a neo-liberal type of distribution of resources and keen competition among the growing number of non-profits have led to the rise of SEs. In 2000, the Hong Kong government adopted the neo-liberal approach of Europe and North America and started social welfare subvention (Social Welfare Department, 2000). The Social Welfare Department revised its conventional strategy of covering most expenses to limited subvention in social welfare service units. This resulted in social welfare NGOs, which hitherto relied on government subvention, diversifying their funding sources (Yuen and Lee, 2004). In view of the economic downturn, the budget was cut by the government and there was a call for greater accountability. Government funding of NGOs declined steadily during the 2000s. The subvention to NGOs dropped from US$930 million in 2001, amounting to 24% of total expenditure, to US$850 million in 2004, amounting to only 20.4% of total expenditure (Ho and Chan, 2010). NGOs are learning to reduce their costs to stay within the new limits, and have started to commercialize their products and/or services and expand business activities for profit through SEs. SEs as non-profits are developing earned-income strategies to compensate for the decrease in funding from other sources, such as public subsidies (Dees and Anderson, 2006), and are maintaining stable incomes.

Initially, most SEs in Hong Kong were run by NGOs with government funding (Yuen and Lee, 2004). NGOs now spot and exploit opportunities to earn financial returns from their initial capital investment and have produced direct and
significant service impacts in alignment with social enterprises or parent NGOs’ social missions (Yuen and Lee, 2004). The primary mission of Hong Kong SEs focuses on how to fulfil the unmet needs and service gaps of society. They promote self-reliance and provide community employment opportunities to the unemployed, integrating them into the job market (Li and Wong, 2007). SEs have thus contributed to the emergence of small business opportunities for some local people and have been instrumental in the creation of long-term sustainable work opportunities for some unemployed individuals.

Many SEs share Dees’ (1998) views on social entrepreneurship in which the primacy of social benefit and pursuit of “mission-related impact” is the focus, rather than profit. However, many of these SEs have not been able to sustain themselves. According to the Hong Kong Council of Social Service (2006), 90% of SEs were shut down once the government funding was cut off. The many reasons for these closures include lack of sufficient government policy support and private sector support, insufficient training for those managing the SEs and insufficient funding to start or sustain businesses (Li and Wong, 2007). SEs have also had unattractive profit margins from a commercial point of view and lack business credentials and/or collateral (Poverty Commission Secretariat, The Government of the HKSAR, 2007), which lead them to close down.

It is also found that the differences in organizational culture between business organizations and non-profit making activities also leads to the demise of SEs (Johnson, 2000; Yuen and Lee, 2004; Chan, Yuen Tsang, Ho and Cheung, 2006). It is difficult for NGOs to adapt to market principles and at the same time strike a balance between the social and economic goals of SEs (Johnson, 2000; Yuen and Lee, 2004; Chan et al., 2006). NGO practitioners are most concerned about their social missions and keep their distance from the malpractice and social injustice of the market. Many perceive themselves as guardians of social values and social justice (Yuen and Lee, 2004). They believe that “markets do not aim at social improvements, public good as well as benefits for people who cannot afford to pay” (Dees, 2001, p. 3). It is therefore not surprising that they focus more on social than financial returns, which makes sustaining SEs even
more difficult.

Even professionally trained social workers of NGOs do not have the entrepreneurial skills required. Most non-profit practitioners lack proper business training and very often feel uneasy when running business-like operations (Yuen and Lee, 2004). Some of the social welfare NGOs established their SEs because of funding; they did not prepare comprehensive feasibility studies, business plans or financial projections, and nor did they calculate returns on investment. Few projects had long-term financial planning, which sadly means many of the projects were allowed to die out after the initial funding was exhausted (Yuen and Lee, 2004).

Moreover, the lack of a common definition of SE makes the task of enhancing public understanding and support more difficult (Poverty Commission Secretariat, The Government of the HKSAR, 2007). In fact, social entrepreneurship in Hong Kong is still in the initial stages of conceptualization and operation. Thus far, there have been only a few academic and governmental studies of local entrepreneurship, implying a lack of a coherent policy framework for implementing the concept of social entrepreneurship.

In fact, the government has not planned thoroughly and strategically. It has simply lined up four types of funding, namely, “Enhancing Employment of People with Disabilities through Small Enterprise Projects” (EEPDTSEP) through which the Social Welfare Department made available $50 million in 2001; the “Community Investment Inclusion Fund”, also initiated in 2001, by the Home Affairs Department, which set aside $300 million for seed money to promote joint efforts between the government and communities, corporations or professionals to help people in need; in 2005 the Chief Executive announced the “Partnership Fund for the Disadvantaged” in his 2005 Policy Address (Tsang, 2005), which set aside $200 million to provide matching grants against donations made by business organizations to support NGOs promoting social welfare projects; and the “Enhancing Self-Reliance through District Partnership Programme” (ES-RTDPP), introduced in 2006 by the Home Affairs Department (Home Affairs
Bureau, 2006a), which provides $3 million over two years for each approved project to promote sustainable district poverty-alleviation work and provide job opportunities to socially disadvantaged groups. The government claims that these projects provide seed money for the development of social entrepreneurship, disregarding the fact that these funds are targeted to tackle other social issues rather than promote the establishment of SEs in Hong Kong.

In view of the emergence and development of social entrepreneurship in Hong Kong, SEs face a scenario similar to Europe and North America, where the phenomenon has contextual factors (Yuen and Lee, 2004; Ho and Chan, 2010). The Hong Kong government is addressing current social problems like unemployment by launching employment assistance programmes modelled on Western “social investment” and “welfare to work” approaches (Ho and Chan, 2010). Such measures can not only help increase employment opportunities but also increase income generation for disadvantaged groups. However, SEs have faced many challenges, one being sustainability. When SEs cannot sustain their operations, it means their contextual factors cannot come into play. Factors which contribute to the sustainability of SEs are at least worthy of exploration and analysis, despite their highly controversial nature. However, very few systematic studies have explored the factors that contribute to the sustainability of SEs.

1.2 Research Problems and Objectives of the Study

1.2.1 Research problems

In Hong Kong, some studies have provided an overview of the current situation of SEs and their future prospects and operational difficulties, besides offering suggestions about an ideal model for the development of SEs. For example, Yuen and Lee (2004) provided perspectives, trends and prospects of SEs in Hong Kong; Chan et al. (2006) also illustrated the main features and characteristics of SEs and projected their possible future development in Hong Kong. Li and Wong (2007) presented a comparative study of SEs in Hong Kong,
the United Kingdom and Spain and suggested some solutions for operational problems. Tang, Fung, Au, Lee and Ko (2008) studied conceptual models in Hong Kong, the United Kingdom, the United States and Spain, and developed an ideal model for the development of SEs. Ho and Chan (2010) explored how SEs apply the concept of social investment and welfare and help the unemployed. Chan, Kuan and Wang (2011) made a comparative study to outline similarities and differences between SEs in Hong Kong and Taiwan.

In these studies, the researchers provide a general picture of the functions and existing operations of SEs. They also provide an overview of their situation and the difficulties they face, as well as likely prospects for the future development of SEs. The researchers mainly study the situation of SEs after their becoming operational. However, there have been no systematic studies of the initial preparations of SEs. That is to say that there is no study on how the founders/managers prepare the business plans that affect the performance of SEs. In fact, business planning helps firms’ founders gather information about business opportunities and specifies how that information should be used to create a new organization to exploit those opportunities (Castrogiovanni, 1996). Chwolka and Raith (2012) also find that the nascent entrepreneur benefits from planning his venture before entering the market. I therefore believe that the way in which the founders or managers prepare for establishing a business is crucial to its performance. The old saying goes that “well begun is half done”. When the foundations of a business are well laid, the rest of the operational work becomes easier to master.

In the following I try to outline some possible concepts concerning the preparation of business plans and their relationship with performance.

1.2.2 Relevant concepts contributing to the planning and performance of SEs

In order to achieve sustainability, SEs cannot rely only on donations, membership fees and government aid. Rationally, social entrepreneurship “requires the courage to emphasize earned income, sustainability and
self-sufficiency instead of charitable contributions, government subsidies and eternal dependency” (Boschee and McClurg, 2003, p. 37). SEs must evolve from dependence on welfare subsidies to self-reliance. Independence and financial sustainability are considered highly important (Chan, Kuan and Wang, 2011). SEs must develop away from the traditional understanding of non-profit organizations in terms of strategy, structure and values. They must use entrepreneurial and corporate planning as well as business design tools in their daily operations (Dart, 2004).

SEs need to become more familiar with traditional business tools such as business plans, precise mission statements and goal setting to improve their performance (Darby and Jenkins, 2006, p. 412). However, social welfare NGOs have difficulty combining for-profit and non-profit cultures and garnering support from the private sector. Social welfare NGOs have to strike a balance between social and economic goals when running their SEs. They have to reach for a scale of operations that can help achieve the dual goals of social support and economic wealth creation (Mair and Marti, 2006).

Studies on SEs have found that managers who started these businesses admit that they are weak in terms of business planning, financial management, information technology and marketing (Smallbone et al., 2001; Thompson, 2002; Bull, 2007).

According to the survey conducted by the University of Hong Kong (2013) more than 74% of the SEs in Hong Kong are operated by non-governmental organizations. Most of the above charitable organizations employed social workers to run their SEs (Chan, 2008). Many of the social workers who started these businesses admit that they too are weak in terms of business planning, financial management, information technology and marketing. Tang et al. (2008, p. xiv) also point out that most social workers voiced difficulties with maintaining the dual social and economic goals, that they lack the business knowledge and necessary mind-set and that they may not be able to survive in open-market competition when working for SEs. In reality, entrepreneurship or social
entrepreneurship training is not currently an area of interest and expertise for most social workers (Bent-Goodley, 2002; Germak and Singh, 2009).

Apart from inadequate social entrepreneurship training for social workers, many founders and managers of SEs need to perform dual roles: around their full-time role as a social worker in their organization they must find time to establish their SE. The situation is even worse when they are not familiar with the proposed business areas of their SE. Worse still, other than ad hoc and informal approaches to carrying out their action plans, many have no concrete plans or criteria guiding their businesses (Hynes, 2009). Thus Hong Kong social entrepreneurs have to prepare their mind-set to run their SE in a business-like manner, and have comprehensive business plans before they start.

Use of appropriate business tools can help improve the effectiveness of non-profit organizations (Dees and Anderson, 2003). Some studies have found that business planning not only enhances the chances of survival and success in business (Perry, 2001), but can also lead to better financial performance (Schwenk and Shrader, 1993; Miller and Cardinal, 1994; Ibrahim, Angelidis and Parsa, 2004) and sales growth (Lyles, Baird, Orris and Kuratko, 1993; Rue and Ibrahim, 1998) for small businesses. Most of the participants in one study agreed that having a clear business plan and vision for the project is critical for its success (Nah, 2006, p. 110).

A business plan is a document in which the founder writes down detailed plans for such functions as accounting, finance, production, marketing and organization (Montero, 1994). Developing a comprehensive business plan means clearly defining the current situation, establishing the facts as they exist now and writing them down in a logical sequence. Business plan includes a definition of business area, scope of business and brief history of the organization, including values and/or mission and vision statement and industry overview (Meloy, 1998). Better planning can also help develop proper focus on and vision of the business as well as financial forecasts (Bull and Crompton, 2006). In addition, proper business planning can provide SEs clarity of direction,
knowledge of the market place and a strong commitment from stakeholders to attract investment (Dees, Emerson and Economy, 2001). A business plan is crucial, therefore, as it outlines the objectives, products, benefits, resources, costs, risks and timelines of launching an SE (Nah, 2006; Boyer, Creech and Paas, 2008).

The value of business planning before market entry is exemplified in the expected benefit of being able to make better start-up decisions, in particular by terminating projects with poor prospects before start-up (Chwolka and Raith, 2012). Business planning deals with an evaluation of a business opportunity, and thus supports the entrepreneur in the decision on what to do next in the entrepreneurial process and ultimately the decision on whether one should enter the market (Chwolka and Raith, 2012).

In addition, business planning helps predict outcomes better and prepares organizations for future challenges. Delmar and Shane (2003) synthesized various positive effects of planning. Planning allows faster decision-making since information gaps can be anticipated and closed and resource flows can be optimized. Planning enables firms to control goal achievement. If deviations from the plan occur, the causes of these deviations can be identified.

Business planning expands the founder’s knowledge about the intended business and reduces decision-making uncertainty, facilitates faster decision-making, introduces controls for personal bias or subjectivity and develops new forms of actuation (Delmar and Shane, 2003).

Some scholars suggest that written business plans are more important for firm performance. The process of establishing business planning as written documentation legitimizes the new organization and communicates goals, strategies and operational tasks to internal and external stakeholders (Stone and Brush, 1996).

1.2.3 Research objectives
It is obvious from the above that business planning seems to play an important role in firm performance. It is important to know the process involved in the early developmental stages of SEs in order to establish an integrative model and also to improve training and business practices in SEs. However, the existing studies indicate the importance of business planning in business enterprises and entrepreneurship. Very few studies have explored the relationship between business planning and enhancement of SEs’ general performance. The difference between social enterprises and other business enterprises is that social enterprises require the adherence of social objectives together with economic objectives in their daily operation, while general enterprise is focused on economic objectives and is not required to assume a duty of social objectives.

We then have to explore the interrelationship between business planning and preparation in balancing the social and economic objectives of SEs; how business planning can contribute to the sustainability of SEs needs to be further explored in Hong Kong.

Therefore, the main purpose of this study is to explore whether business planning leads to enhanced financial performance and sustainability of SEs. The study is significant as it addresses six specific research questions, as follows:

First, how does business planning in an SE help better formulate social and economic objectives (Dees, Emerson and Economy 2001; Bull and Crompton, 2006; Nah, 2006; Boyer, Creech and Paas 2008)?

Second, how does business planning in an SE help acquire market knowledge (Dees, Emerson and Economy 2001; Nah, 2006; Boyer, Creech and Paas 2008)?

Third, how does business planning in an SE help achieve a target and reduce the distance between the outcome and the target (Brinckmann, Grichnik and
Fourth, how does business planning in an SE help identify deviations in daily operations and facilitate faster decision-making (Delmar and Shane, 2003)?

Fifth, how does an SE communicate its strategy to its stakeholders (Stone and Brush, 1996; Dees, Emerson and Economy 2001)?


1.3 Outline of Chapters

Chapter 1 provides a review of the extant literature on SEs. An operational definition of SEs follows in Chapter 2. I also describe the development of SEs and the problems and challenges they face. A preliminary conceptual framework is developed, on the basis of the extant literature, for analysing the business planning and sustainability of SEs. In Chapter 3, research questions and reasons for using face-to-face semi-structured interviews and official documents as the instruments of data collection are described in detail. I then describe the respondents and present the key themes relevant to understanding the impact of business planning in the context of sustaining an SE, which emerges from this qualitative study. In Chapter 4, a review of the relationship between business planning and the sustaining of SEs is presented. In Chapter 5, the findings are reported and discussed, including performance-related factors of business planning which affect the financial performance and sustainability of SEs, before the paper concludes with recommendations for future practice, policy and research.
Chapter 2 Literature Review

This chapter begins with a review of the meaning of social enterprise and describes the development of SEs in Hong Kong. Besides, challenges faced by SEs are highlighted and factors that can help enhance the sustainability of SEs are explored.

2.1 The Meaning and the Nature of Social Enterprise

Social enterprises constitute an emerging field but the concept is still not adequately defined (Alter, 2004). The term “social enterprise” is contested as it has been defined in several different ways due to the diverse academic backgrounds, geographic locations and different economic development contexts of different countries (Defourny and Nyssens, 2006). There is still an ongoing debate among practitioners, academics and the public over the exact definition of “social enterprise” (Dart, 2004; Hockerts, 2006; Spear, 2006; Thompson, 2008). Seemingly, “social enterprise” is a simple term which combines values from two distinct conceptual domains; it has a “social” component and an “enterprise” component. However, when we put the two terms together, it results in a complex range of meanings and the term encompasses a wide range of activities. The term is often interchangeable with other similar terms such as social venture, social entrepreneurship, non-profit enterprise, social innovation (Pelchat, 2004) and venture philanthropy (Cannon, 2000; Bielefeld, 2009), though sometimes these are distinguished. This has been and will continue to be a source of confusion and contention (Bielefeld, 2009), complicating people’s understanding of what SE is really about.

The word “social” implies a wide range of operating forms. It can refer to an organization in “the third sector”, “the not-for-profit sector” or “the voluntary sector”, or it can mean a non-profit business, social purpose business, civil society organization, non-governmental organization, charity, non-profit enterprise among others (Bull and Crompton, 2006, p. 43). With its vision, mission and value, it associates with a behavioural orientation that goes beyond
the market, state or self (Trexler, 2008, p. 69).

The term “enterprise” links to values associated with business and commercial purposes and corporate structures (Trexler, 2008, p. 69). The term “enterprise” and “entrepreneurship” are derived from the same root—the old French *entreprise*, the feminine past participle of *entreprendre*, meaning “to undertake”, from which comes the French term *entrepreneur*. Originally, the terms “entrepreneur” and “enterprise” concerned an activity – undertaking projects.

In the last two decades, SEs have been divided into two different orientations. One is championed by Dees and others and the other by McClurg and Boschee. Dees (1998) saw in social entrepreneurship the primacy of social benefit and the pursuit of “mission-related impact” instead of profit. He emphasized “innovation” and “social impact”. “Social entrepreneurship combines the passion of a social mission with a business-like approach to the marketplace” (Dees 2001, p. 3), and is normally explained as a rational and functional solution to restraints of public-sector funding and the availability of philanthropic resources (Dees, Emerson and Economy, 2001). An SE is an organization with a social mission which provides services and/or products and operates like a business when acquiring resources and distributing services and goods (Bielefeld, 2009).

Alvord, Brown and Letts (2004) also viewed social entrepreneurship as an innovative approach to addressing social problems. Some social problems, like poverty or the working poor, often demand fundamental transformations in political, economic and social systems. Alvord, Brown and Letts believe that scaling up social entrepreneurship can produce societal transformation. Some other scholars view social entrepreneurship broadly, as “a process involving the innovative use and combination of resources to pursue opportunities to catalyse social change and respond to social needs” (Mair and Marti, 2006, p. 37).

Christie and Honing (2006) perceived social entrepreneurship as gaining confidence in assisting people and societies to adjust to the changing environment and to promote economic development. SEs act as a response to
the need for a socio-political environment that produces and values results (Abrahamson, 1996). Many scholars support the view that SEs create their own innovative ways to create social impact in addressing social problems.

The other orientation is represented by Boschee and McClurg, among others, who put stress on “earned-income”. They believe that innovation alone is not enough for social entrepreneurship to sustain its competitive advantage. They propose that SEs should generate earned income in order to achieve their social mission, for “acting in an entrepreneurial manner should strive to attain sustainability or even self-sufficiency” (Boschee and McClurg, 2003, p. 2).

Alter (2004) stated that an SE is any non-profit-owned revenue-generating venture created for the purpose of contributing to a social cause while operating with the discipline, innovation and determination of a for-profit business. Granados, Hlupic, Coakes and Mohamed (2011) hold that an SE is an organizational form and social entrepreneurship is the activity developed by individuals or groups of people with primarily social drivers that undertakes innovative business operations (in order to be auto-sustainable) and the dissemination of social values. Social entrepreneurship may be pursued through operation of an enterprise, which can be either a social enterprise, non-profit, private or public institution.

Smallbone et al. (2001) and the British Department of Trade and Industry (2002) define SEs in a general and broad sense. They describe SEs as initiatives that operate on a business model to make a profit from products/services, but where the profit is used to provide community or social services, in the pursuit of social aims.

An SE is a social business, distinct from mainstream charity, in that it eschews grants and donations in favour of financial self-sustainability (Trexler, 2008, p. 69). SEs, unlike charities, derive income from business activities, not donations, and customers receive services and/or products in return. Many scholars think that earned income strategy is crucial for organizational sustainability. SEs are
assumed to be self-governed, self-sustaining and a fundamental source of social benefit (Brand, 1982, pp. 43-44).

While the two different schools of thought are debating whether social impact should be assigned greater importance than earned income, some scholars argue that SE should be confined to its organizational identity. They focus heavily on the type and structure of the organizational form and argue that SE should have non-profit status and not take the form of a for-profit business. This is a significant decision, especially since an SE may have a surplus after its business activities. The non-profit status helps safeguard proper utilization of SEs’ surplus.

Irwin (2005) clarified that SEs are businesses that combine a strong social mission and economic goals. Their aims are not to maximize profit in order to distribute their surplus to shareholders, but to reinvest their profit in their business. SE is synonymous with non-governmental non-profit organizations. SEs apply business practices and metrics to their work and generate earned income for the public benefit. A prominent example of this approach is venture philanthropy, which transforms the traditional rhetoric of giving into social investment (Trexler, 2008, pp. 69-70). The combinations of social and economic dimensions make social enterprises an original and highly complex type of organization in the non-profit sector (Defourny, 2001 in Mair and Noboa, 2003, p. 4). An SE is a private undertaking committed to achieving a social purpose, one that incorporates “traditional resources of non-profit organizations (donation and voluntary participation), commercial revenue (originating both from public and private customers and founders) and business activity” (Borzaga and Solari, 2001).

Other researchers refer to SEs as not-for-profit initiatives in search of alternative funding strategies, or management schemes to create social values (Boschee, 1998; Austin, Stevenson and Wei-Skillern, 2006; Dees, 2007). Langdon and Burkett (2004) said that an SE should be centred on working for the public good and the public interest rather than for private interest or gain.
Some European countries share the view of confining the business activities of SEs such that they remain non-profit organizations. In Belgium, as in a number of other European countries, the term social enterprise has a dual meaning. The first meaning generally speaks of service organizations that develop commercial activities. The second refers to cooperatives or associations with initiatives specifically aimed at the occupational integration of people excluded from the labour market (Defourny and Nyssens, 2001, p. 47).

On the other hand, some scholars, or even some countries, disagree with the notion of defining SE solely in the context of the non-profit sector. SE is a new label which is arguably an appropriate way of describing the work of community, voluntary and public organizations as well as private firms working for social rather than solely for profit-related objectives (Shaw, 2004, p. 195). SE differs from the traditional understanding of non-profit organizations in terms of strategy, structure, norms and values, and represents a radical innovation in the non-profit sector (Dart, 2004, p. 411).

In Britain, the first official definition of SE was enacted in 2002:

A Social Enterprise is a business with primarily social objectives, whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profits for shareholders and owners. (Department of Trade and Industry, UK, 2002)

This acknowledges that “surpluses are principally reinvested” rather than taken as profit by shareholders and owners, which implies that surpluses can still be distributed to the concerned stakeholders.

The concept of SE in the United States is generally much broader than elsewhere and is more focused on enterprise for the sake of revenue generation (Kerlin, 2006). In US academic circles, SE is understood to include organizations that fall along a continuum from profit-oriented businesses engaged in socially
beneficial activities (corporate philanthropies or corporate social responsibility) to dual-purpose businesses that mediate profit goals with social objectives (hybrids) and non-profit organizations engaged in mission-supporting commercial activity (social purpose organizations) (Kerlin, 2006, p. 248).

Different definitions and interpretations continue to be developed and used, but most of the definitions can only provide idealistic characteristics and there are major problems in defining the term “not-for-profit and non-profit of social organization” and “profit or surplus of enterprise”. In fact, the form of SE remains ambiguous. The line between non-profit and for-profit is blurred. Non-profit organizations are increasingly adopting strategies, concepts and practices of the business world (Dees and Anderson, 2003). Non-profits and for-profits increasingly interact with each other as competitors, contractors and collaborators (Dees and Anderson, 2003). For-profit organizations may create non-profit affiliates and non-profits sometimes establish for-profit subsidiaries or affiliates (Dees and Anderson, 2003). It is also difficult to specify the proportion of profit that an SE should retain or re-invest for the future growth of its business in order to claim to be an SE.

In Hong Kong, the features of SEs highlighted by the Home Affairs Bureau are similar to those recognized by the UK and the Spanish governments. Though the Home Affairs Bureau (2006b) states that the government is committed to promoting the development of social enterprises, it does not provide an official definition of SE. The Bureau only claims that

there is no universal definition of social enterprise (SE). In general, an SE is a business to achieve specific social objectives such as providing the services (such as support service for the elderly) or products needed by the community, creating employment and training opportunities for the socially disadvantaged, protecting the environment, funding its other social services through the profits earned, etc. Its profits will be principally reinvested in the business for the social objectives that it pursues, rather than distribution to its shareholders. (Home Affairs Bureau, 2006b)
The above definition is used as a reference for current government funding scheme applications rather than used as a policy to support the development of SE. Those non-governmental organizations which are not registered under Section 88 of the Inland Revenue Ordinance are ineligible to apply four out of the five current government funding schemes offering seed money to SEs (these four are the ES-RTDPP fund, EEPDTSEP, the Revitalising Historic Buildings through Partnership Scheme and the Partnership Fund for the Disadvantaged).

The Hong Kong Council of Social Service and Hong Kong Shanghai Banking Corporation (2011) have outlined another definition of SE in the Social Enterprise Directory 2011: SE achieves social objectives by adopting entrepreneurial strategies. It generates income through business operations to support its ultimate social mission and reinvest profit into the community and disadvantaged groups instead of maximizing profit. This definition seems broader than that of the Home Affairs Bureau. Social objectives are not confined to providing more job opportunities for disadvantaged workers, they can also apply to those businesses that can provide services to fill the existing service gap. In fact, many modes of operations are uncovered by the definition given by the Commission on Poverty (2005). We find that some SEs are run by for-profit organizations with social objectives and there are SEs which are subsidiaries of for-profit organizations. The description, therefore, cannot cover most of the modes of operation of SEs in Hong Kong.

Worldwide, there are many types of SEs, namely, community businesses, cooperatives, employee-owned businesses and employee share ownership plans, development trusts, community foundations, social firms or affirmative businesses, intermediate labour market projects, credit unions, community loan funds, friendly societies, mutual insurers, building societies and charitable trading arms, fair trade, community development corporations, microenterprises, civil society organizations, base of the pyramid, government funders, venture philanthropists and philanthropreneurs and charitable trading arms (Smallbone et al., 2001; Social Enterprise London, 2001; Alter, 2004). The operational mode
depends upon the way the founders want to operate their SE.

Sagawa and Segal (2000) highlighted that more non-profit organizations and private firms are joining cross-sector partnerships. Such joint ventures can help SEs enlarge and enrich their bases as well as to apply business practices to fulfil their social missions more effectively.

In fact, the development of SE comprises a spectrum of the social economy from the informal unincorporated voluntary sector through to the highly commercial sector, showing the range of types of organization normally labelled as the SE sector (Jones and Keogh, 2006, p. 24). SEs operate along a continuum that merges with the voluntary sector at one end and the purely commercial at the other.

Scholars and governments have tried to define SE in order to make it easily understood by the general public (Leadbeater, 1997; Prabhu, 1999; Social Enterprise London, 2001). However, the diversity of activities and organizations comprising the social economy is such that researchers have been unable to agree on a single definition (Shaw, 2004, p. 196). There is still no commonly accepted definition specifying nature, modes of operation or organizational form. While a universal definition may not be agreed upon, researchers, commentators, development agencies and politicians have sought to identify common characteristics to describe social enterprise (Prabhu, 1999; Thompson, Alvy and Lees, 2000).

Many scholars believe that trying to define an SE is like trying to “define an elephant blindfold – very difficult and not much point, because you know one when you see one” (Social Enterprise London, 2001). On the other hand, when we try to encapsulate the dynamics of SE within a specific definition, we run the risk of overlooking the rich activities currently taking place.

Dees (1998) pointed out that because of the complex structure of third-sector organizations and the variance in definitions, any generalizations are
problematic; this affects our understanding of the social enterprise sector.

The following Tables 2.1 and 2.2 summarize key features of social enterprise and social entrepreneurship based on scholars and practitioners’ perspectives.

**Table 2.1: Summary of the Key Features of Social Enterprise**

<table>
<thead>
<tr>
<th>Author(s) and Year</th>
<th>Key Features of Social Enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defourny and Nyssens (2001); Irwin (2005)</td>
<td>Emphasis on combining strong social and economic goals.</td>
</tr>
<tr>
<td>Department of Trade and Industry, UK (2002)</td>
<td>A business with primarily social objectives, whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profits for shareholders and owners.</td>
</tr>
<tr>
<td>Dart (2004)</td>
<td>SE differs from the traditional understanding of the nonprofit organization in terms of strategy, structure, norms, [and] values and represents a radical innovation in the nonprofit sector.</td>
</tr>
<tr>
<td>Home Affairs Bureau (2006b)</td>
<td>An SE is a business to achieve specific social objectives such as providing the services (such as support service for the elderly) or products needed by the community, creating employment and training opportunities for the socially disadvantaged, protecting the environment, funding its other social services through the profits earned, etc. Its profits will be principally reinvested in the business for the social objectives that it pursues, rather than distribution to its shareholders</td>
</tr>
<tr>
<td>Thompson and Doherty (2006)</td>
<td>SEs are organizations seeking business solutions to social problems. It has a social purpose. Its assets and wealth are used to create community benefit. The profits and surpluses of SEs are reinvested in the business and community rather than being distributed to shareholders. There is a double or triple bottom line paradigm with balance of economic, social and environmental returns.</td>
</tr>
<tr>
<td>Hong Kong Council of Social Service and Hong Kong Shanghai Banking Corporation (2011)</td>
<td>SE meets social needs through business solutions. It achieves social objectives by adopting entrepreneurial strategies. SEs generate income through business operations to support their ultimate social missions and reinvest profit into the community and disadvantaged groups, instead of maximizing profit.</td>
</tr>
<tr>
<td>Granados, Hlupic, Coakes and Mohamed (2011)</td>
<td>SE is an organizational form with primarily social drivers that undertakes innovative business operations in order to be auto-sustainable and dissemination of social or environmental values.</td>
</tr>
</tbody>
</table>

**Table 2.2: Summary of the Key Features of Social Entrepreneurship**
The above features generally describe SE as a project or organization that develops a new venture or an innovative way to achieve its social goals through business activities. The profits and surplus of SEs are reinvested to achieve further social objectives. Social entrepreneurship commonly refers to promotion of social good and values in innovative ways through an SE, non-profit, private or government sector organization. The terms social enterprise and social entrepreneurship are often used interchangeably.

Many countries also tend to use a much broader definition and focus more on revenue generation. In Hong Kong the generally accepted concepts that define SEs are quite similar, except that the Hong Kong government does not recognize profit-oriented businesses engaged in socially beneficial activities as SEs. The government does not allow these kinds of organizations to apply for public funding for the operation of their business.

I do not agree with the decision of Hong Kong government for there are many successful SEs run by profit-oriented businesses or organizations being run as part of the corporate social responsibility of companies. For the sake of future
development of SEs in Hong Kong, based on the above literature review, I define SE in a broad and inclusive way that includes the whole spectrum of social economy ranging from the voluntary sector to the purely commercial. It would be appropriate to characterize SEs as initiatives that operate in a different mode. I therefore include businesses run by SEs in my study. I believe it is unwise to adopt a narrow definition, especially when the sector is still in the developmental stage.

Due to my disagreement with the definition given by the Hong Kong government, as stated above, I refined the operational definition of SE for this study. I define social enterprise as “an organization (regardless of whether it is a non-profit organization or a profit making company) with social objectives and adopting entrepreneurial behaviour that provides services and/or products and whose profit is principally reinvested into the business or the community or it is used for serving disadvantaged groups rather than being driven by the need to maximize profits for shareholders and owners”. This definition draws from Boschee (1998), Mair and Marti (2006), Bielefeld (2009), the Hong Kong Council of Social Service and Hong Kong and Shanghai Banking Corporation (2011).

2.2 The Challenges of Social Enterprise

SEs often become high-profile organizations because of media coverage. They generally do not evolve in a vacuum. Rather, they evolve and operate in a context which relates to certain societal or economic changes at local or national levels. Leadbeater (1997) suggested that the crisis faced by the welfare state is the background of the rise of SEs in Britain since the welfare state seems unable to solve social problems like unemployment and social exclusion. SE adopts an innovative approach and creative use of resources and contracts to satisfy needs which the state welfare system cannot or will not meet (Thompson, Alvy and Lees, 2000). However, SEs are facing many difficulties and challenges in their running, like cultural differences between the business and non-profit sectors, insufficient training for SE practitioners, the lack of a common definition
and government policy support as well as sustainabilty.

2.2.1 Cultural differences between the business and non-profit sectors

There is incongruity between the cultures of the for-profit and non-profit sectors. These differences challenge the operations of social enterprise. Operations of business-like models and non-profit organizations are two different streams which have fundamentally different orientations. Cannon (2000) noted that non-profit organizations may not have sufficient experience in investment and in use of basic business management tools within their organizations. This affects the application of entrepreneur knowledge and skills in social enterprise.

It is difficult for the welfare sector to balance social and economic objectives and draw the double bottom line of generating profit and sustaining the social mission (Johnson, 2000; Dees, 2001; Yuen and Lee, 2004; Chan et al., 2006). Many practitioners and social workers in SEs are pre-occupied by sustainability problems. This further transcends into the ultimate question of long-term sustainability and draws their attention to the likely incidence of “struggling”, that is, the tendency of some service providers to serve only those client groups that can give them a better chance of meeting pre-determined financial goals. Salamon (1993) pointed out that those under-privileged client groups should be excluded from SEs’ service coverage. When revenue generated through a fee-for-service strategy is applied to social service non-profits, many of the poorer potential beneficiaries are automatically excluded from receiving these services because they are unable to pay for them. The exclusion of people who are unable to pay aggravates the feeling of struggle among practitioners and social workers of SEs for they perceive themselves as guardians of social values and justice (Dees, 2001) and want to ensure that people in need can receive proper service.

It is difficult for managers of SEs to follow market principles for they are uncomfortable with the language and practices of business and may be sceptical
of the values and motives of people trying to introduce business concepts (Dees
and Anderson, 2003, p. 27). They have difficulties in combining for-profit and
non-profit cultures and gaining support from the private sector. It is therefore a
challenge to help the founders or managers narrow the cultural differences
between profit and non-profit sectors.

2.2.2 Insufficient training in SE for practitioners

Most SEs are set up by innovators who are dreamers (Boschee and McClurg,
2003). They pay less attention to financial transactions. Studies on SEs have
found that managers who start these businesses admit that they are weak in
terms of business planning, financial management, information technology and
marketing (Smallbone et al., 2001; Thompson, 2002; Bull, 2007). Worse still,
other than ad hoc and informal approaches to carrying out their action plans,
they have no concrete plans or criteria guiding their businesses (Hynes, 2009).

According to the Social Enterprise Directory (Hong Kong Council of Social
Service and Hong Kong Shanghai Banking Corporation, 2011), most of the
founders or operators in Hong Kong are social workers. Entrepreneurial skills
are simply not one of the skill sets possessed by the professionally trained social
workers of NGOs. Social workers or social innovators need to become familiar
with traditional business tools, such as business plans, precise mission
statements and goal setting, to improve their performance (Darby and Jenkins,

Besides, founders of some social welfare NGOs set up their social enterprises
because of innovative impulses; they did not prepare comprehensive feasibility
studies, business plans, financial projections or calculations of returns on
investment. Few projects have long-term financial planning, which results in SEs
dying after the initial funding runs out (Yuen and Lee, 2004).

Thus, training for practitioners of SEs, especially in business operations, seems
indispensable. Moreover, one of the big challenges of SE is how to change the
mind-set of practitioners to strike a balance of the double bottom line through training.

2.2.3 The lack of an accepted definition and government support are hindering development

Throughout the development of SE, there has been no agreement on the major components of a definition (Dees, 2001; Sullivan Mort, Weerawardena and Carnegie, 2003; Seelos and Mair, 2004; Bielefeld, 2009). Dees (1998) recognized this challenge. When social entrepreneurship is defined too broadly, the definition becomes void of meaning. On the other hand, when we define it too narrowly, it becomes the province of only a special few. A definition is important as it brings meaning, draws boundaries and clarifies distinctions (Roberts and Woods, 2005, p. 45). However, the lack of a commonly accepted definition makes establishing the legitimacy of a field or construct difficult (Short, Payne and Ketchen, 2008) and hinders systematic empirical studies of theoretical issues related to social entrepreneurship (Chan et al., 2006; Christie and Honing, 2006; Hockerts, 2006).

Owing to SEs’ lack of a formal legal status, many governments have not enacted sufficient policy to support their development or to explicate the scope of social entrepreneurship for public understanding and acceptance of its different natures, functions and types (Dees, 1998; Dees, 2007; Tang et al., 2008). A clear definition can help establish the value of SE and gain the acceptance and support of the public (Li and Wong, 2007). The public should have clear information about which firms are SEs so that they can purposefully support them in buying their products/services as well as engaging in rendering voluntary service to help their operation.

When SEs have legal status, they can not only gain the support of the public but also ensure that all assets and accumulated wealth are not in the ownership of individuals but are held in trust and for the benefit of those persons and/or the
areas that are the intended beneficiaries of the enterprise’s social aims” (Jones, and Keogh, 2006, p. 19).

The researcher believes that legal status can help the government to implement long-term policies to support the existence of SEs, like their special procurement procedures. It seems that establishing SEs as legal entities, in order to gain the support of government, business sectors, communities and the general public, is another challenge.

2.2.4 The sustainability of SEs

Apart from the above, the most critical challenge is the sustainability of SEs. In the non-profit world, sustainability can be achieved through a combination of philanthropy, government subsidies and earned income (Boschee and McClurg, 2003). However, scholars, practitioners and the public expect SEs to generate their income through a variety of earned income strategies applied in business ventures (Boschee, 1998; Reid and Smith, 2000; Boschee and McClurg, 2003). They expect SEs to generate income either from their existing services/products or from entirely new activities. One goal of SEs is to increase their earned income and depend less on government subsidy and philanthropy. Reid and Smith (2000) considered the economic factor to be the ultimate goal for a firm to pass the long-term test of survival.

However, in Hong Kong, as in other countries, many SEs become extinct when their initial funding runs out. Emerging SEs are constantly proposing new ways and new ventures to fulfil the service gaps in society. SEs are mostly set up to address specific social problems, such as helping disadvantaged groups reintegrate into the working population (Spear and Bidet, 2005). Some organizations choose to set up SEs that can use the talents of their target groups and enable them to integrate into the open labour market for employment (Chan, Kuan and Wang, 2011). SEs increase employment opportunities and income generation for the disadvantaged. That is to say, when SEs close down their businesses, many projects can no longer fulfil their social responsibilities to the
communities. The problems of social exclusion of disadvantaged groups in the job market appear again.

Practitioners, scholars and governments need to join hands to explore factors that can enhance the sustainability of SE, so that issues of unemployment among disadvantaged groups can be resolved.

2.3 Problems Faced by Hong Kong SEs

In Hong Kong, there have been a few systematic studies to provide an overview of SEs in terms of the current situation and future prospects and the operational difficulties they have faced, and to suggest ideal models for the development of SEs. In summary, scholars and practitioners have identified several problems faced by Hong Kong SEs. Some of these problems are more or less the same as those faced by overseas SEs.

In Hong Kong, the development of SE is still in its infancy. We only have several examples of most known SEs. The development of SE reflects the economic situation of Hong Kong. The common examples of SE are set up by NGOs to commercialize existing fee-charging activities after the government cuts subsidies to NGOs, such as businesses that render high-quality residential services for the elderly (Yuen and Lee, 2004), or social firms which address society’s employment needs, such as for the disabled or disadvantaged persons (Yuen and Lee, 2004; Li and Wong, 2007). In addition, there are charity trading arms, such as restaurants and bookstores established by charities to generate income for the pursuit of their charity goals; community businesses, such as trading organizations owned and operated by people in local communities to facilitate community development and to create self-supporting jobs for local people; and cooperatives, such as businesses organized for and by their members, who come together to provide shared services beneficial to members. The development of the sector is hindered by the lack of an appropriate legal framework, which means that they are unable to get support from the public.
Even worse, unlike the United Kingdom and Spain, SEs in Hong Kong do not receive sufficient support from the government. Like other countries, the Hong Kong government has not created an environment that adequately enables SEs. For example, “there is no mass publicity about what SEs are, especially in making use of case studies to generate public awareness, and there are less effective ways of engaging additional people to support or use the services/products of SEs” (Thompson, Alvy and Lees, 2000, p. 337; Chan et al., 2006; Tang et al., 2008).

According to Chung (2009), in his survey on knowledge and attitude towards social enterprise, 59.1% of the general public have heard of SE and 32.3% of secondary students have heard of SE, but only 0.5% students have used products/service provided by SEs. So there is still room for the Hong Kong government to encourage the public to support the development of SEs.

Chan et al. (2006), Li and Wong (2007) and Tang et al. (2008) suggest that the Hong Kong government should have greater flexibility in the tendering and bidding mechanism. They believe that such policy support would certainly provide greater opportunities for the development of SEs.

In addition, Chan, Kuan and Wang (2011) state that the “Hong Kong Government has been operating on the basis of the laissez faire principle and has tended to keep direct intervention in the market to its minimal level. Government support for SEs remains in providing funding support rather than implementing direct policies regulating SEs.”

Furthermore, the cultural differences between non-profit and for-profit affect the performance of SEs. In Hong Kong, the founders of most SEs are social workers. They place more emphasis on social returns, such as training and provision of employment opportunities for disadvantaged groups, than on financial returns (Yim, 2008).

Moreover, social entrepreneurship and the socially oriented mind-sets of the
founders and managers of SEs are also perceived as a hindering factor for the
development of SEs since most social workers have little or no experience of
business management. Many are apparently only amateurs in their chosen
trades. Entrepreneurial skills are simply not the skill sets possessed by
professionally trained social workers of NGOs. Most social workers lack proper
business knowledge, training and the competence required for running social
erprises (Yuen and Lee, 2004; Chan et al., 2006; Li, 2007; Tang et al., 2008).
In their businesses, they have neither prepared any market feasibility studies,
business plans or financial projections, nor calculated returns on investment
(Yuen and Lee, 2004), nor are they responsive to changing demands (Seelos
and Mair, 2004) or the need for controlling costs in business (Tang et al., 2008),
all of which are considered essential for the sustainability of a business.

Sustainability is a great challenge for SEs in Hong Kong. In 2008, only 10% of
SEs had balanced budgets and it has been reported that in 2010 about 30%
were able to self-sustain their businesses after their initial funding had run out
(South China Morning Post, 2010).

Some of their problems are difficult to solve in a short period of time, especially
without the support of the Hong Kong government, since there is no commonly
accepted definition or legal status for SEs and there is no policy support for their
development. On the other hand, some problems that existing SEs have faced
can be tackled by on-the-job training. These include incongruent orientation
between the non-profit and for-profit sectors, social entrepreneurship and the
mind-set necessary for running an SE. On-the-job training can help operators of
SEs enhance their capacity to run their organizations in a business-like manner
and improve their business performance. However, I find that in previous studies,
scholars and practitioners only provide an overview and the prospects of SEs
after they have started their businesses. There is no systematic study exploring
how the founders and managers of SEs prepare their business plans from the
start. Such preparations may affect the performance of SEs and their
sustainability.
2.4 Business Planning and the Sustainability of Social Enterprise

In response to the above challenges, it is necessary to investigate the factors that contribute to the sustainability of social entrepreneurship. Rationally, social entrepreneurship “requires the courage to emphasize earned income, sustainability and self-sufficiency instead of charitable contributions, government subsidies and eternal dependency” (Boschee and McClurg, 2003, p. 37). The scale of operations should be such that it can achieve the dual goals of social support and economic wealth creation (Mair and Marti, 2006). Independence and financial sustainability are considered highly important (Chan, Kuan and Wang, 2011).

As mentioned in the previous section, when many SEs close down after their initial funding runs out, their social objectives can no longer be carried out. Thus, we have to explore factors that can enhance their sustainability.

2.4.1 Possible ways to ensure the sustainability of SEs

Many studies provide potential ways for SEs to attain sustainability, like providing training to the founders/social workers in running businesses and putting pressure on the government to enact policies to support SEs and provide a clear concept of SEs and help them gain the support of the public.

Other studies have found that managers with entrepreneurial flair or social entrepreneurship and a business plan prior to setting up an SE are some of the crucial success factors in achieving business growth (Vyakarnam, Jacobs and Handelberg, 1999; Pelchat, 2004).

Luk (1996) took inspiration from small business and explored the reasons for their sustainability with empirical studies investigating the factors that contribute to their success and sustainability. Luk found that small business owners need to undertake market research to identify customers’ needs and business trends. They have to start the business in a carefully selected market niche.
Dees and Anderson (2003) also agreed that the use of appropriate business tools has the potential to improve the effectiveness of SE. They therefore proposed that SEs operate in the form of social entrepreneurship together with appropriate business tools, like business plans, in order to enhance organizational sustainability. Business plans are seen to be important tools for newly established firms. One indication of their importance is that millions of business plans are written each year, worldwide (Gumpert, 2002 in Karlsson and Honing, 2009, p. 28).

However, no systematic study has explored the preparations of SEs at the very beginning. How can the founders or managers prepare their business plans to enhance the performance and sustainability of their operations?

2.4.2 The contribution of business planning to the sustainability of SEs

The use of appropriate business tools has the potential to improve the effectiveness of non-profit organizations (Dees and Anderson, 2003). As mentioned before, scholars found that business planning not only increases the probability of success (Jones, 1982; Perry, 2001) and the chances of survival in business (Perry, 2001), but can also lead to better financial performance (Schwenk and Shrader, 1993; Miller and Cardinal, 1994; Ibrahim, Angelidis and Parsa, 2004) and sales growth (Lyles et al., 1993; Rue and Ibrahim, 1998) for small businesses.

Business planning is the first and the most important step in starting a business. Business planning lays down a step-by-step procedure by which the business should function. It is a process that involves the creation of a mission or goal for a company, as well as defining the strategies that will be used to meet that goal or mission (Alter, 2001; Friend and Zehle, 2004). Better planning can also help develop proper focus on and vision of the business as well as financial forecasts (Bull and Crompton, 2006). Proper business planning for SEs can provide clarity of direction, knowledge of the market place and a strong commitment from stakeholders, which can attract investment (Dees, Emerson and Economy, 2001,
In addition, business planning includes scope of business, industry overview, business-marketing, human resources, production, setting out the timeframe, an outline three- to five-year strategy and supporting documents both internally and externally, as well as marketing strategies (Meloy, 1998; Andersson, Bergholtz, Edirisuriya, liayperuma, Johannesson, Gordijn, Gregoire, Schmitt, Dubois, Abels, Hahn, Wangler, and Weigand, 2006). Also, written documentation legitimizes the new organization and communicates goals, strategies and operational tasks to internal and external stakeholders (Stone and Brush, 1996; Alter, 2001).

Two business planning constructs can be distinguished: the outcome of business planning and the process of business planning (Pearce, Freeman and Robinson, 1987a, b; Boyd and Reuning-Elliott, 1998). The outcome of business planning is based on a range of written documentation, for example, written business plans, goals or budgets. The process of business planning is measured based on the intensity and analytic complexity of business planning activities, for example, economic forecasts and scenario analysis (Pearce, Freeman, and Robinson, 1987a, b; Boyd and Reuning-Elliott, 1998).

There is a significant positive correlation between business planning and a new firm’s success. Both the outcome of business planning (written plans) and the process of business planning (planning meetings, market and scenario analysis, use of computers and portfolio analysis) augment firm performance (Brinckmann, Grichnik and Kapsa, 2010).

A business plan is therefore crucial as it outlines the objectives, products, benefits, resources, costs, risks and timelines of an SE (Nah, 2006; Boyer, Creech and Paas, 2008). A business plan is a document in which the founder writes down detailed plans for such functions as accounting, finance, production, marketing and organization (Montero, 1994). So many companies use business plans to gain legitimacy from external actors to make them appear structured, well planned and established (Karlsson and Honing, 2009).
Shane and Delmar (2004) recommended that a nascent entrepreneur should write a business plan before even talking to a customer, let alone doing any marketing or promotion. SE differs from the traditional understanding of the non-profit organization in terms of strategy, structure and values. SE does not rely only on donations, membership fees and government revenue, but can also apply an entrepreneurial and corporate plan as well as business design tools in its daily operations (Dart, 2004).

Planning is the first step and execution of the plan is the second step. Business plans reflect the informational circumstances of the time. The founder needs to identify contradictory information and be sensitive to the need for post-planning adjustment or strategic flexibility which impact the execution of business plans (Brinckmann, Grichnik and Kapsa, 2010). Therefore, start-up preparedness and willingness to adjust the plans during execution are critical factors (Brinckmann, Grichnik and Kapsa, 2010).

Some empirical studies have found that planning has an important impact on the achievement of business development (Shane and Delmar, 2004; Gruber, 2007). Planning affects performance in both large as well as small and medium firms (Yusuf and Saffu, 2005). Delmar and Shane (2003) provided empirical evidence that business planning enhances new venture survival, product development and organization of activities, and reduces the hazard of venture disbanding. There is also a significant positive effect between business planning and new firm success as well as firm performance (Brinckmann, Grichnik and Kapsa, 2010).

From the empirical viewpoint, the studies of Dees, Emerson and Economy (2001), Bull and Crompton (2006), Nah (2006), and Boyer, Creech and Paas (2008), clearly find that business planning helps to clarify vision of business, that is social and economic objectives. Dees, Emerson and Economy (2001), Nah (2006), and Boyer, Creech and Paas (2008) also point out that business planning can help to acquire better market knowledge of business. Moreover, Brinckmann, Grichnik and Kapsa (2010) identify that business planning can
lessen the deviation between the original goal and actual operation as well as allowing more rapid decision-making than actuation without prior planning since information gaps can be anticipated. In addition, Dees, Emerson and Economy (2001) highlight that business planning provides a platform for communication to stakeholders for their commitment. I therefore make use of the above empirical studies to develop the preliminary conceptual framework to develop interview questions and study focus. The study is going to explore whether the importance of business planning preparation in the areas of formulating social and economic objectives, acquiring market knowledge, monitoring the deviation between planning and implementation, as well as communicating strategies to stakeholders, can help SEs increase their earned income and improve financial performance, which leads to sustainability.

The preliminary conceptual framework of the business planning and sustainability of SEs can be found in Diagram 2.1 below.
2.5 Summary of the Literature Review

In light of the above, we would expect to find that business planning is crucial for the sustainability and performance of small businesses. However, there have been very few studies of business planning and sustainability in SE. In Hong Kong, some studies have provided perspectives, trends and prospects of social
entrepreneurship (Yuen and Lee, 2004), as well as an overview of the development, features, marketing mix, governance and networking of SEs (Chan et al., 2006) and the conceptual models of SEs. The interrelationship between business planning and sustainable development, as well as the way in which business planning can contribute to the sustainability of SE, should be further explored in the Hong Kong context.

This study is significant as it addresses the issues of how initial business planning can help enhance the sustainability of SEs and, more importantly, how a comprehensive business plan makes a difference in business performance.
Chapter 3 Methodology

3.1 Introduction

This chapter describes the research design and methodology of the present study, including sampling, data collection and ethical considerations when applying semi-structured interviews as the method of qualitative research. Next, some emergent themes are identified for the analysis of the collected data.

3.2 Overall Research Design

In view of the challenges faced by social enterprise described in the previous chapter, we found that there are still gaps and unresolved questions in the literature, one of which is whether business planning leads to increased earned income and enhances the financial performance of SEs. A qualitative approach is adopted. The design of the interview questions is based on the comprehensive literature review above. The researcher explored how the use of business planning serves as a means to enhance the sustainability of SEs. The purpose of this study is to contribute to the above areas and to answer the following research questions, as stated in Chapter 1:

1) How does business planning in an SE help better formulate social and economic objectives?
2) How does business planning in an SE help acquire market knowledge?
3) How does business planning in an SE help achieve a target and reduce the distance between the outcome and the target?
4) How does business planning in an SE help identify daily operations’ deviations and facilitate a faster decision-making process?
5) How does an SE communicate its strategy to its stakeholders?
6) To what extent does business planning in an SE relate to its financial performance and its subsequent sustainability?

Qualitative research describes and explains a person’s experiences, behaviours,
interactions and social contexts (Corbin, 1990). It lends itself to developing knowledge in poorly understood or complex cases (Fossey, Harvey, McDermott and Davidson, 2002). Interpretative methodologies focus primarily on understanding and accounting for the meaning of human experiences and actions (Fossey et al., 2002). Qualitative semi-structured interviews allowed the researcher to collect richer and more in-depth data from participants. This approach allows the researcher to get close to participants, penetrate their realities and generate an understanding (Shaw, 2004, p. 197), and also allows exploration of both the participants’ aims, values and principles when making and developing their business plans and the actual management of SEs.

The merit of qualitative research is its interpretivist stance. It allows the researcher to get close to interviewees, and generate an understanding of business planning of SEs. It also involves “trying to understand meaning and to understand how meaning constructs through social interaction” (Cassell, Symon, Buehring and Johnson, 2006, p. 295) as well as interpretations between the researcher and the participant (Guillemin and Gillam, 2004, p. 274). It therefore helped the researcher search for patterns and themes relevant to the study in the rich and interactive data. The researcher compared and analysed the themes that emerged and explored whether business planning had an impact on the sustainability of SEs.

The interview process involves asking open-ended questions and probing wherever necessary to obtain data deemed to be useful for the study. Semi-structured interviews were used to facilitate more focused exploration of specific topics, using an interview guide. Interview guides usually contain a list of questions as well as prompts and props designed to guide the interview towards its focus (for details please refer to Appendix 1). The interviews offered an opportunity for the researcher to study the process in which individuals made sense of phenomena and construct meanings within each interview (Bryman and Bell, 2007, pp. 512 and 514).

Semi-structured interviews also have distinctive functions, particularly in the
case of the increasing complexity and the rich context of SE. It was suitable for studying and addressing the research questions with “exploratory and interactive” approaches, besides offering the advantage of flexibility, freedom of expression and interpretation and innovation in exploring data which could provide meaning and help understand the causal relationships between variables (Bryman, 1984; Bryman and Bell, 2007). In this study, we not only aimed at collecting rich and complex data from the founders of SEs, but also reviewed the official documents about the host organizations and SEs to gather background information about their activities. We checked the validity of the data collected during the interviews and explored how business planning enhances financial performance of SE.

3.3 Sampling

The study programme imposed a time limit, thus the study has a time-frame limitation. The researcher could afford to study a sample of only 20 SEs from different service sectors through purposive and convenience sampling and could not consider a larger sample size or range of services. The purposive and convenience sampling helped recruit the most accessible participants with reasonably good representation of the service sector. The purposive sampling was appropriate since the aim of the research was to generate an understanding of an under-researched topic rather than to confirm or refute hypotheses (Shaw, 2004, p. 197).

The study covered 20 cases of SEs in Hong Kong. The researcher invited 20 founders and/or managers of SEs as the key informants for semi-structured interviews. In addition, other data were collected from their official documents and newspapers. However, a list of all social enterprises in Hong Kong did not exist and it was difficult to identify potential respondents from whom a random or purposive sample could be drawn. Since there is no official registration of SEs in Hong Kong, it was necessary to make use of the registration records of the Social Enterprises Business Centre (SEBC) of Hong Kong, which is one of the largest and most systematic registration organizations. Currently, only 109
organizations have established SEs to address social needs, and the total number of SEs is around 329 (Hong Kong Council of Social Service and Hong Kong and Shanghai Banking Corporation, 2011). The researcher believes that there should be more SEs than this pool, but the registration data from SEBC was the most systematic source. According to the senior manager of SEBC, the registration numbers of SEs in SEBC represent over 95% of the total number of SEs in Hong Kong. He states that “most SEs are willing to register with the SEBC, he believes that the other 5% may be accounted for by time lapse between their operation and registration”.

The 20 SEs were selected from a purposive sample of SE organizations that had registered with the SEBC. All are involved in either delivering services or are selling products to the local community and/or territory-wide in Hong Kong. According to Thomson’s (2007) comprehensive literature review, theoretical saturation normally occurs between 10 and 30 interviews. The 20 selected SEs represent about 18.3% of the total number of organizations registered as SEs in the Social Enterprise Directory 2011 (Hong Kong Council of Social Service and Hong Kong and Shanghai Banking Corporation, 2011).

From the selected potential participating SEs, the researcher invited those who had established their enterprises at least two years ago. There were contrasts in terms of origin, types of service delivered, funding mix and different types of ownership. The types of business activities were classified into six main categories: manufacturing and retail services, personal care services, domestic services, business services, catering services and travel and entertainment services (Tang et al., 2008; Ho and Chan, 2010). The six main categories of SE business activities have been well recognized by scholars. The funding mix included government funding. The researcher also selected SEs located in different districts with reference to different types of ownership, for example, those wholly owned by NGOs, subsidiaries of NGOs, community enterprises and those affiliated to private firms.
3.4 Data Collection

The interviews were conducted between February and April, 2011. Each interview lasted about 1 to 1.5 hours, sufficient to generate enough data for analysis. As Eisenhardt (1989) stated that "researchers should stop adding cases when theoretical saturation is reached". That is to say when the data of a new case repeats the data of other cases and does not provide new data for further analysis. The researcher can consider ceasing to add new cases for analysis. It is hoped that using 20 SEs enabled this study to uncover as much detailed evidence as possible about the particular phenomenon in question from the perspectives of different key actor(s) within the organization while facilitating theory building.

The study protocol included guidelines on pre-interview communication with interviewees, use of pro-formas for the semi-structured interviews, adherence to interview schedules to ensure consistency in the structure of interviews and data collection. A total of twenty cases were conducted with key organizational decision-makers (chairmen, chief executive and managers). Interviews were held with the founders of participating SEs or, if they were no longer involved, the chairman/president, chief executive and/or the most senior manager were invited to join the study. The interviewees’ positions within the 20 SEs are listed in Table 4.1.

Face-to-face semi-structured interviews, official documents, web and newspapers were adopted as the instruments of data collection. The design of the interview questions was based on a comprehensive literature review, as mentioned in the research questions. The researcher used the critical incident technique (CIT) to interact with the interviewees in the construction of meaning (Patton, 2002). The researcher sought participants’ consent before the interviews. Participants had the right to respond to all or some of the questions. They were free to discontinue conversations at any stage of the interview and their confidentiality was fully respected.
Anonymity was promised to everyone participating in the interviews. Hence, no actor or organization is identified in this study. In addition to conducting interviews, data was also collected from follow-up conversations through phone or e-mail. Official documents about the host organizations and SEs were reviewed to gather background information about their events (Seanor and Meaton, 2007) from the web, official reports, for example, annual reports and newspapers, in order to check the validity of the data collected during the interviews.

Note taking and voice recording combined enabled the researcher to analyse the data. The researcher thus sought and obtained prior approval of recording and requested each interviewee to sign the consent form before conducting the interview. The data collected provided meaningful information for analyses and understanding of the causal relationships between variables (Bryman, 1984; Bryman and Bell, 2007).

In the data collection process, the research method was first refined by inviting two SEs representing different services. Individuals from SEs with different types of ownership were interviewed in the first two case studies to ensure that the questions were well understood and provided a useful opportunity to test avenues of questioning before finalizing the schedule. This preliminary study of the first two cases helped critical reflection upon the research design (Palmer, 2008). After conducting these two case studies, I rearranged the sequence of the questions and invited the founders to share more about the relationship between business planning and actual performance.

Owing to the limitations of the study, the researcher did not have time to invite an academic peer to review the analysis in order to prevent bias on the part of the interviewer (Johnson, 1997) or to demonstrate the rigour of the qualitative research. The researcher used reflexivity and transcribed the interviews as soon as possible (Johnson, 1997) and sent each case transcription to his supervisor for his comments and revision before data analysis in order to prevent
interviewer bias.

The role of the interviewers was to focus the interviewing process on the relevant subject areas in a non-directive manner (Cox, Higginbotham and Burton, 1976). The interviewers first thanked the interviewees for supporting the study and introduced the objectives of the research. The interviewers also explained the principles for which the collected data were to be used.

In order to help the interviewees recall specific events, the researcher used critical incident technique to interact (Gremler, 2004). Each critical incident was categorized. The researcher divided the data on memorable incidents relating to the interviewees’ preparation of initial business plans and the execution of those plans into different categories and sub-categories for further analysis.

Since the interviews lasted about an hour and a half, the attention span of participants was affected. Therefore, the interviewer used the techniques of paraphrasing during an interval as well as summarization techniques after completing each sub-question in order to ensure that he or she understood and collected the participants’ views correctly.

On the other hand, credibility in quantitative research rests on instrument building. In qualitative research, the researcher becomes the research instrument and interacts with interviewees in the construction of meaning (Patton, 2002). Therefore, a qualitative researcher should be sensitive, responsive and adaptable to a changing environment, comprehensive and have the capacity of clarification, summarization and accurate description and interpretation of the data (Guba and Lincoln, 1981). Validity in qualitative research refers to creditability or correctness of description and interpretation as well as data analysis. The researcher did not put coding into predetermined categories at the point of data collection and thus reduced the need for other independent interviewers to check the coding (Atkin, 1984).

3.5 Ethical Considerations
In terms of procedural ethics, the researcher fulfilled all the requirements of the Human Ethics Committee of the University of Newcastle. Obtaining informed consent from participants is an essential practice for ethical research. The researcher obtained consent from participants for the interview to be recorded and for the data to be used before data collection.

Ethically, the researcher respected the autonomy of the SEs. Every SE was informed that it would participate on a voluntary basis; they could opt out of the interview or study at any point (Guillemin and Gillam, 2004).

SEs were assured that confidentiality would be maintained and were asked to respect the confidentiality of others in the interview (Palmer, 2008). SEs were asked to hand in their consent form at the end of the interview, thus providing them an opportunity to withhold their consent after the process of data collection (Palmer, 2008).

3.6 Data Analysis

The researcher transcribed the interviews as soon as possible after the data collection and then managed the data and initial codes and noted them on the transcripts. Furthermore, the researcher identified patterns and built explanations within codes developed from theory (Lillis, 1999). The coding and categorizing of the primary patterns in the data allowed themes to emerge and theory to be developed. The inductive analysis of data involved reading and re-reading of transcripts and field notes, the search for similar emergent themes and the use of codes to bring order, structure and meaning to the raw data (Shaw, 2004, p. 197). The data in each case were subjected to thematic analysis and analytic comparison of data across cases was conducted to identify similarities and differences in line with the six research objectives encapsulated in the research questions. Finally, memos of transcripts were kept for reflection and for further audit trail.
Apart from the data collected from the 20 interviews, the researcher also analysed relevant documents about the host organizations and SEs, such as corporate plans/strategies, annual reports, promotional and communications materials and newspaper cuttings, to supplement the main analysis. Interview data were analysed for corroborating or identifying contradictory evidence and their validity was checked.

When searching for patterns and themes in the data, I read and re-read transcripts and field notes and was sensitized by the preceding literature review on SE and social entrepreneurship as well as the business planning and financial performance of SEs (Shaw and Carter, 2007). The process of coding and comparing slices of data identified some emergent themes for analysis and I shall make some recommendations for practitioners, future research areas and government policies.
Chapter 4 Analysis and Findings

4.1 Introduction

In this chapter, I first provide a descriptive introduction to the sample cases, including characteristics of the SEs and their founders. Next, I use coding analysis to group the data into different categories based on the interviews and official documents and newspaper cuttings. I then make use of emerging themes to analyse the collected data in relation to the research questions. I draw conclusions in the last part of this chapter.

4.2 The Background Information of SEs

In this section, a descriptive introduction of the characteristics (business nature, number of employees, ownership type and operation period) of the SEs in the sample is provided. In order to maintain confidentiality, the names of the 20 organizations are not given. For the sake of referencing, a case number, from 1 to 20, is assigned to each SE.

An overview of the descriptive introduction is provided, followed by a summary table for each in order to provide a clear overview of the sample and the fundamental information for further analysis in the subsequent sections.

4.2.1 Sample characteristics

SEs’ business includes a diverse range of different trades. In the Social Enterprise Directory 2011, they are divided into 10 types. However, based on the attributes of capital cost and skill level required to construct the type of services in SE for analysis, I used the six main categories commonly accepted by scholars in this field (Tang et al., 2008; Ho and Chan, 2010): manufacturing and retail services (six organizations), personal care services (four organizations), domestic services (three organizations), business services (three organizations), catering services (two organizations) and travel and entertainment services (two
organizations). Though this classification of business nature differs from that in the Social Enterprise Directory 2011 the sample cases cover all six of the main categories of the SE field for this study.

The 20 SEs render services or sell their products covering four geographical and/or user segments: community based, territory-wide (throughout Hong Kong), community based and territory-wide, and regional and territory-wide. Among the 20 SEs, one sells products in the community where it is based, nine deliver their services and products to specific communities and territory-wide, and five deliver their services and products to territory-wide and the other five deliver their services and products to specific regions and territory-wide.

In terms of number of employees, seven of the SEs are small in size, having less than 10 full-time (equivalent) staff, and their areas of business include manufacturing and retail services, personal care services, domestic services, business services and catering services.

Eight of the SEs are medium-sized, having more than 10 full-time or equivalent staff, and their areas of business include manufacturing and retail services, personal care services, domestic services, business services, catering services as well as travel and entertainment.

Five SEs are bigger in size, employing over 50 full-time or equivalent staff. In this study, the biggest SE employs over 300 full-time staff and 800 casual workers. Areas of business include personal care services, domestic services, business services as well as travel and entertainment.

The types of SE ownership are as follows. Twelve SEs were founded and wholly owned by NGOs. Eight were founded by NGOs which applied for government funding, and one of these is a special case that has been independently run since the government funding ran out. Six were founded as subsidiaries of NGOs. Two were founded by commercial companies and are now run independently.
There are two major sources for SEs' initial funding. One type is government funding for the set up; the other type is self-raised funding. Of the 20 participating SEs, 13 got funding support from the government and their parent organizations, two applied for the “Enhancing Employment of People with Disabilities through Small Enterprise Project (EEPDTSEP)” fund and 11 applied for the “Enhancing Self-Reliance through District Partnership Program (ES-RTDPP)” fund. The rest raised funding on their own. They raised further funds by appealing for donations, inviting investors to join the business and paying expenses from their own pockets.

Among the 20 founders, 14 are social workers with a social work training background and one is a pastor who has experience in business operations. The other five had a commercial training background.

One of the 20 SEs has been delivering services for over 10 years. Another three have been operating retail and food outlets and restaurants for more than five years. Sixteen have been operating manufacturing and retail services, personal care services, domestic services, business services, catering services as well as travel and entertainment services for less than four years.
<table>
<thead>
<tr>
<th>Organization</th>
<th>Interviewee’s position</th>
<th>Business nature</th>
<th>With storefront</th>
<th>Number of employees (Disadvantaged workers (DW))</th>
<th>Type of ownership</th>
<th>Funding sources and amounts</th>
<th>Geographical coverage</th>
<th>Use of social media</th>
<th>Year of establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASE 1</td>
<td>The founder and operator</td>
<td>Convenience stores (retailing)</td>
<td>Yes</td>
<td>7-20 employees (DW: 7-17)</td>
<td>Subsidiary of NGO</td>
<td>Government funding: Enhancing Employment of People with Disabilities through Small Enterprise (G1) 2 Million (M) dollars</td>
<td>Community-Based (CB) and Territory-Wide (TW)</td>
<td>No</td>
<td>2002</td>
</tr>
<tr>
<td>CASE 2</td>
<td>Chairman</td>
<td>Hair saloon (servicing)</td>
<td>Yes</td>
<td>10-30 full-time (FT) (DW: 1/3 of employees)</td>
<td>Subsidiary of NGO</td>
<td>Self-raised funding; 1 M</td>
<td>CB and TW</td>
<td>Yes</td>
<td>2008</td>
</tr>
<tr>
<td>CASE 3</td>
<td>The SE manager</td>
<td>Organic food, promoting fair trade (retailing)</td>
<td>Yes</td>
<td>2.5 FT; 18 part-time (PT) (DW: 1FT, 18PT)</td>
<td>Wholly owned by NGO</td>
<td>Government funding: The ES-RTDPP (G2) 1.2 M</td>
<td>CB and TW</td>
<td>Yes</td>
<td>2007</td>
</tr>
<tr>
<td>CASE 4</td>
<td>The founder (involved in the daily operation)</td>
<td>Repair and maintenance cleaning services (craftsmanship)</td>
<td>Yes</td>
<td>1 supervisor; 3 FT; some PT, casual workers; 1 supervisor, 3 FT; 35 PT, 35 casual workers (CW) (DW: all PT &amp; CW)</td>
<td>Subsidiary of NGO</td>
<td>G2: 0.7 M</td>
<td>CB and TW</td>
<td>No</td>
<td>2007</td>
</tr>
<tr>
<td>CASE 5</td>
<td>The founder and operator</td>
<td>Organic farm, selling and promoting organic food (retailing)</td>
<td>Yes</td>
<td>2 FT; 10 PT (DW: 10PT)</td>
<td>Wholly owned by NGO</td>
<td>G2: 3 M</td>
<td>NT R* and TW</td>
<td>No</td>
<td>2008</td>
</tr>
<tr>
<td>CASE 6</td>
<td>The founder and operator</td>
<td>Experiential learning centre (servicing)</td>
<td>Yes</td>
<td>5-12 FT; 20 PT with disabilities; 12 PT (DW: 20)</td>
<td>Independently run</td>
<td>Self-raised funding; 4.5 M</td>
<td>TW</td>
<td>Yes</td>
<td>2008</td>
</tr>
<tr>
<td>CASE 7</td>
<td>The founder and operator</td>
<td>Repair and maintenance (craftsmanship)</td>
<td>No</td>
<td>2 FT; 5-10 PT (DW: 5-10PT)</td>
<td>Subsidiary of NGO</td>
<td>G1: 0.4 M</td>
<td>CB and TW</td>
<td>No</td>
<td>2006 to 2010</td>
</tr>
<tr>
<td>CASE 8</td>
<td>The founder and operator</td>
<td>Post-natal nursing care service (servicing)</td>
<td>Yes</td>
<td>2-4 FT; 150 PT; 50 volunteers (DW: 150PT)</td>
<td>Wholly owned by NGO</td>
<td>Self-raised funding; 0.2 M</td>
<td>HK R* and TW</td>
<td>Yes</td>
<td>2007</td>
</tr>
<tr>
<td>CASE 9</td>
<td>2 interviewers: the founder; the SE</td>
<td>Entertainment and performance company</td>
<td>Yes</td>
<td>3-12 FT; 10-15 PT; 10-100 CW (DW: all employees)</td>
<td>Wholly owned by NGO, then run</td>
<td>G2: 0.6 M</td>
<td>CB and TW</td>
<td>No</td>
<td>2006</td>
</tr>
</tbody>
</table>

Table 4.1: Characteristics of the 20 SE Organizations
<p>| CASE 10 | The founder and operator | Second-hand goods shop (retailing) | Yes | From 3 FT and 8 PT to 3 FT and 6 PT (DW: all PT) | Wholly owned by NGO | G2: 1.6 M | CB | No | 2008 |
| CASE 11 | The founder and operator | Photo-taking service (servicing) | No | From 5 FT to 2 FT to 1 FT; 10 freelance workers (DW: all employees) | Wholly owned by NGO | G2: 0.7 M | TW | No | 2008 |
| CASE 12 | The SE Manager | Local community eco-tour service (servicing) | Yes | From 1 FT and 15-20 PT to &gt;10 freelance workers (DW:15-20PT) | Wholly owned by NGO | G2: 0.5 M | LN R* and TW | No | 2007 |
| CASE 13 | The founder | Body massage shop (servicing) | Yes | 3 FT and 6 PT (DW: all except shop manager) | Wholly owned by NGO | G2: 0.7 M | CB and TW | No | 2007 |
| CASE 14 | The founder | Renovation work company (craftsmanship) | Yes | From 1 FT and 10-30 CW to 3 FT and 10-100 CW (DW: all CW) | Subsidiary of NGO | G2: 1 M | KLN R* and TW | No | 2007 |
| CASE 15 | The founder and operator | Fair trade store; promoting fair trade (retailing) | Yes | 4 FT, 3 PT, 10 CW (DW: no) | Wholly owned by NGO | Self-raised funding; 0.5 M | TW | Yes | 2005 |
| CASE 16 | The founder and operator | Food and catering service (catering and restaurant) | Yes | From 7.5 FT to 10+ FT to 30+ FT staff, some PT (DW: all PT) | Wholly owned by NGO | Self-raised funding; 0.3 M | CB and TW | No | 2002 |
| CASE 17 | The founder and operator | Wholesale; promoting fair trade (wholesale and retailing) | Yes | From 1.5 FT to 4 FT, 1 PT (DW: no) | Independently run | Self-raised funding; 0.5 M | TW | Yes | 2007 |
| CASE 18 | The founder and operator | Conventions and exhibitions company (servicing) | Yes | From 3 FT to 7 FT, 110-120 PT (DW: all PT) | Subsidiary of NGO | G2: 1.1 M | NT R* and TW | No | 2008 |
| CASE 19 | The founder and operator | Emergency link service | Yes | From 10 FT to 30 FT (3rd year) to 300 FT, 800 CW | Wholly owned by | Self-raised Funding; | TW | No | 1996 |</p>
<table>
<thead>
<tr>
<th>Case 20</th>
<th>(servicing)</th>
<th>(DW: no)</th>
<th>NGO</th>
<th>5 M</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2 interviewers: the founder; the SE manager</td>
<td>Cafe (catering and restaurant)</td>
<td>Yes</td>
<td>From 4 FT, 5 PT to 2 FT and 2 PT (DW: all except shop manager and cleansing worker)</td>
</tr>
</tbody>
</table>

(* HK R= Hong Kong Region, KLN R= Kowloon Region of Hong Kong, NT R= New Territories Region of Hong Kong)
4.2.2 The use of business planning in setting up SEs

The preparation of business plans before setting up SEs provides founders a better understanding of the business and economic realities of the venture (Bull and Crompton, 2006). Planning enables organizations to control goal achievement. If deviations from the plan occur, the causes of these deviations can be identified (Smith, Locke and Barry, 1990).

Of the 20 SEs, we found that 17 had made formal business plans prior to setting up operation and three did not have formal written business plan. Among those 17, 13 had applied for government funding. Eleven had applied for the (ES-RTDPP) fund and two applied the funding of (EEPDTSEP).

The motivation for these 13 to prepare their business planning is funding-driven. They wrote down business plans according to the different requirements of funding bodies. In applying for the ES-RTDPP fund, the SEs submitted a business plan that included their social objectives, business nature, SWOT analysis, social values, outcome and indicators, and invited at least one advisor from the business sector or the proposed industry to supervise and guide the projects. The SEs also had to provide budget and cash flow projections to the relevant funding body. In applying for the EEPDTSEP funding, the SEs had to prepare a proposal that included social objectives, a business plan, SWOT analysis, outcome, details implementation schedule, outcomes, income and expenditure projections, cash flow and manpower projections, details of the operation team, as well as other collaborating parties to the relevant government departments.

On the other hand, seven SEs self-financed their business. Cases 2 and 6 had prepared detailed business plans to apply for funding from the management boards and franchise owners, respectively, before preparing to set up. These two business plans were more comprehensive than those for government funding. These SEs also prepared marketing plans, industry analysis and price strategy in their business plans.
Two self-financed SEs had short formal business plans that included brief industry analysis as well as budget and cash flow projections to gain the support from shareholders.

Cases 8, 16 and 17 did not have formal business plans; they prepared casual business plans and did not write them down before setting up because they treated their social enterprises as their own businesses and were self-financed for most of the start-up costs. They mainly estimated their financial budget.

Generally, many people consider financial performance as one of the major measures of SEs’ performance. In this study, I use the third year financial outcome of SEs as the reference point since most of the government funding supports their operations for two to three years. I found that only two SEs (10%) had undertaken business planning before starting their operations and these two had budget surpluses in the third year of operation.

Three SEs had a surplus and five recorded breaking even in the third year of operations, but they had not counted the manpower and/or rental support from parent organizations. Ten out of 20 SEs had recorded deficits and two did not have detailed business plans. A summary of the business plans the founders prepared for the establishment of their SEs and their third year financial performance can be found in Table 4.2 below.

Table 4.2: Scope of Preparation for Establishment and Financial Performance of SEs

<table>
<thead>
<tr>
<th>Case no.</th>
<th>Scope of preparation for setting up of SE</th>
<th>Sponsor provides support</th>
<th>Financial performance in the third year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Submitted the business plan (BP) to the funding agency; BP included target market analysis, marketing strategies, location analysis, SWOT analysis, financial forecasts and execution timetable.</td>
<td>Yes</td>
<td>Broke even; with aid from the parent organization (A fr. PO)</td>
</tr>
<tr>
<td>2</td>
<td>Prepared a comprehensive BP that included</td>
<td>Yes</td>
<td>Broke even;</td>
</tr>
<tr>
<td>Step</td>
<td>Activities</td>
<td>Outcome</td>
<td>Notes</td>
</tr>
<tr>
<td>------</td>
<td>------------</td>
<td>---------</td>
<td>-------</td>
</tr>
<tr>
<td>1</td>
<td>Conducted strategic planning workshops.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Contacted organic farmers and business friends for preparation of operations, BP included projections of income and expenditure, capital assets, no. of staff to be employed, development plan and operations plans.</td>
<td>Yes</td>
<td>Deficit</td>
</tr>
<tr>
<td>3</td>
<td>Contacted strategic partners. BP included market research, financial estimation, manpower supply, number of strategic partners.</td>
<td>No</td>
<td>Deficit</td>
</tr>
<tr>
<td>4</td>
<td>Contacted strategic partners. BP included rationale for setting up organic food business (demand analysis, financial estimation, key performance indicators).</td>
<td>Yes</td>
<td>Deficit</td>
</tr>
<tr>
<td>5</td>
<td>Prepared a comprehensive BP that included marketing plan, industry analysis, price strategy and financial forecasts as required by franchise company.</td>
<td>Yes</td>
<td>Surplus</td>
</tr>
<tr>
<td>6</td>
<td>Internal marketing communication. Estimated number of disabled persons to be employed; market demand; financial forecast.</td>
<td>Yes</td>
<td>Deficit</td>
</tr>
<tr>
<td>7</td>
<td>Estimated the operation cost and possible revenue. Prepared casual BP, without written plan before the setting up of SE.</td>
<td>No</td>
<td>Broke even; (A fr. PO)</td>
</tr>
<tr>
<td>8</td>
<td>BP included industry demand analysis, financial forecast, marketing plan. Contacted some companies about the operation of the industry.</td>
<td>Yes</td>
<td>Deficit; (A fr. PO)</td>
</tr>
<tr>
<td>9</td>
<td>Interviewed business advisors in the same industry and consulted about the business operation. Mobilized community networks. BP included social objectives, industry analysis, competitor analysis, SWOT analysis, financial forecast, marketing strategies.</td>
<td>Yes</td>
<td>Surplus; without counting the support from parent organization (W/O CS fr PO)</td>
</tr>
<tr>
<td>10</td>
<td>Contacted industry business advisors to explore the possibilities of running the SE. BP included social objectives, industry positioning, targeted customers, financial forecast and marketing strategies.</td>
<td>Yes</td>
<td>Surplus; (W/O CS fr. PO)</td>
</tr>
</tbody>
</table>
| 12 | Contacted local residents to seek their views about the establishment of an SE to promote local economy.  
    | Contacted local tour companies.  
    | BP included social objectives, modes of delivery, financial estimation. | Yes | Broke even; (A fr. PO) |
| 13 | Assessed the demand of the industry.  
    | BP included social objectives, business operation plan, marketing strategies, financial forecast. | No | Broke even; (A fr. PO) |
| 14 | Conducted focus groups of construction workers, projected needs and the potential of the industry.  
    | BP included social objectives, mode of delivery of services and financial estimation. | Yes | Surplus |
| 15 | Conducted a comprehensive search for overseas operations in fair-trade campaign.  
    | Found some agricultural products.  
    | Prepared short BP that included brief industry analysis, budget and cash flow projection. | No | Deficit |
| 16 | Shared our vision with donors.  
    | Contacted friends in food and beverage industry to collect up-to-date information.  
    | Prepared casual BP, without written plan before the setting up of SE. | No | Deficit |
| 17 | Prepared casual BP, without written plan before the setting up of SE.  
    | After operation, prepared BP to attract the new investors.  
    | Based on my vision to run the SE.  
    | Found agricultural products in developing countries. | No | Deficit |
| 18 | Contacted strategic partners.  
    | Analysed business trends and potential market in the industry of conventions and exhibitions.  
    | Operational plan, marketing strategies and financial forecast. | Yes | Surplus; (W/O CS fr. PO) |
| 19 | Explored the potential market of the industry.  
    | Prepared the financial plan. | No | Deficit |
| 20 | Explored the interest of youth.  
    | Analysed market needs and residents’ interest in café.  
    | Contacted business advisors in the industry.  
    | Prepared BP including financial forecast, business operational plan and marketing plan. | Yes | Deficit |
4.3 Themes Emerging from Analysis

The main purpose of this study is to explore whether business planning helps enhance SEs’ sustainability. The study is firmly rooted in empirical data and there were no pre-determined assumptions. Therefore, apart from the data collected from the interviews, the study of related documents and newspaper cutting was used together in data analysis. The analysis was based on the retrospective feedback from the founders of SEs and the related documents. I then gathered high-frequency occurrences of incidents distributed across the 20 founders’ evidence as a framework to deduce some common themes. The emerging themes were then used in developing the framework of business planning.

4.3.1 Business planning helped formulate the social and economic objectives of SEs

In this section I will analyse the data to see how business planning helped SEs to formulate social and economic objectives.

4.3.1.1 Business planning helped formulate social objectives

All 20 SEs had a clear social objective, irrespective of whether they had defined business plans from the start. Seventeen had employed members of disadvantaged groups. Two promoted the concept of fair trade. One SE provided business services to alleviate the service gap for senior citizens, which had unattractive profit margins from a commercial point of view. These last three SEs did not employ disadvantaged workers.

A summary of the social objectives of the 20 SEs can be found in Table 4.3 below.

Table 4.3: Social Objectives of the SEs
4.3.1.2 Business planning could only help to formulate the economic objectives on paper or in head

The 20 founders admitted that they had planned to strike a balance between their social and economic objectives, especially the 17 SEs that had applied for government funding. They had claimed in their funding applications that they could achieve a balanced budget in the third year of operation. However, according to the data collected from the founders and official documents, only case 6 and case 14 had undertaken business planning and had budget surpluses in the third year of operation.

Though three SEs had a surplus and five recorded breaking even in the third year, as we have said, they had not considered the manpower and/or rental support from parent organizations. We can thus see that business planning can only help SEs formulate their economic objectives on paper or in their head, but not in actual operation.

4.3.2 Business planning could not help in fully acquiring market knowledge

In this section I make use of the collected data to review how business planning helped acquire market knowledge.
4.3.2.1 Business nature and geographic coverage

The 20 SEs had chosen their business areas in the preparatory period, according to their market analysis, before start-up. They all followed their planning to implement the scope of business in the initial operations. Six SEs provide retail services; four render personal care services; three render domestic and business services and two provide catering services and travel or entertainment services.

They also decided the distribution channels for services/products that are community based, regional and/or territory-wide. Nine SEs deliver their services and products through community-based channels and territory-wide. Five deliver their services and products through regional channels and territory-wide as well as solely territory-wide. Only one SE sold its products in the community-based market.

In deciding their scope of business, though two founders claimed that they had found a niche market, they were still unable to attain a surplus budget in the third year of operation. They had broken even in the fourth year and achieved a surplus budget in the seventh year of operation, according to their official documents and newspaper cuttings. This clearly indicated that even SEs that identify a niche market need time to publicize their services and accumulate enough customers.

Furthermore, after a period in operation, six SEs (Cases 2, 4, 5, 12, 13 and 20) found that they had planned badly in terms of geographic coverage. Five SEs (Cases 2, 4, 5, 12 and 13) finally narrowed their services to the local community.

4.3.2.2 Marketing plans

Seventeen SEs prepared their business planning before its start. Cases 8, 16 and 17 did not have written business plans, but stated that they had their marketing plans in mind before starting out. Seventeen SEs had prepared their
marketing plans to apply for government funding and/or to seek funds themselves. Thirteen (Cases 1, 3, 4, 5, 7, 9, 10, 11, 12, 13, 14, 18 and 20) had written their marketing plans according to the requirements of the funding bodies and four had prepared theirs to attract investors to support their SEs. Seven of the 17 SEs that had developed marketing plans had done so in detail, including elements such as pricing and industry analysis, SWOT analysis and marketing strategies, particularly where the founders had commercial experience and training.

However, 13 out of 17 had prepared their marketing plans in accordance with the requirements of funding bodies, 10 SEs did not have thorough marketing strategies in their business planning. Owing to the founders’ unfamiliarity with their proposed industry and inexperience in running a business, they either prepared their business plan in an incomprehensive way or missed parts out, thus, for example, over-estimating their capacity to provide territory-wide products/services, and under-estimating the product/service quality requirements of the market.

During the interview, many founders reflected that their business planning did not help them to acquire market knowledge for they had bad marketing plans.

4.3.2.2.1 Wrong marketing strategies used in daily operations

I found that many founders had used the wrong strategies in their marketing plan. Only one SE sold its products in a community-based channel. Five had rendered their services/products territory-wide and regional-cum-territory-wide. Nine SEs had rendered their services/products community-wide-cum-territory-wide.

The difference between community-based marketing, regional marketing and territory-wide marketing is the size of the market. Community-based marketing plans refer to the local community, the area is more focused. In the regional marketing plan, a greater area is covered, including the local community, districts and one of the Islands or New Territories of Hong Kong. In the territory-wide
marketing plan, the coverage area is Hong Kong Island, Kowloon Peninsular Island and the New Territories of Hong Kong.

Coverage areas of different size have implications for the depth of the strategic plan and width of resources. If an SE only has a strategic plan and resources for the local area, but its publicity covers a regional or even territory-wide area, the outcome, naturally, will not be achieved as expected.

The founders/managers prepared their marketing plan without precision. They may have based them on their personal views or assumptions and not on the real needs of the market, like Case 10, who said “we planned to sell used DVDs, CDs, as our core business, however, we found that the most popular items in the area are second-hand books, used electric appliances, canned food.”

Many founders/managers also intended to publicize their products/service on a regional level or territory-wide across HK. After a period of operation, they found that they were not capable of handling such a large market. Coverage areas of different size have implications for the depth of the strategic plan and width of resources. If an SE only has a strategic plan and resources for the local area, but its publicity covers a regional or even territory—wide area, the outcome, naturally, will not be achieved as expected.

In the interviews, six (Cases 2, 4, 5, 12, 13 and 20) admitted that they had done so. They publicized their products or service throughout Hong Kong, which caused two problems: first, they could not employ sufficient staff to handle requests from customers; second, they spent long hours delivering their products/services. The founders/managers had not considered the hidden cost of covering the entire territory; for example, they had not calculated the time cost, which includes deploying staff to make a quotation as well as the transportation costs for delivery. Many of the founders finally adjusted their marketing strategies and started offering services to specific regions or to the target community only. This miscalculation of the cost of production caused them to suffer losses.
Many studies have noted this aspect of planning:

Leadbeater regards social entrepreneurs are better started at community-base. They need to regenerate some locality, which over time can spread from a neighbourhood base to have a national or even an international identity. (Leadbeater, 1997)

SEs might start something which stayed small and local, or something large and local. (Thompson, Alvy and Lees, 2000, p. 336)

SEs should focus on niche markets and concentrated their efforts on doing just that. Nothing more, nothing less. (Dees, Emerson and Economy, 2001, p. 11)

After adjusting their marketing strategies, four achieved break-even or surplus budget in their third year of operation. One had a deficit in the third year and achieved break-even in the fourth. Another had suffered a deficit throughout the period of operation and terminated operations in 2010 since it was unable to obtain enough support from the internal market of the parent organization. (A summary of the financial performance of the 20 SEs can be found in Table 4.5.)

Two founders, Cases 2 and 5, also highlighted that service distribution should be the focus. Case 2 had two saloons in Hong Kong Island. When they planned to open a third saloon, they chose to open it in the New Territories for they hoped to propagate their social mission in another area. After operating it for several months, the founder knew that they had made a wrong decision and the third saloon lacked certain advantages of the previous two, like manpower support, customer transference, etc. The new saloon recorded a deficit throughout the period of operation. They decided to move the third saloon to Hong Kong Island after the rental contract expired. They believed that they could achieve break-even in the third saloon in this way since the three saloons could support each other easily without the distance barrier.
The other founder, Case 5, also said that operations of the SE should be focused on specific area. Originally, they planned to sell their organic products to hotels. However, they changed their mind and decided to sell organic food products not only to hotels but also to the public. This change resulted in extra time and effort spent on distribution coverage. They finally found that their organic products were limited by production. The hotels had far more capacity to absorb their organic food production. If they focused on hotels it would save time spent on marketing and the money required to hire a place to sell their products in the market.

Below are quotations illustrating the marketing strategies that affected the SEs’ operations.

Case 5: “We do not have comprehensive marketing strategies, which limits our promotion and sales channels. We do not have clear target customers. We asked two hotels to purchase our organic vegetables, but were rejected. We then stopped targeting this segment. If we can find more hotels, maybe as many as 10, we may be successful in this segment. So a clear target segment is important.”

Case 7: “After a period of operation, we found that we needed sharper focus on the market in the local community instead of territory-wide as we have low capacity; we are not capable maintaining our business territory. We have had several experiences where we spent half a day visiting the work place and preparing the quotation, and finally we got nothing at all.”

In Case 9, the founder thought the staff had free time during the day and therefore planned to rent a bigger shop to sell magic sets. However, they found that many popular outlets were selling magic sets. People could even buy them in supermarkets. The SE was not competitive enough in the existing market. They finally decided to quit the retail market, but they had already suffered a lot for they had large stocks in their store which upset their cash flow.
Apart from the marketing strategies, I found that some founders had over-estimated demand and their capacity to work territory-wide, which led to unexpected income variation.

Case 7: “After months of operation, we found that we were not able to serve our internal service units, schools and churches territory-wide as it consumed lots of working time. We then focused on marketing our services in the local community.”

When planning the business before setting up their SE, the founders had to determine the scope of the service area. Generally, the founders were in a position to manage more easily if the business was focused on community-based marketing. However, the SEs tended to deliver their products/services throughout Hong Kong. As illustrated in the above paragraphs and in Table 4.4, the founders of Cases 4, 5, 7, 9, 11 and 15 clearly spelt out that they did not have the capacity to mobilize enough manpower and three cases failed to estimate the actual cost of transportation and service delivery. In fact, most of the SEs were small-scale businesses that needed small volumes to be sustainable. Had their focus been community-based, they might have had a better chance. (A summary of SEs’ distribution coverage can be found in Table 4.1.)

4.3.2.3 Use of business advisors during business planning

Under existing practices in Hong Kong, funding bodies require SE organizations to hire commercial or business advisors. However, throughout the interviews, some founders stated that advisors were not necessarily able to help their operations for they only had business knowledge – they lacked relevant industry knowledge. The founders reflected that this relevant industry knowledge and experience was important since individual industries have their own norms and customs. Laymen and outsiders are not familiar with their practices, which are known only to those with experience in that field. Moreover, many SEs’ staff were inexperienced in running a business, knowing little about the relevant
industry. They did not even know what questions to ask when consulting with business advisors.

Case 3: “Those who have a commercial background but lack the relevant experience may not be able to help for they only share some experience like in books and we cannot be sure of the outcome in a short period of time.”

Case 5: “Some unpredictable factors like rain and cold weather as well as flying birds affect our production. We cultivate organic products in our farm and this attracts many birds that eat our products. We did not know this until we had successfully grown our products. The business advisors did not prepare us for this before we set up the SE.”

Case 18: “Our business advisor did not tell us that the funding we applied for was not sufficient and that we were not qualified to be an organizer in the industry. That is to say, we could not receive orders directly from customers. We could only be one of the subcontractors. We did not receive any job opportunities in the first three to four months. We could not even afford to pay the project manager’s salary.”

Case 18: “The project manager sometimes just sat aside at the Expo and did not know the right questions to ask or what he should learn and see.”

As mentioned above, 11 founders had sought assistance from business advisors and strategic partners to obtain market information and be introduced to business. However, three pointed out that the business advisors and/or strategic partners promised to introduce them to some business prospects but ultimately did nothing for them. This was because when strategic partners dealt with the SEs, they treated every transaction seriously. They also calculated their cost and benefit. When they found that SEs’ charges were too high, they bought products/services from other companies instead.

Some business advisors had general experience in business, but some
industries need specific knowledge and experience which business advisors might not possess.

Furthermore, the founders also reflected that strategic partners were not always helpful. The founder of Case 18 said, “They cannot totally rely on their business partner for they have their own businesses. For example, our business partner is very busy; we have little time to meet each other. Even when we meet each other, we do not have adequate industry knowledge to ask him questions about difficulties we are facing.”

Thus many founders had not identified clearly what they expected from their business advisors. They were not clear about the roles and responsibilities of the business advisors in different developmental stages of the SEs. The use of appropriate business advisors with relevant industry experience was crucial for the SEs to achieve strategic direction in business planning.

I found that initial business planning done by the 20 SEs only defined their social objectives. All of the other parts were ineffective and/or frivolously filled in using a “fill in the blanks” method to meet government requirements. Most of the business plans lacked any acquired market knowledge.

4.3.3 Business planning helped achieve a target and reduce the distance between the outcome and the target

The preparation of business plans before the setting up of SEs helped founders have a better understanding of the business and economic realities of their venture. Business planning also helped founders understand possible discrepancies between their target and outcome. Planning enabled organizations to control goal achievement. If deviations from the plan arose, the causes for these deviations could be identified (Smith, Locke and Barry, 1990), especially those in expected income. Normally, they are able to identify financial discrepancies. When the SEs do not receive income as expected or planned, founders/managers can review the causes that affect income and expenditure.
They can take immediate action to make changes in their daily operations after reviewing planning, operations and the market situation. Business planning helped the SEs to know their actual performance.

The views quoted above show that business planning was crucial for these SEs’ operations. Planning had several positive effects. It allows more rapid decision-making than actuation without prior planning since information gaps can be anticipated and closed (Delmar and Shane, 2003), especially in financial forecasts.

In the interviews, founders offered a total of 105 descriptions of differences between their target and outcome. Inevitably, some differences appeared repeatedly. Of these 105, 94 could be attributed to five common areas. These five common areas had high frequencies of occurrence distributed across various founders. The founders described these five common areas as discrepancy areas and difficulties they had faced during SEs operations.

The first common area was that many founders were unfamiliar with the environment and work practices in the chosen industry. The second area was unrealistic budget estimations. The third area was over-estimation of the capacity of disadvantaged workers to deliver the expected output in the proposed industry. The fourth area was the misuse of market strategies. The fifth area was unanticipated issues that upset the operation where the SEs did not have any contingency plans to react to those issues. The above areas put the SEs’ operations at risk and affected their income and revenue.

A summary of the effects of unfamiliarity with the proposed industry and operations management can be found in Table 4.4 below.

Table 4.4: The Effect of Unfamiliarity with the Proposed Industry and
## Operation Management

<table>
<thead>
<tr>
<th>Case no.</th>
<th>Lessons learnt in the preparation of business plans which affect the performance of SEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>“We faced heavy deficit in our initial operations”; “The situation remains unchanged in the first few months”; “To combat insufficient cash flow, the parent organization lent $3,000,000 as a temporary loan; otherwise, they would have been forced to discontinue the business in one or two years.”</td>
</tr>
<tr>
<td>2</td>
<td>“The distribution channels should be focused. One of them had two saloons in Hong Kong Island. When they planned to open the third saloon, they chose New Territories for they hoped to propagate their social mission in another area. After operations for a few months, the founder knew that a wrong decision had been taken in respect of the third saloon’s location; we could not get any advantage from having two saloons operating, in matters like manpower support, customers transferability, etc. The new saloon suffered deficits throughout its operations”.</td>
</tr>
<tr>
<td>3</td>
<td>“We could not find a ground floor shop as planned because of our tight budget. It took longer to find the shop, but its rent exceeded our budget”; “It took longer than anticipated to apply for the required license and renovation”; “We had to spend extra time applying for the relevant license for food processing, which delayed our operations and aggravated the running costs of the SE.”</td>
</tr>
<tr>
<td>4</td>
<td>“We overlooked the daily operational costs and the cost of production. When calculating the cost of production, we focused only on the explicit production cost. We failed to count tacit costs, like time and transportation costs. We have had a large deficit in the first year”; “We have had several experiences where we spent half a day visiting work places and preparing the quotation, only to get nothing at all.”</td>
</tr>
<tr>
<td>5</td>
<td>“We have faced lots of difficulties since the implementation of our SE. In technical aspects, we have faced many difficulties, like not knowing the right way to prepare the farmland and the greenhouse”; “Some unpredictable factors like rains and cold weather as well as flying birds affect our production. We cultivate organic products on our farm and that attracts many birds that eat our products. The advisors did not prepare us for this before we set up the SE.”</td>
</tr>
<tr>
<td>6</td>
<td>“By buying the German business model, I’m technically buying only the experimental details. Though they have been in operation for a decade, they too have made many mistakes. I am buying it because they will tell me the mistakes they have made so that we will not have to repeat the same mistakes.”</td>
</tr>
</tbody>
</table>
| 7       | “We only suggest setting up an SE with which we are familiar and are capable to manage”. The founders had a painful experience in SE operation. They had over-estimated the internal demand of services and the productivity of the disadvantaged workers. When they received less demand from internal markets, they turned to serve the open market. Unfortunately, due to the incapability of the disadvantaged workers, they made a mistake in delivering the service and suffered losses because of compensation claims by a client. Throughout the four years of operation, the SE incurred losses and it was finally discontinued in 2010. They re-started a new SE for retailing services, which the founder thought the disadvantaged workers could handle.
“Though I am a businessman, I still came across lots of discrepancies in operations. I found that thinking and real operations are totally different. Revenue generation is not in tune with what I expected and the progress is not as per my wishes. Sometimes I expect the task to be finished within a certain period of time but, in reality, the task takes much longer; "Detailed operational planning is necessary. The more we think and prepare before the operation, the fewer difficulties we face. We need to prepare some contingency plans since operations are varied. For example, we thought that we could easily establish a network with a hospital. However, the hospital faces its internal problems with different staff favouring different arrangements. We worked for nine months, but are still awaiting a reply. On the other hand, we expected to start working with another hospital in about two months, but the chief executive of the hospital asked us to start our business in the very next week. If we have no contingency plan, how can we start our business at such short notice?"

The founder thought that the disadvantaged workers had free time during the day and planned to rent a bigger shop to sell magic sets. However, they found that there were many popular outlets selling magic sets. People could buy them even in the supermarkets. They were not competitive enough in the existing market. They finally decided to quit the retail market, but suffered losses as they had large stocks, which upset their cash flow.

"At first, we planned to sell used DVDs and CDs as our core business. However, we found that the most popular items in the selected area were second-hand books, used electronic appliances and canned food, not CDs and DVDs; "Besides, we also faced some difficulties in determining the price of goods. Sometimes, we marked the goods at a low price and they sold out immediately. Other times, when we price the goods a bit higher than before they did not sell easily. The shop manager needs to make the pricing decisions and price certain goods at a lower level in order to clear the stocks."

"We had to delay our business for several months since we could not buy the required machines in time. We had to follow the procurement process of the parent organization, which took months. After the setting up, we found that our workers (early or form five school leavers) had the required computer skills, but they could not handle customers. Besides, owing to the wrong estimation of our target customers in the beginning, we publicized our service to external markets, like non-governmental organizations, schools and government departments. However, we received a poor response from them and very few orders. We then shifted our target to internal marketing, our parent organization; "We found that the business of photo-processing through net-order was not the same as our planning. We had to spend a lot of money on travelling expenses and man-hours in handling the net-orders. We received less income and incurred higher expenditure than expected."

"We can only render service to local visitors since our workers are not able to speak fluent English and Mandarin to entertain tourists. The capacity of our workers limits the profile of the customers."

"The mobility of part-time service providers is higher than we expected. Their motivation is low since they think they are working on a temporary basis. They do not whole-heartedly devote themselves to work in the business. We received less income than expected."

"Sometimes, inexperienced workers defer the project process because of their inadequate understanding of construction and engineering work and we have to employ more manpower to complete the projects on time."
As mentioned above, the founders had faced great deviations between their planning and actual operations. It was unbelievable that the deviation mainly came from inadequate knowledge of the proposed industry’s requirements and related factors. The following are the illustrations.

4.3.3.1 Inadequate knowledge of the proposed industry’s requirements hindered operations

We had assumed the founders would choose the industry that they knew best to start their SEs. However, the founders of Cases 4, 5, 7, 9, 18 and 20 admitted that they did not have adequate knowledge of operations in their proposed industry. The founders of Cases 3, 5, 9, 11 and 20 said it took a long time to start up their SEs. This factor resulted in below expectation income. This can be illustrated with the following feedback from the interviewees.

Case 3: “We needed more time to apply for the required license for food
processing, which resulted in delays in commencing operations and aggravated the running cost of the SE.”

Case 9: “We could not find an appropriate office within our budget … and started to renovate the SE during the Chinese New Year. No workers were willing to work during that time. We finally started our business several months later than we had planned.”

Case 18: “After starting operations, we faced other difficulties as our business partner had not told us that the funding we had applied for was insufficient and we were not qualified to be an organizer in the industry … we cannot receive orders directly from customers. We can only be one of the subcontractors. We did not receive any orders in the first three to four months. We cannot even afford to pay the salary of our project manager.”

Case 20: “We were not familiar with the industry and did not know that we had to apply for a formal license immediately after issuance of the temporary license. We had to defer our process for two more months and in these two months we received little income from the training classes for children and youth centres.”

The following cases also felt they had “inadequate knowledge of operations management”.

Case 3: “We also faced difficulties in deciding the price of the products because many of our products were being sold in the open market.”

Case 4: “We had to strengthen our capabilities in terms of knowledge and skills in financial and business management like legal aspects, marketing and insurance.”

Case 5: “We faced difficulties after implementation of the SE. In technical aspects, we faced many difficulties, like how to prepare the farmland and
the green house.”

Case 20: “The advisors did not alert us to the importance of storage space in the shop. After starting operations we found that the shop was too small. It did not have enough space to keep the necessary stock. We had to buy food materials daily and could not enjoy the benefit of bulk purchase, which affected our cost of production.”

Financial budgets were wrongly estimated because of inadequate familiarity with the proposed industry. As mentioned earlier, four founders had explicitly stated that they were not familiar with the proposed industry. Naturally, they wrongly estimated the initial budget for operating their business.

That is the reason why the founder of Case 7 firmly concluded that “we only suggest setting up an SE with which we are familiar and which we are capable to manage.” This case’s founders had had a painful experience in the operation of SE. They had over-estimated demand for services and the capacities of the disadvantaged workers. When they received less demand from internal markets, they turned to serve the open market. Without adequate attention to crisis management, they made a mistake, due to the incapability of the disadvantaged workers to deliver the service, and suffered losses because they had to pay claims after they were sued by a service recipient. Throughout the four years of operation, the SE suffered a deficit and finally it terminated operations in 2010. They re-started a new SE for retailing services, which the founder thought the disadvantaged workers could handle.

The founder of Case 18 shared a similar thought: “We have learnt that when we plan an SE, we should find an industry with which we are familiar. We came across great discrepancies between planning and operation.” This founder received no income for the first three to four months. The situation did not improve until he met a good-hearted organizer who helped the SE employ disadvantaged workers and provided free space for tools storage, which helped save money which they would otherwise have been required to spend for renting
a storage place and transportation cost.

4.3.3.2 Inadequate knowledge of the proposed industry also caused some additional problems

Inadequate knowledge of the proposed industry's requirements resulted in variations between business plans and actual operations. That is to say, if the founders knew the proposed industry requirements better, the following factors could have been minimized.

4.3.3.2.1 Setting up SEs took longer than expected in planning

Cases 3, 5, 9 and 20 neglected to include expenses incurred during the implementation period in their business plans. They assumed they could find appropriate premises and shop managers quickly. Cases 5, 9, 11, 13, 18 and 20 also thought that they could renovate their shops or purchase the required equipment within one to two months. Thus they generally expected to receive income very soon after their business start-up.

   Case 20: “The preparation period was longer than we had planned ... we were not familiar with the industry requirement that a formal license had to be applied for immediately after issuance of a temporary license. We had to defer our project for two more months during which we received little income from the training classes.”

As one founder put it, “we faced heavy deficit in our initial operations ... the situation remained unchanged in the first few months.” Besides, the founders also assumed that they could generate income right after the start-up, “The revenue generation is not as much as I expected and the progress of operation is not as per my wishes.”

4.3.3.2.2 Less income received than expected
Many founders stated that they were too optimistic in their planning; they expected to receive income once they commenced their business operations. In reality, however, the SEs had to take time to accumulate their customers.

Case 19: “We planned to break even in the second year. However, we found that we had large deficits in the first two years. We then extended our two-year plan to a five-year plan. We calculated that we needed 25,000 customers for our service in order to break even … we under-estimated the time required to publicize our service in order to establish our brand name and to gain the public’s confidence in our service.”

Moreover, some SEs even made a loss in their first six months.

Case 9: “At the beginning, we carried out our business as stated in the business plan; however, we received no orders in the first half-year.”

Case 18: “We did not receive any orders in the first three to four months … We had assumed a balanced budget in the first year, but the fact was we had a deficit.”

Two founders also over-estimated the sales revenue.

Case 7: “We assumed our internal market demand would be around 20 service units, which would give us revenue of $20,000 a month, supporting about 50% of expenditure of the SE. We thought we needed to find orders for only $20,000 to sustain the SE. However, when the SE was in operation, owing to our service quality and expertise, only 10 out of 20 service units were willing to use our services.”

Case 12: “We miscalculated the sales volume of souvenirs. We sell our souvenirs in the main street and restaurants. As it turned out, souvenir sales are far beyond our expectations, but many visitors think our prices are high. We then changed our strategy to stop the sales in the street and restaurants
and increased the number of local community tours."

Under the grant scheme, SEs need to submit reports quarterly and report the variation between their business plans and the actual situation. When such variation is found, SEs need to explain it and suggest ways to improve it, especially when they receive less income than expected. However, most of the SEs suggest their improvements may not work. The funding bodies ask them to explain the situation again and request the SEs to re-submit their action plans. The funding bodies seldom intervene directly in the operations of SEs, which is why most of SEs still recorded a budget deficit after the submission of their action plans (Social Welfare Department, 2001; Home Affairs Bureau, 2006a).

4.3.3.2.3 Aspects of the operations’ costs overlooked

The founders also faced difficulties in calculating their cost of production. They generally overlooked the daily operational cost and tacit cost. In calculation of cost of production, some founders focused only on explicit cost. They generally neglected to count tacit costs like time cost, transportation cost, insurance and inflation, etc.

Case 3: “After finding the shop, we faced other problems like the higher rent and renovation costs because of inflation.”

Case 3: “The delivery cost has increased tremendously. Product delivery service is crucial in the sale of organic food. We did not have competent staff to calculate the cost of the delivery service until we had a huge deficit in our daily operations. We then shifted our operational plan to either charge transportation cost in daily product delivery service or increase the price.”

Case 4: “We have had several experiences of spending half a day visiting the work place and preparing the quotation, and finally getting nothing at all.”
Case 7: “We calculated only the approximate cost of operations. In fact, there were many areas that we had neglected, like the expense of labour insurance, public liability insurance and travelling expenses, etc., which led to extra expenditure which had not been counted in our financial forecast.”

Case 17: “I faced a great deal of difficulties in financial issues. I did not know how to manage the financial issues, like budget control, cost calculation and income and expenditure estimation.”

Case 20: “Cost control is difficult because the food supply is from Mainland China and the logistical costs have increased tremendously in the last year.”

Case 20: “We receive less income than forecast since we have had to absorb the increase in food cost.”

4.3.3.2.4 The NGO mind-set of the founders

Most of the founders were social workers who calculated their budget mainly on the basis of their experience in non-governmental organizations. They calculated costs of shop managers and SE shops at welfare rates. Many did not have big enough budgets to employ appropriate shop managers at market rates. Besides, the founders had to spend longer looking for venue for SE operations. Generally, they could not find shops in line with their planning because they did not use the market rate to calculate shop rent in their initial planning. Unfortunately, the vendors did not consider concessional rent for the SEs. As a result, they had to either rent a smaller shop in the main street or rent a shop far from the core-business area, which resulted in local residents not knowing about their existence.

Case 3: “We could not find a ground-floor shop because of our tight budget. It took longer to find the existing shop but we had exceeded our budget.”

4.3.3.2.5 Underestimation of the job requirements of the proposed industry and
neglecting to assess the capacity of the target employees

During the interviews, I found that many founders focused on social objectives and neglected market needs or requirements. They had a clear vision of providing job opportunities for the specific disadvantaged target group for they did not have enough capacity to compete with others in the open job market. However, the founders did not assess the capacity of the target employees. From their feedback, the following cases show that in some SEs, the target employees were not capable of fulfilling their job requirements.

Case 11: “We found that our workers (early or form five school leavers) were capable of managing computers but they were not capable of handling customers.”

Case 12: “We can provide our service only to local visitors since our workers are not able to speak fluent English and Mandarin to entertain tourists. The capacity of our workers limits the profile of our customers.”

Case 13: “The mobility of part-time service providers is higher than we expected. Their motivation is low since they think they are working on a temporary basis. They do not work whole-heartedly. We receive less income than our planning predicted.”

Case 14: “Sometimes, the inexperience of our workers results in delays in the project process because of inadequate construction and engineering skills. Then we have to employ more manpower to complete the projects on time.”

Case 16: “I found their capabilities to be low. For some, this is their first experience of work. Others may not have any experience of working full-time. I have to spend more time preparing and training them to work in the food catering industry.”
The founders found that ex-offenders and delinquents either had a negative attitude towards people and things in their workplace or they had poor work habits, like arriving late, smoking in the workplace and low emotional quotient.

Case 16: “The attitudes of ex-offenders are quite negative. They always focus on the negative sides, which may affect our business progress.”

Case 20 “We found that the delinquent youths have poor work habits. They are always absent from duty without prior notice … They are fond of smoking. In Hong Kong, they are forbidden to smoke in the café. They have to smoke in the public toilet, which is five minutes’ walk from the café, and this affects our service delivery.”

Ten of the 20 SEs found the disadvantaged workers they employed to be deficient. According to the founders, the cost of running the SEs with disadvantaged workers was usually higher than businesses operated by workers recruited from the market. The disadvantaged groups were basically those who were unable to find job opportunities by themselves. Inevitably, the disadvantaged workers brought relatively lower work efficiency and caused higher operational costs. Thus, the management staff of SEs had to employ at least one more worker to supervise or follow up their work. However, had the founders carefully selected their employees and trained the disadvantaged groups in the required attitude and job requirements in advance, they might have been able to improve their financial performance.

In tackling deficiencies of specific employees, almost all founders spent more time and capital training and preparing them for the job rather than dismissing them. The founders generally displayed a high degree of tolerance and took a long time to train specific employees for improved work performance. Only a few of the founders considered dismissing incapable employees and that too after a long trial period.

Moreover, some SEs require their disadvantaged workers to leave after having worked for a certain period of time, so that they can provide job opportunities to
other disadvantaged workers. However, the turnover rate of staff can be considered to be a problem for the development of business (Chan et al., 2006) as it causes higher operational costs.

4.3.3.2.6 Products/services could not meet market standards/requirements

Among the 20 participating SEs, 18 founders had clearly indicated that the SE label could not yield a positive response from the customers. Eight of 18 founders pointed out that their customers go by the quality of products/service and the set price when buying. Five of them took decisions based on the quality of service or product speciality and four considered price. One indicated that accessibility and availability were the points that determined whether customers would buy their products.

The SE label did not result in any specific advantage for operations. Even the internal markets of parent organizations considered pricing and quality as the selection criteria: “We wrongly estimated that 20 of our internal service units would consume our services and optimistically thought that schools and churches would engage our services, but it turned out that business revenue was not as much as we expected in the business planning.”

Below are some more illustrations of SE products/services that could not meet the market standard or requirements and affected customers’ decision to use their products/services.

Case 20: “Our parent organization operates three hotels, but our prices are higher than what the three hotels are willing to pay and the products are not up to their standard, which upset our revenue from internal markets.”

Case 5: “Unpredictable factors like rains and cold weather as well as flying birds’ invasion affect our production ... we found that the production of our organic products was limited by these factors.”
Thus, the founders had to improve the quality of products/service and lower their running costs in order to attract more customers and compete with other business operators in open markets.

4.3.3.2.7 Unanticipated factors upset SEs’ operations

Many founders reflected that they had not prepared any contingency plans for risk management. Sometimes, their operations were upset by unanticipated factors, like bad weather for construction and farming, economic recession for products/service consumption, the melamine incident affecting dairy cakes of the food and café sector, as well as the appreciation of the Renminbi, all of which led to increased operational costs, and deeply affected the income of the SEs.

The founders and staff had not prepared themselves to handle various kinds of risks. Many risks, such as financial risks due to income being less than what was anticipated, resulted in problems paying the daily expenses, economic recession affecting consumption and inflation affecting the cost of production. Operational risks like accidents in the workplace, human resources risks, such as underperformance of staff or loss of key staff, environmental risks, for example, unstable weather and the problem of birds which affected product supply, as well as questionable ingredients.

Case 5: “Some unpredictable factors like rains and cold weather as well as flying birds affect our production. We cultivate organic products on our farm and this attracts many birds that eat our products. The advisors did not prepare us for this before we set up the SE.”

Case 5: “Initially, we followed our time-line to start the SE. However, we were far behind schedule for many reasons, like rains and complicated construction work, which were not anticipated in the business planning.”

Case 9: “After we started our business, we also faced economic recession. Many companies had trimmed their budgets for entertainment. We therefore
had no service orders in the first half year.”

As illustrated above, had the founders anticipated and planned for risk, they might have had an easier time adapting to unforeseen complications or problems (Boyer, Creech and Paas, 2008). The founders could have managed risks effectively and controlled their impact on SEs when the risks actually happened.

4.3.4 Business planning in an SE helped faster decision making

Business planning helps operators identify daily operations deviations (Smith, Locke and Barry, 1990) and facilitates faster decision-making (Delmar and Shane, 2003). Business planning expands the founder’s knowledge about the intended business and reduces decision-making uncertainty, facilitates faster decision-making, introduces controls for personal bias or subjectivity and develops new forms of actuation (Delmar and Shane, 2003).

Founders of Case 3, 4, 7, 9, 11 and 15-20 showed that business planning serves as an alerting system to SEs which helps them respond quickly when deviations appear, especially in financial matters. This helps founders monitor deviations from the plan on a day-to-day basis and always be prepared for unanticipated factors. They can also make decisions faster when deviations appear.

However, from the founders’ feedback, I found that faster decision making is related to the type of ownership. Founders of some SEs which were wholly owned by NGOs complained that they had to go through numerous procedures which hindered their reactions to the highly dynamic and competitive environment. They had to follow the bureaucratic procedures of the NGOs, which reduced their responsiveness to the operation.

Case 9: “Initially, the parent organization directly ran the SE, and we proposed to form the advisory committee to assist implementation of the SE. The advisory committee was composed of 10 experts with different
backgrounds. We held meetings monthly in the initial stages and had regular meetings every 2-3 months in the later stages. However, the daily operation was under the control of our internal administration and parent organization. We needed to report our work to the committees, central administration and parent organization.”

Case 11: “We delayed our business for several months since we could not buy the machines in time as we had to follow the procurement process of the parent organization, which took months.”

Case 20: “We have a complicated hierarchical system governing our daily operations. The ultimate governance rests with the board of the parent organization. Below the board, there is a committee to regulate all social services of the organization. The committee also established a social enterprise sub-committee to supervise our daily operations. The sub-committee is composed of scholars, businessmen and accountants. They hold meetings quarterly and visit the shop when necessary. In daily operations, the management team monitors the operation of the SE and we have to seek advice from the central administration when decisions have to be made.”

Of the ten SEs which recorded a deficit in their third year, seven are run by NGOs directly, two are subsidiaries of NGOs and one is run by an independent company. So we can see that type of ownership does affect the performance of SEs.

4.3.5 Business planning helped SEs communicate their strategy to stakeholders

Planning enables communication with persons inside and outside a firm (Matthews and Scott, 1995; Stone and Brush, 1996; Delmar and Shane, 2003; Brinckmann, Grichnik and Kapsa, 2010). As we can see from the above analysis, if an SE can communicate with outside parties, it can not only get operational support from them but also funding from the public or donor. Business planning
helped communicate their goals, strategies and operational tasks to internal and external stakeholders (Stone and Brush, 1996).

From the information provided by the founders in interview, it is clear that business planning helped communicate goals, strategies and operational tasks internally and externally to stakeholders. Below are relevant statements of some of the founders.

Case 16: “Clear social objectives in the business planning can also provide blueprints for people who work in the SE to follow … clear social objectives help attract people to donate money to sustain our business.”

Case 17: “In 2004 to 2007, I implemented the SE under my leadership. I have implemented the business according to my instinct and ideas … I have learnt that my impulse and instinct do not work in the operation. I had deficits from 2004 to 2007. I then made up my mind to prepare the business plan in 2007 and attracted new investors to invest $1,500,000 in the SE … business performance improved after I prepared the business plan.”

4.3.6 Business planning did not necessarily lead to better financial performance but could contribute to sustainability

I also analysed the functions of business planning in relation to financial performance and sustainability.

4.3.6.1 Financial performance

Reid and Smith (2000) said that financial performance is the ultimate goal for a firm to pass the long-run test of survival. Some studies have indicated that business planning leads to better financial performance (Schwenk and Shrader, 1993; Miller and Cardinal, 1994; Ibrahim, Angelidis and Parsa, 2004). However, in this study, I found that only two SEs (10%) had undertaken business planning before starting their operations and these two had a surplus budget in the third
year of operations.

In the operation of SEs, many people consider financial performance as one of the major measures of performance. In this study, I use the third year financial outcome of SEs as the reference point since most of the government funding supports their operations for two to three years. The SEs had to decide their future planning before the end of the government funding. They had to consider whether they were capable of sustaining their operations, or they needed to raise funds from other sources to support further operation or terminate their operations when the funding ran out.

In terms of the financial performance of participating SEs, two founders reported that they had achieved a surplus budget after the third year of operation. Three SEs had a surplus, but they had not counted the manpower and/or rental support from parent organizations. Five SEs recorded breaking even in the third year, but some of them had not counted the manpower and/or rental support from parent organizations. Ten out of twenty SEs had recorded a deficit and two had not made detailed business plans.

The two SEs which earned a surplus in the third year of operation had common backgrounds; one had raised funding on its own and got support from the parent franchise company by way of a franchise license to run the business. The franchise company provided a technical and operational blueprint for the SE to follow. The other SE was a subsidiary of an NGO. It’s founder had experience of operating in a similar industry for several years with the aid of external funding. After the original funding ran out, he applied for other government funding.

Three SEs that are subsidiaries of NGOs earned a surplus in the third year, but the founders admitted that they had received support from their parent organization. They had received different degrees of manpower and/or rental support from parent organizations: “the parent organization pays the salary of the general manager and sometimes lends money to the subsidiary to manage cash-flow.” Apart from support from the parent organization, one SE stated that it
was able to generate a surplus because of the full support of its strategic partner. The other two SEs had trimmed their manpower from the original plan in their third year in order to achieve surplus.

Five SEs reached break-even in the third year. Some of them had not counted manpower and/or rental support from parent organization: “The headquarters also send out a part-time accounting staff to assist us in budgeting costs and monitoring.” One SE stated that it had dismissed the project manager and got manpower as well as rental support from the parent organization in the third year.

We can see that business planning did not lead to better financial performance in these 20 cases. On the contrary, SEs which had experience of running similar business or were led by an experienced mentor had better financial performance.

A summary of financial performance of 20 SEs can be found in Table 4.5 below.
### Table 4.5: Financial Performance of the SEs

<table>
<thead>
<tr>
<th>Case no.</th>
<th>In operation since</th>
<th>Financial performance for specific year</th>
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<tbody>
<tr>
<td>1</td>
<td>2002</td>
<td>B B B S S S S S S</td>
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<td>2</td>
<td>2008</td>
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<tr>
<td>3</td>
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<tr>
<td>4</td>
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<td>2008</td>
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<tr>
<td>6</td>
<td>2008</td>
<td>D D D S</td>
</tr>
<tr>
<td>7</td>
<td>2006-2010</td>
<td>D D D D D D Terminated</td>
</tr>
<tr>
<td>8 (No written BP)</td>
<td>2007</td>
<td>D B B S</td>
</tr>
<tr>
<td>9</td>
<td>2007</td>
<td>D D D D</td>
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<tr>
<td>10</td>
<td>2008</td>
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<tr>
<td>11</td>
<td>2008</td>
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<td>12</td>
<td>2007</td>
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<td>13</td>
<td>2007</td>
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<tr>
<td>14</td>
<td>2007</td>
<td>D B S S</td>
</tr>
<tr>
<td>15</td>
<td>2005</td>
<td>D D D D D D D</td>
</tr>
<tr>
<td>16 (No written BP)</td>
<td>2002</td>
<td>D D D D D D S S S S S</td>
</tr>
<tr>
<td>17 (No written BP)</td>
<td>2007</td>
<td>D D D D D</td>
</tr>
<tr>
<td>18</td>
<td>2008</td>
<td>D D D Sa</td>
</tr>
<tr>
<td>20</td>
<td>2008</td>
<td>D D D D</td>
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</table>

(D = deficits; B = break-even; Ba = break-even with aid from the parent organization; S = surplus; Sa = surplus with aid from the parent organization)
4.3.6.2. The functions of business planning

4.3.6.2.1 Formal business planning provided direction for business operations

From the above stated views, we can see that business planning was not the factor that led to better financial performance. What then are the functions of business planning? The following are the founders’ views on the practical functions of business planning.

Case 5: “We follow the business plan to operate the SE. All full-time staff know our business plan. We employed staff and part-time workers and devised a marketing plan according to our business plan at the beginning.”

Case 6: “The purpose of a business plan is to realize the gap between what you started out with and what you end up with … initially we raised capital of $3,000,000. But as one continues working, there are things one cannot control. The Fire Service Department may say that every small room requires a fire extinguisher and doors installed. A lot of regulations can force you to spend more than you expected. Then you overshoot the budget … when you have a business plan, this is what you will discover.”

Case 8: “… the business plan plays an important role in my SE since the timeline of business planning provides directions and contingency plans for variations.”

4.3.6.2.2 SEs without formal business planning recognized the importance of business planning after some operational experience

Case 16: “We did not make any formal business plans beforehand and we found that our performance was not satisfactory. It was not until a retired senior government official joined our force and he gradually made some plans to guide our operations. Apart from the weekly meetings with executives and the cooks, the executive also has a marketing plan for our
Case 17: “I had deficits from 2004 to 2007. I then made up my mind to prepare a business plan in 2007 and attracted new investors to my SE. The contents of my business plan included brand positioning, 4Ps, stock management and promotion and financial issues, like cash flow and cost control. I finally attracted investors to invest a further $1,500,000 in the SE.”

From the above it is clear that business planning was crucial for SE operations. Those who prepared business plans performed better. Besides, Cases 16 and 17 indicated that, originally, they had not prepared any business plans. However, later they changed their mind and prepared business plans, which helped Case 16 achieve better business performance and attracted a new investor to support the running of Case 17. As we can see, many SEs had suffered deficits for years and still existed in the market because their social objectives still appealed to volunteers as well as donors and/or parent organizations. Business planning in an SE might not necessarily lead to financial performance, but an attractive business plan can contribute to its subsequent sustainability with new investor(s).

4.4 Conclusion

In this chapter, the researcher analysed the relationship between the business planning and sustainability of SEs based on the data of 20 participating cases. Based on the feedback of SEs’ founders and relevant documents, I analysed the data in response to the research questions and found that business planning could only clarify the social objectives of SEs; it failed to acquire better market knowledge. Besides, we were not sure whether business planning could help operations management when the founders were familiar with their proposed industry and prepared their business plans on the right tracks. In addition, business planning could help SEs predict better or facilitate faster decision making when deviations appeared. However, we also found that ownership type affects the decision-making process. Moreover, business planning can help SEs
better communicate strategy to stakeholders. Last but not least, business planning did not lead directly to better financial performance. However, an appropriate business plan can help clarify strategy for the stakeholders concerned; most importantly, it provided direction for the staff to continue to pursue social and economic objectives as well as to attract new investor support for continued running of an SE.

The data gathered by studying the working of the SEs resulted in identification of several high-frequency common situations and themes that affected financial performance. The themes were: the founders had inadequate knowledge of the proposed industry; the founders wrongly estimated their financial budgets; underestimated job requirements of the proposed industry and failed to assess the capacity of the target employees; the founders used the wrong marketing strategies in daily operations; and the founders were not prepared to address unanticipated factors that upset operations.
Chapter 5 Conclusion and Discussion

5.1 Summary of the Study

This study began with attempts to find out why SEs have become popular in Hong Kong in the last ten years. It then traces the fact that the emergence of social enterprise is governed by its historical and social contexts; it has not developed in a vacuum. The study introduces the development of SE in Hong Kong and reflects on its challenges in future development. One of the critical challenges is sustainability. Although SE has been growing in expectation of and support for innovative and flexible ways of dealing with social problems, the sustainability of SEs is still a big problem in the service sector. In Hong Kong, only around 30% of SEs are able to self-sustain their businesses after their initial funding runs out (Ming Pao Daily News, 2008, A-10). They either rely on further philanthropy and government subsidies or close down their businesses after the funding is exhausted.

So far very few studies have explored the factors that contribute to the sustainability of SEs. I therefore wanted to conduct a study to explore factors that can help SEs sustain operations after the funding runs out. Though there are many factors that can contribute to sustainability, I particularly studied the factor of business planning for most SEs have to prepare their business plans before they start. Better planning can help develop proper focus and vision in business, and financial forecasts (Bull and Crompton, 2006). It enhances the chances of survival and success in business (Perry, 2001). I therefore conducted the study to explore whether business planning leads to enhancement of the general performance of SEs and their sustainability.

Six major research questions were formulated to meet the research objectives: (1) How does business planning in an SE help better formulate social and economic objectives? (2) How does business planning in an SE help acquire market knowledge? (3) How does business planning in an SE help achieve a target and reduce the distance between the outcome and the target? (4) How
does business planning in an SE help identify daily operational deviation and facilitate faster decision making? (5) How does an SE communicate its strategy to its stakeholders? (6) To what extent does business planning in an SE relate to its financial performance and its subsequent sustainability?

The research questions aim to explore the views of SE founders, with the aid of related documents, and explore how business planning leads to enhancement of SEs’ general performance as well as factors and conditions that contribute to their sustainability.

This paper focuses on what, why and how benefits are derived from business planning by SE start-ups.

After the purpose of the study and preliminary conceptual framework were developed, how to realize its objectives was illustrated by careful consideration of methodology. After thorough consideration, it was decided to use a qualitative methodology research design and semi-structured interviews as the research method. The selection of the sample, the role of interviewer and collection of data through the 20 interviews were explained, and the analysis of the data by coding and categorization. The modified conceptual framework of the relationship between business planning, financial performance and sustainability, and framework for start-up preparations of SEs emerges after data analysis. Finally, the study pin-points that there are several limitations of the study. For example, the bias of the interviewer and the large volume of data required for analysis. Though the study faced some limitations, its significance cannot be denied. It finds that, besides business planning, the usefulness of which has been indicated by previous empirical studies, there are also some moderating and mediating factors that affect the functions of business planning for better financial performance and sustainability. In Hong Kong, it is rare to use qualitative methodology to conduct an exploratory study of SE which can help craft further development of SE in Hong Kong or can function as a reference for other similar cities. Finally, the study clearly addresses how to address ethical considerations in the central part of the study; the researcher has fulfilled the
procedural requirements for ethics during the study.

In this study, all participating SEs had engaged in business planning, 17 of them in the initial planning stages. Thirteen out of 17 SEs had submitted their written business plans according to the requirements of relevant government funding agencies. Four had prepared their business plans and appealed to shareholders, parent organizations, investors and donors. The remaining three SEs used self-raised funding to operate. They did not have formal written business plans and had their financial forecasts only in mind. 20 SEs implemented their business ventures according to their business plans, they did not put their business plans on the shelves after they had successfully secured funding.

We assume that SEs start their businesses by building on core competencies and advantages. However, 19 SEs had inadequate knowledge of their business at the start. Only one out of 20 SEs had previous experience of running a similar business before setting up the SE with government funding.

Originally, business planning helped organizations define social objectives, select products/services, fix revenue targets, draw marketing strategies and estimate financing requirements. However, we found that many inexperienced SEs prepared their business plans inefficiently in their start-up and nascent phases. Comprehensive diagnosis is often overlooked, with the result being that business plans are not well conceived, nor well documented or supported by those who must carry them out. Thus, the content and quality of the plan is important. Alter (2001) advises founders of SEs preparing their business planning that the process of preparing a business plan should start with extensive market research and shortcuts should not be taken in the market research. Alter points out that a common reason for the failure of many social enterprise programs is inadequate market research prior to launching the business. Besides, most founders prefer to start up their SEs in something new. They seldom choose to buy businesses already in place or to use the experience of franchisees.
Among the 20 SEs, only two generated a surplus. The SEs who possessed or used previous experience in running a business can generate a surplus. One had experience of running a similar business while the other used the strategy of borrowing, that is, the SE secures the franchise from overseas.

Among the 13 SEs reliant on government funding, only one achieved a surplus budget. It was not surprising that under the grant scheme the SEs need to submit their reports quarterly and report the variation between their business plans and the actual situation. The funding body seldom takes direct intervention to the operation of the SEs. That’s why most of SEs still cannot make their balance budget after submission of their action plans.

On the other hand, three of the 20 founders did not prepare formal written business plans. Only Case 8 was able to achieve a balanced budget in the third year of operation and the other two had a deficit budget in the third year of operation. Cases 16 and 17 finally produced business plans to improve their performance and to attract a new investor, respectively. Case 16 experienced deficits throughout six years of operation and achieved a surplus budget in the seventh year; Case 17 attracted a new investor after preparing a formal business plan.

Based on the feedback from founders and documents from SEs, I analysed the data according to the preliminary conceptual framework for business planning and sustainability of SEs. I found that among the SEs studied business planning can only help clarify the social objectives of SEs. All of the other parts of business planning were ineffective because they lacked a good quality plan. Business planning in 18 SEs cannot help achieve a target and reduce the distance between the outcome and the target.

Twenty SEs had clear social objectives before setting up. Seventeen employed disadvantaged workers, two promoted fair-trade and one wanted to fill the service gap for senior citizens. They stuck to their social objectives even when they recorded a deficit budget. However, business planning cannot help clarify
economic objectives fully. Most SEs plan to have their break-even or even achieve a surplus budget in their business plan. In this study, 90% could not achieve their financial projections. Most tended to cling to social objectives rather than economic objectives when conflicts between these two objectives arose.

Business planning did not help the SEs I studied acquire better market knowledge because most founders do not know the proposed industry well. They wrongly analyse their industry and set out inappropriate marketing plans. Some also used business advisors who were not competent to guide them in their business planning.

Business planning cannot help to achieve a target and reduce the distance between the outcome and the target, especially when many founders are unfamiliar with the environment and work practices in the chosen industry. Their business plans were on the wrong track. Their budget estimations were unrealistic and they over-estimated the capacity of their disadvantaged workers to work in the proposed industry. In addition, many SEs do not have any contingency plans to react to unanticipated events or factors.

On the other hand, business planning can help SEs predict better and establish a faster decision-making process when deviations appear. Prior planning can help narrow information gaps which can be anticipated in the planning process. However, we also find that type of ownership affects the decision-making process. Independently run SEs have a faster decision-making process than subsidiaries of NGOs. The worst type of ownership is full NGO ownership as SEs of this type have to follow bureaucratic procedures of NGOs, which hinders their responsiveness to the operation.

Moreover, business planning can help SEs communicate strategy to stakeholders better. The study shows that business planning helps communicate goals, strategies and operational tasks internally and externally to stakeholders. Last but not least, business planning does not lead directly to better financial
performance. However, an appropriate business plan can help clarify strategy to the stakeholders concerned; the most important point is that it provides direction for staff to continue to pursue their social and economic objectives as well as to attract new investors to support further running of an SE.

5.2 Discussion of the Findings

As mentioned in the previous section, according to Brinckmann, Grichnik and Kapsa (2010), business planning does not automatically lead to better financial performance and sustainability. There are some moderating and mediating factors which affect the functions of business planning.

First, business planning helps SEs clarify their social objectives rather than economic objectives. Generally, the practitioners of SEs in Hong Kong focus more on social than economic objectives. This research reveals that many founders of SEs prepare their business plan in a formal way. They outline specific actions to achieve their social objectives. They communicate their mission and social objectives to staff, leadership, clients and donors throughout their operation, so stakeholders (staff, leadership, clients, donors, strategic partners) know their social objectives well. Thus business plans help founders to fulfil their mission but fail to achieve their economic objectives, especially when the founders find that there is a conflict between their social and economic objectives. They have to calculate how many target disadvantaged workers they can employ and how much money is left to sustain their operational period. The founders/managers have to find ways to achieve break-even. The preparation of business planning helps the founders to strike a balance between social objectives and an entrepreneurial mind-set.

Many NGOs and social workers are also funding-driven. Sometimes they act in response to funds available rather than looking at their competence (Tang et al., 2008). The founders of SEs need to change their funding-driven mind-set to become community needs driven. Otherwise excessive dependence on public funding will diminish the capacity of SEs to survive independently. They need to
learn from founders of SEs that have self-raised funds. The founders of self-raised funding care very much about daily operations. They change their strategies to lower their costs and increase their price when they know that they are running deficit budgets. They understand that SEs are neither a charity nor any other kind of social service. They have to find new funding sources and generate revenue from their daily operations. SE founders with NGO background should change their mind-set from reliance on external funding to dependence on business performance.

The founder of Case 7 indicated that “one should employ a businessman to prepare the business plan; a social worker is not an appropriate person to do so for their business plan presents a great discrepancy to actuation.” Cases 8 and 19 stated that social workers have advantages in establishing social networks to recruit more volunteers and appealing to donors, respectively. The roles of social workers in SEs have to be re-positioned clearly for social workers have advantages in establishing social networks and capital, but not in business planning. So, NGO founders of SEs need to employ businessmen to prepare their business plans. In the study, three founders said that social workers are not capable of shifting their roles from social workers to social entrepreneurs. They cannot perform their duties as required by the SEs. They do not always follow decisions, particularly relating to the discipline of workers (Tang et al., 2008).

If we recognize that planning is the first step and execution of the plan is the second step, business planning reflects the informational circumstances of the time. The founders need to execute the plan first before any post-planning adjustment, otherwise it is hard to differentiate the performance of SEs that have business planning and those without. Thus, the facilitation of business execution as planned is a moderating factor for better financial performance of SEs.

Second, business planning can help achieve better financial performance if the founders have adequate knowledge and solid experience of the proposed industry. It is shocking to learn that most of the founders have inadequate knowledge of their respective industries. Even worse is that their staff do not
know how to ask the right questions of business advisors. Needless to say, in this situation, the staff cannot access the relevant knowledge that would facilitate and enhance their performance in their daily operation. On the other hand, the founders reflected that sometimes business advisors did not have backgrounds in the relevant industry and were not necessarily able to help in their business planning. Inadequate knowledge of founders/managers in the proposed industry resulted in certain problems: badly designed marketing plans that caused them to waste marketing expenses and manpower in handling non-potential cases, and pricing strategies that caused them to receive less income than expected. Case 2 is an example of the latter, whose founders claimed that “originally, our pricing strategy was to provide high-quality service at low prices, we then suffered losses. We then changed it to high-quality at high prices, which helped us to balance the budget.” Other issues include wrong estimation of financial forecasts, under-estimated job requirements and unrealistic assessment of the capacity of disadvantaged workers, service quality problems and less attention given to dealing with risks or unanticipated factors, like economic conditions that might negatively impact the business. Those who prepared business plans turned out performances that were very different from the plans.

In this study, two SEs which generated surplus in their third year of operation either had previous experience of running a similar industry or they had assistance from a parent franchise company. I believe that if the founders have adequate knowledge and solid experience of their proposed industry, acquiring adequate industry knowledge for SEs founders is a moderating factor for better financial performance. Success stories are of considerable value not only to the social entrepreneur but to the social entrepreneurship movement (Dacin, Dacin and Matear, 2010), because success breeds further success.

Third, the use of business planning does not seem to have helped reduce the discrepancy between planning and actual performance, especially since most of the founders did not know their proposed industry well and did not prepare their business plans appropriately. Inadequate knowledge of the founders/managers in the proposed industry resulted in inadequate planning in a number of areas,
including wrongly designed marketing plans, market requirements, inaccurate financial forecasts, unrealistic assessment of the capacity of disadvantaged workers and insufficient attention given to dealing with risks or unanticipated factors, like economic conditions that might negatively impact the business.

In the study, six founders/managers admitted that their inadequate knowledge in the proposed industry led them to produce poor marketing plans. Generally, the founders were in a position to manage more easily if the business was focused on community-based marketing. However, the SEs tended to deliver their products/services throughout Hong Kong. Some did not have the capacity to mobilize enough high-quality manpower and some failed to estimate the actual cost of transportation and service delivery. In fact, most of the SEs were small-scale businesses that needed small volumes to sustain themselves; if their focus had been on the community-based, they might have had a better chance of sustaining themselves.

Moreover, inadequate knowledge of their industry also caused the founders/managers to neglect the discrepancies in planning and actuation operation in market requirements, financial forecast estimation and assessment of the capacity of disadvantaged workers. In addition, inadequate knowledge also caused them to pay less attention to dealing with risks or unanticipated factors, like economic conditions that might negatively impact upon their business performance.

Thus SEs' founders need to have adequate industry knowledge and solid experience of their proposed industry, as well as prepare for unanticipated factors in order to reduce discrepancies between planning and actual performance – these are also moderating factors for better financial performance.

Fourth, business planning helps identify daily operational deviations and facilitates faster decision making. In this study, it is seen that business planning itself does not relate to better financial performance, but it serves as an alerting
system to SEs which helps them respond quickly when deviations appear, especially in financial matters. This helps founders monitor deviations from the plan on a day-to-day basis and be prepared for unanticipated factors so that they can make decisions faster when deviations appear.

One particularly important point is that type of ownership affects the decision-making process. Independently run SEs have a faster decision-making process than subsidiaries of NGOs and those wholly owned by NGOs. Independently run SEs changed their pricing strategy when they could not achieve break-even. However, SEs which are wholly owned by NGOs have to follow the bureaucratic procedures of NGOs, which hinders their reactions to highly dynamic and competitive environment. The study concludes that thorough consideration in developing proper types of ownership and preparing for unanticipated factors in their planning as well as monitoring deviation from the plan are the moderating factors for better financial performance of SEs.

Fifth, business planning helps communicate goals, strategies and operational tasks to internal and external stakeholders. Business plans also serve the function of attracting new investors to support the continuation of operations.

Clearly founders need to build networks with business advisors, strategic partners and stakeholders, and define the roles and responsibilities of business advisors. I find that if SEs can generate support from their networks and source funding from them, they can achieve a better financial performance. Cases 2, 16 and 19 appealed to their stakeholders and donors for funding and achieved better financial performance in the long run.

On the other hand, some NGOs have suffered deficits for years and still survived in the market because their social objectives still appeal to donors or parent organizations. Business planning does not merely help outline social objectives and communicate strategy to stakeholders. More importantly, an appropriate business plan helps attract new investors – the mediating factor for subsequent sustainability of SEs.
In the long run, founders of SEs have to build networks with different strategic partners in the different stages of their development. Besides, SEs have to consider sources other than government funding. They have to explore ways to raise capital from banks, or through bond issues (Dees and Elias, 1998), or issue shares to stakeholders in the community to ensure the sustainability of their operations. At this stage, an attractive business plan seems indispensable to stakeholders and investors.

According to the literature (e.g., Stone and Brush, 1996; Dees, Emerson and Economy, 2001; Delmar and Shane, 2003; Bull and Crompton, 2006; Nah, 2006; Boyer, Creech and Paas, 2008, Brinckmann, Grichnik and Kapsa, 2010), business planning helps foster certain functions in SEs’ start-up stage. However, the interviewees thought that some of the functions were prevented from performing well by their own unfamiliarity with the proposed industry. They still considered its functions are valid. The researcher then made use of the previous findings that business planning helps clarify social and economic objectives, acquire better market knowledge, lessen the deviation between planning and implementation and make decisions faster, which can lead to better financial performance and sustainability, together with some new discovered areas and evolve the preliminary conceptual framework for business planning and sustainability of SEs into the modified conceptual framework of the relationship between business planning, financial performance and sustainability.

For details of the relationship, please refer to Diagram 5.1, the modified conceptual framework of the relationship between business planning, financial performance and sustainability of SE.
Diagram 5.1: The Modified Conceptual Framework of the Relationship between the Business Planning, Financial Performance and Sustainability of Social Enterprise

- Clarify social and economic objectives of SE
- Facilitate business execution as planned
- Acquire better market knowledge
- Provide adequate industry knowledge for SE founder
- Lessen the deviation between the goals and actual outcome performance
- Provide solid experience of proposed industry
- Identify daily operation deviation and facilitate faster decision making
- Prepare for unanticipated factors
- Develop proper types of SE ownership
- Monitor deviations from the plan
- Attract further investment from the stakeholders
- Allow communication with stakeholders to secure their commitment
- Better financial performance of SE
- Sustainability of SE
5.3 Implications

The above findings of the study clearly indicate that preparing the initial business plan with the content and quality of the plan should be considered vital for improving the performance of SEs.

5.3.1 Contribution to knowledge

The findings of this study contribute to our understanding of SE management in several ways. First, they help appreciate the value of planning, which depends on specific planning activities, and is contingent on what the founders know or have learned in the process (Honig, 2004; Gruber, 2007; Brinckmann, Grichnik and Kapsa, 2010). The founders should thus be familiar with the proposed industry. Second, business planning skills are best developed in a related field and in previous experience, and not merely in books. Third, the findings help generate performance-related factors of business planning which affect the financial performance and sustainability of SEs. Fourth, the study helps construct five themes of start-up business planning which help lessen deviation between the goals and actual outcomes, to achieve better financial performance and sustainability. Fifth, the recommendations have implications for knowledge, existing practice and government policy. Last but not least, the study finds ways to sustain SEs. This means that thousands of less-advantaged groups of employees can continue their employment in SEs and that NGOs can continue their mission of addressing complex social needs through SEs.

Currently, quantitative research is well recognized as objective and reliable (Bryman, 1984) and dominates the research field. However, this study where we solicited views from founders regarding their preparation of business planning and factors that help sustain SEs illustrates that qualitative research can also help if conducted in a rigorous study.
5.3.2 Implications for existing practice

Of the 20 participating SEs, 19 recognized that business planning is important in operating SEs. They suggest preparing business plans with as much detail as possible. Based on their feedback, I formulated the framework of start-up business planning and sustainability for SEs.

In addition, during the interviews, the founders admitted having faced considerable divergence between goals and actual outcomes. The five most common themes that affected their operations management were: 1) the area of proposed industry requirements, 2) financial projection, 3) employees’ requirements, 4) marketing strategies and 5) contingency plan.

Though the founders had prepared their plans with attention to these five aspects, they either under-estimated the requirements of the proposed industry and its business environment or over-estimated their capacity to generate income, and their employees’ capacity to handle daily operations.

I therefore develop the framework for the preparation of start-up planning and suggest some possible ways to help an SE prepare better business plans. I hope an appropriate business plan may increase the possibility of sustaining SEs. I also suggest three solutions from every perspective that can serve as checklists for founders to ensure the thoroughness of their preparations.

5.3.2.1 Be familiar with the proposed industry

The founders indicated that they had inadequate knowledge of their proposed industry. Some relied on assistance from business advisors, but they pointed out that some business advisors knew the commercial world well, but knew less of the specific industry that they proposed. Thus their market information may not be useful, which leads to inaccurate estimation of the development time required. This can cause significant problems for the operation of SEs.
When the founders begin their new SEs, they need to know the proposed industry well. The more knowledge and experience of the relevant industry the founders possess, the greater the chances of improving the sustainability of their businesses.

When the founders are familiar with the business, they can shorten the preparation period and respond more quickly to unpredictable factors. They can also operate their SEs more efficiently and effectively.

In the proposed industry requirement, one needs to consider industry knowledge, location of office and renovation, equipment procurement, as well as all legal compliance necessary for operation. I suggest that founders receive training in business planning and operation. If possible, the operators of SEs should have a job placement in the same industry in order to gain some real work experience and seek advice from appropriate business advisors. In the operation of SEs, we not only need to seek advice from the business advisors with expertise in general business but also from business advisors with experience in the relevant industry.

5.3.2.2 Financial projections must be realistic

Many SE founders reflected that there were discrepancies between their business plans and financial outcomes. They were unable to reach the expected sales revenues because they deferred the commencement of operations. The founders pointed out that they could not find the appropriate shops and had to spend longer than expected purchasing the necessary equipment or applying for licenses.

Most of the founders admitted that they were not familiar with the specific business or industry. They under-estimated setting-up costs and time and over-estimated sales volume. They also under-estimated rents and the time required for purchasing the necessary operational equipment and applying for licenses. During the interviews, I found that some founders did not know the real
market price of renting shops. They always under-estimated rent in their planning. Their budget for renting shops did not allow them to rent sufficient space and they could thus only consider shops in cheaper areas. In practice, they either spent longer seeking shops or their budget could rent only a smaller size of shop or rent shops in outer zones of urban areas. In fact, the shop location of SEs is very important: if they can find eye-catching venues for their businesses, they not only attract more customers to use their products/service but are also more able to promote their message of social objectives to the public.

In response to the above situation, the founders have to calculate their rental charges more realistically and prepare to meet the requirements of operations in the planning stage. Moreover, the founders highlighted that they may not be able to sustain their SEs after the government funding runs out for they cannot afford the high rents of their premises. They should thus consider seriously whether the business really needs a shop. If they find that they really need a shop to operate their business, the location should be chosen carefully, keeping in mind the rent.

In addition, some founders who planned to sell throughout Hong Kong over-estimated sales volume. After a period of operation, however, they found that their employees were either not capable of handling the demand or that their expected partners/customers did not consume their service/products.

SEs should compare planned targets with outcomes, they must calculate the actual cost of operations and consider cash-flow arrangement and control. Many neglect cash-flow and need to seek help from their parent organizations for temporary relief. Financial projections include revenue generation and expenditure, cost calculation and budget control. I suggest that founders project the actual operating costs of the whole business more realistically; many founders miscalculated because they used the welfare rate instead of the market rate in operation. I also suggest that founders estimate sales revenue prudently for they often over-estimate their income generation. The founders should seek advice from experienced business advisors who are familiar with or work in
the same industry and review their cost calculations.

5.3.2.3 Appropriate employees must be selected

Nine SE founders believe that retaining appropriate shop managers is crucial for SEs’ operations since they help move the business in the right direction and can monitor daily operations effectively. They are able to be more responsive to market change. However, nine founders found that they had difficulty retaining their managers because of the tight budgets of their operations. Sometimes, they did not have enough financial resources to secure appropriate managers. They are unable to guarantee job security or provide attractive salaries to keep shop managers and other staff, especially when there is a shortage of manpower in the job market. Problems in recruiting and retaining staff may always be a difficulty among SEs (Hynes, 2009), causing high employee turnover rates, which affects daily operations.

Besides, non-profit leaders/managers need to be trained in business methods if they are to explore commercial options effectively (Dees, 1998, p. 66). Training needs to be extended to staff at all levels, especially disadvantaged employees, in order to enhance their capacity to work in the proposed industry.

Employee requirements include employment of the right kind of employee, from manager to workers, employee training and development, human resources policies, as well as administration and accountability. I propose that orientation be provided to employees before they enter the job market for the first time or when they have been outside the job market for a long time. Staff orientation, training in customer service and motivation are necessary since some target disadvantaged employees may have a low capacity to work or possess poor work habits. I also propose that a human resources policy be developed to allow time and patience for target disadvantaged employees to improve their performance, and dismiss under-performing employees after a trial period.

5.3.2.4 Implement marketing strategies instead of marketing plans
The findings of this study indicate that when SEs prepare their business plans they should pay attention to marketing strategies that can help let customers know they are consuming services and/or products from SEs. This not only encourages customer loyalty, but also encourages a culture of support for SEs’ missions and vision on the whole.

However, some NGOs do not have adequate knowledge to formulate marketing strategies. They do not even know how to market themselves. When selecting marketing strategies, founders seldom realize the importance of social media in communicating their social objectives to the public. The founders of SEs must consider making use of social media for communication and publicity.

Founders of SEs that self-raised funding are more proactive: they marketed their products better, they publicized their products in public talks and seminars in organizations, road shows and even social media. They know that popularity helps them gain the confidence of their customers, recruiting more volunteers, assisting their business and donations. I therefore suggest that founders/managers of SEs make use of all kinds of media to communicate and publicize their services/products to all walks of life.

Ryan (1999) pointed out that size confers benefits, such as economies of scale and the ability to manage risk across projects and/or contracts, which contributes to sustainability. He says small-scale SEs that are established in failing markets may have little chance of ever being viable. If the founders explored innovation and established their SE in a carefully selected market niche (Luk, 1996), they might have better chances of survival. The founders/managers have to adopt the principle of “think locally and act locally”. They have to consider focusing their products/services to respond to the economic development of the community in which they intend to operate. Sometimes their local district can absorb a large part of their products/services. If the local district provides their customers, they can save money and efforts spent on marketing territory-wide.
Tang et al. (2008) also agreed that district-based SEs may have greater chances of success if they can meet the needs of their local community. They have less competition for the profit margin is too low to attract other SEs and SMEs to enter the market.

The findings presented in this study suggest that, unlike profit-oriented small firms that service local and niche markets, the needs addressed by the Hong Kong SEs we studied and the activities in which they engage are restricted to local areas, often at a community level. In particular, opportunities recognized by SEs and the networks they engage in are situated at local, often community levels. One reason for the local embeddedness of SEs and the networks within which they participate is that many founders live in the area in which they have identified an unmet social need for those SEs. It is vital to use local networks to build credibility and attract local and community support and involvement in the work of SEs (Shaw, 2004, p. 202).

The founders/managers should make use of local community resources, like social capital and new funding sources as well as getting the community involved as stakeholders. This could help sustain their business.

Marketing and networking involve identifying opportunities, selecting appropriate marketing strategies, generating both internal and external markets, as well as meeting quality requirements. I propose that founders of locally based SEs focus their marketing strategies and seek support from the local community. They should also consider using channels to communicate up-to-date information to target customers.

5.3.2.5 Contingency plans

Founders must prepare contingency plans for risk management. Some founders regard running businesses as adventure. One should always be prepared for the worst scenario. Unpredictable situations can always arise that may threaten
the operation of SEs.

Those SEs that plan only for the best are often surprised and unduly slowed by the unexpected, which inevitably occurs. When SEs anticipate and plan for risks, they often have an easier time adapting to unforeseen complications or problems which may arise. Some unpredictable factors, like bad weather for construction and farming, economic recession for product/service consumption, and incidents like melamine affecting dairy products and the appreciation of the Renminbi can lead to increased operational costs. These factors can deeply affect the income of SEs.

Contingency plans include managing risks in every aspect of operations. The founders must manage risks in financial, operational, human resources and the business environment. They also need to be aware of new entrants from the private sector and NGOs and respond quickly to unpredictable factors, such as appreciation of currencies, inflation and deflation, weather as well as acute incidents.

For details of the framework, please refer to Diagram 5.2.
Diagram 5.2: Start-Up Business Planning and the Sustainability of SEs

**Estimated details of proposed industry requirements**
- premises and office space
- renovation and equipment
- license application
- adequate knowledge of operations and delivery

**Financial projection**
- income generation and expenditure
- market rate to hire the shop
- market rate to employ shop manger
- financial sustainability: calculate fully to recover the cost and have enough different customers or contracts
- reserve capital for business development, e.g., advance equipment, open competition, publicity

**Employee requirements**
- employee training and development
- human resources policies, like employee performance appraisal
- administration and accountability

**Marketing and communication**
- emphasize both internal and open market and meet their quality requirements
- communicate strategies to stakeholders
- focus on local community

**Contingency plan**
- manage risks in financial, operational, human resources and environmental aspects
- new entry of competitors from private market and NGOs
- unpredictable factors: appreciation of currencies, weather, acute incident, etc.

**Start-up business planning**
- training in business planning & operation
- industry placement
- seek advice from industry advisors

**Sustainability of SE**
- lessen deviation between planning and implementation
- improve financial performance
- gain support of external stakeholders

- actual cost estimation
- prudent estimation of sales revenues
- familiarity with industry & consultation of experience advisors in reviewing cost calculation

- training in customer service & motivated staff in work
- allow time & patience for disadvantaged workers to improve their performance
- staff orientation for workers entering the job market for the first time and those who have been outside the job market for a long time and have poor work habits

- focus marketing strategies
- use different channels to communicate with all walks of life
- gain support of people of the local community

- gain support of people of the local community
5.3.2.6 Establishing a sharing platform for SEs

A model of good practice and networks for participants to share experiences were not found (Johnson, 2000; Li and Wong, 2007; Tang et al., 2008; Thompson, 2011). The lack of documentation and a platform to share and highlight the Hong Kong experience in social entrepreneurship activities implies room for further improvement of the sector’s development.

I did not find a platform for sharing in the existing practice, factors responsible for success as well as failure are shared only among the staff members of SEs. They seldom transfer their experience to other practitioners and newcomers. I suggest that leading organizations consider providing a platform for staff members of SEs to share the difficulties they have faced in their daily operations and success stories. Such a sharing platform could not only give newcomers and existing practitioners of SEs insight into SE operation, but also help eliminate repetitive faults when operating SEs.

5.3.3 Implications for government policy and funding bodies

Business planning should not be a simple fill-in-the-blank exercise. It should be clearly for SEs applying to Hong Kong government for funding, it is a preparation process during which the founder should think about every aspect as comprehensively as possible. The value of planning depends on specific planning activities, contingent on what the founders know or have learned in the process (Honig, 2004; Gruber, 2007; Brinckmann, Grichnik and Kapsa, 2010) and business planning skills are best developed in a related field and from experience, not on the job.

Hong Kong’s existing government funding regime, founders of SEs are required to submit comprehensive business plans including business objectives, business nature, description of business, SWOT analysis, implementation timetable, social values and outcome indicators, which include creation of sustainable local employment, enhancing self-reliance and employability,
enhancing cross-sector partnership, sustainability and added value. Applicants have to declare whether the project will be implemented in collaboration with other organizations/private companies or District Councils. They have to enlist the services of at least one advisor from the business sector or the proposed industry to provide supervision and guidance to the project. Budget and cash flow projections (income and expenditure), sales volume, projections of capital expenditure or equipment, fitting-out works, etc., staff cost projection and cost control measures must be submitted. Ideally, when founders go through the above comprehensive planning process and win support from funding bodies, they should be able to achieve self-sufficiency as stated in their business plan. However, many SEs still fail to achieve self-sufficiency. I have reviewed the requirements of business planning in the funding application process and find that they need to be reviewed and revised.

In funding application, founders are required to provide SWOT analysis. We concede that SWOT analysis provides a preliminary framework for the founders to review their internal strengths and the external business environment. However, the degree of seriousness in preparing their SWOT analysis varies. Sometimes, founders use ambiguous and vague words and phrases and are subjective in the generation of factors. The most common drawbacks of SWOT analysis are: the lack of obligation to verify statements or aspects based on the data or analysis and over-subjectivity in the generation of factors. In fact, founders’ analysis in SWOT may not be realistic when it is put into practice (Valentin, 2005).

It would be better to require founders to develop structured strategic plans based on the results of SWOT analysis. This would help founders to prepare better to realize their planning in practice. Founders have to develop concrete viability plans on how to reach their target. As indicated in the previous findings, Cases 7, 9, 12, 18, 19 and 20 over-estimated their sales revenue. If the funding bodies request SEs to account for details in their income and marketing plan, then the funding bodies need to assess their viability and drive to reach the target. The SEs will automatically assess more thoroughly the business and economic
realities.

Besides, it is recommended that the funding bodies require the applicants or practitioners to assess the market needs in the local context. They should be required to develop relationships within the local community which will be necessary for gaining support at a grassroots level before initiating an SE (Shaw, 2004, p. 203). As a community enterprise, an SE is strongly rooted in its specific community (Philips, 2006). This further suggests that the funding bodies should review their current policy. They must encourage SEs to promote their business and get the support of local communities at a grassroots level.

Moreover, funding bodies require founders to seek advice from at least one advisor from the business sector or the proposed industry. According to the founders’ views, advisors are not always capable of providing supervision and guidance since they themselves may not be familiar with the proposed industry. This is because certain proposed industries may require specific knowledge and experience to implement SEs. I would suggest that the funding bodies should at least require the founders to receive proper training in the proposed industry or to spend time working in the industry or to gain some kind of placement experience in the proposed industry for a specified minimum period.

The funding bodies always require applicants to analyze their internal markets. The existing funding regime generally requires applicants to illustrate the demand volume of internal markets to support their business. However, according to the participating sample, their internal markets consider the price as well as the requirement of quality services/products: SEs’ internal customers prefer to buy services/products from other sources that provide cheaper or higher quality services/products. Therefore, I suggest that applicants or practitioners lower their costs and maintain the standard of their services/products in order to extend their market both internally and externally.

The funding bodies need to relax their policies. This study found that only two SEs were able to generate a surplus in the third year of operation. However, two
generated a surplus in the fourth year of operations and two more succeeded after seven years of operation. I would like to refer to one of the 20 SEs which has come up with something new in the existing market industry. This SE recorded a deficit in the first six years and a surplus in the seventh, 2002. In 2010 this business' volume is around 89.7 million Hong Kong dollars. It also won the Social Entrepreneur of the Year (Asia Region) award in 2009 and the World Summit Award Mobile Content Bronze prize in 2010. I therefore suggest that funding bodies relax their funding rules to extend the gestation period from the existing three-year period to five years or more. Otherwise, the government should provide assistance to access equity and loans from financial institutions.

It is also suggested that funding bodies allow more flexibility to have more options in the salary of employees so that SEs can have greater competitive advantage in the today's fluctuations market.

In addition, the lack of government support in policy matters and the publicizing of the concept of SE to the general public have caused difficulties in SEs daily operations. The government still chooses the SEs operator based on the bidding system. Some SE founders pointed out that the government terminates their operations after the agreed contract if they fail to be the lowest bidder for the continuation of the business. However, when the contract is awarded to a new SE, which is the lowest bidder, the government has to pay a million dollars again to the new SE to start business. The cost of running SEs operated by disadvantaged groups is usually higher than that of a business operated by workers recruited from the market. Generally, SEs cannot submit the lowest tender to bid for the new project. The government has to create the right policy context and must play a facilitative as well as a protective and regulative role for local SEs to flourish.

Performance of SEs can be enhanced by the establishment of community-based partnerships and by focused relationships between local government and the community’s religious organizations, neighbourhood associations, non-profit agencies and schools (Riposa, 1996, in Wallace, 1999, p. 170). SEs cannot
meet the vast range of human and societal needs without the aid of the
government (Wallace, 1999).
Lastly, it is hoped that this study will also help future governmental policy
development when the significance of business planning is included in the
proposal before the founders apply for public funding to start their SEs.

5.4 Limitations of the Study

There was a time-frame limitation, and the researcher was only able to study a
sample of 20 SEs from different service sectors through purposive and
convenient sampling. The people interviewed in the study were restricted to
founders and/or managers of the enterprise, which may not have covered
perspectives of various partners like the Chief Executive Officers of parent
organizations and shop supervisors involved in each enterprise.

The researcher also acknowledged that some of the participants may not have
been willing to disclose the full picture of their management and production,
details of their business design, or details of the figures that may reflect their
performance. The researcher fully accepted each participants’ choice as to what
to disclose.

Interviewing is a retrospective research method, it relies largely on participants’
memory and their own subjective interpretations. Consequently, there may be a
bias towards more recent incidents (Gremler and Gwinner, 2008; Gremler, 2004).
To encourage participants to provide a large volume of data for analysis, the
researcher asked probing questions to help the interviewees recall concrete
incidents.

There are a number of limitations involved in using semi-structured interviews.
First, the interviewer can bias the results and miss themes in what participants
say if he or she does not have adequate training and experience in conducting
interviews (Cox, Higginbotham and Burton, 1976). The researcher believed he
could minimize this effect for he had received interviewing and group work
training in his social work professional training.

Twenty SEs constitute a respectable sample for a qualitative study, despite the large scale and diversity of the social economy in Hong Kong. The findings presented and discussed in this paper may not be representative of the whole sector, however. Nevertheless, the issue of representativeness is less important given that the research sought to test hypotheses (Shaw, 2004, p. 203).

5.5 Generalization of Findings

Though the study was conducted in the context of SE, I believe that its major conclusion that business planning enhances the sustainability of businesses, can be generalized to SEs in other contexts in Hong Kong and around the world.

5.6 Further Research Directions

In this study, we found that SEs wholly owned by NGOs have to go through numerous bureaucratic procedures which hinders their ability to respond to the highly dynamic and competitive business environment. I recommend further study of the relationships between the type of ownership and the overall performance of SEs. It is worth exploring the pros and cons of NGO assets, as well as the flexibility of subsidiaries and independently run SEs, and see which type of ownership best supports a good performance.

Many SEs have to consider sources other than the government for funding. They have to explore ways to raise capital to sustain their operations. SEs have to increase their sales volume on one hand and, on the other, solicit ways of raising funds from alternate avenues, such as banks or through bond issues (Dees and Elias, 1998), or by issuing shares to stakeholders of the community for their further business development. Further study should focus on means of helping SEs to raise capital from the public instead of relying on government funding.
We also have to study the ways in which we can march beyond the sustainability of SEs and reach the status of self-sufficiency, that is SEs relying completely on earned income, which is the ultimate goal of the most ambitious social entrepreneurs (Boschee and McClurg, 2003).

Darby and Jenkins (2006) stated that many founders use outputs and outcomes, like the number of target disadvantaged workers employed, to measure SEs’ impact and effectiveness, but there are many contributions of SEs that are not easily assessed, such as greater self-esteem and community cohesion. Walker, Lewis, Lingayah and Sommer (2000) shared the view that one must always resist the temptation to measure what is measurable rather than what is important.

A suitable evaluation of SEs’ overall effectiveness can incorporate many different key indicators, such as input, resources that contribute to the activities undertaken, output (in terms of both activities realized to achieve the mission and direct and countable goods/services obtained by means of activities carried out), outcomes, benefit or impact for the intended beneficiaries and consequences for the wider community (Bagnoli and Megali, 2011, p. 156), as well as performance measurement. Social entrepreneurship necessitates the measurement of social value in addition to commercial value (Bielefeld, 2009).

Moreover, the key factor that impacts upon the sustainability of an SE is the founders’ familiarity with the industry. However, several studies have stated that SEs are supposed to provide hybrid models or new ventures to address social problems. Such business models may be new in a services/products market. Researchers have to study factors that can sustain SEs.

Finally, in order to have a clear picture of business planning and the sustainability of SE, the modified conceptual framework of the relationship between business planning, financial performance and sustainability of social enterprise has to be tested empirically through different means.
5.7 Conclusion

SEs in Hong Kong have three targets to pursue.
First is to establish the value of an SE as an entity that plays a key role in society ensuring better distribution of resources, creating jobs and social capital and promoting local development (Borzaga and Defourny, 2001, p. 4). SEs can provide a better distribution of resources through citizens’ volunteered time and donations that substitute public resources and furthermore create public awareness. Social enterprise considers not just what is given to each client, but also what is given by each client, according to his or her skills and abilities. SEs blur the lines between the state and the market (Wallace, 1999, p. 171). So, if we too emphasize return on investment or financial performance of SEs, it encourages founders/managers to focus in the short run on the expenses of the long run (Hansen and Mowen, 1992). The formation of the value of an SE is one of the factors that helps it sustain business.

Second, SEs have to make better business plans in order to enhance their financial performance and to attract more external stakeholders to invest. SEs should aggressively communicate their mission, establish their reputations both nationally and within their communities, pursue opportunities to achieve low costs and financial sustainability, monitor the evolution of social needs and innovate in service delivery. SEs face reliance on a supportive legislative and regulatory environment that not only facilitates their legitimacy, but also provides clear incentives to increase their contributions to society.

Third, SEs have to create an enabling environment. Most SEs in my study fail to sustain their daily operations without continuing resources injections. Government subsidies of SEs can offset criticism of unfair competition between the profit and non-profit sectors. But SEs can gain support from the government and the public and pursue their social goals without threatening the operations of for-profit businesses.

When an SE becomes increasingly self-sustainable, it not only helps serve more
service recipients, but also eases the pressure on public and private subsidies/donations.

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Appendix 1
Appendix 1

Interviewing Questions

The followings questions are prepared for the semi-structured interviews and the interviews will be conducted in Cantonese.

1. Demographic and Organizational Information:

<p>| | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Type of business.</td>
</tr>
<tr>
<td>1.2</td>
<td>Your position in the social enterprise.</td>
</tr>
<tr>
<td>1.3</td>
<td>Size of your business; Number of employees.</td>
</tr>
<tr>
<td>1.4</td>
<td>The structure of your organization.</td>
</tr>
<tr>
<td>1.5</td>
<td>Years in this service sector.</td>
</tr>
<tr>
<td>1.6</td>
<td>Your profession and employment history.</td>
</tr>
<tr>
<td>1.7</td>
<td>Your highest level of education obtained.</td>
</tr>
</tbody>
</table>
2. Background Information Questions:

2.1.1 What are the motivations behind starting the SE venture?

2.1.2. Interviewees are asked to describe their organization’s mission, the background for its establishment, the number of board members and volunteers (if any) as well as its organizational structure and how often the board members, staff and volunteers (if any) have a formal meeting?

2.1.3. What are the sources of financing?

2.1.4. Have you received any proper business training?

3. Other Interview Questions: The researcher will use critical incident technique (CIT) to interact with interviewees. Each critical incident will be categorized within one category. When interviewees have responded with their memorable incidents relating to their preparation of initial business plan and the execution of their plans, the researcher will begin asking the following questions in order to determine an appropriate category for further enquiries.

3.1 The preparation of initial business plan:

3.1.1. How do you prepare for the setting up of the SE?
Prompt: Which areas do you believe are important in your planning?

3.1.2. Do you have a (formal/ written) business plan to guide the setting up of the SE?

3.2 The ability of the founders in realising their business plans

3.2.1. How do you carry out the business plan?
Prompt: Do you always follow the business plan? Or do you hold regular meetings with management teams (or with the employees) to discuss
the progress of the business plan?

3.2.2 How do you manage your SE with or without your business plan?

3.2.3 How do you manage your SE when there is a discrepancy between planning and implementation?
Prompt: Seek advice from the management team? Revise the business plan?
Ad hoc and informal approach to guide the development of your business?

3.2.4 What have you learnt from the discrepancies between the planning and the operation of your SE?

3.2.5 How significant is the learning from the discrepancies between the planning and the operation to the future development of your SE?

3.3 Management related

3.3.1 How do you achieve the mission and social objectives of your SE?
Prompt: Provide employment opportunity to disadvantaged groups? Provide services to disadvantaged groups and patients?

3.3.2 How do you manage the financial issues in your SE?
Prompt: eg. control the cost, financial projection, calculating returns on investment?

3.3.3 How do you market (promote) your products/services?
Probe: Are you personally involved in the marketing of your products/services?
Do you target at a particular group of customers? How do you build up a good relationship with customers?

3.3.4 How do you establish the network for the stakeholders in your SE?
Prompt: Volunteers? Strategic partners? Investors, if any?

3.3.5 Where is the performance of your SE in the past two to three years?
Prompt: Profit throughout the years? Profit to loss? Loss to profit? Breakeven? Loss throughout the years?

4. Others Questions:

4.1. According to your view, after the implementation of the SE, which parts do you consider most important in preparing the initial business plan?

4.2 What problems are your SE facing and what strategies do you employ to respond to these problems?

4.3 What are the factors or conditions that influence the success of the organizations in implementing SE?
### Interviewing Questions (Chinese Version)

訪問問題(中文版)內容: (訪問時將以廣東話進行)。

1. 人口統計和機構相關資料:

<table>
<thead>
<tr>
<th>1.1</th>
<th>你們的業務種類.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2</td>
<td>你在這裡的職位.</td>
</tr>
<tr>
<td>1.3</td>
<td>你們的業務規模; 現有多少名僱員.</td>
</tr>
<tr>
<td>1.4</td>
<td>你們的業務結構.</td>
</tr>
<tr>
<td>1.5</td>
<td>你們業務的經營年期.</td>
</tr>
<tr>
<td>1.6</td>
<td>你的專業和受聘歷史.</td>
</tr>
</tbody>
</table>
2. 背景資料提問

2.1 開始經營社會企業時的動機是甚麼？

2.2. 請受訪者敘述他們機構的使命，建立時的背景，董事、員工和義工(若有)的數目，和機構架構；同時請敘述董事會成員，員工和義工(若有)多久才召開一次正式的會議？

2.3. 開始業務時的資金來源？

2.4. 你有沒有接受過正統的商業訓練

3. 其他問題:

3.1 初步業務計劃的準備

3.1.1 在開始的時候，你是如何籌辦社會企業的？
提示：你認為在籌辦社會企業時，那些範疇的考慮應包括在業務計劃內？

3.1.2 你是否依據一份正式的業務計劃去籌辦社會企業？

3.2 創立者在實踐業務方案的能力

3.2.1. 你如何去實踐你的業務方案？
提示：你是否經常依據業務方案行事？或你會否定期與管理團隊(或員工)舉行會
議，報告業務計劃的進展？

3.2.2. 你如何依據業務方案 (或沒有業務方案) 去經營社會企業？

3.2.3. 在日常運作中，當業務計劃與實際社會企業運作中有分歧時，你如何處理？
提示：諮詢管理團隊的意見？修訂業務計劃？以臨時和非常規的措施去處理？

3.2.4. 在日常運作中，你從業務計劃與實際運作中的差異上學到些甚麼？

3.2.5. 從業務計劃與實際運作中的差異上得到的經驗對社會企業日後的發展有多重要？

3.3 與管理相關事宜

3.3.1 你如何達到社會企業的使命和社會目標？
提示：提供弱勢社群的就業機會？提供服務與弱勢社群和病患者？

3.3.2. 你怎樣處理社會企業的財務事宜？
提示：例如：控制成本、財務估計、計算投資回報等

3.3.3 你如何推廣社會企業的產品 / 服務
探查：你是否直接參與社會企業產品 / 服務的推廣？
你是否定意向同一類別的顧客進行社會企業產品 / 服務的推廣？
你如何與顧客建立良好關係？

3.3.4 你如何為社會企業與相關人仕建立網絡？
提示：志願者？戰略夥伴？投資者 (若有的話)？

3.3.5 在過去兩三年裡，你的社會企業業績如何？
提示：在兩三年裡都有盈餘？由有盈餘至虧損？由虧損至有盈餘？收支平衡？在兩三年間都有虧損？

4. 其他問題：
4.1 在經營社會企業以後，你認為在最初的業務計劃中應包括考慮那些範疇?

4.2 你的社會企業現時面臨甚麼困難和你會採取甚麼策略去處理這些困難？

4.3 有甚麼因素或情況會影響機構成功地經營社會企業？

Appendix 2
Appendix 2

Newcastle Graduate School of Business
Faculty of Business and Law
17/61 Nesca Parade,
The Hill, 2300
AUSTRALIA

For further information:
Supervisor: Dr Thomas Man
Tel: (852) 2948 7300
Email: wyman@ied.edu.hk

Name of the Social Enterprise
Address

Date (?)

Invitation to Participate in the Research Project:

Business Planning and the Sustainability of Social Enterprises in Hong Kong

Document Version [H-2010-1264]; dated [10/01/11]

This is Lee Hing Wai Bonson, a DBA student from the Faculty of Business and Law at the University of Newcastle. I am going to conduct a study of “Business Planning and the Sustainability of Social Enterprises in Hong Kong” and would like to invite you to participate in the research project.

As you may aware that although social enterprises are regarded as providing some creative and flexible ways to address social need gaps of the Hong Kong society, they have been facing many challenges; one of the crucial challenges is
its sustainability. Several studies point out that social enterprises are in lack of support from the government, the business sector and the public as well as social enterprises do not run their businesses in a business-like approach which affect their sustainability. However, there have a few studies in exploring whether business planning leads to enhance the performance of social enterprises.

The purpose of the research is to explore how the founders develop their business plans and apply their skills to utilising these plans as a means to enhance the sustainability of social enterprise in Hong Kong. The study will employ a qualitative approach involving semi-structured interviews with 20 founders or operational heads who are dealing with social enterprises from different service sectors in Hong Kong to participate in this research. Your name was selected from the Social Enterprise Directory 2010. If you agree to participate, you will be asked to recall the critical events and actions relating to the initiate preparation and daily operation of social enterprise. The interview is on anonymous basis and the interview will take about one and a half hours.

This research is particularly important in discovering whether business planning can help to enhance the sustainability of social enterprises. If the study can find ways to sustain the existence of SEs, it implies that thousands of less-advantaged groups of employees can continue their employment in SEs.

I do hope that you will accept my invitation to join the research study.

Should you have any enquiries, please feel free to contact me at (852) 9033 2252 and/ or e-mail: Hingwaibonson.Lee@uon.edu.au, or contact my supervisor, Dr. Thomas Man at the above e-mail address or contact him at (852) 2948 7300.

Thank you for considering this invitation.

Yours faithfully,

Dr. MAN Wing Yan, Thomas
DBA Project Supervisor
Newcastle Graduate School of Business

LEE Hing Wai, Bonson
DBA Student
University of Newcastle
Newcastle Graduate School of Business
Faculty of Business and Law
17/61 Nesca Parade,
The Hill, 2300
AUSTRALIA

For further information:
Supervisor: Dr Thomas Man
Tel: (852) 2948 7300
Email: wyman@ied.edu.hk

機構名稱
機構地址
11-01-2012 (?)

邀請閣下參與調查項目
業務計劃與香港社會企業的持續性

尊敬的被邀參加者，我是李慶偉，是澳洲紐卡斯爾大學 (University of Newcastle, Australia)工商管理博士課程 (DBA) 的學生。我正在進行一個研究有關業務計劃與香港社會企業的持續性，現邀請您參加這項調查。

你或注意到，在香港社會企業雖然提供了一些具創意及彈性的途徑去回應社會需要，但它們仍面對不少的挑戰，其中之一是它們的持續性。有些研究指出影響社會企業的持續性是缺少了政府、商界及公眾人仕的支持與及它們不是以商業似的模式營運，但很少研究探討業務計劃如何促進社會企業的持續性。

本研究的目的在於探索有關香港社會企業開創者如何發展他們的業務計劃和他們如何實踐業務計劃去幫助社會企業的持續性。此項研究將邀請 20 名本港社會企業開創者或營運主管去參與這項調查，並以質性研究方法中的半結構性訪問形式進行，你的名字是從「社會企業目錄 2010」中被挑選出來的。如果您決定參與調查，
您將會被要求回憶一些社會企業的初期預備工作和日常運作有關的關鍵性事件和行動，此項調查屬匿名性質並需與您面談約 1小時 30分鐘。

此項研究將對探討業務計劃如何促進社會企業的持續性特別重要，因假若社會企業能持續地存在，這意味數以千計身處不利環境人士將可繼續受顧於各個社会企業。

本人誠意邀請您參加這項調查。

如有任何疑問，請致電(852) 9033 2252或以電郵聯絡本人。我的電郵地址是:

Hingwaibonson.Lee@uon.edu.au，亦可以電郵或致電(852) 2948 7300聯絡我的導師 萬穎恩博士。歡迎查詢。

謝謝！
Appendix 3
Appendix 3

Newcastle Graduate School of Business
Faculty of Business and Law
17/61 Nesca Parade,
The Hill, 2300
AUSTRALIA

For further information:
Supervisor: Dr Thomas Man
Tel: (852) 2948 7300
Email: wyman@ied.edu.hk

10 January, 2011

Information Statement for the Research Project:

Business Planning and the Sustainability of Social Enterprises in Hong Kong

Document Version [H-2010-1264]; dated [10/01/11]

You are invited to participate in the research project identified above which is being conducted by LEE Hing Wai Bonson, a DBA student from the Faculty of Business and Law at the University of Newcastle.

Why is the research being done?
The purpose of the research is to explore how the founders develop their business plans and apply their skills to utilising these plans as a means to enhance the sustainability of social enterprise in Hong Kong.

Who can participate in the research?
We are seeking the founders or operational heads who are dealing with social enterprises to participate in this research. Your name was selected from the

**What choice do you have?**
Participation in this research is entirely your choice. Only those people who give their informed consent will be included in the project. Whether or not you decide to participate, your decision will not disadvantage you.

If you do decide to participate, you may withdraw from this research at any time without giving a reason.

**What would you be asked to do?**
If you agree to participate, you will be asked to recall the critical events and actions relating to the initiate preparation and daily operation of social enterprise. The interview will be divided into two parts. Part I relates to demographic information. Part II relates to 3 questions that will cover 19 critical events in relation to the dimensions of background, initial preparation, daily operation and other related questions of your social enterprise.

**How much time will it take?**
The interview will take about one and a half hours.

**What are the risks and benefits of participating?**
It is entirely an academic research. There are no legal, physical or psychological risks are expected by participating in this study. Also, there will be no personal benefit to you in participating in this research.

**How will your privacy be protected?**
The interview is on anonymous basis. Confidentiality of the information collected is assured because all information gathered from the interview and transcribed interviews coding will be kept in a different drawers with locks. It will not be possible to identify you from your answers. The transcribed coding and the original interview audio recording will be shredded after final acceptance of the thesis by the Office of Graduate Studies. An electronic copy of the data will be stored securely at the Newcastle Graduate School of Business, University of Newcastle, for a minimum period of 5 years from the date of final acceptance of the thesis.

**How will the information collected be used?**
The information from the research results will form part of Mr. LEE Hing Wai Bonson’s DBA dissertation. Individual participants will not be identified in the thesis or any reports arising from the project. The interview will be voice recorded. If you are not comfortable with this, the researcher will take notes instead. You will be able to review the recording and/ or the transcript to edit or
erase your contribution upon your written request. Also, a summary of the key findings from the research will be provided upon written request.

**What do you need to do to participate?**
Please read this Information Statement and be sure you understand its contents before you consent to participate. If there is anything you do not understand, or you have questions, contact the researcher immediately before the interview. The researcher can be contacted at: Hingwaibonson.Lee@uon.edu.au

**Further information**
If you would like further information, please refer to the above e-mail address or contact my supervisor Dr. Thomas Man at (852) 2948 7300.

Thank you for considering this invitation.

Dr. MAN Wing Yan, Thomas  
DBA Project Supervisor  
Newcastle Graduate School of Business

LEE Hing Wai, Bonson  
DBA Student  
University of Newcastle

**Complaints about this research**
This project has been approved by the University’s Human Research Ethics Committee, Approval No. H- [insert the protocol reference number which will be identified in the written acknowledgement of your application].

Should you have concerns about your rights as a participant in this research, or you have a complaint about the manner in which the research is conducted, it may be given to the researcher, or, if an independent person is preferred, to the Human Research Ethics Officer, Research Office, The Chancellery, The University of Newcastle, University Drive, Callaghan NSW 2308, Australia, telephone (02) 49216333, email Human-Ethics@newcastle.edu.au.
業務計劃與香港社會企業的持續性

調研介紹函

尊敬的被邀參加者，我是李慶偉，是澳洲紐卡斯爾大學 (University of Newcastle, Australia)工商管理博士課程 (DBA) 的學生。我正在進行一個研究有關業務計劃與香港社會企業的持續性，現邀請您參加這項調查。

研究目的
本研究的目的在於探索有關香港社會企業開創者如何發展他們的業務計劃和他們如何實踐業務計劃去幫助社會企業的持續性。

研究參與者
我們正在邀請社會企業的開創者或管理主管去參與這項調查。你的名字是從「社會企業目錄 2010」中被挑選出來的。

參與者的抉擇
參與者有權選擇參與或不參與這調查。在獲得參與者所簽署的同意書後，調查方會進行。參與者決定參與或者拒絕參與對其本身沒有不良影響。
如果您决定参与调查，您可以不需提出原因，在调查过程中的任何时间中撤出调查。

调查内容
如果您决定参与调查，您将会被要求回忆一些社会企业的初期预备工作和日常运作有关的关键性事件和行动。问卷分为两部份。第一部份属于个人基本资料。第二部份有三条问题，其

中包含19项关键性事件与机构背景、初期预备工作、日常运作和其他与社会企业相关的问題。

调查时间
会谈需时约1小时30分钟。

调查的风险及利益
调查全属学术研究，因此对参与者并不构成任何法律上、生理或心理上的风险。参与这项研究亦不会对你有个人收益。

私隐
由於此项调查属匿名性质，您所有提供的资料将会全部保密并会妥为保存，您的答案将不被公开。所有问题与答案将会在大学最终接受该论文之后一併销毁。有关资料的电子记录副本将於大学保存为期五年。

资料的使用
此项调查的资料将会成为李慶偉的博士論文内其中一部份。此論文或任何报告不会披露参与者的资料。若你同意，會談將會被錄音，如不同意可以筆錄代替。你也可以書面申請査閲錄音內容文字並作加減。若對此調查結果有所查詢可以書面申請索取。

參與者須知
請閱讀此调查介绍函并确定您已经明白该函内容之後才确定参与此调查。如有任何疑问，請在参与调查前聯絡本人。我的电郵地址是: Hingwaibonson.Lee@uon.edu.au，歡迎查詢。

跟進查詢
如果您想作进一步了解此项调查，可以上述的电郵地址或致電(852) 2948 7300聯絡我的導師 萬穎恩博士。
謝謝您的考慮和參與。

投诉条款:
这个研究已经被大学的人类研究道德规范委员会批准，批准号码: Bus-Law - [插入号码]。作为研究的参与者，如果您对这项研究中的权利有顾虑，或者您对这项研究的研究员或第三者有投诉，大学请您向大学的人类研究道德规范官员投诉。

地址：Human Research Ethics Officer, Research Office, The Chancellery, The University of Newcastle, University Drive, Callaghan NSW 2308
电话：+61 2 49216333, email HumanEthics@newcastle.edu.au
Appendix 4
Appendix 4

Consent Form for the Research Project:

BUSINESS PLANNING AND THE SUSTAINABILITY OF SOCIAL ENTERPRISES IN HONG KONG

Names of researcher : Lee Hing Wai, Bonson

Document Version [H-2010-1264]: dated [10/01/11]

• I agree to participate in the above research project and give my consent freely.

• I understand that the project will be conducted as described in the Information Statement, a copy of which I have retained.

• I understand I can withdraw from the project at any time and do not have to give any reason for withdrawing.

• I consent to participate in a face-to-face interview which will be either ☐ audio recorded or ☐ for the interviewer to take notes. I indicate my consent in the tick-box.

• I understand that my personal information will remain confidential to the researcher.

• I understand that quotes may be used from my interview, but that I will not
be identified as the speaker and details that may identify me will be altered to protect my identity.

• I have had the opportunity to have questions answered to my satisfaction.

Print Name: 

Signature: 

Date: 

Newcastle Graduate School of Business
Faculty of Business and Law
17/61 Nesca Parade,
The Hill, 2300
AUSTRALIA

For further information:
Supervisor: Dr Thomas Man
Tel: (852) 2948 7300
Email: wyman@ied.edu.hk

調查同意書
業務計劃與香港社會企業的持續性

調查員姓名：李慶偉

調查批准編號 Document Version [H-2010-1264]; 日期[10/01/11]

• 我同意及自願參與上述名稱的調查問卷。

• 我閱讀了有關調查介紹函並明白有關調查的內容。我已取得一份該調查介紹函的副本。

• 我明白我在調查過程中可隨時撤回我的參與決定，並無須提供任何原因。

• 我會在方格裡作表示同意參與這個面談，可能會以 ☐ 錄音形式 或以 ☐ 筆錄形式作記錄。
• 我明白研究員會將我的個人資料保密。

• 我明白會從我的會面中節錄我的對話，但我的身份會受保護而不會因此而洩露，任何會顯露我身份的細節也會被修改。

• 我明白研究員將會給予機會查詢，研究員所提供的答案會達到我滿意為止。

參與者姓名: ________________________________________

簽名: ____________________________ 日期: ____________