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The Governance of Social Enterprise in Taiwan – An Analysis Based on the 2010 Survey Findings and Four Cases

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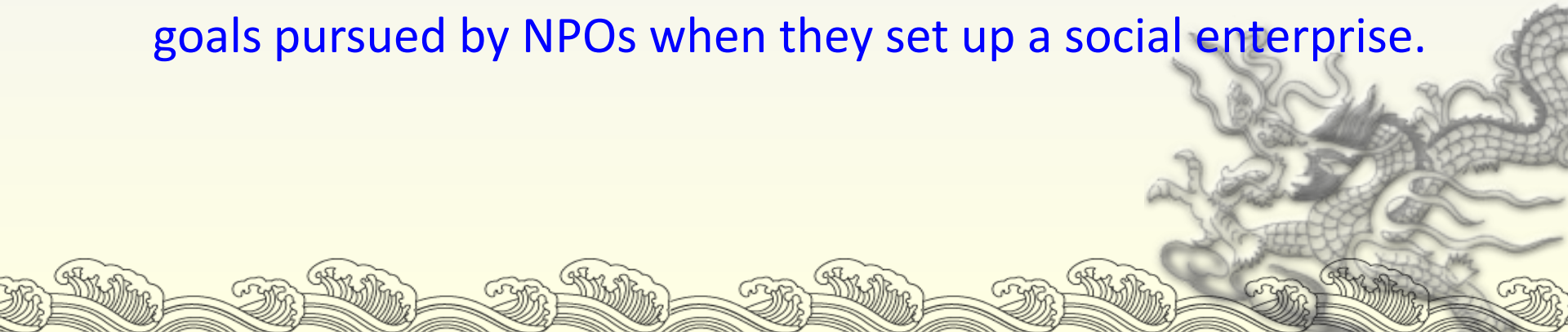
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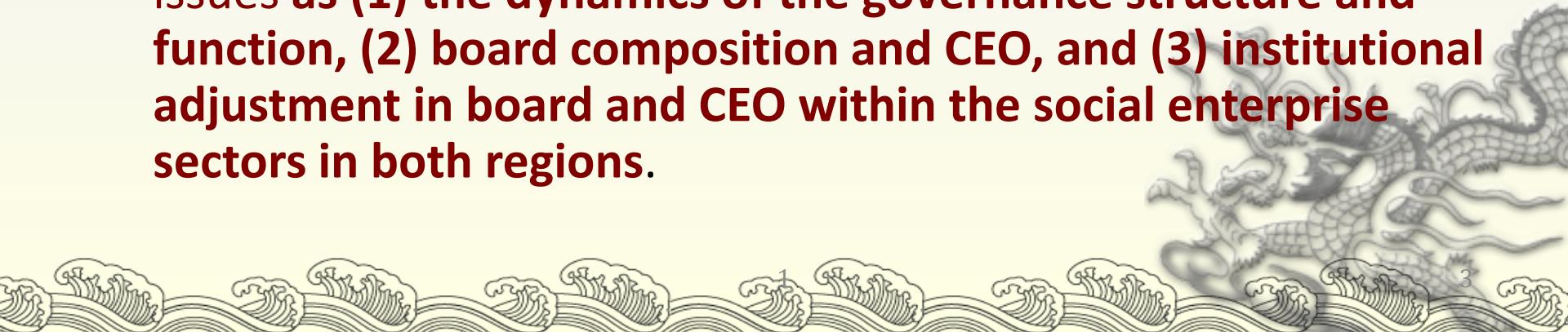
Introduction

- ◆ In Taiwan, NPOs with a commercial approach or for-profit business units began to emerge as early as at the beginning of the 1990s, with ample examples around the island.
- ◆ Also, from end of the 1990s till now, Taiwan's public sector, in an effort to alleviate the social impacts of rising unemployment rates, began to roll out relevant policies
- ◆ Social enterprises in Taiwan are in a stage of growth, and are becoming more diversified. Solving the problem of unemployment and alleviating poverty seem to be two major goals pursued by NPOs when they set up a social enterprise.



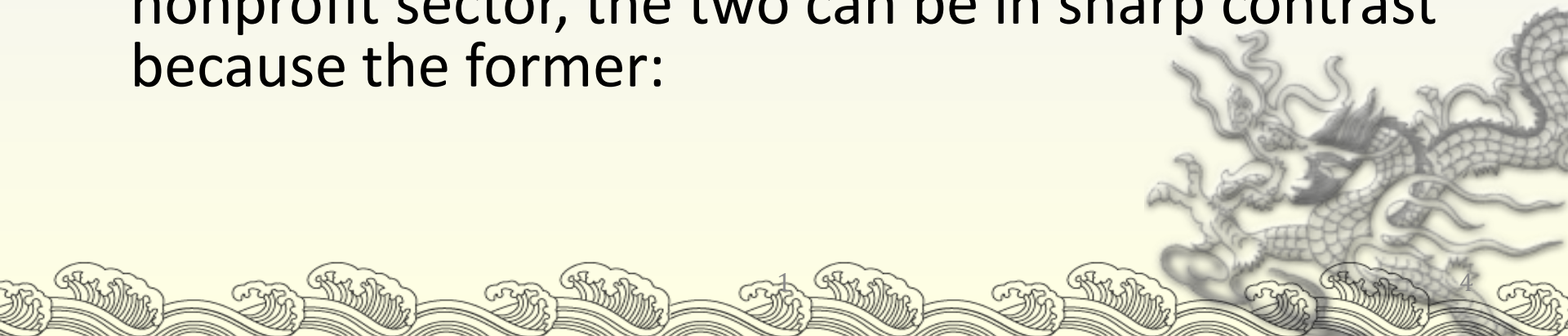
Research purposes

- ◆ For making further inquiry into the development of social enterprises within this Taiwanese community, , we consider it is significant to shed light on the governance issues of social enterprises.
- ◆ Governance of social enterprise plays a crucial role in ensuring the management and strategic guidance to maximize the organization's capacity and to realize its defined mission.
- ◆ This paper aims to **explore the governance of social enterprise in Taiwan**, including the analysis of several dimensions on issues as **(1) the dynamics of the governance structure and function, (2) board composition and CEO, and (3) institutional adjustment in board and CEO within the social enterprise sectors in both regions.**



Governance Theory of Social Enterprise

- ◆ Nonprofit organizations were characterized by Dart (2004: 414-415) as “voluntaristic, pro-social, civic, and so on”.
- ◆ Moreover, in Dart’s argument, nonprofit organizations (NPO) are “distinct from business organizations- distinct in goals, values, motivators, clientele, and types of clientele focus”.
- ◆ Although social enterprise is a sub-set of the nonprofit sector, the two can be in sharp contrast because the former:

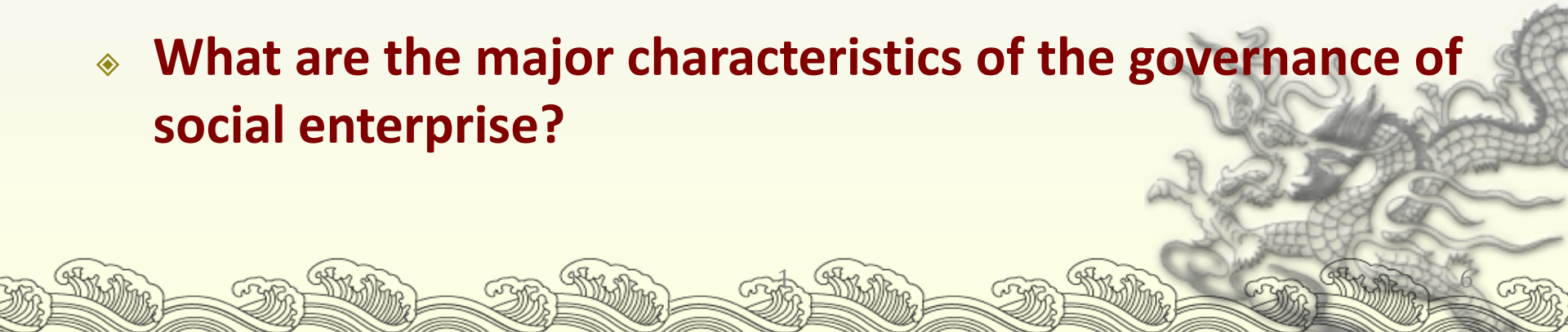


1. enact hybrid nonprofit and for-profit activities;
2. change from a pro-social mission bottom line to a double bottom line of mission and money;
3. from conventionally understood nonprofit services to the use of entrepreneurial and corporate planning and business design tools and concepts;
4. and from a dependence on top-line donations, member fees, and governmental revenues to a frequently increased focus on bottom-line earned revenues and return on investment



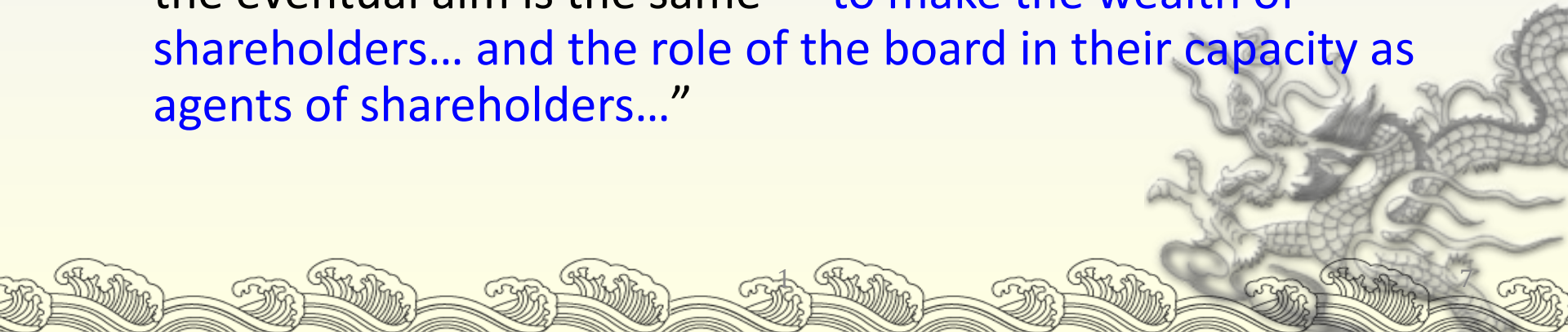
Governance Theory of Social Enterprise

- ◆ Social enterprises need to embrace both skills of social provision and commerce, which has the difficulty in managing the competing sets of values-“**social action set against the demands of market behavior**” .
- ◆ **The governance of social enterprise is believed to achieve the goal ensuring the management and strategic guidance to maximize the capability of the organization for the realization of its defined missions.**
- ◆ **What are the major characteristics of the governance of social enterprise?**



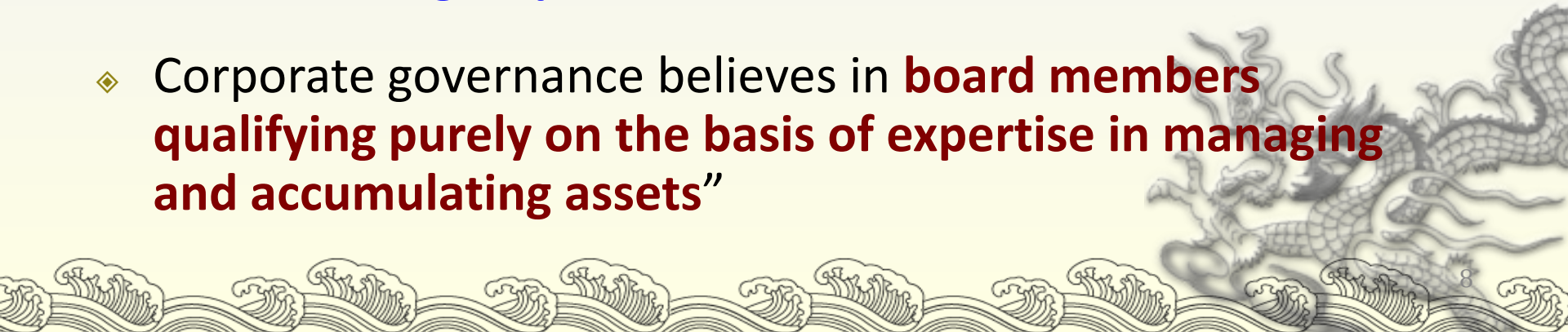
Governance Theory of Social Enterprise

- ◆ **Two dominant paradigms exist in the governance of for-profit organizations (FPO) . One is the agency theory**, which underscores that the conflicts of interest arise in the interaction commonly between agent and principal.
- ◆ The second paradigm is that of **the stewardship governance model**, emphasizing the point that managers are not only capable but also willing to balance different interests when they pursue the company's strategies.
- ◆ No matter whichever measure of the two models is applied, the eventual aim is the same—**“to make the wealth of shareholders... and the role of the board in their capacity as agents of shareholders...”**



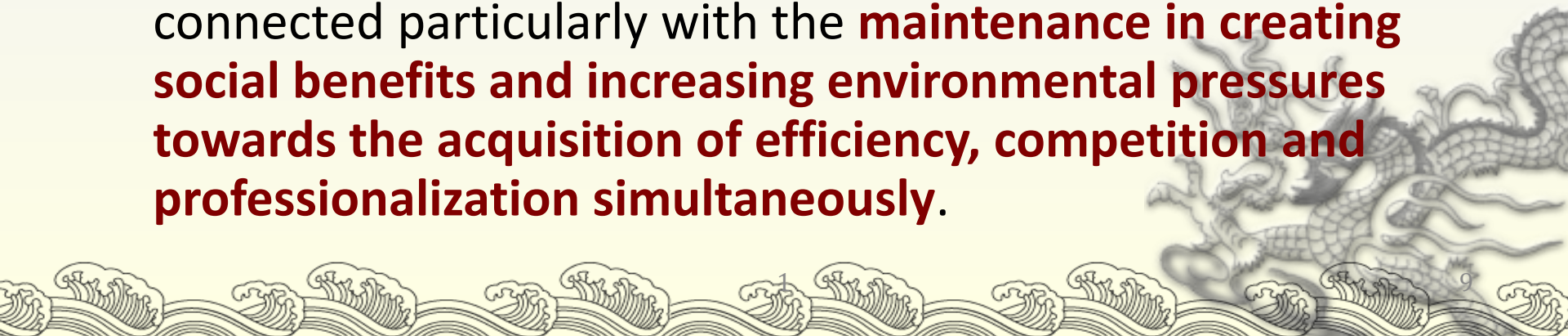
Governance Theory of Social Enterprise

- ◆ With regard to the non-profit boards, a counter view of governance highlights that board ought to be modeled as a tool of democratic participation.
- ◆ The democratic model emphasizes that **the significant role played by NPO governing boards is to represent various constituencies' interests.**
- ◆ Low (2006) “Implicit to **the democratic model** is the notion that **individual expertise in governance is secondary to a claim to be representative of a particular stakeholder group.**
- ◆ Corporate governance believes in **board members qualifying purely on the basis of expertise in managing and accumulating assets”**



Governance Theory of Social Enterprise

- ◆ Social enterprises are widely held as stakeholder or multi-stakeholder organizations. As a consequence, **the social mission of social enterprises is often put on the central position.**
- ◆ However, social enterprises “enact hybrid non-profit and for-profit activities”, suggesting that **social enterprise governance may become “a hybrid of for-profit stewardship and non-profit democratic models”** .
- ◆ The unique issues undergone by social enterprises are connected particularly with the **maintenance in creating social benefits and increasing environmental pressures towards the acquisition of efficiency, competition and professionalization simultaneously.**



Governance Theory of Social Enterprise

- ◆ If social enterprises want to become engaged more in the opportunities of new market with larger and better-resourced competitors, the boards must take the responsibility in supporting managers and nurturing competitive market circumstance.
- ◆ Consequently **two propositions** regarding the governance of social enterprise were made by **Low (2006)** as the following:



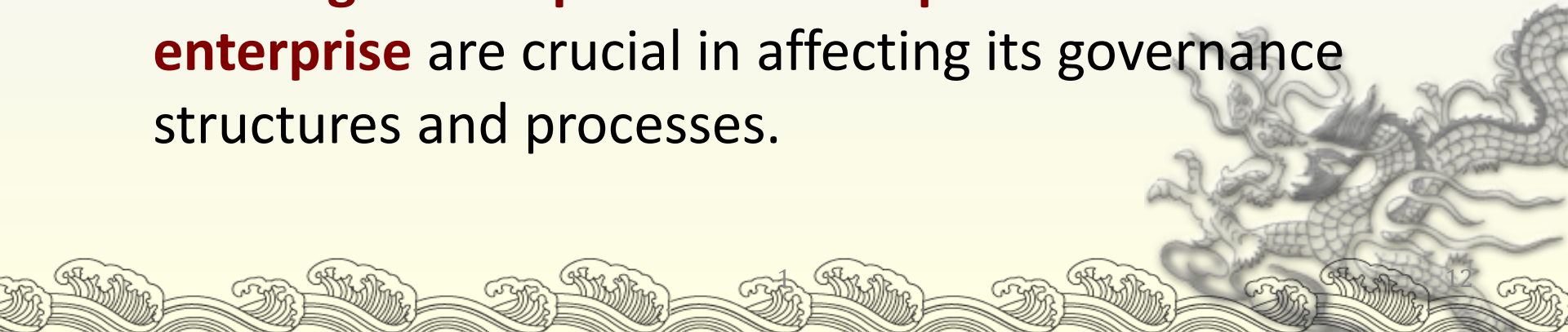
Governance Theory of Social Enterprise

- ◆ **Proposition 1:** “Social enterprises boards are more likely to exhibit a stewardship model of governance than the democratic model found in other non-profits”.
- ◆ **Proposition 2:** “In order to enact the stewardship model social enterprise boards are more likely to recruit members on the basis of expertise rather than representative status”.



Governance Theory of Social Enterprise

- ◆ We have to pay attention to **the contextual factors and varying institutional settings** in the elaborations of the governance function of social enterprise.
- ◆ To understand real governance dynamics, it is suggested that **context, process and time** are three important frameworks.
- ◆ The **origins and path of development of social enterprise** are crucial in affecting its governance structures and processes.



Comparison of Governance of Social Enterprise in Taiwan— Analysis based on the 2010 Survey

- ◆ In order to understand the developmental trends of social enterprises both in Taiwan and their effects over the recent years, a one-year research project, entitled “ **Analyzing the Roles of Social Enterprises in Taiwan in Employment and Poverty Reduction** ” was commissioned to the author by Taiwan’s Ministry of Economic Affairs in July 2009, and the survey data were produced in May 2010.



1. Governance: Changes in organizational structure

- ◆ In Taiwan, organizations which did not set up any designated unit yet were still the most common amongst all responded organizations. The percentage was 49.1% in 2010.
- ◆ These organizations either asked the administrative department to oversee the overall planning and management directly (40.0%) or to set up a steering committee such as “business and sales advisory and steering committee” under the board of directors.
- ◆ When looking at the entire picture, the changes in organizational structure in Taiwan show a tendency of the organizations to increase specialization inside an organization in response to the development of social enterprises.

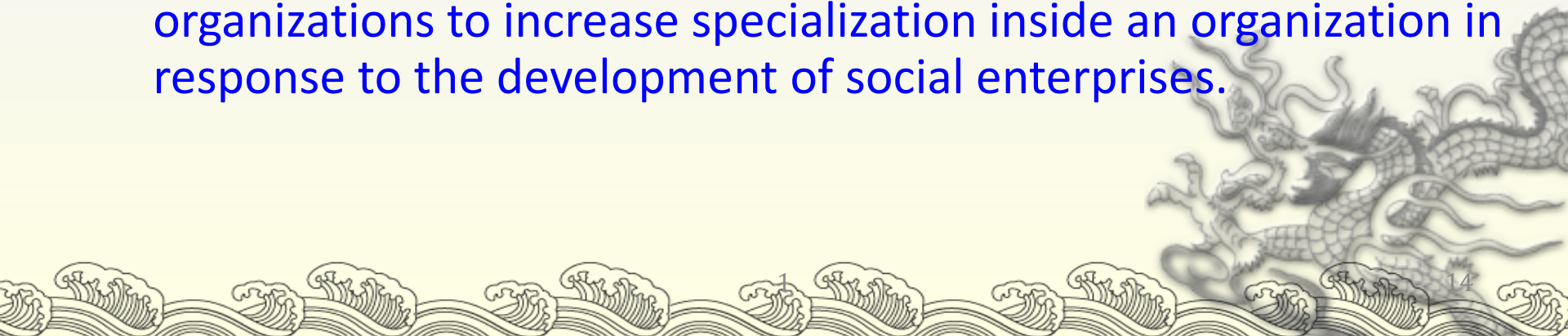


Table 1: Changes in the organizational structure, 2010

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

2. Governance: Board and CEO

- ◆ In the 2010 survey, respondents were asked to indicate if there was any adjustment in the background of the board members and CEO.
- ◆ When compared the adjustments inside the board members, it was found that in Taiwan, the samples were predominant by responded organizations in pointing out that it had made no adjustment in the Board of Directors arising from setting up the social enterprises (78.1%).
- ◆ Compared to the former item, a much lower percentage of the organizations (14.3%) in Taiwan indicated “raising the proportion of board members who have relevant background in business administration and financial taxation”; and “raising the proportion of board members who have relevant background in legal and public administration” (2.8%).
- ◆ **These figures show that SE in Taiwan did not feel an urgent necessity in recruiting people who had background knowledge about running business onto their board .**

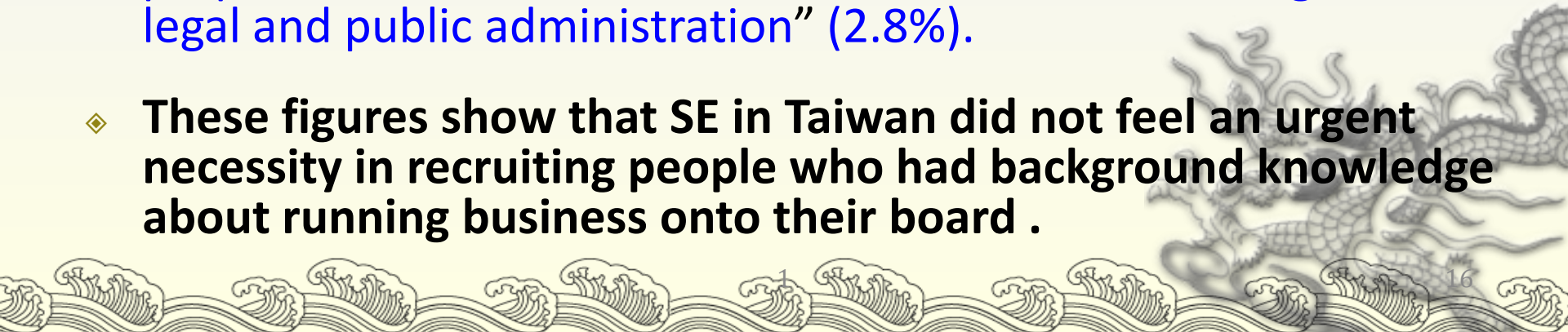


Table 2: Institutional adjustments in Board of Directors, 2010

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

3. Governance: CEO and Board

- ◆ Concerning the adjustments in CEO, in Taiwan, the response indicating that “the current CEO does not have any background in business administration nor any relevant expertise in the products and services” yielded a rather high percentage (30.6%).
- ◆ However, a substantial proportion of the samples indicated that “although the current CEO did not have any background in business administration nor any relevant expertise in the products and services, s/he has spent spare time to pursue further studies on relevant management knowledge” (43.5%).

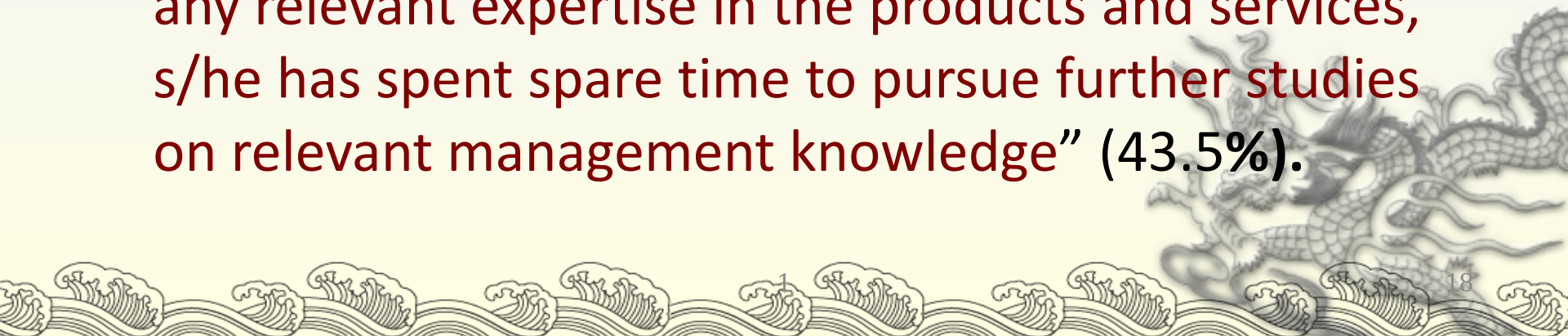
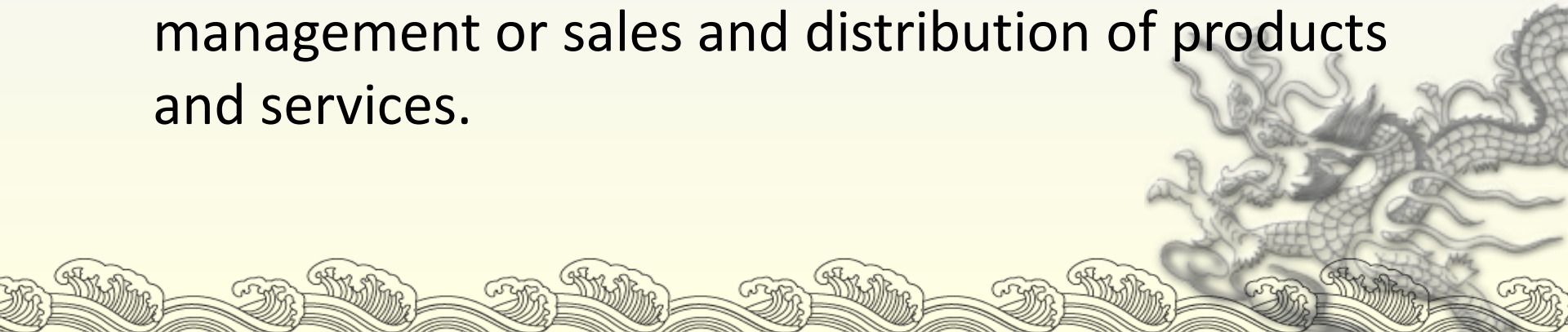


Table 3: Institutional adjustments in CEO, 2010

	Taiwan	
	F	%
(1) Recruiting CEO who has relevant background in business administration and financial taxation.	11	10.2%
(2) Recruiting CEO who has the background relevant to the products and services.	16	14.8%
(3) The current CEO does not have any background in business administration nor any relevant expertise in the products and services.	33	30.6%
(4) Although the current CEO did not have any background in business administration nor any relevant expertise in the products and services, s/he has spent spare time to pursue further studies on relevant management knowledge.	47	43.5%
(5) Others	1	0.9%
N	108	100.0%

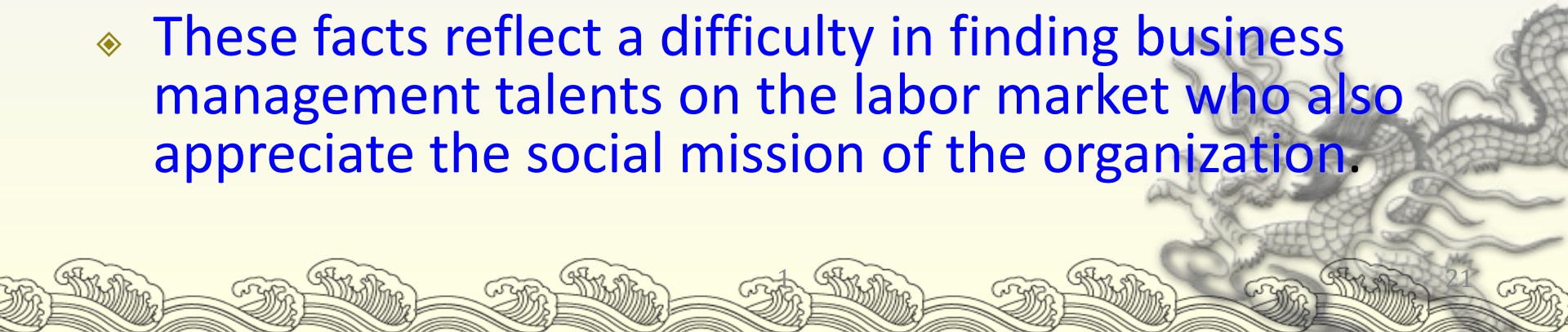
4. Governance: Managers

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



5. Results and Implications

- ◆ These results indicate that upon launching social enterprise in Taiwan, NPO in general has made no major structural adjustments to their board of directors. Besides, organizations which did not set up any designated unit yet were still the most common amongst all responded organizations.
- ◆ More significant changes have been found with their CEOs and SE managers, who have decided to study management in spare time to develop their business management competence.
- ◆ These facts reflect a difficulty in finding business management talents on the labor market who also appreciate the social mission of the organization.



Case Analysis of SE Governance in Taiwan

◆ 4 Work Integration Social Enterprises (WISE)

The most salient type of social enterprises in Taiwan is those WISEs dedicated to employment and poverty alleviation.

◆ **Case 1-- YCSW**

◆ **Case 2-- SLSW**

◆ **Case 3-- TVH**

◆ **Case 4-- CAUSW**

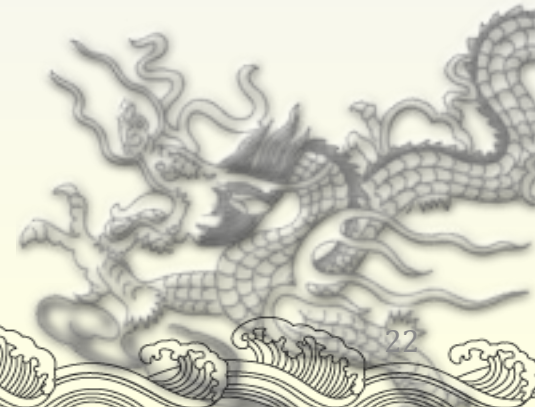


Table 4: Organizational Characteristics-- 4 Cases, Taiwan (1)

	YCSW	SLSW	TVH	CAUSW
1. Year of Org. Establishment	1994	1987	2000	1995
2. Time of Initiation of SE	1996	1997	2000	1996
3. No. of SE Unit	8	5	10	23
4. Types of Service/Product	1) car washing service, 2) bus service for the disabled, product 3) manufacturing and sales (organic food, bread and cake), 4) printing service, 5) resource recycle and sales	1) cloth washing service, 2) cleansing service, 3) car washing service, 4) product manufacturing and sales (manual scented soap, popsicles, gifts), 5) printing service, 6) catering service	1) data entry 2) gas station 3) convenience store 4) product manufacturing and sales (art design, manual colored glaze, cultivating orchid seedling) 5) catering services	1) product manufacturing and sales (bread and cake), 2) catering services

Table 4: Organizational Characteristics-- 4 Cases, Taiwan (2)

	YCSW	SLSW	TVH	CAUSW
5. Total Revenues (2010)	NT\$ 350 M (approx. US\$ 12 M)	NT\$ 280 M (approx. US\$ 9.33 M)	NT\$ 400 M (approx. US\$ 13.8 M)	NT\$ 390 M (approx. US\$ 12.7 M)
6. Revenues from SE (2010)	NT\$ 140 M (40% of total revenues)	NT\$ 40M (14.3%)	NT\$ 390 M (98%)	NT\$ 230 M (59%)
7. Total Staff (2010)	450	400	220	214
8. Staff of SE (2010)	170 (38% of total staff)	160 (40%)	213 (97%)	110 (51%)

SE Cases in Taiwan

Structure of the Board of Directors

- ◆ Three-quarters of nonprofits with boards of directors have less than 16 members, including 2 nonprofits (SLSW and TVH) with 9 members and the remaining 2 nonprofits (YCSW and CAUSW) with 15 members.
- ◆ In terms of the background of the board of directors, there are also three-quarters of nonprofits (YCSW, SLSW, CAUSW) whose composition are formed by 67 percent of board members representing the mental disabled guardians, and the remaining 33 percent recruiting from various professions.
- ◆ TVH is the exceptional case, whose board members are 100 percent recruited from various professions.
- ◆ Consequently, the characteristics of the boards of directors of YCSW, SLSW, CAUSW can be described as “single stakeholder” and “philanthropic governance” while TVH be portrayed as “multiple stakeholders” and “philanthropic governance” .

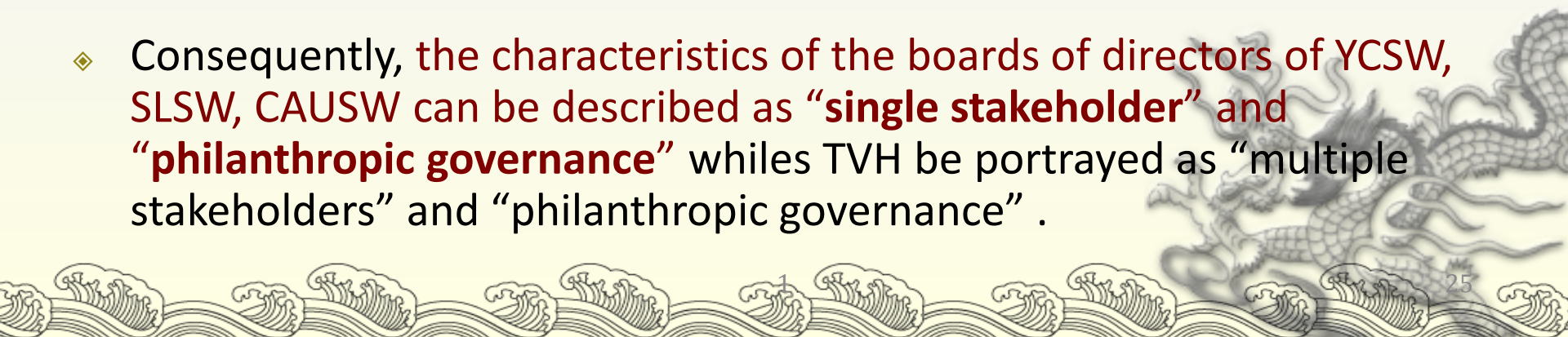


Table 5: Structure of the Board of Directors-- 4 Cases, Taiwan

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



SE Cases in Taiwan

Changes in the Governance Structure and Function

- ◆ In Taiwan, among the four SE nonprofits, three-quarters (YCSW, TVH and CAUSW) had already set up designated units to carry out specified duties in cooperation with other departments.
- ◆ “Enterprise Department” in YCSW, “Social Enterprise Department” and “Sheltered Workshop Department” in TVH, and “Welfare Enterprise Department” in CAUSW were established respectively. Only one nonprofit (SLSW) did not set up any designated unit yet.
- ◆ However, only one (YCSW) of the four nonprofits had set up a “Enterprise Advisory Committee” under the board of directors to help the administrative department to oversee the overall planning and management.
- ◆ From the viewpoints of the four SE CEOs, **their boards of directors played the role and function weakly in running the social enterprise units.**



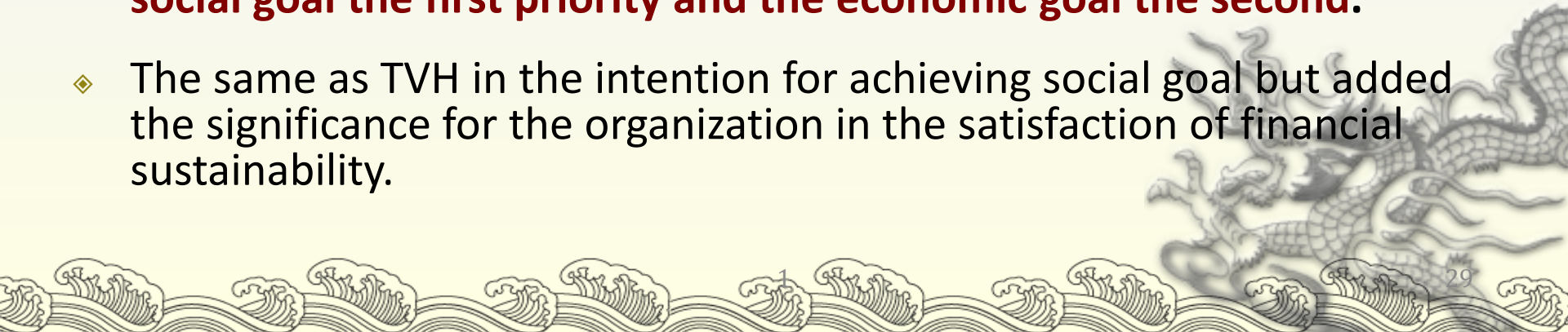
**Table 6 : Changes in the governance structure and function—
4 Cases, Taiwan (1)**

	YCSW	SLSW	TVH	CAUSW
Has the organization set up designated unit(s) to carry out specialized duties in cooperation with other department(s)	Yes! “Enterprise Department”	Not yet!	Yes! (1) “Social Enterprise Depart.” (2) “Sheltered Workshop Depart.”	Yes! “Welfare Enterprise Department”
Has the organization set up a steering committee such as “business and sales advisory and steering committee” under the board of directors	Yes! “Enterprise Advisory Committee”	Not yet!	Not yet!	Not yet!

SE Cases in Taiwan

Changes in the Governance Structure and Function

- ◆ In viewing the adjustments inside the board members, it was found that in Taiwan, **the four SE nonprofits predominantly pointed out that they had made no adjustment in the board of directors arising from setting up the social enterprises.**
- ◆ Concerning the role and function of CEO in managing social enterprise, the four SE nonprofits **either emphasized that they played the dominant role in managing social enterprise units or indicated the dominant role played by CEO was under the support of some key board members.**
- ◆ The majority of the nonprofits (YCSF, SLSF, CAUF) entirely expressed that **the main concerns of their boards of directors in dealing with the affairs regarding social enterprise are to place the fulfillment of social goal the first priority and the economic goal the second.**
- ◆ The same as TVH in the intention for achieving social goal but added the significance for the organization in the satisfaction of financial sustainability.



**Table 7: Changes in the governance structure and function—
4 Cases, Taiwan (2)**

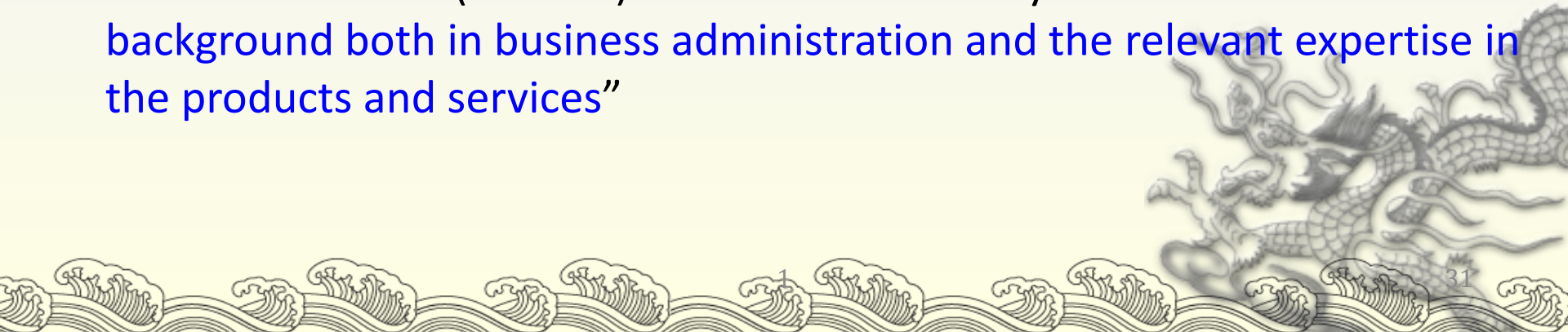
	YCSW	SLSW	TVH	CAUSW
Major concerns of the board of directors in dealing with the affairs regarding SE	The fulfillment of social goal surpasses economic goal	The fulfillment of social goal surpasses economic goal	Emphasizing the importance of both social goal satisfaction and financial sustainability.	The fulfillment of social goal surpasses economic goal
Role and Function of CEO in managing SE	CEO plays the dominant role in managing SE units with the support of some key board members.	CEO plays the dominant role in managing SE units.	CEO plays the dominant role in managing SE units.	CEO/Executive board member plays the dominant role in managing SE units.
Role and Function of Board of Directors from the viewpoint of CEO	The Enterprise Advisory Committee is obviously influential.	Very weak role and function played by the board of directors in running the social enterprise units.	Very weak role and function played by the board of directors in running the social enterprise units.	Very weak role and function played by the board of directors in running the social enterprise units.

SE Cases in Taiwan

Professionalization in the Human Resource Development

(1) Does the current CEO have any background in business administration or any relevant expertise in the products and services?

- ◆ Two nonprofits (YCSW, SLSW) reported “the CEO does not have any background in business administration or any relevant expertise in the products and services”.
- ◆ One (TVH) highlighted “although the CEO does not have any background in business administration, he does have relevant expertise in the products and services”.
- ◆ Then the last one (CAUSW) indicated confidently “the CEO has the background both in business administration and the relevant expertise in the products and services”



SE Cases in Taiwan

(2) Have the current heads of SE units experienced in business management or sales and distribution of products and services?

- ◆ Three-quarters (YCSW, TVH, CAUSW) stressed either all or most of their heads of SE units “have experienced in business management or sales and distribution of products and services”.
- ◆ Only one (SLSW) gave us the negative answer, “these 5 heads have less experienced in business management or sales and distribution of products and services, but more in social welfare professions”.
- ◆ **It seems to us that the evidence found in this study is able to prove that the level of the CEO/Deputy CEO’s profession and the experience of SE unit head in business management or sales and distribution of products and services are highly positively related with the development of the SE nonprofits.**

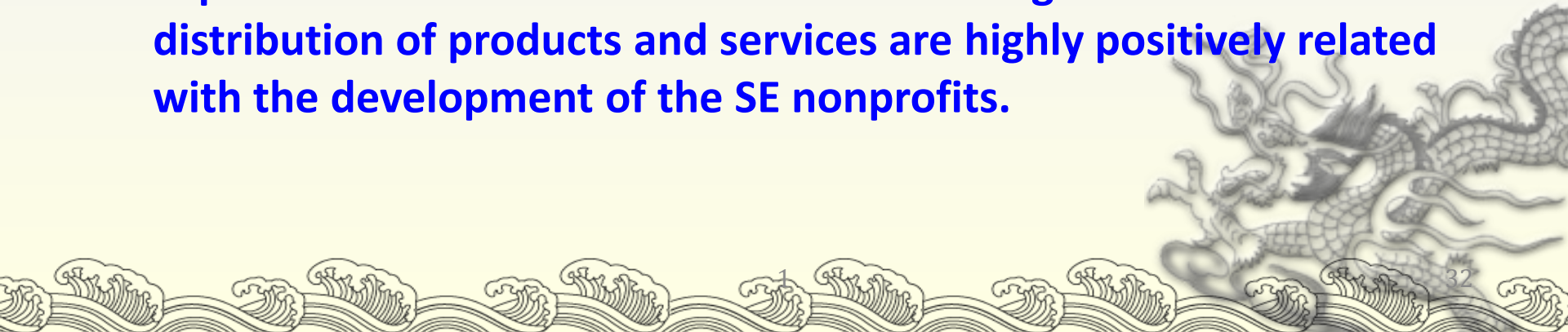
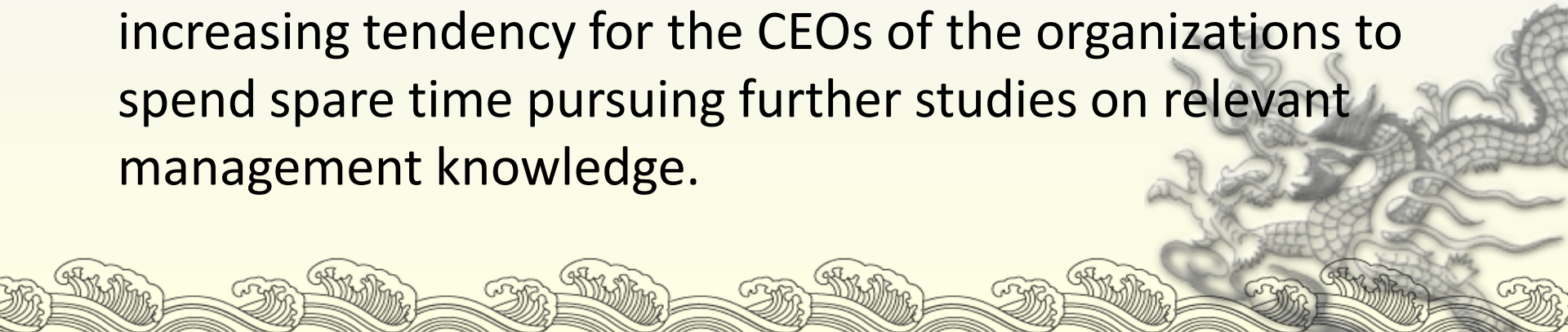


Table 8: Professionalization in the Human Resource Development of SE--4 Cases, Taiwan

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

Implications and Conclusion

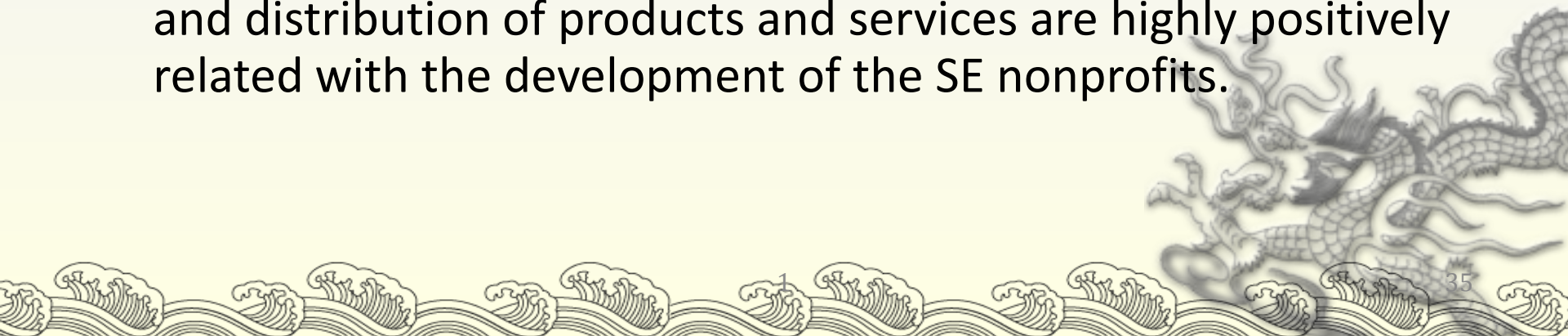
- ◆ In Taiwan, organizations which had not yet set up any designated unit were still the most common among all responding organizations.
- ◆ This is most likely because they are **in the initial stage of running social enterprise** or because those organizations on the whole are still relatively new at running social enterprises.
- ◆ As for the SE's governance in Taiwan, there was an increasing tendency for the CEOs of the organizations to spend spare time pursuing further studies on relevant management knowledge.



Implications and Conclusion

Concerning the findings of the governance of 4 WISEs in Taiwan:

- (1) The social mission of social enterprises was obviously put on the central position;
- (2) They had made no adjustment in the board of directors that arose from the establishment of the social enterprises ;
- (3) Most had already set up designated units to carry out specified duties in cooperation with other departments;
- (4) The professional level of the CEO/Deputy CEOs and the experience of SE unit head in business management or sales and distribution of products and services are highly positively related with the development of the SE nonprofits.



Implications and Conclusion

(5) we found the boards of directors of the four cases played a weak role in running the social enterprise units.

- ⊙ They basically do not hold dominant roles in the decision-making process;
- ⊙ Most of the works are operated independently by the administrative departments.
- ⊙ This finding is echoed with the result from Kuan's study on the NPO governance: In Taiwan, many NPO boards are rather passive.



Implications and Conclusion

- ◆ The prevailing governance theories, both **the corporate and democratic models**, are not able to successfully explain the governance dynamics of social enterprises in Taiwan.
- ◆ When elaborating on the related issues in the governance functions of social enterprise, it is necessary to take into account the factors of context and institutional setting.
- ◆ More significant changes in Taiwan have been found with the **CEOs and the SE managers, who have decided to study management in their spare time to develop their business management competence.**

