

8 From NGO to enterprise

The political economy of activist adaptation in China

Timothy Hildebrandt

That the emergence of non-governmental organizations (NGOs) in China has not provoked a major change in the political status quo already challenges expectations of the effect of such “third sector” actors in non-democracies. As I have shown elsewhere (Hildebrandt 2013), rather than undermine the Chinese state, many NGOs have helped strengthen it. These organizations primarily exist because of their unique ability to provide a needed service to society, thereby doing work the government lacks the political will or capacity to do itself. Chinese NGOs resolve problems that, if gone unaddressed, might undercut the legitimacy of the Party. Because their existence is dependent upon the usefulness they have to the state, NGOs adapt their activities to match government interests; and in doing so, they secure key political opportunities. As discussed in the previous chapter, it is thus imperative to understand what explains a lack of state-NGO collaboration.

While we have a better understanding of how these organizations rose within an otherwise closed political environment, we know considerably less about the rapidly changing nature of NGO development and, therefore, the likely future of these organizations. How will Chinese NGOs confront a future where the state is better able to deal with social problems and no longer needs their assistance in social service delivery? Or when they have done a ‘good enough’ job in tackling their issue of interest, when they must exist in a post-success environment? In addition, how can Chinese NGOs survive in an environment where they lack domestic sources of funding and foreign donors are retreating? To deal with these constraints, many Chinese NGOs have adopted new models of funding that resemble more social enterprise than NGO.

The adaptive character of Chinese NGOs extends to the strategies they use to secure longer-term economic opportunities. Many organizations have shed traditional non-profit models in favour of more sustainable for-profit ones: a prominent environmental NGO in Beijing has been reinvented as an environmental consulting firm, servicing clients in government and industry; a community centre originally devoted to HIV/AIDS education has introduced sales of alcohol, recreating itself as a bar; a gay website initially intended to serve as an outreach tool is now supported largely through advertisements for prostitution services, becoming a place for gay netizens to find sex.

However, we lack theoretical understanding of this shift: on one hand, there are very few compelling theories to understand changes within NGO orientation, theories of isomorphism discussed previously notwithstanding, especially when an NGO becomes something decidedly different; on the other hand, scholars of social entrepreneurship have yet to present compelling explanations for why an organization *becomes* a social enterprise from a different form. As such, in this chapter I posit a political economy explanation for this activist adaptation in China, showing how the limited economic resources and the closed political environment compels NGOs to operate more as businesses if they wish to continue their work unabated. In doing so, I am presenting an explanation for ‘post-success’ NGO evolution not just in China, but any polity wherein activists face economic and political pressures.

This chapter thus begins from the observation that Chinese NGOs have increasingly embraced more strategic, decidedly economic orientations rather than purely principled ones, signalling the rise of what can be called “social entrepreneurship” in the country. I show that academic training and previous work experience have allowed NGO leaders and activists to more easily apply entrepreneurial business principles to traditionally non-profit organizations. But that which allows these leaders to adopt such strategies is insufficient to explain why they do so. In other words, the training and education has made this “business turn” *possible* but does not show why it is *necessary*. Both political and economic pressures require these strategies to ensure survival both in the immediate term and the long term. There are also important implications to this orientation which, at the very least, demand a new understanding of modern NGOs in China (and other polities), and could foretell a grim future for activism in China.

This chapter draws upon data collected as part of a larger multi-case study on NGO–government relations in China (see Hildebrandt 2013). Field research was conducted in Yunnan, Sichuan, Henan, and Beijing from 2007 to 2008. Multiple methods (including in-depth interviews and a nationwide Internet survey) were employed to gather data from NGO leaders in three key issue areas: environmental protection, HIV/AIDS prevention and treatment, and gay and lesbian rights.

This chapter represents simply the start of a much larger investigation that is required to fully understand adaptation and change amongst activists in China (and elsewhere). Having identified a trend towards social entrepreneurship among Chinese NGOs, it sheds light on this phenomenon by describing shifts; finds new theoretical frames to explain the trend; understands the reasons for it; and begins to speculate on the implications of this rise in social entrepreneurship in China. The chapter proceeds as follows: in the first section I establish major gaps in understanding NGOs in a ‘post-success’ environment, drawing upon survey data to demonstrate the pervasiveness of an economic orientation of NGOs and activists. Next, I outline the theoretical framework on social entrepreneurship, exploring the divergent definitions and gaps in the literature as they relate to political conditions that provoke economic behaviour, and discuss the conditions that make this orientation a viable option for them. In the fourth section, I propose a political economy rationale to explain why NGO leaders have made these adaptations;

finally, I outline implications for this shift, in particular those that could put activism in danger.

The puzzle of ‘post-success’ and the promise of the social entrepreneur

Understanding the puzzle of activism in a ‘post-success’ environment is difficult because the vast majority of scholarly attention on social movements is paid to their emergence, as well the struggles that movements have in achieving their key goals. But interest in these movements seems to wane once these goals have been achieved. While there are a large and diverse set of reasons for this gap in understanding, three explanations go far in explaining why much of the current literature of activism inadequately captures ‘post-success’. First, some studies of activism presume that individual activists operate for the purpose of resolving one, or several, big social problems. They are essentially a functional unit, and success should represent the endpoint of the activist as a functional actor. Second, many studies of activism assume that the emergence and activity of an NGO should, in the aggregate at least, lead to political change. And until this happens, success is not achieved. This definition of success precludes the possibility that Chinese NGOs might even be faced with a ‘post-success environment.’ Finally, and most directly relevant for this chapter, studies of activism long presumed individual activists and NGO leaders to be idealistic actors. This normative-laden assumption makes it difficult to understand both why, and how, activists might adapt their character to changing conditions. As I have shown in great depth elsewhere (Hildebrandt 2013), it is necessary to understand activists to be rational actors, a real *homo economicus*, in their adaptations.

To be sure, conversations about ‘post-success’ might seem premature when discussing Chinese NGOs. Many of these organizations only recently emerged and few could be described as fully mature. Moreover, those groups that have been the focus of my research over the last decade (environmental protection, HIV/AIDS protection, and gay and lesbian rights) remain far from ‘solving’ the ambitious goals they sought to achieve. But in this chapter I argue that it is necessary to think of success in a more liberal sense. In some instances, NGOs can do ‘well enough’ in addressing their areas of concern that both global and local urgency drops considerably. In China, this has begun to occur in the HIV/AIDS community, with international donors retreating as the problem has been controlled enough that, in their estimation, domestic actors can address it alone. Elsewhere in this book, Carolyn Hsu points to a similar problem when examining the China Youth Development Foundation: it may well have become too good at its job and a victim of its own success. In other instances, an NGO can face a ‘post-success’ world simply when the larger environment in which it operates has changed. In China, economic success for the country at large has created an image of a successful, prosperous nation, one that no longer needs international assistance. Environmental NGOs faced this situation by the mid- to late 2000s when the international donors they relied heavily on (e.g., international NGOs, foundations

and corporations, bilateral aid) withdrew, often to satisfy constituents back home who disliked the concept of their aid being sent to a country increasingly seen as an economic competitor, not a needy developing country (Hildebrandt and Turner 2005).

All of this is intended to show both that we know little about NGOs after success and that to begin this exploration it is necessary to broaden our understanding of success itself. Having thus recalibrated our definition of success, we can more clearly analyze what is actually happening to NGOs that are facing these changing conditions. As noted above, individuals who run NGOs are usually presumed to be socially minded, altruistic, and principled. They are distinguishable from other organization leaders in that they aim to bring value to a wide variety of *stakeholders*, not shareholders. Such a “principle motive,” rather than a “profit motive,” might lead us to assume that the strategies these leaders use would be different from those in the for-profit sector. However, even partial business models supplementing more traditional non-profit fundraising have long been utilized by NGOs around the world to ensure long-term financial security. In Sichuan, for example, an environmental group has maintained a staff of four full-time paid members for nearly a decade; 50 per cent of its operating budget comes from the sale of environment-related books and photographs (while the remaining half comes from international and domestic donors).¹

Some Chinese NGOs have gone beyond this hybrid model. More than supplementing traditional non-profit fundraising, these groups have used for-profit business models as the primary, and sometimes only, means of maintaining their operating budgets. As mentioned in the introduction, an NGO leader who has received significant international attention and praise for his work on water quality and quantity issues in China has reinvented his group as a consulting firm. Although the organization maintains an interest in bringing attention to issues of environmental degradation, it is primarily funded by the consulting work it performs for clients in both government and industry. A teahouse in Yunnan province was founded as a safe community space for the dissemination of HIV/AIDS education to high-risk populations (see the Teets and Jaguszyn chapter), most notably gay men. Due to diminished financial support from international donors (and the prodding of government partners to make the space more sustainable), the teahouse started to sell beer, contrary to its original mission and the wishes of its international donors. It thus began to mutate into a gay bar. A gay-oriented website was originally founded as an alternative, virtual community space to network with homosexual netizens who are isolated in more closed cities and towns. But to sustain the site, its operators began to accept paid advertisements from male sex workers. The virtual community centre thus shifted into a “hook up” site.

It is difficult to measure how many NGOs boast an orientation that makes them identifiable more as “social entrepreneur” than “activist”; as other scholars note, social entrepreneurs can be identified neither by their “legal form” (Austin et al. 2006: 2) nor by how they self-identify, but rather by their behaviour and the nature of their activities. That qualification aside, evidence suggests that these are indeed a trend, not just a series of isolated events. Legal registration rates of NGOs

provide some guidance:² among survey respondents whose organizations have become legally registered (approximately 40 per cent), a significant portion have not been registered as NGOs, even though they self-identify as such. Of survey respondents from the HIV/AIDS issue area who obtained legal registration, over half were registered as businesses or consulting firms; among registered gay and lesbian organizations, 67 per cent were similarly registered.

That Chinese NGOs coexist with the government and do not challenge the Party's monopoly of political power already demands that we set aside problematic assumptions about the goals and internal orientation of NGOs elsewhere in the world. This is best exemplified by civil society literature that predicts that the rise of this "third sector" will serve as an antagonistic and potentially destabilizing force against authoritarian regimes. Likewise, this marked "business turn" further requires another way to conceive of Chinese NGOs; in particular, it is helpful to draw on other insights that can help us understand activists as economic actors.

This business turn among Chinese NGOs is best situated within the literature on social entrepreneurship. While several related studies in economics, sociology, and business have used the term "social entrepreneur," there is no consensus on its definition. The numerous definitions and applications of the concept accommodate for tremendous variation; an organization can be more "social" in some cases and more "entrepreneurial" in others. In their description of social entrepreneurs, Peredo and McLean (2006) explain that organizations can display varying levels of "social means" orientation: at one end of the spectrum – social entrepreneurship in its most minimal form – these are ventures that boast social goals but that are still subordinate to profit accumulation. This social entrepreneur is a business leader who uses social issues and "cause-branding" to increase profits. For example, Ben and Jerry's Ice Cream is cited as a prototypical for-profit business venture that built itself around core social goals, such as supporting family farms and environmental sustainability. At the other end of the spectrum are NGOs, organizations that operate exclusively in pursuit of social goals but use business strategies to do so. The organizations I discuss in this chapter are (at least as originally conceived) non-profits in pursuit of alternative funding strategies.

One common thread in the many conceptualizations of the social entrepreneur is the idea that these individuals are particularly adept at identifying opportunities not obvious to everyone (Hayek 1945; Kirzner 1973).³ Of course, a successful social entrepreneur must do more than simply identify an opportunity. Therefore, Thompson outlines three more key steps: engaging the opportunity in a way that effective change is made, acquiring the necessary resources to do so, and, finally, successfully completing the project (2002: 416). The first and second steps are probably the easiest. The third, acquiring finances and other resources, is particularly difficult in China, but one that most sets social entrepreneurs apart from traditional activists. Indeed, Mair and Marti (2006: 37) identify social entrepreneurs primarily as those who "create value by combining resources in new ways." Some scholars contend that these individuals are inherently risk tolerant, innovative, and proactive. A more satisfying and complete definition for our purposes contends that social entrepreneurs "create social value, through a combination of

identifying and exploiting opportunities, employing innovation, tolerating risk, and declining to accept limitations in available resources” (Peredo and McLean 2006: 56). Social entrepreneurs are “social” in that they often assume more risk in order to make profits for *society*; the risk might be, in the case of authoritarian polities, political reprisals. But as Tan et al. suggest, risk is also measured by the level of uncertainty of maintaining support (and resources) over time (2005: 361).

Many emphasize that there is a normative good associated with social entrepreneurs and their work (Sullivan Mort et al. 2003). But some do not exclude non-altruistic (material) motivations when using the term (Mair and Marti 2006; Shane et al. 2003). Thus, another advantage of using this social entrepreneurship framework to explain Chinese NGOs is that it treats the individual entrepreneur (i.e., an activist, the leader of an NGO) as not purely or only altruistic, but also as *homo economicus* – an economic actor: he is potentially selfish and sometimes pursues opportunities for personal fulfilment (see Mair and Marti 2006: 38).⁴ *Contra* Keck and Sikkink (1998: 2) and others, Sell and Prakash argue that NGOs, like businesses, are also guided by instrumental and material concerns and it is for this reason that they suggest the two should be studied through a similar lens (2004: 144).⁵

The term “social entrepreneur” already seems to resonate with some stakeholders. Leaders of these NGOs are said to have increasingly adopted what one observer calls a “resource agenda.”⁶ A long-time observer of Chinese social organizations carries the entrepreneurial analogy far: these NGOs have two distinct groups of “customers,” the funders and government (that is, those who keep them in business most directly and often have a controlling interest), and the communities serviced by the group.⁷ Still, there are limits to this framework and large gaps in the literature. The concept is deficient in that it does not adequately explain change or movement along this spectrum; it does not identify what might make an individual organization, or organizations generally, change over time and become more economic and less idealistic. The literature does not discuss, but this chapter contends, that the overall environment and its lack of adequate economic opportunities have played a key role in forcing leaders to change their strategies and ultimately their core goals and internal orientation. I argue that it changes the “way they tick” and the effect that these organizations can have on society.

How is social entrepreneurship possible? Survey results on activists’ backgrounds

The business turn in China is particularly puzzling given that many NGO leaders cite the influence of similar organizations outside the country that have *not* embraced such strategies. Having identified a trend of Chinese NGOs adopting a business orientation often as a survival strategy, I sought an explanation for why it existed and speculated it might have to do with the leaders themselves. As the literature on social entrepreneurship suggests, there is something unique about these individuals in that they can identify opportunities and then exploit them, when most others cannot (or will not). Therefore, to better understand why their

actions are shaped so strongly by the economic opportunities available to them, the survey asked several questions pertaining to the backgrounds of these leaders. Survey questions inquired about academic training and previous work experience to help show what set them apart from the modal Chinese citizen and why these leaders behave like social entrepreneurs.

Survey results show that most organization leaders have advanced degrees and many previously held jobs in finance-related sectors. While a surprisingly large proportion of leaders report having only completed high school, most are highly educated: with little variation across all three issue areas, 27 per cent of respondents either did not begin or complete post-secondary schooling, while 49 per cent held bachelors degrees, 17 per cent held masters degrees; 6 per cent were medical doctors, and 3 per cent have Ph.Ds. Although respondents reported having engaged in various fields of study, financial-related training (e.g., sales, business management, economics, accounting) was most common at 24 per cent.

Although interesting, educational background does not tell us about leaders' real-world, professional experiences, which can have as much if not more of a transformative effect on an individual. If an activist is a decade or more removed from university, education might not be very illuminating when trying to explain his or her economic orientation. When asked about employment prior to current leadership position in a social organization, the plurality of respondents (38 per cent) reported work in business or industry. Over 20 per cent of leaders had no previous work experience, having come directly from university. Fewer than 20 per cent had worked in other NGOs, either domestic or international, and less than 15 per cent previously held positions in government. Although the survey found no significant variation across issue area on the question of previous work experience, one outlier is important to note given patterns in funding and issue area growth: most gay and lesbian leaders, 51 per cent, previously held positions in business or industry, compared with 23 and 33 per cent for HIV/AIDS and environmental organizations, respectively.⁸

Why is social entrepreneurship necessary? A political economy explanation for change

Although survey data might help reveal why business strategies are successful, it does not sufficiently explain why an NGO adopts them in the first place. After all, variation exists among Chinese NGOs. Not all social organizations boast this economic orientation to the same degree; an NGO with a business-trained leader might very well still behave like a traditional NGO. To that end, the existing literature is not particularly helpful. Previous scholarship on social entrepreneurship has been primarily descriptive and focuses on the individual. It questions what kind of person becomes a social entrepreneur and what about their work distinguishes it as "social." The largest gap in the literature, and thus the area for most promising future scholarship on the topic, lies in the question of *why* a social entrepreneur behaves as s/he does (Shane and Venkataraman 2000: 218). In an attempt to answer this question, I posit a political economy explanation of

Chinese social entrepreneurship: political and economic conditions ultimately put them into a position where a business turn is the best (if not only) way forward.

NGOs exist in China, in large part, because of a demand for the services they are uniquely able to provide. This demand is oftentimes the result of problems associated with the breakneck pace of economic development throughout the country (e.g., environmental degradation) and the diminished capacity of the state to properly address them. The need is there in China, as it was in the United Kingdom over a decade ago when Leadbeater argued that to deal with pressing social problems, the British welfare system could be aided by the help of truly “enterprising” but “socially-minded” individuals (1997). A similar-sounding call has been made by central and local government officials in China.

NGOs must provide this service in order to enjoy political opportunities, but in order to do so they must first secure adequate economic resources. As difficult as the political environment can be for NGOs in China, the economic barriers are even more vexing. Economic opportunities are defined, restricted, and sometimes given by the state; in essence, they are often deeply intertwined with political opportunities. The limited and highly restrictive nature of economic opportunities in China have ultimately forced the hands of NGOs into adopting alternative methods, namely for-profit business models for raising funds.

As previously explained in this book, in order to legally fundraise, Chinese NGOs must be formally registered. To bypass this, a large proportion of self-described NGOs have registered as businesses. Business registration is easier to secure and often less restricting than NGO registration; most leaders of organizations that have chosen this path to formal registration report that government interference is relatively low and financial freedom quite high. But it is not free from costs. An organization registered as a business is not always doing so out of pure freewill. Sometimes their hands are forced by the difficulty of registering as a non-profit, non-governmental organization. Like social organizations registered as NGOs, groups registered as businesses must also have a professional supervising body (*yewu zhuguan bumen*).⁹ Once registered as a business, this ultimately requires an organization to behave more like one, if for no other reason than that this type of status requires that they pay a tax bill (Ma 2004: 68);¹⁰ paying taxes demands that an NGO raise even more money than it needed as a non-profit. Thus, organizations are further forced to adopt more creative fundraising schemes.

Chinese NGOs have emerged and grown due in large part to the support of international funders; 64 per cent of survey respondents received at least half of their financial support from outside China. As Teets and Jagusztyn show elsewhere in this book, civil society organizations are also under threat of becoming too reliant upon local governments as well. This heavy reliance on a single funding stream has made organizations particularly vulnerable and places their long-term financial future in doubt. As interest in certain areas wanes (e.g., environmental protection projects), NGOs are left with fewer options to offset the lost main revenue source. In recognition of the impending retreat of international funders, some foreign development agencies have encouraged and trained them to embrace these alternative financing models. In 2007, I attended a meeting in

Beijing (sponsored by an international development agency and various government bureaus) designed to teach NGO leaders business-marketing tools that could attract volunteers to their organizations and increase their overall capacity. Based upon the language these leaders used, it would be hard to distinguish the crowd from other entrepreneurs. The instructor reported that this “entrepreneurial framework” approach not only works, but is best understood by the audience.

HIV/AIDS and gay and lesbian groups in particular draw a large proportion of their funds from international funders. However, most of these monies are distributed through a “filter model” wherein foreign donors first transfer funds to the government and then the government (and its local agents) choose which organizations will receive the funds. Recipients report that this has been one of the more reliable sources of financial support and the easiest way to maintain sustainability. However, this creates its own set of problems. Not only does this mean that they too are vulnerable to the retreat and waning interest of international funders, but in order to ensure that they receive these funds, they must remain close to government agents. In essence, both the cause of receiving the funds from the state and the effect of it is that groups are embedded with the government. As a result, these NGOs lack real independence. Recipients acknowledge as much, and understand that to have more independence in their operation they must develop new ways of securing finances outside of this money.

As international support for NGOs is withdrawn, we might expect these organizations to tap domestic sources of support. Elsewhere in this volume, Shawn Shieh sees some positive signs for NGOs relying on this domestic resource base, what he calls the ‘societalization’ of organizations. But this can be difficult, not because China lacks any philanthropic culture (or that it is somehow a society that is incompatible with charitable giving), nor is there a lack of citizens with enough resources to give. Quite the contrary; an uptick in Sichuan earthquake donations is evidence of a willingness of Chinese citizens to give generously. However, philanthropic giving towards domestic NGOs is stunted because the Chinese government has established several “official” philanthropic organizations. If large corporations or prominent businesspeople wish to donate money for reasons other than pure selflessness (e.g., attempting to curry favour with the government), it makes most sense to direct those funds to the bodies that the state publicly acknowledges are the best means to do so. Among the wealthiest Chinese, when donations are not made to these official philanthropic organizations, they are most frequently given to foundations set up by the donors themselves; *Xinhua* reports that in 2008, three-quarters of monies donated by China’s top 100 philanthropists were directed towards personal foundations.¹¹ Indeed, Shieh contends that funding for NGOs is still a big, unanswered question.

Another more traditional means of gathering funds for NGO operations is to collect member dues. This model remains one of the more popular means of securing financial stability among non-profits in the West. However, such member-based models introduce complications that make it a very problematic means of collecting funds. One of the oldest surviving environmental groups in Yunnan, founded in 1998, tried this tactic. But by exploring new economic

opportunities, it lost political ones. The leader noted that as a member-based organization, it had a hard time being exclusionary; it was unable to control “unruly” members who were more antagonistic towards the government, putting the group and its work in peril. Moreover, he noted that the frequent large meetings necessary under the member-based structure required the group to regularly inform the government, which severely limited the frequency and candidness of their meetings. After only a year, the leader concluded that being “project based” (i.e., relying on project-specific outside grants) allowed the group to do its work and not risk attracting the ire of government officials.¹² Organizations like this are left with no good option: by abandoning the member-based model, the group returned to a far more sporadic, unreliable source of funding, making its long-term future financially more uncertain.

Finally, there are both cultural norms and emerging laws that make operating as an NGO prohibitively expensive. Notably, attracting and keeping volunteers is made difficult by the expectation that volunteers be paid, either in-kind (e.g., meals, accommodations, transportation, gifts) or pecuniary compensation. A recent city-wide regulation in Beijing that mandated Olympic volunteers be compensated for their service gave official credence to this odd practice; one leader bemoaned its passage, arguing that it would put an even greater financial stress on already cash-strapped NGOs.¹³

In sum, it is incredibly difficult for groups to stay as traditional non-profits and continue to exist. Together, the political economy of Chinese NGOs suggests that alternative funding mechanisms are not really alternatives at all, but rather the only way forward for NGOs. As a result of limited and restricted opportunities, organizations are left with little choice but to make this business turn; and sometimes the social goals upon which these NGOs were founded become obscured or lost.

What effect will it have? Implications of social entrepreneurship for activists (and rights)

Is social entrepreneurship the end of history for activism, the logical and inevitable end form of NGOs in China? Whether or not it represents an endpoint (from which there can be no return to traditional activism), what does the rise of social entrepreneurship mean for activism in China? What effect will it have on the issues and principles upon which these organizations were originally founded as well as the future for rights protection and expansion, which activists are presumed to be great champions of? Since NGOs themselves are still new to China, the evolutionary process that has mutated these social organizations to social enterprises has just begun. Although evolution can be a fast process, and as I have shown there is adaptation and mutation already, it is still too early to tell definitively.

But there are a series of logical implications that flow from these adaptations that I would characterize as both positive and negative for activism in general. On the positive side, evolution towards social entrepreneurship can ensure financial independence, allowing activists to engage in work more of their choosing;

it can contribute to longer-term sustainability; and business models can actually be very effective at messaging, branding, and overall change making. I foresee that the negative consequences of this shift, however, far outstrip the positives: organizations might become less social (oriented more towards profit), thus moving away from the original issues that demanded attention to begin with. Since political opportunities come from the services NGOs provide, if in becoming a social entrepreneur they stop providing the service, it can amount to a lost political opportunity. Thus, the likelihood that these evolved organizations can affect political change will decrease further, because these social enterprises might benefit from the status quo and lack incentive to upend it. NGOs that are more like businesses have a new set of business challenges from which they were previously immune: in other words, an evolved form is not always sustainable over the long term; the fittest among NGOs might not be the fittest among businesses.

Financial independence. Although my evolutionary model of social entrepreneurship suggests that adaptations stick primarily because of environmental change in the political economy of activism – that is, organizations have little choice but to modify tactics – there are reasons beyond such environmental change that compel organizations to employ business tactics. The most popular reason is general frustration with the limitations that outside funding places on activities of an organization. In accepting financial support from donors, activists implicitly or explicitly agree to abide by the donors' priorities and methods. There is little opportunity for organizations to pursue activities that they feel are most important to their communities and/or of greatest interest to those who work within the organization. This is particularly apparent among gay activists who have relied heavily on HIV/AIDS monies: such funding schemes have demanded that these organizations adopt a "public health" frame in their activities and set aside engaging in any issue other than HIV/AIDS. Financial independence afforded by a social entrepreneur approach will allow these organizations to operate with more of a "human rights" frame (like lesbian groups that have not received significant HIV/AIDS funding). In this respect, evolution towards social entrepreneurship could bode well for future efforts to protect and expand rights.

Organizational stability. A side effect of an organization that is allowed to do work of its own choosing, rather than that of a donor, is that those within it are more likely to stay devoted to the cause and not depart the organization. This is just one part of the longer-term sustainability that the social entrepreneur model brings to activism. Of course the very logic of the evolutionary model tells us that survival dictates adaptation; only the fittest tactics for activists will sustain over the long term. Provided it can maintain its focus and stay true to the cause, a social entrepreneur approach to activism helps ensure that these organizations will be around for the long haul; when it comes to rights expansion in a closed authoritarian polity like China's, sustained action over the long term is necessary (although not alone sufficient).

Effectiveness of social marketing. Business tactics are not simply those that might allow an organization to *survive* over the long term, but also *thrive*. The success of NGOs elsewhere that have used such tactics – such as social branding,

issue placement, cooperative campaigns with traditional business, media, and government – shows that they can bring more than mere survival, but also more effectively promote their organizations' interests and goals. In other words, the very business orientation that helps an activist organization survive while others go extinct might also allow them to do their job even better.

More “entrepreneurial,” less “social.” Not surprisingly, definitions of the social entrepreneur draw particular attention to the “social” aspect; there is the assumption that these individuals are engaged in this work, rather than traditional and straightforward business entrepreneurship, because of a genuine desire to help – an altruistic “guiding force” (Roberts and Woods 2005: 46). Social entrepreneurship is thus a comfortable middle ground between “business and benevolence.” But could there not be change? Could sequential iterations of the social entrepreneur abandon this middle ground? On this question, like most matters of change, the literature is relatively silent. Austin et al. (2006: 9) note that the demand for addressing social issues often can come during times when attracting resources to tackle them are in short supply. For Chinese NGOs, this is the rub: the need for their services is high because resources are few and far between from the state; but sustaining themselves, and continuing their work is difficult because, again, resources are difficult to secure for them as well. At the same time, the demands for these organizations to do more, and proliferate, continues to rise. If groups answer these calls and are able to expand, what is the cost? Some suggest that it could mean, ultimately, a lost mission because of the necessity to divert attention to collecting funds (ibid. 2006: 7).¹⁴

Moreover, as shown above, these social entrepreneur leaders are by their very definition better prepared to recognize economic opportunities and take advantage of them. Like traditional business entrepreneurs, however, they will also pursue the maximum financial rewards with minimal effort. This can mean (and interviews confirm) that leaders are exceedingly short-term oriented, which makes preparation for the future difficult. Many have pursued this line of work at least partly because there were adequate economic incentives to attract them (Frohlich et al. 1971; Oberschall 1973; Olson 1965; Salisbury 1969). That social entrepreneurs might be motivated by material rather than altruistic concerns raises the likelihood that, as a social organization loses funding and it grows increasingly difficult to attract new sources, overall performance of the group will suffer (Weinstein 2005). Moreover, if the costs of leading a group start to outweigh the benefits, these social entrepreneurs can be expected to move to other employment, including to for-profit sectors (Breton and Breton 1969).

Leaders foresee this as a problem, one that might forever damage their reputations. A well-established environmental leader is open to doing work as a consultant to ensure financial stability, but when it comes to charging for access to the organization's pollution database (the most public face of their work), he insisted that they had no plans to do so. He was concerned that this would lead others to assume his motivations were purely financial and that he was not interested in actually attacking pollution, their primary concern.¹⁵ Perhaps, as Chris Heurlin shows in his chapter, the adaptation of NGOs to social enterprises will further

erode what he sees as relatively low levels of trust and faith in these organizations amongst the general public.

Lost political opportunities. If NGOs enjoy political opportunities because of the service they provide – and if in their new form they move away from providing that service, losing the “social” aspect – moving to a business model can also lead to a loss of political opportunity. A gay group in Yunnan operates a for-profit, advertiser-supported gay website.¹⁶ This business model raises some problems, as their major advertisers are “money boy” (male prostitute) services, which are illegal; the website is thus vulnerable to being shuttered by government censors. This case might be extreme. But in other instances, NGOs that have secured business registration and not engaged in explicitly illegal activities have still seen their political opportunities stripped away: The well-publicized case of *Gongmeng*, a legal research and aid centre in Beijing, demonstrated the problems associated with registering as a business. Local officials used the centre’s default on taxes (a key downside of business registration rather than non-profit NGO registration) to raid its offices and revoke its license.¹⁷ This case also suggests that just because an organization makes the formal moves towards social entrepreneurship does not mean the government presumes they have shed their activist stripes.

Inability to affect political change. As I show elsewhere, domestic NGOs in general have had limited success in affecting even low-level, incremental political change in China. This chapter attempts to answer the calls of scholars of social entrepreneurship who suggest that future research should examine how the embeddedness with political institutions and government structures that allows them to flourish can also inhibit original goals of social change “particularly when those initiatives involve changing the rules of the game” (Mair and Marti 2006: 42). The mutation of NGO leaders into social entrepreneurs can be seen as an effort to make organizations less dependent upon and embedded with the state. Perhaps the rise of social entrepreneurs also marks the rise of independence among social organizations. However, insights from the study of *business* entrepreneurs in China lead me to be less sanguine. As these organizations become even more “entrepreneurial” than they are “social,” they could follow the lead of more traditional ones in not actually pushing for change or otherwise challenging the government. With a vested interest in the system as it stands, these actors have little incentive to upend it. They will, above all, seek to protect their own interests, which can include moving closer to the government, becoming more deeply embedded, in order to improve their performance and ability to attract financial support (Choi and Zhou 2001).

New forms bring new challenges. Becoming more business-like has its advantages (and as I show above, many NGOs have few options to do otherwise). While these new models mean that many have access to previously untapped resources, they will also be confronted by a new set of challenges unique to business, challenges that they might not be prepared to confront and overcome.

As these NGOs increasingly look and behave like business, the expectations placed upon them might increase. For instance, they should expect that employees will no longer be willing to work for previously below-market-rate salaries.

Literature on social entrepreneurship acknowledges this problem and understands that many similar organizations cannot pay business market rates for new hires and current employees (Austin et al. 2006: 11). This could lead to failure of the organization completely as it tries to reinvent itself, or alternatively it could mean that it becomes more for-profit and loses its original mission. It is difficult to go only halfway: by becoming a little bit business-like, they will likely be forced to quickly become even *more* business-like, not only to thrive but to simply stay afloat.

In adopting a more business-centred model, NGOs might well run into the same kind of competition that was debilitating in the purely non-profit phase of their existence. A government official in Yunnan pointed out that the number of environmental NGOs in the province has dropped significantly because many are reinventing themselves as for-profit businesses; in some cases, however, after leaving their non-profit roots, they are pushed out by more experienced businesses that do similar work.¹⁸ One funder recounted a situation where two teahouses in Yunnan and Guangxi provinces were created as community centres to reach out to the gay community and provide a forum for HIV/AIDS prevention education. As they began to integrate commercial components into the venture, the teahouses began competing as businesses, and all previous cooperation broke down. When invited to NGO meetings, the divisiveness grew to the point that they would not attend the same meeting. Competition for previous constituents has now turned into competition for customers. The cost of making these groups sustainable by pursuing a commercial route could therefore work against the interests of the community, not to mention civil society writ large. Carolyn Hsu's research in this book finds that, indeed, NGO leaders do not necessarily make good business people. She quotes Gu Wei of CYDF: "I found running a business was full of hardship. If you're not careful, you lose money. We are not businessmen."

A spartanly furnished teahouse serves as a popular LGBT community centre in Kunming. Each weekend night, the venue is packed, mostly with gay customers. While they are there for the opportunity to socialize, customers always politely sit through the lectures about safe sex that are interspersed between the night's entertainment – usually a drag show. The logic of the social organization that runs it and the international donor that encourages it is that HIV/AIDS prevention efforts can piggyback on more appealing social activities. The audience is captive and thus organization efforts are assumed to be more effective. This business model works now because it is one of the few gay bars in town and just about the only affordable one. Over the long term, the model is likely to be unsustainable as the city grows and more alternatives for entertainment, without lectures, become available. In other words, this model might be a good short-term fix, but not a viable long-term solution.

How can we know for sure? Operationalizing, measuring, and generalizing

As discussed in the beginning of this chapter, the puzzle of post-success is not unique to China. Activists and NGOs in polities around the world, both

authoritarian and democratic, face similar political and economic pressures. Provided these organizations' leaders have sufficient drive to stay alive, institutional inertia might well keep them afloat albeit in a decidedly different form from their earliest beginnings. This chapter has thus theorized one way of understanding both how and why this adaptation might occur. Moreover, it has suggested that these adaptations toward a social enterprise model can hold both promise and peril for the future of activism.

Although this chapter presents a compelling explanation of how the process might play out among NGOs in China, future research on the adaptation of NGOs into social enterprises faces some key challenges. It must confront basic questions like: at what point does an evolving NGO become a social enterprise? Must a leader identify as a social entrepreneur to be categorized as such? Moving forward in this line of enquiry thus requires the operationalization of "business-ness" of an organization's strategy. This could be achieved several ways: in interviews and surveys, leaders could be asked quite simply if they have employed business tactics, but this requires a great deal of self-reflection and self-awareness that might not exist. Alternatively, having collected the strategies of an organization reported and observed, an organization could be ranked in its level of "business-ness." This task achieves the goal of assessing the state of NGOs today but does not uncover the other important question about change. To fully understand how they got to where they are today, we must better capture where they were yesterday.

While NGOs in China are not very old, comprehensive (or even illustrative) data do not exist; no large-scale studies were conducted which could show us where these organizations were 15 years ago. Evolutionary biologists must frequently deal with this problem, as there are very few instances where they have access to old data in the system in which they are interested. To fill these gaps, biologists employ a "space for time" substitution approach: researchers identify two or more groups that display different behaviours and are separated by space, rather than time; this should capture environmental variations that might serve as an evolutionary pressure on the species. In the case of NGO adaptation, my theory would be that the lack of easy financial resources from government and outside sources has forced organizations to adopt business principles. Thus, organizations separated by space could be studied for their easy access to funding and compared against those without readily available funds. Like biologists, however, social scientists must recognize the inherent limitations of this approach: while NGOs in one environment differ from another today, it is not immediately clear that they *changed* because of this environmental shift.

Finally, the promise within a political economy explanation is that the insights can more easily travel across contexts. This political economy framework for understanding activist adaptation is no different. As I suggested in the introduction, the problems that Chinese NGOs face, such as diminished economic resources and waning domestic government interest in their activities, are by no means uniquely Chinese. Nor is this explanation of adaptation intended to be a uniquely Chinese one. Its application should transcend the borders of China and might well go far in explaining shifts even in the non-authoritarian context.

Notes

- 1 Interview, environmental NGO leader, Chengdu, November 14, 2007.
- 2 For an extended discussion of legal registration of Chinese NGOs, see Hildebrandt 2012.
- 3 The identification of opportunities is not as easy as it might seem, especially in countries like China. As I have discussed elsewhere (Hildebrandt 2013), what makes activism particularly difficult in China is that opportunities (that is, issues organizations can engage in without much government interference) can be difficult to identify and engage. Other scholars recognize this fact: Roberts and Woods contend “opportunities for social change are not discovered like Everest; rather they are part of a construction process that involves the working and reworking of ideas and possibilities” (2005: 49).
- 4 For some areas of the country that have not shared in the economic success of the coastal provinces, like Yunnan, NGOs offer an opportunity for unemployed college graduates. Similarly, interviewees report that high salaries offered by organizations have successfully lured government officials away from the public sector.
- 5 It is important to remember that a social entrepreneur need not self-identify as such, nor be defined by any one legal term; social entrepreneurs could be legally registered as an NGO, a business, a consulting firm, a research institute, or in the case of many in China, not registered at all (see Hildebrandt 2012). And of course, the strategies employed by what we call social entrepreneurs have been around long before the term was employed to describe them (Roberts and Woods 2005: 48).
- 6 Interview, donor representative, Kunming, September 7, 2007.
- 7 Interview, journalist, Beijing, July 3, 2007.
- 8 These data serve as a reminder that social entrepreneurs are often not those directly affected by the issues they tackle; to some extent or another, they are outsiders (Waddock and Post 1991: 396). Being an outsider is important in their field, for they often have the training and means to help those who cannot help themselves. They have education and work experience that allows for these ventures to be effective.
- 9 Indicative of the confusion elicited by registration regulations, several leaders reported that when registered as businesses they did not need government sponsors at all. This misconception is likely due to the low level of interference that these sponsors tend to exert towards groups registered as businesses in comparison to those registered as NGOs.
- 10 While both not-for-profit and for-profit groups must pay an operating tax, non-profits are exempt from an institutional income tax. While this can be prohibitive for some groups, an HIV/AIDS leader noted that the regulations for not-for-profits create a disincentive for saving money; if groups have surplus funds at the end of the fiscal year, they must pay taxes on it.
- 11 *Xinhua* April 3, 2008.
- 12 Interview, environmental NGO leader, Kunming, September 16, 2007.
- 13 Interview, volunteer organization leader, Beijing, December 12, 2007. To ensure an adequate number of volunteers for Beijing’s 2008 Summer Olympic Games and to “create a more favorable social atmosphere for voluntary service” in general, the Beijing Municipal People’s Congress Standing Committee passed a regulation requiring organizations to have volunteers sign a contract, “subsidize” voluntary service, and even provide financial incentives for “outstanding” voluntary work (*Xinhua News Agency*, December 6, 2007).
- 14 A recent case in the United States serves as a reminder of the compromises that leaders often have to make when they rely on new modes of financial support. GLAAD received a great deal of criticism, leading to the ousting of its president, when it was revealed that the organization wrote a strong letter in support of the merger of AT&T (a key corporate partner) and T-Mobile. Critics contend that the action was a strong diversion from the mission of the organization and evidence of the undue influence held by its corporate partners.
- 15 Interview, environmental NGO leader, Beijing, July 16, 2007.
- 16 Interview, gay and lesbian NGO leader, Kunming, November 23, 2007.
- 17 Associated Press, July 17, 2009.
- 18 Interview, provincial government official, Kunming, October 29, 2007.