

# **Social Justice in the Economic Innovation From Welfare Enterprise to Social Enterprise**

**Xiaomeng ZHANG**

Renmin University of China  
No. 907, Building of Humanities,  
No. 59, Zhongguancun Avenue, Haidian District  
Beijing, China, 100872  
Email: [xiaomeng@ruc.edu.cn](mailto:xiaomeng@ruc.edu.cn)/ [zxmtsinghua@163.com](mailto:zxmtsinghua@163.com)

## **Sponsoring information**

Supported by the Fundamental Research Funds for the Central Universities, and the Research Funds of Renmin University of China, Project No. 2014030152.

## **Abstract**

*As we are welcoming a boom of social enterprises in practice, the academic studies of social enterprise with all dimensions develop rapidly. Since “social enterprise” is an imported concept, it certainly has to face the problem to adapt to the existing organizations in the process of localization. Among all the existing organizational forms, welfare enterprise has more characteristics in common with social enterprise, and it has important experiences and teachings on the issue of legislation to learn. In this paper, we are analyzing the process of legislation of welfare enterprises, and discussing the possible legislative path of localization of social enterprise.*

**Key words:** social enterprise; welfare enterprise; justice; legislation; innovation

## **1. Ecosystem: Legal and Policy Environment for Chinese Social Enterprises**

As a new mode of innovative social organization, social enterprises combine the efficient, professional, and flexible characteristics of a business with the goal of taking on and resolving social issues. As such, social enterprises can efficiently participate in the process of social management and

development, providing a lively and innovative new method for the construction of a harmonious society. Social enterprises are becoming important participants in the sphere of social management. At the same time, in practice, social enterprises can cut through the red tape, flexibly and efficiently solving many of society's overarching issues.

Due to their unique qualities, social enterprises have increasingly attracted the widespread attention of government, academia, and society. In recent years, a growing number of organizations of all kinds have begun to call themselves social enterprises. An increasing number of social entrepreneurs have also begun participating in the areas of education, environmental protection, fair trade, and poverty alleviation, helping to resolve many complex social problems.

At the same time, academia, media, and other social forces have all devoted unprecedented attention to social enterprise. A number of international conferences and forums have been held exploring means to import and localize this new form of organization. The popularity of social enterprises has also begun attracting the attention of local governments. In June 2011, the Beijing Municipal Committee published *Suggestions by The CPC Beijing Municipal Committee on Strengthening and Innovating Social Management in order to Advance Social Construction*. The policy paper advised that local governments should "explore various effective means of attracting social resources and social capital into public service, proactively support the development of social enterprises and develop social services." It was the first time that social enterprises were mentioned in an official Chinese government document.

Presently, the legal framework supporting social enterprise is still underdeveloped. As a new organizational form, social enterprises have not yet received clear legal designation and lack the relevant judicial and supervisory framework, creating many issues for their future development. As social enterprises are increasingly being put into practice and collaboration with foreign counterparts deepens, there is an increasing need for the development of relevant legal frameworks. Therefore, it is necessary to analyze holistically the development of social enterprise from the perspectives of legislation and public policymaking.

## **2. Welfare Enterprise Legislation: Existing Achievements and Problems**

Because China has not yet to establish relevant legal framework for social enterprises, we begin our analysis with "welfare enterprises", which, among the many social enterprise-like organizations currently existing in China, most closely resemble social enterprises in organizational nature, mission, operational area, among other aspects.

Welfare enterprises have played a significant role in the development of Chinese society. Therefore, although academics and business managers employ many different ways of classifying social enterprises, all agree that welfare enterprises are a type of social enterprise. Below, we begin our analysis with the development history of welfare enterprises. We analyze existing issues with regards to the content, policy development history, and practical effects of current legislation on welfare enterprises with the hopes of employing these lessons in the future policy-making process for social enterprises.

## 2.1 The Nature and Development of Welfare Enterprises

Welfare enterprises refer to special economic organizations (businesses) that employ the labor (including partial labor) of disabled individuals and are distinguished by a set ratio of disabled individuals as a proportion of total employees. The State offers this type of organization (business) special tax reduction or exemption benefits, and the welfare enterprises use the tax savings as enterprise development capital and group welfare funding.

Welfare enterprises were created during the period of central economic planning and experienced the transition to the market economy. They have 60 plus years of development and policy history and have become a key means of resolving the employment issues of disabled individuals. There are four key phases in the development of welfare enterprises:

During its initial development period (1949-1977), early stage welfare enterprises were production units that offered support for poor persons, disabled persons, families of revolutionary martyrs, disabled veterans, and other beneficiaries. As welfare enterprises developed, they gradually became public institutions involved in social welfare and responsible for the employment placement of persons with disabilities.

From March 1978, supervision of welfare enterprises was handed from the State Administration of Industry & Commerce (SAIC) to the Ministry of Civil Affairs (MCA). Accompanying this supervision handover was a series of changes in preferential policies related to income tax, loans, construction tax, and value-added-tax (VAT). These policies were aimed at encouraging the establishment of welfare enterprises by central and local organizations. At the end of 1994, the total number of Chinese welfare enterprises reached 6,710, employing 116,000 employees and making a profit of 130 million RMB. Compared to 1978, the number of enterprises increased 7.3 times, the number of disabled persons employed increased 3.3 times, and profit increase 1.6 times. During this period, alongside government-sponsored welfare agencies, community-sponsored welfare agencies began to appear, with the main form being neighborhood-run welfare enterprises.

From the year 1985 to 1995, the development of welfare enterprises stepped into the rapid expansion period. In September 1985, the MCA held a meeting on National Welfare Reform Work Experience Exchange, putting forth clear advice for welfare enterprises, calling for support for welfare enterprise development, and publishing and refining a series of legislative regulations including *Provisional Regulations on Social Welfare Enterprises Employing Workers with Disabilities*, *Interim Measures for the Administration of Social Welfare Enterprises*, and *Law on the Protection of Disabled Persons of the People's Republic of China*. In order to ensure standards of management quality and efficiency, government regulatory agencies gradually refined specific preferential policies to promote the healthy development of welfare enterprises. Through the introduction of policy papers such as *Decisions Regarding Strengthening the Administration of Social Welfare*, *Notice Regarding Strengthening the Annual Inspection of Social Welfare Agencies*, and *Notice Regarding Further Strengthening Government Supervision and Strict Inspection of Welfare Enterprises and Clearing Fake Welfare Enterprises*, the government proceeded to clear out and reorganize existing welfare enterprises, improved the systems for accreditation and inspection, and strengthened governmental supervision and enterprise management for welfare enterprises. During this time, China's welfare enterprises exhibited a trend of rapid growth. In

1995, Chinese welfare enterprises reached their historical peak. The number of welfare enterprises reached 60,237, employing 939,000 workers. Compared with 1978, the number of welfare enterprises increased 65.5 times, the number of disabled persons employed increased 26.8 times. In 1995, welfare enterprises realized profits of 4.91 billion RMB, 61.4 times that of 1978.

However, from 1996, due to macroeconomic adjustments and the effects of the Asian financial crisis, China's economic growth slowed, causing a series demand shortages. As a result, the operation of welfare enterprises began to encounter serious difficulties and stepped into the rapid contraction period. To promote the development of welfare enterprises, the government introduced a series of preferential policies – for example, *Notice Regarding Several Suggestions to Further Improve the Employment Opportunities of Disabled Workers*. These policies offered support to protect and assist in the systemic transformation of welfare enterprises. However, these policies could not reverse the downward trend in the number of welfare enterprises. As of 2005, there remain only 31,211 welfare enterprises, 51.8% of the number in 1995.

## 2.2 Current Legislation System for Welfare Enterprise

Welfare enterprises aim to solve the employment of disabled persons and therefore operate under the double constraints of regulations concerning disabled persons and regulations concerning welfare enterprises.

Firstly, in terms of employment security for persons with disabilities, the *Law on the Protection of Disabled Persons of The People's Republic of China* is the first specific law to protect the legitimate rights and interests of disabled persons. It provides basic guidance for job placement of disabled persons and has acted as a basis for subsequent legislation. Among its provisions are guidelines for placing disabled persons using a combination of centralized and decentralized approaches, adopting preferential policies and assistance measures to enable the universal, stable, and reasonable employment of disabled persons via various channels, levels, and means. Government and social bodies sponsor organizations such as welfare enterprises and blind massage institutions in order to centralize the employment arrangements of disabled persons. The State grants preferential tax benefits to organizational units that reach or exceed the ratio of disabled to able-bodied employees, and to disabled individuals who operate their own private businesses. Further, the State offers assistance in production, operation, technology, finance, materials and sites to qualifying welfare enterprises and disabled individuals. State policies also stipulate that relevant departments in local governments at or above the county level should determine products and projects that are appropriate for disabled persons. In addition, priority for producing these products or completing these projects should be given to welfare enterprises employing disabled individuals, and exclusive production contracts should be granted when appropriate. Lastly, all other conditions being equal, the government should, during government procurement, give priority to the products and services produced by welfare enterprises.

Building on the *Law on the Protection of Disabled Persons*, the State Council issued the *Regulation on the Employment of Disabled Persons* in 2007. The regulation clarified the responsibilities and rights of government, business, and disabled employees in terms of employer responsibility, safeguard measures, employment services, and legal responsibility. It also outlined the legal repercussions in the event of

violation. In 2008, the Party Central Committee and the State Council issued *Views of the CPC Central Committee and the State Council on Promoting the Employment of Disabled Persons*. It was the first programmatic document on the subject of career development of disabled persons, and it further encouraged and supported the establishment of welfare enterprises.

Secondly, in terms of policy and regulation, the MCA and other relevant ministries are mandated to give appropriate policy support to welfare enterprises with respect to examination and approval, management, and preferential taxation. In 2007, the MCA issued *Measures for Welfare Enterprise Accreditation of Qualification*, setting strict standards for application and definite regulations specifying the minimum proportion and number of persons with disabilities that a welfare enterprise must employ. Specifically, welfare enterprises are defined as enterprises registered with the State Administration for Industry & Commerce (SAIC) or its local branches, employing no less than 10 disabled persons, with disabled employees comprising at least 25% of total employees. The policy paper also increased the application requirements for welfare enterprise accreditation from the original five to ten. The additional requirements call for the applicant to provide proof of wage payment, social security contribution, and accessible facility certificate.

In the same year, the Ministry of Finance and the State Administration of Taxation issued the *Circular of Taxation on the Preferential Tax Policies for Facilitating the Employment of the Disabled People*. The State Administration of Taxation, the Ministry of Civil Affairs, and the China Disabled Persons' Federation issued *Circular on the Measures for the Collection and Management of Preferential Tax Policies to Stimulate the Employment of the Disabled*. These two circulars put forth regulations with preferential policies for turnover tax and enterprise income tax. In terms of turnover tax, relevant tax authorities will either refund a limited amount of value-added-tax (VAT) or reduce the enterprise's sales tax according to the actual number of disabled persons staffed. The specific limit on the annual amount of VAT refunded or sales tax reduced per disabled employee is determined by tax agencies at the county level or above, using the figure of six times the minimum wage set by the people's government at the provincial-level (including autonomous regions, municipalities directly under the Central Government, and cities specifically designated in the plan) that is applicable to the county where the enterprise is located (including county-level city, districts, and towns). The maximum amount reduced or refunded shall not exceed 35,000 RMB per employee per year. For income taxes, welfare agencies shall deduct 100% of the actual salary paid to disabled employees from its pre-tax income. If the sum of actual wages paid to disabled employees is more than the enterprise's income tax payable for the current year, the welfare enterprise may deduct the amount of actual wage paid that is not greater than the tax income payable for the current year, with the remaining wages paid not deductible for the present or future years. In addition, the value of VAT rebate or sales tax reduction a welfare enterprise receives in accordance with regulations is exempt from corporate income tax.

### **2.3 Policy Adjustments and Implementation Results**

The publication of the MCA's *Measures for Welfare Enterprise Accreditation of Qualification and Circular of the Ministry of Finance and the State Administration of Taxation on the Preferential Tax*

*Policies for Facilitating the Employment of the Disabled People* in 2007 marked a turning point for the development of Chinese welfare enterprises. These two policy papers put forth several changes in the accreditation of qualifications and preferential tax policies of welfare enterprises. These changes symbolized a new era in the development of welfare enterprises.

In particular, the first change in the policy was to open welfare enterprises to diversified investment. Welfare enterprises that enjoy preferential tax policies grew from the original nationalized and collective welfare enterprises owned by the MCA or neighborhood and township governments to include domestic enterprises with diversified ownership, established largely by diversified community investments. Second, the policy changes lowered the barrier to entry for qualifying as a welfare enterprise. The proportion of disabled persons as a proportion of total employees was lowered from over 50% of total production team to over 25% (including 25%) of total official employees. This policy is beneficial for encouraging the establishment of more welfare enterprises and absorbing more disabled employees. Third, the policies standardized the qualifications for receiving preferential tax benefits. Government policies instituted uniform provisions for preferential treatment of turnover tax and corporate income tax. At the same time, they set the limits for tax reduction according to the actual number of disabled persons employed. By setting the tax reduction or exemption ceiling at the fixed amount of 35,000 RMB per employee per year, the policy de-coupled the connection between the amount of tax benefits received and the amount of corporate income tax liability. The transition from “subsidizing per enterprise” to “subsidizing per head” eliminated the issue of excessive corporate tax reduction, put into practice the principle of fair tax burden, and took into account the interests of the state, the investors, and the disabled workers. Fourth, the policy changes clarified responsibilities between departments. The new policies put into place separate approval systems for the qualification accreditation and tax return qualification of welfare enterprises. This change effectively prevents enterprises from taking advantage of loopholes in tax collection and administration and using tax relief policies and false invoices to engage in tax fraud and evasion by providing fake placements. In accordance with existing management systems, the MCA oversees the accreditation of qualification, the State Administration of Taxation oversees tax reduction or exemption, and the Disabled Persons’ Federation audits the placement situation of disabled persons. In addition, tax refund eligibility is without tenure, and enterprises found in violation of tax laws and regulations during tax inspection will be stripped of tax exemption qualifications without exception.

Despite the fact that relevant departments introduced a number of measures, there has been no effective deterrent for the decrease in the quality and quantity of welfare enterprises. Instead, policy adjustments regarding welfare enterprise qualification accreditation and preferential taxation have created a series of new problems, which are mainly reflected in the reduction of the number of welfare enterprises and the decrease in the proportion of disabled persons placed. Under the original policy, as long as disabled employees accounted for more than 50% of total employees, the enterprise was exempt from all VAT and income tax. Under the new policy, however, there is a 35,000 RMB tax rebate ceiling on each disabled person placed. This in practice means only a partial exemption against VAT or sales tax. Income tax has also changed from complete exemption to a reduction equal to 100% of a disabled employee’s wage. The original policy stipulated that disabled employees placed should be greater than 50% of total employees, whereas the new policy sets the starting point at 25%. Yet, the tax rebate amount is calculated

using the number, not percentage, of employees. This undoubtedly incentivizes the enterprise to base the number of disabled persons it employs on its operational and tax situation. For example, the new tax rebate ceiling drastically reduces the amount of tax benefit enjoyed by enterprises that place few disabled persons and have high profit margins. These enterprises, therefore, no longer have an incentive to apply for welfare enterprise treatment. In addition, enterprises with poor placement ability or that employ less than 10 disabled employees no longer qualify as welfare enterprises under provisions in the new policy and thus drop out of the ranks of welfare enterprises. These changes will negatively impact the disabled workers who are currently employed, likely causing the phenomenon where “surplus” disabled workers will lose their jobs as enterprises streamline their operations. This is not conducive to arousing the enthusiasm of welfare enterprises in placing more disabled employees.

### **3. From Welfare Enterprises to Social Enterprises: Legislative Difficulties and Trend Analysis**

The employment of disabled persons in China as a whole follow the framework set out under *Law on the Protection of Disabled Persons of The People’s Republic of China*. It adopts an approach that combines centralized and decentralized arrangements, using preferential policies to support and protect disabled persons. The policy aims to achieve the universal, stable, and reasonable employment of disabled persons via various channels, levels, and means. The centralized management of disabled persons’ employment placement allows for relatively low costs, more targeted policy support and funding, and easier operation. In China, disabled persons still encounter employment difficulties. As such, welfare enterprises that centralize the employment of disabled persons still serve as an important channel for solving the employment problem of disabled persons.

#### **3.1 Legislative Suggestions Concerning the Further Development of Welfare Enterprises**

Based on China’s current conditions, the most economically efficient strategies for promoting the further development of social welfare enterprises are preferential taxation and continued protectionist policies. Given the grim employment outlook and the difficulties encountered by social welfare enterprises, it is essential for the government to give such enterprises preferential tax treatment, as well as policy assistance and protection.

First of all, the government should refine and complete the current legal framework for welfare enterprises and increase the amount of subsidies and preferential policies directed towards welfare enterprises. Looking at the social and economic development trends, it is necessary to modify and refine policies relevant to issues of the centralized employment placement of disabled person. The government should utilize a combination of basic living condition guarantees (tuodi baozhang) and special governmental policies to formulate a multitude of employment protection policies targeted towards different disabled groups and welfare enterprises. Regarding the management policies for welfare enterprises, we recommend protectionist legal policies for certain social service projects and industries. Regarding tax policy, the government should take into account the unequal economic development of different regions and avoid a “one-size-fits-all” tax rebate ceiling. We recommend that the government adopt a proportion-of-total-employees method for calculating tax reductions or exemptions. This method will be more suitable to the specific economic conditions of different regions and encourage welfare

enterprise development in more economically developed areas, better advancing the centralized employment of disabled individuals.

Secondly, encourage different forms of participation; support the development of large-scale new-form welfare enterprises. The government should take the lead in building a social security system and mobilizing the voluntary participation of enterprises to better meet the needs of disabled persons. At the same time, it should use policy measures to attract social forces in order to establish public welfare organizations with social goals. The government should clarify the legal characteristics of the following types of organizations: public welfare organizations with social objectives but employing commercial means of operation; enterprises registered with the SAIC but which have a social primary mission; and non-profit organizations established using non-nationalized assets. It should also give these three types of organizations increased support and assistance, building on the existing preferential taxation policies.

Furthermore, the government should put into practice existing policies, encourage multiple forms of policy innovation, and increase the impact of policies on government procurement and exclusive production. Various regions continue to explore new policies through practical implementation, and some have already achieved mid-stage results and favorable policy outcomes. The city of Shanghai is one such example. In 2010, the Shanghai municipal government introduced policies regarding government procurement and exclusive production contracts, explicitly requiring all districts to prioritize the procurement of products produced by welfare enterprises. After researching the operations and products of the city's welfare enterprises, the Shanghai Municipal Government, along with the Shanghai Municipal State-Owned Assets Supervision and Administration Commission, named 44 welfare enterprises that were in need of product (project) support. Moreover, the government proposed to adjust and optimize the operations of existing welfare enterprises and develop 300 new, high-quality welfare enterprises during the 12th Five-Year Development Plan. Municipal government policies encouraged the community to establish 50 modern, service-oriented enterprises, place 3,000 educated and skilled disabled workers; establish 30 new model welfare enterprise bases, and train 1,000 managers. These policy changes set the city on course to become the nation's top provider of employment security for disabled persons. Aside from Shanghai, the Qingdao Municipal Government has also taken steps to resolve the employment concerns of disabled individuals. In its *Suggestions to Further Address Employment Issues of Disabled Persons*, the government clearly stipulates that beginning in 2012, government agencies and related institutions must take into account and award quantitative points to enterprises that employ disabled persons when evaluating bid participants in its product and service procurement. In addition, every district (city) must set aside at least one product or service in its annual government procurement to be exclusively produced or provided by welfare enterprises that employ disabled individuals or institutions that assist in the employment placement of disabled individuals.

Lastly, the government should compile employment resources for persons with disabilities and improve the efficiency of placement for disabled persons. Based on the current conditions of various departments in charge of the employment of disabled persons, there exist institutional and organizational factors impeding the overall employment of disabled persons. Therefore, it is necessary to introduce a unified and centralized system in charge of the employment placement of disabled persons.



### 3.2 Suggestions for Legislation for Social Enterprise

Through the detailed discussion of the developmental history of social welfare enterprises above, we can discover that there are strong similarities in the organizational natures of welfare enterprises and social enterprises. Welfare enterprises already have a relatively comprehensive legal system, complete with regulatory and oversight agencies. They received an enormous amount of national policy support during particular periods of their development and made large contributions to China's economic and social development towards a harmonious society. Through practical explorations, welfare enterprises also accumulated experience at solving a diverse array of problems. The experience of welfare enterprises, it may be argued, lends itself perfectly to the development and refinement of a legal system for Chinese social enterprises. We have made the following suggestions regarding the development of legislation for social enterprises:

In the first place, promote the formulation of laws and regulation systems for social enterprises; gradually improve and strengthen the accreditation system for social enterprises. There is currently no unified and clear consensus on the concept of social enterprise among charities, businesses, and the government. In recent years, with the strengthening of Chinese civil society, there is increased frequency and depth of cross-sector cooperation as non-profits, businesses, co-operatives and other types of organizations begin to establish social enterprises addressing issues in employment, education, environment, poverty alleviation, and fair trade. Such an environment resulted in the development of a diverse array of social enterprises. Any delay in the establishment of relevant legislations will hamper the government's efforts in standardizing and directing the development of these diverse social enterprises, creating a situation of unclear rights and responsibilities. Such confusion will allow opportunistic individuals to use the charitable goals of social enterprises as a front to derive personal gain. Therefore, it is a top priority to create relevant laws and regulations regarding the legal status of social enterprises. This will mean establishing standards for the process of social enterprise accreditation, turning the abstract concept of social enterprises into actionable, concrete provisions about strict standardization and supervision. Looking abroad, China can borrow from the experiences of United Kingdom's and Finland's social enterprise legislations. The United Kingdom combined social enterprise development with community building and introduced the *Community Interest Company Regulations*. The Finnish government introduced the *Act on Social Enterprises*. The Act gives clear legal status to social enterprises and clarifies its organizational objective, criteria, profit distribution, and asset management. The development history of welfare enterprises teaches us that qualification accreditation is the basis of all subsequent legislation. The challenges and accomplishments during many of the welfare enterprises' development stages are all related to legislation regarding welfare enterprises' accreditation policy. The importance of accreditation also applies to social enterprises. Only after obtaining clear legal status can social enterprises gradually establish relevant legislation regarding organizational management, profit distribution, bankruptcy policy, asset allocation and supervision. Only then can the government effectively standardize and supervise the practice of social enterprises.

In the second place, social enterprise legislation will, in the immediate future, involve the co-existence of new and old systems and issues of cross-sector cooperation. Because social enterprises are a relatively recent phenomenon in China, there already existed in China many kinds of "quasi-social

enterprise” organizations before the arrival of “social enterprises”. These other organizations all belong to their own legislative systems and encountered their own unique development challenges and developed innovative plans to overcome those challenges. Because social enterprises combine the characteristics and advantages of the commercial sector and the non-profit sector, social enterprise legislation must also incorporate legislation for many types of organizations, such as the Regulation for Registration and Management of Social Organizations, provisions regulating charity fundraising, laws associated with corporate governance such as Corporate Law and The Law on Enterprise Bankruptcy, among others. Take for example social enterprises aimed at helping disabled and disadvantaged social groups. China already has - for welfare enterprises - many mature and sophisticated management and operational mechanisms. Although these systems still face many policy and practical issues, these are still valuable practical experiences. When social enterprises enter this sector, they will unavoidably repeat the experiences of welfare enterprises and face similar issues when it comes to specific laws and regulations.

Looking at the world, the UK, the United States, and South Korea have all, in response to the widespread existence of social enterprises, introduced new policies or amended existing laws, setting out qualifications for social enterprises and standardizing their operations. At the same time, laws and regulations related to the original limited liability companies, co-operations, non-profit organizations and other types of organizations also functioned as the basis for assessing the development of social enterprises. This resulted in a situation of the co-existence of old and new legal systems. The existence of this type of situation has a certain rationale and is a product of a certain stage of the development of social enterprise legal system. The special nature of social enterprises pre-determined the fact that their legal system construction is a cross-sector project. The enactment of relevant legislative mechanism must take into consideration a wide range of interests and aspirations. Therefore, when establishing specific laws related to social enterprises, one should comprehensively consider and embrace existing legal frameworks properly associated with social enterprise legislation. An important question facing social enterprises in its development is how to establish an independent space for development within the existing relevant legal frameworks.

Thirdly, social enterprise legislation should employ accreditation at different levels and embrace different operational models. In order to promote the long-term, sustainable development of social enterprises, we should place restraints on social enterprise as a whole, setting specific rules for organizational mission, income source, profit distribution, asset disposal, etc. At the same time, we should realize that social enterprises are highly diverse, with large differences of sector, asset, profit, and size. Taking into account the fact that social enterprises are at different stages of development and the complexities involved within the different stages, we suggest that the government initially put into place a multifaceted approach to management that targets different stages and different sectors. For the accreditation of social enterprises, we should set different accreditation requirements for different levels of development. In addition, we should also establish a certain relationship between accreditation and enjoyment of government support policies. Social enterprises should respect the current laws and the practical experiences of the enterprises that have entered the same industry sector before them, and operate under a dual oversight system. After analyzing China’s current law on the protection of disabled persons, we discover large differences in policies geared towards social welfare enterprises and enterprises

founded by disabled persons. Social enterprises aimed at helping disabled persons can combine the characteristics of these two types of laws and can also include new distinguishing characteristics. Therefore, strict and specific analysis is needed in the area of formulation of laws and regulations.

Furthermore, social enterprise legislation should focus on balancing protecting creative energy and providing a standardized systematic framework. At present, disagreement still exists about whether social enterprises should receive government policy support. The mainstream view is that social enterprises have taken on large responsibilities for the construction and development of a harmonious society. They have made huge contributions in terms of addressing unemployment issues, supporting vulnerable groups, developing education, promoting fair trade, and encouraging social entrepreneurship. In addition, the societal impact of social enterprises will increase with the gradual completion of the accompanying legislative framework. Government policy support has had far-reaching effects on the development experience of welfare enterprises. The adjustments to the new and old regulations directly determined the benefits of balance between operational cost of welfare enterprises and corporate social responsibility. Social enterprises face development environments similar to those faced by welfare enterprises. The legislation for social enterprises should focus on balancing the protection of internal motivation with the standardization of system operations. From the perspective of development, social enterprises face many strict restraints in terms of income source and profit distribution. In order to attract more socially conscious talent into this sector and to promote the sustainable development of social enterprises, we need to create a good policy environment for the development of social enterprises. With regards to the basic question of social enterprise definition, we believe social enterprise will choose its own place on the spectrum between nonprofit organizations and businesses. U.S. social enterprises are more corporate in nature and, under relevant corporate law, receive treatment similar to those of businesses. These enterprises are relatively less constrained in the areas of income source and profit distribution. But due to the same reason, they enjoy less tax reduction and exemption and other government support policies. For British social enterprises, their development is closer to that of nonprofit organizations. They are subject to certain constraints with regards to asset lock and dividend distribution, as laid out in the *Policy on Community Interest Companies*. Although the British government does not give preferential treatment to the taxes of social enterprises, the government does give priority to social enterprises and social organizations when outsourcing government projects. The British government also uses policy to direct private community funding towards social enterprises. Of course, before deciding on the relevant government support policies, the Chinese government needs to have a clear view on whether it wishes to treat social enterprise as a concept whose value it wishes to promote, or whether it wishes to treat it as an industry sector supported by policy mechanisms.

Last but not least, social enterprise legislation should be integrated with the general legislative environment and core areas of community management. Social enterprises are a new form of social organization and therefore possess a flexibility, innovation, and diversity that other institutions do not possess. Therefore, social enterprises can choose the social milieu and policy framework in which to most effectively integrate themselves, given the landscape of government priorities and social issues. The development of British social enterprises provides a worthwhile example to consider. During the 1960s and 1970s, the UK - as a result of decline in traditional industrial enterprises - suffered social issues of

unemployment, population ageing, and economic inequality. Individuals began contemplating a new philosophy of social welfare and settled on a method that combines social enterprise with community programs. This solution effectively leveraged social enterprise's advantages in familiarity with the community, diversity, and flexibility to help resolve delicate and difficult issues at the grassroots level. It may be argued that the rapid development of British social enterprises cannot be separated from the way they are able to integrate themselves freely within society. This embeddedness and close links to the community gave energy to the development of British social enterprises. The experience of social welfare enterprises has also shown that simultaneous development with the neighborhood is an important opportunity for the growth of an enterprise. Therefore, legislation for the additional standardization of social enterprises should select an appropriate definition of social enterprises that would allow this new type of organization to best integrate into its community, showcase its organizational flexibility, and contribute to societal development.

## References

1. Office of the Third Sector UK, 2006: *Social Enterprise Action Plan: Scaling New Heights*, London: Office of the Third Sector.
2. Leadbeater, C., 2007: *Social Enterprise and Social Innovation: Strategies for the Next Ten Years*. London: Office of the Third Sector.
3. OECD (Organization for Economic Cooperation and Development), 1998: *Social Enterprises in OECD Countries*. Paris: OECD.
4. Cafaggi F & Iamiceli P, 2008: *New frontiers in the legal structures and legislation of social enterprises in Europe: A comparative analysis*. Italy: European University Institute.
5. Nyssens, M., ed. 2006: *Social enterprise: At the crossroads of market, public policies and civil society*. London and New York: Routledge.
6. Nicholls, A., ed. 2008: *Social entrepreneurship: New Models of Sustainable Change*. Oxford: Oxford University Press.