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Reflection Report 08

# When a Charity Spins Off a For-Profit Subsidiary: Reflections on FCSE





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## CASE SUMMARY

Fullness Christian Social Enterprise Limited (FCSE) was established in Hong Kong in 2008 as a commercial-based subsidiary of Fullness Christian Vocational Training Centre (FCVTC), a locally registered charity with a Christian background. Its social mission was to help “deviant youths” — ex-offenders and unengaged young people, of whom around 3,000 prisoners under the age of 21 were in Hong Kong at the time — reintegrate into society through vocational training and employment. The FCVTC had first diversified into the hair salon business in 2001, opening Fullness Hair Salon (FHS) in Mong Kok with Youth Outreach before moving the site to Sai Wan Ho; Supporter Hair Salon (SHS) followed in Tsing Yi in 2007, and 100% Fullness Hair Salon (100% FHS) in 2009. These three salons were grouped under FCSE after its incorporation on 25 October 2007.

FCSE was cited in the case as the first local social enterprise in Hong Kong to use a for-profit limited-by-share company form to raise capital from outside investors, rather than remaining a service unit under a non-governmental organisation (NGO) parent. Its paid-up share capital of HK\$2,890,000 was divided into two classes: class A ordinary shares, held by the FCVTC, carrying five votes each; and class B ordinary shares, held by 15 outside shareholders (11 personal and 4 institutional, mostly with Christian backgrounds and each required to invest a minimum of HK\$100,000), carrying one vote each. Board composition, voting rights, and director ratios were deliberately set to preserve NGO-parent control while inviting outside capital.

FCSE’s post-2008 financial performance fluctuated. The SHS in Tsing Yi was closed in May 2011, with a one-off closing expense of HK\$85,194 (rent, rates, repairs and maintenance) and a full-year loss of HK\$128,091 for 2011–2012. The previous General Manager had resigned in 2010, after which chairman Ted Kwan acted as both chairman and GM. Departures of key stylists and cost-control failures contributed to volatile profitability, and an initial growth strategy to set up ten new hair salons had not succeeded, largely because of difficulty in recruiting mission-aligned staff. The case centres on how to maintain an optimal balance between FCSE’s commercial and social agendas while sustaining corporate governance and appropriate performance measurement.

## FUNDAMENTAL LEARNINGS

### **A For-Profit Legal Form Was Used Deliberately to Raise Capital While Preserving NGO Control**

FCSE was structured as a limited-by-share company rather than remaining a service unit under its NGO parent. The case lists six stated advantages, including faster and larger capital raising, flexibility for mergers and acquisitions, investor familiarity with the legal form, a broader shareholder base (especially among Christians), and higher shareholder accountability and participation than a donor-funded model. Shareholders, having a clearer stake in the venture, were positioned as “guardians of the social and financial value creation” of the enterprise. Control was protected through dual share classes — the NGO parent’s class A shares carried five votes each, while outside shareholders’ class B shares carried one vote each.

### **Performance Measurement Was Multi-Criteria and Non-Financial-Dominant**

FCSE used five equally weighted key performance indicators (KPIs): training slots per salon (five per salon, at a trainee-to-master ratio of one-to-one in FCSE salons versus one-to-two in outside salons); trainees staying six months or longer (a research-based benchmark for behavioural change); trainees graduating per year; total salaries and wages paid to trainees (“workfare”); and a profit and loss account with breakeven as the bottom line, though with a single-digit 5% profit margin as the board’s target. To explain performance to shareholders, FCSE pioneered a Social Return on Investment (SROI) calculation combining financial surplus, workfare, and social capital over capital and reserves. The chairman illustrated the framing bluntly: if shareholders had invested HK\$200,000 and HK\$100,000 had been paid as workfare while ten deviant youths were helped, the SROI presentation was considered more convincing to mission-aligned investors than a conventional low financial ROI.

### **Dividend Policy Embedded the Social Mission as a Precondition for Distribution**

Dividends could be paid only if deviant youths accounted for at least 30% of employees; even when that condition was met, total dividends could not exceed 50% of audited net profit, with the remainder retained for future development. FCSE had not paid any dividends since establishment. The chairman noted that outside shareholders, primarily mission-aligned Christians were concerned with capital preservation rather than capital appreciation.

### **Hybrid Structures Can Generate Value Conflicts Across Levels of the Organisation**

The case explicitly documents “vast value conflicts” after 2008 between the new legal and share structure and the underlying social content, manifesting at operational, management, GM, and board levels. These tensions were sharpened by a competitive market: Hong Kong had about 3,000 hair salons and 30,000 stylists, with repeat clients accounting for more than 80% of business at high-end salons and about 50% at low-end salons, and large chains of 40+ outlets enjoying meaningful economies of scale. Against this backdrop, the ex-GM’s resignation due to high work pressure, staff–board disagreements, the difficulty of recruiting a GM who could embrace both the social mission and salon management, and the failed plan to open ten additional salons all illustrate how structural choices made at founding can surface as operational tensions over time.



## FUTURE IMPLICATIONS



### For NGOs and Social Entrepreneurs Considering Hybrid Commercial Structures

FCSE's case documents how the balance between social mission and commercial operation is encoded in legal form, share classes, board composition, KPI weighting, and dividend rules. A question worth sitting with for organisations considering similar structures is how much of that balance is fixed at founding, and how much of it remains renegotiable once operational realities, staff turnover, strategy delays, unstable profitability, begin to push back against the structure.



### For Funders and Impact Investors

FCSE pioneered an SROI calculation to explain its performance to shareholders, and reported that outside shareholders accepted zero dividends across its first four years with a focus on capital preservation rather than capital appreciation. The case puts on the table a practical question: what it takes for social returns to become legible to capital providers whose financial return alone would not justify the investment, and how providers, on their side, come to read such disclosures.



### For Policymakers and Regulators

FCSE was cited as the first local social enterprise in Hong Kong to use a corporate legal form to raise outside capital, contrasting with the more common NGO-parent model. The case does not argue for or against hybrid structures, though it does make visible how the range of legal forms available in a jurisdiction, and how well-known the hybrids among them are, may shape what kinds of social enterprises can be built.



## CONCLUDING REMARKS

FCSE's experience from 2008 to 2012 illustrates how a charity's decision to spin off a commercial subsidiary, with share capital, an outside-investor board, and a formal dividend policy, carries consequences that reach beyond financing into the day-to-day governance of the enterprise. The case documents how a hybrid structure can raise capital and broaden the shareholder base, and how it can surface value conflicts that manifest in staff turnover, strategy delays, and unstable profitability.

By 2012, FCSE had settled some things and left others unsettled: the social KPIs tracked steadily while the profit and loss account did not; the pioneering share structure was in place while the value conflicts it generated were not resolved; the ten-salon growth plan had been abandoned while the mission that prompted it remained. What the case hands the reader is this particular configuration of the settled and the unsettled, not a model to replicate.

*To explore this case in greater depth, we encourage you to visit the [link](#) and get in touch with the team at ACRC.*



## ACKNOWLEDGEMENT

We sincerely thank the HKU Asia Case Research Centre (ACRC) for providing the case study “[Fullness Christian Social Enterprise Limited — Offering a Right Path to Deviant Youth in Hong Kong](#)” (Authored by: Sammy Fung, Ted Kwan, Bobby Shiu), that serves as the foundation for this reflection report. We deeply appreciate ACRC’s ongoing commitment to advancing knowledge in business and management through its rigorous, context-rich cases focused on Asia.

ACRC’s high-quality case materials have consistently provided essential foundations for our **NGO ESG case reflection series**. These carefully researched cases bridge the gap between theoretical frameworks and practical applications, enabling deeper exploration of complex, real-world challenges across sectors and regions. We also recognize ACRC’s significant role in elevating the global visibility and pedagogical relevance of Asian perspectives within management education.

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### About HKU Jockey Club Enterprise Sustainability Global Research Institute

The HKU Jockey Club Enterprise Sustainability Global Research Institute is established by HKU Business School and funded by The Hong Kong Jockey Club Charities Trust, to establish a world-class hub for best practices of Sustainability in Hong Kong, Asia and beyond. Our mission is to promote excellence in the field of Sustainability by bringing together globally distinguished scholars from diverse fields, integrating knowledge and practice, inspiring innovation, fostering collaboration and conducting impactful research.

We work in partnership with academics, government departments, NGOs and corporate partners to harness the transformative power of environmental, social and corporate governance to create a sustainable and equitable future.

### About Asia Case Research Centre

The Asia Case Research Centre (ACRC) is a research centre affiliated with The University of Hong Kong, HKU Business School. Established in 1997 to address a growing demand for research and instructive materials relating to Asian business, the Centre now boasts a repository of context-rich cases drawn from a vast range of industries and disciplinary areas.

The ACRC is committed to the advancement of learning and teaching in business education and strives to promote leading management thinking through research on the latest practices in the Asian business environment. We work with scholars from universities and institutions within and outside the region, and enjoy close ties with the business community.



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