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Reflection Report 05

Running a Bakery Inside a Large Charity: Reflections on iBakery





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CASE SUMMARY

iBakery is the brand name for two social enterprises (SEs) operated by Tung Wah Group of Hospitals (TWGHs), one of Hong Kong's largest charitable organisations and one of TWGHs' 16 SEs. The first iBakery SE opened in Kennedy Town in July 2010, combining a retail shop and production factory with a workshop and kiosk inherited from TWGHs' rehabilitation services in Aberdeen. The second, iBakery Gallery Café, opened at Tamar Park in November 2011 after TWGHs won a government restricted tender limited to Hong Kong SEs for a seven-year operation right.

Both SEs share a social mission of "inclusion" between able and disabled people, articulated by Florence Chan, the assistant superintendent responsible for iBakery, as a relationship in which workers earn their salary according to their contributions and customers pay fair market values rather than donations. By 31 March 2012, iBakery employed 42 staff, of whom 21 (50%) were people with disabilities, meeting the threshold tied to the HK\$2 million grants each SE received from the HKSAR Social Welfare Department's "Enhancing Employment of People with Disabilities Through Small Enterprise Project."

The case sets iBakery against an unsettled global definition of "social enterprise." The European Commission's EMES network defines SEs as combining entrepreneurial strategy with social purpose and a degree of self-financing; the Hong Kong government's definition emphasises social objectives and reinvestment of profits but does not include self-financing. iBakery is also distinctive among NGO-operated SEs in Hong Kong for its 12-member advisory board of external business professionals — the "iBakery Angels" — recruited pro bono from the Hong Kong Council of Social Service's Social Enterprise Advancement Programme (2010/2011), with backgrounds across marketing, finance, IT, catering, and hospitality.

For the financial year ending 31 March 2012, both SEs were loss-making, with TWGHs covering cash flow and absorbing operating losses. Staff cost was 60.3% of iBakery's overheads and 51.4% of the café's, against 42.5% at Café de Coral and 46.6% at Tao Heung — the two listed HK caterers used as benchmarks. Management and the Angels identified economy of scale through expansion as the route to breakeven, while acknowledging the continuing pendulum between commercial and social bottom lines.





FUNDAMENTAL LEARNINGS

Operating Inside a Large NGO Brings Both Resources and Friction

iBakery draws on TWGHs for human resources (the assistant superintendent running iBakery sits on TWGHs' payroll; a TWGHs social worker coaches six SEs at no extra cost), finance and accounting guidance, property management, volunteer mobilisation, and cash flow backup. The same uniform governance, however, required iBakery to follow a government-style points-based pay scale (until a flexible entry and bonus structure was approved on 1 April 2012), maintain enough compliance paperwork to justify a full-time clerk, and pay arm's-length market rent to TWGHs, including a market-rate increase on the Kennedy Town shop at lease renewal.

A Pro Bono External Advisory Board Sits Outside the Formal Hierarchy

The 12 iBakery Angels report to the superintendent of the Jockey Club Rehabilitation Complex, hold no monitoring function, and engage through quarterly meetings plus ad hoc enquiries. Their remit covers business direction, business plans, and marketing strategy. Documented pro bono contributions include festive-cookie pricing and costing tools, two market-research surveys, and project management for new-shop planning. Among the open questions the case itself poses at its close is whether this advisory-only role would need to evolve into one with direct authority as the portfolio grows.

The Social Mission Is Embedded in Workflow Design and Made Visible in Cost Structure

iBakery operates with a target one-to-one ratio of able to disabled staff (one-to-two when trainees are counted), with workflow and product design reshaped so both can contribute. The café redesigned soup service from a single plate to basket-and-cup, enabling six servings at once instead of two; some bakery orders are turned down where production cannot be broken into accessible steps; able-staff capacity is partly used for process redesign and trainee coaching. The cost is visible on the income statement: staff cost was 60.3% of overheads at iBakery and 51.4% at the café, against 42.5% at Café de Coral and 46.6% at Tao Heung — a gap the case flags as needing careful interpretation, noting that “care would need to be taken” to read the variance as a cost of fulfilling the social mission rather than as operational inefficiency.

Social Performance Is Measured in Detail, with Results Differing Across Disabled and Able Staff

Beyond sales-based KPIs, staff performance includes training delivery, attainment of process design, and shared vision. Social performance is assessed against the Hong Kong Social Enterprise Business Centre's Social Impact Assessment Tool. A 2011 McKinsey & Co volunteer survey found that 85% of disabled staff and 71% of their families perceived greater social respect after joining iBakery, while only 33% of able staff reported a positive working environment and 22% reported strong teamwork — percentages the case suggests “might be influenced by” the then below-market pay rather than by the social model.

Financial Performance Is Persistently Negative and the Stated Path Out Is Economy of Scale

In contrast, the financial picture is one of continuing losses absorbed by the NGO parent, with no breakeven by either SE as at March 2012. An iBakery Angel used the image of a pendulum to describe the swing between commercial and social bottom lines; in one festive project, iBakery capped order intake at the project breakeven point to avoid pushing staff into stressful overtime. Florence Chan and the Angels held a consistent view that economy of scale through expansion was the route to breakeven, though the case presents this as a stated plan rather than a tested outcome.

FUTURE IMPLICATIONS



For NGOs Operating or Considering Social Enterprises

TWGHs' systems give iBakery low overheads, institutional credibility, and cash-flow protection, but the same systems imposed pay scales unattractive to external talent, heavy compliance paperwork, and arm's-length internal pricing. Layered on top is the Angels model: a pro bono, advisory-only board outside the formal hierarchy, described in the case as unusual for HK NGO SEs. Two practical matters worth weighing in comparable settings are whether an SE inside a charity at some point warrants a distinct sub-structure rather than uniform treatment, and what kinds of contribution external advisors can sustain without formal decision rights.



For Social Enterprise Managers and External Advisors

iBakery's practical responses — capping festive order volumes at project breakeven, redesigning soup service to fit physical constraints, declining product orders that cannot be broken into accessible steps — suggest that managing the pendulum is a series of concrete operating choices, not a one-time strategic decision. Management and the Angels converge on economy of scale as the route to breakeven, though the case records this as a stated expectation rather than a tested result: the cost gap includes structural components arising from workflow design and training capacity, not just overhead spread. For managers and advisors of comparable SEs, this may be a useful prompt to examine whether scale alone would reach the same unit costs that more efficient operations achieve.



For Government Bodies Funding and Supporting Social Enterprises

iBakery Gallery Café exists because of a restricted tender that limited bids to Hong Kong SEs; the original two SEs depend on HK\$2 million grants each from the Social Welfare Department; and Hong Kong's definition of SEs, unlike the European Commission's, does not include self-financing. The case shows these three levers operating together — procurement access, grant funding, and a public definition — without pinning down their relative weight. How they combine to shape what SEs can be built, and how those SEs' success is measured, is a useful question the iBakery case offers to policy readers.



CONCLUDING REMARKS

At the end of March 2012, iBakery's position had two distinct sides. On one were concrete achievements — ISO accreditation, the 2011 Outstanding Social Enterprise Award, and a McKinsey volunteer survey in which 85% of disabled staff and 71% of their families reported greater social respect after joining. On the other were unresolved economics: neither SE had reached breakeven; staff cost ran at 60.3% and 51.4% of overheads against 42.5% and 46.6% at Cafe de Coral and Tao Heung; and management's stated route forward rested on the expectation that scale would, in time, close the gap.

Whether scale will close that financial gap is a question the case leaves open. What it does answer, at the operating level, is narrower: the NGO parent that both funds and constrains; the advisory-only board with real influence but no formal authority; the workforce structure whose cost is visible on the income statement by design. These are the conditions under which any eventual answer has to emerge.

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



ACKNOWLEDGEMENT

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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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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.



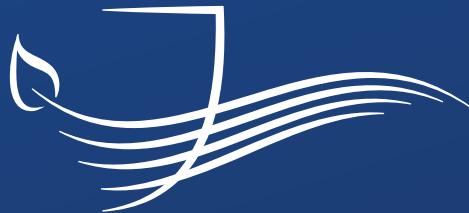
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The Asia Case Research Centre (ACRC) is a research centre affiliated with The University of Hong Kong, HKU Business School. Established in 1997 to address a growing demand for research and instructive materials relating to Asian business, the Centre 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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