

## UNDERSTANDING SOCIAL ENTERPRISES IN INDONESIA: DRIVERS AND CHALLENGES

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### ABSTRACT

*Entrepreneurship has been one of the biggest growth topics in the past decades. Some entrepreneurs engage in socially active activities that are strongly embedded in their entrepreneurial activities and are known as social entrepreneurship. This research maps the presence of social enterprises in Indonesia by investigating the personal and organizational contexts of the social entrepreneurs. Qualitative research was conducted by engaging in in-depth interviews with 8 social enterprises in Indonesia. The findings of this research result in a unique and interesting map of the presence of the social entrepreneurs that contributes significantly to the extant literatures of social entrepreneurship.*

**Keywords:** *Social entrepreneurship, small and medium enterprise, entrepreneurship, strategy*

### INTRODUCTION

The study of entrepreneurship has increased significantly over the decades. People have begun to understand the meaning and importance of entrepreneurship for economic growth in a country. In practice, the concept of entrepreneurship is growing and broadens dynamically. Creative entrepreneurs began to go beyond profits and evolve to not only being socially responsible individuals but also to embed social values into their organizations. They are doing this because they found social problems were left unsolved or overlooked by businesses, governments, and non-governmental organizations (Zahra, et al., 2009). Creative individuals who strive to develop comprehensive new business models to help solve the social problems are known as social entrepreneurs. Therefore, social entrepreneurship involves the recognition, evaluation, and exploitation of opportunities that result in social values (Austin, et al., 2006).

The early concept for being a social company/entrepreneur was by implementing corpo-

rate social responsibility (CSR) programs. These programs, however, were built in response to emerging social problems entrepreneurs found in their surroundings. With the growth of society, it needed a proactive approach to solve several problems it faced. This issue then became a debate and from it emerged new insights for further research: to define what exactly a social entrepreneur is compared to the CSR program operator or commercial entrepreneur and how he/she works in a company. Social responsibility is undeniably important, but it does not equal social entrepreneurship.

With the rise of social entrepreneurship, the boundary of entrepreneurship seemed blurry and confusing, starting with social entrepreneurship, later green entrepreneurship, social venture, social enterprise, non-profit startups, environmental entrepreneurship, social innovation, sustainability, corporate social responsibility, ethics, social justice, and many more arose (Neck, et al., 2009). Therefore, understanding the domain of social entrepreneurship *vis-à-vis* commercial and hybrid-types of entrepreneurship is important, especially because many believe that social entrepreneurship could have a wider impact by overcoming social problem

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such as poverty alleviation and climate change as well as providing social value to society.

Due to the dual aspect of social entrepreneurship – commercial and social – the concept of social entrepreneurship is under on-going discussion as to whether it does really exist or it is just a commercial entrepreneur evolving to a higher level of social consideration beyond the concept of CSR.

### Problem Statement

Social entrepreneurship has been proven as a way to help the government to overcome social problems, such as poverty, disease and death, and the poor quality of life caused by human incapacities (Seelos, et al., 2006). This concept fits the condition of Indonesian society where numerous social problems are faced. However, the government and private sectors seemed to be miles apart from each other in overcoming the problems. In other words, the coordination between government and the private sector for social problem mitigation is not well-established. Therefore, there is a need to map the presence of social enterprises in Indonesia, along with their missions, characteristics, types and operational aspects to better comprehend the circumstances of social entrepreneurship. In addition, it is important to address the challenges faced by social entrepreneurs in order to find the solutions and to formulate mitigating steps for better implementation of social entrepreneurship in Indonesia.

## LITERATURE REVIEW

### The Concept of Social Entrepreneurship

The concept of entrepreneurship has been recognized as value creation through innovation (Drucker, 1985). When applied to the social dimension, the concept has now evolved rapidly with definitions of social entrepreneurship ranging from the broad to the narrow (Austin, et al., 2006). Further, it was proposed that a continuum for commercial and social entrepreneurship exists and serves as an anchor where an organization can pursue commercial entrepreneurship, social entrepreneurship, or a combination of both. The fundamental difference lies

mainly in how they set their mission, how they mobilize resources, why they were established (responding to market-failure), and performance measurement.

Some researchers are focusing on enterprises that create social value regardless of the profit motive, while some have focused on social entrepreneurship as combining commercial enterprises with social impacts. For the latter, entrepreneurs must use their skills and knowledge to serve the society as well as providing profit and being commercial (Emerson & Twersky, 1996 in (Alvord, et al., 2004). This kind of enterprise is known as a *hybrid* – an enterprise that pursues 2 bottom lines (missions); one concentrating on profit and the other on social values (Davis, 1997). Others have emphasized social entrepreneurship as an innovation by the players to have a social impact on society (Alvord, et al., 2004). Still others see social entrepreneurship as the tools for societal transformation. Social entrepreneurs understand not only the immediate problems but also the interdependencies of the problems and their sustainability.

### Social vs. Commercial Entrepreneurship

Sahlman's (1996) conceptual framework extensively captures the differences between commercial and social entrepreneurship that is well-known as PCDO. PCDO stresses the creation of a dynamic fit among 4 interrelated components: *the people, the context, the deal, and the opportunity* that make up either commercial or social entrepreneurship in different ways.

According to Sahlman (1996), *opportunity* is defined as any activity requiring the investment of scarce resources in the hope of a future return. Austin et al., (2006) defined it as the desired future state that is different from the present and the belief that the achievement of that state is possible. This difference can be analyzed through the company's mission and its responses to market failures. The commercial entrepreneur tends to focus primarily on economic return and the fulfillment of breakthrough and new needs while the social entrepreneur mainly focus on

the social return and serving basic and long-standing needs. Both are doing so in innovative ways. Commercial entrepreneurs define opportunity as a large and growing total market size which is structurally attractive, while social-entrepreneurs define an opportunity as when the necessary resources can be marshaled to serve the unfulfilled needs of society since it always has a guaranteed market size (Austin, et al., 2006). Social entrepreneurs, consider opportunity and competitors as partners to collaboratively fulfill the shared-mission rather than as an opponent competing to acquiring a bigger slice of the market.

*Context* in social entrepreneurship consists of factors affecting the nature and outcome of the opportunity, but are outside the control of management, such as the macroeconomy, tax policy and regulations, and the socio-political environment. Although the critical contextual factors are analogous in many ways, the impact of the context on a social entrepreneur differs from that on a commercial entrepreneur because of the way the interaction of a social venture's mission and performance measurement systems influences entrepreneurial behavior (Austin, et al., 2006). For example, in harsh economic times there will be an increase in social needs that stimulate the formation of social enterprises while at the same time, the establishment of new commercial enterprise will be hindered due to the perceived difficulties in generating targeted profits. Besides, contextual factors affect social enterprises less than they do commercial enterprises. However, social entrepreneurs should monitor the contextual condition in order to identify opportunities that might be overlooked.

*People and Resources* represent the human and financial resources inputs in any enterprise that are essential to its success. However, as social enterprises differ from commercial ones in the proprietorships of financial resources or incentives to recruit and retain talent as well as acquiring other resources, they often rely on volunteers to serve in key functions such as fundraising activities or provide professional services on the ground (Austin, et al., 2006). Most start-up social enterprises rely heavily on

the 3Fs (Friends, Family and Fools) for most of their funding.

*Deals* generally are defined as mutually beneficial contractual relationships between the entrepreneurial ventures and the resource providers. As social and commercial enterprises differ in the way they mobilize resources and how they measure performance, the deals between the two are fundamentally different (Austin, et al., 2006). For commercial enterprises, consumers have many consumption alternatives and a powerful economic ability, while consumers of social enterprises do not have these. Instead, funders or investors provide subsidies for their enterprises. Commercial entrepreneurs are generally given discretion to use the capital toward those activities that they decide will add the most value to the enterprise, while the social entrepreneur is often limited to use the funds for the purposes the investors requested.

## RESEARCH METHOD

A qualitative design utilizing in-depth interviews was conducted to gather all the necessary data from participants. Purposive sampling was employed to select the most representative participants based on their organizations' mission. The 8 social enterprises selected as the main participants are presented in Table 1.

As stated in the theoretical framework, the mission is the fundamental parameter that differentiates commercial and social enterprises. Thus, this study selected participants based on their mission statement (written or unwritten), whether they aim for social value or a combination between social and profit value. Data collected from the in-depth interviews were transcribed and analyzed to grasp the big picture of the social entrepreneur – and entrepreneurship – as found in Indonesia.

## RESULTS AND DISCUSSIONS

Based on our in-depth structured interviews administered to 8 social entrepreneurs in Central Java Province and Yogyakarta Province, researchers found a common pattern among the different social entrepreneurs in terms of 8

variables such as: mission, characteristics of social entrepreneurs, fundraising for the start-up and actions that generate funds, resource mobilization, social networking, performance measurement, challenges, and activities. The pattern is summarized in Table 2.

**Table 1.** List of Participants

| No | Enterprise | Social Purpose   | Scope of Reach |
|----|------------|--|----------------|
| P1 | DDF        | Donation for the poor, socialize the alms habit                  | National       |
| P2 | EHY        | Environment-friendly lifestyle                                   | National       |
| P3 | YGN        | Street children care   | Regional       |
| P4 | HZF        | Education funding for underprivileged, highly potential children | Worldwide      |
| P5 | MSR        | Vegetarian, healthy lifestyle                                    | Regional       |
| P6 | YKUT       | Disabled children care   | Regional       |
| P7 | SHN        | Organic agriculture and fair trade, organic lifestyle            | National       |
| P8 | SNG        | Organic agriculture  | Regional       |

Source: (Primary Data 2013)

**Table 2.** Common Pattern of Social Entrepreneurs

| No | Variables                               | Results   |
|----|---|---|
| 1. | Mission                                 | The mission is purely to create social value; however the drivers to get involved in the socio-entrepreneur activities are diverse: personal values, religiosity, social norms.   |
| 2. | Characteristics of Social Entrepreneurs | <ul style="list-style-type: none"> <li>• Social Entrepreneurs tend to strive for sustainability in achieving their social mission. It is not always associated with growth if growth means trading off their main social mission. To support organizational sustainability, they rely heavily on social networks (friends and acquaintance circle) to secure sustainable funding and to disseminate information about the organization in each activity. To achieve their missions, social entrepreneurs perform creative and innovative actions embedded in their social activities to generate funds.</li> <li>• Social Entrepreneurs in general are charismatic leaders who lead based on the leader's ability to communicate and behave in ways that reach followers on a basic, emotional way, to inspire and motivate rather than any form of external power or authority.</li> </ul> |
| 4. | Resource mobilization                   | <ul style="list-style-type: none"> <li>• In staffing, the founder recruits members based on values similarity rather than talent.</li> <li>• In formally-structured organizations, resource mobilization tends to be well organized, where delegation and job descriptions are well defined. Meanwhile, in the informally-structured organization the resource mobilization is somewhat ambiguous and relies heavily on the leaders authority.</li> </ul>   |
| 5. | Social networking                       | Social networking plays an essential part in supporting their social activities. Examples are: generate funds, attract volunteers, disseminate information, invite customers, etc. Social entrepreneurs synergized with similar organizations to widen organizational impacts to society.   |
| 6. | Performance measurement                 | In formally-structured organizations, performance is measured in two ways: qualitatively and quantitatively <i>vis a vis</i> to target. In informally-structured organizations, performance is merely measured qualitatively based on their impact to society. Evaluation meetings are routinely conducted to ensure that their operation is in accordance with their mission. In formally-structured organization, leader performance is evaluated by a commissioner board/government while in informally-structured organization, social control prevails.  |

| No | Variables  | Results  |
|----|------------|--|
| 7. | Challenges | The more developed the organization, the greater the need to recruit talented people who have similar values with the organization. Such individuals are challenging to find. Creating social values also means changing society paradigms which requires a long-term organizational commitment to educate the society.                          |
| 8. | Activities | Informally-structured organizations have more flexibility in deciding which social values to pursue as well as in responding to which social problems. In a formally-structured organization however, they become less flexible so they tend to focus on certain mission and barely change the mission despite the change in social environment. |

Source: Primary Data (2013)

In general, although social entrepreneurs in Indonesia pursue purely social missions, they have different motives ranging from personal values, social norms, and religion. Personal values refer to the founders' beliefs that solving social problems is everyone's responsibility. It could be based on their bitter past experience that elicits empathy and social concern. Social norms are the behaviours and cues within a society or group. They are defined as the rules that a group uses for appropriate and inappropriate values, beliefs, attitudes and behaviours. These rules may be explicit or implicit. Failure to follow the rules can result in severe punishment, including exclusion from the group. Deference to the social norms maintains one's acceptance and popularity within a particular group; ignoring the social norms risks one becoming unacceptable, unpopular or even an outcast of the group. Some of the social entrepreneurs inherited their family organizations, so that they feel the need to carry on the organization as an attempt to fulfil social norms. Besides, religious values were also found to motivate them to run social-organization as they believe that well-managed social funds will impact society effectively and efficiently.

*"...It's like love at first sight. I do it for myself and I really enjoy what I do. It's just that feeling when you do something, no matter how small it is, even with an unclear impact, but you can give back what you got (from nature)." [P2]*

*"I am the third generation in my family. I have the responsibility to continue this (school)" [P6]*

*"We don't run a commercial unit since it is too risky to mix up the mundane and religious services according to the Holy Qur'an" [P1]*

Social enterprises rely on charismatic leaders who lead based on their ability to communicate and behave in ways that reach followers in a basic, emotional way, to inspire and motivate rather than any form of external power or authority. Those charismatic leaders strongly influence organizations' missions and many aspects in the decision making process. However, in formally-structured organizations, work and responsibility are well-delegated rather than in an informally-structured organization where leaders manage and perform almost all the work needed to accomplish the organizational goals and objectives.

*"Embedding an environment-friendly lifestyle start with yourself, so I start with myself and being consistent with that. Other members then follow without me telling them to do so." [P2]*

Social entrepreneurs in Indonesia conduct various creative and innovative activities to generate funds to achieve their mission. These two characteristics are in-line with the characteristics of conventional entrepreneurs. Social enterprises try to be unique and different so they can attract more stakeholders to support the

organization and in order to widen their impact on society.

*"We offer something different. We are not just helping poor children to continue studying but we focus on those children who have dreams, potential, and the spirit to reach their dreams."* [P4]

Although social entrepreneurs tend to compete with other organizations to secure public funding (donation, sales, etc.), they do actually cooperate with each other to achieve their missions and to widen their impacts on society. Social enterprises extensively use their networks, social networking sites, and publicity (such as word-of-mouth) to disseminate information about their organization. Commercial promotion is sometimes used only to complement their 'guerilla promotion'.

*"We don't utilize any commercial-and-heavy promotion. We want to protect our street-children from negative publicity. But we use word-of-mouth. A lot."* [P5]

Generally, social enterprises do not have significant problems in mobilizing their resources in the organization. Organizations with an established structure complying with the standard operating procedures use delegation as an important aspect of mobilization. In the less formally-structured enterprises, mobilization of resources tends to be ambiguous and relies heavily on the leaders' instructions, which is not considered as a problem by the organization. Another finding in terms of mobilization is on the staffing process, where all organizations recruits or employs people that align their individual values with the organization's values. Talent, skills, and ability are not considered as important criteria for staff.

*"We hire employees professionally based on their ability and they get the standard salary."* [P1]

*"It was difficult to find suitable talent at first so we relied on the help of other communities in our social connections. Now, when we're more formalized, I start to spend more*

*effort on finding the right talent. We have them now."* [P4]

The success of social entrepreneurs is measured in 2 common ways: qualitatively and quantitatively. In formally-structured organizations, qualitative and quantitative measurements are employed while in an informally-structured organization, qualitative measurements are commonly used. For qualitative measurement, social-entrepreneurs defined their own mission, target, and objective which often are not quantified. However, both formal and informal structured organizations conduct routine evaluations to ensure that their programs and performance meet the objectives and are in-line with their mission. They also generally do not have any quantitative measure to ascertain the impact of their activities on society.

*"We have weekly and monthly meetings to evaluate and review what we have done to reach the target...beneficiaries also can continuously check what we are doing... however we don't have an established measure."* [P4]

*"We don't have a fixed performance indicator. We want farmers to stand on their own and not be too dependent on middlemen."* [P7]

Lastly, in terms of the challenges faced by social enterprises, this study found several points. Better management processes conducted by talented people that fit the organization's values is an important issue. But when the organization gets bigger, it is not enough to only employ people with aligned values. There is a growing need to employ people that understand the process of management so the organization's sustainability is ensured. Another important issue relates to paradigm and mindset changing. This is a challenging task faced by most leaders in social enterprises since changes are not likely to happen instantly. It needs to be nurtured and consistently pushed. Therefore, social enterprises generally have no rapid growth but instead focus on gradual and steady changes.

## CONCLUSIONS AND FUTURE RESEARCH

Social enterprises do indeed have a pure social mission aim upon their establishment. In their development, the enterprises evolve their activities not only in the social aspect but also into new business units. What differentiates social enterprises with commercial and the so-called hybrid enterprises is that all profit from the business is used to fund the main social activities and focus. Therefore, the business conducted by social enterprise is merely to ensure sustainable funding. Further, their networks are an essential part of the social enterprises. Not relying much on commercial promotion activities, social enterprises rely on their circles, their synergy with other communities and similar organizations, and publicity such as word-of-mouth to support their organization's sustainability. The main challenges confronted by most social entrepreneurs are changing the mindset of people for the social targets set and finding qualified talent who have the same social vision and mission to join the organization.

From this study, it also clear that the continuum of entrepreneurship proposed by Austin, et al. (2006) exists. With commercial entrepreneurs at one end and social entrepreneurs at the other end of the continuum, there is an important implication to enhance both sides to bring them into the middle of the continuum, evolving their organizations into the hybrid-type of enterprises. Commercial entrepreneurs with huge funds, being the mainstream organization type currently in existence, already have new trends for helping society solve their problems by having more extensive social responsibility programs and donations. Social entrepreneurs, on the other side, are still struggling for funding to overcome social problems. When the two meet, they have a wider impact which results in a better environment for society.

The limited number of participants in this study may mean we do not capture the whole aspect of small and medium social enterprise patterns for the purpose of generalization. There is a need to explore more social enterprises from a different focus so the comprehensive map of

different social enterprises may be understood. Further, exploring challenges and solutions as well as conducting surveys with stakeholders to measure the impact of the organization is also an important contribution by the research. Government intervention and their policy for solving contextual social problems is also becoming an important factor to investigate ways to answer social entrepreneurs' challenges.

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## APPENDIX

| Aims of Information                                       | No. | Questions   |
|---|-----|---|
| The mission of engaging in social activities.             | 1.  | When did you start engaging social activities in your business?   |
|   | 2.  | What made you decide to get involved in social activities?  |
|   | 3.  | Who are the parties that are your main supporter to engage in social activities?  |
|   | 4.  | Why do want to get involved in social activities?   |
|   | 5.  | What is your mission in engaging social activities?   |
| Characteristics of social entrepreneurship                | 6.  | Industry type(secondary data)   |
|   | 7.  | Organizational context  |
|   | 8.  | What is the biggest social impact that your social activities brings?   |
|   | 9.  | What makes your social activities different compared to other socio-entrepreneurs that conduct similar types of social activities?      |
| Types of social entrepreneurs                             | 10. | Do you receive a portion of the financial benefits (profits) from the social activities you conduct?                                    |
|   | 11. | How are the financial benefit (profits) distributed in your social activities?  |
|   | 12. | If you don't receive financial benefits from your social activities, what personal benefits do you receive from your social activities? |
|   | 13. | Do you do commercial actions for your social activities?  |
|   | 14. | (If yes) Can you describe the commercial actions you conduct for your social activities?  |
|   | 15. | (If no) How do you communicate your social activities?  |
| Social entrepreneurship impact                            | 16. | What group of society do you target for your social activities?   |
|   | 17. | What impacts do your social activities bring to the group in society that you targeted?   |
|   | 18. | Why do you choose to target that particular group in society?   |
|   | 19. | Is there any continuous communication to the groups in society you target? If yes, how is it conducted?                                 |
| Social networking of SMEs in conducting social activities | 20. | Is there any (that you join) groups, organization, or alliances that unites entrepreneurs to conduct social activities?                 |
|   | 21. | (If yes) how is it managed?   |
|   | 22. | (If no) why you did not join any types of groups, organization, or alliances?   |
|   | 23. | How do you communicate between each other?  |
|   | 24. | How do you manage the social activities among the members of the groups?  |
| Actions of generating funds                               | 25. | How do you finance your social activities?  |
|   | 26. | How is the financing being managed in your social activities?   |
|   | 27. | Do you have fund raising activities?  |
|   | 28. | (If yes) how do you persuade the fund giver to invest in your social activities? Who are the fund givers?                               |
| Challenges of social entrepreneurship                     | 29. | What are the challenges you face by being a social entrepreneur?  |
|   | 30. | How do you overcome the challenges?   |
|   | 31. | Having several challenges, do you plan to still be a social entrepreneur in the future?   |
|   | 32. | What motivates you to still be a social entrepreneur in the future?   |

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