

## School of Thought of Social Enterprises: An Appraisal of Social Enterprise in Malaysia

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**Abstract:** Generally, the concept of social enterprise is based on two main elements, i.e. social mission and profit orientation. Some scholars define social enterprise as a market-based approaches used by non-profit organization to address social issues and social needs. Revenue from this approach will contribute to the self-sufficiency and long-term sustainability of organizations involved in charitable activities [1] This definition is appropriate for non-governmental organizations (NGOs) which provide social needs, while the others define social enterprise as social enterprises as an organization that seeks to solve social problems through business method. Varieties of definitions given by scholars on social enterprise give rise to two main schools of thoughts on social enterprises, namely the social innovation thought and social business thought. This paper discusses the two school of thoughts on social enterprise and examine which school of thought is applicable to social enterprise in Malaysia.

**Key words:** Social Enterprise • Social innovation • Malaysia

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### INTRODUCTION

The concept of social enterprise represents an alternative and promising model for development in improvises communities. However, the concept of social enterprise is still vague among scholars and industry [2]. They define social enterprise may exist in various forms either as public, private or non-sectors organization. These might include social business ventures and non-for profit activities. Therefore, the concept of social enterprise could be categorised based on two categories into two different schools of thoughts known as social innovation and social business.

Therefore, the purpose of this paper is to discuss the two school of thoughts on social enterprise and examine which school of thought is applicable to social enterprise in Malaysia.

#### School of Thought on Social Enterprise:

**The Social Innovation School of Thought:** This school, focusses on innovation approach engaging by social entrepreneur and their impact to the society. Under this school social entrepreneurs is defined as an individual who reform the pattern of production in an innovative

way in order transform economic resources from lower to higher yield of society [3]. Dee and Anderson also believed that social innovation should focuses on creating new and better way to overcome social problem, therefore business venture is not necessary element of entrepreneurship but innovation is the most important one [3].

This notion also received Zappalà's attention on social enterprise [3]. According to him

*'Social enterprise is a means for non-profit agencies to maximise their mission-related performance through the development of new ventures or by reorganising activities to improve operational efficiency'*

Therefore, within an innovation approach social innovation proposed that social enterprise might exist in various forms between three sectors, government, community and private in the same interest for social mission.

Nicholl [4] suggested that, social enterprise is a new concept which crosses the type of organizations. It may establish within various context such as, Public sector

which apply entrepreneurship skills, Business venture with social purpose and Non-Profit Organization engages with entrepreneurship approach.

It is observed that, the concept of social enterprise under this social innovation school of thought is broad, exists in various spectrums to include for-profit business engaged in socially beneficial activities to non-profit organizations engaged in an innovation in supporting their missions.

**The Social Business School of Thought:** In contrast with social innovation, social business school of thought emphasizes on the business strategy to earn income for the organization with the purpose of social mission [5]. Under this category social enterprises are independent and free from any philanthropy and subsidies from government to support their operation and social mission. Emerson & Twersky claimed that the concept of social enterprise has shifted from close market orientation to an open market by adopting business strategy [6].

Social enterprise may operate under for-profit social entities umbrella such as proprietorship, partnership and any incorporated organization. However, such entities must specially design to serve for social purpose while making a profit [7].

Paul C Lights (2006), claimed that the concept of social enterprise in this school of thought goes beyond non-profits organization by carrying business activities and it might exist in various forms such as community enterprise, community business, social purpose ventures, worker and consumer co-operatives and mutual, socially responsible or socially oriented business and, if stretched, some examples of corporate social responsibility [8].

A main rationale of adopting business strategy in their social mission is to overcome some barriers faced by non-profit organization such as financial constraint and lack of human capital in supporting their operation [9].

Besides that school enterprise in this thought, also applies the doctrine of self-sufficient in the organizations as to ensure their sustainability in a market place. Therefore, social enterprises will directly involve in self-earned income to support their daily operation.

It is because through self-sufficiency, social entrepreneur may improve the efficiency of management in capital expenditure, working capital and asset management [10].

Hence, as to adopt social business approach, a new model of business strategy was introduced known as "hybrid organization".

Through this strategy, they will be blending missions of business and social oriented whereby they might achieve social goal through entrepreneurship skills [11].

Indiscussing to this new model, Dee and Anderson highlighted the two main characteristics of a hybrid organization [2]:

- Legally incorporated as for-profit entities, with one or more owners who have a formal right to control the firm and who are entitled to its residual earnings and net assets. For-profit forms include proprietorships, partnerships, corporations, limited liability companies and cooperatives.
- Explicitly designed to serve a social purpose while making a profit. Having a social purpose involves a commitment to creating value for a community or society rather than just wealth for the owners or personal satisfaction for customers.

Being a hybrid business organization, there are some significant advantages to the social entrepreneurs and to the society at large.

Realizing to potential of hybrid organization, the concept of social enterprise introduced by this school of thought has been widely accepted by people as an alternative way to promote sustainability in society. According to a survey conducted by Global Entrepreneurship Research Association in 2011 found that, a hybrid business organization received a higher rate of acceptability which is 1.30 compared to non-profit organization 1.05 among 150,000 respondents from 49 countries [12].

**Methodology:** This paper adopted the library based research methodology. It involves content analysis on texts as found in journal, government report and news papers.

## DISCUSSION

It is observed that there are several differences between the social innovation and social business school of thought.

The main focus in social business school of thought is adopting business strategy and recognizing entrepreneurs as an agent to promote social development. Thus, as social entrepreneurs, they will employ all entrepreneurial attributes such as risk taking, innovation and in their business activities. Hence, through hybrid

business organization, social enterprise will be independent from philanthropic or government subsidies to support their daily operation and to achieve social mission.

In difference to social business school of thought, social innovation emphasizes organization as an agent to combat social need and problems. Consequently, through innovation, social enterprises will be having varieties of ways in achieving their social objectives. As innovation as a main idea in this school of thought, many organizations embraced under this category, this might include non-profit organization which are highly depending on government assistance and donation to support their activities.

**Social Enterprise in Malaysia:** Social enterprises in Malaysia exist in various forms and associated with voluntary activities. These organizations are from government agencies and non-governmental organization (NGOs) to overcome social problem [13].

Nevertheless Suraya and Ahmad have classified them into two categories, namely, the enterprising non-profits organization and social purpose venture [14].

**Enterprising Non -Profit Organization:** The concept enterprising non-profits organization is refers to non-profit organizations which employ innovative ways to achieve their social objective [13]. These organizations are governed by various legislations, such as, Trustees (Incorporation) Act 1952 and Society Act 1966. As a non-profit organization and charitable organization, social enterprise in this category is prohibited to involve in commercial activities and therefore most of them are highly depend on philanthropy and grant from the government to support their social activities and sustainability [15].

**Social Purpose Venture:** Acknowledging to the obstacle faced by non for profit organization, social purpose venture comes as an alternative for social entrepreneur to tackle such problem. Social enterprises in this category have operate and to compete with commercial business organization in market place under various business entities which are available for common commercial business entities.

**New Development of Malaysian Social Enterprise:** In 2014, Malaysian Government has taken initiative by establishing Malaysia Global Innovation and Creativity

Centre which primary objective to to promote social entrepreneurship, creativity and innovation among Malaysian.

Significant to its establishment, the number of organizations exists to support social entrepreneurship program. Not only that, various researches and campaigns have conducted in order to create awareness among public [16].

MGICC also launched the Malaysian Social Enterprise Blue Print to describe strategies in promoting social enterprise. Among of the strategies are by introducing 4 objectives in developing Malaysian social enterprise policy and identifying two main characteristics for Malaysian social enterprise [17]. The four objectives as below;

- The definition of Malaysian social enterprise should focus on social mission as primary objective.
- The definition itself should facilitate policy maker, investor and grant maker to support social enterprise.
- Such definition also must be sufficiently permits social enterprise to innovate and adopt variety of business model to combat social issues.
- Such definition should also be available to all business entities in Malaysia

And the two characteristic are:

- Social enterprise must engage in business activities, but the revenue must be reinvested to the community. Therefore, they can sustain it without relying on philanthropy.
- A business model is specifically designed to support the social mission of the organization.

**Observation:** It's observed that by referring to MGICC blueprint, Malaysian social enterprise concept has been suggested to apply social purpose venture model which derives from social business school of thought. The main reasons of this suggestion are to ensure sustainability and competitiveness of the organization in market place as compare with enterprise non profit organizations. However due to the several identified challenges this concept could not be implemented accordingly.

## CONCLUSION

The concept of entrepreneurship has faced an innovation by introducing of social enterprise. The concept of social enterprise is dynamic which it might exist in various forms of organizations in accordance with two difference school of thoughts. However, as research

found, a hybrid business entity proposed in social enterprise school of thought has been widely accepted as their national concept for social enterprise as compared to the innovation approach.

Malaysian social enterprise is still in a new phase which need for more attention from the government, particularly relating to the approach that going to be adopted as social enterprise. Acknowledging to the concept of hybrid organization in social enterprise school of thought, it's highly recommended for Malaysia to adopt such approach for our national social enterprise concept. Through this new concept, Malaysia social entrepreneurs would have opportunities to compete in a market place similar with common business organizations in Malaysia. This competitiveness would lead to the innovative approach engage by social enterprise in promoting their dual mission. Besides that by implementing self-sufficiency, social enterprises might move forward independently, with creative and innovative ways.

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