



**PROMOTING SOCIAL ENTREPRENEURSHIP  
FOR SUSTAINABLE OF ECONOMIC  
DEVELOPMENT: A STUDY OF SOCIAL  
ENTERPRISES IN MALAYSIA**

by

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## LIST OF ABBREVIATIONS

|       |  |
|-------|--|
| AIM   | Agensi Inovasi Malaysia                                |
| ASEAN | Association of Southeast Asian Nations                 |
| CSOs  | Civil Society Organisations                            |
| GDPGD | Gross Domestic Product                                 |
| P     |  |
| IP    | Intellectual Property                                  |
| IPs   | Innovation Process                                     |
| MaGIC | Malaysian Global Innovation and Creativity Centre      |
| NEM   | New Economic Model                                     |
| NGOs  | Non-governmental Organisations                         |
| NKRA  | National Key Results Area                              |
| NPD   | New Product Development                                |
| OECD  | Organisation for Economic Co-operation and Development |
| OI    | Open Innovation  |
| R&D   | Research and Development                               |
| SE    | Social Entrepreneurship                                |
| SEs   | Social Enterprises                                     |
| SMEs  | Small Medium Enterprises                               |
| UK    | United Kingdom   |
| UnLTD | unlimited company                                      |
| US    | United States  |

## **Menggalakkan Keusahawanan Sosial Untuk Pembangunan Ekonomi Mampan: Kajian Perusahaan Sosial di Malaysia**

### **ABSTRAK**

Sumbangan utama penyelidikan ini adalah berpotensi memberikan idea-idea terbaik kepada perusahaan-perusahaan sosial agar mereka berdaya saing dan dapat mempertimbangkan jalan penyelesaian yang terbaik atau sesuai untuk meningkatkan prestasi syarikat serta menyokong kemapanan pertumbuhan ekonomi di Malaysia dengan memaksimumkan aktiviti-aktiviti keusahawanan sosial yang dijalankan oleh Malaysian Global Innovation and Creativity Centre (MaGIC) sebuah badan bertanggungjawab yang ditubuhkan sebagai salah satu inisiatif kerajaan dalam mempromosi keusahawanan sosial di Malaysia. Kajian ini bertujuan untuk mengkaji bagaimana strategi dan polisi kerajaan mempengaruhi prestasi perusahaan sosial, atau sebaliknya. Ia meneroka sokongan kewangan dan bukan kewangan seperti kesedaran, pengiktirafan undang-undang dan struktur sokongan dasar, bakat berkualiti, akses kepada modal kewangan yang besar dan birokrasi agensi kerajaan, yang disediakan oleh organisasi tersebut. Hujah yang dikemukakan adalah mengenai apa yang membentuk rangka kerja keusahawanan sosial yang holistik di Malaysia, khususnya, peringkat permulaan dan hasilnya. Rangka konseptual yang dicadangkan ini dapat memberi kesan yang sangat penting kepada agenda keusahawanan sosial pada tahun 2018 iaitu menambahkan jumlah perusahaan sosial bagi mencapai jumlah 1000 syarikat dan untuk perusahaan sosial sedia ada di Malaysia dapat mengekalkan tahap daya saing, adil, dan berorientasikan rakyat dalam usaha memperkasakan usahawan sejajar dengan aspirasi Model Ekonomi Baru Malaysia (NEM). Ia juga dimantapkan lagi dengan Teori Inovasi Terbuka (OI) oleh Chesbrough (2003). Penyelidikan ini menggunakan kaedah kajian kes, analisis pelbagai yang berperanan sebagai kaedah utama dalam melaksanakan penyelidikan. Secara keseluruhannya, data-data yang dikumpul terdiri daripada 13 responden dengan menggunakan kaedah temubual separa berstruktur serta menggunakan soalan terbuka dan melalui pengalaman seseorang pakar, pendapat, persepsi, perasaan dan pengetahuan orang. Bagi analisa data kajian kes ini, penyelidik memilih untuk menggunakan perisian Nvivo 10 sebagai teknik analisis data kajian yang dijalankan. Penemuan ini mungkin memberi manfaat bukan sahaja kepada perusahaan sosial, tetapi juga kepada pembuat dasar dan agensinya, sektor swasta dan institusi pengajian tinggi untuk penyelidikan di masa depan. Kajian ini merangkumi pemerhatian yang khusus terhadap keusahawanan sosial dan mencadangkan lima kemungkinan untuk inisiatif promosi berterusan keusahawanan sosial dan pembangunan keusahawanan sosial di masa hadapan.

Kata kunci: *Keusahawanan Sosial, Perusahaan Sosial, Kemampanan, Teori Inovasi Terbuka*

# **Promoting Social Entrepreneurship For Sustainable of Economic Development: A Study of Social Enterprises in Malaysia**

## **ABSTRACT**

The principal contribution of this research would potentially provide viable ideas on how competitive firms may consider the best or most appropriate solution(s) to enhance their company performance and support the growth of sustainability economic development in Malaysia as a result in maximising the Malaysian Global Innovation and Creativity Centre (MaGIC) support programmes, rooted by one of the government initiatives. This research aims to examine how the strategy and policy influences social enterprise performance, or otherwise. It explores the financial and non-financial support such as awareness, legal recognition and supportive policy structure, quality talent, access to sizeable financial capital and bureaucracy of government agencies, provided by the said organisation. Arguments put forward on what constitutes a holistic social entrepreneurship framework in Malaysia, particularly the precursors and the outcomes. The proposed conceptual framework addresses an important consequence of social entrepreneurship agenda by the year 2018. The agenda comprises social inclusion, which is to increase the number to 1000 social enterprises social enterprises and for the Malaysian social enterprise sector to be self-sustaining, equitable, and people-centric in order to empower impact-driven entrepreneurs, which is in line with the aspiration of the Malaysian New Economic Model (NEM). These derived from the Open Innovation Theory of Chesbrough (2003). A qualitative case study, content analysis, comparative analysis research serve as the main methodology for this research. Data collected from thirteen respondents using a semi structured interview guide with open-ended questions and probes about people's experiences, opinions, perceptions, feelings and knowledge. As for the data analysis technique of this research, the researcher chooses to use software Nvivo 10. The findings may benefit not only social enterprises, but also policy maker and its agencies, private sectors and higher learning institutions for future research. The study includes observations and suggests five possibilities for continuous promotion initiatives in social entrepreneurship and future social entrepreneurship development.

**Keywords:** *Social Entrepreneurship, Social Enterprise, Sustainable, Open Innovation Theory*

## CHAPTER 1 : INTRODUCTION

### 1.1 Background of the Study

The Neoclassical Economics is an approach to economics, focusing on the determination of goods, outputs, and income distributions in markets through supply and demand. In this economics approach, economic growth is considered good because it allows people to have a higher standard of living and to own more material goods. Nevertheless, an increase in real Gross Domestic Product (GDP) or per capita real GDP does not tell us whether the average citizen is better off. One problem is that these measures say nothing about how income is distributed. The national economy may be growing, but the poor people may be staying poor while the rich get richer (William & Michael, 2015).

This inequality can be seen in Malaysia after five decades of economic development. The lesson is very simple; economics growth may benefit some groups more than others. In addition, it is entirely possible that despite the current national growth, some groups can be worse off than they were before. Clearly, neither per capita real GDP nor real GDP accurately measures the standard of living for all of a nation's citizens. Another reason why neoclassical economics is not relevant is because Malaysia has slowly transformed into a knowledge economy country. Neoclassical economics did not mention about knowledge and innovation in its model. This is the reason why the Malaysian government seems to use an evolutionary approach instead (Adebowale, 2017; Ghazinoory, Narimani, & Tatina, 2017).

This can be seen from many indicators such as the establishment of “Agensi Inovasi Malaysia (AIM)” and some triple helix concepts in order to facilitate modern economic growth in Malaysia, which is based on innovation. To solve the problems in the inequality of income distributions and the quality of life in Malaysia, the Open Innovation (OI) is proposed by the Malaysia government. This approach is based on innovation and the role of knowledge. In other words, it focuses on profit, non-profit and social innovation rather than on profit alone (De Silva, Howells, & Meyer, 2018). Innovation is at the centre of this approach and should become the engine of growth of modern economy (Pyka & Prettner, 2018). Government has to work with other partners such as the private sectors and universities to encourage innovative activities and knowledge creation. Based on this approach, government creates Malaysian Global Innovation and Creativity Centre (MaGIC) as a mediator between government and social enterprises to achieve target to create 1000 social enterprises by 2018 (Malaysian Social Enterprise Blueprint, 2015).

*“The Government recognises the potential of social entrepreneurship ...together, we can make social enterprises grow bigger and stronger in our economy and ensure that we create long-term benefit for our rakyat at the same time.”-*  
*Najib bin Tun Haji Abdul Razak, Prime Minister of Malaysia*  
*(2014)*

Based on this statement, it shows that the Malaysia government committed RM20 Million for the MaGIC. It was established to grow the social enterprise ecosystem in Malaysia through research, training and investment. They have launched a

few programs to make social enterprises (SEs) bigger and stronger in the economy and create long-term benefits for the Malaysian. Social enterprise is an entity that achieves a social mission by using a business model. The social enterprise combines the elements of Non-Governmental Organisations (NGOs) and profit for the companies. The aim is, from the current number of 100 Malaysian social enterprises, the number will double over the next year and reach 1000 SEs in three years. Focus areas include building a mass of successful social enterprises, creating an ecosystem that supports the fostering of social and public partnerships, and making systematic changes related to policies and regulations. Social enterprise offers a new way to do business that is animated by a social purpose. Although most SEs are small, and many are still fragile, the sector has attracted growing interest from policymakers, young people, entrepreneurs, funders and established line of works. The social enterprise complements both profit and non-profit strengths which explains why social entrepreneurship has emerged and becoming popular (Mokhtar, Abdullah & Kin, 2014).

The contributions of social enterprise to the national economy have been acknowledged throughout the world (Zakaria, 2014). Social enterprise is the gateway to support and sustain the national economy through their unique social business model which combines a genius formula in profit making and solving social issues in Malaysia. SEs are organisations that have social cause (like poverty reduction) as their primary mission and sustain themselves by using a business model. The development of the social enterprise sector is widely seen as a key element of a nation's successful economy (Razak, 2015) by creating an ecosystem that supports the fostering of social and public partnerships while making systematic changes relating to policies and regulations. It is also known as a major economic mover.



In Southeast Asia, economies have been booming for over three decades, with GDP increase often described as “outpacing the rest of the world”. The social economies of these countries are also accelerating at rapid pace. An OECD (2013) report described the Southeast Asia region as “one of the most dynamic in the world” and research by McKinsey stated that the Association of Southeast Asian Nations (ASEAN), which includes Malaysia, Indonesia, Thailand and Vietnam, “has dramatically outpaced the rest of the world on growth in GDP per capita since the late 1970s”. It was also found that “the income growth has remained strong since 2000, with average annual real gains of more than 5%”. Indonesia, Malaysia and Thailand are all featured in Bloomberg’s top 10 emerging markets around the world. Moreover, it seems that the emerging social enterprise sector should also be on the international radar.

Earlier in 2015, the Malaysian Prime Minister, Najib Razak launched a three-year blueprint plan, which set out the government’s strategy for developing the social enterprise sector. The Government recognises the potential of social entrepreneurship in not only addressing our country’s pressing issues, but it also redefines how business should work in order to achieve a people-centric economy. According to Executive Director at MaGIC (Chan, 2015), the social economy in Malaysia is in its infancy, but there is a tremendous amount of energy contributed for it. Commitments laid out in the blueprint included a policy review to develop the social enterprise ecosystem. The government is also currently looking into a legal entity or certification to help support the sector further.

However, up to this recent year, the usage of the business assistance services provided by the government can be considered poor, especially among micro-sized SEs

(Yusoff, 2011). In order to boost the economic growth and enhance rapid development towards achieving the National Economic Policy and Vision 2020 goals, an attractive social mission and business environment should be of concern and focus in order to increase the opportunities in the enhancement of social enterprise performance. As with most issues in MaGIC, the effectiveness of MaGIC as a policy tool to improve the performance of SEs is still open to question, even though MaGIC has become conventional wisdom in many countries across the globe. MaGIC can be classified as an approach used by the government to assist, improve, promote, and provide training to social enterprises in hope for SEs to progress and develop according to the government agendas regarding social enterprises. It has been argued that MaGIC has a positive impact on the development of SEs to overcome social enterprise limitations in order to ensure and gradually enhance company competitiveness locally and eventually making them ready to go for the international market. MaGIC can be broadly divided into two categories, namely financial and non-financial support services, which is the focus of this research.

The SEs need government intervention to equip them with the characteristics of being innovative, creative, and flexible. Thus, small business development is now a key aspect of economic development strategy. However, no matter how much assistance the government provides, certain characteristics of the SEs may have an influence on the relevancy, efficiency, and effectiveness of MaGIC.

One such characteristic is OI, which has been widely studied by organisational and innovation researchers, focusing on the identification of the determinants of OI for different types of knowledge (Chesbrough, 2006). It can be viewed as a firm's ability to

identify, assimilate, and exploit external knowledge to commercial ends (Chesbrough, 2003). Thus, OI is high if companies can learn how to make use of new knowledge within their processes and implement a change that increases their competitiveness. OI assumes that internal ideas can also be taken to market through external channels, outside the current businesses of the firm to generate additional value. OI enables the firm to make sense of external knowledge, interpret it, combine it with existing knowledge, and successfully exploit it commercially. This capacity facilitates exploration activities that enhance the firm's innovativeness that leads to value creation. There are potential of rich knowledge areas to be discovered by researching these issues. Thus, this dissertation offers several new contributions to the relationship between MaGIC and social enterprises' performance.

This study investigates issues faced by social enterprises regarding their performance in relation to the support services received from the government. In order to address this issue, this study had sought to identify the most influential services provided by the government either related to financial or non-financial support. Although MaGIC had been explored in previous studies, however, in the Malaysian context, there are limited studies that have examined on how MaGIC influences social enterprise performance. Furthermore, there are even less study efforts in investigating OI within this relationship. Therefore, this study attempts to fill the gap by examining the relationship between MaGIC and social enterprise performance in Malaysia, which also take OI into consideration.

## 1.2 Problem Statement

There is no denying that social enterprises play a major role in a nation's economy by serving their unique social mission and business model combining a genius formula for profit making and solving social issues in Malaysia. SEs ramp up public awareness and apprehension of social enterprise to spur a fresh young generation of social entrepreneurs. SEs are organisations that have a social cause as their primary mission and sustain themselves using a business model. The development of the social enterprise sector is widely seen as a key element of a nation's successful economy (Razak, 2015) by creating an ecosystem that supports the fostering of social and public partnerships, making systematic changes relating to policies and regulations thus seen as a major economic mover.

Therefore, in recognition of this, many governments throughout the world have intervened in order to assist social enterprises to effectively compete in the open market. Over the years, the Malaysian government has provided numerous business assistance services through various agencies (Yusoff, 2011), in the form of two types of initiatives, namely (1) financial and (2) non-financial support services (Ahmad & Latif, 2012). In relation to the financial aspect, Business Times (2011) reported that Chua Tiam Wee (SMI Association of Malaysia President) claimed that among the challenges faced by social enterprise in Malaysia in 2010, lack of funds continues to be the largest hurdle of all. Branding among social enterprise is another area which the sector still lacks and needs attention. Lack of trading facility for social enterprise is also another area of potential research. Although the move by the government in the 2013 budget to

improve the MaGIC by introducing new funds for the social enterprise is considered supportive, the social enterprises believe that there is still room for improvement.

Meanwhile, from the non-financial MaGIC perspective, Chan (2015) reported that there were problems faced by local social enterprise related to MaGIC business advisory. Some of these problems include; (1) lack of institutional awareness; (2) lack of legal recognition and supportive policy structure; (3) lack of access to quality talent; (4) lack of access to sizeable financial capital; and (5) bureaucracy of government agencies. Besides, there is a tremendous pressure to sustain and increase the number of social enterprises to achieve the target of 1000 companies by 2018. Social enterprise has to face global competition, technological advances, changing needs of customers, and competitive paradigms. All of which non-financial can potentially assist in enhancing the performance for the social enterprise. Therefore, without proper planning or additional assistance by the government through MaGIC, the social enterprise will struggle to perform well in the industry.

In addition, even though the funding provided through MaGIC is relatively small, it shows that the government understands the external factors, such as short-term economic slowdown or rising cost of commodity prices, may affect the social enterprises. This could hinder social enterprise growth and their efforts to penetrate new markets abroad. The government should first conduct a study or obtain views from companies in the trade delegation on the criteria for potential business partners in order to avoid mismatch and most importantly, wasting of time and resources (Business Times, 2011). Over the last years, MaGIC had worked closely with government agencies to improve and develop social enterprise in Malaysia. More research needs to

be conducted to examine the specific and detailed impact of the government's policy programs, especially MaGIC, which include direct funding support, human resources, and technological support. In addition, there is a need for more in-depth studies and analysis focusing on a specific area with regard to growth, more specifically social enterprise performance, which is part of the motivation for this current research.

Moreover, one important area of social enterprise that has little attention is how social enterprises manage their knowledge to create competitive advantage (Meihami & Meihami, 2014), which brings this discussion to the concept of OI. In order to enhance the social enterprise performance (Wang & Han, 2011; Dyer & Singh, 1998), social enterprise needs to critically look into the firm's innovation process and maximise the firm's OI. The Innovation Process (IPs) is a knowledge based that firms need to focus on, which includes capability, knowledge content, organisational routines, and processes (Chesbrough, Vanhaverbeke, & West, 2014). Firms with greater OI would benefit more from using tacit, ambiguous, and complex external knowledge (Wang & Han, 2011; Escribano, Fosfuri, & Tribo, 2009).

From the theoretical point of view, there is still lacking of literature pertaining to social entrepreneurship (SE) in developing countries (Adebowale, 2017; Ramlan & Abd. Malek, 2011; Yusoff & Yaacob, 2010), which includes Malaysia. Thus, this is another motivation for the implementation of this current research effort, which is to contribute empirical evidence from the Malaysian perspective. Based on the issues mentioned above, there are many improvement initiatives that need to be considered by the government in ensuring the success that MaGIC provided to SEs in Malaysia, especially relating to the effectiveness of MaGIC as a policy tool to improve the

performance of social enterprises. Research in these issues has potential for revealing new understanding and knowledge. Therefore, this dissertation attempts to examine how MaGIC blueprint strategy and policy influences social enterprise performance, or otherwise. Furthermore, this study examines whether there is a moderating effect of OI on the relationship between MaGIC and social enterprise performance.

### **1.3 Research Questions**

Research questions are used to ensure that a conducted research stays on track. After conducting an extensive literature review, this research aims to find an explanation for the following research questions.

- a) How does MaGIC support the growth of sustainable economic development in Malaysia?
- b) How does MaGIC give impact to the social entrepreneurship companies in starting their business?
- c) How does successful social enterprises develop and implement their mission?
- d) How does problems and challenges value-add the social entrepreneurship development?

### **1.4 Research Objectives**

The main objective of this research is to analyse the promotion of social entrepreneurship for sustainability of economic development in Malaysia and social

enterprise performance. The study also includes the investigation of the OI effects on the relationship between MaGIC and social enterprise performance. The objectives of this study are as follows:

- a) To describe the financial and non-financial supports provided by MaGIC
- b) To analyse the MaGIC involvement factors in social enterprise activities and challenges faced
- c) To explore the activities carried out among the social enterprises in order to achieve their mission
- d) To identify the social entrepreneurship development efforts in Malaysia

## **1.5 Significance of the Study**

The significance of this study can be divided into two aspects – theoretical and practical contribution.

### **1.5.1 Theoretical Contributions**

This study looks into promoting SE for sustainability of economic development in Malaysia. In addition, the present study intends to fill the gap in the body of literature concerning the knowledge of support services provided by MaGIC which contributed to the social enterprise growth and performance. Studies in the Malaysian social enterprise context previously focused on utilisation and awareness of MaGIC, but so far, there are