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## The ecosystem of social enterprise: Social culture, legal framework, and policy review in Indonesia

Aluisius Hery Pratono <sup>a,\*</sup>, Ari Sutanti <sup>b</sup><sup>a</sup> Universitas Surabaya, Faculty of Business and Economics, Raya Kalirungkut, Indonesia<sup>b</sup> British Council Indonesia, Indonesia

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### ABSTRACT

This article explores the dynamic ecosystem of social enterprise in Indonesia, specifically legal framework and policy regarding social enterprise. The study involves multiple case studies of organisations with pivotal roles in establishing social enterprises in various sectors. The result confirms the role of social culture, legal form, and politics in shaping the evolution of social enterprise in Indonesia.

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### 1. Introduction

The concept of social enterprise has been emerging in Indonesia over the last decades. One effort to identify social enterprise in the local context is the establishment of a movement called the Indonesian Social Enterprise Association (AKSI), in 2009. The organisation intends to build networks for more than 100,000 social enterprises to share knowledge and best practices with sustainable movements. Other initiatives come from ASHOKA, and later from the British Council Indonesia, which started nurturing community-based social enterprise from start-up and semi-established stages across Indonesia, through competition followed by capacity building, networking events and provision of seed funds; these initiatives were run jointly with the Arthur Guinness Foundation (AGF) beginning in 2010. In addition, the British Council initiated a series of workshops to support civil societies and NGOs that aim to become social enterprises and facilitated universities to support the establishment of an entrepreneurial ecosystem by provision of workshops and trainings for universities in embedding social enterprise into teaching, advancing incubation, and community development work.

Along with the emerging movement of social enterprise, the rapid adoption of ecosystem terminology in social entrepreneurship research and policy calls for investigation. The burgeoning practice races ahead of theoretical and empirical work. Previous studies highlight the macro-level determinants of entrepreneurship, including economic opportunities, quality of governance, macro-level resources and abilities, performance-based culture, and socially supportive culture (Thai and Turkina, 2014).

The concept of entrepreneurial ecosystems attempts to explain why firms benefit from clustering that concerns the external environment rather than the firm's internal characteristics and operations (Mason and Brown, 2014). Hence, it is necessary to stress the dynamic nature of ecosystems as an evolutionary rather than a static phenomenon. However, it is difficult to understand the influence of the entrepreneurship process because the theoretical concept of ecosystem remains underdeveloped (Spigel, 2015).

The main literature indicates the internal attributes of social enterprise, including social mission statement, services as a model for social change, promotion of collective identity, and multiple purposes with various degrees of value change and mutual-aid (Hasenfeld and Gidron, 2005). As the concept of social enterprise still raises debates as to what social enterprises actually are (Chandra, 2015), there is research in the context of the entrepreneurial ecosystem. The research gap raises a question on how the ecosystem of social enterprise is distinguished from other business models in the context of markets, clusters, industries, value chains, networks, and organisational fields.

\* Corresponding author.

E-mail addresses: [hpratono@yahoo.com](mailto:hpratono@yahoo.com) (A.H. Pratono), [ari.sutanti@britishcouncil.co.id](mailto:ari.sutanti@britishcouncil.co.id) (A. Sutanti).

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This article explores the dynamic ecosystem of social enterprise in Indonesia, including legal framework and policy review of social enterprise. The study also provides observations on three large organisations in Indonesia, namely Muhammadiyah, Bina Swadaya and PUPUK. As development agents, the organisations play a pivotal role in implementing and establishing social enterprises in various sectors. The result of this study is expected to support the emerging concept of the entrepreneurial ecosystem, specifically social enterprise in Indonesia.

### 1.1. Literature review

The first conception of the entrepreneurial ecosystem was coined by James More with the aim of understanding the rationally embedded nature of how firms interact (Hechavarría and Ingram, 2014). Hence, the entrepreneurial ecosystem theory outlines the holistic understanding of what specific types of environments support firms to benefit from clustering (Mason and Brown, 2014).

The ecosystem approach highlights both the changes in the entrepreneurial system and the policies that address the complex challenges faced by entrepreneurs (Hechavarría and Ingram, 2014). It appears that the active intervention of policy makers in business affairs departs from an obsolete political system and economic model in favour of the formation of an entrepreneurial ecosystem (Soto-Rodríguez, 2014). In addition, a successful entrepreneurial system requires some pre-existing economic advantages including cultural, social, and material attributes (Spigel, 2015).

Kshetri (2014) demonstrates various methods to gain entrepreneurial success. One economy may perform better with high institutional quality, while another economy experiences strong entrepreneurship with heavy R&D and aggressive strategy. The strong relationships among institutions reduce the risk of entrepreneurial activity, especially when policy makers' approach has no payoff (Soto-Rodríguez, 2014). Hence, the strong financial market facilitates entrepreneurship through reducing the costs of external finance to firms (Kshetri, 2014).

Turning to the ecosystem of social enterprise, multiple stakeholders provide greater distinction in conducting entrepreneurship within the social context (Lumpkin et al., 2011). To transform the equilibrium, social entrepreneurs involve new actors in the existing ecosystem. For example, customer empowerment shifts the power balance and government and changes the economic policies (Martin and Osberg, 2015). Alliance building and lobbying are acknowledged as main drivers of social enterprise's impact; however, most organisations have few opportunities to gain allies and little public policy to support successful lobbying (Bloom and Smith, 2010).

### 1.2. Local context

Indonesia is considered a low middle-income country. The Indonesian economy experienced a dramatic economic evolution with an annual growth rate of 7% between 1965 and 1997. The Asian financial crisis caused economic growth to drop to just 0.3% in 1999 (Asian Development Bank, 2015). Since then, the country has recovered with moderate economic growth of between 4% and 6%. This has brought a slowdown in poverty reduction, with 15% of the population living under the poverty line at \$1.90 per day (World Bank, 2015).

As the largest archipelago in the world, the country's coastal territory of 580 ha provides 9 million tons of valuable marine products, such as tuna, shrimp, seaweed, and pearls. The total land area of 55 million and 129 million hectares is allocated for agriculture and forest, respectively. More than 40 million people or 33% of the labour force works in the agricultural sector. However,

agriculture only contributes to 14% of GDP. The country has become a main importer of agricultural products, such as grains, horticulture and livestock. The agricultural sector has become a place where poverty is most prevalent, and the poor spend two-thirds of their income on food, mainly rice (Quincieu, 2015). Food security is a challenging issue because of the declining irrigation system and poor supply chain infrastructure.

The country's competitiveness was ranked 34th worldwide in 2015. That was far below its potential, as the economy relies heavily on commodity exports, while most of its labour force works for small and medium enterprises (Tabor, 2015). Hence, small and medium enterprises (SMEs) play a pivotal role in Indonesia, the largest country in the region of Southeast Asia, as more than 54% of its private enterprises were small-scale businesses that operate in the informal sector (Rahman, 2015). There is a great opportunity for the Indonesian development agency to prioritize small businesses in the agricultural, manufacturing and service sectors through shifting resources from low-value foodgrain production to fisheries, livestock, and tree crop production.

Indonesia is the home of more than 200 million Muslims, the largest Muslim population in the world. The Islamic groups have been most directly involved in shaping politics in general, while Indonesia's foreign policy discourse emphasizes that it is a moderate Muslim nation. The vote repartition in Indonesia's first general election in 1955 showed that the dominant of the four major political parties, the Indonesian Nationalist Party, obtained 22.3%; the Masjumi (Consultative Council of Indonesian Muslims) obtained 20.9%, and the Indonesian Communist Party obtained 16.4% (Pauker, 1967). In the 2009 general election, the Muslim political parties seemed to have fewer voters than before. The two largest Islamic parties, PKB and PPP, with close ties to the largest Muslim organisations, Nahdatul Ulama and Muhammadiyah, obtained 10.6% and 8.1% of the votes, ranking third and fourth, respectively (Jakarta Post, 2012).

### 1.3. Policy review

In its early development, the Indonesian Constitution of 1945 shaped the economic system and mentioned cooperation as a main element. Specifically, Article 38(1) of the Constitution states, 'the national economy shall be organized on a cooperative basis'. The principle of free competition was rejected. The reason for such an initiative comes from the Indonesian experience that foreigners controlled much of economy, while the local indigenous people had no education or experience in starting firms (Hatta, 1954). During the Japanese occupation, the government considered Islam the most effective vehicle for ideological penetration through establishing the office of religious affairs (Boland, 1982). Hence, the archipelagic country has experienced a changing public policy, from dictatorship to democratic governance.

Indonesia and the third sector experienced a dictatorial government for over 50 years, followed by a transition government towards democracy. During the years of the struggle for independence, mass organisations were encouraged to mobilize with a wide range of members, including farmers and labourers (Sakai, 2002). Under the authoritarian regime, social organisations could be distinguished by their social mission treating one of three main issues: community development, awareness raising and advocacy (Antlov, 2003). The organisations involved in community development worked mainly as contractors or consultants for the government, while the second type sought popular mobilization in the form of raising awareness.

The first dictatorship, called Soekarno's Guided Democracy, began in 1959, when the elected parliament was suspended. Soekarno outlined his vision of Indonesian development, namely the

Manipol/USDEK (acronym of politic manifestation, the Constitution of 1945, Indonesia socialism, lead democracy, lead economy, and Indonesian personality). During that time, all social and political organisations were required to join the Manipol and support Soekarno to achieve the revolutionary vision (Pohlman, 2011). In the 1950s, the local leaders blamed imperialism for the mess of the social economy in the country (Pauker, 1967). Soekarno had three major allies: Nationalists, Muslims, and Communists. With more than three million members, the Communists had a revolutionary programme of mass mobilization (Hefner, 2000).

In the early 1960s, the government allowed the Communist party to arm itself and neutralize the conservative army. However, triple-digit inflation hit the Indonesian economy. Soekarno appointed members of the Communist party to take bureaucratic and political positions, such as mayor and provincial governor. The parties also gained benefits from mass membership, engaging in frequent shows of force in mass rallies and street politics (McGregor, 2013). Suddenly, an unexplained coup was attempted on 30 September 1965.

The era of the second dictatorship occurred between 1965 and 1998, when Soeharto came into power. The government changed the foreign policy by strengthening ties with Western countries and allowing foreign aid. The government also introduced press censorship and controlled the political parties, the third sector, and other mass organisations. Law No 8/1985 allowed the government to dissolve any third-sector organisation considered unsupportive of the government. In the 1990s, the Ministry of Home Affairs encouraged third-sector organisations to register and establish cooperatives to support the government's development programs, including basic education, health, and micro-finance (Hadi, 2014).

Between 1965 and 1998, cooperative was the only one type of community-based organisation the government accepted, while other mass organisations were strictly prohibited. However, even that was highly regulated, and the government mandated cooperatives in rural areas as development agents to promote food self-sufficiency programmes. Hence, the government allocated more resources for a microcredit scheme to farmers, supplying agriculture inputs (fertilizers and rice varieties) and marketing farm commodities. The government also protected the market price. The government granted all the equity capital, and members contributed a very small amount or paid even nothing (Van Zanden and Marks, 2012). This was against the principle that a cooperative should be based on the joint economic needs of its members.

After the Soeharto regime, the coalition of international NGOs, local community-based organisations, and local government proactively addressed local needs (Nix-Stevenson, 2013). Natural disasters impact social capital, risk, and time preference. The humanitarian response to the Aceh Tsunami demonstrated reciprocity and mutual support at the national and global level. Indonesia was the 36th largest donor recipient, receiving US\$51 million from international humanitarian assistance organisations in 2012. The most assistance came from Australia with US\$27 million, followed by Japan and Norway with US\$13 million and US\$3 million, respectively (Global Humanitarian Assistance, 2013).

During the current autonomy regime, civil society organisations are encouraged to get involved in all development planning activities. The Law No 22/1999 and Law No 25/1999 provide authority to local government. This policy allows local-government proliferation practices followed by fragmentation of regional development (Firman, 2009). The policy encouraged local-government pro-liberation practices. Many local religious leaders took positions as mayor and began to establish their own 'kingdom of authority'. However, in memory of the previous dictatorial regime, most government leaders still hesitated to marginalize anyone for fear of being accused

of being anti-democratic, while the Islamic militant group sent recruits to fight for the Muslim side in any religious conflict.

This year, following the recognition of social enterprise in the government's Mid-Term Development plan (RPJMN) of 2015–2020, the Ministry of Cooperatives intends to promote social enterprise, targeting 1000 young entrepreneurs in 2016. The programme has 14 training activities, including entrepreneurship and cooperative training.

#### 1.4. Legal form

There are three apparent major categories of third-sector organisations in modern countries: cooperatives, mutual societies, and associations, while their legal form varies in different countries (Defourny, 2001). In Indonesia, there are four legal forms that business organisations may register as to comply with the law: limited corporation, cooperative, foundation, and association or societal organisation. Social enterprise has not yet become a legal form. The only legal form in Indonesia that recognizes both business activities and social activities in one body is the cooperative, which is regulated under cooperative law. However, the dynamic government transition is bringing change to the legal forms.

First, the foundation is the most popular model for third-sector organisations. This type of legal form is associated with non-profit organisations because its assets should belong to the community instead of to the management. The Indonesian Law No 16/2001 states that the foundation is a legal entity constituted by the founder, who dedicates assets to social activity (act 1). From the administrative perspective, the foundation's legal form requires less capital and has a registration process simpler than that of the limited corporation. However, this is a non-membership organisation, which implies a more centralized governance instead of a participation approach.

The Law states that the foundation has no members and exists exclusively on legally independent assets. In 2004, a new law was enacted with a new definition of the foundation; it should be a non-membership legal entity and a separate asset-based organisation and have a social-goal orientation. Another article states that payment is allowed to the staff and management. However, the regulation was amended for some reasons, including ambiguity on profit versus non-profit orientation.

Second, the cooperative refers to a member-based organisation with cooperative and collegiality principle (Indonesian Law No 25/1992). There are more than 200,000 cooperatives, making it the most popular social enterprise model in this country (MOC, 2014). In 2012, Law No 17 was introduced to redefine the Indonesian cooperative, that it should be a legal form with liability separate from the owners. This regulation not only sets a minimum required amount of assets for cooperatives but also mandates their goal, which should fulfil economic, social and cultural value. However, the Constitutional Court amended this law in May 2014.

Third, limited corporation is a legal form of for-profit organisations. Law No 40 2007 states that this legal form requires at least two parties to hold shares and at least one director and one commissioner to be appointed by these shareholders. Firms with the limited corporation legal form are allowed to exercise public offering for shares in accordance with the provisions and legislation in the capital market. However, no foreigner is allowed to own a corporation with such legal form. Foreign firms should register as foreign owned company at the Investment Bureau (BKPM).

Last is the association, which refers to a membership-based organisation. This legal form represents fraction interest, which determines the decision-making process. Law No 13/2013 requires that all societal organisations should maintain the value of religion and believe in Almighty God. All social organisations need to

register at the Home Affairs Ministry. This regulation raises a concern for international organisations with different religious values or secularism (Council on Foundation, 2015).

### 1.5. Case study 1: Muhammadiyah

The organisation was formally established in 1914. According to the Government Letter on August 22, 1914, the Dutch Colonial Government in Indonesia acknowledged the Muhammadiyah United as a legal form. On September 7, 1971, the Government of Indonesia acknowledged Muhammadiyah Islamic United as a social organisation in a letter of the Social Ministry. In the letter of the Ministry of Home Affairs No 14/DDA/1972, the Government of Indonesia acknowledged Muhammadiyah as a legal form with rights to own and manage its own assets.

In 1987, the Government of Indonesia, through a letter of the Ministry of Law, stated that the Muhammadiyah works in health services. In 1997, the Government of Indonesia stated that the Muhammadiyah works in education. In 2004, the Ministry of Law and Human Rights highlighted that the legal form of the Muhammadiyah is united and should follow Law No 8/1985. In 2010, the Ministry of Law and Human Rights stated that the Muhammadiyah works in social activities and da'wah (preaching of Islam), education and health services (Muhammadiyah, 2013).

As the government was unable to provide education to all levels of society, the organisation needed to fill this gap. The organisation used to be focused on urban and middle-class societies, and its members were more likely to be professionals, bureaucrats and teachers than farmers or fishermen (Bush, 2014). The organisation also chose the strategy of partnership with the ruling governments to withstand the period of colonialization until the Soeharto government.

Now, Muhammadiyah is the largest civil society organisation in Indonesia. With more than IDR 20 trillion in assets, the organisation is not only involved in education and health care services but also the trading and financial sectors (Sadewo, 2014). The members of Muhammadiyah come from the middle class and include traders and entrepreneurs across Indonesia. They play a pivotal role in the economy, while followers provide great contributions, especially in assisting in the growth of the populist economy. The organisation is managing more than 350 microfinance institutions, more than 14,000 schools, 192 universities, and 400 hospitals. The ability to develop this number of schools, universities, hospitals and microfinance institutions partly comes from reinvestment of the organisations' profits to build more facilities and infrastructure, instead their distribution for the founders and stakeholders. For social purposes, the organisation has also established more than 200 orphanages and homes for senior citizens (Syamsuddin, 2015).

Muhammadiyah has a strategic vision until the year 2025. Every five years, the organisation manages a national congress to align periodic programmes with the 2025 vision. In August 2015, the organisation held the 47th congress in Makasar to elect new leaders. Along with other Muslim organisations, Muhammadiyah plays a pivotal role in presenting the Indonesian moderate Islam through enhancing international networks and engaging in many interfaith dialogues (Sukma, 2015). In political practices, the Muhammadiyah meeting forum declared neutrality during the last presidential election. However, the organisation allows its members to be involved in politics. For example, the young members of the organisation joined the Surya Madani to support one of the presidential candidates (Sudibyo, 2014).

### 1.6. Case study 2: Bina Swadaya

Bina Swadaya is an NGO that shifted towards a strategy of social entrepreneurship to address the challenge of sustainability. Since

1967, the organisation has emerged as a self-sustaining group serving over 100,000 farmers. Bina Swadaya manages 17 subsidiary companies engaged in eco-tourism, agriculture, printing, and publishing. Employing approximately 1500 people and providing sustainable livelihoods for many others, these social enterprises generate profits of over USD5 million annually, which is used to finance 95% of Bina Swadaya's budget for development work among the poor. Trubus Magazine is the most popular business of the subsidiary companies. The business organisation sells over 70,000 copies per month (Dacanay, 2005).

Mr. Bambang Ismawan established the organisation in 1967. During the Soeharto government, the organisation partnered with the government to promote community-based income generating activities in wide areas, such as agribusiness, microfinance, environment and tourism (Bina Swadaya, 2014). Many of these programmes were in line with the ruling government's development programme agendas. Accordingly, the institution established closer interaction with the state and the community, rather than with the private sector. However, the form of interaction with the private sector has evolved gradually as the institution has shifted its strategy.

Agriculture is the main business of Bina Swadaya. The organisation promotes agriculture intensification, post-harvest management, human resource and research development, and advocacy to farmer communities. To spread information, the organisation published an agriculture magazine, TRUBUS, in 1969. The magazine experienced many difficulties at the early stage of its development. It aimed to provide information about agriculture to its constituents (i.e., farmers); however, many of them were illiterate. As a result, it was difficult to find appropriate readers as well as contributors who were able to provide high-quality articles for uneducated farmers. From a financial perspective, the magazine struggled to generate sufficient income to cover its operational costs.

Print advertising revenue was low because of lack of commercial interest in the magazine, while the cost of distribution was high. Hence, the organisation changed its targeted customers from farmers to wealthier customers with hobby farms. As the business emerged and became profitable, the organisation established a limited corporation in 1980, namely PT Penebar Swadaya. The institution considered that legal institutional separation between the foundation and the limited cooperation (PT) was appropriate to accommodate the growing magazine business. Since 1999, the organisation has considered entrepreneurship as the vehicle to enhance a self-supporting community empowerment programme. In 2005, the corporation began to publish some other magazines, i.e., Penebar Plus, Griya Kreasi, and Cif. In 2006, another company, PT Trubus Media Swadaya, was established to handle the distribution. In 2012, the company managed 668 agencies in 32 provinces (Oriza, 2014).

The magazine is not the only business the foundation runs. To respond to the hobby farming community, the organisation established a farm shop company, namely, PT Trubus Mitra Swadaya. The shops provide a variety of small crops and fruits to hobby farmers, called Toko Trubus. With the legal form of a limited corporation, the first shop was established in Central Jakarta. In 2012, there were more than 15 farm shops in Jakarta, Bogor, Bandung, Semarang, Yogyakarta, and Surabaya. In addition, the organisation manages 15 other limited corporations with various businesses, including microfinance, agribusiness, tourism, and community development. Overall, the organisation handles more than Rp20 billion (USD2 million) per annum with more than 1000 workers (Adi, 2011). Today, Bina Swadaya is financially self-sustained and relies on its own income generating businesses.

To reach its vision and to carry out its missions, Bina Swadaya diverts its activities into seven business groups. The following are some business units of Bina Swadaya:

- Bina Swadaya Consultant: Community Empowerment. In the form of regional development activities, Public health, sanitation, environment, farming, and Labour by way of: research, training, consultation, and facilitation (Educational and Training Centre, Centre of Studies, Consultancy and Branch Office).
- The Cooperative of Bina Swadaya Nusantara: Microfinance Development. Microfinance Services are carried out through Banking Financial Institutions and Non-Banking institutions, reaching the poor and the marginalized (Bina Arta Swadaya, Rural Banks, Microfinance Institution).
- Trubus Mitra Swadaya: Agribusiness Development. By way of product marketing activities and farm production facilities, developing farm shop towards franchise system (Trubus Mitra Swadaya).
- Trubus Swadaya: Development Communication. Supplying information to different fields of development through publishing magazines, books, and VCDs and holding radio and TV programmes (Trubus Swadaya, Penebar Swadaya, Puspa Swara, Trubus Media Swadaya and Niaga Swadaya).
- Bina Swadaya Tours: Alternative Tourism Development. Organizing Tour Programmes orientated towards education, environment, culture and development (Bina Swadaya Tours).
- Penebar Swadaya Printing House: Printing Service. Managing printing industry to support development communication activities and increase institutional income (Penebar Swadaya Printing House).
- Wisma Hijau Training Centre. Provide facilities for meetings, trainings, workshops and seminars (Wisma Hijau – Kampus Diklat Bina Swadaya).

### 1.7. Case study 3: PUPUK

PUPUK stands for Association for Promoting Small Enterprises (Perkumpulan Untuk Pengembangan Usaha Kecil). The organisation was established in Bandung and recently gained representative offices in Surabaya, Yogyakarta, Makasar and Tegal. The organisation was declared lawful in the Charter of Association by the Justice Minister of the Indonesian Republic on Registration Number C2-765.HT01.03.TH88. The annual financial report was audited by the registered public accountant, AF Rachman and Soetjipto WS.

It was established in 1979 by the Germany Stiftung, the Bandung Chamber of Commerce, and some local leaders. PUPUK focused on training activities for small medium enterprises. In addition, the Friedrich-Ebert-Stiftung was established in Indonesia in 1968 with various activities to support the process of democratisation and social economic development (Friedrich Ebert Stiftung, 2015). In these early years, the Stiftung provided financial support for PUPUK's activities.

In 1988, the organisation was formalized by the Ministry of Law. This allows the organisation to do business with the government. For example, the organisation partnered with the Treasury Minister to encourage the stated owned companies to allocate their profit to promote small and medium enterprises. In 1991, PUPUK was awarded 'Jasa Kepeloporan' from the President of Indonesia for its pioneer efforts to promote small and medium businesses. This includes technical support for SMEs, research, SME programme development, seminars, workshops, model business units, and other direct activities with SMEs (e.g., training, consultancy, assistance).

In the 1990s, PUPUK established branches in Jakarta, Surabaya, and Madura, as it was not efficient to keep the organisation focused

in Bandung. In Yogyakarta, PUPUK worked with Sahid Group to encourage the local artists' brand. Recently, there has come to be no more traditional grabah. They have developed many niche products.

In the 2000s, PUPUK changed its strategy from micro level to meso-level, from conducting technical assistance to promoting community-based organisations, such as SME forums and the Indonesian BDS association. PUPUK also gets involved at the macro level through advocating policy. Sources of funding have also expanded. Previously, the activities relied on international funding and hence gained support from government and private sector.

After 2010, PUPUK worked with many groups of small businesses, including seaweed farmers in Palopo; soybean industries in Jabodetabek, West Java and Central Java; cocoa and rattan industries in Palu, cassava industries in Trenggalek and Sampang; tofu and tempe industries in Jabodetabek, and many other industries. The organisation also works for various international funding agencies, including the Ford Foundation, Japan International Cooperation Agency, Chevron Geothermal Indonesia, PT Kaltim Prima Coal, AusAID, USAID, and British Petroleum.

## 2. Discussion

The study shows the dynamic nature of entrepreneurship ecosystems in Indonesia, from the Dutch colonization and authoritarian regimes to the decentralization approach.

**Proposition 1.** The social and economic context is relevant to the entrepreneurial ecosystem as an organisational field. In Indonesia's context, agricultural workers, small businesses and Muslims form the majority of the population and give the observed organisations market opportunities to conduct social enterprise.

It appears that the three observed organisations conduct their business in agriculture, small business and a majority of societies. Muhammadiyah runs a business providing for basic needs, including education, health sector and cooperative. Bina Swadaya works in agriculture with various types of farmers. PUPUK works with small business enterprises to establish social enterprises, including cooperative, village enterprises, and formal private enterprises.

The observed organisations have the ability to carry out a set of activities to deliver products and services to the market. They also create value for their customers. As the government fails to provide education to all levels of society, Muhammadiyah found the necessity and opportunity to fill this gap. Similarly, Bina Swadaya provides information to farmers, as they had no access to information on agriculture. PUPUK is quite different. The organisation does not get involved directly in the business but rather provides support to the small business communities, so they can establish cooperatives or access the main distributor with fair trade principles.

**Proposition 2.** The way government acknowledges the business model of social enterprise as a legal form is an essential element of the ecosystem of social enterprises.

Many states in developing countries do not prioritize identifying their citizens (Sud and VanSandt, 2015). The legal framework of the social business model is a key mechanism for achieving mission control. The process of institutionalization, including the decision to choose, allows interaction among various organisational forms and levels (Cooney, 2012). From a macro perspective, the third sector is an intermediate sector with three main stakeholders: the state, the private sector and the community.

In the Indonesian context, the informal sector is not only associated with poor farmers and small enterprises but also activities in

the third sector, including social enterprises. The government of Indonesia has not yet recognized social enterprise as a legal form of business activities. Organisations that emphasise a social mission may prefer the foundation as a legal form, while business organisations may consider the limited corporation. Cooperative may become the best option for member-based organisations with a profit orientation. In fact, many social and business activities in the third sector join the informal sector.

Institutions, social norms, and patterns of behaviour enable accumulation of capital and knowledge to enhance innovation and develop good policy (Wydick, 2008). Without recognition from the state, the organisation finds it difficult to develop the business model, while some small-scale organisations may have difficulty getting involved in the formal economy and owning property. If the definition merely focuses on the social mission statement, it appears that those involved in the private sector also intend to help their family, neighbours, and local economy through generating income and providing job opportunities.

**Proposition 3.** Social enterprise may emerge when government failure or market failure or even community failure occurs. The business model combines the advantages of the three players that may provide the best model to overcome the social and economic problems.

The third sector emerges from the interaction among the three main stakeholders, i.e., market, government and civil society. It appears that the shift to a new non-market base as a self-regulating market does not prevail over market failures (Polanyi, 1944). Under stiff market competition, companies can survive if they can produce with certain level of efficiency. However, the mechanism does not work when market failure occurs, such as monopoly, asymmetric information and negative externalities. Unethical behaviour also becomes a phenomenon in market competition. This calls for government intervention.

Unfortunately, there has been a lack of trust in government and NGO institutions. Despite the new president's best efforts, the administration finds difficulty addressing regulatory clarity. In a survey of 1150 respondents from general population and 200 from the middle class, Edelman (2016) indicated a drop in trust in the institutions of government, media and NGOs in Indonesia, while trust in business remains stable. The problem of unethical behaviour is manifested when the effort of individuals to pursue their own interests ignores general interests (Stiglitz, 2003).

**Proposition 4.** Social enterprises with strong social network resources may gain advantage from developing their marketing capability. Social networks allow organisations to enhance their marketing capability and expand their services through adopting social enterprises or encouraging their target groups to adopt the social enterprise model.

Transforming social works to business activities raises a challenging tension. Unless the social organisations have strong cohesion in networks with various stakeholders, including customers and business partners, the transformation process faces a high possibility of failure. Social enterprises may benefit from the clustering of social networks that development agents provide. Hence, start-up social enterprises may emerge as agents of development, and non-profit organisations may enhance the government's ability to access communities with various community development programmes.

### 3. Conclusion

The entrepreneurial ecosystem in the context of social enterprise differs from for-profit institutions. This may involve different markets, clusters, industries, value chains, networks, and

organisational fields. Public policy also plays a pivotal role in the entrepreneurial ecosystem in social enterprise. The ease of doing business for social enterprise in Indonesia is very important for such enterprises to grow in scale, following their innovation. Formalizing the model allows social enterprises to define a customized set of strategies, policies, and procedures. This involves not only their unique identity but also the way the organisation addresses the business environment, especially policy turbulence. The institutionalization process of social activities with a business approach may raise a potential conflict of interest that springs from the changing direction, from social to economic goals.

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