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Legitimacy and sustainability of social enterprise: governance and accountability

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Abstract

This paper discusses the principles of legitimacy and sustainability of these social enterprises as one of the tools for non-profit organisations to fulfill their mission to healthy communities. The capability of social enterprises operations to create both social and economic values is considered “double bottom-line” mainstream organisations that creates economic values and social values, while other organisations are mainly “single bottom-line” mainstream organisations. This paper discusses the legitimacy and sustainability of social enterprises in generating income through its dual purpose of having “business” sources of revenues to be used for charity purposes.

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1. Introduction

Social entrepreneurship has received increased attention from both researchers and practitioners in the social sector. This is a new approach to non-profit organisations (NPOs) management that focuses on innovation, pro

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activeness, and risk taking in combating social ills such as poverty. Southeast Asia, including Malaysia has long been associated with high rates of poverty since the 1970s. These problems were worsened by the Asian financial crisis in the late 1990s. Statistics of poverty in Malaysia show the value for poverty gap at $2 a day and was 0.16 as of 2009 (World Bank, 2010). In line with the aim of eradicating poverty, some regions in the Southeast Asian countries have taken necessary actions by employing the social enterprise concept to overcome poverty and other social ills. Social enterprises in the Southeast Asia are small social ventures that address the issue of poverty, providing needed services and protect the environment without proper formation of legitimacy (Kerlin, 2010). Limitations of the government in providing resources and funds to every NPOs encourage the interest of social enterprise legal formation through new nonprofit law to form social enterprises. The corporations’ interest of philanthropy in corporate social responsibility (CSR) has also resulted in their increasing involvement in social enterprise activity (Tsukamoto and Nishimura, 2009). Enterprising nonprofits is a major force for sustainability, yet not much attention is given to the legitimacy issues in social enterprise. Social enterprises provide the operational definition in which they offer a business venture, owned or operated by NPOs that sell goods or provide services in the market for the purpose of creating blended return on investment. Blended return on investment is the combination return of financial investment, social, environmental and cultural (Elson and Hall, 2012). Traditionally, the business sector has used a financial return on investment as a measure for success. The higher the financial return, the higher the success of the business achieved for the shareholders. Social enterprises measure their success based on blended value bottom line, where it is not either financial or social, but it is both financial and social. As such, it is a combination of both economic and social values. Thus, the concept of legitimacy and sustainability of social enterprise is indeed vital in creating both the economic and social values. This paper would therefore discuss the legitimacy and sustainability of these social enterprises. The paper is organised as follows: Section 2 highlights on the background of social enterprise, Section 3 provides the review of literature, Section 4 gives a brief overview of social enterprises in Malaysia, Section 5 draws attention on the pattern of social enterprise for sustainability of social enterprise and the final section concludes the paper.

2. Background of social enterprise

Social enterprise refers to non-profits that operate businesses both to raise revenue and to further enhance the social missions of their organisations. Broadly defined as the use of market-based approaches to address social issues, social enterprise provides a “business” source of revenues for NPOs (Kerlin, 2010). Social enterprises often provide “business” source of revenues in terms of self-sufficiency and long-term sustainability of organisations involved in charitable activities. In some regions and developed countries like Western Europe, East-Central Europe, Japan, the United States and Argentina, the idea of revenue generation in the service of charitable activities is not a new concept. In a much broader sense, it is the idea of using the business as an instrument of social development. However, the origin and evolution of social enterprise is new if it is to be put into typology of legitimacy concept in this country. As this “new concept” of social enterprise is important to the socioeconomic environment, little attention has been paid to the immediate context of the socially enterprising typology of legitimacy, and in what forms this context has shaped the need, purpose, activity, organisational form, legal structure, and process involved in the creation and realisation of social enterprise typology of legitimacy in enterprising NPOs. Suchman (1995, p. 574) defines legitimacy as “a generalised perception or assumption that the actions of an entity are socially desirable, suitable or appropriate within some socially constructed system of norms, values, beliefs and definitions. Social enterprise legitimacy is specifically accorded with reference to sociopolitical values and value change.

3. Review of literature

Fundamentally lacking of social enterprise literature is the explanation of what typology of legitimacy for social enterprises should be. In addition, given the lack of data on social enterprise organisations, the most prominent research findings were found by Salamon (2004), who exposed that 53% of nonprofit income comes “from fees and charges for the services that these organisations provide and the related commercial income they received from investments, dues and other commercial sources” (p. 30). Obviously, out of 34 countries, fees in 24 countries represented the major source of revenue for these organisations without grant fundings. The move away from grant
funding in the social economy was considered by informants to be a political move and part of a general trend of cutting funding to the sector at national and local levels. As a result, social enterprises needed to decrease their dependency on local authority funds and initiate trading businesses. Social enterprises are businesses, which are synonymous with social aims. A social enterprise is seen as an organisational mixture of business and social missions. Wallace (2005) asserted that “social enterprises are not just businesses with social objectives. They’re set up specifically to benefit the community....Hence, social enterprises should be judged on their success as social enterprises, not as businesses, and that they should be judged on their ability to be financially viable from a mix of income streams, including trading. As shown in Fig. 1, social enterprises emphasise creating social and/or environmental value at all stages of their production process and as an intrinsic part of their identity. The important point to note is that because social enterprises use alternative inputs, or a modified production process, once a good or service is produced and sold to the marketplace, it ought to be possible to identify social and environmental profit in addition to economic profit (Wallace, 2005). In practice, many social enterprise managers continuously make trade-offs between increasing productivity for financial gain versus increasing productivity for social benefits.

![Diagram of Social Enterprise Production Process]

Social enterprises play an integrated role to capitalise its capabilities in terms of resource acquisition and opportunity exploitation, mutual help, community and solidarity within the boundary of legitimacy for production process in obtaining outputs in terms of goods or services. The integrated role of social enterprises between the organisation and stakeholders create “relational assets” to the organisation (Haugh, 2005). Relational assets (Torre, 2003) are growing importance in terms of resources and portfolio capabilities at the command of the social enterprises to bring in the economic profit, social profit and environmental profit. These social and environmental profits flow to the community and consequently the economic profits flow back into the social enterprise within the ambit of social enterprise legitimacy.
4. General overview of the social enterprise in Malaysia

The term social entrepreneurship in Malaysia was still new in the eighties, nineties and newly branded in the twenty-first century. This term has been widely used in Malaysia recently to explain the effort of government agencies to change the economic status of the poor community (Farok, 2011). The primary purpose of establishing social entrepreneurship programmes in Malaysia is to help the government to eradicate hard-core poverty as targeted in the New Economic Model (NEM). One of the social entrepreneurship programmes was done through the approach undertaken by Amanah Ikhtiar Malaysia (AIM) which has helped more than 200,000 extremely poor people out of poverty (Anonymous, 2013). The AIM Chairman, in his speech mentioned that:

“AIM’s success in managing and collecting the loans under the Capital Assistance Scheme from its 253,000 borrowers need to be benchmarked as the best model as its financial management has seen more success compared to other government institutions and agencies that offer similar assistance. Since its launch 23 years ago, he said, AIM has managed to recover 99.2 percent of all of its loans within the period. AIM offers micro-credit loans of between RM2,000 and RM50,000, and almost 100 percent of its borrowers are women earning less than RM680 a month. He said the success of AIM in recovering its loans is recognised worldwide when they successfully manage the best loan funds towards the targeted group. AIM also managed to produced many entrepreneurs and small businesses earning more than RM2,000 a month, and reduce poverty among the rural area.”

Apart from AIM, there are a few other agencies involved in helping to provide financial assistance to either existing social entrepreneurs or potential entrepreneurs such as Majlis Amanah Rakyat (MARA), Tekun Nasional, SME Bank, Agro Bank, Bank Rakyat, State Government and religious departments such as Lembaga Zakat in various states in Malaysia. However, there is no source of information on the full statistics of the social enterprises in Malaysia. Recently, the Ministry of Finance Secretary General has revealed that there were about 70 social businesses in Malaysia. Most of these social enterprises are fledgling organisations and a number of them are NPOs. Reports from research conducted by the Social Enterprise Alliance (SEA), Malaysia (Anonymous, September 9, 2013; Syed Umar, 2013) convey that social enterprises are different from other types of businesses, NPOs and government agencies mainly by three characteristics: (i) It directly addresses an intractable social need and serves the common good, either through its products and services or through the number of disadvantaged people it employs, (ii) Its commercial activity is a strong revenue driver, whether a significant earned income stream within a non-profit’s mixed revenue portfolio, or a for profit enterprise, and (iii) the common good is its primary purpose, literally “baked into” the organisation’s DNA, and trumping all others. Many still do not understand the concept of social enterprise until they get themselves involved with some kind of projects or business to help the poor or the underprivileged. Malaysia is beginning to see the rise of social entrepreneurs. Social Enterprise Alliance is a good example of collaborative network connecting empowered entrepreneurs to support one another in Malaysia and now expanding their network to other countries in the Southeast Asian region (Tan, 2014).

5. Pattern of social enterprise through micro credit experience

Given the lack of data on social enterprise organisations in Malaysia, this section draws attention on the pattern of social enterprises by reinvigorating the pattern of development through micro credit experience in Amanah Ikhtiar Malaysia. The most frequently stated objective of sustainable socio-economic development programmes is to reduce poverty and unemployment rate through the promotion of microenterprise development (Al- Mamun, Adaikalam, and Mazumder, 2012). The crucial role of microfinance organisations in developing microenterprises is well documented in the microenterprise development literature (ADB, 2009). The Asian Development Bank, ADB (2009) defines microcredit as the provision of an adverse range of financial services which includes small amounts of loans, small deposits and micro insurance to poor micro entrepreneurs.

Amanah Ikhtiar Malaysia (AIM) was the first microfinance institution in Malaysia that provided financial assistance to its impoverished citizens. The primary objective of AIM’s microcredit projects is to improve the income generating activities by providing access to financial services and training. Established in 1987, AIM usually
provides small scale financial services and training to the poor and hard-core poor only, in order to upgrade their socio-economic condition. AIM modified the Grameen model based on Grameen Bank (a Bangladeshi microfinance organisation) micro financing model, which has been simulated by many MFO’s all over the world. The client selection procedure of AIM starts with measuring potential clients’ average monthly household income. Households with average monthly household income below the poverty line income (Poverty Line Income or PLI has been calculated by the Malaysian government since the year 1976). Households whose average monthly household income falls below the PLI, including both the poor and hard-core poor households, are considered to be eligible to obtain microcredit from AIM. There are five types of loans offered by AIM known as (i) i-Mesra loan, (ii) i-Srikandi loan (ii) i-Wibawa loan, (iv) i-Bistari loan for educational purposes and (v) i-Sejahtera for housing/multipurpose loan.

Currently, AIM is recognised as the most successful institution offering microcredit financing as it is the pioneer institution offering microcredit financing operating at national level and has outreach more than 82% of the poor and hardcore poor households in Malaysia. Until March 2013, the total amount of financing disbursed by AIM is estimated at RM8.2 billion with a repayment rate of 99.4% (Fatimah-Salwa, Mohamad-Azahari, and Joni-Tamkin1, 2013). AIM has successfully achieved a remarkable repayment due to its efficiency in managing risk, mainly by using the group based model. Following this model, the members in the group have to abide with the pressure of default payments of loan from other members in the group. Other alternative mechanisms such as the set up of weekly meetings to ensure that the members in the group made the loan payments are also adhered to make sure risks are managed efficiently. Therefore, this mechanism helps to minimise the default rate of the microcredit financing. Based on similar principles of microcredit financing, other institutions, such as Lembaga Zakat Selangor, also offer microcredit financing to improve the economy of poor Muslims in the society.

6. Conclusion

The introduction of social enterprises in Malaysia is relatively new. This concept provides one of the mechanisms for dual purposes of economy and social development. The government has put an effort to eradicate poverty through various mechanisms, including introducing these social enterprises. However, the establishment of social enterprises is often subject to the legitimacy issues for its sustainability. By understanding the basic concepts on the operations of these social enterprises through their success in social mission rather than businesses’ point of view, it is hoped that the process of embracing the social enterprises concept can be legitimate to ensure its sustainability in the future.

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