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An Alternative Model For The Socio-Economic Sustainability of Social Enterprise

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ABSTRAK

Tujuan penelitian ini adalah untuk menemukan cara alternatif bagi perusahaan sosial untuk bertahan dalam bisnis. Bisnis sosial memiliki dua tujuan: membantu memecahkan masalah sosial dan menghasilkan uang. Situasi ini berimplikasi pada kompleksitas operasi perusahaan sosial dan berpotensi memengaruhi prospek keberlanjutannya. Oleh karena itu, diskusi tentang bagaimana mempertahankan keberlanjutan usaha sosial menjadi sebuah urgensi. Dengan melakukan studi kepustakaan pada sejumlah model keberlanjutan perusahaan sosial terkini yang diusulkan serta mengelaborasi kerangka kerja ekonomi institusional baru, penelitian ini mengusulkan model yang dapat menjadi panduan tentang cara mendukung terwujudnya keberlanjutan bisnis sosial. Model tersebut mengungkapkan bahwa inovasi, yang didorong oleh peningkatan kapabilitas dinamis, menjadi kekuatan pendorong keberlanjutan sosial-ekonomi bisnis sosial. Dalam hal ini, subjek yang mengelola peluang dan mengoptimalkan sumber daya dan teknologi di dalam konteks ekosistem bisnis sosial menentukan kapabilitas dinamis dari perusahaan sosial. Sementara itu, kelembagaan pada konteks operasional bisnis sosial berperan dalam menunjang semua fase pencapaian keberlanjutan sosial-ekonomi bisnis sosial.

Kata kunci: *bisnis sosial, keberlanjutan sosial-ekonomi, inovasi, kapabilitas dinamis, kelembagaan.*

ABSTRACT

The goal of this study was to come up with an alternative way for a social enterprise to stay in business. Social enterprise has two goals: helping to solve social problems and making money. This situation contributed to the complexity of social enterprise operations and potentially influenced their sustainability prospects. Thus, the discussion about how to maintain the sustainability of social enterprises became urgent. By reviewing some recent proposed sustainability models of social enterprise and elaborating them with a new institutional economics framework, this study proposed a model that provided guidance on how to promote social enterprise's sustainability. The model revealed that innovation, which flourished in the presence of greater dynamic capability, became the driving force behind the socio-economic sustainability of social enterprise. In this case, the subject, who managed the opportunities and optimized the resources and technology under the influence of the ecosystem, determined the

dynamic capability of a social enterprise. In addition, the contextual institutions played a role in all phases of achieving socio-economic sustainability.

Keywords: social enterprise, socio-economic sustainability, innovation, dynamic capability, institutions.

INTRODUCTION

Social enterprise (SE) has received special attention from academicians and practitioners for its effectiveness in solving social problems (Su et al., 2019). SE, defined as a business entity driven by social objectives, has become an obvious focus of development policy, both in high-income and low-income countries (Halsall et al., 2022; Lyne, 2017). SEs show their impacts by increasing the competitiveness and productivity of the region through product innovation and market creation, increasing people's wealth through sustainable economic efforts, developing, and regenerating economic activities in disadvantaged areas, promoting high-quality public services, as well as promoting social and financial inclusion (Terziev & Arabska, 2017).

Behind their contribution and prospects for communities and regional development (Kim & Lim, 2017; Morrison et al., 2017), SE operates in some paradoxes, as explained by Weller & Ran (2020). They include paradoxes of concern: social versus financial, paradox of means-end (bottom lines): profit versus client well-being, paradox of performance measurement: business versus social performance measurement, and paradox of resource allocation: profit maximization driven versus social mission-driven. These paradoxes lead to the need for a balancing of its social mission (providing solutions for social problems) and its economic mission (providing money to maintain business operations) (Desiana et al., 2022). These make SE activities more complex than those of commercial businesses and potentially influence the sustainability prospect of social business (Leung et al., 2019; Weller & Ran, 2020). A preliminary investigation by Armstong & Grobbelaar (2018) revealed that there are many cases of well-meaning SEs that are oriented to bring positive impact to societies but fail to earn sustainable profit.

Issues of sustainability have become more relevant for SEs today when COVID pandemic phenomena followed by economic decline strike global business, including SEs, in many parts of the world (Kamaludin et al., 2021). The British Council social enterprise report "Innovation and Resilience: A Global Snapshot of Social Enterprise Responses to COVID-19" stated that most social enterprises globally are survivors. Even though, according to the report, almost 50 percent of SEs are uncertain about their future growth and survival prospects (Darko & Hashi, 2020).

The complex operation of SEs in nature and the uncertain situation after pandemic COVID-19 lead to the urgency of identifying the factors determining SE sustainability and providing an updated alternative framework to promote SE sustainability. Even though the topics about how SE achieve sustainability are relatively understudied or have not been sufficiently explored (Armstong & Grobbelaar, 2018; Desiana et al., 2022; Suriyankietkaew et al., 2022). Some identified scholars recently provided research related to the frameworks for SE in achieving sustainability, including Armstong & Grobbelaar (2018), Desiana et al. (2022), Kamaludin et al. (2021), Ketprapakorn & Kantabutra (2019), Kundu & Kumar (2021), Leung et al. (2019), Su et al. (2019), and Suriyankietkaew et al. (2022).

Those studies provide a meaningful contribution to understanding how to make SE sustainable. Those studies suggest organization, internally, and its ecosystem as the influential factors that determine SE sustainability. However, they do not comprehensively analyze how organizations and ecosystems are guided and conditioned to promote SE sustainability. At this point, an institutional economic analysis could be helpful to explain the gap. It will help us understand the characteristics of institutions that exist in the environment of SE, how institutions influence the actors and, later, the organizational and business processes, and how institutions reduce the uncertainty that exists in the SE operation. Considering institution economic analysis could be a relevant stage to building a powerful SE sustainability framework.

The orientation of this paper is to build an alternative sustainability model that integrates the recent thinking related to an SE sustainable framework as well as institutional economic analysis to give a more comprehensive and powerful tool for analysis of SE sustainability. The first section of the paper introduces the background and orientation of this paper. The second section provides a literature review. The third section explains the methods used in this research. The four sections present and discuss the approach we propose to fulfill the goal of the research. The last section concludes the discussion and provides recommendations according to the research.

LITERATURE REVIEW

Sustainability framework of social enterprise

Sustainability is the unambiguous process of 'surviving, renewing, and flourishing' (Kundu & Kumar, 2021). Sustainability, in the context of social entrepreneurship, requires SEs to be able: (1) to survive and sustain their operation for a period (namely, financial sustainability); and (2) to demonstrate their social impact achievement (impact sustainability) (Burkett, 2020). According to Burkett, financial sustainability consists of three components: operational sustainability (the revenue can cover all costs and all obligations from time to time), financial sustainability (operations are achieved and surplus is generated for further development and social impact), and balance sheet sustainability (financial sustainability is achieved while assets and equity are growing to deepen impact and build more resilience). Meanwhile, impact sustainability means maximizing the continuous social impact.

Desiana et al. (2022) look at the internal factors, ecosystem, dynamic capability, and innovation as factors that affect SE sustainability. It says that SE's ability to improve its products, processes, and markets in ways that help the environment and involve communities will determine how long it will last. SE needs to be able to "sense" (look for real information in the market), "seize" (use new information), and "transform" (adjust to the situation) to be able to come up with new ideas (Teece, 2018). Dynamic capabilities determine how fast, how far, and how much it costs to set up a company's resources to meet customer goals and needs. Both internal and external factors affect SE's ability to change, which is a factor in its ability to stay in business. It says that SE's ability to improve its products, processes, and markets in ways that help the environment and involve communities will determine how long it will last. SE needs to be able to "sense" (look for real information in the market), "seize" (use new information), and "transform" (adjust to the situation) to be able to come up with new ideas (Teece, 2018). Dynamic capabilities determine how fast, how far, and how much it costs to set up a company's resources to meet customer goals and needs. Both things inside SE and things outside it have an impact on its capacity for change. Internal factors comprise vision and mission, leaders, and leadership, as well as resources.

According to Venkataraman (2004), in an ecosystem, interrelated components such as resource providers, risk takers, information brokers, markets, and enabling technology providers collaborate with each other to produce a synergized wealth cycle. Ecosystems could be actualized in terms of government policy, business support services, culture, etc. Kundu & Kumar (2021) link the socioeconomic context, the community, and the support of third parties, as well as the characteristics of social entrepreneurs and how they run their businesses, to the sustainability of SEs' finances and results. Kundu and Kumar give a fairly simple framework for the sustainability of SE, which includes business administration skills (like business collaboration and business management), entrepreneur skills (like persistence, creativity, risk tolerance, adaptability to technology, and making the best use of resources), social involvement (like working with social work organizations, being involved in the community, and having good relationships with people in the community), and support from multiple parties (like family, friends, and the government).

Armstong & Grobbelaar (2018) looked at how social values are expressed in a value proposition to stakeholders to support innovation that reduces tension between the financial and social bottom lines. This study focuses on the role of innovation in SEs, which can take the form of new rules, new products, or new markets. Innovation makes it easier for customer value propositions and social value to work together, which helps reduce hybrid tensions between financial success and social success.

Suriyankietkaew et al. (2022) looked at how sustainable leadership practices and sustainability competency are important for building skills and human capital to ensure the future sustainability of SE. This study shows how having sustainable leadership practices (like having a long-term view, putting people first, having a strong organizational culture, innovating, being socially and environmentally responsible, and acting ethically) and a few key competencies (like being strategic, system-thinking, anticipatory, interpersonal, and ethical) will give you a competitive edge, improve financial performance, and have a positive effect on the triple bottom line. Because of sustainability, this accomplishment helps balance, resilience, and long-term development.

The study by Kamaludin et al. (2021) demonstrates how social, economic, behavioral, and governance factors all have an impact on sustainability. The Kamaluddin et al. framework shows how sustainability in SE is built up in a series of steps, from output to process and process to output before sustainability is reached. Inputs to the framework include social factors (social mission, value creation, networks, community, and change), economic factors (accountability, reinvestment, innovation, recognition of the new opportunity, and financial independence), behavioral factors (culture, identity, and image, cognition, entrepreneurial behavior, business-like behavior, decision-making skills, entrepreneurial focus, leadership characteristics, and motivation), and governance factors (property, leadership, and motivation). The process of the framework is related to how the change in the organization happens. It has to do with knowing and understanding the resources (inputs) needed to run the activities, the planned activities, and the change we want to see in the bottom line. The process will convert the inputs into outputs, namely financial and non-financial impact. Good output will create sustainability for social enterprise.

Su et al. (2019) build a SE sustainability framework according to Timmons entrepreneurial process model that explains how three aspects of social entrepreneurship, namely subjects, entrepreneurial opportunities, and entrepreneurial resources, are managed to catch and utilize opportunities for social entrepreneurship sustainability. The framework explains the process of utilizing opportunities to support SE sustainability, starting from identification, development, and the result of the utilization of opportunities. It is assumed that entrepreneurs try to identify the opportunities that exist in various environments. Even though social entrepreneurs have diverse capabilities to identify opportunities, it depends on personal characteristics and life experience. Later, they use organization to gather internal as well as external resources and build strategies to establish organized legitimacy. They strive to achieve their social mission by creating social impact as well as achieving economic independence through commercial activities to achieve sustainability. In this framework, opportunities give the subjects (entrepreneurs and organizations) a reason to seek resources. Resources provide the necessary material for subjects to develop and utilize opportunities that, later, create dynamic interactive mechanisms to ensure the sustainability of SE.

Institutional economics framework

As Kusuma & Fridayani (2022) explain, the Burky and Perry frameworks, as well as the North and Williamson frameworks, make it easy to understand the institutional economics framework. Burki & Perry (1998) says that institutions are a group of formal and informal rules and the ways they are enforced that shape how people and groups act in society. Laws, constitutions, regulations, contracts, standards, and anything else that is clear and well-defined are examples of formal rules. Informal rules, on the other hand, are not written down, but they are ingrained in society and affect how people act and behave every day. Customary rules, behavioral norms, political norms, social norms, traditions, ethics, values, and trusts that affect how people act are all examples of formal rules. The enforcement mechanism, on the other hand, is a way to get people to follow both the formal and informal rules of the game (North, 1990). According to North, enforcement mechanisms include supervision, the imposition of sanctions or penalties, the application of communication mechanisms to obtain information regarding the transacting party, and the use of third parties to enforce the rules.

Moving on from the institutional form presented by Burki & Perry (1998), it is also important to recognize the institutional form based on the Williamson work *"The New Institutional Economics: Taking Stock, Looking Ahead*", which is widely referred to by academics who discuss institutional economics issues (Williamson, 2000). Williamson divides institutions into four levels: social embeddedness, institutional environment (the rules of the game), governance (the play of the game), resource allocation, and employment mechanisms. Institutions at the level of social embeddedness include norms, customs, morals, traditions, taboos, and other forms of behavioral rules. The change in this institution is very slow; it takes 100 to 1000 years to change. Institutions at the level of the institutional environment include various forms of formal institutions such as constitutions, laws, and property rights. Mechanisms for determining and enforcing property rights and contract law are important features of institutions at this level. The duration of this institutional change is shorter than that of institutions at the level of social embedding, which is 10 to 100 years. Institutions at the governance level are related to a good organizational management system so that transaction costs can be minimized (Arsyad, 2014). Institutions at this level regulate how targets are achieved and elements within the organization are managed and connected. Institutions at this level can change in the duration of 1–10 years. Institutions at the level of resource allocation are related to how neoclassical mechanisms work to achieve optimal conditions. In this case, the allocation of resources based on marginal analysis, the adjustment of incentives, and the implementation of risk guarantees are applied to obtain the expected optimal results. This institution is subject to change at any time.

Referring to North (1990), the presence of institutions can reduce uncertainty in human interaction. Uncertainty occurs due to two things, namely: (1) the complexity of the problems that must be solved and (2) the limited capacity of individuals to solve these problems due to individual limitations in processing, organizing, and managing information. Under these circumstances, the existence of an institutional framework (in the form of rules and procedures that influence human behavior and restrict the options available to the parties involved in transactions) increases the transaction process' efficiency. Through enforcement mechanisms, such as appreciation and sanctions, institutions also provide incentives and disincentives for humans to act in certain ways. Therefore, institutions simplify the complexity of transactions and processes of human interaction. Institutions also become the direction for human interaction so that when someone wants to do something, such as buy goods, borrow money, build a business, or do anything else, people know how to do it (North, 1990). If institutions are effective, they can reduce exchange and production costs and provide incentives for political, social, and economic activity.

Kasper et al. (2012) explain the role of institutions in human life by showing the relationship between institutions and order. According to Kasper, institutions play an important role in creating order. In this case, effective institutions, in the form of rules that are able to limit human behavior from being opportunistic and arbitrarily, make human behavior more orderly and predictable. Regularity is reflected in patterned, systematic, and predictable (non-random) activities and conditions. Order is an important element in human life. Regularity creates trust and confidence and enhances optimal coordination. When there is regularity, people will be able to make predictions about the behavior of other people (parties) who will transact with them, and then it is easier to collaborate with them (Kusuma, 2022). In addition, through this form of cooperation based on trust, people will be more willing to take risks in carrying out activities that encourage innovation. People will also find it easier to get information about the experts they can work with, the extent of the costs involved, and the income they can get from the collaboration. In other words, regularity will support the use and development of knowledge more intensively. On the other hand, the lack or absence of order can lead to chaos. When social unrest occurs, social interaction becomes very difficult, and trust and cooperation between humans are eroded.

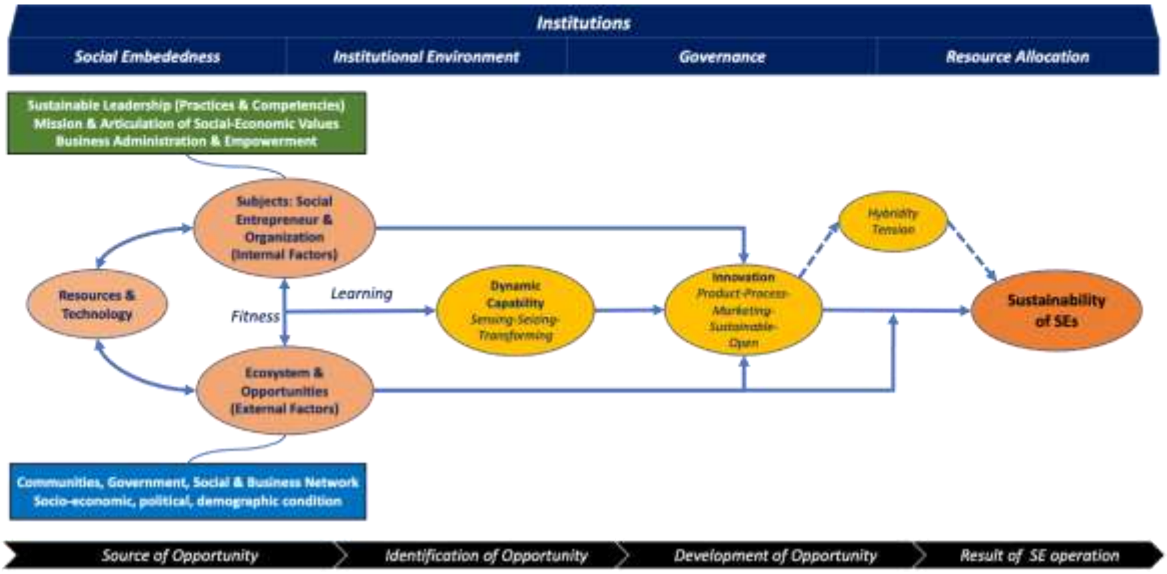
RESEARCH METHODS

This study is a kind of literature review research. It is conducted by searching various literature relevant to the topic of research. Literature review research is oriented to gain information and formulate theoretical foundations and frameworks of thought and hypotheses (Rahmadani & Qomariah, 2022). To do this research we apply the following stages, namely formulating the research questions and basis for selection, data collection and selection, and data analysis. At the first stage, we gather the data from study of academic journals, doctoral thesis, research reports, and books. We did data collection through online sources using the key words of 'sustainability of social entrepreneurship model', 'sustainability model of social enterprise', 'determinants factors of social enterprise sustainability'. Later, we carefully read the abstract, introduction, and the conceptual framework of the collected references to screen and select the paper used as the basis for analysis. Data analysis is carried out after the screening stage by carefully understanding, extracting the essence, and synthesizing the important ideas of the selected paper to provide meaningful information to achieve the research objectives.

RESULTS & DISCUSSION

Having reviewed the recent proposed models for SE sustainability and being enriched by the explanation of the basic institutional economics framework as explained in the literature review, we come to an alternative SE sustainability model as illustrated in Figure 1. The figure shows how social enterprises can be sustainable in terms of financial and impact sustainability.

Figure 1. Proposed Social Enterprise Sustainable Framework



Source : Desiana et al. (2022); Su et al. (2019); Teece (2018); Kundu & Kumar (2021); Armstong & Grobbelaar (2018); Suriyankietkaew et al. (2022); Kamaludin et al. (2021); Burkett (2020); Venkataraman (2004) (compiled and illustrated by the author)

Some selected references that discuss the sustainability model of SE propose innovation as the key factor to promote sustainability in SE. If innovation is accepted by targeted customers, it could bring more revenues and profit to SE. Thus, it has more money to be reinvested to maximize social impact. Moreover, innovation in SE could provide alternative products or processes that directly create more social impact, e.g., innovation in environmentally friendly products or processes. This can be an effective tool to balance the social orientation (making a social impact) and the economic orientation (making a profit) of SE. Thus, the existence of innovation makes the achievement of social impact linear with financial sustainability or at least reduces the hybridity tension in SE operations. However, innovation is not automatically created. It is driven by the dynamic capability existing in the organization. This capability requires entrepreneurs to be able to search, utilize, and make adaptations in responding to actual information (opportunity) to create innovation. The authors argue that dynamic capability is the perfect base for sustainable innovation as it involves a matching process between subjects (social entrepreneurs and social enterprises as organizations) and their ecosystem. It will facilitate comprehensive learning of personal values, organization mission, the institutions existing in the organization and ecosystem, the alignment process for those three aspects, and exploration of the social problems existing in the ecosystem as well as identifying the opportunities to solve the problems in an optimum way. Innovation probably happens as the result of the self-creativity of the social entrepreneur, independent of the ecosystem where the social entrepreneur lives (and *vice versa*). However, the process does not seem to bring sustainable innovation.

The ability to identify the opportunities encourages the social entrepreneur and social enterprise to access resources (human, financial, and social resources) and technology resources needed to catch up to the opportunities and develop their social business. This enables social entrepreneurs' organizations to explore bigger opportunities, encourages them to increase production and innovation capacity, and consequently asks for more resources. These cyclical processes bring dynamic interactive mechanisms that promote sustainability. Ability to manage opportunities as explained above also requires some leadership attributes (namely sustainable leadership practices and competencies), capacity to manage and empower the social business by incorporating the process of knowledge improvement and diffusion, as well as adequate access to synergy, collaboration, and integration with the surrounding ecosystem of social enterprise (namely communities, government, as well as the social and business network).

Recalling the perspective of the integrated framework of social entrepreneurship proposed by Su et al. (2019), the process of achieving the sustainability of social enterprise reflects the process of managing opportunities. It starts with the existence of opportunities that naturally exist in the ecosystem. Later, it is followed by the identification of opportunities, which involves the reaction of the subject of social entrepreneurship to the phenomena in the ecosystem, matching it with personal and organizational attributes, and learning and exploiting those opportunities. The next stage is the development of opportunities, where the opportunities are executed through innovation and potentially bring a balance between social impact and the financial bottom line, two prerequisites for SE sustainability.

The process of achieving social enterprise sustainability, from identification to the development of opportunities, cannot be separated from the institutions that exist in the ecosystem, whether in the context of the internal or external environment of social enterprise. The level 1 institution (namely, social embeddedness such as culture, norms, and tradition) tends to build the values embedded in the ecosystem, the social entrepreneur, and the organizational culture of the social enterprise. This institution is also one of the crucial factors that determines the stakeholder's decision to accept or deny the logic of social enterprise and to operate within the appropriate framework of SE or not. Thus, the level 1 institution tends to play its role in the stage of identification and development of opportunities. The level 2 institution (namely, the institutional environment such as business regulation and government policy and regulation) tends to guide or even constrain the ability of social enterprise to exploit the opportunities, e.g., the access for collaboration between parties, the regulation to access resources, or the execution of a business contract. In many cases, the clarity of property rights that is subject to institution level 2 also affects the process of innovation (in the case of the security and enforcement of intellectual property rights). The two contexts show the role of institutions in the stages of identification and development of opportunities. The level 3 and level 4 of institutions (namely, governance and resource allocation) tend to influence the internal organization and operation of social enterprises. They provide guidance to the actors in the social enterprise: what to do? Who is obligated to do what? What should be done? It tends to play its role in the identification and development opportunities stage. The actualization of a level 3 institution in this context includes the strategic plan, business plan, organizational structure, and operational procedures of a social enterprise. It should be evaluated over time to ensure its relevance to the actual condition of the organization and ecosystem. Meanwhile, the actualization of level 4 institutions includes performance-based incentive mechanisms for employees, staff rotation, and pricing. The explanation above shows the potential influence of four types of institutions in building the development perspective and operation of social enterprise.

CONCLUSION & ADVICE

Orientation of this study is to build an alternative sustainability model for social enterprise (SE). Fulfilling the orientation of this study, we propose an integration of recently proposed sustainability models for social entrepreneurship. In our models, we identify innovation as the driver of SE sustainability as its capacity to provide financial benefits as well as social impact. The existence of innovation also reduces the tension between the double bottom lines of social enterprise. Even though innovation is not automatically created. Sustainable innovation needs dynamic capabilities—capabilities of social enterprise to integrate, utilize and adapt to actual information and change. Dynamic capabilities involve the process of matching and learning between social enterprise, social entrepreneurs, and the capacities to identify and develop opportunities as well as managing resources. The attributes of social enterprise and social entrepreneurs (namely leadership, mission articulation, and business administration) and access of synergy, collaboration, and integration to ecosystem become the key important factors that facilitates the process managing opportunities and creation of dynamic capabilities. The novelty of the study is the inclusion of institutional framework to explain the process of achieving sustainability of SE. The institutional economics analysis finds that all types of institutions according to Williamson classification—social embeddedness, institutional environment, governance, and resource allocation, is potentially influence all the stages of opportunities utilization, the process of perspective development, as well as business and organizational management of SE.

The result of the studies implies the usage of more comprehensive analysis to formulate the strategies of achieving SE sustainability. The alternative model proposed by the authors could be the reference to do this. We acknowledge that the study does not classify the SE sustainable model to types and geographical distribution. Probably, this brings a deviation from our model. The formulation model that considers the variation of SE type and geographical distribution tend to bring an informational values to the research topics related to SE sustainability.

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