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## Empowering and sustaining social enterprises

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SOCIAL enterprises are driven by a social mission and actively seek financial viability to self-sustain in the market. Social enterprises exist with two distinctive missions or a double bottom line — a clear social mission to tackle targeted underprivileged communities, and a well-

designed business model for market development that is comparable to conventional businesses. They are the third sector after the public agencies and private enterprises to complement the social innovation ecosystem of the nation.

To create social impacts, social enterprises are extensively driven by their entrepreneurial orientation, social salience, proximity to community, and more importantly, the social agenda that defines the identity of the enterprises in social value creation and dissemination. They adopt business models that are underpinned by the principle of a community-led needs-benefit strategy. An example is the inclusive employment model in which a social enterprise hires the targeted beneficiaries (e.g., disabled unemployed people) to work with them. Another is the so-called Robin-Hood model, that is, the cross-subsidisation model in which the wealthier customers will pay a full price (or maybe slightly higher) to cross-subsidise the lower-income community.

### **Social enterprises in Malaysia**

Since 2021, the specific role of social enterprise development in Malaysia has been under the purview of the Ministry of Entrepreneur Development and Cooperatives (MEDAC). Prior to that, the Malaysian Global Innovation and Creativity Centre (MaGIC) and Yayasan Inovasi Malaysia (YIM) were key agencies to foster a conducive entrepreneurial ecosystem for social enterprise development, alongside other ventures such as tech startups. In 2021, MaGIC was merged with Technology Park Malaysia and named MRANTI (Malaysian Research Accelerator for Technology and Innovation) to focus on the acceleration of research and technology commercialisation.

In April 2022, MEDAC launched the Social Entrepreneurship Action Framework 2030 (SEMy2030) to shape the development agenda of social enterprises and entrepreneurship in Malaysia. SEMy2030 replaced the Malaysian Social Enterprise Blueprint that came to an end in 2018.

According to the British Council's report on the State of Social Enterprise in Malaysia 2018, there were 20,749 social enterprises in the country, a majority of which were cooperatives. MEDAC indicates 414 registered social enterprises that registered with the MEDAC database in 2020 have recorded a RM100 million turnover and created approximately 3,500 job opportunities.

The exact number of social enterprises in Malaysia remains unclear and is difficult to determine. This is mainly because Malaysia does not have an act or legislation to ensure their registration.

### **Essential ingredients for successful social enterprises**

An open and flexible enterprise culture, as well as a growth mindset, are key drivers for the success of a social enterprise, and these mainly result from the quality of personal experiences and leadership of the founders or co-founders. Like many other startups, such ingredients

foster the spirit of teamwork within the enterprise to achieve the enterprise's plans and strategies together.

Recruiting good talents would have a positive effect on the growth of social enterprises. This is especially impactful for technology-based social enterprises that rely heavily on technical support and maintenance to promote their products. The role of financial or accounting talents is another key factor to drive their business mission, as the skills they bring on board can ensure the healthy financial status of the enterprise. In Malaysia, funding and accelerator programmes for capacity building in managerial skills and market intelligence held by public agencies such as MEDAC, MaGIC and YIM provide opportunities to social enterprises to improve their sustainability in the marketplace.

Through capturing new business opportunities, social enterprises can increase their competitiveness and market access. Nowadays, more agencies and corporates are purchasing goods and services from social enterprises. We observe that social procurement is growing in popularity as a way to contribute to the creation of social impact with the least amount of time and money invested.

Also, corporates help social enterprises to spread awareness of their brand, which is very often through word of mouth, whereby the good reputation and positive impacts created by the social enterprises are spread to wider networks. This eventually enables them to reach out to more potential clients, partners or even investors from the social enterprise ecosystem.

In collaboration with local suppliers and local artisans, social enterprises can source their raw materials locally and create their products locally too. In some cases, these local suppliers are from the co-founders' close connections and provide them support in their initial stage of business. In addition, for social enterprises that provide job opportunities to their target beneficiaries, it is crucial that they maintain a good, long-term relationship between the both of them.

### **Barriers to the scaling up of business**

Talent retention has always been a challenge for social enterprises due to their limited capital. As a result, training for employees is normally not the top priority for many social enterprises. This leads to a lack of structured training and development programmes for their employees.

There is a lack of sufficient data to track, analyse and publicise the impacts created by social enterprises. The impact reporting has been done based on request and not on a regular basis, as there is no structured mechanism to measure impacts, which leads to the lack of detailed data and inconsistency in reporting.

Due to limited cash flow, social enterprises are unable to scale up their businesses, as they are lacking the budget for marketing, product development and team expansion. Subsequently, they will lose the capacity to fulfil their social mission as they fail to meet expectations of both their clients and target beneficiaries. Funding accessibility, especially for

those social enterprises in the beginning stage of scaling up, is another common roadblock. Not many financial institutions are keen to provide them with low-risk loans.

There is another phenomenon known as a pioneer gap, where some of them are stuck in a plateau where they are unable to access funding because they are either too small to accept private investment, or they are already too established to receive a seed funding that is specially for startups.

Small-scale social enterprises have lower capacity in accelerating their innovation development. Their products or services tend to lose market demand, as there is a lack of variety in their product or service range. Hence, they are also unable to provide competitive pricing due to their low profit margin, as a large portion of their revenue is channelled back to their target beneficiaries.

### **The way forward**

The ultimate goal of creating good social impacts to the community has been the motivation to keep social enterprises working diligently in making their businesses sustainable. There are a number of business risks that social enterprises face, especially those that are not solely profit-driven and that maintain social impact creation as their main agenda of business. These include greater challenges in terms of their internal process building, product or service development, balance in creating impact, and building trust with their target beneficiaries. All of these are the baseline for the social enterprises to construct better strategic plans in overcoming the tension which arises from within the enterprise, or even the uncertainties from the external business environment.

Social enterprises tend to look towards their internal resources to meet needs like human resource, management and company culture, as well as the external resources like cash flow management, partnerships and collaboration, environmental objectives, relationship with target beneficiaries, and innovation development as a whole, in building a holistic and practical strategic plan. The figure shows the possible elements that can be fully developed into strategies and approaches of social enterprises to boost their internal and external growth in sustaining their businesses and leveraging their social mission at the same time.

In a nutshell, the sustainability of social enterprises is extensively underpinned by their strategies to tackle both the social and business missions. This is supported by their competencies in organisational leadership and structure, talent development, financial self-sufficiency, impact assessment, technology savviness and community building. The future of social enterprises is promising, as funding in the form of corporate social responsibility (CSR) to support social development from corporations is now being gradually replaced by social procurement, to help social enterprises attain more sustainable income instead of receiving one-off donations from these corporations.

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