EXAMINING THE CRITICAL SUCCESS FACTORS OF SOCIAL ENTERPRISES IN MALAYSIA

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Abstract: This is a conceptual paper to examine the critical success factors of Malaysian social enterprises based on the effect of structural factors and agency factors. Structural factors comprise of social economy, market type and relevant public policies while agency factors include the people, organization and finance stability. There has been relatively little research that examines the relationship between structural factors and agency factors, and the consequences on success of social enterprises in developing countries. This paper represents an attempt to do so from the context of Malaysian social enterprises.

Keywords: Structural Factors, Agency Factors, Social Enterprise

1. Introduction

Social enterprises have strong potential in Malaysia due to the growing interests shown by entrepreneurs to provide social impact missions in a more sustainable way by using businesses revenue. The Malaysian government has acknowledged the potential of social enterprises in Malaysia and undertaken various initiatives to facilitate social entrepreneurs and develop supportive ecosystem for social enterprises.

However, majority of social enterprises in Malaysia were reported to struggle in sustaining the respective businesses which then affect their social impact activities. According to a survey done Malaysian Global and Innovation Centre (MaGIC) in 2015, there were around 100 social enterprises in Malaysia. The survey also found that over two third have yet to break even and 50% of the respondents have not consistently covered their costs. 28% have broken even but still struggling to look for consistent customers.

Studies on social enterprises has been widely undertaken in many developed countries. However, there is limited numbers of researches been done in the context of developing countries especially where social enterprises are not being governed by any specific legal framework. Subhanja & Arunaditya (2017) found 65 English-written scholarly...
peer reviewed articles on social enterprise on the Asia-Pacific context between 1998-2015. Out of that, only 6 papers focused on the Malaysian context with only one qualitative research paper. The finding also highlighted that there is a need for a qualitative case study to explore the challenges faced by the social entrepreneurs in Malaysia (Nga & Shamuganathan, 2010).

This research aims to examine the critical success factors which determine the success of social enterprises in Malaysia.

1.1. Research Questions

Based on the research background stated earlier, the main purpose of the research is to explore how the success of Malaysian social enterprises was affected by certain drivers, which are the agency factors (internal actors) and structural factors (external factors). More specifically, understanding the connection between the success of Malaysian social enterprises, structural factors and agency factors.

The study will be guided by major research questions as follows:

RQ1: What factors influence the success of Malaysian social enterprises?

RQ2: How structural factors (social economy and government policy) give impact to the success of Malaysian social enterprises?

RQ3: How agency factors (social entrepreneurs, employees, organizations and capital) give impact on the success of Malaysian social enterprises?

The first question was constituted to recognize various elements influencing success, and this would principally be done through the literature review in the process of constructing the theoretical framework. Drawing on this theoretical basis, the elements found would be categorized into structural factors and agency factors.

The second and third questions aim to discover how the elements identified in the first question affected success.

1.2. Research Objectives

Based on the research questions stated above, this study aimed to explore the critical success factors of Malaysian social enterprises particularly among the knowledge-intensive businesses. The proposed research objectives are as follows:
RO1: To examine a range of factors influencing the success of social enterprises in Malaysian context.

RO2: To examine the influences of structural factors on the success of Malaysian social enterprises.

RO3: To examine the influences of agency factors on the success of Malaysian social enterprises.

2. Literature Review

2.1. Social Enterprise

There is no certain approach on how to categorise and how to qualify a social enterprise or social entrepreneur. Definitions of social enterprise and social entrepreneurship is varied at the international level with some authors using the two terms interchangeably (Peredo & McLean, 2006).

Austin et al. (2006) suggested that the definitions of social entrepreneurship can be either be broad or narrow. Broad definition of social entrepreneurship can be referred as an approach that able to fit in any enterprises and organisational types (Roberts and Woods, 2005). It fit suitably either in the for-profit organisations, non-profit organisations, public sector or even hybrid organisations. The approaches of for-profit organisations and non-profit organisations were mixed accordingly (Austin et al., 2006).

The dimensional differences between social enterprise in different countries were derived from the diverse contextual situations (Kerlin, 2006) (Seong, 2013). While there may not be a universal definition, the inception of this sector has been primarily attributed to the convergence of the three traditional sectors; non-profits (social), for-profits (private), and government (public).

In the context of Malaysia, facilitation of social enterprise development is undertaken by Malaysian Global Innovation and Creativity Centre (MaGIC). MaGIC defines social enterprises to have primary and secondary characteristics as follows:

“Primary: A social enterprise is an entity which balances both impact and business in order to solve a legitimate social or environmental issue through its offerings, which are driven by market needs.

Secondary: A social enterprise is an entity that operates by being inclusive and transparent in its activities, while being fully accountable to its shareholders and beneficiaries.” (MaGIC, 2015).

According to a report in 2015 by MaGIC, the social enterprise sector in Malaysia is in its early stage with 100 registered social enterprises. It is a huge different compared to other countries like United Kingdom for around 60,000 organisations in 2013, South Korea with more than 1,000 social enterprises in 2015 and even Thailand with 115,000 social enterprises (Lee, 2015).
2.2. Critical Success Factors of Social Enterprise

Structural Factors

In the framework, structural factors that represent the environment, or external or contextual elements, include three sub-factors: the social economy, market type, and government policy. This category can be called structural factors because it includes rules and resources for social enterprise activities (Giddens, 1984).

Firstly, the social economy provides an important structure for social enterprise, as it affects their success by nurturing social entrepreneurs, forming social networks and supplying finance as suggested by Peattie and Morley (2007).

Secondly, the market is also one of the most important basic grounds for social enterprise, which derives profits from it through selling products and services.

Finally, the critical role of government policy for social enterprise movements cannot be underestimated. The success of social enterprises can be critically affected by their policy context, as central and local government take the roles of a funding stream and a large buyer, and create and modify necessary legal framework for social enterprise activities.

All three structural variables have been chosen on the assumption that they have close reciprocal effects on one another.

Agency Factors

Agency factors are internal elements that have an effect on the success of social enterprises. These include social entrepreneurs, employees, organizations and finance.

The competency of leaders, and their social network are essential to the success of social enterprise. An organizational culture open to change, innovation, and fluid communication are identified as organizational factors. Finally, the capital factor is vital in terms of the success and sustainability of social enterprises. Many social entrepreneurs and scholars insist that improved access to capital is an urgent issue in the field of social enterprise.

This is aligned with Mellahi and Wilkinson (2014) that the influence of agents is modified by structure. Furthermore, the role of agents can mediate the influence of environmental change.

2.3. Conceptual Framework

Conceptual framework describing the factors for the success of social enterprises is presented in Figure 2.1.

The framework basically draws on Giddens (1984), Mellahi and Wilkinson (2004), and Lee (2015) integrative approach of social enterprise agency factors and structural factors while the social enterprise success was derived from Sharir and Lerner (2006). One clear
point in the theoretical framework is that the study aims to examine the relationship between organizational success and various drivers.

![Conceptual framework of success factors of social enterprise](image)

**Figure 2.1: Conceptual framework of success factors of social enterprise**

3. **Methodology**

3.1. **Qualitative Research**

Qualitative research is selected due to some reasons. Firstly, this study aims to gain in-depth understanding of the influencing factors of social enterprises in Malaysia. Secondly, social enterprises in Malaysia is in a nascent stage with only around 100 social enterprises recorded by MaGIC in 2015.

3.2. **Multiple Cases through Theoretical Sampling**

Oliver and Kandadi (2006) explain that the case study design is an appropriate option when researchers must examine various factors and multiple dimensions of a topic. Six cases will be chosen with different period of operation, social area and number of employees. The criteria will be chosen based on MaGIC’s Impact Driven Enterprise (IDE) listing and classification as proposed in **Table 3.1**.
<table>
<thead>
<tr>
<th>Case</th>
<th>Period of operation</th>
<th>Social Area</th>
<th>No. of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1</td>
<td>1 years</td>
<td>Youth development</td>
<td>5</td>
</tr>
<tr>
<td>Case 2</td>
<td>1 years</td>
<td>Healthcare</td>
<td>30</td>
</tr>
<tr>
<td>Case 3</td>
<td>3 years</td>
<td>Affordable technology</td>
<td>100</td>
</tr>
<tr>
<td>Case 4</td>
<td>3 years</td>
<td>Education</td>
<td>10</td>
</tr>
<tr>
<td>Case 5</td>
<td>5 years</td>
<td>Arts, Media &amp; Culture</td>
<td>25</td>
</tr>
<tr>
<td>Case 6</td>
<td>5 years</td>
<td>Community development</td>
<td>70</td>
</tr>
</tbody>
</table>

Table 3.1: Example of ideal selection of sample cases

Data collection will be conducted through various sources including documents, interview and secondary data. Respondents of interview will include the social entrepreneurs, managers, operational staffs and beneficiaries of the respective social enterprises.

3.3. Cross-Sectional Indexing System

Analysis of RQ1, RQ2 and RQ3 will be done with cross-sectional indexing system using NVivo qualitative data analysis software. The transcribed recording of interview will be organized, indexed and coded into system. The open coding will then be categorised accordingly and relationship between categories will be explored. Once the respective themes were identified, theory on the critical success factors of social enterprise will be developed and incorporated with the proposed conceptual framework and pre-existing knowledge. Finally, the theory will be tested against the data.

4. Conclusion

This paper aims to contribute to the body of knowledge on the critical success factors of social enterprise which is an emerging sector in Malaysia. The research is very timely as the Malaysian government aims to introduce a new policy and possibly a legal act to regulate and facilitate social enterprises. Further studies could be done once the social enterprise policy or legal act is implemented to further examine how the new policy implementation influences the development of social enterprises in Malaysia.

5. References


