

**THE DETERMINANTS OF  
SOCIAL ENTERPRISES PERFORMANCE  
IN MALAYSIA AND SINGAPORE**

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**UNIVERSITI SAINS MALAYSIA**

**2018**

**THE DETERMINANTS OF  
SOCIAL ENTERPRISES PERFORMANCE  
IN MALAYSIA AND SINGAPORE**

**by**

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**Thesis submitted in fulfilment of the requirements  
for the degree of  
Doctor of Philosophy**

**May 2018**

## ACKNOWLEDGEMENT

A PhD study is a long, complicated and lonely journey. It requires a lot of determination, enthusiasm, and assistance. I would like to express my deepest gratitude to my supervisor Associate Professor Dr. Sofri Yahya for his continual encouragement, patience and constant support in making this research work possible. My sincere appreciation is extended to my co-supervisor Professor Dr. Azlan Amran, who guided me with his diversified support, valuable insights and generosity in time.

I acknowledge my internal examiners Professor Dr. Noor Hazlina Ahmad and Associate Professor Dr. Elisha Nasruddin, external examiner Professor Dr Wan Khairuzzaman, for their comments and suggestions, which made this study better and more extensive. I am grateful to all the members of the Graduate School of Business especially Deputy Dean Associate Professor Dr. Tan Cheng Ling and Assistant Administration Mr. Ahmad Khairul, for rendering their support throughout my study. Special thanks to Professor T. Ramayah in exhilarating my excitement and knowledge in academic research and statistical method.

I should like to thank the authority of MaGIC Social Entrepreneurship Unit (MaGIC SE), Social Enterprise Venture, Touching Hearts Welfare Society (hati.my), Singapore Centre for Social Enterprise (raiSE) for contributing to the potential research sample and consider it a privilege I received their co-operation. I offer my appreciation to the Exabytes Group of Companies, which sponsored new or transferred domains and web hosting packages to all the valid respondents. Mostly, I am indebted to all the participants of this research.

Lastly, I would like to dedicate my sincere thankfulness to my father Cheah Chai Chiew, my mother Tong Miew Sim, and my wife Gan Pek Har, who have all sacrificed and supported me constantly in numerous ways throughout this journey.

CHEAH SAU SENG  
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May 2018.

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## **PENENTU PRESTASI PERUSAHAAN SOSIAL**

### **DI MALAYSIA DAN SINGAPURA**

#### **ABSTRAK**

Misi utama perusahaan sosial adalah untuk menangani isu-isu sosial atau alam sekitar yang pada masa ini mendesak dalam masyarakat. Walau bagaimanapun, majoriti perusahaan sosial di Malaysia dan Singapura berhadapan cabaran isu kemandirian dan pencapaian prestasi yang rendah, terutamanya dari segi kemampuan kewangan. Dengan mengintegrasikan pandangan teori “*Resource Based View*” dan teori “*Resource Dependence*”, kajian empirikal ini membentuk satu rangka kerja untuk menilai kesan sumber dalaman (seperti orientasi keusahawanan, kecenderungan sosial dan rancangan perniagaan), dan sumber luaran (seperti bantuan kewangan dan latihan), yang disesuaikan kepada keadaan sosio-ekonomi, bagi menilai prestasi kewangan dan kesan sosial perusahaan-perusahaan sosial tersebut. Kaedah kuantitatif digunakan untuk pengumpulan dan analisis data. Hasil kajian ini mendedahkan bagaimana orientasi keusahawanan kumpulan yang lebih bersikap inovatif, proaktif dan mengambil risiko, mencapai kesan yang lebih positif dari segi prestasi kewangan. Manakala penonjolan sosial pemimpin/pengasas perusahaan hanya mempunyai kesan negatif terhadap prestasi kewangan di dalam keadaan di mana kedudukan sosio-ekonomi adalah lebih rendah (seperti Malaysia). Pemerhatian juga dibuat bahawa sokongan kewangan dan latihan tidak memberi kesan kepada prestasi kewangan atau kemajuan sosial sesuatu perusahaan sosial itu, sekiranya tiada perubahan dalam perancangan perniagaan. Kajian ini memberi sumptangan terhadap konsep, empirikal and kaedah kajian, dan boleh dijadikan panduan kepada mereka yang menjalankan perusahaan sosial dalam penetapan hala tuju strategik perniagaan, dan juga sebagai model petunjuk kepada para pelabur, pembuat dasar dan penyelidik pada masa hadapan.

**THE DETERMINANTS OF SOCIAL ENTERPRISE PERFORMANCE  
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**ABSTRACT**

The ultimate mission of a social enterprise is to address the most pressing social or environmental issues in society. However, majority of the social enterprises in Malaysia and Singapore are confronted with the criticality of survival and low performance challenges, especially in financial sustainability. By integrating resource-based view and resource dependence theory, this empirical study established a framework to assess the influence of internal-oriented resources (i.e., entrepreneurial orientation, social salience and business planning), and external-oriented resources (i.e., financial support and training support), which moderated by socio-economic context, towards the financial and social performance of social enterprises. A quantitative method was applied on data collection and analysis. The findings revealed the entrepreneurial orientation of the leading teams, in terms of innovativeness, proactiveness and risk-taking, positively enhances their organisation's financial performance. Whereas, social salience of the founding leaders only exhibits its negative effect on financial performance in low favorable socio-economic contexts (i.e. Malaysia). Noteworthy are the results revealing the financial and training support have no contribution to the financial or social performance of a social enterprise even if there is no improvement in their business planning practices. This study constitutes several original contributions, included conceptual, empirical and methodological contributions, and may advises the social enterprise practitioners on their organisation's strategic direction and offer a guiding model to the social investors, policymakers and future researchers.

# CHAPTER 1

## INTRODUCTION

### 1.0 Introduction

The social enterprise movement has emerged and expanded since the 1980s, as one of the most forceful social innovation paths to eliminate or reduce social problems (Lumpkin, Bacq, & Pidduck, 2018). Many countries, especially from the European Union (EU), the United States of America (USA), and East Asian regions have enacted social enterprise legislation and have substantially stimulated the growth of this sector. Meanwhile, social entrepreneurship also achieved the recognition from the United Nations Development Program (UNDP), as an innovative and effective approach for poverty reduction and employment generation. The UN established the United Nations Social Enterprise Facility to support social entrepreneurs scale across borders (UNDP, 2016). Yunus (2010) even describes the social entrepreneurship movement as a new kind of humanistic capitalism that serves humanity's most pressing needs.

Development in the social enterprise movement is described as a revolutionary transformation of the “grant-dependent charities” into “income-generating enterprises”, reconstructing the future of government's public services, and providing a more proactive corporate social responsibility (CSR) policy. In the non-profit sector, the social enterprise model has been adopted by the conventional non-profit organisations (NPOs) to generate their own capital in establishing better independence and sustainability (Defourny & Nyssens, 2010b). In the government sector, “social enterprising” government services have been emerged to deliver public aid in a more



cost-efficient way (Sepulveda, 2015); In the for-profit sector, many pioneering multinational companies have implemented their proactive CSR policies by establishing a range of social enterprises that are able to produce long-term social value to the society (Yunus, Moingeon, & Lehmann-Ortega, 2010).

Since 2010, social enterprise received positive responses from Southeast Asian countries especially in Malaysia and Singapore (see MaGIC, 2016; raiSE, 2016b). The local governments, non-profit organisations and private companies, started to encourage social entrepreneurship in their respective region. However, the roles of social enterprises in Malaysia and Singapore undertaken are still limited and many are grappling to survive (Ang, Lam, & Zhang, 2016; MaGIC, 2016). On this note, the major contention of this study is to examine the internal and external factors increasing the organisational performance of the social enterprises. The findings are hoped to offer valuable insights for researchers and practitioners and consequently contribute to providing a greater social impact towards the well-being of the community.

Chapter one provides an overview of the background of the study, problem statement, research objectives, research questions, scope and significance of the study, the definition of key terms, and organisation of chapters.

## **1.1 Background of the Study**

The world has progressed into an age of contradictions (Helliwell, Layard, & Sachs, 2012). While we revel in convenient and comfortable lives, owing to the advancement of technology and modernisation, billions of people are suffering extreme

poverty due to the shortages in food and nutrition, clean water, shelter, clothing and basic education. Globalisation and urban development have aggravated the situation for this disadvantaged groups, leaving them even further behind in hardship.

The voice of the minority tends to be sidelined at large as the government sector commonly focuses on the benefits of the majority, given the democratic system typically favours the needs of these voters. On the other hand, the corporate sector, which generates profit as its main goal, can only share part of their gains with the society when companies have a surplus. Hence, the question arises as to who or which body should undertake the responsibility to uphold the plight and rights of the disadvantaged or minority groups. Hence, in addition to the two broad sectors: the state (public sector) and the market (private sector), there is a third sector commonly known as non-profit, social economy or civil society sector (Salamon & Sokolowski, 2016) which champions the cause of the vulnerable in society.

In view of the world's history, non-profit organisations (NPOs) were observed to have sprung up after the end of World War II in 1945, as the world progressed into the era of economic expansion. During this period, local governments, corporate organisations and even international aid bodies backed NPOs by providing financial support and non-financial resources. Thus, within the past thirty years, NPOs have emerged as the world's most rapidly growing type of organisations (Hall, 2010). In fact, NPO's have been dubbed as the third largest sector immediately after the public (or government) and private (or corporate) sectors. However, the period of economic prosperity was disrupted by the global economic crisis of 1987 and 2008. These phenomena have caused many countries, including Southeast Asia, to go into deficits,

became suppressed by a deep recession and distressed by the non-affordability of public services (Denny & Seddon, 2014). Accordingly, government funding and corporate donations for NPOs reduced dramatically. The effects of this, together with the higher competition among similar NPOs to secure the limited grants, led them to face significant shortfalls in financing sources. Kerlin (2010b) highlighted this development has compelled NPOs to adapt to the rising challenges in replacing the loss of government funds by exploring strategies to generate commercial revenues.

Furthermore, the survival challenges of NPOs, along with the increasing scrutiny by charity watchdogs and public appeals, have pressed these organisations to become more transparent and cost-efficient (Battilana & Lee, 2014; Tucker, 2010). An example of a charity watchdog, like the Charity Watch, founded more than 20 years ago, by the American Institute of Philanthropy. It is reported as the USA's most independent, assertive charity watchdog. They dive deep to let you know how efficiently a charity will use your donation to fund the programs you want to support. Charity Watch exposes non-profit abuses and advocates for your interests as a donor (Watch, 2016).

In summary, all these external parties and critical challenges demanded NPOs to demonstrate higher organisational performance, consequently steering the operating model of these organisations towards transformation from the conventional framework.

### ***1.1.1 Emergence of Social Entrepreneurship Movement***

A few new terms have been introduced, reflecting the transformation of non-profit organisations to this new social innovation path such as social enterprise, social business, social venture, social economy enterprise, bottom-of-pyramid enterprise, impact-driven enterprises and many others. However, this research adopts “social enterprise” as the appointed concept in virtue of its common use, compatibility worldwide and within the sample population countries (i.e., Malaysia and Singapore).

NPOs approach to generate income by offering services or products are not a new practice at all. In fact, it has been employed all along as an initiative to bring in additional income. Despite this, the new perceived social innovation path for NPOs has put the conventional NPOs status quo to the test, which resulted in a shift in their operating model, from dependence (relying on government funds and donation) to independence (proactively earning income from the market). Scholars like Dart (2004), and Battilana and Lee (2014) describe this movement as, a set of the strategic response for not-for-profit organisations to the environmental turbulence and financial challenges they had confronted.

Besides the transformation within NPOs itself, the growth of social enterprises has left an impact on local government and the corporate sector by establishing a significant interrelationship between them. Similar to the changes observed in NPOs, public services have progressively shifted towards alternative methods of financing their social services due to the non-affordability of the public services during the global economic crisis (Denny & Seddon, 2014). In fact, more and more local authorities were

observed to have taken the initiative to set up legal agencies to promote and arouse social enterprise in their respective countries.

Meanwhile, the corporate sector has been continuously seeking to engage and collaborate with social entrepreneurs as this partnership as social enterprises are viewed as a way to gain a competitive advantage (Denny & Seddon, 2014). Some companies invested in social enterprises as part of their corporate social responsibility (CSR) effort, whereas others have even established new social enterprises to serve the needy by closely working with veteran social entrepreneurs.

Regionally, the impact of the social enterprise movement is evident in the fact it has made significant breakthroughs not only in the European Union (EU) countries and the United States of America (USA) but also in Eastern Asia, especially South Korea, Japan and Taiwan, as well as Latin America (Defourny & Nyssens, 2010a). The lives of more than a hundred million of disadvantaged families and people have changed for the better from this development. However, comparatively the development of social enterprises in Southeast Asia is still at the initial stage and fraught with various challenges.

### ***1.1.2 Low Performance and Challenges Faced***

Social enterprises confront a lot of challenges to growing or even just to stay afloat. Predominantly, the main struggle of social enterprises is not only to secure a financial holding but also to keep their efforts aligned with their ultimate social goals. In an empirical study on the early challenges of nascent social entrepreneurs, Renko

(2013) observed emerging enterprises founded by entrepreneurs based on pro-social motivation, such as helping others or their community are less likely to be successful in establishing a viable enterprise compared with their counterparts whose goals are economic and financially based. Moreover, more than 90% of the newly established social enterprises in Hong Kong received external funding and support, but less than 15% were able to sustain themselves when the funding ended (Hayllar & Wettenhall, 2011). The Fullness Social Enterprises Society recorded that the funded Hong Kong social enterprises have a survival rate of 77% by the end of the 5th year, the median lifespan is from 6.4 to 7.2 years (Kee, 2013).

Similarly, Kerlin (2010a) pointed out social enterprises in Southeast Asia are mostly micro or small in nature with no clear focus on their area and mostly working apart. The challenges become more intensified when they are coupled with underdeveloped or a serious lack of basic support infrastructure, including that from the public and private sectors, that could foster this brand new social sector in the region (Santos, 2009). For instance, the Singapore Ministry of Social and Family Development (MSF) had spent SGD 10 million on grants to support more than 80 social enterprises, however, only half of them were still operating after 8 years, recording the average lifespan of social enterprise in Singapore at just about 6 years (MSF, 2011). In Malaysia, pursuant to Ehon Chan, the Executive Director of Social Entrepreneurship Unit in Malaysian Global Innovation and Creative Centre (MaGIC SE), generally, most of the social enterprises in Malaysia are still struggling to break even or move into the profitable stage (Chan, 2016). He explained as it is a relatively new sector, many social enterprises are still pivoting and exploring new business opportunities whilst trying to

grow their competencies. Notably, no data has been found yet on the average lifespan or sustainability of social enterprise in Malaysia.

The MaGIC Social Enterprise Blueprint (2015) revealed the key challenges for Malaysian social entrepreneurs include a low level of public awareness as well as distance from potential customers and investors, the lack of skills to turn a profit and shortage of resources such as funding and talent. Meanwhile, the Singapore Ministry of Social and Family Development (MSF) (2011) emphasised social enterprises face the same business challenges encountered by most of the small and medium enterprises, including financial, manpower, marketing and product quality.

## **1.2 Problem Statement**

The social enterprise movement has brought significant and long-term benefits to the disadvantaged groups worldwide. The development of social enterprises in Malaysia and Singapore are still at the nascent stage. Most of them confronted with critical survival and performance challenges, specifically, financial sustainability as the most critical issue (Ang et al., 2016; MaGIC, 2016). For instance, more than half (55%) of Malaysian social enterprises are still unable to break-even, less than a quarter (24%) are able to survive more than 6 months without revenue (MaGIC, 2016). Similarly, the social enterprises in Singapore face the similar difficulty to balance both social and financial bottom-lines. The top priorities of Singapore social enterprises are how to improve their financial sustainability (64%) and sourcing for funding (44%) (raiSE, 2017).

The low-performance issues of social enterprises do not only exhaust the valuable and limited resources that should be benefiting the needy, moreover, sudden loss of social support (from social enterprises) may worsen the dilemma of the underprivileged communities. This hampers the enduring and in-depth social impact sought by these organisations. For this reason, the significant factors surrounding the enhancement of performance and sustainability of social enterprises in Malaysia and Singapore are viewed as an important conundrum that needs to be addressed.

Organisational performance of an organisation has been commonly argued based on the two resource-based perspectives, which are Resource Based View and Resource Dependence Theory, included in the social entrepreneurship field (Dees, 1998b). Same as for any of the for-profit or non-profit organisations, the hybrid entity like social enterprises utilising the similar resource and capabilities bundles, to develop their competitive advantages and reduce resource dependency, subsequently increase their organisational performance (in terms of financial and social dimensions). Nevertheless, the application of these theories was still underdeveloped within the context of the hybrid social enterprises.

Scholars like Barraket, Furneaux, Barth, and Mason (2016), Liu, Takeda, and Ko (2014) and Lortie, Castrogiovanni, and Cox (2017), have proposed business planning, entrepreneurial orientation and social salience as the “internal-oriented resources” that may contribute to the social enterprise performance; Meanwhile, from the findings of Thompson (2014) and Rahman (2015a), “external-oriented resources” such as training and financial support expected to commit essential capability to enhance the competence of the social enterprises. Felicio (2013) and Kerlin (2010b)



recommended the socio-economic context would be an important variable in moderating the relationship between the determinants and organisational performance. These potential variables may provide an explanation for the unknown predictor for a hybrid entity like social enterprises.

Social enterprise is recognised by United Nation Development Program (UNDP) as an innovative and effective path for addressing social problems. This study aims to offer findings that can be valuable for researchers, practitioners and policymakers alike in contemplation of optimising the performance of social enterprises, so a greater and meaningful social impact can be achieved towards improving the well-being of the underprivileged within the community. An attempt to cross-countries study would admit more generalisable results (Liu et al., 2014; Morgan, Zou, Vorhies, & Katsikeas, 2003)

### **1.3 Research Objective**

The main objective of this proposed research is to investigate the factors that could enhance the social and financial performance of social enterprises. Different from the fully funding-dependent non-profit organisation (NPO) or fully profit-orientated for-profit company, social enterprise is a hybrid entity exploiting business approaches to achieve financial independence and address social problems. The higher performance and sustainable social enterprises pledge a greater social impact on improving the well-being of the disadvantaged within the community. In addition, by taking the cases from Malaysia and Singapore, enables this study to conduct a comparative study among the two nations from the perspective of their socio-economic gap. Thus, the research aspires to achieve the following objectives:

1. To examine the relationship between entrepreneurial orientation and organisational performance in terms of financial and social performance of social enterprises.
2. To examine the relationship between social salience and organisational performance in terms of financial and social performance of social enterprises.
3. To examine the relationship between business planning and organisational performance in terms of financial and social performance of social enterprises.
4. To examine the mediating role of business planning on the relationship between entrepreneurial orientation and organisational performance in terms of financial and social performance of social enterprises.
5. To examine the mediating role of business planning on the relationship between social salience and organisational performance in terms of financial and social performance of social enterprises.
6. To examine the mediating role of business planning on the relationship between financial support and organisational performance in terms of financial and social performance of social enterprises.
7. To examine the mediating role of business planning on the relationship between training support and organisational performance in terms of financial and social performance of social enterprises.
8. To examine the moderating role of socio-economic context on the relationship between business planning and organisational performance in terms of financial and social performance of social enterprises.
9. To examine the moderating role of the socio-economic context on the relationship between entrepreneurial orientation and organisational performance in terms of financial and social performance of social enterprises.

10. To examine the moderating role of socio-economic context on the relationship between social salience and organisational performance in terms of financial and social performance of social enterprises.

#### **1.4 Research Question**

Based on the research objectives identified in the previous discussion, the following are the research questions underpinning this empirical study:

1. Does entrepreneurial orientation have a positive effect on the financial and social performance of social enterprises?
2. Does social salience have a negative effect on the financial performance, but a positive effect on the social performance social enterprises?
3. Does business planning have a positive effect on the financial and social performance of social enterprises?
4. Does business planning mediate the relationship between entrepreneurial orientation and organisational performance (i.e., financial and social performance) of social enterprises?
5. Does business planning mediate the relationship between social salience and organisational performance (i.e., financial and social performance) of social enterprises?
6. Does business planning mediate the relationship between financial support and organisational performance (i.e., financial and social performance) of social enterprises?
7. Does business planning mediate the relationship between training support and organisational performance (i.e., financial and social performance) of social enterprises?

8. Does the positive effect of business planning on financial and social performance be stronger when the socio-economic context is higher?
9. Does the positive effect of entrepreneurial orientation on financial and social performance is stronger when the socio-economic context is higher?
10. Does the negative effect of social salience on the financial performance is weakened, and positive effect on the social performance is stronger when the socio-economic context is higher?

### **1.5 Scope of the Study**

Based on the Resource Based View (RBV) and Resource Dependence Theory (RDT) as the domain of the theoretical framework, this research focuses on how the internal-oriented resources (i.e., entrepreneurial orientation, social salience and business planning), and external-oriented resources (i.e., financial support and training support), which moderated by socio-economic context, establishes influences on the organisational performance in terms of financial and social perspectives of the vibrant and growing social enterprises in Malaysia and Singapore. From the first social enterprise's national survey conducted by MaGIC Social Entrepreneurship (MaGIC SE), there were about 100 social enterprises in 2015 (MaGIC, 2016). The executive director of MaGIC SE estimated the number had increased to 150 in 2016 (Chan, 2016). Meanwhile, the number of social enterprises registered with Singapore Centre for Social Enterprise (raiSE) has exceeded 300 members in 2017 (raiSE, 2017). As there is no related legislation in both countries, these social enterprises have the varied legal structure (e.g. sole proprietor, private limited company, and association), and are difficult to identify. Thus, this quantitative research will identify and purposely select the social enterprise enablers (e.g., MaGIC SE, raiSE, British Council, Youth Trust

Foundation, Tandemic and Ashoka) in Malaysia and Singapore that may provide the list of social enterprises registered with them. This research plans to cover the social enterprises with multiple services, in favour of reaching conclusive and integrated findings. Targeted sample respondents may consist of the founder, co-founder, or top management involved in the establishment and operation of the organisations. The assessment tools for the variables in this study are reliable and widely accepted instruments from reputable and high indexed journals.

Among the Southeast Asian countries, there are three countries that have taken the initiative to establish a formal social enterprise agency to act as a catalyst for social entrepreneurship in their country, which are Malaysian, Singapore and Thailand. However, this study only covered the social enterprise population in Malaysia and Singapore, Thailand is excluded. There are three reasons for this: common usage of language, historical background and development stage. First, Malaysian and Singaporean are generally able to communicate in English or Malay language. Second, they share the similar historical background, used to be British colonies, and Singapore even was part of Malaysia. Third, the estimated number of social enterprises populations in both regions is about 150-350. On the other hand, the dominant language in Thailand is Thai. This country has a very distinct historical background compare to Malaysia and Singapore, and it is estimated more than 100,000 social enterprises in Thailand. More than one country has been selected to enable this study to generate more generalisable findings and admit a comparative analysis between two nations. Also, the study expects the apparent social and economic gaps between these two countries might exhibit a moderating effect on the relationship between the determinants and

organisational performance of social enterprises. Hence both social enterprises operate in Malaysia and Singapore are included as the research population of this study.

### **1.6 Significance of the Study**

This study presents both theoretical and practical contributions within the contents of the organisational performance of social enterprises, in terms of financial and social perspectives. The higher achievement and sustainability of social enterprises pledge a greater and continuing social impact whilst improving the well-being of the underprivileged communities.

From the theoretical point of view, the novelty of this study can be described as four intended contributions (refer to Summers, 2001). First, this study improves the theoretical rationale for existing linkages, by incorporated Resource Based View (RBV) (Barney, 1991, 2001) and Resource Dependence Theory (RDT) (Pfeffer & Salancik, 1978) for constructing the research framework. Both theories argued that organisation performance highly related to the particular resources acquired, but are two lines meeting at a point, such as internal and external resources perspectives (Desa & Basu, 2013; Tepthong, 2014). The integration of both resource-based theories may offer a comprehensive view, to serve the resource-building activities. The social entrepreneurship field, with hybrid characteristics, is still new and developing. This research is expected will evidence and improve the remaining theoretical rationale and contribute to the body of knowledge of these two theories. Second, this research attempts to add value to the performance of social enterprises that determine to generate social impacts to society, by identifying supplementary variables and understand the relationship between those internal and external factors, and their organisational

achievements. Third, this study enhances the research framework advancement by examining the theoretical linkages (i.e., research hypotheses) with accompanying rationale and justification. Last, the operational definition for all the variables under the lens of resource-based perspectives are enhanced according to the research context (i.e., the substance of social enterprises in Malaysia and Singapore) and is also expected to be a major contribution to the theoretical domain of RBV and RDT. This study is anticipated to have a noticeable contribution to the business field in terms of theoretical context.

The practical implication of the research model and findings likely will furnish valuable references for social entrepreneurs, for-profit companies, non-profit organisations, social investors and legal agencies. The multiple bottom lines (i.e., financial and social goals) business nature of the social enterprises required higher operational resources and management capabilities for sustainability. Social entrepreneurs must focus on the core resources and essential capabilities development that obviously increases their organisational performance and the results of this study is an enabler to facilitate the leading teams. In addition, the cross-countries context also benefiting from the social entrepreneurs contemplating expanding their services abroad or other locations. One of the major contributions of this study is the proposed framework can be a guiding model for government agencies in providing their public services, private companies in implementing their corporate social responsibility and social leaders aiming to obtain self-sustainability and performance.

### **1.7 Definition of Key Terms**

The important key terms of the proposed research are defined to prevent possible misconceptions and are presented in the following table.

**Table 1.1: Definition of Key Terms**

<b>Term</b>	<b>Working Definition</b>	<b>References</b>
Business Planning	A set of organisational practices in gathering business information for decision making and create an implementation to exploit or coordinate new opportunity.	Barraket et al. (2016)
Entrepreneurial Orientation	Entrepreneurial Orientation is the behaviour tendency of the entrepreneur or senior management to take calculated risks, being innovative and favour to challenge the conventional thinking, and proactive to access new opportunities and resources.	Liu et al. (2014)
Financial performance	The economic value accomplishment over the past twelve months or since the establishment that premised self-sustainment.	Liu et al. (2014)
Financial Support	Financial Support is the furnishing of monetary resources in relation to donations, grant or funding from different sources of finance.	Thompson and Williams (2014)
Organisational Performance	Organisational performance is the overall organisational achievement within the context of both financial and social performance.	Liu et al. (2014)
Organisational Resources	The organisational resource is the tangible and intangible assets and capability which are possessed and can be used to implement their strategies, including physical, human and organisational capital resources.	Barney (1991)
Socio-economic Context	Socio-economic context is the complicated economic and cultural environment influencing the operating process and the subsequent results of an organisation.	Felicio, Goncalves, and Goncalves (2013)
Social Enterprise	Social enterprise is an organisation with clear social or environmental mission, adopts market-based approaches to pursue financial sustainability.	Kerlin (2013); MaGIC (2016); raiSE (2016b)
Social performance	The social mission accomplishment over the past twelve months or since the establishment, benefiting the community.	Liu et al. (2014)
Social Salience	Social salience is described as the prominence of an entrepreneur on pursuing organisational social outcomes.	Lortie et al. (2017)
Training Support	Training Supports means the furnishing of structured courses in knowledge, skills and abilities, to generate competitive advantage and business efficiency.	Rahman, Amran, Ahmad, and Taghizadeh (2015a)



## 1.8 Organisation of Chapters

The chapters are organised according to the following manner:

**Chapter 1: Introduction** This chapter introduces the background of the study, problem statement, research objectives and research questions, significance of the study, definition of key terms and organisation of the chapters.

**Chapter 2: Contextual Background** This chapter provides a review of the literature on the contextual background of social enterprise, the historical background of emerging as well as the recent development of social enterprise in the global, Southeast Asian, Malaysia and Singapore contexts.

**Chapter 3: Literature Review** This chapter reviews literature of prior major studies on the research problem, and ongoing dialogue on the proposed study's dependent variables, independent variables, mediator and moderator variables.

**Chapter 4: Theoretical Background** This chapter discusses the theories used in previous studies as well as the theoretical framework and hypotheses development related to this study.

**Chapter 5: Research Methodology** This chapter illustrates the methodology this study proposes to employ, together with the research design, data collection method, measurement of variables and data analysis strategies.

**Chapter 6: Research Findings** This chapter exhibits the profile of respondents, validity and reliability results, statistical data analysis reports, and summary of findings.

**Chapter 7: Discussion and Conclusion** This chapter presents the discussions on the research findings, responses to research questions, contribution and implication, limitation and conclusion

## **CHAPTER 2**

### **CONTEXTUAL BACKGROUND**

#### **2.0 Introduction**

This chapter provides a review of the existing literature related to the contextual background, as well as the historical background of social enterprise, along with the emerging and recent developments of social enterprises in the global and Southeast Asian framework, especially in Malaysia and Singapore.

#### **2.1 Contextual Background of Social Enterprise**

Social enterprise is not a new concept. Denny and Seddon (2014), in purporting this idea provided the example of England's Thomas Firmin (1632-97) who provided 1,700 jobs for London's poor and tradesmen thrown out of work due to the plague afflicting the city at the time. The earliest documented social enterprises in Singapore can be traced back to the beginning of the 21<sup>st</sup> century, with the founding of the Singapore Government's Servants' Co-operative Thrift and Loan Society Ltd. established in 1925 (Prakash & Tan, 2014). Since then, social enterprises have gained significant attention in Malaysia and Singapore since 2010 due to the advocacy and endorsements from local government, private companies and non-profit organisations (see MaGIC, 2015; raiSE, 2016b).

## **2.2 Definition of Social Enterprise**

The term social enterprise comprises a complex range of meanings. There is no precise and consistent use of the term within international literature. Dart (2004) framed the concept of social enterprise as a set of novel and innovative strategic responses to the environmental turbulence and financial challenges faced by conventional social organisations, in catering for the basic human needs that failed to be addressed by the existing marketplace and institutions (Seelos, 2014). The character of social enterprise has to be business-like in its strategies and meet financial and commercial goals (Dart, 2004; Dees, 1998a; Jones, Regan, & Mitra, 2011). Because of this feature, social enterprise is sometimes referred to as an organisation having a “double bottom line” with integrated values of social and financial return (Emerson, 2003).

### ***2.2.1 Pragmatic Definition***

The various regions of the world have come to identify distinct definitions and concepts of social enterprise. In the United Kingdom (UK), an organisation can be classified as a social enterprise if it fulfils the following criteria (UKCO, 2013):

- a) The enterprise must consider itself to be a social enterprise, with the primary objective of fulfilling social or environmental aims.
- b) The profit or surplus paid to the owners or shareholders must be less than 50 percent.
- c) The total income from grants and donations should hold less than 75 percent.
- d) The income from trading or services should be more than 25 percent.

There is no specific legal structure for social enterprise in Malaysia. The pragmatic definition that can be referred to as provided by the official social enterprise agency in Malaysia—the Social Entrepreneurship Unit, under the Malaysian Global Innovation and Creativity Centre (MaGIC SE). In the Malaysia Social Enterprise Blueprint 2015-2018 (2015) published by MaGIC, the definition of social enterprise in Malaysia is any legally registered organisation satisfying all the following requirements:

- a) sets a primary mission to address social agendas
- b) apply a commercial business model to sustain itself
- c) reinvest most of their profit back to the organisation
- d) distinct and socially meaningful from other traditional commercial enterprises, especially in operations and management.

However, the definition for social enterprise used and developed from the national survey State of Social Enterprise Malaysia 2014/2015 conducted by MaGIC, only adopted two parameters to identify a Malaysian social enterprise, which is: a) Need a clear social or environmental mission; b) Engage in trade of products or services to generate income (MaGIC, 2016).

Very much like Malaysia, Singapore does not delineate any regulation for social enterprise. The legal social enterprise agency in Singapore Centre for Social Enterprise (raiSE, 2016a) defines social enterprise as, a business entity set up with clear social goals where there are clear management intent and resources allocated to fulfil social gaps and need. Obviously, the rationale of social enterprise used by Singapore agencies

is like the operational definition employed in the State of Social Enterprise Malaysia 2014/2015 survey.

### ***2.2.2 Operational Definition***

The definition of social enterprise by scholars and local governments are not conflicting; instead, they are mutually complementary. Where, scholars' emphasis the framework of the principle outline of social enterprise, whereas local authorities have focused more on its rules or standards of application. Based on the research context and cross-countries position, the operational definition of this research employs the rationale from a cross-regional study, Kerlin (2013), which defines social enterprise as, an organisation with clear social or environmental missions, and adopts market-based approaches to pursue financial sustainability. This description is corresponding to the characterisation employed by government agencies in Malaysia (MaGIC, 2016) and Singapore (raiSE, 2016a).

## **2.3 Social Enterprise and Related Terms**

It is important to note some terms associated with social enterprise might lead to confusion. Therefore, the following discussions delineate the existing definitions and dissimilarities among the wording used to describe social enterprise.

First, the concepts of “social entrepreneur”, “social entrepreneurship”, and “social enterprise” have been used interchangeably and hence have created some confusion. Defourny and Nyssens (2008) clarified this by proposing “social

entrepreneurship” to be the process through which “social entrepreneurs” (people) create “social enterprises” (organisation). This differentiation has clearly provided some guidelines for understanding and differentiating these three terms.

Secondly, the similarity and dissimilarity between “social enterprise” and “social business” are concepts sharing almost the same characteristics. They both must have a clear social mission and adopt business approaches to be financially self-sustaining. The only difference between the two is the profit sharing or dividend bounce back (to investors) policy.

One good example of a social business is Grameen Bank. The success and impact of this institution is so phenomenal the institution, together with its founder, Muhammed Yunus, has been awarded the 2006 Nobel Peace Prize Laureate. Specifically, Yunus et al. (2010) defined “social business” as a self-sustaining organisation providing products, services, customers, markets, expenses, and revenues like a commercial enterprise, but its primary purpose is to serve society, thus, no loss and no dividend will be given to investors. According to the social enterprise concept practising worldwide, including the UK, USA and Asian countries, the owners or shareholders are not confined from taking parts of the profit or surplus made by the organisation (e.g. MaGIC, 2015; raiSE, 2016a; UKCO, 2013). On the other hand, the investors of the social business will only get the exact amount of their capital or investments and therefore do not take in any dividend from it. In short, this study considers the social business model as a subset of the social enterprise concept.

Finally, there is always confusion in distinguishing “social enterprise”, “non-profit organisation” (NPO) and “for-profit company”, especially in countries relatively new to the social enterprise concept. The relationship between those three concepts is made clearer through Figure 2.1, which illustrates the Spectrum of Organisations. As shown in Figure 2.1, social enterprise stands in the middle of this spectrum, ranging from fully funding-dependent NPOs (left) to fully profit-orientated traditional company (right). Unlike conventional NPOs relying on funding or grants, social enterprises need to find their own operational and development capital (Dart, 2004). Social enterprises need rational profit to sustain themselves and grow despite creating long-term and in-depth social impacts.

There are logical dissimilarities between a social enterprise and a traditional for-profit company. First, the main objective of a social enterprise is to fulfil their social mission whereby their financial goal is utilised as the tool to achieve sustainable and independent status. Contrary, to this the main objective of a for-profit company is to make a maximal profit for the owners or investors. Second, most of the surplus obtained by the social enterprise will remain in the organisation to serve their social mission (Barraket et al., 2016), rather than reimbursing the owners or shareholders as practised in a private company setting. In addition, many businesses committing themselves to corporate social responsibility (CSR) practices, as part of their societal responsibility, and enhance their reputation building (Nejati, Quazi, Amran, & Ahmad, 2016). Nevertheless, the budget for CSR projects depends on the state of yearly growth and financial balance of the companies, and these short-term practices will be terminated when the allocated resources are exhausted.