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The ecosystem of social enterprise: Social culture, legal framework, and policy review in Indonesia

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A B S T R A C T

This article explores the dynamic ecosystem of social enterprise in Indonesia, specifically legal framework and policy regarding social enterprise. The study involves multiple case studies of organisations with pivotal roles in establishing social enterprises in various sectors. The result confirms the role of social culture, legal form, and politics in shaping the evolution of social enterprise in Indonesia.

1. Introduction

The concept of social enterprise has been emerging in Indonesia over the last decades. One effort to identify social enterprise in the local context is the establishment of a movement called the Indonesian Social Enterprise Association (AKSI), in 2009. The organisation intends to build networks for more than 100,000 social enterprises to share knowledge and best practices with sustainable movements. Other initiatives come from ASHOKA, and later from the British Council Indonesia, which started nurturing community-based social enterprise from start-up and semi-established stages across Indonesia, through competition followed by capacity building, networking events and provision of seed funds; these initiatives were run jointly with the Arthur Guinness Foundation (AGF) beginning in 2010. In addition, the British Council initiated a series of workshops to support civil societies and NGOs that aim to become social enterprises and facilitated universities to support the establishment of an entrepreneurial ecosystem by provision of workshops and trainings for universities in embedding social enterprise into teaching, advancing incubation, and community development work.

Along with the emerging movement of social enterprise, the rapid adoption of ecosystem terminology in social entrepreneurship research and policy calls for investigation. The burgeoning practice races ahead of theoretical and empirical work. Previous studies highlight the macro-level determinants of entrepreneurship, including economic opportunities, quality of governance, macro-level resources and abilities, performance-based culture, and socially supportive culture (Thai and Turkina, 2014).

The concept of entrepreneurial ecosystems attempts to explain why firms benefit from clustering that concerns the external environment rather than the firm's internal characteristics and operations (Mason and Brown, 2014). Hence, it is necessary to stress the dynamic nature of ecosystems as an evolutionary rather than a static phenomenon. However, it is difficult to understand the influence of the entrepreneurship process because the theoretical concept of ecosystem remains underdeveloped (Spigel, 2015).

The main literature indicates the internal attributes of social enterprise, including social mission statement, services as a model for social change, promotion of collective identity, and multiple purposes with various degrees of value change and mutual-aid (Hasenfeld and Gidron, 2005). As the concept of social enterprise still raises debates as to what social enterprises actually are (Chandra, 2015), there is research in the context of the entrepreneurial ecosystem. The research gap raises a question on how the ecosystem of social enterprise is distinguished from other business models in the context of markets, clusters, industries, value chains, networks, and organisational fields.

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This article explores the dynamic ecosystem of social enterprise in Indonesia, including legal framework and policy review of social enterprise. The study also provides observations on three large organisations in Indonesia, namely Muhammadiyah, Bina Swadaya and PUPUK. As development agents, the organisations play a pivotal role in implementing and establishing social enterprises in various sectors. The result of this study is expected to support the emerging concept of the entrepreneurial ecosystem, specifically social enterprise in Indonesia.

1.1. Literature review

The first conception of the entrepreneurial ecosystem was coined by James More with the aim of understanding the rationally embedded nature of how firms interact (Hechavarria and Ingram, 2014). Hence, the entrepreneurial ecosystem theory outlines the holistic understanding of what specific types of environments support firms to benefit from clustering (Mason and Brown, 2014).

The ecosystem approach highlights both the changes in the entrepreneurial system and the policies that address the complex challenges faced by entrepreneurs (Hechavarria and Ingram, 2014). It appears that the active intervention of policy makers in business affairs departs from an obsolete political system and economic model in favour of the formation of an entrepreneurial ecosystem (Soto-Rodríguez, 2014). In addition, a successful entrepreneurial system requires some pre-existing economic advantages including cultural, social, and material attributes (Spigel, 2015).

Kshetri (2014) demonstrates various methods to gain entrepreneurial success. One economy may perform better with high institutional quality, while another economy experiences strong entrepreneurship with heavy R&D and aggressive strategy. The strong relationships among institutions reduce the risk of entrepreneurial activity, especially when policy makers' approach has no payoff (Soto-Rodríguez, 2014). Hence, the strong financial market facilitates entrepreneurship through reducing the costs of external finance to firms (Kshetri, 2014).

Turning to the ecosystem of social enterprise, multiple stakeholders provide greater distinction in conducting entrepreneurship within the social context (Lumpkin et al., 2011). To transform the equilibrium, social entrepreneurs involve new actors in the existing ecosystem: customers who shift the power balance and government that alters the economics (Martin and Osberg, 2015). Alliance building and lobbying are acknowledged as main drivers of social enterprise's impact; however, most organisations have few opportunities to gain allies and little public policy to support successful lobbying (Bloom and Smith, 2010).

1.2. Local context

Indonesia is considered a low middle-income country. The Indonesian economy experienced a dramatic economic evolution with an annual growth rate of 7% between 1965 and 1997. The Asian financial crisis caused economic growth to drop to just 0.3% in 1999 (Asian Development Bank, 2015). Since then, the country has recovered with moderate economic growth of between 4% and 6%. This has brought a slowdown in poverty reduction, with 15% of the population living under the poverty line at $1.90 per day (Wold Bank, 2015).

As the largest archipelago in the world, the country's coastal territory of 580 ha provides 9 million tons of valuable marine products, such as tuna, shrimp, seaweed, and pearls. The total land area of 55 million and 129 million hectares is allocated for agriculture and forest, respectively. More than 40 million people or 33% of the labour force works in the agricultural sector. However, agriculture only contributes to 14% of GDP. The country has become a main importer of agricultural products, such as grains, horticulture and livestock. The agricultural sector has become a place where poverty is most prevalent, and the poor spend two-thirds of their income on food, mainly rice (Quincieu, 2015). Food security is a challenging issue because of the declining irrigation system and poor supply chain infrastructure.

The country's competitiveness was ranked 34th worldwide in 2015. That was far below its potential, as the economy relies heavily on commodity exports, while most of its labour force works for small and medium enterprises (Tabor, 2015). Hence, SMEs play a pivotal role in Indonesia, the largest country in the region of Southeast Asia, as more than 54% of its private enterprises were small-scale businesses that operate in the informal sector (Rahman, 2015). There is a great opportunity for the Indonesian development agency to prioritize small businesses in the agricultural, manufacturing and service sectors through shifting resources from low-value foodgrain production to fisheries, lifestock, and tree crop production.

Indonesia is the home of more than 200 million Muslims, the largest Muslim population in the world. The Islamic groups have been most directly involved in shaping politics in general, while Indonesia's foreign policy discourse emphasizes that it is a moderate Muslim nation. The vote repartition in Indonesia's first general election in 1955 showed that the dominant of the four major political parties, the Indonesian Nationalist Party, obtained 22.3%; the Masjumi (Consultative Council of Indonesian Muslims) obtained 20.9%, and the Indonesian Communist Party obtained 16.4% (Pauker, 1967). In the 2009 general election, the Muslim political parties seemed to have fewer voters than before. The two largest Islamic parties, PKB and PPP, with close ties to the largest Muslim organisations, Nahdatul Ulama and Muhamadiyah, obtained 10.6% and 8.1% of the votes, ranking third and fourth, respectively (Jakarta Post, 2012).

1.3. Policy review

In its early development, the Indonesian Constitution of 1945 shaped the economic system and mentioned cooperation as a main element. Specifically, Article 38(1) of the Constitution states, ‘the national economy shall be organized on a cooperative basis’. The principle of free competition was rejected. The reason for such an initiative comes from the Indonesian experience that foreigners controlled much of economy, while the local indigenous people had no education or experience in starting firms (Hatta, 1957). During the Japanese occupation, the government considered Islam the most effective vehicle for ideological penetration through establishing the office of religious affairs (Boland, 1982). Hence, the archipelagic country has experienced a changing public policy, from dictatorship to democratic governance.

Indonesia and the third sector experienced a dictatorial government for over 50 years, followed by a transition government towards democracy. During the years of the struggle for independence, mass organisations were encouraged to mobilize with a wide range of members, including farmers and labourers (Sakai, 2002). Under the authoritarian regime, social organisations could be distinguished by their social mission treating one of three main issues: community development, awareness raising and advocacy (Antlov, 2003). The organisations involved in community development worked mainly as contractors or consultants for the government, while the second type sought popular mobilization in the form of raising awareness.

The first dictatorship, called Soekarno's Guided Democracy, began in 1959, when the elected parliament was suspended. Soekarno outlined his vision of Indonesian development, namely the Manipol/USDEK (acronym of politic manifestation, the Constitution

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