

THE CONCEPTUAL FRAMEWORK ON SOCIAL ENTREPRENEURSHIP ACTIVITIES AS A MEDIATOR BETWEEN SOCIAL CAPITAL AND THE PERFORMANCE OF MALAYSIAN SMALL AND MEDIUM ENTERPRISES (SMEs)

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ABSTRACT

One of the Malaysia 2020's vision is to have globally competitive SMEs across all sectors that enhance wealth creation and contribute to the social wellbeing. 2012-2020 SME Masterplan seeks to advance SME development and increase their contributions to the economy however, set target has yet to achieve. SMEs performance measured in GDP's contribution, growth, employment and exports, face various threats and challenges that have made transformation support necessary for culture adoption, change management, informed and strategic decision making on the use of digital tools, technologies and business models. The paper aims to explore the introduction of social entrepreneurship activities especially as the social economy becoming a great success story in UK (UK Prime Minister, David Cameron, 2015). Also, "Think global and trade social" for more equitable and sustainable development (Yunus, 2015) and beyond the financial bottom line (Rahdari and Moradi, 2016). Social entrepreneurship activities provides significant support to organisational performance, which leads to business growth in other develop, countries. In addition, Social capital is able to facilitate the running of social entrepreneurship activities. Therefore, this research aims to fill the particular needs and intend to contribute to the existing theory and provide insights and understanding pertaining the role of social entrepreneurship activities and social capital in improving company and country's performance. This study makes use of Linkert scale of 5-point for data collection using a structured survey consists of forty items. As for the targeted population, the researcher aim for SMEs manufacturers from Kuala Lumpur and Selangor Area. In addition, business owners or the appointed manager(s) who are relevant, among the respondent of the research study.

Keywords: Social Entrepreneurship Activity, Social Capital, Performance, Small and Medium Enterprises

INTRODUCTION

The Malaysian Small and Medium Enterprises (SMEs) have been the main contributor to the country since 1990s and have been the key driver of employment and growth. For Malaysia to become a high-income economy by the year 2020, the country must realise the vision, which is to have globally competitive SMEs across all sectors by contributing to the social wellbeing and enhancing wealth creation. The implementation of SME Masterplan (2012-2020) seeks to increase SME contributions to the economy and advance SME development. Performance measured through SME's contribution in gross domestic products (GDP), growth, employment and exports. However, until up to this point, the country has yet to achieve the target as set in the SME Masterplan. As such, efforts from various sectors must continue to create value considering advantages and opportunities available in SME industry. There are 97 percent of business establishments in Malaysia represent as SMEs and accounted for 36.3 percent of GDP, sustaining a respectable growth of 6.1 percent and 65.5 percent employment share in year 2015, however account for only 17.6 percent of exports (Source: SME Annual Report 2015/16). It indicated that most of our SMEs' production are domestic oriented. Malaysian SMEs are substantially less productive than large firms are and this level is fundamentally lower than those in the European Union (EU) (comprises of 28 nations), where their SMEs added to exactly 55 percent of its aggregate fare and in the United Kingdom (UK), of around 43 percent. As such, the 2020 target has to make necessary adjustments on growth and export targets (Source: SME Annual Report 2015/16).

Now that, organizations are in charge of 41 percent of the nation's GDP, 8 percent of SME growth, 65 percent of the nation's work, and 23 percent of Malaysia's export for the 2020 target. The adjustments found necessary considering the recent key developments affecting SMEs. Despite their importance and significant contributions, they continue to face various threats and challenges due to advent of a new business era such as Industrial Revolution 4.0 (IR4.0), digitisation and technological convergence, regional integration and other megatrends. These challenges have made transformation support necessary for culture adoption, change management, informed and strategic decision making on the use of digital tools, technologies and business models, to the SMEs. The SME Corporation Malaysia (SME Corp) stated that IR4.0 has four main effects on SME's business. Customer expectation, products enhanced by data, new partnerships and business and new digital models, are all included. Likewise, the society will face challenges too.

The three main challenges are societal acceptance, change of organizations and work life and challenge in competence, skills and qualification. Hence, SME Corp projected that by aligning SMEs with the new trends will be able to help facilitate the achievement of the targets stated in the SME Masterplan (According to Rizal Nainy, Deputy CEO SME Corp, 15 June 2017). However, scholars doubting over the feasibility of IR4.0's vision and fear of negative social consequences, affected the SMEs (Kreinsen, 2016). The change of organizations may jeopardise SME's GDP, also societal acceptance may effect SME's growth and employment is at risk due to required competence, skills and qualification. Hence, in order to acknowledge the recent economic development, this research certain of the continuous studies on SMEs performance and is necessary. The company's

performance not only requires the Malaysian SMEs to understand and make use of their full potential and take any opportunities that come, but also to adopt best industry or business practices.

Social entrepreneurship with hybrid business model offers enterprises a bright future. It has potential. Also known as innovation of a business model. The companies earn their money through a business model and equally prioritise both social mission and profit. This model has been recognised by way of social economy is becoming a great success story in UK (UK Prime Minister, David Cameron, 2015). In a different study, social entrepreneurship provides significant support to organisational performance (Felicio, Goncalves and Da Conceicao Goncalves, 2013) which leads to business growth. In Germany, Canada, and UK itself, social sector organisations accounted for more than 5 percent of countries' GDP, which in UK, estimated to have total income of £163 billion a year (Source: A Guide to SE in Malaysia Web: 101, 2015). Contribution in year 2015 elsewhere like in France, social economy represents 10 percent of GDP equivalent to a more than the entire agriculture industry of the country. It is even higher in Italy, where the social sector accounted for 15 percent of national GDP. Now that the world new economic game is about "think global and trade social" in achieving objectives of for more equitable and sustainable development. The Co-founder Yunus Social Business is also proposing to create a new kind of business, which associated with social innovation and based on the selflessness. Social and environmental purposes is the only way to ensure an equitable and sustainable economy for the 21st century (Yunus, 2015).

In Malaysia, social entrepreneurship area is increasingly being recognized as a significant contributor to the national economy however, it is still at an infancy stage, compared to other countries (Sarif, Ismail and Sarwar, 2013; Othman and Wahid, 2014; MaGIC, 2015; Kadir and Sarif, 2016). It's unique social business model combining a genius formula for profit making (financial objectives) and solving social issues (non-financial objectives) able to promote the collaboration amongst government and SMEs. The new business model like social enterprises able to increase business opportunities as SMEs with sustainability embedded in their business model have access to new markets such as related to green technology. Since Malaysian SMEs are flexible and its performance is critical for the country, and at the same time the social enterprises (mostly start-ups and microenterprises) are new, who are mostly now struggle to achieve financial stability (MaGIC Social Entrepreneurship, 2015), this research believes that it is vital to further the studies of incorporating this new business model among Malaysian SMEs. In conjunction with the financing perspective, the SMEs have more than 85 percent access to various sources of financing from bank institutions, while for start-ups; they have 90 percent access to various sources of financing from government grants. As such, the SMEs might need to pay attention to these concepts and use them to their advantage.

Furthermore, in a recent related study conducted in Pakistan, has indicated that social capital is one of the sub-components of intellectual capital besides spiritual capital, technological capital, and others like human, structural and customer capital. The same study demonstrated the overall regression model of intellectual capital shows goodness of fit except for one component, human capital. Even though social capital component has an effect on SMEs performance in Pakistan, it was measured by using three dimensions namely culture, exchange and relationships (Khaliq et al., 2015). Meanwhile, in this study, researcher will consider social capital as unidimensional in measuring the relationship towards the Malaysian SMEs performance. Reason being, it is very dynamic and in most past studies on social capital measurement, its dimensions, sub-dimensions and indicators that were used, varies and subjected to research areas and scholars. In local context, one pilot study conducted at the northern part of Malaysia. The researchers measured the community's social capital in the country through a set measurement that shaped with six dimensions. There are multi-racial tolerance, participation in community activities, feeling of trust and assurance, life esteems and in social proactivity (Marzuki, Ahmad, Hamid and Ishak, 2014). In addition, in another study in Malaysia, only three indicators were used – networking, trustworthy and norms to identify the level and determinants of social capital index (Ismail, Mahfodz and Sulaiman, 2016). These practices demonstrated the varieties on the measurement, which produces different results for its combination of dimensions, sub-dimensions and indicators. Therefore, since there is Bjornskov and Sonderskov (2012) only tested huge gap in measuring social capital as unidimensional and found, this research will explore this concept from the combination of its sources, cognitive and structural among the SMEs in Malaysia.

One of the strategic pillars in 11th Malaysian Plan (2016-2020) highlighted on empowering the communities to build a productive and well-being society, which coincided with concepts of measuring the social capital. As scholars from other countries discussed on advance settings to clarify a wide assortment of enterprise marvels and how social capital perspectives can be utilize across levels of analysis in the future research (Gedajlovic, Honig, Moore, Payne and Wright, 2013), the study in Malaysia has started hypothesised the relationship between higher levels of social capital with successful social entrepreneurship (Mokhtar, Abdullah and Kin, 2014).

Previously, studies on the direct impact of social capital towards organisational performance, and towards social entrepreneurship activity, and the direct impact of social entrepreneurship activity towards organisational performance were empirically proven however, studies on social entrepreneurship activity within organization, that mediates the relationship between social capital and organisational performance has been less than encouraging and yet to discover, particularly in Malaysia (Rahim, 2015). Therefore, empirical work needed to overcome this shortcoming.

LITERATURE REVIEW

The resource based view theory stresses vital decision in distinguishing, creating, and sending key resources, in charging the SMEs to expand returns with numerous sorts of business exercises (Barney, 1991). One route is to turn to a hybrid association, which include social business activities. The hybrid business model for the SMEs may effectively seek after social mission while having monetary objective at the same time (Rahdari, 2016). The social hybrid unit in the association may concentrate on

sustainability of the association and in the meantime, the economy hybrid unit's central objective is profit (Mokhtar, Abdullah and Tong, 2014).

Social Capital and Organizational Performance

Nahapiet and Ghoshal (1998) describe social capital as the “sum of actual and potential resources embedded within, available through, and derived from the network of relationships possessed by individuals or social units.” In that capacity, social capital is pertinent to various wonders important to enterprise researchers, and utilized to look at different business enterprise related ideas, factors, and constructs, including growth and performance (e.g., Maurer and Ebers, 2006). In addition, social capital able to facilitate the running of social businesses because it has relations that ease the process of identification and the discovery of opportunities, collection and allotment of restricted assets inside the association (Kwon and Adler, 2014), thus having profound implications in the economic system. The implications include the validation of new business models, the creation of new industries, and re-directing resources. In Europe countries like Ireland, Wales and Denmark, social capital building related to organisational performance (Cooke & Wills, 1999). Besides, nexus on social capital – performance link was proven significant by the previous scholars (Schoonhoven and Romaneelli, 2001; Reagans and Zuckerman, 2001; Liao and Welsch, 2005; Stam, Arzlanian and Elfring, 2014; Agyapong and Poku, 2017; and Khalique, Bontis, Shaari and Isa, 2015) in various perspectives.

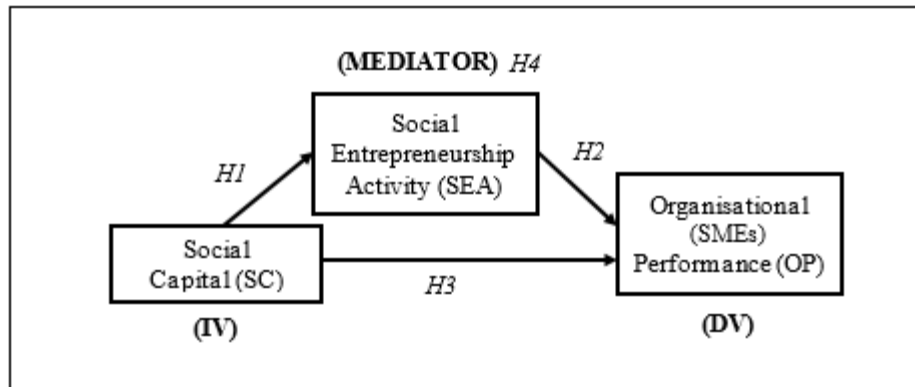
Likewise, the firm performance assessed through non-financial method and profit efficiency. Financial performance generally looks at firm's financial ratios (derived from their financial statements) such as liquidity ratios, activity ratios, profitability ratios, and debt ratios. Whereas, non-financial performance measurement is more subjective and may look at customer service, employee satisfaction, perceived growth in market share, perceived change in cash flow, and sales growth (Haber and Reichel, 2005; Shamsuddin, 2014). High performance achieved over the lifetime of the business when reliability, productivity and sustainability are manage effectively (Venkatraman, 2012). Besides these three drivers quality, process safety, asset integrity, and profitability also have to be strengthen. On the other hand, social entrepreneurship with social impact activities perceived as one of the sustainable approach to address social and environmental approaches. The combining of technological and human behavioural aspects (social and environmental), do brings a holistic approach for the successful of an organization.

Social Entrepreneurship Activity

Social entrepreneurship is the movement created by people or gatherings of individuals to make, support, disperse as well as spread social or ecological incentive in imaginative routes through business operations (Granados, Coakes and Mohamed, 2011) that includes the procedure of performing exercises to accomplish the social results and effect. The rise of social entrepreneurship primarily related to three causes. The first reason is the developing enthusiasm to solve social issues has prompted the ceaseless quest for viable, inventive and sustainable resolutions to deal with the intricacy of social issues and a way to calm current social orders from its ailments, for example, joblessness, imbalances in the access to medicinal services and social administrations, foulness, neediness, wrongdoing, privation or social rejection.

Furthermore, the rising concern on the developing scope of administration territories not tended to by the general public sector, but rather where conditions are not sufficiently alluring to pull in the private sector. Scholars further featured that under this situation, neither the government nor the private sector has the best possible motivator to create or give services. In this manner, elective expected to sub-contract public services or to enhance these services without expanding the government's involvement. Thirdly, an increasing gratitude among business or business people and their inclusion in social segment with the reason to improve social means all around the world and as a method for making community wealth. Subsequently, social undertaking exercises exist in space where public, private and voluntary overlap (Kadir, Bahari and Sarif, 2016). In recent years, there are many local literature implies that social capital and social entrepreneurship activity are fields open to further investigation in the country (Ismail et al., 2016; Mohtar and Rahim, 2014). It is critical, not only because that the area of social entrepreneurship has become an economic, social and cultural sensation, as what the world proclaimed, but also the New Economic Model (NEM) of Malaysia had included the social segments in the country's economic activities, since 2010. Hence, the exploration of its significant has to carry out to fill the lack of Malaysian researchers in this field especially when the success stories is also very limited (Mokhtar et al., 2014).

CONCEPTUAL FRAMEWORK



In light of the conceptual framework above, the accompanying hypotheses statements created are as below:

H1: Social capital having direct or positive relationship on social entrepreneurship activity

H2: Social entrepreneurship activity having direct or positive relationship on organisational performance

H3: Social capital having direct or positive relationship on organisational performance

H4: Social entrepreneurship activity mediates or having indirect relationship between social capital and organisational performance

CONCLUSION

The research proposed a theoretical framework (a research model) based on the resource-based theory (RBV), with a strong evidence for its basis. Just before the SMEs could improve performance, social capital can only happen when the resources and information shared and when the social entrepreneurship activity involves the communities in this social business concept. Hence, the principal contribution of the paper is the exploration introduction of social entrepreneurship activities especially as the social economy becoming a great success story for more equitable and sustainable development, beyond the financial bottom line. Social entrepreneurship activities provides significant support to organisational performance and growth to the country, facilitated by the social capital. Four research hypotheses aim to examine the direct or positive relationship between social capital and social entrepreneurship activity, and the direct or positive relationship between social entrepreneurship activity and organizational performance and the direct or positive relationship between social capital and organizational performance. Finally, the present study involves the examination of social entrepreneurship activity as mediator, having indirect relationship between social capital and organizational performance. The workability of the conceptual framework in this research have to be inspected and checked utilizing empirical data concerning social entrepreneurship activities and performance of the manufacturers among SMEs in Malaysia.

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