

The Spirit of Social Entrepreneurship and Institutional Environment as Drives of Sustainable Economic Growth



Paiman Eko Prasetyo*, Amin Pujiati, Andryan Setyadharna, Nurjannah Rahayu Kistanti

Department of Development Economics, Faculty of Economics, Universitas Negeri Semarang, Semarang 50299, Indonesia

Corresponding Author Email: pekoprasetyo@mail.unnes.ac.id

<https://doi.org/10.18280/ijstdp.170816>

ABSTRACT

Received: 18 August 2022

Accepted: 12 December 2022

Keywords:

spirit, social entrepreneurship, institutional environment and sustainable economic growth

The impact of the COVID-19 pandemic is widely spread, not only multi-sectoral, but also across many fields, especially in socio-economic life and institutions of the communities. The purpose of this paper is to explain the importance of building a spirit of social entrepreneurship and the institutional environment to accelerate economic recovery and growth caused by the impact of the COVID-19 pandemic. The research method used a mixed methods research design. Qualitative and quantitative descriptive analysis was used through exploratory and explanatory designs. The main data source is primary data obtained through a survey of social entrepreneurship actors in various regions in Indonesia. The main contribution is to provide a conceptual model that integrates the spirit of social entrepreneurship (SSE) into new institutional economic theory (NIE). The results of the study concluded that the role of social entrepreneurship (SE) and the institutional environment has not been optimized to support economic growth. Hence, there is a need for a spirit and existing institutional environment quality to encourage sustainable economic growth. Without a strong spirit and encouragement from the quality of the institutional environment which has political authority, the SE will be difficult to become a formal and strong entrepreneurial and cultural economic movement.

1. INTRODUCTION

If a crisis occurs that threatens sustainable economic development, of course there is something wrong with the institutional role [1, 2]. Research results [2] have found that institutional nihilism is the main cause of unsuccessful post-social transitions and anti-development and vulgarization neoliberal economic policies. According to Draskovic et al. [3], the institutional environment is the most important factor influencing the development of corporate governance and there is direct subordination dependence on it. Furthermore, it is recommended to find an appropriate model that will fulfill the interests of institutional and corporate factors in order to promote sustainable development [3]. It is concluded that phenomenology of institutional nihilism is the main cause of unsuccessful post-socialist transition in the SSE countries [4].

Actually, the role of Social Entrepreneurship can support business opportunities and entrepreneurial competitiveness in a sustainable, stable, just and dynamic manner [5, 6]. However, social entrepreneurship still requires an institutional environment of the right quality in order to function efficiently. On the one hand, the institutional environment should promote the development of social entrepreneurship, on the other, there is a need for designing direct social entrepreneurship institutions that would provide support and ensure the development of socially-oriented businesses, and promote grassroots initiatives in this [6]. Therefore, the collaboration between the spirit of social entrepreneurship and the institutional environment as the main driver of growth and sustainable economic development is increasingly urgent to be examined in this paper.

The role of the spirit of social entrepreneurship (SSE) and the quality of the institutional environment is increasingly required to face the new normal due to the impact of the COVID-19 pandemic. Social entrepreneurship (SE) is one of the most prominent innovations in global civil society in recent times [7]. In this paper, SSE is in principle a derived meaning of SE itself. This means that in SE efforts, spirit and solidarity are needed as agents of social change in SE to support institutional policies. Therefore, nowadays, it is increasingly important to have SSE and the quality of the public institutional environment, since they act as driving forces to make fundamental new normal changes in real community life. The argument is that the role of the SE is increasingly seminal because it has the "Schumpeter effect" and a "refugee effect". Hence, it can minimize the gaps or deficiencies that cannot be solved by public or government institutions [8]. Thus, for example, the important role in the macro economy can help government policies in reducing the main problems of development such as unemployment, poverty and disparity in income distribution. Because specifically, this important role has greater Schumpeter effect, so the emergence of SE business opportunities is better to prevent unemployment rather than to mitigate the problem [5]. Meanwhile, the important role of micro-economics is the ability to provide value-added chains such as new job opportunities and new markets for the community and to offer better life in the local area [9]. Therefore, the role of the SE can be considered to have a positive impact on people's lives sustainably.

SSE is interpreted as the character and attitude or enthusiasm to give more benefits or added value chains not only for himself, but also to other people or the community

around him. Thus, the SSE is essentially an economic, socio-cultural and political institutional action of a new society which is a part of the social capital that existed in Indonesian society. Basically, the function and role of SSE in relation to the quality of the institutional environment can be formal and informal [10, 11]. The informal factors of SSE are related to values, attitudes, mentality, aspirations and norms of community life. Previously, the institutional economics expert, North [12] has distinguished between two types of institutions: formal (law, regulation and governmental procedures) and informal (beliefs, values and attitudes). North [12] states that institutions are the rules that determine the decisions made by social actors. Furthermore, until now their opinions of the institutional economists are alike. They assume that the institution has a role and function as a rule of the game in the society [5]. Further, SSE involvements are becoming increasingly important and are urgent to be analyzed on its interactions with the institutional environment both formal and informal one. However, this paper tends to focus more closely on its relevance to the institutional environment informally. Meanwhile, the study of formal factors in the most relevant SSE is related to the implications of government policy. The results showed that a policy that maximizes performance results in sub-optimal resilience and vice versa [13].

In addition, the resources of human capital and technology in general can be interpreted as a strength and new way that can help human activities to be more productive, efficient, and effective. Using technology, not only new products are produced, but also the best way as rules of the game to achieve better business progress [14, 15]. Thus, the institution can also be interpreted as a new way or new technology to help fulfil the needs of a better community life. The urgency and novelty of this paper is to find out whether the SSE and the institutional environment can be the main drivers of sustainable economic growth. The purpose of the discussion is to explain the importance of building a good quality SSE and institutional environment to assist new normal activities in accelerating the recovery of sustainable economic growth. The main contribution of this paper is to provide a conceptual model which integrates SSE into the New Institutional Economic theory (NIE). Because, basically the SSE can be considered not limited to an act of social attitude, but in institutional theory, this SSE organization can be considered as one of the solutions to help formal institutions in overcoming the main problems or obstacles to development. Thus, the novelty of the role and function of the SSE in the context of institutional theory can influence the economic performance of government policies. Because formally and informally the nature of the existence of SSE has a responsibility to implement policies with its informal norms to create better society.

2. LITERATURE REVIEW

Social entrepreneurship is a hot idea [16]. Social entrepreneurs and social change makers are goal-oriented individuals; they want to make something happen and will take the initiative and face the risks of doing so [17]. Theoretically, SE as an important idea that concentrates on the power of spirit or economic and market motivation to advance more important social goals such as the people's dreams [16]. Thus, the concept and role of SE is as a more socially oriented business field to close gaps or area that cannot be carried out by public institutions [5, 18]. Social entrepreneurship is

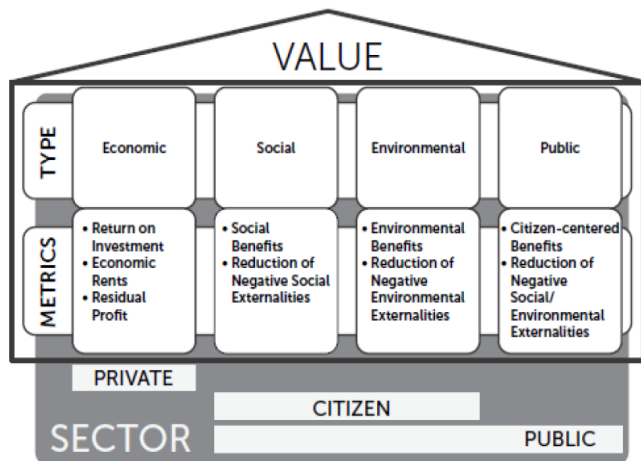
described as a business-oriented field aiming to efficiently supply basic human needs in the market because the existing public institutions have failed to fulfil them [19]. However, the survival or growth of social enterprises is not evidence of their efficiency or effectiveness in improving social conditions [15, 20].

The main objective of SE is to produce and give solutions to social responsibility problems [20, 21]. In addition, the SE is still closely related to institutional activities and economic development to improve business competitiveness, reduce unemployment, poverty and income disparity [8, 22]. In behavioral theory, SE has been studied as the contextual factors that lead to the creation of social enterprises, the dynamics and structure of the underlying organization, and how these typologies measure social impacts, mobilize resources, and bring about sustainable social change [23]. Furthermore, institutional theory is used as a basis for explaining the behavior of entrepreneurs in forming new institutions or changing existing ones to overcome institutional problems in developing countries [18]. In addition, the function and role of the SE is also related to economic development, and government institutions generally see it as the creator of economic activity. However, this study mainly focuses on the foundation of entrepreneurial and institutional theory developed by Schumpeter who considers entrepreneurship as a social and economic catalyst [24].

Theoretically, the correlation between institutions, entrepreneurship and economic growth have been explained since the era of Schumpeter and were redeveloped by North [12]. Recent studies find a correlation between institutional, entrepreneurial culture and economic growth [25-29]. Meanwhile, recent empirical studies on the correlation between entrepreneurial culture, institutional environment and regional economic growth and their influence on socio-economic progress have been explained by the studies of ref. [30-34]. The results of the literature study have emphasized the importance of understanding institutions, entrepreneurial culture, and SE as a collaborative process for community development. There is little evidence that shows how the dimensions of leadership culture affect entrepreneurial activity throughout the country [35]. Other evidence, for example, according to studies by the studies of ref. [36-39]. They find that leadership and entrepreneurial activities are recursively related. They suggest that entrepreneurs must learn leadership and they should become leaders.

The literature study of the SSE policy and the quality of the institutional environment related to dealing with new normal activities are now becoming increasingly important. There are a number of researchers and policy practitioners confirming the importance of the SE business model as a mean to open the path to a better, fairer, more innovative, creative and sustainable community life based on local and institutional wisdom [7, 10, 11, 19, 40-43]. The important role and contribution of SE in encouraging entrepreneurial business opportunities and business competitiveness is positive and significant, even the direct role of SE towards business opportunities is the most dominant one [15]. However, this study focuses more on the important role of the SSE and the institutional environment on economic growth and it is necessary to look at the literatures on the basic needs and its constraints. For example, a study of the challenges faced by SE and the implications for policy in Egypt can be seen in the studies of Prasetyo et al. [44]. Meanwhile, a literature study on SE; needs, relevance, aspects, and constraints can be read on

[45]. Furthermore, a specific empirical study of the SE business model in Indonesia has been carried out by Kusumasari [19]. Kusumasari's [19] research results with qualitative methods identify four types of entrepreneurial social business models in Indonesia, namely: mixed business models, sharia business models, voluntary business models and cooperative business models.



Source: [16, 19]

Figure 1. Social Entrepreneurship business model from the perspective of inter-sectoral values

Based on prior studies, the SE business model is basically a form of derivation of the economic entrepreneurship business model that is more focused on helping the social life of the surrounding community. Furthermore, the SE business concept can be sustainable and then the basic values are fundamental in all types as in Figure 1. The principle in the culture of the SE business model in a sustainable manner is a business model that is not only oriented towards economic profit but also is more focused on social equity. For example, in Prasetyo, et al. [15] and Prasetyo [28] this SE business model can be called with the principle of “*tuna satak bathi sanak*”. Ideally if the SSE with this basic principle as part of an entrepreneurial ecosystem is getting stronger, the better the institutional environment and the more productive the technology used and will ultimately increase regional economic growth in a sustainable manner. Research results [46, 47] found that the role of SSE and community institutions based on Gender Equity and Social Inclusion (GESI) can encourage increased green entrepreneurship and the achievement of sustainable development goals.

Thus, the existence of SE has two main functions economically and socially. Economically, the SE is a new business model that has contributed to increasing business opportunities, competitiveness, growth and economic development [15, 48]. Socially, the existence of SE as a process of modernization that occurs in administration and at the same time as a public service provider that is recognized by the community [48]. Furthermore, the SE behavior theory is used as a basis for studying contextual problems in the creation of social enterprises, dynamics, organizational structures, related institutional environments, and typologies to bring about new positive behavioral changes to encourage sustainable economic growth. Meanwhile, institutional theory is used to explain the behavior of social entrepreneurs in forming new institutions or changing existing ones to overcome institutional problems in developing countries [18].

In addition [49], has shown that the sustainability of social enterprises in a limited environment is a function of sustainable entrepreneurial activities and the effective use of business and social models.

3. RESEARCH METHOD

This study is a survey involving 125 respondents representing entrepreneurial households in 16 regencies/cities in two provinces of Central Java and Yogyakarta. The sampling techniques are multistage random sampling and random cluster sampling methods. Structured questionnaires, interviews and in-depth observations are employed to collect both qualitative and quantitative data. The dimensions of index value used the Gini Ratio index formula for quantitative data.

The SSE concept variables are measured based on the dimensions of the entrepreneurial ecosystem which involve; (1) SSE is essentially an action based on a strong spirit or incentive; (2) entrepreneurs and individuals are rationally related within in an institutional framework in society in which they both directly and indirectly interact with one another; (3) The entrepreneurial ecosystem is complex and comprehensive related to many elements interacting with one another to create a harmonious life system based on socio-economic motives. Institutional variables are critical elements in entrepreneurial ecosystem. They function as rules of the game and create roles in decision making process in life structure such as social, cultural, and political aspects in society. In this case, the existence of economic institutions is significant because it affects the intensive structure of the economy and the allocation of resources. Further, this model employs two dimensions of physical and non-physical resource factors of human capital and technology variables. Meanwhile, the dimensions of the regional economic growth variable are measured based on the ratio of the dimensions of business and the products growth, and the available allocation of resources. To get the quantitative value of the ratio, the common model of the Gini index used the following formula:

$$IG_x = 1 - \sum_{i=1}^n f_i (Y_i - Y_{i-1})$$

where, IG_x is the measured variable; Y_i is the value-added chain quantity resulted by measuring dimension of the variables.

Next, the basic method of quantitative study is to employ a tool for the analysis model. Path analysis model is used to determine the direct effect, the indirect effect, and the total effect of the independent variables to answer the objective of the study. This path method is derived from the OLS model of multiple regression models in standard form. To make it easier to understand, first, the structural equation form is used. Based on the variables mentioned above, the structural equation model is as follows.

$$Y_i = \rho_{Y_i} \cdot X1 + \rho_{Y_i} \cdot X2 + \rho_{Y_i} \cdot X3 + \varepsilon_1 \quad (1)$$

$$Z_i = \rho_Z \cdot X1 + \rho_Z \cdot X2 + \rho_Z \cdot X3 + \rho_Z \cdot Y_i + \varepsilon_2 \quad (2)$$

$$Z_i = \rho_Z \cdot X1 + \rho_Z \cdot X3 + \rho_Z \cdot Y_i + \varepsilon_2 \quad (3)$$

Specifically, the research results from 125 respondents can

be described through the path analysis model coefficients in formulas (1), (2) and (3). Where; human capital (X_1), Social Entrepreneurship (X_2), Technology (X_3), Institutional (Y) and (regional economic growth (Z)). Furthermore, the magnitude of each coefficient parameter in the formula shows the contribution level of each variable studied. After the structural path analysis of the model is constructed, then an experimental test of the model is carried out and the path analysis in diagram can be made. However, based on the results of the experiment test, SE variable (X_2) is not significant to explain regional economic growth (Z). Hence, this model two is not included in the path analysis diagram model in this paper. The path analysis diagram used is based on structural equation model one and model three.

4. RESULTS AND DISCUSSION

COVID-19 pandemic has a big impact on economic, social, and cultural life. The potential effects on enormous shock of social economic psychology from COVID-19 are quite huge and should be overcome immediately. Therefore, cultural changes are needed to adapt with something we called a new normal. It is needed to develop a new communities' psychological behavior in the new era. Economically and socially, good business models that are supportive and complementary should be developed to overcome this severe impact. The models should also aim to create enthusiasm or strong motivation. Therefore, the SSE business model is the one that can be employed. However, to create better SSE business model requires the role of the institutional

environment. Further, this SSE business model can be developed micro-economically as a mitigation of the impact on individuals and community who are directly affected. Meanwhile, in the macroeconomic SSE business model can be as a mitigator of poverty and unemployment problems and income inequality.

Table 1 shows that in model one, the contribution of SE is positive and significant for the institutional environment. This has proven that the role and function of the SE business model has helped the public institution in implementing its policies. Therefore, during the crisis due to the impact of COVID-19, the SE business model must be resurrected with great enthusiasm and high motivation in which it will be introduced into SSE. However, in Table 1, the experiment illustrates that the direct contribution of SE is positive, but its role is not significant to regional economic growth. Further, in the path analysis research method, the model two in Table 1 is not included in the path analysis model diagram. However, the results of this research still support previous studies stating that human capital is the main determinant factor in encouraging institutional, economic growth and competitiveness [33, 48-50]. Meanwhile, the main role and contribution of social capital and social entrepreneurship is more dominant only in encouraging the strength of the excellence of entrepreneurial business competitiveness rather than economic growth. This phenomenon happens because the role of the SE factor is positively and significantly to help open new business opportunities. However, even though business opportunities have a positive impact, their role is not significant in promoting economic growth [33, 50-53].

Table 1. Results of regression of the direct role of social entrepreneurship on economic growth

Model	Unstandardized Coefficients		Standardized Coefficients	t-stc	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-.005	.040		-.122	.903		
2 Institutional	.228	.133	.179	1.716	.089	.240	4.164
Human Capital	.478	.078	.463	6.141	.000	.460	2.175
Social Entrepreneurship	.021	.077	.020	.278	.781	.501	1.997
Technology	.257	.077	.277	3.333	.001	.378	2.645

Dependent Variable: RE_Growth.

Table 2. The results of the path analysis regression model of the role of social entrepreneurship and institutions

Model	Unstandardized Coefficients		Standardized Coefficients	t-stc.	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.194	.021		9.357	.000		
1 Human Capital	.327	.044	.403	7.401	.000	.668	1.497
Social Entrepreneurship	.204	.050	.243	4.120	.000	.571	1.752
Technology	.283	.046	.388	6.133	.000	.496	2.018
(Constant)	-.004	.040		-.105	.917		
3 Human Capital	.476	.077	.461	6.161	.000	.462	2.162
Technology	.263	.074	.283	3.538	.001	.405	2.468
Institutional	.241	.124	.189	1.944	.054	.274	3.652

1. Model-1: Dependent Variable: Institutional

3. Model-3: Dependent Variable: RE_Growth

Tables 1 and 2 show huge contribution of human capital on economic growth compared to SE. The role of SE is not optimized, and it requires spirit of SE to strengthen it. Besides, theoretically and practically, the role of external factor such as institutional environment is also essential. Therefore, the role of institutional quality is still needed to fully support the role of SE to make it more leverage. The results of this institutional

role on SE have been carried out by previous researchers but in this study, the role is reversed as the novelty and the originality of the research. The results clearly describe the similar results and it can be stated that there is a close and mutually relationship between SE and institution. There is a causality between the SE and the institution. However, this paper does not aim to examine the problem of causality. This

research only aims to see how the contribution of SE to institutions and economic growth. In fact, the role of SE is often considered as a factor to solve the problem in economic growth which cannot be carried out by public institutional factors. The results of this research have proven it because there is a positive and significant contribution to economic growth. SE factor and the institution and has a close relationship even though the role and function of the SE is not directly significant to economic growth. As a complement, the results of this research are presented in Table 2.

The research results in Table 1 and Table 2, support the results of previous research [54, 55]. Although not yet optimal, the role of SE is able to reduce the impact of socio-economic uncertainty caused by the COVID-19 pandemic in Negeria and in Georgia [47, 54]. Table 2 shows that the role of institutional factors is also still small in supporting economic growth when compared to the contribution of the role of human capital and technology factors in economic growth. The result illustrated in Table 1 and 2, it can be stated that the role of the SE and the institutional environment has not been optimized in supporting economic growth which caused spirits and the quality of the existing institutional environment still need to be improved in order to drive economic growth along with human capital and technology factors. The bottom line is without good collaboration between the SE spirit and the quality of the existing institutional environment, the SE cannot function well to improve sustainable economic growth. Then, Figure 2 presents an increasingly type of collaboration between human capital, SE and technological factors both directly and indirectly on institutions and regional economic growth.

Furthermore, based on Figure 2 and Table 3, it shows the important role of human capital, social entrepreneurship, and technology, both directly and indirectly, and their total influence on institutional factors and regional economic growth. Based on Figure 2 and Table 3, the results confirm previous research stating that the role of human capital is still dominant in driving economic growth [5, 33]. Based on Table 3, the role of the human capital factor both directly and in total can provide the largest major contribution in the model. The role of direct human capital contribution is 21.3 percent and

the total effect is 33.0 percent of the total 75.9 percent of regional economic growth. Meanwhile, the role of the largest contribution indirectly contributed by institutional factors that is equal to 14.3 percent. Meanwhile, the social capital factor only gave a significant indirect contribution of 9.2 percent. In addition, the role of technology factors even though the total role is quite large which is 11.4 percent, but the direct role of technology factors is still small. It is only 7.8 percent and is still below the contribution of social entrepreneurship factors.

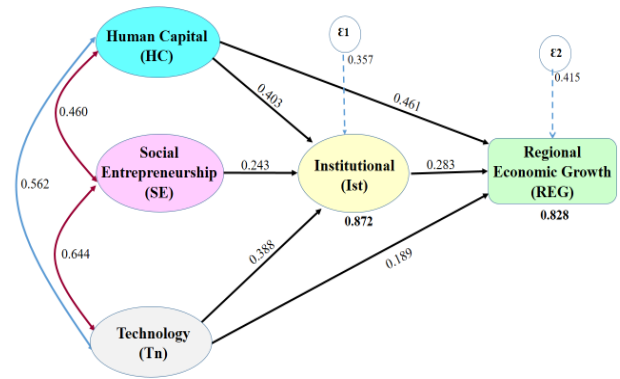


Figure 2. Path analysis diagram of the role of the SE and Institutions on economic growth

It is interesting to find out that technology factor has small contribution to entrepreneurship both directly and indirectly. This is due to its location in rural areas in which generally, people still use traditional technology instead of advanced machine one. The subsequent impact of the small contribution of technological factors on entrepreneurship in rural areas causes these products are easily replicable and their type of businesses are easier to be transferred by others outside the region. This phenomenon shows that the existence of entrepreneurial businesses in rural areas in general is still vulnerable to the progress of the era and the industrial revolution 4.0. However, the advantages of rural entrepreneurship can offer employment and business opportunities to the local community.

Table 3. The results of direct, indirect and total influence on economic growth

Variable	Direct Influence	Indirect impact			Total		
		HC	SE	Tn	Ist	Sub total	Influence
Human Capital (HC)	0.213		0.015	0.049	0.053	0.117	0.330
Social Entrepreneurship (SE)	-	0.015		0.008	0.069	0.092	0.092
Technology (Tn)	0.036	0.049	0.008		0.021	0.078	0.114
Institutional (Ist)	0.080	0.053	0.069	0.021		0.143	0.223
Total	0.329					0.430	0.759

Source: Figure 2.

5. CONCLUSION

The role of social entrepreneurship has a strong link with social capital in Indonesia and it is not something new. This social entrepreneurship effort becomes new because its existence is only considered as a complement once problem arises. Even though its contribution is positive, it is not considered significant for economic growth. Its complementary function can solve the existing problem which cannot be solved by public institutions, yet it has not been used as a driving factor for economic growth. Therefore, the

importance of the spirit of social entrepreneurship (SSE) is becoming increasingly seminal to optimize its function and role not only to solve the problems in society but also to strengthen sustainable economic growth. To make this happen, strong collaboration is required by optimizing the quality role of the institutional environment as a driving force for economic growth. This institutional environment should involve political authority to make the SE stronger which will enable creating better formal cultural economic and social activities.

The potential for the spirit of social entrepreneurship and

the institutional environment are closely intertwined in mitigating the impact of the COVID-19 pandemic, as well as driving sustainable regional economic recovery based on local wisdom. Because the role of social entrepreneurship has a strong relationship with social capital in Indonesia and is not something new. This social entrepreneurship effort is new because its existence is only considered as a complement when problems arise. Although the contribution is positive, it is not considered significant for economic growth. Its complementary functions can solve existing problems that cannot be solved by public institutions, but have not been used as the main driving factor for economic growth. Therefore, the importance of the spirit of social entrepreneurship (SSE) is becoming increasingly capable of optimizing its functions and roles not only to solve problems in society but also to strengthen sustainable economic growth. However, to make it happen, strong collaboration is needed by optimizing the role of the quality of the institutional environment as a driving force for economic growth. This institutional environment must involve political authorities to strengthen SE which will enable the creation of better formal economic and socio-cultural activities.

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