

## Promoting Human Capital Through Social Entrepreneurship: A Comparative Study of Indonesia and China

RAMLEE MUSTAPHA  
VERONICA ZAPATA  
JULIE JUNG-KIM

### ABSTRACT

*The hybrid model of social and profit-making enterprise has been the hallmark of social entrepreneurship. Yet, unlike the conventional entrepreneurs, social entrepreneurs seek to alter the “status quo” of mainly rural, marginalized, disadvantaged and poor citizens. Due to their relatively large proportion of rural population, Indonesia and China were selected as case studies. Even though Indonesian and Chinese social entrepreneurial activities have increased over the years and their share in economic output has been significant, their overall development and growth are encumbered by numerous barriers. Thus, it is critical to examine the supportive and suppressive factors of social entrepreneurship in these two major Asian countries. Specifically, this article focuses on social, political, cultural and economic intricacies and their implications on social entrepreneurship. This article reviews several case studies and uses secondary data to make comparison based on the theory of social entrepreneurship put forward by Dees (2001). The similarities between Indonesia and China in terms of social entrepreneurship are as follows: (a) the limited success of social entrepreneurship, (b) the prevalence of government control over micro-economic activities, (c) strong bureaucratic red tape, (d) lack of education and training, and (e) lack of resources. However, there are unique differences between Indonesia and China. Social entrepreneurs in Indonesia focused on micro-enterprises in the non-formal sector and micro-finance; whereas social entrepreneurs in China put emphasis on social efficiency, autonomy and the search for better modus operandi.*

### ABSTRAK

*Gabungan antara elemen sosial dan keuntungan merupakan lambang keunikan usahawan sosial. Berbeza dengan usahawan konvensional, usahawan sosial berusaha untuk merubah “status quo” masyarakat terutamanya dari luar bandar, yang terpinggir, dan yang termiskin. Negara Indonesia dan China dipilih untuk dijadikan kajian kes kerana populasi luar bandar yang agak tinggi. Walaupun aktiviti keusahawan sosial di kedua-dua negara ini telah meningkat dan hasil ekonomi mereka juga adalah signifikan, pembangunan*

luar bandar masih menghadapi pelbagai masalah. Justeru, tujuan kajian ini adalah untuk mengenal pasti faktor-faktor penggalak dan penghalang terhadap program usahawan sosial di kedua-dua buah negara Asia ini. Secara khususnya, artikel ini menganalisis aspek sosial, politik, budaya dan ekonomi serta impak faktor-faktor tersebut kepada keusahawanan sosial. Artikel ini meneliti beberapa kajian kes dan menggunakan data sekunder untuk membuat perbandingan berdasarkan kepada teori yang dikemukakan oleh Dees (2001). Hasil perbandingan mendapati kesamaan antara kedua-dua buah negara, iaitu: (a) kejayaan usahawan sosial yang terhad, (b) kawalan kerajaan terhadap aktiviti ekonomi mikro, (c) karenah birokrasi yang masih tinggi, (d) tahap pendidikan dan latihan yang masih rendah di kalangan penduduk luar bandar, dan (e) kekurangan resos. Walaupun begitu, terdapat perbezaan yang ketara di antara kedua-dua negara. Usahawan sosial di Indonesia menekankan kepada pinjaman mikro dan penubuhan syarikat mikro dalam sektor non-formal manakala usahawan sosial di China pula mengutamakan kecekapan sosial, autonomi, dan modus operandi yang sesuai untuk sesuatu lokaliti.

## INTRODUCTION

Promoting social entrepreneurship through education has emerged as an important agenda in several countries during the past decade. But majority of the people are still oblivious to what social entrepreneurship means and how it affects socio-economic status. Social entrepreneurship theorists, such as Dees (1998; 2001) have analyzed social entrepreneurship using a range of methods, but the primary approach has been to look at social entrepreneurship as a phenomenon of individuals or groups developing and establishing a new concept of social renewal. In spite of that, a majority of social entrepreneurship research is based on the premise that social entrepreneurs exemplify particular characteristics, which enhance an individual or group's socio-economic competence. As a result, different countries have developed their respective unique systems to enhance the quality of life by strengthening the socio-economic structures.

However, in our present global era and in response to the increasing social fragmentation and cultural division within countries, there is renewed emphasis on the importance of education for social cohesion and social justice. A capitalistic culture that directs all of its activity towards maximizing profits instead of focusing on nation-building apparatus like education and social cohesion will not generate social progress. Instead, it can bring harm and damage to the social and environmental conditions in which it operates. The means to achieve social cohesion have become obscure and weaker. Social institutions like family, culture and education, which strongly supported education in socializing young people,

are becoming less effective at promoting solidarity that upheld national identity. This can be seen in countries like Indonesia and China where social malaise, such as poverty, HIV/AIDS, wide income disparity, and unemployment are still prevalent (Mustapha 2004; Wang 2004). Therefore, education is viewed as an essential tool to enhance the people's socio-economic status.

Even though Indonesian and Chinese social entrepreneurial activities have increased over the years and their share in economic output has been significant, the overall development and growth are encumbered by numerous barriers. Thus, it is critical to examine the supportive and suppressive factors of social entrepreneurship in these two major Asian countries. Specifically, this article focuses on social, political, cultural and economic intricacies and their implications on social entrepreneurship. This article reviews several case studies and uses secondary data to make comparison based on the theory of social entrepreneurship put forward by Dees (2001).

## DEFINING SOCIAL ENTREPRENEURSHIP

According to Dees (2001), "social entrepreneurship" combines the passion of a social mission with an image of business-like discipline, innovation, and determination commonly associated with, for instance, the high-tech pioneers of Silicon Valley. The hybrid model of social and profit-making enterprise has been the hallmark of social entrepreneurship. In other words, social entrepreneurship utilizes entrepreneurial approaches to unravel social problems.

In addition to innovative social-cum-business ventures, social entrepreneurship can include social-oriented business ventures, such as for-profit community development banks, and hybrid organization mixing not-for-profit and for-profit elements. For instance, some homeless shelters establish businesses that train and employ their residents. The new concept helps to broaden the playing field for those less fortunate. Social entrepreneurs look for the most effective method of serving their social missions (Dees 2001).

Although the concept of social entrepreneurship is gaining popularity, it means different things to different people. Many relate social entrepreneurship with not-for-profit organizations seeking to launch for-profit or earned-income ventures. Others use the term to describe anyone who creates an exclusively not-for-profit organization. Still, others use the term to refer to entrepreneurs who integrate social responsibility into their businesses.

## WHAT DO SOCIAL ENTREPRENEURS WANT TO ACHIEVE?

Within the genus of entrepreneur, social entrepreneurship is another species (Dees 2001). Unlike the conventional entrepreneurs, social entrepreneurs tag social responsibility as their highest mission. This can affect how social

entrepreneurs perceive and assess opportunities. The central criterion is the impact of the social mission. Therefore, creation of wealth is not the primary aim of social entrepreneurship. Wealth is simply a “means to an end” for social entrepreneurs.

For example, social entrepreneurs are not content just to give a fish or teach how to fish (Drayton cited in Davis 2002). They will not pause until they have revolutionized the fishing industry. In other words, social entrepreneurs identify potential resources and attempt to solve social problems. Just as business entrepreneurs create and transform industries, social entrepreneurs act as the change agents for society, seizing opportunities others miss in order to improve social systems, invent and disseminate innovative approaches and advance sustainable solutions that create social value, rather than profits. And, unlike the majority of non-profit organizations, social entrepreneurs target both immediate, small-scale effects and comprehensive long-term change. Where others tend to see numerous problems, social entrepreneurs attempt to generate social transformation through entrepreneurial initiatives.

Social entrepreneurs seek to alter the “status quo” of the marginalized, disadvantaged and hard-core poor citizens. Poor villagers are viewed as a solution; they are not passive beneficiaries. Social entrepreneurs perceive social competence and unleash resources in the communities as key elements that can be exploited (Bornstein 2003). In their effort to do so, they also seek to persuade the entire community and their neighbors to join in a social entrepreneurship project.

However, Dees (2001) argued that markets do not work as well for social entrepreneurs. In particular, markets are ineffective in valuing social improvements such as public goods and benefits for people. These elements are essential to social entrepreneurship. As a result, it is difficult to determine whether a social entrepreneur is creating sufficient social value to justify the resources being used. Ironically, the survival and growth of a social enterprise is not a strong indicator of its efficiency or effectiveness in improving social conditions. At best, it appears to be a weak indicator. Therefore, what is more important is the collaborative effort in pooling the resources to enhance the standard of living of the people in a community.

Indonesia and China were selected in this study due to their significant portion of rural population. Prevalent number of rural people in both countries lack individual resources to elevate themselves to a decent socioeconomic status (Mustapha 2004; Wang 2004). Even though the literacy rate in both countries have reached a satisfactory level, socio-economic and political predicaments have impeded their efforts to reach higher standards of living.

## A CASE STUDY OF SOCIAL ENTREPRENEURSHIP IN INDONESIA

Indonesia is a populous country with a myriad of economic and social problems. The government exercises significant influence over education and training, which are fervently debated; thus, progress is relatively slow. In the midst of the heated debate over progress, social entrepreneurs face major barriers in ensuring access to credit without collateral and other productive resources for the marginalized groups. Accessing credit is crucial in order to enhance entrepreneurship and self-employment throughout every strata of society for both women and men in Indonesia.

This section presents a case study on social entrepreneurship effort conducted by Moore (2004). According to Moore (2004), a dominant form of employment in Indonesia has been in the non-formal sector. During the East Asian monetary crisis employment in the non-formal sector declined from 74% in 1986 to 65% in 1997. After the crisis in 1998, it rose to 70% as workers displaced from the modern sector had no choice but to enter the non-formal sector. Most analysts expected the non-formal sector to absorb most of the new labor market entrants (Budiantoro 2005). Hence, the social entrepreneurship focusing on micro-enterprises that made up this sector may contribute to the nation's economic success.

Traditionally, small businesses in the non-formal sector have been typified by primary production methods and limited access to the market and capital. Formal contracts between buyers and sellers, or employers and employees are rare. Payment is normally made through sales commissions or profit sharing. In many poor countries, non-formal enterprises have been exempted from or have simply ignored taxes and other government regulations (Moore 2004).

Further, a critical challenge in the non-formal micro-enterprise sector and social entrepreneurship efforts has been the lack of access to capital. Based on the successful Grameen Project in Bangladesh, rural micro-enterprise projects in Indonesia are considered social entrepreneurship efforts, which seek to increase the socio-economic condition of the rural poor population. The highly publicized success of the Grameen Bank in Bangladesh that began with a loan of 27 cents from an economics professor to a local handicraft maker has resulted in a rapid proliferation of micro-credit programs throughout the developing world. For example, the World Bank has identified micro-lending programs modeled on the Grameen Bank in over 40 countries (Khandler and Chowdbury 1996; Yunus 1999). However, less attention has been given to the need for acquiring business skills within micro-enterprises; whereas business and social skills are critical for their long-term survival.

#### THE MICRO-ENTERPRISE PROJECT

Moore (2004) assessed the micro-enterprise project in Indonesia, which was funded in part by the World Bank and was designed to help poor villagers who had completed the government sponsored literacy program. The micro-enterprise project began in 1996 and 1,500 micro-enterprises were established in 12 provinces in Indonesia. Approximately 7,500 participants took part in the project. In 1997, the project expanded to 6 additional provinces and ascended to 4,500 micro-enterprises with 22,500 participants. In 1998, the project proposed to launch 11,825 micro-enterprises. The three-year evaluation of the program found four main components leading to the program's success:

1. Combining the literacy program, business skills training, and the micro-enterprise program,
2. Hiring a Technical Resource Person (TRP) to train a group of five to seven participants for a period of six months,
3. Instituting a learning fund for each member, and
4. Linking participants to micro-enterprise credit for economic support.

#### COACHING TO BUILD SKILLS IN THE MICRO-ENTERPRISES

Earlier version of the project required participants to complete 10 units of instruction in small business operations such as bookkeeping and marketing. An evaluation of the project showed that the training was poorly administered. Instruction tended to be delivered in very traditional didactic mode and did little to improve the skills of the participants (Moore 1999). This prompted a need for a TRP in the training programs.

According to Moore (2004), there were some problems related to the training of the participants and their relationships with the trainers (TRPs). The TRP had to be a local who had been trained and familiar with the native production process for the product chosen by the participants. They were selected by the participants and paid a small subsidy. The TRP would then instruct the participants on how to establish an enterprise. The World Bank's evaluation found this to be a successful innovation. The participants developed the ability to produce quickly. However, the relationship between the TRP and the participants yielded unexpected outcomes. For instance, the manner in which each TRP paid the participants and the degree of control they had over their group differed greatly among the different groups of participants. In other words, TRPs executed their responsibilities differently.

#### SUPPORTIVE FACTORS

Moore's report (2004) revealed that few groups planned to expand their market beyond their village, and few local ministry officials encouraged them to do so.

The evaluation also included a consultant survey and the World Bank found that 46% of the groups reported that they only sold their products directly to individual consumers. An additional 30% reported that they sold their products to formal stores, and 24% sold their products to very small retailers, such as local village vendors.

A stumbling block to expanding markets was the low quality packaging of food products. Without proper packaging and labeling, the participants could not charge a premium price for their products. Participants who packaged and labeled their products were obviously more successful and able to reach broader markets. They could easily transport their products and stores were willing to stock their products. However, even when participants exported their products out of the local area, they received only a small share of the actual value of the products. For example, a group of participants in North Sumatra produced elegant hand woven sarongs. They cost Rupiah (Rp) 13,000 in 1997, which included labor and materials, and were sold in stores in Medan for Rp. 30,000. When sold to local distributors, the group only received Rp. 16,000 (Moore 2004).

Perhaps the most important indicator of success of the social entrepreneurship effort was whether the enterprise established by the participants has hauled them out of the poverty trap. In the World Bank study noted earlier, approximately four percent of poor villagers in Bangladesh who borrowed from Grameen Bank moved out of poverty. Over time, the small enterprises had a significant impact on the income level of the participants, but it took about five years for most households (Khandler & Chowdury 1996).

The World Bank collected data on the 28 groups of micro-enterprisers in Indonesia. Table 1 shows the average group's weekly sales revenues of approximately Rp. 357,000 and costs of about Rp. 262,000. The groups reported average profits at about Rp. 95,203 (equal to USD 12.50). The average profit margin was 26.6%. Large ranges and standard deviations indicated a wide variation in group finances. For example, profits ranged from Rp. 4,200 to Rp. 750,000. This included the cost of raw materials, transportation, and wages paid to participants within the group.

TABLE 1. Active groups' weekly finances (in Rupiah)

Financial	Mean	Range	Standard Deviation
Revenue	357,329	4,190,000	861,080
Cost	262,189	3,910,000	754,486
Profit	95,203	745,800	143,770

Source: Moore 2004

## SUPPRESSING FACTORS

A factor underlying many of the problems observed in the micro-enterprises was a general lack of knowledge about business and the market. In addition, according to Moore (2004), accessing credit is also a significant challenge. This was the area in which the program was least successful. The fieldwork research revealed very few instances in which the group had borrowed from any financial institution or received other forms of support such as technical assistance from other micro-enterprise programs.

The progress of micro-finance in serving micro-enterprises in Indonesia remains low. Although the activity was backed by some banks such as BRI (people's bank) and BPR (rural bank), there is still a huge gap between demand and supply. Based on the data produced by Gema PKM (The Indonesian Movement for Micro-finance Development), less than 25% of the total micro-enterprises in Indonesia have been served by micro-finance (Budiantoro 2005).

On the global level, micro-finance is now accepted as a strategic tool for poverty alleviation. Social entrepreneurs in some parts of the world have utilized the micro-credit scheme to fund their projects. This is not surprising since the United Nations named 2005 as the International Year of Micro-credit (microfinance). This event is related to the Millennium Development Goals, which have an ambitious target for reducing half of the world poverty rate by 2015. According to the Micro-credit Summit 1997 in Washington, there are four principles for running micro-finance institution (Budiantoro 2005). These principles include (a) reaching the poorest, (b) empowering women, (d) building financially sustainable institution, and (d) ensuring measurable impact. With all of our respect to BRI and BPR for their concern to people's economy, unfortunately they have not been able to reach most of the targeted poor.

In Indonesia, there are thousands of NGOs, which play a part in micro-finance and they are potential actors to assist the poor. Due to political pressures and lack of resources, their role is limited. In addition, local ministry staff were aware they had to link the groups to credit sources, but this occurred infrequently. In Indonesia, there is still no clear policy regarding micro-credit scheme for the poor. Most practitioners are uncertain where micro-finance is positioned in the national financial system and there is no clear direction that can be used among the stakeholders to develop this. Also, because development is influenced by different or often competing policies in other areas such as, poverty alleviation, subsidized credit, and financial sector development, choosing which to help becomes difficult (Siebel 2000).

According to Moore (2004), one of the suggested financial reforms is to make micro-finance a national policy. This policy is needed as a base for a legal and regulatory framework for micro-finance. Unfortunately, there were approximately 70 projects undertaken by various government agencies (supported by donors, with budgets of almost USD 300 million) involving micro-



finance. However, many do not follow micro-finance best practice, thus they were not sustainable and brought more intricacies for micro-finance related institutions. Also, because micro-finance runs with credit, micro-enterprises need more credit as they grow bigger in size. If finance institutions cannot provide credit for micro-enterprises, it may generate acute problems for borrowers with repayment. Most likely, they will be reluctant to pay the installments and may keep the money to continue running their businesses (Siebel 2000). In addition, because credit for micro-enterprises are often without collateral, it can be more difficult to get micro-enterprises to repay credit.

According to the Indonesian law, an institution allowed to mobilize any kind of savings from the public is a bank. For this reason, running micro-finance institutions in Indonesia requires a great deal of capital. Moreover, because micro-finance regulations (run by NGOs) do not have legal entity, it is difficult to operate with other (financial) institutions to access capital (Budiantoro 2005).

It seems that while social entrepreneurship using micro-enterprise in Indonesia has succeeded in elevating the villages' people from the chain of poverty, the sustainability of the project is largely dependent on the willingness and the commitment of all relevant stakeholders to support the project especially in educating the participants on business and social literacy. The following section describes the Chinese case study on social entrepreneurship.

## SOCIAL ENTREPRENEURSHIP IN CHINA

Compared to Indonesia, the Chinese economy is fundamentally a centralized economy, in that the government reigned over all the economic policies and practices. Economic reforms brought forth an appeal for a higher level of independence for enterprises and entrepreneurs. In spite of the reforms, the government still asserts control over micro-economic activities.

Due to the economic reforms of 1978, the private sector became a vital element of China's economy. During the beginning phase of the formation of the Republic of China, there were 9 million individual businesses. From 1953 to 1956, the socialist reconstruction confiscated all the private and individual businesses; although, toward the end of 1978 there were 150,000 individual businesses (Liu 2002).

The initiation of economic reforms and open door policy in 1978 has gradually transformed China's economy from being centrally planned to being free-market oriented (Wang 2004). As a result, China has become the fastest growing economy in the world. For example, between 1979 and 2002, China's gross domestic product (GDP) grew from USD 177 billion to USD 1.23 trillion respectively, making China the world's sixth largest trading country (Lau 2002).

In 1978, the Third Plenum of the Chinese Communist Party's (CCP's) 11<sup>th</sup> Central Committee instituted new socio-economic policies, which formally

recognized a new group of entrepreneurs, private businesses. Liu (2002) claimed that private enterprises thrived for several reasons. First, the Republic of China changed their policies toward private enterprises. Second, there was a need for private businesses because the public sector could not meet the employment demands, nor could the public sector establish enough diverse markets to correspond the public interests. Third, the operational effectiveness of the private sector exceeded those of the state-owned enterprises; the private sector is based on self-management, innovation, and willingness to take calculated risk. Finally, central and local governments provided the private sector with a reasonably appropriate environment, which enhanced the private sector's ability to expand.

With the rise of the private sector, there was also a decline in state-owned enterprises. In addition, the public sector contribution to the national industrial production declined sharply. From 1991 to 1999 the contribution of the public sector was at 79.6% and dropped to 9.11%; within that same time period, the contribution of the private sector rose, from 20.36% to 90.9% (Liu 2002). Also, the private sector provided more jobs, especially in the rural areas where jobs were virtually nonexistent. The public sector had limited capacity to absorb predominantly uneducated villagers (Fan, Chen, & Kirby 1996). The unemployment was viewed as an acute social problem.

#### CHINESE SOCIAL ENTREPRENEURSHIP: CHARACTERISTICS AND ENVIRONMENT

Social entrepreneurship, also referred to as township and village enterprises, has increased since the 1970s. Toward the end of 1993, rural-social enterprises contributed two-thirds of the total value of national industrial production. Between 1979 and 1991, yearly national production increased at an average rate of 10.4%; meanwhile the average yearly rate of production of township and village enterprises was 27.5% (Fan, Chen, & Kirby 1996).

Social entrepreneurship in the forms of township and village enterprises were not formally recognized by the government until 1984. Previously, the central government only recognized state enterprises. Thus, township and village enterprises were illegal. While state-oriented enterprises were under the rein of thick state bureaucracy, township and village enterprises were "free" to let the market direct them and as a result gave rise to their unique characteristics.

Chinese peasants tend to have traditional cultural values, predominantly Confucian. Fan, Chen and Kirby (1996) argued that the link between the peasants' traditional cultural values and social entrepreneurship attributes is relatively weak. They claimed that environmental factors contribute more to social entrepreneurship.

Within the past fifteen years, there has been a rise of social entrepreneurship; however the Chinese environment is continuously changing and generating a variety of barriers for social entrepreneurs. Such barriers consist of lack of

education, seclusion, weak infrastructure, and a shortage of technical and managerial personnel, which are common issues facing the developing world. Unique Chinese barriers also include wavering political stability and capricious governmental policies overseeing township and village's social entrepreneurship. As state-owned enterprises gain a greater degree of autonomy, social entrepreneurs will face more competition. State-owned enterprises are larger, easier access to technology, more capital, and personnel. Several township and village enterprises have gone out of business due to the fierce competition. Therefore, their main barrier rests within their own operations, that is, self-sustainability. These barriers highlighted the importance of education and training so that those rural people may learn modern forms of production and management skills.

Increasing economic and social reforms in China have enabled social entrepreneurs to compete thus far, which has invigorated and transformed the rural regions. These regions have evolved into micro-urban areas, which are new breeding grounds for social entrepreneurs. Although they are overshadowed by many challenges, they are a vital sector of the Chinese economy (Fan, Chen, & Kirby 1996).

#### NGOS SUPPORT FOR SOCIAL ENTREPRENEURS IN CHINA

The number of non-governmental organizations and government organized non-governmental organizations (GONGO) has greatly increased in China within the past ten years. In 2004, there were approximately 120,000 NGOs registered with the Ministry of Civil Affairs. However, some have estimated that there were 1.8 million operating unofficially locally throughout China (Thurston 2004). Furthermore, the rise of NGOs in China is regarded by some academics as a vital modern development of the 21<sup>st</sup> century.

#### PROJECT HOPE

Project Hope is a prime example of social entrepreneurship in China. Xu Yongguang, a former official of the *All China Youth League*, traveled extensively throughout China. Concerned by the high level of poverty in rural areas, he initiated effort to provide the children within those areas of basic education. Seeking a new social objective *The All China Youth Federation* (ACYF) subsidized the creation of the *China Youth Development Foundation* (CYDF), which then established Project Hope in 1989. In the early 1990s, the annual average net income of about 85 million people was less than 268 RMB (Chinese currency) and they did not have adequate food or clothing. Attending school was a luxury many could not afford; therefore, over a million children dropped out of school (Thurston 2004).

The ACYF controlled the placement of Project Hope's leaders and decision-makers. Both, the CYDF and Project Hope were under the supervision and management of the ACYF. As a result, the CYDF instantaneously had an organization structure that was nation-wide and their organization structure emulated the government's organization structure, which is hierarchical.

According to Thurston (2004), the representatives of Project Hope do not identify themselves as a GONGO for the following two reasons: (a) the management and staff are no longer serving as government officials, and (b) funding is provided by non-governmental entities. Nevertheless, Project Hope's success is due to its ability to link with the government in order to initiate projects. For example, unlike other non-governmental organizations, urban contributors can have their donations deducted from their work units. Furthermore, opting out of so-called "voluntary" contributions is difficult for the urban contributors. Hence, without the instantaneous link to the government, specifically the uppermost levels of the party and state, Project Hope would not have been as successful. High ranking leaders of the government became major donors. This enabled Project Hope to secure additional domestic and international funding (such as Motorola, Lucent, Microsoft, Proctor & Gamble, and Coca Cola). International corporations would be less likely to donate to non-government organizations that lacked ties with the government (Thurston 2004).

The growing popularity of Project Hope attracted more contributions from those who lived in urban areas. By 2001, more than 2 billion RMB was raised by Project Hope, all of which funded the education of approximately 2,470,000 students, trained 16,000 local primary teachers, and build 8,890 schools (Thurston 2004). In spite of all these social contributions, Project Hope encountered major difficulties the following year. The leaders of the CYDF were accused of embezzling and misusing funds. The National Audit Bureau carried out an investigation, but their findings were never made public. Thurston (2004) asserts that the allegations were true and primarily due to institutional mismanagement, rather than personal corruption within the CYDF.

#### THE SNOWLAND SERVICE GROUP (SSG)

Unlike Project Hope, the members of Yushu's NGO, the Snowland Service Group (SSG) made an effort to institute democratic practices within their institution. The 200 members of SSG are volunteers, so if an authoritarian president was ever to be elected the members would simply stop volunteering. They also ensure that their financial records are transparent, which are regularly audited by international donors and their county's auditing offices. The SSG, unlike the local officials, respond to the requests of the villagers. The SSG staff has been trained in participatory rural assessment (PRA), which enables them to investigate the request of the villagers, assess the viability of villagers' request, openly discuss the proposed project with the villagers and if accepted, work cooperatively with

the villagers to implement the project. SSG has built water delivery systems, provide scholarships for students, operate loan projects, and plan on launching a yak cheese factory (Thurston 2004).

While the government's strict adherence to the party, SSG members and staff seek to ensure that the villagers know their rights and they seek to maintain their autonomy from the government to a degree. SSG's success is due to the founder's, Dawa, former position in the government and his familiarity with government regulations. Therefore, SSG does not view the government as an enemy, rather it uses the government to maximize its effect, which increases its' ability to successfully meet the needs of the community. Nevertheless, SSG members and staff are proud of the fact that they are more efficient, effective, democratic, and fiscally responsible than the government and their GONGOS. Through social entrepreneurship, they employ locals to do construction work and permit the Tibetans to add their own cultural flare in the architecture of the buildings. In addition, SSG only implement projects requested by the villagers, who are involved throughout the decision-making process. SSG is an important resource in the community. It serves as a democratic model of leadership and organization, provides consultation, services, employment, training and funding. At the same time, the villagers become increasingly self-sufficient and are empowered.

By operating as a community-based institution, SSG avoids the mistakes of the government. For example, the government decided to build an irrigation system. Without consulting the community members, outsiders were hired to build the irrigation system. Once the project was completed, the villagers were never told how to utilize or repair the irrigation system. Before long the irrigation malfunctioned causing a ditch to be clogged with debris. To make matters worse, when it rained, the ditch overflowed and flooded the fields, which ruined the villagers' crops. Also, it caused a lot of accidents in the road during the winter; the water froze and created an icy patch. On the other hand, infrastructure built by the villagers could be repaired by them due to their familiarity with the design (Thurston 2004).

The Chinese society has gone through political, economic and cultural transformations. When China progressed into a market economy and competition increased, the traditional beliefs were called into question by the people and other stakeholders. China is a traditional country that is reliant on authority for decisions in life. By tradition, the Chinese have a propensity to prioritize the group before the self; a high respect for age, hierarchy, and authority; and despite austerity of life especially for peasants, the concern for the group enables them to work diligently.

The Chinese's communal attitude influences them to view business and industrial enterprises as extensions of the family. Family behavior is stressed because Confucian culture highlights the living paternal family group, ancestors, and future members. As a result, members within a family work fervently to maintain affluence and heighten the rank for future family members. Within the

culture, family principles are used as a code of conduct and for this reason, Chinese social entrepreneurs regard any obstacles as domestic rather than personal matter. Work is more important than relaxation since it is perceived as a contribution to the family's well-being.

## BARRIERS TO SOCIAL ENTREPRENEURSHIP DEVELOPMENT IN CHINA

Despite the rise in sovereignty and ingenuity within China, literature has unraveled the factors that hinder development and expansion for social entrepreneurs that included: (a) weak labor markets that aggravates previous troubles with employees' discipline and drive, (b) excessive interference of local officials that causes a lack of efficiency in managers, and (c) regional government placing restraints on competition and interregional commerce for the intent of resource and profit accretion. Attracting foreign investment is hard because of China's inadequate energy supply; bureaucratic red tape; non-convertible currency, which creates problems for balancing currency requirements; inexperienced accounting, taxation, and business methods; and lingo-cultural differences. If Chinese entrepreneurs and social entrepreneurs seek new prospects outside for advice or business, the government places a blockade since it must be authorized by higher powers (Li & Scott 2000).

For China to thrive under the pretext of supply and demand, the government needs to remove bureaucratic barriers that hinder its growth. Social enterprises need the autonomy to make decisions relating to social agenda, proper social-oriented business project, and choose how to distribute their earnings, form partnerships, determine their internal establishment, and refuse excessive fees. In exchange for these rights, entrepreneurs and social entrepreneurs should be held responsible for performance or face the consequences or be closed down.

## CRITICAL ANALYSIS OF SOCIAL ENTREPRENEURSHIP IN INDONESIA AND CHINA

The Asian financial crisis in 1997 has adversely affected social entrepreneurship. Countries like Indonesia and China, especially their rural communities faced problems of obsolete technology and skills, and inadequate credit, besides lack of access to market and raw materials even in the pre-crisis period. It is anticipated that small enterprises were too fragile to compete with larger domestic and multinational corporations (Lane 2002).

Indonesia and China were selected in this study due to the considerable number of underprivileged citizens especially in the agro-rural areas. Even though social entrepreneurial activities in Indonesia and China have succeeded in providing some incomes to the poor communities, their sustainability is uncertain.

The social entrepreneurship initiatives in both Indonesia and China seem to constitute short-term and individual initiatives rather than the long-term and nation-wide concerted effort embedded in the systems.

In Indonesia, a pressing issue of accessing credit for non-formal micro-enterprise is a challenge to social entrepreneurs. In the absence of formal policy regarding micro-credit scheme for the poor, the existence of micro-enterprises in Indonesia is difficult to sustain. Most practitioners are uncertain where micro-finance is positioned in the national financial system and there is no clear direction, which can be used among the stakeholders to assist micro-enterprises among the rural folks. Unless the government takes a drastic measure to come out with an alternative solution, the sustainability of the micro-enterprises in Indonesia is at stake. Another critical problem with social entrepreneurship in Indonesia was a general lack of knowledge about business and the market among micro-enterprise participants due to limited schoolings.

Despite the open-door policy of 1978, the Chinese government still exerts control over micro-economic activities. The Chinese environment is continuously changing but the obstacles for social entrepreneurs are evident. Similar to Indonesia, the large Chinese population posed challenges to the government in terms of providing (a) education and training, (b) infrastructure, (c) skilled workers, and (d) financial support. Social entrepreneurs in China faced problems including wavering political stability, bureaucratic red tape, and capricious governmental policies overseeing township and village entrepreneurship. As state-owned and large private enterprises gain a greater degree of autonomy, township and village entrepreneurs will face more competition. State-owned enterprises and multinational corporations are larger, have easier access to technology, more capital, and personnel. Several township and village enterprises have gone out of business due to the competition. Thus, the primary challenge for social entrepreneurs is to be resilient and resourceful. The challenge stresses the importance of education and training so that the peasants may enhance their knowledge, skills and competencies in business, management and social domains.

In the nutshell, the similarities between China and Indonesia in terms of social entrepreneurship are as follows: (a) the limited success of social entrepreneurship, (b) the prevalence of government control over micro-economic activities, (c) strong bureaucratic red tape, (d) lack of education and training, and (e) lack of resources. However, we have observed there are unique differences between China and Indonesia. Social entrepreneurs in Indonesia focused on micro-enterprises in non-formal sector and micro-finance; whereas social entrepreneurs in China put emphasis on social efficiency, autonomy and the search for better *modus operandi*.

## SOCIAL, POLITICAL, CULTURAL AND ECONOMIC BARRIERS

Even though Chinese and Indonesian's social entrepreneurial activities have increased over the years and their share in economic productivity has been sizeable, the overall development and growth are laden by various problems. The governments in both countries exercised significant influence over political and social institutions. Cultural division and social fragmentation also hindered social progress. Low educational qualification and lack of relevant skills among rural youth have exacerbated the problem of under or unemployment in both countries. Other geophysical catastrophes and diseases such as Tsunami, coal mining disaster, and Avian Flu have pulled the governments and NGOs resources towards the affected areas and left other needy areas with less resources.

In Indonesia, social entrepreneurs faced major difficulty in ensuring an access to credit without collateral and other productive resources for the marginalized groups. Accessing credit is crucial in order to enhance entrepreneurship and self-employment throughout every strata of society for both women and men in Indonesia. With hidden problems of official corruption, race polarization and political instability - social entrepreneurship in Indonesia is facing social, political and economic challenges.

The national economy of China has greatly benefited from the private sector. The private sector has strengthened China's domestic economy; whereas the dominance state-owned sector has appeared to decrease. The intense development of social and economic mobilization triggered old economic habits and practices to be substituted with new standards and attitudes. Individuals who worked with state-owned enterprises were trained to take orders and therefore, were not used to innovate or take risks. Managers of state enterprises would only take orders from superiors and they had to be forced to take responsibility. Social entrepreneurs on the other hand, were very self-motivated and innovative. They understood the significance of being resourceful, being risk-takers, and applying social agenda in the communities. The new generation of social entrepreneurs in China and Indonesia are future social and economic reformers at micro level.

## THE NEED FOR EDUCATION AND TRAINING SYSTEMS

Social, political, cultural, and economic barriers have brought about competitive pressures on social entrepreneurship. The survival and success of social entrepreneurship are virtually dependent on improving innovativeness and productivity in the face of intense competition. Thus, education is seen as an important means to enhance the people's socio-economic condition. In Indonesia, the government has responded to the shrinking job opportunities by offering classes on entrepreneurship to students at secondary and post secondary levels



in the hope that graduates would be enterprising enough to venture into business especially small businesses (Gray & Paryono 2004). In addition to entrepreneurial skills, other soft skills such as social and communication training are deemed important to produce not only entrepreneurs in the traditional sense but a holistic individual who can alleviate social condition in his or her locality.

In China, the government should grant more autonomy to education and training institutions to train students in fields that are relevant and in demand by the workforce in order to reduce unemployment (Wang 2004). However, the quality and availability of education varies widely, particularly in rural areas. A lack of well-trained teachers and insufficient infrastructures have placed rural students at a disadvantage compared to their urban peers. Like Indonesia, China has been an agriculture-based country with presently over 60% of its population living in rural areas (Wang 2004). Thus, the development of rural social entrepreneurs is perceived as a vital move to improvise the state of rural agropreneurship.

To face contemporary economic and social challenges, social entrepreneurs need to rethink their short and long-term strategies and should focus more on how to educate and train the poor people in order to haul them out of the chain of poverty and be able to sustain themselves in the long run. In other words, social entrepreneurs in the future might plan to build more social enterprise schools to reach their objectives. Eventually, a change of mind set or paradigm shift in the thinking of rural people about wealth and social dignity are acculturated in the grass-root people's hearts and minds. In tandem, social cohesion through education of citizens should be the driving force of social entrepreneurial activity; it is the social mission that should be "explicit and essential" (Dees & Haus 1998). Social entrepreneurship initiatives should be able to demonstrate that the social as well as economic outcomes are the top priorities.

## CONCLUSION

Social entrepreneurship represents a significant driving force of development and progress in so-called 'first world' societies as well as in developing countries. It focuses on changing the mind set and fosters on concepts that fundamentally changes the way a society organizes itself, specifically how it addresses overwhelming social problems. Social entrepreneurs go beyond the depersonalized and uncaring visions of division, mechanization, violence, and political conflicts. The new paradigm of social-cum-business practice and the culture of liberalism developed throughout the 20th century, constitute the *raison d'être* of social entrepreneurship. In addition, social entrepreneurship should be seen as a complement to, and not an alternative to social change. Social cohesion through education of citizens should be the driving force of social entrepreneurial activity; it is the social mission that should be accomplished. Success stories of

social entrepreneurships such as micro-enterprises in Indonesia and Project Hope and SSG in China exemplified the empowerment of grass-root citizens making remarkable differences in their communities in spite of encountering numerous problems and challenges. However, significant works have to be done because the acculturation of social entrepreneurship is still at its nascent state.

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For more information please contact:

Ramlee Mustapha  
Fakulti Pendidikan  
Universiti Kebangsaan Malaysia  
43600 Bangi  
Selangor Darul Ehsan