

## Closing the Socio-Economic Gap: The Role of Social Enterprises in Kedah

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### Abstract

Kedah is one of the Peninsular Malaysia states with a high poverty rate. Existing gaps in regional, state, and rural-urban development continue to exist. Hence, several endeavours have been undertaken to address this socioeconomic disparity, including promoting the establishment of social enterprises. This concept was derived from the Kedah Book 2035, specifically its Core 3: Social and Cultural Inclusion, whose purpose is to strengthen the poverty eradication program and reduce the socio-economic disparity among the population. With a particular focus on the Urban Poverty Eradication Programme Empowerment Initiative for the B40 Group, the primary aim of this research is to highlight the role of social entrepreneurship in addressing the challenge of a higher poverty rate in Kedah. Additionally, this study seeks to examine the challenges and prospective opportunities that pertain to social enterprises within the state of Kedah. In the present study, the research methodologies include using secondary data sources, including journals and articles acquired from online databases. In summary, social enterprises have the potential to mitigate the issue of poverty in Kedah, Malaysia. However, previous evidence suggests that social enterprises encounter many challenges that impede their growth. Therefore, the state government should implement additional actions to guarantee the efficacy of social enterprises in eliminating poverty.

**Keywords:** Social enterprises, social entrepreneurship, poverty, socio-economic gap, Malaysia

### Abstrak

Kedah merupakan salah sebuah negeri di Semenanjung Malaysia yang mempunyai kadar kemiskinan yang tinggi. Jurang yang sedia ada dalam pembangunan wilayah, negeri dan luar bandar terus wujud. Oleh itu, beberapa usaha telah diambil untuk menangani jurang sosioekonomi ini, termasuklah menggalakkan penubuhan perusahaan sosial. Konsep ini terhasil daripada Buku Kedah 2035, khususnya Teras 3: Rangkuman Sosial dan Budaya yang tujuannya adalah untuk memperkasakan program pembasmian kemiskinan dan mengurangkan jurang perbezaan sosio-ekonomi dalam kalangan penduduk. Dengan tumpuan khusus kepada Inisiatif Pemeraksanaan Program Pembasmian Kemiskinan Bandar bagi Kumpulan B40, matlamat utama penyelidikan ini adalah untuk menonjolkan peranan keusahawanan sosial dalam menangani cabaran kadar kemiskinan yang tinggi di Kedah. Di samping itu, kajian ini bertujuan untuk mengkaji cabaran dan peluang prospektif yang berkaitan dengan perusahaan sosial di negeri Kedah. Metodologi penyelidikan yang digunakan dalam kajian ini adalah sumber data sekunder, seperti jurnal dan artikel yang diperolehi daripada atas talian. Secara ringkasnya, perusahaan sosial berpotensi untuk mengurangkan isu kemiskinan di Kedah, Malaysia. Walau bagaimanapun, bukti daripada kajian terdahulu menunjukkan bahawa perusahaan sosial menghadapi banyak cabaran yang menghalang pertumbuhan. Oleh itu, kerajaan negeri harus melaksanakan tindakan tambahan bagi menjamin keberkesanan perusahaan sosial dalam membasmi kemiskinan.

## Introduction

Social enterprises are agents of change capable of changing the way people think and behave through innovative products and services. Social enterprise started with the original purpose of solving social problems, especially those related to poverty, hunger, and inequality (Yunus, 2007; Yunus, 2009). Social enterprise has recently received much attention since many people perceive the benefits of their activities, such as offering job opportunities for single mothers, persons with disabilities (PWDs), poor communities, and ex-convicts, as well as leading to the eradication of poverty. Furthermore, the employment opportunities provided by Social enterprises enable these groups to provide education to their children, thereby becoming one of the means of resolving the seemingly endless societal problems.

In the Kedah Book 2035, which the state government launched through the Economic Planning Unit (EPU) of Kedah, one of the cores is Social and Cultural Inclusion (Core 3) with goals of empowering the poverty eradication program and bridging the socioeconomic gap of the people particularly involving the empowerment Initiative of the urban poverty eradication program for the B40 Group. Nevertheless, implementing this approach might be challenging for typical commercial organisations due to barriers such as organisational structure, bureaucracy, and the primary operational goal being profit-oriented (Nasruddin & Fahada Misaradin, 2014). Therefore, social enterprises are the most effective entities for tackling societal issues that relate to poverty. Social enterprises are driven by a social purpose rather than profit, and they provide creative solutions by creating goods and services that tackle social issues. This makes them well-suited for addressing both of these objectives.

According to Table 1, the state of Kedah had a poverty rate of 1.99% in 2017. Meanwhile, Table 2 shows that in 2017, the

number of households under hardcore poverty and poverty was 1,953 and 6,543, respectively. Table 3 shows that 163,200 Kedah residents work with their families without getting paid. According to these figures, it is clear that Kedah is now experiencing a high rate of poverty. In achieving Core 3, social enterprises play an essential role by considering the social mission that drives the purpose of establishing a social enterprise, and the profit obtained is to meet the needs of the social mission in the context of eradicating poverty and bridging the socio-economic gap of the people in Kedah. Therefore, to eliminate extreme poverty in Kedah, the government must examine socioeconomic causes that contribute to poverty and find an innovative solution.

**Table 1**

*Kedah State Poverty Incident Statistics (2014-2017)*

Data	2014	2015	2016	2017
<b>Poverty rate (%)</b>	1.69	2.25	2.19	1.99
<b>Exit Poverty rate (%)</b>	4.49	4.33	5.09	5.71

Source: *Pejabat Pembangunan Persekutuan Negeri Kedah, 2021*

**Table 2**

*Poverty Incidents in the State of Kedah (2014-2017)*

Category	Heads of households			
	2014	2015	2016	2017
Hardcore poverty	1,080	2,643	2,703	1,953
Poverty	5,849	6,661	6,492	6,543
Relative poverty	5,191	3,931	101	-

Not in the poverty category	13,185	14,014	21,297	24,255
<b>Total</b>	<b>25,305</b>	<b>27,249</b>	<b>30,593</b>	<b>32,751</b>

Source: *Pejabat Pembangunan Persekutuan Negeri Kedah, 2021*

**Table 3**

*Number of Employment Population in the State of Kedah and Employment Rate ('000) For (2016-2018)*

Year	Employer	Employee	Self-employed	Working with family with out a salary	Total
2016	25.4	585.1	231.1	42.9	<b>884.3</b>
2017	30.2	574.0	247.3	54.7	<b>906.3</b>
2018	25.1	591.8	226.7	65.6	<b>909.2</b>

Source: Department of Statistics Malaysia (DOSM), 2021

**Research objective**

The main objective of this study is to highlight social enterprise as a solution to the poverty issue in Kedah. The second objective is to examine the potential challenges for social enterprises in Kedah.

**Literature review**

**Social Enterprise**

Social enterprise refers to the rapidly expanding number of organisations that develop methods for efficiently meeting fundamental human needs that traditional markets and institutions have failed to meet (Seelos & Mair, 2005). Further, according to Dacanay (2005), social entrepreneurship promotes and grows wealth-generating businesses or organisations to better society. Yunus (2009) defined social

enterprise as "a social business is a subset of the concept of social entrepreneur, which is essentially an enterprise that employs free market principles to address an urgent social issue such as poverty, homelessness, or the needs of disadvantaged children. It must be lucrative and sustainable, but rather than returning profits to shareholders, they are reinvested in the business. In the United Kingdom, more than 70,000 social enterprises have employed more than a million employees and contributed more than 5% to the country's GDP. In Thailand, there are more than 120,000 SEs. Countries such as Thailand and Vietnam introduced laws to promote social enterprises that play a role in bridging the gap in people's inequality (Reuters, 2020).

In the Malaysian context, social enterprise is defined as "entities that balance both impact and business elements to solve social problems or environmental issues through offerings driven by market needs" (MaGIC, 2015, page number). In addition, social entrepreneurship is defined as "the systematic process through which individuals, known as social entrepreneurs, proactively devise innovative solutions to society's most pressing social and environmental challenges" (Ministry of Entrepreneur Development and Cooperatives, 2023). Social enterprises in Malaysia are a growing sector that has the potential to contribute to the country's socioeconomics. Table 4 indicates that in 2018, there were approximately 20,749 Social enterprises in Malaysia. Examples of economic activities carried out by social enterprises in Malaysia include the production of handicrafts (Heart Treasures) and reusable sanitary pads (Blubear Holdings Sdn Bhd), as well as the implementation of aquaponics systems for home and urban agriculture (Poptani), the operation of cafes and bakeries (Tender Heart), and the construction of modular houses (EPIC Homes).

**Table 4**

*Social Enterprises in Malaysia in 2018*

Source	Total SEs in Malaysia
Ministry of Micro, Small & Medium Enterprises (MSMEs)	7,257
Co-operative	11,073
NGOs	2,419
<b>Total</b>	<b>20,749</b>

Source: The State Of Social Enterprise In Malaysia, 2018

Social enterprises create values for society to pursue new opportunities and fill existing gaps to overcome social problems that ordinary business entities and governments may overlook. The Kedah state government strives to be a pioneer in empowering poverty alleviation programs and bridging the socioeconomic gap of the people, especially involving the Urban Poverty Alleviation Program Empowerment Initiative for the B40 Group. Therefore, the Kedah state government should encourage social enterprises in Kedah to solve social problems, such as poverty.

### Methodology

This research is entirely based on secondary data gathered from various sources. This research is grounded on a solid theoretical framework combined with secondary data. The data has been gathered from a variety of books, new papers, journals, research papers, case studies, and other online databases such as Sage, Science Direct, Springer Link, and Emerald. The study uses the following key terms as a starting point: youth unemployment, youth entrepreneurship, and social entrepreneurship. The present study was undertaken to understand the relationship between Social entrepreneurship and youth unemployment issues in Malaysia. This study also examines the challenges and prospective opportunities that pertain to young social entrepreneurship within the context of Malaysia.

### Discussion

**The role of social enterprises in addressing poverty in Kedah**

In a normal business setting, the primary purpose of delivering products or services is to maximise profits by satisfying the demands of customers. However, social enterprises not only provide answers to societal issues but also generate profit to fund their operations and reinvest in the company (Nicholls, 2006). Furthermore, according to Ellynita Lamin, the founder of the Social Enterprise Alliance Malaysia, social enterprises (SEs) differ from traditional businesses in three ways: (1) social enterprises directly fulfil social needs, (2) the primary source of social enterprises' income, comes from its business activities (3) the primary purpose of establishing social enterprises is to ensure that the outcomes serve the common good of all parties (Malaymail, 2020). Therefore, the Kedah state government must include social enterprises as a means to address the issue of escalating poverty in the state. The Kedah state government's attempts to narrow the socioeconomic gap are supported by social enterprises due to their ability to provide employment opportunities. In addition, attention and focus should be given to preserving and developing social enterprises to become a leading sector in the field of entrepreneurship in the state of Kedah that complements private sector businesses. According to The State of Social Enterprise in Malaysia (2018), the primary vision and goal of the majority of Malaysian social enterprises are to create job opportunities (34%) and to support vulnerable and marginalised groups (31%) (Figure 2).

### Figure 2

*Vision and Goals of Social Enterprises in Malaysia*



Source: The State of Social Enterprise In Malaysia, 2018

### Challenges for Social Enterprises

Although social enterprises have had a significant impact on society and the environment, there are still many challenges and obstacles to overcome so that they can improve their effectiveness (Figure 3). One of the biggest obstacles to social enterprises is the lack of legal definition and recognition of social enterprises as business entities in Malaysia. Because of this issue, many SE entrepreneurs operate under various forms of law, which are governed by various acts and regulations, including those in Kedah. Halid, Zawawi, Fuad, and Yusoff (2023) reported in their study that social enterprises in Malaysia faced various challenges such as insufficient expertise and knowledge, lack of access to funding, lack of outcome and impact measures, lack of skilled employees and lack of ability to compete.

In addition, social enterprises had challenges related to insufficient institutional and community support. Consequently, the industry has challenges in both recruiting and retaining quality employees (Zulkifli et al., 2021). Significant support and resources must be provided to train and develop the knowledge, abilities, and skills of quality talent within social enterprises. Government and community support is crucial for the growth and expansion of their businesses, enabling them to enhance their economic operations and maximise their impact on society. social enterprises in Kedah and other states also struggle with a lack of access to capital. Most Social enterprises in Kedah and Malaysia are funded through charity work, foundation work, donations, and corporate responsibility programs. Therefore, a conducive financing ecosystem is needed for social enterprises to accelerate their growth.

### Figure 3

*Challenges faced by Social Enterprises in Malaysia*



Source: The State of Social Enterprise In Malaysia, 2018

### Conclusion

Recently, Entrepreneurship Policy 2030 and The Shared Prosperity Vision 2030 were launched and they emphasised the importance of social entrepreneurial activities as a means of promoting development towards the objectives of sustainable development called Sustainable Development Goals (SDGs). In line with the efforts of the Kedah state government in the Kedah Book 2035, Core 3 of Social and Cultural Inclusion aims to empower the poverty eradication program and bridge the socioeconomic gap of the people, especially involving the Urban Poverty Eradication Program Empowerment Initiative for the B40 Group. However, the most challenging aspect for social enterprises is their ability to have a beneficial impact consistent with their mission, which is to help solve social problems.

As discussed, social enterprises have the potential to diminish the disparity in poverty by offering employment opportunities. However, this sector also encounters several challenges. Therefore, there needs to be an integrated effort coordinated by the Kedah state government in collaboration with relevant stakeholders to provide support and a conducive ecosystem for social enterprises to fulfil their role in achieving the objectives of their establishment. Some potential programs that might be implemented include offering appropriate grants to facilitate company

expansion, giving incentives or financial aid, and promoting and encouraging investment in social enterprises by both the public and private sectors.

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