

Financial Support for Social Entrepreneur in Engineering Project for the Community

^{1,a}Rohanna Rajan ^{2,b}Ishak Bin Annuar

¹Postgraduate Faculty of Business Management, Universiti Teknologi MARA, Kota Samarahan Sarawak

²Faculty of Electrical Engineering, Universiti Teknologi MARA, Kota Samarahan Sarawak

Corresponding Author:

ABSTRACT: Financial problems among Social Entrepreneurs (SEs) is one of the top challenging issues faced. The difficulties arise once the team built without any funding and how do they create business plan for the project. SEs are one of those function like non-profit organization, the target to help improving selected community's life. So, as the target is for the community grow, there is a need to build an organizational with people who can dedicate themselves, their time and effort for the project. All this is impossible to do without funding. This article would like to discuss the difficulties to get funding to develop SE project especially in engineering. Thus, this paper aims to discuss the relationship and influence of financial aspect itself and the implication and areas for future research to be discussed.

KEYWORDS: Financial Support, Social Entrepreneur, Funding Engineering Project

Date Of Submission: 20-10-2019

Date Of Acceptance: 03-11-2019

I. INTRODUCTION

Finance is a broad term that describes two related activities: the study of how money is managed and the actual process of acquiring needed funds. It encompasses the oversight, creation and study of money, banking, credit, investments, assets and liabilities that make up financial systems [1,2]. The idea of Social Entrepreneurship seems to be something new but the perception of the phenomenon changes throughout the years [3]

First, it is important to clarify what does a Social Enterprise (SE) requires. It is usual and easy, to make a comparison with the regular business to clarify the difference with social entrepreneurship. Where a regular trader will approach profit as a monetary reward, a social entrepreneur will approach profit as creating social value for the community [4]. The creation of social value can be best described as the provision of a contribution to a social problem [5]. According to [6,7], securing access of capital has a crucial role in achieving the social mission. In the traditional sense, financing covers all processes and measures within an organization related to the provision and repayment of the funds needed for an organization's investment or business operations development. This also includes the associated design of payment, information, control and hedging relationships between organizations and investors. The financing needs of social entrepreneurs involve some peculiarities in comparison to profit-oriented entrepreneurs [8].

The two possible forms of financing through internal and external sources. If the social venture generates cash flow through the provided services and products, it makes use of internal financing. Normally, the target group itself pays for the services but there are also cases when third-party provide the payment either the government or service beneficiaries [6]. According to [8], the government funds only concrete projects and there are complex administrative procedures that must be fulfilled such as in financing engineering projects. Internal financing by the service recipients proceeds often in form of membership fees (ib.:70). Zimmer and Priller [9] state that only 32,3% of the total financial volume is financed by internally generated revenues. Often internal financing is accessible to SE. Financing through public authorities is not available to for-profit ventures thus, this make the differences in the financial structure of the two types of enterprises [6].

However, the external financing has a significant meaning for the SEs in Germany. Social entrepreneurs use external financing for long-term investments such in constructing high technology project that involve engineering works, like equipment and buildings, or to cover negative operating cash flows. Sources of external financing are investors without or with reduced financial return expectations because of the limited financial capability of SEs. Therefore, it is habitual when investors lower the rate of expected financial return [10]. Basically, the same external financial instruments are available for traditional companies and SEs: equity, debt and mezzanine capital. In addition, social ventures can receive donations or can have hybrid capital [8,10].

II. LITERATURE REVIEW

Financing options used to support SE

There are many legal institutions in all over the world that could give impact to SEs. But there is an existing of difficulty once the objective of the overall ideas doesn't meet the mission. Fundraising and marketing functions are especially important to non-profit entities when governmental contributions are available, as government contributions are often determined by applying a multiple of the amount the non-profit has already raised. There are also private philanthropic "matching funds" from donors to motivate fundraising performance [4,7,11,12] but there is no "one size fits all" solution. When establishing a SE, many aspects other than finance enter the game: for example, the specific business model, the need for flexibility to make changes to the enterprise's purpose along the way, or the influence and risk that you want to have as a founder. Another important aspect is how much capital SEs truly need to get their mission started and fulfilled [13-15].

Here are some options to finance SEs:

a) Donations

SEs make more social contributions than other types of enterprises toward the community, but only in terms of social donations, they make less. While small size and fast-growing enterprises make much more social donations due to their publicity and to be well-known in the market. Therefore, donations from a corporate body may help SEs to grow well within the community, thus enhance a healthy economic growth. With hope that through SEs contribution the community have the same significant positive impacts to meet the new technology era[16].

b) Government Support

When the government announced it was going to be creating a new strategy for civil society, it was realized it is a shine on SEs and try to win them more support to strengthen SEs base for the community in designing and implementing engineering element in the SE project. The changes could help the community to improve their life towards the technological needs [17].

c) Sponsorship

Some corporates support the development of the SE sector by sponsoring programmes, research or innovation. This impact sponsoring demands relatively little time commitment from the corporate as there is no requirement to directly design or deliver the project. The level of commitment is flexible, and the partnership can include elements from other models; for example, the corporate can sponsor an incubation programme and provide mentors to supported SEs, or sponsor research, policy work, desinging a new technology or communications campaigns [16].

d) Investment

Social investment is the use of repayable finance to achieve a SE program as well as a financial return, for example they could finance some project that giving them benefit as return in future especially in technology or any project that involve engineering processes that could incurred high cost. SEs and charities that may be considered too risky for banks or traditional lenders, can often take repayable finance from a social investor, giving access to finance that may otherwise be unobtainable [1].

e) Crowdfunding

Crowdfunding is the collective effort of individuals to pool financial support for the efforts initiated by other people and organizations via the Internet. It has proven to be a great asset in sourcing potential customers and increasing an audience, offering a better chance at success. Crowdfunding is essentially a way for any organization to receive donations although it is not tax-deductible ones or earn revenue from pre-selling a forthcoming product or service. This is not to be confused with equity crowdfunding, equity crowdfunding, or the sale of company stock directly to the public through a website or broker intermediary [18].

Impact to investors and expectations

Depending on the specific type of investor, some are publicly known and others infamously. Some love to have impact far away and others directly in front of their doorsteps. Some prefer specific themes such as education or inclusion, while others are more sector agnostic and opportunity driven [19,20]. Naturally, institutional impact investors will publish profiles of SEs they like and already invested in. It is wise to check if your venture really fits the requirements before initiating first contact. For private sources of funding, this can be a bit more complicated. However, there are networks of social business angels, investor communities and through pitching events and sector conferences. SEs can get a sense about what is driving investors and will find information and resources to understand their expectations. Social investment funds, which collect funds from

individuals or foundations and invest in a given sector, such as microfinance or the solar industry, act as intermediaries by bundling funds from investors that they subsequently invest in certain asset classes such as project that involve engineering and technology. This approach reduces the transaction costs and the risk through diversification effects [19,21]. A very basic orientation however, is to hold the investor types according to their appetite for the magic triangle, risk, impact and return [22].

A good value proposition finance support program

An existing of many organizations offer practical advice, trainings, workshops, courses and programs in all areas relevant for a social entrepreneur to evolve and thrive today help to raise the number of SEs. Some come with challenging applications, others are freely accessible. Some indicate with awards, others offer no monetary support. In the absence of objective rankings, evaluations and certificates in this ecosystem, there is always common sense. So here come a few criteria that may help to pick out the best support program for SEs, try to plug into existing social media groups with social entrepreneur peers. This is a wonderful source of first-hand experiences, learnings and especially dos and don'ts not only in matters of social finance. Within a Blended Value Proposition Framework, one acknowledges that all organizations create blended value. Since all entities are fully integrated, the investor becomes less concerned with the legal structure and corporate status of an organization than with its fundamental value generation. A "for-profit versus non-profit versus hybrid" discussion is only relevant in the degree to which the investors seek various types of returns for their specific portfolios. Since non-profit corporations may invest in for-profit subsidiaries and for-profit companies may establish non-profit support organizations to advance partisan causes, there is no difference anymore [23,24].

III. CONCLUSION

SEs aspire to grow their enterprise to enhance the economy of the selected community, where SEs growth is perceived from multiple perspectives, primarily underpinned by the provision of a perceived social value. SEs growth is predominately measured from the external beneficiary perspective rather than internal financial metrics. Sourcing financing, staff retention adjusting to different roles in managing the enterprise and measuring the scale and impact of their business are the primary challenges encountered. The creation of social value and profit generation are not mutually exclusive in the SE when social entrepreneurs confront the challenges of growth within a business context. Thus, financial support from the organizations are very important to ensure the sustainability of SEs. SEs are less standardized and more personal to the organization. For example, take a new venture formed to provide educational services to children in rural areas. Using profitability as a performance measure it's would most likely not prove useful, as the mission of the organization does not involve producing monetary gains from the social activities. Instead, a survey and pilot project must be designed to assess the influence of the program on students' test scores as prove more useful either the activities carry really helps the children. In addition, growth in the number of students served might represent another indicator that the program is well received by the local community. While it remains difficult to evaluate the performance of a SE due to their ability to carry the overall ideas of the project to meet their own mission. Hence, the research should conduct to provide a more holistic understanding of growth in the SE. Recommendations on what is required by policy to assist the social entrepreneur to take their business to the next level and presents areas for further research to advance a topic that is still in its early stages.

REFERENCES

- [1]. Achleitner, Ann-Kristin, Heinecke, Andreas, Noble, Abigail, Schöning, Mirjam, & Spiess-Knafl, Wolfgang. (2011). Unlocking the mystery: An introduction to social investment. *Innovations: Technology, Governance, Globalization*, 6(3), 145-154.
- [2]. Achleitner, Ann-Kristin, Heinecke, Andreas, Mayer, Judith, Noble, Abigail, & Schöning, Mirjam. (2012). The governance of social enterprises: Managing your organization for success. Available at SSRN 2018937.
- [3]. Aldrich, Howard E. (2012). The emergence of entrepreneurship as an academic field: A personal essay on institutional entrepreneurship. *Research Policy*, 41(7), 1240-1248.
- [4]. Andreoni, James, & Payne, A Abigail. (2003). Do government grants to private charities crowd out giving or fund-raising? *American Economic Review*, 93(3), 792-812.
- [5]. Austin, James, Stevenson, Howard, & Wei-Skillern, Jane. (2012). Social and commercial entrepreneurship: same, different, or both? *Revista de Administração*, 47(3), 370-384.
- [6]. Batjargal, Bat, & Liu, Mannie. (2004). Entrepreneurs' access to private equity in China: The role of social capital. *Organization Science*, 15(2), 159-172.
- [7]. Bugg-Levine, Antony, Kogut, Bruce, & Kulatilaka, Nalin. (2012). A new approach to funding social enterprises. *Harvard business review*, 90(1/2), 118-123.
- [8]. Chan, Kai MA, Satterfield, Terre, & Goldstein, Joshua. (2012). Rethinking ecosystem services to better address and navigate cultural values. *Ecological economics*, 74, 8-18.
- [9]. Emerson, Jed. (2003). The blended value proposition: Integrating social and financial returns. *California management review*, 45(4), 35-51.
- [10]. Glänzel, Gunnar, Schmitz, Björn, & Mildenerberger, Georg. (2012). Social finance investment instruments, markets and cultures in the EU.
- [11]. Golden, Linda L, Brockett, Patrick L, Betak, John F, Smith, Karen H, & Cooper, William W. (2012). Efficiency metrics for nonprofit marketing/fundraising and service provision-a DEA analysis. *Journal of Management and Marketing Research*, 10, 1.

- [12]. Heinecke, Andreas, & Mayer, Judith. (2012). Strategies for scaling in social entrepreneurship *Social Entrepreneurship and Social Business* (pp. 191-209): Springer.
- [13]. Hubrich, David-Karl, Bund, Eva, Schmitz, Björn, & Mildnerberger, Georg. (2012). Comparative case study report on the state of the social economy.
- [14]. Liwei, Shan, Li, Gan, & Tao, Zheng. (2008). Corporate Donations and Economic Incentives: An Empirical Study Based on Corporate Donations Following the 5.12 Earthquake in China [J]. *Economic Research Journal*, 11, 51-61.
- [15]. Lorne, Frank T, & Dilling, Petra. (2012). Creating values for sustainability: stakeholders engagement, incentive alignment, and value currency. *Economics Research International*, 2012.
- [16]. McWade, Whitney. (2012). The role for social enterprises and social investors in the development struggle. *Journal of social entrepreneurship*, 3(1), 96-112.
- [17]. Miranda, Gabriela, & Larcombe, Graham. (2012). . THE ROLE OF PUBLIC SECTOR IN SUPPORTING LOCAL GREEN GROWTH. *OECD Local Economic and Employment Development (LEED) Working Papers*(1), 73.
- [18]. Onwonga, Mactosh, Achoki, George, & Omboi, Bernard. (2017). Effect of cash transport on the financial performance of commercial banks in Kenya. *American Journal of Accounting*, 1(2), 16-35.
- [19]. Peters, Edgar E. (1996). *Chaos and order in the capital markets: a new view of cycles, prices, and market volatility*: John Wiley & Sons.
- [20]. Spiess-Knafl, Wolfgang, & Achleitner, Ann-Kristin. (2012). Financing of social entrepreneurship *Social entrepreneurship and social business* (pp. 157-173): Springer.
- [21]. Sunley, Peter, & Pinch, Steven. (2012). Financing social enterprise: social bricolage or evolutionary entrepreneurialism? *Social Enterprise Journal*, 8(2), 108-122.
- [22]. Volkmann, Christine K, Tokarski, Kim Oliver, & Ernst, Kati. (2012). Background, characteristics and context of social entrepreneurship *Social entrepreneurship and social business* (pp. 3-30): Springer.
- [23]. Young, Dennis R. (2012). The state of theory and research on social enterprises *Social Enterprises* (pp. 19-46): Springer.
- [24]. Zheng, Haichao, Li, Dahui, Wu, Jing, & Xu, Yun. (2014). The role of multidimensional social capital in crowdfunding: A comparative study in China and US. *Information & Management*, 51(4), 488-496.