Macro-level enabling conditions for the formation of social business enterprises in the Philippines

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Received 5 December 2017
Revised 26 January 2018
Accepted 27 January 2018

Abstract

Purpose – A conducive and enabling environment is imperative for the formation of sustainable social business enterprises (SBEs). This paper aims to identify the macro-level enabling conditions necessary for SBE formation and to analyze them in the context of the Philippines, an emerging economy that is yet to be transformed into an inclusive one.

Design/methodology/approach – Major developments on micro-, small- and medium-sized enterprises, specifically on social enterprises, were revisited and analyzed. The author also looked into how they are sustained, supported and nurtured in the Philippines' overall economic landscape. Extensive data were collected from relevant agencies in public and private sectors, after which they were analyzed parallel to existing academic literature, i.e. theories, models and concepts, on social entrepreneurship and development nexus.

Findings – It has been found that the four macro-level enabling conditions, namely, governance, socially inclusive economic approach, financial services and entrepreneurial culture, presumed to be vital for SBE formation, contribute to the latter at various levels, but surely complement each other in the process.

Research limitations/implications – The significance of exploring the context in which social enterprises are formed and flourish lies in the sheer importance of understanding the sustained prevalence of SBEs in many economies – both in developed and developing ones.

Originality/value – By having a more structured knowledge of the components surrounding SBE formation, the community may be able to also simultaneously explore why and how social entrepreneurs form profit-earning business entities that are primarily driven by social advocacies and goals.

Keywords Financial services, Social entrepreneurship, Entrepreneurial culture, Good governance, Entrepreneurial formation and growth, Inclusive economy

Paper type Research paper

1. Introduction

This study turns the spotlight on social enterprises, herein defined as entrepreneurial organizations, following a business model, which focus on the provision of goods or services that primarily aim to solve social problems and, therefore, benefit the community. At the forefront, this study emphasizes that a conducive and enabling environment is imperative

Asia Pacific Journal of Innovation and Entrepreneurship
Vol. 12 No. 1, 2018
pp. 5-13
Emerald Publishing Limited
2398-7812
DOI 10.1108/APJIE-12-2017-0044

for the formation of sustainable social business enterprises (SBEs). The significance of exploring the context in which social enterprises are formed and flourish lies in the sheer importance of understanding the sustained prevalence of SBEs in many economies – both in developed and developing ones. The study primarily aims to identify macro-level enabling conditions necessary for the formation of SBEs and to analyze them in the context of the Philippines, an emerging economy that is yet to be transformed into an inclusive one.

1.1 Context

The emergence of social entrepreneurship (SE) as a research area in the wider fields of economics, management and development studies has been almost ubiquitous. It has been a buzzword in the business and development sectors and has reached the academic realm's critical antenna. SE has been generally observed as an "entrepreneurial activity that primarily serves a social objective" (Austin *et al.*, 2006; Peredo and McLean, 2006; Roberts and Woods, 2005; Peredo and Chrisman, 2006). This distinctive aspect of the apparency, centrality and indispensability of social mission compared with the conventional commercial (profit-oriented) enterprise strengthens the rationale behind the emergence of SE as a popular research area. One area, however, seems overlooked in the study of social enterprises when it actually determines whether SEs will prosper or die: a conducive and enabling environment is imperative for the formation and growth of sustainable social enterprises. Before elaborating the conditions for SE formation and growth in the Philippines, it is most apt to present three main points that highlight the rationale for this study.

First, the Philippine economy is at the crossroads of growth and poverty. According to the Philippine Statistics Authority (PSA)(2017a), the country reached almost 7 per cent gross domestic product (GDP) growth in the third quarter of 2017, but with a 21.6 per cent poverty incidence (PSA, 2017b); Leaving one for the other would be disastrous primarily because of the repercussions of social inequality. As wealth inequality *per se* has been suggested to have widened (Credit Suisse, 2017), the road to inclusive growth has to be paved well. Those favorable GDP figures, mainly represented by big businesses, have yet to trickle down to the lower socio-economic strata of the Filipino society. Second, data from the Department of Trade and Industry show that there is a predominance (99.6 per cent) of micro-, small- and medium-sized enterprises (MSMEs) in the country, 90.3 per cent of which are micro-enterprises. In addition, 9.3 per cent are small-sized enterprises and 0.4 per cent are medium-sized enterprises (Department of Trade and Industry, 2015). Finally, a recent study found out that there are over a hundred thousand social enterprises[1], cooperatives, non-governmental organizations (NGOs) and community-based organizations based in the Philippines (British Council, 2017). It may be suggested that Philippine-based social enterprises are seen as an active partner to deliver these services and products with an added value. Basically, Philippines-based SBEs work in two ways: they provide basic social services that are supposed to be provided by the government at an affordable price and/or sell products and offer services at an above-average price compared to other commercial products in the market. Through this approach, they provide decent and sustainable jobs for its workers.

It must also be noted that although studies on conducive environments for sustainable enterprises are increasingly becoming available (Diermen, 2006; Christian Aid, 2014), they cover a vast array of enterprises in various forms or legal structure – commercial, non-profit, not-for-profit and so on. Social enterprises are just one among many other forms of enterprises whose formation and growth are greatly influenced by external factors.

2. Macro-level enabling conditions for social entrepreneurial formation in the Philippines

This section identifies and elaborates four major exogenous conditions for the formation of social enterprises in the context of the Philippines (see Figure 1). The following determinants are explained in this section:

(1) governance;

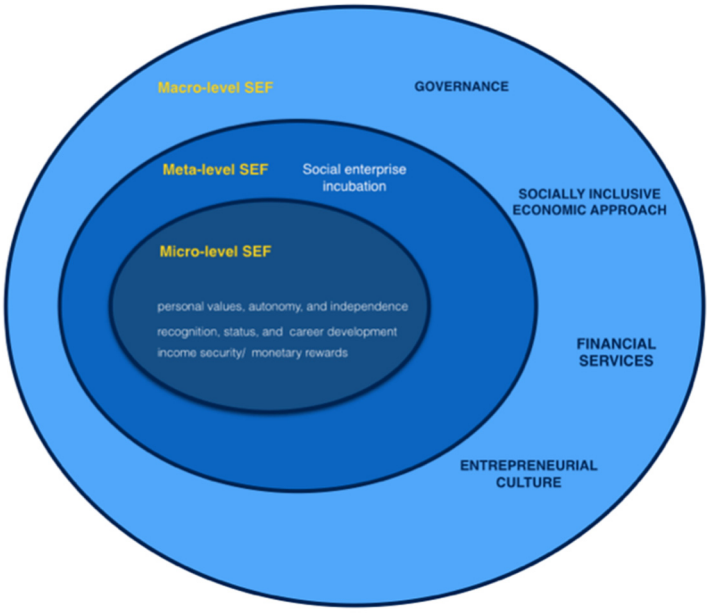
(2) macroeconomic stability and socially inclusive economic approach (SIEA);

(3) physical infrastructure and financial services; and

(4) entrepreneurial culture.

2.1 Governance

Governments are generally perceived as a default provider of financial support and ideal environment for the formation and growth of small enterprises. They are expected to formulate, implement, and uphold and promote relevant laws that protect property rights and ones that contribute to fostering socio-economic conditions that are fair and beneficial to all stakeholders, particularly entrepreneurs and consumers. This implies that they are assured of a safe and equitable market system, as well as public order and security. Most importantly, good governance "ensure (s) that public officials clearly distinguish between public goods and private gain" (ILO, 2007, 33; also see ILO, 2010 and Peels *et al.*, 2009), which would require a government that values integrity, efficiency, competence and productivity. It is only in a non-corrupt environment that enterprises flourish.



Source: Author's own conceptual illustration

Figure 1.
Conceptual framework: SBE formation at a multi-level dimension

There exists a number of legislative acts and government programs that have become instrumental in providing much needed support for enterprises in general, and small enterprises in particular. The Department of Social Welfare and Development manages social (Pantawid Pamilyang Pilipino conditional cash transfer program) and livelihoods programs (Self Employment-Kaunlaran). It links beneficiaries with the Department of Agriculture for programs through which further support, evaluation and monitoring are deemed essential. There are also government interventions, through the department of trade and industry, that aim to support MSMEs. One of the most recent, prominent and relevant government enacted legislation is the Go Negosyo Act of 2014, which seeks to strengthen MSMEs to create more job opportunities in the country. While these interventions support MSMEs in general, SEs can significantly benefit from them, because their structure, size and sectoral coverage are also akin to most, if not all, micro-enterprises.

Governance certainly matters in the entrepreneurial ecosystem, where various institutions, such as the government, market and society interact, and are affected by actions, behavior and decisions undertaken by any of them. The process through which one behaves may significantly affect the other actors in the system. Ultimately, governance is much and rightly associated with the government, with its bureaucracy, legislature and all regulatory agencies and other relevant bodies that comprise it. In this case, the citizens (of the state) or consumers (in the market system) are always directly affected by the actions and behavior of the government and its authorities. In essence, good governance has the following characteristics:

- popular, stable and honest and transparent political institutions;
- dynamic and responsible private sector; and
- an actively engaged and supportive public.

It is only when all parties collaborate that good governance work for entrepreneurial formation and growth.

2.2 Socially inclusive economic approach

Another important condition that contributes to the formation and growth of SEs is what I refer to as an SIEA in which the government orchestrates policies that are beneficial to all sectors of the society. In particular, such approach is driven toward having an active collaboration between and among the government, enterprises and communities. This underscores the value that lies in collaborative partnership between the public and private sectors in forging socio-economic inclusiveness.

Although there is a notion that social enterprises have had significant impact on the lives of many poor Filipinos, poverty remains. Inclusive business models are developed to provide "innovative ways to do commercially viable business with people living at the base of the pyramid (BOP)[2] and to expand access to basic products and services" (World Bank). Interestingly, in line with the theme "Inclusive Society" at APEC 2015, the Philippine Government highlighted its desire to come up with more inclusive businesses. If things turn well, studies for possible incentives for businesses and social enterprises may proceed to the adoption of effective models through a number of policy initiatives.

Two sectors are promising beneficiaries of and to some extent contributors to this socially inclusive economic approach: urban poor and rural workers. Farmers and fishermen can be transformed from subsistent workers to resilient entrepreneurs (i.e. distributors of commercially viable commodities) when urban merchants avail of their products under reasonable loans from formally established microfinance institutions (MFIs). Needless to

say, big businesses that intend to enter this market will need to gain specific expertise – to successfully and strategically work with the target population of consumers. This strategy is logical and pragmatic: some of the most important and viable commodities in the Philippines are also the industries where the rural poor belong: rice, cacao, cane sugar, coconut, coffee and staple root crops, such as sweet potatoes and garlic. If supported, this sector can be instrumental in attaining the goal of inclusive growth. Now, given that BOP may be a viable inclusive business model, agriculture and manufacturing are vital industries and SEs can function as an important tool to achieve this, this condition can yield tremendous benefits for both urban poor folks who prefer more affordable commodities and rural folks who are provided decent jobs with fair wages.

2.3 Financial services

A socially inclusive economy cannot be attained with just grand ideas that intend to embrace the marginalized. Tangible actions and mechanisms are necessary foundations for achieving a genuinely inclusive economy, prosperous and sustainable. It is to this end that financial services are considered vital to SE formation.

A great number of SBEs in the Philippines are informal micro-enterprises. As in most microbusinesses, access to funding and other kinds of financial services remains a tough problem. In most developing countries, informal economy persists, and a huge portion of the population depends on the money lending system. While informality may bring some short-term advantages, they often obstruct the flow of opportunities related to having proper access to resources, market connections and abundant information on financial incentives that may be made available to them. A stable and secure and reliable availability of financial services stands as a prominent component for the formation and sustained growth of small businesses. While the government can support MSMEs and agri-enterprise development through provision of guarantees, these may not suffice unless prospective entrepreneurs are secured and given tangible amount to start, sustain and successfully operate enterprises. As a response to this problem, the Small Business Corporation is mandated to extend credit assistance to MSMEs through its credit delivery strategy under which four programs for financial support are operated: microfinance wholesale lending, direct lending, guarantee for credits and wholesale lending. (Department of Trade and Industry – Small Business Corporation, 2017)[3].

The Philippine Government aims that through established MFIs, it may provide tangible assistance to small enterprises. As formal MFIs become more established in developing countries, the role of informal credit, in principle, gradually diminishes. Apparently, the former may be viewed as progress in a country that still possesses a huge number of people aiming to get out of poverty. If not for certain instances of corruption and scandal involving NGOs, SEs such as MFIs could have enjoyed greater support by both public and private actors (Graham, 2014). Nevertheless, formal and credible MFIs are an important tool in pursuing financial inclusion, and their growth albeit gradual in the Philippines is a positive development and, in fact, globally recognized too. It is now firmly among the leaders, in third position overall, among several countries that performed well in promoting financial inclusion. It also implies the determination and long-term commitment by the actors in promoting this worthwhile cause by prioritizing it in the government's policy agenda on a long-term basis. (Economist Intelligence Unit, 2016).

Meanwhile, private sector involvement is also apparent in providing financing options in the form of regulated financial intermediaries such as Pinoy ME Foundation, Foundation for a Sustainable Society, as well as social impact investors in the form of foundations or grant-giving entities such as Peace and Equity Foundation and SGV Foundation. These social

impact investments provide equity loans to promising enterprises provided they meet certain conditions, including social value at the core of the enterprise, viability to earn profit and sustain operations given a certain period and credible human resources capable of operating a business entity. Certain organizations such as the British Council have also been active and specifically target a particular sector of the society, i.e. youth, women and marginalized groups, that are deemed capable of making wise use of the funds to promote certain advocacies. Besides financial service, they also provide training and research for the promotion of SE.

Finally, incubation may also be considered a steadily growing option for social businesses. They also include accelerators and co-working spaces and innovation hubs, albeit these terms are often associated with technology-related startup businesses. Intermediaries support SEs through technical assistance and business mentoring. One of the toughest endeavors, besides funding, is the rigorous and painstaking application, submission and approval of fiscal and regulatory requirements; this includes application for tax exemptions and other incentives available to social enterprises. As social enterprises need training at the nascent or initial level, business mentoring is also provided, as well as networking opportunities and linkages with other SEs in the incubation system and with a broader community in the domestic or global market chain.

2.4 Entrepreneurial culture

An entrepreneurial culture is often undermined as another important component in social entrepreneurial formation. For this section, I identify two factors that contribute to the development of entrepreneurial culture:

(1) characteristics of social entrepreneurs; and

(2) enterprise community.

For the first sub-factor, social entrepreneurial characteristics consider the following: age range, socio-economic status and personality, which also includes the values and principles they hold dear. These are important points when attempting to understand why a lot of prominent entrepreneurs behind globally competitive brands are less than 40 years old. In the Philippines, millennials typically fuel the engine of SE landscape. Millennials are those born between 1980s and 1990s and are therefore less than 35 years of age. SBE CEOs, however, are between 35 and 40 years of age. Interestingly, there is a significant percentage, 44 per cent, of female leaders in the Philippines' SE network, according to the British Council (2017). The author's visit to Enchanted Farm, a social enterprise incubation entity, convinced him that most of these entrepreneurs – Filipinos and non-Filipinos alike – come from either middle- or upper-income strata and thus have the connections that are often, if not always, influential in the market. One interviewee, for example, comes from a well-off family. When asked why he opted to join Gawad Kalinga, an NGO, he claimed that his management principles fit those of the organization he is affiliated with. This is linked to the kind of personality and character social entrepreneurs possess. Why would they take the social aspect of business seriously when they could just deal with the main goal of enterprises – make profits or the generation of economic wealth? Could it be community? The answers to these questions may be strongly connected to the second sub-factor, enterprise community.

A community of entrepreneurs is strongly presumed as influential in shaping the business goals, motivations and strategy of social entrepreneurs. The trajectory of plans, mission and vision of social entrepreneurs are presumed to be more inclined, apparently, to social value creation rather than the conventional profit-earning objective of business

entities. Accordingly, any network of enterprises is deemed helpful in influencing market prices, sharing of opportunities and lobbying for policy agenda relevant to their business interests. If social entrepreneurial community could be as influential as the conventional business circles of the day, then it may also be possible to foster a positive market culture. Most importantly, as social entrepreneurs have gradually formed an emergent collective entity, it is but appropriate to emphasize the significance of a solid and firm network. As noted earlier, millennials are also assumed to be motivated by optimism, ethical values and action-driven development. They have taken advantage of the connections and network to mobilize, and eventually establish a community of social entrepreneurs in local communities – whether urban or rural. The Enchanted Farm in Bulacan Province exemplifies the usual profile of SEs in the country – those having young entrepreneurs who collaborate with young adults and teenagers in the countryside.

3. Conclusion

In this article, the author identified four components that contribute to the formation and growth of social enterprises in the Philippines. The points and examples provided in this article advocate that social enterprises are viable instruments that can significantly reform traditional capitalist structures and markets to become more inclusive, with more noble goals, and with greater impact. Government institutions act as the stirring factor directing economic policies. SIEA serves as an instrument, that when effectively utilized, can promote and optimize SBEs' socio-economic value; financial services are the enriching component; and the entrepreneurial culture can be considered as a catalyst that both enhances SBE formation and reflects any impact that the other three conditions may have contributed to SBEs in general.

In sum, the author concludes the following:

(1) Governments and civil society, including the private sector and active citizens, need to collaborate to genuinely foster an inclusive society.

(2) "Creative destruction" exemplified by active enterprises speeds up the engine for greater socio-economic development.

(3) Reforms may be necessary, but constant review of good practices could better help in moving forward and achieving collective goals.

(4) A conducive environment is an imperative for the formation and growth of social enterprises irrespective of spatial, sectoral or size factors.

The four conditions, when maintained and further improved, could provide a great environment for SBEs to better contribute to development efforts.

Notes

1. As of recent, there is no legal, official and general definition of what constitutes a social enterprise in the Philippines. However, two social enterprise bills, the Social Value Bill and the Poverty Reduction through Social Enterprise (PRESENT) Bill were drafted by the legislative bodies and a coalition of stakeholders, one of whom is the Institute of Social Entrepreneurship in Asia, which – "through the leadership of Dr Lisa Dacanay – has developed a definition of what it deems to be the most important form of social enterprise for inclusive and sustainable development: a social enterprise with the poor as primary stakeholders (SEPPS). A SEPPS is a 'social mission driven wealth creating organisation that has a double or triple bottom line (social, financial, environmental), explicitly has as a principle objective poverty reduction/alleviation or improving the quality of life of specific segments of the poor, and has a distributive enterprise

philosophy'" (Dacanay, 2013). It is hoped that the two Bills will foster a more apt venue for the promotion of social entrepreneurship in the country.

2. BOP consists of those with monthly income of below P18,000 for a family of five or below $3 per day, based on purchase parity terms. The UN definition of purchase parity is the number of units of a currency used in the domestic market to buy the same amount of goods and services that $1 could buy in the USA.
3. The Philippine Congress, in 2007, passed the Magna Carta for MSMEs, which requires banks to allocate at least 8 per cent of their loan portfolio to micro- and small-sized enterprises and 2 per cent to medium-sized enterprises.

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Further reading

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