

CONCEPTUALIZING SOCIAL ENTERPRISE IN THE LENSE OF ISLAMIC PERSPECTIVE

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1. INTRODUCTION

In general, social enterprises have two uncompromising roles which are first, to generate economic impact and secondly, to infuse a social impact. This is especially essential with the rise in poverty and other major social problems. The seriousness of the problem can be seen in the government's efforts towards reducing the level of poverty and social problems by inducing RM50 million boost. In SDG 1 (Sustainable Development Goal), additionally, poverty eradication and social restructuring have been prioritised. Islamic social enterprises have also become more pronounced in recent times with their focus on zakat (obligatory charity), sadaqa (voluntary charity), and waqf (perpetual endowment).

According to Austin et al. (2006), Certo and Miller (2008), and Zahra et al. (2019), social entrepreneurship are NGOs (Non-governmental Organizations) or NPOs (Non-profit Organizations) that operate to fulfill the unmet social needs as well as to create social values in society through entrepreneurial processes. Emerson et al. (2020) further state that it addresses social challenges and problems from poverty to health, education to the environment. A major problem that has been of utmost unrest, however, is the way finances in social enterprises (SEs) are handled. Mismanagement and mishandling of funds have led to fraud cases and untold criminal activities. This inevitably has led to public mistrust.

Due to various types of different economic activities performed by Islamic Social Enterprises (ISEs), it is hard to find one definite concept of Islamic Social Enterprise that fits the objectives of their establishment. Hisham, Kamaruddin, and Auzair (2019) contended that Islamic organizations which adopted the SE concept, are known as Islamic Social Enterprise. The purpose of ISE is to carry out Islamic objectives in its activities and operations. The Islamic objective, which is known as *maqasid syariah*, is an essential foundation in any Islamic organization. Without clear objectives, ISEs which objectives are a combination of economic and social objectives in an organization, might not be able to run their operations and activities smoothly. Indeed, Islamic practices in Islamic organizations are different from those non-Islamic organizations. Islamic practices include objectives and values rooted within Islamic organizations themselves. As such, those SEs adopting Islamic practices are so-called ISEs by definition. This paper about conceptualized social enterprises in the lens of the Islamic perspective would help researchers to develop an index performance measurement tool for ISEs.

2. ISSUES RELATED TO SOCIAL ENTREPRENEURSHIP WELL-BEING

Fraud-related cases have blemished SEs well-meaning goals. These include well-known organizations like United Way of America, American Cancer Society, National Kidney Foundation Singapore, Citi Harvest Church Singapore, and many others. In Malaysia, for example, misappropriation of funds for orphans from former Al-Arqam devotee, Hatijah Am in 2013 resulted in her detention under the Prevention of Money Laundering and Terrorist financing in 2011 and cases of negligence of the Malaysian Association for the Blind (Raj, 2015) as well as the NPO scandal of the Malaysian Islamic Economic Development Foundation (YAPIEM). This has led regulators and policymakers in various countries across the globe to implement governance reforms to enhance SEs' accountability and holistic performances.

There are several imminent issues related to fraud occurrences. The method of reporting for NPOs and SEs need to be upgraded. In effect, Islamic standards of reporting on SEs should be implemented for Islamic SEs. Another pressing reality is the low involvement of Malaysian citizens in SEs. According to the Global Entrepreneurship Monitor (GEM) 2018/2019 report, Malaysian citizens who are active social entrepreneurs between the age of 18 to 64 years is only 2 percent. The low percentage reflects the current state of Malaysian society when it comes to donations and charity. Most SEs depend on continuous funds from sources such as donations, membership fees, and government support. With a lack of support, SEs are unable to operate to contribute to the social and economic growth of the country.

Internal issues could also impede the social agenda. Among SEs, poor risk management activities, failure to monitor, lack of internal and external control, and dishonesty among management staff have dampened the progress of SEs (Abraham, 2007). There is therefore a great need for greater transparency and accountability in the management of SEs (Perego & Verbeeten, 2018). Thus, there is an urgent need for a performance management tool to monitor the finances with the incorporation of Islamic measures for Islamic Social Enterprises with relations to zakat (obligatory charity), sadaqa (voluntary charity), and waqf (perpetual endowment).

3. IMPACT OF SOCIAL ENTERPRISE DEVELOPMENT ON THE MALAYSIAN SCENE

In general, SEs are considered a catalyst for the development of civil society and according to Bainecone and Radwan (2019), the need for a civil society's achievement must be done through innovative ways in terms of models, tools, and instruments, where necessary. With regards to this, the focus on social impact enterprises which have a dual objective of financial-economic benefits and generating social benefits is fundamental in a way that they are agents to take responsibilities towards social activities.

As of January 2021, there are 80,586 registered non-governmental organizations (NGOs) or non-profit organizations (NPOs) in Malaysia. This shows that there is demand for a high degree of accountability and transparency, which in turn demands effective internal management control through reporting practices (Abraham, 2007). Such controls are essential because SEs receive a substantial amount of money from various sources. They mostly depend on voluntary services and donations for financial support. Furthermore, these SEs receive great

trust from their stakeholders, particularly their funders. Given the overwhelming amount of money received and the high trust obtained by these SEs, there is an underlying question as to whether these organizations utilise the given funds efficiently. Despite the financial backing, the stakeholders of these SEs also must face issues related to information asymmetry because SEs are not required to disclose finances to anyone except their members. Because of this information asymmetry, the stakeholders may not know whether these SEs are carrying out the mission honestly for the intended purposes. The stakeholders of SEs have made a significant contribution to the development of SEs and are thus entitled to effective governance of accountability. Moreover, there is a need to incorporate the Islamic virtues in developing the Islamic SEs as shown in various literature and research.

4. INDEX MEASUREMENT

A benchmark indicator or a measure as a reference or a yardstick is also called an index. Index measurement has been widely used as a useful tool to assess and construct attributes or intervene in measuring a wide variety of fundamental activities (Morgado et al., 2018). These fundamental activities include the acquisition of knowledge about people, objects, events, and processes. Nevertheless, an index measurement is also used in business sectors for measuring financial reporting quality and to the hybrid of business and non-business sectors such as SEs.

4.1 Index Measurement for Financial Reporting Quality

Several kinds of literature have reported on the quality, amount, and methodological issues of financial reporting quality. The most reliable and commonly used method applied so far has been the measurement of the quality of reporting using reporting index (Marston & Shrives, 1991). In a study by Dixon et al. (1991) followed by Tower and Dixon (1994), the New Zealand tertiary education annual reports of 1990 to 1992 were examined. Tower and Dixon (1994) further expanded the index which was used to measure the reporting information in annual reports. The index was improved by reducing to 26 items in total, and a 5-point system of assessing individual information items. This revised index was called the "Modified Accountability Disclosure (MAD) Score Index" and was externally validated by studies in Australia (Nelson, Fisher, Tower & Banks, 1997). A further study using the annual reports of New Zealand universities between 1985 and 2000 built on the MAD index and tried to overcome some of its weaknesses. This new index called the "Public Accountability Index (PAI)", was more comprehensive with 58 items instead of 26 and was found superior to the MAD index. The results found that in each of the studies reviewed, the disclosure index was a useful tool for examining financial reporting. The disclosure index was aimed at looking into the ability of the report to communicate important information to multiple stakeholders. Similarly, in a recent study, the use of an index was applied in a Belgian non-profit setting in compliance with accounting and financial reporting standards (Verbruggen, Christiaens, & Milis, 2011).

4.2 Index Measurement and the Islamic SEs

Studies have also shown that the index can be used to measure performance evaluation in NPOs. Performance measures can be used to track an organisation's progress against its strategic plan and NPO's specific performance in achieving its mission. For specific measures, metrics are developed which then can analyse and rank the NPO's performance (Beattie et al.,

2021). Once appropriate metrics are identified, the data collection and performance tracking process can begin to evaluate performance over time. Nevertheless, Islamic SE needs to consider Islamic principles in its operations and management, including financial aspects. Limited studies discussing Islamic SEs have been found except for the study by Muliyaningsih (2013), which discussed SE in Islamic Social Welfare System. The study examined an individual's role as an intermediary of zakat institutions. Islamic principles of financial management in SEs require every Muslim to manage their mal (wealth) wisely. From the al-Daruriyat theory of Maqasid Shariah (objective of Islamic law), there are five fundamental elements and one of them was Yuhafizu Al-Mal (property management). There is also a verse from al-Quran that calls a Muslim to manage property modestly as in the following verse: "And [they are] those who, when they spend, do so not excessively or sparingly but are ever, between that, [justly] moderate." (Al-Furqan 25:67). All these principles in operations and management depend on the Islamic sources which have unique characteristics that can be used as a foundation to develop an index for operations and management, control, or performance measurement. As such, the sources include: (1) Zakat – The amount of money or kind taken from specific types of wealth when they reach a specific amount at a specific time which must be spent on specific categories in specific ways; (2) Waqf – The amount of money or kind that had been given by donors with specific purposes and it is an irrevocable gift of a corporeal property ('ain) for the benefit of donor's family or someone else or something and the benefits from this type of charity is normally for the public interest; (3) Sadaqah – The amount of money or kind that had been transferred to other people or parties without compensation seeking that involves giving or donating without mentioning its usage in specific; (4) Hibah – A transfer of certain property (mal) without any material consideration. It means uncompensated transfer between individuals; (5) Infak – Given acts for the betterment of the community and its members (Kahf, 2007); (6) Qard Hasan – A loan that is interest-free and extended on a goodwill basis, primarily for welfare purposes. Also refers to a benevolent loan. These various sources of Islamic funds are all given for the benefit of the beneficiaries and their stakeholders.

5. DISCUSSION AND CONCLUSION

This systematic review was primarily directed at conceptualizing issues towards SEs, particularly for Islamic SEs. It covers published literature related to the well-being of social entrepreneurship and the impact of social enterprise development on the Malaysian scene. In addition, the above discussion identified the use of index measurement as a possible measuring reference or a yardstick in measuring the financial reporting quality of the business sectors and social enterprises. It is noted that there are many factors affecting performance measures of ISEs such as the organizational category, the organizational types, the organizational structure, the organizational objectives, and many other dimensions such as the integration between dual objectives of the economic and the social objectives for ISEs. The basic elements of the Islamic objectives (*maqasid syariah*) which consists of preservation of faith, preservation of life, preservation of intellect, preservation of posterity, and preservation of wealth contribute to the success of their economic dealings as well as their social objectives.

By understanding the concepts of ISEs establishment, it will help and make it easier and clearer for Islamic entrepreneurs to run their operations. Furthermore, this will serve as a guide to the entrepreneurs to learn and practice from what they have learned based on Islamic concepts. This paper also helps contribute to a better understanding of the concept of ISEs as from it, the performance measurement of these ISEs can be measured because of their well-

established understandings of the concepts behind ISEs. As indicated by published literature, performance measurement is mostly from conventional social entrepreneurship and it arguably lacks literature and discussions from ISEs perspectives (Mulyaningsih and Ramadani, 2017). This is about assessing the quality of ISEs. By establishing an index, then the performance measurement of ISEs can be measured, indicating whether it is well-performed, moderately performed, and under-performed. The principle behind ISEs is when the objectives of ISEs are taken from the primary source of the Islamic religion which is Al-Qur'an and Al-Hadith, and which should be in the track of the Islamic objectives (*maqasid syariah*). The virtues of fairness, *al-falah* (success), justice and balance, welfare and social security, charity, *jihad*, *khalifah with amar maaruf*, and *nahi munkar* are all vital virtues to be included in the performance measurement of ISEs. The strengths of index measurement in assessing the performance measures of SEs need to incorporate Islamic virtues in applying the index for ISEs.

Thus far, this paper has looked at related issues of social entrepreneurship well-being. Studies have found that extensive fraud cases have impeded the well-being of social entrepreneurship. In effect, it has caused mistrust and a lack of accountability. This is related to an unorthodox method of reporting and misappropriation of funds. Further, poor risk management activities, failure to monitor, lack of internal and external control, and dishonesty among management staff have contributed to further mistrust. This inevitably points to a serious need for greater transparency, and in the case of Islamic Social Enterprises, a performance measurement tool is essentially required to ensure that the well-being of social entrepreneurship is an account for.

The study has also reviewed the literature on the impact of social enterprise development on the Malaysian scene. Social enterprises have been found to have dual obligations which are first, to provide social impact and second, to provide financial impact. In Malaysia, there is a high number of NGOs and NPOs operating to provide charity services and to help the unfortunate and underprivileged. This number includes Islamic Social Enterprises. This being the case, there is a great need for the implementation of an index measurement to ensure that the funds and donations obtained are managed properly and given to the right channel to be used appropriately and responsibly. In the context of Islamic Social Enterprises, the study proposes for the index to consider the virtues of fairness, *al-falah* (success), justice and balance, welfare and social security, charity, *jihad*, *khalifah with amar maaruf*, and *nahi munkar*. Further, Islamic sources such as Zakat, Waqf, Sadaqah, Hibah, Infak, and Qard Hasan should also be considered.

In summary, therefore, the literature has supported the need for a measure index for social enterprises operating under NGOs and NPOs. This paper, in essence, proposes an Islamic Social Enterprise measurement index for better management with considerations of the implementation of Islamic values.

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