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INSTITUTIONAL PRESSURE AND SOCIAL ENTREPRENEURSHIP ORIENTATION: THEIR IMPACT ON THE PERFORMANCE OF SOCIAL ENTERPRISES

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ABSTRACT

Social enterprises are organizations that have economic and social goals. However, the performance of the social enterprise is still not satisfactory. In this study, the researchers examined one of the social enterprises that is developing in Indonesia, namely Village Owned Enterprises (BUMDes). This study aim to evaluates the effect of institutional pressure and social entrepreneurial orientation on the social performance of the social enterprise. It looks at the impact of social performance on the social enterprise's financial performance. The population in this study is social enterprise BUMDes in Bengkalis Regency with a stratified random sampling technique. Respondents in this study were BUMDes managers. Data collection was carried out by sending questionnaires directly to BUMDes managers. A total of 103 respondents participated in this study. The data that has been analyzed using Warp PLS shows that institutional pressure and social entrepreneurial orientation have a positive effect on social performance, and have an effect on improving financial performance. This research has implications for supporting institutional theory and improving BUMdes performance.

KEYWORDS : Institutional Pressure; Social Enterprise; Social Entrepreneurship Orientation; Social Performance.

INTRODUCTION

Currently, social enterprise has received considerable attention in the world field ([Jang, 2011](#); [Kim et al., 2021](#); [Shin, 2021](#)). A social enterprise carries out business activities while prioritizing social goals and is a company that pursues social and economic values simultaneously ([Ma et al., 2012](#)). A social enterprise is a hybrid organization expected to provide sustainable and far-reaching social benefits without exploiting labor or gaps to generate profits. However, they are also likely to operate with an understanding of business practices and demonstrate keen entrepreneurial and innovative skills. They conduct a creating social function while providing a platform for skills development. The development platform they usually provide for people who are marginalized by society.

In Indonesia, organizations classified as social enterprises are starting to develop. [Sofyani et al. \(2020\)](#) stated that Village-Owned Enterprises (BUMDes) is an effective form of social organization in Indonesia. BUMDes has a social mission but is still looking for profit. According to [Parmenides PDTT, Number 4 of 2015](#), the objectives of establishing a Village-Owned Enterprise include several activities such as; improving the village economy, creating market and network opportunities that support the needs of citizens' public services, and enhancing community well-being by enhancing public services, encouraging economic development, ensuring fair distribution of the village economy, and raising village community income.

Rural communities are anticipated to have social and economic effects as a result of BUMDes. Up to 2021, based on information from Indonesia's Ministry of Villages, Development of Disadvantaged Regions, and Transmigration the number of Village Owned Enterprises (BUMDes) reached 57,273 with details of 45,233 active BUMDes and 12,040 inactive BUMDes ([Iger, 2022](#)).

In Riau Province, the growth of BUMDes has been quite significant in the last five years. However, the percentage of successful, well-established BUMDes is still far from expectations. Of the 1,591 BUMDes that are spread out, only 202 are included in the advanced category. Meanwhile, the rest are 386 including on developing categories and 442 growing categories and 561 are basic BUMDes. In Bengkalis Regency, even 7 BUMDes do not yet have a business unit (source :DPMPD Bengkalis, 2022). This indicates that the performance of BUMDes is still not optimal. In addition, BUMDes are also considered to have not been able to meet the needs of the community properly. Based on that case, it shows that improving the performance of BUMDes is indeed to conduct.

The increasing performance of BUMDes as a social enterprise is an interesting thing to study. [Filatotchev & Nakajima \(2014\)](#) assert that a company's performance is not solely measured by its financial performance. However, social performance is also an important thing that should be considered by a company According to [Porter & Kramer \(2006\)](#) social performance has become an unavoidable business priority for leaders worldwide.

According to [Lu et al. \(2018\)](#) institutional pressures can increase corporate sustainability. Study [Alsaid & Ambilichu \(2021\)](#) on social enterprise found that institutional pressures affect organizational-level social performance. Besides, [Pramesti et al. \(2017\)](#) stated institutional pressure is important in building performance in public organizations. Moreover, [Sofyani et al. \(2020\)](#) explained that there is no regulatory pressure on BUMDes managers in terms of the impact of institutional pressure on BUMDes governance.

The social objectives of BUMDes require a social entrepreneurial orientation to improve their social performance. Several previous kinds of research on social organizations found that social entrepreneurship orientation affecting the performance of socially oriented organizations ([Gali et al., 2020](#) ; [Naderi et al., 2019](#); [Palacios-Marqués et al., 2019](#); [Doh, 2020](#); [Pinheiro et al., 2021](#); [Halberstadt et al., 2021](#); [do Adro et al., 2021](#)). According to [Gali et al. \(2020\)](#) Entrepreneurship Orientation is a business practice that is motivated by the creation of social value. It consists of some behaviors such as; 1) social innovation, 2) social proactivity, 3) social risk-taking, and 4) social nature. Social entrepreneurship orientation embodies the fundamental goal of achieving social impact, where social entrepreneurial orientation behavior seeks to address problems in the social environment ([Ramani et al., 2017](#)).

Some research also proves that social performance can improve financial performance in social organizations ([Maqbool & Bakt, 2019](#); [Choi et al. 2018](#)). However, most of the research is based on theories developed to explain companies and big data, and very little research has been done on small and medium-sized companies ([Choi et al., 2018](#)).

In Indonesia, studies focusing on the performance of social entrepreneurs are still rare, primarily related to institutional pressure and the orientation of social entrepreneurs. Previous research by [Sofyani et al. \(2020\)](#) using qualitative methods found that institutional pressure did not affect BUMDes governance practices. However, [Alsaid & Ambilichu \(2021\)](#) state that institutional pressure can affect the performance of social enterprises. In addition, [Haira et al. \(2022\)](#), in the social organization of hospitals in Pekanbaru, found that entrepreneurial orientation influences social performance. [Pinheiro et al. \(2021\)](#) support this research, finding that a social entrepreneurial orientation can improve social performance.

Therefore this research has a novelty in analyzing institutional pressure and orientation of social entrepreneurship on social organization. This study also examines the effect of social performance in improving the financial performance of social organizations, namely BUMDes. BUMDes is the largest social organization in Indonesia which is a point of concern for researchers, especially in improving performance.

Institutional pressure is the integration caused by authority, which is an important factor in pushing to take environmental measures ([Lu et al., 2018](#)). [DiMaggio & Powell \(2000\)](#) distinguished three types of pressure such: coercive, mimetic, and normative. Cohesive force comes from other organizations around which the organization is located. Mimetic pressure tends to imitate the behavior of other organizations that arise in response to uncertainty in a particular rule. Delay occurs due to various things in the organization. Such as changes in the political culture in government, regulations that often change, and so on. Organizational unpreparedness for a rule will result in a typical organizational understanding of implementing new regulations. In an uncertain situation, corporate leaders will decide that the best action the organization can take is to imitate an organization that is considered successful ([Pradita et al. 2019](#); [Wheelen et al.](#)). Thus, normative pressure arises as a consequence of the professionalism of specific organizations ([DiMaggio & Powell, 2000](#)).

According to [Scott \(2008\)](#), this theory explains action and decision-making in public organizations. This institutional theory defines if organizations prioritizing legitimacy tend to conform to external or social expectations where the organization is located ([Fitrianto & Adi 2016](#)). In connection with that matter, social enterprise as a social organization, consider the community's interests through their contributions. The pressure from

regulations from the needs of the social enterprise BUMDes organization and environment requires BUMDes to make improvements continually.

Based on Law No. 6 of 2014, which regulates BUMDes, is a coercive pressure that causes BUMDes to always act in the public interest. The normative force that demands BUMDes to improve its employees' capabilities and build relationships impacts employee satisfaction. Mimetic pressure causes BUMDes to improve relations with the environment and take responsibility. As explained in the study of social entrepreneurship conducted by [Alsaid & Ambilichu \(2021\)](#), institutional pressures have an impact on organizational-level social performance.

H1: Institutional pressure has a positive effect on social performance

Social entrepreneurship focuses on social organizations. According to [Kraus et al. \(2017\)](#), Social entrepreneurship orientation has some indicators such as innovation, risk-taking, proactive personality, and degree of social nature. [Mayenkes et al. \(2010\)](#) also stated that social entrepreneurs should carry out operational processes utilizing resources such as commercial entrepreneurs.

The study [Pinheiro et al. \(2021\)](#) shows a positive relationship between the size of the partnership, capital, innovation, organizational structure, and knowledge transfer on social performance in a social organization. The results show that social entrepreneurial orientation affects social performance. BUMDes as a social organization requires managers who have creativity and innovation for social purposes, namely meeting the needs of stakeholders. In accordance with the stakeholder theory that a company operates for the benefit of stakeholders, namely individuals in the organization, society and the environment. The more innovative and creative BUMDes managers are, the more impact they will have on meeting the needs of stakeholders.

H2: Social entrepreneurship orientation has a positive effect on social performance

Social performance is a set of results achieved. It also refers to the act of performing and implementing a social responsibility expected from the company ([Awan, 2019](#)). Social responsibility is a global indicator used to assess a company's social performance ([Vankatesh & Angappa, 2018](#)). If a company actively assumes environmental and social responsibility, this will not only increase employee and customer satisfaction. However, satisfaction and the level of the company's reputation will ultimately result in more group customers.

The increasing sales positively impact the company's economic performance ([Lu et al., 2018](#)); social performance is the fulfillment of internal and external customer expectations and satisfaction ([Refkee & Sundaram, 2017](#)). [Laari et al. \(2016\)](#) state that corporate performance and social performance centered on customer rights and benefits are explored. This shows that social performance will encourage increased economic performance

[Kim \(2018\)](#) also found that if social performance has a relationship with financial performance. Based on the description above, it can be concluded that improving the social performance of BUMDes will also have a positive impact on improving the financial performance of BUMDes.

Therefore, the following hypothesis is proposed:

H3: Social performance financial has a positive effect on financial performance

The following is the theoretical framework for this research

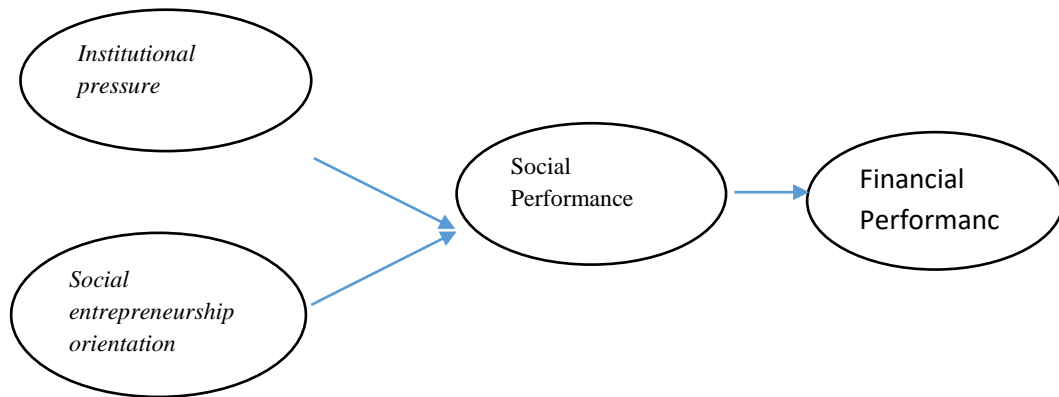


Figure 1.
Theoretical Framework

METHODS

The population in this study were BUMDes in Bengkalis Regency with a total of 136 BUMDes spread across 11 sub-districts (data source: Bengkalis DPMD). The sampling technique in this study was stratified random sampling. Each Bumdes category (grow, develop and advance) is taken proportionally.

The data collection method used in this study was a questionnaire survey. Questionnaires were distributed directly to respondents. Not only that, it is also distributed via Google Forms for respondents who cannot fill it in directly. Each item on the questionnaire was measured using a 5-point Likert Scale ranging from strongly disagree to strongly agree. Table 1 is the operational definition and measurement variables.

The Partial Least Square with Warp PLS 5.0 software was used to analyzed the data. According to [\(Ghozali & Latan, 2015\)](#), partial least squares (PLS) analysis is a multivariate statistical technique that performs comparisons between multiple dependent (endogenous) variables and independent (exogenous) variables. Moreover, this study uses ordinal data and tests the relationship between latent constructs in linear or linear relationships with many indicators. Partial Least Square (PLS) can also be called soft modeling. Because it eliminates the assumptions of Ordinary Least Square (OLS) regression, such as the data must be normally distributed in a multivariate manner, and there are no multicollinearity problems between variables.

Data analysis with Warp PLS begins with testing the outer model which consists of validity testing (convergent and discriminant) followed by reliability testing. Furthermore, testing the inner model testing with the stages of testing the fit model, testing the determination and testing the hypothesis.

Variable	Definition	Indicator
Financial Performance	Performance achievement is measured by profitability, leverage, assets, and revenue/sales growth. The indicator uses the indicator from Perdana et al. (2014)	(1) Profitability (2) Leverage (3) Asset (4) Revenue growth
Social Performance	Corporate social performance is a set of results achieved and refers to the act of performing and implementing a social responsibility expected from the company. The questionnaire was adopted from Lu et al. (2018) and also used by Perdana et al. (2014)	(1) Loyalty (2) Market share (3) Increase employee satisfaction (4) Increase community satisfaction (5) Improve reputation
Institutional pressure	According to Subramanian & Gunasekaran (2015) , Institutional pressure is a process of forcing an organization in a population to resemble other organizations that face the same environmental conditions.	(1) Coercive pressure (2) Normative Pressure (3) Mimetic pressure
Social Entrepreneurship Orientation	According to Gali et al. (2020) , entrepreneurship is driven by achieving social value creation.	1. Innovative 2. Risk-taking 3. Proactive 4. Social mission orientation 5. Effective orientation Sustainability orientation

Tabel 1.
Operational
Definition
and
Measurement
of Variables

RESULTS AND DISCUSSION

Characteristics of Respondents

There were 157 questionnaires distributed. But there were 103 questionnaires returned and can be processed by the respondent characteristic.

Gender	Frequency	Percentage
Man	63	61.2%
Woman	40	38.8%
Total	103	100%
Age	Frequency	Percentage
21-30 years old	51	49.5%
31-40 years old	32	31.1%
41-50 years old	17	16.5%
> 50 years	3	2.9%
Total	103	100%
Education	Frequency	Percentage
Senior High School	48	46.6%
D 1	1	1.0%
D 2	1	1.0%
D 3	10	9.7%
D 4	2	1.9%
Bachelor degree)	38	36.9%
Master (S2)	3	2.9%
Total	103	100%
Length of Work at BUMDes	Frequency	Percentage
<1 year	19	18.5%
1-5 years	69	66.9%
6-10 years	15	14.6%
Total	103	100%
Position	Frequency	Percentage
Director	58	56.3%
Secretary	19	18.4%
Treasurer	17	16.5%
Supervisor	4	3.9%
Unit Leader	5	4.8%
Total	103	100%
BUMDes Category	Frequency	Percentage
Up	3	30.1%
Develop	51	49.5%
Grow	17	16.5%
Base	4	3.9%
Total	103	100%

Tabel 2.
Characteristics
of
Respondents

Descriptive Statistics Results

Descriptive statistics can be explained in table 3

	N	Minimum	Maximum	mean	Std. Deviation
Institutional Pressure	103	28.00	45.00	38,2136	3,37712
Social entrepreneurship orientation	103	22.00	40.00	32.3400	3.42600
Social Performance	103	21.00	40.00	31.6602	3.70626
Financial performance	103	6.00	15.00	11.5534	2.07094
Valid N (listwise)	103				

Based on the descriptive statistics of each variable above, it indicated that the standard deviation value does not exceed the average value. It shows that the data is homogeneous and quite good.

Outer Model Evaluation Results

Convergent Validity and Discriminant Validity Test Results

The first stage in testing the outer model is convergent validity testing. It aims to describe the magnitude of the correlation between each indicator and its construct. Then the discriminant validity test seeks to test whether the construct is highly correlated or not with indicators from other constructs of discriminant validity. The results of convergent and discriminant validity testing can be seen in Table 4 below:

After removing indicators with a loading value of < 0.5 , the loading factor value of each indicator shows a value of > 0.5 . According to [Hair et al. \(2010\)](#), a loading factor of 0.5 is still acceptable for development research. Cross Loading also shows the correlation between the indicator and its construct is higher than the correlation with other block constructs, which means that discriminant validity is met.

	Institutional Pressure (X1)	Social Entrepreneurship Orientation (X2)	Social Performance (Z)	Financial Performance(Y)
X11	(0.744)	-0.065	-0.054	0.055
X12	(0.705)	-0.007	-0.207	0.120
X13	(0.660)	-0.208	-0.054	0.166
X15	(0.747)	-0.089	-0.096	0.132
X16	(0.658)	-0.336	-0.093	-0.005
X17	(0.628)	0.166	0.194	-0.192
X18	(0.810)	-0.013	-0.057	-0.025
X19	(0.534)	0.329	0.420	-0.142
X110	(0.693)	0.300	0.079	-0.165
X21	0.052	(0.578)	0.093	0.115
X22	-0.007	(0.688)	0.282	0.009
X23	0.213	(0.778)	-0.023	-0.108
X24	0.054	(0.783)	0.005	-0.057
X25	0.330	(0.782)	-0.095	-0.037
X26	0.110	(0.723)	-0.028	-0.003
X27	-0.295	(0.801)	0.073	-0.116
X28	-0.352	(0.784)	0.141	-0.056
X29	-0.287	(0.815)	-0.083	0.070
X210	0.215	(0.710)	-0.124	0.101
X211	0.028	(0.838)	-0.184	0.114
Z1	0.314	-0.204	0.001	(0.604)
Z2	0.016	0.039	-0.443	(0.707)
Z3	0.054	0.021	0.014	(0.702)
Z4	-0.127	-0.183	0.341	(0.658)
Z5	-0.258	-0.030	0.183	(0.662)
Z6	0.040	-0.018	0.188	(0.752)
Z7	-0.164	0.175	0.016	(0.706)
Z8	0.134	0.147	-0.259	(0.756)
Y1	0.123	-0.016	(0.939)	-0.010
Y2	-0.021	0.031	(0.953)	-0.007
Y3	-0.102	-0.015	(0.938)	0.017

Tabel 4.
Validity Test

Source: PLS data processing in 2022

Reliability Test Results.

Tests using reliability using Cronbach's Alpha and Composite Reliability (CR). Cronbach's Alpha tends to lower construct reliability than Composite Reliability (CR). The Composite Reliability (CR) interpretation is the same as Cronbach's Alpha, namely the limit value > 0.7 is acceptable, and the value > 0.8 is very satisfactory (Fornell & Larcker in (Ghozali & Latan, 2015)). The results of the reliability test can be seen in following Table 5:

Variable	Cronbach Alpha	Composite Reliability
Institutional Pressure (X1)	0.860	0.990
Social Entrepreneurship Orientation (X2)	0.924	0.936
Social Performance (Z)	0.846	0.881
Financial Performance (Y)	0.938	0.960

Source: PLS data processing in 2022

The reliability test results show the value of Cronbach alpha and composite reliability > 0.7. according that value it was indicating that all variables are reliable.

Inner Model Evaluation Results

Model fit and quality indices

Assessment criteria Model fit indicator according to [Sholihin & Ratmono \(2013\)](#) can be seen in the table 6

R Square indicates the magnitude of the variability of endogenous variables that exogenous variables can explain. The value of R Square of social performance is 0.236, which means that social performance is defined by institutional pressure and social entrepreneurship orientation of 0.236 (23.6%). The rest of 0.764 (76.4%) is explained by other variables. The R square value of the financial performance variable is 0.445, indicating that financial performance is defined by the institutional pressure, social entrepreneurial orientation, and social performance of 0.445 (44.5%), and the remaining 0.555 (55.5%) is explained by other variables not examined.

	Criteria	Result	Explanation
Average path coefficient (APC)=	Good if $p < 0.05$	$P < 0.001$	Good
Average R-squared (ARS)	Good if $p < 0.05$	$P < 0.001$	Good
Average full collinearity VIF (AFVIF)	acceptable if ≤ 5 , ideally ≤ 3.3	1.886	acceptable

	Institutional Pressure (X1)	Social Entrepreneurship Orientation(X2)	Social Performance (Z)
Path Coefficient			
Institutional Pressure (X1)			
Social Entrepreneurship Orientation(X2)			
Social Performance (Z)	0.187	0.343	
Financial Performance (Y)			0.667
P Value			
Strategy Orientation (X1)			
Social Entrepreneurship Orientation(X2)			
Social Performance (Z)	0.024	<0.001	
Financial Performance (Y)			<0.001

Tabel 5.
Reliability
Test Results

Tabel 6.
Model Fit
Model

Tabel 7.
Path
Coefficient
and P Value

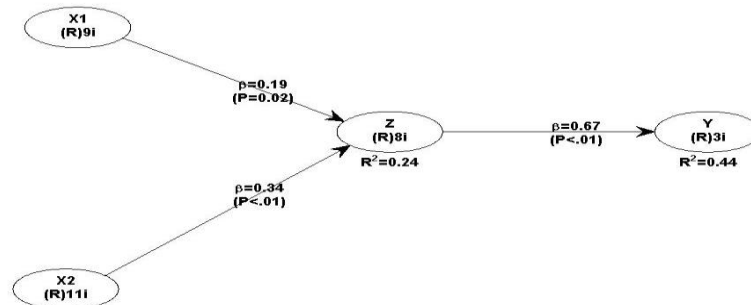


Figure 2. Structural Equation Model

The Effect of Institutional Pressure on Social Performance

The test results show a path coefficient value of 0.187 and a P-Value of 0.024 (<0.05), which means that hypothesis 1 states that institutional pressure affects social performance is acceptable. The test results showed that institutional pressure can improve social performance in social enterprise.

Supports the institutional theory put forward by [Scott \(2008\)](#) that organizations take action based on public needs. The results showed that the average respondent's answer indicated a reasonably high level of institutional pressure and social performance. This research shows that high institutional pressure can trigger increased social performance, namely by improving services to the community.

As a social organization, regulatory pressures, organizational needs, and the environment require organizations to improve their performance. BUMDes, as one of the social organizations under the government, will act based on regulations, namely carrying out activities for the public interest. Normative pressure also causes organizations to improve their employees' abilities and build relationships that impact employee satisfaction. The existence of mimetic force causes social organizations also improve relations with the environment. The research results support that institutional pressure can improve social performance in social organizations.

The present study is in line with [Alsaid & Ambilichu \(2001\)](#) which shows that institutional pressure has an impact on organizational level social performance.

The Influence of Social Entrepreneurship Orientation on Social Performance

The results of hypothesis testing show that the influence of social entrepreneurial orientation on social performance has a path coefficient value of 0.318 with a P value of <0.001 (<0.05). This research shows that the second hypothesis can be accepted, namely; that social entrepreneurial orientation affects the social performance of social enterprise. The study results show that the orientation of social entrepreneurship and social performance in BUMDes has a reasonably high value. This research indicates that the orientation of social entrepreneurship owned by BUMdes managers by providing public facilities can increase general satisfaction, namely the community.

RBV theory ([Wernerfelt, 1984](#)) also states that organizational resources can be essential for competitive advantage. The orientation of social entrepreneurship owned by managers of social organizations is the ability of managers to carry out social goals by improving services to the community through innovation and creativity. The results of this study support the statement of [Mayenkes et al. \(2010\)](#) that social entrepreneurs can utilize existing resources like commercial entrepreneurs. Innovation, creativity, and a social mission, namely for public services, will have an impact on improving public services and community loyalty. The results of this study also support the research of [Gali et al. \(2020\)](#), [Naderi et al. \(2019\)](#) and [Palacios-Marqués et al. \(2019\)](#) which prove that social entrepreneurship can improve social performance.

Effect of Social Performance on Financial Performance

The results of testing the third hypothesis show that the effect of social performance on financial performance has a path coefficient value of 0.667 with a P value of <0.001 (<0.05). The present study shows that the third hypothesis can be accepted, namely, that social performance affects the financial performance. The results showed that improving the social performance could improve the financial performance of the social enterprise.

According to [Vankatesh & Angappa \(2018\)](#), if a company actively undertakes environmental and social responsibility, this will not only increase employee and customer satisfaction. However, it can also improve business sustainability and company reputation, ultimately resulting in more customers and increased sales. This research, of course, positively impacts the company's economic performance ([Lu et al., 2018](#)) that is social responsibility needs to meet internal and external customer expectations and satisfaction ([Refkee & Sundaram, 2017](#)). Improving BUMDes's social performance, such as increasing community satisfaction, loyalty, employee satisfaction, and BUMDes reputation, can increase public trust, which impacts BUMDes sales. The finding of the present study also supports the study conducted by [Laari et al. \(2016\)](#) and [MJ Kim \(2018\)](#) that social performance is related to the company's financial performance.

CONCLUSION

Research proves that institutional pressure and social entrepreneurial orientation positively affect social performance. Pressure from regulations, relations, both employees and external relations, as well as demands for legitimacy, affect the increase in social performance. The orientation of social entrepreneurship can improve social performance through the innovation and creativity of managers. This research also proves that social performance plays a role in improving the financial performance of social enterprise.

In addition, researchers found several limitations, namely the small number of social entrepreneurs participating in this study. This study focused exclusively on one kind of social organization, the BUMDes. Therefore, further research can increase the number of participating social entrepreneurs and social organizations so that the research results can be generalized more broadly.

This study only examines institutional pressure without detailing the effects of each dimension of institutional pressure. Therefore, further research is recommended to investigate the impact of institutional pressure on each of the cohesive, normative, and mimetic dimensions. Not only that, but this study also did not examine the mediating effect of social performance. Therefore, future researchers can also develop models by testing mediation.

At the theoretical level, this research supports the institutional and RBV theory —indicated by the influence of institutional pressure and social entrepreneurial orientation in improving organizational performance. Therefore, practically, BUMDEs, in running their business, can pay attention to regulations and enhance the quality of employees by providing training and maintaining and expanding relationships with other stakeholders.

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