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# SOCIAL ENTERPRISE AND SOCIAL ENTREPRENEURSHIP AS MODELS OF SUSTAINABILITY FOR LOCAL NGOS: LEARNING FROM CAMBODIA

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**Abstract** *This paper has been researched to explore the following question: Can social enterprise (SE) be nurtured in Cambodia as a mechanism for sustainability within the local NGO community without significantly compromising on social objectives?*

*The paper begins with a literature review which discusses the present academic coverage of social enterprise in Cambodia, and theoretical claims about 'situated practice' and the way in which social enterprise can be 'nurtured' by 'incubators'; it presents findings from qualitative data gathered from a snowballed sample of semi structured interviews with representatives of expatriate social enterprises, local NGOs, and seed capital investment funds or foundations which operate in Cambodia.*

*The paper finds that while social enterprise can present local NGOs with opportunities for revenue streams and new ways to pursue social objectives by integrating them within a business structure: there is not (presently) a great appetite for economic solidarity; the capacities of indigenous NGOs is weak and their 'dependency logic' is hard to change; there is a need for coherent policy initiatives (which at best is a 'medium term' aspiration); perhaps controversially, it appears that substantial expatriate leadership is needed in sector for the foreseeable future.*

**Keywords:** *Social enterprise, social entrepreneurship, incubators, NGOs, sustainability.*

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## Introduction

For almost two decades support for 'social enterprise,' (broadly conceived as 'self-help' trading and production to meet social objectives), has gained currency internationally amongst policy makers and academics as way to generate socially inclusive economic growth and employment (Bridge *et al*, 2009). It has also been increasingly expressed that by harnessing the creativity and efficiency principles of private sector business, social enterprise provides a more creative and sustainable model for voluntary sector organisations which face increasing competition for scarce grants and private donations (Leadbeater, 2007, Dees *et al*, 2001).

In 2001 policy makers the United Kingdom established the 'Social Enterprise Unit' partially to extend business support services to the voluntary sector (DTI, 2002: 21) and more recently members of the donor community have begun to follow this trajectory (in their approaches to local NGOs in developing countries) through seed capital and loans provided by the International Finance Corporation (IFC) 'Grassroots Business Growth Initiative' and the United Nations Development Programme (UNDP)

'Growing Sustainable Business Initiative' (Hutchinson, 2007).

## Academic coverage of social enterprise in Cambodia

In recent years there has been a proliferation of literature which addresses social enterprise, and the related issues of social entrepreneurship and the social economy, in the context of South East Asia, (Santos *et al*, 2009, Dacany, 2009, CEC and Gibson, 2009). However within all of this literature a strong discussion in the context of Cambodia tends to be missing. Most notably Santos *et al* (2009) attempt to provide an oversight of the social enterprise landscape across whole of SE Asia but only succeed in providing in depth case studies in the Philippines, Thailand, Singapore and (to a lesser extent) Bangladesh. It is also noticeable that they conflate policy support for social enterprise in Cambodia with policy approaches in Laos, Vietnam and Indonesia (*ibid*: 75) which seems to lack rigour when one takes the distinctive cultural differences between these countries into consideration.





Low group/High grid Fatalistic society undermines the emergence of social enterprise	High group/High grid 'Subject citizens' 'moulded by authority and instruction
Low group/Low grid 'Quasi-market operators' generating 'demand led' public goods	High group/Low grid 'Collective deliberators' who diagnose and address social need

Figure 1: 'cultural theory' and the rationale for social enterprise (adapted from Kendall, 2009: 10).

So far it seems that only two journal articles address case studies of social enterprise in depth in Cambodia; one investigates social enterprises as vocational training instruments (Macararavy and Annurit, 2009); and the other explores the way in which the NGO Friends International, through its local partner 'Mith Samlanh', is using social business as a way to combat the social exclusion of street children (Lyne, 2008). In addition there is a widely cited Master of Business thesis on the subject of social enterprise and Information and Communication Technology (Hutchinson, 2007).

### Social enterprise in the context of 'cultural theory' and 'situated practice'

The omission of the a meaningful discussion of Cambodia within the mainstream literature which seeks to contribute to the South East Asian overview is a critical issue which must be addressed before there can be a credible theoretical framework for the way social enterprises address social need in this country because the practice of social enterprise is inevitably dictated to a considerable degree by drivers within in the external socio-economic, socio-political and socio-cultural environment. Drawing from the concept of 'cultural theory' Jeremy Kendall (2009) shows that the relative strength of 'grid' (hierarchical) and 'group' (collective) tendencies impacts on the rationale for social enterprises and their subsequent propensity toward:

- Support for hierarchies (sometimes social enterprises might be support 'platoons' for centralised government planning);
- Communitarian / egalitarian principles (characterised by solidarity action and deliberation within civil society);
- Libertarian self interest (members participate for personal gain in a competitive market environment which provides efficiency incentives).

In turn these 'cultural tendencies' impact on the strength of the 'social economy' within which social enterprises operate, and this needs to be considered next to the relative strength of market mechanisms and welfare provision within any given country because these issues all combine to impact on the 'situated practice' of social enterprise in different ways: the level of public sector welfare provision often determines whether the social economy will play a role complementary role or central role in meeting basic needs and the strength of market mechanisms will usually determine the incentives for social enterprise in terms of opportunities to secure substantial rents in the value chains of different products and services (Amin, 2009, see figure 2).

### Situated practice in Cambodia

Drawing from Amin's demonstration of 'situated practice' we can quickly conclude that in the context of Cambodia social enterprise and the social economy is situated within the terrain of 'weak markets and weak welfare states'; a functional stock exchange is still an idea in process and it is estimated that around ten percent of business is formally registered (Cambodia Daily, 24<sup>th</sup> June 2010) while the influx of foreign NGOs in the years following the 1991 Peace Accord and the subsequent proliferation of local NGOs as welfare providers due to the inability of poorly funded public institutions to meet the basic needs of the poor is also well documented (Downie and Kingswood, 2001, Lyne, 2008, Meas Nee and McAllum, 2009: 16-17).

What is more debatable however is the strength of the 'social economy'. One problem is that most of the widely known social enterprises are led by expatriate actors; if we are to investigate 'how strong is the social economy in the indigenous context of Cambodia?' then we might encounter a 'weak social economy' which lacks strategic direction and frequently merges with the informal sector. However this is not a good reason to dismiss the growing evidence base for a social economy in Cambodia which (as already mentioned)



	Strong social economy	Weak social economy
Strong market economies with strong welfare states	Can play a complimentary role in providing employment and services	Plays a peripheral role in employment and services satisfying marginal interests
Strong markets and weak welfare states	A remedy for certain inequalities by promoting new markets	A cheap substitute for more expensive services
Weak markets and weak welfare states	Limited impact although in some countries policy makers promote the social economy as a non-capitalist economy	The social economy often blends with informal activity and the impact on poverty reduction is weak

**Figure 2: the ‘situated practice’ of a social economy (adapted from Amin, 2009: 11-15)**

has yet to be properly captured by the academic literature; The ‘Stay Another Day in Cambodia’ pro-poor tourism initiative is supported by the World Bank’s International Finance Corporation and the German donor GTZ and underlines a growing number of social businesses; the innovation of the ‘night markets’ in Phnom Penh and Siem Reap has opened popular social business spaces for traders; and, at risk of repetition, financial support for expatriate-led social enterprises like Aritsans d’Angkor, Digital Divide Data, Hagar International and Friends International does show that there is significant interest in the social economy sector in Cambodia from donors and international foundations for social entrepreneurship.

### Incubating social enterprise

Business incubators have received substantial support from governments and the donor community as a way to nurture future economic growth (Hannon, 2005, Ayers and Harman, 2009). They have been described as business support facilities for ‘hot-housing’ infant business or ‘hatching’ new ventures (Hannon, 2005:73) within which:

*“market-led ideas, and new ventures can be developed and are given the chance to fulfill their potential by providing access to opportunities, a wide range of development resources and tailored support services”* (Hannon, 2003: Cited Hannon, 2005: 63).

In recent years a small body of case study literature has emerged to show how the conventional business incubator principle can be adapted to support social entrepreneurship and the growth of social economies (Friedman and Sharir, 2009, Lechat, 2009, Bloom, 2006) and an emerging theme also seems to be that in the same way that cultural dynamics underpin the situated practice of social enterprise they also (perhaps unsurprisingly) underpin the rationale for social enterprise incubators. In this case, it is worth considering

lessons that have been drawn from the experiences of policy initiatives to promote the solidarity economy where there is a suitable basis to do so despite weak markets and public welfare infrastructure.

### Solidarity economy models of social enterprise incubators

The circumstances described by Amin (2009) whereby weak markets and weak public sector welfare provision but a strong culture of social economy might entice governments turn towards supporting a social economy when important social needs are not being met by free market capitalism, has manifested in Brazil where (drawing from the critical social pedagogy of Paolo Friere (1973)) a cultural concern with structural inequality has existed within the University institutions for several decades (Mariza, 2010). In 2003 the ‘Workers Party’ Government, which has extensive roots in civil society organisations, gave the FINEP (Financer of Studies and Projects) Agency within the Science and Technology Ministry a specific remit to support Universities as venues for social enterprise incubators which can deliver a combination of business expertise and socially focused pedagogy which encourages civic participation to small business start-ups in disadvantaged communities (Lechat, 2009). By 2007 FINEP had had supported 1,200 new businesses. An important part of the approach adopted by some Universities has been to bring social enterprises into contact with each other to promote solidarity in the supply chains and product marketing, although it has been recognised that the extent to which these businesses really demonstrate solidarity tendencies in their marketing strategies and input sourcing when they are faced with real world market decisions is questionable and in conclusion Lechat (ibid: 163-165) underlines that academics who are working with these organisations frequently express a need for further political support.

Social enterprise as a model of sustainability for local NGOs in Cambodia

This is a small scale qualitative investigation into issues which may face local NGO's who are considering the initiation of social enterprises as a mechanism for greater sustainability and also as a new way to achieve their social objectives. Research has been conducted over four months in Phnom Penh using a snow-balled sample of 16 semi-structured interviews (where one interview has lead to an introduction to new potential interviewees).

- 8 interviewees represented well established (operating for at least three years) expatriate-led social enterprises or NGOs which use a social enterprise mechanism: their extensive experience of operating social enterprises in Cambodia can provide relevant empirical data on success and failure issues, opportunities and threats, and also on particular support needs.
- 6 interviewees represented the indigenous NGOs, 3 of which have implemented a social enterprise which has proven sustainable for at least three years and 3 of which are considering the implementation of trading activity of some form: indigenous reflection was particularly sought to convey capacity concerns and cultural variables.
- 2 interviewees represented financing sources (one with a seed capital fund and one from a development foundation): to investigate the appetite for 'patient' capital investment and perceived capacities for non-profit innovation from the social investor perspective,

The interviews consisted of 'core questions' for each category of interviewee which were posed in the same order so that there might be cross comparable data while there was also room allowed for elaboration on particular points of interest and expertise.

## Emerging issues

### Solidarity economy

Data leans more towards indifference or sceptical views about the viability of a 'solidarity economy' in Cambodia although there were a minority of positive responses which gave practical examples of solidarity business in action. Responses tended to show amongst expatriate respondents that networking with 'third sector' organisations in pursuit of a common social mission did not translate into business support (6 out of 8 responses) and that there was actually preference for networking with the private sector when it comes to business issues. Amongst indigenous NGO respondents there was noticeable pessimism towards the concept of a 'solidarity' economy based on previous

interaction and social networking activities (4 out of 6 responses) and it was even expressed on three occasions that local NGO forums work better as mechanisms to mitigate conflict over scarce resources than as a way promote collaboration on meeting basic needs.

However what also emerges strongly from the data is that there seems to be a sector specific potential for solidarity economy enterprises to gain ground in Cambodia. 3 out of the 4 respondents which provide evidence of a solidarity economy in action (2 are expatriate and 2 are indigenous) are representatives of organisations with connections to agriculture, providing explicit support through sourcing arrangements in the hospitality industry or through retail services and microfinance which explicitly aim to promote the development of farmers associations. In the other case an expatriate social enterprise is a beneficiary of the solidarity economy principle because part of the core business caters for international NGOs who support the enterprise in order to guarantee the supply of a niche nutritional product which cannot be reliably sourced from a private sector producer.

### Social enterprise as a model for sustainability in the local NGO community

Representatives of an 'equity-like' seed capital fund with a substantial investment in Cambodian social enterprise, and also a development trust with its roots in faith based organisations, both asserted it is increasingly imperative that local NGOs in Cambodia to begin to develop their own revenue streams and that they personally would not support a local NGO programme which cannot begin generate its own finance within an 'acceptable' time-frame. However what also emerged strongly is a need to focus on where social enterprise is truly appropriate and that where NGOs are providing critical basic services to the most incapable then income generation should not be a focus of attention for the international donor community.

Amongst the respondents from NGOs and social enterprises their was a mixture of views; all five representatives of expatriate-led social enterprises which are registered as businesses in Cambodia expressed that that NGOs are not really cut out to run as social enterprises and three of them expressed that if NGOs wish to use the social enterprise model to generate revenue then they would be set up another a trading entity which can work independently. Amongst the all six of the (expatriate and indigenous) NGOs which operate social enterprises it was expressed that revenue generation is only a model for *partial* sustainability which allows certain activities to be undertaken that the donor community are not likely to provide funding for and which also provides a vehicle for vocational training and income generation amongst target beneficiaries.

The broad consensus is obviously that social enterprise is not a model for an entirely self sufficient NGO, but even as a model for partial sustainability, further questions are raised by the responses from local NGO representatives. Capacity concerns were strongly expressed, one respondent had experienced a significant loss of community funds in a previous venture where there had not been a proper analysis of the value chain for a processed fish product and all three expressed it was hard to find Cambodians who were strong in business and also interested in working for an NGO. They also echoed the view that NGOs are not cut out for social enterprise, when they expressed that their organisation was formulated specifically to draw donor funding into their community in the absence of support from the government. The dependency logic of the local NGO community in Cambodia on donor funded projects (previously documented by Courtney, 2007: 633-634, Turner, 2002: 362) seems to be hard to displace and the idea that NGOs should seek to become more self sufficient seems to be like saying that NGOs need to rethink the very reason for which they are instigated. Essentially all three respondents felt that social enterprise was a significant risk to the interests of their beneficiaries because it could be a route into debt, and they were concerned that a move towards social enterprise and cost recovery would mean that they would make sacrifices in their service provision to their poorest beneficiaries.

## Conclusion

Although there are some strong indigenous NGO leaders in the agricultural sector, it does not seem that local NGOs in Cambodia are likely to turn to social enterprise for sustainability on a significant scale at any time in the near future, and it is perceived to be a risky strategy which might cause them to compromise on core values as they become more focused on revenue generation. This is a clear challenge given that policy makers have so far failed to establish a consistent approach to small and medium enterprise (Makaravay *et al*, 2009).

However, drawing from Amin's (2009) framework for 'situated practice' it seems (superficially at least) that there is reason for optimism that gradual improvements in the strength of the social economy might provide policy makers in Cambodia with the incentive to support 'solidarity economy' mechanisms to tackle poverty and social exclusion where conventional markets fail the poor. There are some signs of recognition of the value of 'social business' as the Cambodian Ministry of Commerce have supported the Stay Another Day initiative for pro-poor tourism and the Municipal Authorities in Phnom Penh and Siem Reap have invested in 'Night Markets' which provides a social trading space for retailers of traditional Cambodian products. These are spaces which might provide NGOs with opportunities

(academic literature has demonstrated that 'farmers markets' can sometimes function as 'incubators without walls' which provide social business with a supportive environment (Hinrichs *et al*, 2004)) and they might be a good place to start for incubating opportunities in the absence of strong institutional support through the academic system or through business development programmes.

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