

Factors Influencing the Failure of Rural Social Enterprise: The Cases Study of Temanggung, Central Java, Indonesia

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Abstract

The capacity of social enterprises to tackle social problems in remote, limited-resource environments makes this approach promising for rural development strategies. Rural areas might nurture or challenge the sustainability of social enterprises. Some studies have discussed the supportive and hindering factors of rural social enterprise development, but significant development does not always lead to the viability of a business. This study aims to examine the factors affecting the viability of social enterprise organizations in the rural area by drawing on a qualitative study of two samples on unsustainable and sustainable social enterprises in Indonesia. This article questions the factors that influence the rural social enterprises in the two samples to find the different factors that significantly affect the viability of social enterprise organizations. Findings suggest that although the two cases have applied a similar business model and take place in an almost similar business environment, the legitimacy from all community members is vital to ensure business viability, which is determined by the inclusivity at the initial stage of the social enterprise formation.

Keywords: rural social enterprises, social entrepreneurship, rural areas, Indonesia, organizational viability.

1. Introduction

Social entrepreneurship, one of the most promising development approaches, combines extant development ideas and models, but reframes them in new ways to address contemporary, complex development challenges (Chandra 2018). Social entrepreneurship aims to create social value through some combination of recognizing and exploiting opportunities, employing innovation, tolerating risk and declining to accept limitations in available resources (Peredo and McLean 2006).

Social enterprises can have different organizational structures and purposes, ranging from product production to service delivery. Some operate in private markets similar to other businesses (Steiner and Teasdale 2016). Others act like public service provisions (Teasdale 2012a) or function as community

enterprises dealing with social problems (Farmer, Hill and Munoz 2012) and are more akin to voluntary organizations in their reliance on volunteer labor and grant funding, thereby recognizing their role in developing social cohesion (Muñoz, Steiner and Farmer 2014). Some are a commercialization of not-for-profit organizations (Dees 1998). Others employ people from disadvantaged social groups supported through subsidies from the government (Teasdale 2012b). Eversole, Barraket, and Luke (2014) suggest that, while social enterprises are difficult to define structurally, they are similar in the way they mobilize resources across sectors to achieve development outcomes.

Social enterprises are useful for providing services in remote and rural areas. Its bottom-up approach encourages local ownership of problems and solutions (Chandra 2018), supplements available resources, and can appropriately meet and satisfy local communities' distinctive needs. However, “the geographic area creates a boundary that may affect the social structure within which social entrepreneurship occurs” (Smith and Stevens 2010: 584) and may impact the organizations' sustainability. Rural locations offer both ideal environments and challenges for establishing and operating social enterprises (Farmer, Steinerowski and Jack 2008); hence, the assumption that social enterprises can be successfully built and developed in remote, rural areas could be flawed (Steinerowski and Steinerowska-Sterb 2012).

Since sustaining social enterprises in rural locations is complicated and requires significant nurturing and support (Whitelaw 2012), a limited understanding of the factors that influence *rural social enterprises* (RSEs) can hinder their viability and success in achieving rural development. It is therefore necessary to locate specific studies of social entrepreneurship within rural contexts, but research on social enterprises in such contexts is still relatively limited compared to the general debate on social entrepreneurship, and most of it concerns case studies conducted in European countries. These studies have focused mainly on the contribution of social enterprises in rural areas (O'Shaughnessy, Casey and Enright 2011; Pless and Appel 2012; Eversole, Barraket and Luke 2014; Cieslikm 2016; Richter 2017, Ahrari et al. 2018), the role of rural social entrepreneurs (Zografos 2007; McCarthy 2012; Munoz and Steinerowski 2012; Lan et al. 2014, Lang and Fink, 2018), the factors that influence rural development (Farmer, Steinerowski and Jack, 2008; Steinerowski and Steinerowska-Sterb, 2012; Whitelaw 2012; Steiner and Tesdale 2018), the characteristics of RSEs (Farmer and Kilpatrick 2009; Lan et al. 2014), and the process of RSE creation and development (Muñoz, Steiner and Farmer 2014; Valchovska and Watts 2016).

Scholars have realized that several factors hinder and support RSEs and these fall into three main groups: rural factors, social entrepreneurship, and the policy environment. Steinerowski and Steinerowska-

Streb (2012) argued that rural microstructural factors are the primary influence on RSEs. They found that geographical challenges are the main barrier to RSEs' development because they affect access to a suitable workforce and limit the available market. However, a culture of self-help and active support within local communities, the potential to fill a market gap, and the potential to gain the acceptance of a small community, can be beneficial for RSEs (Steinerowski and Steinerowska-Streb 2012). Close-knit and cooperative rural communities can be significant influences that foster the development of RSEs (Farmer, Steinerowski and Jack 2008). Steiner and Teasdale (2018) also mentioned two other essential domains for unlocking the potential of RSEs: the social enterprise domain and the policy domain; for example, an unfavorable policy that provides little direction and is ambiguous or weak may hinder prospective social enterprises (Farmer, Steinerowski and Jack 2008).

However, advanced business development does not always lead to viable social enterprises. Whitelaw (2012) mentioned two prerequisites for RSE sustainability: the fundamental capacity of rural communities to understand the nature of the social enterprise, and genuine contextual support from the state. However, the politico-economic conditions affecting social entrepreneurship in the Northern and Southern hemispheres differ significantly (Nurshafira and Allfian 2018), and, like Whitelaw (2012) stated, most of the RSE studies are based on research in European countries, where the policy environment is more favorable for social enterprises (Steiner and Teasdale, 2018; Teasdale 2012a); therefore, studies of other regions could complement the existing research.

This study aims to examine the factors affecting the viability of social enterprise organizations in the rural area by drawing on a qualitative study of two samples on unsustainable and sustainable social enterprise in Indonesia. The two samples in the case study have applied similar business models and are located in rural territories that are adjacent to each other, so they have very similar rural locations and policy environments. This article questions the factors that influence the rural social enterprises in the two samples to find the different factors that significantly affect the viability of social enterprise organizations. The comparative analysis applied a framework of factors drawn from previous studies to two specific cases. The study used data collected through interviews with stakeholders, including managers, members of local communities, government representatives, advisors, volunteers, collaborators, and visitors. The study also used data obtained through author observations of the two cases and information taken from secondary sources. The study found that although the two cases have applied a similar business model and take place in an almost similar business environment, the legitimacy from the whole community is vital to ensure

business viability, which is determined by the inclusivity at the initial stage of the social enterprise formation, particularly when the critical resources of the RSE are privately owned by the community.

2. Review of Factors that Influence RSEs

This section will review the factors that influence RSEs as mentioned in previous studies (Whitelaw 2012; Steiner and Teasdale, 2018; Steinerowski and Steinerowska-Sterb, 2012; Farmer, Steinerowski and Jack 2008; Muñoz, Steiner and Farmer 2014; Fortunato 2014; Lan et al. 2014), consisting of: (1) Demographic and Geographic Factors, (2) Financial and Market Factors, (3) Human Capacity and Resources, (4) Legal and Supporting Environment, (5) Social Cohesion and Networks, and (6) Tradition and Culture.

Demographic and Geographic Factors

The demographic and geographic factors affecting rural areas, such as their remoteness and dispersed settlement patterns, low population densities, and aging populations, frequently result in limited economic development, associated with low profitability, a lack of public services, and challenges to community cohesion (Farmer, Steinerowski and Jack 2008 p.48; Muñoz, Steiner and Farmer 2014: 480; Steiner and Teasdale 2018). However, changes in rural demographic characteristics and the lack of local services that support social interaction, may potentially loosen the community's social connections that traditionally foster a sense of shared identity (Steiner and Teasdale 2018; Skerratt 2012).

The high transportation costs and the absence of available support networks cause difficulties in accessing capital, achieving financial sustainability, and recruiting skilled employees and partners who can help to grow the business (Farmer, Steinerowski and Jack 2008; Steiner and Cleary 2014; Pless and Appel 2012; Steiner and Teasdale 2018). Consequently, social enterprises often remain small due to the limited business opportunities and growth challenges (Steinerowski and Steinerowska-Sterb 2012). The small scale of RSEs might be beneficial and appropriate to the local context (Steiner and Teasdale 2018), meaning that they remain flexible and capable of adapting quickly to a changing environment.

Financial and Market Factors

The effects of financial stability and the impact of small markets on RSEs is debatable. In order to survive, organizations need to diversify revenue sources. It is necessary to ensure a financially sustainable business

model (Whitelaw 2012) and access to matched funding (Farmer, Steinerowski and Jack 2008; Steinerowski et al. 2008), because heavy reliance on the traditional voluntary sector and grant aid, impedes sustainability (Whitelaw 2012). However, income generation is challenging for RSEs (Steiner and Teasdale 2018), while access to support is often unavailable in rural areas. The number of potential customers and the overall size of the markets are likely to be limited, in turn, limiting opportunities for economies of scale and the development of viable businesses (Farmer, Steinerowski and Jack 2008, Steinerowski and Steinerowska-Sterb 2012). These conditions are partially caused by the low purchasing power of rural communities due to their socio-economic situation.

Studies have also found that rural areas generally “deter commercial enterprise as well as presenting difficulties for public sector providers”, leaving gaps in needed services that can provide market opportunities, with minimal competition, for RSEs (Farmer, Steinerowski and Jack 2008: 459). As “public sector budgets suffer in going constraints, there is a pressing need to find more innovative and efficient approaches to local development”, thus affording opportunities for social enterprises (Steiner and Teasdale, 2018: 18). Hence, it is theoretically easier to introduce and sell innovative products or services, and gain the acceptance of a particular community in a small market (Steinerowski and Steinerowska-Sterb 2012). In addition, an area with access to high-speed internet will have the opportunity to use alternative forms of selling or to create information-based businesses with access to a broad market (Steinerowski-Steinerowska-Sterb 2012; Fortunato 2014).

Human Capacity and Resources

Young, educated professionals with high skill levels tend to leave rural communities in order to seek higher paying employment in cities, resulting in rural region workforces often suffering from low skill levels and limited skill diversity (Fortunato 2014). A lack of community capacity hinders local involvement in business and service provisions provided by RSEs (Steinerowski and Steinerowska-Sterb 2012) and a lack of local familiarity with, and knowledge about social entrepreneurship concepts also appears to be a significant problem for developing RSEs (Farmer, Steinerowski and Jack 2008). This presents another challenge for RSEs to develop capacity building mechanisms in rural communities and promote understanding of the nature and basis of social enterprises (Whitelaw 2012; Muñoz, Steiner, and Farmer 2014). On the other hand, the suitability of natural resources and the potential benefits of indigenous knowledge can be sources of innovation and encourage the independence of the community. Moreover,

unique and specialized skill requirements are difficult to imitate, creating competitive advantages for RSEs (Widjojo and Gunawan 2019).

At the organizational level, a lack of capacity hinders the possibility of developing the necessary organizational infrastructure to access proper business support and funding, or gain entry to public sector procurement (Mason and Royce 2007). Studies have shown that human capacity is required to develop individual social enterprises in rural areas, involving skills such as leadership, decision-making, risk-taking (Lan et al. 2014), negotiating (Coburn and Rijdsdijk 2010), and business development (Baines 2010). With regard to the rural challenges, certain particular abilities, such as adaptive capacity (Steinerowski and Steinerowska-Sterb 2012), flexibility (Steiner and Teasdale 2018), and *embedded intermediaries*¹ (Richter 2017) are required to embed RSEs in their local contexts and help them to gain legitimacy within the local community and public discourse (Muñoz, Steiner and Farmer 2014). The ability of social enterprises to creatively identify and react to social issues (Sharir and Lerner 2006) and a favorable political environment, are also necessary. Because policymakers have not yet grasped the diversity of RSEs, the capacity of policymakers to adjust their programs to the contextual nature of RSEs is also necessary (Steiner and Teasdale 2018).

Legal and Supporting Environment

The policy environment is critical in unlocking the potential of RSEs (Steiner and Teasdale 2018). “Achieving sustainability in rural social organizations is a relatively onerous and complex task” that requires significant amounts of nurturing and support (Whitelaw 2012: 127–128), but many social organizations still find it challenging to locate and access support (Steiner and Teasdale 2018). Successful social organizations are considered to be the product of a set of definable internal features, but within a broadly conducive external context (Whitelaw 2012); for example, the financial sustainability of RSEs is related to their “early engagement with the public sector” (Muñoz, Steiner and Farmer 2014: 491), and, as already mentioned, the entrepreneur's capacity to gain legitimacy and draw support from the public sector is notably important in rural areas.

Therefore, what is needed is “strong and genuine, contextual support from the state” (Whitelaw, 2012: 129), particularly because “the legal and financial context might inhibit the involvement of rural

¹ Rural social entrepreneurs are embedded in rural communities and, as intermediaries, they have the ability to connect rural communities with supra-regional networks and decision makers.

communities (Steinerowski and Steinerowska-Sterb 2012) and the ambiguity in policy direction may make people cautious about embracing RSEs as a viable prospect (Farmer, Steinerowski and Jack 2008). However, policies prudently limit their control. At the rural level, the “lopsided power relationship that strips local citizens of their sense of control”, often poses threats to entrepreneurship (Fortunato 2014: 394). In turn, this may lead to paternalism and a culture of dependency, potentially slowing down innovation, inhibiting the introduction of new development models, and limiting long-term organizational sustainability (Steiner and Teasdale 2018).

Social Cohesion and Networks

Strong local community cohesion is a prerequisite for the possibility of enterprise (Whitelaw 2012), which is supported by the rural setting. Compared to urban areas, rural communities have a stronger social cohesion (Steiner and Atterton 2015), denser social networks (Hofferth and Iceland 1998), and a greater sense of solidarity (Farmer, Steinerowski and Jack 2008: 455). This results in high levels of trust, active civic participation (Eversole, Barraket, and Luke 2014), local voluntarism (Muñoz, Steiner, and Farmer 2014: 491), and collective activity (Steinerowski and Steinerowska-Sterb 2012: 173) that benefit the development of RSEs (Steinerowski and Steinerowska-Sterb 2012; Valchovska and Watts 2016: 227).

The nature of human and social capital and social exclusion, the strength of the local voluntary and community infrastructure, and the nature of local political relationships affect community involvement (Osborne, Williamson and Beattie 2004). Community resentment and unwillingness to participate, as indicated in several studies (Muñoz, Steiner and Farmer 2014; Whitelaw 2012; Farmer, Steinerowski and Jack 2008; Steinerowski and Steinerowska-Sterb 2012), cause difficulties in finding volunteers and participants and thus affect RSEs’ viability (Whitelaw 2012); hence, before any organizational development begins, RSEs must be sure of gaining legitimacy within the community, because such legitimacy can reduce the suspicions that undermine the greater involvement of community members in their own service provision (Muñoz, Steiner and Farmer 2014: 7).

However, rural settings do not always produce the predominantly “warm and friendly” environment that is often assumed. Connections between community members may encourage differential experiences of support and result in the marginalization of some people (e.g. migrants) or uneven distribution of help (Farmer, Steinerowski and Jack 2008). Furthermore, in close-knit communities, RSE provisions must be careful not to adversely affect neighboring businesses, which is a challenge for new RSEs that aim to deliver

unique services or provide products that do not exist yet in the community (Farmer, Steinerowski and Jack 2008; Steinerowski and Steinerowska-Sterb 2012). Some beneficial information can potentially be prevented from spreading more widely due to the insular interaction and strong relationship ties among kinship groups and close friends (Wilkinson 1991).

Besides the social capital of the local community, social capital within organizations and their networks is also important. The collaboration between RSEs can capitalize on underutilized rural capital and achieve economies of scale (Lang, Ferguson, Harrison 2016; Steiner and Teasdale 2018). Successful social enterprise leaders have shown to be “highly collaborative people, who were able to build relationships with other stakeholder groups and create new social capital.” (Lang, Ferguson and Harrison, 2016: 3). Such collaboration needs not only occur between organizations engaged in public service delivery, but can also take place between businesses, thus making them and their industries more sustainable (Steiner and Cleary 2014). Rather than competing, many rural businesses embrace the concept of coopetition (i.e. collaboration between business competitors in the hope of achieving mutually beneficial results) and draw upon rural strengths to specialize in niche markets (Steiner and Cleary 2014). There has also been a recognition that collaboration in a market context has the potential to be paradoxical; that is, “the sustainability of one social enterprise might be achieved at the expense of other services” (Whitelaw 2012: 128).

Tradition and Culture

Besides social capital and human capacity, the cultural values of a community impact social enterprise activities (Valchovska and Watts 2016). Living in isolated places and the fear or suspicion of change often makes rural communities hesitant to contribute to RSEs’ activities, especially their wariness that RSEs may take away public services or that social enterprises are a way to enable charities to make money (Farmer, Steinerowski and Jack 2008). This might also result in their unwillingness to become involved in a riskier venture than simple “volunteering” (Farmer and Bradley 2012). The limitation of rural regions to one particular sector dampens innovation through a “lock-in” by the traditions and mores of one particular industry (Fortunato 2014). A formal business approach to social enterprises “might not work well in rural communities due to the embedded informal helping culture” (Steiner and Teasdale, 2018: 14).

However, RSEs “can both draw upon, and stimulate, strong rural cultural capital through the voluntary and collaborative community culture” (Steiner and Teasdale 2018: 9). For example, rural communities

display a culture of entrepreneurship that is noticeably more socially-oriented than profit-driven (Williams 2007). Rural communities also show receptive attitudes toward new organizations, innovation, and “credible outsiders” or “experts”, possibly because there is a real need to make changes and/or deliver services or products that are currently unavailable (Steinerowski and Steinerowska-Sterb 2012: 173; Muñoz, Steiner and Farmer 2014: 490). In addition, a tradition of fending for themselves makes rural people familiar with “self-help” and the idea of providing their own services, which resonates well with the concept of social entrepreneurship and enhances collaborative action (Steinerowski and Steinerowska-Sterb 2012: 173; Farmer, Steinerowski and Jack 2008: 456; Steiner and Teasdale 2018). The indigenous traditions passed on from one generation to the next is also an important factor in Indonesian RSEs, providing a unique competitive advantage and cultural harmony that provide a strong foundation for RSE sustainability (Widjojo and Gunawan 2019).

An organizational culture based on learning and cooperation “within the realm of the enterprise can mitigate many of the challenges and risks facing the enterprise”, thus making it more resilient (Sabella and Eid 2016: 77). This culture begins by “attracting and retaining a workforce based on a set of behavioural and performance dimensions of social giving, empathy, cooperation, sincerity, and loyalty” (Sabella and Eid 2016: 75). The local development of social enterprises also depends on the RSEs’ organizational culture (Eversole, Barraket and Luke 2014). “There is a cultural aversion to risk among rural social enterprises, and the reluctance to replace grants with loans” emerges from a dependency culture that hinders organizational sustainability (Steiner and Teasdale 2018: 13).

“From a policy perspective, a one-size-fits-all approach has underpinned funding and development programs in many countries; for example, those based on grant funding, to encourage the scaling-up of social enterprises to become more commercially focused, can be dangerous and lead to a dependency culture at the grassroots level” (Steiner and Teasdale 2018: 18). Traditional policy approaches that treat economic development, community cohesion, and public services as separate and disconnected have not always been translated into practice at the rural level (Steiner and Teasdale 2018). Statutory providers have historically purchased from larger providers, making it both procedurally and culturally difficult to move to contracting with small, locally-focused organizations like RSEs (Farmer, Steinerowski and Jack 2008).

3. Pasar Papringan: The Business Overview

The name Pasar Papringan is composed of two Indonesian and Javanese words: *pasar* meaning “market” and *papringan* meaning “bamboo forest”. Pasar Papringan aims to achieve its village revitalization mission by establishing markets held in the bamboo forest as their main activity. The residents of hamlets, which are structurally smaller than villages, are the main target of these businesses, which are expected to provide social, economic, and environmental benefits for the wider society.

Spedagi has significantly influenced the notion of village revitalization. Spedagi is an NGO, founded in 2014, that initiated the Pasar Papringan program in Kelingan and assisted the villagers in developing Pasar Papringan in Ngadiprono. The founder is a well-known Indonesian product designer who grew up in a village in Temanggung. He moved to a city in another province to attend college and decided to return home after his graduation, then he settled down with his family and started a workshop, making wooden radios and bamboo bikes in his hometown. According to him, the village is the future. People living in small communities, using their local resources, can gain access to wider networks and become globally connected. Currently, advances in technology are opening opportunities to live in remote rural areas, but the great potential of villages has largely been neglected, due to the migration of villagers to urban districts. Such migration causes overpopulation in the cities, and the rural abandonment leads to complex problems. Rural problems are not only local issues, but also global issues. Therefore, in order to tackle these issues, Spedagi has focused on the village revitalization issue, especially in the area of Temanggung.

The main activities of Pasar Papringan are social and economic activities. The management of bamboo thickets and local capacity building are their main social activities. They also have economic activities, such as selling bamboo products, offering rental facilities, and organizing workshops and trainings. Through these activities, Pasar Papringan creates social and economic added value. The social added value relates to increasing the productivity of the bamboo thickets, providing activities that are affordable for all social and economic groups, implementing environmentally friendly measures such as the “zero plastic waste” policy, ensuring fair trade, and facilitating markets that offer healthy local products, services, and village experiences. To create their economic value, they offer traditional markets in an open, clean, comfortable, and village-style hospitality atmosphere. Economic value is also added through the sale of good-quality products, facilities and services at affordable prices, and creating visually attractive and

unique markets in the papringan area, which is notorious for its slums and dirt. In this sense, the markets, as places for economic activity, are also tools for achieving social goals.

In order to achieve its social mission, Pasar Papringan needs some key resources, such as local participants, the Spedagi network, local associations, and financial resources. To achieve the economic goals, an effective management system, human capacity, and a strong brand are required. In addition to these key resources, the organization builds partnerships with internal stakeholders, such as villagers and local leaders, landowners, bamboo farmers, tenants, external stakeholders such as the assistance team (Spedagi and collaborators), the village and central government, and tourism business organizations. The business also targets potential customers for its social and economic activities.

The beneficiaries of the social activities are the landowners, market tenants, village governments, farmers and breeders, local youth, and low-income visitors; while the potential customers for the economic output are the local people, middle and high-income visitors from outside the region, village governments, nearby communities, and bamboo artisans. The organization uses certain strategies to attract the potential customers. For the social customers, Pasar Papringan helps to improve the quality of the occupancy by providing building maintenance assistance and helping villagers with financial management. They normally conduct visits and meetings with their social beneficiaries to engage them in the activities. The strategies used to attract the customers are consistent pricing ensuring high quality of the products and services, brand awareness, innovation, and provisions of the same services for all groups. Promotion is normally conducted through recommendations, the organization's website, social media, conventional media, word of mouth, and the markets themselves.

Although still requiring some external financial resources, the business revenue stream employs a sustainable financial model. Revenue is obtained from selling their products and merchandising, the fees from training programs or workshops, parking fees, the rental fees of the papringan, and some third-party commissions. Pasar Papringan uses this revenue for its social activities, such as training or garden maintenance and conservation, and also for business operational expenses such as marketing, administrative staff wages, construction of facilities, and production costs.

4. Influencing Factors: The Similarities

Apart from the similar mission, basic business model, and concept, some other influential factors affect the RSEs' business in the two cases.

Geographic Factors

The two hamlets have almost identical geographic characteristics, with rice fields and farms surrounding the villages. The papringans, or bamboo thickets, in the two hamlets are located close to the villagers' settlements. This creates strong villagers' attachment to the RSEs' activities and makes it convenient for the villagers to participate in the business since they are familiar with the area and its limitation, and have greater knowledge of local resources. Consequently, the business should be fairly resilient in the face of rural geographical challenges. The proximity of one hamlet to another makes the adjacent areas sensitive to the RSEs' impact, which in turn affects the RSEs' sustainability if the outcomes are considered beneficial to only certain groups.

Therefore, the two RSEs involve the adjacent hamlets in their activities, even though they are not the main target communities. In the case of Pasar Papringan Kelingan, a group of *kuda lumping* (traditional dancers) from another hamlet was invited to perform in the market. Pasar Papringan in Ngadiprono also recognized this issue:

"It is impossible to involve all the hamlets in the Pasar Papringan activities, right ... because of the space limitations and our needs, but our revenue can contribute to the village budget, which can be used to fund the village program ... so involving villagers does not always means directly, and the other hamlets can feel the ownership even though they are not directly involved." (Project Manager of Ngadiprono).

They also involve traditional theatrical dance groups from neighboring hamlets in the Tambujatra² project, and cooperate with some villagers from neighboring hamlets to manage the crowds at the markets, since the visitors have to pass through the neighboring hamlets to reach the Papringan market venue in Ngadiprono.

² Tambujatra is a village revitalization project that is part of ICVR (International Conference on Village Revitalization), which is held every two years by Spedagi. Tambujatra consists of nature tours (Jelajah Tambujatra), sendratari performance (Sendratari Tambujatra) and a homestay facility (Homestay Tambujatra). The PPK project is located in Ngadiprono hamlet and Ngadidono hamlet, Ngadimulyo village, Kedu district, Temanggung regency.

The geographical proximity is also important in building collaboration and effective coordination for running the business; for instance, the project manager prefers to collaborate with organizations based in Magelang or Yogyakarta (the adjacent cities of Temanggung), since it is easier to coordinate in the long-term. The Spedagi volunteers who assist Pasar Papringan in the two hamlets stay with the villagers; consequently, according to the villagers, they can effectively coordinate with the volunteers, solve problems more quickly, and build social cohesion and trust, which support the RSEs' development in the areas.

Rural Residence

The local residents from the two areas have similar characteristics. Most of the villagers work in farming, either managing their own fields or working as farm laborers. Rice and some vegetables are seasonally grown, so they need to save cash during the harvest season. Some of the villagers also work in government offices, are craftspeople or construction laborers.

Consequently, the villagers' economic situation is pretty equal and there is no visible power imbalance among the residents. The average education level is junior or senior high school, and those who attend university—especially those who return to their hometown afterwards, like the initiator of Pasar Papringan Ngadiprono—are rare. After graduating from high school, many villagers try to find jobs outside the village. The two hamlets have serious “brain drain” issues, but unlike typical rural areas in Europe that face the problem of aging residents, good human resources can be developed for the businesses in this area.

Locality

The utilization of local resources in the two areas has encouraged the villagers' independence and supported the RSEs' sustainability, as stated by the project manager of Ngadiprono:

“Traditional food cannot use imported ingredients, so it must be sourced from the surrounding area. If there is a market demand for it, they will grow it themselves. It is more efficient; they can maintain the quality when they grow it themselves. Some ingredients are hardly ever found in the market.”

One villager also told me that he started to raise free-range chickens because his wife needed to use the eggs as a culinary ingredient. He said it saves more money than buying eggs from neighboring markets.

Local materials such as bamboo and stone have been used to build the equipment and infrastructure for the Tambujatra Homestay and the Pasar Papringan, such as for the *lincak* (stalls), *pring* (money), and *trasah* (paths). The reasons are that the materials are cheaper, easy to find around the village, and require

local skills to process them. It drives villagers' initiative and capacity to exploit local potential, as stated by a villager I met who was crafting bamboo baskets: *"I am making baskets for my child's food packaging. She used besek³ before, but it was pretty expensive to buy. Then I proposed the baskets. It's quite profitable for me as well, especially compared to selling bamboo logs."* These local materials and knowledge contribute to the competitive advantage of the RSE.

Market

There is no issue of limited and low purchasing power in rural markets because the RSEs target visitors from outside the village to generate revenue, in addition to being supported by the internet, social media, and word of mouth in promoting their businesses to reach a wider market. The community-based business model also protects the businesses' viability; for example: *"The Pasar Papringan is not only owned by the Ngadiprono people right now, but also belongs to Temanggung ... so if there is any problem relating to Pasar Papringan, you will be facing the Temanggung residents."* (Project Manager—Ngadiprono).

The government and the private sector did not consider the two places' potential for delivering products and services, which is an advantage for RSEs in developing businesses without strong competition. On the other hand, local inexperience of doing business can be disadvantageous because the locals may consider it risky and resist accepting the RSE's idea: *"There has never been a picture of what kind of market the Pasar Papringan would be. Even at that time, I thought, does anyone want to come here?"* (Coordinator—Ngadiprono).

Financial

Financial capital is vital for developing businesses, especially in the early stages, but it is relatively limited in rural areas. The two cases of Pasar Papringan selling products and services to secure financial sustainability, means that they are relying heavily on external customers, but not depending on aid. However, the revenue from the market is not sufficient to expand the business, and various external financial sources (from outside the villages) are required to build the business. Pasar Papringan in Kelingan is funded privately by the founder of Spedagi, who is an external party from outside the local community. In the case of Ngadiprono, some of the funding comes from Spedagi and private companies. The

³ Woven baskets made from bamboo.

development of Jelajah Tambujatra in Ngadiprono is also supported by private companies, and the Tambujatra Homestay was built using soft loans from some architectural consultants which will be repaid from the Tambujatra Homestay's profits.

Human Resource Capacity

The capacity of the villagers and their educational level, in both cases, does not inhibit the running of the RSEs. This is apparently because the RSEs' activities are suited to the abilities of the villagers, such as cooking, which is quite a basic skill of at least one member of each household. A tenant in Ngadiprono also told me that she was planning to do *asah-asah* (washing the dishes) if she failed to make sales in the market, because she could then get money without cooking, so there are alternatives for those who cannot cook. The system also enables villagers from different generations and backgrounds to assume suitable roles; for example, everyone in the family I visited had different roles, with the mother selling herbal drinks, the daughter selling cassava, and the father joining the security team on market days. On market days in Kelingan, the adult women sell products in the market, while the female teenagers from Karang Taruna (a youth organization) manage the finances, and the men (from Karang Taruna and other, adult men) take care of the parking lot and manage the crowds. Consequently, Pasar Papringan can create inclusive businesses, as stated by a local volunteer in Kelingan: *"There have not been any previous activities that involve everyone. That is Pasar Papringan, where all generations gather together."* Identifying rural problems or recognizing local potential seemed to initially be difficult for the villagers, as was proven by the concept of Pasar Papringan itself, which was introduced by Spedagi as an outside party to both villages. In a small seminar I attended, the founder of Spedagi stated that the rural residents in many places often suffer from "nearsightedness", so they cannot see the potential around themselves because it is too close and too ordinary. Supporting his statement, a tenant in Ngadiprono told me that the potential in her village was restricted to farming previously, because they did not know how to develop their potential.

However, the villagers' skills developed gradually, starting with their capacity to find a solution for the problems they faced in running a business; for example, in the case of Ngadiprono, the project manager stated that the problems affecting the development of the business, so far, have been problems occurring in the field. They normally found a solution by asking for advice about the solution they proposed and trying to put it into practice. A local volunteer in Kelingan mentioned that the youth organization proposed to implement a ticketing system for the parking to remedy the disorganized parking system.

Even though the locals can improvise and find solutions to their problems, the role of external facilitators like the assistance team, volunteers, and collaborators are important for the business's development. According to the Project Manager in Ngadiprono, Spedagi's external assistance helped with the business concept: developing the idea, networking, and developing a persuasive approach. He also mentioned that the role of collaborators is to fill the gaps in the RSE's capacity; for example, in the development of Jelajah Tambujatra, the RSE already had the concept, but they needed skills in mapping, and the third party they chose had to be good at working with the community. He was also looking for a collaborator who could help with evaluating the business. He said his team might be capable of doing it by themselves, but an expert would introduce standardization, making them accountable for the output and providing the basis for approaching the private sector or the government. The existence of such external parties can significantly affect the business's development, but the involvement of external parties should be aligned with the RSE's mission and committed to engagement with the community.

Social Relationships

By contrast, social relationships can also create an imbalanced distribution of information and hinder inclusive participation, as stated by a local leader in Kelingan who helped Spedagi to recruit villagers:

"So I was only looking for those who could work with him [the founder of Spedagi] ... I did not dare to directly involve one village for fear that there would be resistance, so I invited people from the market areas alone. Also, they are my relatives, so it was easier to invite them."

This is consistent with previous studies showing that social cohesion among the locals can have either a negative or positive impact on the formation and development of RSEs.

The intense power of the government at different levels has proven to affect RSEs' access to capital; for example, the unfriendly relationship between Spedagi's founder and the district regent impeded the legitimacy of the RSE and access to support he might have obtained from the government at the village level. As stated by the head of Caruban village, where the Kelingan hamlet is located: *"We, as the government, are merely encouraging the villagers so that they are enthusiastic about entrepreneurship. I do not feel easy with my superior, so I did not dare to do anything."*⁴ A local figure in Kelingan, who also

⁴ Interview by Wiwit Khoirina on January 30, 2017 in Khoirina, Wiwit, Royke R. Siahainenina, and Elly E. Kudubun. 2017. *"SPEDAGI": Studi Sosiologis Peran Aktor dalam Memfasilitasi Pembangunan Pasar Papringan Melalui Modal Sosial Pada Masyarakat Desa Caruban, Kabupaten Temanggung*. Salatiga: Universitas Kristen Satya Wacana.

works in the village office, stated that, in fact, the sub-districts and the villages follow the directions of the regent.

Institutional Culture

Wariness and suspicion of change were evident in both cases. All the tenants with whom I talked stated that, initially, they feared that nobody would buy from the market or worried about whether people would come to their villages, especially because they did not have an established reputation for such a market. Fortunately, the market was unexpectedly successful, so more people began to participate in the market and people's fears did not reach the point where it might have hindered the RSE's development. The experience in Kelingan helped to reduce people's concerns, so the process of engaging the community in Ngadiprono was smoother, thus making the preparation stage shorter. People are afraid of uncertainty, so they are open to outside expertise. As mentioned in previous studies, rural communities have a great deal of respect for outsiders' expertise and the ideas they offer.

A self-help and supportive culture is also one of the factors that supports RSE development, resulting in cost efficiency, villagers' independence, and a collaborative environment, which all benefit RSEs' access to capital; for example, many pieces of equipment, and the building of the Perpignan venue, made use of the villagers' resources and capabilities. The residents' pleasure in welcoming, accommodating, and sharing with volunteers from outside, with no strings attached, seemed to originate from their habit of helping each other and this indeed benefitted the RSE.

Entrepreneurial Ecosystem

The legal formalities for social enterprises in Indonesia have not yet been established, so there has been little particular support for social enterprises from the government, but some rural or tourism development funds can be utilized by Pasar Papringan. However, the unequal power structure, at different levels, between the government and the villagers had a strong influence in both cases; for example, in the case of Kelingan, the village government stated that they felt uneasy about supporting Pasar Papringan because they realized the relationship between the RSE and the regent was not good. This is similar to the case of Ngadiprono. According to the legal system, the application for funding should be initiated at the village office level, but in this case the village office allocated the budget for the funds according to the recommendations of the district agency.

5. Influencing Factors: The Difference

The Initiation Process

The background of the two markets' establishment differed. The Pasar Papringan Kelingan market was launched in conjunction with the second International Conference on Village Revitalization (ICVR), a biannual conference, held by Spedagi to discuss village revitalization issues, and always preceded by a series of pre-conference projects. By contrast, the Papringan Ngadiprono market was initiated by a young member of Ngadiprono hamlet, who asked Spedagi's founder to collaborate. He is the leader of Mata Air Association, which is based in Ngadiprono. At that time, they proposed an area of red pines, but later, following discussions with the Spedagi team, they decided to develop the papringan area in his hometown, Ngadiprono. Recently, he became the project manager for Pasar Papringan Ngadiprono, replacing a volunteer of Spedagi, who was also the project manager for Pasar Papringan Kelingan. Even though Spedagi's position is rather different in the two cases, its function as advisor and facilitator is similar in the two cases. Spedagi implemented a quite strict governance model in the early phase of development, to maintain discipline and consistency among the villagers, but they encouraged local participation and initiative, and remained open to local ideas. However, the different backgrounds of the initiators significantly affected the start-up phase of the businesses in the two areas.

As part of the ICVR, the establishment of the market in Kelingan was tailored to reach an exact target, which might be the reason for its top-down approach at the beginning. As explained by a local figure in Kelingan, who helped Spedagi to improve local participation in the Papringan area:

"The way he [the founder] entered the village was like the Japanese. We should work from 7h to 12h and should not stop working, otherwise he would count our break time. Smoking was also prohibited. Such a system is not suitable for people living in a village."

According to him, recruiting locals was not easy and incentives were needed to persuade them. Thus, they agreed that those who would eventually gain the greatest benefits from the market should be those who participated from the beginning. However, he said that the Spedagi volunteer (the project manager at that time), who did not know about the agreement, recruited anyone, without making distinctions. The community engagement in the initiation process of Pasar Papringan Ngadiprono seemed to be more inclusive from the start. The local initiator asked the permission of the villagers and the village officers to

use the papringan for the market. It was easier for him to engage the community in the beginning because he knew them.

The development process of Pasar Papringan in Ngadiprono was faster than in Kelingan. Besides the impressive social capital possessed by the local initiator, which helped in engaging the community, the existence of a previous project supported the business development in Ngadiprono—an advantage that was lacking in the case of Kelingan. It helped to introduce the business to the community because it had set a precedent for the applicability of such a project to a rural area. The project in Kelingan was a useful reference for the development of the business in Ngadiprono, as stated by a local volunteer in Kelingan: *“There [in Ngadiprono], they learned a lot from here [Kelingan]. The residents there all supported the markets. They should no longer have a problem with the promotion, and they might manage the parking better.”* The market in Ngadiprono benefitted from this guidance, which enabled the villagers to avoid many trial and error setbacks, and save limited resources.

The villagers’ participation, in the case of Ngadiprono, also seemed to be more inclusive from the start. According to the local leader in Kelingan, before the market was established, only 75% of RT-2⁵ and about 30 households were involved. Following the market’s establishment, the activities involved six RTs—RT-1, RT-2, and RT-3 from Dusun Banaran, and RT-4, RT-5, and RT-6 from Dusun Kelingan. However, in Ngadiprono, all the members of Ngadiprono were informed of the market development plan. The management in Ngadiprono also claimed that they went to each house to map and identify the potential of Ngadiprono at the initial stage. Consequently, the villagers told me that everyone was involved in the market.

Engagement with Decision-Makers

In the case of Ngadiprono, the project manager stated that he normally invited the representatives of the local agencies and presented his plan so that they could adjust their approach to support the RSE. He reinforced the local regulation issued by the environmental services agencies, such as forbidding garbage to be thrown in the river, which is in line with the RSE’s mission to conserve the environment. He stated that support does not always need to be in the form of financial aid and can include the government’s involvement in its activities, because government acknowledgment is important for the business. As already

⁵ RT (Rukun Tetangga) is a neighborhood group comprising about fifty households living in the same area. The head is elected by the community.

mentioned, there is no particular policy and regulation relating to social enterprises in Indonesia, particularly at the local level, so it is important for the RSE to know the legal system and adjust and establish the strategy to attract resources from the public sector; for example, the project manager proposed a grant for a Tourist Destination Program for the next year, using Mata Air Association for the management.

It has already been acknowledged that the founder of Spedagi is not really on good terms with the district government, because he thinks that the local government did not give proper support to his projects, which resulted in the local government's exclusion from the RSE's activities. Consequently, this prevented the RSE's access to local financial resources, even at the lower level; for example, as stated by the head of Caruban village, where the Kelingan hamlet is located: *"We, as the government, are merely encouraging the villagers so that they are enthusiastic about entrepreneurship. I do not feel easy with my superior [at the district level], so I did not dare to do anything."*⁶ Government policy was not synergistic with the RSE's mission; for example, Spedagi paved the road in Kelingan with stone, using *trasah*⁷ which is more ecofriendly, as part of the RSE's environmental conservation mission. However, the local government has asphalted the road because they think it will facilitate visitors' access to the market. Finally, the government refrained from the conflict between residents that caused the market in Kelingan to be suspended.

Social Relationships

As mentioned previously, the lack of personal relationships with the government in the case of Kelingan proved to be a significant hindrance in obtaining the local government's support. However, the next project was more aware of this issue, as stated by its project manager:

"In the past, the founder of Spedagi was not on good terms with the government. The current government still consists of the same people, so all matters relating to the government are usually given to me, because actually everything comes back to personal closeness. The paperwork is just a formality; all of it comes back to personal relationships ... For example, formally, it [funding] is supposed to start with a proposal from the village office to the agencies, which is then passed to the regent to be approved. [But] not in this case [Pasar Papringan Ngadiprono]. I went to the heads of

⁶ Interview by Wiwit Khoirina on January 30, 2017 in Khoirina, Wiwit, Royke R. Siahainenia, and Elly E. Kudubun. 2017. *"SPEDAGI": Studi Sosiologis Peran Aktor dalam Memfasilitasi Pembangunan Pasar Papringan Melalui Modal Sosial Pada Masyarakat Desa Caruban, Kabupaten Temanggung*. Salatiga: Universitas Kristen Satya Wacana.

⁷ Local technique to construct a pavement by covering the soil surface with stones.

the agencies and got it approved, then they talked to the village office to allocate it [the funds] for Pasar Papringan.”

In this way, he had a better chance of obtaining the funding. His experience shows that different personal relationships with the government can affect the RSE’s access to capital.

However, the main factor that hindered the business continuity in Kelingan was the weak social cohesion and internal conflict among the villagers. The local figure in Kelingan who helped Spedagi stated that the conflict in Kelingan was due to the issue of the parking lot management, particularly because some people were jealous of the profits from the parking, which later created divisions between villagers. He added that he felt people were not supportive from the beginning. By contrast, the social cohesion of Ngadiprono was stronger, as stated by a local volunteer in Kelingan: *“People there [Ngadiprono] are very supportive. Our problem [in Kelingan] is just because of some irresponsible people who made a fuss.”*

Access to Resources

The villagers and the Spedagi team stated that the land contract suspension in Kelingan caused the market to be discontinued. Three villagers own the papringan used for the market in Kelingan, and Spedagi needed to rent it under a one-year renewable contract. However, one of the landowners did not want to continue the contract. The villagers claimed that the reason was because the landowner did not want his bamboo thicket to be used for something that was contrary to the teachings of Islam, such as the *kuda lumping* traditional dance that sometimes incorporates trances and magic tricks and also the visitors—especially foreign visitors—who dress inappropriately. However, according to the landowner’s relative, the contract was suspended because the owner did not want his property to become a source of conflict among the villagers. This is different from the case of Ngadiprono where the landowners will receive a percentage of the market’s revenue, which is more profitable for the RSE.

6. Conclusion

The study is consistent with previous studies in that it found that, in rural areas, the entrepreneurial model and its environment have an impact on the social enterprises’ development and viability. The study shows that, in the two cases, similar factors influence RSEs. The rural domain, like geographic conditions such as the demography of the population, local resources/knowledge, human resource capacity, social capital, and

culture, affect the development of RSEs. The RSEs' business model, along with its financial structure, collaboration, volunteerism, and market conditions, as part of the social entrepreneurship domain, also determine the performance of RSEs. The policy domain, involving the power structure between villagers and different levels of government, the relevant policies, and government support, also affect RSEs.

Under similar circumstances, the two cases showed different initiation processes, access to resources, community cohesion, and entrepreneurial capacity. Legitimation by the government can significantly affect RSEs' access to capital, but the entrepreneurs' active engagement is more important, so government support is not directly related to RSEs' discontinuation. However, legitimation by the whole community at the initiation stage is important, especially when the impacted communities have internal tensions or when the key resources—*papringan* in this case—used by the RSE, are privately owned by the community. Thus, this study is consistent with Muñoz, Steiner, and Farmer (2014) who stated that the initiation stage is important in the emergence of RSEs, and that failure at this stage can be a severe hindering factor. This study supports the argument of many studies that the social cohesion (Muñoz, Steiner and Farmer, 2014; Steinerowski and Steinerowska-Sterb, 2012) of rural communities is vital for the RSEs' viability, but especially with regard to the RSEs' access to key resources.

This study provides practical knowledge concerning the important factors to be considered when planning the development of social enterprises in the South-East Asian region, especially Indonesia, and complements studies of rural social enterprises by giving a South-East Asian perspective. As with any research, the current study has its limitations. There is a lack of *Kelingan* data because the research was conducted after the business had closed down, and some data relied on information from interviewees and secondary sources. Furthermore, this study uses a small number of cases and relatively young businesses, and after *Spedagi*, who provides assistance, will be outed from the business, the fully independent community might fail to maintain business viability in the future. It would be informative for future studies to analyze the factors that affect the viability of businesses that are entirely managed by the rural community from the beginning of their establishment and throughout the businesses' development. Given that internal and external factors concerning rural contexts can be key factors in general rural development models, it would be interesting to understand how the presence or absence of those factors influences RSEs' continuity and contribution to rural development.

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