

THE DEVELOPMENT OF THE ISLAMIC SOCIAL ENTERPRISE MANAGEMENT INDEX (ISEMI)

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Abstract

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This study aims to determine items with Islamic elements to develop an Islamic social enterprise management index (ISEMI). An Islamic social enterprise (ISE) works by managing operations within the principles of shari'ah to redistribute wealth and reduce poverty which is supported by a similar study by Indah and Hakim (2023). The design and method for this study involved three phases of analysis which are 1) general descriptive analysis, 2) validity and reliability analysis, and 3) data analysis phase of the study. In all, 40 items with Islamic traits were identified and analyzed. Three identifiable themes emerged, which were then labeled as: 1) God; 2) humanity, and 3) nature. Because of the limited sample size, the data offers results that are likely suggestive rather than conclusive. The study offers a practical single-figure-summary indicator to measure and evaluate ISEs and has the potential as a guideline for Muslim entrepreneurs to build favorable relationships with ISE management. The novelty of the ISEMI is in its unique construction of items embedded with Islamic factors. It could thus assist in the management of ISE to ensure they fulfill the principles of the shari'ah (Islamic law) and stakeholders' expectations.

Keywords: Islamic Social Enterprise, Management Index, Reporting Social Enterprise, Stakeholders Expectations, Shari'ah Principles

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1. INTRODUCTION

A social enterprise (SE) is a business created to achieve a social objective and reinvest profits to further the organization's mission (Burns, 2016). Some SEs, managed by religious groups, aim to assist disadvantaged individuals or groups, such as impoverished families or marginalized genders (Oham, 2015). The significance of SEs has grown in light of slow global recovery and their role in supporting those in need. This study proposes the development of an index to evaluate SEs, providing an overview of their background, research questions, methodology, and summary of findings. Cases involving non-profit organizations (NPOs) in Malaysia have led to skepticism from donors and fund providers (Raj, 2015). This scrutiny has prompted regulators to introduce governance reforms for SEs to enhance accountability and performance (Perego & Verbeeten, 2015). Evaluation of fund management in Islamic social enterprises (ISEs) is crucial for accountability. An index is needed to assess ISE performance aligned with their social agenda. This study aims to identify Islamic-related items for the development of the Islamic social enterprise index. Research on SE performance has primarily focused on Western perspectives, lacking insights from religious or faith-based organizations (Zaman et al., 2018). Studies on philanthropy management in Asian economies like Malaysia, Indonesia, Singapore, and Thailand would be valuable (Mohd Rafien et al., 2013; Said et al., 2013; Phairoon, 2019).

To ensure accountability and prevent fraud, a management index is essential. The absence of Islamic reporting standards raises concerns for Muslim faith-based organizations. The Islamic social enterprise management index (ISEMI) is recommended for all SEs, especially Islamic-based SEs.

The study's research questions are:

RQ1: What are the crucial Islamic factors for ISEs?

RQ2: Is it practical to create an ISEMI?

The first question aids data analysis from the literature review and interviews, resulting in categorized data. The second question identifies feasible patterns for the index's development. The research method consists of three phases: general descriptive analysis, validity and reliability analysis, and data analysis. Islamic elements are extracted from the literature review, and expert interviews confirm their suitability. Thematic analysis using ATLAS.ti software reveals themes and frequencies of the identified items.

The rest of the paper is structured as follows. Section 2 is a literature review on the development of the ISEMI. Section 3 presents the research methodology. Section 4 provides the research findings. Section 5 discusses the results and Section 6 concludes the paper.

2. LITERATURE REVIEW AND THEORY FRAMEWORK

In this section, the contributions of previous studies related to social enterprises (SEs) and an explanation of the theoretical framework are presented.

2.1. Social enterprise (SE)

Previous research has presented different interpretations of the term "social entrepreneurship" (SE), categorizing SEs based on various factors such as their: 1) affiliation with Islam, 2) profit orientation, 3) organizational type, and 4) business nature. A study by Erpf et al. (2019) developed three typologies to differentiate SEs from other sectors, based on aspects like social orientation, profit attitude, market focus, innovation, impact, and motive. These typologies highlight how SEs employ entrepreneurial techniques to address prevalent social needs. Efforts have been made to consolidate these definitions, and Mason and Brown (2014) defined the entrepreneurial ecosystem (EE) as a network of interconnected actors, organizations, institutions, and processes that collaborate to facilitate and regulate entrepreneurial performance within a local environment. This definition aligns with the EE approach, which provides a comprehensive understanding of entrepreneurial activity. This perspective is particularly relevant for social entrepreneurs who navigate complex networks of stakeholders in rapidly evolving political, economic, physical, and cultural landscapes.

Alternative studies have also characterized social entrepreneurship (SE) as an entity that achieves its objectives through various means, including 1) for-profit social purpose ventures, 2) non-profit organizations, and 3) hybrid entities. SE encompasses activities and processes aimed at identifying, defining, and capitalizing on opportunities to enhance social well-being through the creation of new ventures or innovative management of existing organizations. Social well-being encompasses economic, societal, health, and environmental aspects of human welfare. Social enterprises serve as a branch that addresses poverty and contributes to a country's economic development through charitable initiatives, welfare programs, philanthropy, and social services. Additionally, social enterprises are characterized by core values such as social value, civil society, innovation, and economic activity. Regardless of the diverse descriptions associated with social entrepreneurship, previous research has demonstrated its positive impact on society. SEs benefit multiple stakeholders by increasing revenue, profits, customer loyalty, and customer satisfaction for businesses, while also addressing social issues and reducing unemployment for targeted social groups. SEs also generate positive public opinion, contribute to pollution reduction, and enhance a country's image on a national level. In Australia, Farmer et al. (2016) utilized relational geography theory to examine the influence of social entrepreneurship on community well-being. Their study revealed that SEs add value to local communities by promoting social inclusion and empowering women. SEs also foster empowering changes for individuals, community entrepreneurs, and global initiatives, enhancing social value creation.

However, one major challenge faced by social enterprises in Malaysia is the lack of a legal definition and recognition of social enterprise as a distinct business entity. This absence has led to social entrepreneurs operating under various legal forms governed by different acts and regulations in

the country. Despite this challenge, social enterprises play a crucial role in addressing social-economic issues, particularly in emerging countries like Malaysia. Various challenges exist within the social entrepreneurship sector, including supporting infrastructure, social innovation support, funding, training, promotion, communication, and evaluation. These elements represent components of the EE surrounding SEs. To develop a robust social enterprise, the involvement of funders, support structures, social entrepreneurs, public institutions, and beneficiaries is crucial. Adopting and adapting the business model Canvas concept can also improve social enterprises by focusing on both social and economic impacts. Furthermore, attention must be given to high-vulnerability areas to overcome unfavorable conditions for social entrepreneurs.

Social enterprises and corporate social responsibility (CSR) share close connections. CSR is considered essential for maintaining an organization's good reputation and relevance. Companies increasingly disclose CSR information voluntarily to enhance transparency, build investor trust, and strengthen the integrity of the capital market. CSR reporting plays a crucial role in addressing economic, social, and environmental challenges while benefiting various stakeholders. The comparison between SEs and CSR extends to reporting methods, with initiatives like Legality Rating and CSR4UTOOL which serves as a self-assessment tool for measuring sustainability performance. This web-based application, co-designed and co-created with small and medium enterprises (SMEs), addresses the need for new technologies to support the social responsibilities of small businesses. It facilitates the bottom-up implementation of CSR on a global scale. Therefore, social enterprises should also prioritize their CSR disclosure, as achieving a balance between business success and social responsibility is crucial.

2.2. Islamic social enterprises (ISEs)

Presently, there is a scarcity of literature that offers a definitive definition of Islamic social enterprises (ISEs) compared to the extensive definitions available for social enterprises (SEs) (Kamaruddin, 2019). In the study conducted by Muhamed et al. (2018), ISEs were defined as entities grounded in Islamic principles and funded by Islamic charitable sources such as *waqaf*, *sadaqah*, *hibah*, and *qard hasan*. These organizations engage in business activities to generate profits, which are then utilized to support the underprivileged and sustain the business. Typically functioning as non-governmental organizations (NGOs), ISEs draw inspiration and legitimacy from the Islamic religion (De Cordier, 2009 as cited in Khafagy, 2020). Thus, Khafagy (2020) suggests defining ISEs as Muslim faith-based organizations to underscore their direct connection to the Islamic faith. Boulven et al. (2018) argue that the concept of ISEs must be derived from the primary sources of Islam, namely the al-Qur'an, and al-Hadith, and align with the objectives of the shari'ah or *al-maqasid as-shari'ah* (preservation of religion, life, intellect, lineage, and property) to achieve the concept of al-Falah. Adherence to the shari'ah is obligatory and essential for devout Muslims in Islam. Mohiuddin (2017) describes ISEs

as entrepreneurial ventures driven by social missions that conform to the laws and principles of the shari'ah, aiming to strike a balance between material and moral performance. Based on these discussions, it can be inferred that ISEs can be distinguished from SEs by their Islamic objectives (*maqasid shari'ah*) and are considered entities pursuing both social and business goals by Islamic principles and values. Therefore, ISEs should prioritize Islamic elements in their interactions with nature, relationships among creations, and humanity (Foster, 2014).

Despite limited in-depth studies on ISEs, Mulyaningsih and Ramadani (2017) have made efforts to define the scope of ISEs. They emphasize that while engaging in economic activities, individuals often neglect the transient nature of their intellect, body, and soul in pursuit of worldly wealth without fulfilling their responsibilities towards Allah. According to them, humans are not absolute proprietors of their possessions but rather temporary custodians entrusted with such ownership as *Amanah* (trust), which should be treated with care and duty (Mulyaningsih & Ramadani, 2017). Hence, the concept of ISEs upholds the idea of maintaining both wealth and social responsibility. Mulyaningsih (2014) highlights the significance of social enterprises within the Islamic welfare system and emphasizes how Islamic entrepreneurs can serve as intermediaries for Islamic social institutions such as zakat and waqf institutions. In Islam, entrepreneurship should be viewed as a moral commitment to perform good deeds by essential Islamic principles. Islamic entrepreneurship is not solely concerned with financial wealth and well-being but also with conducting business in a manner that aligns with Islamic standards. Enterprises that contradict Islamic principles are prohibited in Islam (Ashraf, 2019; Hassan & Hippler, 2014).

Boulven et al. (2018) compiled a list of 31 Islamic elements for effectively managing ISEs, with the primary element being to seek pleasure from Allah s.w.t in this world and the hereafter. These elements fall under four themes of ISEs: 1) the concept of ISE; 2) the basic element of Muslim social entrepreneur; 3) the Sifat Mahmudah and 4) the element of *al-maqasid al-shari'ah*. Table 1 shows the list of 31 Islamic elements described by Boulven et al. (2018).

Mulyaningsih's (2014) additional research emphasizes that financial aspects in the operations and management of ISEs should be guided by Islamic principles. This includes recognizing the individual's role as an intermediary for zakat institutions and the wise management of wealth (Mal) by Muslims. The al-Daruriyat theory of *maqasid shari'ah* identifies *yuhafizu al-mal* (property management) as one of the five fundamental elements. The Quran further encourages Muslims to practice moderation in managing their resources. Muhamed et al. (2018) also define ISEs within the realm of social enterprises, emphasizing the utilization of Islamic charitable sources such as *zakat*, *waqaf*, *sadaqah*, *hibah*, and *qard hasan* to support those in need and ensure sustainability. Table 2 provides an overview of the Islamic elements described by Mulyaningsih (2014) and Muhamed et al. (2018).

Table 1. Themes of Islamic social enterprises and Islamic elements

Themes of Islamic social enterprises	No.	Islamic elements
Concept of Islamic social enterprise	1	To seek the pleasure of Allah s.w.t in the world and hereafter.
	2	Concept of <i>amar maa'ruf wa nahi munkar</i> .
	3	Concept of welfare.
	4	Concept of fairness.
	5	Concept of <i>al-falah</i> (success in the world and the hereafter).
	6	Concept of developing and improving social value providers.
	7	Concept of <i>Khalifah</i> .
	8	Concept of charity.
	9	Concept of <i>waqaf</i> , <i>hibah</i> , and <i>zakat</i> .
	10	Concept of justice and balance.
	11	Concept of welfare and social security.
	12	Concept of <i>jihad</i> economy.
	13	Concept of prayer and attending to <i>masjid</i> .
A basic element of Muslim social entrepreneurs	14	Iman
	15	Taqwa
	16	Ihsan
Sifat Mahmudah	17	Taubat
	18	Ikhlas
	19	Khauf
	20	Zuhud
	21	Sabar
	22	Syukur
	23	Tawakal
	24	Mahabbah
	25	Redha
	26	Zikrul maut
Element of <i>al-maqasid al-shari'ah</i>	27	Religion (Deen)
	28	Life (Nafs)
	29	Lineage (Nasl)
	30	Intellect ('Aql)
	31	Property/Wealth (Mal)

Source: Boulven et al. (2018).

Table 2. Islamic elements

Element	Meaning
<i>Zakat</i>	<i>Zakat</i> refers to the proportion of wealth amongst the people contributed to worthy recipients based on the prescribed rate mentioned in Islamic sources (Sadeq, 2002).
<i>Waqaf</i>	<i>Waqaf</i> refers to the acquiring and maintaining of charitable trust properties for the benefit of the Muslim community (Kahf, 2003).
<i>Sadaqah</i>	<i>Sadaqah</i> is another type of almsgiving that is more flexible than <i>waqaf</i> in terms of managing the funds as the terms for distribution are loose compared to <i>waqaf</i> .
<i>Hibah</i>	<i>Hibah</i> refers to the transferring of property mal without any material consideration and consent from the recipient.
<i>Qard hasan</i>	<i>Qard hasan</i> is a benevolent interest-free loan given on a goodwill basis for welfare purposes.

Source: Mulyaningsih (2014) and Muhamed et al. (2018).

The introduction of SE and ISE principles in Asian nations has transformed the role of NPOs, which traditionally focused on social activities rather than commercial operations. However, the management of NPOs often lacks financial competence, leading to weak financial management in SE practices, affecting their effectiveness in achieving business and social impact goals (Kamaruddin & Auzair, 2020; Mikeladze, 2021).

In Malaysia, the emergence of SEs dates back to 1986 when the Centre for Policy Research at Universiti Sains Malaysia (USM), now known as Amanah Ikhtiar Malaysia¹ (AIM), was founded by Prof. David Gibbons and Prof. Sukor Kassim. AIM aimed to alleviate rural poverty and provide micro-loans to empower disadvantaged individuals, increase household income, and improve living standards (Adnan et al., 2018). AIM's pioneering efforts paved the way for the establishment of social enterprises in Malaysia, driven by the Malaysian Social Enterprise Blueprint 2015–2018, which aimed to create a thriving sector contributing to the nation's development (Adnan et al., 2018; Malaysian Global Innovation and Creativity Centre (MaGIC) Social Entrepreneurship Unit, n.d.). These

SEs primarily focus on education, poverty alleviation, rural development, environmental sustainability, and employment for disadvantaged individuals (Adnan et al., 2018; British Council Malaysia, 2019). Malaysian SEs are recognized as significant NGOs that contribute to improving living standards and stimulating economic growth. They have played a role in job creation, particularly for women, with a notable increase in employment between 2017 and 2018 (British Council, 2018). A survey revealed that social entrepreneurs generated an average income of the Malaysian ringgit (RM) 234,0718, with the majority operating as micro-enterprises (British Council, 2018). These findings demonstrate the crucial role of SEs in raising living standards and reducing unemployment rates in Malaysia.

However, there is a major challenge to address in successfully implementing SE and ISE concepts in Malaysia. The mindset of communities, particularly Muslims, who perceive modernization as a threat to their traditional way of life, must be changed. The lack of a shared perspective among Muslim nations regarding critical concerns hinders the consistent management of their consequences (Kayed & Hassan, 2010). Former Malaysian Prime Minister, Tun Dr. Mahathir Mohamad, criticized

¹ <https://www.aim.gov.my/profil>

the narrow interpretation of knowledge among some “political ulama” and their resistance to development, suggesting a need for a broader understanding and application of knowledge (Kayed & Hassan, 2010). Overcoming these challenges is essential to fully harnessing the potential of SEs and ISEs in Malaysia.

2.4. The regulatory framework of SEs and ISEs in Malaysia

NPOs in Malaysia, including societies, associations, foundations, and companies limited by guarantee (CLBG) businesses, are governed by different laws but lack specific registration or categorization for SEs and ISEs (Kamaruddin & Auzair, 2020). The absence of an authorized database or distinguishing features further complicates the identification of SEs (Kamaruddin & Auzair, 2020; Zainon et al., 2014). On the other hand, ISEs in Malaysia depend on their legal establishment, whether public, private, or non-profit (Kamaruddin & Auzair, 2020). Despite the lack of specific regulations, the Malaysian government has initiated some efforts to improve the SE ecosystem. The Malaysian Social Enterprise Blueprint 2015–2018 (MSEB) proposed a strategy to establish a social business sector and transform the economy (MaGIC Social Entrepreneurship Unit, n.d.).

The Ministry of Entrepreneur Development (MED), reintroduced in 2018, considers social enterprises as key players in addressing social and environmental challenges through entrepreneurial methods (British Council, 2018). Amendments to legislation acts, accreditation for impact-driven enterprises, and government policies demonstrate progress in accepting SE operations (British Council, 2018). However, the current state of SEs in Malaysia highlights several challenges. The absence of legal recognition and a legislative structure hinders their effectiveness, resulting in difficulties in obtaining human capital, accessing financial resources, and receiving assistance for sustainability (Adnan et al., 2018; British Council Malaysia, 2019). Addressing these issues is crucial for leveraging the potential of SEs in driving positive changes in the country’s development. Further research in social entrepreneurship is needed to understand how organizations redefine themselves and balance social and commercial motivations while aligning with core objectives. Contributions from stakeholder theory and institutional logic theory are valuable for advancing empirical and theoretical knowledge in the field of social entrepreneurship. Table 3 presents the legislation Acts for cooperatives, companies, and societies.

Table 3. Legislation, accreditation, strategies, policies, and guidelines of SEs in Malaysia

<i>Acts</i>	<i>Definition</i>
<i>Legislation</i>	
Co-operative Societies Act 1993 (Amendment) 2007	The Act controls the formation and operation of operatives.
Companies Act 1965 (Amendment) 2016	The Act makes it easier to establish both private businesses limited by shares and corporations limited by guarantee.
Societies Act 1966 (Amendment) 2006	The Act oversees the formation of societies in Malaysia, including NPOs and NGOs.
<i>Accreditation</i>	
Impact-driven enterprise accreditation	MaGIC’s accreditation program seeks to certify and increase the exposure of social entrepreneurs
<i>Strategies, policies, and guidelines</i>	
Eleventh Malaysia Plan, 2016–2020	Malaysia’s most recent five-year development plan includes methods to help the nation achieve its goal of becoming a high-income economy. Social innovation is emphasized as a vital approach to improving social welfare services, whilst social business is seen as a way to enhance the lives of the poor.
Guidelines on sustainable and responsible investment funds	The Securities Commission’s rules are intended to promote sustainable and responsible investment (SRI) funds and stimulate the development of new SRI products.
Malaysian Social Enterprise Blueprint 2015–2018	A three-year strategy describing the three critical building blocks for Malaysia’s social business sector’s development.
National entrepreneurship framework	The MED’s strategic plan to promote entrepreneurship in the country, which includes goals to promote social enterprise through existing co-operatives.
Value-based intermediation (VBI) guides	Bank Negara has issued three guidelines to assist Islamic financial institutions in implementing VBI. VBI refers to financial models that have a beneficial and long-lasting impact on the economy, community, and environment. The three guidelines are as follows: the VBI Implementation Guide, the VBI Financing and Investment Impact Assessment Framework, and the VBI Scorecard.

Source: British Council (2018).

2.5. Development of an index

There is an expanding body of literature focusing on the analysis of annual report information, including its quality, quantity, and methodological aspects. One commonly used approach is the utilization of an index, which has proven effective in assessing the level of information disclosed in annual reports (Marston & Shrivess, 1991). In the education sector, Dixon et al. (1991) conducted the first study examining reporting practices of seven New Zealand universities from 1985 to 1989. Using an unweighted,

dichotomous index consisting of 45 items, the study concluded that while there was an improvement over the four years, the university sector still had a long way to go to comply with new legislation (p. 176). The index developed by the International Social Enterprise Monitor Initiative holds significance in assessing performance and accountability in ISEs, allowing external stakeholders, such as donors, regulators, and beneficiaries, to evaluate their degree of responsibility through financial performance statistics (Mamabolo & Myres, 2020).

Coy et al. (1994) conducted a subsequent examination of New Zealand tertiary education annual reports from 1990 to 1992, expanding on the previous index. The revised index, known as the “Modified Accountability Disclosure Score (MAD) Index”, consisted of 26 items and introduced a 5-point system to assess individual disclosure. It underwent external validation through studies in Australia, Canada, and Scotland. A further study on New Zealand universities between 1985 and 2000 built upon the MAD index, aiming to address its limitations. This new index called the Public Accountability Index (PAI), was more comprehensive with 58 items, and demonstrated superior performance compared to the MAD index. The results of these studies highlighted the usefulness of the disclosure index in evaluating annual reports’ ability to effectively communicate essential information to multiple stakeholders. Recently, the application of an index has extended to the Belgian non-profit sector for assessing compliance with accounting and financial reporting standards (Verbruggen et al., 2011).

2.6. The stakeholder theory

The concept of “stakeholder” generally refers to individuals or groups who can make claims on an organization’s attention, resources, or output and who may be affected by the organization (Lewis, 2001, p. 202). Freeman (1984) is widely recognized as the pioneer of stakeholder theory. While organizations have traditionally been seen as seeking capital gains for their stakeholders, social enterprises have different objectives. They aim to generate positive social impact while ensuring financial sustainability and being accountable to multiple stakeholders. Stakeholder theory posits that organizations should be responsible to various groups in society, not just the owners of the organizations (Bradford et al., 2018; Burga & Rezanian, 2016; Gali et al., 2020; Phillips et al., 2019; Valentinov et al., 2019).

In the context of social enterprises, involving stakeholders is crucial for building relationships and delivering accountability. Spence (2016) identified four sub-categories of accountability relationships with stakeholders: ownership and control, governance and reporting, internal and external relationships, and power structure. Ownership and control in social enterprises are shaped by the principal and agent, who are the management actors driving the organizations (Schlierer et al., 2012). Stakeholder relationships in social enterprises often involve a heterogeneous group with diverse understandings of entrepreneurship, traits, processes, and organizational stages (Vazquez-Carrasco & Lopez-Perez, 2013). Regarding governance and reporting, the closeness of the relationship between owner-managers and other stakeholders relies heavily on the informal establishment of relationships. This includes voluntary participation based on trust, honesty, and truth. Proximity to society is essential to meet the accountability requirements, both internally and externally, for owners and stakeholders. In social enterprises, the power structure may be flat but flexible and multitasking (Russo & Tencati, 2019). Stakeholder theory advocates for managers to effectively address the needs of different constituents or stakeholders.

It emphasizes the interests of all stakeholders, not just shareholders, in a profit-driven environment. Stakeholders encompass user groups with direct or indirect interests in the organizations.

2.7. Institutional logic theory

Institutional logic theory serves as a valuable framework for academics and practitioners in the field of social entrepreneurship. It allows practitioners to reflect on the role of social entrepreneurship and utilize the theory to navigate the balance between creating social value and ensuring economic sustainability. Organizations face the challenge of reconciling competing economic and social pressures to establish market and social legitimacy (Agrawal & Hockerts, 2013; Apostolopoulos et al., 2019; Castellás et al., 2018; Lyne et al., 2018; Mikołajczak, 2020). This demand for efficiency and adaptability extends to the non-profit sector and social enterprises, as these organizations must navigate changing institutional environments. The emergence of hybrid institutional logic, resulting from the merging of different institutional logics in new cross-sectorial ways, further complicates the organizational landscape (Raynard & Greenwood, 2014).

Social enterprises serve as prime examples of hybrid organizations that blend market-driven orientations with social missions, engaging in revenue-generating activities while pursuing social goals (Som et al., 2010). Many social enterprises exhibit a distinctive combination of logic and operate within a blended model (Smith, 2014). Studies on social enterprises reveal their engagement with multiple heterogeneous logics, often leading to conflicting demands and tensions surrounding their missions and goals (Kaplan, 2001; Parsons, 2003). Institutional logic theory, introduced by Friedland and Alford in 1991, aimed to reconcile the utilitarian individual and the power-oriented organization. The theory provided a fresh understanding of institutional dynamics and change, defining institutional logic as sets of material practices and symbolic constructions that shape organizing principles for institutions (Friedland & Alford, 1991). Actors interact with and shape these logics through routine behaviors and tangible material practices, which influence institutions and social meanings.

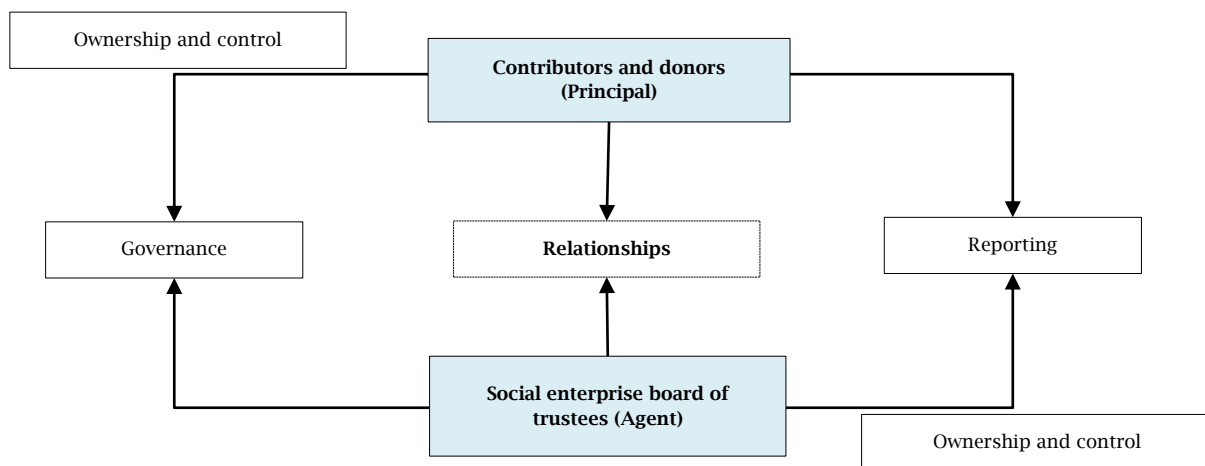
It is important to differentiate between institutional logic and the institutions they support. Logics are subtly powerful, guiding institutions and social meanings, and are less tangible compared to the institutions themselves (Friedland & Alford, 1991). Behind institutions like the market, there exists an abstract or second-order logic that prescribes the commodification of human activity. Logics are comprised of material practices and symbolic constructions that guide institutions, such as “participation” in the institution of democracy or the “commodification of human activity” in the institution of capitalism (Friedland & Alford, 1991). Friedland and Alford (1991) aimed to critically examine the impact of hegemonic institutions like capitalism on social life and understand how actors relate to these institutions. The concept of logic helps shape the social content of institutions by providing distinctive categories, beliefs, and motives.

2.8. Theoretical framework of this study

One of the theories utilized in this study is the stakeholder theory, which focuses on the accountability relationship between social enterprises and their stakeholders. The theoretical framework employed in this study aids in the development of a social enterprise management index based on the anticipated relationships among ownership and control, governance and reporting, internal and external relationships, and the existing power structure, inspired by Spence (2016). Another theory applied is the institutional logic theory, which provides a framework for understanding the everyday operations of social constructs. The theoretical framework is illustrated in Figure 1, showcasing the foundation of relationships between the internal relationships (social enterprise board of trustees) as the agent and the external relationships (contributors and donors) as the principal. The board of trustees manages the social enterprises

through mechanisms of ownership and control, governance, and reporting. Financial support for the organization is sourced from contributors and donors who willingly contribute to enabling the organization to deliver services to stakeholders and beneficiaries. These contributions ensure the sustainability of the organization's activities and operations. In return, the organization must be accountable to its stakeholders and beneficiaries through elements of ownership and control that establish a power structure. Simultaneously, the two-way relationship between the organization and its stakeholders necessitates the board of trustees to fulfill its moral obligations in sustaining both internal and external relationships for all involved parties. These obligations are realized and demonstrated through the organization's reporting practices. The prepared reports must effectively address the stakeholders' information needs (Zainon et al., 2014).

Figure 1. Theoretical framework



Source: Spence (2016).

3. METHODOLOGY

The present study adopts a qualitative approach to gather relevant data and make a valuable contribution to the existing literature on ISEs, which is an area of research that lacks sufficient investigation. This approach is chosen to explore the processes and outcomes in depth, aiming to uncover meaningful patterns and values associated with the phenomenon (Creswell, 2009). To ensure a systematic and rigorous analysis of the qualitative data, the methodology employed in this study is explained in terms of the research instrument, participant selection, phases of index development, and the overall research procedure and analysis. This approach enables a comprehensive examination of the data, allowing for a detailed description of the development of a management index specifically tailored for scrutinizing Islamic social enterprises. Alternatively, a mixed-method approach that combines quantitative methods, case studies, and field tests could be considered as an alternative approach to constructing the index, providing a broader perspective on the topic.

3.1. Informants of the study

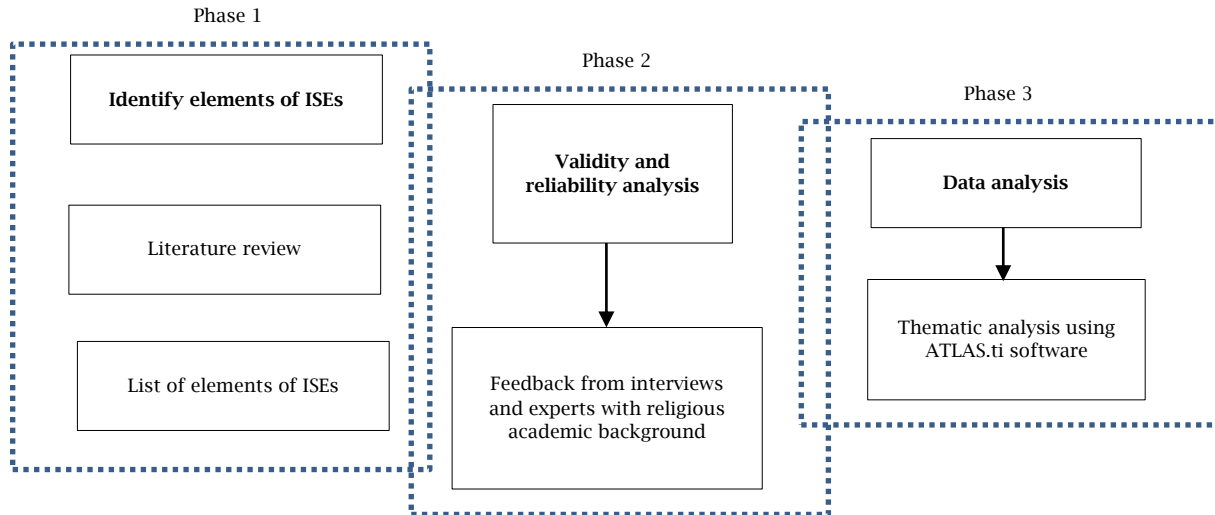
A total of 18 participants took part in the study, including ten chairmen of ISEs and eight general secretaries. These participants were identified through a database provided by social enterprise websites and were contacted individually. They willingly agreed to participate in the study and be interviewed. The age range of the informants was between 40 and 65 years old. They represented a diverse group of professionals with various backgrounds, including government and private sectors, as well as retirees, who joined the ISEs as volunteers. Among the 18 participants, six were considered expert informants due to their ability to provide valuable and specialized insights for the study. Some of them had a background in religious studies, while others held positions as officers and directors at the Religious Agency and the State Government Religious Department. Additionally, two academicians with extensive working experience and a background in shari'ah were also part of the group. Their seniority and wealth of knowledge added credibility to their expert contribution to the development of the index.

3.2. Phases of the development of the index

This subsection describes the procedure used in the study, which involved three phases of analysis:

Phase 1 (General descriptive analysis), Phase 2 (Validity and reliability analysis), and Phase 3 (Data analysis), as depicted in Figure 2.

Figure 2. The research design of the study



Source: Authors' elaboration.

In Phase 1, a comprehensive literature review was conducted to identify and compile Islamic elements relevant to ISEs. The literature sources included memos, bulletins, pamphlets, magazines, annual reports, and publicly available websites of the organizations. Phase 2 was a crucial part of the study, focusing on data collection through semi-structured interviews with ISE managers. The nature of these interviews is explicitly explained in this section. As previously mentioned, a purposive selection process was employed to choose 18 informants who expressed their willingness to participate. The informants consisted of seven educational SEs, five women SEs, six professionals from SEs, and six experts with religious academic backgrounds. Individual face-to-face interviews, lasting approximately 30 minutes each, were conducted at mutually agreed times and locations. A single interview guide was utilized, which comprised a list of 36 items derived from the data compiled during Phase 1, along with an open-ended section. The informants were provided clear information about the index and were asked to analyze the listed items, identify those they deemed important for the index's development, and respond to the open-ended questions. Due to COVID-19 movement restrictions, the interviews adhered to the stipulated guidelines. They were recorded and later transcribed using thematic analysis facilitated by the ATLAS.ti software, all within the scope of Phase 3 of this study.

3.3. Research procedure and analysis

In the initial phase of the procedure, the transcribed data underwent coding and analysis. The ultimate goal of this analysis was to achieve saturation coding, which is an essential aspect of ensuring

validity. The objective here was to identify recurring patterns of the most influential factors, based on the perspectives of both internal and external stakeholders. The saturated items or categories in this study were derived from sources related to Islamic elements, as identified through the literature review and feedback from experts during the interviews. The results from ATLAS.ti were used to construct salient logic words, which played a crucial role in validating the research findings.

As a final remark in the methodology section, the qualitative method was deemed suitable for this study. However, it was acknowledged that this method had its limitations. While it provided a comprehensive approach to sourcing items of Islamic elements for analysis and potential inclusion in the ISEMI, it was recognized that alternative participant selection or conducting multiple interview sessions could have yielded additional items for the index. Therefore, these limitations were acknowledged to minimize any oversights in interpreting the data that could potentially compromise the validity and reliability of the research. With this awareness, steps were taken in the procedure to address these limitations and ensure the integrity of the compiled and analyzed items.

4. FINDINGS

In this section, the findings of the study are presented, encompassing the three phases of analysis: general descriptive analysis, validity and reliability analysis, and thematic analysis. These findings aim to address the research questions, specifically: 1) identifying the significant Islamic factors for ISEs, and 2) assessing the feasibility of developing an ISEMI.

4.1. Phase 1: Identifying elements of ISEs

The process of identifying the elements of ISEs involves a comprehensive review of the literature. Boulven et al. (2018) examined 31 Islamic elements crucial for successfully managing ISEs, with the overarching element being the pursuit of pleasure from Allah s.w.t in this world and the hereafter. Additionally, Boulven et al. (2018) identified four main themes related to ISEs, including the concept of ISE, fundamental elements of Muslim social entrepreneurs, *Sifat Mahmudah* (excellent attributes), and the element of *al-maqasid al-shari'ah* (objectives of Islamic law). Furthermore, Mulyaningsih (2014) and Muhamed et al. (2018) described five other Islamic elements: *zakat*, *waqaf* (endowment), *sadaqah* (charity), *hibah* (gift), and *qard hasan* (benevolent loan), as presented in Table 4. Thus, the comprehensive review of past literature suggests that a systematic tabulation of Islamic elements for ISEs could involve a total of 36 elements. These elements were subsequently subjected to validity and reliability analysis in Phase 2 of the study.

4.2. Phase 2: Validity and reliability analysis

The initial steps of this phase involved completing the fieldwork protocol, which included identifying and contacting the management of the ISEs, organizing the interviews, and following up with various social enterprises. During the interviews, participants were given the flexibility to use Malay, English, or a combination of both languages based on their preferred communication styles. Consequently, some interviews had to be translated from other languages into English. Furthermore, in this study, the transcripts were validated by sending them back to the participants for review and compliance before being collected. This "back-to-back" translation method was employed to ensure the clarity, accuracy, and consistency of the translated data, while also safeguarding the informants' perspectives from any potential influence introduced during the translation process.

Table 4. Islamic elements based on literature review

Source	Themes of Islamic social enterprises	No.	Islamic elements
Boulven et al. (2018)	Concept of Islamic social entrepreneurship	1	To seek the pleasure of Allah s.w.t in the world and hereafter.
		2	Concept of <i>amar maa'ruf wa nahi munkar</i> .
		3	Concept of welfare.
		4	Concept of fairness.
		5	Concept of <i>al-falah</i> (success in the world and the hereafter).
		6	Concept of developing and improving social value providers.
		7	Concept of <i>Khalifah</i> .
		8	Concept of charity.
		9	Concept of <i>waqaf</i> , <i>hibah</i> , and <i>zakat</i> .
		10	Concept of justice and balance.
		11	Concept of welfare and social security.
		12	Concept of <i>ji'had</i> economy.
		13	Concept of prayer and attending to <i>masjid</i> .
	A basic element of Muslim social entrepreneurs	14	Iman
		15	Taqwa
		16	Ihsan
		18	Ikhlas
		19	Khauf
		17	Taubat
	<i>Sifat Mahmudah</i>	18	Ikhlas
		19	Khauf
		20	Zuhud
		21	Sabar
		22	Syukur
		23	Tawakal
		24	Mahabbah
		25	Redha
		26	Zikrul maut
	Element of <i>al-maqasid al-shari'ah</i>	27	Religion (Deen)
		28	Life (Nafs)
29		Lineage (Nasl)	
30		Intellect ('Aql)	
Mulyaningsih (2014) and Muhamed et al. (2018)	31	Property/ Wealth (Mal)	
	32	<i>Zakat</i>	
	33	<i>Waqaf</i>	
	34	<i>Sadaqah</i>	
	35	<i>Hibah</i>	
	36	<i>Qard hasan</i>	

Source: Authors' elaboration.

Initially, interviewees were selected using purposive sampling, which is a method aimed at maximizing the depth and richness of data to address the research questions (DiCicco-Bloom & Crabtree, 2006). Given the expected difficulty in obtaining a sample for this study, a small sample

size was chosen. The selection of social enterprises was based on specific criteria: 1) the social enterprises should have operated for no more than five years; 2) the social enterprises should be solely involved in the religious domain; and 3) the social enterprises should be small-sized, employing fewer

than 20 full-time employees. ISE management staff members (18) were interviewed. They were provided with a list of Islamic elements obtained from the literature review and were asked to review

and express agreement with these elements. The findings, presented in Table 5, indicated that all informants agreed on the inclusion of the 36 Islamic elements in the index.

Table 5. Result from the interview

Elements	Informants																	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1	To seek the pleasure of Allah s.w.t in the world and hereafter	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
2	Concept of <i>amar maa'ruf wa nahi munkar</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
3	Concept of welfare	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
4	Concept of fairness	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
5	Concept of al-falah (success in the world and the hereafter)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
6	Concept of developing and improving social value providers	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
7	Concept of <i>Khalifah</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
8	Concept of charity	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
9	Concept of <i>waqaf</i> , <i>hibah</i> , and <i>zakat</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
10	Concept of justice and balance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
11	Concept of welfare and social security	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
12	Concept of <i>jihad</i> economy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
13	Concept of prayer and attending to <i>masjid</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
14	<i>Iman</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
15	<i>Taqwa</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
16	<i>Ihsan</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
17	<i>Taubat</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
18	<i>Ikhlas</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
19	<i>Khauf</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
20	<i>Zuhud</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
21	<i>Sabar</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
22	<i>Syukur</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
23	<i>Tawakal</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
24	<i>Mahabbah</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
25	<i>Redha</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
26	<i>Zikrul maut</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
27	Religion (Deen)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
28	Life (Nafs)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
29	Lineage (Nasl)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
30	Intellect ('Aql)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
31	Property/Wealth (mal)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
32	<i>Zakat</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
33	<i>Waqaf</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
34	<i>Sadaqah</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
35	<i>Hibah</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
36	<i>Qard hasan</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

The informants were given an interview guide that included open-ended questions to gather their suggestions on Islamic elements. However, out of the 18 informants, only five provided additional information on the topic. One of them, Informant 6, an administrator responsible for ISE operations, emphasized the significance of satisfying Allah to demonstrate solidarity. Another informant, Informant 9, suggested including *waqaf* (endowment) and *Sadaqah Garyia* (running and sustainable voluntary charity) as important elements. Informant 2, a key informant from an ISE Foundation, supported Informant Nine's suggestions and stressed the importance of human relationships (*Hablum Minannas*) in managing ISE operational

activities. Informant 11 agreed with the previous literature (Boulven et al., 2018) on the Islamic charity model, which involves using *waqf* to support various social objectives and assist the underprivileged in society. Informant 11 proposed that *waqf* projects should be used for community development initiatives that benefit people in the community. Furthermore, Informant 11 emphasized the inclusion of shari'ah principles as a guiding element for ISEs, considering it as one of the most integral Islamic elements. Only four informants responded to the open-ended questions in the Interview Guide, resulting in a total of 40 Islamic elements for the ISEMI. A summary of the findings from the semi-structured interviews is provided in Table 6.

Table 6. Extract of Islamic elements from the open-ended questions in the interview

Informant No.	Islamic elements
6	Solidarity
9	Sadaqah Garyia
2	Human relationship (<i>Hablum Minannas</i>)
11	Shari'ah

In addition to the 18 informants, 6 key experts were purposively selected for their expertise. They consisted of 1 representative from the Shari'ah Advisory Council of Malaysia, 3 officers from the Board of Committee of Majlis Agama Malaysia, and 2 academicians. These experts were requested to validate the listed elements of ISE management obtained from the interviews. They agreed to participate in this validation process and provided their feedback on the compiled elements. Following this process and considering the feedback received, the researchers proposed the ISEMI as a confirmation of the selected Islamic elements derived from the interview sessions.

4.3. Phase 3: Data analysis

In Phase 3, the collected data were analyzed using a qualitative approach. Thematic analysis was employed, utilizing ATLAS.ti 8.0 Software to analyze the data based on themes. The 40 Islamic elements were grouped into three main themes: 1) God, 2) humanity, and 3) nature. This analysis aligns with the logical patterns established in the research methodology. Table 7 presents the results of the thematic analysis for the ISEMI. The table displays the three major themes and how the elements of ISEs are organized within these themes. Efficient and effective management of ISEs relies on belief in the Almighty and adherence to the governing rules and principles. Among the 40 elements, only two (5%) are classified under the theme of nature (property/wealth and solidarity), five (12.5%) relate to humanity, and the majority of 33 elements (87.5%) are associated with God. This indicates that the majority of the elements fall under the theme of God.

Table 7. Thematic analysis of ISEMI

Theme	No.	Elements	
God	1	To seek the pleasure of Allah s.w.t in the world and hereafter.	
	2	Concept of <i>amar maa'ruf wa nahi munkar</i> .	
	3	Concept of welfare.	
	4	Concept of fairness.	
	5	Concept of <i>al-falah</i> (success in the world and the hereafter).	
	6	Concept of developing and improving social value providers.	
	7	Concept of <i>Khalifah</i> .	
	8	Concept of charity.	
	9	Concept of <i>waqaf, hibah, and zakat</i> .	
	10	Concept of justice and balance.	
	11	Concept of welfare and social security.	
	12	Concept of <i>jihad</i> economy.	
	13	Concept of prayer and attending to <i>masjid</i> .	
	14	Iman	
	15	Tagwa	
	16	Ihsan	
	17	Taubat	
	18	Ikhlas	
	19	Khauf	
	20	Zuhud	
	21	Sabar	
	22	Syukur	
	23	Tawakal	
	24	Mahabbah	
	26	Zikrul Maut	
	27	Religion (Deen)	
	28	Life (Nafs)	
	29	Lineage (Nasl)	
	30	Intellect ('Aql)	
	35	<i>Hibah</i>	
	36	<i>Qard hasan</i>	
	40	<i>Shari'ah</i>	
	Humanity	38	<i>Sadaqat Garyia</i>
		39	Human relationship (<i>Hablum Minannas</i>)
		25	Redha
		32	<i>Zakat</i>
	Nature	33	<i>Waqaf</i>
		34	<i>Sadaqah</i>
		31	Property/ wealth (Mal)
		37	Solidarity

5. DISCUSSIONS

The analysis revealed common Islamic traits that are relevant to the index and can be categorized into three main themes: God, humanity, and nature. These themes form the basis for discussing the importance of relationships with God, nature, humanity, and among creations in the success of

ISEs, as advocated by Foster (2014) in achieving excellence through social change and religious missions. The study also provided valuable insights into the operations and dynamics of 18 ISEs in Malaysia. These organizations play a significant role in their communities, and there are opportunities to enhance their capacity through strategic partnerships, leveraging their resources for

the greater good (Khafagy, 2020; Boulven et al., 2018; Mohiuddin, 2017). The concept of ISEs can be embraced by both Muslims and non-Muslims, as it aligns with the current entrepreneurial landscape. It not only incorporates faith-based principles but also emphasizes the interdependence of human relationships. SEs and ISEs serve as platforms to achieve both business and social impact objectives. Recognizing this, the government and relevant authorities should view it as an opportunity for the country's development, as it addresses both social and economic aspects crucial for sustainability.

The study aimed to identify important factors for consideration in the ISEMI. A total of 37 elements were identified, with unanimous agreement among the 18 ISEs in Malaysia. These elements were then categorized into the primary factors of God, humanity, and nature through thematic analysis. This fulfills the first objective of the study, which is to explore the Islamic factors important for ISEs, as suggested by Friedland and Alford (1991), who propose that institutions should have logical material practices and symbolic constructions to guide them. The theoretical framework of the study drew upon stakeholder and institutional logic theory to develop the ISEMI. The literature review revealed the lack of an authorized and comprehensive database for SEs, including ISEs. Differentiating features between SEs and ISEs were primarily based on legal establishments, providing a general understanding. Therefore, the study's outcomes contribute to establishing a systematic structure for ISEs based on the factors of God, humanity, and nature. Regarding the second objective of determining the feasibility of developing the ISEMI, feedback from the informants confirmed the importance of the 36 Islamic elements. SEs have traditionally focused on social orientation, profit attitudes, market orientation, innovation, impact, and motive (Erpf et al., 2019). Cavallo et al. (2020) state that the Entrepreneurial ecosystem is driven by social wealth and human welfare. Similarly, Palesangi (2012) and Umar et al. (2020) highlight four main values of SEs: social value, civil society, innovation, and economic activity. ISEs encompass these aspects while incorporating Islamic values as guiding principles.

6. CONCLUSION

This study aims to identify Islamic traits that can be used to develop an index for managing ISEs. The goal is to establish effective fund management control and reporting practices for ISEs using the index as a measurement tool. The index proposed in this study, known as ISEMI, is specifically designed to evaluate the performance of ISEs. The significance of performance measures for ISEs lies in their potential to provide valuable insights for future researchers. By developing appropriate performance metrics, researchers can assess and evaluate the effectiveness of ISEs in achieving their social and business objectives while adhering to Islamic principles. Performance measures allow researchers to gauge the impact of ISEs in terms of their contribution to societal welfare, poverty alleviation, and the well-being of marginalized communities. By analyzing these measures, researchers can identify the areas where ISEs excel and where improvements are needed. This information can be used to develop strategies and best practices for enhancing the social impact of ISEs and optimizing their resource allocation. Moreover, performance measures help in benchmarking and comparing the performance of ISEs across different contexts, regions, or time periods. This enables researchers to identify successful models and practices that can be replicated or scaled up, fostering knowledge-sharing and collaboration within the field of Islamic social entrepreneurship. Additionally, performance measures provide a means to assess the financial sustainability and viability of ISEs. Researchers can analyze indicators such as profitability, liquidity, and efficiency to understand the economic aspects of ISEs and their ability to generate sustainable income. This knowledge can inform future research on financial management strategies for ISEs and contribute to the development of financial models specific to Islamic social entrepreneurship. Performance measures for ISEs can help bridge the gap between theory and practice. By evaluating the actual performance of ISEs against established benchmarks or theoretical frameworks, researchers can validate or refine existing theories and concepts. This iterative process of research and evaluation contributes to the advancement of knowledge in the field of Islamic social entrepreneurship and promotes evidence-based decision-making among practitioners and policymakers.

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