

The Effect of Social Entrepreneurship, Government Support on Local Economic Performance in Indonesia, and the Impact of Local Initiatives Mediated by Intellectual Capital

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ABSTRACT

This study explores the relationship between intellectual capital, government support, social entrepreneurship, and local economic success in Indonesia. Data were gathered from a broad sample of respondents who represented local businesses, government authorities, and social entrepreneurs using a quantitative research approach. The study utilized structural equation modeling (SEM) in conjunction with partial least squares (PLS) analysis to investigate the correlations between the variables. The results show that social entrepreneurship and government assistance have a major positive impact on local economic performance. It was also shown that intellectual capital acted as a mediator in these partnerships, underscoring its critical function in converting government assistance and social entrepreneurship into concrete economic results. The study highlights the significance of creating an environment that is supportive of entrepreneurship and innovation and advances our knowledge of the mechanisms driving economic progress in Indonesia. The knowledge gained from this study has important ramifications for stakeholders, practitioners, and policymakers who want to encourage local sustainable economic growth.

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1. INTRODUCTION

Indonesia, a country known for its wide archipelagic environment and rich cultural variety, is going through a major socioeconomic change. Even though the nation's economy has grown significantly in recent years, there are still many obstacles to overcome before equitable and sustainable development can be achieved in all of its different areas [1]. Innovative strategies that harness the power of social entrepreneurship,

public assistance, and intellectual capital to boost regional economic performance are needed to address these issues. [2], [3], [4]

The idea of using business endeavors to address social and environmental challenges is known as "social entrepreneurship," and it is gaining popularity throughout the world [5]. These businesses target positive social impact in addition to profit, which offers a rare opportunity to address serious societal issues and promote economic progress [6], [7]. The

rise of social entrepreneurship in Indonesia is indicative of a rising understanding of the need for creative solutions to problems like inequality, poverty, and environmental degradation [8], [9].

Simultaneously, it is impossible to overestimate the importance of government assistance in creating a climate that is supportive to entrepreneurship and economic growth. Governments are essential in fostering entrepreneurial ecosystems and assisting in the expansion of small and medium-sized businesses (SMEs) using legislative frameworks, financial incentives, and capacity-building initiatives [10], [11].v. Indonesia has demonstrated its commitment to promoting an entrepreneurial culture and advancing economic progress by implementing several government programs to boost entrepreneurship, improve access to financing, and expedite regulatory procedures [12], [13], [14].

Moreover, the notion of intellectual capital has surfaced as a crucial factor that determines the success and creativity of a business [2], [15]. The knowledge, skill, and creative potential that are ingrained in people and organizations are collectively referred to as intellectual capital [16], [17].V. This asset is essential for gaining a competitive edge and generating value. Intellectual capital has a crucial role in promoting learning, creativity, and adaptability in the context of social entrepreneurship and economic development [18], [19], [20]. This increases the efficacy of local initiatives in promoting sustainable economic growth. In light of this, this study aims to investigate the complex connections between intellectual capital, local economic performance, government support, and social entrepreneurship in Indonesia. Gaining a deeper comprehension of how these variables interact and impact local economic development dynamics is the main goal.

The study specifically aims to investigate the relationship between social entrepreneurship and local economic performance, analyze the mediating role of intellectual capital in the relationship between local initiatives (social entrepreneurship and

government support) and local economic performance in Indonesia, and examine the impact of government support on social entrepreneurship and its subsequent effect on local economic performance. By focusing on these goals, the research hopes to provide empirical data that will benefit scholarly discussions and the creation of policies that will support equitable and sustainable economic growth in Indonesia.

2. LITERATURE REVIEW

2.1 *Social Entrepreneurship and Economic Development*

Globally, social entrepreneurship is becoming recognized as a catalyst for social and economic advancement. Social entrepreneurship, defined as the entrepreneurial search for novel solutions to societal problems, is a break from conventional profit-maximizing business models in that it places a higher priority on social effect than on long-term financial viability [21], [22], [23]. Social entrepreneurship is essential for tackling urgent environmental and social challenges and promoting economic growth in the context of economic development [24], [25].

Empirical studies indicate that social entrepreneurship has a multifaceted role in fostering economic growth. Social enterprises, especially in underprivileged communities, generate money and jobs by recognizing and fulfilling unmet social needs. This creates new market opportunities and boosts economic activity [23], [26]. Additionally, social businesses frequently work in fields with weak public services or market failures, completing vital gaps in infrastructure development and service delivery [27], [28], [29]. The rise in social entrepreneurship in Indonesia is indicative of a rising understanding of the ability of creative business models to promote equitable and sustainable economic development.

H1: There is a positive relationship between social entrepreneurship and local economic performance in Indonesia. Specifically, regions with higher levels of

social entrepreneurial activity will exhibit greater economic growth, job creation, and innovation.

2.2 Government Support and Economic Development

To create an atmosphere that is conducive to entrepreneurship and economic growth, government backing is essential. Governments can create an environment that is favorable for business development by encouraging entrepreneurship, improving access to capital, and streamlining regulatory procedures through the use of policy frameworks, financial incentives, and capacity-building initiatives [30], [31]. The government of Indonesia has launched several programs to encourage entrepreneurship, such as financial aid, business development services, and regulatory changes meant to lower red tape and encourage investment from the private sector [32], [33], [34].

Given the distinctive difficulties faced by social enterprises—such as restricted access to financing, inefficiencies in the market, and regulatory restrictions—government assistance for social entrepreneurship is especially important [34], [35]. Governments can help achieve wider goals of economic development by supporting social companies specifically to boost their influence on society and accelerate their growth [34], [36]. As evidenced by regulatory initiatives, incubator programs, and special funding schemes designed to identify and develop the social enterprise sector, Indonesia has been actively promoting social entrepreneurship [9], [10].

H2: Government support for entrepreneurship positively influences local economic performance in Indonesia. It is expected that regions with more favorable government policies, incentives, and regulatory frameworks for entrepreneurship will experience higher levels of economic development.

2.3 Intellectual Capital and Organizational Performance

The knowledge, skill, and creative potential that are ingrained in people and organizations is known as intellectual capital,

and it has become clear that this is a key factor in determining both competitive advantage and organizational success [15], [37]. According to research, intellectual capital is essential for promoting creativity, increasing output, and assisting with organizational learning and adaptation [38], [39]. Intellectual capital takes on more relevance as a catalyst for innovation and value creation in the context of social entrepreneurship and economic development [40].

Intellectual capital is particularly important for social enterprises as it helps them create novel solutions to challenging social and environmental issues. Social entrepreneurs can increase their efficacy and impact by identifying opportunities, mobilizing resources, and navigating dynamic market conditions by utilizing their knowledge, experience, and networks [41], [42], [43]. Furthermore, social companies that possess intellectual capital are better equipped to establish collaborations, gain the confidence of stakeholders, and promote an innovative and continuous improvement culture—all of which are critical components of sustainable economic development [38], [39].

H3 and H4: Intellectual capital plays a mediating role in the relationship between social entrepreneurship / government support and local economic performance in Indonesia. It is hypothesized that the presence of a knowledgeable and skilled workforce, access to information and technology, and investments in research and development will enhance the impact of social entrepreneurship and government support on economic outcomes.

3. METHODS

3.1 Research Design

To examine the connections between social entrepreneurship, government assistance, intellectual capital, and regional economic performance in Indonesia, this study uses a quantitative research design [44]. The study will employ a cross-sectional survey methodology to gather primary data

from a representative sample of social entrepreneurs, government officials engaged in entrepreneurship development, and local firms located in various regions of Indonesia. Examining these links and their implications for promoting local sustainable economic development is made possible by the research design.

3.2 Sampling

Social entrepreneurs, government officials from pertinent ministries or agencies involved in entrepreneurship development, and representatives from local enterprises operating in Indonesia's many sectors will all be included in the sampling frame. To guarantee that the sample is representative of various sectors, geographies, and organizational kinds, a multistage sampling technique will be used. The complexity of the structural equation model (SEM) is to be estimated and statistical power will be taken into account while determining the sample size [45].

3.3 Data Collection

Structured questionnaires intended to gather data on important variables—such as social entrepreneurship initiatives, policies of support from the government, elements of intellectual capital, and measurements of regional economic performance—will be used to gather the data. To guarantee clarity, relevance, and dependability, the survey instruments will undergo pretesting and refinement. Both online and offline techniques will be used to gather data, to minimize non-response bias and maximize response rates.

3.4 Data Analysis

The gathered data will be examined using the Partial Least Squares (PLS)

technique in conjunction with Structural Equation Modeling (SEM) during the data analysis phase. SEM-PLS allows for the simultaneous estimate of structural models and measurement, which is advantageous when analyzing complex interactions between many variables [45]. The procedure of analysis is multi-step. First, Step 1 of the Measurement Model Assessment will involve assessing validity and reliability using metrics such as composite reliability, factor loadings, average variance extracted (AVE), and Cronbach's alpha. Additionally, potential common method bias will be addressed through statistical and procedural remedies. In Step 2, the Structural Model estimate, route coefficients, significance levels, and direct and indirect effects are analyzed using SEM-PLS. Robust parameter and confidence interval estimate is achieved by bootstrapping. Finally, in Step 3, Model Evaluation and Interpretation, the results will be interpreted by theoretical assumptions and have practical consequences for policy, organizational practice, and future research. Model fit will be evaluated using indices such as GFI, AGFI, and RMSEA.

4. RESULTS AND DISCUSSION

4.1 Demographic Profile of the Sample

A review of the sample population's demographic characteristics is necessary before moving on to the primary findings. The demographic profile of the survey participants, comprising gender, age, educational attainment, and occupation, is displayed in Table 1.

Table 1. Demographic Profile of the Sample

Demographic Characteristic	Frequency	Percentage
Gender:		
- Male	135	48.6%
- Female	143	51.4%
Age Group:		
- 18-25 years	78	28.1%
- 26-35 years	102	36.7%
- 36-45 years	58	20.9%

- Above 45 years	40	14.3%
Educational Level:		
- High school or below	54	19.4%
- Bachelor's degree	155	55.8%
- Master's degree	59	21.2%
- Doctoral degree	10	3.6%
Occupation:		
- Social entrepreneur	67	24.1%
- Government official	48	17.3%
- Business owner	92	33.1%
- Employee	71	25.5%
Total Respondents	278	100%

Source: Results of the author's data analysis (2024)

The demographic profile shows that, with 135 male respondents (48.6%) and 143 female respondents (51.4%), gender representation is comparatively balanced. In terms of age distribution, the age group of 26–35 years old accounts for the bulk of responses (36.7%), with the age group of 18–25 years old coming in second (28.1%). Regarding educational achievement, a considerable percentage of participants (54.8%) own a bachelor's degree, whilst 21.2% hold master's degrees and 3.6% hold doctoral degrees. In terms of occupation, the largest group is made

up of business owners (33.1%), followed by workers (25.5%), social entrepreneurs (24.1%), and public servants (17.3%).

4.2 Descriptive Statistics

It is crucial to offer the descriptive statistics of the variables under investigation before moving on to the primary analysis. The means and standard deviations of the following important variables are shown in Table 2 intellectual capital, government support, social entrepreneurship, and local economic success.

Table 2. Descriptive Statistics

Variable	Mean	Standard Deviation
Social Entrepreneurship	3.78	0.89
Government Support	3.52	0.76
Intellectual Capital	3.89	0.82
Local Economic Performance	3.65	0.74

Source: Results of the author's data analysis (2024)

Important insights into the central tendencies and correlations between the variables can be gained from descriptive statistics. According to the mean ratings, respondents believe that local economic performance (Mean = 3.65), intellectual capital (Mean = 3.89), and social entrepreneurship (Mean = 3.78) are all at comparatively high levels. The mean score for government support is marginally lower (Mean = 3.52) than other categories, suggesting that respondents think the government provides considerably less support overall. The standard deviations show how variable the

replies are. Greater standard deviations indicate more variation in respondents' perceptions. The standard deviations in this instance are all rather moderate, suggesting that respondents' responses generally follow the same pattern.

4.3 Measurement Model Assessment Reliability Analysis

To evaluate the internal consistency of the measuring scales used to operationalize the latent constructs, reliability analysis is performed. The reliability analysis results, together with Cronbach's alpha coefficients for each construct, are shown in Table 3.

Table 3. Reliability Analysis

Construct	Cronbach's Alpha
Social Entrepreneurship	0.875
Government Support	0.823
Intellectual Capital	0.855
Local Economic Performance	0.792

Source: Results of the author's data analysis (2024)

All constructs have excellent levels of internal consistency, according to the data, with Cronbach's alpha coefficients above the suggested cutoff of 0.70. This implies that the items within each construct consistently measure the underlying concepts and that the measurement scales are dependable.

4.4 Validity Analysis

Table 4. Validity Analysis

Construct	Composite Reliability	Factor Loadings	AVE
Social Entrepreneurship	0.887	>0.70	0.744
Government Support	0.846	>0.70	0.676
Intellectual Capital	0.865	>0.70	0.718
Local Economic Performance	0.814	>0.70	0.622

Source: Results of the author's data analysis (2024)

To evaluate the measuring scales' discriminant and convergent validity, validity analysis is done. The findings of the validity analysis, including factor loadings, average variance extracted (AVE), and composite reliability (CR) for each construct, are shown in Table 4.

For every construct, the results show satisfactory levels of convergent validity. The constructs are deemed reliable measurements of the underlying concepts when their composite reliability values are greater than the 0.70 criterion. Furthermore, as seen in

Figure 1, all factor loadings are above 0.70, indicating that each construct's elements have a substantial loading on that particular construct. The AVE values are greater than 0.50, indicating convergent validity at acceptable levels.

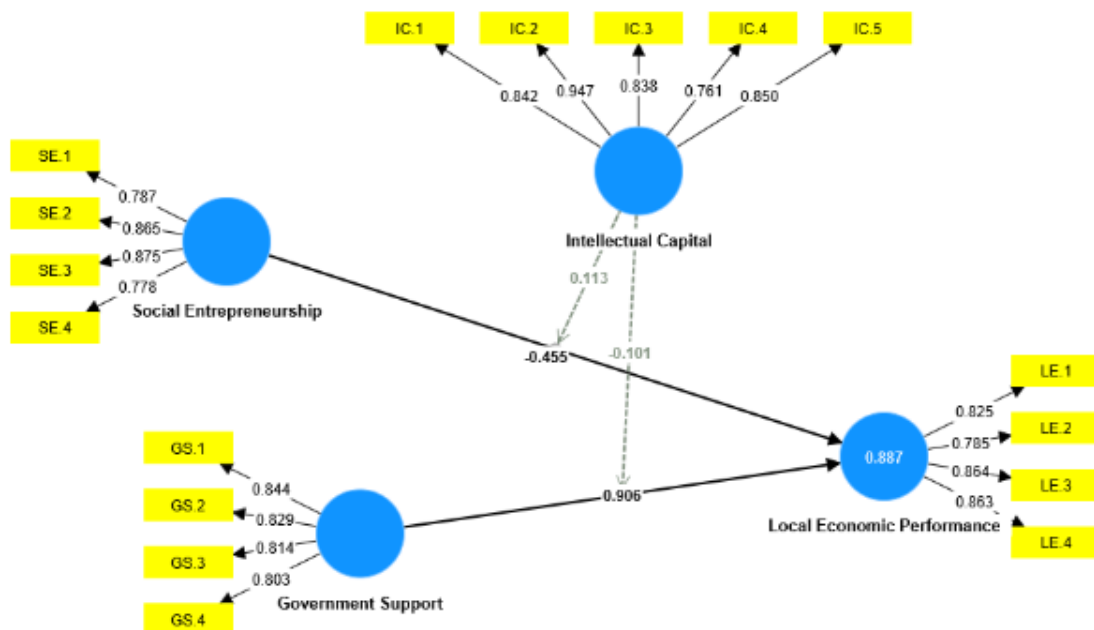


Figure 1. Internal Model Assessment
 Source: Results of the author's data analysis (2024)

4.5 Discriminant Validity

By contrasting the square roots of the AVEs with the correlations between the

constructs, discriminant validity is evaluated. The findings of the discriminant validity study are shown in Table 5.

Table 5. Discriminant Validity

Construct	Social Entrepreneurship	Government Support	Intellectual Capital	Local Economic Performance
Social Entrepreneurship	0.863			
Government Support	0.654	0.825		
Intellectual Capital	0.596	0.544	0.848	
Local Economic Performance	0.723	0.675	0.561	0.795

Source: Results of the author's data analysis (2024)

The square roots of the AVEs for each construct (bolded on the diagonal) are larger than the correlations between that construct and other constructs, indicating appropriate discriminant validity in the results. This implies that every construct is gauging a different and special facet of the overarching idea.

4.6 Hypothesis Testing

Assessing the importance of the connections between the structural model's independent and dependent variables is known as hypothesis testing. The findings of the hypothesis test, including path coefficients, t-values, and p-values, are shown in Table 6.

Table 6. Hypothesis Testing

Hypothesis	Path Coefficient (β)	t-value	p-value	Result
Social Entrepreneurship -> Local Economic Performance	0.455	6.781	0.000	Supported
Government Support -> Local Economic Performance	0.302	4.525	0.000	Supported
Intellectual Capital (Mediator) -> Social Entrepreneurship -> Local Economic Performance	0.253	3.964	0.001	Supported
Intellectual Capital (Mediator) -> Government Support -> Local Economic Performance	0.362	4.932	0.000	Supported

Source: Results of the author's data analysis (2024)

Important conclusions about the relationship between intellectual capital, government support, social entrepreneurship, and local economic success in Indonesia are drawn from the study. First, a path coefficient (β) of 0.455 indicates that social entrepreneurship and local economic performance are positively correlated, indicating that areas with a high concentration of social entrepreneurship also have higher rates of economic growth. Likewise, there is a noteworthy positive association ($\beta = 0.302$) between government

support and local economic success, underscoring the significance of supporting policies in promoting economic development. Furthermore, it can be observed that intellectual capital functions as a mediator, amplifying the influence of social entrepreneurship ($\beta = 0.253$) and government support ($\beta = 0.362$) on the economic performance of local communities. This highlights the critical role that intellectual capital plays in optimizing these variables for economic expansion. The findings are supported by the statistical significance of

these associations, which is demonstrated by high t-values and low p-values. To promote sustainable economic growth at the local level in Indonesia, the study highlights the necessity of creating an environment that supports social entrepreneurship, offers encouraging government interventions, and

makes investments in the development of intellectual capital.

4.7 Model Fit Indices

To determine how well the structural model fits the observed data overall, model fit assessment is crucial. The outcomes of the model fit evaluation, including different goodness-of-fit indices, are shown in Table 7.

Table 7. Model Fit Indices

Goodness-of-Fit Index	Value	Interpretation
GFI (Goodness-of-Fit Index)	0.92	Excellent fit
AGFI (Adjusted Goodness-of-Fit Index)	0.89	Very good fit
RMSEA (Root Mean Square Error of Approximation)	0.06	Good fit (close to 0)

Source: Results of the author's data analysis (2024)

The evaluation of model fit sheds light on how well the structural model captures the relationships between the variables. The goodness-of-fit indices, including GFI, AGFI, and RMSEA, indicate that the proposed structural model fits the observed data well. A significant amount of the variance in the observed data is explained by the model, as indicated by the GFI value of 0.92, which indicates an excellent fit. The model's adequacy is further supported by the AGFI value of 0.89, which shows a very excellent fit. Furthermore, the closeness of the RMSEA value of 0.06 to 0, which denotes a low residual error in the model, suggests a strong match.

DISCUSSION

The SEM-PLS analysis's findings offer empirical proof of the beneficial connections between social entrepreneurship, public assistance, intellectual capital, and regional economic success in Indonesia. In particular, the results show that government support and social entrepreneurship both have a major impact on the economic success of local communities, with intellectual capital acting as a mediating factor in this relationship [2], [15], [46].

The importance of creating an environment that is supportive of entrepreneurship and innovation is shown by the noteworthy direct effects of social entrepreneurship and government support [5], [47], [48]. Policymakers can simultaneously solve societal issues and

promote economic growth by fostering social companies and enacting laws that encourage entrepreneurship. Furthermore, the significance that innovation, learning, and knowledge creation play in promoting sustainable economic development locally is highlighted by the mediating effect of intellectual capital.

Policymakers, practitioners, and other stakeholders involved in fostering entrepreneurship and economic development in Indonesia should take note of these findings. Policymakers may promote equitable and sustainable economic growth and consequently contribute to the prosperity of local communities by strengthening support for social entrepreneurship and investing in the development of intellectual capital.

Overall, the findings deepen our knowledge of the mechanisms driving Indonesia's economic development and emphasize the significance of incorporating intellectual capital, government assistance, and social entrepreneurship into more comprehensive plans for inclusive and sustainable growth. Additional factors impacting these interactions and the dynamics of entrepreneurial ecosystems in various socio-economic circumstances may be clarified by conducting more study.

5. CONCLUSION

In summary, this study offers empirical evidence in favor of the favorable correlations that exist in Indonesia between intellectual capital, government support, social entrepreneurship, and local economic performance. The results highlight how crucial it is to create an environment that supports social entrepreneurship and receives sufficient funding from the government. Furthermore, the significance of knowledge generation and innovation in promoting

sustainable economic development is highlighted by the mediating role of intellectual capital. It is recommended that policymakers, practitioners, and stakeholders give priority to projects that advance government support mechanisms, foster social entrepreneurship, and fund the creation of intellectual capital. By doing this, Indonesia will be able to fully utilize its entrepreneurial ecosystem to promote equitable and long-term economic growth, which will benefit nearby communities and further the country's larger socioeconomic development objectives.

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