

THE FOUNDING OF INNOVATION CAPABILITY FOR SUSTAINABILITY IN CREATIVE SOCIAL ENTERPRISE

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ABSTRACT

The study was initiated because there are many creative social enterprises in Indonesia that have low innovation activities. In order to be innovative, a company must understand how to build its innovation capability. Meanwhile, there are three Indonesia CSEs who are innovative and have won recognition from UNDP for their sustainable innovation. Hence, this research tries to investigate how these three CSEs founded their innovation capability through a qualitative multi-case study approach to provide a comprehensive explanation of how innovation capability is implemented in a CSE context. This research has proposed, based on literature and empirical studies, that innovation capability for sustainability can be built from five determinants, namely: sustainable entrepreneurial orientation, vision and strategy, external network, knowledge and skill development, and resource management. It is suggested that companies that consciously and explicitly develop and invest in these determinants of innovation capability along with developing their organizational empathy will have a higher likelihood of achieving a balanced performance between profit, people, and the planet. The study also discovered that empathy play a significant role moderating sustainable entrepreneurial orientation and vision and strategy. Aside from the identification of how innovation capability for sustainability is formulated, the research also identifies three sub-capabilities that are created from the determinants: green R&D capability, sensing capability, and community empowerment capability.

Keywords: Creative Social Enterprise, Innovation Capability, Capability Lifecycle

INTRODUCTION

Globally, creative industry generates annual revenues of US\$2,250 billion and global exports of over US\$250 billion and this sector will embody around 10% of global GDP in next coming future stated by UNESCO (2017). The creative industries consist of advertising, architecture, arts and crafts, design, fashion, film, video, photography, music, performing arts, publishing, research & development, software, computer games, electronic publishing, and TV/radio. These industries were well-defined in the United Kingdom as “those industries which have their origin in individual creativity, skill and talent which have a potential for job and wealth creation through the generation and exploitation of intellectual property” (Newbigin, 2014).

Worldwide, the creative industries employ nearly 30 million people and employ people aged 15 to 29 more than any other sector. Women make up nearly half of those working in the creative industries, creative industries are creating new opportunities to address gender inequalities. The creative industries have become major drivers of economies and trade strategies in both developed and developing countries, influencing income generation, job creation, and export earnings (UNESCO, 2017). Seeing the big opportunity in

creative industry, United Nations have launched an international program title “The International Year of Creative Economy for Sustainable Development in 2021, series of program to highlight the power of creativity, enhance human resource capacity in sustainable development (Unesco, 2021). The United Nations has recognized creative economy as a driving force in constructing a future that respects the environment, workers, and basic democratic principles through harnessing creativity and innovation.

According to the Central Bureau of Statistics of Indonesia, the export of Indonesia's creative industry has been increased by 6.93% between 2012 and 2016. Furthermore, the creative industry's contribution to Indonesia's GDP has been steadily increasing from 2010 to 2019, with an annual growth rate of 8.74% (Creative Economy Agency, 2017; Franedy, 2019). Within the premise that creative industry can foster sustainable development comes a concept of a Creative Social Enterprises. “It is a type of social enterprise that generates market demand for creative goods and services, intellectual property, ideas, and imagination while also contributing to a global dynamic shift toward cultural sustainability, social justice, and economic development “(Trapp, 2015). Social enterprises worldwide are crucial to modern economies. GEM in the special issues on social enterprises provide a bold projection that by 2025, there will be 58% growth social enterprises in South-East Asia, 71% growth in Middle East and North Africa, 71% growth In Sub-Saharan Africa, 56% growth In Eastern Europe, 44% growth In Western Europe, 67% growth In Latin America and Caribbean, 47% growth In Australia and US (Bosma et al., 2015).

Based on survey conducted by British Council (2018) there are 75,240 Creative Social Enterprises (CSEs) in Indonesia and dominated by young entrepreneurs. Most CSEs are small medium enterprises. The common sectors for CSEs in Indonesia are culinary, fashion, craft, and eco-tourism. CSEs have big potential as they are creating more jobs for young and old people, women, and people with disabilities than any other type of business. Most creative social enterprises in Indonesia are SMEs in early-stage phase (British Council, 2018). The growing number of Creative Social Enterprises is supported by the increasing number of sustainable markets. According to Nielsen research, 48 percent of US consumers would change their consumption habits to reduce their environmental impact.

This sentiment translated into approximately \$128.5 billion in sales of sustainable, fast-moving consumer goods in 2018. According to WWF-Indonesia and Nielsen survey results from 2017, up to 63 percent of Indonesian consumers are willing to pay a higher price for eco-friendly products. This demonstrates a significant growth in consumer awareness of the consumption of environmentally friendly products, and this shows that the domestic market is ready to absorb sustainably produced products. This opens up business opportunities for creative social enterprises. The sustainable market is expanding, and sustainable consumers want products that are not only socially and environmentally responsible, but also innovative (Bosma et al., 2015). Ninety-nine percent of Indonesian CSEs emphasized the importance of innovation and creativity in their business operations. However, R&D is not a business priority for them. Only one-third of Indonesia's CSEs conduct R&D. (British Council, 2020). The World Economic Forum's findings support the low level of innovation activity on CSE. According to the report, Indonesia's Global Competitiveness Index is 37.7/100, with R&D costing 0.1 percent of Indonesia's GDP. To increase innovation activity, a company must understand how to develop its innovation capability.

Existing research has found a positive and significant relationship between organizational performance and innovation capability (Argatu, 2020; Calik, 2017; Durmanov et al., 2020; Hazem et al., 2020; Lawson & Samson, 2001; Samsudin et al., 2021; Saunila, 2016). A company's innovation capability is determined by the knowledge and experience it has and its ability to use it (Constance Helfat & Peteraf, 2003). Currently, the innovation management literature has mapped several frameworks of innovation capability (Calik, 2017; Hazem et al., 2020; Lawson & Samson, 2001; Saunila, 2016, 2019). But this framework is very common and has not been developed for a more specific SME context like the Creative Social Enterprise. CSEs are characteristically different from other companies, because CSEs

are businesses with a social vision and mission to solve community problems and/or have a positive impact on social welfare and the natural environment. They reinvest their profits in the social mission, empower the community, and manage their business in accordance with good governance principles.

Developing innovation capability is crucial for any companies include CSEs and need to be nurtured but the research that discuss about how innovation capability is developed is rarely discussed in the literature specially how IC can be developed for CSEs. The paper provides a framework for social entrepreneur showing that the formation of innovation capability can be managed, systematized and replicated within the organizations. Based on an extensive review of the innovation management literature and supported by a multicase study of 3 Indonesian creative social enterprises, a model to develop innovation capability is constructed. The study indicates empathy as one of the core elements that shaped CSE's innovation capability, empathy gives the social entrepreneur the ability to transform knowledge and ideas into new products that bring advantages to the company while also giving impact to the community and the environment.

LITERATURE REVIEW

Capabilities in simple terms defined as what distinguishes firms from their competitors and partners. The current literature defines innovation capability in a variety of ways. Innovation capability is “The ability to continuously transform knowledge and ideas into new products, processes and systems for the benefit of the firm and its stakeholders” (Lawson & Samson, 2001). IC is a high-level capability of a company, formed by its ability to organize and integrate multiple diverse capabilities and with core resources to stimulate the innovation process. Hogan, et al., (2011) defines IC as the ability of a company to apply a set of knowledge, expertise, and resources to innovation activities related to products, services, or management, marketing or organizational systems, with the aim to add value to the company and its stakeholders. Saunila (2016) defines IC as a company's internal capability as the determining factor of its ability to innovate continuously and provide added value for stakeholders.

On strategic management perspective, innovation capability is defined as “An organization's ability to develop new products and services through aligning strategic innovative orientation along with innovative behaviors and process” (Wang & Ahmed, 2007). Innovation capability refers to an organization's ability to synthesize two paradigms of new and existing knowledge and turn them into new output that will help the organization improve its performance. Innovation capability discussed in the study is part of dynamic capability, innovation capability as a capability for company to “learn, adapt, change and renew over time” (Teece & Pisano, 1994). From strategic management literature point of view, innovation capabilities are an important component of dynamic capabilities; in fact, they are one of the central entities of dynamic capabilities (Strønen et al., 2017). Some literature stated that innovation capability may not necessarily dynamic if they do not contribute to the long-term capacity to adapt to changing environments (Teece, 1997) (Rodríguez et al., 2020). To look innovation capability as dynamic is emphasizing the sensing, seizing and transformation of innovation capability overtime (Helfat et al., 2007; Strønen et al., 2017; Teece, 1997). In other words, an innovation capability that has the capability of transforming capabilities is qualified as dynamic capabilities.

From these set of definitions, it can be concluded that IC is a core capability part of DC in which to deal with market changes, companies must innovate continuously, studying the information that is around and far ahead. IC also emphasized the importance of an organization's ability to transform that information into knowledge and ideas that enrich the organization's expertise to transform existing resources into new products, services that bring benefits to their stakeholders.

Capability Lifecycle

Constance Helfat & Peteraf (2003). Stated that there are three stages of the life cycle of capability: founding, development and maturity.

Founding

The stage at which capabilities begin to emerge, which occurs when a group of people agrees on a single goal. The formation stage has two general criteria: first, a group of individuals has agreement to take a joint action; second, the goal to be achieved; and finally, after fulfilling the two criteria, the company begins to build its capabilities. The capabilities developed may not be new to the general public, but they are new to the company. Constance Helfat & Peteraf (2003). Stated that in the capability formation stage, all team members must contribute their knowledge, expertise, and previous experience (endowment); expand external networks; and develop the team's cognitive capacity (reasoning and learning). During this stage, a capable leader who can direct his team is also needed. At this stage, heterogeneity in all aspects of the team, resources, and leadership are also required.

Development

The stage at which capabilities are developed, honed and enhanced. At this stage capabilities are developed by looking for alternative ways to develop capabilities along with the accumulation of experience that goes on over time. Search for these alternative ways depend on the goals to be achieved and the background of human resources, networking and team capacity. For example, a team with a background in technology will develop the capability to create new technologies. According to Constance Helfat & Peteraf (2003) the things needed in the capability development stage are organizational learning skills; "learning by doing"; strengthening the relationship between employees and management teams; improvement of operational routines and coordination systems. Capability development is a "path-dependent process of capability evolution" so it is a process that relies heavily on the team's prior experience, the initial path chosen, the success of the initial alternative, new alternatives that appear reasonable based on the initial development path (reflecting local search), and choices made within the limited set of alternatives.

Maturity

After developed the capability goes into a further stage called the "maturity" stage where capability is no longer developed but maintained through a series of exercises. At the this stages the capability has become a habit and instinctive routine for the company. Capability can enter this stage only when it has been practiced repeatedly so that it has entered the subconscious memory of the company and is used without a second thought by a company and its team. In the picture below it can be seen that at the maturity stage the number of activities has not increased, there are training activities to perfect the capabilities that have been reflected. In the figure below it can be seen that at the maturity stage the amount of activity has not increase, there are only exercise activities to perfect the capabilities that have been formed. Once it reaches maturity, capabilities can be transformed through renewal, replication, reallocation, or recombination with other capabilities.

Each company can have more than one capability each through the cycle of founding, development and maturity. Capabilities can branch out, when there are external developments that require them to change such as technological changes, material availability, and government policies. Type of capability branching are "retirement (death), retrenchment, renewal, replication, redeployment, and recombination".

Determinants of Innovation Capabilities (IC) for Sustainability

A body of literature has identified factors influencing an organization's ability to manage innovation (Calik, 2017; Hazem et al., 2020; Lawson & Samson, 2001; Saunila, 2016, 2017; Smith et al., 2019). There are many attributes that may play role in innovation capability, and they do not work independently but are interrelated (Francis & Bessant, 2005). Different innovations may need different approaches and different determinants. From in-depth literature review, IC determinants were compiled from different studies researching about innovation capability for SMEs are divided into each phase of capability lifecycle. The subcategories from each determinant are adapted for creative social enterprises by referencing research from sustainable innovation topic. The determinants and their subcategories are presented in table below.

Table 1		
DETERMINANTS OF INNOVATION CAPABILITIES FOR SUSTAINABILITY		
Determinants	Sub Categories For Sustainable Innovation	Description
Founding		
Vision and Strategy	Social innovation intention (De Benedicto et al., 2018)	Vision and strategies define how companies allocate resources, products, processes and systems to achieve a social and environmental vision in the midst of volatile market situations and how they measure their innovation progress toward the vision.
	Eco-innovation strategy (Ceptureanu et al., 2020)	
	Innovation impact measurement (Argatu, 2020)	
Sustainable Entrepreneur orientation	Attitude towards sustainability (Vuorio et al., 2018)	Individuals' level of concern for the environment and social issues influences how they view environmental protection and social responsibility as entrepreneurial opportunities.
	Attitude toward entrepreneurial opportunities (Soo Sung & Park, 2018)	
Knowledge and skill development	Professional knowledge and skill development (Saunila, 2016)	Employee skills, knowledge and past experience play a significant role in innovation capability. This includes both the application of knowledge and the enrichment of employee skills.
	Motivation to learn (Ali et al., 2020)	
	Sustainability related past experience (Ceptureanu et al., 2020)	
External networks	Knowledge of external environment (Saunila, 2016)	The company actively engages with different stakeholders to develop its network and effectively manage the network to gain knowledge from the network.
	Intensity of networking (Saunila, 2016)	
	Learning about customer and competitors	
	Collaborative social networking (Argatu, 2020)	
Resource management	Management of knowledge (Lawson & Samson, 2001)	The ability to effectively and efficiently direct knowledge and resources where they are required.
	Management of technology (Lawson & Samson, 2001)	
	Adequacy of organizational resources (technology, finance and human resources) (Saunila, 2016)	
Leadership Style	Participatory Leadership culture (Saunila, 2016)	Leaders who listen to employee input during the innovation process.
	Facilitating Leadership (Ali et al., 2020; De Benedicto et al., 2018)	
Development		
Idea management	Reward system for innovative behavior (Saunila, 2016),	The structures and systems that successful innovation necessitates. This contains the creation, development, implementation of innovations, organization of the organization's work tasks, as well as
	Ambidexterity: The company's ability to balance exploration and exploitation activities (Kurniawan et al., 2020)	
	Co-creation (De Benedicto et al., 2018; Nurgraha	

	& Mulyadi, 2018)	the attitude of the employees
	Cross functional knowledge sharing (Sulistiyandari, 2011, Wuryaningrat et al. 2019, Kurniawan et al., 2020)	
Organization learning mechanism	Attitude to risk (Saunila, 2016)	The ability of a company to learn from past mistakes and experiences and apply what they've learned to generate new products and expand their operations.
	Regeneration (Saunila, 2016)	
	Organisational intelligence (Lawson & Samson, 2001)	
Maturity		
Working culture	Internal and external collaboration (Saunila, 2016)	The working condition that fosters sustainable innovation
	Cross cultural communication (Lawson & Samson, 2001)	
	Tolerance of ambiguity and mistakes (Lawson & Samson, 2001)	
Organization structure	Operational process (Saunila, 2016)	Company needs permeable and organic organization structure for idea to emerge.
	Organization structure that support eco-innovation (Ceptureanu et al., 2020)	

Research Design

The goal of this study is to find out how innovation capability is built from a management perspective and then implemented in a Social Creative Enterprise. As mentioned earlier, there are three phases of the capability lifecycle: founding, development, and maturity. The research focus is on the formation phase (build). This selection is based on the assumption that the formation phase is the starting point for how a capability is formed. For this reason, it is very important that everything goes well for a company. This phase determines whether a company can form its innovation capability or not, because if this phase does not run smoothly, then in the next stage the company can't develop and mature the IC. Based on previous research, there are five variables that can play a role in the founding stage, namely vision and strategy, entrepreneur orientation, knowledge and expertise development, external networking and resource management, and vision and strategy. This research will delve deeper into how these five variables are interconnected in IC formation. The research will not consider the leadership style factor because the scope is too large, and it would be better if this factor is researched separately.

As a result, the research question is as follows: How does Creative Social Enterprise founded its innovation capability? This could be further specified into sub research questions below:

1. What is the vision and innovation strategy of Creative Social Enterprise?
2. How does the entrepreneurial orientation of Creative Social Enterprise play a role in the formation of innovation capability?
3. How does Creative Social Enterprise develop its knowledge and expertise?
4. How does Creative Social Enterprise develop its external network?
5. How does Creative Social Enterprise manage its resources?
6. What is the relationship between the vision and strategy of innovation, knowledge development, resource management, external networking, and the orientation of entrepreneurs in the founding of innovation capability?

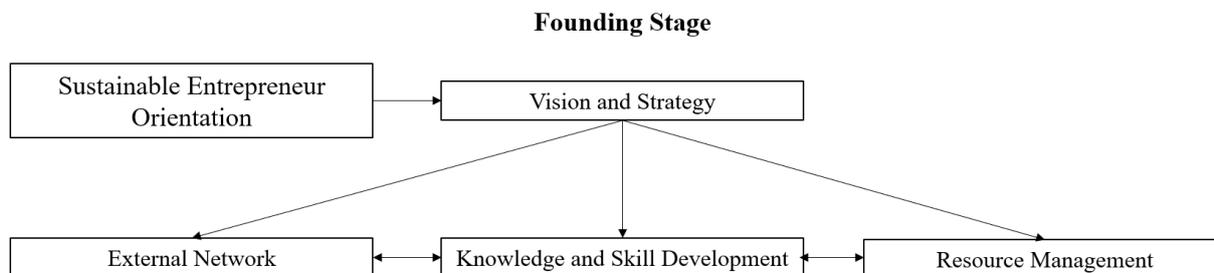


FIGURE 1
INNOVATION CAPABILITY FOR SUSTAINABILITY THEORETICAL
FRAMEWORK

Methodology

This research seeks to investigate how innovation capability is founded and develop further the research theoretical framework. Lawson & Samson (2001); Saunila (2019) recommend using qualitative research or case studies methods to provide comprehensive explanation on how innovation capability is implemented in SMEs context. Creative social enterprises are SMEs. The research employed qualitative research with in-depth interviews with 5 owners, 3 managers of CSEs and 3 experts based on the following criteria:

1. Interviewee should be at a senior level of management such as the CEO, R&D manager and general manager.
2. CSEs have won several local and international recognition awards in innovation.
3. CSEs have a sustainability mission, *i.e.*, to address social inequity and environmental pollution.
4. Their product has already received global recognition in social enterprise sector.
5. Their products fit in creative industry category

The findings discussed in this paper are based on multiple case study research in three creative social enterprises. The research project initiated in Mei – July 2021. In total we have met with 15 people for in-depth interview study. The questions were prepared based on the information from the literature review, research objective, research questions and the constructs in literature review. The data is validated through data triangulation gathering data from different sources of people employees and entrepreneurs are interviewed. The data is analyzed in thematic analysis is a method to analyze data for finding, studying, and presenting patterns within qualitative data (Braun & Clarke, 2006). The goal of thematic analysis is to discover themes which are patterns within data that are interesting, important, and answer the research questions (Maguire & Delahunt, 2017). Thematic analysis is chosen for the study, as it can analyze themes and patterns across datasets and lead to a rich description of what innovation capabilities that occurs within the creative social enterprises.

Step on thematic analysis adapted for the study as follows:

1. Read the collected data and eliminate the errors
2. Categorized the data in a meaningful and organized way and based on subcategory in theoretical framework
3. The interpretative process starts by seeking for iterative keywords per subcategory in theoretical framework
4. First labeling: sub-themes
5. Secondary labeling: themes
6. Review whether the themes have corresponded the research questions and uniquely describe the creative social enterprises innovation process
7. Define and describing themes per innovation process
8. Report the data on a framework

Cases	Main Products	Position Interviewees	Work Experience	Signs of Innovation Capabilities For Sustainability
Company 1	Biodegradable products	Chief Innovation Officer	9 years	Create biomaterials out of farm waste with mycelium fermentation technique. Got Shell Live Wire World Innovation Awards 2016, Australia Awards Alumni Grant Scheme, DBS Foundation Social Enterprise Grant Award 2017 and 2018
		Chief Finance Officer	9 years	
Company 2	Wicker craft	Chief Marketing Officer	7 years	Empower rural women in Indonesia to create wicker craft for local and international market DBS Foundation Social Enterprise Grant Award 2018 Indonesian Good Design Award 2020
		R&D Manager	5 years	
		Community Development Manager	5 years	
Company 3	Biodegradable food packaging	Chief Executive Officer	5 years	Improves rural Indonesian farmers' livelihoods by developing sustainable food ware to replace single-use plastic food ware. Receive Good Design Indonesia 2021 Award for Best Design
		Chief Operating Officer	5 years	

Because there is so little prior knowledge about the criteria, it is necessary to conduct interviews with experts in this field to ensure that the criteria are relevant. In this regard, two experts from the Indonesia Small and Medium Enterprises and Cooperatives are available for interviews, and 2 experts from social enterprise incubator and their brief bios are shown in Table 2.

No.	Expert Interviewed	Data Source	Institution	Qualification
1	Expert 1	Indepth Interview	Smesco Indonesia	Advisor for the SMESCO SPARC series of training programs for Indonesian small and medium-sized businesses to move toward sustainable production
2	Expert 2	Indepth Interview	Smesco Indonesia	
3	Expert 3	Indepth Interview	SIAP incubator	Trainer for early-stage social enterprise start-up
4	Expert 4	Indepth Interview	Plus Usaha Social	

FINDINGS AND DISCUSSIONS

The results of this study are revealed according to the determinants that have been identified before in the theoretical framework.

Innovation Capability for Sustainability

In the beginning of the interview, the three companies are asked to describe what are they good at, the aim is to validate the sign of innovation capability for sustainability that we have been indicated before.

“We invent a high-performance and sustainable material from agricultural waste through biotechnology for global market by empowering local communities” (Company 1).

“We empower local weavers who live in rural areas, so they are able to create marketable and innovative products using the local materials that are in abundance in their environment. We buy their products, sell them to the right market, and the percentage of our profit we give back to improve women and children’s health and to promote the local culture.” (Company 2).

“We innovate by turning agricultural waste into sustainable packaging, and we do it by empowering local communities who live near the waste material with the right knowledge, skills, and technology.” (Company 3).

We can conclude from all three descriptions that the three companies have three distinct innovation capabilities. The first is green R&D capability, which we define as the ability to restructure existing knowledge and produce new knowledge with the least amount of environmental impact. The second is sensing capability, which is the ability to detect market shifts and demand and use this information to shape R&D. The third capability is community empowerment, which refers to the ability to give people control over the factors and decisions that influence their lives.

The findings are consistent with the findings of Lee & Min (2015) which show that green R&D is important and that investing in it will reduce carbon emissions while also increasing the company's value. Also previous study of Priyono, et al., (2018) in three creative industries in Yogyakarta concludes that innovative companies require higher sensing activities from non-innovative companies. An innovative company can detect changes in customer needs through a variety of channels and tailor its research and development to meet those needs. The prior literature Pareja-Cano, et al., (2020) states that empowerment is a mediating construct between entrepreneurial ways and improved community’s welfare. Pareja-Cano, et al., (2020) further states that empowerment can provide community with resources, self-control and nurture self-beliefs. After each company states their innovation capability, the research delves deeper into each determinant that have been identified from previous research summarized in table 2.1.

Vision and Strategy

In all three cases, capability is formed after the founders agreed on a single goal on sustainability issue and perform action to help alleviate the issue. Capabilities are naturally formed as a way to achieve the vision. In the case of company 1, innovation capability was formed because the founders were friends in high school agreed to research mushroom agricultural waste. In the case of company 2, innovation capability was founded because the founders who were also high school friends agreed to help mothers in Duntana Village, NTT, Indonesia. They want to provide pregnant women in NTT with alternative jobs aside from working on the field. In the case of company 3, innovation capability was formed because the founders met in community empowerment program, from which they agreed to help solve the problem of plastic waste by empowering the local community. All three companies have a clear plan for addressing sustainability issues through local community empowerment and the use of natural resources. Company 1 and 3 empower farmer community, and company 2 empowers women weavers in rural area. Empowerment is the process of giving someone control of their life or the situation in which they are (Mandal, 2013). There are five forms of empowerment: social, education, politics, economic and psychology. Social empowerment is the process of providing autonomy and confidence. Economic empowerment is the provision of training and expertise needed to get jobs and earn an income. Looking at the data from the three companies,

it's clear that they're all involved in social and economic empowerment.

Q: What is your vision and strategy in innovation?

“Our vision is to create sustainable materials that are beneficial to its owner and environment and our strategy is through biotechnology, design and empowering local communities. We are keeping our eyes open on various sustainability aspects to make sure that we are on the right path. On 2019 We got B corp certification a certification from UK for bringing benefit to all through the company’s products, practices, and profits whilst also reducing the negative impacts of the industry world” (Company 1) “Our vision economically empowering and improving the health of weaver women in rural areas around Indonesia, Our three pillars are: empower women, promote culture, and improve livelihood. We elevate the design and give them market access for their wicker craft. A good social vision, in our opinion, is one that is held accountable. As a result, we made our impact report to the public at the end of the year.” (Company 2).

“Our vision is to provide alternative solutions to this single-use plastic waste issue through environmentally friendly packaging made by local communities. We design and create better packaging and better machines. After we have the prototype, we empower the community through various capacity-building programs and set micro-manufacturing methods.” (Company 3).

From description above we can conclude that after defining the vision and strategy, the three companies cascade their vision into key performance indicators that they refer as impact measurement. Each company communicates the social and environmental impact transparently to all its stakeholders. The social impact is the result of economic and social empowerment. Their environmental impacts are the reduction of carbon emission and waste.

Sustainable Entrepreneurial Orientation

The first finding is that all three companies have strong Sustainable Entrepreneur Orientation. Soo Sung & Park (2018) defines Sustainability Orientation as an individual's level of concern for environmental protection and social responsibility, and it assess the underlying attitudes and personal characteristics related to environmental protection and social responsibility. SEO, as defined by Criado-Gomis, et al., (2017) is the combination of innovativeness, proactivity, and risk-taking capabilities with a sustainability orientation to achieve organizational change activities that are consistent with sustainable development.

Q: How do you perceive sustainability and its relationship with your day-to-day business?

“Sustainability for us means that making profit while saving the world”. (Company 1)
 "For us, sustainability means that we can give a social and economic impact on women in remote areas of Indonesia continuously, as well as being responsible for natural raw materials usage and their conservation/replanting." (Company 2).

"Business practices that consider sustainability strategies by institutionalizing efficient, transparent, and adaptive systems from input to output and have an impact on both humans and the environment." (Company 3).

Q: Why motivate you to start a social business?

“One of the stories that moved us to start this business is about Mrs. Sinta. She is 28 years old and has 4 children. She continued to work in the field until finally she experienced pregnancy complications. The government has provided free hospitals, but she and other mom must rent a vehicle to get there because the hospital is very far away, and the road conditions are frequently not smooth, and the rental costs are quite high. On the way to the hospital, she had to give birth on the side of the road and the baby couldn’t be saved. Stories like this are familiar among mothers in NTT. This fact reinforces our desire to focus on helping pregnant moms in Flores by giving them an alternative job from working in the fields. After devoting time lived and got to know them. We knew the women were skilled weavers because they used so many items made from lontar leaves to store crops, bring water, and perform traditional ceremonies,

indicating that they already had the skills but lacked market access. As a result, we decided to take a chance and buy their product and sell it on the Jakarta market.” (company 2).

“One day in early 2013, we picked up the mushroom planting medium (baglog) that had already been discarded and dried up. It turned into a very hard material. “We thought this was from a fragile powder. How could it be very hard? Our curiosity led us to test some baglogs. We did experiment in our kitchen with our mother’s pressure cooker until it was damaged, and it failed miserably. We want to use agricultural waste to provide a solution for a common issue in the agricultural industry with regard to waste management because Indonesia produces more than 120 million tons of agricultural waste per year, with less than 10% being recycled. We see this as an opportunity rather than a problem. Although there were many failures experimenting with the waste, but We didn’t give up because we find something new every day, because this material that comes from the agricultural waste is a new material, we believe that there are many new potentials to be discovered” (company 1).

“During my holiday in Wakatobi, I noticed that every year there is a whale died and stranded on Wakatobi’s beach, when it was cleaved its stomach contained many plastics waste. The horror image urged me to do something with Indonesian plastic waste issue and the other event that motivated me was joining a community service program hosted by Creative Agency of Indonesia in 2018, through that event We were tasked to help local communities to improve their product to reach better market, from there we saw that our local communities have so many potentials. So, in a nutshell, I attempted take a risk by connecting the environmental issue to the community's potential that together we can make a change to the ocean plastic problem this is what we called community driven innovation.” (Company 3).

From the data, it can be concluded that because they are concerned about environmental and social issues, they perceive sustainability as an opportunity rather than a problem. They are dare to take risk on taking action be part of providing sustainable solution to the market. Relevant literature stated that sustainability orientation positively influences opportunity recognition, according to Jahanshahi, et al., (2017) and higher sustainability-oriented individuals are more likely to engage in sustainable entrepreneurship. Criado-Gomis, et al., (2017) also stated in his research that SEO is about how company is being proactive, innovative and risk taking toward sustainable development, hence it affects company’s innovation capability. Another theme that also came in entrepreneur orientation is that the three CSE founders have empathy that influences their SEO.

Q: What do you think the difference is between running a social enterprise and a commercial enterprise?

“Running a social enterprise requires us to think more holistically in every decision and action, which often means prioritizing larger interests over our own; we must consider how to empower local communities and reduce emissions while making a profit.” (Company 1)

“Running a social business requires us to pay more attention to others and learn what they need, how they think, and how they act. Listening to others becomes crucial because any business decision must consider all three pillars of sustainability. So, when making decision we often ask, "Should we?" rather than "Can We?" (Company 2).

“When it comes to running a social business, we believe that empathy is the most important quality to have. Most of the founders are designers and we are taught to be empathic towards the people and issues we are trying to design for. We begin by empathizing with the issue of pollution in the environment, living in with the community, and experimenting with the material. Empathy allows us to make decisions that are in the best interests of profit, community, and the environment.” (Company 3).

From all the description above we conclude that CSE founders have strong empathy a feeling to response situation outside themselves. Empathy is an effective response to other people's situations outside of themselves (Hoffman, 2000). Empathy is the capacity that a human has inherently had since an individual was born (Denham, 1998; Nakao & Itakura,

2009). Empathy is also a social capacity, which requires cognitive development and can therefore be developed. In psychology, they identify three components of empathy: cognitive, emotional, and compassionate. Cognitive empathy means a person understands what others feel and think. Once we understand the thoughts of others, then the next step is emotional empathy, which means that someone feels and reflects what others feel, so it is like "contracting" with the emotional side of others. When one already understands the thoughts and feelings of others, then one can achieve compassion. Compassion is defined by Batson (1991) as an emotional response to caring and wanting to help those in distress. Batson (1991) clarified the distinction between passion and compassion lies in the social dimension, Passion is about likes and dislikes and it is a very powerful emotional impulse. Compassion is a strong feeling of sympathy for those who are less fortunate. With compassion, someone is moved to do something like help the person. So, in compassion, empathy has become the behaviour or action of someone (Engel et al., 2019; Goleman, 1998; Powell & Roberts, 2017). According to Engel, et al., (2019) having compassion allows social entrepreneurs to make better, more sustainable decisions, a process in which founders make decisions about present and future conditions that consider social, environmental, and economic factors.

Empathy findings on CSE in agreement with Bacq & Alt (2018); Lambrechts, et al., (2020). They state that empathy is one of the key traits that distinguishes social entrepreneurs from other entrepreneurs and is a factor that determines social entrepreneurial intention. Empathy for a social entrepreneur provides a perspective on how he or she as an individual participates in the context of society. So, someone with a high level of empathy is more likely to help others and feel that doing good makes their life more meaningful. Lambrechts, et al., (2020) further explain that empathy can help entrepreneurs when at the intersection between profit and social and prevent entrepreneurs from deviating from their vision. So, the research findings support the previous research by Bacq & Alt (2018); Lambrechts, et al., (2020) that suggests empathy as a "moral compass" of social entrepreneurs who keep social entrepreneurs running in accordance with the vision that has been set before. Microsoft CEO Satya Nadella called empathy a capacity that can make a better innovator.

Empathy enables an innovator to answer unmet and latent needs by the customer. Innovation is not just about finding novelty, but the ability to listen to users and understand their needs. Innovation is the result of choosing what is the best for people that haven't been articulated (Nadella, 2017). Through empathy, an innovator can make a difference in his environment and life by becoming more holistic between what is done in personal life and work. The business world already seen the importance of empathy and define the Global Empathy Index, the research demonstrates the importance of empathy in business processes and hence comes the term organizational empathy. The results show that there is a direct relationship between empathy and commercial success (Parmar, 2016). Based on the above argument, we believe that empathy should be added as moderating variable to our model. Therefore, we can draw following conclusion, empathy is likely to have an impact sustainable entrepreneurial orientation and vision and strategy. By having a strong empathy this influence their sustainable entrepreneurial orientation and this affects how they formulate their vision and strategy in innovation.

External Network

The first finding on the external network determinant is that the three companies are networked closely with universities and national and international research institutions. Doing research with university and research institutions build their innovation capability on how to research the waste and turn them into something valuable. Aside from universities and research institutions, all three companies are actively networking with other creative enterprises, local and international designers, government institutions, NGOs and local cooperatives. The networks accelerate the process of building innovation capability. Because if everything is done by itself, from making materials to producing products, It will take a long time and will be very

expensive. This finding is in line with the study of Hazem, et al., (2020), which states that external networks influence SME innovation capability because by networking, SMEs gain new knowledge that can help their constraints.

Q: How does networking help your innovation capability development?

“Networking has numerous advantages. For starters, it accelerates and enriches our innovation process. Our friends at Australian Awards have provided us with our first export opportunity to Australia. He assisted us in calculating our carbon emissions, and with his assistance, we were able to publish our gas emission report.” (Company 1).

“For a social enterprise like us, one of the most important networks is with government institutions because entering a community without their support will be very difficult. We understand that each government has its own characteristics, so each approach is different.” Because there are so many bureaucracies, it can be difficult to build a network with government institutions. But we never give up, we keep up our expectations, and, most importantly, we must know when to let go.” (Company 2).

“As a small social enterprise building network is key, we gain new knowledge and ideas for our innovation through our network. For example, by networking with research institution we know how to explore our material further” (Company 3).

From description above we can conclude that CSE has extensive collaborations with research institutions, governments, and other creative industries. They form the social enterprise ecosystem, which aids them in the formation of CSE’s innovation capability. CSE obtains information about the current market situation, consumer trend forecasting, and competitor information and information from its external network; this information assists them in directing R&D focus.

Knowledge and Skill Development

In all three cases, the formation of knowledge and skills follows a similar pattern. The first conclusion is that all three have the necessary knowledge, skill, experience, and networks to start their own company. They are defined as endowment by Constance E. Helfat & Peteraf (2003). The endowments support the development of innovation capability. Company 1 is in the creative industry because the founder's education from architecture background. Company 3 can create food packaging out of agricultural waste because their background is product design. Four of the five founders interviewed had prior experience with community empowerment, either at school or at work. Two of the company's 1 founders had the experience of building hydropower for the Wae Rebo community, a rural community on Indonesia's Nusa Tenggara Island when they were working as professional architects. In company 2 all three of the founders were involved in social service during high school, and one had worked in an NGO. In company 3, three of the founders were involved in community empowerment activities organized by a creative economy agency.

The second finding is that the social entrepreneurs develop further their knowledge and expertise by following business incubator programs and social enterprise accelerators. Company 1 has joint 2 business incubators program and 2 social enterprises accelerator program arranged by private Bank and UNDP. Company 2 has joint 1 business incubators program and 2 social accelerator programs. Companies 3 have joint 2 business incubators and 1 social accelerator program. They acknowledged the benefits of joining these programs are training, mentoring, and networking. Further, the findings are in line with the research of Pandey, et al., (2017) suggested that social enterprises need an ecosystem to grow and in his research is defined as social accelerators. The ecosystem supports their growth and the benefits provided are training, mentors, networks, funding, and publications. Aside from business incubators and accelerator programs, research institute and universities help the three companies build its innovation capability. For example, company 3 collaborate with Indonesian Institute of Sciences to enhance

their research on agricultural waste and University to develop the custom machine for making the sustainable food packaging. Company 1 worked with research institute in Zurich and Singapore also to enhance their research and material testing. ALL, et al., (2020) and Kittilaksanawong & Ren (2013) also indicated the importance of collaborating with university and research institute as determinant of innovation capability.

The third finding is that founders not only expand their own knowledge and expertise, but they also encourage and give trainings to their employees to learn more about sustainability and its related topics. From the interview founded that Employees at company 1 gain more knowledge about greenhouse gas emissions calculation because the company create trainings with an Australian base sustainable consultant for their employees, and now the employees eventually become professional trainers in this field. Rattalino (2015) stated that sustainability-based company is concerned with employee capacity building. Saunila (2016) also stated in her research that innovative companies encourage their employees to be multi skilled, that deliberate learning and expertise development are an investment and supported in the company, and that knowledge transfer practices exist.

We can conclude that endowment provides a foundation for founders to grow in their knowledge and skills. They developed their endowment through training, mentoring, and funding from incubator and accelerator programs. Through a series of trainings, both founders and employees gain knowledge and skills. Knowledge and skill development are needed for a company to achieve its vision and strategy.

Resource Management

The first finding in resource management determinant is that in order to establish innovation capability, a company must be able to effectively leverage its resources. Company 1 manages to produce two sustainable materials using the same manufacturing method, and the outputs are sold to two very different industries: fashion and building materials. Meanwhile, company 2 can create products for the hotel industry and corporate gifts using the same production method. The finding is supported by arguments of Rodrigues, et al., (2020) in his research sustainable innovation in the creative industries in Brazil. The study stated that a company's competitive advantage comes not only from the ownership of certain resources but also from the way they are used and how the company integrates it resources to reduce damage to the environment and increase health and safety. Lawson & Samson (2001) stated innovative companies can combine and reconfigure the same knowledge and resources into distinct markets, technologies and products — a capability few firms have mastered.

The second finding is that CSE able to reconfigure its resources quickly and easily so come the term agile resource management defined by (Krstić et al., 2018). It has become more important in the current COVID situation, where the market changes very quickly, so CSE has to reconfigure its resources quickly to deal with market changes. Lawson & Samson (2001) stated that companies over time learn from experience; they become experts at managing the resources needed for the innovation process. In regards to resource management for innovation capability Smith, et al., (2019) stated the importance of planning and management of knowledge, technology and financial resources and the utilization of idle resources cannot be overstated.

The third finding is that CSE conducts resource management based on the principles of sustainability reduce, reuse and recycle. Company 1 reuses the material left over to make smaller products and the remaining waste is recycle into compost. Company 1 and 3 calculate their carbon emissions. These sustainable practices also occur in Patagonia a sustainability pioneer and a role model for other companies. Rattalino (2018) stated in his research that management of resources in Patagonia move circularly (resource circularity) and this became the basis of the company's success.

The fourth finding is that CSE is able to adapt production technology that is tailored to community conditions. In this study, we called this adaptive technology. Company 3 developed

machinery with a lower electrical voltage, a smaller size, and a more compact design compared to traditional compression machines, so the machine is easy to transport to remote areas of Indonesia where people may not have access to electricity. The finding corresponds with Rodrigues, et al., (2020) which states that technological capability plays a strong role in the Product-based creative industry innovation process, which is defined as a company's readiness to update and integrate new technologies for product development, services, marketing, and even management processes.

To conclude, findings in resource management indicate that innovation capability is built because CSE is able to effectively leverage its resources, be agile in resource management, manage the circularity of the resources, and adapt the technology to the local context.

The study goes further by validating the findings with the experts. Some important remarks from the experts.

Q: Why do you think these creative social enterprises are so innovative?

“They are innovative in my opinion because they are able to balance profit and impact. Being profitable in this economy is difficult enough, and they add a sustainability mission to the mix, which they manage to balance. As we can see, the company one was already successful in obtaining B Corp certification in 2019. This validates their ability to strike a balance between profit and impact” (expert 1).

“They are able to turn a waste and social inequity problem into something valuable and marketable, while remaining true to the sustainability principle and create a good storytelling about it to educate the market. They also discuss locality in addition to sustainability. Each company is unique because they bring the exoticness of our indigenous culture to life; for example, the weaving goods can only be made by NTT people and with materials found there; you can't fabricate it anywhere else.” (expert 2).

“They are able to empower an impoverished community with the right skills and knowledge to create sustainable products. While empowering them, they are able to manage the work-life balance for the community. Because good products are done with enjoyment, the maker must feel that, within certain reasonable limits, he is free, that he is wanted by society, and that the products he makes matter and are important to society.” (expert 3).

“Because they start from the problem not with the business ideas. For example, company 1 start because they had waste problem from their first business, and they were willing to take extra mile doing R&D. Company 2 identify the problem by getting close to the communities and observe their activities and choose what kind of solution that fits and feels natural to the community. Being a social entrepreneur means that you have to have a deep empathy for the people and environment, solving issues from the bottom up is what make them unique and special” (expert 4).

From these interviews, our findings are validated by the expert and the emerging concept of empathy also picked up by the experts.

Multicase Cross Analysis

From the descriptions above we do comparison between each case, to see how each CSE formed their innovation capability.

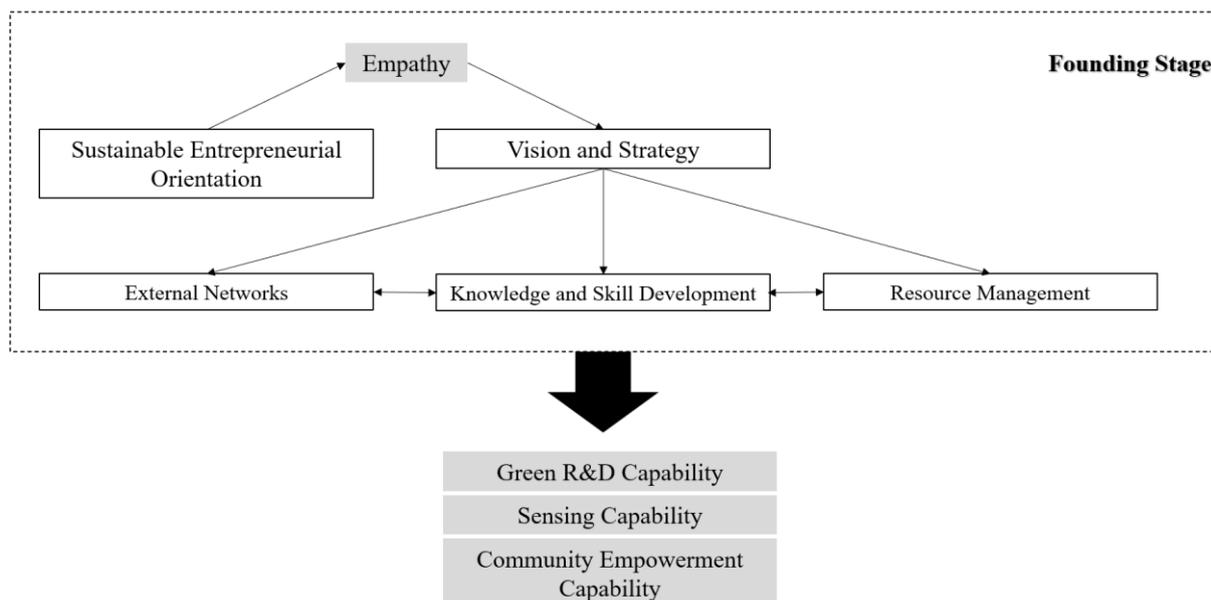
Table 4				
HOW EACH CSE FORMED THEIR INNOVATION CAPABILITY				
Determinants	Activities	Company 1	Company 2	Company 3
Vision and Strategy	Vision and strategy are formulated from social and environmental problems (bottom up)	V	V	V
	Innovation strategies are through	V	V	V

	design and community empowerment.			
	Have annual impact measurement on social and environmental aspects	V	V	V
Sustainable Entrepreneurial Orientation	The company's sustainability orientation is to conduct business with an efficient, transparent, and adaptive system in order to provide a long-term impact in social and environmental aspects.	V	V	V
	Capable of estimating market opportunities for sustainability issues even when the output is not yet clear (risk-taking)	V		V
	Anticipate and pursue new opportunities related to future consumer demand and participate in emerging sustainability markets (proactiveness).	V	V	V
Empathy	Investing time in staying connected with the community and listening to their concerns and goals (think and feel)	V	V	V
	When making decisions, always keep the welfare of the community and the environment in mind, both in the present and in the future (compassion)	V	V	V
	Always communicate current issues to employees and the community, and don't keep them hidden from them.	V	V	V
External Network	Establishing a social enterprise ecosystem from the external networks.	V	V	V
	Gain knowledge of the market situation (knowledge of external environment) from its network.	V	V	V
	Utilization of market information when making decision in R&D	V	V	V
Knowledge and Skill Development	Develop knowledge, expertise, and networks that have been owned before (endowment).	V	V	V
	Recruit people with backgrounds that aren't similar to the founders' (diversity).	V		V
	Support employees to enhance their knowledge (learning motivation) and have multiskills.	V	V	V
Resource Management	To deal with change, reconfigure resource settings on a regular basis (agile resource management)	V	V	V
	Adapt technology to the context of the community	V	V	V
	Practice reduce, reuse, and recycle throughout the value chain.	V	V	V
Total activities		18	16	18

Based on the comparison, we've determined that companies 1 and 3 are more innovative than company 2. While companies 1 and 3 take more risks in developing agricultural waste and turning it into something useful, company 2 builds on the community's existing skills. Companies 1 and 3 empower the community from the ground up. As a result, companies 1 and 3 have to hire people from a wide range of backgrounds. So, risk-taking in a long-term entrepreneurial orientation, as well as heterogeneity in knowledge and skill development, are important factors in the development of innovation capability.

Innovation Capability for Sustainability Conceptual Framework

The empirical study enriches the theoretical framework that has been formulated before and have been verified by the experts. Hence, a better picture of how innovation capability for sustainability is built can be comprehended. The novelty of this research is adding empathy as the mediating variable between sustainable entrepreneurial orientation and vision and strategy.



**FIGURE 2
INNOVATION CAPABILITY FOR SUSTAINABILITY CONCEPTUAL
FRAMEWORK**

CONCLUSION

This research has been able to answer the research problem on how does Creative Social Enterprise founded its innovation capability for sustainability. The founding stage start when founders have empathy towards sustainability issues and have compassion to act on solving the issues. Empathy shapes their entrepreneurial sustainable orientation. They are concerned about environmental and social issues and have spent quite amount of time with people who are experiencing the issues, and then they decide on vision and strategy, and to achieve them require the creation of innovation capability. After having a strong link between Sustainable Entrepreneurial Orientation, vision, and strategy. Founders develop its capability by networking with external actors like university, research institute, government, designers, other creative industries, local community. From the network CSE create social enterprise ecosystem that support the growth of CSE. Another determinant is knowledge and skill development in which CSE should develop its knowledge and skill according to their endowment. They develop their knowledge and skill that they had through trainings and mentoring gained from external networks, recruit talent from diverse background, because heterogeneity is crucial for

innovation capability formation and support employees to further their knowledge and have multiskilled. Innovative companies embrace knowledge and skill development for the founder itself and employee as well. The last determinant that plays role on innovation capability is resource management. The ability to effectively leverage its resources, the capacity to be agile in resource management, the skill to manage the circularity of the resources, and the ability to adapt the technology to the local context, all play role in how the capability is formed. From the interaction of all the determinants, we found that the capability innovation for sustainability consists of three sub-capabilities, which are green R&D capability, sensing capability, and community empowerment capability.

This research has proposed from literature and empirical study that innovation capability for sustainability can be built from five determinants namely entrepreneur orientation and vision and strategy moderated by empathy, external network, knowledge and skill development and resource management. Along with the determinants we have identified activities for each of them. Hence, it is suggested that companies that consciously and explicitly develop and invest in these determinants of innovation capability along developing their organizational empathy, they will have a higher likelihood of achieving a balance performance between profit, people and planet.

Further research should be directed at looking into leadership how it affects the formation of innovation capability, organization learning for innovation capability development, and organization structure for innovation capability maturity. These determinants may affect innovation capability lifecycle but because the scope is too big by itself, we don't include them in this study so further research should look into it. For example, there may be different type of leadership style that affect formation of innovation capability, and this would require a fuller picture innovation formation within the organizations. The innovation capability determinants have the potential to be developed to make a meaningful contribution advancing the knowledge in the innovation management.

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