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Does collaborative orientation boost the performance of social enterprises?

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Contents

Abstract	5
Keywords	5
1. Introduction	6
2. Literature review and conceptual framework	8
2.1. The key characteristics of SEs.....	8
2.2. Economic and social performance of SEs.....	9
2.3. Collaborative orientation (Triple helix model) and SEs.....	9
2.4. An organizational readiness for innovation mediates the relationship between collaborative orientation and performance.....	10
3. Research method	12
3.1. Sample and data collection.....	12
3.2. Variables and measures.....	12
3.3. Results.....	13
4. Conclusion	15
4.1. Managerial implications.....	15
4.2. Limitation and future research	15
Appendix 1. Description and measures of variables	16
References	17

DOES COLLABORATIVE ORIENTATION BOOST THE PERFORMANCE OF SOCIAL ENTERPRISES?

Abstract

This study assesses whether the capacity of social enterprises to create close relationships with different organizations improves both the economic performance and social performance of such organizations. We consider a particular collaboration oriented strategy (the multiple helix approach) that is characterized by a specific close link between universities and public and private organizations.

Based on the empirical data collected from 612 Italian social enterprises, our results show that a collaborative orientation improves both social performance and economic performance simultaneously. We have also found that such relationships are positively influenced by their readiness for innovation and their propensity for accountability.

We consider that the relationship between collaboration strategy and performance can be mediated by other factors as well. In this case, we have studied the mediation function of readiness for innovation.

Keywords

Social enterprises
Collaborative orientation
Organizational readiness for innovation
Economic performance
Social performance

1. Introduction

We argue that the global trend for the third sector to be increasing in its importance has led to an emergence of a (particular) more distinctive model of NGO organization, i.e. the Social Enterprise (henceforth, SE). Di Domenico *et al.* (2010) defines SE as a distinct organizational form seeking to resolve social problems with innovative solutions, within the constraints of economic sustainability. Defourny and Nyssens (2017) state that SEs comprise four kinds of organizations: entrepreneurial non-profits, social businesses, social cooperatives and public-sector social enterprises.

In Europe, the concept of SE first appeared in the early 1990s as an Italian initiative linked to the co-operative sector, as studied by Borzaga and Santuari (2001), even if the history of the phenomenon is previous (Ridley-Duff and Bull 2019). The first attempt to systematize the concept of SE, however, was only in 2001 in the paper “The emergence of social enterprise” by Borzaga and Defourny. This work largely comprised the observations and results of the EMES study. In 2010, Dacin *et. al.* (2010) attempted to combine and summarize existing definitions associated with social entrepreneurship in literature. According to Dacin *et al.*, most definitions of SE relate to the extent to which financial and other resources are employed to solve social problems. Other scholars (Baron, 2005; Young, 2001) view SE as the activities of conventional entrepreneurs who practice corporate social responsibility, whilst other scholars view SEs as the outcome of organized philanthropy (Reis and Clohesy, 1999; Van Slyke and Newman, 2006) and social innovation (Bornstein, 2004). Robinson (2006) considers SEs to be merely organizations that seek to create social value under the constraints of economic sustainability. Since one of our aims is to evaluate whether the collaborative orientation of social enterprises contributes to the achievement of their goals, we decided to use the definition adopted by the EMES network. This was originally used as a theoretical framework in the Italian legal context (Bonomi and Corvo, 2014).

That is, a SE is a private legal entity, independent from the government, which carries out production activities, irrespective of the legal form adopted. In addition, SEs must pursue an explicitly social aim and engage in activities that generate direct benefits for a community. Borzaga *et. al.* (2017), Bonomi and Corvo (2014) state that SEs according to Italian law must have at least three main characteristics: to focus on a social aim, to use a multi-stakeholder approach, and to produce economic sustainability.

This paper questions the importance of a multi-stakeholder approach as a fundamental driver for achieving SE objectives. In particular, we have chosen to use the theoretical framework of Etzkowitz and Leydesdorff (2000), i.e., the Triple Helix Model. This model has been used to explain the success of high-tech companies, as characterized by a close collaboration between universities, governments and private institutions. The Triple Helix model suggests that the network between public sectors, private sectors, academic institutions and hybrid organizations facilitates the innovation process as it accounts for production of new knowledge necessary to achieve a common mission (Etzkowitz, 2008, Carayannis and Campbell, 2009, Thune, 2010). Etzkowitz *et al.* (2000) state that hybrid organizations systematize and encourage innovation and cohesion. Bonomi and Corvo (2014) applied the Triple Helix model to SEs, since hybrid organizations are characterized by a multi-stakeholder perspective and a high degree of innovation. We have therefore

decided to assess whether a managerial strategy based on collaborative orientation affects economic and social performance.

We tested our hypothesis by using quantitative data obtained from a private data provider involving 612 Italian SEs. Our main research aim was to test what influence strict relationships between universities, public institutions, private institutions and bank foundations have on the performance of SEs. We also considered the role readiness for innovation, and accountability adequacy from previous relationships, have on mediations.

We adopted a quantitative research design, testing our theoretical framework against the structural equation model - a robust econometric approach that addresses the gap in literature on SEs as identified by Dacin *et al.* (2010).

In line with our aim, we organized our research questions into the following logical steps:

1. Does the adoption of a collaborative orientation (Triple helix approach) boost both social and economic performance?
2. Does the adoption of a collaborative orientation (Triple helix approach) boost the readiness for innovation of an SE?

The study is largely based on a detailed quantitative analysis of the impact of the collaborative orientation and relationships positively mediated by their readiness for innovation on the performance of SEs.

Our analysis shows that the collaborative orientation strategy has a positive impact on the economic and social performance of SEs and that this relationship is positively mediated by the readiness for innovation of the SE.

2. Literature review and conceptual framework

2.1. The key characteristics of SEs

Dacin *et al.* (2010) found that there is a wide range of definitions of SEs, from broad to narrow. The reason for this is linked to the debate about which activities constitute SE (Martin and Osberg, 2007). Austin *et al.* (2006) noted that the categorization of SEs is also undefined. Perrini (2006) stated that the identification of a precise definition for SE and a selection of key criteria is very challenging. According to Bacq and Janssen (2011), the difficulty in finding a single definition for SE derives from a wide variety of social missions and commercial activities that arise from a conflict between two distinct management visions.

Austin *et al.* (2006) claimed that the goal for SEs is in solving the social problem being addressed and that this is different between commerce and SE. Dees (2001) said that the adoption of a social mission is the main quality of SEs. He adds that all SEs must share the qualities of finding new ways to achieve a mission, whilst engaging in a process of continuous innovation, adaptation, and learning. Besley and Ghatak (2017) state that for-profit enterprises have a clear goal, i.e., profit maximization, while not-for-profit enterprises can provide services and products whilst having different goals. Besley and Ghatak (2017) said that this division is outdated because there are hybrid forms of SE.

A review of the academic literature by Dacin *et al.* (2010) found that the main objective of SE is the generation of social value. Popoviciu and Popoviciu (2011) suggested that SEs engage market-based strategies in order to accomplish their social mission. The EMES identified nine indicators in order to establish the definition of SE (Defourny and Nyssens, 2012). These nine indicators are grouped in three categories: economic and entrepreneurial, social, and participatory governance of social enterprises. These indicators allow for the distinction between SEs and more traditional not-for-profit organizations. Economic and entrepreneurial indicators refer to a continuous production of good services, presence of economic risk, and a significant number of paid employees. Bacq and Janssen (2011) found that social dimension is a key feature of SE. Defourny and Nyssens (2012) noted that this category has three sub-categories, namely, all SEs need to reflect a clear benefit for the community, be an initiative encouraged by a group of citizens or civil society organizations, and have a limited profit distribution. The third category of participatory governance identified key features of SE governance, and found that they are autonomous fund providers.

In a detailed literature review of SE, Mort *et al.* (2003) stated that the role of innovation in SE is crucial. They considered the three factors identified by Covin and Slevin (1986) to be fundamental – that of innovativeness, pro-activeness and risk-taking. Perrini and Vurro (2006) also found that innovation is an intrinsic element of SEs and an important factor in their achieving a social mission. Leadbeater (1997), Thompson (2002), and Bonomi and Corvo (2014) stated that through innovation, SE can resolve problems linked to welfare reform. Historically, goals related to reducing poverty, energy, waste and water, and promoting education, health and jobs were the core focus of governments. However, these problems are complex and need innovativeness and flexibility that governments do not have. SEs aim to solve social problems using new technology and engaging the

community in innovative and exciting new ways. Bardolet and Sheldon (2008), and Carlisle *et al.* (2013) state that innovation encourages the development of SE in the tourist industry. We consider SEs that focus on providing goods or services have two purposes (social and economic), such as eco-tourism and cultural tourism. Innovation in business activities, according to Hjalager (2010), represents a discontinuity of previous practice.

2.2. Economic and social performance of SEs

Given the hybrid nature of SEs, it is especially complex, as previously discussed, to measure performance and to decide what criteria should be used. Measurements applied, in previous studies (Chell, 2007, and Cooney, 2006), to assess performance incorporated two aspects as connected to the double nature of SEs, i.e. commercial and social. SEs, unlike other non-profit companies, must pursue a social mission as well as creating economic value (Borzaga and Defourny, 2001).

Mair and Marti (2006), Dacin *et al.* (2011) and Liu (2014) stated that since SEs must meet arising and changing needs of social services, they must apply the principle of economic value creation, necessary to self-sustainment. Chad (2015) noted that it is necessary to employ multidimensional performance measures in order to tally economic and social aspects based on the hybrid nature of this type of company.

Kaplan and Norton (1996), Somers (2005), Bagnoli and Megali (2011) created organic frameworks to measure different social performance dimensions from a multi-stakeholders perspective, but we find that such frameworks present the problem of limited applicability.

Kaplan and Norton (1996) created the idea of using a SE balanced scorecard to map the extent to which social performance is achieved against the financial resources required to achieve this goal and ensure sustainability of input against output. Somers (2005) widens the client base to account for the interests of numerous stakeholders, though this an approach that has been criticized by more recent scholars such as Arena *et al.* (2015).

Bagnoli and Megali (2011) designed a multidimensional measurement framework that recognizes three different fields: economic-financial performance, social effectiveness, and institutional legitimacy in an attempt to take into consideration all the different stakeholders of an SE.

2.3. Collaborative orientation (Triple helix model) and SEs

Pikkemaat (2008) found that the limitation to innovation is the small size of SE, and noted that it is necessary to create a collaborative networking between stakeholders as well as allowing the transfer of tacit knowledge (Kogut and Zender, 2013). Schumpeter (1939) identified the need for collective efforts for innovation and defined this phenomenon as a "social system for innovation development", that was shown by Carlisle *et al.* (2013) to allow for a multi-stakeholder approach to innovation development. Collaboration between different stakeholders allows the understanding into how different knowledge and skills can be employed to produce new knowledge (Arnaboldi and Spiller, 2011). Therefore, in this context, it is necessary to implement collaborative strategies to

achieve common goals. Clarke and Fuller (2011) and Fombrun and Astley (1983) describe a collaborative strategy as the joint definition of long-term collaborative aims for addressing a social mission. This definition is based on an assumption that common goals can be achieved through joint efforts of all the members. Within SEs, innovation and a multi-stakeholder approach play a fundamental role in finding solutions to growing social needs. For this reason, we consider a particular collaborative strategy: the Triple Helix Model as formulated by Etzkowitz and Leydesdorff (2000). This collaborative strategy has already been deemed by Bonomi and Corvo (2014) as a suitable framework for explaining the success of SEs, in as much as it is an approach that stimulates innovation and the transfer of knowledge, through close collaboration between various organizations. The Triple Helix model advocates collaboration between public and private sector and academic institutions to facilitate the process of innovation that produces new knowledge (Etzkowitz, 2008). All parties involved are vital - universities contribute new knowledge whilst public and private entities raise capital and allow enterprises to create innovation through production and service delivery.

This leads to the following hypothesis:

- H1a A collaborative orientation positively influences the economic performance of social enterprises.
- H1b A collaborative orientation positively influences the social performance of SEs.

2.4. An organizational readiness for innovation mediates the relationship between collaborative orientation and performance

Leydesdorff and Etzkowitz (2000) identified that government, industry and universities have a shared aim of supporting innovation. This common aim necessitates collaboration between the three agencies and hybrid organizations (i.e SE) by integrating their operation and peculiarities (Thune, 2010). Etzkowitz *et al.* (2000) claim that hybrid organizations, such as SEs, systematize and encourage innovation and cohesion. For this reason, this form of enterprise must have a high readiness for innovation in all components of their organization. The degree to which innovation and a company's level for readiness are linked, depends on the enterprise organization and, therefore, on its innovation capability as dictated by its daily operations. This concept, known as the capability approach, was first identified by Schumpeter in 1934.

The capability approach dictates which processes companies must implement in order to achieve concrete and continuous results in their search for innovation. Zawislak *et al.* (2014) underline the centrality of entrepreneurship in their search for innovative solutions, and highlight enterprise as the meeting point for financial resources and knowledge. If a company has a suitable level of organization, it is able, under the guidance of the entrepreneur, to implement the innovation devised within its production processes.

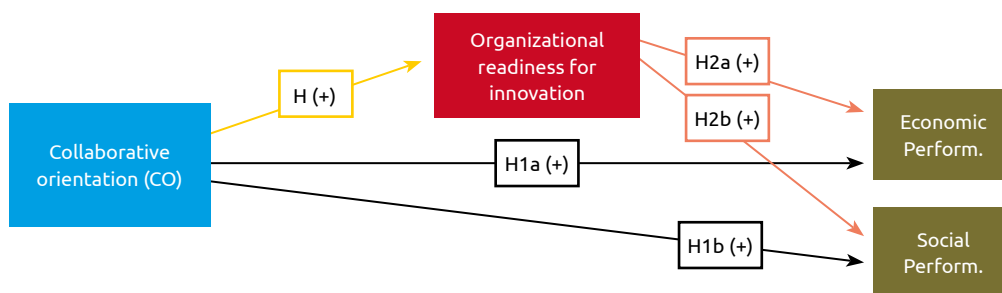
Since Porter (1990), most SE literature identifies the ability of a company to grasp innovation as one of the main levers in achieving a competitive advantage that can lead to high performance.

Baker and Sinkula (2002) emphasize the direct link between an organization's readiness for innovation and its level of performance, and the relationship between organizational learning and innovation.

This leads to the following hypothesis:

- H2a Organizational readiness for innovation positively influences the economic performance of SEs.
- H2b Organizational Readiness for innovation positively influences the social performance of SEs.
- H3 An organizational collaborative orientation positively influences the organizational readiness for innovation - in turn, organizational readiness for innovation may positively influence the relationship between a collaborative orientation activity and the performance of an SE.

Figure 1. Conceptual framework



The figure 1 represents the hypothesized conceptual framework.

Note: the colored rectangles represent the variables H - hypotheses. (+) — a positive relationship. (-) — a negative relationship.

3. Research method

3.1. Sample and data collection

The data have been collected within a multi-year research project that involves several research departments of the University of Rome Tor Vergata. In 2018, a survey has been sent in closed form to all Italian Third Sector Bodies (TSB). Before examining the methodological steps of the research, it would be useful to specify the nature of our units of analysis. Referring to the above mentioned Defourny&Nissens (2017) SE classification, the sample represents the following typologies:

- Social cooperatives (349 units)
- Social businesses (136 units)
- Entrepreneurial non profits (127 units).

The dataset obtained consisted of 612 entities.

The sample has been designed crossing the data available through the Permanent Census of Non-profit Institutions by the Italian National Statistic Institute (ISTAT, April 2017). The data points obtained were then used to calculate the scores associated with different variables: economic and social performance, mapping of the main stakeholders, sources and methods of financing, amongst others.

Despite the significant growth in the Italian non-profit sector, a large number of TSB still have a small number of employees. Of the 336.275 TSB in Italy, only 3.3% have between three and nine employees, although these 13,300 TSB employ 83.6% of the total number of employees in the non-profit sector. Those who have employees are 55,196, accounting for 16.4% of active institutions. We have chosen to frame our research around TSB that have more than five employees as we wanted to evaluate organizations that would give meaningful statistics. We have also decided to only consider TSB operating in the most economically significant sectors: Environment; Social care; Culture, Sport and Recreation; Philanthropy and Volunteer Promotion; Education and Research; Health; Economic Development and Social Cohesion.

To obtain estimates with a risk of error of less than 4%, the number of organizations to be included in the sample had to be greater than 600, and for this reason, our sample contains 612 TSB.

3.2. Variables and measures

Our goal is to empirically analyze the variables that can influence the economic and social performance of SEs. As noted by Dacin *et al.* (2010), the literature, until that time at least, that empirically tested theoretical frameworks is very poor – exceptions being those collected by Liu *et al.* (2014) and Charan *et al.* (2019). In our literature review, we showed that in the academic world there is not yet a common consensus regarding which type of performance is more thorough (economic, social or both). The variables used in the model were measured against a series of scores provided by a private consulting firm. The economic performance of the SEs, measured through a series of items, enables

us to assess financial and economic equilibriums (Voss and Voss, 2000, Liu *et al.*, 2014). It is much more difficult to measure social performance. In our study, the approach of Balser and McClusky (2005) was followed, i.e., we measured social performance based on stakeholder perception. The collaborative orientation (Triple Helix Model of Etzkowitz and Leydesdorff) is the ability of the SE to build deep relationships with universities and public and private organizations. The measure of this variable is based on the number of kinds of organizations with which SEs have established a deep relationship as denoted by the key stakeholders.

Organizational Readiness for Innovation is measured according to the criteria presented by Uzokurt *et al.* (2013), i.e. innovative organizational culture, management commitment, creative human capital, learning orientation, and knowledge management. Accountability Adequacy, as presented by Costa *et al.* (2011), is a measure of the extent to which social reporting and user satisfaction initiatives are adopted. Control variables used in this study: age and size of the SE. Dobbs and Hamilton (2007) state that age influences the performance of firms, in as much as older firms usually have more resources than younger firms. Liu *et al.* (2014) found that the size of an SE is directly proportional to performance, because it influences their ability to recruit funds. Appendix 1 describes these variables and the items used for measurement.

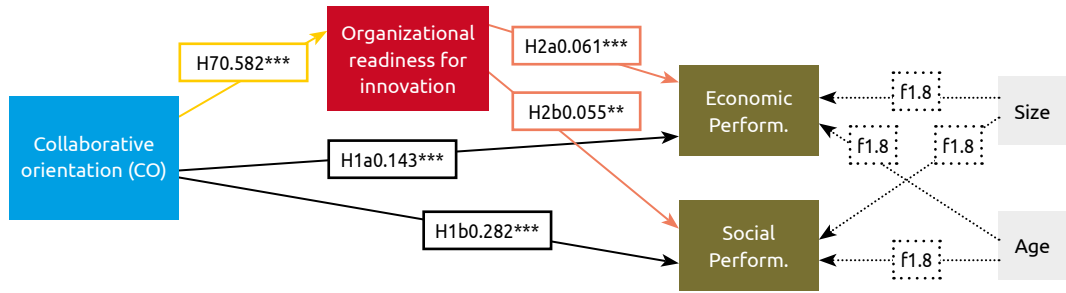
3.3. Results

Figure 2 outlines the statistics and ordinary least square (OLS) we used to test our hypothesis. However, it must be noted that as our variables have been created by using the simultaneous equation model, there is a possibility that we have failed to establish a one-way causal relationship, and that we have, therefore, created endogeneity problems and bias in our estimates, as warned against by Greene (2012).

We used structural equation modeling (SEM) to estimate the path coefficients and the mediation effect of our conceptual framework (see figure 1). The advantage of using structural equation modeling is that a single model can be fitted, indirect and total effects can be estimated, and the simple mediation model can be embedded in a larger model (Cortina *et al.* 2001 and Hayes, 2013). Unlike SEM, an assessment of the mediation effect using Baron and Kenny (1986)'s approach is not able to reduce the endogeneity that can arise if the errors of single relationships are correlated. We tested all our hypotheses simultaneously for both independent variables of age and size (Liu *et al.*, 2014; and Charan *et al.*, 2019). The goodness-of-fit statistics of the model are reported indicating an acceptable level of fit with the data (Byrne, 2012). The path coefficients of our model are presented in figure 2. This shows that collaborative orientation positively and significantly influences both economic performance (0.143, $P=0.000$) and social performance (0.282, $P=0.000$) supporting hypotheses H1a and H1b. We tested the mediation effect of organizational readiness for innovation on the relation between collaborative orientation and social and economic performance. The organizational readiness for innovation positively and significantly mediates (see figure 2): the total effect of collaborative orientation on economic and social performance is 0.224 and 0.353, respectively showing a stronger magnitude. This means that the collaborative orientation more strongly influences both performance variables if the SE organization displays a readiness for innovation. These results support the hypothesis H2a, H2b and H7. The control variables, i.e. age and size, are not significant.

Figure 2 reports the SEM estimation distinguishing by direct, indirect and total effect.

Figure 2. The full structural model with path coefficients



The full structural model with path coefficients

The p-value associated to correlation is represented by * (*:p-value = 0.1; **: p-value = 0.001).

4. Conclusion

This research was motivated by an awareness that SEs are becoming a necessary organization to meet increasing social problems caused by progressive reduction of resources that governments have available for welfare (Borzaga and Defourny, 2001). This study analyzes the possible factors that can determine the success of SEs. Specifically, we considered the ability of the SE to implement collaborative strategies as key drivers for success of SEs.

The empirical results obtained showed a positive and significant relationship between the above variable and the economic and social performance of the SEs. We also hypothesized that these relationships can be mediated by two SE characteristics. In particular, the relationship between collaborative orientation and SEs' performance is mediated by organizational readiness for innovation. The main contribution of this study is to provide robust empirical analyzes in a field of research in which they are scarce (Dacin *et al.*, 2010).

4.1. Managerial implications

Our analysis shows that the collaborative orientation strategy has a positive impact on the economic and social performance of SEs. The economic significance of this result is that it encourages a close collaboration between agencies who bring specific expertise and have a common mission, and thus, an increased probability of achieving their common goal. Understanding this link could help SE managers to select the right organizations (universities, public and private bodies) with whom to collaborate. The main requirement is that the different agencies must share a common long-term mission; otherwise, the collaboration effect could be negative. Another empirical result is that the understanding that this relationship is positively mediated by an SE's organizational readiness for innovation. This means that SEs that are ready to implement innovative solutions for the achievement of their objectives are those that benefit mainly from a high collaborative orientation strategy, thus, further improving performance. This evidence should stimulate the SE's manager to improve the characteristics for organizational innovativeness. Thus, SE managers should encourage employees to identify innovative solutions to a social problem and be supported by the firm's culture, for that is when, an organization might present a higher readiness and propensity to innovate. The level of innovation that a particular manager has, and their ability to select creative workers, positively impacts on readiness for innovation of the organization.

4.2. Limitation and future research

The limitations of this study can stimulate new research. The main limitation is related to the nature of the data sample, i.e. we only studied Italy SEs.

Our results would have wider applicability if we had detailed data of international SEs available. In this case, we could have tested the effect of the lag in independent variables, and evaluated the impact of different countries of origin. In this research, we used a general definition of SEs that did not allow for an evaluation of the effects of different types of SEs, as suggested by Defourny and Nyssens (2017).

Appendix 1. Description and measures of variables

VARIABLES	DEFINITION	MEASURE	LITERATURE
Collaborative Orientation	The collaborative strategy is a multi-organizational cross-sector social strategy necessary to meet complex social and ecological problems. Specifically, we considered the multiple helix model, a knowledge-based, collaborative strategy, characterized by a close collaboration between universities, public and private entities and the SE, as created to meet a common goal.	From 0 to 3: <ul style="list-style-type: none"> • 0 = no collaboration; • 1 = strict collaboration with 1 organization; • 2 = strict collaboration with 2 organizations; • 3 = strict collaboration with 3 organizations; 	Etzkowitz (1993); Etzkowitz and Leydesdorff (1995); Clarke and Fuller (2011)
Organizational Readiness for Innovation	This measure considers the organizational characteristics of innovation by identifying which SEs show a greater readiness for innovation.	This measure is composed of five different items: <ul style="list-style-type: none"> • Innovative organizational culture; • Management commitment; • Creative human capital; • Learning orientation; • Knowledge management 	Uzkurt et al. (2013)
Economic Performance	This measure analyzes the sustainability of SEs, taking into account economic and financial equilibriums.	This measure comprises six different items: <ul style="list-style-type: none"> • Revenues; • The distribution of revenues, i.e. composition of revenues structure; • Costs; • The distribution of costs, i.e. the composition of revenues structure; • Liquidity indicators; • Solvency indicators 	Voss and Voss (2000)
Social Performance	This measure analyzes the social performance of SEs, considering the perception of key stakeholders on the degree to which a social mission is accomplished.	This measure is composed by three items, related to: <ul style="list-style-type: none"> • Capacity of satisfying the users • Accountability towards external stakeholders (reporting) • Accountability towards internal stakeholders (associates and employees) 	Balser and McClusky (2005)
Size	This measures the total revenue of an SE through the measurement of their size.	This measure considers the logarithm of total revenues	Liu et al. (2015)
Age	This measures the age of an SE in years.		Charan et al. (2019)

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