Social entrepreneurship orientation and company success: The mediating role of social performance

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ABSTRACT

We examine the impact of social entrepreneurship orientation (SEO), a behavioral measure of the social entrepreneurship of the organization, on the social and financial performance of a sample of Austrian firms. Despite growing research interests in social entrepreneurship, the field remains fragmented and this has led to calls for a careful examination of the implications of social entrepreneurship for firms. We draw on stakeholder theory and hybrid organizing to hypothesize that social performance mediates the SEO-financial performance relationship. By analyzing a sample of 1,156 companies, we find that the SEO-financial performance relationship is partially positively mediated by social performance even though the direct effect is negative. Our results find that social performance compensates for the otherwise negative effect SEO has directly with financial performance. We contribute to an understanding of the mechanisms by which an SEO affects firm performance and provide richer insights into the various aspects of performance. We discuss the future implications of our study and suggest promising avenues for further research on the SEO construct.

Keywords: Social entrepreneurship orientation, hybrid organizing, social performance, financial performance, empirical, mediation

INTRODUCTION

The literature on social entrepreneurship (SE) is growing rapidly (Halberstadt & Kraus, 2016; Sassmannshausen & Volkmann, 2018; Semrau et al., 2016; Sutter et al., 2019). For the last decade, research on SE has specifically focused on its role in enabling social value creation and stimulating social change, particularly within the emerging economy context (Del Giudice et al., 2019; Rao-Nicholson et al., 2017). Indeed, Ferreira et al.'s (2019) recent bibliometric analysis of the scientific structure of entrepreneurship research revealed six underlying theories of entrepreneurship which identified social entrepreneurship theory is one of the 6 founding blocks of entrepreneurship research. However, despite the growth in SE research, few studies have sought to understand the pathway from a social entrepreneurship orientation (SEO)[1] to financial performance (one of the notable exceptions being the recent study of Halberstadt et al., 2020). This paper addresses this research gap by examining the mediating effect of social performance on the SEO-financial performance relationship. To the best of our knowledge, our paper is the first to investigate and reveal the distinctive pathway of SEO to financial performance. We do so using a large-scale sample of 1,156 Austrian firms. Neither a large-scale study of SEO nor its distinct pathway to firm performance have been previously investigated. This is timely, necessary, and of utmost importance because of the potential conflict this strategic posture may bring to bear on the commercial, financial profit-maximizing efforts of the firm.

[1] Social entrepreneurship orientation (SEO) is an entrepreneurial activity that is driven by the attainment of social value creation, which is comprised of the behaviors: social innovativeness, social proactiveness, social risk taking, and socialness. To the extent that it is a social-oriented facsimile of the classic entrepreneurial orientation construct, the strategic posture differs through its emphasis on the social over (solely) the commercial.

Recognizing that the increasingly complex socio-political and environmental context has permitted an abundance of social problems, SEO has emerged as a challenge to the convention of traditional business activities with the potential of addressing these. SEO embodies an underlying purpose of achieving social impact, in which SEO behaviors seek to address societal challenges (Austin et al., 2006; Lumpkin et al., 2018; Ramani et al., 2017) to achieve "beneficial outcomes resulting from prosocial behavior that are enjoyed by the intended targets of that behavior and/or by the broader community of individuals, organizations, and/or environments (Rawhouser et al., 2019, p. 2)." Common to the understanding of SEO by scholars is its 'hybrid' nature by merging a social mission with entrepreneurial processes and activities (Saebi et al., 2019). That is, SEO is an entrepreneurial behavior that results in a 'hybrid' form within firms in which the creation of social value is through market-based methods (Miller et al., 2012). Thereby, SEO involves hybrid organizing, which refers to "activities by which firms make sense of and combine multiple forms" (Battilana & Lee, 2014, p. 129) or "the mixing of firm elements that would not conventionally go together (Battilana et al., 2017, p. 129). Previously, researchers have assumed that firms primarily serve either of two functions—a social or an economic function (two pure forms that would compete in a hybrid firm) (Pache & Santos, 2013)—and have focused on the tensions between social and economic orientations. These purported tensions can disrupt resource allocation (Smith et al., 2013) and decrease firm efficiency (Fiol et al., 2009). We suggest that SEO reconciles the hybrid tensions of social value creation and economic value capture and allows firms to address economic and social problems within society, and by doing so, social and economic objectives become complementary rather than competing' (Tobias et al., 2013). However, the performance effects of SEO and the mechanisms by which it may generate financial performance remain poorly understood.

Compounding this problem, existing research is plagued by an unclear conceptualization of SEO, a problem that has stemmed because the construct of SEO has originated from a diverse range of disciplines and fields (e.g. entrepreneurship, sociology, ethics, economics) (Saebi et al., 2019). The literature on SEO has been characterized by a debate of its definition (Choi & Majumdar, 2014), its theoretical underpinnings (Santos, 2012), and associated methodological challenges (Stevens et al., 2015). Concerning its definition, most research to date has sought to transfer entrepreneurial orientation into social contexts to help explain the SEO construct (Alarifi et al., 2019; Guo & Bielefeld, 2014; Santos, 2012). Thus, there has been limited attention to what constitutes the SEO construct such that scholars have defined SEO in basic terms as non-profit entrepreneurial orientation (Dwivedi & Weerawardena, 2018). As the conceptualization of SEO remains unclear, this not only hampers the advancement of our understanding of the phenomenon, it also halts the growth of cumulative knowledge on SEO and of establishing it as a distinct construct in its own right (Saebi et al., 2019). We argue that such an approach underplays the strategic effects of a SEO and fails to recognize that the behaviors encouraged by a SEO may be different from those resulting from an orientation largely focused on profit (Kraus et al., 2017). Concerning the methodological challenges in SE research, while previous research has advocated for the use of similar measurements from the entrepreneurship disciplines to advance the SE field (Short et al., 2009), this masks the uniqueness of the SEO construct (Lurtz & Kreutzer, 2017). Thereby, existing measurements of the SEO construct are insufficient and do not adequately reveal the causal mechanisms of the SEO construct in comparison to other established phenomena (Saebi et al., 2019). As this research gap persists, the most pressing aspect of the problem to pursue is to test the distinct mechanism through which SEO affects financial performance.

This study provides empirical support for the mechanism through which SEO impacts financial performance. We follow a middle ground between the advocated view of utilizing theories from other fields (i.e. stakeholder theory and the hybrid organizing perspective) and the need to capture the uniqueness of the SEO construct to advance the SE field (Dwivedi & Weerawardena, 2018). Accordingly, our approach builds on previous research while revealing the inconsistencies and the need to build a separate conceptualization of SEO.

The rationale for this study is two-fold: (1) to warrant a conceptualization of SEO, and (2) to reveal the underlying relationship between SEO and financial performance. Even though SEO is often considered to be an expansion of the notion of entrepreneurship, it is a unique construct that requires clarity in its conceptual parameters and its measurement. Providing this clarity can stimulate a stream of research that would help build cumulative insights to eventually help in advancing and legitimizing social entrepreneurship research. Indeed, among the majority of the papers on SE, a minority have sought to theorize and provide a separate measurement of SEO from commercial entrepreneurship (Kraus et al., 2017).

THEORETICAL FRAMEWORK

Social Entrepreneurship Orientation

Although the concept of social entrepreneurship has been present since the 1950s (Bowen, 1953), it has gained an exponential increase in attention only within the past decade (Saebi et al., 2019; Sassmannshausen & Volkmann, 2018). The reasons for this attention is because social entrepreneurship has been shown to be: a powerful mechanism to combat extreme poverty (Sutter et al., 2019), a catalyst in transforming social systems (Alvord et al., 2004), a force of institutional change (Cajaiba-Santana, 2014; Nicholls, 2008), and a major factor fostering economic growth and development in subsistence markets (Azmat et al., 2015).

Based on models of social and commercial firms that distinguish companies from purely philanthropic, hybrid, or profit-oriented firms, SEO is distinct by its attempt as a socially-oriented and a profit-generating form of entrepreneurship (Dees, 2001; Swanson & Zhang, 2011). SEO, as a hybrid form of entrepreneurship within firms, emerged due to institutional voids. A newly emerged organization, the hybrid firm, rests on social entrepreneurial actions (i.e. SEO behaviors), which involve the transformation of existing established institutions in ways that will diverge from the status quo (Austin et al., 2006; Doherty et al., 2014; Maguire et al., 2004). Further, such hybrid firms' identity is dual and is formed from the blending of economic and social imperatives (Moss et al., 2011). The institutional entrepreneurship perspective explains that the lack of government funding and reduction of private donations impact the viability of non-profit organizations (NPOs) (Dart, 2004) and thus, a new form of NPO emerges from the complex social entrepreneurial actions of the existing institutions (Ko & Liu, 2020). This new form of

NPO is considered as a hybrid firm that employs SEO (Fitzgerald & Shepherd, 2018), which is more entrepreneurial, business-like, and market-oriented (Maier et al., 2016) and is social mission driven *and* focused on generating revenues from commercial activities. Such firms, which seek to address social and environmental challenges by engaging in entrepreneurial actions have been growing in number and many firms are now shifting their focus to include social and financial benefits (Nicholls, 2008). The complexity lies in the potential tension at the heart of these hybrid firms between the social and the financial.

SEO is a multi-dimensional construct in that (a) its dimensions involve entrepreneurial behaviors (innovativeness, proactiveness, and risk taking) and (b) it includes a social mission dimension which represents the virtuousness of a SEO (Weerawardena & Mort, 2006). Social entrepreneurs engage in entrepreneurial behaviors including innovation, opportunity identification and exploitation, and mobilization of resources around a technological solution (Ratinho et al., 2015); but social entrepreneurial behaviors are mainly utilized to achieve the social mission and in which the identification of entrepreneurial revenue-generating opportunities is derived from societal problems (Ramani et al., 2017). Thus, distinguishably, social entrepreneurial behaviors lead to social value creation and financial benefits (Bacq et al., 2016) in an implied chain that begins with the social element.

In the SE literature, the limiting factor in advancing the SEO construct is its heterogeneity, in which different phenomena are placed under the same conceptual umbrella, for which they might not belong, and as such this complicates the meaningfulness of comparing the different findings among SE articles (Saebi et al., 2019). Because of this heterogeneity, SE is a difficult field to grasp and leads to challenges in advancing the scholarly research on the SEO construct. The problem is that scholars have not clarified the nature of SEO and there is no clear boundary with related constructs.

Distinguishing SEO from Related Concepts

While the use of the term 'social entrepreneurship' is rapidly expanding, there remains little consensus over its definition (Austin et al., 2006; Halberstadt & Kraus, 2016; Rao-Nicholson et al., 2017; Von der Weppen & Cochrane, 2012; Zahra et al., 2014). The SEO construct is, at its essence, a "contested concept" (Choi & Majumdar, 2014, p. 372) and "there is no definitive consensus to what the term actually means" (Nicholls, 2010, p. 611). As noted by Saebi et al. (2019, p. 3), "there is no agreed-on definition and clear dimensionalization of the social entrepreneurship construct". A robust conceptualization of SEO is needed to highlight the significance of the orientation adopted by firms and to recognize the value of such an orientation (Short et al., 2009). To address this, we seek to clarify the boundaries of SEO from similar concepts that are often used interchangeably in the literature. The blending of social and economic performance is what sets SEO apart from firm-level activities that are dominated by an economic objective (commercial entrepreneurship) or solely social objectives (non-profit/philanthropic firms) (Saebi et al., 2019). We argue that there should be a uniform conceptualization of SEO that would allow methodological progress and aid in empirical measurement of the construct (Sassmannshausen & Volkmann, 2018).

The boundaries between non-profit firms and SEO have been blurred. Non-profit firms seek to attain social value in an effort to fulfill the needs of the broader society including those in need (Certo & Miller, 2008). While non-profit firms may generate revenue by engaging in social activities of fundraising or by generating donations, such revenues are limited to a specific program encompassing a certain duration and are not recurring activities or sustained over time, a defining characteristic of entrepreneurial behaviors. We consider SEO to be a strategic, behavioral, firm-level construct in line with behavioral entrepreneurship theory. An essential aspect of entrepreneurial behaviors is that they must be consistently and recurrently exhibited over time to form an orientation (Covin & Slevin, 1991). Thus, this study does not examine the effect of entrepreneurial behaviors within non-profit firms to signify SEO; instead, it establishes a separate conceptualization of SEO and examines its impact within firms whose income generating activities have a long-term strategic orientation with revenue targets that are measurable (Saebi et al., 2019).

Further, the boundaries between SEO and corporate social responsibility (CSR) have not been delineated, in which some researchers define SEO as activities of conventional entrepreneurship with a CSR component (Surie, 2017). CSR is defined mainly as social activities that aim to benefit society, yet CSR does not necessarily translate into innovative activities and entrepreneurial actions, and generally represents societal engagement of firms (Shepherd & Patzelt, 2011). CSR starts with the firm's current activities followed by how they can be better targeted to stakeholders to create a profit. SEO on the other hand starts with targeting a social unmet need, which also represents opportunities that are profitable (Zahra et al., 2014).

Likewise, even though social entrepreneurship is considered as an expansion to the notion of entrepreneurship, it extends beyond the boundaries of traditional entrepreneurship literature (Dwivedi & Weerawardena 2018; Saebi et al., 2019). The inclusiveness of SEO within firm-level activities has made it challenging for scholars to demarcate SEO from entrepreneurial orientation, in which the EO scale has been used to measure SEO. Thus, past studies have failed to establish a distinct conceptualization of SEO to understand what performance effects are encouraged by SEO (Duvnäs et al., 2012; Miles et al., 2013). For instance, Duvnäs et al. (2012) used the Covin and Slevin (1989) scale to measure the social innovation orientation, even though these items essentially measure the innovation dimension of EO. Furthermore, Kuratko et al. (2017) pilot tested a social entrepreneurship scale by adapting their commercial entrepreneurship scale. A major drawback is that some dimensions of the commercial entrepreneurship scale are inadequate to capture the unique context of SEO. This has added more ambiguity to the SEO construct and researchers have considered that SEO is not a unique construct from commercial entrepreneurship (Dacin et al., 2010). There is a need to establish a conceptual distinction between SEO and commercial entrepreneurship and to develop a measurement scale for SEO. SEO is different from traditional entrepreneurship given its combination of entrepreneurial thinking and social mission (Leadbeater, 1997; Mort et al., 2003; Weerawardena & Mort, 2006). In particular, Dees (2001), explained concisely that social entrepreneurship is associated with: (a) adoption of a mission to create and sustain social value; (b) recognition and persistent pursuit of new opportunities to serve that mission; (c) engagement in a process of constant adjustment and learning; (d) acting without being limited by resources currently in hand; and (e) exhibiting an increased sense of accountability to the constituencies the firm serves and for the outcomes it creates. At the level of the firm, this suggests that firms adopting SEO aim for the creation of social value as a pathway to wider wealth creation for both the firm and society.

Social entrepreneurship orientation and Social Performance

Social entrepreneurially oriented behaviors are distinct by their combination of social mission with entrepreneurial actions to achieve sustainability for hybrid firms. These hybrid organizations are emerging due to government voids/failures and the unwillingness of the private sector to address the unmet social challenges. At its core, SEO activities involve social value creation (Chell et al., 2016), in which the notion of generating social value is a common theme in the definitions of social entrepreneurship (Dacin et al., 2010). The social value proposition of SEO refers to the ability of SEO to "create social value by stimulating social change or meeting a social need" (Mair & Marti, 2006, p. 37). Thus, the social value proposition of SEO, its 'steering axle', represents the intended promise of a hybrid firm, when employing SEO, in providing value for its beneficiaries (Covin et al., 2015). At its essence, it refers to the value that social entrepreneurial actions provide for a target market (Kraus et al., 2014). The social impact of a hybrid firm relies on its ability to derive benefits from SEO to its various beneficiaries and in adjusting its social value proposition to maximize value for its intended targets and as well as the ecosystem.

SEO serves to accomplish competing goals by prioritizing social value creation above financial performance. Social value creation refers to organizational effectiveness in addressing the social issue(s) that align with the goals of a hybrid firm (Kroeger & Weber, 2014). It occurs when the hybrid firm "achieves an equivalent social benefit with fewer dollars or creates greater social benefit for a comparable cost" (Porter & Kramer, 1999, p. 126). Hybrid firms that employ SEO aim to achieve their social mission and strive to create social value while seeking to maintain their viability through profits that are generated in an entrepreneurial and innovative way (Certo & Miller, 2008).

Social value creation is the result of the decision-making activities and practices of the firm that involve SEO behaviors and the exploration of new avenues to offer innovative solutions to societal challenges. In the context of hybrid firms, we take a stakeholder perspective on social welfare and question the assumption that all human behavior is solely motivated by self-interests, in which the purpose of the hybrid firm in employing SEO is achieving social welfare which promotes the employees of the firm to transcend their self-interests (Bridoux & Stoelhorst, 2016).

When a hybrid firm engages in social entrepreneurial behaviors, a deliberate effort is made to integrate social awareness into the business model (Dees, 2001). The strategic imperative of a SEO is on taking risk to proactively develop new initiatives that meet its social mission in a way that is sustainably viable. When the firm exhibits SEO, the firm's priorities shift away from a performance target of only full profit maximization towards a more rounded model of firm performance that prioritizes social performance. Stakeholders are active agents in monitoring and challenging firms, and they impact the relationship between SEO behaviors and firm performance and push firms to strategically create societal benefits without an actual mandate from stakeholders (Zahra & Wright, 2016).

The creation of social wealth from SEO is significant in characterizing socially entrepreneurially oriented behaviors within firms (Mort et al., 2003). Firms that engage in SEO behaviors generate social value that is exchanged with their stakeholders and society. Enhancing social welfare and developing the community for a hybrid firm that engages in

SEO is not a discretionary activity, but a strategic imperative for such firms employing SEO to be proactive in addressing societal concerns.

This prevailing logic leads to:

Hypothesis 1: Social entrepreneurship orientation has a positive relationship with social performance.

Social Performance and Firm Financial Performance

To explain the social-financial performance relationship, we rely on stakeholder theory, a dominant strategic approach in the social issues' literature (Goldsby et al., 2018). Previous researchers have defined and examined stakeholder considerations from multiple aspects (Donaldson & Preston, 1995), including both a normative perspective (i.e. explaining why stakeholder relationships would impact the firm), and a descriptive one (describing how stakeholder relationships are taken into account). We adopt an instrumental approach (examining the benefits of considering stakeholder interests) within strategically oriented hybrid firms[2], in which social performance is instrumental to higher financial returns (Jones, 1995), and based on the basic premise that successful outcomes from social performance are related to the extent to which the firm manages the interests of its direct and wider array of stakeholders (Van der Laan et al., 2008).

Instrumental stakeholder theory considers that socially responsible and responsive organizations are better able to navigate complex webs of stakeholder relations (Rahman et al., 2020; Rowley, 1997). When hybrid organizations engage with different stakeholders

[2] Strategically oriented hybrid firms are those that, upon making a social investment, also obtain additional benefits such as better reputation, differentiated products, and achieve greater profitability.

in meaningful ways (Hillman & Keim, 2001), they enhance their legitimacy (Suchman, 1995), develop a positive reputation (Orlitzky, 2008), boost product–market-based performance (Rahman et al., 2020), and ultimately, enhance their financial viability (Mahon, 2002). A theoretical model that adopts the strategic or instrumental approach to the effect of social performance on financial performance was outlined by Husted and De Jesus Salazar (2006). In this model, strategically oriented hybrid firms obtain benefits from social investments (either through generation of 'social goods' from the provision of scholarships or through the reduction of 'social bads') (Rawhouser et al., 2019).

Firms and markets are infused with a variety of values and not only economic value structures (Orlitzky, 2011). Markets are embedded in broader social systems (Whittington, 1992). Thus, firms cannot lose sight of broader community-level goals or firms may otherwise risk losing their legitimacy (Suchman, 1995) especially among increasingly socially sensitive customers (Rahman et al., 2020). Yet, in strategically oriented hybrid firms, social entrepreneurial activities are not altruistic, but are strategic to (in principle) and can enhance or at least affect financial performance (Saebi et al., 2019). A non-profit firm might intend to maximize social output from social projects, but its intent is not to realize profits from its social investments and thereby it is less likely to achieve financial benefits in comparison to a strategically oriented hybrid firm (Husted & De Jesus Salazar, 2006). Whereas, in a strategically oriented hybrid firm, social investments would drive social benefits and result in new competencies, thus creating the circumstance to enhance the firm's financial performance. The strategic case of corporate social investment reveals that strategically oriented hybrid firms achieve profitability from social investments (Husted & De Jesus Salazar, 2006). Strategically oriented hybrid firms commercialize social innovations to assist the local community (Del Giudice et al., 2019), and engage in entrepreneurial activities to gain more access to capital markets (Nicholls, 2009). A meta-analysis by Orlitzky (2001) supported the theoretical expectation set in the instrumental approach to stakeholder theory that financial performance accrues to those firms that best meet the needs of their stakeholders in wider society (Orlitzky, 2011; Santos, 2012).

Thereby, this prevailing logic leads to:

Hypothesis 2: Social performance has a positive relationship with financial performance.

The Mediating Effect of Social Performance on the SEO-Financial Performance Relationship

The hybrid organizing literature has demonstrated the long-term impact of social-economic tensions, highlighting the risk of "mission-drift" (the divergence of a firm from its intended purpose), which can occur when conflict reconciliation processes in managing the trade-off between social and economic success result in firm actions that are not consistent with the stated strategic objectives (Ebrahim et al., 2014). Despite the issues associated with reconciling hybrid tensions, other research has found that social value creation and economic value capture are intertwined in social entrepreneurial hybrids such that the firm that engaged in SEO is expected to remove the hybrid organizing tensions to intertwine the possibility of higher social performance or impact with higher financial returns (Tobias et al., 2013). This implies that SEO's social logic, infused with business-inspired activities, derives social and financial performance benefits. Thereby, social and financial performance may be expected to become complementary in the case of SEO. Further, other research has found that hybrid objectives reinforce one another such as firms that respond to audiences with complex demands (Paolella & Durand, 2016), community-based enterprises (Peredo & Chrisman, 2006), and hybrid firms that create value through the transformation of underutilized antagonistic assets (Hockerts, 2015). Previous research has also provided evidence for the mutual reinforcement opportunities of social and economic goals (Battilana & lee, 2014; Spieth et al., 2019). Hybrid organizing is more nuanced than previously understood and opportunities to create greater social value do not necessarily come at the cost of lower economic value (Shepherd et al., 2019). Nevertheless, the tensions between social and economic modes do not completely go away under SEO and we predict that the financial performance contribution of SEO may rely first on its ability to generate social performance.

Relative hybridity is assessed based on the relative importance that firms ascribe to the economic and social logic (Shepherd et al., 2019). In comparison to hybrid firms that employ SEO behaviors, non-profit firms are high in social logic (low in hybridity) whereas traditional for profit-firms are high in economic logic (also low in hybridity). SEO is high in relative hybridity and involves the co-construction of entrepreneurial opportunities for the benefit of the community as well as the firm itself (Alvarez & Barney, 2010; Venkatraman et al., 2012). As firms engage in SEO and pursue potential opportunities that generate a positive social impact and firm financial returns, SEO activities close the gap between social and economic value logic. Thus, firms that engage in SEO will experience an increase in relative hybridity. Not all social enterprises with a dominant social logic are entrepreneurial, but when they employ SEO behaviors, they come closer to hybrid forms of firms and may use SEO activities to resolve the tensions between social value and economic value. Contrary to an EO, which follows a commercial pure institutional logic formed for the purpose of profit maximization (Austin et al., 2006; Schneider, 2017), SEO is less straightforward in which SEO is not financially driven and is not based on the pure institutional logic of driving financial returns for shareholders, but has been associated with positive financial returns for hybrid firms (Mair et al., 2015).

To successfully manage the co-existence of social welfare and economic logic, the organizational activity needs to synchronize in a manner that integrates and balances multiple institutional logics (Battilana & Lee, 2014). SEO, in comparison to other organizational activities such as EO, is able to balance the social and economic logics to manage the co-existence of the two within firms. Socially entrepreneurially oriented behaviors lead to double value creation, not just a societal benefit which is integral for a firm's competitive positioning (Alter, 2004; Porter & Kramer, 2011; Ridley-Duff & Bull, 2016). SEO behaviors highlight a blended value affirming that any firm is able to realize different types of value (i.e. financial, social, environmental). Zahra and authors (2014, p. 143) explain that SEO is about the "recognition, formation, evaluation, and exploitation of opportunities to create new businesses, models and solutions with a focus on achieving blended value." Scholars point towards a variety of potential benefits of SEO behaviors including improved efficiency, gaining market share, and a sustained competitive advantage (Fellnhofer et al., 2014; Porter & Kramer, 2011).

According to the social value proposition of SEO (the distinguishing core concept of SEO), the creation of social value is interlinked with economic wealth generation (Dees, 2001; Hlady-Rispal & Servantie, 2018). High financial performance is an expected outcome of a hybrid firm driven by SEO behaviors because of the strategic intent of engaging in social entrepreneurial endeavors that would provide value for the firm. Durable long-term value capture is dependent on social value creation (Dees, 2001). We expect that SEO strategically achieves superior social performance which in turn creates an economic value (Cornelius et al., 2008; Guo & Bielefeld, 2014; Santos, 2012; Weaver et al., 1999).

SEO creates social value and in turn generates economic wealth by developing new markets and fulfilling unmet social needs (Ramani et al., 2017). Firms are increasingly recognizing the benefits of making social value creation explicit and an objective in itself rather than a by-product of firm-level behaviors (Zahra et al., 2009). While this social value-creating activity can occur in different sectors or industries (Ribeiro Soriano et al., 2012; Austin et al., 2006), firms emphasizing SEO are distinguished by hybrid organizing and by their ability to recognize and exploit opportunities for the creation of higher social value and economic returns (Reis & Clohesy, 1999; Shepherd et al., 2019).

This prevailing logic leads to:

Hypothesis 3: Social performance positively mediates the effect of social entrepreneurship orientation on financial performance.

Figure 1 illustrates our hypothesized model.

[Insert Figure 1 about here]

METHODOLOGY

Sample

We drew a random sample of 20,000 entries from the Austrian company database AURELIA. Companies were invited to participate anonymously in the study via an established online survey system. Neither an extrinsic incentive nor a reminder was used. After consistency checks, 107 out of the 1,263 complete responses were removed, yielding a total of 1,156 usable responses and a response rate of 5.8 percent. In order to test for non-response bias (Armstrong & Overton, 1977), t-tests between four equally large groups of early to late respondents were applied. On average, all pairwise differences between the groups for all items used to measure the constructs were insignificant. Therefore, a systematic non-response bias is highly unlikely.

Descriptive Characteristics

To shed more light into the representativeness of our sample, some personal and firm characteristics are reported. Respondents were typically 78.5 percent male (n = 908) with a mean age of 49.3 years (SD = 10.2; minimum = 20; maximum = 81) and frequently had founded at least one firm (68.9 percent, n = 796) with the average number of firms having been founded by entrepreneurs in the sample to be 2.2 (SD = 1.9; minimum = 1; maximum = 25). Most respondents were chief executive officers (85.7 percent, n = 991) or executives (5.7 percent, n = 66) with a mixed educational background of university degrees (32.9 percent, n = 380), school leaving examinations (20.8 percent, n = 241), technical colleges (11.0 percent, n = 127), teacher trainings (10.0 percent, n = 116), secondary schools (9.9 percent, n = 99) or PhDs (7.8 percent, n = 90). The average firm age was 30.7 years (SD = 37.0; minimum = 0; maximum = 378) with the majority being small firms with less than 30 employees (73.0 percent, n = 844). Medium-sized firms of 31 to 100 employees (14.8 percent, n = 171) or medium-sized to large firms of 101 to 500 employees (8.1 percent, n = 94) were less frequent.

Measures

A quantitative study was planned and undertaken. Measurements for the relevant variables were derived from literature. Table 1 provides an overview of the scales used, their sources, and their descriptive statistics. Further, to check for model robustness and background effects, common descriptive variables of personal (e.g., gender, age, education) and firm (e.g., firm age, size, focus on commercial or social aspects, branch) characteristics were included in the questionnaire. To ensure a separate conceptualization of SEO from an EO, each dimension of EO (innovativeness, proactiveness, risk taking) was amended to include a social value purpose and we include a 'socialness' dimension (to account for the social mission). Hence, the constructs SEO and EO may be related, but SEO behaviors are distinct in being directed towards addressing social objectives (Lumpkin et al., 2013).

[Insert Table 1 here]

Reliability and Validity Checks

Since the central variables in our framework were latent, structural equation modeling (SEM) was most appropriate to account for this latency and consequent measurement error. Following Gerbing and Anderson (1988), psychometric properties, reliability, and the convergent and discriminant validity of the constructs were checked via confirmatory factor analyses (CFA) before the framework model was assessed (all estimations are done using *lavaan* in *R*). Table 2 provides an overview of the results of these checks. Both, exploratory factor analyses and CFA confirmed the dimensionality of the proposed constructs. Some items were removed due to low factor loadings (i.e. item 1 and 3 for social performance). Since all constructs were inherently reflective in nature, deletion did not endanger the content validity of the constructs' meanings (Jarvis et al., 2003). Consequently, CFA indicated that the given construct structure fit the empirical data reasonably well (Chi-square = 440.83, d.f. = 104, CFI = .97, SRMR = .03) following (Niemand and Mai, 2018). Cronbach's coefficient alpha exceeded the minimum requirement of .7, indicating reliable measurement of all underlying constructs. Further, applying the procedures introduced by Fornell and Larcker (1981), convergent validity (average variance explained > .5) as well as discriminant validity (Fornell-Larcker-criterion where average variance exceeded the largest squared correlation with another construct) were also confirmed. However, the high correlations between SEO dimensions and social performance (.71, .81 and .75) may be seen as an indication against discriminant validity. In order to further substantiate that question, an alternative CFA model was evaluated which assumed a common social dimension consisting of SEO and social performance items. This model fit the underlying data significantly less well than the proposed CFA model (Chi-square alternative CFA = 1,804.96 with d.f. = 118 vs chi-square proposed CFA = 440.83 with d.f. = 104; chi-square difference test = 1,364.10 and $p < .001$), indicating discriminant validity in the original model. Finally, to verify whether a common method bias was present or absent, a common factor approach SEM was modelled (Podsakoff et al., 2003). A CFA model was estimated where all items were loaded onto one common factor instead of their respective constructs. Since the fit of that model was insufficient (Chi-square = 4,040.16 , d.f. = 119, CFI = .69, SRMR = .13) and extremely poor, we can conclude that a common factor bias is not present. Overall, reliability and validity were given for all constructs.

[insert Table 2 about here]

RESULTS

Testing the Proposed Framework

As the common variance explained in SEO was more appropriate for the research question under investigation than the impact of each dimension, we decided to use composites (averaged values for all items of one dimension) of social risk-taking, social proactiveness, social innovativeness and socialness. Those composites were subsequently used as indicators of the respective second-order constructs. Moreover, we followed the SEM approach proposed by Iacobucci et al. (2007) to test for the mediation effect of social performance and checked the robustness of standard errors by alternatively applying a bootstrapping approach (1,000 resamples), which yielded identical results.

The results of our hypothesis testing are reported in Figure 2. The proposed mediation model was found to fit the underlying empirical data well (Chi-square = 519.16, d.f. = 68, CFI = .94, SRMR = .05) and explained considerable variances in the mediator social performance (explained variance = .78) and in the dependent variable financial performance (explained variance = .18). SEO largely influenced social performance (= .94, $p < .001$) and, in turn, social performance (= .34, $p < .01$) explained financial performance significantly and in a positive manner, indicating a partial mediation of SEO. Testing the indirect effect via defined parameters further established this conclusion as SEO $\rightarrow$ SP $\rightarrow$ FP and remained significant (= .32, $p < .01$). Hence, H1-H3 were confirmed.

To complete the picture of effects, we examined some supplementary relationships in an exploratory manner. Since the mediation effect was partial, a direct effect was plausible. Regarding this, SEO (= -.37, $p < .01$) had a significant negative effect on financial performance.

The net effect of the competitive mediation was -.06 ($p > .05$). That is, the mediated positive influence of SEO on financial performance via social performance completely offsets the negative direct effect of SEO on financial performance, revealing a compensatory rather than complementary relationship.

[Insert Figure 2 about here]

Robustness Checks

The very significant relationship between SEO and social performance could be understood as a harm of discriminant validity. We therefore repeated the common social dimension test described for our mediation model and again found support for distinct, but strongly connected, constructs as the original model yielded better fit (common social dimension model: Chi-square = 642.62, d.f. = 65, CFI = .93, SRMR = .06).

To check the robustness of the proposed model, another alternative model was estimated which integrates multiple single items representing gender (0 = male, 1 = female), founding firm (0 = no, 1 = yes), position (0 = non-executive, 1 = executive), orientation (0 = commercial, 1 = social), and branch (0 = primary and secondary, 1 = tertiary). Thereby, ordinal items were recorded as dummy variables and a diagonally weighted least squares (DWLS) estimator with robust standard errors, which does not require metric items, was used instead of the maximum likelihood estimator.

The model indicated a comparable fit (Chi-square = 340.62 with d.f. = 118, CFI = .98, SRMR = .04, difference tests omitted due to different estimator). Moreover, all relationships displayed in the hypotheses remained. Among the control variables, only one minor effect was present. Social performance was influenced by gender (= .05, $p < .05$). All previously revealed relationships not mentioned remained identical. Finally, social performance (explained variance = .82, a difference of = .03) and financial (explained variance = .22, difference = .04) performance were equally predicted compared to the proposed model without control variables. Overall, these robustness findings indicated that the proposed model was reasonable.

DISCUSSION

This study sought to examine the pathway of SEO to financial performance in a large-scale empirical study. Our findings provide the first empirical advancement for the construct of SEO. The results suggest that the SEO and financial performance relationship is partially positively mediated by social performance, whereby social performance positively mediates the relationship between SEO and financial performance. SEO did not directly lead to higher financial performance, but its effect on social performance spilled over onto higher financial performance (Guo & Bielefeld, 2014; Santos, 2012). The direct effects were in line with previous studies in the literature, which have found that entrepreneurial activity in the social context has a positive effect on social performance, yet a direct negative effect on financial performance (Miles et al., 2013). Our results provide a crucial new contribution to the study of a SEO and social entrepreneurship among firms in general. The mediation test between SEO and financial performance account for social performance as a mediator does not tell the entire story of what is taking place inside our empirical models. There is a positive indirect effect from SEO through social performance to the firm's financial performance. However, there is an equally strong negative direct effect from SEO onto firms' financial performance. A very SEO-oriented firm may have superior social performance and then has financial advantages from that social performance. However, the firm still suffers from the financial disadvantages of a high SEO. We find that the total effect is not different from zero. In this sense, the mediated positive influence of SEO on financial performance via social performance completely offsets the negative direct effect of SEO on financial performance.

We observe then that social performance and financial performance are not complementary for firms that bear SEO, but that the indirect effect (Hypothesis 3) is compensatory to the detrimental direct effect we discovered when scrutinizing the data.

This compensatory rather than complementary effect has escaped identification to date and represents an important contribution to our understanding of the implications of social entrepreneurship and SEO among firms, and the consequence of the hybrid approach. This effect holds true for all firms in our dataset, not only the ones with high SEO. A firm with very low SEO still has a positive correlation between both performances.

A possible reason is that when hybrid firms follow a commercial logic (striving for increasing financial returns for shareholders) that jeopardizes the authenticity of the hybrid firm (to resemble more a for-profit firm) and its economic performance (e.g. Shepherd et al., 2019; Spieth et al., 2019). Hybrid firms are held accountable to a diverse set of stakeholders and they need to balance the expectations of multiple stakeholders and by neglecting their social impact, then hybrid firms risk undermining the stakeholders' social purpose authenticity (Ebrahim et al., 2014). The firm high in SEO gains considerable social performance which in turn increases financial performance, as theorized. However, unexpectedly, we unearth new nuance into this relationship, showing that the financial gain from social performance might be net zero when compared to the financial performance cost of high SEO. This reshapes the problem of tension as not being between social and financial performance but between SEO and financial performance. We caution, however, that this relationship should not strictly be interpreted as zero-sum since current research identifies additional potential benefits to a social focus or environmental policy, including at the product-market level and for customer awareness (Rahman et al., 2020). Hillman & Keim, 2001), legitimacy (Suchman, 1995), and reputation (Orlitzky, 2008). It is urgent that scholars now examine a SEO against multiple forms of firm performance to establish the gravity of its positive and negative, complementary or compensatory effects.

Our findings also provide three additional contributions. First, we reveal that SEO has a positive effect on social performance in line with the social value proposition of SEO (Covin et al., 2015; Mair & Marti, 2006). SEO is able to generate a positive social impact by gearing entrepreneurial activities towards a social purpose and generates societal benefits to its beneficiaries (Saebi et al., 2019). Second, we reveal that social performance has a positive effect on financial performance in line with instrumental stakeholder theory (Orlitzky, 2001), in which achieving a higher social performance is instrumental for enhancing financial performance in the context of hybrid firms. Our results of the positive social-financial performance extends previous research (Husted & De Jesus Salazar, 2006; Orlitzky, 2001, 2011; Santos, 2012). Third, we reveal that social performance mediates the relationship between SEO and financial performance. Collectively, we contribute to the hybrid organizing literature by revealing that SEO enhances a firm's financial performance as it resolves some of the hybrid tensions of different institutional logics (Shepherd et al., 2019), albeit in the context of our discovery of the complementary-compensatory tension. SEO prioritizes social mission on top of economic returns, but to which its social mission primacy may come at the expense of higher direct economic returns offset by the power of social performance for the firm's financial performance. An urgent question for scholars now is how to magnify that power. SEO, through achieving its social mission, can capture value for the firm. SEO as a firm-level activity is distinct by its combination of several institutional logics (institutional plurality) within an organization that is able to achieve innovative revenue-generating solutions to complex grand societal problems (Santos et al., 2015).

Relying on the main effects of SEO on financial performance alone, however, would conceal the underlying mechanism through which SEO affects the firm's economic performance positively. This serves to advance the SEO literature by unveiling the effects of SEO and its indirect pathway to a firm's financial performance. We reveal that SEO operates through a distinct pathway towards financial performance through social performance, in which SEO aims to achieve its social mission through entrepreneurial social and income-generating activities.

CONCLUSIONS, IMPLICATIONS, AND LIMITATIONS

SEO is a behavioral construct that explains the managerial tendency towards entrepreneurial behavior (denoting the 'how' of entrepreneurial behavior), and is a distinctive construct in which SEO infuses the social logic with economic activity. Assessing the impact of SEO on firm outcomes remains a challenge; yet our study is the first step and a signal for future researchers to move towards establishing SEO as a separate construct and legitimizing it within entrepreneurship research.

A major issue that warrants greater attention among scholars is examining the mediating mechanisms that allow managerial tendencies towards social entrepreneurial behaviors to be actualized into creating and capturing value for firms. We reveal that the mediating mechanism that captures financial value from social entrepreneurial behaviors is social performance. Using stakeholder theory and hybrid organizing as the theoretical lens, we posited and empirically found that SEO positively impacts financial performance through its effect on social performance. Our findings advance the entrepreneurship field by shifting the conversation to intervening mechanisms in the relationship between the social entrepreneurship of the firm (SEO) and financial performance. Our study is one of the few studies that investigates the effect of SEO and its mediating pathway to financial performance in a large-scale empirical context. Current social entrepreneurship research is still in a relatively nascent phase employing an open-ended exploratory analysis and adopting a mostly qualitative methodology (Cheah et al., 2019). Furthermore, most studies concentrate on the individual level of analysis; firm-level studies in the SE field are rare, yet we should how important it is to understand the intermediate circumstances through which a SEO creates returns to firm performance, and when it does not.

Our findings have important practical implications for managers. Our results reveal that being socially entrepreneurially oriented is beneficial for the firm's social performance, and if the firm is successful in its social performance, then it shall benefit economically (the mediating effect). In other words, success drives success. So, if a manager is passionate about the firm's social impact or social performance, this will also mean higher financial success for the firm. However, our additional tests show that SEO does not have a direct positive effect on financial performance, but rather a negative one. This is compensated for by the positive financial performance effects of social performance. We caution that managers should not squander an investment in SEO simply by focusing only on financial performance. The intermediate factors are central to appreciating when, how, and why SEO contributes financially to the firm.

Even though this study provides interesting theoretical, conceptual, and empirical insights into SEO, the findings must be considered with certain limitations. First, this study focused on a sample of mostly small companies from Austria. To enhance the generalizability of our findings, future research can test our model with samples in different contexts such as emerging or developing markets and larger firms. Further, this research employed perceptual indicators of performance. Future research can extend on our findings by including objective measures of performance.

Notwithstanding such limitations, this research is the first to conceptually test a recently developed scale of SEO (Kraus et al., 2017) and to reveal its impact on financial performance. As social impact continues to grow in prominence in organizations, economies, and research, our study provides solid groundwork for additional research on SEO.

Table 1: Measurement items and their descriptive statistics

Construct and items	Mean	SD
Social Risk-taking (SEO_1)[1]		
We are not afraid to take substantial risks when serving our social purpose	2.67	1.05
Bold action is necessary to achieve our company's social mission	2.55	1.07
We avoid the cautious line of action if social opportunities might be lost that way	2.74	.95
Social Proactiveness (SEO_2)[1]		
We aim at being at the forefront at making the world a better place	3.03	1.10
Our organization has a strong tendency to be ahead of others in addressing its social mission	2.84	1.09
We typically initiate actions which other social enterprises/social entrepreneurs copy	2.53	1.03
Social Innovativeness (SEO_3)[1]		
Social innovation is important for our company	3.48	1.04
We invest heavily in developing new ways to increase our social impact or to serve our beneficiaries	3.10	1.04
In our company, new ideas to solve social problems come up very frequently	3.04	1.03
Socialness (SEO_4)[1]		
The objective to accomplish our social mission precedes the objective to generate a profit	2.37	1.17
Our organization places a strong focus on partnerships with other organizations and/or governments in order to ensure a greater and accelerated accomplishment of the social mission	2.55	1.15
Financial Performance[2]		
In the past five years we achieved a higher sales growth than our (direct/indirect) competitors	3.33	.96
In the past five years we achieved a higher profit growth than our (direct/indirect) competitors	3.22	.94
In the past five years we achieved a higher growth in employees than our (direct/indirect) competitors	2.90	1.04
In the past five years we achieved a higher growth in market share than our (direct/indirect) competitors	3.23	.98
Social Performance[2]		
Our beneficiaries are satisfied with our services	4.38	.57
We help mobilize interest for additional social welfare initiatives	2.98	1.01
The output provided by our organization has a significant impact on general well-being	3.32	1.09
Our organization is on a good path to accomplish its social mission	3.00	1.05

Notes. All items have range 1 (min) to 5 (max)
[1] Kraus et al (2017); [2] Eggers et al. (2013) and Baker and Sinkula (2009)

Table 2: Correlations and properties

	SEO_1	SEO_2	SEO_3	SEO_4	FP	SP
SEO_R	*.67*					
SEO_P	.80	*.69*				
SEO_I	.80	.78	*.73*			
SEO_S	.68	.75	.64	*.66*		
FP	.14	.19	.17	.04	*.62*	
SP	.71	.81	.75	.79	.19	*.67*
Alpha	.84	.86	.89	.80	.86	.80

Notes. Lower-diagonal construct correlations and reliability estimates from CFA-SEM. SEO_1 = Social Risk-taking; SEO_2 = Social Proactiveness; SEO_3 = Social Innovativeness; SEO_4 = Socialness; FP = Financial performance; SP = Social performance; Alpha = Cronbach's coefficient Alpha; Diagonal elements (italics) = Average variance explained

Figure 1: Conceptual model and hypotheses

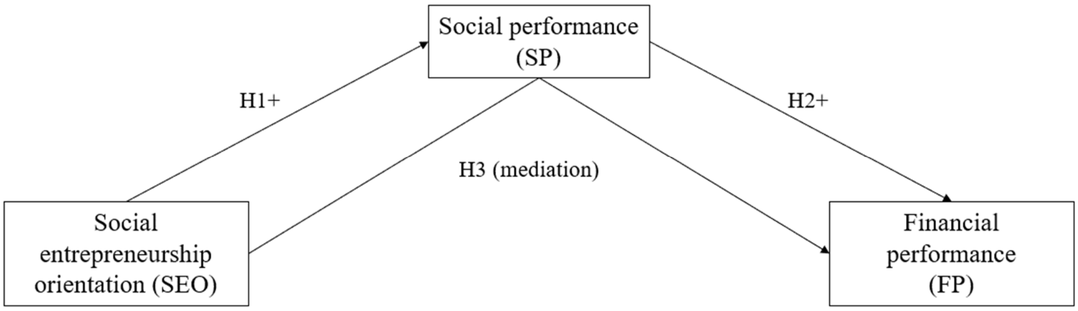
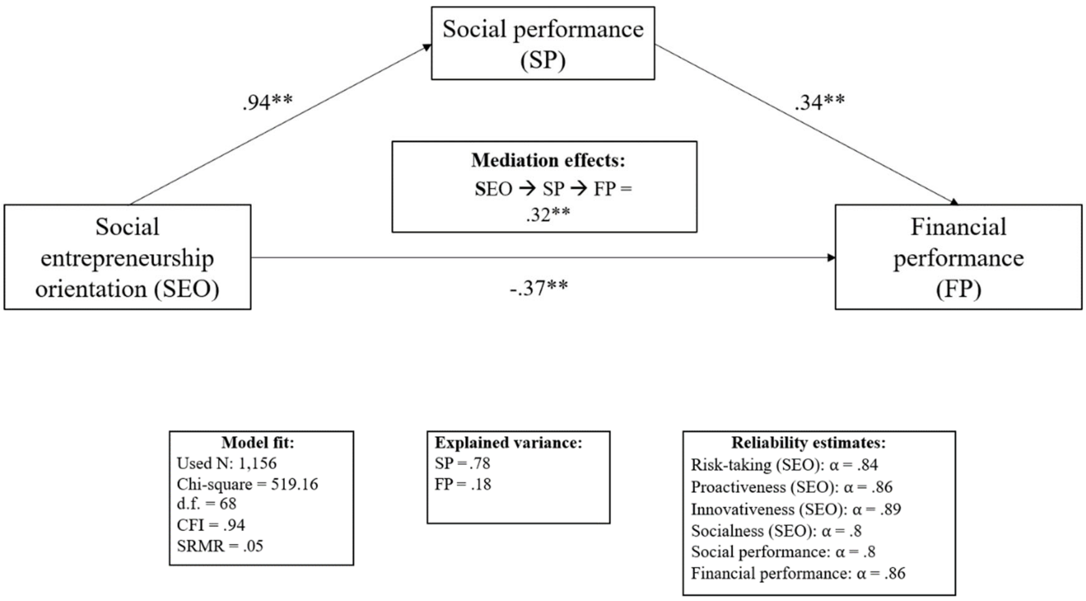


Figure 2: Results



Notes: Covariance-based SEM (lavaan, ML estimator) with standardized estimates; n.s.: $p > .05$; *: $p \leq .05$; **: $p \leq .01$; *** $p \leq .001$
All sub-dimensions of SEO and SP and FP constructs fulfill convergent and discriminant validity (Fornell & Larcker, 1981)

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