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## “Trade vs. grant dependency” and social enterprise performance: A mediating role of learning orientation

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### ABSTRACT

Pursuit of dual social and economic missions has created complicated dilemmas for social enterprises that whether they should rely more on nonprofit (e.g., grant dependency) or for-profit (e.g., trade dependency) strategies. Utilizing a sample of 164 UK social enterprises, this study found that relative to grant dependency, trade dependency has a more substantial positive direct effect on social performance. However, it has a more substantial positive indirect effect via learning orientation on economic and social performances. Therefore, this study concludes that social enterprise managers should prefer trade dependency to grant dependency to improve social performance. Nevertheless, they must promote and enhance learning culture and values (i.e., learning orientation) to concurrently improve, or at least not to deteriorate, their social enterprises' economic performance. The findings of this study are crucial for policymakers as well to develop and implement policies and programs to support social enterprises.

### KEYWORDS

Social enterprise performance; trade dependency; grant dependency; learning orientation

## Introduction

Social enterprise has recently attracted much attention from policymakers, practitioners, and scholars (Doherty & Kittipanya-Ngam, 2020). Scholars believe that unlike a charity and a commercial business, social enterprises, as a result of carrying both economic and social goals, can be financially sustainable and provide sustainable solutions to social challenges (Doherty et al., 2014; Gupta et al., 2020). Despite a growing interest of scholars in social enterprise and surge in its study, very few empirical studies have addressed social enterprise performance (for example, Battilana & Lee, 2014; Bhattarai et al., 2019; Liu et al., 2015; Staessens et al., 2019). As a result, whether and how a social enterprise can achieve its dual performance goals in a current socio-economic and political situation that exerting massive pressure on it to rely only on the market income has yet to be understood (Ko & Liu, 2020; Maier et al., 2016). We define social enterprise as a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community rather than being

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driven by the need to maximize profit for shareholders or owners (DTI, 2002, p. 7).

Drawing on the resource dependency theory (Pfeffer & Salancik, 1978) and a sample of 164 UK social enterprises, we aim to bring a new understanding by empirically investigating how, relative to grant dependency, trade dependency influences social enterprise performance (economic and social). Specifically, we test a mediating role of learning orientation to explore a process to understand how, relative to grant dependency, trade dependency influences the economic and social performances of a social enterprise. We considered learning orientation, which refers to an organization's "basic attitude towards learning" (Real et al., 2014, p. 189), as a mediating variable for two main reasons. First, learning orientation has long been considered a strategic resource of a firm (Baker & Sinkula, 1999; Calantone et al., 2002). Second, the more a social enterprise adopts trade dependency, the more it is likely to be entrepreneurial-oriented (Weerakoon et al., 2020). Extant research (Wang, 2008) shows that learning orientation plays a crucial role for a firm to capitalize on the performance advantage of its entrepreneurial orientation.

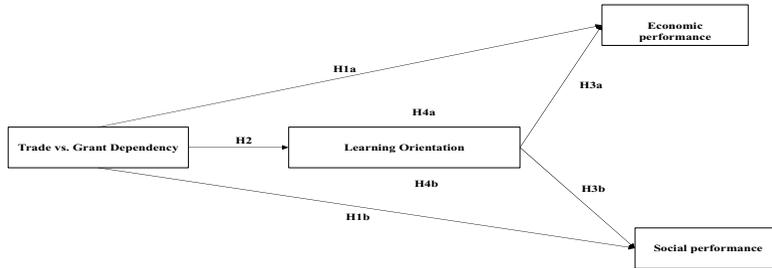
## Hypothesis and conceptual model

Consistent with the resource dependency theory (Pfeffer & Salancik, 1978) and reviewing social entrepreneurship literature (for example, Gras & Mendoza-Abarca, 2014; Gupta et al., 2020) and learning orientation literature (for example, Alegre & Chiva, 2013; Calantone et al., 2002; Wilson & Perepelkin, 2020), we develop following four hypotheses. H1a: *Trade dependency has a stronger positive effect on economic performance than grant dependency.* H1b: *Trade dependency has a more substantial positive effect on social performance than grant dependency.* H2: *Trade dependency has a more substantial positive effect on learning orientation than grant dependency.* H3a: *Learning orientation positively influences the economic performance of social enterprises.* H3b: *Learning orientation positively influences the social performance of social enterprises.* H4a: *Learning orientation mediates the positive relationship between "trade vs. grant dependency" and economic performance.* H4b: *Learning orientation mediates the positive relationship between "trade vs. grant dependency" and social performance (Figure 1).*

## Methodology

We administered survey responses from randomly selected one thousand social enterprises from UK social enterprises' online directories. We adopted the UK government's Social Enterprise definition as "a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community rather than being driven by the need to maximize profit for shareholders or owners" (DTI, 2002, p. 7). After two reminder e-mails,

# The Proposed Conceptual Framework



H4a: Learning orientation mediates the positive relationship between ‘trade vs grant dependency’ and economic performance.  
 H4b: Learning orientation mediates the positive relationship between ‘trade vs grant dependency’ and social performance.

**Figure 1.** The proposed conceptual framework.

we received 210 responses (21%). Out of them, we retained 164 useable responses (16.4%).

## Data analysis and hypothesis testing

After evaluating the measurement model, we estimated structural equation Modeling (SEM) with Mplus (Muthén & Muthén, 2012) and performed bootstrapping (1000) analysis (Bollen & Stine, 1990) using path analytic procedures to test our hypothesis (Hayes & Preacher, 2014).

Table 1 presented constructs’ reliability and validity.

**Table 1.** Constructs’ validities and reliabilities.

Dimensions and Items	SFL	AVE	CR	α
$\chi^2 = 81.788 (59), \chi^2/df = 1.39, RMSEA = 0.049, CFI = 0.987, TLI = 0.983, SRMR = 0.056$				
<b>Learning Orientation</b>		0.629	0.869	0.883
Indicator 1. The sense is that employee learning is an investment not an expense	0.850			
Indicator 2. The basic values include learning as a key to improvement	0.927			
Indicator 3. Once we quit learning, we endanger our firm	0.640			
Indicator 4. We agree that the ability to learn is the key to improvement	0.723			
<b>Economic Performance</b>		0.578	0.889	0.896
Indicator 1. The firm has been very profitable	0.633			
Indicator 2. The firm has generated a high volume of sales	0.615			
Indicator 3. The firm has achieved rapid growth	0.681			
Indicator 4. The performance of this firm has been very satisfactory	0.909			
Indicator 5. The firm has been very successful	0.910			
Indicator 6. The firm has fully met our expectations	0.756			
<b>Social Performance</b>		0.893	0.961	0.958
Indicator 1. Implementation of social strategy	0.877			
Indicator 2. Fulfilling the social mission	0.987			
Indicator 3. Fulfilling the social objectives	0.967			

Note. SFL = standardized factor loading; AVE = average variance-extracted; CR = composite reliability; α = Cronbach’s alpha; RMSEA = root mean square error of approximation; CFI = comparative fit index; TLI = Tucker-Lewis index; SRMR = standardized root mean square residual.

### Hypothesis testing

*Hypothesis 1a* not supported ( $b = -0.233$ , 95% CI =  $-0.542$  to  $0.049$ )

*Hypothesis 1b* supported ( $b = 0.576$ , 95% CI =  $0.211$  to  $0.912$ ).

*Hypothesis 2* supported ( $b = 0.398$ ,  $p < .001$ )

*Hypothesis 3a* supported ( $\beta = 0.289$ ,  $p < .001$ )

*Hypothesis 3b* supported ( $\beta = 0.322$ ,  $p < .001$ )

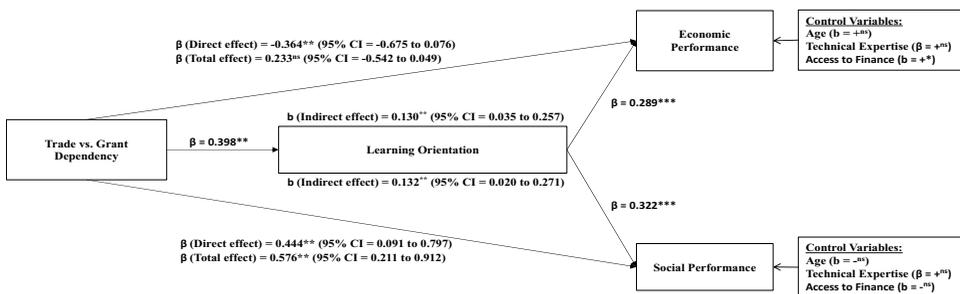
*Hypothesis 4a* supported ( $b = 0.130$ , 95% CI =  $0.035$  to  $0.257$ )

*Hypothesis 4b* supported ( $b = 0.132$ , 95% CI =  $0.020$  to  $0.271$ )

### Discussions and conclusions

Recently, literature on not-for-profit firms and social enterprises has increasingly suggested trade dependency as a “magic stick” for the not-for-profit firms and the social enterprises to achieve their financial sustainability (Henderson et al., 2018; King, 2017; Reficco et al., 2020) (Figure 2). However, the findings of this study do not fully validate this line of literature and, instead, warn that adopting trade dependency can be detrimental to the social enterprises if they do not put in place a mechanism, such as learning orientation, to transform the positive effect of trade dependency on economic performance. This study’s findings have highlighted the significant role of learning in trade-dependent social enterprises.

## Results of the Analysis



Note:  $b$  = un-standardised coefficient;  $\beta$  = standardised coefficient; \*\*\* =  $P < 0.001$ ; \*\* =  $P < 0.01$ ; \* =  $P < 0.5$ ; ns = not significant; + = positive; - = negative

Figure 2. Results of the analysis.

Notably, the findings of this study provide empirical evidence to the argument that adoption of trade dependency or becoming more business-like does not necessarily negate the social performance of social enterprises (Castellas et al., 2019; Haigh & Hoffman, 2011). Our findings contradict Foster and Bradach (2005) assertion that trade dependency can distract social enterprise managers from social missions, leading to mission drift, and of Massetti (2008) that social enterprises' social and economic goals trade-off to each other. However, this study's findings support emerging social entrepreneurship discourse that social enterprises' economic and social performances could be improved simultaneously (Bhattarai et al., 2019; Liu et al., 2015; Di Zhang & Swanson, 2013).

Moreover, by empirically demonstrating variations in performance (economic and social) and learning orientation in between trade-dependent social enterprises and grant-dependent social enterprises, this study contributes to extend the applicability of resource dependency theory (Pfeffer & Salancik, 1978) to the context of social enterprises (Gras & Mendoza-Abarca, 2014) particularly in explaining heterogeneity in social enterprise performances. The findings highlight that management of resource dependency should be crucial for social enterprises to be able to adapt, develop, and implement necessary resources and capabilities to achieve both their social and economic goals simultaneously.

In addition to the theoretical contributions, this study's findings have the following main implications for practice. Firstly, this study's findings serve as an essential guide to the managers and owners of social enterprises to improve their economic and social performance. Our findings suggest that social enterprise managers can enhance their social performance by selling their products and employing a market-based approach. However, trade dependency can only improve their economic performance only if they adopt and develop a learning-oriented culture in their organization. It also illustrates and suggests that the managers and owners of a social enterprise should not be concerned about engagement in the generation of market-based income as it enhances their social performance and does not negate financial performance. Finally, this study's findings recommend developing a learning-oriented culture in all social enterprises, and most importantly, in trade-dependent social enterprises to improve both their economic and social performances simultaneously.

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