

***‘Trade vs. Grant Dependency’ and Social Enterprise Performance: a Mediating Role  
of Learning Orientation***

Authors:

Dr Charan Bhattarai

Essex Business School, University of Essex  
Elmer Approach, Southend on Sea, Essex, UK  
SS1 1LW

Email: [crbhat@essex.ac.uk](mailto:crbhat@essex.ac.uk)

Dr Min Prasad Bhandari

Essex Business School, University of Essex  
Elmer Approach, Southend on Sea, Essex, UK  
SS1 1LW

Email: [Min.bhandai@essex.ac.uk](mailto:Min.bhandai@essex.ac.uk)

Corresponding author:

Dr Charan Bhattarai

Essex Business School, University of Essex  
Elmer Approach, Southend on Sea, Essex, UK  
SS1 1LW

Email: [crbhat@essex.ac.uk](mailto:crbhat@essex.ac.uk)

Telephone: +44(0)1702328389

## ***'Trade vs. Grant Dependency' and Social Enterprise Performance: a Mediating Role of Learning Orientation***

*Structured around the duality of fulfilling economic and social objectives have created complemented dilemmas for social enterprises that whether they should choose market-based income (trade dependency) or non-market-based income (grant dependency) as the primary source of income. Utilising a sample of 164 UK social enterprises, this study found that relative to grant dependency, trade dependency has a more substantial positive direct effect only on social performance, but it has a more substantial positive indirect effect via learning orientation on both economic and social performances.*

### ***Introduction***

Social enterprise has recently attracted much attention from policymakers, practitioners, and scholars (Doherty and Kittipanya-Ngam 2020; Lumpkin et al. 2013; Wilson and Post 2013). It is believed that unlike a charity and a commercial business (Austin et al. 2006), 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). However, whether and how a social enterprise can achieve its dual goals in a current socio-economic and political situation that exerting massive pressure on it to rely only on the market for income (Kerlin and Pollak 2011; Ko and Liu 2020; Maier et al. 2016; Pache and Santos 2013) has yet to be understood. A social enterprise is 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).

Despite a growing interest of scholars in social enterprise (Bhattarai et al. 2019; Castellás et al. 2019; Dabić et al. 2020; Gupta et al. 2020; Ince and Hahn 2020; Molecke and Pinkse 2020; Siebold et al. 2019; Staessens et al. 2019) and a surge in its study (Gupta et al. 2020), very few empirical studies have addressed social enterprise performance (Battilana and Lee 2014; Bhattarai et al. 2019; Liu et al. 2015; Staessens et al. 2019).

Therefore, drawing on the resource dependency theory (Pfeffer and 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 organisation's 'basic attitude towards learning' (Real et al. 2014, p. 189), as a mediating variable because it has long been considered as a strategic resource of a firm (Baker and Sinkula 1999, 2002; Calantone et al. 2002; Hurley and Hult 1998; Mahmoud and Yusif 2012; Sawaeen and Ali 2020).

### ***Hypothesis and Conceptual Model***

H1a: *Trade dependency has a stronger positive effect on economic performance than grant dependency.* H1b: *Trade dependency has a stronger positive effect on social performance than grant dependency.* H2: *Trade dependency has a stronger 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 goes about here}\*\*\*

### ***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 emails, 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 and Muthén 2012) and performed bootstrapping (1000) analysis (Bollen and Stine 1990; Shrout and Bolger 2002) using path analytic procedures to test our hypothesis (Hayes and Preacher 2014; Rucker et al. 2011).

Table 1 presented constructs' reliability and validity.

\*\*\*Table 1 goes here\*\*\*

### ***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 ( $b = 0.398, p < 0.001$ )

Hypothesis 3a supported ( $\beta = 0.289, p < 0.001$ )

Hypothesis 3b supported ( $\beta = 0.322, p < 0.001$ )

Hypothesis 4a supported ( $b = 0.130, 95\% \text{ CI} = 0.035 \text{ to } 0.257$ )

Hypothesis 4b supported ( $b = 0.132, 95\% \text{ CI} = 0.020 \text{ to } 0.271$ )

**\*\*\*Figure 2 goes here\*\*\***

### ***Discussions and Conclusions***

Recently, several pieces of literature on not-for-profit firms and social enterprises have increasingly been suggesting 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). 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.

Importantly, this study’s findings 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 (Battilana et al. 2015; Bruneel et al. 2016; Castellás et al. 2019; Dart 2004a, 2004b; Froelich 1999; Haigh and Hoffman 2011; Hockerts 2015; Hoffman et al. 2010; LeRoux 2005). By so doing, our findings contradict the assertion of Foster and Bradach (2005) that trade dependency can distract social enterprise managers from social missions, leading to mission drift, and of Massetti (2008) that the social and economic goals of social enterprises trade-off to each other.

However, the finding of this study supports emerging social entrepreneurship discourse that suggests that social enterprises' economic and social performances could be improved simultaneously (Bhattarai et al. 2019; M. T. Dacin et al. 2011; P. A. Dacin et al. 2010; Di Zhang and Swanson 2013; Liu et al. 2015; Tan and Liu 2014).

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 and Salancik 1978) to the context of social enterprises (Gras and 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 adopt, develop, and implement necessary resources and capabilities to simultaneously achieve their both social and economic goals.

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 about how they could 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 organisation. 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 the development of learning-oriented culture in all social enterprises but most importantly in trade-

dependent social enterprises to simultaneously improve both their economic and social performances.

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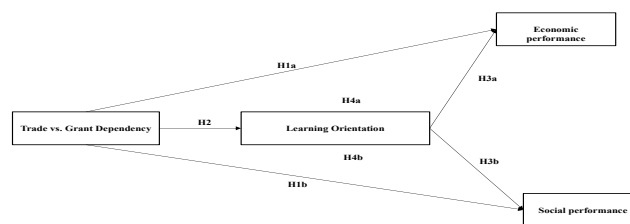


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**Figure 1**

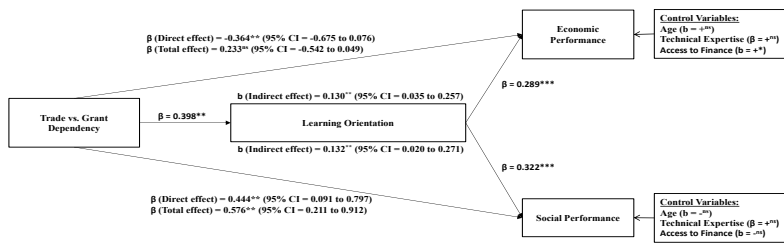
**The Proposed Conceptual Framework**



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 2**

**Results of the Analysis**



Note: b = un-standardised coefficient;  $\beta$  = standardised coefficient; \*\*\* = P<0.001; \*\* = P<0.01; \* = P<0.05; ns = not significant; + = positive; - = negative

**Table 1**  
**Constructs' Validities and Reliabilities**

Dimensions and Items	SFL	AVE	CR	$\alpha$
$X^2 = 81.788$ (59), $X^2/df = 1.39$ , RMSEA = 0.049, CFI = 0.987, TLI = 0.983, SRMR = 0.056				
<b><u>Learning Orientation</u></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><u>Economic Performance</u></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><u>Social Performance</u></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;  $\alpha$  = Cronbach's alpha; RMSEA = root mean square error of approximation; CFI = comparative fit index; TLI = Tucker-Lewis index; SRMR = standardized root mean square residual.