Does social performance contribute to economic performance of social enterprises? The role of social enterprise reputation building

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Abstract

Purpose – Literature on the relationship between social performance and economic performance of social enterprises has long been inconclusive. This paper aims to investigate whether and, if so, how social performance contributes to economic performance of social enterprises. Specifically, drawing from the resource-based view and signalling theory, the study examines how the development of reputation, which enables social enterprises to signal their stakeholders' commitment toward social causes, mediates the relationship between the two.

Design/methodology/approach – Employing a quantitative research design, data were collected from a sample of 164 social enterprises in the UK and analysed using structural equation modelling.

Findings – The results illustrate that while the direct relationship between social and economic performance is inconclusive, social performance contributes indirectly to improve economic performance through improving social enterprise reputation.

Originality/value – To the best of the authors' knowledge, this study is the first of this kind in the context of social enterprises which sheds light on the long-standing conflicting literature on the relationship between the dual objectives (that is, social and economic) by providing reputation as the mediating variable.

Keywords Social enterprise, reputation, social performance, economic performance

Paper type Research paper

Introduction

Social enterprises are renowned for their ability to address complex societal problems in a financially sustainable manner by emphasising both social and economic objectives in their mandate (Dacin *et al.*, 2011; Kraus *et al.*, 2017). Nevertheless, while attaining social performance is undoubtedly the ultimate goal of all social enterprises, its precise impact on economic performance has remained little understood (Glaveli and Geormas, 2018). Traditionally, the non-profit literature often refers to social enterprises as 'hybrid' organizations, as they are often an agglomeration of multiple social, for profit, and governmental stakeholders, whose diverse interests offer social enterprises different opportunities while sometimes subjecting them to often incompatible logics and paradoxical tensions (White *et al.*, 2018; White *et al.*, 2022). This line of literature points to 'hybrid complexity', highlighting a 'trade-off' relationship between the economic and social objectives (Battilana and Dorado, 2010; Battilana and Lee, 2014; Battilana *et al.*, 2012; Battilana *et al.*, 2015; Foster and Bradach, 2005; Jay, 2013; Massetti, 2008; Tracey *et al.*, 2011; White *et al.*, 2022). On the other hand, the 'win-win' paradigm (Child, 2012; Samuel *et al.*, 2022; White *et al.*, 2022) outlining a complementary relationship between social and economic objectives is becoming increasingly prominent (Bhattarai *et al.*, 2019; Glaveli and Geormas, 2018; Weerawardena *et al.*, 2021). This camp argues that social enterprises can deliver superior economic performance by innovatively exploring economically viable, market-based solutions to resolve societal challenges (Kickul and Walters, 2002; Piboonrungroj, 2012; Samuel *et al.*, 2022; White *et al.*, 2022). This paradigm presents a promising proposition for practitioners and policymakers: if social enterprises focus on delivering social goods, they can simultaneously generate economic gains.

Nevertheless, empirical evidence on the 'win-win' paradigm has not been consistent throughout (Foster and Bradach, 2005; Jay, 2013; Massetti, 2008; Tracey *et al.*, 2011). This inconsistency reflects the need for more understanding of the mechanisms or principles that govern the process and indicates the presence of underlying factors mediating the relationship (Brammer and Millington, 2008) between economic and social performances, resulting in the complementary relationship between them not always being found. This study aims to enrich this theoretical debate by examining reputation development as the potential mediator between social and economic performance. Within mainstream business research, particularly from the resource-based view tradition, reputation has long been recognized as a crucial strategic resource (Boyd *et al.*, 2010; Shu *et al.*, 2019). According to signaling theory (Weigelt and Camerer, 1988), reputation helps to communicate quality, reducing information ambiguity and uncertainty and, as such, a firm's reputation is an important antecedent to a firm's financial performance (Tracey and French, 2017; Zhang and Ouyang, 2021). Developing reputation is likely to be equally crucial for social enterprises. It helps social enterprises to communicate their social achievements to the public and crucial stakeholders, increasing the brand strength that allows them to stand out from their competitors, leading to the prospect of better economic performance (Wymer *et al.*, 2016). Nevertheless, to develop reputation as a signal, considerable signaling costs may be required (Bergh *et al.*, 2014). Moreover, as many social enterprises face significant resource constraints, there is the conundrum of whether investing in reputation development is an efficient use of staff and resources (Peattie and Morley, 2008). Such a conundrum means that studying how reputation may contribute to economic performance is empirically relevant, as it could aid social enterprise managers to decide on whether developing reputation should be a significant part of their strategic consideration.

Thus, utilising a sample of 164 social enterprises in the UK, this study empirically investigates whether the direct relationship between social and economic performance, and the indirect relationship through social enterprise reputation as a mediator, exist.

The structure of the rest of the paper is as follows. First, hypotheses concerning the relationship between social and economic performance are presented. Second, the study's data collection, analysis, and results are discussed, along with implications for theory and practice. Finally, the limitations of the study and future research recommendations are presented.

Conceptual framework and hypotheses development

Social enterprise hybridity - A holistic view on the relationship between social and economic performance

The central assertion of this paper is that reputation development plays a role in mediating the relationship between social and economic performance. Consequently, this study first needs to establish whether a direct relationship between the two should be expected. Social performance can be defined as an organisation's effectiveness in creating social value for their customers through implementing social strategies and achieving their social missions, goals, and objectives (Bhattarai *et al.*, 2019; Coombes *et al.*, 2011). Almost all definitions of social enterprises centre on the notion of social value creation (DTI, 2002). For example, a meta-analysis conducted by Dacin *et al.* (2011, p. 1204) found that the most commonly used definition of a social enterprise focused on the primary objective of 'creating social value by providing solutions to social problems'.

The main divergence occurs regarding how the pursuance of social goals may impact upon the economic performance and, thereby, the sustainability of social enterprises (Child, 2012). For this, the existing literature is split into two camps. Rooted in the non-profit literature, the hybridity camp highlights the constraints created by multiple stakeholders, and how their differences in expectation create governance challenges, as social enterprises have to navigate between multiple and sometimes incompatible objectives (Battilana and Dorado, 2010;

Battilana and Lee, 2014; White *et al.*, 2018). One consequence of hybridity is the emergence of multiple social business models, each oriented toward the social mission and financial sustainability (Battilana and Dorado, 2010). As discussed in Battilana and Dorado (2010), none of the models reflect the best combination but merely different approaches, each associated with different risks and advantages. Santos *et al.* (2015) and Tykkyläinen and Ritala (2021) highlight the coupling social business model, where the objectives of multiple stakeholders do not align and social value spillovers to other stakeholders are minimal, to be particularly prone to paradoxical tension arising from competing logics. Such paradoxical tension arises from the resource intensiveness required to fulfil social objectives, as interventions often have to go beyond the free market's traditional scope to reach those left behind (Massetti, 2008). Furthermore, the focus on social mission may result in the prioritisation towards recruiting and promoting staff with a strong social background, even when they are less experienced in managing commercial and finance operations (Battilana *et al.*, 2015). While this would enable the social enterprises to institutionalise their social imprint and remain focussed on the social causes, issues relating to the financial system, processes and capacity may develop, affecting long-term sustainability and growth (Battilana *et al.*, 2015). Thus, while socially oriented stakeholders may welcome the additional effort to create social value, the weaker economic viability of the social enterprise may put off traditional investors who predominately focus on business viability with specific operational and practice demands, and may struggle to understand the value and proposition of the social enterprise (Samuel *et al.*, 2022; White *et al.*, 2018). The inability to develop legitimacy in the eyes of this group would create a governance challenge, in turn limiting the capacity of the social consortium, and may further exacerbate solvency problems in the longer term (Foster and Bradach, 2005; Jay, 2013; Massetti, 2008; Tracey *et al.*, 2011).

Conversely, social enterprises that seek to increase their economic viability may attract involvement from financially-orientated stakeholders, but their rigorous operational and practical requirements, such as a competitive bidding process, may steer social enterprises towards a development path that may be less socially ambitious and risk compromising their legitimacy amongst users and social-orientated stakeholders (Battilana and Dorado, 2010; Doherty *et al.*, 2014; Lehner and Kansikas, 2012; Samuel *et al.*, 2022; White *et al.*, 2018). In other words, the hybridity view lays out a 'trade-off' dilemma (Besley and Ghatak, 2017), or value/performance compromise (Samuel *et al.*, 2022), whereby social enterprises face the choice of either exerting caution and foregoing an opportunity to increase their commitment to social objectives to ensure better financial returns and, thereby, sustainability of the organisation in the long run that would please some of the stakeholders (Child, 2012), or steering away from reliance on financially-orientated stakeholders in order to retain complete control of their social objectives, even though it may have economic consequences and reduce their scope.

Nevertheless, there has been a paradigmatic shift toward the 'win-win' proposition (Child, 2012). This camp outlines a complementary relationship between economic and social objectives, with the belief that an improvement in social performance would simultaneously improve the economic performance of the social enterprise (Bhattarai *et al.*, 2019; Glaveli and Geormas, 2018; Weerawardena *et al.*, 2021). Santos *et al.* (2015), in their categorisation of business models, for instance, highlight this as a possibility when a high level of social value spillovers and considerable overlapping of interests between stakeholders and beneficiaries can be found. The core rationale behind the view is that the awareness of social enterprises of the social challenges that their clients or participants face would enable them, unlike commercial providers without an innate understanding of these challenges, to develop strategic innovativeness to pursue innovative and entrepreneurial social solutions that can be costeffective and market-driven (Christensen *et al.*, 2006; Murphy and Coombes, 2009; Weerawardena and Mort, 2006; Weerawardena *et al.*, 2021; Wilson and Post, 2013). Studies have found that social enterprises governed their hybridity effectively by selective coupling and strategically incorporating intact elements from both logics (Pache and Santos, 2012). For instance, the emergence of work integration social enterprises, such as the Big Issue that operates in several countries, demonstrate how the successful addressing of social concern (i.e. bringing people without homes into work) can align with, or even strengthen, their commercial logic (i.e. develop a stable supply chain), if robust systems and processes can uphold a strong internal balance between commercial and social concerns (Battilana *et al.*, 2015). Furthermore, entrepreneurial innovations could often go beyond product and service innovations and include adopting new approaches toward resource reconfigurations (Austin *et al.*, 2006; White *et al.*, 2018; Zahra *et al.*, 2009). For instance, they could reach out to investors looking for novel opportunities for investment (Samuel *et al.*, 2018), adopt innovative fundraising methods such as crowdfunding (Lehner and Nicholls, 2014), or establish effective social alliances (Kwong *et al.*, 2017; Tasavori *et al.*, 2018). Furthermore, strategic innovativeness also enables social enterprises to improve and streamline their governance structure, such as through the adoption of a stewardship model, that enables them to operate efficiently (McCarthy, 2012; Membretti, 2007; Monroe-White *et al.*, 2015; Mswaka and Aluko, 2015; White *et al.*, 2022) and effectively manage the varied demands of multiple stakeholders (Bridgstock *et al.*, 2010).

Based on the paradigmatic split, this study proposes two alternate hypotheses:

H1a: Social performance positively influences the economic performance of social enterprises.

H1b: Social performance negatively influences the economic performance of social enterprises.

Reputation as signalling and the missing jigsaw piece in the social and economic performance debate.

The inconclusive debate around social enterprise's social and economic performance (Child, 2012) suggests that indirect instrument(s) may mediate the relationship between social and economic performance. Therefore, attention was given, specifically, to the role of reputation in mediating the two. 'Reputation' is the accumulated perception of stakeholders towards the expectations that they have of an organisation (Abratt and Kleyn, 2012; Fombrun and Shanley, 1990). Reputation is both comparative and evaluative (Rindova *et al.*, 2005). It can be enhanced when an organisation is deemed by its stakeholders to fulfil or exceed their expected standards (Foreman and Whetten, 2021). Once developed, reputation is unique and inimitable, and can be considered an intangible resource for an organisation (Boyd *et al.*, 2010). Transforming reputation into an intangible resource, according to the resource based view (Barney, 1991) and the dynamic capability perspective (Teece *et al.*, 1997), would enable organisations to create a sustainable competitive advantage that can positively affect economic performance (Roberts and Dowling, 2002).

Building on the earlier discussion about the inconclusive direct relationship between social and economic performance, further hypotheses will be developed to explore the mediating role of reputation, presented in Figure 1.

Social performance and reputation

Studies have acknowledged that developing reputation is often difficult for social enterprises (Dees and Anderson, 2006). For instance, studies have highlighted that fair trade products often have a lower reputation due to perceived poorer quality (De Pelsmacker *et al.*, 2005). To overcome such reputation deficiency, literature suggests that having strong social performance can be an effective way for a social enterprise to construct its positive external image (Dart, 2004; Fombrun, 2012; Fombrun and Shanley, 1990) and to enhance its reputation amongst its stakeholders (Dart, 2004). This is because, while stakeholders may have diverse expectations (Friedman and Miles, 2006; Wellens and Jegers, 2014), those involved in social enterprises would typically be drawn by their ability to create social value. For instance, it is found that when social enterprises are tied to their charitable cause, the public is likely to respond positively to their products, even when the social enterprises are not otherwise well-known (Elfenbein *et al.*, 2012). This principle can be applied to many fair trade social enterprises, whose reputation amongst some of their more ascetic-idealistic customers is often developed through ensuring that workers from within their supply chain receive a fair wage accompanied by a good working environment and sound workplace practices to the extent that a perceived inferiority in the quality, and high price of the products, are considered as less important concerns (De Pelsmacker *et al.*, 2005). This connection between social performance and reputation enables us to come to the following hypothesis:

H2: Social performance positively influences the reputation of social enterprises.

Social enterprise reputation and economic performance

In order to attain higher economic performance, social enterprises need to galvanise financial and business supports that would allow them to grow, expand, and attract high quality staff to lead and manage (Dorado *et al.*, 2022; Hsieh *et al.*, 2018). All this requires stakeholders to be on board with the enterprises' visions and appreciate their effort to deliver social goods (Bull and Crompton, 2006; Wronka-Pospiech, 2016). However, establishing a comparative standard is difficult for social enterprises because an information asymmetry often exists between social organisations and their stakeholders (Gugerty, 2009). Thus, although many social enterprises are doing much good work, the fact that these virtues cannot always be easily identified means that the latter may have difficulty evaluating them (Stevens *et al.*, 2015). Such performance ambiguity (Samuel *et al.*, 2022), in turn, creates barriers to their involvement and inhibits social enterprises' growth (Davies *et al.*, 2019; Diochon and Anderson, 2011).

Signalling theory (Spence, 1974) illustrates such imperfections of information between the agent, the social enterprise, the principals, and the other stakeholders. It explains how the former can develop trust and legitimacy with the latter by reducing uncertainties through effective signalling. The theory suggests that in cases where quality is not observable by the principals, an instrument is required for the agent to ensure the reliability and stability of the signal (Spence, 1974). Signalling is particularly important for social organisations, as for-profit organisations can rely on financial indicators to convey a signal of quality and reputation (Hammond and Slocum, 1996). However, social enterprise stakeholders are predominately concerned with their social performance, although that can be hard to quantify and not easily observable (Stevens *et al.*, 2015).

Reputation is often considered a creditable signalling mechanism (Miller and del Carmen Triana, 2009; Shahid *et al.*, 2021), offering an *ex-ante* signal to the principals of the robustness and quality of the agent's provision (Saeedi, 2019). It can be attained through several means, such as certification (Gugerty, 2009) as in the case of fairtrade products (De Pelsmacker *et al.*, 2005), and market communication (Nyagadza *et al.*, 2021), but also through consistent delivery of targets over a substantive period (Herbig *et al.*, 1994), as well as other locational, place-based factors (Samuel *et al.*, 2022). These practices enable the agent to develop the message of creditability (Eberle *et al.*, 2013), which helps shape the perception that the principals hold of them in terms of their willingness and ability to carry out the intended action(s) (Milewicz and Herbig, 1994). In doing so, it reduces perceived uncertainty *ex-post* for the principals (Rao *et al.*, 1999). Reputation can therefore act as a 'badge' in attracting interest and generating a legitimate platform upon which to advance the momentum and impact of the social enterprise (Samuel *et al.*, 2022).

In the commercial sphere, the relationship between reputation and firm performance is well-established. For example, reputation has been identified as playing a significant role in improving customer satisfaction (Su *et al.*, 2016; Walsh *et al.*, 2006), brand loyalty (Grewal *et al.*, 1998), word of mouth marketing (Hong and Yang, 2009), staff recruitment and retention (Branco and Rodrigues, 2006), access to capital (Graves and Waddock, 1994) and reduction of costs of production and operations (Hanaysha and Majid, 2018). Studies have also found that a positive reputation leads to more positive performance outcomes, increasing competitiveness (Chun *et al.*, 2005), sales and revenue (Saeidi *et al.*, 2015), and firm value (Fombrun and Shanley, 1990; Gregory *et al.*, 2016).

Similarly, a developed reputation for social entrepreneurship can act as a 'badge' in galvanising interest from stakeholders and generating a legitimate agglomerative platform upon which to advance the momentum and impact of the social enterprise (Samuel *et al.*, 2018). These stakeholders, including volunteers, donors, funders, skilled employees, customers, and investors, can contribute in multiple ways. First, as crucial human capital offers both manpower and specific information and knowledge, social enterprises' employees are usually keen to share their knowledge (Liu and Ko, 2012). Second, as a customer base to directly increase the social enterprise's revenue, as well as to promote the services and products it has on offer (Ciambotti *et al.*, 2020); and third, as stakeholders' resource allocation decisions are based on an overall evaluation of the organisation's behaviour and reputation, in offering open dialogues, resources, and financial capital (Neville *et al.*, 2005). All these would enhance the economic performance of the social enterprise. This leads to the following hypothesis:

H3. Reputation of a social enterprise positively influences its economic performance.

Mediating role of social enterprise reputation

Although the role of social enterprise reputation in the relationship between its social performance and economic performance has not yet received scholarly attention, a mediating role of firm reputation in the relationship between corporate social performance and financial performance has been empirically investigated and validated (El-Garaihy *et al.*, 2014; Saeidi *et al.*, 2015).

It has long been argued that social performance not only improves competitive advantages (Turban and Greening, 1997) but also reduces market risks (Orlitzky and Benjamin, 2001) through improving organisational reputation. Moreover, market risks are usually negatively associated with financial performance of firms (Tseng *et al.*, 2019). Thus, as argued above, reputation should be a critical resource of social enterprises as it is an essential source of a firm's competitive advantage (Caves and Porter, 1977; Melo and Garrido-Morgado, 2012).

Firm reputation reflects the degree to which the key stakeholders are satisfied that firms are meeting their expectations with their products, processes and services (Brammer and Pavelin, 2006). Thus, one important way for a firm to develop and enhance its reputation is by meeting the expectations of its key stakeholders (Brammer and Pavelin, 2006). The key stakeholders of social enterprises, such as donors, funders, volunteers, government, employees and customers/beneficiaries of social enterprises are likely to expect the social enterprises to create stronger social impact and values (Dees, 1998; Fowler, 2000; Froelich, 1999; Gras and Mendoza-Abarca, 2014; Kerlin and Pollak, 2011). Drawing on the above arguments, including H2 and H3, logics, and reviewed literature, it is hypothesized that:

H4. Reputation of social enterprises mediates the positive effect of their social performance on economic performance.

Methodology

Sample and data collection

This study took a sample in 2014 from self-registered social enterprises in the online social enterprise directories in the UK (see Appendix A), employing the UK government's definition of social enterprise (DTI, 2002). According to the UK government definition, 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, 2002:7). This study adopted this definition for two main reasons. First, this definition better suits this context as our study investigates UK social enterprises. Second, this definition bridges the European and American definitions of social enterprises (Doherty *et al.*, 2014), broadening the scope and generalizability of the findings of this study.

A total of 1004 social enterprises, including four which were pilot tested, were randomly selected from online directories in the UK (see Appendix A). Following the procedures described in Dillman (2007), initial emails linked to the finalized questionnaire were sent to the owners/managers of the randomly selected 1000 social enterprises. After two reminder emails, 210 responses (21%) were received. Out of them, 164 useable responses (16.4%) were retained. This is an acceptable response rate for organizational surveys (Greer *et al.*, 2000; Scarborough, 2011; Tomaskovic-Devey *et al.*, 1994).

Following the procedures described in Armstrong and Overton (1977), response bias was analyzed, and the non-existence of a significant level of response bias in the responses was found.

Measurement

Dependent variable

Economic performance is a dependent variable (latent construct). Three subjective items for measuring economic performance based on a standard seven-point Likert scale (e.g., 'strongly disagree' = 1 to 'strongly agree' = 7) were extracted from Kropp *et al.* (2006) (see Table I for their items). The subjective indicators were self-evaluated/rated by the respondents based on their perceptions. Hence these indicators measure the economic performance perceived by the entrepreneurs or managers (respondents). Therefore, they are the proxies to the actual economic performance. Despite being proxies, this study adopted these subjective items to measure the economic performance of social enterprises for three main reasons. First, as not all social enterprises are legally obliged to publish financial information (Nicholls, 2010), obtaining their financial data can be difficult. Second, financial information is sensitive, so such information is not usually shared with external agents (Narver and Slater, 1990; Vickery *et al.*, 2003; Ward *et al.*, 1994). Third, objective indicators may underestimate the economic performance due to rent appropriation effects, whereas subjective indicators have no such effects (Crook *et al.*, 2011).

The use of such proxies for measuring economic performance has already been documented in the extant social enterprise literature (Bhattarai *et al.*, 2019; Tasavori and Bhattarai, 2023).

Independent variable

Social performance is the independent variable (latent construct). Three subjective items for measuring social performance based on a standard seven-point Likert scale (e.g., 'strongly disagree' = 1 to 'strongly agree' = 7) were adopted from Coombes *et al.* (2011) (see Table I for items). The main reason for adopting subjective indicators is due to the difficulty in quantifying social performance (Kroeger and Weber, 2014; Stevens *et al.*, 2015).

Mediator

This study has conceptualised reputation of social enterprise as a mediator in the relationship between social performance and economic performance. It is a continuous variable with Likert scale scores ranging from 1 to 7 to the following question: Please evaluate the extent to which changes to company reputation over the past three years were "very much worse" = 1 to "very much better" = 7.

Control variables

To increase the robustness of the study, following Bhattarai *et al.* (2019), the effect of age, access to technical expertise, and access to finance of social enterprises on economic performance were controlled for. Scholars argue that the age of a firm is an important determinant of firm performance (Bhattarai *et al.*, 2019; Dobbs and Hamilton, 2007). Similarly, McKelvie and Davidsson (2009) demonstrate that a firm's access to technical expertise can influence the development of a dynamic capability, which is positively associated with firm performance (Eisenhardt and Martin, 2000; Teece *et al.*, 1997). In addition, access to technical expertise can improve firms' knowledge-based resources, positively associated with firm performance (Grant, 1991, 1996). Furthermore, scholars demonstrate that access to financial capital is a crucial determinant of firm performance (Wiklund and Shepherd, 2005).

Reliability and validity of constructs

Constructs' reliability was assessed by evaluating composite reliability, Cronbach's alpha, and average variance extracted of each latent construct. Similarly, constructs' validity was assessed by evaluating the convergent and discriminant validity of each latent construct. The results of confirmatory factor analysis (CFA) of measurement model using maximum likelihood estimation in Mplus (Muthén and Muthén, 2012), as presented in Table I, indicated that the model was a good fit with the data (Bentler and Yuan, 1999; Byrne, 2012; Hu and Bentler, 1999). The standardized factor loadings of each latent construct were above the recommended threshold of 0.5 (Hair *et al.*, 2006), indicating the convergent validity of the constructs was assumed to be established (Fornell and Larcker, 1981; Hair *et al.*, 2006).

****Table I goes about here****

Furthermore, Cronbach's alphas and composite reliability scales (CRs) were above the minimum thresholds of 0.7, and all average variances extracted (AVE) were above the minimum threshold of 0.5 but lower than the CRs of the respective constructs (see Table I), indicating internal consistency, composite reliability, and convergent validity of the constructs were assumed to be established (Fornell and Larcker, 1981; Hair *et al.*, 2006).

To test and evaluate the discriminant validity of the constructs, unconstrained and constrained (the correlation between the two constructs was constrained to one) CFA models were created and compared. The unconstrained model was found to be a better fit with the data than the constrained model, indicating sufficient discriminant validity (Anderson and Gerbing, 1988). In addition, following the procedures described in Hair *et al.* (2006) and Fornell and Larcker (1981), the square root of the AVE of constructs was calculated and compared with the correlation (coefficients) between them (see Table II). The square root of the AVEs of both constructs were found to be bigger than the correlation coefficients between them (see Table II), indicating sufficient discriminant validity and no severe issue of multicollinearity in the model (Fornell and Larcker, 1981; Hair *et al.*, 2006).

Common method bias (CMB)

To minimise the presence of CMB in the responses, the suggestions of Podsakoff *et al.* (2003) were employed. Specifically, firms' anonymity was guaranteed, and the items measuring dependent and independent variables were spread out in the questionnaire (Krishnan *et al.*, 2006; Podsakoff *et al.*, 2003). However, despite these efforts, using self-administered questionnaires to collect data could still risk the presence of CMB in the responses (Podsakoff *et al.*, 2003). Therefore, the presence of CMB in the responses was assessed. First, Harman's one-factor test was performed. The results of the test showed that the single factor explained less than 50 percent of the variance, indicating that CMB was not a serious concern (Podsakoff *et al.*, 2003) and no potential significant effect of CMB on the relationship between independent and dependent variables (Doty and Glick, 1998). Second, the goodness of fit statistics of the single factor and the two-factor models were compared. The CFA result of the single factor model indicated that the model did not fit with the data {Chi square test (X^2) = 629.902 (df= 9, P = 0.000), RMSEA = 0.649, CFI = 0.258, TLI = 0.236, SRMR = 0.291}, whereas the two factors model adequately fit with the data { Chi square test (X^2) = 6.875 (df= 8, P = 0.5502), RMSEA = 0.000, CFI = 1.0, TLI = 1.0, SRMR = 0.033} (Bentler and Yuan, 1999; Byrne, 2012; Chen *et al.*, 2008; Hu and Bentler, 1999). Therefore, CMB is not a serious issue in this study.

Analysis and hypotheses test

This study employed structural equation modelling (SEM) with Mplus (Muthén and Muthén, 2012) and conducted bootstrapping (1000) analysis (Bollen and Stine, 1990; Shrout and Bolger, 2002) in SEM to test the hypotheses, using path analytic procedures (Hayes and Preacher, 2014; Preacher *et al.*, 2007).

Results of the analysis

Table II presents a summary of the descriptive statistics and correlations matrix.

****Table II goes about here****

To test the hypotheses, a SEM model allowing a direct path as well as indirect path through reputation from social performance to economic performance was created. The goodness of fit statistics {Chi squared test (X^2) = 42.160 (df = 30, p = 0.069), CFI = 0.986, TLI = 0.981, RMSEA = 0.050, SRMR = 0.044} demonstrate that the SEM model is a good fit with the data (Bentler and Yuan, 1999; Chen *et al.*, 2008; Hu and Bentler, 1999).

The results of the analysis as presented in Figure 2 show that the total effect of social performance on economic performance is positive but insignificant (b = 0.144, CI 95%: -0.033 to 0.319), rejecting hypotheses H1a and H1b. Such an inconclusive result is unsurprising and largely expected, as highlighted in the literature. The results show that social performance has a significant positive effect on the reputation of social enterprises (b = 0.289, p<0.001), supporting hypothesis H2. Likewise, it was found that the reputation of a social enterprise has a positive and significant effect on its economic performance (b = 0.284, p<0.001), supporting hypothesis H3. Furthermore, the results of the analysis show that social enterprise reputation mediates the positive effect of social performance on economic performance {indirect effect (b) = 0.089, CI 95%: 0.017 to 0.172}, supporting hypothesis H4. Moreover, the results of the analysis demonstrate that both the total effect as reported above, and the direct effect (b = 0.055, CI95%: -0.120 to 0.233) of social performance on economic performance are positive but statistically insignificant, suggesting a full mediating role of social enterprise reputation. Finally, the effects of control variables, age (b = 0.119, p>0.05), access to technical expertise (b = 0.035, p>0.05), and access to finance (b = 0.273, p<0.001), on the economic performance were found to be significant.

****Figure 2 goes about here****

Discussion

Social enterprises' 'win-win' paradigm (Child, 2012; White *et al.*, 2022) to capture social and economic value/performance has got much attention (Bhattarai *et al.*, 2019; Glaveli and Geormas, 2018; Kruse *et al.*, 2021; Weerawardena *et al.*, 2021). However, the empirical evidence on the 'win-win' paradigm has been inconsistent (Foster and Bradach, 2005; Jay, 2013; Massetti, 2008; Tracey *et al.*, 2011). This could be because potential mediating factors are missing (Brammer and Millington, 2008) in the social and economic performance relationship of social enterprises. Therefore, building upon the signalling theory (Spence, 1974) and using the case of social enterprises in the UK, this paper had a twofold purpose. First, this study explored whether social performance contributes to improving the economic performance of social enterprises. Second, it intended to shed light on this relationship indirectly through reputation. Based on the empirical analysis, this study presented two main findings. First, the result shown in Figure 2 states that social performance of social enterprises does not improve economic performance, thus confirming what scholars within the social enterprise hybridity literature (Doherty *et al.*, 2014; Ebrahim *et al.*, 2014; Massetti, 2008; Santos *et al.*, 2015) suggest as an inconclusive (insignificant direct and total effect) relationship. Second, this same relationship is observed indirectly through reputation, thus asserting what scholars (El-Garaihy *et al.*, 2014; Saeidi *et al.*, 2015) highlight in the findings of commercial business literature about the mediating role of an organisation's reputation in the relationship between corporate social performance and financial performance, significantly contributing to the economic performance of social enterprises. As the "*total effect* is the sum of direct and indirect effects" (Biesanz *et al.*, 2010, p. 664), the insignificant total effect of social performance on economic performance could result from the sum of its positive and negative indirect effects and direct effects, respectively. This could be due to some of the following reasons. Specifically, on the one hand, managers' focus on creating social value can distract them from capturing economic value, resulting in a negative effect on economic performance (Foster and Bradach, 2005). Nevertheless, on the other hand, the more they create social value, the more satisfied their stockholders will be (Bhattarai *et al.*, 2019), resulting in the improvement of the reputation of social enterprises and, in turn, attracting more resources (for example donors, skilled employees, and customers) (Schultz *et al.*, 2019) that could improve the economic performance (Doherty *et al.*, 2014).

Conclusion

Theoretical contributions

This study offers several contributions to theory. First, this article sheds light on the ambiguous relationship between social performance and economic performance of social enterprises highlighted in the social enterprise hybridity literature (Doherty *et al.*, 2014; Ebrahim *et al.*, 2014; Massetti, 2008; Santos *et al.*, 2015). By demonstrating that the total effect and direct effect of social performance on economic performance is insignificant, this study confirms that the relationship between the two are indeed inconclusive, as suggested by previous scholars in the social enterprise hybridity literature (Doherty *et al.*, 2014; Ebrahim *et al.*, 2014; Massetti, 2008; Santos *et al.*, 2015).

Second, further to that, this article presents a novel perspective on the social performance → economic performance debate, by investigating not only the direct, but also, indirect effects, through organisational reputation as a mediating factor. Although the use of organisational reputation as a mediator has been widely applied in the commercial, CSR context (Ruf *et al.*, 2001), such an approach has not been replicated in the social enterprise context. The evidence presented in this study confirms the presence of an indirect effect via improving organisational reputation. It helps to explain why previous literature on social enterprise hybridity (Foster and Bradach, 2005; Massetti, 2008) often found the conflicting relationship between the two, when a possible mediator has not been identified. The findings suggest that the main reason for such inconsistent and conflicting literature on the relationship between social performance and economic performance could be due to prior studies capturing only the total effects of social performance on economic performance but not the mechanics behind their relationship. The unique theoretical contribution of this study to the social enterprise field is that it sought to dissect the process within the social performance → economic performance black box by exploring how a social enterprise's reputation can mediate the relationship between the two. Third, the findings of this study suggest that reputation mediates the positive effect of social performance on economic performance, which is consistent with the findings within the CSR literature, such as Saeidi *et al.* (2015), for commercial businesses. By so doing, this study also validates the arguments that "social and financial value are intrinsically interconnected rather than in opposition" (White *et al.*, 2022, p. 504). Finally, to the best of the authors' knowledge, this study is the first of its kind in the social enterprise context, and hence it significantly contributes to advance social enterprise hybridity literature.

Implications for practice

The results of this study have important implications for managers of social enterprises. On a specific level, the finding is that social performance can improve the reputation of social enterprises, and, in turn, economic performance suggests that improving social performance has strategic value. Social enterprises can successfully attain hybridity by ensuring that a strong reputation can be developed through delivering strong social performance. Therefore, social enterprises should first and foremost consider ways in which they can improve their social performance in order to build the foundation for developing business viability. Therefore, social enterprise managers should focus on achieving the primary goal, i.e. social value, not only to improve the reputation, but also the economic performance.

Furthermore, the finding suggests that developing reputation is essential for social enterprises to convert their social efforts into economic performance. This is consistent with the signalling theory, which suggests that such development would enable stakeholders to evaluate what the social enterprise can achieve and effectively influence their decision regarding whether to come on board (Bergh *et al.*, 2014; Spence, 1974). While reputation comes with social performance, as this study indicates, other studies suggest that reputation is something that needs to be reinforced (de Chernatony and Harris, 2000). Therefore, effective dissemination strategies through different marketing channels would ensure the message can effectively cut through to the stakeholders (Dickinson-Delaporte *et al.*, 2010; Mohr and Nevin, 1990). The prevalent view remains that social organisations should reduce expenditure that does not go directly into their core mission, with a downward trend in reported overhead ratios being noted empirically (Gregory and Howard, 2009; Lecy and Searing, 2015). More specifically, there have been suggestions that social enterprises should "put their head down", avoid publicity and media appearance, and restrain effort and spending on the marketing or brand development aspects (Peattie and Morley, 2008). While the authors of this study do not dispute the importance of putting the money back into the community as the prevailing view suggested, a caution is placed on the often indiscriminatory nature of the overhead cut, as this study indicates that such a move could reduce a social enterprise's signaling capability, which may have implications for their ability to communicate to their audience and thereby their economic performance. It reinforces the view of Gregory and Howard (2009) that reducing overheads may not necessarily help social organizations to gain competitive advantage as some suggested, but instead, could lead to general underinvestment in infrastructure, the 'starvation cycle' that reduces their scope to grow.

On a general level, while this study focuses solely on reputation development, this study provides further empirical support to the arguments that commercial business practices, including the resources, capabilities, and processes found to be crucial for commercial businesses to improve their performance, could also be implemented in social enterprises to improve their performances (Bhattarai *et al.*, 2019; Tasavori and Bhattarai, 2023). Therefore, a more strategic perspective towards the social performance → economic performance link could enable us to explore these specific attributes and should not simply be brushed aside.

Limitations and direction for future research

This research has several limitations that present opportunities for future research. First, the sample of this study only included social enterprises in the UK registered in online directories. However, there may be many social enterprises that are not registered in the online directories in the UK. Therefore, future studies should include samples from UK social enterprises registered and unregistered in online directories. Moreover, although this study has adopted the UK government's definition of social enterprise, which bridges the European and American definitions of social enterprise (Doherty *et al.*, 2014), as a criterion for a social enterprise to be included in this study to enhance the generalisability of its findings, similar studies should be done in other European countries and in America to validate its findings and generalisability (White *et al.*, 2022). Furthermore, this study could not capture different social business models which social enterprises adopt (Battilana *et al.*, 2015). Thus, future studies should consider the diversity of business models of social enterprises to enhance the generalizability of their findings. In addition, this study explored only social enterprise reputation as a mediating variable that transfers the positive effect of social performance on economic performance, and future studies may investigate other potential mediators. Likewise, although extant literature highlights many challenges social enterprises face to conduct their sustainable activities successfully, for example professionalisation of marketing, perception of validity, leadership, situatedness (White *et al.*, 2018), and legitimacy and reputation (Samuel *et al.*, 2022), this study incorporated only one challenge, i.e., reputation, and future studies should consider incorporating other challenges (White *et al.*, 2018) too while investigating social enterprise performance. Finally, we have adopted subjective indicators for measuring the economic performance of social enterprises. Hence, they measured the perceived economic performance, and are thus the proxies to the actual economic performance. Therefore, future research may consider using objective measures of the economic performance.

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Appendix A: List of social enterprise online directories used in this research

- http://www.bis.gov.uk/cicregulator;
- http://www.can-online.org.uk/social_enterprises_directory.php;
- http://www.seb2b.co.uk/business-directory; (not in operation)
- www.sel.org.uk/directory.aspx?; (not in operation)
- http://www.socialenterprise.org.uk/; and
- www.buyse.co.uk (not in operation)

Table I. Constructs' factor loading, validity, and reliability

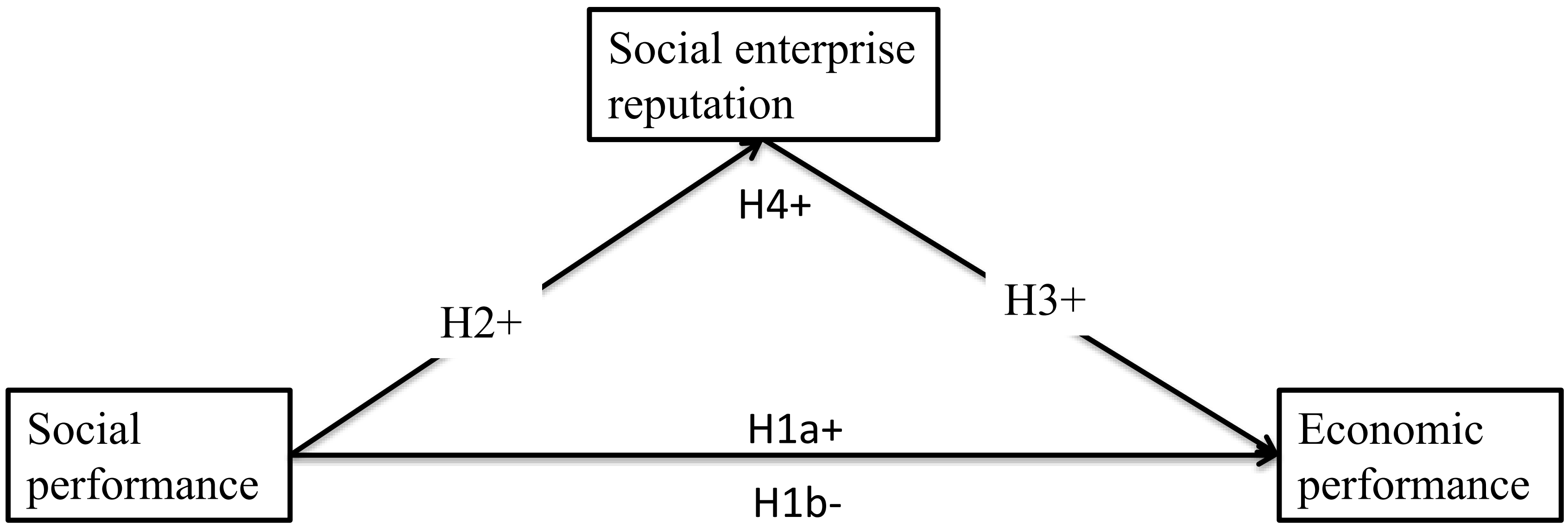
Dimensions and items	SFL	AVE	CR	α
Chi square test (X^2) = 6.875 (df= 8, P = 0.5502), RMSEA = 0.000, CFI = 1.0, TLI = 1.0, SRMR = 0.033				
Economic performance		0.708	0.721	0.844
EP1. The firm has been very profitable	0.815			
EP2. The firm has generated a high volume of sales	0.890			
EP3. The firm has achieved rapid growth	0.713			
Social performance		0.893	0.961	0.905
SP1. Implementation of social strategy	0.876			
SP2. Fulfilling the social mission	0.987			
SP3. 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.

Table II. Descriptive statistics and correlation matrix (n = 164)

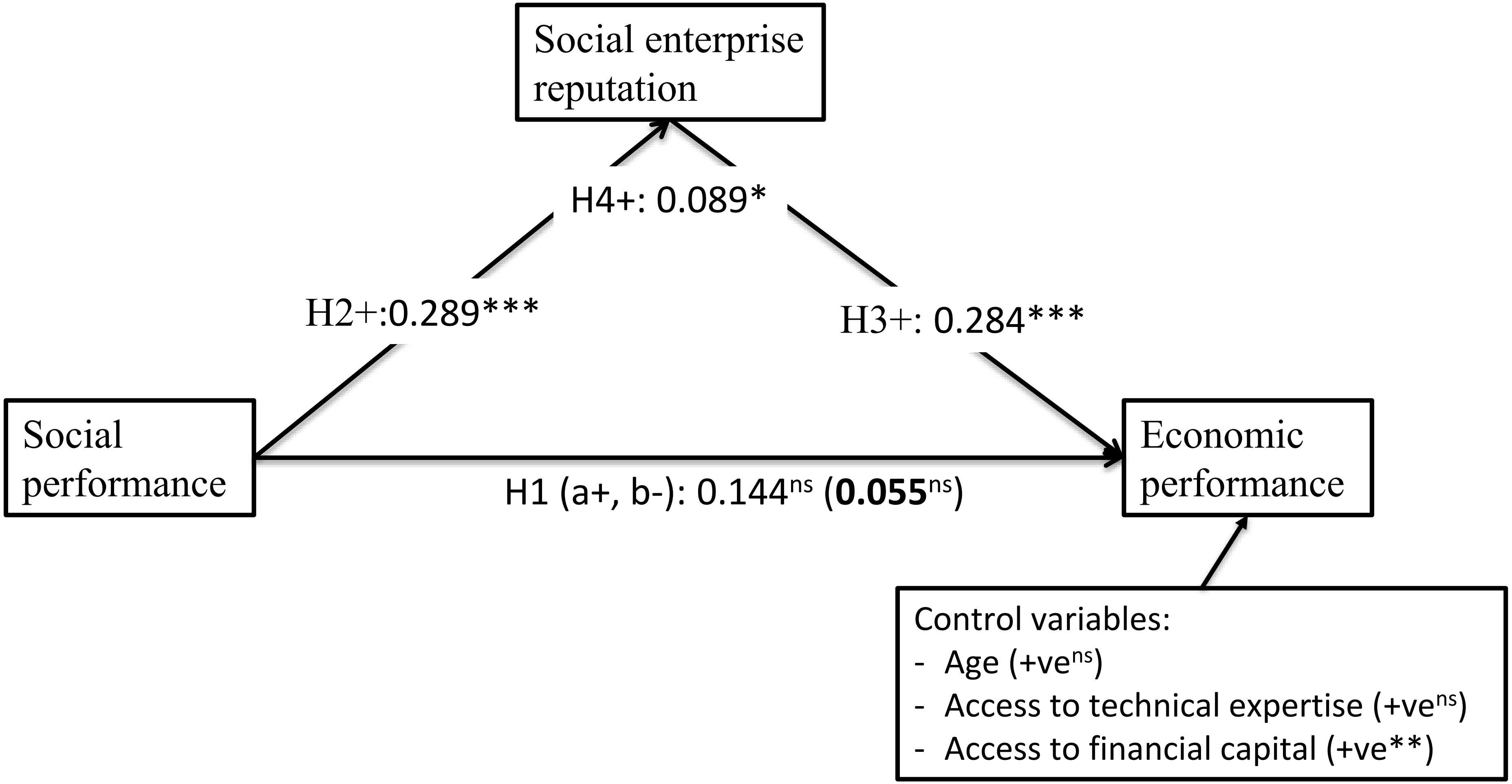
	Variables	Mean	1	2	3	4	5
1	Economic Performance	4.42	**0.841**				
2	Social Performance	5.64	0.175*	**0.945**			
3	Reputation	5.01	0.415***	0.288***			
4	Social enterprise Age	0.71	0.222**	-0.055	-0.067		
5	Access to technical Expertise	4.68	0.053	-0.060	-0.078	0.116	
6	Access to financial capital	0.52	0.239**	-0.127	-0.134	0.154*	0.170*

Note: * = p<0.05, ** = p<0.01, *** = p<0.001. **Bold face** is the square root of AVE.



H4+: Social enterprise reputation mediates the positive effect of social performance on economic performance of social enterprises.

Figure 1. Conceptual framework



Note: ns = not significant (p>0.05 or not significant at 95% confidence interval), * = p<0.05 or significant at 95% confidence interval, ** = p<0.01, *** = p<0.001. **Bold** in parentheses is the direct effect.

Figure 2. Results of the analysis