

## Effect Social Entrepreneurship Orientation on Financial Performance Mediated by Social Performance Industrial Estates' Companies

### Abstract

The study aimed to investigate the effect of social entrepreneurship orientation on financial performance mediated by social performance (case study: industrial estates' companies in Ardabil province). This was a descriptive survey study. The study population consisted of industrial estate companies located in Ardabil Province. To determine the sample size, a total of 250 companies were selected from industrial estates, and according to Morgan's table; the required sample size was 148. Non-probability sampling was used to select the samples. In this study, partial least squares structural equation modeling (PLS-SEM) was employed to examine the relationships between the variables in the research model. Social entrepreneurship orientation has a significant effect on social performance, and the results of the statistical analysis performed between both variables showed that the path coefficient between the two variables was greater than 1.96; therefore, this hypothesis was confirmed. Social performance has a significant effect on financial performance, and the results of the statistical analysis performed between both variables indicated that the path coefficient between the two variables was higher than 1.96, thus this hypothesis was confirmed. The main hypothesis: social entrepreneurship orientation has a significant effect on financial performance mediated by social performance, which showed a good level of correlation, and accordingly this hypothesis was confirmed.

**Keywords:** *Social entrepreneurship orientation; Financial performance; Social performance; Organizations.*

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### Introduction

Performance is defined as the amount of effort an individual exerts. It has a strong correlation with organizational strategic goals, customer satisfaction, and economic partnerships. Performance includes business, the indicators of financial performance, and market performance. Market performance is associated with marketing capability, total sales growth, and total profitability. In other words, relative profitability, return on investment (ROI), customer retention, and total sales growth are considered the dimensions of financial performance. Business performance can be measured by using financial performance, such as ROI, return on capital (ROC), and return on equity (ROE) (Yasa et al., 2020). Social performance is a voluntary business action with social impacts. Porter and Kramer argue that social performance has emerged as an inevitable priority for business leaders in any country. Stakeholder theory is a strategic approach explaining the relationship between financial performance and social performance (Nason et al., 2018).

Social entrepreneurship orientation (SEO) is considered an entrepreneurial action developing in a "hybrid" nature within enterprises because the creation of social value occurs through market-oriented methods. SEO leads to beneficial results from social behaviors. It comprising a mixed form can be defined as "actions through which companies create sense and mix (various) forms" (Battilana et al., 2017). SEO is appeared due to the institutional gaps in companies. Social entrepreneurship is a powerful tool for fighting extreme poverty, a catalyst for changing both social systems and institutional power, and a

factor contributing to the economic growth and development of market-based livelihoods (Sutter et al., 2019). Social entrepreneurs are engaged in entrepreneurial activities, including identifying and exploiting innovative opportunities. In social entrepreneurship behaviors, entrepreneurship opportunities are identified by social problems. Social entrepreneurship is related to creating and maintaining social value, pursuing new opportunities to reach that goal, acting without restrictions on the available resources, and improving the sense of responsibility. Given that limited attention had been paid to the structure of social entrepreneurship contributing to financial performance in small and medium enterprises (SMEs); therefore, the present study aimed to investigate the dimensions of SEO contributing to the financial performance of SMEs.

Employee motivation refers to "the level of energy, commitment, and creativity that a company's workers bring to their jobs." Whether the economy is rising or declining, identifying key motivational factors for employees has always been a management concern. A competing theory emphasizes either incentives or employee empowerment. Employee motivation may sometimes be problematic, especially for small enterprises. A founder has often spent several years creating his/her own company and therefore finds it difficult to assign tasks and responsibilities to others. However, entrepreneurs need to be aware of such problems because low employee motivation can have a detrimental effect on small enterprises. Such problems include satisfaction, apathy, and

extensive discouragement, resulting in a crisis (Gali et al., 2020).

The objectives of this study were to prove the concept of SEO and to investigate the relationship between SEO and financial performance. If SEO is often considered as the concept of entrepreneurship, it is a unique structure that requires clarity of its conceptual and measurement parameters. This clarity can stimulate a stream of research that helps gain further insights and ultimately increase and legitimize social entrepreneurship research performed in SMEs. Accordingly, the main questions of this study were as follows: What are the components of SEO, financial performance, and social performance? How much will the effect of SEO on financial performance be mediated by social performance?

### Materials & methods

This was an applied study in terms of the purpose of the research, and also a descriptive survey study. Answering research hypotheses was based on numbers, so the quantitative

research method was used in the present study. The study population consisted of industrial estate companies located in Ardabil Province. To determine the sample size, a total of 250 companies were selected from industrial estates, and according to Morgan's table; the required sample size was 148. Non-probability sampling was used to select the samples. In this study, partial least squares structural equation modeling (PLS-SEM) was employed to examine the relationships between the variables in the research model.

### A conceptual model in Research

A conceptual model in research provides a basis for conducting studies in such a way that it determines the study variables and the relationships between them. After reviewing the literature, the variables, such as SEO, financial performance, and social performance obtained from the model of Gali et al. (2020) and the variable of employee empowerment obtained from Kayal's study (2021) were employed in this study.

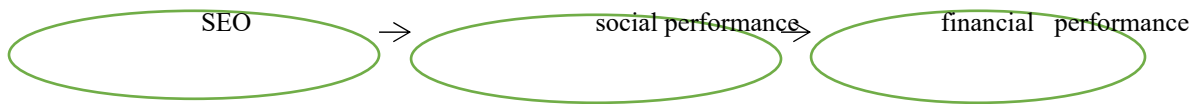


Figure 1: A conceptual model in research (Gali et al., 2020; Kayal, 2021)

### Results

#### Testing the hypotheses using structural equation modeling (SEM)

After determining the measurement models, to assess a conceptual model in research, determine a causal relationship

between the study variables, and evaluate the fit of the obtained data to a conceptual model, the research hypotheses were also tested using the SEM. The results of testing the hypotheses are presented in Figures 2 and 3.

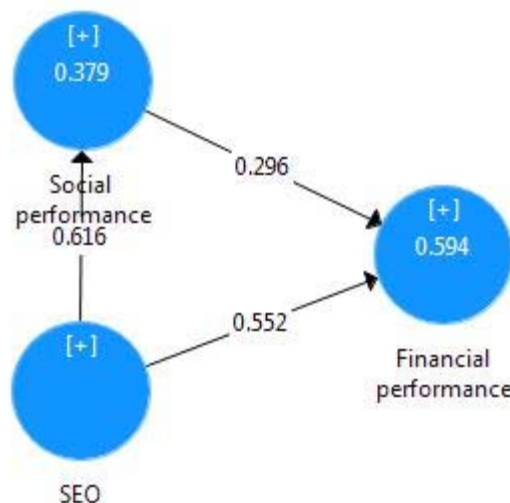
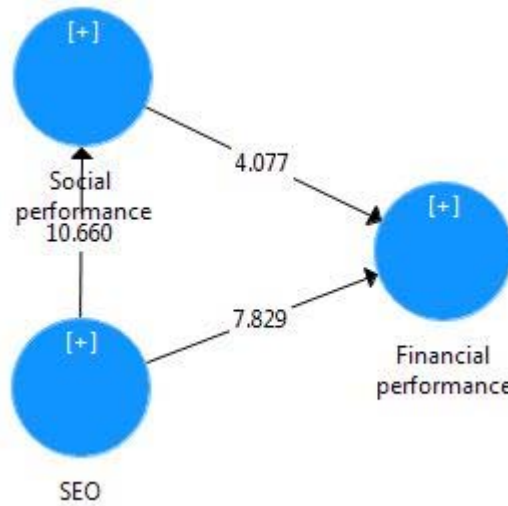


Figure 2: Measurement of the whole model and the results of standard hypothesis testing



**Figure 3: Measurement of the overall model and the results of significant hypothesis testing**

**Validity, reliability, and model fit**

Cronbach's alpha coefficient and composite reliability (CR) were used to measure the reliability. The convergent validity

was applied to assess the validity, and also The Goodness of fit (GOF) was used to measure model fit.

**Table 1: Validity coefficients of the model**

Variable	CR	AVE	MSV	Fornell-Larcker criterion matrix		
				1	2	3
SEO	0.787	0.552	0.193	0.743		
Social Performance	0.844	0.644	0.478	0.342	0.803	
Financial performance	0.918	0.651	0.423	0.331	0.47	0.807

- ✚ A value of Cronbach's alpha higher than 0.7 indicates an acceptable level of reliability.
- ✚ A value of CR greater than 0.7 for each variable indicates appropriate internal reliability for the measurement model.
- ✚ AVE value higher than 0.5 shows an acceptable level of convergent validity.

✚ According to the three values of 0.01, 0.25, and 0.36 considered weak, moderate, and strong values for GOF, a value of 0.62 showed the strong fit of the model.

Table 2 summarizes the significance coefficient and the results of testing the hypotheses.

**Table 2. The results of testing the hypotheses**

Hypothesis	Standard	Significant	Result
SEO has a significant effect on social performance.	0.60	8.72	confirmed
Social performance has a significant impact on financial performance.	0.55	5.66	confirmed

Hypothesis 1: SEO has a significant effect on social performance, and the results of the statistical analysis performed between both variables showed that the path coefficient between the two variables was greater than 1.96; therefore, this hypothesis was confirmed, as shown in Table 2.

On the other hand, since the significance level was positive, this effect was direct.

Hypothesis 2: social performance has a significant effect on financial performance, and the results of the statistical analysis performed between both variables indicated that the path

coefficient between the two variables was higher than 1.96, thus this hypothesis was confirmed, as shown in Table 2. On the other hand, since the significance level was positive, this effect was direct.

**Testing mediator hypotheses**

This section provided a multivariate regression analysis of the data. The purpose of multivariate regression analysis is to determine both the role and effect of the independent variables in explaining and predicting any changes in the dependent variable. Therefore, if the main objective of science is to explain natural phenomena by identifying and studying the relationships between variables, then multivariate regression can be a popular and effective method that will help us achieve this goal.

**Direct effect, indirect effect, and total effect**

Both the direct and indirect effects of the variables should be calculated by assessing the relationship between the two variables.

*Direct effect:* It represents a direct effect of variable x on y ( $\beta$ ).

*Indirect effect:* it refers to an indirect effect of variable x on y using another predictor variable. The relationship between X and Y is indirect when X is the cause of Z and in turn, Z exerts an effect on Y.

*Total effect:* The sum of the direct and indirect effects.

*Indirect effect:* Multiplying the coefficients of each path ( $\beta_2 \times \beta_3$ ).

**Table 3. The direct and indirect effects of the study variables**

Total effect	Indirect effect	Direct effect	Path
$\beta_1 + (\beta_2 \times \beta_3)$	$\beta_2 \times \beta_3$	$\beta_1$	$X \rightarrow Y$
$\beta_3$	-	$\beta_3$	$Z \rightarrow Y$

If the total effect is lower than 0.3, it does not show a significant correlation.

If the total effect ranges between 0.3 and 0.6, it indicates a good correlation.

If the total effect is higher than 0.6, it indicates a very strong correlation.

**Table 4. Mediator hypothesis testing**

Hypothesis	A standardized beta coefficient			Result
	0.66	$\beta_2$	$\beta_3$	
Effect of SEO on financial performance mediated by social performance	Direct effect	Indirect effect	Total effect	Confirmed
	0.21	$0.60 \times (0.55)$	0.54	

As shown in Table 4, given that the total beta value of all variables was greater than 0.3; therefore, all the hypotheses were confirmed, and also it could be concluded as follows:

The main hypothesis of the research indicated that SEO had a significant effect on financial performance mediated by social performance, considering that the total effect obtained for this correlation was greater than 0.5; therefore, it indicated a good correlation and thus this hypothesis was confirmed.

**Conclusion**

Hypothesis 1: SEO has a significant effect on social performance, and the results of the statistical analysis performed between both variables showed that the path coefficient between the two variables was greater than 1.96;

therefore, this hypothesis was confirmed. On the other hand, since the significance level was positive, this effect was direct. Hypothesis 2: social performance has a significant effect on financial performance, and the results of the statistical analysis performed between both variables indicated that the path coefficient between the two variables was higher than 1.96, thus this hypothesis was confirmed. On the other hand, since the significance level was positive, this effect was direct.

The main hypothesis: social entrepreneurship orientation has a significant effect on financial performance mediated by social performance, considering that the total effect obtained for this correlation was greater than 0.5; therefore, it indicated a good level of correlation and also this hypothesis was confirmed.

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