

# The Effects Entrepreneurship and Market Orientation on Social Performance of Social Enterprise

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**Abstract.** The main purpose of this study is to examine the relation between entrepreneurship (innovation, progressiveness and risk-taking), market orientation and social performance of social enterprise via analysis. In order to achieve the objectives of the study, 107 effective responses were statistically analyzed using Smart PLS 2.0 and SPSS 15.0.

The analysis revealed that social's entrepreneurship, progressiveness and risk-taking had a positive effect on their market orientation while innovation did not. It was also found that market orientation of social enterprise improved their social performance such as their public performance and job creation. These study findings will provide accurate information to social enterprises, thereby offering significant managerial insights to social entrepreneurs and policy-makers.

**Keywords:** Social enterprise, innovation, progressiveness, risk-taking, market orientation, social performance

## 1. Introduction

Social enterprises are those that produce and sell goods and services by putting the highest priority on social purposes such as the provision of social services and jobs to marginalized members of our society, and the enhancement of the quality of life of communities' residents. Social enterprises can be said to be in between profit organizations and non-profit organizations as in [1].

At the end of the 1980s, social enterprises came into being in Italy for the first time. In the middle of the 1990s, when Europe appeared a surge in its aging population, the number of women participating in social activities, its economic-growth decline, and its unemployment rate, leading to increased deficits in the governments' public funds and great changes in countries' social-welfare systems, social enterprises emerged as in [2]. In case of America, social enterprises have appeared to create self-reliance of lower-income group and finances for operating nonprofit organization. In the late 1990s, South Korea had suffered the financial crisis(IMF). So in South Korea, Social enterprises started as a part of unemployment problem solving.

With the promulgation of the Social-Enterprise Fostering Act on July 1, 2007, the central and local governments began to support social enterprises. The Ministry of Employment and Labor has been providing certification, business consulting, specialist human-resources, academy, and social-venture support. As of December 2010, 501 enterprises were accredited as social enterprises.

In today's business environment, where the life cycles of products and services are becoming shorter and the future profits are uncertain, it is very important for entrepreneurship take risks and to be progressive and innovative as in [3]. Moreover, continuing to secure competitive advantage and to generate profits, enterprises should respond better to the market needs than their competitors do, and should be able to accurately forecast the market changes so that they could continue to provide the best values to their customers. Thus, a market-orientation-based organizational culture is also considered important at present as

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in [4, 5, and 6]. Entrepreneurship and market orientation are the key success factors of today's enterprises and make it possible for new enterprises to survive and endure as in [7].

Recent research has recognized entrepreneurship as an important factor for social performance as in [8].

The number of social enterprises is increasing not only in the public sector but also in the private sector, as the government's positive support for them. Reference [9] asserted that to create social values, social entrepreneur must have elements of entrepreneurship, such as innovation, progressiveness and risk management. According to reference [10], social entrepreneur should develop the qualities of general entrepreneurs, such as the attitudes of taking risks and of making good use of the limited available resources, innovation and positive participation. Reference [11] asserted that entrepreneurship and social networking are important for the continued operation of social enterprises and for increasing their social performance. Reference [12] said that systematic research on social entrepreneurship is necessary to sustain social enterprises. Although extensive research is being conducted on social enterprises, such research is very much lacking in terms of defining the relation between market orientation and social performance by classifying the entrepreneurship attributes of social enterprises into innovation, progressiveness and risk-taking. The empirical research on the said matter is also of paucity.

In emerging environment, firms need entrepreneurs which is innovative, progressive and risk-taking to redistribute and to reconcile resources to create new values as in [13]. Existing studies classified the entrepreneurship to innovation, progressiveness and risk-taking as in [14, 15, 16, 17, 18 and 19]. In social enterprise, social entrepreneur also needs the entrepreneurship such as innovation, progressiveness and risk-taking to create social values.

Therefore, this study aimed to define the relation between entrepreneurship, market orientation and social performances social enterprise. We tested our model on a sample of 107 social enterprises by classified the entrepreneurship to innovation, progressiveness and risk-taking .

## **2. Hypotheses and Research Model**

### **2.1. Hypotheses**

#### **2.1.1. Entrepreneurship and Market Orientation**

Entrepreneurship is an enterprise's efforts to ceaselessly look for business opportunities, with a view to continuing to improve its performance and to fostering its own growth. As such, Reference [4] proposed that the CEO's degree of risk avoidance would impact the enterprise's market orientation, and three years later, they verified their argument as in [20]. Reference [21] and [22] identified that entrepreneurship would have a positive effect on market orientation, and Reference [23] found that in a study on the effect of entrepreneurship and market orientation on export performance, risk-taking and innovation had positive effects on market orientation, such as customer and competitive orientation. Thus, the following hypotheses were established:

Hypothesis 1. Entrepreneurship will have a positive effect on market orientation.

Hypothesis 1-1. Innovation will have a positive effect on market orientation.

Hypothesis 1-2. Progressiveness will have a positive effect on market orientation.

Hypothesis 1-3. Risk-taking will have a positive effect on market orientation.

#### **2.1.2. Market Orientation and Social performances**

Reference [5] stated that market orientation is an important factor in improving corporate profitability. A number of previous research found that market orientation had a positive effect on corporate performance as in [20, 21 and 24]. Reference [23] reported that market orientation (e.g., customer and competitive orientation) had a positive effect on export performance. Thus, the following hypotheses were established:

Hypothesis 2. Market orientation will have a positive effect on social performance.

Hypothesis 2-1. Market orientation will have a positive effect on public performance.

Hypothesis 2-2. Market orientation will have a positive effect on job creation.

## 2.2. Research Model

Reference [21], [14] and [15] created the research model shown in Fig. 1 to verify the relation between entrepreneurship, market orientation and social performance of social enterprise based on the previous studies.

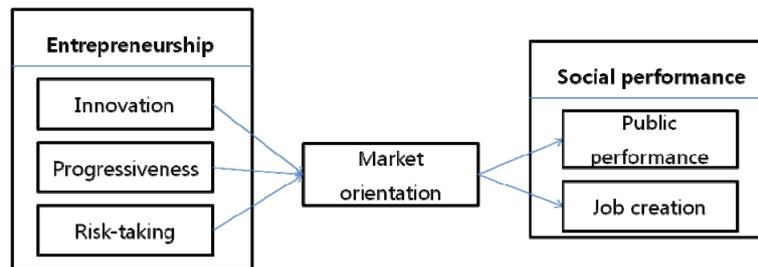


Figure 1. Research model.

## 3. Measure

### 3.1. Operational Definition

This study classified the entrepreneurship to innovation, progressiveness and risk-taking as in [14, 15]. That also defined entrepreneurship of social enterprise as the competence to exploit progressively new products and services, and not only predict future demand of market, but also immediately seize new opportunities in high risks.

Market orientation was defined that Customer orientation to provide better values to the customers, competitor orientation, and organizational culture to help accomplish high performance through interdepartment coordination as in [25, 14 and 15]. These market orientation was expected to affect positively social performance.

The social performance was assessed Public performances to contribute to stabilizing the community and its residents as in [26, 11], and Job creation to create of jobs for the community as in [27, 28].

### 3.2. Sampling and Data Collection

Data for this study were collected from August 1 and September 30, 2010. Questionnaires were sent to 354 social enterprises. They were accredited by the Ministry of Employment and Labor. A total of 115 people responded to the survey, which was conducted by mail, e-mail, and interviews, and the 107 effective responses from the respondents were statistically analyzed using Smart PLS 2.0 and SPSS 15.0

Sample's characteristics was assessed by frequency analysis using SPSS 15.0, and measured by reliability analysis, validity analysis, correlation analysis, and path analysis using Smart PLS 2.0. PLS(Partial Least Square) is one of the second-generation structural equation models for multi-variate analysis. It is to use the main factor analysis, the normal distribution, and a structural equation's large restriction on the data collections, due to its free from severe assumptions. The existing methods of structural equation's goal are to estimate the relevance of the model but independent variables indicated by the value  $R^2$  predicts better how much dependent variables change as in [29]. PLS is more suitable method when study model is at an early stage and is vigorously examined yet as in [30]. In previous studies of social enterprises, because of the few studies in entrepreneurship of social enterprise, market orientation and social performance, PLS was utilized as the appropriate analytical techniques in this study.

### 3.3. Reliability and Validity Analysis

In the reliability analysis, Cronbach's  $\alpha$  of all variables were above 0.8. Thus, overall reliability is higher and all configuration concepts used can be seen as reliable. In order to verify constructs between reliability and validity, the value of the concept of reliability (ICR) and Average Variance Extracted (AVE) were calculated. The concept reliability was over 0.7, exceeding the base value, and the AVE exceeded 0.5. Thus, it has reliability and validity.

The path analysis of the proposed model is shown in Fig. 2, and the results of the verification and analysis of the hypotheses are discussed as follows:

- Innovation did not have a significant effect on market orientation. Thus, hypothesis 1-1 was not supported (path coefficient=0.048,  $t=1.100$ ). Generally, the entrepreneurs' innovation was found to improve the organization's market orientation or performance while a previous research reported that innovation did not significantly influence the organization's performance as in [31]. This suggests that for social enterprises, it is more important to positively challenge the competition than to develop new products and services with a view to improving their performance.
- Progressiveness had a positive effect on market orientation. Thus, hypothesis 1-2 was supported (path coefficient=0.627,  $t=15.334$ ).
- Risk-Taking had a positive effect on market orientation. Thus, hypothesis 1-3 was supported (path coefficient=0.071,  $t=2.948$ ). An entrepreneur's higher progressiveness and risk-taking will more likely create a market-oriented organizational culture. These results are consistent with those of a number of previous studies as in [21, 22, and 23].
- Market orientation had a positive effect on public performance. Thus, hypothesis 2-1 was supported (path coefficient=0.472,  $t=13.403$ ). This result is consistent with that of previous studies, reporting that market orientation improved the corporate performance as in [32, 16, and 33].
- Market orientation had a positive effect on job creation. Thus, hypothesis 2-2 was supported (path coefficient=0.278,  $t=9.567$ ). Social enterprises that have a market-oriented organizational culture were found to have improved their job creation. The results of the path analysis of the hypotheses are outlined in Fig. 2.

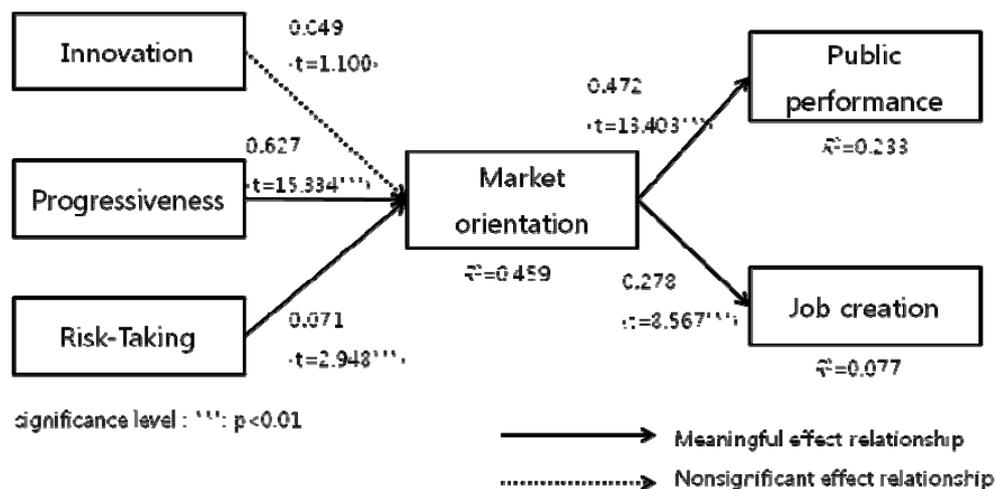


Figure 2. Results of the path analysis of the hypotheses

#### 4. Conclusion

In this study, the relation between innovation, progressiveness and risk-taking, and their market orientation and social performance of social enterprise were examined through a survey of 107 entrepreneurs.

The first implication of this study is the empirical verification of the relation between entrepreneurship (innovation), progressiveness and risk-taking, their market orientation and social performance of social enterprise. Social enterprise's inclination towards being progressive, seeking to define their competitors rapidly and making inroads on niche markets fast, was found to have the greatest effect on the creation of a market-oriented organizational culture. Moreover, social entrepreneur's inclination to take risks was found to have a positive effect on market orientation. Thus, it was found in this study that progressiveness and the risk-taking influence market orientation, thereby improving social performance. Second, in this study, social performance of social enterprise, such as their public performance and job creation, were analyzed. Social enterprises, which aim to create profits and jobs for public purposes, endeavor to invest their profits in stabilizing the community and in conserving the community's environment, with a view to attaining public performance.

For the limitations of this study, first, only 354 accredited social enterprises (as of July 30, 2011) were targeted, requiring a wider coverage of sampling. Various variables, such as environmental and network characteristics, should be further considered for future in-depth research. Second, theories and variables from a limited number of previous studies on social enterprises were used. Unique characteristics of social enterprises should be developed for future research.

The future studies should complement the aforementioned limitations and should consider various factors influencing performance of social enterprise helpful in researching on social enterprises.

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