

An Exploration of Some Effects of Social Innovation Capability in Social Enterprises in Mexico

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Abstract: Social enterprises need to develop processes that create social value based on their initiative to find solutions to social problems through innovative strategies. The objective of this research was to examine the effect of social innovation capability, social marketing achievements and enterprise social performance as antecedents of social value creation in social enterprises in Mexico. An explanatory and cross-sectional study was developed for 106 managers of social enterprises in Mexico. Structural Equation Modelling was applied using Partial Least Squares to test five hypotheses. The results supported that social innovation capability has a positive and direct effect on social value creation, social marketing achievements and enterprise social performance. Similarly, these last two showed a direct effect on social value creation. Particularly, it was identified that social innovation capability had the greatest effect on social value creation. The implications of the results are discussed.

Keywords: Social innovation; Social marketing achievements; Enterprise social performance; Social value creation

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1. Introduction

Social enterprises need to make an effort to create a sustainable business model, reach the fullness of their social mission and obtain the greatest possible social impact through a new way of doing business (Pineda, 2018). They develop processes that create social value based on their initiative to find solutions to social problems through innovative strategies that involve the combination of resources and the exploitation of opportunities to stimulate social change (Dees, 1998). However, in practice, most of these types of businesses need to resolve tensions and conflicts related to their duality since social value is often sacrificed while attempting to capture economic value. Still, social value creation is perceived as an ambiguous aspect that is complex to measure and to understand its interactions with other variables (Hlady-Rispal & Servantie, 2018).

Regarding social value generation, social enterprises face several challenges, for instance, social improvements are not always appreciated by the market, growth will not necessarily improve social conditions, making it difficult to determine if the company creates sufficient social value to justify the resources used (Dees, 1998). Even in recent years, there is continuous debate among social enterprise experts about the creation of internal and external social value (Bull et al., 2018); consequently, it is necessary to continue investigating aspects that affect social value and its nature. However, the participants of the research are those who, from their organizational contexts, generate or not social innovation and may or may not affect the results of social change (Newth, 2018). Additionally, social marketing achievements and enterprise performance can be key aspects of contributing to increasing the social value of an organization.

Among the aspects that can contribute to the creation of new social value are the enterprise's social performance and its social marketing

achievements. However, several scholars have recommended continuing to work on the theoretical bases and empirical validity of the company's social performance (Azevedo, dos Santos & Boaventura, 2016). Similarly, social marketing needs to be assertive while serving the mission of the social enterprise, participate in the continuous and effective process of social innovation to deliver results in social change with limited resources (Holweg & Lienbacher, 2011). Therefore, the objective of this research is focused on examining the effect of social innovation capability, social marketing achievements and enterprise social performance as antecedents of social value creation in social enterprises in Mexico.

2. Literature review and hypotheses

Social value is created when resources, inputs, processes or policies combine to generate improvements in people's lives or in society in general (Emerson, Wachowicz, & Chun, 2001). Social value creation can be accomplished through innovative strategies that involve combining resources and exploiting opportunities to stimulate social change, the satisfaction of social needs and the development of social goods and services (Morris, Webb, & Flanklin, 2011). Social enterprises prioritize social value over economic value (Dees, 1998). The company combines resources to develop a value proposition, which communicates the benefits that will create value for different stakeholders (Verstraete & Jouison-Laffitte, 2011). Social value is subjective, changing and dynamic and it cannot be evaluated from the traditional principles of supply and demand. Many of these efforts show results up to several years in the future, nevertheless their investment is useful to create bonds between people who have specific basic needs and organizations that offer solutions and generate new conversations, negotiations and markets (Spohrer, Demirkan, & Lyons, 2015).

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Social innovation could be conceptualized as “a novel solution to a social problem that is more effective, efficient and sustainable...than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals” (Phills, Deiglmeier, & Miller, 2008, p.36). Social businesses seek to produce social innovations in order to offer new products or services. Social innovation implies a process and an outcome (Bitzer & Hamann, 2015). This involves many external and organizational factors, including knowledge, learning, searching and exploring in a particular context that requires the combination of ideas and resources to help an organization achieve its results (Lundvall, 2010). Social innovation as a process of generating ideas, as well as its selection and implementation to solve the challenges of a sociotechnical system, requires collective participation (Bitzer & Hamann, 2015). Even when these innovations are not transferred to different contexts, accumulated learning can be very valuable while developing of innovation capability over time (Seelos & Mair, 2012).

Social marketing is a planned method for social innovation because applying marketing principles in the social context. It refers to a process that applies marketing principles and techniques to create, communicate, and deliver value in order to influence behaviors of the target audience aiming to benefit society (Kotler & Lee, 2008). Achieving voluntary change to adopt new attitudes, beliefs, values or behaviors in primary audiences requires a social innovation platform connected to the marketing strategy with the purpose of persuading individuals to adopt new behaviors (Bonča, Udovč, & Rodela, 2017). It is possible to assume that social innovation in its different manifestations, including innovations in social marketing itself, can contribute to obtaining better results in the achievements of social marketing. Therefore, the following hypothesis is proposed:

H1. Social innovation capability positively affects social marketing achievements.

Social innovation capability positively affects social marketing achievements (Frederick, 1994). Social achievement has become a relevant aspect for all types of businesses and it refers to the configuration of principles of social responsibility, social responsiveness, policies, programs, and outcomes related to the firm's societal relationships (Wood, 1991). Previous research in commercial firms has found a relationship between innovation and firm performance in small and medium sized enterprises (Roach, Ryman, & Makani, 2016). Choi, Kim and Yang (2018) found that medium-sized commercial SMEs present stronger social performance than small companies do. Similarly, in the context of social business, it has been found that social innovations constitute a business opportunity that not only increases welfare, as well as the firm's performance and its competitive advantage (Furmańska-Maruszak & Sudolska, 2016). Thus, it is possible suppose that:

H2. Social innovation capability positively affects the enterprise's social performance, controlled by organizational size.

As mentioned above, the objectives of social marketing are achieved through the behavior change of the target audience using the principles of social change. If the social marketing works, it can contribute to create greater social value (Short, Moss, & Lumpking, 2009). This

requires for the social marketing program (developed by the social enterprise) to actively create value emerging from the interactions with their stakeholders (Vargo & Lush, 2004). The processes of social entrepreneurship are inserted in a specific socio-economic context that must be understood for the creation of social value (Chell, 2007). Particularly social businesses should pay special attention to operational processes, including marketing, as they are fundamental to preserve entrepreneurial activity at individual and group level (Chell, 2007). Thus, the following hypothesis is proposed:

H3: Social marketing achievements affect social value creation.

Commonly, social performance is evaluated according to the context in which it is applied. Most of these approaches are supported by Corporate Social Responsibility or Stakeholders theories, where the environmental community and employee aspects are usually included (Azevedo et al., 2016). The company's social performance can be developed by integrating commercial aspects and social considerations, in order to create new value in the market and community (Ciravegna & da Fonseca, 2016).

Each social venture needs to produce the mechanisms and strategies to pursue social value (Mendoza-Abarca & Mellema, 2016). The performance of a social enterprise capitalizes the efforts of diverse stakeholders within the value chain through the social value created for beneficiary groups (including producers, workers, owners, communities and society) while improving the well-being of the people directly or indirectly involved (Srivetbodee, Igel, & Kraisornsuthasinee, 2017). Therefore, the following hypothesis is proposed:

H4. Enterprise social performance affects social value creation

Although social innovations could be presented as products, services, processes, markets, platforms, organizational forms, or business models (Choi & Majumdar, 2015), the social innovation capability has an essentially immaterial structure. This structure brings with it a social change established as new social practices that will eventually be institutionalized (Cajaiba-Santana, 2014). This capability is understood, as a fundamental capital supported by the interaction of the collective capacity to innovate around the production of new knowledge and its explicit aim is the creation of social value and social change (Choi & Majumdar, 2015). If it is accepted by social participants after dissemination in social groups through market mechanisms, it will generate new skills, practices and routines (Kopp, 2011).

Social innovation capability works to produce value with less focus on financial profit and more on social needs, collaborations and social relationships, contributing to the redistribution systems and improving human well-being (Von Jacobi, Edmiston, & Ziegler, 2017). Social value creation requires innovation, pro-activeness and risk management behavior associated to the social mission (Urban, 2010). Consequently, social innovation promotes the creation of value that is accumulated primarily for society rather than private individuals (Phills et al., 2008). Thus, the following hypothesis is proposed:

H5. Social innovation capability affects Social value creation

3. Method

Explanatory and cross-sectional research was developed to 324 social enterprises in Mexico. The survey was answered by telephone or electronically and 106 responses were obtained. The response rate was of 32.7% from Mexican social enterprises list (Red Interdisciplinaria de la Innovación para la Transformación Social [RIITS], 2017). This study used existing measures from past research, all of them measured with seven-point Likert scales from 1=totally disagree to 7= totally agree. The social innovation scale was adapted from Keskin (2006), the social value creation and the social marketing achievements were measured with scales from Liu, Eng and Takeda (2015) and the social performance scale from Lortie, Castro Geovanni and Cox (2017). The control variable included in the analysis was the size of the social enterprise measured with a five point scale (1= very small, 5=very large) because the unwillingness respondents to mention directly their financial information. The data analysis was carried out in two stages according to what was suggested by Kline (2015) for the procedure of analysis of structural models and the proposed structural model was evaluated using a method based on Partial Least Squares with the software Smart PLS, V3.

4. Results

Enterprises' demographic characteristics. The most relevant enterprises' characteristics show that 74.5% produce and trade products or services and 25.5% only are focused on trading products. 56.6% do not have volunteers, 37.7% do not sell on the internet, 35.8% are classified as very small, 35.8% as small, 24.5% has medium size, 1.9% large and 1.9% very large.

Measurement model. When starting the measurement model, it included 20 items. All the statements of the scales included in the investigation were of a reflective nature and, according to what is suggested in the literature, those who had minimum loads of 0.70 were retained (Hair et al., 2016). In this investigation, the items eliminated were (Appendix): one of Social Innovation (SI1) and two from Social Value Creation (SVC1, SVC2). The rest of the loads associated with each of the scales were greater than the established criteria (Table 1). In addition, the Cronbach alpha (α) and the Composite Reliability (CR) of each of the reflective constructs exceeded the required minimum of 0.70 (Hair et al., 2016). The latent variables showed internal consistency (Table 1) and the model showed convergent validity through the Average Variance Extracted (AVE) of all the constructs, exceeding the value of 0.50 as minimum required (Fornell & Larcker, 1981).

Table 1. Loads associated to the items, reliability and convergent validity

Construct	Item	Loading factor	Cronbach alpha	CR	AVE
Social innovation	SI2	0.909	0.873	0.912	0.722
	SI3	0.855			
	SI4	0.828			
	SI5	0.804			
	SMA1	0.800			
Social marketing achievements	SMA2	0.907	0.93	0.946	0.778
	SMA3	0.848			
	SMA4	0.896			
	SMA5	0.954			
	DS1	0.78			
Enterprise Social Performance	DS2	0.787	0.786	0.861	0.608
	DS3	0.800			
	DS4	0.753			
	VS3	0.824			
Social Value Creation	VS4	0.895	0.815	0.89	0.729
	VS5	0.842			

Similarly, the discriminant validity of the constructs was verified through three methods: cross loadings, Fornell-Larcker criterion and Heterotrait-Monotrait Ratio [HTMT]. Table 2 shows the indicators of the three criteria. Regarding the cross loadings, the greater weight of each variable loads in its respective construct, with weights greater

than 0.70. Concerning the Fornell-Larcker criterion, each latent variable explains the variance of its own indicator instead of the variance of other latent variables and finally, Heterotrait-Monotrait Ratio (HTMT) moved away from 1 (Kline, 2015).

Table 2. Discriminant validity criterions

Cross loadings				
	<i>Social innovation</i>	<i>Social marketing achievements</i>	<i>Enterprise social performance</i>	<i>Social value creation</i>
SP1	0.289	0.116	0.780	0.379
SP2	0.262	0.080	0.787	0.419
SP3	0.286	0.270	0.800	0.436
SP4	0.246	0.243	0.753	0.358
SI2	0.909	0.129	0.308	0.496
SI3	0.855	0.096	0.280	0.393
SI4	0.828	0.145	0.274	0.428
SI5	0.804	0.157	0.307	0.651
SMA1	0.046	0.800	0.225	0.175
SMA2	0.157	0.907	0.143	0.247
SMA3	0.108	0.848	0.252	0.221
SMA4	0.184	0.896	0.147	0.293
SMA5	0.161	0.954	0.264	0.306
SVC3	0.342	0.306	0.497	0.824
SVC4	0.577	0.208	0.468	0.895
SVC5	0.592	0.243	0.356	0.842

Heterotrait-Monotrait Ratio (HTMT)				
	<i>Social innovation</i>	<i>Social marketing achievements</i>	<i>Enterprise social performance</i>	<i>Social value creation</i>
Social innovation				
Social marketing achievements	0.160			
Enterprise social performance	0.414	0.273		
Social value creation	0.673	0.328	0.642	

Fornier-Larcker criterion				
	<i>Social innovation</i>	<i>Social marketing achievements</i>	<i>Enterprise social performance</i>	<i>Social value creation</i>
Social innovation	0.850			
Social marketing achievements	0.159	0.882		
Social performance	0.348	0.228	0.780	
Social value creation	0.600	0.291	0.512	0.854

Structural Model Evaluation. The results confirm the effects between the constructs showed in the proposed model, indicating that the five hypotheses tested had an adequate explanatory power (Table 3). The magnitude of R² and R² adjusted show the suitability of the model to predict the indicators of latent constructs (Table 4). The

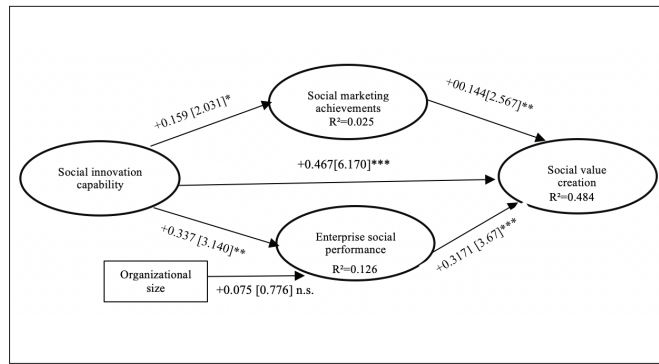
analysis showed that there was not enough evidence to prove that the control variable -organizational size- had effect on the enterprise social performance ($\beta = 0.075, p > 0.05$). Table 3 shows the t statistics for the relations proposed and Figure 1 presents the structural model.

Table 3. Results of the analysis of the structural equation model

Proposed hypotheses	Hypothesis	Coefficient Path(β)	t statistics	Hypothesis decision
Social innovation capability → Social marketing achievements	H1	0.159	2.031	Supported
Social innovation capability → Enterprise social performance	H2	0.337	3.140	Supported
Social marketing achievements → Social value creation	H3	0.144	2.564	Supported
Enterprise social performance → Social value creation	H4	0.317	3.671	Supported
Social innovation capability → Social value creation	H5	0.467	6.170	Supported

Note: n = 106. Bootstrapping 500 samples; β = Standardized coefficient

Figure 1. Structural equation model



Note. * $\alpha < 0.05$; ** $\alpha < 0.01$; *** $\alpha < 0.001$; n.s.= not significant

Table 4. R² effects

Constructs effect	Path coefficient	Correlation	% explained variance
Social mkt-Social value	0.144	0.291	0.042
Social performance-Social value	0.317	0.512	0.162
Social innovation-Social value	0.467	0.600	0.280
		R ² =	0.484

Indirect and total effects. The proposed model shows that in addition to the direct effects, an indirect effect may exist between Social innovation capability and Social value creation. The results confirmed the indirect effect (Effect=0.130, t=3.519, p=0.000). Similarly, the total effect to social value creation was calculated by the sum of the significant direct and indirect effects and the result was of 0.596 considered as notable (Hair et al., 2016).

5. Discussion

The purpose of this investigation was to examine the effect of social innovation capability, social marketing achievements and enterprise social performance as antecedents of social value creation in social enterprises in Mexico. The first hypothesis stated that social innovation capability would have a positive influence on the social marketing achievements and was supported. Social innovation may help social enterprises to improve their performance (Lundvall, 2010) and it is required to develop an effective marketing strategy in order to adopt new behaviors (Bonča et al., 2017).

Similarly, we found a positive effect of social innovation capability impacting enterprise social performance, although the effect of the social organization's size was not significant as found in research in commercial companies (Roach et al., 2016). A possible explanation could be that in Mexico, social enterprises require more support to develop and expand their social impact beyond its local context (Pineda, 2018). Despite this, social innovation capability affects the enterprise's social performance supporting what was found in previous research (Furmańska-Maruszak & Sudolska, 2016).

In addition, the direct and indirect effects of social innovation capability on social value creation were confirmed. The direct effect of social innovation on social value creation is the strongest effect in the model, supporting the fifth hypothesis. In addition to novelty, it requires resources, collective capacity and time to develop the social innovation capability (Seelos & Mair, 2012). Also, the results confirmed that social marketing achievement and social performance are antecedents of social value creation, supporting hypotheses three and four. These results were consistent with the postulates in the literature, since marketing is a driver to create social value (Short, Moss, & Lumpkin, 2009). Also, the integration of social value into business processes and its effect on social performance contributes significantly to capitalize the efforts of the interactions between diverse agents (Vargo & Lush, 2004).

This investigation presented some limitations; a cross-sectional study was developed for the Mexican social enterprises and only 32.7% accepted to participate. Future research could consider a longitudinal design to compare the effects of the variables in social value creation considering situational and temporal factors. In addition, it is recommended studying how these companies may maintain sustainable social value in the long-term. Furthermore, since not all the capabilities have equal importance, future research can study how other capabilities affect social value creation.

6. Managerial implications

This research showed some antecedents to facilitate the understanding of social value creation in social enterprises in an emergent country. Most of these enterprises offer solutions for the most urgent and immediate needs of human beings in their value chain. Developing social innovation capability becomes a strategic issue due to the holistic significance and weigh related to all the other variables studied. Transforming scarce and limited resources into innovation capability requires developing efficient resource deployment and collaborating with the ecosystem of the social business environment in order to create social value and a competitive advantage.

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Appendix

<p><i>Social Innovation</i></p> <p>SI1. Our company is often the first to market with new social/ecological products and services</p> <p>SI2. Our company frequently tries out new ideas</p> <p>SI3. Our company seeks out new ways to do things</p> <p>SI4. Our company is creative in its methods of operation</p> <p>SI5. Our new social/ecological product/service introduction has increased over last three or four years</p>	<p><i>Social value creation</i></p> <p>SVC1. This company has bidding for public service contract</p> <p>SVC2. This company has bidding government (or its funding body's) grants for enterprise activities</p> <p>SVC3. This company serves more beneficiaries in the community</p> <p>SVC4. This company provides more social products and/or services</p> <p>SVC5. This company has expanded social products and/or services to different locations</p>
<p><i>Social marketing achievement</i></p> <p>SMA1. Acquiring new donors</p> <p>SMA2. Acquiring new volunteers</p> <p>SMA3. Increasing donation amount from current donor</p> <p>SMA4. Increasing volunteer hours from current volunteer</p> <p>SMA5. Growth in overall donation/volunteer time</p>	<p><i>Enterprise Social performance</i></p> <p>How satisfied are you with your organization's:</p> <p>SP1. Fulfillment of beneficiary needs</p> <p>SP2. Services delivered to beneficiaries</p> <p>SP3. Programs delivered to beneficiaries</p> <p>SP4. Resources delivered to beneficiaries</p>