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THE INFLUENCE OF SOCIAL ENTREPRENEURSHIP ON THE FINANCIAL PERFORMANCE AND SUSTAINABILITY OF SOCIAL ENTERPRISES IN THE EASTERN CAPE

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ABSTRACT

This study investigates how social entrepreneurship influences the financial performance and sustainability of social enterprises in the Eastern Cape Province, South Africa. Social entrepreneurship is increasingly recognised as a key mechanism for addressing socio-economic challenges such as poverty, unemployment, and inequality while striving for financial resilience. Moreover, limited empirical research has explored its direct effects on both financial outcomes and long-term organisational viability, particularly in developing contexts. Guided by the Triple Bottom Line (TBL), Stakeholder, and Sustainability theories, the study integrates economic, social, and environmental considerations to examine the dual imperative of financial performance and social impact. A quantitative research design was employed, using a structured questionnaire administered to 278 randomly selected social enterprises. Data analysis included descriptive statistics, reliability and validity testing, and Structural Equation Modelling (SEM) using SmartPLS. The findings indicate that environmental practices ($\beta = 0.197$, $p = 0.008$) and stakeholder engagement ($\beta = 0.722$, $p = 0.000$) significantly and positively influence financial performance. Although social value creation and economic impact showed positive directional effects, these relationships were statistically insignificant. Furthermore, financial performance strongly predicts the sustainability of social enterprises ($\beta = 0.900$, $p = 0.000$). The study contributes to the literature on social entrepreneurship in emerging economies by providing empirical evidence that strong financial performance enhanced through stakeholder collaboration and environmental responsibility is central to sustaining social enterprises. Practical implications emphasise the need for supportive policies, innovative financing, and strengthened partnerships to reinforce the long-term resilience of social enterprises in the Eastern Cape.

KEYWORDS: Economic Impact; Environmental Impact; Financial Performance; Sustainability Of Social Enterprises; Triple Bottom Line Theory.

1. INTRODUCTION

Social entrepreneurship has emerged as a critical mechanism for addressing socio-economic inequality while simultaneously promoting organisational sustainability (Hariram *et al.*, 2023). In South Africa, where structural inequalities remain deeply entrenched, social enterprises play an increasingly pivotal role in providing innovative solutions to poverty, unemployment, and community underdevelopment (Kajiita & Kang'ethe, 2025). The Eastern Cape, marked by persistent unemployment, limited infrastructure, and systemic marginalisation, offers a particularly relevant context for examining how social enterprises can contribute to both social transformation and economic resilience.

Existing studies highlight the dual mission of social enterprises: creating social value while maintaining financial viability (Weerawardena *et al.*, 2021). However, evidence regarding the relationship between social entrepreneurship practices and financial performance remains fragmented, especially in developing economies (Coelho *et al.*, 2023). Some scholars argue that strong social commitments enhance trust, legitimacy, and stakeholder loyalty, thereby improving financial outcomes (Ali *et al.*, 2025). Others contend that prioritising social missions may compromise operational efficiency and profitability (Nair, 2022). This study responds to these inconsistencies by empirically examining key components of social entrepreneurship social value creation, economic impact, environmental impact, and stakeholder engagement—and their influence on financial performance.

This research is motivated by the need to understand how social enterprises in the Eastern Cape can optimise both financial and social outcomes in the face of scarce resources, limited institutional support, and complex socio-economic challenges. The study proposes that financial performance mediates the relationship between social entrepreneurship dimensions and long-term sustainability. Thus, the primary research question guiding this study is: How does social entrepreneurship influence the financial performance and sustainability of social enterprises in the Eastern Cape? The study employs a quantitative research design, using validated measures from previous scholarly work, and analyses relationships through Structural Equation Modelling (SEM). The dataset comprises responses from 278 social enterprises operating across diverse sectors within the province.

1.1. Objectives Of the Study

Based on the study's purpose, the following objectives were presented:

- i. To analyse the co-effectiveness between social value creation and the financial performance of social enterprises
- ii. To investigate the effect of economic impact on the financial performance of social enterprises
- iii. To assess the environmental impact and financial performance of social enterprises
- iv. To evaluate the influence of stakeholder engagement on the financial performance of social enterprises
- v. To determine the influence of financial performance on the sustainability of social enterprises

2. LITERATURE REVIEW

A literature review is a comprehensive summary and synthesis of published works in a specific field (Paul & Criado, 2020). It examines and critiques previous research, offering an overview of the current knowledge on a particular issue. It gives researchers an understanding of what is already known about a subject and the scope and depth of previous research. Through a rigorous evaluation process, researchers can identify prominent experts whose work can provide valuable insights for their research. Examining earlier research enables researchers to assess various approaches used in the study, which can guide their strategy for developing new research initiatives (Carcary, 2020).

This paper provides a theoretical framework for formulating hypotheses and an empirical literature review of the relationship among the variables under study, including social value creation, economic impact, environmental impact, stakeholder engagement, financial performance, and the sustainability of social enterprises. It will commence with a discussion of the theories that anchored this research study, namely the Triple Bottom Line theory (TBL), Stakeholder theory and Sustainability theory. The following section will review selected factors as the independent variable, measured through social value creation, economic impact, environmental impact, stakeholder engagement, and financial performance, as the mediating variable, and sustainability of social enterprises as the outcome variable.

2.1. Theoretical Grounding

Three theories underpinned this research study: the Triple Bottom Line, stakeholder theory, and sustainability theory.

2.1.1. Triple Bottom Line (Tbl) Theory

TBL theory was developed by Elkington in 1994 (Srivastava et al., 2022). It is to the company's net profits, earnings, or earnings per share, with the idea that a company can earn financial profits while also improving the planet and people's lives. Traditional financial indicators, such as revenue, profit, and return on investment, remain important in the economic sector. However, a thorough assessment also considers the social dimension, as community involvement, diversity, inclusion, and employee well-being. Moreover, evaluating a company's ecological footprint, resource commitment to sustainable practices is part of the environmental component.

2.1.2. Stakeholder Theory

The Stanford Research Institute first introduced the concept of a stakeholder in the 1960s, emphasising that organisations need the support of both their stakeholders and shareholders to thrive and prosper (Freeman & Velamuri, 2023). This is where ST got its start. As a result, a clear and apparent necessity emerged between meeting the requirements of stakeholders and maximising dividends for shareholders. However, it was not until the early 2000s that ST research prominently appeared in top business journals (Mahajan et al., 2023). Since then, the body of knowledge on ST has more than doubled, as evidenced in the present review.

2.1.3. Sustainability Theory

The World Commission on Environment and Development (WCED) published the Brundtland Report in 1987, which introduced the concept of sustainable development and provided guidelines for achieving it (Brundtland, 1985). According to the Brundtland Commission, sustainable development (SD) is defined as development that guarantees equity within the current generation while ensuring it does not compromising the needs of future generations (Hajian & Kashani, 2021). To address contemporary challenges, sustainability theory encompasses a range of theories and models that integrate social, economic, and environmental considerations (Buzzao & Rizzi, 2021). The fundamental goal is to guarantee that long-term human activity can continue without depleting resources or harming the ecosystems that support them. This entails realising the ethical impact of our actions on future generations and the interdependence between humans and the environment (Hajian & Kashani, 2021).

2.2. Empirical Literature

This section discusses the key research constructs underpinning the study, namely Social Value Creation, Economic Impact, Environmental Impact, Stakeholder Engagement, Financial Performance, and Sustainability of Social Enterprises. These constructs collectively represent the multidimensional nature of social entrepreneurship and its implications for enterprise performance within the Eastern Cape context.

2.2.1. Social Value Creation

Social value creation refers to the intentional development of initiatives that address social problems, improve community well-being, and enhance inclusivity (Raiden & King, 2021). Within social enterprises, social value creation represents the central mission, reflecting an organisation's commitment to generating meaningful societal outcomes while maintaining operational viability. In regions such as the Eastern Cape, characterised by persistent poverty, unemployment, and service delivery challenges, social value creation becomes particularly critical, as enterprises often fill institutional gaps left by government and private sector actors. Social enterprises the provision of essential services, and the creation of livelihood opportunities. The effectiveness of these activities often influences public trust, community support, and organisational legitimacy. Existing studies indicate that social value creation may also indirectly improve financial performance by strengthening stakeholder loyalty and differentiating the enterprise in competitive markets (Audi & Yu, 2024). In this study, social value creation is examined as a key influencer of financial performance within social enterprises operating in the Eastern Cape.

2.2.2. Economic Impact

Economic impact refers to the contribution of social enterprises to economic development through job creation, income generation, productivity enhancement, and entrepreneurial stimulation (Qi et al., 2025). Social enterprises often operate in underserved communities where formal employment opportunities are limited, thereby playing an instrumental role in local economic transformation. The economic impact construct captures activities such as enterprise-led employment, local procurement, community reinvestment, and financial inclusion. Empirical literature suggests that economic impact is positively associated with organisational financial performance, particularly when social enterprises

successfully integrate market-based activities into their value creation processes (Weerawardena et al., 2021). In the Eastern Cape, understanding the economic impact is essential, as social enterprises frequently serve as engines of local economic resilience in marginalised areas.

2.2.3. Environmental Impact

Environmental impact refers to the practice's enterprises adopt to minimise ecological harm and promote environmental sustainability. These include waste management, renewable energy adoption, sustainable sourcing, conservation practices, and carbon footprint reduction (Odeyemi et al., 2024). The growing emphasis on environmental stewardship is aligned with global frameworks such as the Sustainable Development Goals (SDGs), which encourage enterprises to balance social, economic, and environmental priorities. For social enterprises, environmental impact is not merely a compliance requirement but often a strategic differentiator that reinforces mission-driven operations. Environmentally responsible practices can enhance organisational reputation, attract environmentally conscious stakeholders, and reduce operational costs, thereby improving financial performance (Fosu et al., 2024). In this study, environmental impact is assessed as an antecedent of financial performance, with particular focus on Eastern Cape social enterprises that incorporate sustainability-oriented practices in their operations.

2.2.4. Stakeholder Engagement

Stakeholder engagement encompasses strategies through which organisations collaborate with individuals or groups that influence or are affected by their operations, including beneficiaries, employees, funders, government agencies, and community members (Attanasio et al., 2022). Engagement involves communication, participation, co-creation, and transparent decision-making. In social enterprises, the ability to effectively engage stakeholders is crucial, given the dual mission of balancing financial goals with social and environmental objectives. Literature consistently indicates that strong stakeholder engagement enhances organisational legitimacy, resource mobilisation, operational effectiveness, and financial performance (Velnampy, 2024). In the Eastern Cape, where social enterprises often depend on community support and external partnerships, stakeholder

engagement is essential to sustaining operations and building trust.

2.2.5. Financial Performance

Financial performance reflects the extent to which social enterprises generate sufficient revenue, maintain liquidity, and utilise resources efficiently to support their mission (Guan et al., 2024). Unlike conventional enterprises, social enterprises pursue blended value, combining financial returns with social impact. However, financial stability remains a prerequisite for long-term sustainability, particularly in resource-scarce environments. Subjective measures of financial performance are often preferred in social enterprise research due to difficulties in obtaining reliable financial records, especially in small or informally structured organisations. Such measures include perceived financial growth, revenue stability, profitability, and operational efficiency (Tudose et al., 2022). In this study, financial performance serves both as an outcome variable influenced by social entrepreneurship constructs and as a predictor of social enterprise sustainability.

2.2.6. Sustainability Of Social Enterprises

Sustainability refers to the ability of a social enterprise to maintain operations, fulfil its social mission, and generate sufficient financial resources over time (Kamaludin, 2023). It encompasses economic viability, social mission continuity, and environmental responsibility. Sustainable social enterprises are resilient, adaptable, and capable of balancing immediate community needs with long-term developmental goals. Given the socioeconomic conditions in the Eastern Cape, the sustainability construct is critical. Many social enterprises face resource constraints, market instability, and challenges with external funding, underscoring the need for strategic management of financial and social resources. In this study, sustainability is conceptualised as an outcome influenced by financial performance and indirectly shaped by social entrepreneurship practices.

2.3. Conceptual Model and Hypothesis Formulation

2.3.1. Conceptual Model

The figure 1 depicts the conceptual model of the study.

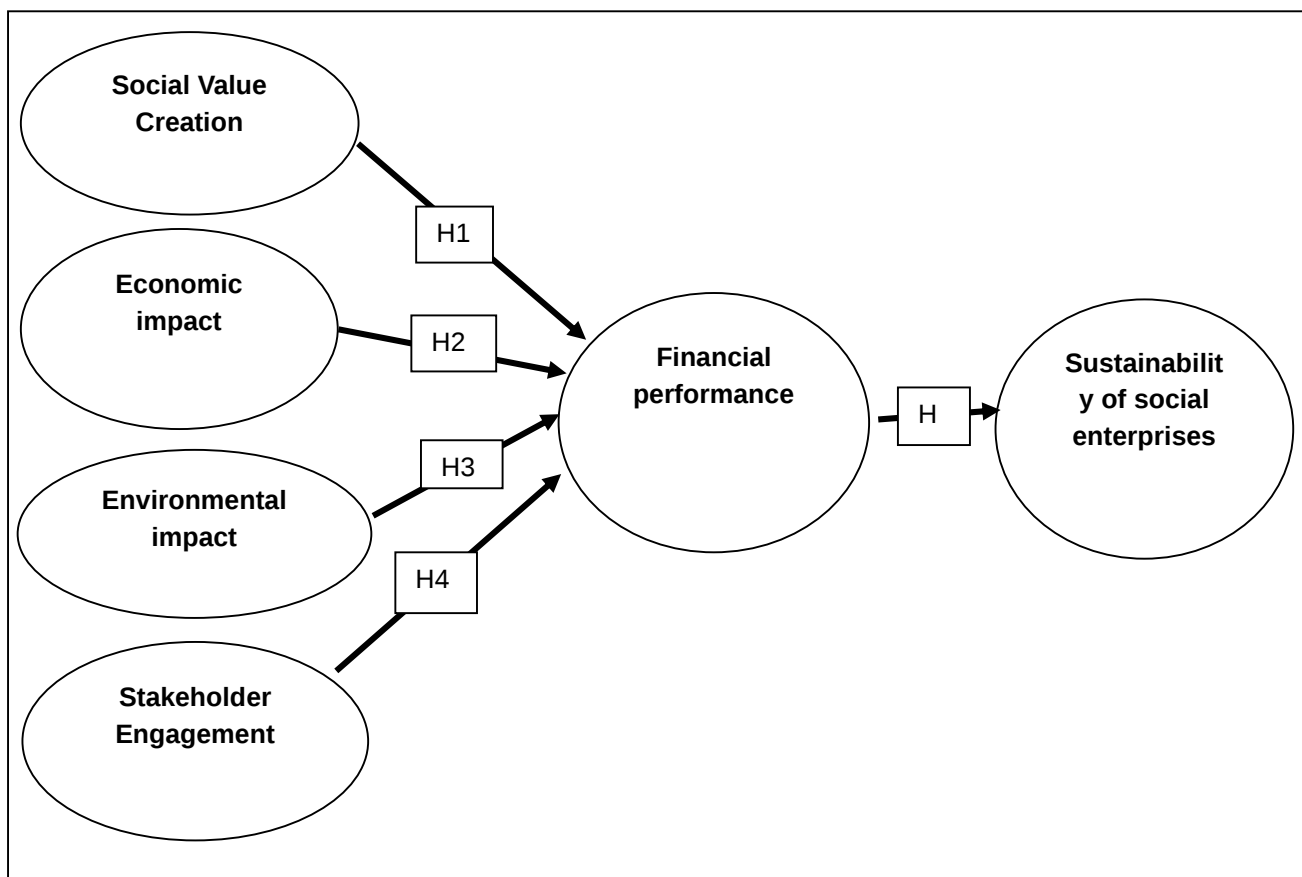


Figure 1: Conceptual Model of the Study; Source: Authors.

Figure 1: Conceptual Model of the Study.

2.3.2. Hypothesis Formulation

Drawing from the empirical literature and the theoretical foundations underpinning this study namely, the Triple Bottom Line theory, Stakeholder theory, and Sustainability theory a conceptual model was formulated to illustrate the expected relationships between the constructs under investigation. Each hypothesised relationship is grounded in prior research evidence, theoretical justification, and contextual relevance to social enterprises in the Eastern Cape. The following subsections present the hypotheses developed for this study.

2.3.2.1. Social Value Creation and Financial Performance

Social value creation is central to the mission of social enterprises, as these organisations prioritise addressing societal challenges through innovative and sustainable solutions (Lashitew, van Tulder, et al., 2022). Prior studies suggest that the pursuit of social value can enhance an organisation's reputation, legitimacy, and stakeholder confidence,

which may yield indirect financial benefits such as increased customer loyalty, access to funding, and community support (Lashitew, Narayan, et al., 2022). According to Nogueira et al. (2023) The Triple Bottom Line theory reinforces the idea that social outcomes contribute to long-term economic stability, while the Stakeholder theory asserts that meeting stakeholder needs enhances organisational performance (Awa et al., 2024). Although some studies indicate mixed findings, particularly where social objectives may strain financial resources, empirical evidence broadly supports a positive association (Audi & Yu, 2024). Accordingly, the following hypothesis is proposed:

H1: Social value creation has a positive effect on the financial performance of social enterprises.

2.3.2.2. Economic Impact and Financial Performance

Economic impact refers to the extent to which social enterprises contribute to economic development through job creation, income generation, productivity improvements, and

community upliftment (Wang, 2022). Empirical studies show that enterprises that make strong economic contributions tend to build credibility and attract financial support from funders, development agencies, and local communities, which, in turn, enhances financial stability (Wu et al., 2023). From a theoretical standpoint, TBL emphasises economic value as a pillar of organisational sustainability (Srivastava et al. (2022), while sustainability theory posits that economic resilience is crucial for long-term viability (Egieya et al., 2023). Given this linkage, the following hypothesis is proposed:

H2: Economic impact has a positive effect on the financial performance of social enterprises.

2.3.2.3. Environmental Impact and Financial Performance

Environmental impact encompasses an organisation's ecological practices, including resource efficiency, waste reduction, and environmentally conscious operations (Odeyemi et al., 2024). Literature suggests that environmentally responsible practices can reduce operational costs, enhance brand image, and attract environmentally conscious customers and investors (Ogunbukola, 2024). In addition, the Triple Bottom Line theory positions environmental stewardship as a core dimension of sustainable business performance (Nogueira et al., 2025).

By adopting eco-friendly approaches, social enterprises may improve operational efficiency and unlock new funding opportunities tied to green development initiatives (Odeyemi et al., 2024). Thus, the following hypothesis is advanced:

H3: Environmental impact has a positive effect on the financial performance of social enterprises.

2.3.2.4. Stakeholder Engagement and Financial Performance

Stakeholder engagement refers to the strategic involvement of individuals and groups who influence or are affected by the organisation's activities, such as employees, customers, community members, government, and funders (Kujala et al., 2022). Stakeholder theory posits that organisations that cultivate strong, trust-based stakeholder relationships create mutual value and enhance operational success (Aldalaty & Piranej, 2024). Empirically, stakeholder engagement has been shown to improve organisational reputation, increase access to resources, encourage community support, and enhance organisational legitimacy, all of which contribute positively to financial outcomes

(Baah et al., 2021). Based on these insights, the following hypothesis is proposed:

H4: Stakeholder engagement has a positive effect on the financial performance of social enterprises.

2.3.2.5. Financial Performance and Sustainability of Social Enterprises

Financial performance is widely regarded as a critical determinant of an enterprise's ability to sustain operations, deliver social value, and pursue long-term objectives (Audi & Yu, 2024). Literature consistently shows that organisations with strong financial capacity are better positioned to scale operations, invest in innovation, attract funding, and survive economic shocks (Sreenivasan & Suresh, 2023). Sustainability theory also supports the premise that economic viability is foundational to long-term sustainability, particularly in resource-constrained environments such as the Eastern Cape (Abid et al., 2024).

Thus, the following hypothesis is proposed:

H5: Financial performance has a positive effect on the sustainability of social enterprises.

3. RESEARCH METHODOLOGY

3.1. Research Paradigm

This study was grounded in the positivist research paradigm. The positivist paradigm assumes that reality is objective and can be measured using empirical observation and statistical analysis (Ali, 2024). It emphasises the use of structured instruments and quantifiable data to test hypotheses and determine relationships between variables. In the context of this study, the positivist paradigm was appropriate because the research sought to measure and statistically analyse the relationships between social value creation, economic impact, environmental impact, stakeholder engagement, financial performance, and sustainability of social enterprises. The paradigm enabled the researcher to objectively examine causal relationships using measurable indicators and statistical modelling techniques.

3.2. Research Approach

A quantitative research approach was employed in this study. The quantitative approach is suitable for studies that aim to test hypotheses, measure variables numerically, and establish statistical relationships among constructs (Ghanad, 2023). Given that the study sought to test five hypotheses derived from the conceptual framework, a quantitative approach allowed for systematic data

collection from a large sample of social enterprises and facilitated the use of advanced statistical techniques such as Structural Equation Modelling (SEM). This approach enhanced the objectivity, reliability, and generalisability of the findings within the defined population.

3.3. Research Design

The study adopted a descriptive and explanatory research design. The descriptive component aimed to describe the characteristics of social enterprises operating in the Eastern Cape and to summarise the levels of social value creation, economic impact, environmental impact, stakeholder engagement, financial performance, and sustainability. The explanatory component sought to examine the causal relationships among these constructs as proposed in the conceptual model. A cross-sectional design was utilised, whereby data were collected from respondents at a single point in time. This design was appropriate for assessing existing relationships between variables without manipulating the study environment. The cross-sectional design enabled the researcher to efficiently gather data from many participants and analyse patterns within the population of social enterprises.

3.4. Population And Sampling

The target population of the study consisted of social enterprises operating within the Eastern Cape Province. The population frame included approximately 1,000 registered social enterprises identified through local enterprise databases, development agencies, and relevant institutional records. These enterprises operate across various sectors, including agriculture, education, environmental services, manufacturing, and community development. From this population, a sample of 278 social enterprises was selected. The sample size was determined based on statistical adequacy for Structural Equation Modelling and to ensure sufficient representation of the population. A probability-based simple random sampling technique was employed to ensure that each social enterprise had an equal chance of being selected. The use of random sampling enhanced the representativeness of the sample and reduced selection bias, thereby strengthening the validity of the findings.

3.5. Data Collection Instrument

Primary data were collected using a structured questionnaire. The questionnaire was designed based on validated measurement scales adapted

from existing literature to ensure content validity and reliability. The instrument consisted of closed-ended questions measured on a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5). The questionnaire was divided into sections corresponding to the study constructs, namely social value creation, economic impact, environmental impact, stakeholder engagement, financial performance, and sustainability of social enterprises. Additional items captured demographic information about the respondents and organisational characteristics. Before full-scale data collection, the questionnaire was reviewed to ensure clarity, relevance, and alignment with the study objectives. The structured format allowed for consistent responses and facilitated statistical analysis.

3.6. Data Collection Procedure

Data were collected from the selected social enterprises through the distribution of questionnaires to owners, managers, or senior representatives who were knowledgeable about the organisation's operations and performance. Participation was voluntary, and respondents were informed about the purpose of the study prior to completing the questionnaire. The data collection process ensured confidentiality and anonymity. Respondents were assured that their responses would be used solely for academic purposes and would not be disclosed to unauthorised parties. The use of a structured questionnaire enabled the efficient collection of quantitative data suitable for statistical analysis.

4. DATA ANALYSIS

The collected data were captured and analysed using the Statistical Package for the Social Sciences (SPSS) and SmartPLS software. Data analysis was conducted in several stages. Firstly, descriptive statistics were computed to summarise the demographic characteristics of respondents and the distribution of responses across constructs. Measures such as frequencies, percentages, means, and standard deviations were used to describe the data. Secondly, reliability and validity assessments were conducted to evaluate the measurement model. Internal consistency reliability was assessed using Cronbach's alpha and Composite Reliability (CR). Convergent validity was evaluated using factor loadings and Average Variance Extracted (AVE), while discriminant validity was assessed using the Fornell-Larcker criterion and the Heterotrait-Monotrait (HTMT) ratio. Thirdly, Structural Equation Modelling (SEM) was employed to test the

hypothesised relationships between variables. SEM was chosen because it allows for the simultaneous examination of multiple relationships between latent constructs (Subhaktiyasa, 2024). Path coefficients, t-statistics, and p-values were generated to determine the significance and strength of the relationships (Hakawati et al., 2024). The structural model also assessed model fit indicators to ensure the adequacy of the model.

4.1. Reliability And Validity

Ensuring reliability and validity was a critical component of this study. Reliability refers to the consistency of measurement, while validity refers to the extent to which the instrument measures what it is intended to measure (Krieglstein et al., 2022). Internal consistency reliability was assessed using Cronbach's alpha and Composite Reliability values, with acceptable thresholds exceeding 0.70. Convergent validity was confirmed when factor loadings exceeded 0.70 and AVE values were above 0.50. Discriminant validity was established when the square root of AVE for each construct exceeded its correlations with other constructs and when HTMT

values were below the recommended threshold. These statistical procedures ensured that the measurement instrument was both reliable and valid for testing the conceptual model.

4.2. Ethical Considerations

Ethical considerations were strictly observed throughout the study. Ethical clearance was obtained from the relevant institutional review body prior to data collection. Participants were provided with an informed consent form explaining the purpose of the study, their rights as participants, and the voluntary nature of participation. Confidentiality and anonymity were always maintained. No identifying information was disclosed, and data were securely stored for academic use only. Participants were informed that they could withdraw from the study at any stage without penalty. By adhering to ethical principles, the study ensured respect for participants and upheld academic integrity.

5. RESULTS

5.1. Sample Demographic Characteristics

Table 1: Sample Demographic Characteristics.

		Frequency	Percentage
Age	18-29	62	22.2
	30-39	100	35.8
	40-49	94	33.7
	50+	23	8.2
	Total	279	100.0
Qualification	NSC Certificate	41	14.7
	Diploma	80	28.7
	Degree	86	30.8
	Postgraduate	72	25.8
	Total	279	100.0
Racial group	Black	115	41.2
	White	74	26.5
	Indian	43	15.4
	Coloured	47	16.8
	Total	279	100.0
Gender	Male	168	60.22
	Female	111	39.78
	Total	279	100.0
Occupation	Executive Managers	88	31.54
	Senior Managers	83	29.75
	Junior Managers	63	22.58
	Supervisors	45	16.13
	Total	279	100.0

Source: Researcher's Construction (2025).

6. RELIABILITY ANALYSIS

The statistical measurements of accuracy tests

presented in Table 2 describe the several approaches utilised to assess the validity and reliability of the study's variables.

Table 2: Accuracy Analysis Statistics.

Constructs	Cronbach's alpha	Composite reliability	Average Variance Extracted (AVE)	Outer Loadings
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Economic impact	0.919	0.919	0.712	0.821 0.873 0.850 0.843 0.848 0.825
Environmental impact	0.917	0.931	0.702	0.840 0.853 0.851 0.819 0.844 0.821
Financial performance	0.940	0.943	0.770	0.875 0.825 0.886 0.884 0.883 0.910
Stakeholder engagement	0.931	0.934	0.743	0.900 0.867 0.837 0.897 0.851 0.818
Sustainability of Social Enterprises	0.948	0.951	0.794	0.871 0.862 0.920 0.913 0.874 0.905
Social value creation	0.923	0.926	0.722	0.871 0.862 0.920 0.913 0.874 0.905

Source: Researcher's Construction (2025).

Table 2 shows that the closer the measured items are to one another, the higher the correlation between the items. Cronbach's alpha coefficient was also used to evaluate each variable's internal consistency in the analysis. "The coefficient is closer to 1.00, the higher the internal consistency of the scale's items" (Adamson & Prion, 2013). Every alpha result, which ranged from 0.917 to 0.948, was higher than the recommended threshold of 0.7. This indicates that every variable was reliable (Gebremedhin et al., 2022). The results produced CR indices between 0.804 to 0.928. The scales are compositely reliable because the CR amount shown is greater than the evaluation criterion by more than 0.70, which is sufficient for the internal consistency (Cheung et al., 2024).

Furthermore, the study's convergent validity was confirmed by computing AVE values. AVE is the mean of communalities for every latent factor in a reflective model. Cheung et al. (2024) states that the construct should account for at least half of the variance in the observed variables if the AVE values are at least 0.50. dos Santos and Cirillo (2023) states that AVE values below 0.50 indicate that the variance is greater than the explained variance. Considering

each indicator variable shared more variance with its corresponding construct, the AVE values identified in this analysis were within the proper range ($0.702 \leq AVE \leq 0.794$). The hetero-trait-monotrait ratio (HTMT) criterion (Table 3) was used to assess discriminant validity despite the recommendations of previous studies (Rönkkö & Cho, 2022). This suggests that HTMT is a better criterion than the widely used Fornell-Larcker criteria. When the HTMT value is less than 0.9 or 0.85 when using a more conservative strategy, discriminant validity is achieved (Cheung et al., 2024).

Although the HTMT criterion recommends threshold values below 0.90, and more conservatively below 0.85, recent methodological literature emphasises that values slightly above 0.90 do not automatically invalidate discriminant validity, particularly when constructs are conceptually related and theoretically grounded (Cheung et al., 2024). In this study, constructs such as stakeholder engagement, financial performance, and sustainability of social enterprises are inherently interconnected within the Triple Bottom Line and Sustainability theoretical frameworks, which may

naturally produce higher inter-construct correlations. Furthermore, discriminant validity should be evaluated holistically alongside other indicators. The results show that all constructs demonstrated strong convergent validity ($AVE > 0.50$), high internal consistency reliability ($CR > 0.70$),

and acceptable outer loadings, which collectively support the adequacy of the measurement model. Therefore, although a few HTMT values slightly exceed the conservative 0.90 threshold, the overall evidence suggests that discriminant validity remains acceptable and theoretically justified.

Table 3: Heterotrait-Monotrait Ratio (Htmt).

Research construct	Economic impact	Environmental impact	Financial performance	Stakeholder engagement	Sustainability of social enterprise	Social value creation
Economic impact						
Environmental impact	0.931					
Financial performance	0.729	0.802				
Stakeholder engagement	0.798	0.860	0.932			
Sustainability of social enterprises	0.751	0.863	0.947	0.907		
Social value creation	0.832	0.681	0.643	0.688	0.581	

Source: Researcher's Construction (2025)

6.1. Assessment Of the Goodness of Fit (Gof)

$$GoF = \sqrt{AVE * R^2}$$

The global goodness-of-fit of the calculation is 1.0837126, exceeding the recommended threshold of $Gof > 0.36$. The study concludes that the research model provides a good overall fit. The Goodness-of-Fit (GoF) index was calculated to assess the overall explanatory power of the PLS-SEM model. Traditionally, GoF values range between 0 and 1, as it is computed as the geometric mean of the average communality (AVE) and the average coefficient of determination (R^2) (Sureshchandar, 2023). However, recent methodological discussions note that variations in reporting or computational procedures, particularly when using composite reliability or aggregated construct indicators instead of strictly

averaged AVE and R^2 values, may produce values exceeding 1.0 (Cheung et al., 2024). Importantly, the GoF index in PLS-SEM should be interpreted cautiously, as contemporary PLS-SEM scholars such as Joseph F. Hair Jr. and Christian M. Ringle emphasise that GoF is no longer considered a definitive model fit criterion (Sarstedt et al., 2023). Instead, model quality should be evaluated using a combination of indicators, including R^2 , Q^2 , effect sizes (f^2), path coefficients, and predictive relevance (Subhaktiyasa, 2024). Therefore, the reported GoF value should be interpreted as a supplementary descriptive indicator rather than a strict measure of model fit, and the overall model adequacy is supported by the strong R^2 , Q^2 , and reliability and validity results presented in this study.

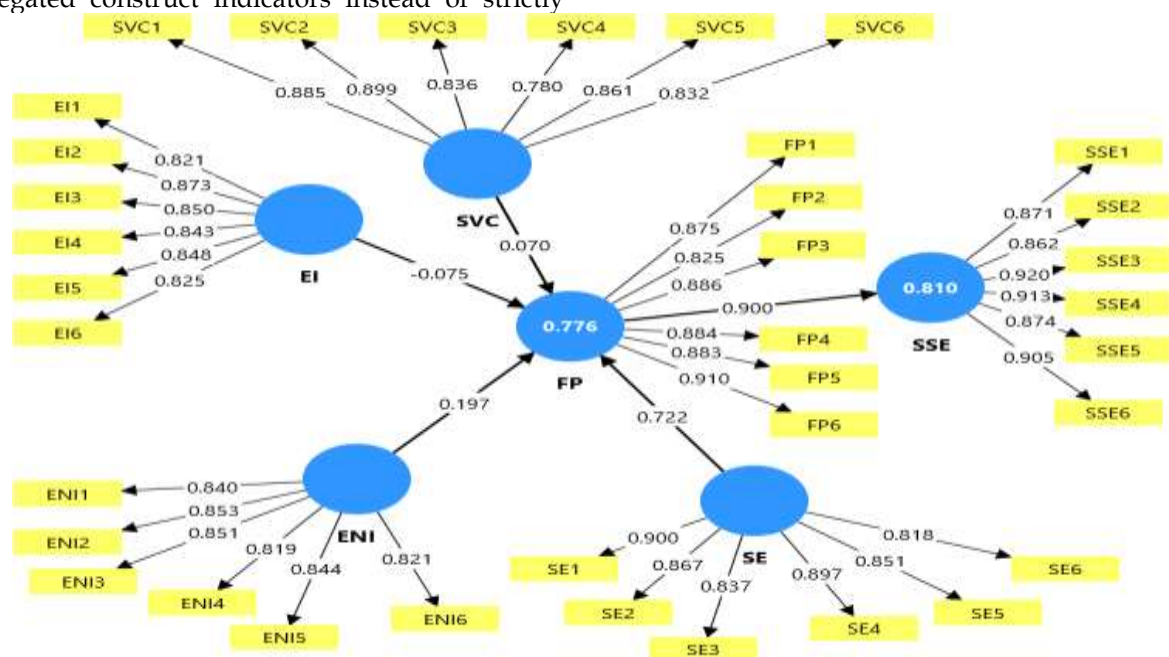


Figure 2: Structural Model.

6.2. Path Model Results and Factor Loadings

Figure 2 illustrates the PLS estimates and item loadings for the study constructs.

6.3. Outcomes Of Hypothesis Testing

Five hypotheses were proposed in the study. The analysis indicates that the hypothesised relationships between ENI and FP, FP and SSE, and SE and FP are statistically significant and supported. The relationships between EI and FP, as well as between SVC and FP, are not statistically significant. The strongest relationship was between FP and SSE, with

a correlation coefficient of $\beta = 0.900$, $t = 73.630$, and $p = 0.000$. Additionally, a significant relationship was found between SSE and FP, with $\beta = 0.900$, $t = 73.630$, and $p < 0.000$. Furthermore, the relationship between SSE and FP was also significant, with a beta coefficient of 0.900, a t-value of 73.630, and a p-value of 0.000. This was followed by the relationship between SE to FP, which has $\beta=0.722$; $t=12.484$; $p=0.000$; ENI to FP, which has $\beta=0.197$; $t=2.660$; $p=0.008$; SVC to FP, which has $\beta=0.070$; $t=1.333$; $p=0.183$; EI to FP, which has $\beta=-0.075$; $t=1.101$; $p=0.271$, respectively. The findings are shown in Table 4 below.

Table 4: Results Of Structural Equation Model Analysis.

Hypothesized relationship	Hypotheses	Path co-efficient	T-statistics	P-value	Outcome
EI>FP	H ₁	-0.075	1.101	0.271	insignificant & not supported
ENI>FP	H ₂	0.197	2.660	0.008	significant & supported
FP>SSE	H ₃	0.900	73.630	0.000	significant & supported
SE>FP	H ₄	0.722	12.484	0.000	significant & supported
SVC>FP	H ₅	0.070	1.333	0.183	insignificant & supported

Source: Researcher's Construction (2025).

6.3.1. Results After Testing Hypothesis One.

The results of the H1 test confirmed that there is no association between economic impact (EI) and financial performance (FP). A path coefficient of -0.075 was obtained after testing H1. This means that economic impact (EI) negatively influences financial performance (FP). Furthermore, the results indicate that the relationship between economic impact (EI) and financial performance (FP) is negative, although it is not statistically significant ($t = 1.101$, $p = 0.271$).

The insignificant relationship between economic impact and financial performance is supported by literature suggesting that social enterprises often prioritize mission over profit maximization (Wejesiri et al., 2025). In hybrid organizations, resource allocation toward economic development goals (e.g., community job creation, subsidized services) may initially reduce short-term profitability due to higher operational costs and constrained revenue models (Taylor & Rosca, 2024). Furthermore, trade-off theory suggests that organizations pursuing strong socio-economic objectives may experience financial strain when balancing dual logics (Datta et al., 2025). Studies on social enterprises in developing contexts have also shown that economic outreach and community investments do not always translate into immediate financial gains (Quaye et al., 2024). Thus, the non-significant and slightly negative relationship

aligns with research suggesting that economic impact initiatives may generate long-term societal value but not necessarily short-term financial returns.

6.3.2. Results After Testing Hypothesis Two.

The results of the H2 test confirmed a significant association between environmental impact (ENI) and financial performance (FP). A path coefficient of 0.197 was realised after testing H2. This means that environmental impact (ENI) has a positive relationship with financial performance (FP). Furthermore, the results indicate a significant relationship between environmental impact (ENI) and financial performance (FP) ($t = 2.660$, $p = 0.008$).

The significant positive relationship is strongly supported by stakeholder theory (Freeman, 1984), which posits that firms addressing environmental concerns improve legitimacy and stakeholder support, enhancing financial outcomes. Empirical studies demonstrate that environmental sustainability practices can improve operational efficiency (e.g., reduced waste and energy costs), enhance reputation, and attract environmentally conscious consumers and investors (Prakash et al., 2023). The Porter Hypothesis further argues that environmental responsibility can stimulate innovation that offsets compliance costs and

improves competitiveness (Zhang et al., 2024). Meta-analyses on corporate social performance (CSP) and financial performance (CFP) consistently show a positive association, particularly for environmental performance indicators (Zubeltzu-Jaka et al., 2024).

6.3.3. Results After Testing Hypothesis Three.

The results of the H3 test confirmed a significant association between financial performance (FP) and the sustainability of social enterprises (SSE). A path coefficient of 0.900 was realised after testing H3. This indicates that financial performance (FP) positively affects the sustainability of social enterprises (SSEs). Furthermore, the results indicate that financial performance (FP) and the sustainability of social enterprises (SSE) are positively and significantly related ($t = 73.630$, $p < 0.000$).

The strong relationship between financial performance and sustainability of social enterprises is well-grounded in resource-based theory (Hussein & Song, 2024), which emphasizes financial resources as strategic assets necessary for organizational survival and growth. Financial viability is regarded as a critical determinant of long-term sustainability in social enterprises (Bartha & Berczk, 2025). Without sufficient financial performance, social enterprises struggle to scale impact, retain skilled employees, and maintain operational stability (Armstrong & Grobbelaar, 2023). Additionally, earned-income strategies have been shown to enhance autonomy and reduce dependence on unstable donor funding (Mikołajczak, 2022). As Ciasullo et al. (2024) argue, sustainability in hybrid organizations depends significantly on balancing mission with financial resilience.

6.3.4. Results After Testing Hypothesis Four.

The results of the H4 test confirmed a significant association between stakeholder engagement (SE) and financial performance (FP). A path coefficient of 0.722 was realised after testing H4. This means that stakeholder engagement (SE) positively influences financial performance (FP). Furthermore, the results indicate that the relationship between stakeholder engagement (SE) and financial performance (FP) is significantly positive ($t = 12.484$, $p = 0.000$).

The finding is consistent with stakeholder theory (Freeman, 1984), which argues that organizations creating value for stakeholders achieve superior financial outcomes. Effective stakeholder engagement fosters trust, legitimacy, and collaboration, which enhance performance (Eyinade et al., 2022). Empirical research shows that firms with strong stakeholder relationships experience

improved customer loyalty, employee commitment, and investor confidence (Yan et al., 2022). In social enterprises specifically, stakeholder involvement strengthens community support and access to critical resources (Spanuth & Urbano, 2024). Moreover, relational capital theory suggests that strong stakeholder networks create competitive advantage (Mohammad Shafiee et al., 2024).

6.3.5. Results After Testing Hypothesis Five.

The results obtained following the H5 test confirmed an association between social value creation (SVC) and financial performance (FP). A path coefficient of 0.070 was realised after testing H5. This means that social value creation (SVC) positively influences financial performance (FP). Furthermore, the results indicate that the relationship between social value creation (SVC) and financial performance (FP) is positive, albeit insignificant ($t = 1.333$, $p = 0.183$).

Although positive, the insignificant relationship aligns with research indicating that social value creation does not always produce immediate financial returns (Alshukri et al., 2024). Social enterprises often reinvest surplus into mission-driven activities, limiting observable short-term financial gains (Robertson, 2025). Additionally, measuring social value is complex, and financial benefits may be indirect or long-term (Andersson et al., 2022). Some studies suggest that while social impact strengthens reputation and legitimacy, financial performance improvements may materialize gradually (Onalaja et al., 2022).

7. IMPLICATIONS FOR THE STUDY

This study provides several important implications for theory, practice, and policy in the domain of social entrepreneurship, particularly within the context of emerging economies such as South Africa.

7.1. Theoretical Implications

This study contributes significantly to the theoretical understanding of social entrepreneurship in developing contexts. First, the findings extend the Triple Bottom Line (TBL) theory by demonstrating that environmental practices and stakeholder engagement play a critical role not only in social value creation but also in enhancing financial performance. This provides empirical support for the argument that social, environmental, and economic dimensions are interdependent rather than mutually exclusive (Montesano et al., 2023). Second, the study strengthens the foundations of Stakeholder Theory

by showing that stakeholder engagement is a strong and significant predictor of financial performance. This suggests that stakeholder-oriented strategies are essential to the success of social enterprises operating in resource-constrained, community-based environments. Third, the study reinforces Sustainability Theory by confirming that financial performance serves as a key driver of long-term sustainability. The results illustrate that social enterprises must remain financially stable to maintain their social mission and scale their impact over time.

7.2. Practical Implications

The findings provide several practical insights for social enterprise managers, funders, support organisations, and development practitioners. First, the positive and significant influence of stakeholder engagement underscores the importance of building strong relationships with community members, employees, funders, and external partners. Strengthening these relationships can improve operational efficiency, enhance legitimacy, and increase access to financial and non-financial resources. Second, the results highlight the need for social enterprises to embed environmentally sustainable practices in their operational models. These practices not only contribute to ecological preservation but also reduce operational costs and improve public perception, thereby enhancing financial performance. Third, the study emphasises that financial performance is crucial for sustaining the long-term operations of social enterprises. Managers should therefore prioritise sound financial management, revenue diversification, and investment in income-generating activities to improve organisational resilience. These practical implications may help social enterprises improve their internal strategies and strengthen their ability to deliver long-term social impact.

7.3. Policy Implications

The study also offers several important implications for policymakers and institutions that support social enterprises. First, the findings highlight the need for policy frameworks that incentivise environmental sustainability, such as tax rebates, grants, or subsidies for enterprises adopting eco-friendly practices. Such support can strengthen the environmental contribution of social enterprises while improving their financial performance. Second, given the strong role of stakeholder engagement, government agencies should promote collaborative platforms that connect social

enterprises with local communities, NGOs, private sector partners, and academic institutions. Such networks can foster knowledge exchange, joint initiatives, and resource-sharing. Third, the study underscores the need for financial support mechanisms, including grant programmes, impact investment schemes, low-interest loans, and incubation initiatives tailored to social enterprises. Policymakers should recognise that financial performance directly influences long-term sustainability, and thus, targeted funding can significantly improve the resilience of these enterprises. Enhancing the policy environment will contribute to the growth, stability, and scalability of social enterprises in the Eastern Cape and beyond.

8. LIMITATIONS AND FUTURE RESEARCH SUGGESTIONS

Although this study provides valuable insights, several limitations should be acknowledged:

First, the study was geographically limited to the Eastern Cape Province, which may restrict the generalisability of the findings to social enterprises in other South African provinces or international contexts. Future studies could adopt comparative designs across multiple regions or countries to broaden the understanding of social entrepreneurship dynamics in diverse environments. Second, the study utilised a quantitative research approach, relying on respondents' self-reported data. While this enabled statistical testing, it restricted the depth of insights into the lived experiences, motivations, and contextual challenges of social entrepreneurs. Future research could incorporate qualitative or mixed methods approaches to complement quantitative findings. Third, financial performance was measured using subjective indicators due to the difficulty of obtaining accurate financial records from social enterprises. Future researchers may explore methods for capturing objective financial data or triangulating subjective measures to enhance reliability. Fourth, the study focused on direct relationships between variables and employed a cross-sectional design. Future longitudinal studies could examine how these relationships evolve over time, particularly in volatile economic environments. Furthermore, the study did not explore potential moderating or mediating variables beyond financial performance. Future research may examine factors such as organisational size, institutional support, leadership characteristics, and innovation capabilities to deepen theoretical insights.

9. CONCLUSION

This study investigated how social entrepreneurship influences the financial performance and sustainability of social enterprises in the Eastern Cape Province. Guided by the Triple Bottom Line, Stakeholder, and Sustainability theories, the research developed and tested a conceptual model linking social value creation, economic impact, environmental practices, stakeholder engagement, financial performance, and sustainability. The results demonstrate that environmental impact and stakeholder engagement significantly enhance financial performance, while social value creation and economic impact although positive were statistically insignificant in this context. Most importantly, financial performance emerged as a strong and significant determinant of social enterprises' sustainability, reinforcing the critical role of financial stability in achieving long-term mission-

driven goals. Overall, the study provides theoretical, practical, and policy-oriented contributions that enhance the understanding of how social entrepreneurship operates in economically challenged environments. It highlights the importance of balanced strategies that integrate social impact with financial excellence to ensure the survival and growth of social enterprises. The study concludes that strengthening stakeholder relationships, promoting environmental responsibility, and enhancing financial management practices are essential pathways to sustainable social entrepreneurship in the Eastern Cape. The findings provide a foundation for future research and offer relevant insights for policymakers, practitioners, scholars, and social entrepreneurs seeking to advance inclusive and sustainable development.

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