



“The influence of social entrepreneurship orientation and competitive advantage on the performance of rural social enterprises”

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THE INFLUENCE OF SOCIAL ENTREPRENEURSHIP ORIENTATION AND COMPETITIVE ADVANTAGE ON THE PERFORMANCE OF RURAL SOCIAL ENTERPRISES

Abstract

The development gap between urban and rural areas is a concern in many countries, including Indonesia. Currently, the government has introduced rural businesses to overcome this problem. This study aims to analyze the effect of social entrepreneurship on the performance of rural social entrepreneurs and test competitive advantage as a mediator. The population includes village-owned enterprises in Riau Province, Indonesia; the sample was stratified randomly. Village-owned enterprises are distributed based on classification, namely basic, growing, developing, and advanced. Respondents are managers of village-owned enterprises. Each village received five questionnaires, and 399 company managers decided to join the survey. The study employed structural equation modeling partial least squares to prove that competitive advantage influences organizational performance with a p -value of $0.000 < 0.05$. Social entrepreneurial orientation influences competitive advantage and company performance with a p -value of 0.000 . Competitive advantage is proven to mediate the relationship between social entrepreneurial orientation and performance, with a p -value of 0.000 . The research results stress the importance of social entrepreneurship in improving company performance in rural areas. For this reason, the government should provide high-quality social entrepreneurship training.

Keywords

social entrepreneurship orientation, competitive advantage, performance, village-owned enterprises

JEL Classification

M13, M21, O15, O18

INTRODUCTION

The sustainable development goals compiled by the UN member states in 2015 are expected to be achieved by 2030. They aim to reduce inequality between the countries in the world as this gap impacts the disparity in community well-being between regions. Additionally, this element of regional development disparities is significant for how regional governments formulate regional development policies.

Governments around the world are beginning to prioritize rural development as a solution. For instance, rural firms in the UK significantly boosted the supply and their capacity to export goods and services (Phillipson et al., 2019). Rural-urban enterprises have been set up by the Chinese government to actively boost the rural economy (Kania et al., 2021). In Indonesia, the government has also formed companies in rural areas called village-owned enterprises (VOEs). VOEs were founded to help village development and improve community welfare. Even though the number of VOEs is experiencing rapid growth

yearly, many have not shown optimal performance. By 2024, the number of village-owned enterprises in Indonesia will reach 58959 (Kemendesa, n.d.). Based on this number, around 30% of VOEs have not made an optimal contribution to the rural economy; in fact, the majority of VOEs are still in the underdeveloped category (Basri et al., 2023).

To address rural economic problems, recent entrepreneurship studies have emphasized social entrepreneurs' creative skills as prospective new players in addressing socio-economic issues in structurally underdeveloped rural areas and driving sustainability. Thus, some previous studies have shown that rural communities are suitable for social entrepreneurship because they have substantial social capital and a history of group problem-solving. Conversely, social capital is an essential organizational asset for creating social entrepreneurship models. However, several characteristics of the rural institutional setting, both in a social and regulatory sense, might place significant barriers in the way of social entrepreneur's ability to generate innovation in structurally underdeveloped areas.

1. LITERATURE REVIEW AND HYPOTHESES

This study uses resource-based view (RBV) theory to explain the relationship between variables. Wernerfelt (1984), who believed that company resources and capabilities are crucial since they are the primary basis of company competitiveness and performance, pioneered the RBV hypothesis. According to Barney (1991), RBV theory is a theoretical framework that analyzes how organizations can obtain a competitive advantage by managing and using step-by-step, valuable, difficult-to-imitate, and non-substitutable resources. The criteria for these assets can be a competitive advantage for companies because companies can utilize these resources effectively to create added customer value and generate significant profits.

Some forms of resources can give competitive advantages, such as physical resources (machines, buildings, or production equipment), human resources (employee skills and knowledge), organizational resources (management systems and operational procedures), and intellectual resources (trademarks, patents, and copyrights) (Barney, 1991).

The application of social entrepreneurship orientation (SEO) is taking on the theory of resource-based view (RBV). RBV is an idea developed to explain how a company's resources might provide a competitive edge (Wernerfelt, 1984). Following RBV, the resources owned by the organization, including intangible resources, such as entrepreneurial orientation, can be a competitive advantage

if these resources have essential, valuable characteristics, are difficult to imitate, and cannot be replaced.

Behavior-oriented social entrepreneurship is distinguished by the integration of social missions and business strategies to foster the long-term viability and success of social value (Gali et al., 2020; Sulphrey & Salim, 2021; Halberstadt et al., 2021). Social value creation refers to the outcome of corporate decision-making processes and processes encompassing SEO behavior and the pursuit of novel methods to provide inventive answers to societal issues. SEOs engage in proactive measures to establish novel projects that sustainably achieve their social objective (Pinheiro et al., 2021). When companies demonstrate SEO, corporate priorities shift from performance targets that maximize entire profits to a more holistic corporate performance model that prioritizes social performance. Companies that actively participate in SEO behavior contribute to social value creation, trading with various stakeholders and society (Gali et al., 2020; Zafar et al., 2022). An SEO activity proactively resolves the tension between social and economic values (Zafar et al., 2022; Lückenbach et al., 2023).

Furthermore, there are opportunities for synergistic possibilities between social and economic objectives (Lu et al., 2018; Méndez-Picazo et al., 2021). Organizing a hybrid company has been found to possess greater complexity than previously acknowledged, and the potential to provide enhanced social value does not necessarily entail sacrificing economic benefit (Shepherd et al., 2019;

Aveling et al., 2023). As companies partake in SEO and actively seek prospects that yield favorable social outcomes and robust financial gains, SEO endeavors bridge the divide between social and economic value rationales (Wevers et al., 2020). Accordingly, the companies involved in SEO will observe a rise in relative hybridity. Thus, this study suspects that social entrepreneurial orientation will influence the performance of social enterprises in rural areas.

SEO's underlying notion, social value, is analogous to economic wealth (Gali et al., 2020). The anticipated result of a hybrid organization guided by SEO practices is a strong financial performance (Halberstadt et al., 2021). SEO for companies in rural areas is highly suitable for use. SEO can overcome community welfare problems in rural areas by creating social and economic value.

Furthermore, Schumpeter (1934) states that with an entrepreneurial orientation, an organization can create innovative products or services that can attract customers. By doing that, the product possesses high competitiveness. Social SEO companies have a highly innovative attitude that can create competitive advantages.

Entrepreneurial orientation can influence competitive advantage (Kiyabo & Isaga, 2020; Pratono et al., 2019). Social entrepreneurial orientation in rural social organizations may also affect competitive advantage. Behavioral social entrepreneurship is primarily used to accomplish a social objective, where the recognition of entrepreneurial opportunities that generate cash arises from social issues (Pratono et al., 2023). According to Barney (1991), internal factors, such as a strong social entrepreneurship orientation, can cause SEO to develop valuable capabilities, creating competitive advantages that competitors do not easily imitate. Therefore, this study argues that social entrepreneurial orientation can increase competitive advantage.

The pursuit of competitive advantage enhances corporate performance by fostering growth in profitability, sales, and client base (Mohammad & Wasiuzzaman, 2021). RBV theory posits that resources possess rarity, value, inimitability, and non-substitutability characteristics. Value, rare, inimita-

ble, and organized characteristics have the potential to serve as a means of attaining a competitive edge for an enterprise (Barney, 1991). One of the company's resources for increasing productivity is competitive advantage (Azeem et al., 2021). Many qualified human resources, innovative technology, well-known brands, extensive distribution networks, and strong relationships with customers or suppliers can complement this competitive privilege. Companies with a competitive privilege can recruit novel clientele and sustain their existing consumer base. Competitive advantage not only has an economic but also a social impact. For instance, there is an increase in customer satisfaction, company reputation, and employee satisfaction (Islam et al., 2021).

In rural companies, competitive advantage will also influence company performance. Services to rural communities also require competitive advantages (Soleymani et al., 2021). Thus, innovative and proactive companies can provide benefits to the community. In response, many previous studies state that competitive advantage influences organizational performance (Singh et al., 2019; Chatterjee et al., 2021). Therefore, this study argues that competitive advantage influences the performance of rural companies.

SEO influences competitive advantage by creating product or service innovations that attract customers (Schumpeter, 1934). It is innovative, creative, and proactive and has a social operation to serve the needs of society. The innovation will produce a competitive advantage that can attract the public to receive services from the company. Competitive advantage affects performance by increasing customer satisfaction, profit growth, sales growth, and customer growth (Mohammad & Wasiuzzaman, 2021). As explained by Islam et al. (2021), businesses with a competitive edge can recruit novel clientele and sustain consumer loyalty. Therefore, this study argues that competitive advantage can mediate the relationship between social entrepreneurial orientation and company performance in rural areas.

Based on the literature review, this study aims to examine the influence of social entrepreneurial orientation on the performance of social enterprises by analyzing competitive advantage as mediation. The hypotheses proposed are as follows:

- H1: *Social entrepreneurial orientation influences company performance in rural areas.*
- H2: *Social entrepreneurial orientation influences competitive advantage.*
- H3: *Competitive advantage influences company performance in rural areas.*
- H4: *The link between social entrepreneurship orientation and company success is mediated by competitive advantage.*

2. METHODOLOGY

This study focuses on village-owned enterprises, which are the largest rural social enterprises in Indonesia. Village-owned enterprises in four areas were selected: Kuansing, Inhil, Rohil, and Meranti Regencies. The current study utilized primary data, which refer to data directly collected from the main source, namely the company management. A total of 5 questionnaires were sent to each company.

The operational definition of a variable is a definition that shows how a variable is measured or car-

ried out in a study. This study uses measurement variables adopted from previous research, as outlined in Table 1. Company performance variables are adapted from Basri et al. (2023). The social entrepreneurship orientation variable was adopted from Weerawardena and Mort (2006), and the competitive advantage variable was adopted from Satyagraha (1994). Each variable is measured using a 5-point Likert scale, namely 1 = strongly disagree to 5 = strongly agree.

The study employed a structural equation modeling (SEM) approach utilizing partial least squares (PLS) to conduct hypothesis testing. Partial least squares (PLS) is a type of structural equation model (SEM) characterized by its component or variant-based. Structural equation modeling (SEM) is a statistical methodology employed to evaluate a set of interrelated interactions that are relatively challenging to measure concurrently.

Testing with SmartPLS goes through two stages. The outer model testing stage consists of validity testing that includes convergent validity and discriminant validity. Next, reliability testing is carried out. The next stage is testing the inner model, which includes testing model fit and hypotheses testing.

Table 1. Operational definitions of variables

No.	Variable	Variable definition	Indicator	Scale
1	Company performance	Performance is the outcome of work or work performance and how the process of work takes place (Armstrong & Baron, 1998)	Profit rate Revenue growth rate Productivity level Capital increase Loyalty Employee satisfaction Community satisfaction Market share Reputation (Basri et al., 2023)	Ordinal
2	Social Entrepreneurship Orientation	SEO is a complex concept that involves the dimensions of entrepreneurial behavior (innovation, proactivity, and courage to take risks); it incorporates a social mission dimension that exemplifies the virtues of SEO (Weerawardena & Mort, 2006)	Innovation Proactive Dare to take risks Social mission (Weerawardena & Mort, 2006)	Ordinal
3	Competitive Advantage	Competitive advantage is a strategic benefit from companies that collaborate to compete (Porter, 1993)	Uniqueness Rarely found Not easy to imitate Not easy to replace Competitive price (Satyagraha, 1994)	Ordinal

3. RESULTS

Out of the total of 500 questionnaires handed out, 399 questionnaires were collected and processed (79.8%). Table 2 shows the characteristics of the respondents, and Table 3 shows descriptive statistics.

Table 2. Characteristics of respondents

Characteristics	Total	Percentages
Gender		
Female	159	60.2%
Male	240	39.8%
Age		
<20 years old	3	0.8%
21-30 years old	115	28.8%
31-40 years old	142	35.6%
41-50 years old	104	26.1%
>50 years old	35	8.8%
Education		
Diploma (D3)	29	7.3%
Elementary school	2	0.5%
Senior High School	174	43.6%
Junior High School	7	1.8%
Masters (S2)	2	0.5%
Bachelor (S1)	185	46.4%
Work Experience		
< 1 year	18	4.5%
1-5 years	337	84.5%
>5 years	44	11.0%
Position		
Director	127	31.8%
Secretary	93	23.3%
Treasurer	97	24.3%
Unit Head	82	20.6%

Descriptive statistics show that the data fit well. The standard deviation is not greater than the mean. This means there are no large deviations in the data. Furthermore, this study test used SmartPLS. It started with testing the outer model (measurement model). The first test is validity testing, which encompasses two components: discriminant validity and convergent validity. The outer loading values and the average variance extracted (AVE) are used to determine convergent validity. Convergent validity is considered to be

Table 3. Descriptive statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Social Entrepreneurship Orientation	399	8	40	32.63	5.394
Competitive Advantage	399	10	30	24.93	4.102
Company Performance	399	24	60	48.59	8.420
Valid N (listwise)	399				

established when both the loading factor and average variance extracted (AVE) values reach the threshold of 0.5 (Hair et al., 2010). Table 4 shows loading factors and AVEs.

Table 4. Loadings, cross-loadings, and AVE

Variable	Indicator	Competitive Advantage	Company Performance	Social Entrepreneurship Orientation	AVE
Competitive Advantage (CA)	CA1	0.769	0.309	0.197	0.647
	CA2	0.807	0.296	0.185	
	CA3	0.809	0.315	0.195	
	CA4	0.816	0.382	0.236	
	CA5	0.835	0.360	0.233	
	CA6	0.787	0.431	0.231	
Company Performance (CP)	CP1	0.376	0.830	0.242	0.646
	CP10	0.381	0.835	0.210	
	CP11	0.330	0.799	0.205	
	CP12	0.333	0.768	0.251	
	CP2	0.357	0.842	0.283	
	CP3	0.434	0.824	0.249	
	CP4	0.275	0.692	0.230	
	CP5	0.346	0.827	0.240	
	CP6	0.332	0.839	0.212	
	CP7	0.323	0.757	0.211	
	CP8	0.380	0.806	0.237	
	CP9	0.357	0.811	0.223	
Social Entrepreneurship Orientation (SEO)	SEO.1	0.226	0.262	0.809	0.610
	SEO.2	0.231	0.193	0.829	
	SEO.3	0.217	0.216	0.760	
	SEO.4	0.088	0.162	0.705	
	SEO.5	0.183	0.244	0.796	
	SEO.6	0.208	0.251	0.758	
	SEO.7	0.229	0.263	0.792	
	SEO.8	0.242	0.192	0.791	

The convergent validity test revealed that the factor loading indicator variable value has a value of > 0.5, and AVE showed a value of > 0.5. It indicated if the convergent validity can be met. The discriminant validity test, namely cross-loadings, also demonstrates that the loading value of the indicator block for each variable is also higher than the other indicator. This also shows that discriminant

Table 5. Cronbach’s alpha, composite reliability, and R Square

Variable	Cronbach’s Alpha	Composite Reliability	R Square
Competitive Advantage	0.891	0.917	0.072
Company Performance	0.950	0.956	0.227
Social Entrepreneurship Orientation	0.909	0.926	

Table 6. Mean, STDEV, t-values, p-values

	Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T	P	Explanation
H1	Competitive Advantage → Company Performance	0.392	0.393	0.052	7.496	0.000	Accepted
H2	Social Entrepreneurship Orientation → Competitive Advantage	0.268	0.278	0.061	4.361	0.000	Accepted
H3	Social Entrepreneurship Orientation → Performance	0.186	0.191	0.052	3.599	0.000	Accepted
H4	Social Entrepreneurship Orientation → Competitive Advantage → Company Performance	0.105	0.109	0.027	3.844	0.000	Accepted

Note: sig < 0.05.

validity is met (Hair et al., 2010). Furthermore, reliability testing using Cronbach alpha and composite reliability can be seen in Table 5.

Table 5 revealed the Cronbach’s alpha and composite reliability values > 0.9, which signifies high reliability (Hair et al., 2010). The next test was testing the inner model. Testing the inner model involves assessing both the model itself and the hypotheses. Testing the model showed that R Square has a value of 0.227 for performance. It shows that the proportion of changes in performance influ-

enced by SEO and competitive advantage is 22.7%. The remaining 77.3% is subject to the influence of additional factors not included in this study’s scope. Table 6 presents hypotheses testing with path coefficients and p-values.

The results of hypotheses testing can be seen in Table 6 and Figure 1. For hypothesis 1, a p-value is 0.000 (<0.05) and an original sample estimate is 0.392. The results show that social entrepreneurial orientation influences company performance. This paper accepts H1.

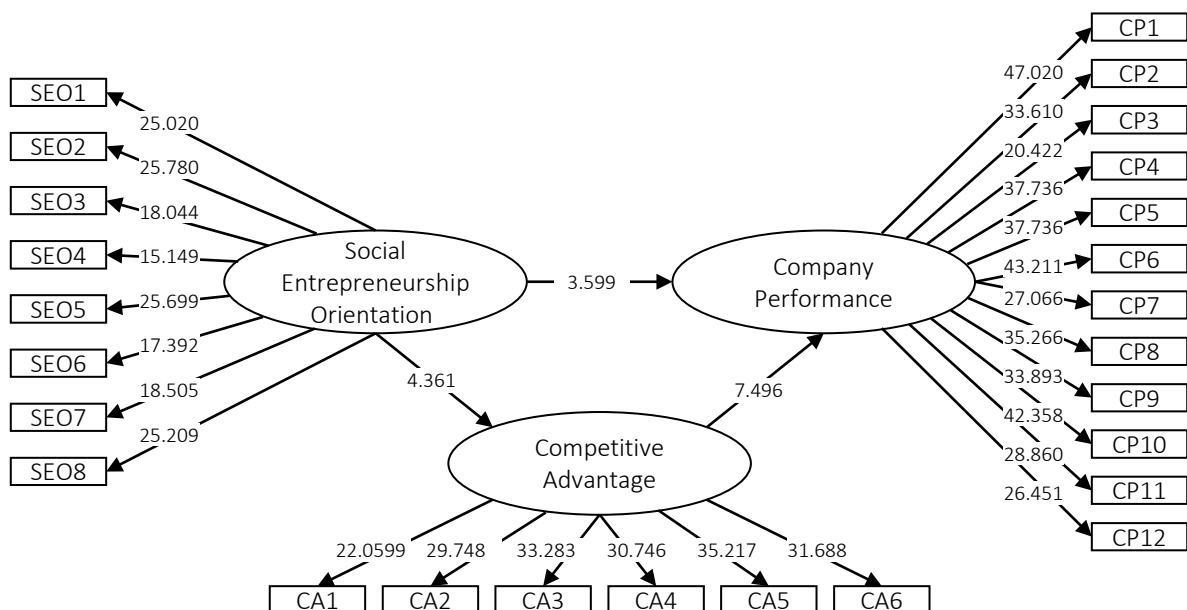


Figure 1. Full structural equation model

Next, testing hypothesis 2 shows a p -value of 0.000 (<0.05) and an original sample estimate of 0.268. The results show that social entrepreneurial orientation influences competitive advantage. This paper accepts H2.

The results of hypothesis 3 are a p -value of 0.000 (<0.05) and an original sample estimate of 0.186. The results show that competitive advantage influences company performance in rural areas. This study accepts H3.

For hypothesis 4, a p -value is 0.000 (<0.05) and an original sample estimate is 0.105. The results show that competitive advantage mediates the relationship between social entrepreneurial orientation and rural company performance. This study accepts H4.

4. DISCUSSION

The outcomes indicate a beneficial connection between the orientation of social entrepreneurship and company performance in rural areas, implying that increasing social entrepreneurship orientation (SEO) in entrepreneurs can improve company performance. This corresponds to Gali et al. (2020), Sulphey and Salim (2021), and Halberstadt et al. (2021) that social entrepreneurship-oriented behavior involves creating social value by offering innovative solutions to social issues. The proactive nature of SEO can resolve the conflict between economic value and social value in society (Zafar et al., 2022; Lückenbach et al., 2023).

The data show that the orientation of social entrepreneurship in rural companies is quite high. This is evidenced by the various creativities the business units run that can meet community needs. For example, most companies carry out social savings and loan activities to support community businesses, provide cheap markets, and help build businesses according to village potential. Some villages even have companies in the advanced category.

In line with Halberstadt et al. (2021) and Lu et al. (2018), SEO endeavors serve to bridge the divide between social and economic value rationales when organizations actively utilize SEO strategies

and explore prospective avenues that yield favorable social outcomes and robust financial gains. Therefore, companies involved in SEO will observe a rise in relative hybridity.

The results show that high SEO will have an effect on increasing the company's competitive advantage. In line with Schumpeter (1934), SEO can create product or service innovations that attract customers to behave innovatively and have a social mission, creating a competitive advantage. Respondents' responses show that SEO and competitive advantage in rural companies are of a quite high value. Competitive advantage is proven by the products and services produced by companies managed by SEO with high competitiveness. For example, the savings and loan business units offered by village-owned enterprises are always in demand by the public. People use this service more than borrowing from banks.

The research results show that increasing competitive advantage can improve company performance. This outcome supports Mohammad and Wasiuzzaman (2021) that competitive advantage will encourage increased business performance characterized by increased profitability, sales volume, and client base expansion. In addition, the company's competitive advantage and performance had a relatively high average value. In rural companies, competitive advantage is demonstrated by service to the community. Companies that are innovative and proactive in serving the community can provide benefits to the community and increase community satisfaction, enhancing the company's reputation and ultimately impacting the company's economic performance. This paper supports Singh et al. (2019) and Chatterjee et al. (2021) that competitive advantage affects organizational performance.

The findings demonstrate that social entrepreneurship orientation influences company performance by fostering competitive advantage. This research supports Schumpeter (1934): SEO influences competitive advantage by creating product or service innovations that attract customers. An SEO is innovative, creative, and proactive and has a social operation to serve the needs of society. The innovation will produce a competitive advantage that can attract the public to receive services from the

company. This study supports Islam et al. (2021) that companies with a competitive advantage can attract and retain new customers.

This paper also supports the RBV theory (Wernerfelt, 1984; Barney, 1991), which states that internal resources such as social entrepreneurial orientation and competitive advantage influence organizational success. Internal factors, such as a strong social entrepreneurial orientation, can cause SEOs to develop valuable capabilities and create competitive advantages competitors can-

not easily imitate. Competitive advantage will ultimately have an impact on company productivity.

Although this study can prove the role of SEO in rural companies, it was only conducted in Riau, Indonesia. Therefore, the results cannot be generalized to a wider area. *R Square* is still low, which means there are still many other factors to be explored in further research. For example, social capital and government assistance are two important elements that influence the progress of companies in rural areas.

CONCLUSION

This study aims to analyze how social entrepreneurial orientation can improve the performance of social enterprises in rural areas by analyzing competitive advantage as a mediator. This paper proves that social entrepreneurial orientation can influence competitive advantage and company performance in rural areas of Riau Province. Competitive advantage has also been shown to buffer the correlation between social entrepreneurship orientation and company performance.

This study has limitations, apart from only analyzing one type of social enterprise in the Riau Province region. The factors analyzed are also still limited. Therefore, further research can analyze various types of social enterprises and use other factors such as government support, leadership, and social capital (Yasni et al., 2023).

The present study offers a practical contribution to the efforts of rural companies toward increasing the role of social entrepreneurship orientation. It has proven to be able to fill the void left by the government and the private sector in improving community welfare. Therefore, training must be conducted to motivate entrepreneurs to improve their social entrepreneurship orientation.

AUTHOR CONTRIBUTIONS

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