

## DOCTORAL THESIS

### The impact of absorptive capacity and ordinary capabilities on both financial and social performance: the case of social enterprises

Lee, Kim Man Erica

*Date of Award:*  
2018

[Link to publication](#)

#### General rights

Copyright and intellectual property rights for the publications made accessible in HKBU Scholars are retained by the authors and/or other copyright owners. In addition to the restrictions prescribed by the Copyright Ordinance of Hong Kong, all users and readers must also observe the following terms of use:

- Users may download and print one copy of any publication from HKBU Scholars for the purpose of private study or research
- Users cannot further distribute the material or use it for any profit-making activity or commercial gain
- To share publications in HKBU Scholars with others, users are welcome to freely distribute the permanent URL assigned to the publication

## **ABSTRACT**

Social enterprises (SEs) are playing an increasingly important role in fostering a more sustainable and equitable society around the world. Previous studies have suggested that developing capabilities to manage knowledge is a key driver of an SE's success (Domenico et al., 2010; Guclu et al., 2002; Tracey et al., 2011). An SE operates much like a business, but manages operations and directs its surpluses towards the pursuit of social goals (Austin et al., 2006; Dart, 2004; Dees, 2001; Granados et al., 2011; Mair & Marti, 2006; Nicholls, 2006) in an unstable or unpredictable market (Jaworski & Kohli, 1993; Mair & Marti, 2009; Nicholls, 2010; Sharir & Lerner, 2006). When the market is highly turbulent, customers' product expectations and preferences change over time. In such a situation, an SE has to pay more attention to the development of high-quality new innovative products and solutions that satisfy the social needs of specific customer segments, including underprivileged groups and socially responsible consumers, thereby more effectively addressing societal problems in a sustainable way. Indeed, the question of how absorptive capacity contributes to an SE's financial and social return is largely under-researched (Dacin et al., 2011; Granados et al., 2011; Haugh, 2005). Drawing on the dynamic capabilities perspective, this study proposes a research model in which absorptive capacity affects an SE's firm performance in both financial and social terms via marketing capabilities. It advances the existing SE-related literature by investigating the mediating role of marketing capabilities in the relationship between absorptive capacity and firm performance in the context of SEs. Also, market turbulence is theorized to moderate the relationship between marketing capabilities and performance.

To perform this study, I collected data using questionnaires based on a list generated randomly from the database of the Hong Kong Council of Social Service SE Directory, and the contacts obtained from other sources such as Fullness Social Enterprises Society and the Workforce Development Agency, Ministry of Labour Taiwan. The data collection was performed over an eight-month period, with 109 valid responses being collected for this study. Multiple regression and a bootstrapping approach were used to test the hypotheses. The results provide support for most of the proposed hypotheses.

Specifically, an SE's absorptive capacity is positively related to its marketing capabilities. Likewise, an SE's marketing capabilities are positively linked to its financial performance. In addition, an SE's marketing capabilities mediate the relationship between its absorptive capacity and its financial performance. Furthermore, the results show a positive moderating role of market turbulence in an SE's marketing capabilities-financial performance relationship.

In summary, this study lends support to previous studies that show dynamic capabilities do not necessarily result in better financial performance directly in the context of SEs. It contributes to unpacking the "black box" of the absorptive capacity-financial performance relationship, and it shows that an SE's marketing capabilities play an important role as an underlying mediation mechanism. It also extends and contributes to the social enterprises literature by revealing the mediating role of marketing capabilities between absorptive capacity and financial performance, and the moderating effect of market turbulence on the relationship between marketing capabilities and financial performance in the context of SEs.

**Keywords:** Absorptive Capacity; Ordinary Capabilities; Marketing Capabilities; Market Turbulence; Social Performance; Financial Performance; Social Enterprises

# CONTENTS

DECLARATION .....	i
ABSTRACT.....	ii
ACKNOWLEDGEMENTS .....	iv
LIST OF TABLES AND FIGURES .....	vii
CHAPTER 1 INTRODUCTION .....	8
1.1 Research Background .....	8
1.2 Research Gaps .....	12
1.3 Research Questions.....	15
1.4 Research Objectives.....	15
1.5 Contributions of the Study .....	16
1.6 Research Scope .....	18
1.7 Structure of the Study .....	19
CHAPTER 2 LITERATURE REVIEW .....	20
2.1 A Typology of Social Enterprise.....	20
2.2 Definition of Social Enterprise .....	21
2.3 Characteristics of Social Enterprise.....	22
2.4 Performance Measurement .....	26
2.4.1 Financial Performance .....	26
2.4.2 Social Performance .....	26
2.4.3 Social Performance of a Social Enterprise .....	28
2.5 An Overview of Social Enterprises in Hong Kong .....	30
2.6 An Overview of Social Enterprise in Taiwan .....	31
2.7 Resource-Based View (RBV) .....	33
2.7.1 Formulation of the Resource-Based View .....	33
2.7.2 Conceptualization of the Resource-Based View.....	34
2.7.3 Theoretical and Empirical Studies of the Resource-Based View .....	34
2.7.4 The Linkage between the Resource-Based View and Dynamic Capabilities .....	36
2.8 Dynamic Capabilities Theory .....	36
2.8.1 Definition of Dynamic Capabilities.....	36
2.8.2 Conceptualization of Dynamic Capabilities .....	37
2.8.3 Theoretical and Empirical Studies of Dynamic Capabilities and Firm Performance .....	42
2.9 Absorptive Capacity .....	44
2.9.1 Definition of Absorptive Capacity.....	44
2.9.2 Conceptualization of Absorptive Capacity .....	45
2.9.3 Empirical Studies of Absorptive Capacity and Firm Performance....	48
2.9.4 Absorptive Capacity in the Context of Social Enterprises .....	54
2.10 Ordinary Capabilities .....	54
2.10.1 Definition of Ordinary Capabilities .....	54
2.10.2 Types of Ordinary Capabilities .....	55
2.10.3 Empirical Studies of Ordinary Capabilities.....	56
2.11 Marketing Capabilities.....	56
2.11.1 Definition of Marketing Capabilities.....	56
2.11.2 Typologies of Marketing Capabilities .....	57
2.11.3 Types of Marketing Capabilities.....	58
2.11.4 Empirical Studies of Marketing Capabilities.....	60
2.11.5 Marketing Capabilities in the Context of Social Enterprises .....	61

CHAPTER 3	CONCEPTUAL MODEL AND HYPOTHESES	
DEVELOPMENT		63
3.1	Conceptual Model	63
3.1.1	Absorptive Capacity, Marketing Capabilities and Firm Performance (Financial and Social Performance)	63
3.2	Hypotheses	67
3.2.1	Absorptive Capacity and Marketing Capabilities	67
3.2.2	Marketing Capabilities and Financial Performance	68
3.2.3	Marketing Capabilities and Social Performance	69
3.2.4	Absorptive Capacity, Marketing Capabilities, and Performance (Financial and Social Performance)	71
3.2.5	Marketing Capabilities and Performance (Financial and Social Performance): Market Turbulence as a Moderator	73
CHAPTER 4	METHODOLOGY	77
4.1	Sample and Data Collection	77
4.2	Measurements	80
4.3	Construct Reliability and Validity	88
4.4	Common Method Bias	90
4.5	Common Hausman Test and Multicollinearity Test	90
CHAPTER 5	DATA ANALYSIS	92
5.1	The Direct Effect of Absorptive Capacity and Marketing Capabilities	94
5.2	The Direct Effect of Marketing Capabilities and Performance (Financial and Social Performance)	94
5.3	The Mediating Results of Marketing Capabilities	98
5.4	The Moderating Results of Market Turbulence	100
CHAPTER 6	DISCUSSION	105
6.1	Summary of the Research Findings	105
6.2	An In-Depth Case Analysis Provides Illustrations in Support of Quantitative Findings	106
6.3	Theoretical Implications	106
6.4	Managerial Implications	112
6.5	Policy Implications	113
6.6	Limitations and Future Study	114
6.7	Conclusions	117
REFERENCES		119
APPENDIX A:	LONGEVITY DESIGN HOUSE'S STORY	141
APPENDIX B:	SAMPLES OF QUESTIONNAIRE	145
CURRICULUM VITAE		160