

# Social Entrepreneurship, Transformational Leadership And Sustainable Business Performance: The Role Of Organizational Learning As A Mediating Variable

Sisnuhadi

Program Studi Manajemen, Fakultas Bisnis,  
Universitas Kristen Duta Wacana, Yogyakarta, Indonesia

*Abstract: This study explores the mediation effect of organizational learning on the relationship between social entrepreneurship, transformational leadership, and sustainable business performance. As many as 145 managers/initiators in social entrepreneurship which produce handicrafts using recycle products involved in this study. The study results found that social entrepreneurship impact on organizational learning, social entrepreneurship influences on sustainable business performance, better transformational leadership improve organizational learning, moreover, the better transformational leadership enhance sustainable business performance, organizational learning impacts on sustainable business performance, while the higher the capacity of organizational learning improves the impact of the social entrepreneurship on sustainable business performance, and existence of organizational learning strengthen the influence of transformational leadership on sustainable business performance.*

*Keywords: Social entrepreneurship, transformational leadership, organizational learning, sustainable business performance*

## I. INTRODUCTION

Deteriorating ecosystems resulting from the exploitation of economic resources have changed business operations in recent years (Pieroni et al., 2019). Companies need to innovate in order to find the best strategy to assure that their production processes and their products or services meet the sustainability requirements. According to Pieroni et al. (2019), there are two considerations that must be prioritized when determining sustainable business performance. Firstly, business sustainability which refers to the ability of companies in generating profits, ensuring long-term survival; and secondly, business sustainability which related to an organization's competency in providing products or services using processes or technology which environmental friendly. In other word, a sustainability strategy allows businesses have an ability to survive and to achieve the best performance results in the long run. The success of a business in meeting the environmental requirements to achieve sustainable

business performance goals is greatly influenced by the ability of the leaders to provide inspiration and to encourage the organizational learning process.

Many researchers in the field of entrepreneurship have reported the existence of various factors that have important roles in enhancing sustainable business performance. Some of them are social entrepreneurship and transformational leadership (Dwivedi & Weerawardena, 2018; Palacios-Marqués et al., 2019; Sari et al., 2019; Tepthong, 2014). According to Arham et al. (2013), entrepreneurial spirit and quality of leadership are assumed as the main factors for achieving businesses goals. In addition, organizational learning provide predominant contribution to social entrepreneurship in terms of facilitating the development and use of knowledge (Ireland et al., 2003). Meanwhile, Amin (2015) reported that social entrepreneurship has a positive impact on organizational learning. Ziemak & Jankowska (2020) and Kordab et al (2020) found that organizational learning is able to improve sustainable business performance.

However, there are only few research that study the relationship between social entrepreneurship, transformational leadership, organizational learning and sustainable business performance. In connection with this, this study intends to explore the mediating role of organizational learning in the relationship between social entrepreneurship, transformational leadership and sustainable business performance.

## II. LITERATURE REVIEW

### SOCIAL ENTREPRENEURSHIP (SE)

Social entrepreneurship is described as creative activities to improve social value in non-profit, profit-motivated (business) organizations, or government (Austin et al., 2006). J. Bryce (2014) explains that social entrepreneurship, which has main focus on a social mission, encourages innovation that provides significant social impact. However, social entrepreneurship is not always purely philanthropic because social entrepreneurship is also required to achieve productive balance (Dees, 1998). Social entrepreneurship operates similarly to business entities in producing and distributing products or services. However, in an effort to obtain financial income, social entrepreneurship must also consider its social mission. Dees (1998) said that social entrepreneurship has a role as an agent of change who: (1) develops and maintain social values based on mission (having a mission); (2) recognize and explore various options to articulate mission (taking action); (3) engage in learning, innovation, and transformation (active education); (4) explore availability of resources; (5) responsible to people who served and the goals achieved (outcomes).

### ORGANIZATIONAL LEARNING (OL)

Organizational learning is a process of internalization of tacit knowledge acquired by an organization (Easterby-Smith et al., 2000). Organizational learning concern about the development of knowledge, insight, and its interconnection between past experiences, the successfulness of current activities, and future experiences (Fiol & Lyles, 1985). Organizational learning divides into four specific stages (Huber, 1991; Sinkula, 1994), namely knowledge acquisition, knowledge dissemination, knowledge interpretation and organizational memory. In the first stage, the organization collects knowledge, learns best strategies and technologies implemented by other organizations (Huber, 1991). In the second stage, the organization conducts a dissemination knowledge activities for the every people in the organization. The third stage is the interpretation of knowledge. In this stage all of the people in the organization are required to create the meaning of the knowledge they gained. (Kandemir and Hult, 2005). While, in the final stage, any new knowledge obtained in the third stage is stored for future use.

### TRANSFORMATIONAL LEADERSHIP (TL)

Transformational Leadership was instituted and expanded by Burns (1978) and Bass (1985). Bass (1985) stated that transformational leadership as a leader activities to inspire and encourage employees to improve their motivation and morality levels. Transformational leadership is an activities consisting of: creating and expressing a vision; providing suitable models; encouraging group acceptance concerning the objectives; and facilitating employees to improve their intellectual competencies (Podsakoff et al., 1990). Carless et al. (2000) expanded the transformational leadership concept into seven activities. The seven activities are (1) disseminating the vision, (2) developing employee, (3) facilitating support, (4) empowering employee, (5) encouraging innovative, (6) leading by example, and (7) exuding charisma.

The primary objective of transformational leaders is to improve the organizational system and motivate employees to explore new visions that creates new opportunities both for employees and the organization (Tucker & Russell, 2004). Transformational leadership is a modern and hands-on approach that supports leader lead employees and bring improvement in organizations (Qureshi et al., 2015; Bhat et al., 2013). Transformational leaders disseminate the organization's vision and motivate people in organization to work to pursue the organizational objectives (Bass, 1985), generate pride, in contact personally, support creative thinking and furnish inspiration (Lievens, 1997). Transformational leadership supports the cultivation of creative thinking in the organization, because leaders with this transformational style improve creativity and encourage motivation by providing support in idea generation, among people in the organization (Sosik et al., 1998). Additionally, this leadership style motivates people by improving their achievement and encouraging them to implement working styles innovatively.

### SUSTAINABLE BUSINESS PERFORMANCE (SBP)

Increasing the need for better quality of life in the future has created a new vision and generated new orientation approach to business expansion, namely sustainability (Liyanage et al., 2009). Examining performance of business, based on a single perspective will result to imprecise conclusions (Cheah et al., 2019a, 2019b).

According to a scientific study conducted by Evans et al. (2017) and Fernando et al. (2019), there are three main components of sustainable business performance, namely economic value, social value and the environment condition, which must be taken into account to provide an example of a comprehensive view of sustainable business performance. Business practices based on sustainability are primary importance for stakeholders because these practices guarantee the long-term health and viability of businesses and are linked to economic improvement, improved social conditions, and environmental stewardship (Landrum and Edwards, 2009).

Many companies are starting to shift their awareness from the single goal of financial performance to more comprehensive objectives which include social welfare and environmental sustainability. Pava (2007) explains that there are three measures to examine the sustainable business

performance. The first measure is financial sustainability, which refers to an organization's ability to meet its present and future needs. The second measure is social sustainability, which consists of developing and meeting community needs and maintaining social relationships in the long term. The third measure is environmental sustainability, which focus on the protection of environment for the next generations. According to researchers, all three are equally important for the sustainability of an organization (Jones and Kramer, 2010).

### III. HIPOTHESIS DEVELOPMENT AND RESEARCH FRAMEWORK

#### THE RELATIONSHIP BETWEEN SOCIAL ENTREPRENEURSHIP AND ORGANIZATIONAL LEARNING

Kirzner (1973) explained that social entrepreneurship activities enhance organizational learning. To pursue entrepreneurial objectives, social organizations explore variety of options that provide diverse approach to available knowledge. The various knowledge obtained is then developed into new knowledge through the organizational learning process in the organization for future use. The impact of social entrepreneurship on organizational learning is confirmed by many researchers (Susanto et al., 2020; Kirzner, 1973). Therefore, the following hypothesis is created:

H1: Social entrepreneurship has a positive effect on organizational learning.

#### THE RELATIONSHIP BETWEEN SOCIAL ENTREPRENEURSHIP AND SUSTAINABLE BUSINESS PERFORMANCE

Social entrepreneurship activities is optimizing social, economic, and environmental effectiveness to achieve business sustainability objectives (Zhang and Swanson, 2014). Meanwhile, according to Roberts & Woods (2005), the social entrepreneurship process is understood as constructing, evaluating and exploring possibilities to improve social welfare. Researchers explained that social entrepreneurship is an important element of sustainable competitive advantage (Weerawardena & Sullivan-Mort, 2001), which is applied and cultivated in non-profit organizations and government (Sullivan Mort et al., 2003). The key components of social entrepreneurship are creative and proactive to explore social innovation, and ability to implement risk management. Davis et al. (2010) found that social organizations have a desire for innovative activities, dare to take risks, are proactive and are in a more advantageous position competing with others. The wider the network of relationships, the greater the possibility of achieving good social organizational performance goal because entrepreneurs can develop good relationships with their stakeholder, such as customers, suppliers and distributors and strengthen their negotiating power. Chen et al. (2007) reported that proactivity and innovation have positive impact on the profitability and growth of new businesses. In addition, the role of social entrepreneurship inn enhancing business

performance has been validated by several researchers (Dwivedi & Weerawardena, 2018; Tepthong, 2014). Based on discussion above, the following hypothesis is created:

H2: Social entrepreneurship has a positive effect on sustainable business performance.

#### THE RELATIONSHIP BETWEEN TRANSFORMATIONAL LEADERSHIP AND ORGANIZATIONAL LEARNING

Transformational leadership encourages people in the organization to develop creative ideas, because the behavior of transformational leaders depends on its ability to inspire and increase creativity and motivation (Sosik et al., 1998). Besides that, leaders who have a transformational style can motivate members by encouraging them to increasing their performance beyond expectations and inspiring them to create innovative working style. Many researchers have found that transformational leadership has an effect on organizational learning (Mutahar et al., 2015; Senge et al., 1994). This leadership approach enables organizations to foster a culture of learning by trial and error, observation, and effective dissemination (Mutahar et al., 2015; Menguc et al., 2007; Senge et al., 1994). Therefore, transformational Leadership is very important elements in cultivating the organizational learning (García-Morales et al., 2012). Thus, the following hypothesis is put forward:

H3: Transformational leadership has a positive effect on organizational learning.

#### THE RELATIONSHIP BETWEEN TRANSFORMATIONAL LEADERSHIP AND SUSTAINABLE BUSINESS PERFORMANCE

A transformational leader is a leader who is able to encourage and empower employees to achieve the performance goals expected by the organization (Sommers & Birnbaum, 1998). Besides that, transformational leaders provide constructive evaluation on employee work results so that employees are motivated to think innovatively to solve more complex problems (Bass, 1985). Furthermore, transformational leadership provides a comfortable environment for employees to care for each other and disseminate insight among employees to pursue high performance (Bass, 1999). Sustainable business performance refers to the ability of an organization to pursue its financial and social objectives. Several researchers found that better transformational leadership activities, resulting better business performance result (Mutahar et al., 2015; Aziz et al., 2013; García-Morales et al., 2012). Transformational leadership improves relationship between leaders and their members so that the members feel confident in performing their activities to achieve the organization's objectives. Therefore, leaders have important role in influencing the employee performance, which in turn has an effect on improving sustainable business performance. Based on the explanation above, the hypothesis is formulated:

H4: Transformational Leadership has a positive effect on sustainable business performance.

### THE RELATIONSHIP BETWEEN ORGANIZATIONAL LEARNING AND SUSTAINABLE BUSINESS PERFORMANCE

Organizational learning is the company's internal ability to gain knowledge so that the company can defend itself and compete. The organizational learning process becomes a means for organizations to acquire and transfer knowledge to improve the skills of the organization's employees. (Garvin, 1993). Organizational learning activities consists of knowledge acquisition (by collecting, knowledge, insights and skills from outside organization), knowledge sharing (distribution of knowledge to other employees) and knowledge utilization (integration of learning so that knowledge is widely accessible and can be universalized for new situations) (DiBella et al., 1996).

Researchers have discussed the important role of relationship between organizational learning and organizational performance (Schön and Argyris, 1996; Inkpen and Crossan, 1995). With its learning capabilities, organizations are able to learn and improve their strategic capabilities to manage risks. This learning capabilities facilitate organizations in improving competitive advantage to get better organizational performance (Noruzy et al., 2013; García-Morales et al., 2012). The positive influence of organizational learning on organizational performance has been reported by many researchers (Mutahar et al., 2015; Noruzy et al., 2013; García-Morales et al., 2012). Based on the discussion above, the research hypothesis is created:

H5: Organizational learning has a positive effect on sustainable business performance.

### THE MEDIATING ROLE OF ORGANIZATIONAL LEARNING ON THE RELATIONSHIP BETWEEN SOCIAL ENTREPRENEURSHIP AND SUSTAINABLE BUSINESS PERFORMANCE

Previous studies confirm the impact of social entrepreneurship on business performance (Tepthong, 2014), while others found that organizational learning was able to improve organizational performance (Mutahar et al., 2015; Noruzy et al., 2013; García Morales et al., 2012).

The advantage of social entrepreneurship is based on its ability to be creative, proactive, and innovative in exploring opportunities to to achieve its social mission. This advantage enable organizations to gather information and formulate it into knowledge to facilitate effective learning. Learning outcomes are important for organizations to formulate their strategies in achieving competitive advantage, which then resulting sustainable business performance improvement. Based on the discussion above,, the following hypothesis is formulated:

H6: Organizational learning mediates the relationship between social entrepreneurship and sustainable business performance.

### THE MEDIATING ROLE OF ORGANIZATIONAL LEARNING ON THE RELATIONSHIP BETWEEN TRANSFORMATIONAL LEADERSHIP AND SUSTAINABLE BUSINESS PERFORMANCE

This research hypothesizes that organizational learning mediates the relationship between transformational leadership and organizational performance. Leaders who have a transformational leadership style inform the organization's vision and encourage employees to work creatively toward the organizational goal (Bass, 1985), instilling pride, communicating personally, facilitating innovative thinking and providing insight (Lievens, 1997). The influence of transformational leadership on organizational learning has been validated by many researchers (Mutahar et al., 2015; García-Morales et al., 2012; Menguc et al., 2007; Senge et al., 1994).

Transformational leaders inspire, encourage and motivate employees in the organization to be an effective learners. Naturally, the result of this learning process can enhance the creation of competitive advantage and improve sustainable business performance. Thus, the following hypothesis is put forward:

H7: Organizational learning mediates the relationship between transformational leadership and sustainable business performance.

### RESEARCH FRAMEWORK

Figure 1 below shows the research framework used in this study.

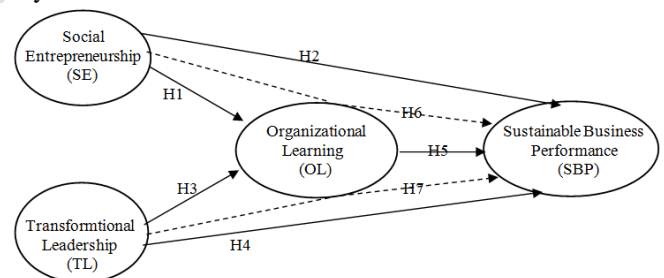


Figure 1: Research Framework

### IV. METHODOLOGY

The population of this research are managers/initiators of social entrepreneurship activities in Central Java. Those social entrepreneurship activities involved in producing handicrafts using recycled products. The targeted sample was 150 respondents. Questionnaires were distributed online to potential respondents. Distribution of questionnaires will be carried out from August to October 2023.

The social entrepreneurship variable is estimated using the 11 indicators developed by Carraher (2012). While the transformational leadership variable is measured using seven indicators adopted from Carless et al (2000); and the organizational learning variable is measured using four indicators adopted from Hurley and Hult (1998) and tested by Henri (2006). Meanwhile, sustainable business performance is estimated using indicators were adopted from Fernando et al.



(2019). There are a total of eleven indicators used to measure sustainable business performance. These indicators consist of: three indicators to measure economic aspects, four indicators to measure social aspects and four indicators to estimate environmental aspects, based on a five-point Likert Scale (1 represents “Much Lower” and 5 represents “Much Higher”). To analyze the theoretical framework and test the hypotheses presented in this research, Partial Least Square (SEM-PLS) was used. SEM-PLS presents two stages of analytical procedures, namely the measurement model and the structural model recommended by Hair et al. (2017).

### V. RESULTS AND DISCUSSION

Of the 150 questionnaires distributed, 145 questionnaires were returned completely, resulting in a response rate of 97%. The participants in this research consisted of 58% male managers/initiators and 42% female manager/initiators. Respondents aged between 31–40 years. Meanwhile, the respondents' working period ranged between 3-7 years. The distribution of educational background is high school (12%), diploma (25%), bachelor's degree (60%), master's program (2%) and others (1%). While the size of the organization (based on the number of member/employees) is distributed as follows: less than 10 member (46%), more than 10 – 20 member (52%), more than 20 member (2%).

#### RESULTS

The outer model examined the validity and reliability of the variables used in this research. Validity is examined through convergent and discriminant validity tests (Hair et al., 2017). The results of the convergent validity examination depict that each indicators has a loading factor ranging from 0.624–0.860 which is > 0.60. Moreover, the cross loading factor values for the variable that is measured is higher than the cross loading factor value for variables that are not measured by the indicator. These results indicate that the indicators used in this research truly measure each intended variable (Hair et al., 2017).

The discriminant validity test is performed by comparing the square root of the average variances extracted (AVE) value of each construct with correlation value or construct with the inter-construct correlation. Table 1 depicts that the square root value of AVE for each variable in diagonal. The square roots of the AVEs for its variable are greater than the square roots of AVEs to other variables. This results indicate that the requirement for discriminant validity of the variable is met (Gefen and Straub, 2005).

Variables	SE	TL	OL	SBP
SE	<b>0,769</b>	0,561	0,629	0,646
TL	0,721	<b>0,795</b>	0,584	0,612
OL	0,624	0,484	<b>0,793</b>	0,573
SBPB	0,570	0,628	0,643	<b>0,766</b>

Table 1: Average Variance Extracted (AVE)

Reliability was examined using Cronbach's Alpha and composite reliability. Table 2 below shows the Cronbach's Alpha and composite reliability values of each variable used in this study. The values of Cronbach's Alpha and composite reliability for each variable reached a value above 0.7; therefore, these variables are considered reliable.

Variable	Composite Reliability	Cronbach's alpha
KS	0,875	0,745
PO	0,737	0,906
KT	0,928	0,897
KBB	0,868	0,760

Table 2: Cronbach's Alpha and Composite Reliability

Goodness of fit is measured through the Q-Square value. If the Q-Square value is >0, the model can be considered to meet predictive relevance requirement (Hair et al., 2017). Table 3 shows the R-square values. The R-square value for the organizational learning variable is 0.463, this means that 46.3% of the organizational learning variable is affected by social entrepreneurship variables and transformational leadership variables, while the remaining 53.7% is determined by variables outside the model. Meanwhile, the R-Square value of the sustainable business performance variable is 0.497 (49.7%), which shows that 49.7% of the organizational performance variable is affected by social entrepreneurship variables and transformational leadership variables, while the remaining 50.3% is influenced by other variables.

Variable	R-Square
OL	0,463
SBP	0,497

Table 3: R-Square

The Q-Square value is determined as follows:

$$Q\text{-Square} = 1 - [(1 - R2.1) \times (1 - R2.2)]$$

$$= 1 - [(1 - 0.497.1) \times (1 - 0.463.2)]$$

$$= 1 - [(0.497) \times (0.537)] = 0.733$$

The Q-Square value is 0.733, its means that this research model is considered to have good goodness of fit.

Table 4 depicts the results of the structural relationship of direct and indirect influence among variables used for hypothesis testing respectively. As can be seen in Table 4, the direct effect of SE to OL, TL to OL, ES to SBP, TL to SBP, and OL to SBP each gives significant results so that H1, H2, H3, H4, and H5 are supported. While each of the indirect effect of the SE-OL-SBP and TL-OL-SBP is significant; therefore, H6 and H7 are also supported.

Path	β	p-value	Result
SE – OL	0.290	<0.001	H1 supported
TL – OL	0,389	<0.001	H2 supported
SE – SBP	0,328	<0.001	H3 supported
KT – SBP	0,298	<0.001	H4 supported
OL – SBP	0,335	<0.001	H5 supported
SE – OL – SBP	0,425	<0.001	H6 supported
TL - OL – SBP	0,428	<0.001	H7 supported

Table 4: Structural Relationship of Direct and Indirect Effect

## DISCUSSION

This research explores the role of organizational learning in mediating the relationship between social entrepreneurship, transformative leadership and sustainable business performance. To achieve this research, the direct relationship between each variable and the indirect relationship between these variables was tested. From the results of direct relationships, it was found that social entrepreneurship positively influences organizational learning, which means social entrepreneurial activities, namely efforts to looking for business opportunities in order to contribute to increasing social welfare and improving the environment, encouraging the creation of an organizational learning process. These findings support the research results of Susanto et al. (2020).

Social entrepreneurship activities that focus on long-term business life which includes improving the economy, improving social conditions and maintaining the environment will encourage increased sustainable business performance. This finding is consistent with the results of Dwivedi and Weerawardena (2018) and Tepthong (2014). Leaders who are able to bring about positive changes, provide space for creative ideas to emerge and are able to provide inspiration will improve the organizational learning process.

These findings are in accordance with previous research which found that transformational leadership is a key factor in organizational learning (Mutahar et al., 2015; García-Morales et al., 2012). Furthermore, leaders who can provide inspiration to be creative in creating innovative products that can improve the economy, social welfare, improve the environment will increase sustainable business performance. The findings of this study support the research result from Mutahar et al (2015) and García-Morales et al (2012). This study also found that organizational learning, especially related to innovation efforts, improving economic and social welfare and improving the environment will contribute to improving sustainable business performance. This finding is in line with Mutahar et al (2015); Noruzy et al (2013) and García-Morales et al (2012) which state that good organizational learning will improve organizational performance.

The research results show that social entrepreneurship can create organizational learning to achieve goals in the form of economic improvement, social welfare and environmental improvement. The results of organizational learning are in the form of innovations related to the three pillars of sustainability will produce better sustainable business performance. Furthermore, if organizational leaders are able to transform important values, able to inspire members of their organization, then the members will be encouraged and motivated to try to find new innovations as a result of the learning process. Furthermore, the results of this learning will improve sustainable business performance.

## VI. CONCLUSIONS

The research results found that social entrepreneurship and transformational leadership can enhance sustainable business performance both directly and indirectly via organizational learning. From these findings, some theoretical

and practical implications emerge. First, social entrepreneurs provide space for the creation of new innovations that can foster organizational learning processes which will ultimately result in sustainable business performance. Second, transformational leadership is also needed to encourage creativity and motivate organizational members to proceed more creatively and innovatively, so that they can improve business performance. Third, social entrepreneurs should aware to the importance role of organizational learning in achieving social entrepreneurship goals in the form of sustainable business performance. This research uses a fairly small sample size due to the difficulty of getting respondents who are active in the field of social entrepreneurship, future research is recommended to use bigger sample size of social entrepreneurs in Indonesia so that research findings become more accurate.

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