

## Virtuous circle

Roumpi, Dorothea; Magrizos, Solon; Nicolopoulou, Katerina

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## **Virtuous circle: Human capital and human resource management in social enterprises**

### **ABSTRACT**

The majority of the extant research on human resource management (HRM) draws conclusions based on evidence from for-profit organizations. In response to calls for the exploration of HRM in different contexts, this study focuses on understanding HRM in the context of social enterprises. The unique context of social enterprises and their unique workforce raise questions about the direct applicability of frameworks developed from examining HRM in for-profit organizations. The narratives provided by 20 CEOs, HR directors, and managers of social enterprises in the UK highlight the importance of “ethics of care” as the core of the HRM-related decisions in the “third sector”. In addition, we identify five distinct workforce categories and propose a typology of differentiated HRM systems that enable social enterprises to achieve their dual mission. Finally, we propose a “virtuous circle” model, highlighting “ethics of care” as the main driver for organizational outcomes, using differentiated HRM systems that better serve their needs.

### **Keywords**

Social enterprises, differentiated workforce, ethics of care, HRM systems

**Authors:** Dorothea Roumpi<sup>a</sup>, Solon Magrivos<sup>b</sup>, Katerina Nicolopoulou<sup>c</sup>

<sup>a</sup> School of Labor and Employment Relations 507C Keller Pennsylvania State University University Park, PA 16802 Email: dzt352@psu.edu

<sup>b</sup> Department of Marketing, University of Birmingham Business School, University of Birmingham, Birmingham B15 2TT, Email: s.magrivos@bham.ac.uk

<sup>c</sup> Hunter Centre for Entrepreneurship Strathclyde Business School University of Strathclyde 199 Cathedral Street Glasgow G4 0QU Email: katerina.nicolopoulou@strath.ac.uk

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A significant body of human resource management (HRM) research demonstrates a direct or indirect relationship between HRM practices and organizational outcomes, such as performance and retention (Arthur, 1994; Boselie, Dietz, & Boon, 2005; Combs, Liu, Hall, & Ketchen, 2006; Delery & Gupta, 2016; Huselid, 1995). A plethora of authors, however, drawing on the contingency perspective (Delery & Doty, 1996; Lengnick-Hall & Lengnick-Hall, 1988; Snell & Youndt, 1995), call for greater emphasis on the context of HRM (Jackson & Schuler, 1995; Lepak & Shaw, 2008; Roumpi & Delery, 2019; Ulrich & Dulebohn, 2015). Contextual factors, such as organizational structure, sector, size, life cycle, labor market conditions, legal environment, and national culture (Farndale & Sanders, 2017; Jackson, Schuler, & Jiang, 2014; Lengnick-Hall, Lengnick-Hall, Andrade, & Drake, 2009), are all critical to understand the relationship between HRM and organizational outcomes.

Despite the steps taken to explore HRM in context, most relevant research focuses on for-profit organizations, with only limited emphasis on the context of non-profit organizations (Van de Voorde & Beijer, 2015). Even more limited, however, are the conceptual and/or empirical scholarly endeavors that explore the role of HRM in the context of the “third sector”—that is, social enterprises (e.g., André & Pache, 2016; Newman, Mayson, Teicher, & Barrett, 2015; Ohana & Meyer, 2010; Royce, 2007). Most studies in this research stream rely on case studies or draw parallels between social enterprises and other forms of organizational activity (e.g. small businesses and non-profit organizations; Cornelius Janjuha-Jivraj, Woods, & Wallace, 2008; Lumpkin, Moss, Gras, Kato, & Amezcua, 2013; Short, Moss, & Lumpkin, 2009).

Social enterprises, often viewed as “hybrid organizations” operating at the intersection of the non-profit and for-profit sectors (Battilana, Sengul, Pache, & Model, 2015; Doherty, Haugh, & Lyon, 2014), simultaneously pursue a social and an economic mission (Austin, Stevenson &

Wei-Skillern, 2012; Pache & Santos, 2013). This dual mission, as well as the rapidly increasing number of social enterprises all over the world (Battilana et al., 2015) and their significant social and economic impact (Dacin, Dacin & Matear, 2010; Dacin, Dacin, & Tracey, 2011), highlights the importance of gaining a better understanding of managerial practices within this specific context (Newman et al., 2015). HRM practices are rather important for social enterprises. As social enterprises typically rely on earnings from their commercial activities to sustain their operations and finance their social mission, investing in social causes often comes at the expense of investing in financial performance (Battilana et al., 2015; Moizer & Tracey, 2010). Given social enterprises' limited access to financial resources (Battilana & Lee, 2014), human resources and human capital are assets of strategic importance (Borzaga & Solari, 2004). Thus, having HRM systems that help social enterprises attract, motivate, combine, and retain human capital resources, despite their limited financial resources, is imperative (Mair, Mayer, & Lutz, 2015).

The uniqueness of the context of social enterprises creates HRM-related challenges and opportunities that raise questions about the direct applicability of research findings and frameworks developed from examining HRM in for-profit and non-profit organizations (Zhang, Zhang, Dallas, Xu, & Hu, 2018). First, social enterprises have a unique workforce of both paid and unpaid (volunteers) staff (Peattie & Morley, 2008), and each group has different needs and interests that require a set of differentiated HRM deployments. HRM-related needs become even more complicated in the case of work integration social enterprises (WISEs). WISEs aim to integrate disadvantaged individuals who are unemployed back into the labor market by offering them occupational training and, typically, short-term employment, as well as helping them find other employment opportunities (Battilana et al., 2015; Defourny & Nyssens, 2007). Therefore, WISEs' workforce consists of employees, volunteers, and individuals who have been

traditionally excluded from the labor market (e.g., individuals with disabilities and returning citizens) (Austin et al., 2012; Bode, Evers, & Schultz, 2006; Cooney, 2011). Second, working for a social enterprise requires a set of sector-specific competencies that are typically rare in the labor market (e.g., Battilana & Lee, 2014; Battilana, Lee, Walker, & Dorsey, 2012; Royce, 2007). Finally, even commercially successful social enterprises are limited in terms of the financial resources available for HRM investments and remuneration (e.g., Austin et al., 2012; Doherty et al., 2014), as profits are directed to the social mission. Thus, their ability to attract and retain employees is further challenged (e.g., Liu, Takeda & Ko, 2014; Ohana & Meyer, 2010).

On these grounds, this study aims to explore how HRM can contribute to the effectiveness of social enterprises by shedding light on the intricate relationship between HRM practices and the unique workforce of social enterprises. Therefore, this study explores three questions: (a) What is the main driver of HRM-related decisions in social enterprises? (b) What is the workforce synthesis (paid and unpaid staff)? (c) What systems of HRM practices do firms use to effectively manage the differentiated workforce of social enterprises?

Our theoretical and managerial contribution are fivefold. First, through 20 in-depth interviews with key informants from social enterprises, the deeply rooted “ethics of care” value emerged as the core of all decisions social enterprises make about the synthesis of their workforce and the HRM deployments they adopt. Second, in contrast with previous research suggesting the existence of three distinct groups in social enterprise workforces—namely, employees, volunteers, and disempowered employees (the latter only in the case of WISEs; Austin et al., 2012; Royce, 2007)—we identify five distinct groups: volunteers, traditional employees, recent graduates, established professionals, and disempowered employees. While extant literature suggests that disempowered employees are present only in WISEs, our results

indicate that social enterprises, in general, driven by the “ethics of care” value, are likely to employ disempowered individuals. Third, we draw from research on differentiated workforces (Osterman, 1987), as well as Lepak and Snell’s (1999, 2002) human capital architecture framework, to develop a typology of HRM systems most suited to each type of workforce group. Fourth, we contribute to the emerging literature on “hybrid organizing” (i.e., combination of multiple forms of organizing; Battilana, Besharov, & Mitzinneck, 2017), as social enterprises are the “ideal setting to explore hybrid organizing and thereby advance the field of organizational studies” (Battilana & Lee, 2014, p. 409). Fifth, our findings have broader implications for the HRM literature. We add to the growing body of research suggesting that “firms can gain competitive advantage only through the interplay between human capital resources and HRM practices – each shaping and bring about the other” (Delery & Roumpi, 2017, p. 2) and propose a “virtuous circle” model. According to the proposed model, social enterprises and other organizations that have “ethics of care” as their main driver can accomplish desirable organizational outcomes (e.g., retention, financial and social performance) by using differentiated systems of HRM practices for their unique workforce groups.

## **CONTINGENCY PERSPECTIVE AND SOCIAL ENTERPRISES: A UNIQUE WORFORCRE AND HRM-RELATED CHALLENGES**

For more than three decades, scholars have highlighted the importance of contextual factors in HRM (e.g. Jackson & Schuler, 1995). The progress, however, toward this direction has been slow and even “disappointing” (Farndale & Paauwe, 2018, p. 202). Although HRM in context research is arguably in its infancy, several studies have highlighted the critical role of context. For example, Combs et al.’s (2006) meta-analysis shows that there is a difference in the effect sizes of the high-performance work practices—organizational performance relationship between

manufacturing and service organizations. Similarly, Kalleberg, Marsden, Reynolds, and Knoke (2006) found that for-profit organizations are more likely to adopt practices such as performance incentives than non-profit and public-sector organizations.

At the core of the research stream focusing on contextualizing HRM lies the contingency perspective. According to this perspective, the effectiveness of individual HRM practices or systems of HRM practices depends on the characteristics of the external and internal organizational context (e.g. Delery & Doty, 1996; Jackson & Schuler, 1995; Lengnick-Hall et al., 2009). Given the complexity of the organizational environment, assuming that a set of practices is universally effective is problematic. The contingency perspective emphasizes that the “one-size-fits-all” approach is not always appropriate in HRM (Harney, 2016).

Countless factors in the external (e.g., unionization, labor market conditions, industry) and internal (e.g., technology, firm size, business strategy) environment of an organization could potentially play a role in the HRM-related decisions organizations make and their effectiveness (Jackson & Schuler, 1995; Jackson et al., 2014). The most prominent, arguably, relevant stream of research focuses on the role of national culture in HRM (e.g., Farndale & Sanders, 2017; Kostova, Roth, & Dacin, 2008). Another important contextual factor is the industry. Datta, Guthrie, and Wright (2005) showed that specific industry characteristics (i.e., differentiation, capital intensity, and growth) moderate the relationship between HRM systems and productivity. Other scholars have focused on a combination of internal and external contextual factors. For example, Jackson, Schuler, and Rivero (1989) showed that the use of HRM practices varies as a function of a set of organizational factors (e.g., sector, technology, organizational structure).

A potential factor affecting the choice, implementation, and effectiveness of HRM that

has largely overlooked is the business model. Research suggests that non-profits differ from their for-profit counterparts in leadership style (Megheirkouni, 2017) and employee satisfaction and loyalty (Borzaga & Tortia, 2006). Compared with for-profit firms, non-profits pursue multiple bottom lines and vague social goals, have multiple stakeholders with conflicting views, and thus find achieving a vertical fit in HRM more difficult (Lepak & Snell, 2002; Ridder, McCandless Baluch, & Piening, 2012). Moreover, that non-profits are less likely to offer formal training (Pitta & Kucher, 2009). It is, therefore, reasonable to conclude that social enterprises' dual mission and arising tensions offer a unique context to examine HRM and require distinct attention. Some evidence from social enterprises suggests that failure to balance the workforce synthesis can lead to financial troubles; for example, Bruneel Moray, & Stevens (2016) found that an award-winning for-profit social enterprise faced bankruptcy partly from hiring too many integration workers (vs. traditional employees).

A recent effort to organize the many contextual factors that influence and contribute to the formation and effectiveness of the HRM practices/systems is the contextual strategic HRM framework (Farndale & Paauwe, 2018; Paauwe & Farndale, 2017). This framework puts forth three interrelated contextual factors: (a) competitive mechanisms, which are associated with how the focal firm positions itself in the relevant market (e.g., the products offered); (b) institutional mechanisms, which encapsulate external environment factors (e.g., legal and regulatory environment, national culture) that enable the firm to achieve legitimacy; and (c) heritage mechanisms, which include elements of the internal context of the firm, such as the organizational culture, human capital, and systems. As Paauwe and Farndale (2017) suggest, the third mechanism reflects the choices the organization made in the past and constitutes an important contextual factor for the choices the organization will make in the future.



Given the importance of context in the study of HRM, in the next sections we discuss the case of social enterprises. Specifically, we focus on the synthesis of the workforce in social enterprises and the relevant HRM-related challenges. In addition, drawing on the contextual strategic HRM framework (Farndale & Paauwe, 2018; Paauwe & Farndale, 2017) and, in particular, the heritage mechanisms, we present the research questions guiding this study. We focus on the heritage mechanism because it captures the means through which past decisions influence the current and future structure of the organization. This is particularly important in the case of social enterprises, as the values of the social entrepreneur have been embodied in and influence the structure and practices of the organization (André & Pache, 2016).

### **Social Enterprises as a Unique Context for the Study of HRM**

Despite the lack of a broadly accepted definition of what constitutes a social enterprise (see Mair & Marti, 2006; Short et al., 2009), one common thread across all definitions is that social enterprises operate at the intersection of the for-profit and non-profit sectors (Doherty et al., 2014). In contrast with these two sectors, social enterprises are characterized by a dual mission: simultaneously achieving social and commercial/financial performance (see Smith, Gonin, & Besharov, 2013). Social enterprises aim to generate “social value”, conceptualized as any activity that benefits the welfare or the well-being of a targeted society/community (Peredo & McLean, 2006), and their commercial activities serve as the means for funding and sustaining their social purpose (e.g., Battilana & Dorado, 2010; Pache & Santos, 2013). In other words, social enterprises strive “to solve social problems through business ventures” (Smith et al., 2013, p. 408). Given this dual nature of social enterprises, we expect differences between social enterprises and other organizational entities in terms of their workforces and, by extension, the HRM-related challenges they face. We briefly discuss these topics next.

## **The Nature of the Workforce in Social Enterprises**

Social enterprises have a unique workforce (e.g., Austin et al., 2012), typically comprising both employees (part-time or full-time; we refer to such individuals as “traditional employees” hereinafter) and volunteers (see Royce, 2007). In addition, WISEs offer employment opportunities to individuals who have typically been excluded from the traditional labor market for various reasons, including physical disabilities, mental health conditions, and criminal records (e.g., Battilana et al., 2015; Bode et al., 2006; Borzaga & Defourny, 2001; Vidal, 2005), referred to as “disempowered employees” (e.g., Vidal, 2005).

*Traditional employees.* Traditional employees are characterized by high employability, based on their portfolio of skills, abilities, and other characteristics. Despite their employability, these individuals choose to work for hybrid organization, a very different environment than in the for-profit sector. Social enterprises are unable to offer market rates (Austin et al., 2012; Doherty et al., 2014), and traditional employees seek employment there because of the intrinsic motivation stemming from the alignment of their values with those of the organization (Doherty et al., 2014; Ohana & Meyer, 2010). Value congruence is directly associated with the concept of person–organization fit, defined as the “compatibility between people and organizations that occurs when (a) at least one entity provides what the other needs, or (b) they share similar fundamental characteristics, or (c) both” (Kristof, 1996, pp. 4–5), and this fit can predict applicant attraction (Uggerslev, Fassina, & Kraichy, 2012). According to the attraction–selection–attrition model (Schneider, 1987), value alignment is the reason some individuals are attracted to and selected by social enterprises. These expectations align with prior research in the context of non-profit organizations which attract employees driven more by intrinsic rather than extrinsic motivators (Lee & Wilkins, 2011; Wright, 2001). However, this difference in motivation might exist only

for high skilled positions as Brolis (2017) found that the motivation of low-skilled employees in social enterprises and for-profit companies did not differ significantly.

*Volunteers.* Drawing parallels to non-profit organizations, prior research suggests that the use of volunteers is a relatively common phenomenon in the third sector (O'Hara, 2001; Royce, 2007). Social enterprises depend heavily on volunteers, especially in the early stages of their development, during which available resources are typically limited (O'Hara, 2001). The motivation for individuals to volunteer varies significantly. Some individuals volunteer their time and skills out of altruistic purposes, such as their deep belief in the importance of helping others (Clary, Snyder, & Ridge, 1992). Others volunteer out of societal pressures and norms (e.g., expectations to contribute to the community, religious beliefs), while others may be driven by purely egotistic purposes (e.g., developing skills, feeling better about themselves, developing social contacts, serving their need for affiliation) (Bussell & Forbes, 2002; Clary et al., 1992). In addition, individuals may view voluntary jobs as temporary solutions or as a means of developing opportunities to further their careers (Emanuele & Higgins, 2000). Understanding the motives of volunteers in the third sector is critical when considering the retention issues social enterprises face (Ohana & Meyer, 2010) and the potential risk of investing in training for individuals who might not stay for long (Newton, Becker, & Bell, 2014). Social enterprises that depend heavily on volunteers need to be able to provide non-monetary inducements that align with the varying motives of volunteers in order to retain them.

*Disempowered employees.* Social enterprises often employ disempowered individuals, defined as “poorly qualified unemployed people who are at risk of permanent exclusion from the labor market” (Vidal, 2005, p. 807), or others who have been excluded from the traditional labor market for various reasons (e.g., former substance users) and are characterized as

“disadvantaged” in some way (Doherty et al., 2014). Specifically, the employment of disempowered and marginalized individuals (often termed as “beneficiaries”) constitutes part of the mission of some social enterprises (WISEs). WISEs (Battilana et al., 2015; Borzaga & Defourny, 2001; Vidal, 2005) can be either the end employers of these individuals or intermediate organizations that try to provide disempowered individuals with the skills that will help them re-enter the traditional labor market (Cooney, 2011; Vidal, 2005). For WISEs, disempowered individuals are simultaneously employees and beneficiaries (Battilana et al., 2015; Doherty et al., 2014). The phenomenon of employing disempowered individuals is unique to the context of social enterprises, as to the best of our knowledge, for-profit and non-profit organizations do not systematically hire from this pool of individuals.

### **HRM-Related Challenges in Social Enterprises**

The nature of social enterprises creates challenges and tensions that for-profit and non-profit organizations do not face (Tracey & Phillips, 2007). Sourcing, financing, establishing, and maintaining the delicate balance between their social and commercial missions are the main challenges social enterprises encounter (e.g., Borganza & Defourny, 2001). In addition, social enterprises must manage the divergent and sometimes-conflicting expectations of different stakeholder groups, such as those between employees and donors, who identify more with the social mission of the organization, and other employees and investors who identify more with the business venture aspects (Borzaga & Defourny, 2001).

Arguably, the most challenging tensions tend to be directly or indirectly associated with the unique workforce of social enterprises. Traditional employees, volunteers, and disempowered employees often have different needs and expectations. For example, volunteers

are usually attracted to a social enterprise because of its social mission, and the achievement of relevant organizational goals is critical for their satisfaction (Cnaan & Cascio, 1998). By contrast, traditional employees, though they may also be attracted by the enterprise's social mission, are often interested in its commercial mission, in that they associate the organization's revenues with their compensation and opportunities for professional development (Borzaga & Defourny, 2001; Doherty et al., 2014). Ineffective management of this fragile balance between the interests and expectations of employees and volunteers could result in job dissatisfaction, high turnover, and other negative work-related attitudes and behaviors. For example, turnover of traditional employees is higher when they co-exist with volunteers in social enterprises (Liu and Ko, 2012). The issue of turnover is even more pronounced in the case of volunteers. Volunteers are less dependent on the organization than paid employees (Cnaan & Cascio, 1998), and therefore it is easier for them to leave if their expectations are not met. Finally, two characteristics significantly differentiate disempowered employees from volunteers and traditional employees: they are "poorly qualified" (Vidal, 2005, p. 807) and are excluded from the traditional labor market (Doherty et al., 2014) posing a unique challenge for WISEs. WISEs need to have the appropriate structures and support systems in place to build the skills enabling disempowered employees to either re-enter the traditional labor market or generate value for their employers.

In addition to the various tensions arising from the nature of social enterprises, their relationship with the labor market adds to the complexity of their context. Social enterprises, constrained by their limited financial resources, are unable to compete on equal terms with for-profit or even non-profit organizations, which typically offer more competitive compensation and other benefits (Austin et al., 2012; Doherty et al., 2014). Moreover, various studies (Peattie & Morley, 2008; Royce, 2007) report that the dual mission of social enterprises necessitates

employing individuals who possess a unique set of sector-specific skills that are rare in traditional labor markets (e.g., ability to understand and contribute to both the social and commercial mission of the enterprise). As Battilana and Lee (2014, p. 415) aptly state, “it is rarely possible to populate the social enterprise with ‘hybrid individuals’”. When social enterprises are unable to attract individuals with this sector-specific set of skills, they need to choose between individuals who “fit” better with either their social or commercial mission. Battilana and Dorado (2010) reported that organizations in the microfinance sector face a similar dilemma in employee selection: hire individuals with social work or with background related to the financial products they offer. Thus, social enterprises face unique HRM challenges in attracting and retaining individuals who possess the necessary knowledge, skills, and abilities (Liu & Ko, 2012; Ohana & Meyer, 2010; Peattie & Morley, 2008).

## **Research Questions**

Drawing on decades of HRM research and, more specifically, strategic human resource management (SHRM), we argue that a key to the success for any organization and, by extension, social enterprises to achieve their dual mission lies in their human capital and HRM strategies. SHRM and human capital research streams have built a compelling evidence base and theoretical arguments suggesting that human capital and its effective management are critical to achieve a sustainable competitive advantage and, in general, to meet strategic goals (e.g., Nyberg, Moliterno, Hale, & Lepak, 2014; Wright, McMahan, & McWilliams, 1994). According to Wright et al. (1994, p. 320), organizational strategic goals can be “achieved only by the interaction between the human capital pool and the HR practices”. By extension, we argue that the effectiveness of social enterprises in achieving their social and commercial missions depends heavily on their workforce and its management.

The uniqueness of the context of social enterprises raises significant questions about the direct applicability of the research findings regarding the effective combination of human capital and HRM deployments in for-profit and non-profit organizations (Zhang et al., 2018). Therefore, it is important to gain a deeper understanding of the intricate workforce–HRM practices relationship within the context of the limitations and opportunities stemming from the nature of social enterprises. Thus, the overall aim of this study is to identify patterns of how social enterprises combine various workforce groups and HRM practices to achieve their social and commercial/financial missions. On the grounds of the heritage mechanism of the contextual strategic HRM framework (Farndale & Paauwe, 2018; Paauwe & Farndale, 2017), it is important to acknowledge that, as in any organization, the HRM-related choices are path dependent (associated with the decisions the organization made in the past; Barney, 1995). Before we delve into the specific workforce groups and the HRM practices used, it is critical to understand what the main driver of these decisions is. Thus, our first research question is as follows:

*Research Question 1: What is the guiding principle underlying the decisions the social enterprise makes about its HRM practices/systems and its workforce synthesis?*

As discussed in the previous sections social enterprises have a unique workforce composition (Austin et al., 2012, Battilana et al., 2015), including paid employees, unpaid staff (volunteers), and disempowered employees (in the case of WISEs). Given the constraints of social enterprises, however, especially in their ability to offer competitive salaries and market rates (Austin et al., 2012; Doherty et al., 2014) and the variation in the goals of individuals who are attracted to social enterprises (social mission vs. economic productivity; Battilana et al., 2015), we expect that the workforce composition in social enterprises is more complicated than what extant literature suggests. Thus, our second research question is as follows:

*Research Question 2: What is the synthesis of the workforce in social enterprises?*

In the field of strategic HRM, the notion of a “differentiated workforce” can be traced back to Osterman’s (1987) work. This concept suggests that different workforce groups in an organization have different needs and make different contributions to the firm’s performance, and as such, using the same set of HRM practices for all employees may not be effective (see Lepak & Snell, 1999, 2002). Therefore, social enterprises, which employ a diverse workforce, need to have differentiated practices that align with the needs of each group. In addition, as extant research suggests, individual HRM practices are not necessarily effective and a “systems” or “bundles” approach is more appropriate (e.g., Delery & Doty, 1996; Lepak & Shaw, 2008). The underlying assumption of the configurational approach is that HRM practices that are consistent with each other (have internal/horizontal fit) create synergies through their dynamic interplay, which in turn can lead to better organizational outcomes than individual HRM practices (Baird & Meshoulam, 1988; Becker & Gerhart, 1996; Boon, den Hartog, & Lepak, 2019; Boxall & Purcell, 2000; Huselid, 1995). Consistent with the contingency perspective, the SHRM literature suggests that there is not one HRM system that applies to all situations but, instead, the composition of each system should depend on the objectives the organization wants to achieve (e.g., Boselie et al., 2005). Therefore, depending on the segmentation of the workforce, organizations should use multiple systems of HRM practices simultaneously (e.g., Lepak & Snell, 2002). Finally, despite the variation in the HRM practices that belong to the different systems, each system should include practices that address the three elements of the ability–motivation–opportunity framework (Appelbaum, Bailey, Berg, & Kalleberg, 2000; Purcell & Hutchinson, 2007). In other words, for an HRM system to be effective, ability-/skill-, motivation-, and opportunity-/empowerment-enhancing HRM deployments should be included



(Combs et al., 2006; Delery & Roumpi, 2017; Subramony, 2009). On these grounds, our last research question is as follows:

*Research Question 3: How do social enterprises manage their differentiated workforce (groups of paid and unpaid staff)?*

## **METHODS**

To address our research questions, we employed a qualitative methodology with the aim to gain in-depth accounts from key informants and develop grounded theory (Glaser & Strauss, 1967). The choice of this methodological approach was based on two criteria. First, this approach enabled us to focus on the characteristics of the context (Glaser & Strauss, 1967; Murphy, Klotz, & Kreiner, 2017). Second, this methodology enabled the exploration of “blue skies” or, in other words, relatively unexplored research arenas (Murphy et al., 2017), as most of the literature on the nature of the workforce and the effectiveness of HRM practices in social enterprises has been heavily influenced by research on other forms of entrepreneurial activity (e.g., small businesses, start-ups, non-profits). However, despite social enterprises’ similarities to these types of organizations, the differences are significant and require exploring within this specific context (Dubé & Paré, 2003). Furthermore, as Newman et al. (2015) emphasized, the role of human resources and HRM practices in the unique context of social enterprises has hitherto been neglected. Finally, this study also responds to calls for more extensive use of qualitative approaches in the study of HRM (Murphy et al., 2017).

### **Sample**

Institutional differences (e.g., regulations) that influence the operation and success of social enterprises exist between countries (Doherty et al., 2014). To limit the effects of such

institutional factors in our study, we drew our sample from a single country (the United Kingdom). The UK is a pioneer in social entrepreneurship, with approximately 70,000 social enterprises contributing £24 billion annually to the economy and employing almost a million people (Social Enterprise UK, 2015). This long tradition of the third sector in the UK enabled us to draw a sample from mostly established social enterprises.

Given the lack of a comprehensive list of all the social enterprises operating in the UK to serve as our sampling frame, identifying a truly random sample was impossible. However, we were able to access the members of Social Enterprise UK, the national body for social enterprises in the country, and used these as our sample population. To increase the sample and also draw on insights from social enterprises not part of this network, we employed a snowball sampling technique (Ashforth, Kreiner, Clark, & Fugate, 2007; Corley & Gioia, 2004), inviting already-recruited respondents to recommend other social enterprises as potential informants. To increase the response rate and gain goodwill with respondents, we explained the aim and purpose of the study at initial contact and guaranteed anonymity of and access to the results. Finally, we offered each respondent a £20 voucher as a token of appreciation for their time.

In total, our sample comprised 20 UK-based social enterprises. We deemed this sample size appropriate for two reasons. First, we reached theoretical saturation after the 15th interview (Murphy et al., 2017; Walsh et al., 2015); nevertheless, we carried out the remaining scheduled interviews to verify the initial results. Second, the sample size is consistent with suggestions and norms for adequate sampling in management studies, more pertinently, in the field of social entrepreneurship. Brinkmann and Kvale (2015) suggest that five to 25 people represent an adequate sample for qualitative studies. Moreover, according to Short et al. (2009), the norm for qualitative studies in social entrepreneurship is an average of 15 people (the median is five

people). The relatively small sample typically encountered in the field of social entrepreneurship can be attributed to the very nature of the third sector.

In the initial communication with the 20 social enterprises that agreed to participate in the study, we asked them to identify the individual in the firm who was most knowledgeable about the formal and informal HRM practices used. As a result, we conducted 20 in-depth interviews with CEOs, founders, and HR directors/managers. All interviews ranged from 45 to 120 minutes and were conducted in-person on the premises of the participating enterprises. The average age of the participating social enterprises was approximately 19 years (ranging from 6 to 37 years), with most (75%) being in business for more than 10 years. The relative longevity of most of these social enterprises is an indicator of their effectiveness in achieving their missions, especially considering that social enterprises as a form of entrepreneurial activity have gained popularity in the past decade. According to a recent study by the European Commission, only 36% of social enterprises in the UK are 10 years or older (SEFORIS, 2016). This statistic further strengthens our argument about the longevity-performance relationship.

In addition, to ensure that the conclusions we draw about effective HRM practices and systems derive from successful enterprises, we asked the interviewees to compare their organizations with others in their relevant industries. From their responses, we can conclude that they are largely successful organizations. For example, the HR director of a street newspaper stated, *“in [contrast with] the rest of the industry, our sales are growing”* (SE20). Similarly, the CEO of a logistics company noted, *“I have one of the best performance figures in the market. We do that because we put extra labor in. We can afford that because we do not have to make profits for shareholders. We can afford to have an extra couple of people working and make sure our performance standards are met and exceeded.”* (SE07). Even some of the “youngest”

participating companies reported that they were quite successful. As another interviewee mentioned: “*So we are not 10 years old, but our turnover is about 1.2 million. We have grown pretty quickly.*” (SE04). Table 1 outlines the sample.

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Insert Table 1 about here  
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### **Interview Protocol**

The aim of the grounded theory building approach is to allow topics and concepts to emerge through discussion (Murphy et al., 2017; Walsh Holton, Baiyn, Fernandez, Levina, & Glaser, 2015); thus, we developed an open-ended, semi-structured interview protocol to guide the face-to-face discussions (see Appendix 1). The semi-structured nature of the interviews enabled us to collect answers from all respondents for some integral questions, which also allowed the interviewer to ask follow-up questions on topics and comments that were of interest.

The interview protocol we employed consisted of four main sections: (a) information about the interviewee, (b) description of the social enterprise, (c) workforce (e.g., differentiating characteristics of the workforce), and (d) human resources management practices (. Questions in the first two sections helped us understand the social entrepreneur’s background and motivations regarding the firm in general and HRM practices in particular and answer research question 1, while the latter two sections enabled us to address research questions 2 and 3, respectively. At the beginning of each interview, the interviewer briefly informed the interviewee about the purpose of the study and confidentiality and asked for their consent to record the interview.

### **Coding and Analysis**

The 20 interviews were professionally transcribed verbatim, resulting in 214 pages. We used a

two-step process to code the interviews. First, we constructed an initial coding scheme comprised of broad constructs informed by our literature review (Straus & Corbin, 1998). Second, as the coding process progressed, we added more codes to better capture the insights provided by interviewees. In terms of the coding process, our goal was to reach dialogical intersubjectivity (Gillespie & Cornish, 2010), which refers to the reliability attained in qualitative studies through discussion and argumentation between the coders to reach consensus. Two of the authors independently coded the transcripts and then discussed the coded portions of each transcript until consensus was attained. To further ensure the consistency of the coding, they regularly compared the newly coded text with the previously coded text (Glaser & Strauss, 1967). Overall, 83 codes were created. The coding was then organized using NVivo software for subsequent analysis. In terms of the analysis, we relied on Eisenhardt's (1989) suggestions and focused on the specific constructs/concepts of interest. We further refined these concepts and looked for patterns and similarities across respondents (Miles & Huberman., 1994). Figure 1 depicts the data structure (Gioia & Chittipeddi, 1991; Gioia, Corley, & Hamilton, 2013).

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Insert Figure 1 about here  
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## **RESULTS**

**Research Question 1: What is the guiding principle underlying the decisions the social enterprise makes about its HRM practices/systems and its workforce synthesis?**

With regard to the main driver of HRM-related decisions in social enterprises, a reoccurring concept was the “ethics of care” value. This concept was manifested in three main ways: offering opportunities to disempowered employees, creating a culture of acceptance and inclusion, and

offering ethical and inclusive practices.

*Disempowered employees.* The greatest impact of the “ethics of care” in social enterprises is the presence of a marginalized, disenfranchised, and, in general, disempowered employees. By employing these individuals, social enterprises signal their caring culture to all institutional members. Although employing disempowered and marginalized individuals is part of WISEs’ mission, we found strong evidence of the presence of disempowered employees in all types of social enterprises. As one of our informants noted:

*It’s almost an additional social impact. You’re not just providing the [social mission] that you say you’re going to provide, but you’re going beyond that to help people that have been in your service to contribute to the wider economy themselves. (SE13)*

*Culture of acceptance and inclusion.* Another important theme that emerged as a manifestation of the “ethics of care” in social enterprises is the culture of acceptance and inclusion. Coping with the diversity of their workforce (due to the mixture of traditional employees, disempowered employees, and volunteers) requires, above all, a culture of acceptance. In other words, a unique characteristic of social enterprises is their willingness to tolerate, accept, and welcome different people, points of view, or diverse voices. As informant SE01 indicated, “*We don’t get nervous for people who are different, a bit sketchy.*”

An important aspect of this culture of acceptance is keeping an open mind, as well as trying not only to recognize differences but also to find commonalities that help individuals relate to one another. As one of the interviewees mentioned:

*I know that many of my employees have smoked marijuana, I know some of them do harder drugs at the weekends...But, you know, that wouldn’t stop me from employing them or it wouldn’t push me down a route of “I am going to drug test everyone.” I was young once [too]. (SE05)*

Another critical aspect of the culture of acceptance and inclusion that emerged was tolerance. Several interviewees mentioned that as part of their culture, they are more forgiving and willing to overlook various issues. Our findings indicate that some social enterprises are even tolerant of instances of underperformance. For example, one informant stated:

*Social enterprises generally are far more tolerant around underperformers or employees who need time away or want to take time away, they will not even deduct pay. (SE13)*

The following quotes summarize the culture of acceptance and inclusion in social enterprises:

*I would say that [social enterprises] treat people as individuals who have aspirations for other people regardless of their background, their qualification, their experience.... I think they're very accepting of people from different backgrounds. (SE16)*

*[We welcome] anybody! It doesn't matter what their baggage is, what sort of crime they've committed, what their history is, what their hang ups are. (SE07)*

*Ethical and inclusive practices.* The third manifestation of the “ethics of care” is associated with the adopted practices. Having a culture that accepts diversity is not enough; social enterprises have practices that embrace and even celebrate diversity. Probably the most notable example of ethical and inclusive practices is adjusting the policies and practices of the organization to accommodate the needs of each group of employees, especially disempowered employees. For example, the CEO of one social enterprise emphasized that:

*We've got people with mental health issues who might be having a very bad time and [as one his employees] would tell you, in her previous job she had to hide that because if she talked about it, she thought she'd get [fired]. Whereas we're saying, “No, tell us about it and if that means you have the week off but then you do double the next week, fine”. (SE19)*

In addition to offering inclusive practices and adjusting strategies to better accommodate the needs of their employees, many social enterprises expressed their reluctance to use

volunteers, as the “ethical” stance is to pay people for their work. For example:

*A lot of people have been exploited over the years by being offered volunteering opportunities which really means that they are doing a job for no pay. And we don't really want to go along with that. So, no volunteers. (SE18)*

In conclusion, the insights we collected reveal that the main driving force behind past and future HRM-related decisions in social enterprises is the “ethics of care” value. We find the presence of what we describe as disempowered employees in the majority of the interviewed firms (not just WISEs). We attribute this to the “ethics of care” evident in these organizations. The participating social enterprises, due to their strong “ethics of care” adopt a culture of acceptance along with various ethical and inclusive practice with the goal of offering an environment that empowers all employees: disempowered employees in need of a second opportunity, inexperienced young graduates in need of training and development, and overworked established professionals in need of a more nurturing environment.

### **Research Question 2: What is the synthesis of the workforce in social enterprises?**

*Traditional employees.* The majority of the interviewees indicated that their social enterprises offered employment to at least four traditional employees. The accounts we received regarding the educational level and work experience of these traditional employees varied however. Only in a few cases, when the nature of the workforce required qualified individuals (e.g., banks), did the interviewees mention that all their employees had at least a bachelor's degree and/or significant work experience. In some instances, the interviewees noted that their employees are highly employable and could easily find employment in other organizations. The following passages reflect the belief of the interviewees in the employability of their employees:

*These are smart people who could get jobs in many places. (SE4)*



*The level of their skills is highly attractive in the employment space right now. Especially in our area. (SE16)*

One particularly notable finding is that some interviewees identified two distinct subgroups of traditional employees: *established professionals* and *recent graduates*. It is important to note that not all traditional employees fall within these two categories. The first subgroup refers to professionals who attained significant experience in the for-profit and/or non-profit sectors before joining a social enterprise. According to our informants, such individuals have earned enough experience and money and have decided to apply their skills and expertise to serve an important cause. In most cases, these employees are willing to sacrifice remuneration to move into the third sector. For example:

*[One employee] has decided to place himself in an organization where he believes he can do good for society, as well as use his skills. So, he sacrificed a very substantial salary for the quality of experience that he gets in our business. (SE09)*

The second subgroup of traditional employees consists of young individuals, typically recent graduates. The narratives we collected about these employees can be further split into two categories: *idealistic young graduates* and those who view working for a social enterprise as a *starter job*. The first category comprises young people who are passionate about the social mission of the enterprise and want to contribute to that purpose, regardless of whether they possess sector-specific qualifications. This notion is captured in the following quotation:

*We do get a lot of idealistic young people.... They couldn't go to a lot of other specialist agencies who would want a specialist qualification, let's say a social worker qualification, and the experience to do what they are asking them to do. You don't need that here. (SE01)*

The second category comprises individuals who are interested in gaining work experience from and faster job progression in a social enterprise. Working for social enterprises

allows them to quickly enrich their résumés and, subsequently, to find a job in the for-profit or non-profit sectors, which typically provide higher salaries. The following excerpts offer examples of this subgroup of young individuals:

*He is thinking about his career progression over the next 10 years, which is probably going to be in a conventional for-profit environment, but he is learning the ropes in our business. (SE16)*

*They come to us for two, three years ... and they will then go for another organization which is actually asking for expertise. (SE20)*

It should be emphasized, however, that sharing the values of the organization and ‘using’ it as a starting job and for résumé building were not mutually exclusive. According to the narratives, social enterprises were quite popular among young graduates because of a combination of the aforementioned reasons.

Regarding the values of individuals who decide to work for a social enterprise and their differentiating characteristics from individuals working in the for-profit sector, our findings suggest that intrinsic motivation is crucial. According to our informants, most individuals employed in the third sector share a deep belief in the social mission of their employer, are caring, have a social conscience, and do not prioritize financial incentives. As one of the interviewees mentioned about one of his employees: “[he] *lives and breathes the values of the organization*” (SE05). The following excerpts exemplify this:

*Money is not the prime motivator... The purpose comes first. (SE02)*

*Certain people I’ve seen care about growth, they care about ambition and care about making a name for themselves and much more self-serving things, whereas these people care about the environment or care about society. (SE11)*

As another notable finding regarding the values of employees in social enterprises, three interviewees mentioned that they employed a higher-than-average percentage of non-

conformists, anarchists, or leftists:

*We seem to attract quite a lot of anarchists; that's not on purpose ... we definitely have had a high level of anarchists here than not. I think motive is ... our working environment is very relaxed, very friendly, it's professional but less conformist than others. (SE05)*

*Volunteers.* Our findings indicate that social enterprises do not rely extensively on volunteers. Specifically, only four of our interviewees mentioned that volunteers served in the social enterprises they represent. In two of these cases, the number of volunteers was significant, and our interviewees also stressed that some of their current employees began as volunteers. In the other two cases, volunteers were trustees or members of the enterprise's board of directors. One of the interviewees described volunteers as a “*floating population*”, emphasizing the difficulty of managing them and effectively using their skills. In other words, given that, unlike paid employees, volunteers are not bound by a contract to offer their services to the social enterprise, the managerial team cannot rely on them because they can leave whenever they want or might under-perform with no real consequences for them.

In a few cases, interviewees mentioned that they rely on volunteers when highly specialized professionals are required or when the position requires someone with significant work experience. Given the limited financial resources social enterprises have at their disposal for compensation, it is unlikely for such individuals to be attracted to or retained by social enterprises as paid employees. For example, one informant referred to the volunteer members of his board of directors:

*We have a total of 25 volunteers, including 11 trustees. We call them associates. They are specialist advisers in areas such as legal and taxes.... And all of those are successful professionals who donate some of their time. (SE11)*

*Disempowered employees.* These individuals are disempowered for a variety of reasons,

including physical and learning disabilities, long-term unemployment, ex-offenders, and having poor educational backgrounds. In some cases, interviewees mentioned that only disempowered individuals staff their social enterprises. Our analysis indicated that the social enterprises offering employment to disempowered individuals are not necessarily WISEs, or in other words, it is not part of their mission to hire individuals with limited employability. Specifically, only three of the participating social enterprises were WISEs. A more in-depth content analysis allowed us to identify a common thread across these social enterprises: they are caring organizations that keep an “open” mind. The notion of a “caring” organization means that social enterprises are, by definition, more sensitive to social issues. Thus, they are more likely to offer second opportunities to people in need of employment. For example:

*The type of people who are running the social enterprises are compassionate people who believe that everybody should be given a chance in life.... I think that there is a higher proportion of people with issues, shall we just say, working for social enterprises. It might also be due to the type of work that they do. It's almost like ex-alcoholics are the best people to help current alcoholics. (SE05)*

*I think, generally, social enterprises are run by people who have more empathy with the sorts of problems that other people live with and that they are more open-minded, tolerant, and accommodating. (SE18)*

In conclusion, we identified five distinct workforce groups: disempowered employees, recent graduates, established professional, traditional employees, and volunteers. The use of volunteers seems to be relatively limited, but for the organizations that had volunteers, they were in highly ranked positions (board members or specialized professionals undertaking pro-bono work). Our findings indicate that disempowered employees are present even in non-WISE social enterprises.

**Research Question 3: How do social enterprises manage their differentiated workforce (groups of paid and unpaid staff)?**

As the interviewee accounts indicated, the participating social enterprises did not formally deploy differentiated HRM systems. However, in our discussions, significant differences emerged in terms of five main HRM functions: recruitment, selection, compensation, non-monetary incentives, and career development and promotions.

*Recruitment.* We observed considerable variation in the recruitment methods the social enterprises in our sample used. Given their financial limitations, the majority prefer the most cost-effective ways to recruit new employees, such as word of mouth, personal social networks, social media, or hiring from their pool of volunteers when possible. In addition, for recent graduates they use the career centers of local universities. However, several interviewees described a different approach when the job requires a specific and, sometimes, unique set of skills (mostly in the case of established professionals). In such cases, social enterprises rely on either recruitment agencies (i.e., headhunters) or their personal networks to identify highly qualified individuals who are willing to earn less money and trade their expertise for better working conditions and work–life balance.

Furthermore, social enterprises striving to attract disempowered employees use different approaches than for-profit organizations, such as working with parole offices or advertising through charitable organizations and forums for people with disabilities. For example, the CEO of a social enterprise in our sample mentioned:

*We are training somewhere in the region of 150 mechanics a year. It's for free but they have to be unemployed. We go to job centers, we go to homeless hostels, we work with probation to advertise for people to come and be trained. (SE05)*

Critical to employing a diverse workforce, as an interviewee suggests, is to actively promote it:

*When you talk to employers about diversity, they seem quite keen on issues around race,*

*and gender, but when you talk about disability, it seems to be the poor relative. And they'll say: "Well we don't discriminate against disabled people". But that's a very different thing from actively promoting that you are keen to employ disabled people. (SE10)*

*Selection.* Similar to the recruitment process, the interviewees indicated that they employ various selection tools, such as traditional face-to-face interviews and work samples for jobs requiring specific qualifications. Of interest are the social enterprises that want to hire disempowered applicants. In such instances, the interviewees indicated that they adjust their selection process to accommodate the needs of their applicants. For example, the CEO of a social enterprise that only employs individuals with impairments talked about an employee with autism:

*I couldn't interview him because he's not verbal. He just doesn't communicate that way. But, in giving him a trial to do the work I wanted him to do, he turned out to be really good. So, if I had insisted on an interview, he would never have got the job and I wouldn't have accessed his talent. (SE14)*

The common denominator in most of the discussions regarding selection is that the focus is on person–organization fit. Specifically, our findings indicate that the social enterprises in our sample put emphasis on the match between the values and personality of the applicant and the culture and mission of the organization. For example:

*We don't recruit ... on the basis of their qualifications necessarily. Sometimes there will be qualifications that you'll need, but, for us, it's about hiring somebody with the right character, the right personality, the right values, because we believe that we can train people in terms of their skills and knowledge, but getting the right person for the people that they're dealing with ... is more important to us. (SE03)*

Some of the interviewees also described how they use realistic job previews (i.e., showing applicants all aspects of the job, both positive and negative) for traditional employees, established professionals, and recent graduates. This demonstrates their commitment to identifying applicants who genuinely understand the demands and requirements of the job. For

example, one interviewee emphasized that, because employees need to interact with individuals who might have criminal records, it is important for applicants to realize the “hard reality” of working for a social enterprise. Therefore, the company invites job applicants to join its regular workforce for a few hours, to be able to make a more informed decision about whether they want to remain in the applicant pool.

*Compensation.* The literature suggests that social enterprises’ limited financial resources prevent them from offering competitive salaries (Austin et al., 2012; Doherty et al., 2014). However, our findings are mixed regarding this. Some of the participating social enterprises are indeed unable to offer competitive compensation packages and just try to offer the minimum wage.

*One of my staff just said “I want a 20% pay raise because I think I am doing this sort of job” and she’s giving me a list of jobs that are advertised at the moment that are roughly equivalent and they pay 20% more. (SE16)*

Others conduct frequent benchmarking surveys and manage to pay competitive salaries. However, as most mentioned, they are unable to compete with multinational companies. The following is an example of a case in which competitive salaries are offered:

*Oh yes, we are getting paid properly.... We realized [that to] move up we had to have the right people and keep the right people and to keep the right people, you had to pay the market rate for the job outside [the social enterprise]. So, basically, you were comparing our salary with the salary that would be paid in the outside world. (SE12)*

Most respondents indicated that there is variation in terms of the competitiveness of the salaries in their social enterprises. In other words, they emphasized that the lower-level, traditional employees and disempowered employees receive competitive salaries but that toward the top of the organizational hierarchy (positions typically occupied by established professionals) and for recent graduates, salaries become less competitive.

*Non-monetary incentives.* Social enterprises also offer an array of non-monetary compensation, such as flexible work arrangements, paid time for volunteering, and other reward systems that recognize high performers. Such incentives seemed to be particularly relevant for traditional employees and disempowered employees. For example:

*So, tolerance around working time, things like not counting holidays, not really being clear on whether someone is off on holiday, or off on paid leave, or off on unpaid leave. Not being very clear about working time, that's quite prevalent in the sector. Practices that would really be much sharper in the private sector, because in the private sector there would be recognition that the time of your employees is money. (SE13)*

[We offer] 15 paid working hours to volunteer anywhere they decide to. (SE17)

*We [try to] reward people. We're very good at noticing when people are doing a good job and I think that helps too. We have a "noticing scheme" where if you notice a colleague working hard, doing something nice for another colleague, you send an anonymized email. And we also run a "values in action system" scheme, where any member of staff can nominate others if they are doing something in line with our values. That goes a long way to making people feel valued. (SE10)*

*Career development and promotions.* Most of the interviewees recognized the need for employee training. However, only half of them mentioned that their organizations allocate a specific budget for this. We observed substantial variation in the formality and sophistication of the training process. Some interviewees noted that their small budgets only allowed for limited training; others have a more standardized process in which each employee can opt for courses and training sessions that they believe are important for their development. One of the less developed HRM functions in the interviewed social enterprises was that of promotions. Only a few social enterprises have formal career paths, which are always reactive rather than proactive. The lack of clear career paths and opportunities for promotion constitutes an important challenge as often lack of development opportunities threaten employee retention.

The limited opportunities for development and the lack of a clear promotion path mostly



affect recent graduates, who use their time with a social enterprise to build their résumés and explore other opportunities. Our interviewees largely agreed that the commercial acumen employees developed in their time with the social enterprise made them employable with any company in their respective sector. The ethics of care manifested here in two forms. First, firms seemed willing to allow and even facilitate recent graduates' move to another company, developing them via other firms. Second, social enterprises that employ disempowered individuals emphasized their intensive efforts to assist these individuals in developing their skill sets. The group we identified as established professionals seemed to receive the least development and also to have vague opportunities for promotion, but this seemed of little concern, as according to their HR managers this particular group had moved to a social enterprise to enjoy a better work–life balance and to give back to their community. For volunteers, social enterprises used developmental opportunities as a retention strategy.

As these results reveal, even though the level of sophistication of the HRM functions varies significantly, the participating organizations deploy HRM practices that fit with the needs and expectations of their various workforce groups.

## **DISCUSSION**

Acknowledging that social entrepreneurship is under-theorized and that knowledge of social enterprises as a context of study for HRM is limited (Newman et al., 2015), this paper represents a first attempt to gain greater insights into social enterprises' workforce and HRM systems. Drawing on the contextual strategic HRM framework (Farndale & Paauwe, 2018; Paauwe & Farndale, 2017), we aimed to delve into the heritage mechanisms and, to explore three important aspects of this mechanism in the context of social enterprises: the cultural characteristics as

drivers of HRM-related decisions, characteristics of the workforce, and HRM systems.

### **Ethics of Care**

Our findings reveal that “ethics of care” lie at the core of most of the decisions social enterprises make in terms of the synthesis of their workforce and their HRM deployments. With an “ethics of care”, an organization is focused on fulfilling “conflicting responsibilities to different people, as opposed to questions of how to resolve claims of conflicting rights among them” (Simola, 2003, p. 354). In the context of social enterprises, André and Pache (2016) emphasize that the value of caring for others is both central and salient. It is this value of caring that drives social entrepreneurs’ willingness to risk personal time and resources to create a social enterprise. Social entrepreneurs also instill their values into their firms and create “caring” social enterprises (André & Pache, 2016).

According to the informants’ narratives, the “ethics of care” value is manifested in three main ways in social enterprises. First, “ethics of care” seems to influence the choices these enterprises make about their workforce selection. In contrast with extant literature suggesting that disempowered employees are part of the mission and, consequently, the beneficiaries in the case of WISEs, in our sample most of the participating social enterprises employed disempowered employees even when that was not part of their mission. Second, the “ethics of care” value emerged as the core of the participating organizations’ culture, which can be characterized as a culture of acceptance and inclusion. Interviewees discussed that the diversity of their workforce requires a climate of acceptance, which includes “recognizing differences while looking for the common bond” (Pless & Maak, 2004, p. 131). The third manifestation of the “ethics of care” value is associated with the ethical and inclusive HRM practices the

participating social enterprises offer. Having practices that cater to the varying needs of each workforce group is critical, as is ensuring that “members of all groups are treated fairly, feel included and actually are included, have equal opportunities, and are represented at all organizational levels and functions” (Holvino, Ferdman, & Merrill-Sands, 2004, p. 249).

### **Workforce Synthesis**

Extant literature typically draws parallels between non-profit organizations and social enterprises, assuming a rather similar workforce synthesis: having traditional employees who are motivated by the social mission, relying heavily on volunteers, and, in the case of WISEs, having disempowered employees with the goal of training them and helping them re-enter the labor market (Austin et al, 2012; Royce, 2007; Vidal, 2005). Our results, however, indicate that workforce synthesis in social enterprises is more complicated. Specifically, our interviews reveal that two distinct subgroups reside in the group of traditional employees (i.e., established professionals and recent graduates). Both groups are particularly important for social enterprises because of their human capital (formal education and/or experience)—something social enterprises struggle to access as a result of their financial limitations, which prevent them from offering competitive compensation and benefit packages (Austin et al., 2012; Doherty et al., 2014). In addition, whereas previous research suggests the extensive use of volunteers in the third sector (O’Hara, 2001; Royce, 2007), our findings show that the number of volunteers in our sample of social enterprises was rather limited. Finally, as mentioned previously, our sample suggests that disempowered individuals are not employed only by social enterprises whose social mission is to provide employment or training to individuals who are less likely to find jobs in the traditional labor market.

## Differentiated HRM Systems

Although the informants' narratives indicated that their social enterprises did not have formal differentiated HRM systems, they conveyed that successful social enterprises not only understand the value of each of their workforce groups but also recognize their different needs and offer HRM practices that address those needs. The accounts we collected indicate that most of the social enterprises offer differentiated HRM practices in terms of recruitment, selection, compensation, non-monetary incentives, and career development and promotion opportunities. On this basis, we propose five HRM systems (Table 2) that reflect the differentiated practices social enterprises use: flexibility, empowerment, giving purpose, advancement, and inspiration.

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Insert Table 2 about here  
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For traditional employees, social enterprises seem to be adopting a flexible HRM system. According to the interviewees' accounts, social enterprises rely on advertising jobs in a variety of media, and during the selection process, they emphasize the need for alignment between personal and organizational values. Given the restricted resources available, training is somewhat limited, but social enterprises try to offer clear career paths. In term of compensation, these enterprises are typically unable to offer competitive packages and often offer salaries below market rates. However, in this HRM system, social enterprises offer flexible work arrangements.

The main goal of the empowerment HRM system is to identify disempowered employees who are willing to develop their skills and abilities and to offer them a second opportunity in life. Social enterprises rely on non-traditional recruitment sources, such as parole offices and WISEs, to identify potential candidates. The selection process must be tailored to the needs of the

candidates, and therefore special accommodation is crucial. Social enterprises also invest in the training of disempowered employees, to broaden their portfolio of skills and abilities. Flexible work arrangements are also a critical element of this HRM system, as disempowered employees may require the opportunity to telework or flexible work schedules (e.g., in the case of psychological disorders employees might need to take several days off beyond the sick leave mandated by law). Finally, most of the interviewees indicated that disempowered employees typically receive salaries above market rates.

To attract established professionals, social enterprises rely mostly on word of mouth and their social networks. Emphasis during the selection process is put on the alignment of values, but also on these individuals' human and social capital (such employees usually occupy positions that influence the strategic management of the organization or need to possess specialized skills). Given the resource constraints of social enterprises, salaries are significantly lower than market rates; however, social enterprises ensure high levels of motivation by offering jobs with purpose to established professionals. As the interviewees argued, the social impact that established professionals can achieve through a social enterprise surpasses the reduced motivation from lower compensation packages.

For recent graduates, social enterprises rely on job advertisements and universities' career centers to attract potential candidates. Given that they target recent graduates for their relatively high human capital (through formal education), qualifications along with value congruence are critical in the selection process. Salaries are typically lower than market rates, but social enterprises offer opportunities for faster career development, flexibility, and meaningfulness.

Finally, for volunteers, although they are not paid employees, social enterprises need to

ensure that they are properly motivated to be effective in their roles and less likely to leave. The few social enterprises in our sample that employ volunteers emphasized that accepting all volunteers who apply is not very useful and can sometimes lead to wasting valuable resources (e.g., time spent for their training). Thus, it is important to ensure that prospective volunteers understand the mission of the organization and that their values align with it. Also critical is ensuring that volunteers are placed in positions that allow them to perform meaningful tasks.

### **Overall Model: A Virtuous Circle**

With the 20 in-depth interviews, we were able to investigate the intricate workings of the heritage mechanisms that, ultimately, influence organizational outcomes (Farndale & Paauwe, 2018; Paauwe & Farndale, 2017) in the context of social enterprises. At the core of all HRM-related decisions is the “ethics of care”—one of the key values that have been passed on by the social entrepreneur and constitutes the basis of the organizational culture for these organizations. “Ethics of care” is manifested in two ways in the context of social enterprises: the synthesis of the workforce and the differentiated HRM systems. As described previously section, “ethics of care” dictate, at least to some extent, the synthesis of the workforce (e.g., even social enterprises that are not WISEs employ disempowered individuals). The choices regarding the workforce synthesis along with the “ethics of care” in turn influence the choices regarding the HRM management systems used for each group of paid and unpaid staff in social enterprises. For example, the empowerment system comprises practices tailored to the needs of disempowered employees (e.g., non-traditional recruitment sources, extensive training, special/reasonable accommodations during selection, flexible work arrangements). All systems include HRM practices that enhance ability/skill, motivation, and opportunity/empowerment (Appelbaum et al., 2000; Delery & Roumpi, 2017; Purcell & Hutchinson, 2007; Subramony, 2009).

We propose that in the context of social enterprises, capitalizing on the uniqueness of the workforce by having differentiated HRM systems can potentially lead to superior organizational outcomes, which in turn reinforce the role of the “ethics of care” (Figure 2). For example, disempowered employees can constitute an untapped source of competitive advantage when given the right tools, such as training, and offering them the motivation and the opportunity. As one of our informants noted:

*There’s a really good business case for employing disabled people in terms of productivity; in terms of sickness absence; in terms of attention; in terms of health and safety; in terms of tapping into the market of disabled people out there that might be your customers. So, we very much try and say to HR and recruiters, you know, this is a pool of talent that will give you over and above what other employees will give you. (SE18)*

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Insert Figure 2 about here  
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Finally, the potentially positive organizational outcomes driven by the combination of the unique workforce groups and the differentiated HRM systems further reinforce the “ethics of care”, creating a “virtuous circle” in the context of social enterprises.

### **Further Contributions, Limitations, and Future Research**

Our findings contribute both to the social entrepreneurship literature and practice and to broader HRM theory. By expanding the discussion on the use of differentiated HRM systems for different workforce groups (Lepak & Snell, 2002; Takeuchi, Gong, Boon, & Jiang, 2018), we add to the emerging body of literature that focuses on HRM modes for various workforce groups in social enterprises. For example, Audenaert, Heijden, Conway, Crucke, & Decramer, (2019) argued that WISEs should offer clear expectations and that developmental inducements can assist “vulnerable” employees (long-term unemployed individuals who face psychological

issues) in building their competences and, ultimately, reentering the labor market.

This study also contributes to broader HRM theory and practice, by bringing the concept of “ethics of care” to the forefront of HRM. We propose that when decisions about the synthesis of the workforce are driven by the “ethics of care” and paired with appropriate HRM systems, organizations can achieve desired organizational outcomes (e.g., financial and social performance, retention). For-profit and non-profit organizations could adopt similar approaches. Organizations should view employing disempowered individuals not simply as a chance to show their socially responsible face but also as an opportunity to tap into an underused source of human capital that, given the right support, can contribute to the success of the organization. For example, for-profit firms that employ individuals with disabilities can adopt practices similar to those of social enterprises to better support and empower them and thus gain access to a “largely untapped human resource” (Lengnick-Hall, Gaunt, & Kulkarni, 2008, p. 256). Similarly, small and mid-sized enterprises and start-ups with limited resources can learn from social enterprises’ promise of good work–life balance, flexibility, and an informal culture of acceptance as a recruitment or retention tool. It is therefore important for all organizations to develop a mindset and culture of care that give disempowered employees the right tools (e.g., flexible work arrangements) and provide them a sense of belonging and hope. In the right context (e.g., supporting environment), disempowered employees are an untapped but potentially rich source of human capital for any form of organization.

Finally, we contribute to the emerging literature on hybrid organizing (combination of multiple forms of organizing; Battilana et al., 2017), as social enterprises are an “ideal setting to explore hybrid organizing and thereby advance the field of organizational studies” (Battilana & Lee, 2014, p. 409). This is done by examining different ways to organize internally and also to



address institutional challenges in terms of these enterprises' environment, which often dictate how they should operate in terms of recruiting, retaining, and organizing their HRM functions. We also expanded understanding of such mechanisms through the adoption of the contextual strategic HRM framework (Farndale & Paauwe, 2018) and the consideration of a meso-relational approach based on heritage mechanisms, which traces links among cultural characteristics as drivers of HRM-related decisions, characteristics of the workforce, and HRM systems. Subsequently, our contribution can expand to HR practitioners and HR managers of social enterprises, in terms of building a repertoire of choices that help increase their organizational performance through paying attention to the combination of categories of employees, cultural characteristics and ways the HRM systems are or can be structured.

This study's findings need to be qualified by some limitations that suggest avenues for future research. Our sample was limited to one country, the UK, to ensure that factors such as the economic environment, the maturity of social enterprises, and attitudes toward social enterprises from the general population were consistent. Future studies could investigate how social enterprises in other countries practice HRM. Furthermore, the findings are constrained by the context of our research, namely social enterprises. Future research could explore how "ethics of care" is practiced in other contexts (e.g., family firms, start-ups) and draw parallels to our research. More in-depth studies could further examine how innovative HR practices are aligned with and customized to a diverse workforce, while future quantitative studies could confirm which human capital systems are most effective, to document the contribution of "ethics of care" to firms' social and financial performance.

An important limitation of our study is that we relied on the accounts offered by individuals in managerial positions in the participating social enterprises (e.g., CEOs, HR

directors and managers). As numerous scholars (e.g., Boxall & Purcell, 2008; Kehoe & Wright, 2013; Piening, Baluch, & Ridder, 2014; Purcell & Hutchinson, 2007; Roumpi & Delery, 2019) have noted, there are significant differences in terms of intended/espoused (how the practices were designed), implemented (how the practices were put in action), and experienced (how the practices are perceived) HR practices. Thus, different informants may offer different information regarding the HR practices in the same organization. In the current study, the complexity of the workforce of social enterprises posed significant constraints in the choice of interviewees and we relied on the information provided by individuals that the participating organizations identified as the most knowledgeable regarding the HRM practices throughout the organizations. Future research, however, could examine the perspective of various employees belonging in different workforce groups and explore their similarities and contradictions.

## **CONCLUSIONS**

Overall, the present study surveyed CEOs, HR directors, and managers of social enterprises in the UK attempting to explore the intricate relationship of social enterprises and their workforce. Adopting the theoretical lens of the heritage mechanisms of the contextual strategic HRM framework (Farndale & Paauwe, 2018; Paauwe & Farndale, 2017), we show how the “ethics of care” and the culture of acceptance and inclusion are manifested in the use of differentiated HRM systems that empower and integrate marginalised workers, help recruit, and retain established professionals and recent graduates, and facilitate management of volunteers.

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<b>Code</b>	<b>Industry</b>	<b>Year Established</b>	<b>Employees</b>	<b>Interviewee</b>	<b>Social Mission</b>	<b>Scope</b>
SE1	Construction	1989	11-50	CEO	Affordable housing in Africa	International
SE2	Services	2013	1-10	CEO	Make art affordable/accessible	National
SE3	Retail/ Wholesale	2004	50-250	CEO	Create ethical/fair jobs in Africa	International
SE4	Services	2013	1-10	CEO	Raise awareness about nutrition	National
SE5	Retail/ Services	2006	11-50	CEO	Employment for the long-term unemployed	National
SE6	Services	2013	11-50	CEO	Support organizations in the arts	National
SE7	Logistics	2008	11-50	CEO	Employee disadvantaged employees	National
SE8	Retail/ Wholesale	2011	11-50	HR Director	Help reduce water usage, save the environment	National
SE9	Finance	1997	11-50	CEO	Create jobs - loans to businesses declined by banks	National
SE10	Services	2008	50-250	HR director	Disseminate great literature	National
SE11	Services	1986	11-50	CEO	Help young adults learn skills and find jobs	National
SE12	Consulting	1994	11-50	CEO	Visual inclusion	National
SE13	Consulting	2009	11-50	CEO	Help social enterprises with HR management	National
SE14	Consulting	1982	11-50	HR Director	Financial inclusion	National
SE15	Bank	1984	50-250	Relationship Manager	Betterment of wider community	National
SE16	Consulting	1982	11-50	Operations Manager	Employment consulting	National
SE17	Services	1986	50-250	Business Development Manager	Apprenticeships to young adults	National
SE18	Services	2011	1-10	CEO	Help disabled candidates enter the workforce	National
SE19	Services	2008	11-50	CEO	Employment for the long term unemployed	National
SE20	Street Newspaper	1991	50-250	HR Director	Help the homeless	International

Table 1: Description of the interviewed companies

<b>System</b>	<b>Flexibility</b>	<b>Empowerment</b>	<b>Giving Purpose</b>	<b>Advancement</b>	<b>Inspiration</b>
<b>Targeted Workforce Group</b>	<b>Traditional Employees</b>	<b>Disempowered Employees</b>	<b>Established Professionals</b>	<b>Recent Graduates</b>	<b>Volunteers</b>
<b>Practices</b>					
<b>Recruitment</b>	Job advertisements in multiple media	Non-traditional recruitment sources (e.g., WISEs, and parole offices)	Word of mouth, personal networks	Job advertisements in multiple media, universities (e.g., career centers)	Word of mouth, job advertisements in multiple media
<b>Selection</b>	Value-driven, realistic job previews	Special accommodations, focusing on willingness to learn and work, priority to those most in need.	Qualification- and value-driven, realistic job previews	Qualification- and value-driven, realistic job previews	Value-driven

<b>Compensation</b>	Typically, market rate or below market rate	Typically, above market rate	Below market rate	Typically, below market rate	Limited reimbursement for expenses, lunch vouchers, etc.
<b>Non-monetary Incentives</b>	Flexible work arrangements, meaningful job, paid time for volunteering	Flexible work arrangements, skill-development	Meaningful job, paid time for volunteering	Flexible work arrangements, meaningful job, CV building, paid time for volunteering	Meaningful job, skill development, CV building, potential for full-time position
<b>Career development and promotions</b>	Some training and mentorship, career paths	Extensive training	Limited development	Some training and mentorship, career paths	Basic training

Table 2: Differentiated HRM Systems in Social Enterprises

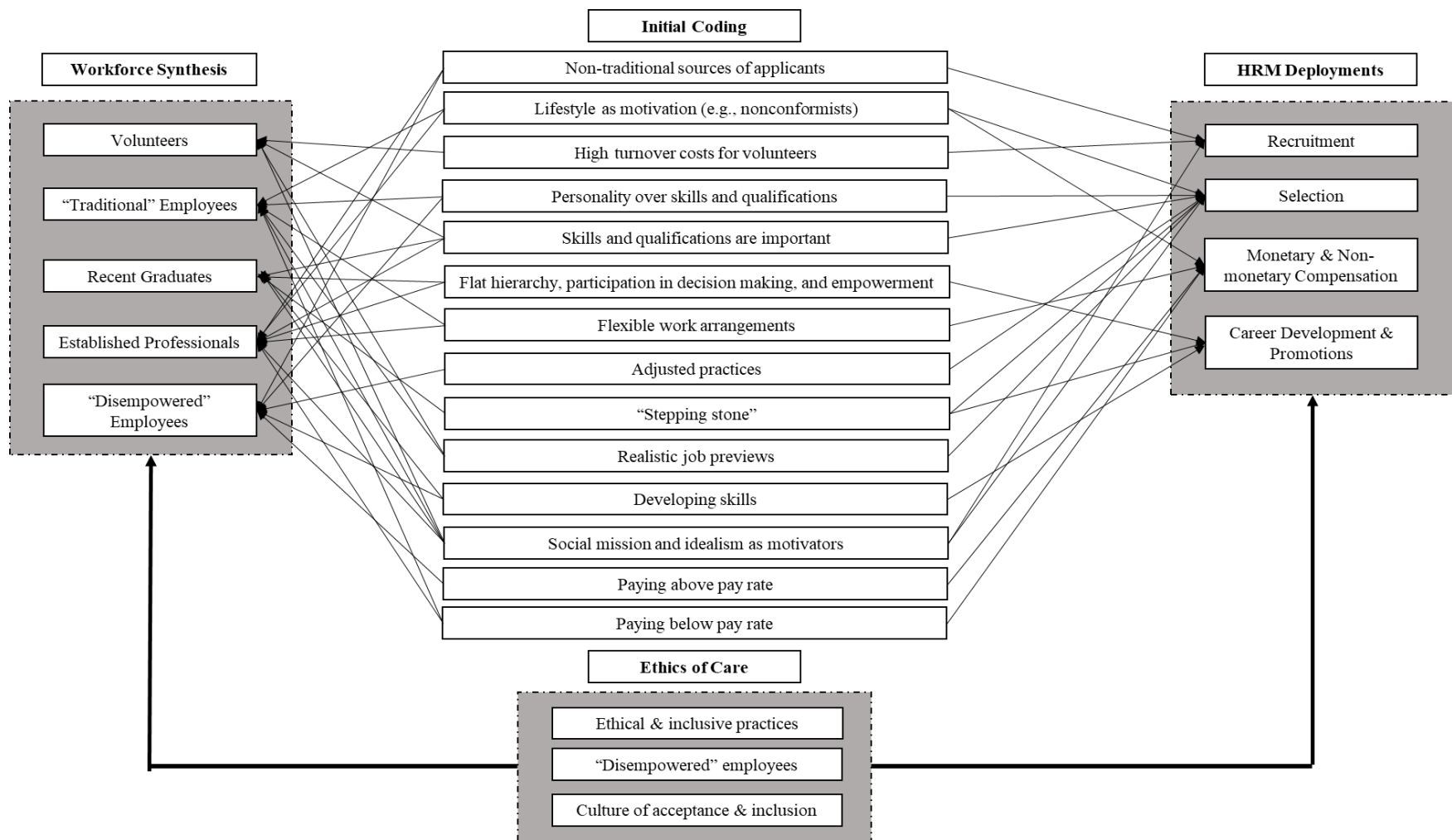


Figure 1: Data structure

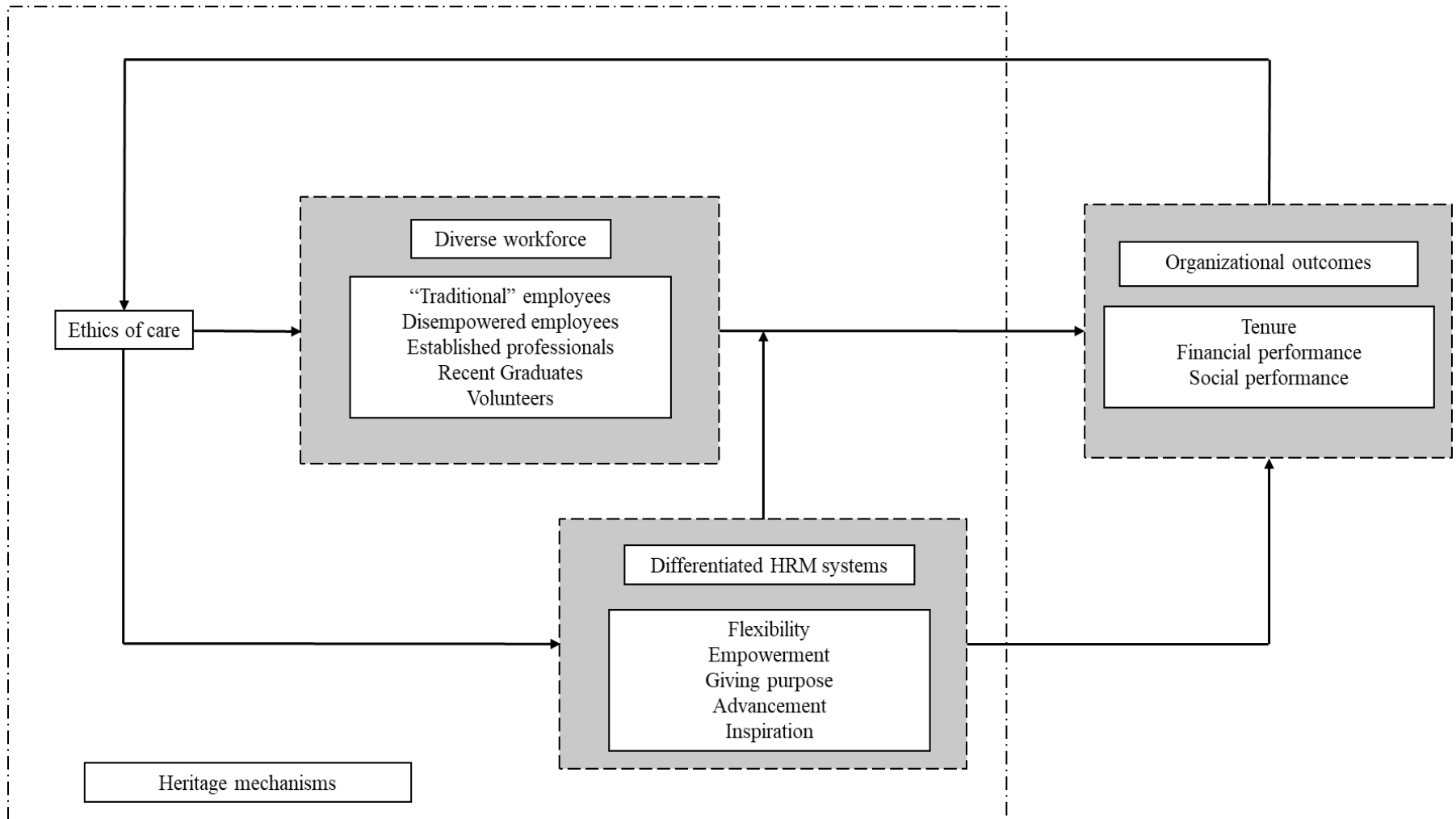


Figure 2: Conceptual framework

## **Appendix 1. Short version of the Interview protocol used for participating social enterprises**

### **BACKGROUND OF INTERVIEWEE**

#### **1. Please talk to us about yourself**

- What is your educational background?
- What is your work experience prior to becoming a social entrepreneur?

### **BACKGROUND OF SOCIAL ENTERPRISE**

#### **1. Please describe your social enterprise now:**

- What is the nature of the enterprise? / What products or services do you offer?
- What are the main challenges or barriers that you currently face?
- Where do you attribute the success of your social enterprise?
- How would you rate your firm's a) financial b) social financial performance in comparison with i) your main competitors  
ii) other social enterprises?

## **HUMAN CAPITAL**

### **1. Please provide some general information about your employees:**

- How many employees /interns / volunteers do you have?
- How many female employees do you have?
- What is the average tenure of your employees?

### **2. Please describe your “average” employee:**

- What is his/her work experience / education level?
- How productive and efficient is he/she?
- What are his/her core values (e.g., giving back to the society, family, lifestyle, professional development, career advancement)?
  - Do his/her values align with those of the enterprise?
- What are his/her professional aspirations?

- If he/she decided to search for a new job now, do you think that he/she would be able to find another employer immediately/easily?
  - If yes, what makes him/her highly employable (attractive to other employers)?
  - If no, what makes him/her less employable (attractive to other employees)?
- What motivates him/her?
- Does he/she have any specific characteristics that differentiate him/her from individuals working for for-profit organizations? For non-profit organizations?

## **HRM PRACTICES**

### **1. Please describe your recruitment process:**

- Do you target to a specific group of individuals for your applicants' pool?
- How do you make your job openings known to the public?
- In general, how attractive do you perceive your social enterprise to be for potential employees? Why? Are there any challenges that you face in terms of recruiting?



- Is there something, in your opinion, that gives you a competitive advantage towards other organizations in terms of recruiting?

**2. Please describe your selection process:**

- How formal is your selection process? Are there specific steps that you follow?
- In comparison to other social enterprises how selective do you think you are? Compared to non-profit or for-profit organizations?
- Do you think that your selection process is effective/efficient? Is there something, in your opinion, that needs to improvement?

**3. Please describe your performance management process:**

- How do you evaluate the performance of your employees?
- Do you have a formal performance feedback process? Please describe.
- For what purposes do you use the performance evaluations (e.g., training decisions, promotions, lay-offs, compensation)?

**4. Please describe the pay structure in your social enterprise:**

- Do you have fixed salaries or is pay linked to performance? Please describe.
- How competitive do you think that the compensation package you offer is compared to other social enterprises in the area?  
Non-profit organizations? For-profit organizations?
- Are there any challenges that you face in terms of compensation?

**5. Please describe to what extent does the enterprise offer training to its employees:**

- How central is training for your social enterprise? Do you usually expect/hire employees who already possess the skills/abilities needed to perform their tasks or do you train them?
- Do you think that your training processes are effective/efficient? Is there something, in your opinion, that needs to improve?

**6. Other HRM practices:**

- Could you describe in a few words the culture of your social enterprise?
- Do your employees, in your opinion, feel secure about their employment status?
- Do you offer developmental opportunities (e.g., promotions) to your employees?
- How is the enterprise structured (e.g., formal hierarchy, teamwork)?

### **CHALLENGES IN MANAGING EMPLOYEES**

#### **1. Managing employees can be challenging. Please describe which are the main challenges, if any, that you face.**

- Is it challenging for your social enterprise to attract highly qualified employees? How do you deal with this challenge?
- Is it challenging for your social enterprise to retain its employees (especially highly qualified employees)? How do you deal with this challenge?
- Given the limited budget that a social enterprise has (compared to non-profit and for-profit organizations), how do you motivate and keep your employees committed

## **Author Biographies**

Dr. Dorothea Roumpi is an Assistant Professor of Human Resource Management at the School of Labor and Employment Relation, Pennsylvania State University. She received her PhD in Management from University of Arkansas. Her research interests include: strategic human resource management, human capital mobility, employee turnover, non-compete agreements, and inclusive human resource practices.

Dr. Solon Magrizos is a Lecturer in Marketing at the University of Birmingham. His main research interests surround issues related to ethical companies and ethical consumers. Specifically, he is interested in broader issues around Corporate Social Responsibility (CSR) implementation and its link to the firms' business benefits, with a focus on SMEs and Social Enterprises. He also researches the perceptions and reactions of consumers to firms' CSR initiatives, ethical consumption and sustainable tourism.

Dr. Katerina Nicolopoulou is a Senior Lecturer at the Hunter Centre for Entrepreneurship, Strathclyde Business School. She is an international academic in Social Entrepreneurship and innovation with several years of international practitioner experience in senior positions. At the University level, she is leading the Strategic sub- theme for Socially Progressive Innovation and Entrepreneurship, and she is an Academic Mentor for the Doctoral Training Centre in Socially Progressive Innovation and Entrepreneurship. Her research focuses on social, sustainability and diversity-focused aspects of entrepreneurship and innovation; entrepreneurial leadership and entrepreneurial ecosystems and practices.