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## **How do Social Enterprises Generate Profits and Contribute to Society? The Case of an Organic German Bakery**

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### **Abstract**

Social enterprises are income-generating businesses that attempt to achieve a social or environmental purpose and to generate profits at the same time. However, it is not clear in the literature how social enterprises balance both social or environmental and economic goals. The purpose of this case study is to examine a food social enterprise located in Germany, and to understand how this company achieves this goal of contributing to the different stakeholders and society, while at the same time generating a profit. A case study methodology was conducted for this study, which examines the social and environmental contribution of the German Bakery BioKaiser. The data were collected during the year 2022 and was organized into a case study database, keeping separate evidentiary data and individual researcher reports. Based on the findings, a business model for social enterprise is developed. The findings can help companies transform into social enterprises and follow the proposed business model. They also provide information for governments and policy makers to implement strategies to encourage and support in the development of future social enterprises.

Keywords: Social enterprise, stakeholder theory, social and environmental purpose, BioKaiser bakery, Germany

### **How do Social Enterprises Generate Profits and Contribute to Society? The Case of an Organic German Bakery**

#### **Introduction**

In the last few years, enterprises around the world have increasingly become more responsible and have integrated social or environmental purposes into their business models (HBSE, 2018; Vila & Bharadwaj, 2017). A social enterprise is defined as a for-profit entity that is committed to creating social or environmental benefits to society, in addition to its traditional for-profit motive (Ridley-Duff & Bull, 2015). The goal of a social enterprise is to contribute to social or environmental purposes and to generate profits at the same time to support these purposes. By pursuing financial and social aims, social enterprises are considered to have hybrid business models (Billis, 2010; Santos, Pache, & Birkholz, 2015). Unlike firms with only corporate social responsibility (CSR) initiatives (Boccia & Sarnacchiaro, 2019), social enterprises are formally committed in their mission of supporting social and environmental purposes in their business models, in addition to their traditional for-profit motive (Saraç, 2021).

The growth of social enterprises has generated the attention of policy-makers and practitioners around the world (Deloitte, 2018), as well as a rise in scholarly publications in the academic press (Granados, Hlupic, Coakes, & Mohamed, 2011; Gupta, Chauhan, Paul, & Jaiswal, 2020). The research on social enterprises have focused mostly on organizational and governance issues of commercial and industrial sectors (Cheah, Amran, & Yahya, 2019; Olofsson, Hoveskog, & Halila, 2018). In addition, research has also identified the leadership skills and personal characteristics of the founders/owners of social enterprises (Mair, Battilana, & Cárdenas, 2012; Portales, 2019). These are characterized by having social sensitivity, but at the same time they also have a mission, are strategic, and results oriented (Sastre-Castillo, Peris-Ortiz, & Danvila-Del Valle, 2015).

Although the topic of social enterprises is attracting increasing attention among academics and practitioners, it is still a nascent field of research with very little formal of how social enterprises are able to

contribute to social or environmental purposes and generate profits at the same time (Gupta et al., 2020; Haugh, 2012).

In addition, most research has been conducted in commercial or industrial sectors and less research has considered the food sector. Particularly, there is scarce literature on how social enterprises in the food sector obtain profits while at the same time generate benefits or contributions to society and the environment.

Considering the essential role social enterprises are called to play in today's world, this study draws from stakeholder theory (Harrison, Freeman, & Sá de Abreu, 2015), and examines the social enterprise BioKaiser Bakery located in Germany. Specifically, it explores how the company is able to contribute to the different stakeholders, while at the same time generating a profit. This study provides evidence of how, in addition to economic goals, social and environmental business practices result in company growth for the social enterprise and an increased welfare for the company stakeholders.

## Literature Review

Social enterprises differ from commercial ventures in terms of the relevance of their social mission and the responsibility of social enterprise founders/owners to find ways of successfully pursuing economic and social goals (Chell, 2007; Santos et al., 2015). They are agents committed to making a difference for the world, driven by social or environmental objectives, which have the characteristic of improving the living conditions of people. Unlike firms with only corporate social responsibility (CSR) initiatives (Boccia & Sarnacchiaro, 2019), social enterprises have pro-social motivations of wealth-giving, cooperation and community development (Lumpkin, Moss, Gras, Kato, & Amezcuca, 2013). The social mission plays a fundamental role in their market offering, and the founders/owners have a large responsibility to find ways of successfully pursuing economic and social goals (Santos et al., 2015). The pursuit of financial sustainability and social objectives requires the generation of sufficient revenue to invest in business activities at the same time as maintaining investment in social or environmental projects (Moizer & Tracey, 2010).

Current research on social enterprises have investigated mostly organizational and governance topics of services and industrial sectors (Cheah et al., 2019; Olofsson et al., 2018), as well as the ethical aspects of social enterprises (Teasdale, 2011). In addition, research has also identified that founders/owners of social enterprises require an extra dose of visionary ideas, leadership skills and a commitment to help others (Mair et al., 2012). Founders of social enterprises are people who realize that there is an opportunity to satisfy some unmet social need, gathering the necessary resources to make a difference (Portales, 2019). They are also associated with having a strong ethical consciousness and a socio-moral motivation (Portales, 2019). In most of them, there is awareness of a lack of compliance with some right or injustice, being the necessary stimulus to decide to take action to solve the diagnosed social problem.

In addition, due to their competing social and economic logics, social enterprises face several hurdles, such as limited access to human resources (Bhattarai, Kwong, & Tasavoria, 2019) and a achieving a balance between social and financial missions (Smith, Gonin, & Besharov, 2013). To overcome these issues, social enterprises are often closely entangled with their environment and networks (Battilana & Lee, 2014; Ostertag, Hahn, & Ince, 2021). The literature suggests that social enterprises generate value by integrating partners in the businesses' structures or by venturing into deeper personal connections through extensive knowledge sharing that can culminate in partner-specific assets. Like other businesses, they use partnerships to acquire new knowledge, facilitate learning processes and access the resources and capabilities needed to accomplish their missions (Montgomery, Dacin, & Dacin, 2012). Nevertheless, social enterprises' partnerships are not limited to the mutual pursuit of economic benefits, but also serve the purpose of contributing to social and environmental purposes (Littlewood & Holt, 2018).

Most research on social enterprises have focused on the characteristics of social enterprises (Defourny & Nyssens, 2017; Doherty, Haugh, & Lyon, 2014). However, less research has examined how social enterprises actually generate social or environmental benefits to society, while maintaining its traditional for-profit motive (Saraç, 2021). This is important to encourage and support the development of companies into becoming social enterprises. Thus, the main objective of this study is to analyse the case study of a social enterprise in the food industry. According to the United Nations, the food industry implies a massive amount of consumption and social and environmental contributions from food companies can help reduce air, water, and soil pollution and protect the biodiversity that sustains human life (UN, 2019). Thus, the main purpose of the study is to understand in more depth

how a social enterprise in the food industry can generate social or environmental benefits to stakeholders and their communities, in addition to having for-profit motives.

Therefore; the main research question is: How do social enterprises contribute to their stakeholders and community while generating a profit? To answer this research question the case study of a successful social enterprise in the food industry, will be analysed.

### **Theoretical Framework**

There is a growing understanding among management scholars that this field has to contribute to social welfare, especially by addressing social issues (Jones, Harrison, & Felps, 2018). Within the growing body of literature on social issues in management, many scholars have applied stakeholder theory as a theoretical framework (Barnett, 2007; Mitchell et al., 2016; Schrempf-Stirling et al., 2016; Schwartz and Carroll, 2008). A stakeholder is best defined as “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984). It is a practical theory because all firms have to manage stakeholders. The principal idea of stakeholder theory is that businesses should create value for all their stakeholders – those who can affect or be affected by the realization of an organization’s purpose (the wide definition) or those without whose support the organization would not exist (Freeman, 1984). The composition of stakeholders may differ depending on a company’s industry and business model, but the most typical representation of stakeholders includes customers, employees, financiers (e.g., shareholders, bondholders, and banks), suppliers, and communities.

Stakeholder theory posits that businesses can be understood as a set of relationships among stakeholders. Thus, executives who manage businesses should pay close attention to how stakeholder interactions are managed and attempt to avoid trade-offs among stakeholders (Friedman and Miles, 2002). Thus, the interests of shareholders should not be prioritized over the interests of other stakeholders, such as customers, suppliers or community. Consequently, in stakeholder theory, one of the core tasks for managers is generating mutual benefits for all relevant stakeholders (Harrison et al., 2015).

In addition, stakeholder theorists argue that stakeholder relationships should be based on the principles of fairness and reciprocity (Phillips, 2003) and that the responsibility to maintain healthy stakeholder relationships is bilateral, meaning that not only businesses and their managers are responsible for stakeholder value creation, but company stakeholders bear responsibility for durable relationships as well (Goodstein and Wicks, 2007). This implies that stakeholders that are treated well tend to reciprocate with positive attitudes and behaviours towards the organization, such as sharing valuable information (suppliers), buying more products or services (customers), providing tax breaks or other incentives (communities), providing better financial terms (financiers), buying more stock (shareholders), or working hard and remaining loyal to the organization, even during difficult times (employees).

### **Methodology**

This study investigates how a social enterprise can create social or environmental benefits to society, in addition to having a for-profit motives (Hollensbe, Wookey, Hickey, George, & Nichols, 2014). A qualitative method is therefore particularly well suited to conduct this study (Miles, Huberman, & Saldaña, 2014). A descriptive case study methodology was used for this study, which examines the social and environmental contribution of a social enterprise, the German BioKaiser Bakery ([www.biokaiser.de/](http://www.biokaiser.de/)). The data was collected during the year 2022 and was organized into a case study database, keeping separate evidentiary data and individual researcher reports (Yin, 2009). An iterative data collection process involved secondary data and several semi-structured interviews with company managers, employees and customers. The data recollection focused on understanding BioKaisers' business model and social and environmental contribution practices. Interviews were conducted with (a) the CEO of the company, (b) the Marketing Manager of the company, (c) employees, and (4) actual customers. Interviewing multiple stakeholders provided alternative perspectives regarding the business model's development and this allowed for data triangulation. Interviews lasted between 30 min. and 90 min. and were tape-recorded and transcribed. In addition, the main researcher took detailed notes during the interviews to link the thoughts and observations during the interview with the interview transcripts later.

In addition to conducting semi-structured interviews, administrative documents, news press and previous market research were collected to create a large database of documented material. Multiple data sources from this

database, in addition to the interviews, were utilized throughout the data collection and analysis phase in order to ensure data triangulation.

The documents analysed included (1) previous market research studies and customer interviews, (2) a published book chapter written by the company's CEO (Schmidt-Skories, 2019), a master's thesis on BioKaiser's innovation practices (Fischer, 2021), several press and magazine interviews to the CEO, awards received by the company, and the corporate website ([www.biokaiser.de/](http://www.biokaiser.de/)). This data collection process yielded a depiction of the business model's development.

After conducting and transcribing the interviews, the data material was coded by existing literature on social enterprises (Yin, 2014). Meaningful central constructs resulted from guidance by existing stakeholder theory (Eisenhardt, 1989). The interview protocol and coding focused on the following broad themes: organizational structure, social and environmental outcomes, and strategy. During the coding phase, memos were also attached to the themes and individual codes to record the relationship to the case and its relevance to theory if possible (Miles et al., 2014).

### **BioKaiser Bakery**

BioKaiser is a social enterprise and one of Germany's largest organic craft bakeries in Germany (Zacharias, 2020), with over 330 employees ([www.biokaiser.de](http://www.biokaiser.de)). The company has a large presence with its stores in the city of Frankfurt and its surroundings, and to a lesser extent in the cities of Darmstadt, Mainz and Wiesbaden. The company owns 19 shops in Germany and delivers to 142 distributors in the southwest of Germany. BioKaiser produces approximately 90 different products with 2.500 tons of grain per year ([www.biokaiser.de](http://www.biokaiser.de)).

This social enterprise was initially established in 1976 by two master bakers, with the brand Vollkornbäckerei GmbH (Kaiser the Bakery). From the beginning, the owners felt the need to show the public that ethical businesses with hybrid purposes were possible (Schmidt-Skories, 2019). During the following years, one of the partners left the company and the current CEO Volker Schmidt-Skories continued in charge of the bakery with the goal of producing only organic bread with the highest quality, and in an ethical way. In 2018, the company decided to change its name to BioKaiser so that people would recognize the fact that all their products are organic. Today, BioKaiser is a social enterprise with strong values and clear political views. The mission of BioKaiser consists on providing fair and organic products with the best possible quality and with an affordable price. The company is also certified by Bioland ([www.bioland.de/verbraucher](http://www.bioland.de/verbraucher)), which is the leading association for organic farming in Germany that looks to have the highest organic standards. They visit the company twice a year to check if they use Bioland ingredients. All the products of BioKaiser have a Bioland logo, and in this way, consumers know that this is an organic bakery. BioKaiser is also part of an alliance with other brands called "GFC" -Good Collective Food- with the aim of changing, saving, respecting and connecting with the world.

### **Findings**

#### *Contribution to Shareholders (Profits)*

According to the data, the CEO Volker Schmidt-Skories has a strong social and economic leadership role in the company. He has a very strong sense on what is right and wrong and he makes sure that every decision made by the company is ethical. Although corporate ideas come from the different employees and the management team of the firm, the CEO mostly takes the most important decisions related to social and environmental contributions. In addition, the CEO is so committed to the mission of the firm that he conducts free educational training and seminars to university students and offers many presentations and speeches to communicate his ethical beliefs on businesses. He is convinced that a social enterprise model is the right approach for any industry and his goal is to reach as many companies and executives as possible to share his experience.

According to the latest financial statements, the company shares a large amount of the profits with stakeholders such as employees, suppliers, customers and the environment (nature, community and industry). From a financial perspective, the owner and CEO of this social enterprise acknowledges that their ethical business model (doing business with a heart) is very sustainable compared to other bakeries in Germany. This business model proves to be sustainable because by contributing to different stakeholders, the company is able to attract good workers and create loyal employees and customers. The company is also able to obtain wheat from suppliers in spite of environmental crises, such as the pandemic or the current war.

**Contribution to Customers** The company's commitment to their customer are to deliver their best performance to ensure high quality and supply of their products in a timely manner, and ensure long-term business growth and sustainability for society and the environment. The company highlights various benefits provided by the company to its customers. First, BioKaiser's products have a differentiating element with respect to their competition, since they prefer natural baking to technology that may have additives that alter the flavour of the product. In addition, these products improve digestion thanks to the preparation of bread, advocating the rest of the dough. They have a variety of bread bun products or "Broetchen" category, which range from sourdough, olives, walnuts, sunflowers, wheat, among others. Thus, the company prefers to offer a fresh and aromatic flavour, betting on a perfect ecosystem between temperature, humidity and experience of the collaborators. The company also elaborates sweet whole meal or light flour baked products that change according to the season (e.g., cakes, braids, croissants, among others). Additionally, BioKaiser develops several social projects with customers. For example, *Fahren Sie Entlang der Stationen*, which means drive along the station. Therefore, customers can register for this event and the company takes them for a whole day without cost to see the whole process of bread making from the field to the store.

According to a corporate market research held in 2016, the main reason why customers prefer to purchase BioKaiser products is the high quality of their products. The ingredients are 100% organic, and the products of BioKaiser have more whole grain compared to other bakeries. In this study, customers mentioned that they perceive the standard type of flour is less healthy and for them it is very important to find spelt rait, or other types of flower and wholegrain in the bakery. Another important reason for preferring BioKaiser's products is the taste and the freshness, so the bread stays fresh longer after buying it. Finally, many customers interviewed recognized the effort of Volker Schmidt-Skories, the CEO and owner, for creating and managing a social enterprise. He has been interviewed many times in the business press and participated in many workshops and keynote speeches, and therefore customers are aware of the company's social and environmental contribution and support the brand (Ng, 2022).

Although the success of social enterprises depends on the intention of consumers to purchase their products (Ravi, Subramoniam, VR, & Chinta, 2022; Tsai, Hung, & Yang, 2020), customers interviewed agreed that if they did not like the taste and quality of the company's bakery products, they would not purchase them, no matter how ethical the company was. This is verified by the marketing manager of Bio Kaiser: "Companies believe that if they do the right thing then consumers will value this, but after working in the food industry for a while I realized that what counts for customer preference and purchase intention is their perception of quality and taste" (BioKaiser Marketing Manager).

#### *Contribution to Employees*

The company contributes benefits to employees in several ways. First, if the company generates profits at the end of the year, all the employees will get a certain percentage of the profits. This is decided by an internal operating council, which is a group of people in the company who are elected every year and looks out for the employees. In addition, all the executives and team leaders have the opportunity to have a coaching and go to a coach to talk about their personal development. There is also a goal at BioKaiser to try to avoid strong hierarchy, which is common in traditional bakeries in Germany. Therefore, they decided they needed new kinds of leaders, people who are not so much focused on wanting the power, basically, and to enable these people to become leaders. This is very interesting for new employees of people who are interested in coming to the company as well as the decision to have different working times than other bakeries.

The company also installed recently an innovative program, where every employee gets a certain amount of hours per year in which they are allowed to do any leisure activity during their work time (except for sleeping) that contributes to their well-being, because one of the big slogans of BioKaiser is "working time is living time". For example, they can go for a walk with a colleague and have an ice cream or they can use that time to attend a workshop, or do artistic activities or sports, Many decisions of the company are based on the idea of how can working time become as enjoyable as possible. The company also offers the services of a gym and a physiotherapist that they can visit once a week if they have problems with their back from standing in the stores or from sitting at the desk. This is very uncommon for a 40-year-old bakery.

BioKaiser also seeks that employees achieve personal, professional and tangible benefits and achievements. Motivated by employee-oriented leadership and an appreciative corporate culture, it manages to encourage the vision and conviction of sustainability, establishing an organizational culture linked to climate protection where they feel they are contributing to the environment. This results in loyal employees that work for a long time in the company. In fact, some employees admitted that they could earn more somewhere else, but they preferred to stay at BioKaiser because they liked to work for an ethical and sustainable company that produces organic products.

#### *Contribution to Suppliers (Farmers)*

BioKaiser also contributes to their suppliers in several ways. First, the company has a permanent contract with their suppliers and pays higher prices for the organic wheat they purchase from farmers and mill owners, compared to other bakeries. The grain of the products produced at BioKaiser are supplied from an association of organic farmers named Kornbauern ([www.kornbauern.de/](http://www.kornbauern.de/)) who focus on solidarity. Organic farmers in Germany do not use mineral fertilizers in the production system in order to reduce the level of nitrogen and toxins in the environment. Organic farming is a method of growing crops, fruits, vegetables that uses natural ways of cultivation to minimize pollution and wastage in the environment. Organic farming is a better choice for the environment as it helps to minimize the pollution level and at the same time, it protects from the side effects of harmful chemicals used in conventional farming methods. Organic products are also much healthier as grown in natural conditions through natural methods to maintain the environmental sustainability. The alliance between BioKaiser and the organic farmers generates a fair and ecological cooperation with good prices for the all parties involved.

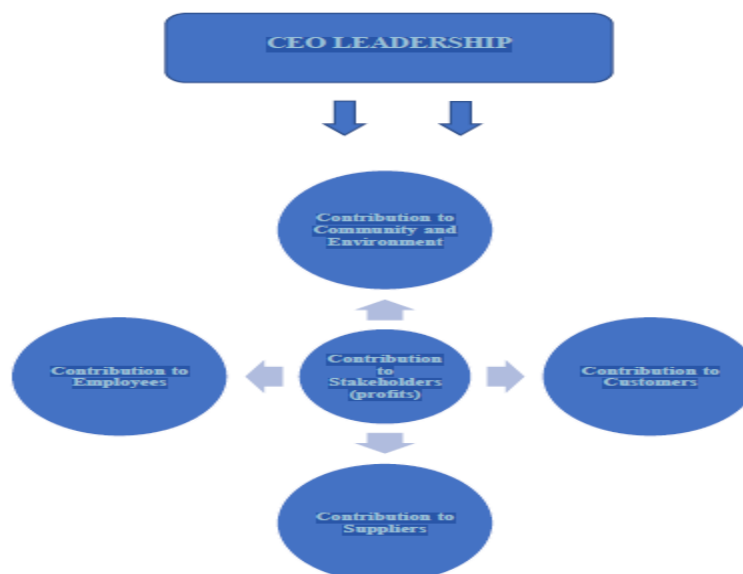
In addition, BioKaiser shares part of their profits with the farmers and mill owners at the end of every year. Furthermore, the company along with Bioland supports a scientific research project with the farmers to improve the quality and quantity of organic grains used to produce the bread, because the climate crisis has had a strong effect on the recent harvests.

#### *Contribution to the Culture, Industry and Environment*

The company considers culture, nature, and the rest of the bakeries in the industry as relevant stakeholders of the company. For example, BioKaiser donates every year an important amount to the artists of the community where their stores are located because they don't have a permanent income. They also support cultural projects in their community. The company also donates money for charity programs held in the Global South, such as for building houses in India and Africa and for the Ukrainian people, among others.

In sum, based on the findings of the case study, the following business model of BioKaiser social enterprise is developed. This is led by the CEO, and based on five pillars: (1) contribution to consumers/customers, (2) contribution to employees, (3) contribution to suppliers (farmers and mill owners), (4) contribution to the industry, community and environment, and (5) contribution to shareholders (profits) (see Figure 1).

Figure 1: Business Model of a Food Social Enterprise



## Discussion and Conclusion

Several scholars have called for further research to examine the hybrid business model and outcomes of social enterprises (Ridley-Duff & Bull, 2015). This study discussed how a social enterprise in the food industry is able to balance its social and economic objectives and contribute to the different stakeholders. From the data analysis and drawing on stakeholder theory, it was possible to identify how a social enterprise in the food industry can contribute significantly to different stakeholders while at the same time generating profits for economic survival. Social enterprises are self-sustaining businesses that generate their income through selling goods and services, rather than through grants or donations. In the case of BioKaiser, the company generated their income through their business activities and generated enough revenue to sustain the company and its social/environmental purpose. The objective of this social enterprise was always to cover the running costs using the income generated. This implies the need for the development of a commercial strategy that leads the company to a solid market position in the industry to generate economic returns and in this way contribute to the different stakeholders. This is important to understand, since social enterprises in this industry can help reduce air, water, and soil pollution and protect the biodiversity that sustains human life (UN, 2019).

The findings show that the social enterprise analysed had a social and environmental aim in the heart of the firm. This was driven by the CEO's belief that all the decisions of the company can have an impact on people, profit and planet, so the company actively attempts to increase its positive impact. There is a clear three-legged purpose in the business model (social, environmental and economic), that is part of the governing strategy of the company. Therefore, the main goal of this social enterprise is to achieve all three purposes, rather than focusing only on generating profits for the shareholders of the business. It seems important for social enterprises that this three-legged purpose is commanded by the owner/CEO of the organization and clearly spelled out in the governing strategy, and that all the activities are focused on achieving this purpose rather than just creating a profit.

The findings also show that the social enterprise contributed to all the relevant stakeholders of the ecosystem (industry, community, society). This led stakeholders to reciprocate these contributions with positive attitudes and behaviours towards the organization, such as industry and suppliers sharing valuable information with the company, consumers buying more products, developing good community relationships, access to organic wheat from suppliers even under crisis conditions, and finally, employees that remained loyal to the organization, even during difficult times. Overall, consistent with stakeholder theory, the company obtained profits because it attended the interests and well-being of all their stakeholders, including shareholders, communities, environmental groups, the media, and society as a whole (Jones et al., 2018).

Finally, the result of this study suggests that the owner or founder of a social enterprise is an individual that must have significant personal credibility among the company's stakeholders. The owner is a social entrepreneur with an ethical impulse, where money is only a tool to boost the social and environmental purpose of the social enterprise. The personal characteristics of the owner/founder generate a distinctive profile of beliefs and values, which contributes to give a social meaning to the company as an agent of change. These ethical values are key to guide the social or environmental purpose, so that these firms reinvest the majority of its profits into achieving the three-legged purpose. For example, the strong ethical belief of the owner that BioKaiser must "do the right thing" led the social enterprise to permanently share the company profit with different stakeholders, rather than paying that money to the shareholders or owners of the company. This credibility generates a strong commitment among the stakeholders, which provide support for the social and environmental purpose of the firm, instead of only obtaining economic benefits. This is important, particularly for suppliers (farmers) because although organic farming is beneficial for our health and environment, organic food is more expensive than the food produced through the conventional farming method and the production cost in organic farming is quite higher as it requires more work force, according to the International Federation of Organic Agriculture Movements ([www.ifoam.bio/](http://www.ifoam.bio/)). In addition, organic farmers have to go through tough certification processes to meet organic standards and require a skill set higher than traditional farming.

## Limitations and future research

Understanding how a social enterprise achieves the goal of contributing to the different stakeholders and society, while at the same time generating a profit is important for companies of different industries, and particularly

in the food industry due to the massive consumption of food worldwide. While this study provides relevant insights for both academics and practitioners, there are some limitations and potential avenues for future research that should be considered. Firstly, the study considers one case of a social enterprise in the food industry. Secondly, the study was conducted in a highly developed European country and can therefore not be generalised to a broader European market or others in the world. Future studies could consider a comparative approach to the proposed conceptual model in less developed markets of Europe. It would be interesting to see future studies relying on other qualitative or quantitative research methodologies to assess consumers' perceptions regarding social enterprises.

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