Exploring the Impact of Social Innovation and Managerial Ability on the Financial Performance of Social Enterprises: The Mediating Role of Social Performance

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Abstract

Indonesia's efforts to achieve Social Development Goals (SDGs) targets through social enterprises play an essential role in addressing economic and environmental issues. However, these enterprises face numerous challenges and constraints. This study aims to investigate how social innovation and managerial ability affect the financial performance of social enterprises. Additionally, this research examines the role of social performance as a mediator. The population in this research consists of social enterprises in Riau Province, specifically cooperatives, waste banks, and medical clinics. A stratified random sampling technique was used to select the sample, with respondents being leaders and heads of business units in each social enterprise. A total of 226 respondents participated through the distribution of questionnaires. Data analysis using WarpPLS 7.0 reveals that social innovation and managerial ability positively influence the financial success of social enterprises. Furthermore, the mediating role of social performance significantly strengthens the connection between social innovation, managerial ability, and financial performance. These findings highlight the importance of enhancing social innovation and managerial skills to improve both social and financial outcomes for social enterprises. This research provides valuable insights for policymakers, practitioners, and social entrepreneurs aiming to optimize the impact of social enterprises in achieving sustainable development goals.

Keywords: social innovation; managerial ability; social performance; financial performance; social enterprise

INTRODUCTION

Starting from a global initiative to encourage sustainable development, the United Nations (UN) and agreed by member countries in 2015 ratify the Sustainable Development Goals (SDGs) agenda as a global development agreement (Biermann et al., 2022; Leal Filho et al., 2023). SDGs are a set of programs with 17 goals and 169 targets that aim to reduce development lag throughout the world, including ending poverty, improving environmental quality, sustainable economic growth, and overcoming climate change (Pandey & Asif, 2022). Sustainable development is the common goal of countries to create a better life from generation to generation and safeguard the environment.

Social enterprise is a form of business that has a significant impact on realizing the objectives of the SDGs (Oliński & Mioduszewski, 2022). A social enterprise is a type of business that combines elements of profit orientation with a focus on social and environmental considerations (Hagedoorn, Haugh, Robson, et al., 2023). Although there is no standard definition, the term "social enterprise" is increasingly used to characterize business models that involve the creation of an organization with a defined dual mission. The two dual missions intended are fulfilling social goals while ensuring financial viability (McSweeney et al., 2021; Fauzi et al., 2022). Lyon and Sepulveda (2009) developing the idea of social enterprise by giving business and charitable giving priority. The British government has long supported this idea, seeing social entrepreneurship as a business entity whose primary objective is to solve social issues. Furthermore, company surpluses are intensively reinvested in business activities aimed at providing benefits to society in general, rather than intensifying profit generation for greater profits for shareholders.

In Indonesia, several social enterprises are the main focus in carrying out social and business actions, namely cooperatives. Maksum et al. (2020) states that cooperatives are included in the category of social enterprise because they have special characteristics related to them, such as working for the benefit of society and having a minimum level of profit sharing between them. Although cooperatives have the aim of improving the welfare of their members, in reality, only 9.2% of the Indonesian population are members of cooperatives. The percentage contribution of cooperatives to Indonesia's gross domestic product is still below 5% with the ability to absorb labor of only 0.5% of the entire Indonesian population (Trisniarti et al., 2022). With the low participation of the Indonesian population, cooperatives have not had an impact on alleviating poverty or reducing unemployment because cooperatives themselves still have problems both internally and externally (Mujiyanti, 2023).

Apart from cooperatives, other social businesses that are widely used to address the environment, is the Waste Bank. Waste banks are categorized as social enterprises because they run a social-environmental business model in the form of collecting waste and converting it into money as a result of waste collection. Waste Bank is social engineering or social engineering in society in educating, changing behavior, especially waste management at the source (households), and implementing a circular economy, so that through waste banks the community not only gets environmental benefits but also economic benefits. Currently, The total number of trash banks registered is 26,810 units dispersed across the country. With a customer base of 419,204, the company achieves a monthly turnover of approximately IDR 2.8 billion and contributes to a reduction of 2.7% in the total national waste production. This figure is still relatively small, but the opportunity for improvement is still higher (KLH, 2023). It shows there are challenges faced by social enterprises in Indonesia, including difficulties in finding a balance between creating financial profits and achieving the desired social impact, as well as managing resources wisely to maintain stable financial performance.

Based on the phenomenon described, this research is interesting to carry out. Research on social enterprise previously has been studied in many countries. For example Phillips et al. (2019) and Tortia et al. (2020) examine the importance of social innovation in social enterprises. Social innovation focuses on meeting current needs by utilizing various resources owned by society, and building capacity aimed at empowering society (Derbez, 2019). Several studies on social innovation have been conducted on MSMEs, such as (Hasanah et al., 2021; Johnpaul Ogochukwu and Jiangru, 2021). Based on their research results, social innovation significantly influences the financial. However, research by Komariah et al. (2022) and Padgett and Moura-Leite (2012) states that social innovation does not influence financial performance.

Social enterprise management also experiences obstacles, namely inadequate resources. The importance of managerial skills in managing a business is the key to business success (Wronka-Pośpiech, 2016). The manager's ability to understand the company's environment and be good at taking initiative actions will improve company performance and long-term financial sustainability (Bhutta et al., 2021; Phan et al., 2020). Their study's conclusions indicate that social innovation significantly affects MSMEs' financial performance (Wibisono, 2019; Abdillah et al., 2019). However, according to Novita (2021), managerial ability does not impact the financial performance of a company.

As stated in the above description., this research utilizes social performance mediation to explore how managerial expertise and social innovation influence the financial performance of social enterprises. Basri, Taufik, Yasni, and Putri (2022) stated that financial performance is not the only assessment to measure the performance of a company or organization. Social performance is something that is no less important to pay attention to when assessing organizational performance, especially in organizations that engage in social activities. Concerning how social performance affects financial performance, various earlier studies have results conflicting findings. Study by Kristiani and Werastuti (2020) as well as Eduardus and Juniarti (2016) said that financial performance of a corporation and corporate social responsibility are related. Study Cavazos-Arroyo (2020) and Hagedoorn et al. (2023) found that the ability to innovate socially had the biggest impact on the production of social value. Aside from that, enhancing management skills is crucial for enhancing social performance within an organization. Study Doukas (2021) and Chen et al. (2023) claimed that the key to a great social performance is having strong managerial ability. Based on this description, this research aims to examine the influence of social innovation and managerial ability on the financial performance of social enterprises and also examines social performance as a mediator

This research is unique in several ways. First, it was conducted on social enterprises in Riau Province. Researchers chose cooperative social enterprises, waste banks, and community health service businesses. These three types of businesses were chosen because they have a huge impact on the social and economic aspects of society. For example, in cooperatives, the volume of cooperative business in Riau Province is 2.6 trillion, but several 1,125 cooperatives in Riau are threatened with dissolution. A total of 3248 cooperatives are active (Riau, 2023). The number of waste banks has also experienced quite rapid growth, namely 420, but some waste banks are not yet active (Dillah, 2022). This research also examines social organizations that provide health services to the community. In Riau Province, the growth of health clinics is quite high, namely around 500 (BPS, 2021).

Second, research examining social innovation and managerial ability on social enterprise financial performance is still rare. Third, this research uses a social performance mediation model which is a development of previous research. Based on this, it is important to carry out this research to contribute to the success of social organizations.

Research findings show that social innovation and managerial ability have a positive effect on the financial success of social entrepreneurs. And social performance has a significant effect on the relationship between social innovation, managerial ability and financial performance.

This article consists of several parts, namely introduction, literature review and hypothesis, methods, results and conclusions. The next part of the literature review will be explained in the following section.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

This research refers to the Resource Based View Theory which was first developed by Wernerfelt (1984). According to the Resource-Based View (RBV) philosophy, a company's resources and capabilities are the primary means of gaining both competitive advantage and high performance. With the RBV approach, companies can identify and use scarce, valuable, difficult to imitate, and indispensible resources tto boost business performance and obtain a competitive advantage (Widagdo, 2019). In this research, managerial abilities and the ability to carry out social innovation are seen as internal resources that can create organizational success.

Apart from that, this research also uses Stakeholder Theory is written by Freeman (1984) within his book named "Strategic Management: A Stakeholder Approach". According to Ghozali & Chariri (2007), stakeholder theory states that In addition to their own interests, companies have to listen to those of their stakeholders, including creditors, shareholders, suppliers, customers, the government, society, analysts, and other parties. Social performance is a type of corporate responsibility to the surrounding environment.

The influence of social innovation on financial performance in social enterprises

The process of developing new solutions to social, environmental, or humanitarian problems is known as social innovation. According to Phills et al., (2008) The definition of social innovation is the advancement of ideas that are more effective, efficient, and create added value. By producing unique and effective solutions to social problems that exist in society, social enterprises can differentiate themselves from competitors and create added value compared to other competitors.

RBV theory (Wernerfelt , 1984) views valuable resources as providing a competitive advantage. Social innovation is an intangible resource that can improve social enterprise performance through unique solutions and ideas to provide more value to the business. Alhaddadeh (2020) states that management that actively looks for innovative ideas to provide new things in business can improve company performance. This is also proven by research Alonso-Martínez et al., (2019) and Jeong & Chung (2023) that the financial performance of a company is related to social innovation. Based on the arguments above, this research also suspects that social innovation within social organizations positively influences financial performance. Thus, the hypothesis can be articulated as follows:

H1: Social Innovation Has a Positive Influence on Social Enterprise Financial Performance

The Influence of Managerial Ability on the Financial Performance of Social Enterprises.

Managerial ability is the ability of entrepreneurs to have a good understanding of how to manage their business well (Abdillah et al., 2019). Managerial abilities include various activities that are important for directing, organizing, and planning goals. Managerial abilities as a resource owned by a social enterprise can be utilized as best as possible to improve social performance. Managers who have the skills to manage a business well will improve the performance of the business.

This is supported by RBV theory (Wernerfelt, 1984) that internal resources such as managerial ability have an impact on organizational excellence. Bhutta et al. (2021) and Demerjian et al., (2012) found that companies run by more capable managers had higher profitability. In addition, entities that have good managerial capabilities have a higher potential to reduce the possibility of fraud in reporting financial capabilities. This means that good managerial skills can improve financial performance (Ulita et al., 2020). This allows for the development of the following hypothesis:

H2: Managerial Ability Has a Positive Influence on Social Enterprise Financial Performance

The Influence of Social Performance on the Financial Performance of Social Enterprises

Social performance is an assessment of the impact produced by an organization on the social welfare and sustainability of society and the surrounding environment (Lu et al., 2018). According to stakeholder theory (Freeman, 1984), a business must not only profit but also benefit stakeholders such as the government and the surrounding community. With that, social enterprises carry out various social programs to provide benefits to the community which It will enhance the perceived social value of the business within the community. Companies that succeed in improving social performance will receive positive feedback from their surroundings, as well as increased attention and interest from various parties, which will have an impact on the social enterprise's profitability and financial performance.

According to research conducted by Abdillah & Winarsih (2019), Lu et al. (2018) and Basri et al., (2022) Financial Performance and Social Performance are positively correlated. This discovery aligns with the findings of the research by Kristiani & Werastuti (2020), which determined that Social Performance disclosure reflects the company's commitment to employees and human rights, which in turn can increase workforce motivation in carrying out their duties to improve business financial performance. Based on this description, the following hypothesis can be formulated:

H3: Social Performance Has a Positive Influence on Social Enterprise Financial Performance

Mediation of Social Performance on the Relationship between Social Innovation and Financial Performance

Social performance reflects the positive results of implementing social innovation in meeting stakeholder expectations and creating meaningful social benefits. According to Cavazos-Arroyo (2020), The ability to carry out social innovation has a positive impact on creating value for society, achieving social goals, and overall social performance. By having strong social performance, social enterprises can gain a competitive advantage that allows them to improve their business image and reputation, thereby attracting more attention from society (Anita & Amalia, 2021). If a social enterprise has achieved recognition of significant social value in society, then the number of participants and consumers participating in social enterprise activities will experience a substantial increase. The impact is an increase in economic activity generated by the social enterprise and ultimately affects the profitability of the social entity. Based on this, a hypothesis is formulated:

H4: Social Performance Mediates the Effect of Social Innovation on Social Enterprise Financial Performance

Mediation of Social Performance on the Relationship between Managerial Ability and Financial Performance

Managerial abilities can influence a company's social performance, which will also contribute to overall financial performance. According to Khan et al. (2022), the sustainability of social performance increases as the company's managerial capabilities increase. The same thing was also expressed by Doukas (2021) and Chen et al. (2023) that high managerial ability is the key to the success of Corporate Social Responsibility. Managerial abilities as a resource owned by a social enterprise can be utilized as best as possible to improve social performance. Thus, good social performance can contribute to income growth, and obtain funding from investors and donors who are interested based on reported social performance. Kristiani & Werastuti (2020) said that social performance reflects a manifestation of corporate responsibility towards social aspects, enhancing both the company's reputation and its financial performance. Based on this description, the following hypothesis can be formulated:

H5: Social Performance Mediates the Effect of Managerial Ability on

Social Enterprise Financial Performance

METHOD

In this study, the population used was Social Enterprises operating in Riau Province. The three types of social organizations studied were cooperatives, waste banks, and health organizations that prioritize social services to the community. The total of these organizations is 4324 units. By using the Slovin technique, the sample size was 366. The sampling technique used stratified random sampling. The data utilized in this study belongs to the category of. primary data which comes from the answers given by respondents to the questionnaire that was given previously. The data for this study is sourced from the cumulative scores derived from the respondent-filled questionnaires. The questionnaire statements are gauged using a Likert scale where the answers obtained will be given a score of the highest 5 (Strongly Agree) to the lowest 1 (Strongly Disagree).

Data was collected by sending questionnaires to social enterprise managers consisting of leaders, and heads of departments. Each company is sent 2-3 questionnaires. Questionnaires are sent directly to respondents and some are sent via Google Form. Information regarding respondent data was obtained from the cooperative and MSME departments. Variable measurements are presented in Table 1.

To conduct the data analysis for this study, Warp PLS 7.0's Partial Least Squares (PLS) statistical software was used. PLS analysis is a multivariate statistical technique, according to Ghozali & Latan (2015), that compares a number of dependent (endogenous) variables and independent (exogenous) variables. The outer model and the inner model are the two distinct testing phases in PLS.

Evaluation of the measurement model (outer model) is performed in order to ascertain the accuracy and reliability of the indicators defining the latent construct. This study employs construct validity for the validity test, which is categorized into two parts: convergent and discriminant validity. Furthermore, in the reliability test, there are 2 (two) criteria for measuring or evaluating reliability, namely the reliability indicator is Cronbach's alpha. The inner model serves as a structural model designed to predict the causal connections among latent variables. To test the inner model, measurements can be made using the coefficient of determination, model fit,

Table 1. Operational Definition of Variables

Variable	Operational definition	Indicator	Measurement Scale
Financial performance	Financial performance describes how well an activity, program, or policy has succeeded in realizing the goals, objectives, vision, and mission of an organization as described in its strategic planning. (Moeheriono & Si, 2012).	(1) Profitability (2) Leverage (3) Assets (4) Revenue Growth (Basri et al., 2022)	Ordinal
Social Innovation	Social innovation can be defined as a new concept or idea that aims to overcome social problems in society. This involves changes in institutional relationships, collaboration, increasing community capacity and welfare, as well as increasing long-term opportunities or sustainability (Sanggel, 2018)	(1) The ability of businesses to change people's habits to become more environmentally friendly (2) Efforts to improve public morals (3) Efforts to create a green and clean environment (4) Efforts to process waste become beneficial	Ordinal
Managerial Ability	Managerial skills refer to the skills and understanding that entrepreneurs have to manage their businesses well(Abdullah et al., 2019)	(1) Planning ability (2) Organizational abilities (3) Evaluation capabilities (4) Leadership abilities	Ordinal
Social Performance	Social performance refers to a company's manufacturing ability to improve employee and customer satisfaction and business reputation(Lu et al., 2018)	(1) Increase employee satisfaction (2) Increase community satisfaction (3) Improve reputation	Ordinal

and quality index, as well as hypothetical testing through the P-value.

RESULTS AND DISCUSSION

There are 4,234 social enterprises in the form of 420 Waste Banks, 566 Health Clinics, and 3,248 Cooperatives actively operating in Riau Province. From the entire population, The total amount of samples taken with the Slovin formula was 366 social enterprises. Of the 500 questionnaires distributed to social enterprise managers, 226 questionnaires were returned and could be processed, with a return rate of (45.2%). The characteristics of the respondents who participated are in Table 2.

Descriptive statistics for each variable are presented in Table 3. Descriptive statistics findings indicate that the data for each variable is quite good, as indicated by the standard deviation value which is still below the mean value.

Table 2. Characteristics of Respondents

Sex	Frequency	Percentage
Man	93	41.2%
Woman	133	58.8%
Total	226	100%
Age	Frequency	Percentage
21-30 years old	46	20.4%
31-40 years old	66	29.2%
41-50 years old	83	36.7%
>50 years old	31	13.7%
Total	226	100%
Education	Frequency	Percentage
Senior High School	62	27.4%
Diploma	35	15.5%
Bachelor Degree	124	54.8%
Masters	5	2.2%
Total	226	100%
Position	Frequency	Percentage
Director	124	54.9%
Head of Business Unit	102	45.1%
Total	226	100%
Period Of Work	Frequency	Percentage
<1 Year	0	0
1-5 Years	153	67.7%
6-10 Years	57	25.2%
>10 Years	16	7.1%
Total	226	100%
Type Of Social Enterprise	Frequency	Percentage
Waste Bank	80	35.4%
Medical Clinic	80	35.4%
Cooperative	66	29.2%
Total	226	100%

Table 3. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Social Innovation	226	6.00	30.00	25.7920	2.98085
Managerial Ability	226	27.00	40.00	35.2655	3.35199
Social Performance	226	22.00	40.00	34.7743	3.45349
Financial performance	226	7.00	20.00	16.8053	2.35271
Valid N (listwise)	226				

Non-Response Bias Test

Non-response testing was biased because the questionnaire return rate was <50%. Testing for non-response bias uses the independent sample t-test by looking at Levene's test scores to determine differences in answer characteristics between respondents who participated and those who did not. In this study, non-response bias testing was carried out by comparing the answers of respondents who came within the research time limit, which represented respondents who really wanted to participate, with the average answers of respondents who came outside the time limit for filling out the questionnaire, which represented respondents who did not participate. Based on the results of data analysis using the independent t test with the help of SPSS 26 software, the following results were obtained.

Tabel 4. Non-Response Bias Test Results

Variable	Group		Levene's Test for Equity of Variance	
	In research time (Mean ± SD)	Outside research time (Mean ± SD)	F.	Sig. (2-tailed)
Social Innovation	25,710 ± 3,126	25,985 ± 2,614	1,905	0.529
Managerial Ability	35,195 ± 3,504	35,432 ± 2,975	3,744	0.627
Social Performance	34,641 ± 3,604	35,089 ± 3,068	3,487	0.374
Financial Performance	16,628 ± 2,310	17,223 ± 2,417	0.078	0.083

Based on the Table 4, information is obtained that the Levene's test results show that the significance value for all variables is > 0.05. This indicates that the average respondents' answers during the questionnaire filling period and after the questionnaire filling period did not have a significant difference. Thus, it can be concluded that the data used in this research is able to explain the research conclusions.

Outer Model Testing Results

Convergent Validity and Discriminant Validity Test Results

The initial stage in assessing the validity of the items or indicators used to gauge the construct and outer model is convergent validity testing. In confirmatory research, a loading factor value of over 0.70 is necessary, whereas in exploratory research, a loading factor within the 0.6 to 0.70 range is deemed acceptable. (Hair et al., 2010). Factor loadings are presented in Table 5.

Results presented in Table 5 reveal that the factor loading values for each latent variable exceed 0.7, with a p-value less than 0.05, signifying the indicators meet the criteria for convergent validity. Subsequently, the discriminant validity test is conducted to assess items/indicators from two constructs, ensuring they are not highly correlated (Ghozali & Latan, 2015). The discriminant validity measurement is considered valid if the cross-loading of the square roots average variance (AVE) measurement is greater than the other construct measures. Results from cross-loading test in Table 3 show that every variable indicator is higher than the other indicators. This indicates that discriminant validity is met. Apart from that, discriminant validity testing can also use correlation indicators between latent variables which are presented in Table 5.

The results displayed in Table 6 show that the correlation values between the other constructs are less than the square root of the Average Variance Extracted (AVE) on the diagonal. This signifies that the

Table 5. Combined Loading and Cross-Loading

		SI	MA	SP	FP
Social Innovation	SI1	(0.768)	-0.005	-0.163	-0.073
	SI2	(0.713)	0.020	0.073	0.004
	SI3	(0.770)	-0.013	-0.026	-0.151
	SI4	(0.707)	0.099	0.073	0.139
	SI5	(0.707)	0.156	0.023	0.001
	SI6	(0.761)	-0.237	0.033	0.092
Managerial Ability	MA1	0.042	(0.739)	-0.105	0.172
	MA2	-0.056	(0.701)	-0.103	-0.026
	MA3	-0.019	(0.733)	-0.057	-0.094
	MA4	0.062	(0.721)	-0.063	-0.045
	MA5	-0.055	(0.748)	0.124	0.008
	MA6	0.019	(0.712)	0.059	-0.039
	MA7	-0.157	(0.729)	0.143	-0.095
	MA8	0.169	(0.704)	-0.003	0.117
Social Performance	SP1	0.045	-0.116	(0.715)	0.113
	SP2	0.078	-0.011	(0.724)	0.011
	SP3	0.112	0.126	(0.720)	-0.267
	SP4	-0.161	-0.088	(0.740)	0.076
	SP5	-0.097	-0.055	(0.704)	0.075
	SP6	-0.017	-0.026	(0.729)	0.036
	SP7	0,000	-0.024	(0.739)	-0.035
	SP8	0.043	0.198	(0.712)	-0.007
Financial Performance	FP1	0.018	0.049	-0.097	(0.830)
	FP2	-0.004	0.006	0.104	(0.846)
	FP3	0.050	0.039	-0.079	(0.830)
	FP4	-0.072	-0.107	0.080	(0.737)

Table 6. Correlations among l.vs. with sq. rts. of AVEs

	Social Innovation	Managerial Ability	Social Performance	Financial Performance
Social Innovation	(0.738)	0.401	0.451	0.350
Managerial Ability	0.401	(0.723)	0.441	0.437
Social Performance	0.451	0.441	(0.723)	0.413
Financial Performance	0.350	0.437	0.413	(0.812)

Table 7. Cronbach's Alpha and Composite Reliability Test

Variables	Cronbach's Alpha	Composite Reliability	Explanation
Social Innovation	0.833	0.878	Reliable
Managerial Ability	0.870	0.898	Reliable
Social Performance	0.869	0.897	Reliable
Financial Performance	0.827	0.885	Reliable

indicators within the variable meet the criteria for discriminant validity (Ghozali & Latan, 2015).

Reliability Test Results

Reliability testing is the second step in the outer model. Cronbach's alpha and composite reliability are the two criteria utilized for measuring or evaluate reliability. Cronbach's rule of thumb alpha and composite reliability > 0.70 (Ghozali & Latan, 2015). The results of reliability testing can be seen in Table 7. Based on Table 7, each construct has met the reliability requirements because Cronbach's

Table 8. Adjusted R-squared Results

Variables	Adjusted R-squared
Social Innovation	
Managerial Ability	
Social Performance	0.897
Financial Performance	0.885

Table 9. Model Fit and Quality Indexes

Model Fit Test	Criteria	P-value	Index	Explanation
APC	Good if P<0.05	P<0.001	0.278	Accepted
ARS	Good if P<0.05	P<0.001	0.339	Accepted
AARS	Good if P<0.05	P<0.001	0.332	Accepted
Goodness of Fit	Small >= 0.1, medium >= 0.25, Large >= 0.36		0.437	Accepted

alpha and composite reliability values are above 0.7.

Inner Model Evaluation Results

According to Ghozali and Latan (2015), the inner model functions as a structural model predicting causal relationships between latent variables. The assessment of the structural equation model's (inner model) primary objective is to elucidate how latent variables that are independent (exogenous) affect latent variables that are dependent (endogenous). To forecast the presence of a causal relationship in WarpPLS that is quantified by the path coefficient and P-Value.

Coefficient of Determination Results

R-squared or adjusted R-squared is utilized to calculate the coefficient of determination. This metric illustrates the percentage of variation in the endogenous construct that can be attributed to the exogenous construct hypothesized to influence it. Table 7 displays the coefficient of determination.

Table 8 displays the R-squared value of social performance, which is 0.897. This indicates that social innovation and managerial ability has an impact on social performance 89.7%, while the remaining 0.103 (10.3%) is influenced by another factors. Then the R-squared value for financial performance is 0.885, which means that 88.5% of financial performance is influenced by social innovation, managerial ability, and social performance, while the remaining 0.115 (11.5%) is influenced by other variables not studied.

Model Fit and Quality Indices Results

To assess the adequacy of the model, various fit measures can be

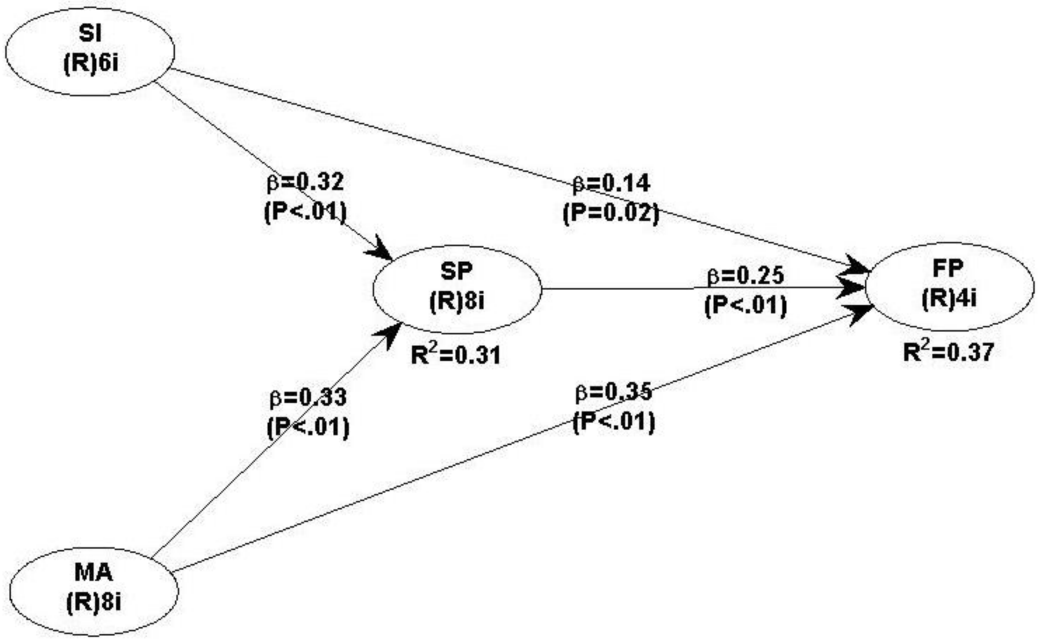

Figure 1. Full Structural Equation Model

Table 10. Path Coefficient and P-Valu

	Path Coefficient	P-value	Explanation
H_1 Social Innovation → Financial Performance	0,137	0,018	H_1 accepted
H_2 Managerial Ability → Financial Performance	0,348	<0,001	H_2 Accepted
H_3 Social Performance → Financial Performance	0,255	<0,001	H_3 Accepted
H_4 Social Innovation → Social Performance → Financial Performance	0,081	0,041	H_4 Accepted

calculated, including the Average Path Coefficient (APC), Average R-squared (ARS), and Average Adjusted R-squared (AARS). Additionally, overall fit or quality indicators can be determined using the Goodness of Fit criteria introduced by Tenenhaus et al. (2004). Model Fit is presented in Table 9.

The output findings in Table 8 demonstrate that the APC, ARS, and AARS test results have met the model fit criteria with a p-value <0.05. The GoF value is 0.437 which is greater than 0.36. This means that the feasibility level of the research model has a large level of feasibility, namely 43.7%.

Hypothesis Test Results

Using WarpPLS, hypothesis testing is performed by developing a structural equation model. In this research, the structural equation model is explained in the figure 1.

In evaluating this study, the P-value 0.05 was used as the threshold for determining whether an effect was statistically significant. The value of the path coefficient can be utilized to ascertain the direction of influence from the independent variable to the dependent variable. A positive path coefficient signifies that the independent variable is positively influencing the dependent variable. The p-value and path coefficient for each relationship between variables are presented in Tables 10.

The Effect of Social Innovation on the Financial Performance of Social Enterprise

According to test results, the path coefficient was 0.137 with a P-value of 0.018 (< 0.05). Consequently, hypothesis 1, which asserts that social innovation has a favorable impact on social enterprises' financial success and it's acceptable. This indicates that high social innovation can improve the financial performance of social enterprises. This research supports the RBV theory put forward by Wernerfelt (1984) that valuable resources can provide competitive advantages, social innovation is included in intangible resources that can provide added value to social enterprises.

New and unique innovations created by social enterprises become strategies for businesses in organizational differentiation to be able to maintain their existence and improve their financial performance. By creating innovation in social enterprises, businesses have indirectly created sustainable and quality jobs for local communities, apart from that, the activities carried out by social enterprises have a very positive impact on the survival of the community. Through this, the activities of social enterprise businesses will expand so that they can create economic value that is useful for increasing the finances of the socialenterprise itself. This research is in line with previous research by Alhaddadeh (2020), Alonso-Martínez et al.(2019) and Jeong & Chung, (2023) states that Financial performance and organizational innovation performance both benefit from innovation, and management actively seeks out and welcomes creative ideas and proposals from within the company.

The Effect of Managerial Ability on the Financial Performance of Social Enterprise

Test results show a path coefficient value of 0.348 and a P-value <0.001, which means <0.05. This means that hypothesis 2 which states that managerial ability has a positive effect on social enterprise financial performance can be accepted. The research results indicate that the more skilled managers are in managing social enterprises, the better their financial performance. This research supports the RBV Theory (Wernerfelt,1984) which emphasizes that an organization's internal resources and capabilities, such as managerial abilities, has the potential to provide a competitive edge that affects financial performance.

Effective managerial skills in making strategic plans, communicating smoothly, and can play a key role in resolving business obstacles (Tarigan et al., 2021). This capability includes strategic planning, human resource management, fund management, and wise decision-making that can optimize the organization's financial performance. Thus, managerial ability plays an important role in achieving and maintaining sustainable financial performance for social enterprises. This research supports research Bhutta et al. (2021) and Demerjian et al., (2012) found that companies run by more capable managers had higher profitability, as well as research Ulita et al. (2020) Entities that have good managerial capabilities have a higher potential in reducing the possibility of fraud in reporting financial capabilities, this means that good managerial capabilities can improve financial performance.

The Effect of Social Performance on the Financial Performance of Social Enterprise

According to test results, the path coefficient value is 0.255 and a P-value <0.001, which means <0.05. Thus, hypothesis 3, according to which social success has a favorable impact on financial performance of social enterprises is supported by the test outcomes. The results demonstrate that elevated The financial success of social enterprises is positively impacted by their social performance. By stakeholder theory (Freeman, 1984) the organization must consider the interests of the various parties involved or stakeholders in its operations. Social performance in social enterprises reflects the extent to which social enterprises can provide ideas for solving social problems, as well as efforts to complete social missions to generate profits. Strong social performance, can fulfill commitments, support society, and create a positive impact on society and other parties. By focusing on stakeholder satisfaction and support, social enterprises can increase better business opportunities. This can also impact the organization's revenue growth and profitability, Consequently, the relationship between financial and social performance is strengthened. This research supports research Basri et al. (2022), and Gali et al. (2020) that disclosure of social performance reflects The company's dedication to its staff members which can motivate the workforce's enthusiasm in carrying out their duties. This positive impact helps shape a positive image of the company, which influences increasing sales and company profits.

Mediation of Social Performance in the Relationship between Social Innovation and Financial Performance of Social Enterprise

In hypothesis 4, this research adds the role of social performance as a mediator in the interaction between social innovation and financial performance of social enterprises. Test results show a P-value of 0.041, which means <0.05. Therefore, it is possible to accept hypothesis 4, which claims that social performance mediates the relationship between social innovation and financial performance of social enterprises. The test's findings show that social performance has a significant moderating effect on the link between social innovation and social enterprises bottom lines.

According to RBV theory, social innovation can be seen as the internal resources and capabilities possessed by a social enterprise. Social innovation allows social enterprises to provide better ways of resolving social issues, which in turn can create a competitive advantage for social enterprises (Phillips et al., 2019). Social performance in this research functions as an important mediator in forming the correlation between social innovation and the financial performance of social enterprises. The role of mediation from social performance suggests that successful social innovation can lead to improved social performance. Increasing social performance illustrates a social enterprise's commitment to social responsibility, which can increase the trust of customers, investors and business partners. This positive image can lead to broader economic activity and increased profitability so that financial performance also increases. This is also by

Mediation of Social Performance in the Relationship between Managerial Ability and Financial Performance of Social Enterprise

In hypothesis 4, this research adds the role of social performance as a mediator in the interaction between social innovation and financial performance of social enterprises. Test results show a P-value of 0.035, which means <0.05. This implies the acceptance of Hypothesis 4, it claims that the relationship between social innovation and the financial success of social entrepreneurs is mediated by social performance. The test results show that social performance can significantly mediate the relationship between social innovation and financial performance in social enterprises.

Good managerial skills within the RBV framework (Wernerfelt, 1984) includes the ability to make strategic plans, communicate and understand the expectations of these various stakeholders, including governments, and business partners. Support the statement (García-Sánchez et al., 2020) that managerial abilities include being able to communicate and establish good relationships with stakeholders and fulfill social responsibilities. In the relationship between managerial abilities and financial performance, the mediating role of social performance can increase support from stakeholders and obtain the additional resources needed. The positive impact of strong social performance, such as greater support from the social investing community, can contribute to the financial improvement of social enterprises.

CONCLUSION, IMPLICATION AND LIMITATION

The results of the research show that both managerial ability and social innovation positively contribute to social enterprises' financial success in Riau Province. The study also shows that social performance is a key mediator between management skill and social innovation, which improves the financial success of social enterprises.

This research contributes to Wernerfelt's (1984) RBV theory that an organization's internal resources can increase organizational success and the important role of social responsibility also has an impact on an organization's financial performance. This also proves that stakeholder theory (Freeman, 1984) can also be proven. The practical implication of this research is the importance of improving the management skills of social entrepreneurs and social innovation should improve the financial and social achievements of social entrepreneurs. Therefore, the role of the government and related parties is needed to provide managerial training.

This research has several limitations, namely the sample size is inadequate because the questionnaire return rate is still below 50%. Therefore, further research can increase the response rate by using a personal approach. Researchers also only examined 3 types of social enterprises in Riau Province, so the research results have limited generalization. Further research can expand studies in the field of social enterprise by examining other types of social enterprises such as in the field of education.

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