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Future-Proofing Social Enterprises in Malaysia: Examining Internal and External Drivers of Performance Through Social Innovation

Siti Daleela Mohd Wahid ¹, Abu Hanifah Ayob ^{2,*} and Wan Mohd Hirwani Wan Hussain ³

¹ Faculty of Business Management, Universiti Teknologi MARA, Bandar Melaka 75300, Melaka, Malaysia

² Faculty of Economics and Management, Universiti Kebangsaan Malaysia, Bangi 43600, Selangor, Malaysia

³ Graduate School of Business, Universiti Kebangsaan Malaysia, Bangi 43600, Selangor, Malaysia

* Correspondence: abuhanifah.ayob@ukm.edu.my

Abstract

Social enterprises (SEs) in Malaysia face persistent challenges in achieving financial sustainability and scalable impact despite increasing policy support and stakeholder involvement. This study examines how internal drivers (digitalization and earned-income generation) and external drivers (government support and stakeholder engagement) influence SE performance, with social innovation acting as a mediating mechanism. A sequential mixed-method approach was employed, combining focus group discussions with 155 accredited SEs and quantitative analysis using Partial Least Squares Structural Equation Modelling (PLS-SEM). The findings reveal that digitalization and stakeholder engagement have significant positive effects on SE performance, while earned-income generation demonstrates a negative direct relationship. Social innovation emerges as the strongest predictor of performance and significantly mediates the relationships between key organizational drivers and performance. In contrast, government support does not exhibit a significant direct or indirect effect. These findings highlight the critical role of social innovation as a capability that transforms resources into performance outcomes. This study contributes to the literature by advancing a capability-based explanation of SE performance in emerging economies and provides practical insights for strengthening innovation-driven strategies among social enterprises.

Keywords: social enterprises; social innovation; organizational capabilities; stakeholder engagement; performance outcomes; Malaysia

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1. Introduction

A social enterprise (SE) is a legally registered business entity that seeks to create positive social or environmental impact through financially sustainable methods. In contrast, social entrepreneurship refers to innovative actions aimed at enhancing social value and wealth [1]. While the social mission distinguishes SEs from conventional enterprises, their ability to generate and sustain social value is closely tied to their financial viability and organizational performance. Prior studies indicate that the survival of SEs depends heavily on their capacity to manage resources effectively and balance social objectives with economic realities [2,3].

SEs are increasingly recognized as key players in addressing complex societal issues through sustainable and mission-driven business models. In Malaysia, however, the performance and scalability of SEs remain suboptimal, with many struggling to achieve long-term financial sustainability and measurable social impact. According to [4], only 37% of SEs were profitable, 32% broke even, and 31% operated at a loss, highlighting a sector under pressure. More critically, the resources allocated for implementing the Malaysian Social Entrepreneurship Blueprint 2030 (SEMy2030) are limited, restricting the scope and impact of its programs. This situation leads to a fragmented support system where SEs are unable to fully leverage national initiatives designed to enhance their growth, sustainability, and innovation [1]. Without adequate financial, structural, and institutional backing, many SEs remain trapped in survival mode, unable to scale, innovate, or deepen their social outreach. This gap between policy intent and ground-level execution underscores the urgent need for targeted, evidence-based strategies to strengthen SE performance in Malaysia.

Despite the growing interest in the SE ecosystem, core operational challenges persist. These include inconsistent government support, weak stakeholder engagement, limited earned-income generation strategies, and slow adoption of digital technology. For instance, less than 40% of Malaysian SEs report having access to digital tools or platforms that support operational efficiency, marketing, or stakeholder communication. Furthermore, 43% of SEs operate as private limited companies, while 7% remain unregistered, restricting their access to institutional support, tax incentives, and formal funding mechanisms [4], thereby reinforcing structural limitations within the ecosystem. While these drivers have been examined individually, there is limited understanding of how they interact collectively to influence SE performance within Malaysia's unique developmental context.

Social innovation presents a potential integrative mechanism through which these internal and external challenges may be addressed. Prior studies have acknowledged the importance of innovation in enhancing the sustainability and impact of social enterprises [5–7]. However, the ways in which social innovation translates organizational drivers into performance outcomes remain insufficiently explored, particularly from the perspective of practitioners in developing contexts.

To bridge these gaps, this study adopts a sequential mixed-method approach. It begins with an exploratory qualitative phase involving focus group discussions with selected SE leaders to refine and contextualize key dimensions, followed by a quantitative phase that empirically tests the relationships among these variables. By combining practitioner insights with empirical analysis, the research provides a comprehensive understanding of how Malaysian SEs can be future-proofed to sustain impact, scale operations, and contribute meaningfully to national development goals.

This study makes three key contributions to the SE literature. First, it advances a capability-based explanation of SE performance by demonstrating that internal and external drivers do not exert uniform or automatic effects on performance but become impactful only when transformed through social innovation capability. In doing so, the study shifts the analytical focus from resource availability to capability transformation, extending the Resource-Based View within the context of SEs.

Second, this study clarifies the ambiguous role of earned-income generation by revealing a negative direct relationship with performance alongside a positive indirect effect through social innovation. This finding provides empirical evidence that commercialisation, when pursued in isolation, may undermine performance unless aligned with innovation-driven, mission-preserving strategies. Third, this study offers new insight into the role of government support by showing that, within the Malaysian context, institutional support primarily confers legitimacy rather than directly enhancing performance or innovation outcomes. This highlights a persistent implementation gap within emerging SE

ecosystems and contributes to ongoing institutional and policy-oriented debates on SE development.

Taken together, this study argues that the persistent performance challenges of SEs are not rooted in resource scarcity, but in the absence of transformation capability that enables resources to be converted into sustainable social and economic value.

2. Literature Landscape

2.1. Development of Social Enterprise in Malaysia

Understanding the development of SEs in Malaysia is essential for assessing sector progress and identifying areas requiring strategic improvement. Historically, the Malaysian Global Innovation and Creativity Centre (MaGIC) played a key role in nurturing SE growth and ecosystem visibility. In principle, SEs are characterized by their attempt to balance societal and commercial objectives in addressing social or environmental issues while maintaining transparency and accountability to stakeholders.

The emergence of SE activity in Malaysia can be traced back to 1986 with the establishment of Amanah Ikhtiar Malaysia (AIM), founded by Professor Dr. David Gibbons and Professor Dr. Sukor Kassim. AIM sought to alleviate rural poverty by providing micro-loans to underserved communities. Over time, Malaysia's broader transition toward a more resilient and inclusive economy brought renewed attention to the sector, culminating in the Malaysian Social Entrepreneurship Blueprint 2030, which aims to strengthen SE sustainability and long-term growth. This policy direction reflects rising entrepreneurial interest in developing mission-driven ventures that serve community needs while generating income.

Despite this potential, structural and operational barriers continue to constrain SE development. Many SEs struggle to manage multiple operational demands, which can weaken progress toward social impact outcomes [8]. A central barrier remains the absence of a clear, tailored legal framework for SEs in Malaysia, resulting in many operating under conventional structures such as private companies or sole proprietorships. The authors of [4] reported that 43% of SEs in Malaysia are registered as private companies, while 7% remain unregistered. This conditions that limit access to benefits such as tax incentives and funding opportunities. A dedicated legal framework could enhance legitimacy and strengthen institutional support, thereby improving SE growth and community engagement [9].

In response, several initiatives have been introduced. The Social Enterprise Accreditation (SE.A.), launched in 2019, provides formal recognition and associated benefits, including tax exemptions and funding access for registered SEs. Additionally, the National Entrepreneurship Policy 2030 (NEP 2030) aims to promote entrepreneurship among B40 communities and emphasizes the scalability and sustainability of SEs [10]. Collaborative efforts by organizations such as myHarapan and iM4U, alongside support from educational institutions, also seek to improve capability development and ecosystem recognition. However, continued fragmentation suggests that stronger integration among stakeholders remains necessary for SEs to function as meaningful drivers of socio-economic development in Malaysia [8].

2.2. Theoretical Lens: Resource-Based View (RBV)

This study is anchored in the Resource-Based View (RBV), which explains organizational performance based on how effectively resources and capabilities are acquired, configured, and deployed [11]. RBV argues that superior performance is achieved when organizations possess valuable resources and develop distinctive capabilities that can be strategically leveraged to create value [12]. This theoretical lens is particularly relevant for

SEs, which frequently operate under resource constraints while pursuing dual objectives of social mission and financial sustainability [13].

The application of RBV within social entrepreneurship research is well established. Prior studies have employed RBV to examine how strategic resources, organizational capabilities, and innovation-oriented practices influence SE outcomes [1,14]. Building on this stream, the present study uses RBV to explain how digitalization, earned-income generation, government support, and stakeholder engagement operate as strategic capabilities that influence performance, with social innovation serving as a mediating mechanism. While other internal drivers may exist, this study focuses on digitalization and earned-income generation as key capability-based resources that are particularly salient in the Malaysian social enterprise context. Similarly, while a broader range of external factors may influence SE performance, this study focuses on government support and stakeholder engagement as key external enablers that are most relevant to the Malaysian context.

While the RBV provides a strong foundation for understanding how resources and capabilities influence performance, it has been criticised for its relatively static perspective in dynamic environments. SEs, particularly in developing contexts, operate under conditions of uncertainty, institutional fragmentation, and evolving stakeholder expectations, requiring continuous adaptation. In this regard, social innovation can be interpreted as a dynamic capability that enables social enterprises to reconfigure, integrate, and redeploy resources in response to changing social and economic demands. Thus, this study extends RBV by embedding a dynamic capability perspective, positioning social innovation as the mechanism through which resources are transformed into performance outcomes.

2.3. Social Enterprise Performance

Social enterprise performance is inherently multidimensional and is often conceptualized using frameworks such as the triple bottom line [15] and the balanced scorecard [16], which integrate financial, social, and stakeholder-oriented outcomes. Assessing the performance of SEs is essential to ensure their sustainability and effectiveness. SE performance encompasses both social and economic drivers, making it challenging to balance societal impact with financial viability. While SEs aim to serve societal needs, their resource and support constraints often make achieving this dual objective more difficult than for traditional enterprises [3]. Social performance relates to sustainable development by delivering value to the community, while financial performance ensures economic survival and long-term impact [2].

SE performance encompasses both social and economic dimensions, requiring organizations to balance impact creation with financial sustainability. While social performance reflects contributions to community development and social value creation, financial performance ensures operational survival and long-term scalability. Although prior studies offer mixed findings on the relationship between social and economic outcomes, emerging evidence suggests that financial viability often enables sustained social impact by supporting reinvestment, innovation, and organizational resilience.

Evaluating SE performance is essential for decision-making and transparency. A structured assessment framework helps SEs enhance efficiency and accountability to stakeholders. However, the literature on SE performance is still emerging, with limited studies exploring both social and financial drivers simultaneously [9]. This study seeks to address this gap by examining the performance of SEs in Malaysia, focusing on both social and economic dimensions to provide a holistic understanding of their success. To achieve this, the following section categorizes the determinants of SE performance into key internal drivers (digitalization and earned-income generation) and key external drivers (government support and stakeholder engagement). Each driver is discussed based on recent

empirical findings within the Malaysian context to highlight how they contribute to or constrain SE performance.

2.3.1. Key Internal Drivers

Internal drivers refer to factors that originate within the enterprise's structure, resources, and operational strategies. In this study, digitalization and earned-income generation are categorized as key internal drivers that directly influence organizational performance and innovation capacity.

1. Digitalization

Digitalization refers to the adoption of digital tools and technologies to improve operational efficiency, enhance market access, and foster innovation. In the context of SEs, digitalization has the potential to transform traditional business models by enabling cost-effective service delivery and expanding the reach of social impact initiatives [17]. For example, e-commerce platforms can help SEs connect with broader customer bases, while data analytics tools can measure and enhance social outcomes.

Despite the benefits, the adoption of digitalization among Malaysian SEs remains limited due to resource constraints and low digital literacy [4]. The National 4IR Policy, launched in 2021, aims to address these challenges by encouraging digital adoption across sectors. Digitalization is expected to play a critical role in enhancing SE performance by improving resource allocation, streamlining processes, and enabling greater scalability.

2. Earned-Income Generation

Earned-income generation involves offering products or services to generate revenue. This reduces SEs' reliance on donations and grants, promoting financial independence and sustainability. Social firms that generate their own income can reinvest profits into charitable work and expand their social impact [18]. For instance, SEs in Malaysia have transitioned from relying solely on government funding to developing independent revenue streams to enhance their financial stability [14].

However, many SEs struggle to generate sufficient income due to limited market access and public skepticism about profit-driven charity models. Failure to generate adequate revenue can lead to mission drift and reduced impact [19]. On the other hand, studies show that social firms that successfully generate income can strengthen customer relationships, increase operational efficiency, and improve social impact [1].

2.3.2. Key External Drivers

Key external drivers represent institutional and relational factors outside the organization that influence its performance. In this study, they include government support and stakeholder engagement, which shape the legitimacy, resources, and networks available to SEs.

1. Government Support

Government support refers to the assistance provided to SEs through supportive legislation, financial aid, and policy recognition. It enables SEs to access resources, gain legitimacy, and create greater social impact. Governments often collaborate with SEs to address social and economic issues, particularly in areas where traditional efforts have been insufficient, such as poverty alleviation through technical training and micro-finance schemes. In Malaysia, programs under the Tenth Malaysia Plan (10 MP), such as those led by Majlis Amanah Rakyat (MARA) and TEKUN, have provided financial support and entrepreneurial training to empower SEs [20].

Government support is critical for enhancing SE performance, as it provides legitimacy and access to scarce resources [21]. Countries with established policy frameworks, such as South Korea and the United States, have shown how government collaboration

with SEs can lead to greater sustainability and social impact [22]. However, Malaysia lacks a mature policy framework, which limits SEs' ability to benefit from such partnerships. Enhanced government support can mitigate these challenges, improve resource allocation, and strengthen SE performance [23].

2. Stakeholder Engagement

Stakeholder engagement refers to the ability of SEs to connect and collaborate with donors, clients, sponsors, and the community [24]. Effective stakeholder engagement fosters legitimacy, resource acquisition, and trust, enabling SEs to create greater social impact [25]. For example, involving stakeholders in decision-making processes can improve transparency and alignment with organizational goals [26].

Studies highlight that stakeholder engagement also contributes to firm survival and expansion by building relationships that provide access to valuable resources [25]. In Europe, SEs benefit from democratic structures that facilitate collective decision-making and enhance stakeholder participation [2]. In contrast, Malaysian SEs often face challenges in educating stakeholders about their social missions, which can hinder their performance and growth [19]. By engaging stakeholders effectively, SEs can enhance their resource base, strengthen community ties, and improve their overall performance.

2.4. Hypothesis Development

Building on the RBV and the preceding literature, this study proposes that internal and external drivers influence social enterprise performance both directly and indirectly through social innovation as a mediating capability. Digitalization is expected to play a critical role in enhancing SE performance by improving resource allocation, streamlining processes, and enabling greater scalability [17]. From an RBV perspective, digital capabilities can enhance organizational efficiency and create value when effectively deployed [27]. However, emerging studies suggest that the impact of digitalization is not automatic, as its contribution to performance often depends on how digital tools are integrated into socially innovative practices that align with the organization's [28,29]. Despite this, empirical research remains limited on how digitalization translates into performance outcomes within SEs, particularly through innovation-driven mechanisms.

H1. *Digitalization has a positive effect on social enterprise performance.*

Earned-income generation refers to the ability of social enterprises to generate revenue through the provision of products and services, thereby reducing reliance on external funding [30]. From an RBV perspective, financial resources play a critical role in supporting organizational sustainability and enabling the achievement of social objectives [12]. While prior studies suggest that earned-income strategies can enhance financial independence and strengthen organizational performance [14], excessive reliance on commercial activities may lead to mission drift and reduced social impact [19]. This suggests that the effect of earned-income generation on performance is not straightforward and warrants empirical examination.

H2. *Earned-income generation has a significant effect on social enterprise performance.*

Government support refers to the provision of institutional assistance, including policies, financial aid, and regulatory frameworks that enable social enterprises to access critical resources and enhance legitimacy [30]. From an RBV perspective, such support can provide access to valuable and otherwise difficult-to-obtain resources, thereby strengthening organizational capability and performance [21]. Prior studies suggest that government involvement can enhance the sustainability and social impact of social enterprises

by facilitating resource acquisition, legitimacy, and institutional recognition [6,21]. However, in emerging contexts such as Malaysia, where policy frameworks and implementation mechanisms remain fragmented, the effectiveness of government support in directly influencing performance may be limited [20,22]. This suggests that the role of government support in shaping social enterprise performance requires further empirical examination.

H3. *Government support has a positive effect on social enterprise performance.*

Stakeholder engagement refers to the ability of social enterprises to actively collaborate with external stakeholders, including communities, donors, and partners, in creating and sustaining social value [24]. From an RBV perspective, stakeholder relationships represent valuable relational resources that enable organizations to access knowledge, legitimacy, and critical support for achieving performance outcomes [26]. Prior studies like [26] and [31] indicate that effective stakeholder engagement enhances resource acquisition, strengthens trust, and improves organizational legitimacy, which in turn contributes to the sustainability and impact of social enterprises. However, limited empirical evidence exists on how stakeholder engagement directly translates into performance outcomes, particularly within developing contexts where stakeholder awareness and institutional support remain uneven. This suggests that the relationship between stakeholder engagement and social enterprise performance warrants further empirical investigation.

H4. *Stakeholder support has a positive effect on social enterprise performance.*

Social innovation refers to the ability of social enterprises to develop novel solutions, processes, or services that address societal needs while improving social outcomes and relationships [1]. Within the RBV, social innovation can be understood as a strategic capability that enables organizations to recombine resources and generate sustainable value beyond mere resource possession. Prior studies suggest that social innovation enhances organizational effectiveness by enabling social enterprises to address complex social problems, improve efficiency, and achieve both social and economic outcomes [5,13]. Moreover, innovation-driven approaches have been shown to significantly contribute to value creation and long-term sustainability in social ventures [19]. However, empirical evidence on the direct role of social innovation in driving performance remains limited, particularly within developing contexts. This suggests that social innovation plays a critical role in shaping social enterprise performance and warrants further empirical examination.

H5. *Social innovation has a positive effect on social enterprise performance.*

2.5. Mediating Roles of Social Innovation

Social innovation is also increasingly recognized as a critical mechanism through which organizational drivers are transformed into performance outcomes in SEs. From an RBV perspective, innovation capability enables organizations to recombine and deploy internal and external resources in ways that generate sustainable value. In the context of digitalization, the adoption of digital tools alone may not directly improve performance unless these technologies are embedded within socially innovative practices that enhance service delivery and stakeholder engagement [27,28]. Similarly, while earned-income generation provides financial resources, its contribution to performance depends on how these resources are innovatively utilized to balance social mission and commercial viability [1,5]. Government support, although valuable in providing legitimacy and access to resources, may not directly translate into performance unless it fosters innovation capabilities within social enterprises [32].

Taken together, these arguments suggest that the effects of digitalization, earned-income generation, government support, and stakeholder engagement on SE performance are not direct, but are contingent upon the organization's ability to transform these drivers into socially innovative practices. Therefore, social innovation is expected to mediate the relationships between these drivers and performance outcomes.

H6. *Social innovation mediates the relationship between digitalization and social enterprise performance.*

H7. *Social innovation mediates the relationship between earned-income generation and social enterprise performance.*

H8. *Social innovation mediates the relationship between government support and social enterprise performance.*

H9. *Social innovation mediates the relationship between stakeholder engagement and social enterprise performance.*

2.6. Conceptual Framework

Figure 1 presents the conceptual framework of this study, illustrating the relationships between internal and external drivers and social enterprise performance, with social innovation acting as a mediating mechanism. Specifically, digitalization and earned-income generation are conceptualized as internal drivers, while government support and stakeholder engagement represent external drivers influencing organizational outcomes.

The framework proposes that these drivers do not directly translate into performance outcomes but rather exert their effects through social innovation capability. Social innovation is positioned as a central mechanism that enables social enterprises to transform resources and relationships into sustainable social and economic value. Accordingly, the model includes both direct effects (H1–H5) and indirect effects (H6–H9), capturing the mediating role of social innovation in linking key organizational drivers to social enterprise performance.

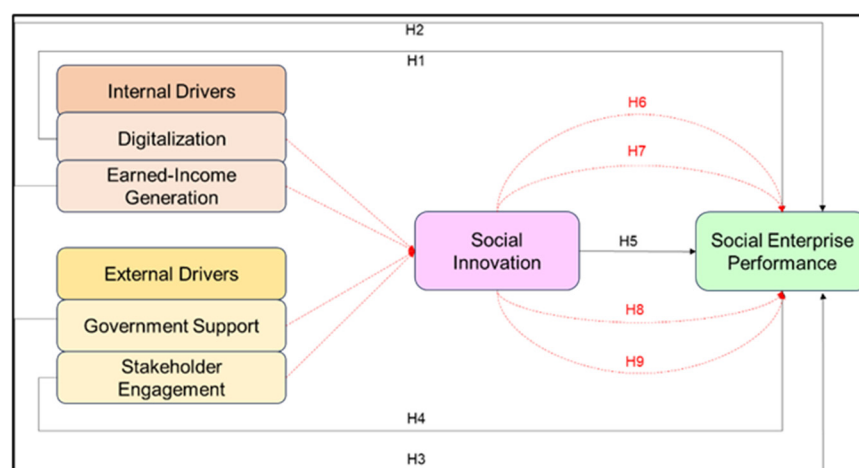


Figure 1. Conceptual framework.

3. Methodology

This study adopted a sequential mixed-method research design in which qualitative insights were generated in the first phase and subsequently tested and validated through quantitative analysis in the second phase. This design was selected to ensure that the measurement of key constructs and the proposed relationships were grounded in the lived experiences of SE owners and managers before being examined empirically at scale.

The sequential exploratory design is particularly appropriate for research contexts where complex organizational phenomena require contextual understanding prior to hypothesis testing. In the context of Malaysian SEs, this approach enabled this study to capture practitioner-level interpretations of digitalization, earned-income generation, government support, stakeholder engagement, and social innovation before assessing their effects on performance.

3.1. Phase One: Qualitative Study

The first phase of the study employed a qualitative approach using Focus Group Discussions (FGDs) to explore how SE owners and managers perceive and experience key organizational drivers and performance outcomes. This phase served an exploratory and contextualisation function, providing empirical grounding for the conceptual framework and informing the interpretation of subsequent quantitative results.

A total of 15 SE owners and managers participated in the FGD. Participants were selected using purposive sampling, targeting individuals with direct decision-making roles and diverse organizational profiles in terms of sector, size, digital maturity, and revenue models. This ensured rich and varied insights into operational realities across the Malaysian SE ecosystem. To accommodate geographical dispersion, the FGDs were conducted through a combination of face-to-face and online sessions, depending on participant location and accessibility. All sessions followed a standardized moderator guide to ensure consistency across discussion modes. Informed consent was obtained prior to data collection, and all discussions were audio-recorded with permission.

The FGD protocol focused on participants' experiences with:

- (i) adopting digital tools and technologies;
- (ii) balancing earned-income strategies with social mission;
- (iii) accessing and utilising government support;
- (iv) engaging stakeholders;
- (v) implementing socially innovative practices.

All discussions were transcribed verbatim and analysed using thematic analysis. A hybrid coding approach was applied, where initial codes were informed by the literature and theoretical framework, while allowing new themes to emerge inductively from participant narratives. The qualitative findings were used to refine conceptual understanding and support the development and interpretation of the quantitative phase.

3.2. Phase Two: Quantitative Study

Building on insights derived from the qualitative phase, the second phase employed a quantitative research design to test the proposed relationships within the conceptual framework. Data were collected from 155 accredited SE owners and managers in Malaysia using a structured questionnaire. The questionnaire measured digitalization, earned-income generation, government support, stakeholder engagement, social innovation, and SE performance.

To assess potential non-response bias, early and late respondents were compared following the approach suggested by [33]. The results indicated no significant differences between the groups, indicating that non-response bias is unlikely to be a concern in this study.

All constructs were operationalised as capability-based or perception-based measures reflecting organisational practices and orientations, rather than direct outcome-based indicators. In particular, earned-income generation was operationalised as an internal capability reflecting the organisation's ability to generate revenue streams, rather than as an outcome-based financial performance indicator, thereby ensuring conceptual distinction from the performance construct.

Measurement items were primarily developed based on insights derived from the qualitative phase (FGD), ensuring that the constructs reflect the contextual realities of social enterprises in Malaysia. These items were further refined and aligned with relevant literature on SE performance, digitalization, stakeholder engagement, and social innovation to enhance theoretical consistency. Prior to full deployment, the instrument underwent expert validation and pre-testing to ensure clarity, relevance, and content validity.

Data were analysed using PLS-SEM via SmartPLS 4.0. This technique was selected due to its suitability for predictive modelling, handling complex models with multiple constructs, and its robustness for relatively small sample sizes [34]. It is also appropriate for studies focusing on theory development and mediation analysis. The analysis followed a two-stage procedure, beginning with the assessment of the measurement model, followed by structural model evaluation to test direct and indirect relationships.

4. Data Analysis

Data analysis was conducted in two stages corresponding to the qualitative and quantitative phases of the study.

4.1. Phase One: Qualitative Analysis

Data obtained from the focus group discussions were analysed using thematic analysis, following the procedures proposed by [35]. All discussions were audio-recorded with participants' consent and transcribed verbatim. The analysis began with data familiarisation, whereby the transcripts were repeatedly reviewed to develop a comprehensive understanding of participants' experiences and perspectives.

Initial coding was conducted using a hybrid approach, combining deductive codes derived from the study's conceptual framework and Resource-Based View with inductive codes that emerged directly from the data. The coded data were then organised into broader themes by identifying recurring patterns across participants. These themes were reviewed and refined through constant comparison to ensure internal coherence and clarity. Data saturation was considered achieved when no substantively new themes emerged from the analysis. The qualitative findings were subsequently used to provide contextual understanding and support the interpretation of the quantitative results in the later stage of the study.

4.2. Phase Two: Quantitative Analysis

Quantitative data were analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM) via SmartPLS 4.0. The analysis followed a two-stage procedure. First, the measurement model was assessed to establish reliability and validity through indicators such as composite reliability, average variance extracted, and discriminant validity. Second, the structural model was evaluated to test the hypothesised direct and indirect effects.

5. Findings

This section presents the findings of the study based on the sequential mixed-method design adopted. The findings are organised according to the two phases of data collection

and analysis. Phase One reports the qualitative findings derived from the focus group discussions, which provide contextual and experiential insights into how SE owners and managers perceive key organizational drivers and performance outcomes. Phase Two presents the quantitative findings obtained from the survey data, which empirically test the proposed relationships within the conceptual framework. Together, the findings from both phases offer a comprehensive understanding of the factors shaping SE performance in Malaysia and form the basis for the integrated discussion presented in the subsequent section.

5.1. Phase One: Qualitative Findings

The qualitative findings from the FDGs provide contextual insights into how SE owners and managers perceive the key drivers of performance and the role of social innovation in translating resources into outcomes. The analysis revealed six interrelated themes, which are presented below. These themes are reported to illustrate practitioner perspectives and to support the interpretation of the quantitative findings presented in Phase Two.

5.1.1. Digitalization as an Enabler Rather than a Direct Performance Driver

Participants consistently described digitalization as a necessary operational tool that enhances efficiency, communication, and market reach. However, digital adoption alone was not perceived as sufficient to improve overall performance unless it was accompanied by innovative practices.

Several participants highlighted that digital tools facilitated daily operations but did not automatically translate into higher impact or sustainability outcomes. Performance improvements were observed only when digitalization supported new ways of delivering social value or engaging stakeholders.

“Digital platforms help us work faster, but without innovation, they do not really change our performance.”

5.1.2. Earned-Income Generation and the Risk of Mission Drift

Participants expressed mixed views regarding earned-income strategies. While revenue generation was acknowledged as necessary for survival, excessive focus on commercial activities was perceived to create tension with social objectives. Several participants reported that income-driven strategies strained limited resources, diverted attention from beneficiaries, and weakened organizational focus, particularly when not supported by innovative business models.

“When income becomes the main target, our social mission slowly gets diluted.”

5.1.3. Government Support as Institutional Legitimacy Rather than Operational Impact

Most participants perceived government support as providing legitimacy and recognition rather than tangible improvements in operational capability or performance. Challenges such as bureaucratic processes, limited accessibility, and misalignment with organizational needs were frequently highlighted. Participants noted that although support schemes existed, they were often difficult to access or did not directly enhance innovation or performance capacity.

“Support is there, but it does not really help us innovate or grow.”

5.1.4. Stakeholder Engagement as a Relational Resource

Stakeholder engagement was widely viewed as a critical driver of sustainability and performance. Participants emphasized the importance of trust-based relationships with communities, beneficiaries, partners, and employees. Many described stakeholders as co-

creators of social value rather than passive recipients, noting that active engagement strengthened legitimacy, relevance, and operational effectiveness.

“Our stakeholders are not just beneficiaries; they are partners in what we do.”

5.1.5. Social Innovation as a Core Capability for Performance

Social innovation emerged as a central theme across all discussions. Participants described innovation as the ability to adapt, recombine resources, and develop new solutions that address social needs while ensuring organizational sustainability. Innovation was frequently mentioned as the mechanism through which digital tools, income strategies, and stakeholder relationships were transformed into meaningful performance outcomes.

“Innovation is what connects income, impact, and sustainability.”

5.2. Phase Two: Quantitative Findings

This section presents the quantitative findings of the study based on survey data collected from 155 accredited SE owners and managers in Malaysia. The analysis was conducted using Partial Least Squares Structural Equation Modelling (PLS-SEM) to examine the proposed direct and indirect relationships among digitalization, earned-income generation, government support, stakeholder engagement, social innovation, and SE performance.

The results are reported in three stages. First, the measurement model assessment is presented to establish the reliability and validity of the constructs. Second, the structural model results are discussed to evaluate the hypothesised relationships. Finally, the mediation analysis is reported to examine the role of social innovation in linking the key organizational drivers to SE performance.

5.2.1. Respondent's Demographics

A total of 155 SE owners participated in this study. In terms of legal structure, 100 respondents operated under company registration, while 55 were registered as cooperatives. The participating social enterprises represented a wide range of business categories. The largest segments were Products and Services ($n = 30$), Crop/Livestock/Forestry and Logging/Fisheries ($n = 17$), Food and Beverages ($n = 17$), Wholesale and Retail ($n = 13$), Professional, Scientific and Technical services ($n = 12$), and Agriculture ($n = 10$). Other sectors included Information and Communication ($n = 9$), Textile and Apparel ($n = 9$), Accommodation, Tourism and Handicraft Sales ($n = 9$), Manufacturing ($n = 6$), as well as smaller representations from Health, Education, Furniture, Hospitality, and Transportation Equipment.

Geographically, respondents were distributed across both Peninsular and East Malaysia, with a higher concentration in more urbanised and economically active states. Selangor recorded the highest number of respondents ($n = 35$), followed by Kuala Lumpur ($n = 24$) and Sabah ($n = 19$). Other represented states included Sarawak ($n = 16$), Johor ($n = 14$), Pulau Pinang ($n = 10$), Perak ($n = 7$), Kedah and Terengganu ($n = 6$ each), Melaka ($n = 6$), Negeri Sembilan and Pahang ($n = 4$ each), Kelantan ($n = 3$), and Perlis ($n = 1$). Overall, the sample reflects a broad national representation of SEs across Malaysia, as summarised in Table 1.

Table 1. Demographic Information.

Elements		Frequency
Types of social enterprise	Company	100
	Cooperation	55
	Total	155
Business Category	Environment	1

	Water Supply, Sewerage, Waste Management & Remediation Activities	4
	Paper & Paper Products	1
	Health	3
	Leather & Related Products	2
	Basic Metal & Fabricated Metal Products	1
	Food & Beverages	17
	Information & Communication	9
	Manufacturing	6
	Education	3
	Accommodation, Tourism & Handicraft Sales	9
	Furniture	3
	Transportation Equipment	1
	Wholesale & Retail	13
	Hospitality	1
	Products & Services	30
	Plantation	2
	Agriculture	10
	Rubber & Plastic Products	1
	Professional, Scientific & Technical	12
	Crop/Livestock/Forestry & Logging/Fisheries	17
	Textile & Apparel	9
	Total	155
State	Kuala Lumpur	24
	Terengganu	6
	Selangor	35
	Sarawak	16
	Sabah	19
	Pulau Piang	10
	Perlis	1
	Perak	7
	Pahang	4
	Negeri Sembilan	4
	Melaka	6
	Kelantan	3
	Kedah	6
	Johor	14
	Total	155

5.2.2. Measurement Model

Prior to hypothesis testing, model fit indices were examined. The results indicate an acceptable model fit (SRMR = 0.078, NFI = 0.901). Reliability and convergent validity were assessed using Cronbach's alpha, composite reliability (CR), outer loadings, and average variance extracted (AVE). As shown in Table 2, Cronbach's alpha and CR values exceeded the recommended threshold of 0.70, indicating satisfactory internal consistency [34,36].

Convergent validity was further supported as most indicator loadings exceeded the recommended threshold of 0.70, and AVE values met the threshold of 0.50, indicating that the indicators explained an adequate proportion of variance in their respective constructs. Although several indicator loadings were below 0.70, they were retained as their values exceeded the minimum acceptable level of 0.60. According to [34], indicators with loadings between 0.60 and 0.70 may be retained when composite reliability (CR) and AVE are satisfactory. In this study, all constructs achieved CR values above 0.70 and AVE values above 0.50, confirming adequate convergent validity. Therefore, all measurement items were retained to preserve content validity.

Table 2. Result of Reliability.

Constructs	Items	Outer Loadings	A	CR	AVE
Digitalization	Digitalization increases our sales	0.784	0.794	0.798	0.503
	Digitalization brings new features to our products	0.767			
	Digitalization will be utilized in producing our products	0.715			
	Digitalization reduces the number of “middlemen” between us and the final user.	0.812			
	Digitalization requires us to hire new personnel with digital related skills.	0.700			
	Digitalization results in re-educating our current staff	0.620			
Earned-Income Generation	We have attracted funders who have been important sources of income for us	0.880	0.857	0.863	0.603
	We have found our ways to fund our activities to sustain	0.814			
	We carry out commercial activities to support our social objective	0.833			
	Our revenues rely on earned income from businesses	0.813			
Government Support	The government has provided us with beneficial policies	0.736	0.726	0.738	0.671
	The government has provided us with necessary technology information	0.781			
	The government has provided us with support to seek for financial resources	0.759			
	The government has provided us with direct financial support	0.819			
Stakeholder Engagement	Employee stakeholders are viewed by management team as being proper and/or appropriate.	0.762	0.851	0.886	0.528
	Community stakeholders have been active in pursuing desires which they felt were important.	0.764			
	Community stakeholders urgently communicate their claims to our firm.	0.778			
	Community stakeholders are viewed by our management team as being legitimate.	0.729			
	Local resident stakeholders have the power to enforce their claims to our firm.	0.752			
	Local resident stakeholders have exhibited urgency in their relationship with our firm.	0.659			
	Local resident stakeholders have been active in pursuing desires which they felt were important	0.730			
Social Innovation	We are flexible enterprise	0.798	0.882	0.907	0.619
	We are able to see risks as opportunities to generate social value	0.801			
	We are innovative enterprise	0.761			
	We are able to offer sustainable advantage through innovative services	0.781			
	We are a pragmatic enterprise	0.826			

Social Enterprise Performance	Enter-prise Perfor-mance	We are able to create better social value compared to commercial entrepreneurs	0.750			
		We are creating employment for the socially disadvantaged class.	0.891			
		We help inform the community on our beneficiaries' situation.	0.907	0.867	0.919	0.790
		We operate in a socially sustainable manner.	0.869			

Note: A = Cronbach's Alpha; CR = Composite Reliability; AVE = Average Variance Extracted.

1. Discriminant Validity

Discriminant validity was assessed using the Heterotrait–Monotrait Ratio (HTMT), which is recognised as a robust approach for evaluating construct distinctiveness [37]. As presented in Table 3, all HTMT values were below the conservative threshold of 0.85 [38], indicating that the constructs were empirically distinct. The highest HTMT value was observed between Digitalization and Social Enterprise Performance (0.725), which remained within the acceptable range. Overall, the measurement model demonstrated adequate reliability and validity, supporting progression to the structural model assessment.

Table 3. Result of Heterotrait–Monotrait (HTMT).

	Heterotrait–Monotrait Ratio of Correlation
Earned-Income Generation <-> Digitalization	0.223
Government Support <-> Digitalization	0.627
Government Support <-> Earned-Income Generation	0.132
Social Enterprise Performance <-> Digitalization	0.725
Social Enterprise Performance <-> Earned-Income Generation	0.156
Social Enterprise Performance <-> Government Support	0.376
Social Innovation <-> Digitalization	0.680
Social Innovation <-> Earned-Income Generation	0.371
Social Innovation <-> Government Support	0.285
Social Innovation <-> Social Enterprise Performance	0.521
Stakeholder Engagement <-> Digitalization	0.414
Stakeholder Engagement <-> Earned-Income Generation	0.190
Stakeholder Engagement <-> Government Support	0.258
Stakeholder Engagement <-> Social Enterprise Performance	0.602
Stakeholder Engagement <-> Social Innovation	0.461

2. Common Method Bias

Common method bias (CMB) was assessed using both procedural and statistical remedies [39]. Procedurally, efforts were made to minimise potential bias by ensuring clarity of measurement items, avoiding ambiguous and double-barrelled questions, and assuring respondents of confidentiality to reduce social desirability bias.

Statistically, Harman's single-factor test was conducted, and the results indicated that no single factor accounted for the majority of the variance, suggesting that CMB is unlikely to be a serious concern [34,39]. In addition, a full collinearity test was performed, and all variance inflation factor (VIF) values were below the recommended threshold of 3.3, further confirming the absence of common method bias [40].

5.2.3. Structural Model

Following the measurement model assessment, the structural model was evaluated to test the hypothesised relationships among constructs [34]. The structural model specifies the proposed direct and indirect effects between exogenous (independent) constructs namely Digitalization, Earned-income Generation, Government Support, and Stakeholder

Engagement and the endogenous (dependent) construct, Social Enterprise Performance. Social Innovation was modelled as a mediating construct between the key drivers and performance. The analysis tested nine hypotheses (H1–H9), including direct effects (H1–H5) and mediation effects (H6–H9). Bootstrapping procedures were applied to assess the significance of path relationships and indirect effects.

1. Path Coefficient (β)

Path coefficients were examined to test the hypothesized direct relationships between the exogenous constructs and Social Enterprise Performance. Digitalization demonstrated a positive and significant relationship with Social Enterprise Performance ($\beta = 0.339$, $t = 4.427$, $p = 0.000$), supporting H1. Earned-income Generation was also statistically significant but showed a negative direct relationship with performance ($\beta = -0.115$, $t = 2.150$, $p = 0.032$), supporting H2 while indicating an inverse association in the direct pathway. Stakeholder Engagement exhibited a positive and significant relationship with Social Enterprise Performance ($\beta = 0.197$, $t = 3.809$, $p = 0.000$), supporting H4. Social Innovation emerged as the strongest predictor of Social Enterprise Performance ($\beta = 0.480$, $t = 7.537$, $p = 0.000$), supporting H5.

In contrast, Government Support did not demonstrate a significant direct relationship with Social Enterprise Performance ($\beta = 0.032$, $t = 0.494$, $p = 0.621$), indicating that government support alone may be insufficient to drive performance outcomes in this sample. Therefore, H3 was not supported.

2. Coefficient of Determination (R^2)

The explanatory power of the model was assessed using the coefficient of determination (R^2). The model explained 70.8% of the variance in Social Enterprise Performance ($R^2 = 0.708$; adjusted $R^2 = 0.698$). Based on established benchmarks [41], this reflects strong explanatory power and suggests that the model provides substantial insight into the drivers of SE performance in the Malaysian context [34].

3. The Effect Size (f^2)

Effect size (f^2) was assessed to examine the relative contribution of each predictor to Social Enterprise Performance [34,37,42]. As shown in Table 4, Digitalization had a moderate effect ($f^2 = 0.173$), while Earned-income Generation ($f^2 = 0.041$) and Stakeholder Engagement ($f^2 = 0.104$) showed small effects. Government Support exhibited a negligible effect size ($f^2 = 0.002$), consistent with its non-significant direct path. Social Innovation demonstrated the strongest effect ($f^2 = 0.403$), reinforcing its dominant role in explaining performance outcomes.

Table 4. Effect Size (f^2).

	Social Enterprise Performance (f^2)
Digitalization	0.173
Earned-income Generation	0.041
Government Support	0.002
Stakeholder Engagement	0.104
Social Innovation	0.403

4. Predictive relevance (Q^2)

Predictive relevance (Q^2) was assessed using the blindfolding procedure [43,44]. A Q^2 value greater than zero indicates that the model has predictive relevance, with values of 0.02, 0.15, and 0.35 representing small, medium, and large predictive relevance, respectively [44]. The Q^2 value for social enterprise performance is 0.160, indicating moderate predictive relevance. This suggests that the model demonstrates satisfactory predictive capability in explaining the endogenous construct.

5. Mediation Analysis

The mediation hypotheses were examined using a bootstrapping procedure to assess the significance of indirect effects, following the approach recommended by [45]. Consistent with best practice, mediation was evaluated based on bias-corrected confidence intervals rather than relying solely on p -values, where mediation is supported when the confidence interval does not include zero [36].

The results of the structural model are presented in Table 5. The findings indicate that digitalization ($\beta = 0.339$, $p < 0.01$), stakeholder engagement ($\beta = 0.197$, $p < 0.01$), and social innovation ($\beta = 0.480$, $p < 0.01$) have significant positive effects on social enterprise performance, with social innovation emerging as the strongest predictor ($t = 7.537$). In contrast, earned-income generation shows a significant negative effect ($\beta = -0.115$, $p < 0.01$), suggesting the potential risk of mission drift when commercial activities are over-emphasized. Meanwhile, government support does not exhibit a significant relationship with performance ($\beta = 0.032$, $p > 0.05$), indicating that external institutional support alone may not directly translate into improved performance without strong internal capabilities.

As presented in Table 6, social innovation significantly mediates the relationship between digitalization and social enterprise performance (H6: $\beta = 0.250$, $t = 5.078$, $p = 0.000$; BCI [0.171, 0.369]). Similarly, significant mediation effects are observed for earned-income generation (H7: $\beta = 0.091$, $t = 2.259$, $p = 0.024$; BCI [0.020, 0.180]) and stakeholder engagement (H9: $\beta = 0.108$, $t = 2.671$, $p = 0.008$; BCI [0.032, 0.191]), indicating that these relationships operate through the development of socially innovative practices.

In contrast, the indirect effect of government support on social enterprise performance through social innovation is not significant (H8: $\beta = -0.005$, $t = 0.115$, $p = 0.909$; BCI [-0.092, 0.070]), as the confidence interval includes zero. This suggests that government support does not translate into performance through innovation capability in this context.

The type of mediation was further assessed by examining the significance of both direct and indirect effects. The findings indicate partial mediation for digitalization and stakeholder engagement, as both direct and indirect effects are significant. Earned-income generation demonstrates a partial (inconsistent) mediation, where the direct effect is negative while the indirect effect is positive. In contrast, no mediation is observed for government support, as neither the direct nor indirect effects are statistically significant.

Table 5. Result of Direct Effect.

Relationship	Std Beta	Std Dev	T-Value	p -Value	f^2	BCI LL	BCI UL
H1: Digitalization → Social Enterprise Performance	0.339	0.077	4.427	0.000	0.173	0.189	0.489
H2: Earned-income Generation → Social Enterprise Performance	-0.115	0.054	2.150	0.032	0.041	-0.220	-0.009
H3: Government Support → Social Enterprise Performance	0.032	0.064	0.494	0.621	0.002	-0.103	0.151
H4: Stakeholder Engagement → Social Enterprise Performance	0.197	0.064	3.809	0.000	0.104	0.098	0.301
H5: Social Innovation → Social Enterprise Performance	0.480	0.052	7.537	0.000	0.403	0.365	0.617

Table 6. Result of Indirect Effect.

Relationship	Std Beta	Std Dev	T-Value	p -Value	BCI LL	BCI UL
H6: Digitalization → Social Innovation → Social Enterprise Performance	0.250	0.049	5.078	0.000	0.171	0.369
H7: Earned-income Generation → Social Innovation → Social Enterprise Performance	0.091	0.040	2.259	0.024	0.020	0.180

H8: Government Support → Social Innovation → Social Enterprise Performance	−0.005	0.044	0.115	0.909	−0.092	0.070
H9: Stakeholder Engagement → Social Innovation → Social Enterprise Performance	0.108	0.041	2.671	0.008	0.032	0.191

6. Discussion of the Findings

This study set out to understand why SEs continue to struggle with performance despite growing policy attention, stakeholder involvement, and commercial activity. By integrating qualitative insights with empirical evidence, the findings demonstrate that the performance of social enterprises is not determined by the mere presence of internal and external drivers, but by the organization's ability to transform these drivers into value through social innovation capability.

This capability-based perspective helps explain why well-intended resources such as digital tools, earned-income strategies, and government support do not uniformly translate into improved performance outcomes. Instead, performance emerges when these drivers are strategically recombined through socially innovative practices that align mission, market, and stakeholder expectations.

6.1. Reframing Social Enterprise Performance Through a Capability Lens

The findings of this study demonstrate that SE performance is fundamentally capability-driven rather than resource-driven. Quantitative results show that while multiple internal and external drivers influence performance, their effects are uneven and often conditional, with social innovation emerging as the strongest predictor and mediator of performance outcomes. These results reinforce the Resource-Based View (RBV), which posits that technological, financial, relational, and institutional resources must be actively transformed through organizational capabilities to generate superior outcomes [11].

Insights from the qualitative phase further explain this pattern. Participants consistently emphasized that merely possessing digital tools, funding opportunities, or stakeholder access did not guarantee improved performance. Instead, performance gains were achieved only when these resources were strategically recombined through innovative practices and adaptive decision-making. This experiential evidence supports prior studies suggesting that Malaysian SEs operate within fragmented institutional environments where resource availability alone is insufficient to drive impact [4,8].

Consistent with findings by [6,46], the strong mediating role of social innovation observed in this study confirms that innovative capability functions as the central mechanism through which resources are converted into both social and financial value [5,7].

Building on this capability-based framing, the following sections discuss how internal organizational drivers (digitalization and earned-income generation) and external ecosystem drivers (government support and stakeholder engagement) contribute to SE performance, and why their effects are ultimately contingent upon social innovation capability.

6.2. Digitalization as an Enabler, Not a Standalone Solution

The quantitative analysis revealed a positive and significant relationship between digitalization and SE performance, as well as a strong indirect effect through social innovation. This indicates that digitalization contributes to performance, but its influence is amplified when embedded within innovation-oriented processes. Qualitative findings provide important clarification. Participants described digital tools as essential for improving efficiency, communication, and market reach; however, they also stressed that digital adoption alone rarely led to meaningful performance improvements. Several participants noted that digital platforms became impactful only when they supported new service models, innovative engagement strategies, or mission-aligned value creation. This

explains why digitalization functions as an enabler, rather than a direct or automatic performance lever.

These findings align with prior research highlighting that digital tools enhance operational visibility and scalability [27], but only generate sustainable value when aligned with mission-driven innovation [28]. In the Malaysian context, where digital literacy gaps and resource constraints persist [47], isolated or superficial digital adoption is likely to result in underutilization. Thus, digitalization should be conceptualized as strategic infrastructure that requires innovation capability to translate into performance gains.

6.3. Earned-Income Generation: When Commercial Logic Undermines Impact

The quantitative findings indicate a negative direct relationship between earned-income generation and SE performance, alongside a positive indirect effect through social innovation. This dual pattern suggests that revenue generation, when pursued in isolation, may undermine performance, but can contribute positively when aligned with innovative, mission-driven strategies. Qualitative insights strongly support this interpretation. Participants frequently described tensions between commercial pressures and social objectives, noting that excessive focus on income generation often strained limited resources, diluted mission focus, and diverted attention away from beneficiaries. These experiences help explain why earned-income generation exhibits a negative direct effect on performance in the absence of innovation.

These finding echoes long-standing concerns regarding mission drift within SEs [19] and supports the argument that financial strategies must be embedded within socially innovative models to create sustainable value [5]. When innovation is present, earned-income strategies enable market responsiveness while preserving mission authenticity [7]. Accordingly, revenue diversification should be framed not as a purely commercial tactic, but as part of an innovation-oriented capability that balances financial viability with social impact.

6.4. Government Support: Legitimacy Without Transformation

The quantitative results show that government support does not have a significant direct or indirect effect on SE performance. This suggests that institutional support alone is insufficient to drive performance improvements among Malaysian SEs. Qualitative findings offer critical insight into this outcome. Participants largely perceived government support as providing symbolic legitimacy and recognition rather than tangible operational or innovation benefits. Bureaucratic procedures, limited accessibility, and misalignment with organizational realities were commonly cited as barriers to effective utilization. These experiences help explain why government support fails to translate into improved performance or innovation capability.

Consistent with [22], this finding highlights a persistent gap between policy intent and implementation effectiveness in developing ecosystems. While government support may enhance visibility and legitimacy [23], legitimacy alone does not guarantee capability development. As observed in [4]'s assessment of the Malaysian ecosystem, fragmented legal frameworks and limited capacity-building mechanisms restrict the absorptive capacity of SEs. These results suggest that future policy interventions should prioritize capability development rather than symbolic or fragmented support.

6.5. Stakeholder Engagement as a Relational Catalyst

The quantitative analysis confirms a strong positive relationship between stakeholder engagement and SE performance, as well as a significant indirect effect through social innovation. This indicates that stakeholder relationships function as a critical relational capability within mission-driven organizations. Qualitative evidence reinforces this finding. Participants consistently emphasized that stakeholders including communities, beneficiaries,

partners, and employees that were not merely passive recipients but active co-creators of social value. Trust-based engagement enabled collaboration, legitimacy, and locally relevant problem-solving, which directly supported both social and financial performance.

This aligns with the RBV, which highlights socially embedded capabilities as difficult to imitate and therefore sources of sustained advantage [48]. In Malaysia's diverse socio-cultural context, stakeholder engagement enhances relevance, acceptance, and adaptability, supporting prior findings that participatory approaches strengthen organizational performance [31,49].

6.6. Social Innovation as the Central Performance Engine

Social innovation emerged as the strongest predictor of performance in the quantitative model, confirming its central role within the proposed framework. Its mediating effects further demonstrate that innovation is the mechanism through which digitalization, earned-income strategies, and stakeholder engagement are transformed into performance outcomes. Qualitative findings strongly validate this role. Participants described social innovation as the ability to adapt, recombine resources, and design contextually relevant solutions that address social needs while ensuring sustainability. Innovation was consistently framed as the “connector” between income, impact, and long-term viability.

In institutionally complex and resource-constrained environments such as Malaysia, social innovation reconciles the dual pressures of economic survival and social mission. By integrating technological, financial, institutional, and relational resources into coherent value-creation processes, social innovation shifts the focus from resource possession to capability transformation. This reinforces a capability-driven understanding of SE performance and advances existing theoretical perspectives on sustainable impact creation [5–7].

7. Conclusions

This study reframes the SE performance debate by shifting attention away from questions of resource sufficiency towards issues of capability transformation. In contexts characterized by institutional fragmentation and resource constraints, such as Malaysia, performance challenges persist not because resources are absent, but because organizations struggle to recombine and deploy them in socially innovative ways.

On top of that, this study scrutinized how digitalization, earned-income generation, government support, and stakeholder engagement shape the performance of SEs in Malaysia, with social innovation positioned as a mediating capability. Adopting a sequential mixed-method approach and drawing on the RBV, the findings provide robust evidence that SE performance in the Malaysian context is not determined by the mere availability of resources, but by the organization's ability to transform those resources into socially innovative capabilities.

The quantitative results demonstrate that digitalization and stakeholder engagement contribute positively to performance, particularly when embedded within innovation-oriented processes. In contrast, earned-income generation exhibits a negative direct relationship with performance, highlighting the risks of over-commercialisation and mission drift among Malaysian SEs operating under resource and capability constraints. However, when channelled through social innovation, earned-income strategies enhance performance, underscoring the importance of aligning financial sustainability with social value creation. Similarly, while government support provides institutional legitimacy within Malaysia's SE ecosystem, its limited direct and indirect effects reveal an implementation gap that constrains its transformative potential at the enterprise level.

Insights from the qualitative phase further contextualise these findings by revealing how SE owners and managers experience these dynamics in practice. Participants emphasized that resources such as digital tools, funding opportunities, and institutional support

only generate value when accompanied by innovation capability, strategic adaptability, and stakeholder co-creation. These experiential insights explain why social innovation emerged as the strongest predictor of performance and reinforce its role as a central transformation mechanism.

Collectively, the results position social innovation as the core performance engine of SEs in Malaysia. Rather than functioning as a peripheral outcome, social innovation operates as an integrative capability that aligns technological adoption, financial strategies, institutional resources, and stakeholder relationships into coherent and sustainable value creation processes. By shifting the analytical focus from resource accumulation to capability transformation, this study advances SE theory, particularly within emerging and institutionally constrained ecosystems.

From a practical perspective, the findings suggest that future-proofing SEs in Malaysia requires more than expanding access to funding, technology, or policy support. SE leaders must deliberately invest in building social innovation capabilities that enable them to recombine resources in ways that preserve mission integrity while achieving economic viability. For policymakers, the study highlights the need to move beyond symbolic or fragmented support towards targeted, capacity-building interventions that strengthen innovation absorption, execution, and long-term impact.

In addition, the findings contribute to the achievement of several Sustainable Development Goals (SDGs). Specifically, the findings support SDG 8 (Decent Work and Economic Growth) by highlighting how social enterprises can enhance sustainable employment and economic participation through innovation-driven strategies. The emphasis on digitalization and innovation capability also aligns with SDG 9 (Industry, Innovation, and Infrastructure), underscoring the importance of technological integration in strengthening enterprise performance. Furthermore, the role of stakeholder engagement reflects the principles of SDG 17 (Partnerships for the Goals), emphasizing collaborative approaches in addressing complex social challenges. By demonstrating how social innovation enables the effective transformation of resources into impactful outcomes, this study provides practical insights for advancing inclusive and sustainable development in emerging economies.

Overall, this study contributes to ongoing debates on SE sustainability by demonstrating that performance is not a function of what resources organizations possess, but how effectively those resources are transformed into innovative, mission-driven outcomes. In doing so, it offers a grounded and contextually rich understanding of how SEs in developing economies such as Malaysia can navigate the persistent tension between social impact and financial sustainability.

8. Limitations and Future Research

Despite its contributions, this study has several limitations that open avenues for future research. First, the cross-sectional design limits the ability to capture dynamic changes in SE strategies over time. Future studies could adopt longitudinal approaches to examine how social innovation capabilities evolve within Malaysian SEs and how these capabilities influence performance trajectories, particularly in relation to mission drift and long-term sustainability.

Second, while this study focuses on accredited SEs in Malaysia, non-accredited and informal SEs remain underexplored. Comparative studies between accredited and non-accredited SEs could provide deeper insights into the role of institutional legitimacy, access to resources, and innovation capacity in shaping performance outcomes across different segments of the ecosystem.

Third, although this study employed a mixed-method design, the qualitative phase was limited to focus group discussions. Future research could adopt in-depth case studies, ethnographic approaches, or participatory methods to further unpack how digitalization,

earned-income strategies, and government support are enacted at the organizational level, as well as how social innovation is operationalised in practice.

Finally, future studies may extend the proposed framework by incorporating additional moderating or mediating variables such as absorptive capacity, leadership cognition, or organizational culture. Future research could also examine how different configurations of internal and external drivers interact under varying institutional conditions, such as urban versus rural settings or mature versus emerging SE ecosystems. Comparative studies across different national contexts would further enhance the generalisability of the findings and contribute to a deeper understanding of how SE ecosystems function across developing and emerging economies.

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