

# **VIRTUOUS CIRCLE: HUMAN CAPITAL AND HUMAN RESOURCE MANAGEMENT IN SOCIAL ENTERPRISES**

## **ABSTRACT**

The link between HRM practices and organizational outcomes is well established in the HRM literature. Most of the extant research, however, draws evidence from for-profit organizations. In response to numerous calls for the exploration of HRM in different contexts, this study focuses on understanding HRM in the context of social enterprises. The unique context of social enterprises and their workforce raise questions regarding the direct applicability of frameworks developed from studying HRM in for-profit organizations. Based on 20 in-depth interviews with CEOs, HR directors, and managers of social enterprises in the UK, we emphasize the importance of the “ethics of care”, specifically with regard to the synthesis of their workforce and HRM deployments. Additionally, we identify five distinct workforce categories and propose a typology of HRM systems that enable social enterprises to achieve their dual mission. Finally, we propose a “virtuous circle” model, highlighting the “ethics of care” as the main driver for organizational outcomes, through the use of differentiated HRM systems that better serve the needs social enterprises and their unique workforce.

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A significant body of human resource management (HRM) research offers support for the direct or indirect (e.g., through employee satisfaction and commitment) relationship between HRM practices and organizational outcomes, such as performance and retention (Arthur, 1994; Boselie, Dietz, & Boon, 2005; Boselie, Paauwe, & Jansen, 2001; Combs, Liu, Hall, & Ketchen, 2006; Delery & Gupta, 2016; Huselid, 1995; Ichniowski, Shaw, & Prennushi, 1997; MacDuffie, 1995). A plethora of authors, however, drawing on the contingency perspective (Delery & Doty, 1996; Lengnick-Hall & Lengnick-Hall, 1988; Snell & Youndt, 1995; Ulrich & Dulebohn, 2015), call for greater emphasis on context in the study of HRM (Jackson & Schuler, 1995; Lepak & Shaw, 2008; Roumpi & Delery, 2019; Ulrich & Dulebohn, 2015). Contextual factors, such as organizational structure, sector, size, life cycle, labor market conditions, legal environment, and national culture (Aycaan, 2005; Farndale & Sanders, 2017; Jackson, Schuler & Jiang, 2014; Lengnick-Hall, Lengnick-Hall, Andrade & Drake, 2009) have been identified as critical in order to understand the relationship between HRM and organizational outcomes.

Despite the steps that have been made toward the exploration of HRM in context, most existing relevant research focuses on for-profit organizations, with only a limited number of HRM studies having been conducted in the context of non-profit organizations (Van de Voorde & Beijer, 2015). Even more limited, however, are the conceptual and/or empirical scholarly

endeavors that explore the role of HRM in the context of the “third sector”, that is, social enterprises (e.g., André & Pache, 2016; Newman, Mayson, Teicher & Barrett, 2015; Ohana & Meyer, 2010; Royce, 2007). Most studies in this stream of research utilize case studies or draw parallels between social enterprises and other forms of organizational activity, such as small businesses and non-profit organizations (e.g., Cornelius et al., 2008; Lumpkin et al., 2013; Royce, 2007; Short, Moss & Lumpkin, 2009).

Social enterprises, often viewed as “hybrid organizations” operating at the intersection of the non-profit and for-profit sectors (Battilana, Sengul, Pache & Model, 2015; Doherty, Haugh & Lyon, 2014; Newman et al., 2015), simultaneously pursue a social and an economic mission (Austin, Stevenson & Wei-Skillern, 2012; Pache & Santos, 2013). This dual mission of social enterprises, as well as the rapidly increasing number of social enterprises all over the world (Battilana et al., 2015) and their significant social and economic impact (Dacin, Dacin & Matear, 2010; Dacin, Dacin & Tracey, 2011), highlight the importance of gaining a better understanding of managerial practices within this specific context (Newman et al., 2015). HRM practices, in particular, are rather important for social enterprises. As social enterprises typically rely on their earnings from their commercial activities to not only sustain their commercial operations but also to finance their social mission, investing in social performance often comes at the expense of investing in economic productivity (Battilana et al., 2015; Moizer & Tracey, 2010). Given the limited access to financial resources social enterprises have (Battilana & Lee, 2014), human

resources and human capital are assets of strategic importance (Borzaga & Solari, 2004). Thus, having the right systems of HRM practices that will enable social enterprises to attract, motivate, combine, and retain human capital resources, despite their limited financial resources, is an imperative (Mair, Mayer, & Lutz, 2015).

The uniqueness of the context of social enterprises creates HRM-related challenges and opportunities that raise questions regarding the direct applicability of research findings and frameworks developed from studying HRM in for-profit and non-profit organizations (Zhang, Zhang, Dallas, Xu, & Hu, 2018). First, social enterprises have a unique workforce which is a mixture of paid and unpaid (volunteers) staff (Peattie & Morley, 2008). This unique workforce synthesis creates HRM-related challenges, as each group has different needs and interests that require a set of differentiated HRM deployments. HRM-related needs become even more complicated in the case of work integration social enterprises (WISEs). WISEs aim at integrating disadvantaged individuals who are unemployed back into the labor market by offering them occupational training and, typically, short-term employment, as well as helping them find other employment opportunities (Battilana et al., 2015; Defourny & Nyssens, 2007). Therefore, WISEs' workforce is comprised of employees, volunteers, and individuals who have been traditionally excluded from the labor market (such as individuals with disabilities and returning citizens) (Austin et al., 2012; Battilana et al., 2015; Bode, Evers & Schultz, 2006; Borzaga & Defourny, 2001; Cooney, 2011; Royce, 2007). Second, as several scholars have noted (e.g.,

Battilana & Lee, 2014; Battilana, Lee, Walker, & Dorsey, 2012; Royce, 2007), working for a social enterprise requires a set of sector-specific skills and competencies that are typically rare in the labor market. Finally, even commercially successful social enterprises are limited in terms of the financial resources they have for HRM investments and remuneration (e.g., Austin et al., 2012; Doherty et al., 2014), as profits are directed towards the social mission. Thus, their ability to attract and retain employees is further challenged (e.g., Liu, Takeda & Ko, 2014; Ohana & Meyer, 2010).

On these grounds, this study aims to understand how HRM can contribute to the effectiveness of social enterprises by shedding light on the intricate relationship between HRM practices and policies and the unique workforce of social enterprises. To answer this broad question, this study explores: a) what the main driver of the HRM-related decisions in social enterprises is, b) what is the workforce synthesis (paid and unpaid staff) the unique groups of paid and unpaid staff are, and c) what systems of HRM practices are used to effectively manage the differentiated workforce of social enterprises.

We make our theoretical and managerial contribution in five ways. First, using 20 in-depth interviews with CEOs, HR directors, and managers of social enterprises, we argue that at the core of all the decisions social enterprises make regarding the synthesis of their workforce as well as the HRM deployments they adopt, lies the deeply rooted value of the “ethics of care”. Second, unlike previous research suggesting the existence of three distinct groups within social

enterprise workforces, namely employees, volunteers, and disempowered employees (the later only in the case of WISEs; Austin et al., 2012; Battilana et al., 2015; Royce, 2007), we identify five distinct groups: volunteers, traditional employees, recent graduates, established professionals, and disempowered employees. Contrary to extant literature suggesting that disempowered employees are encountered only in WISEs, our results indicate that social enterprises, in general, driven by the “ethics of care” value are likely to employ disempowered individuals. Third, we draw on existing research concerned with differentiated workforces (Osterman, 1987), as well as Lepak and Snell’s (1999; 2002) human capital architecture framework, and develop a typology of HRM systems most suited to each type of workforce group in social enterprises. Fourth, we contribute to the emerging literature on hybrid organizing (combination of multiple forms of organizing; Battilana, Besharov, & Mitzinneck, 2017), as social enterprises are the “ideal setting to explore hybrid organizing and thereby advance the field of organizational studies” (Battilana & Lee, 2014: 409). Finally, our findings have wider implications for the HRM literature. We add to the growing body of research, suggesting that “firms can gain competitive advantage only through the interplay between human capital resources and HRM practices – each shaping and bring about the other” (Delery & Roumpi, 2017: 2) and propose a “virtuous circle” model. According to the proposed model, social enterprises and other organizations that have the “ethics of care” as their main driver can accomplish desirable organizational outcomes (for example, retention, financial and social performance) through the use of differentiated systems of HRM practices for their unique workforce groups.

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

For more than three decades now, a plethora of scholars have highlighted the importance of contextual factors in HRM (e.g., Beer, Spector, Lawrence, Mills, & Walton, 1984; Fombrun, Tichy, & Devanna, 1984; Jackson & Schuler, 1995). The progress, however, toward this direction has been slow and has even been characterized as “disappointing” (Farndale & Paauwe, 2018: 202). Even though the HRM in context research arguably is at its infancy stage, the critical role of context has been highlighted in several studies. Combs et al.’s (2006) meta-analysis, for instance, showed that there is a difference in the effect sizes of the high-performance work practices-organizational performance relationship between manufacturing and service organizations. Similarly, Kalleberg, Marsden, Reynolds, and Knoke (2006) found that for-profit organizations are more likely to adopt practices such as performance incentives than non-profit and public-sector organizations concluding that context plays a significant role in HRM. More recently, Xu, Loi and Chow (2019) highlight the importance of exploring “wider contextual features” (p.371) in employees’ performance.

At the core of the stream of research that focuses on contextualizing HRM lies the contingency perspective. According to the contingency perspective, the effectiveness of individual HRM practices or systems of HRM practices depends on the characteristics of the external and internal organizational context (e.g., Chang & Huang, 2005; Delery & Doty, 1996;

Jackson & Schuler, 1995; Lengnick-Hall, Lengnick-Hall, Andrade, & Drake, 2009). Given the complexity of the external and internal environment of organizations, it can be argued that assuming that a set of practices could be universally effective is problematic. In other words, the contingency perspective emphasizes that the “one-size-fits-all” approach is not always appropriate in HRM (Harney, 2016).

There are countless factors in the external (e.g., unionization, labor market conditions, and industry) and internal (e.g., technology, firm size, and business strategy) environment of an organization that potentially could play a role in the decisions organizations make regarding their HRM practices as well as their effectiveness (Jackson & Schuler, 1995; Jackson et al., 2014).

The most prominent, arguably, relevant stream of research focuses on the external context and, in particular, the role of national culture in HRM (e.g., Farndale & Sanders, 2017; Kostova, Roth, & Dacin, 2008; Lertxundi & Landeta, 2011; Papamarcos, Latshaw, & Watson, 2007).

Another important contextual factor that has garnered attention is the industry. Datta, Guthrie, and Wright (2005), for instance, showed that specific industry characteristics, namely differentiation, capital intensity, and growth, moderate the relationship between HRM systems and productivity. Other scholars have focused on a combination of internal and external contextual factors. Jackson, Schuler, & Rivero’s (1989) study, for instance, showed that the use of HRM practices varies as a function of a set of organizational factors (e.g., industry sector, technology, and organizational structure).

In one of the most recent efforts to organize the numerous contextual factors that influence and contribute to the formation and effectiveness of the HRM practices and systems of practices in organizations is the Contextual Strategic HRM Framework (Paauwe & Farndale, 2017; Farndale & Paauwe, 2018). According to this framework there are three main interrelated contextual factors (Paauwe & Farndale, 2017; Farndale & Paauwe, 2018): a) competitive mechanisms, which are associated with how the focal firm positions itself in the relevant market (e.g., in terms of the products offered), b) institutional mechanisms, which encapsulate external environment factors, such the legal and regulatory environment and the national culture, that enable the firm to achieve legitimacy, and c) heritage mechanisms, which include elements of the internal context of the firm such as the organizational culture, human capital, and systems. As Paauwe and Farndale (2017) suggest, the third mechanism can be viewed as the product of the choices that the organization made in the past and constitute an important contextual factor for the choices the organization will make in the future.

On the basis of the importance of context in the study of HRM, in the next sections the case of social enterprises will be discussed. Specifically, the focus will be on the synthesis of the workforce in social enterprises as well as the HRM-related challenges in the specific context. Finally, drawing on the Contextual Strategic HRM Framework (Paauwe & Farndale, 2017; Farndale & Paauwe, 2018) and, in particular, the heritage mechanisms, the research questions guiding this study will be presented. We focus on the heritage mechanism as it captures the

means through which past decisions influence the current and future structure of the organization. This is particularly important in the case of social enterprises as it can be expected that the values of the social entrepreneur have been embodied in and influence the structure and practices of the organization (André, & Pache, 2016).

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

Despite the lack of a broadly accepted definition of what constitutes a social enterprise (see Mair & Marti, 2006; Short et al., 2009), one common thread across all definitions is that social enterprises operate at the intersection of the for-profit and non-profit sectors (e.g., Doherty et al., 2014). Unlike the for-profit and the non-profit sectors, social enterprises are characterized by a dual mission: simultaneously achieving social and commercial/financial performance (see, for example, DiDomenico, Haugh & Tracey, 2010; Smith, Gonin & Besharov, 2013). Social enterprises aim at generating “social value”, conceptualized as any activity that benefits the welfare or the well-being of a targeted society/community (Peredo & McLean, 2006), and their commercial activities (such as producing and selling products, or offering services) serve as the means for funding and sustaining their social purpose (e.g., Battilana & Dorado, 2010; Pache & Santos, 2013). In other words, social enterprises, “seek to solve social problems through business ventures” (Smith et al., 2013: 408).

Given this dual nature of social enterprises, it can be expected that there will be differences between social enterprises and other organizational entities in terms of their

workforces and, by extension, the HRM-related challenges they face. These topics are briefly discussed below.

**The Nature of the Workforce in Social Enterprises – Please add to this section more comparisons with for-profit and non-profit sectors. I have added a few but I am not sure that this will be adequate for reviewer 2**

Social enterprises have a unique workforce (e.g., Austin et al., 2012). Typically, the workforce of a social enterprise is comprised of employees (part-time or full-time; we refer to such individuals as “traditional employees”) alongside a number of volunteers (see Royce, 2007). In addition, WISEs offer employment opportunities to individuals who, typically, have been excluded from the traditional labor market for various reasons, including physical disabilities, mental health conditions, and criminal records (e.g., Battilana et al., 2015; Bode et al., 2006; Borzaga & Defourny, 2001; Cooney, 2011; Vidal, 2005). Such employees have been referred to as “disempowered employees” (e.g., Vidal, 2005).

*Traditional employees.* Traditional employees are individuals who, based on their portfolio of skills, abilities, and other characteristics, could find employment in other organizations (for-profit and non-profit). In spite of their employability, these individuals choose to work for hybrid organizations. This decision to search for and accept employment in social enterprises differs significantly from the choice to work for the for-profit sector. In particular, social enterprises are, according to the literature (e.g., Austin et al., 2012; Doherty et al., 2014), unable to offer market

rates. In this light, previous research has focused on determining the factors that influence such a decision. Specifically, it has been argued that traditional employees look for employment in social enterprises because of the intrinsic motivation stemming from the alignment of their values and those of the organization (see, for example, Doherty et al., 2014; Ohana & Meyer, 2010). The value congruence between traditional employees and social enterprises is directly associated with the concept of person-organization fit (P-O fit), defined as the; “compatibility between people and organizations that occurs when (a) at least one entity provides what the other needs, or (b) they share similar fundamental characteristics, or (c) both” (Kristof, 1996: 4-5), and this has been shown to predict applicant attraction (Uggerslev, Fassina & Kraichy, 2012). Essentially, according to the Attraction-Selection-Attrition model (Schneider, 1987), this alignment between personal values and the values and culture of social enterprises is the reason why some individuals are attracted to and selected by social enterprises. These expectations align with the existing research in the context of non-profit organizations. Non-profit organizations, similar to social enterprises, emphasize their social mission and, as such, employees who are attracted to such organizations tend to be driven more by intrinsic motivators rather than extrinsic ones (e.g., Lee & Wilkins, 2011; Wright, 2001).

*Volunteers.* Extant research, drawing parallels with non-profit organizations, suggests that the use of volunteers is a relatively common phenomenon in the third sector (e.g., O’Hara, 2001; Royce, 2007). In particular, it is suggested that social enterprises depend heavily on volunteers,

especially during the early stages of their development, during which available resources are typically limited (O'Hara, 2001). The motivation for individuals to volunteer varies significantly. Some individuals volunteer their time and skills driven by altruistic purposes, such as their deep belief in the importance of helping others (e.g., Clary, Snyder & Ridge, 1992). Others volunteer due to societal pressures and norms (such as expectations to contribute to the community and religious beliefs), while others may be driven by purely egotistic purposes (such as developing skills, feeling better about themselves, developing social contacts, and serving their need for affiliation) (e.g., Bussell & Forbes, 2002; Clary et al., 1992). In addition, voluntary jobs may be viewed as temporary solutions or as a means of developing opportunities to further one's career (Emanuele & Higgins, 2000). Understanding the motives of volunteers in the third sector is critical when taking into consideration the retention issues social enterprises face (e.g., Ohana & Meyer, 2010). In particular, social enterprises that depend heavily on volunteers need to be able to provide non-monetary inducements that align with the varying motives of volunteers in order to retain them.

*Disempowered employees.* In addition to volunteers and traditional employees, social enterprises often employ disempowered individuals who can be defined as, "poorly qualified unemployed people who are at risk of permanent exclusion from the labor market" (Vidal, 2005: 807), or other individuals who have been excluded from the traditional labor market for various reasons (for example former substance users) and are characterized as "disadvantaged" in some way

(Doherty et al., 2014). Specifically, the employment of disempowered and marginalized individuals (often termed as “beneficiaries”) constitutes part of the mission of some social enterprises (WISEs). WISEs (Battilana et al., 2015; Borgaza & Defourny, 2001; Vidal, 2005) can either be the end employers of these individuals (providing them with stable employment), or intermediate organizations that try to provide disempowered individuals with the skills that will allow them to re-enter the traditional labor market (Cooney, 2011; Vidal, 2005). For WISEs, disempowered individuals are simultaneously employees and beneficiaries (Battilana et al., 2015; Doherty et al., 2014). The phenomenon of employing disempowered individuals is unique to the context of social enterprises as there are no research findings, to the best of our knowledge, indicating that for-profit and non-profit organizations systematically hire from this pool of individuals.

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

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

identify more with the business venture aspects (e.g., Borzaga & Defourny, 2001).

Arguable, the most challenging tensions that arise tend to be directly or indirectly associated with the unique workforce of social enterprises. Traditional employees, volunteers, and disempowered employees have different and, sometimes, conflicting needs and expectations. For instance, volunteers are usually attracted to a social enterprise due to its social mission and the achievement of relevant organizational goals is critical for their satisfaction (Cnaan & Cascio, 1998). By contrast, traditional employees, even though they may also be attracted by the enterprise's social mission, are often interested in the enterprise's commercial mission, in that they associate the revenues generated by the organization with their compensation and opportunities for professional development (e.g., Borzaga & Defourny, 2001; Doherty et al., 2014). The impact of such differences in expectations between volunteers and traditional employees is significant. Ineffective management of this fragile balance between the interests and expectations of employees and volunteers could potentially result in job dissatisfaction, high turnover, and other negative work-related attitudes and behaviors. For instance, Liu and Ko (2012) demonstrate how turnover of traditional employees is higher when they co-exist with volunteers in social enterprises. The issue of turnover is even more pronounced in the case of volunteers. Volunteers are less dependent on the organization than paid employees (Cnaan & Cascio, 1998) and, therefore, it is very easy for them to leave the social enterprise when they perceive that their expectations are not met. Finally, disempowered employees have two

characteristics that differentiate them significantly from volunteers and traditional employees: they are “poorly qualified” (Vidal, 2005: 807) and they are excluded from the traditional labor market (Doherty et al., 2014). Therefore, this workforce group poses a unique challenge for WISEs. WISEs need to have the appropriate structures and support systems in place in order to build the necessary skills to enable disempowered employees to either re-enter the traditional labor market or to be able to generate value for their current employers.

Besides the various tensions that arise from the very nature of social enterprises, the relationship social enterprises have with the labor market adds to the complexity of their context. Social enterprises, constrained by their limited financial resources, are unable to compete on equal terms with for-profit or even non-profit organizations that typically offer more competitive compensation and other benefits (Austin et al., 2012; Doherty et al., 2014). In addition, various studies (Peattie & Morley, 2008; Royce, 2007) report that the dual mission of social enterprises necessitates employing individuals who possess a unique set of sector-specific skills that are rare in traditional labor markets (such as being able to understand both the social and commercial mission of the enterprise and contribute to achieving both goals). As Battilana and Lee (2014) aptly state, “it is rarely possible to populate the social enterprise with “hybrid individuals”” (415). When social enterprises are unable to attract individuals with this sector-specific set of skills, they need to choose between individuals who “fit” better with either their social or their commercial mission. Battilana and Dorado (2010), for instance, describe that organizations in the

microfinance sector are faced with an important dilemma in employee selection: Should they hire individuals with psychology or social work backgrounds who possess the interpersonal skills associated with the social mission, or individuals with business backgrounds who have skills related to the financial products they offer? Thus, social enterprises face unique HRM challenges in attracting and retaining individuals who possess the necessary knowledge, skills, and abilities (Liu & Ko, 2012; Ohana & Meyer, 2010; Peattie & Morley, 2008).

### **Research Questions**

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

The uniqueness of the context of social enterprises raises significant questions regarding the direct applicability of the research findings regarding to the effective combination of human capital and HRM deployments in for-profit and non-profit organizations (e.g., Zhang et al., 2018). Therefore, it is important to gain a deeper understanding of the intricate workforce-HRM practices within the context of the limitations and opportunities stemming from the nature of social enterprises. On this basis the overall aim of this study is to identify patterns of how social enterprises combine various workforce groups and HRM practices in order to achieve their social and commercial/financial missions.

On the grounds of the heritage mechanism of the Contextual Strategic HRM Framework (Paauwe & Farndale, 2017; Farndale & Paauwe, 2018), it is important to acknowledge that, as in any organization, the HRM-related choices are path dependent (associated with the decisions the organization has made in the past) (e.g., Barney, 1995). Before, thus, trying to delve into the specific workforce groups and the HRM practices used, it is critical to understand what is the main driver of these decisions. Thus, our paper is guided by the following research question:

*Research Question 1: What is the guiding principle for the decisions the social enterprise makes in regard to its HRM practices/systems and its workforce synthesis?*

As discussed in the previous sections, extant literature suggests that social enterprises have a unique workforce composition (e.g., Austin et al., 2012, Battilana et al., 2015; Royce, 2007), including paid employees, unpaid staff (volunteers), as well as disempowered employees

(only in the case of WISEs). Given, however, the constraints social enterprises have, especially regarding their ability to offer competitive salaries and market rates (Austin et al., 2012; Doherty et al., 2014), along with the variation in the goals of individuals who are attracted to social enterprises (social mission vs. economic productivity; Battilana et al., 2015), we expect that the workforce composition in social enterprises is more complicated than what extant literature suggests. A second research question, therefore, is the following:

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

In the field of strategic HRM the notion of the “differentiated workforce” can be traced back to Osterman’s (1987) work. This concept suggests that different groups of workforce within an organization have different needs and make different contributions to the performance of the firm and, as such, utilizing the same set of HRM practices for all employees may not be effective (see Lepak & Snell, 1999; 2002). Hence, social enterprises, employing a diverse workforce, need to have differentiated practices that align with the needs of each workforce group. In addition, as extant research suggests, individual HRM practices are not necessarily effective and a “systems” or “bundles” approach is more appropriate (e.g., Delery & Doty, 1996; Lepak & Shaw, 2008; MacDuffie, 1995). The underlying assumption for this configurational approach is that HRM practices that are consistent with each other (having internal/horizontal fit) create synergies through their dynamic interplay which, in turn, have the potential to lead to better organizational outcomes than those individual HRM practices would have (Baird & Meshoulam, 1988; Becker

& Gerhart, 1996; Boon Den Hartig, & Lepak, 2019; Boxall & Purcell, 2000; Delery, 1998; Huselid, 1995; Takeuchi, Lepak, Wang, & Takeuchi, 2007). Consistent with the contingency perspective, the SHRM literature suggests that there is not one HRM system that applies to all situations and that the composition of each system should depend on the objectives that the organization wishes to achieve (e.g., Boselie, Dietz, & Boon, 2005; Lepak, Liao, Chung, & Harden, 2006). Therefore, based on the segmentation of the workforce organizations and, in this case social enterprises, are expected to utilize simultaneously multiple systems of HRM practices (e.g., Boxall, Ang, & Bartman, 2011; Lepak & Snell, 2002). Finally, despite the variation in the HRM practices that belong to the different systems, it can be expected that each system will include practices that address the three elements of the Ability-Motivation-Opportunity framework (Appelbaum, Bailey, Berg, & Kalleberg, 2000; Purcell & Hutchinson, 2007). In other words, in order for the various HRM systems to be effective they will need to include ability/skill-, motivation-, and opportunity/empowerment-enhancing HRM deployments (Combs et al., 2006; Delery & Roumpi, 2017; Subramony, 2009). On these grounds, the last research question addressed in this research is the following:

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

## **METHODS**

To address our research questions, a qualitative methodology was employed with the aim of

gaining in-depth accounts and insights from key informants. The ultimate goal of this qualitative study was to develop grounded theory (Glaser & Strauss, 1967). The choice of a qualitative approach and, more specifically, a grounded theory approach, was based on two criteria. First, this approach enabled us to focus on the characteristics of the context (Glaser & Strauss, 1967; Murphy, Klotz & Kreiner, 2017). Second, this methodology enabled the exploration of “blue skies”, in other words, relatively unexplored research arenas (Murphy et al., 2017). As discussed earlier, the context of social enterprises is rather unique and most of the conclusions reached by the existing literature regarding the nature of the workforce and the effectiveness of HRM practices in the context of social enterprises have been heavily influenced by research on other forms of entrepreneurial activity, such as small businesses, start-ups, and the non-profit sector. However, despite the similarities that social enterprises share with these types of organizations, the differences are significant and require exploring our research question within this specific context (Dubé & Paré, 2003). Furthermore, as Newman et al. (2015) emphasize, the role of human resources and HRM practices in the unique context of social enterprises has hitherto been neglected. Finally, this study also responds to calls for more extensive use of qualitative approaches in the study of HRM (Murphy et al., 2017).

## **Sample**

As noted in the extant literature (e.g., Doherty et al., 2014), institutional differences (such as regulations) exist between countries that influence the operation and the success of social

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

Due to the lack of a comprehensive list of all social enterprises operating in the UK that could have served as our sampling frame, identifying a truly random sample was impossible. However, we were able to access the members of Social Enterprise UK, the national body for social enterprises in the country, and used these as the population of our sample. In order to increase the sample and also draw on insights from social enterprises not part of this network, we employed a snowball sampling technique (Ashforth, Kreiner, Clark & Fugate, 2007; Corley & Gioia, 2004), requesting already recruited participants to recommend other social enterprises as potential participants. To increase the response rate and gain goodwill with participants, the aim and purpose of this study were explained at the first time of contact, along with assurances about the anonymity of results and access to our results. Finally, we offered each participant a £20 Amazon voucher as a token of appreciation for their time.

A total of 20 social enterprises which are based in the UK were included in our sample. The sample size was deemed appropriate for two reasons: First, the concept of theoretical

saturation (Murphy et al., 2017; Walsh et al., 2015). In this case, theoretical saturation was reached after the fifteenth interview, nevertheless the remaining scheduled interviews were conducted in order to verify the initial results. Second, the sample size is consistent with suggestions and norms for adequate sampling in management studies, more pertinently, in the field of social entrepreneurship. Brinkmann and Kvale (2015), for instance, suggest five to 25 participants to be an adequate sample for qualitative studies. Moreover, according to Short et al. (2009), the norm for qualitative studies in social entrepreneurship, is an average of 15 participants (the median being five participants). The relatively small sample typically encountered in the field of social entrepreneurship can be attributed to the very nature of the third sector.

During the initial communication with the 20 social enterprises that agreed to participate in the study, they were asked to identify an individual in the firm that has the best overview of the formal and informal HRM practices used. As a result, 20 in-depth interviews were conducted with CEOs, founders, and HR directors/managers ranging approximately from 45 to 120 minutes long. All interviews were conducted in-person in the premises of the participating enterprises. The average age of the participating social enterprises was approximately 19 years (ages ranging from 6 to 37 years) with the majority of them (75 percent) being in business for more than 10 years. The relative longevity of the majority of the participating social enterprises is an indicator of their effectiveness in achieving their missions, especially considering that social enterprises as a form of entrepreneurial activity have gained popularity during the last decade. In addition, to ensure that the conclusions we will draw regarding effective HRM practices and systems are

derived from enterprises that have are indeed successful, the interviewees were asked to compare their organizations to others in their relevant industries. Based on their responses, we can conclude that they are largely successful organizations. For instance, the HR director of a street newspaper stated that *“in defiance of the rest of the industry, our sales are growing”* (SE20). In a similar manner, the CEO of a logistics company noted that *“I have one of the best performance figures in the market. We do that because we put extra labor in. We can afford that because we do not have to make profits for shareholders. We can afford to have an extra couple of people working and make sure our performance standards are met and exceeded.”* (SE 07). Even some of the “youngest” participating companies reported that they were quite successful. As one of the interviewees mentioned: *“So we are not 10 years old, but our turnover is about 1.2 million. We have grown pretty quickly.”* (SE 04). Table 1 outlines the sample.

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

The aim of the grounded theory building approach is to allow for topics and concepts to emerge through discussion (e.g., Murphy et al., 2017; Walsh et al., 2015), thus an open-ended, semi-structured interview protocol was developed to guide the face-to-face discussions. The semi-structured nature of the interviews enabled us to collect answers from all respondents for some integral questions, simultaneously allowing the interviewer to ask follow-up questions on topics and comments that seemed of particular interest.

The interview protocol we employed consisted of four main sections: a) information regarding the interviewee (such as personal background, motivation for founding or working for the social enterprise); b) description of the social enterprise (its social and commercial mission, size of the firm and revenues etc.); c) workforce (for example, differentiating characteristics of the workforce); and d) human resources management practices (such as recruitment and selection, performance management, compensation). At the beginning of each interview the interviewer briefly informed the interviewee about the purposes of the study and issues of confidentiality and asked for their consent to record the interview.

### **Coding and Analysis**

The 20 interviews were professionally transcribed verbatim, resulting in a total of 214 pages. A two-step process was used to code the interviews. As recommend by several researchers (e.g., Straus & Corbin, 1998), we constructed an initial coding scheme comprised of broad constructs informed by our literature review. As the coding process progressed, more codes were added, in order to better capture the insights provided by interviewees. In terms of the coding process, our goal was to reach dialogical intersubjectivity (Gillespie & Cornish, 2010), which refers to the reliability attained in qualitative studies through discussion and argumentation between the coders in order to reach consensus. Two of the authors independently coded the transcripts and then discussed the coded portions of each transcript until consensus was attained. To further ensure the consistency of the coding, newly coded text was regularly compared to previously

coded text (Glaser & Strauss, 1967). Overall 83 codes were created and utilized. The size of the coded text portions varied significantly, ranging from a single short sentence to whole paragraphs or even pages. In addition, for several portions of text, multiple codes were assigned, when the coders agreed that more than one construct/concept was discussed. The coding was then organized using NVivo software for subsequent analysis.

In terms of the analysis, we relied on Eisenhardt's (1989) suggestions, focusing on the specific constructs/ concepts that were of interest. These concepts were further refined and we looked for patterns and similarities across respondents (Miles et al., 1994). The "data structure" (Gioia & Chittipeddi, 1991; Gioia, Corley & Hamilton, 2013) is presented in Figure 1.

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Insert Figure 1 about here  
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## RESULTS

### **Research Question 1: What is the guiding principle for the decisions the social enterprise makes in regard to its HRM practices/systems and its workforce synthesis? – Ethics of care**

In search of the main driver of HRM-related decisions in social enterprises, a reoccurring concept across all interviews was that of the "ethics of care" value. Specifically, in our sample, the concept of the "ethics of care" was manifested in three main ways: offering opportunities to disempowered employees; having a culture of acceptance and inclusion; and offering ethical and

inclusive practices.

*Disempowered employees.* The biggest impact of the “ethics of care” in social enterprises is the presence, in the majority of the participating companies, of a very specific, marginalized, disenfranchised, and, in general, disempowered type of employee. By employing these disempowered individuals, social enterprises signal their caring culture to all institutional members. Even though, for WISEs, employment of disempowered and marginalized individuals constitutes part of their mission, what is interesting is that we found strong evidence for the presence of disempowered employees in social enterprises other than WISEs. As one of our participants noted:

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

*Culture of acceptance and inclusion.* Another important theme that emerged as a manifestation of the “ethics of care” in social enterprises is the culture of acceptance and inclusion. Coping with the diversity of their workforce (due to the mixture of traditional employees, disempowered employees, and volunteers) requires, above all, a culture of acceptance. In other words, a unique characteristic of social enterprises is their willingness to tolerate, accept, and welcome different people, points of view, or diverse voices. “*We don't get nervous for people who are different, a bit sketchy*” informant SE01 tells us, similarly: “*I think we're quite good at giving people a chance*” (SE10).

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

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

Another critical aspect of the culture of acceptance and inclusion that emerged from the interviews was tolerance. In particular, several interviewees mentioned that as part of their culture they are more forgiving and willing to overlook various issues. In particular, our findings indicate that some social enterprises are even tolerant with instances of underperformance. For example, one participant stated:

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

Overall, the theme of the culture of acceptance and inclusion in social enterprises can be summarized by the following two excerpts:

*I would say that [they] treat people as individuals who have aspirations for other people regardless of their background, their qualification, their experience... I think they're very accepting of people from different backgrounds... an open-door policy in terms of recruiting young people and I would say that people want to see fairness.* (SE16)

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

*Ethical and inclusive practices.* The third manifestation of the "ethics of care" in social

enterprises is associated with the practices that these organizations adopt. In particular, having a culture that accepts diversity is not enough; social enterprises have practices that embrace and even celebrate diversity. Probably the most notable example of ethical and inclusive practices is associated with adjusting the policies and practices of the organization in order to accommodate the needs of each group of employees, especially disempowered employees. For example, the CEO of one social enterprise reemphasized that:

*We've got people with mental health issues who might be having a very bad time and Nisha would tell you, in her previous job she had to hide that because if she talked about it, she thought she'd get [fired]. Whereas we're saying "no, tell us about it and if that means you have the week off but then you do double the next week, fine". (SE 19; name changed)*

Besides offering inclusive practices and adjusting strategies to better accommodate the needs of their employees, many social enterprises in our sample expressed their reluctance to use volunteers, as the "ethical" stance is to pay people for their work. For example:

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

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

*Traditional employees.* The majority of the interviewees indicated that their social enterprises offered employment to at least four traditional employees. The accounts we received regarding the educational level and the work experience of these traditional employees varied. Only in a few cases, where the nature of the workforce required qualified individuals (e.g., banks), did the

interviewees mention that all their employees had at least a bachelor's degree and/or significant work experience. In some instances, the interviewees noted that their employees are highly employable and could easily find employment in other organizations. The following passages reflect the belief of the interviewees in the employability of their employees:

*These are smart people who could get jobs in many places. (SE 4)*

*The level of their skills is highly attractive in the employment space right now. Especially in our area. (SE 16)*

One particularly interesting finding is that some interviewees identified two distinct subgroups of traditional employees: *established professionals* and *recent graduates*. It is important to highlight at this point that, of course, not all traditional employees fall within these two categories. The first of these subgroups refers to professionals who have had significant experience in the for-profit and/ or non-profit sectors before joining a social enterprise. According to our participants, such individuals have earned enough experience and money and have decided to utilize their skills and expertise to serve a cause. In most cases, such employees are willing to accept a sacrifice in remuneration for moving into the third sector. The following excerpt provides an example of such an employee:

*He has decided to place himself in an organization where he believes he can do good for society, as well as use his skills. So, he sacrificed a very substantial salary for the quality of experience that he gets in our business. (SE 9)*

The second subgroup of traditional employees, as described by eight different interviewees, is comprised by young individuals, typically recent graduates. The narratives we collected about these employees can be further split into two categories. First, we have the

*idealistic young graduates*. These employees are described as young people who are passionate about the social mission of the enterprise and want to contribute to that purpose, regardless of whether they possess sector-specific qualifications. This notion is captured in the following quotation:

*We do get a lot of idealistic young people...They couldn't go to a lot of other specialist agencies who would want a specialist qualification, let's say a social worker qualification, and the experience to do what they are asking them to do. You don't need that here. (SE 01)*

Second, some interviewees mentioned that among this group of young graduates, there are those who view working for a social enterprise as a “starter job”. These individuals are interested in gaining work experience from and faster job progression in a social enterprise. This allows them to quickly enrich their résumés and, subsequently, enables them to find a job in the for-profit or non-profit sectors, which typically provide higher salaries. It should be emphasized, however, that the narratives we recorded did not provide any indications that this group of young individuals do not share the intrinsic motivation to serve the social mission of the social enterprise. These excerpts offer examples of this subgroup of young individuals:

*He is thinking about his career progression over the next ten years, which is probably going to be in a conventional for-profit environment, but he is learning the ropes in our business. (SE 16)*

*They come to us for two, three years... and they will then go for another organization which is actually asking for expertise. (SE 20)*

With regard to the values of individuals who decide to work for a social enterprise and their differentiating characteristics from individuals employed in the for-profit sector, our

findings concur with the existing literature (such as Doherty et al., 2014; Ohana & Meyer, 2010), suggesting that intrinsic motivation is key. According to the majority of our participants, most individuals employed in the third sector share a deep belief in the social mission of their employer, are caring, have a social conscience, and do not prioritize financial incentives. As one of the interviewees mentioned about one of his employees: “[he] *lives and breathes the values of the organization*” (SE 5). The following excerpts exemplify this:

*Money is not the prime motivator... The purpose of the organization comes first.*  
(SE 2)

*Certain people I've seen care about growth, they care about ambition and care about making a name for themselves and much more self-serving things, whereas these people care about the environment or care about society.* (SE 11)

Another interesting finding regarding the values of employees in social enterprises is that three interviewees mentioned that they employed a higher than average percentage of non-conformists, anarchists, or leftists “we seem to attract quite a lot of anarchists- that’s not on purpose thing we definitely have had a high level of anarchists here than not. I think, motive is our working environment is very relaxed, very friendly, it’s professional but less conformist than others” (SE 5).

*Volunteers.* Our findings indicate that social enterprises do not rely extensively on volunteers. Specifically, only four of our interviewees mentioned that volunteers were utilized in the social enterprises they represent. In two of these cases, the number of volunteers was significant, and our interviewees also highlighted that some of their current employees started as

volunteers. In the other two cases, volunteers were specified as being trustees or members of the enterprise's board of directors. One of the interviewees described volunteers as a "*floating population*", emphasizing the difficulty of managing them and effectively utilizing their skills. In other words, given that volunteers, unlike paid employees, are not bound by a contract to offer their services to the social enterprise, the managerial team cannot rely on them as they can leave whenever they want, or they might under-perform with no real consequences for them.

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

*We have a total of twenty-five volunteers, including eleven trustees. We call them associates. They are specialist advisors in areas such as legal and taxes. [...] And all of those are successful professionals who donate some of their time.*  
(SE11)

*Disempowered employees.* These individuals are classified as disempowered for a variety of reasons, including physical and learning disabilities, long term unemployment, ex-offenders, and having poor educational backgrounds. In some cases, interviewees mentioned that their social enterprises are staffed only by disempowered individuals. Our analysis indicated that the social enterprises offering employment to disempowered individuals are not necessarily

categorized as WISEs or, in other words, it is not part of their mission to offer employment to individuals with limited employability. Specifically, only three of the participating social enterprises were WISEs. A more in-depth content analysis allowed us to identify that the common thread across the social enterprises that are not WISEs but that offer employment to disempowered individuals is they are caring organizations and keep an “open” mind. The notion of caring organizations reflects that social enterprises are, by definition, more sensitive to social issues. Thus, they are more likely to offer second opportunities to people in need of employment.

The following examples illustrate this:

*The type of people who are running the social enterprises are compassionate people who believe that everybody should be given a chance in life... I think that there is a higher proportion of people with issues, shall we just say, working for social enterprises. It might also be due to the type of work that they do. It's almost like ex-alcoholics are the best people to help current alcoholics. (SE 5)*

*I think, generally, social enterprises are run by people who have more empathy with the sorts of problems that other people live with and that they are more open-minded, tolerant, and accommodating. (SE 18)*

*One employee - five years ago he was homeless, committing crimes, drinking too much, taking drugs and he came to us through a homeless charity and they helped him start to get part of his life together, we then helped him develop training over a period of time and eventually we offered him a job and since then he's built on that. He's now perfectly supporting himself in a flat, he doesn't have the problems he had before with alcohol and drugs, and we rely on him to let the staff in at night and secure the premises when they finished. And he's now supervising the nightshift team. (SE07)*

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

Based on the accounts the interviewees offered, the participating social enterprises did not formally deploy differentiated systems of HRM practices for their various workforce groups. However, during our discussions significant differences emerged in terms of five main HRM areas: recruitment, selection, compensation, non-monetary incentives, and career development and promotions.

*Recruitment.* In terms of the recruitment process we observed considerable variation in the methods used by the social enterprises in our sample. The majority, due to financial limitations, prefer to rely on the cheapest ways to recruit new employees, namely word-of-mouth, personal social networks, and social media. However, a number of interviewees mentioned that the choice of the recruitment media depends on the requirements of the job and for job vacancies requiring a very specific set of skills, the use of specialized agencies has been proven to be most effective. This is particularly true for established professionals. In such cases, social enterprises rely heavily on their personal networks in order to identify highly qualified individuals who may be willing to offer their expertise for less money than they would receive in the for-profit sector. In addition, for recent graduates they use the career centers of local universities.

Furthermore, social enterprises aiming to attract disempowered employees utilize different media than for-profit organizations, such as charitable organizations or forums for people with disabilities. For example, the CEO of a social enterprise in our sample mentioned:

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

The key to employing a diverse workforce, as one of the interviewees made clear, is to actively promote it:

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

*Selection.* Similar to the recruitment process, our interviewees indicated that they utilize a variety of selection tools, ranging from traditional face-to-face interviews, to work samples for jobs requiring specific qualifications. Of particular interest are the cases of social enterprises that encourage disempowered applicants. In such instances, the interviewees indicated that they adjust their selection process in order to accommodate the needs of their applicants. For instance, the CEO of a social enterprise that only employs individuals with some sort of impairment talked about an employee with autism:

*I wasn't able to interview him because he's not verbal. He just doesn't communicate that way. But, in giving him a trial to do the work I wanted him to do, he turned out to be really good. So, if I had insisted on an interview, he would never have got the job and I wouldn't have accessed his talent. (SE 14)*

The common denominator in most of the discussions we had regarding selection is that the focus is on person-organization fit. Specifically, our findings indicate that the social enterprises in our sample place particular emphasis on the match between the values and personality of the applicant with the culture and mission of the organization. For instance:

*We don't recruit... on the basis of their qualifications necessarily. Sometimes there will be qualifications that you'll need, but, for us, it's about hiring somebody with the right character, the right personality, the right values, because we believe that we can train people in terms of their skills and knowledge, but getting the right person for the people that they're dealing with... is more important to us. (SE 3)*

It is particularly interesting that some of the interviewees described how they use realistic job previews (the process of communicating to or showing applicants all aspects of the job – both positive and negative) for traditional employees, established professionals, and recent graduates. This demonstrates their commitment to identifying applicants who genuinely understand the demands and requirements of the job. For instance, one of the interviewees emphasized that, because their employees will have to interact with individuals who might have criminal records, it is important for applicants to realize the “hard reality” of working for a social enterprise. Therefore, they invite job applicants to join their regular workforce for a few hours, in order to be able to make a more informed decision regarding whether or not they want to remain in the applicant pool.

*Compensation.* Our literature review revealed a general consensus that social enterprises possess limited financial resources and, therefore, are unable to offer competitive salaries (Austin et al., 2012; Doherty et al., 2014). However, our findings are mixed. Indeed, some of the participating social enterprises are unable to offer competitive compensations packages and just try to offer the minimum wage.

*One of my staff just said “I want a twenty percent pay raise because I think I am doing this sort of job” and she's giving me a list of jobs that are advertised at the moment that are roughly equivalent and they pay twenty percent more. (SE 16)*

Others conduct frequent benchmarking surveys and manage to pay competitive salaries. However, as most mentioned, they are unable to compete with multinational companies.

The following is an example of a case where competitive salaries are offered:

*Oh yes, we are getting paid properly... We realized [in order to] move up we had to have the right people and keep the right people and to keep the right people, you had to pay the market rate for the job outside [the social enterprise]. So, basically, you were comparing our salary with the salary that would be paid in the outside world. (SE 12)*

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

*Non-monetary incentives.* It is also important to note that social enterprises offer an array of non-monetary “compensation”, such as flexible work arrangements (such as flexibility in terms of the location and/ or timekeeping), paid time for volunteering to other social causes, and other reward systems that recognize high performers. Such incentives seemed to be particularly relevant for traditional employees, as well as disempowered employees. The following excerpts offer such examples.

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

*employees is money. (SE13)*

*[We offer] 15 paid working hours to volunteer in any organization they decide to. (SE17)*

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

*Career development and promotions.* Most of the interviewees recognized the need for employee training. However, only half of them mentioned that their organizations allocate a specific budget for this. Again, we observed substantial variation in the formality and sophistication of the training process. Some interviewees noted that their small budgets only allowed for limited training; others have a more standardized process, according to which each employee has a specific budget every year that can be allocated to courses and training sessions that he/she perceives as important for his/her development. For other organizations, training was limited to only new employees. In addition, social enterprises that employ disempowered individuals emphasized their intensive efforts to assist these individuals in developing their skill sets.

One of the most problematic HRM-related areas we identified through our analysis is associated with promotions. Only a few social enterprises in our sample have formal career paths, with a few others who try to offer opportunities for development. However, these attempts

seem to be more reactive than proactive. Some interviewees emphasized that the lack of clear career paths and opportunities for promotion constitute an important challenge for them. One noted the feeling that there is a ceiling to employee development that is a serious threat to the ability of the enterprise to retain its talented human capital.

## **DISCUSSION**

Acknowledging that social entrepreneurship is under-theorized and our knowledge of social enterprises as a context of study for HRM is limited (Newman et al., 2015), this paper represents one of the first attempts to gain greater insights into the workforce of and the HRM systems used by social enterprises. Drawing on the Contextual Strategic HRM Framework (Paauwe & Farndale, 2017; Farndale & Paauwe, 2018) the aim of this study was to delve into the heritage mechanisms and, in particular, to explore three important aspects of this mechanism in the context of social enterprises: the cultural characteristics as drivers of HRM-related decisions, characteristics of the workforce, and HRM systems.

### **Ethics of Care**

Our findings reveal that the “ethics of care” lie at the core of most of the decisions social enterprises make in terms of the synthesis of their workforce and their HRM deployments.

“Ethics of care” refers to the phenomenon where an individual or an organization is focused on fulfilling, “conflicting responsibilities to different people, as opposed to questions of how to

resolve claims of conflicting rights among them” (Simola, 2003: 354). In the context of social enterprises, André and Pache (2016) emphasize that the value of caring for others is both central and salient. It is this value of caring that drives social entrepreneurs’ willingness to risk personal time and resources in order to create a social enterprise. Social entrepreneurs also instill their values into their firms and create “caring” social enterprises (André & Pache, 2016).

Based on the participants’ narratives the “ethics of care” value is manifested in three main ways in the context of social enterprises. First, “ethics of care” seems to have an effect on the choices social enterprises make regarding their workforce selection. In particular, contrary to extant literature suggesting that disempowered employees are part of the mission and, consequently, the beneficiaries in the case of WISEs, in our sample the majority of the participating social enterprises employed disempowered employees even when that was not part of their mission. Second, the “ethics of care” value emerged as the core of the participating organizations’ culture, which can be characterized as a culture of acceptance and inclusion. Interviewees discussed that the diversity of their workforce requires above all a climate of acceptance, which includes “recognizing differences while looking for the common bond” (Pless & Maak, 2004: 131). The last manifestation of the “ethics of care” value is associated with the ethical and inclusive HRM practices the participating social enterprises offer. Having practices that cater to the varying needs of each workforce group and ensuring that “members of all groups are treated fairly, feel and are included, have equal opportunities, and are represented at all

organizational levels and functions” (Holvino, Ferdman, & Merrill-Sands, 2004: 249) is critical.

## **Workforce Synthesis**

Extant literature typically draws parallels between non-profit organizations and social enterprises, assuming a rather similar workforce synthesis: having traditional employees who are motivated by the social mission; relying heavily on volunteers; and, in the case of WISEs, having disempowered employees with the goal of training them and helping them to re-enter the labor market (Austin et al, 2012; Battilana et al., 2015; Royce, 2007; Vidal, 2005). Our results, however, indicate that workforce synthesis in social enterprises is more complicated.

Specifically, our interviews reveal that within the group of traditional employees, there are two distinct subgroups. The first, namely established professionals, refers to individuals who have had successful careers in the for-profit sector and are now willing to sacrifice to forgo their heavy paychecks and work for an organization with a strong social mission. The second, recent graduates, refers to young individuals who are either driven by idealism or want to gain experience quickly within a social enterprise before seeking employment at for-profit organizations. Both of these groups are particularly important for social enterprises due to their human capital (formal education and/or experience) something social enterprises struggle to access due to their financial limitations that prevent them from offering competitive compensation and benefits packages (Austin et al., 2012; Doherty et al., 2014). In addition, contrary to previous research that suggests the extensive use of volunteers in the third sector

(e.g., O’Hara, 2001; Royce, 2007), our findings indicate that the number of volunteers in our sample of social enterprises were rather limited. Finally, as mentioned earlier, our sample suggests that disempowered individuals are not only employed by social enterprises whose social mission is to provide employment or training to individuals who are less likely to find jobs in the traditional labor market.

### **Differentiated HRM Systems**

Even though the informants’ narratives indicated that the participating social enterprises did not have formal differentiated HRM systems, the interviewees conveyed that successful social enterprises not only understand the value of each of their workforce groups, but, most importantly, recognize their different needs and have offer HRM practices that address those needs. The accounts we collected indicate that, in the majority of the social enterprises of our sample, differentiated HRM practices were offered in terms of recruitment, selection, compensation, non-monetary incentives, and career development and promotion opportunities. On this basis, we propose five HRM systems (Table 2), namely flexibility, empowerment, giving purpose, advancement, and **inspiration**, that reflect the differentiated practices the social enterprises in our sample use.

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Insert Table 2 about here  
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For traditional employees, social enterprises seem to be adopting a flexibility-focused HRM system. On the basis of the accounts the interviewees provided, social enterprises rely on job advisement in a variety of media and during the selection process they emphasize the need for alignment between the personal and organizational values. Given the limited resources available, training is somewhat limited but social enterprises try to offer clear career paths. In term of compensation, social enterprises are typically unable to offer competitive compensation packages and often offer salaries that are even below the market rates. The key, however, in this HRM system, is that social enterprises offer flexible work arrangement (that often take the form of idiosyncratic deals).

The main goal of the empowerment HRM system is to identify disempowered employees who have the willingness to develop their skills and abilities and offer them a second opportunity in life. Social enterprises rely on non-traditional recruitment sources, such as parole offices and WISEs in order to identify potential candidates. The selection process has to be tailored to the needs of the candidates and, thus, special accommodations are key. Social enterprises also invest in the training of disempowered employees in order to broaden their portfolio of skills and abilities. Flexible work arrangements are also a critical element of this HRM system, as several groups of disempowered employees require the opportunity for telework or flexible work schedules (e.g., in the case of psychological disorders employees might need to take several days off beyond the sick leave that is mandated by law). Finally, most of the interviewees indicated

that disempowered employees typically receive salaries that are above the market rate.

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

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

Finally, for volunteers, even though they are not paid employees, social enterprises need to ensure that they are properly motivated in order to be effective in their roles and less likely to leave. The few social enterprises in our sample that utilize volunteers emphasized that accepting

all volunteers who apply is not very useful and, sometimes, it can prove to lead to wasting valuable resources (e.g., time spend for their training). Thus, it is important to ensure during the selection process that prospective volunteers understand the mission of the organization and their values align with the social mission. Ensuring also that the volunteers are placed in positions that allow them to perform some meaningful tasks is also critical.

### **Overall Model – A Virtuous Circle**

Based on 20 in-depth interviews we were able to look into the intricate workings of the heritage mechanisms that, ultimately, influence organizational outcomes (Paauwe & Farndale, 2017; Farndale & Paauwe, 2018), in the context of social enterprises. At the core of all HRM-related decisions lies the “ethics of care”. “Ethics of care” can, arguably, be viewed as one of the core values that have been passed on by the social entrepreneur and constitutes the core of the organizational culture for these organizations. “Ethics of care” is manifested in two ways in the context of social enterprises: the synthesis of the workforce and the differentiated HRM systems. As described in the previous section, the “ethics of care” dictates, at least to some extent, the synthesis of the workforce (e.g., based on the narratives we gathered even social enterprises that are not WISEs employ disempowered individuals). The choices regarding the workforce synthesis along with the “ethics of care”, influence, in turn, the choices regarding the HRM management systems used for each group of paid and unpaid staff in social enterprises. For instance, the empowerment system is comprised of practices tailored to the needs of

disempowered employees (e.g., non-traditional recruitment sources, extensive training, special/reasonable accommodations during selection, and flexible work arrangements). All systems include HRM practices that are ability/skill-, motivation-, and opportunity/empowerment-enhancing (Appelbaum et al., 2000; Delery & Roumpi, 2017; Purcell & Hutchinson, 2007; Subramony, 2009).

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

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

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

enterprises.

### **Contributions and Limitations**

Our findings contribute both to the social entrepreneurship literature and practice and to broader HRM theory. By expanding the discussion on the use of differentiated HRM systems for different workforce groups (Lepak & Snell, 2002; Takeuchi, Gong, Boon & Jiang, 2018) we add to the emerging body of literature that focuses on HRM modes for various workforce groups in social enterprises. Audenaert et al. (2019), for instance, demonstrate that WISEs should be offering clear expectations, and that developmental inducements can assist “vulnerable” employees (long-term unemployed individuals who face psychological issues) in building their competences and, ultimately, reentering the labor market.

This study also contributes to broader HRM theory and practice, by bringing the concept of “ethics of care” to the forefront of HRM. We propose that when decisions regarding the synthesis of the workforce are driven by the “ethics of care” and paired with appropriate HRM systems, this can enable organizations to achieve desired organizational outcomes (financial and social performance, retention, etc.). It would be interesting to see similar approaches adopted by other for-profit/non-profits firms. Employing disempowered individuals should not simply be viewed by organizations as a chance to show their “socially responsible face”, but rather as an opportunity to tap into an underutilized source of human capital, that, given the right support, can contribute to the success of the organization. It is therefore important for organizations to

develop a mindset and culture of care that will provide disempowered employees with the right tools (such as flexible work arrangements), as well as offer them a sense of belonging and hope facilitate their productivity. As two of our participants aptly noted:

*The biggest thing we try to give people is hope, because they often come here, they've been trying to get a job for years and they're not perhaps equipped for it, either technically, physically or mentally equipped. So, we get them in and we address those things. (SE07)*

*You get people broken. Divorce, drinking too much, something went wrong. Confidence is low, can't stand the pressure of a commercial enterprise. When they come for interview I ask. "What is your "brokenness"?" .... If it is a messy personal life we give them stability and they can overcome it. (SE01)*

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

An important limitation of our study is that we relied on the accounts offered by individuals in managerial positions in the participating social enterprises (e.g., CEOs, HR directors and managers). As numerous scholars (e.g., Boxall & Purcell, 2008; Kehoe & Wright, 2013; Khilji & Wang, 2006; Piening, Baluch, & Ridder, 2014; Purcell & Hutchinson, 2007; Roumpi & Delery, 2019) have noted, there are significant differences in terms of intended/espoused (how the practices were designed), implemented (how the practices were put in action), and experienced (how the practices are perceived) HR practices. Thus, different informants may offer different information regarding the HR practices in the same organization. In the current study, the complexity of the workforce of social enterprises posed significant constraints in the choice of interviewees and we relied on the information provided by individuals that the participating organizations identified as the most knowledgeable regarding the HRM practices throughout the organizations. Future research, however, could examine the perspective of various employees belonging in different workforce groups and explore their similarities and contradictions.

**CONCLUSIONS – Could you add 3-5 sentences as conclusions?**

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

Table 1: Description of the interviewed companies

<b>System</b>	<b>Flexibility</b>	<b>Empowerment</b>	<b>Giving Purpose</b>	<b>Advancement</b>	<b>Inspiration</b>
<b>Targeted Workforce Group</b>	<b>Traditional Employees</b>	<b>Disempowered Employees</b>	<b>Established Professionals</b>	<b>Recent Graduates</b>	<b>Volunteers</b>
<b>Practices</b>					
<b>Recruitment</b>	Job advertisements in multiple media	Non-traditional recruitment sources (e.g., WISEs, and parole offices)	Word-of-mouth, personal networks	Job advertisements in multiple media, universities (e.g., career centers)	Word-of-mouth, job advertisements in multiple media
<b>Selection</b>	Value-driven, realistic job previews	Special accommodations, focusing on willingness to learn and work, priority to those most in need.	Qualification- and value-driven, realistic job previews	Qualification- and value-driven, realistic job previews	Value-driven
<b>Compensation</b>	Typically, market rate or below market rate	Typically, above market rate	Below market rate	Typically, below market rate	Limited reimbursement for expenses, lunch vouchers, etc.
<b>Non-monetary Incentives</b>	Flexible work arrangements, meaningful job, paid time for volunteering	Flexible work arrangements, skill-development	Meaningful job, paid time for volunteering	Flexible work arrangements, meaningful job, CV building, paid time for volunteering	Meaningful job, skill development, CV building, potential for full-time position
<b>Career development and promotions</b>	Some training and mentorship, career paths	Extensive training	Limited development	Some training and mentorship, career paths	Basic training

Table 2: Differentiated HRM Systems in Social Enterprises

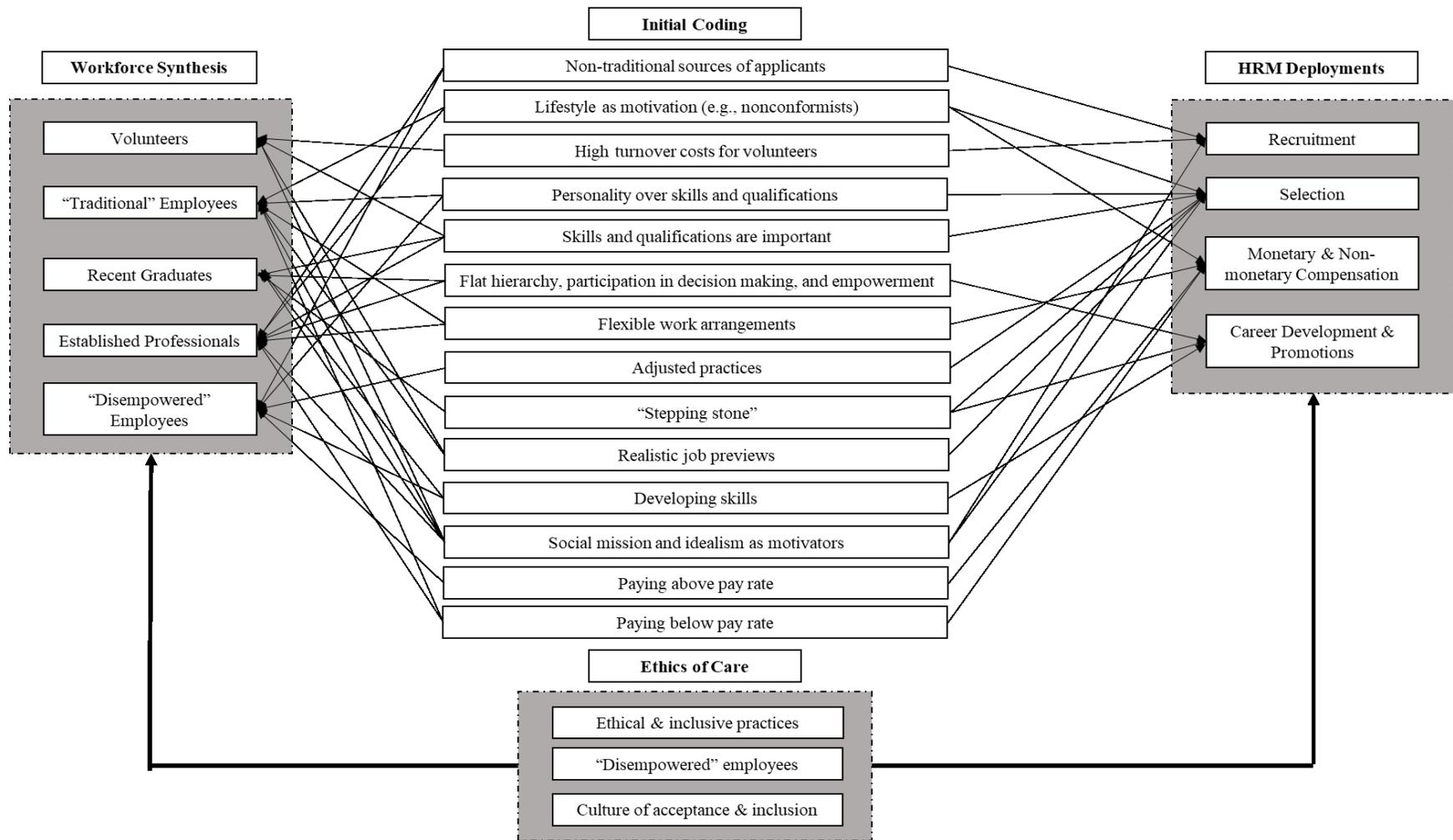


Figure 1: Data structure

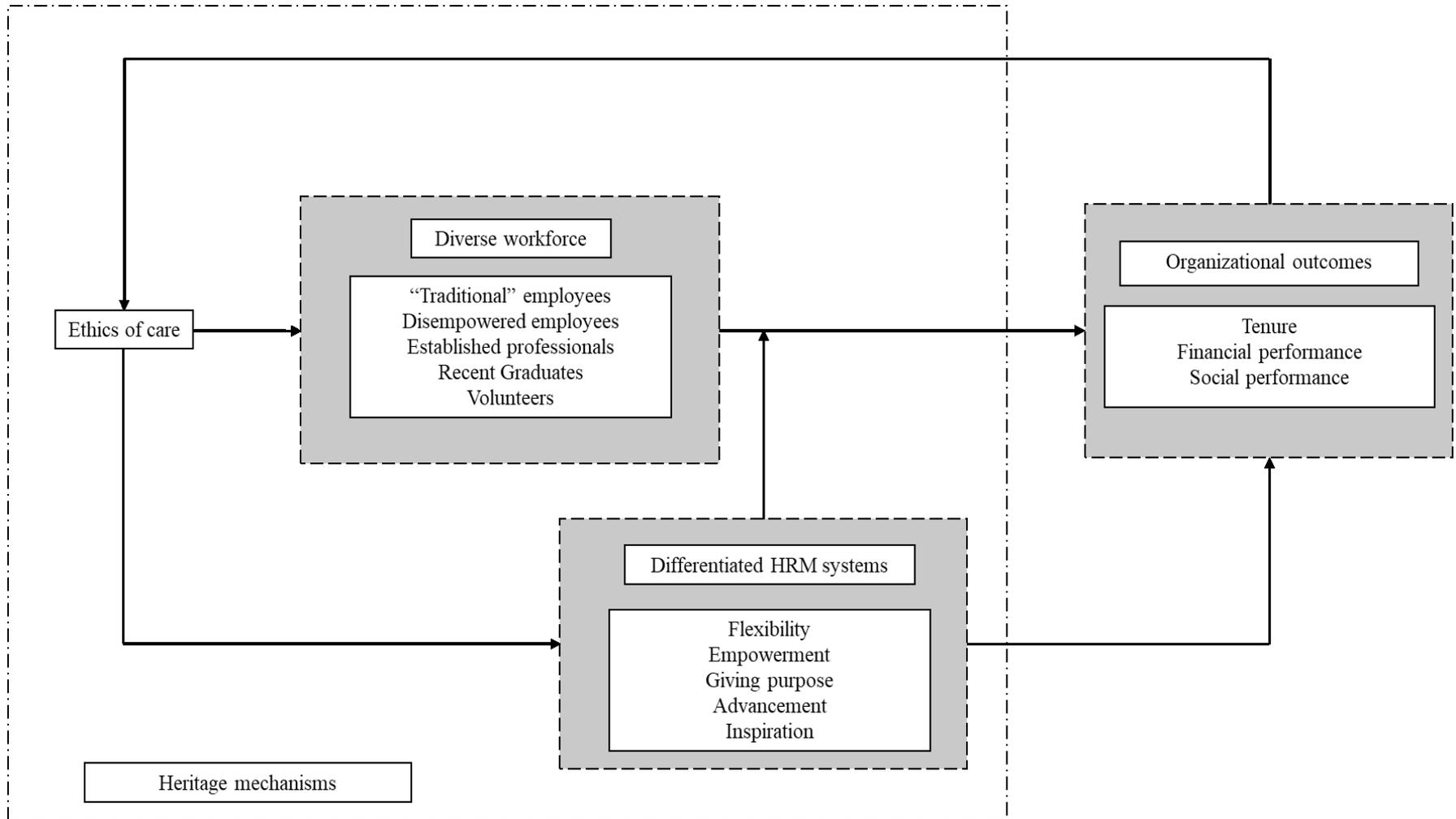


Figure 2: Conceptual framework