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"ETHICS AT THE CROSSROADS: MANAGING DUAL OBJECTIVES OF SOCIAL ENTERPRISES"

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Abstract

A significant body of research explores the tensions and trade-offs faced by social enterprises as they balance between social and financial goals. Nevertheless, a gap in understanding their ethical nature remains. Reflecting on the characteristics of moral issues and proposing an ethical decision-making framework, this thesis builds on the current scope of knowledge in addressing performance tensions within the context of social enterprise. In doing so, it encourages development of new practices and theories to advance the pursuits of social mission.

Keywords: social enterprises, dual objectives, trade-offs, ethical decision-making, moral intensity

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1. Introduction

In the vast landscape of business, there exists a blind spot - an oversight that often neglects the well-being of the most disadvantaged and stigmatized individuals. Social enterprises aspire to empower and include this overlooked demographic by addressing a gap in the market that often goes unnoticed. While traditional forms of businesses aim for sustainable competitive advantage, directing efforts towards outperforming competitors in the market and capturing value for the firm, social enterprises adopt a different strategic focus. They integrate social and economic goals, emphasizing the commitment to actively and sustainably address society's grand challenges. Nevertheless, the pursuit of dual objectives is accompanied by conflicting demands, values and norms, creating the need for social enterprise managers to consider the trade-offs in their decisions, in order to successfully navigate these conflicting expectations and balance them over time. If the pursuit of two goals falls out of balance, it exposes social enterprises to the risk of departing from their social mission on the one hand, and financial instability on the other. This misalignment, specifically prioritizing commercial activities at the expense of social mission, is commonly referred to as *mission drift* (Ebrahim et al., 2014). The shift in strategic priorities holds important consequences, as it primarily affects the most vulnerable group of an organization's stakeholders - its beneficiaries.

In light of this, research on social enterprises and hybrid organizations more broadly, has focused on understanding the tensions and processes that lead to mission drift and various ways to prevent it. While many scholars have explored these pressing questions, the current state of knowledge regarding the ability of social enterprises to pursue both social and financial goals over time has only implicitly acknowledged their ethical nature, and more specifically, scarcely examined how to navigate the dilemmas that arise in an attempt to manage conflicting stakeholder expectations.

The importance of addressing this gap extends beyond theoretical considerations. Understanding the ethical dimensions in balancing dual objectives could inform new approaches and increase the effectiveness of managing the inherent tensions within their structure, as well as trade-offs they face selecting their beneficiaries, investors, resource allocation and similar. This raises the question of **whether ethical decision-making theory can be applied as a framework to effectively navigate the tensions and trade-offs faced by social enterprises.**

For the purpose of this thesis, I have committed to an exploratory approach, serving as an investigation of the new possibilities of understanding, and subsequently addressing the tensions within social enterprises. My interest lies in understanding how the conflict between social and financial objectives can lead to mission drift, and assessing the ethical underpinnings of such a situation. Subsequently, applying ethical decision-making theory, I aim to contribute to the ongoing debate on how to navigate existing tensions, trade-offs and more specifically, ethical dilemmas, proposing a new perspective for managing social enterprises. Ultimately, the purpose of this thesis is to lay the groundwork for future research in this area and reflect personal motivation to advance this work through doctoral-level studies.

2. Social Enterprises as Hybrid Organizations

In 1776, Adam Smith explored the relationship between self-interest and the prosperity of society as a whole. Introduced under the metaphor of the "invisible hand", this perspective emphasized the coexistence of social and economic value of business activities and has since become the dominant perspective in both economics and business (Keneddy, 2009). Smith's idea is advanced in arguments recognizing the pursuit of profit as the optimal mechanism for enhancing societal well-being. Yet in the centuries following Smith's influential ideas, despite the unprecedented growth of the global economy, the rapid development of markets has been accompanied by rising social and economic inequality, persistent poverty, environmental degradation, social injustice and other complex issues (Smith et al., 2013; Ramus & Vacaro, 2017). Recognizing the limitations of a singular focus on profit maximization, scholars, policymakers, and businesses have begun to acknowledge the need for a more holistic approach to development (Battilana, 2018).

The pursuit of both economic and social value creation has been followed across a spectrum of enterprises known as hybrid organizations (Billis, 2010). To various extents, these hybrids integrate their profit objective with considerations of the environment and people, recognizing a plethora of ways in which businesses can contribute to society beyond economic value. While social enterprises are often praised for their ability to bridge the gap between the traditional public, private, and nonprofit sectors, several challenges call into question their status as an ideal type of hybrid organization (Battilana et al., 2012; Doherty et al., 2014).

Despite their long-standing history, Social Enterprises as a concept designed to address important yet neglected societal problems, only emerged 30 years ago. While various definitions exist, social enterprises are most often acknowledged as organizations whose primary aim is to create positive societal impact by engaging in commercial markets (Ebrahim et al., 2014; Battilana & Lee, 2014) and whose profits are reinvested into efforts to advance its social mission (Moingeon, Yunnus & Lehman-Ortega, 2010; Pache & Santos, 2013). Social enterprises do not aim to merely increase the sustainability of their commercial activities, or complement philanthropic funding of their social activities. Instead, they are established with a foundational design that involves simultaneous pursuit of both social and commercial objectives (Battilana, 2018).

This concept of social enterprise still encompasses various types, such as differentiated or integrated models of social value creation (Ebrahim et al., 2014), and the creation of social impact through inputs (e.g. fair trade retailers), processes (e.g. work integration social enterprises), or products and services (e.g. microfinance institutions). Commercial objectives focus on establishing financially sustainable operations, creating and capturing value to facilitate expansion efforts. This approach aims to achieve financial and economic efficiency to enhance impact and fulfill the organization's mission, allowing for organizational sustainability, self-sufficiency and scale (Smith et al., 2013; Ebrahim et al., 2014). It is important to recognize that commercial objectives are viewed as means to achieve social ends. In contrast, social objectives, such as reducing poverty, serving and including marginalized groups, etc. are considered an end in itself, constituting their *raison d'être* (Ebrahim et al., 2014).

The success of a social mission extends benefits to a broad range of stakeholders, including beneficiaries, employees, customers, and local communities (Smith et al., 2013). Addressing the needs of marginalized groups, in particular, frequently constitutes a fundamental aspect of the social mission (Ebrahim et al., 2014). At the same time, sustained success in achieving social goals and effectively addressing societal challenges depends on collaborative efforts and engagement of diverse groups of stakeholders (Voss et al., 2005). Leveraging relationships with donors, investors, volunteers, customers, and embedding themselves within local communities allows social enterprises to access multiple resources in their external environment (Doherty et al., 2014). In this way, social enterprises are recognized as outcomes of collaborative processes, promoting a more inclusive understanding of contribution and impact (Mongelli et al., 2018). Nevertheless, operating within such a complex system where accountability extends to both social and financial objectives imposes an obligation to respond and report to a wide array of individuals and groups invested in the activities and outcomes of the enterprise (Donaldson & Preston, 1995; Smith et al., 2013; Dawkins, 2013). Each stakeholder group maintains unique expectations for organizational performance and aims to prioritize its own demands over those of other groups (Mason & Doherty, 2016). Consequently, an aim to maximize both financial and social performance creates tensions for managers as they navigate expectations of both internal and external stakeholders (Donaldson & Preston, 1995; Smith & Lewis, 2011).

2.1. Performance Tensions

While the early stage research on social enterprises focused on defining their distinctive characteristics, a shift in focus over the past decade underscores the importance of understanding the tensions and trade-offs that arise due to their hybrid nature (Nielsen et al., 2019). Smith and Lewis (2011) categorize these tensions into four groups based on their attributes and management approaches - performance, organizing, belonging, and learning tensions. Performance tensions specifically arise out of the need to define success across conflicting expectations of various stakeholders (Smith & Lewis, 2011) and examine how the pursuit of conflicting outcomes, stakeholder demands and performance metrics can lead to prioritizing one objective over the other (Smith et al., 2013). Stakeholders shape organizational objectives as well as assess organizational performance against those objectives (Battilana et al., 2022). This dynamic leads to two common types of conflict: disagreement on goals and disagreement on the means to achieve those goals (Ebrahim et al., 2014; Battilana & Lee, 2014).

Despite the recognition of social enterprises as promising avenues for sustainable development, the diversity and complexity of these hybrid organizations have provided only an abstract level of understanding of what constitutes a social purpose, or to which extent social enterprises should be accountable to their social versus commercial goals (Yung, 2013). Moreover, the norms of social responsibility and sustainability in the context of social enterprises are often vaguely defined, possibly due to the complexities in measuring social value creation, and consequently, performance (Hilton & Cornell, forthcoming).

The lack of established definitions and benchmarks of what constitutes a social objective creates challenges and dilemmas in both establishing social objectives and measuring corresponding performance of social enterprises (Bennouri et al., 2023), contributing to increased disagreement between stakeholders.

Conflict also arises as various stakeholders disagree on the means to achieve established objectives, especially regarding acquisition and delegation of resources, resulting in conflicting prescriptions for actions (Doherty et al., 2014; Battilana et al., 2022). Social enterprises need to find the right balance between revenue generating activities to cover their cost of business and remain financially sustainable, and sustained investment in their social projects (Ebrahim et al., 2014; Doherty et al., 2014).

This conflict can become especially salient given the challenges of social performance measurement systems (Hilton & Cornell, forthcoming). While financial and business goals benefit from well-established, qualitative and standardized metrics, allowing for unambiguous performance evaluation and comparison across time periods, projects, and enterprises, evaluation of social performance is not nearly as straightforward. Establishing cause-and-effect relationships of social problems and solutions is highly uncertain. A lack of clarity concerning standards and metrics applied further complicates the evaluation process, making the comparison of social performance especially difficult (Nielsen et al., 2019; Ebrahim et al., 2014). These differences in evaluation principles limit its role in the decision-making and, as a result, add to the ambiguity of resource allocation, increasing performance tensions (Nielsen et al., 2019; Ebrahim et al., 2014).

2.2. Trade-Offs

In the process of defining strategies and deciding which actions to take, leaders must inevitably make decisions about which goals and actions to pursue and which to forgo. This inherent opportunity cost often requires compromising the demands of certain stakeholders to meet the expectations of others (Smith et al., 2013; Ebrahim et al., 2014). Pursuing financial goals may at times contradict the expectations of stakeholders who prioritize social logic, whereas acting upon social goals may run counter to the demands of shareholders or customers (Battilana et al., 2022). For social enterprises, this highlights a common trade-off: should the priority be placed on social or financial performance? While such tensions are a central characteristic of social enterprises and are inherent in managerial decision-making processes, the literature suggests that the intensity of social-financial trade-offs varies depending on the context and organization-level factors, specifically governance mechanisms (e.g., Ebrahim et al., 2014; Wry & Zhao, 2018; Battilana et al., 2022; Bennouir et al., 2023). It also suggests that the intensity of trade-offs influences the ability to align actions with an organization's social mission over time (Besharow & Smith, 2013; Ebrahim et al., 2014; Bennouri et al., 2023).

The decision-making process requires thoughtful consideration of the intensity of these trade-offs and associated consequences, as the continuous focus on one objective at the expense of another can eventually lead to loss of hybridity (Smith et al., 2013; Mair et al., 2015). Focusing solely on social objectives could lead to financial instability, while undermining social goals in pursuit of financial sustainability and better market performance often results in mission drift (Battilana et al., 2012; Mair et al., 2012). For social enterprises, utilizing commercial revenue models to fulfill their core purpose of social impact, the risk of mission drift is especially pressing (Battilana, 2018).

3. Stakeholder Theory

Recognizing that businesses are accountable to more than merely their shareholders, stakeholder theory encompasses a broad stream of literature that examines whether or how companies can simultaneously address and integrate the demands of multiple stakeholders when making decisions (Donaldson & Preston, 1995; Mair et al., 2020). It explores how distinct needs of external stakeholders create pressures on organizations to attend to both social and financial outcomes (Smith et al., 2013), and offers both a justification for and managerial insight into attending to these conflicting goals. According to Ramus & Vaccaro (2017), stakeholder engagement allows actors within social enterprise to rationalize and, consequently, act on their prosocial values and objectives. Additionally, empirical studies of stakeholder engagement show that engaging and aligning interests of multiple stakeholders is critical for social enterprises to avoid mission drift (Voss et al., 2004; Ebrahim et al., 2014) *and* respond to mission drift once it occurs (Ramus & Vaccaro, 2017; Argiolas et al., 2023). Nevertheless, deciding who to include and which claims to address (Smith et al., 2013; Mair et al., 2020) is never simple. Both decisions involve trade-offs that are not readily apparent and are likely to become a source of disagreement, potentially resulting in loss of legitimacy and limiting access to important resources required to fulfill their mission (Dart, 2004). Furthermore, whether and how social enterprises are held accountable for their activities and decisions, and the extent to which stakeholder groups have the opportunity to reinforce their demands and monitor decisions and activities also emerge as relevant issues (Battilana & Lee, 2014; Mair et al., 2020).

To address some of these questions and optimize the overall performance of organizations addressing interests of multiple stakeholders, Mitchell et al. (1997) propose a stakeholder salience model, which helps examine the influence of various stakeholder relationships on organizational outcomes and provides guidance on which stakeholder claims to prioritize. The model recognizes three attributes which collectively determine whether a stakeholder holds a "stake" in the firm and consequently to which extent the organization should recognize interests of that particular stakeholder group.

Power evaluates stakeholder's ability to influence and shape organizational actions and outcomes. Stakeholders with high power possess significant influence, allowing them to impact the organization's decisions and operations. The more influential a stakeholder is, the more critical their perspectives and demands become.

Legitimacy is about perceived appropriateness of a stakeholder's claims to be involved in organizational activities. Legitimate stakeholders are considered to have a rightful stake in the organization and, as such, their opinions and concerns are recognized as valid and important.

Urgency relates to the time-sensitive nature of a demand and the need to respond to stakeholder claims. Stakeholders whose demands require prompt organizational responses hold a priority in the firm's considerations and actions, since their issues cannot be delayed.

While valuable to consider, the instrumental approach to stakeholder management creates some concerns in addressing conflicting expectations of multiple stakeholders within the context of social enterprises (Orts & Strudler, 2002). The instrumental approach evaluates stakeholder engagement based on the organizational benefits it brings, often linked to the achievement of commercial goals. This might lead to deprioritization of interest and demands of their beneficiaries (Chowdhury et al., 2023) and undermine the primary strategic objective of social enterprise that is centered on creating value beyond the firm itself.

As previously explained, marginalized stakeholders hold a central position and are significantly affected by a firm's action, yet often lack the power to influence organizational decision-making or actions, particularly as the engagement of marginalized groups might constrain commercial goals (Battilana, 2018). For social enterprises, accepting trade-offs that result in reduced outcomes for marginalized stakeholders poses a threat to their mission and raises ethical concerns (Orts & Strudel, 2002; Voss et al., 2005). Additionally, addressing societal issues such as poverty, social injustice, and exclusion is a motivation primarily grounded in individuals' ethical and moral perceptions (Smith et al., 2014), an intrinsic motivation aimed at improving the well-being of these individuals and society as a whole (Bull & Ridley-Duff, 2019). This contrasts with market-related motivations advocated by the instrumental perspective of stakeholder theory. The justification for addressing stakeholder needs should therefore not be based on the criteria of how they benefit the firm, whereby inclusion of stakeholders is a means to an end, but on the idea that including marginalized individuals is an end in itself (Zakhem & Palmer, 2017). This moral justification is more in line with the normative perspective of stakeholder theory, which bases stakeholder inclusion and engagement on considerations of what is morally acceptable (Donaldson & Preston, 1995), and considerations on fairness (Pache & Chowdhury, 2012), as well as the social and ethical impact of firm behavior - as opposed to commercial benefits of meeting stakeholder demands (Voss et al., 2005). Decisions regarding whom to include and how actions should be carried out, then, require frameworks grounded in ethical principles, especially when addressing conflicting stakeholder demands. These frameworks should consider moral motivations and obligations towards various social groups with varying degrees of power to influence firm's decisions. Additionally, as previously acknowledged, the decision-making process of managers navigating conflicting stakeholder demands in a context marked by ambiguity and uncertainty of trade-offs raises a number of ethical dilemmas (Smith et al., 2013; Hota et al., 2023). Yet the literature on hybrid organizations and social enterprises has only implicitly acknowledged these ethical challenges (Hota et al., 2023). There is a notable gap in understanding the implications of these ethical dilemmas and how to navigate them. Research also continues to highlight the lack of understanding of how social enterprises can successfully manage conflicting objectives (Smith & Besharov, 2019). This points to the need for further exploration and theoretical development in this area to better understand the complex challenges within social enterprises. The field of business ethics offers frameworks to address some of these questions, even in the context of diverse environments, business models, governance mechanisms and other characteristics that make a concise approach to the study of social enterprises difficult (Dart et al., 2010).

4. Ethical decision-making

Even though questions concerning ethical behavior and morality tend to be a prominent topic of discussion in business (Kulshreshtha, 2005), the dual objectives of social enterprises characterizes them as "*ethical alternatives to commercial enterprises*" (Bhatt, 2022; 745). While research shows that ethical commitments do influence the emergence of hybrid organizations and social enterprises more specifically (Smith et al., 2014; Bull & Ridley-Duff, 2019; Datta et al., 2023), the tensions leading to mission drift or bankruptcy, as well as their management approaches, are rarely explored through the lens of ethics. Furthermore, while the objectives of social enterprises are usually based on some predefined ethical values, the pursuit and implementation of those goals often occurs in a situation marked by ambiguity and against potentially conflicting standards (Bhatt, 2022**)**. As stated by Chell et al. (2014; 623): "*The notion that the ethical pursuit of a social issue might simply continue when there are multiple pressures pulling the enterprise in other directions is unrealistic.*" Decision-makers within social enterprises must consider inconsistent norms and values and contradictory moral principles, and choose between contradictory prescriptions for actions (Chell et al., 2014; Bhatt, 2022). These situations have ethical implications, yet assessing their meaning and significance, distinguishing between right and wrong, and determining a course of action is not a straightforward decision (Lurie & Albin, 2007). Additionally, the ethical foundations of these issues vary. The ethical nature of a decision can arise from adhering to a fair procedure of decision-making, ensuring a fair outcome of the decision or strictly complying with organizational rules in the decision-making process (Stenmark & Mumford, 2011). Thus, even if the creation of social value might not constitute an ethical or moral concern itself, the approach, means, methods and outcomes of social enterprises should be a topic of debate (Chell et al., 2014). Specifically, building on an understanding of ethical dilemmas faced in pursuit of dual objectives and how they are navigated is important to encourage sustainable pursuit of their social mission (Hota et al., 2023).

The literature has proposed a number of ethical decision-making models that aim to conceptualize the process individuals engage in when faced with an ethical dilemma (Marshall & Dewe, 1997), and which collectively acknowledge the importance of a range of of personal, situational, and social or organizational characteristics (Frey, 2000). Predominantly, these models presume that individuals make ethical decisions regardless of the importance of the situation and issue at hand (Marshall & Dewe, 1997). Acknowledging the subjective nature of evaluating decision situations as holding ethical value, Jones (1991) proposes a four-stage model to show how the perceived ethicality of an issue at hand influences the decision-making process. The first step is about **recognition** that a given issue or an action has an ethical component. The second step is about **making an ethical judgment**, deliberating on what is right or wrong. The third step of the process is about motivation for action and **forming behavioral intent**, and lastly leading to a specific decision or **action**. Introducing the concept of moral intensity, Jones (1991) argues the process is not only influenced by individual and situational factors, but also varies depending on the degree to which a problem itself is perceived as ethical or not (Dukerich et al., 2000).

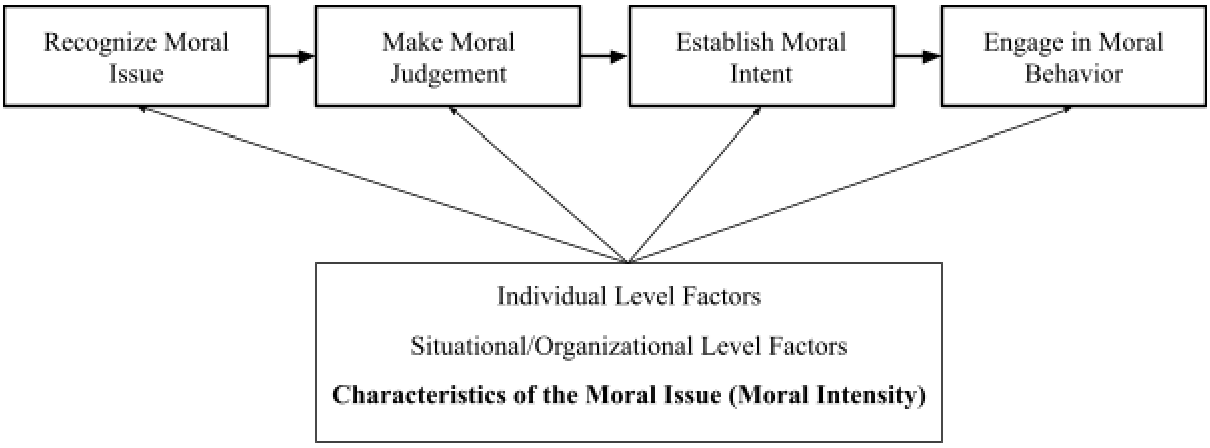

Figure 1: Jones' (1991) Ethical Decision-Making Model

4.1. Moral Intensity

Encompassing the characteristics of an issue itself, moral intensity takes into consideration the perception of individuals regarding the ethical context of the decision situation (Jones, 1991) and has been extensively applied in business settings (Frey, 2000). The higher the moral intensity, the higher the likelihood of a decision-maker recognizing a given action involving a moral/ethical component and consequently engaging in ethical behavior (Barnett, 2006). Given the ethical motivations behind establishing a social venture and addressing social problems, some degree of perception of moral intensity for a particular issue is likely to arise, but can vary substantially between various stakeholders and specific issues at hand (Smith et al., 2014).

Several studies have shown managers tend to categorize problems and approach the situation differently depending on whether they define a situation as possessing an ethical component or not (Dukerich et al., 2000). Specifically, perceiving a problem as an ethical dilemma places more focus on the fairness of both the process of deliberating about the issue and the outcome. It shows heightened awareness and acknowledgement of people affected by the issue as opposed to considering an issue as a business decision separate from the people who might nevertheless be impacted by the outcome (Dukerich et al., 2000).

Although moral intensity is only one of several characteristics influencing the process of ethical decision-making, compared to characteristics of an individual or organization, factors influencing moral intensity are easier to change. It can then be inferred that applying an understanding of these factors can introduce practices that affect the perceived ethicality of an issue for and among various parties. This can serve to align an understanding of the ethical implications of a decision, and encourage a more ethical approach to conflict and decision-making (Frey, 2000).

Jones (1991) proposed six distinct components of moral intensity:

Magnitude of the consequences refers to the overall harm or benefit to those affected by an action. As the magnitude of consequences of the moral issue increases, the likelihood of ethical behavior also increases.

Social consensus examines the degree of social agreement that an act is either good or bad, fair or unfair. This means that as the agreement on issue increases, particularly among peers close to the decision-maker, this will reduce the ambiguity of how to act ethically (Smith et al., 2014).

Probability of effect is about the likelihood that an act causing either harm or benefit will take place. The higher the probability, the more likely it is that a decision-maker will take action.

Temporal immediacy refers to the length of time between an act and its consequences. The shorter the time period, the higher the moral intensity.

Proximity describes the feeling of nearness to the person impacted by an action. This proximity can be either social, cultural, psychological, or physical.

Concentration of effect relates the amount of benefit or harm as relative to the number of people affected. The higher the concentration of the effect, that is more harm to a small number of people as opposed to less harm to a large number of people, the higher the likelihood of an issue being perceived as moral and consequently result in ethical behavior.

Empirically, *social consensus* has been identified as the only significantly influential factor for recognizing an issue as a moral dilemma (Marshall & Dewe, 1997; Barnett, 2006), and especially so in the business setting (Frey, 2000). This leads to the proposition that in the absence of consensus that an issue holds moral implications, the decision-maker is more likely to identify the decision as a "business decision" (Marshall & Dewe, 1997; Frey, 2000). In the subsequent stages of the ethical decision-making process - forming an ethical judgment, behavioral intent, and engaging in an ethical behavior, *social consensus* is complemented by perceived *seriousness of consequence* (Frey, 2000; Barnett, 2006). This means the greater the negative or positive consequences of a decision and the consensus on an issue's ethical implications, the higher the likelihood that an issue will be perceived as an ethical dilemma and lead to ethical behavior (Smith et al., 2014).

5. Discussion

The journey to empower marginalized individuals and create value for society as a whole involves navigating numerous dilemmas with varying degrees of ethical implications. Managers of social enterprises are challenged to find a balance between inconsistent values, norms and contradictory moral principles across multiple stakeholders, while integrating social and financial goals in a way that allows them "*to do well by doing good*" (Bennouri et al., 2023; 3). Effectively addressing these challenges requires upholding strategic focus when trade-offs involved are not readily apparent, and when organizational outcomes might significantly impact a number of stakeholders. Determining organizational goals and consequently whom to include, how to act and, most importantly, how to balance conflicting stakeholder demands, then calls for managers to apply their moral judgment based on personal values, the context, as well as the specific issue at hand. Building on this understanding of ethical dilemmas faced in pursuit of dual objectives, Jones' (1991) ethical decision-making model offers a framework to identify moral components of a problem and evaluate its moral intensity, and as such holds substantial value in addressing social enterprises' ethical challenges.

First, applying an understanding of moral intensity and ethical decision-making framework can help address the dilemma of what qualifies as social responsibility, to which extent social enterprises should be accountable to their social and commercial goals, and consequently, whom to include. While stakeholder theory provides some useful avenues to think about these questions, its shortcomings within the context of social enterprises are substantial. Time and time again, studies show ethical motivations underlying the establishment of social enterprises are deeply rooted in a desire to help the most disadvantaged and neglected members of our society. Nevertheless, the recognition of the need to address social injustices is held by a minority, and the social consensus surrounding the pursuit of such goals is unlikely. Explaining the underpinnings of social consensus as a factor of moral intensity, Jones (1991; 375) explicitly addresses the issue of social goals involving marginalized individuals. He writes: *"The evil involved in discriminating against minority job candidates has greater social consensus than the evil involved in refusing to act affirmatively on behalf of minority job candidates"*. Understanding how social consensus, or lack thereof, influences the perception of an issue as an ethical dilemma might provide insight into the nature of conflict between various stakeholders in establishing social goals. It should also strengthen an understanding of the central role of values and norms of social entrepreneurs in both establishing and reinforcing the pursuit of such goals, as well as how a lack of social consensus surrounding specific issues might work against an enterprise's social mission. Moreover, building on other components of moral intensity and how they influence the perception of an issue can help inform practices reinforcing the moral intensity and as a result establish some degree of consensus surrounding a specific problem. Exposing the magnitude of consequences, for instance, can help shape the moral judgment of various stakeholders involved and could, in turn, influence the congruence between their demands. This is important since a lack of social consensus on an issue and conflicting stakeholder demands also increase managerial ambiguity on how to approach the problem, leading to the second ethical dilemma central to social enterprises - choosing the means to achieve both social and financial objectives, and deciding between conflicting prescriptions for actions.

In addressing this dilemma, establishing the extent to which a specific decision situation holds important ethical consequences can help the decision-maker determine and justify the approach to address specific organizational goals, including which stakeholders to engage, which claims to address, and which prescription for action pose an adequate response for a situation at hand. Issues of high moral intensity necessitate increased engagement of stakeholders to broaden the perspectives around a particular decision and inform managerial knowledge of the problem and its consequences, ultimately contributing to development of solutions that are better aligned with the expectations of stakeholders. This fosters a more inclusive decision-making process, and importantly, is likely to take into consideration a broader range of perspectives and values, especially of those stakeholders who often lack in power to influence organizational action. Additionally, a process of ethical deliberation involving stakeholders is likely to reinforce the ethical nature of the social mission, encouraging convergence of interests by reinforcing a common goal. In their study, Ohana et al (2012) also showed procedural justice as an important influencing factor for affective commitment in social enterprises. Increased trust and commitment both to an organization and the problem being addressed could further impact the trade-offs between either focusing on short-term financial returns to satisfy demands on some groups of stakeholders, and a long-term approach to sustained social impact. This is also important given the challenges of social performance measures - evaluating the process as opposed to an outcome by itself can allow for continuous improvements in the approach and result in more consistent and better outcomes over the long-term.

Nevertheless, this decision approach is highly complex and calls for a substantial investment of time and other organizational resources. Recognizing decisions that may not involve significant ethical consequences provides an opportunity to justify the use of more standardized decision approaches. Applying business principles is more practical in terms of efficiency in decision-making, using a well established set of metrics, allowing for more clarity in both goal setting and performance measures. This approach also involves engaging with the demands of stakeholders following market logic, identifying new business opportunities and engaging with the enterprise's commercial activities. Undertaking a business approach when appropriate is just as important, as it builds on organizational sustainability, increasing the efficiency and effectiveness of social goals over the long-term.

Social enterprises and their managers face a perpetual challenge of balancing between social or financial goals. Often the two goals can align, but just as often, pursuing one will limit the opportunities to pursue the other. Placing emphasis on business efficiency may lead to the oversight of ethical considerations, undermining the responsibility of social value creation and resulting in mission drift over time. Conversely, strong social preferences may neglect engagement with market dynamics, leading to financial instability and eventual bankruptcy. Informing our understanding that not all issues and conflicts carry the same moral importance, and recognizing variations in perception among individuals, moral intensity holds substantial value in balancing social-financial tensions and trade-offs. It establishes a way to determine when a decision can be approached from a more business perspective and when addressing its ethical underpinnings is actually critical. While both are crucial for the sustainable pursuit of a social mission through a business model, the significance and applicability of each approach will vary depending on the specific issue at hand.

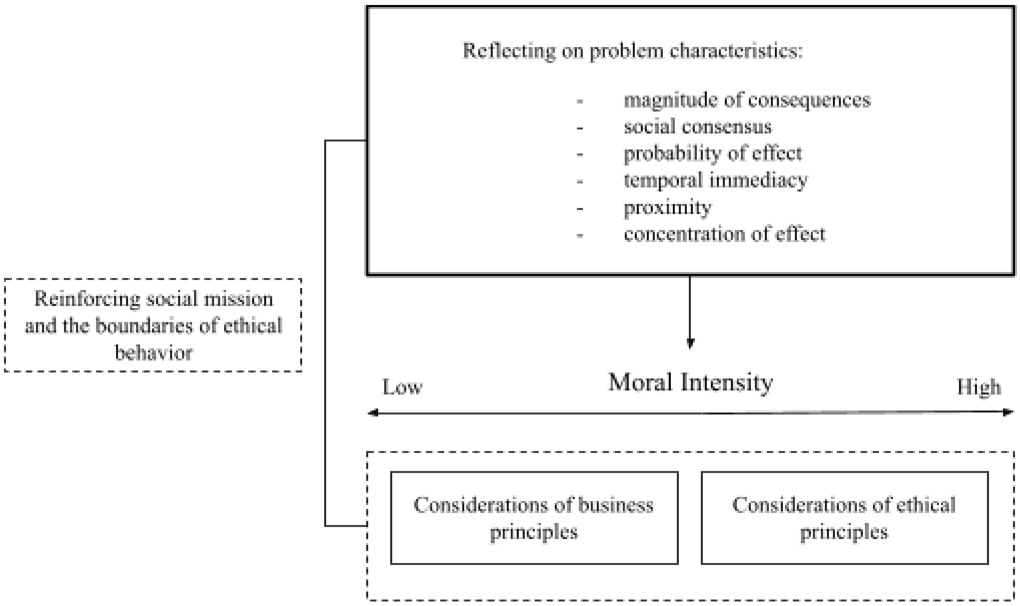

Figure 2: Moral intensity informing problem approach

In summary, decisions based on moral grounds are of central importance for social enterprises, transcending the norms of acceptable business behavior to create value for those holding a "stake" in the company as well as the society at large. In pursuit of their mission, social enterprises' strategic focus should transcend the boundaries of the firm and be redirected towards the overarching problem being addressed. Reflecting the characteristics of a problem itself, moral intensity can help acknowledge and strengthen this focus at different levels of decision-making, and in doing so, facilitate the integration of the enterprise's economic goals with its social objectives.

This thesis makes several contributions to the literature on social enterprises. Firstly, it complements the studies on performance tensions by examining their ethical underpinnings and proposes a new way to think about how to address these tensions. It suggests the value and importance of explicitly acknowledging ethical dilemmas that arise, adding to the emerging literature at the intersection of business ethics and social entrepreneurship and providing avenues for future research on the topic. Secondly, it acknowledges the shortcomings of stakeholder theory in the context of social enterprises and identifies important gaps in understanding how to engage and empower marginalized stakeholders.

Building on this, future research should expand on the criteria for stakeholder selection and engagement based on ethical considerations and examine its implications on the divergence between different stakeholders' demands. Furthermore, understanding how the power of beneficiaries to both influence organizational action and address the problem at hand evolves over time could shed light on the intensity of social-financial trade-offs. Finally, there is an intriguing opportunity to explore the underpinnings of ethical motivations and moral judgements, shedding light on what could constitute moral incentives to encourage more prosocial and ethical behavior in business.

6. Limitations

This study is not without its limitations. Specifically, three significant limitations regarding the theories and framework applied should be taken into account.

Firstly, this study exclusively addresses one category of social-business tensions, as outlined by Smith & Lewis (2011) - performance tensions. It neglects examination of the potential impact of ethical decision-making models on tensions related to organizing, belonging, or learning. Although the discussion suggests the proposed model of moral intensity and ethical decision-making might be valuable in informing practices to foster organizational culture based on shared ethical values and manage short vs long-term orientation conflicts, several questions remain unanswered.

Secondly, although the trade-offs between social and financial objectives are commonly acknowledged, particularly for enterprises addressing society's most neglected problems, some scholars propose an alternative approach. According to the paradox perspective, conflicting objectives can, in fact, reinforce each other over the long-term. These studies argue that the pursuit of higher profits does not necessarily result in the crowding out of social objectives, as increased efficiency accompanying higher profits also positively impacts the beneficiaries of the social mission. This perspective has also been explored through empirical studies, revealing managers oftentimes decide to live with tensions rather than actively seeking their resolution through trade-offs (e.g., Siegner et al., 2018).

Lastly, the ethical decision-making model barely scratches the surface of the expansive field of business ethics, overlooking a multitude of perspectives, approaches, and models that could contribute to a more comprehensive understanding of the alignment between prosocial actions and business ethics, and address the tensions and trade-offs faced by social enterprises. Moreover, while the concept of moral intensity has been justified in strong empirical studies, empirical research of decision-making models is often constrained due to lack of experimental rigor (Marshall & Dewe, 1997). There is still a lack of consensus on whether the ethical decision-making model is a process individuals engage in to deliberate on the issue, or if instead, it is a way individuals justify the decision afterwards.

7. Conclusion

Today, the conventional wisdom of business and economics includes only faint traces of the ethical foundations of Smith's ideas, often neglecting to recognize the boundaries of self-interest as guided by ethical considerations and the alignment of individual ambition with the common good. Despite this departure from an understanding of business as deeply intertwined with society, ethical considerations in business have significantly evolved over the previous decades, and emerging scientific fields increasingly acknowledge and encourage the responsibility of businesses beyond profit maximization for shareholders. Reevaluating old assumptions and inviting new ideas, these fields are growing both in interest and prominence.

Rooted in ethical motivations and holding the goal of social value creation at their core, social enterprises offer a compelling environment to explore the challenges and corresponding practices of aligning profit with purpose. They provide a unique setting to study how ethical motivations and goals shape business practices that are more closely aligned with social progress. Nevertheless, the practices of social enterprises remain predominantly informed by conventional economic and business ideas, often failing to align and encourage the pursuit of prosocial motivations and goals.

Integrating the study of ethics in the context of social enterprises serves a dual purpose. Firstly, it is essential to recognize social enterprises' ethical nature, not only to derive best practices but also to ensure that ethical considerations remain central to their activities. Secondly, the application of ethical frameworks and models can serve as a bridge between the ethical motivations and ethical goals of social enterprises. Contributing to this intersection of two fields, this thesis reflects on ethical dilemmas that arise and proposes Jones' (1991) framework of ethical decision-making to inform both strategic and operational level decisions involving conflicting stakeholder demands and social-financial trade-offs. More specifically, it suggests that by assessing the moral intensity of an issue at hand, managers can evaluate the significance of ethical considerations involved and determine the appropriate approach to inform their actions. In this way, the proposed ethical decision-making framework serves to reinforce a strategic approach to social value creation, reducing the risk of mission drift.

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