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Toward a moral approach to stakeholder management: insights from the inclusion of marginalized stakeholders in the operations of social enterprises

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Abstract

Purpose – Previous literature on sustainable supply chain management has largely adopted an instrumental view of stakeholder management and has focused on understanding the effect of powerful stakeholders who have a more decisive influence on an organization's supply chain decisions. Social enterprises have emerged as organizations that often aim to create impact by integrating marginalized stakeholders into their operations and supply chains. This study examines the trade-offs that social enterprises experience due to their moral stance toward stakeholder engagement, evidenced in their commitment to serving marginalized stakeholders, as well as the responses adopted to these trade-offs.

Design/methodology/approach – The study follows a theory elaboration approach through a multiple case study design. The authors draw on insights from stakeholder theory and use the empirical insights to expand current constructs and relationships in a novel empirical context. Based on an in-depth analysis of primary and secondary qualitative data on ten social enterprises, the authors examine how these organizations integrate marginalized stakeholders into various roles in their operations.

Findings – When integrating marginalized customers, suppliers and employees, social enterprises face affordability, reliability and efficiency trade-offs. Each trade-off represents conflicts between the organization's needs and the needs of marginalized stakeholders. In response to these trade-offs, social enterprises choose to internalize the costs through slack creation or vertical integration or externalize the costs to stakeholders. The ability to externalize is contingent on the growth orientation of the organization and the presence of like-minded B2B (Business-to-Business) customers. These responses reflect whether organizations accept the trade-offs at the expense of one or more stakeholders or if they avoid the trade-offs and find mutually beneficial solutions.

Originality/value – Building on the empirical insights, the authors elaborate on stakeholder theory with a focus on the integration of marginalized stakeholders by emphasizing a moral justification for stakeholder engagement, identifying the nature of the underlying trade-offs which can arise when various stakeholder needs are in conflict and examining the contingencies affecting organizational responses to these trade-offs.

Keywords Social impact supply chains, Sustainable supply chains, Stakeholder theory, Case study, Theory elaboration

Paper type Research paper

Introduction

Studying novel forms of supply chains where the focal organization is a non-traditional actor is an emerging area of inquiry in operations and supply chain management (SCM). Social

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enterprises emerge as non-traditional organizations with the potential to address major societal problems. Social enterprises, meaning commercial businesses developed to create social value for a particular group of beneficiaries (Haigh and Hoffman, 2012), represent a fruitful platform for addressing issues such as poverty, food insecurity and climate change (Dorado and Ventresca, 2013). Many social enterprises address societal challenges by catering to and including marginalized stakeholders as suppliers, customers or employees. These marginalized stakeholders typically come from vulnerable socio-economic backgrounds and may also be subject to additional stigmatization due to racial profiling, physical and mental disabilities or sexual orientations (Chowdhury *et al.*, 2023). Therefore, engagement with marginalized stakeholders presents numerous difficulties for social enterprises that contribute to as-yet unknown trade-offs between the interests of various supply chain stakeholders.

Understanding how organizations engage and respond to the needs and influence of different groups of stakeholders is one common application of stakeholder theory (Jawahar and McLaughlin, 2001). Most studies have adopted an instrumental perspective in the SCM literature, focusing on how stakeholder engagement can improve or hinder organizational performance and how stakeholders influence SCM practices. This work largely follows Mitchell *et al.*'s (1997) emphasis on stakeholder salience, which suggests that stakeholders' abilities to influence organizational actions depend on their power, legitimacy and urgency (e.g. Busse *et al.*, 2016; Clarke and Boersma, 2017; Huq *et al.*, 2016; Meixell and Luoma, 2015; Timmer and Kaufmann, 2017). Under this approach, when trade-offs emerge between the interests of various stakeholders, they will be resolved in favor of those who are most salient. In contrast to mainstream organizations, social enterprises' focus on marginalized stakeholders is more often based on an intrinsic commitment to improving outcomes for these groups rather than a legitimacy-seeking response to the power of these stakeholders. This attitude corresponds with a moral stance toward stakeholder management, in which stakeholders are served because it is the "right thing to do" (De Gooyert *et al.*, 2017). To reflect this intrinsic motivation as a justification for stakeholder engagement, this study builds on a moral, rather than instrumental, perspective of stakeholder theory wherein stakeholder considerations are justified on ethical grounds instead of firm interests.

Previous literature on sustainable SCM has documented the instrumental approach taken by SCM scholars, which has impeded substantial advancements in sustainability practice (Matos *et al.*, 2020; Montabon *et al.*, 2016). This is partly because scholars have not sufficiently embraced trade-offs arising from integrating diverse sustainability objectives and stakeholder needs (Matos *et al.*, 2020; Gold and Schleper, 2017). Subsequently, to pave the way for substantial advancements in managerial practice, it is of paramount importance to embrace sustainability trade-offs that arise when organizations integrate various stakeholders with conflicting needs and interests and examine the broad organizational responses to such stakeholder conflicts (e.g. Busse *et al.*, 2016; Xiao *et al.*, 2019). Organizations either accept that trade-offs must be made and may consider the response as a selection from a pre-determined set of alternatives that may not satisfy all stakeholders; alternatively, organizations avoid trade-offs entirely and seek out new alternatives where various stakeholders have joint interests to identify mutually satisfying resolutions (De Gooyert *et al.*, 2017; Freeman, 2010). However, it is unclear how organizations respond to trade-offs differently when their primary purpose is to advance the needs of marginalized stakeholders.

In a crucial departure from standard business practice, social enterprises often prioritize the interests of marginalized stakeholders, who may otherwise lack the power to influence market activity. Matos and Silvestre (2013) highlight the unique challenges of integrating marginalized stakeholders into supply chain activities. What remains unclear is how organizations behave in scenarios where marginalized stakeholders are not only included and considered but hold key roles in operations. The existing literature on social impact supply chains (SISCs), namely the study of supply chains where social enterprises are the focal actors, has primarily focused on strategic considerations, such as institutional tensions in relationship management (Longoni *et al.*, 2019; Taylor and Rosca, 2022), sourcing and supplier selection decisions (Schumm and Niehm, 2023; Meqdadi *et al.*, 2020) and supply chain design (Rosca and Taylor, 2022; Bals and Tate, 2018). Relatively little is empirically known about how social enterprises' emphasis on marginalized stakeholders manifests as specific operational trade-offs (e.g. between internal operational efficiency and marginalized stakeholders' interests), nor how these organizations respond to these trade-offs. Understanding these trade-offs is critical in supporting these stakeholders to participate meaningfully in all supply chains. Thus, this paper aims to answer the following research questions:

RQ1. What operational trade-offs do social enterprises experience due to their commitment to serving marginalized stakeholders?

RQ2. How do these organizations respond to these trade-offs and why?

To address these research questions, we employ a multiple case study of ten social enterprises that engage marginalized stakeholders in various roles (i.e. suppliers, consumers and employees), triangulated with supplementary interviews from external partners and secondary data sources. The empirical analysis reveals salient operational trade-offs inherent to different roles held by marginalized stakeholders and the responses adopted to address them. All types of social enterprises can choose to internalize these costs or externalize them to various stakeholders. Still, this choice is contingent on several factors, namely the growth orientation of the focal organization and the presence of like-minded businesses.

This study contributes to the literature on stakeholder management in sustainable SCM in several ways. First, we elaborate a moral approach to stakeholder theory in sustainable supply chains with a focus on the integration of marginalized stakeholders, extending previous SCM research on stakeholder management that has focused on mainstream customers, suppliers, employees, managers and shareholders (De Gooyert *et al.*, 2017; Meixell and Luoma, 2015). We elaborate on the moral approach to stakeholder theory by refining theoretical constructs and central relationships: trade-offs that emerge from conflicting stakeholder needs and the responses to these trade-offs in a novel empirical context generated by social enterprises catering to the needs of marginalized stakeholders.

Second, this study makes a valuable empirical contribution to the social impact SCM literature. Our findings outline that social enterprises recognize the urgency and legitimacy of marginalized stakeholders' connection to their activities by centering marginalized stakeholders in roles (i.e. customer, supplier and employee) more often dominated by non-marginalized individuals and organizations. In doing so, these organizations create conditions within the supply chain where these stakeholders can have more power to influence organizational action. We enrich the literature with a better understanding of the conditions under which social enterprises choose to internalize costs associated with responding to operational trade-offs or externalize them to other stakeholders.

Stakeholder theory in sustainable operations and supply chain management

Stakeholder theory encompasses a broad stream of literature that examines whether or how companies simultaneously integrate the perspectives of multiple stakeholders when making decisions (De Gooyert *et al.*, 2017). This literature has broadly focused on three main themes: the nature and characteristics of various stakeholders, justifications behind stakeholder engagement and approaches for managing trade-offs resulting from integrating different stakeholder perspectives.

First, regarding the nature and characteristics of stakeholders, some conceptualizations differentiate between stakeholders based on the legitimacy and urgency of their interest in the firm, either legal, moral or presumed or their ability to influence firm processes and outcomes (Mitchell *et al.*, 1997). Building on this power, legitimacy and urgency distinction, Busse *et al.* (2016) classify relevant stakeholders for sustainable SCM as dependent stakeholders (those with legitimate and urgent claims but limited power, like exploited workers), dormant stakeholders (those with power but lacking legitimate or urgent claims, including the media, NGOs, legislative bodies) and reciprocal stakeholders (those with power who adopt the urgent claims of other stakeholders, like consumers, NGOs, activist groups). Much of the literature has focused on the role of reciprocal stakeholders and their influence on supply chain decisions, while marginalized stakeholders are generally ignored unless their claims are taken up by a reciprocal stakeholder (Mani and Gunasekaran, 2018; Park-Poaps and Rees, 2010; Wright, 2016).

Second, the justification for stakeholder engagement revolves mainly around instrumental gains, with recent emphasis on moral motivations. Instrumental applications of stakeholder theory tend to address how stakeholders can influence SCM practices (e.g. Busse *et al.*, 2016; Clarke and Boersma, 2017; Huq *et al.*, 2016) and examine how stakeholder engagement is beneficial to firms and can enhance their profitability or longevity (Hahn, 2015). For example, conventional organizations integrate marginalized stakeholders where instrumental value is evident, like by expanding product lines to base-of-the-pyramid markets (Anderson and Markides, 2007). Meanwhile, moral applications of stakeholder theory are grounded in philosophical conceptions of rights, encouraging firms to consider stakeholders as ends in themselves rather than a means to an end (De Gooyert *et al.*, 2017; Eesley and Lenox, 2006; Laplume *et al.*, 2008). Matos and Silvestre (2013) adopt a balanced approach to stakeholder theory by studying a unique context where the different engagement of primary and secondary stakeholders, such as governments, commercial supply chain partners, NGOs, community leaders and farmers, leads to conflicting stakeholder interests. An organization's underlying motivation for engaging with different stakeholder groups, either instrumental or moral, will likely affect how it manages trade-offs between these stakeholders' interests and will therefore play a role in determining the outcomes of firm-stakeholder relationships.

Third, a common theme in studies using stakeholder theory is how firms manage trade-offs that arise when various stakeholder perspectives conflict (Matos *et al.*, 2020; De Gooyert *et al.*, 2017). The management of trade-offs resulting from conflicting stakeholder needs may be driven by stakeholder characteristics, organizational characteristics or the characteristics of individual decision-makers like CEOs (De Gooyert *et al.*, 2017). These conflicts between stakeholders are not necessarily problematic, but how the involved stakeholders address them is crucial (Xiao *et al.*, 2019). The approaches for managing these trade-offs are important for several reasons. On the one hand, they can lead to the emergence of supply chain sustainability risks when satisfying stakeholders within different institutional environments in global supply chains (Busse *et al.*, 2016). On the other hand, supply chain initiatives with an economic focus often favor one partner at the expense of another and this may lead to unintended adverse outcomes, especially for supply chain stakeholders with less power, such as farmers (Glover, 2020).

Integrating marginalized stakeholders in operations and supply chains

Several studies have documented the integration of marginalized stakeholders in sustainable SCM as producers and suppliers of raw materials (Hall and Matos, 2010), enablers of reverse logistics activities (Brix-Asala *et al.*, 2016) or disabled workers in manufacturing facilities (Narayanan and Terris, 2020). Firms often engage in indirect inclusion, which refers to reliance on local partners for engaging with marginalized stakeholders (Rosca *et al.*, 2019). Collectively, these studies recognize the need to integrate marginalized stakeholders as an element of social responsibility and highlight potential firm performance implications in line with an instrumental approach to stakeholder management. Most studies do not address trade-offs emerging from integrating marginalized stakeholders, except Brix-Asala *et al.* (2016), who found that integrating low-income consumers in reverse logistics activities can lead to environmental versus social sustainability trade-offs. However, there is a temporal dimension to these trade-offs where improving the wages of marginalized workers can enhance their income, but in the long-term destabilize the waste management system locally (Brix-Asala *et al.*, 2016).

The inclusion of marginalized stakeholders in sustainable SCM has been brought to the forefront by the growing prominence of social enterprises. Addressing the needs of marginalized stakeholders is often an essential feature of a social enterprise because they are key to fulfilling its social mission and generating the revenue needed to survive (Ebrahim *et al.*, 2014; Santos *et al.*, 2015). Litrico and Besharov (2019) describe this as the "locus of integration," which is examined by asking whom a social enterprise serves and employs and what it sells. Marginalized stakeholders can also participate in these supply chains as suppliers, distributors or employees (Pullman *et al.*, 2018). Yet, working with marginalized stakeholders who are typically socially or economically marginalized, and thereby more vulnerable, can present challenges for social enterprises (Rosca and Taylor, 2022). These challenges can amplify the already intense institutional tensions social enterprises face stemming from their goal to combine social and commercial objectives: Longoni *et al.* (2019) examined how a work integration social enterprise (WISE) managed institutional tensions within its supply chain relationships while Taylor and Rosca (2022) investigate the role and functions of supply chain social capital to mitigate trade-offs between viability and impact. By voluntarily centering marginalized stakeholders in their operations, social enterprises provide fertile ground for advancing a moral approach to stakeholder theory in sustainable SCM scholarship.

Methodology

This study adopts a theory elaboration approach through a multiple case study (Ketokivi and Choi, 2014). We start with insights from the established stakeholder theory literature and its use in sustainable SCM and expand on it in the context of social enterprises integrating marginalized stakeholders in their operations for moral rather than instrumental reasons. We capitalize on this unique research context to refine existing constructs and explore new relationships between these constructs by highlighting the operational trade-offs social enterprises voluntarily subject themselves to by virtue of their emphasis on serving marginalized stakeholders.

Case selection

An exploratory multiple case study was performed to contrast the operational trade-offs resulting from integrating marginalized stakeholders in different roles and the approaches adopted by the social enterprises to manage them, considering conflicting stakeholder needs. First, the sampling frame was shaped by a desire to collect in-person data and was compiled around particular geographic centers in North America where multiple prospective cases were located. Given the presence of multiple large metropolitan areas within North America, such criteria were reasonable and allowed a sample frame large enough to apply other criteria in selecting the cases. Organizations were excluded if they did not self-identify as a social enterprise, have a social mission focused on marginalized stakeholders and generate revenue through product sales.

More importantly, we sampled social enterprises that engage marginalized stakeholders in different roles to enable us to identify different operational trade-offs and responses to stakeholder conflicts. The roles taken by the marginalized stakeholders include consumers (Bals and Tate, 2018), suppliers (London *et al.*, 2010) and employees (Battilana *et al.*, 2015). Regardless of the type of product or service provided (e.g. consumer goods, agricultural), the cases studied vary along several key characteristics enabling relevant comparisons across multiple social enterprises.

Based on these criteria, a sampling frame of 69 organizations was compiled, all geographically proximate to the first author and at least two other relevant social enterprises. To ensure theoretically useful variation between cases (Seawright and Gerring, 2008) and enable physical interviews, cases were contacted sequentially, following a geographic cluster approach (e.g. all social enterprises in Toronto, then all in Ottawa). Invitations were sent in two waves. The second wave targeted social enterprises with marginalized stakeholders in roles that were underrepresented within the first wave. Cases were selected such that two or more chosen cases were alike in one or more dimensions of their model but differed in another dimension. For example, several pairs of cases were selected wherein marginalized stakeholders' roles were the same, but the legal structures differed. Across both waves, 21 organizations were contacted, of which ten agreed to participate (see Table 1), well within the accepted range of four to ten cases for a multiple case study (Eisenhardt, 1989). Our final sample is balanced regarding the different roles marginalized stakeholders play in the supply chains and across industries, comprising agricultural technologies, food and beverage and consumer goods. A summary of each organization's mission, the products it produces and its age and size are summarized in Table 1.

The organizations selected were small, with one to five paid staff, except for two cases: *Growing 2* (15) and *Clothing* (35). Nine of the ten included cases were founded in Canada and their sizes are representative of the Canadian social enterprise population (Elson *et al.*, 2016). It is worth noting that some organizations also rely on volunteers or other forms of informal labor, as is common in social enterprises (Roumpi *et al.*, 2020). Except for one case (*Incubator*), all interviews were conducted with a manager overseeing the supply chain. For *Incubator*, an interview was conducted with a knowledgeable co-founder, though he was not responsible for the supply chain's daily management. Where possible, interviews were conducted with more than one internal participant to support the validity of the data. In several cases (i.e. *Shea, Jam, Jewelry 2)*, this was impossible as *Shea* has only one paid employee, *Jam* has only one paid employee directly involved in programming and *Jewelry 2* only has one employee in Canada. In other instances, (i.e. *Honey* and *Incubator*), the focal organization has two employees, but capacity limitations prevented both employees from participating.

Besides *Clothing*, whose organizational policy prevented referral to external stakeholders, interviews included external stakeholders such as customers, suppliers and funders to triangulate data. While efforts were made to create a balanced sample, the size of these organizations and their relatively modest operational scale made it very difficult to find multiple external partners for each case who could provide meaningful insights. For many included organizations, relationships with conventional suppliers and retailers were quite arms-length. For example, *Jam* purchased their packaging materials in bulk from Costco. *Growing 1* purchased many materials used to build their products from online marketplaces like Alibaba and large retailers like Home Depot. Across all ten cases, 33 external stakeholders were invited to participate, of whom 14 did.

Data collection

All interviews were conducted between October 2019 and August 2020 and lasted, on average, about 50 min (see Table 1). The semi-structured interviews employed a consistent

Name	Mission and product	Paid staff	Role of marginalized stakeholders	Data summary
Growing 1	● Improve education, food security and economic opportunity in remote and northern communities ● Hydroponic growing facilities	5	Customers	• Chief Technology Officer (76 min) • Operations Manager (37 min) • Former Supplier (44 min) • Social Enterprise Incubator (41 min) • Social Entrepreneurship Competition (40 min) • Total pages secondary sources: 70
Growing 2	● Enhance food sovereignty and increase availability of local produce ● Hydroponic growing facilities	15	Customers	• Co-Founder/CFO (written interview) • Operations Lead (48 min) • Customer Success Manager (47 min) • Customer (72 min) • Social Entrepreneurship Competition (40 min) • Total pages secondary sources: 83
Incubator	● Improve the productivity, income and food security of smallholder farmers ● Solar incubator	2	Customers	• Co-Founder (47 min) • Funder (32 min) • Social Enterprise Incubator (41 min) • Total pages secondary sources: 8
Clothing	● Break the cycle of poverty and help support the safety and dignity of homeless people ● Coat that can be used as a sleeping bag	35	Customers /Supply Chain Participants *(Employees)*	• VP, Operations and Finance (70 Mins) • Total pages secondary sources: 59
Jam	● Help people transitioning out of shelters to build supportive relationships ● Jam	2	Supply Chain Participants *(Employees)*	• Program Director (66 min) • Supplier (8 min) • Buyer* (20 min) • Funder (31 min) • Social Enterprise Network (67 min) • Total pages secondary sources: 23
Soup	● Help participants build skills to support community integration, improve relationship with food ● Soup and preserves	2	Supply Chain Participants *(Employees)*	• Executive Director (62 min) • Head Chef (29 min) • Total pages secondary sources: 25
Honey	● Enhance economic opportunity for beekeepers in Zambezi River Basin and support conservation ● Honey	2	Supply Chain Participants *(Suppliers)*	• Co-Founder (71 min) • Buyer* (22 min) • Total pages secondary sources: 13

(*continued*)

Table 1. Overview, participating organizations and data summary

Name	Mission and product	Paid staff	Role of marginalized stakeholders	Data summary
Jewelry 1	● Promote artisan partners and raise money for grassroots projects in the partners' communities ● Jewelry and housewares	2	Supply Chain Participants *(Suppliers)*	• Co-Founder (42 min) • Sales Manager (67 min) • Retailer† (30 min) • Total pages secondary sources: 5
Jewelry 2	● Support economic opportunity for skilled artisans through fair trade practices ● Jewelry and housewares	3	Supply Chain Participants *(Suppliers)*	• Founder (71 min) • Supplier (63 min) • Total pages secondary sources: 1
Shea	● Support economic opportunity for shea processors through fair trade practices ● Skincare products	1	Supply Chain Participants *(Suppliers)*	• Founder (63 min) • Retailer† (38 min) • Social Enterprise Network (67 min) • Total pages secondary sources: 4

Note(s): *Buyer refers to a customer who uses the focal organization's product in a value-added way.† Retailer refers to a customer who sells the focal organization's product to end customers
Source(s): Authors' own creation

Table 1.

protocol focused on broad themes related to supply chain structure, relationships, social impact and financial viability (see Appendix). By focusing on these general themes, this interview protocol allowed empirical insights regarding operational trade-offs to emerge without presupposing what these trade-offs would entail. Several questions focused on the history of the organization and the participant's previous employment and educational history to support interpretation and data analysis. Three SCM scholars reviewed this interview protocol before its deployment in the field.

All interviews were recorded and transcribed verbatim, and the interviewees were invited to review the transcript to support the reliability of the data. Information not captured in the interview transcript, such as observations during facility visits and informal discussions, was written in an analytic memo upon completing the interview to develop further insights (Saldaña, 2013). All data was compiled in a centralized database for each case. To enhance construct validity, secondary data from the focal organization or external partner's websites or sources like news articles and blog posts were also collected and integrated into the database to support triangulation.

Data analysis

As the study was exploratory in nature, the first cycle of coding was undertaken using a structural approach (Saldaña, 2013), wherein blocks of text were coded indicating their alignment with broad topics of interest as outlined in the interview protocol (i.e. supply chain trade-offs, financial trade-offs, social trade-offs, responses to the trade-offs). Next, each structural code was investigated in depth using open coding to identify the core theme in each piece of text. Additional rounds of coding were conducted as needed for codes with a relatively large number of instances to ensure the code was sufficiently specific. During the first coding round, the different operational trade-offs emerged as significant topics of interest for all social enterprises. In the next step, we closely examined the responses adopted by each social enterprise to address the mentioned trade-offs in light of conflicting stakeholder needs. This led us to develop descriptions for each case regarding its major operational trade-offs and the responses adopted.

After coding and analysis were completed, within-group and cross-case analyses were conducted (Miles and Huberman, 1994). The within-group analysis focused on comparing the social enterprises within three groups given the role of marginalized stakeholders in their supply chain: consumers, suppliers and employees. Pattern-matching techniques were employed within each group to identify similarities or differences in the operational trade-offs they experienced due to the adopted social enterprise model. Subsequently, a cross-case analysis was conducted where we compared and contrasted the three groups regarding their main operational trade-offs, responses and contingencies explaining them.

The findings are structured in two main parts. First, we show how serving marginalized stakeholders can result in major operational trade-offs for social enterprises. Second, we examine the responses adopted by different social enterprises (i.e. internalization vs. externalization), the contingencies which explain the variation in responses and how these responses reflect acceptance or avoidance of the trade-offs. The subsequent sections highlight the trade-offs, operational responses and organizational contingencies enabling various responses based on the marginalized stakeholders' role in the supply chain: customers, suppliers or employees.

Marginalized customers: affordability trade-offs

The organizations included in this category create value by providing a product or a service that, through its use, addresses a previously unmet societal need for a marginalized customer. Three organizations in the study use this tactic: *Growing 1, Growing 2* and *Incubator*. Additionally, *Clothing* serves marginalized customers as well as employees. These organizations' operations are influenced by the affordability trade-offs posed by their marginalized customers. Most organizations with marginalized customers serve people who live in relative, if not absolute poverty, and must find a way to ensure their product is affordable while maintaining its viability. This trade-off was most salient for *Growing 1* and *Growing 2*, which produce expensive products (large hydroponic growing systems) requiring upfront payment.

From the perspective of social enterprises, these affordability trade-offs may derive from manufacturing or operating costs, both under the control of the focal organization. However, *Growing 1* notes that even with steps to reduce operating costs, their products remain unaffordable to some customers.

> Primarily the biggest thing why people don't or can't work with us is financial. And we bring the cost down as far as we can, but at a certain point, it just doesn't make any sense for us to go any lower. We can't physically go any lower. And so, that's the biggest constraint.
>
> – Chief Technology Officer, Growing 1

Organizations serving marginalized customers may also encounter barriers in the external environment that affect costs over which they have little to no control. Some of these external costs are the reasons conventional organizations refuse to serve these marginalized customers in the first place. *Growing 1*, *Growing 2 and Incubator* all experience affordability trade-offs related to their downstream supply chain's geographic and infrastructural characteristics. For *Growing 1* and *Growing 2*, these difficulties are exacerbated by the geographic remoteness of their customers and the higher associated costs for energy. What distinguishes these social enterprises from conventional organizations is their inability to externalize these costs to marginalized customers due to the substantial financial constraints they experience (see Table 2).

Table 2. Operational trade-offs when serving marginalized stakeholders, supporting evidence

Role of marginalized stakeholders: Operational trade-off *Cases*	Representative quotation	Summary of stakeholder conflict
Customers: Affordability *Growing 1, Growing 2, Incubator, Clothing*	So, we don't get a lot of people saying, 'Oh no, we don't see the value in what you guys do'. People are like 'Yeah, food is crazy expensive. It would be awesome if we could reduce the cost of food, but we just can't afford a solution like that'. – Chief Technology Officer, *Growing 1* It's about $200,000 give or take. That's excluding like shipping and training. Like the actual product is around $200,000 give or take and before tax obviously. – Operations Leader, *Growing 2* As different as [Growing 1] and [Growing 2] are in their technological approaches, both have a common foe: high energy costs. In the Northwest Territories and Nunavut, households pay, on average, more than 30 cents per kilowatt hour (kwh) — the Canadian average is about 13 cents per kwh. In Naujaat, Nunavut, where [Growing 1's] first greenhouse is located, residents pay over 70 cents per kwh. (Secondary source)	Focal organization faces high operating costs due to customer characteristics but cannot externalize those costs to customers without compromising accessibility
Suppliers: Reliability *Honey, Jewelry 1, Jewelry 2, Shea*	If they messed up, she doesn't want to say, "Oh I'm not paying you for this. It's not what I asked for". That also goes against what we, like our core principles, which is like we're ultimately here to support people there. (. . .) So, we end up with a lot of stock that we can't necessarily move because it's not exactly what we ordered. – Sales Manager, *Jewelry 1*	Focal organization forced to pay for products that customers are unwilling to purchase at the expense of other investments to avoid burdening suppliers
	One of the artisans had fallen ill and wasn't able to work. And her bike had broken and that's her means of transportation. So, without her bike, she especially can't work. You know, like it was just one thing after another. So, we took her and got her the medicine she needed and bought her a new bike – Founder, *Jewelry 2* I invested to go and meet with my supplier in Atlanta, where the American Shea Butter Institute is. And I meet with her and happy to see her and she's happy to see me and then I immediately find out that just before she came, she was involved in a car accident and now the car that takes the shea from our village, which is 10.5 h from the airport, is now completely totaled. And so now I'm like okay, so like now they need a vehicle. – CEO, *Shea*	Focal organization forced to invest in transportation for marginalized suppliers at the expense of other investments to ensure movement of goods and avoid burdening suppliers
	Picture you know, the beekeeper in the forest and they've had three months and they haven't had any money of any kind, six months maybe. They show up with a couple of buckets and they need to feed their kids, school fees. They need money. Well you know, the people that are taking [the honey], they pay in cash. (. . .). They gave them the buckets, and they had to buy the buckets and give it to them and they'll bring it back next year in six months or whatever. So, they've put up all of that cash and they put in equipment to process, and so you want honey and it takes three months, they go "I can't give you three months credit". – Co-Founder, *Honey*	Focal organization forced to retain sufficient cash for upfront payments to suppliers at the expense of other investments to avoid burdening suppliers

(*continued*)

Table 2.

Role of marginalized stakeholders: Operational trade-off *Cases*	Representative quotation	Summary of stakeholder conflict
Employees: Efficiency *Clothing, Jam, Soup*	So, until this point, [Head Chef] could make way more soup on his own than he does with the interns there. So, they're actually more of a hazard to the business than a help. – Executive Director, *Soup* Now looking at [competitor's] floor is amazing, right. And there are spreading machines and cutting machines and we can only fantasize, right. But at the same time the more efficient I get, then guess what I need, less employees so is that really my goal? – VP Operations and Finance, *Clothing* I'm working with someone who's got lots of manufacturing experience and you know, the first conversation we had to have was like, yes I want to be able to make more jam faster, and we're never going to have a high pressure experience for people who are just kind of getting back into the swing of employment. – Program Director, *Jam*	Focal organization cannot implement efficiency-improving technologies and processes without compromising experience for marginalized employees at the expense of organizational growth
	People are used to, you know, threatening to terminate to get things done and if that's the only card you have in your pocket then it's probably not going to happen here really. One, it's not likely to happen in the early days because we're going to be a lot more tolerant. But it's probably not going to motivate this crowd. It doesn't go over well. – VP Operations and Finance, *Clothing* But I think some of the clients from the projects that we fund can't go into even say, 'I'm going to work part-time now'. I think that's too much. And I think they need more transition time. (. . .) Just trying to ease them in, especially when you're faced with homelessness. I mean that's such a huge hurdle to have to overcome that being able . . . thinking about working full-time or even part-time is probably too much. – Program Manager, Funder, *Jam* Try it out, see how it works and then we'll kinda sign you up and get you going. If you come out for a couple weeks and then, you know, you have a relapse or you can't get out of bed that day or you've got a doctor's appointment, great come back next week. It's fine and you'll just pick up where you left off. I'm trying to make it as accessible as possible and the fewest amount of barriers to success. – Program Director, *Jam* What that means though is maybe 40–50% dropaway. They're not in a position to actually make that work. (. . .) So what we see happen is the next year or a year and a half later, many of those folks come back and they say now I'm ready. And so, their name just goes back on the list. They get another shot. There's no closed door." – Executive Director, *Soup*	Focal organization has to manage unpredictability at the expense of efficient operations to maintain accessibility for marginalized employees

Source(s): Authors' own creation

Operational response

Two responses to the identified affordability trade-off emerged among the organizations studied: externalization via financial intermediation (*Growing 2, Incubator, Clothing*) and internalization via vertical supply chain integration (*Growing 1*) (see Table 3).

Externalization via financial intermediation means that organizations build a financial relationship with some intermediary (e.g. donors, governments, distributors) whose involvement in the supply chain diminishes the affordability trade-off that arises from serving marginalized customers. In each example, no stakeholder bears a disproportionate cost and instead, balanced solutions were created that served all stakeholders' needs. Thus, externalizing the costs to financial intermediaries allowed these organizations to avoid the trade-offs associated with serving marginalized stakeholders rather than adopting a response requiring certain suppliers to compromise on their desired outcomes (i.e. trade-off acceptance). We observed different forms of externalization, as explained below.

In two such cases, the organizations seek out external parties to fund products on behalf of marginalized customers. In *Clothing's* model, these external parties are donors who elect to purchase a fixed number of *Clothing's* products that they can then personally distribute to people in need in their communities or have distributed on their behalf. Through this practice, the organization benefits from the philanthropy goals of donors in its community, the donors can achieve their mission and the product is readily accessible to the end customers without these customers bearing any of the financial costs.

While *Growing 2* sells directly to most of its customers, it has also developed a new consulting service for its most financially constrained customers. Through this service, *Growing 2* prepares potential customers to apply for large grants from governments and charitable foundations to be able to purchase their products. *Growing 2* monetizes this new offering by taking additional payment from successful grants for this work in addition to payment for the product itself. Through this model, *Growing 2* has developed an additional revenue stream that will increase the accessibility of its product to customers. Furthermore, it allows them to build a strong pipeline of potential grant applicants and recipients for funding opportunities offered through governments or large foundations, helping these organizations achieve their own social missions.

Incubator instead relies on pay-as-you-go systems adopted by their distributors. In this model, customers gradually pay for their product using profits they earn from its use (i.e. through savings on food costs if eggs are consumed by the customer or through additional income if chicks incubated using their device are sold). By selling to distributors rather than direct-to-consumer, *Incubator* avoids the cash flow trade-offs that may otherwise arise from a delayed payment model. Further, the pay-as-you-go model diminishes the financial burden of the product, making it affordable in light of the financial returns created for marginalized customers. Finally, this model also allows distributors to financially benefit from their role connecting *Incubator* to the end customers.

Second, a contrasting example emerging from the data was *Growing 1*, which instead internalized the costs associated with serving marginalized customers. They opted to vertically integrate a portion of their supply chain to save money, producing the growing domes in-house via a licensing agreement with their former supplier. Rather than absorbing the savings as a profit-maximizing organization might, a substantial portion of these savings were used to reduce the product cost (see Table 4). However, *Growing 1* remains constrained partly by the high-engagement nature of their process, while the other social enterprises externalizing the costs were able to scale more rapidly.

Organizational contingencies

The ability of these organizations to successfully externalize the costs associated with operational trade-offs can be explained at least in part by their growth orientations. Two of

Table 3. Responses to operational trade-offs when serving marginalized stakeholders

Role of marginalized stakeholders (trade-off)	Organizations	Responses to trade-offs	Outcomes for stakeholders	Contingency and effect on trade-off avoidance vs. acceptance
Customers (affordability)	*Growing 2* *Incubator* *Clothing*	Externalization via Financial Intermediation	• **Distributors –** Revenue opportunity via new product introduction • **Marginalized customers –** Product access through known providers • **Donors –** Reputational/goodwill benefits • **Focal organization –** Decreased revenue share but easier market access	High growth orientation enabling trade-off avoidance
	Growing 1	Internalization via Vertical Integration	• **Suppliers** – Lost revenue • **Marginalized customers –** Lower price • **Focal organization –** Additional activities to manage, potential cost savings	Absence of high growth orientation requiring trade-off acceptance
Suppliers (reliability)	*Jewelry 1* *Jewelry 2* *Shea*	Internalization via Financial Slack	• **Focal organization** – Acceptance of opportunity costs • **Marginalized suppliers –** Increased social benefits • **Individual customers –** Potential for higher product costs	Presence of like-minded B2B customers enabling trade-off avoidance
	Honey	Externalization via Like-minded B2B Customers	• **Focal organization** – Predictable, high volume sales • **Marginalized suppliers –** Improved market access • **B2B customers** – Reputational enhancements	
Employees (efficiency)	*Clothing* *Jam* *Soup*	Internalization via Operational Slack	• **Focal organization** – Acceptance of opportunity costs • **Marginalized employees –** Reduced pressure, greater flexibility • **Individual customers –** Potential for higher product costs	Presence of like-minded B2B customers enabling trade-off avoidance

Source(s): Authors' own creation

Table 4. Supporting evidence, responses to operational trade-offs and contingencies

Customers *Affordability Trade-off* Responses Externalization via financial intermediation /Internalization via vertical integration	Suppliers *Reliability Trade-off* Internalization via financial slack	Employees *Efficiency Trade-off* Internalization via operational slack
They sponsored 2,000 jackets and they wanted us to deliver to them so they gave them to their employees in all the places that they had facilities, and those employees went to the organizations helping the homeless throughout their community and actually gave away the coats to a homeless person – VP Operations and Finance, *Clothing* For the time being, there's a significant amount of funding available for some of these communities to be able to access services like ours. (. . .) What we're basically doing instead of communities using a third-party consultant that may not be as familiar with [*Growing 2*] projects and the economics and requirements, we would just sort of be taking on that consulting role and we'll usually be able to finance that value-add to the communities through a non-repayable grant – Customer Success Manager, *Growing 2* Directly integrated into like how successful we are is "Are our farmers making more money?" If the farmer makes more money, he can make the payments on his incubator to the distributor. The distributor will continue to purchase more units from us. It's a positive feedback loop if the farmer makes more money – Co-Founder, *Incubator* We started looking at driving down the costs by vertically integrating into our own supply chain. We were able to cut tens of thousands of dollars off of the project budget there. We looked internationally for cheaper products and that cut off maybe another ten grand there. We looked at getting better relationships with a few of our suppliers (. . .) We were able to reduce the total cost of the project, absorb a portion of that reduction as a project implementation fee, but overall offer a more affordable project in the case of like almost $60,000 – Chief Technology Officer, *Growing 1*	We're not bearing risk in the sense that we never buy more stuff than the money we've got in the bank. So, we're not putting our own money into it. When we sell stuff, we're obviously selling it for quite a bit more money than we pay for it. And so, we always make sure we have enough money, at least a year ahead to pay our staff. We've got two part-time staff, and to pay for orders. We would never place an order without knowing we can cover the cost – Sales Manager, *Jewelry 1* It's kind of as needed. Just looking and being like, "What can we afford to do?" as the needs come up. That is definitely something we want to work toward is having a pool for that. But yeah, we're not there yet – Founder, *Jewelry 2* And then the idea for us was, if we could get them to then take some of the income that they make [from a charcoal-making machine] that, 'cause they're gonna immediately make income from it, and bank it with us, what we would do is then pull that money and then use it as microloans. So, the women would have control over who gets that money. So basically, if one of the farmers' wives wants to make a business as a seamstress and might need help with a sewing machine, well they could go get the microloan from this group and then we would hopefully expand it out to all the other regions as we bring the machines in – CEO, *Shea*	It is supplemented by a core set of volunteers as well. (. . .) We can know that we have that team of people, and there's also a team of these graduates or alumni who are really, really, consistent. And then there are folks who we're like, are they coming this week? (. . .) So, there is always an element of how many seats do we need in the car to get over here? Will we have enough hands in the kitchen? But that core group always makes for enough hands and if then we have more, it's great – Program Director, *Jam* Yeah, I mean we can do it alone, you know, for sure, but it's good to have people. It's part of our business, for sure. We want to help them – Head Chef, *Soup* So typically, with this workforce some of the new people really struggle in getting here and there's all kinds of things that can take their head out of the game for a minute. (. . .) So it can be tough to figure out how you want to stack each day. So, this has taken all the fire out of that. Now they're not frustrated when people don't show up because we have a game plan for that – VP Operations and Finance, *Clothing*

(*continued*)

Table 4.

Contingencies and effects High growth orientation enabling trade-off avoidance /Absence of high growth orientation leading to trade-off acceptance	Prioritization of B2C sales leading to trade-off acceptance /Prioritization of B2B sales leading to trade-off avoidance	Prioritization of B2C sales leading to trade-off acceptance /Prioritization of B2B sales leading to trade-off avoidance
So, they want to scale up. They want to have a wider impact. (. . .) And everything has come organically, right? There's not really been a targeted . . . I would say that what the equivalent in the private sector would be a targeted sales approach, right? A targeted development campaign approach. (. . .) So, they're just now putting some structure around that but at the end of the day when you have a product to sell, the fact that your profits are going toward, you know, a social enterprise or to help other people instead of just shareholders it's the same business at the end of the day. You have to convince someone to actually push the button, sponsor the coat, close the deal – VP Operations and Finance, *Clothing*	I mean sometimes it can be a little frustrating when you spend a lot of time talking to someone telling them the whole story and they love the story, but they won't even spend $5 on a bookmark or something. I find that it can be a little bit deflating 'cause you think surely everyone's got a few dollars when they're raving about what a great project it is and saying well done for doing it – Sales Manager, *Jewelry 1*	So, it's soup so we have to figure out how can we be as profitable, like the most profitable, right (laughing)? Because the retailers need a 28 or 30% profit margin, and we're not going to come in where Campbells or any of those guys are because we have, it's all fresh and we can't do that. We have different staffing costs and the whole thing. So, it's just trying to figure out what does that look like? – Executive Director, *Soup*
The first hire was a sales guy and business development in general to kind of help them ramp it up and go in front of more communities and more people. And then from there, it was, they started growing other key areas of the team. (. . .) Then at that stage that's kind of where I came in as the Operations Lead, to kind of take it to the also the next level because I come from the same industry, basically. (. . .) And so, I came here to kind of say, "okay this was cute, now let's turn it into a business" in terms of like logistics, supply chains, inventory management, and like all that kind of stuff – Operations Lead, *Growing 2*	We could do things less expensively if we didn't care about doing them ethically. We could definitely, if we didn't care about doing things ethically, we could yeah, there's so much more we could do. So, sometimes your hands are tied, you know. And that can be frustrating. But no, we made this commitment – Founder, *Jewelry 2*	But obviously it was nice to hear that [Jam] was using local [produce], using waste, often a lot of fruit that wasn't being used by farmers was being donated, which is great to us. And just everything about it was like, you know what? No harm in it because we're swapping from just ordinary jam off the grocery store shelf, you know what I mean? There was nothing special about it – Co-Founder, Buyer, *Jam*
We're very much pro for-profit companies because for-profit can be sustainable across the entire value chain, whether it's the farmer, the distributor, the manufacturer. If the farmer makes more money, it's sustainable. So, they don't need a free product if they can invest in something that they can be more productive with – Co-Founder, *Incubator*	We accepted advice which we paid for. It was the shittiest advice we could get, and it was to go into the honey business in the standard retail way and sell bottles of honey. We learned later that no one makes any money on selling bottles of honey except Billy Bee, and they don't actually sell honey – Co-Founder, *Honey*	We're at the [Hospital] Family Cafeteria. And that's really the way to go for us if we're going to become sustainable is cafeterias are easier 'cause you don't pay for packaging, right? So, you just give them buckets of soup, they take the soup, they serve the soup, they give us back the buckets. It cuts our packaging costs right off. And they do huge quantities – Executive Director, *Soup*
The biggest probably issues that we faced is that because it's sort of like a bigger scale project, it's being able to scale it quickly or being able to actually reach the communities that we want to reach and impact. So, I think that was something that we faced for a while, where like it is big and it has a long implementation time. So, it's like how do we do this, how can we do this for example with more than one community at the same time – Operations Manager, *Growing 1*	The wholesalers who are reaching out to us are ones who are social justice minded and get it. And so it's a little different, right? It's not like The Bay or you know, like some cheap store who's trying to nickel and dime us – Founder, *Jewelry 2*	
	We're not a company that's about going into Shoppers Drug Mart or these large chains, because again that's not telling our story. So, we want people to go to the Mom and Pop health food store and be met by you know, the staff person there who takes the time to tell them what their products are about and stuff – CEO, *Shea*	

Source(s): Authors' own creation

the three externalizing organizations (*Growing 2*, *Incubator*) are social enterprises that have adopted a growth-oriented perspective from inception, while *Clothing* has evolved to adopt a more commercial, sales-oriented approach to financial intermediation over time. The director of a social enterprise incubator that supported both *Growing 1* and *Incubator* identified *Incubator's* adoption of a growth-oriented, for-profit model as counter-intuitive relative to the instincts of many social enterprises. This growth orientation encouraged *Incubator* to seek a readily scalable payment model that creates favorable outcomes for multiple stakeholders across the supply chain. Connecting with existing pay-as-you-go solar distributors rather than assuming the product must be distributed at no cost to customers created opportunities for profitable partnerships across multiple organizations. Meanwhile, the growth ambitions of *Growing 2* and *Clothing* were enacted by hiring staff from for-profit businesses to help them adapt commercial marketing and operations management practices in an impact-oriented setting. This professionalization in hiring to support growth was seen as particularly noteworthy by the VP of Operations and Finance at *Clothing,* whose hiring coincided with a more significant turn in the organization toward a sales-based approach to seeking sponsors to serve as financial intermediaries to purchase coats on behalf of marginalized customers (see Table 4).

Marginalized suppliers: reliability trade-offs

The organizations in this group create social value by incorporating otherwise marginalized suppliers into the supply chain, most often upstream. Four organizations in this study create social value by purchasing goods from marginalized suppliers: *Honey, Jewelry 1, Jewelry 2* and *Shea*. In these cases, the organization was formed only after the relationship with the marginalized supply chain partners was initiated. For *Jewelry 1, Jewelry 2* and *Shea*, these were direct relationships with individual producers or small collectives of producers, while *Honey* had an existing relationship with a larger social enterprise that sourced from marginalized honey farmers. Consequently, these supplier relationships are entrenched and often maintained despite reliability trade-offs and mitigation costs that would make them untenable in a profit-oriented supply chain (see Table 2).

The reliability trade-offs can take several forms: inconsistent product quality, logistical disruptions and liquidity issues. *Jewelry 1* extensively described quality management concerns: to shield marginalized suppliers from financial risk like paying in full for all goods even when non-conforming (see Table 2). Consequently, *Jewelry 1* remains financially responsible for a large stock of items they cannot sell.

Meanwhile, two other organizations (*Jewelry 2* and *Shea*) faced additional financial trade-offs that came with ensuring that the marginalized supply chain partners from whom they sourced had consistent access to transportation to keep goods flowing through the supply chain. As third-party logistics services were often unavailable or not viable due to the location of their suppliers and the small scale of operations, logistics are often managed informally, generally by the marginalized supply chain partners. Thus, disruptions in personal transportation for suppliers would mean disruptions in the entire supply chain, which the focal organizations would be responsible for rectifying. In *Jewelry 2's* case, this took the form of purchasing a bicycle for an individual artisan who no longer had a reliable means to travel to work. *Shea* told a similar story after the vehicle used by their suppliers to transport their goods to the airport was in a car accident and needed to be replaced. Both organizations took primary responsibility for ensuring the reliable movement of goods in their supply chain by securing transportation resources for marginalized supply chain partners, who may have been otherwise unable to bear the cost.

Meanwhile, *Honey's* key difficulty in ensuring the reliable movement of goods in its supply chain relates to liquidity and supplier payment. The producers who farm their honey meet in a large exchange a few times annually to sell their honey, expecting to be paid in cash for what was produced. This raw honey is processed by *Honey*'s immediate supplier, a Zambian social enterprise, before it can be sent to *Honey* and its other customers for final sale. *Honey* also indicated that financial institutions are hesitant to provide credit for the purchase of these containers without purchase orders from the end customer. This represents a substantial upfront cost that *Honey* must pay months before they can sell the product to their customers. However, these transactions are necessary to respect the needs of each actor across the supply chain, foremost the marginalized suppliers furthest upstream. In supply chains where access to credit is more readily available, especially for smaller upstream suppliers, these reliability trade-offs would be far less costly. However, working with marginalized suppliers means overcoming their financial barriers to ensure reliability in the supply chain.

Operational response

Several organizations serving marginalized suppliers (*Jewelry 1, Jewelry 2, Shea*) introduced financial slack to manage the reliability trade-offs associated with their supplier relationships (see Table 3). *Jewelry 1* and *Jewelry 2* internalized costs to address marginalized supplier unreliability by restricting a portion of their financial resources to absorb it. *Jewelry 1* did so by always retaining at least a year's worth of resources to pay its Ugandan field staff. As these staff members are the only paid employees in the organization, this practice provides substantial financial security. It delineates clear parameters around which they can make purchasing decisions and withstand the cost of purchasing non-conforming inventory.

Likewise, *Jewelry 2* judiciously uses its resources to financially support its suppliers and alleviate logistical difficulties, like a lack of transportation for individual producers. While these decisions are currently made on an ad hoc basis, the long-term vision of the founder is to generate a pool of resources exclusively earmarked for dealing with these supplier reliability issues as they arise. In doing so, they will avoid accidentally internalizing too many impact-related costs at the expense of their financial viability. Thus, both *Jewelry 1* and *Jewelry 2* accept the opportunity costs of retaining funds to manage supplier unreliability, which could otherwise be used to help the organization grow.

Shea has adopted a different approach to generate financial slack to support supplier needs. Rather than solely using existing operating funds to address reliability trade-offs, *Shea*'s CEO envisions establishing a microfinance fund that will then be used to fund these supplier needs, with the initial seed funding to come from the proceeds generated by a charcoal-making machine she is fundraising for on the supplier community's behalf. In addition to removing the financial responsibility for reliability-assuring investments like the car purchase previously described, this newly generated pool of resources can also support the long-term empowerment of marginalized suppliers. It may even rectify potential reliability concerns before they arise.

Organizational contingencies

An important contingency that enabled trade-off avoidance noted by these organizations was prioritizing relationships with like-minded businesses rather than individual customers. *Honey* fully externalized their costs by shifting their focus away from individual consumers to instead target other ethically minded businesses that could financially or reputationally benefit from the unique attributes of its product. In one surprising story, one such customer fully internalized a reliability trade-off within *Honey's* supply chain in which the necessary cash was unavailable to secure an order.

> We had, for instance, a brewery that we would work with. We ran out of financing, and we had problems, and they said we need the product, we need it by this date (. . .) and they sent us this PO.

And we said okay, we will maybe try to, and three days later there was a deposit in our bank. They paid 100% of it up in advance. "Deliver it to us in three months".

– Co-Founder, Honey

Similarly, *Jewelry 2* noted that its wholesalers, selected partly based on their sustainability focus, tended to be quite amenable to necessary changes in volume discounts. This prevents *Jewelry 2* from bearing the entire financial burden of its value-sharing model with marginalized suppliers.

I would say wholesale is always great because there's more [volume], you know. There's more but at half the price. So yeah, but it's nice to see some bulk. (. . .) I've started saying to some of our wholesalers, like "I can't do 50% on the wood items. The wood items are much more expensive for us to ship and also just cost-wise" and everyone's been understanding on that. (. . .) I think sometimes it's speaking up and saying, "No, I can't do that, and this is why" is good.

– Founder, Jewelry 2

An oft-described challenge noted by organizations that used financial slack to internalize reliability costs associated with their suppliers was the difficulty they faced securing individual customers willing to pay more for their goods in light of their embodied sustainability attributes.

I could think of four [stores] that all had that aspect, and they were marketing to sort of an ethical consumer type, and they closed one-by-one. It's such a tough market. (. . .) You see in surveys people are willing to spend like a little bit more on ethical products, or people say they are, but then you don't see that reflected in their purchasing.

– Co-Founder, Jewelry 1

Jewelry 1, *Jewelry 2* and *Shea* all drew attention to the financial costs of their impact-generating activities and the impact on their competitiveness (see Table 4). While these organizations may have intended to externalize these costs to ethically minded consumers, they struggle to reach individual consumers willing to bear them.

So, one of the bigger challenges definitely is that we're trying to compete in the marketplace against companies that aren't following the same ethical business model as us. So, they're not as concerned about their supply chain and where things are coming from, and how those people are being paid or how they're being treated. So, you know, we have a product that may be more expensive but it's expensive because we're looking at a triple bottom line philosophy. (. . .) So, when you look at the shelf and you've got two somewhat similar products, some people might just go for the cost and so we have to educate and that's a huge barrier for us.

– CEO, Shea

In contrast with the other organizations that partner with marginalized suppliers, *Jewelry 1* has been intentional in maintaining as high a proportion of B2C sales as possible, with approximately 70% of their sales coming from in-person markets. However, unlike the other similar organizations, *Jewelry 1* does not intend to carry on its sales operations indefinitely and is instead endeavoring to transition to a self-sustained micro-finance model requiring little to no labor inputs from their volunteer staff in Canada. This planned change in their business model decreases the salience of the operational trade-off between the effort and pay-off of securing individual customers, as it is not one that they will continue to experience long-term.

Marginalized employees: efficiency trade-offs

Organizations that fall into this group create impact by hiring marginalized employees. This can be done short-term through internships or professional development programs or less commonly, as full-time employees over a longer time horizon. Three organizations from the sample employ this model: *Jam, Soup and Clothing*. To effectively incorporate marginalized employees into their operations, they must overcome barriers to efficiency associated with serving people with barriers to employment. Further, as many of these organizations hire individuals on a relatively short-term basis (approximately 12 weeks to 2–3 years), they must manage their operations to tolerate frequent employee turnover.

When marginalized stakeholders are employees (*Clothing, Jam, Soup*), a commitment to the participant experience inhibits these organizations' ability to scale via diminished efficiency. Efficiency reductions can come from an inability to implement technological and process enhancements that would support scale, and from modifications to performance management practices, including by tolerating behaviors and productivity levels that may not be acceptable in a conventional organization (see Table 2). Similarly, one of *Jam's* funders commented on a similar trade-off, where employment hours must be made as flexible as possible to support marginalized employees transitioning back into the workforce after a change in life circumstances. These organizations often operate using short shifts rather than consistent full-time hours and must contend with unpredictable attendance from participants (as experienced by *Jam* and *Soup*). These difficulties coalesce to diminish the efficiency of these organizations' operations relative to profit-oriented organizations that may employ conventional performance management practices and that can exercise greater control over workforce scheduling.

Operational response

Social enterprises employing marginalized employees introduced operational rather than financial slack to mitigate efficiency trade-offs experienced due to their integration of marginalized employees into their operations (see Table 3). These organizations design their production systems to tolerate employee absences, recognizing that the barriers that make conventional employment inaccessible for people they serve will affect their participation as employees. In doing so, they accepted trade-offs in organizational efficiency to ensure that outcomes were optimized for marginalized employees.

Two organizations, *Jam* and *Soup,* increase the tolerance of their production systems by planning their required production capacity using only predictable sources of labor and treating labor from marginalized employees as supplementary. For *Jam,* this practice has involved incorporating a pool of consistent volunteers into their workforce. On the other hand, *Soup's* production planning is based on the capacity of its Head Chef alone rather than relying on the productivity of its program participants. In both cases, marginalized employee participation supports the organizational mission without becoming necessary to achieve the organization's production targets. In contrast, marginalized employees' labor is crucial to *Clothing*'s success, and they do not hire outside their target population of marginalized employees. Instead, using her private sector operations knowledge, the VP of Operations and Finance physically reconfigured the process layout to increase the visibility of employee absences so these gaps in capacity could be quickly managed.

Organizational contingencies

Organizations that serve marginalized employees experienced the same organizational contingency enabling trade-off avoidance as those serving marginalized suppliers: the presence of like-minded B2B customers (see Table 4). While *Jam* internalized much of the cost of employee inefficiency via operational slack through its volunteer workforce, it experienced a similar benefit from selling its product at larger volumes to a local bakery. In this relationship, *Jam's* social mission and its environmentally sustainable initiatives (e.g. gleaning excess crops from local farmers) made it a desirable supplier. The same phenomenon was identified by *Soup*, whose soup was sold in a local hospital cafeteria at higher volumes which were more conducive to operating in a financially viable way. However, *Jam* continues to partially accept trade-offs associated with direct-to-consumer sales, as the experience of interacting with end customers is valuable for its employees, despite its inefficiencies compared to wholesale.

> Retail takes a lot of time, a lot of effort, and it provides a really valuable experience. So, anytime we're talking about efficiency or we're boosting production, all of that is through the lens of maintaining the integrity of the participant experience. So, we're always gonna have some level of retail, we're always gonna do some markets, we're always gonna do some kind of Sunday morning sales at the church or whatever to provide that experience for our folks. Not because it's the most efficient way to sell jam or make money.
>
> – Program Director, Jam

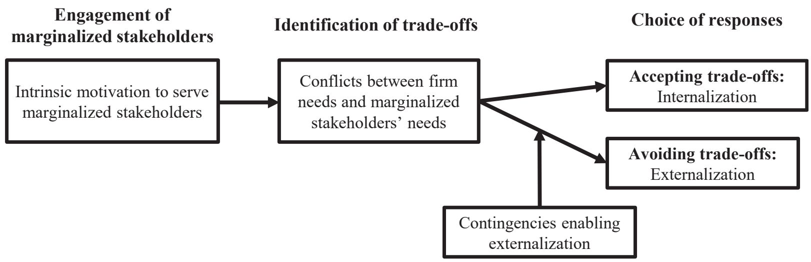
Finally, the benefit of this practice is also evident in *Clothing*'s business model. While its model is unique in that the end user is also a marginalized stakeholder, its ability to "sell" its products to wealthier donors rather than the end customers supports its ability to withstand the high costs it bears to create working conditions that are suitable for its employees.

Elaborating a moral approach to stakeholder theory in sustainable supply chain management

Analyzing social enterprise supply chains from a stakeholder theory lens allows a more refined understanding of emerging trade-offs when integrating marginalized stakeholders in sustainable SCM practice. Our elaborated theoretical framework with critical constructs and relationships is presented in Figure 1.

The empirical results enable us to refine and elaborate a moral approach to stakeholder theory in two ways. First, we revisit key constructs from stakeholder theory: the trade-offs emerging from the conflicting stakeholder needs when marginalized stakeholders are integrated into various roles in operations. Second, we refine relationships between constructs in the context of social enterprises: how trade-offs are managed (i.e. acceptance vs. avoidance) and contingencies affecting this outcome.

First, this study highlights the importance of unpacking the underlying motivation for engagement with marginalized stakeholders and its consequences for subsequent organizational action. All the organizations included in this study were built by founders who were intrinsically motivated to address an unmet need for a group of marginalized stakeholders rather than being motivated by an opportunity to profit from the relationship. This indicates a moral, rather than instrumental approach to stakeholder management. This moral approach is crucial as it drives these organizations' responses to trade-offs between



Source(s): Authors' own creation

Figure 1. An elaborated framework for stakeholder management when integrating marginalized stakeholders in sustainable SCM practice

stakeholder needs. These organizations were highly motivated to persist in their interactions with marginalized customers, suppliers and employees despite the emerging operational trade-offs.

Organizations acting from an instrumental orientation toward stakeholder engagement may prioritize stakeholders with more power and who create more opportunities for the organization (Matos *et al.*, 2020; Montabon *et al.*, 2016). Marginalized stakeholders may be present but lack the power and influence to spur the focal organization to act in their best interest. Such focal organizations accept the trade-offs and allow diminished outcomes for marginalized stakeholders. Social enterprises, in contrast, cannot accept diminished outcomes for marginalized stakeholders without compromising their mission. Thus, two options are available to these social enterprises. In the first, trade-offs are accepted in a way that leads the focal organizations themselves to internalize costs associated with serving marginalized stakeholders. However, this option is costly for the focal organization and may negatively impact its ability to achieve long-term financial viability. Second, the organizations find creative means to avoid these trade-offs and create mutual benefit for all stakeholders. Thus, externalization is a preferred option but it is best achieved in the presence of several contingencies, namely the growth orientation of the social enterprises and the availability of likeminded customers.

Second, we elaborate on a core theoretical construct in stakeholder theory: trade-offs between stakeholder needs. Our analysis reveals three operational trade-offs that emerge depending on the role of the marginalized stakeholder in the operations: affordability, efficiency and reliability. Each embodies the give-and-take between the focal organization's needs and those of marginalized stakeholders. Previous literature in sustainable SCM and management more broadly has examined the trade-offs inherent to integrating multiple stakeholders' needs (Bridoux *et al.*, 2016; Seuring *et al.*, 2019). For example, when studying sustainable dairy supply chains, Glover (2020) found that prioritizing powerful stakeholders may lead to unexpected outcomes for farmers, like diminished agency and flexibility. This study examines how the direct inclusion of marginalized stakeholders as customers, suppliers or employees within the supply chain causes specific operational trade-offs. We similarly find that prioritizing marginalized stakeholders through acceptance of trade-offs via the internalization of costs may lead to unexpected adverse outcomes for social enterprises.

Third, we extend the relationships between the trade-offs and responses, including the role of organizational contingencies. An intrinsic commitment toward marginalized stakeholders leads social enterprises to prioritize the needs of marginalized stakeholders over their own, accepting diminished outcomes associated with the trade-off. By internalizing costs inherent to the trade-offs, social enterprises endanger their survival and viability at the expense of continuity in their relationships with marginalized stakeholders. Externalizing costs to non-marginalized stakeholders who can derive other value from their involvement in the supply chain enables these organizations to adopt a more balanced approach. In doing so, these organizations avoid compromising their viability, preserve beneficial outcomes for marginalized stakeholders and support value creation for additional non-marginalized stakeholders. Yet, their ability to do so requires particular organizational contingencies that are unique to the role marginalized stakeholders play within the supply chain. Therefore, understanding what organizational contingencies can support externalization can improve outcomes associated with these trade-offs for the focal organization and other stakeholders.

While the impact of a moral approach to stakeholder management is now clear, it is important to note that this intrinsic motivation did not require replication across the entire supply chain. The financial intermediaries and B2B customers who enable the externalization of trade-off costs for social enterprises do not necessarily need to share the social enterprise's intrinsic motivation or willingness to accept diminished outcomes to serve marginalized stakeholders. In fact, the ability of these external parties to derive value from their involvement in the supply chain may instead be an important driver of successful externalization. For example, these "like-minded B2B customers" may be brands that have identified an opportunity to capitalize on a socially responsible image or conventional firms seeking opportunities to reduce their negative sustainability impacts to avoid reputational risk. In both cases, these B2B customers would be motivated by potential organizational gains rather than a pure desire to support the social enterprise's mission. Without these gains for external parties, these scenarios instead would lead to additional stakeholders accepting diminished returns to support marginalized stakeholders rather than the avoidance of trade-offs observed.

Discussion and conclusion

The comparison of the ten cases reveals the critical importance that the role of marginalized stakeholders plays in determining the most salient operational trade-offs associated with the management of sustainable supply chains. We also show that social enterprises respond to these trade-offs through internalizing and externalizing associated costs to different stakeholders, and we outline the contingencies that enable externalization, and identify how these responses reflect trade-off avoidance or trade-off acceptance.

Theoretical implications for stakeholder theory in sustainable supply chain management

Previous literature on sustainable SCM has largely adopted an instrumental view of stakeholder management and has focused on understanding the influence of more powerful stakeholders with a stronger influence on firms' supply chain decisions (Matos *et al.*, 2020; De Gooyert *et al.*, 2017). We contribute to this literature with insights on how social enterprises engage and respond to the needs and influences of stakeholders that, traditionally, are less powerful and influential on supply chain decisions (e.g. Narayanan and Terris, 2020; Brix-Asala *et al.*, 2016). By elaborating on a moral approach to stakeholder management, we show its empirical importance when unpacking how organizations respond to trade-offs between stakeholder interests and ensure that marginalized stakeholders are not forced to accept diminished outcomes, as often occurs (Glover, 2020). Moreover, we show how partnerships with external supply chain actors can mitigate sustainability trade-offs, thereby complementing previous research that has shown different responses to sustainability trade-offs.

Previous studies have uncovered trade-offs arising at the firm level between the different dimensions of sustainability (economic, social and environmental) (e.g. Brix-Asala *et al.*, 2016), including trade-offs between manufacturing processes and sustainability goals (Nand *et al.*, 2023), the mitigation of trade-offs between green supply chain practices and firm performance (Esfahbodi *et al.*, 2023), how cost-sustainability trade-offs may affect short-term and long-term profitability (Esfahbodi *et al.*, 2016) and how organizations can collaborate with supply chain partners to develop creative solutions to overcome trade-offs (Xiao *et al.*, 2019). Rather than focus on trade-offs in different dimensions of organizational performance, we uncover trade-offs rooted in conflicts between different stakeholder needs while addressing social sustainability.

Situations in which organizations prioritize the needs of marginalized stakeholders at the expense of the organizations' needs illustrate the potential impact of intrinsic motivation in sustainable supply chains. Organizations with strong intrinsic motivation can take the lead to include marginalized stakeholders and have their supply chain partners follow their lead, thereby leading to a collective force to address social and ethical responsibilities (Chowdhury *et al.*, 2023). Moreover, we show that a moral approach to stakeholder engagement does not necessarily need to be shared by all partners. Externalization can occur even when some supply chain actors have an instrumental perspective. Future research can work to unpack additional operational trade-offs and opportunities present when supply chain partners differ in their instrumental or moral orientation toward engagement with marginalized stakeholders.

Theoretical implications for social impact supply chains

This study unpacks major operational trade-offs in a novel form of supply chain where social enterprises are the focal organizations. Understanding the operational trade-offs, responses and outcomes for stakeholders is important because these seemingly small operational decisions can support the success and survival of social enterprises or lead them away from their social mission (Ebrahim *et al.*, 2014). Some studies have focused on understanding tensions between social enterprises' social and commercial logics and how they can be mitigated (e.g. Meqdadi *et al.*, 2020; Longoni *et al.*, 2019). We advance this literature by examining operational, rather than institutional, trade-offs that arise from integrating marginalized stakeholders in different supply chain roles. By providing a more nuanced operational view of the trade-offs social enterprises face, we extend previous SCM studies that have built on insights from the broader social entrepreneurship literature primarily focused on strategic considerations (e.g. Taylor and Rosca, 2022; Bals and Tate, 2018).

Managerial contributions

The study provides several important implications for managers of social enterprises, policymakers and commercial organizations. For managers of social enterprises, our insights offer more clarity and guidance regarding the management of operational trade-offs and how they can be influenced by factors such as growth orientation, which in itself may be driven by the characteristics of the social entrepreneur (Marshall, 2011). The findings of this study can help prospective social entrepreneurs understand how decisions regarding the roles of marginalized stakeholders and responses to operational trade-offs interrelate to complicate or simplify the management of their operations and their ability to serve marginalized stakeholders effectively. For public policy, our insights on cost drivers and response mechanisms are relevant for impact investors that may require a better understanding of the financial needs of social enterprises and the support needed to overcome them.

While the focus is on social enterprises, our study may have implications beyond this context for any commercial organizations implementing similar impact-generating practices that must navigate the operational trade-offs associated with pursuing their desired impact efficiently (Van der Byl and Slawinski, 2015). Conventional organizations will differ substantially from social enterprises' experience of the trade-offs associated with pursuing social impact, partly due to the higher likelihood that the inclusion of marginalized stakeholders will derive from instrumental motivations (Rosca *et al.*, 2019). Commercial organizations may be less likely than purpose-built social enterprises to persist in these activities if confronted with trade-offs that limit their profitability. Thus, understanding what operational trade-offs can be expected and how they may be mitigated can encourage the implementation of socially impactful activities by commercial organizations in addition to social enterprises.

Limitations

This study has several limitations that create avenues for further research. First, to ensure the feasibility of face-to-face data collection, all but one social enterprise (*Incubator)* included in the study was located within reasonable geographic proximity of the first author during data collection. Further, nine of the ten participating social enterprises were founded in Canada, though one has since relocated its operations to Zambia. Consequently, some of the experiences of these social enterprises may be unique to the North American context or the Canadian context more specifically. Future research is needed to understand the generalizability of these findings to social entrepreneurs operating outside North America.

Second, our sample consists of small organizations, some of them with only 1–3 employees. While this is representative of the social enterprise population, which usually consists of small enterprises (Roumpi *et al.*, 2020), operational trade-offs can have different manifestations in larger organizations which are more often studied in supply chain and operations management research. Further research should monitor the growth trajectories chosen by different social enterprises and how operational trade-offs arise and are mitigated and the effects on long-term growth and scalability. Growth and scaling of social enterprises remain a major debate in the wider social entrepreneurship literature.

Third, *Clothing* is the only organization where marginalized stakeholders occupy multiple roles (i.e. both customer and employee). This model is quite common within the social enterprise sector, particularly in base of the pyramid contexts (Dembek and York, 2022). Future research should be undertaken with a larger sample of such organizations to identify unique insights regarding additional operational trade-offs or synergies that may emerge from this dual role played by marginalized stakeholders.

Finally, some of our findings may be unique to the cases in our sample. There might be other forms and manifestations of operational trade-offs that did not emerge from our data but could be relevant for other cases regarding the integration of marginalized stakeholders in the operations of social enterprises. Similarly, our respondents focused heavily on the presence of B2B instead of B2C sales channels after unsuccessful forays into B2C sales. However, B2C channels can also serve as a form of externalization when there are sufficient customers willing to pay more for a sustainable product.

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Appendix
Interview protocol

Origins

1. Describe the general organizational history.
2. What is the personal history of the participants?

Supply chain partnerships

3. Provide a broad overview of the focal organization's wider network, including supply chain partners, beneficiary-related partners and other supporting organizations.
4. How did the relationships with these partners begin and why?
5. What have the biggest challenges been in their supply chains in general?
6. What have the biggest successes been in their supply chains in general?

Relationship management

To be answered for each major supply chain partner:

7. Describe the relationship history for the most significant partners in more detail.
8. What have the biggest challenges been in each relationship?
9. What have the biggest successes been in each relationship?

Financial viability

10. What are the organization's current financial goals?
11. Have the organization's financial goals changed over time? If so, how?
12. What, if any, relationship does the organization have with different types of funders (e.g. private donors)?
13. What have been the organization's greatest financial challenges and successes?

Social impact

14. What are the organization's current social goals?
15. How have they changed over time?
16. How does the organization evaluate the effectiveness of its social initiatives?
17. How are their social initiatives received by various stakeholders (e.g. beneficiaries, customers)?
18. What have been the organization's greatest social challenges and successes?

Note(s): This protocol is part of a larger project and is shared with other studies (i.e. Taylor and Rosca, 2022).

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