

**The Effect of Adoption of Commercial Business Practices on Social Enterprise
Performance: An Empirical Study from the UK**

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Abstract

Drawing on the resource-based view, dynamic capability perspective, and resource dependency theory, and utilizing a sample of 164 UK social enterprises, this dissertation investigates the effects of adoption of commercial business practices on social enterprise performance. The adoption of commercial business practices refers to the adoption of market orientation, learning orientation, market disruptiveness capability, new product development capability, and 'trade vs. grant dependency'. The dissertation comprises three independent but interrelated empirical essays.

The first essay (Chapter 2) analyzed individual and combined (interaction) effects of market orientation and market disruptiveness capability on social enterprise performance. The study shows that market orientation improves both the economic and social performance whereas market disruptiveness capability improves only the economic performance of social enterprises. However, interestingly, the study demonstrates that the interaction effect of market orientation and market disruptiveness capability is negative on economic performance but positive on social performance.

Similarly, the second essay (Chapter 3) analyzed how learning orientation and new product development capability influences the economic and social performance of social enterprise. The essay shows that learning orientation improves new product development capability and, thereby, the economic and social performance of social enterprises.

Likewise, the third essay (Chapter 4) investigated how 'trade vs. grant dependency' influences social enterprise performance. It was found that trade

dependency is better than grant dependency for social enterprises to improve their social performance. However, contrastingly, it was found that the adoption of trade dependency over grant dependency has no significant effect on their economic performance. Nevertheless, the study shows that the adoption of trade dependency over grant dependency is better for social enterprises to improve their learning orientation and thereby both economic and social performance.

In sum, this dissertation has made a strong case for why social enterprises should adopt commercial business practices.

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Table of Contents

Abstract.....	ii
Acknowledgements.....	iv
Table of contents.....	v
List of Tables.....	xi
List of Figures.....	xii
Chapter 1. Introduction.....	1
Abstract.....	1
1.1. Background.....	1
1.2. Research Gaps.....	7
1.3. Research Questions.....	12
1.4. Theoretical Foundations.....	14
1.4.1. Resource Based View.....	15
1.4.2. Dynamic Capability Perspective.....	16
1.4.3. Resource Dependency Theory.....	17
1.5. Methodological Approach.....	17
1.5.1. Sample and Data Collection.....	17
1.5.2. Measures, Validity, and Reliability of Constructs.....	21
1.6. Summary of Three Papers.....	22
1.7. Thesis Structure.....	25
References.....	27

Chapter 2. Market Orientation, Market Disruptiveness Capability, and	
Social Enterprise Performance: an Empirical Study from the UK.....	40
Abstract.....	40
2.1. Introduction.....	41
2.2. Background.....	48
2.2.1. Market Orientation and Social Enterprises' Performance.....	49
2.2.2. Market Disruptiveness Capability and Social Enterprises Performance.....	51
2.2.3. Complementary or Getting 'Stuck in the Middle'? Hypothesising the Interaction Relationship between Market Orientation and Market Disruptiveness Capability on Social Enterprises' Performance.....	53
2.3. Research Method.....	60
2.3.1. Sample and Data Collection.....	60
2.3.2. Variables and Measures.....	62
2.3.2.1. Dependent and Independent Variables.....	62
2.3.2.2. Control Variables.....	67
2.3.3. Reliability and Validity.....	69
2.3.4. Assessment of Common Method Bias (CMB).....	72
2.4. Results.....	73
2.5. Discussion and Conclusion.....	78
2.5.1. Theoretical Implications.....	78

2.5.2.	Managerial Implications.....	81
2.5.3.	Limitations and Future Research.....	83
	References.....	85

Chapter 3. Learning Orientation and Social Enterprise Performance: The Mediating Role of New Product Development Capability.....		107
	Abstract.....	107
3.1.	Introduction.....	108
3.2.	Theory and Hypotheses.....	112
3.2.1.	Learning Orientation and Social Enterprise Performance.....	112
3.2.2.	Learning Orientation and New Product Development Capability.....	114
3.2.3.	New Product Development Capability and Social Enterprise Performance.....	116
3.2.4.	The Mediating Role of New Product Development Capability in the Relationship between Learning Orientation and Social Enterprise Performance.....	119
3.3.	Methodology.....	122
3.3.1.	Sample and Data Collection.....	122
3.3.2.	Variables and Measures.....	123
3.3.2.1.	Dependent Variables.....	123
3.3.2.2.	Independent Variables.....	125
3.3.2.3.	Control Variables.....	125
3.3.3.	Reliability and Validity of the Constructs.....	127

3.3.4.	Assessment of Common Method Bias (CMB).....	130
3.4.	Analysis and Results.....	132
3.4.1.	Descriptive Statistics and Inter-correlation Matrix	132
3.4.2.	Results of Hypotheses Testing.....	133
3.5.	Discussion and Conclusion.....	137
3.5.1.	Contribution to Theory.....	139
3.5.2.	Contribution to Practice.....	141
3.6.	Limitations and Avenues for Future Research.....	142
	References.....	144

Chapter 4. ‘Trade versus Grant Dependency’, Learning Orientation, and Social Enterprise Performance.....	163
Abstract.....	163
4.1. Introduction.....	164
4.2. Theoretical Background and Hypothesis Development.....	168
4.2.1. ‘Trade vs. Grant Dependency’ and Social Enterprise Performance.....	168
4.2.2. ‘Trade vs. Grant Dependency’ and Learning Orientation.....	172
4.2.3. Learning Orientation and Social Enterprise Performance.....	175
4.2.4. The Mediating Role of Learning Orientation in the Relationship between ‘Trade vs. Grant Dependency’ and Social Enterprise Performance.....	178
4.3. Methodology.....	179
4.3.1. Sample and Data Collection.....	179

4.3.2.	Measurement.....	180
4.3.2.1.	Dependent Variables.....	180
4.3.2.2.	Independent Variables.....	181
4.3.2.3.	Mediator.....	181
4.3.2.4.	Control Variables.....	182
4.3.3.	Reliability and Validity of the Constructs.....	184
4.3.4.	Common Method Bias (CMB).....	186
4.4.	Analysis and Results.....	188
4.4.1.	Descriptive Statistics.....	189
4.4.2.	Test of Hypotheses.....	190
4.5.	Discussions and Conclusions.....	193
4.5.1.	Implications for Theory.....	194
4.5.2.	Implications for Practice.....	200
4.6.	Limitations of the Study and Recommendations for Future Research....	201
	References.....	203
	Chapter 5. Discussions and Conclusions.....	222
5.1.	Introduction.....	222
5.2.	Main Findings and Results.....	222
5.3.	Contributions to Theory.....	227
5.4.	Contributions to Practice.....	234
5.5.	Policy Implications.....	235
5.6.	Research Limitations.....	236

5.7. Future Research Agenda.....	239
References.....	243
Bibliography.....	251
Appendix A. Online Directories of UK Social Enterprises.....	288
Appendix B. Indicators and Standardized Factor Loadings of Latent Constructs.....	289
Appendix C. Survey Questionnaire.....	291

List of Tables

Table 1.1. Some Distinguishing Characteristics of the Four Categories of Social Enterprises.....	2
Table 1.2. Descriptive Statistics and Inter-Correlations Matrix (n = 164).....	20
Table 2.1. Indicators and Standardised Factor Loadings of Latent Constructs.....	64
Table 2.2. Descriptive Statistics, Cronbach's Alpha (Alpha), Composite Reliability (CR), Average Variance Extracted (AVE), and Inter-Correlations Matrix.....	71
Table 3.1. Constructs' Validities and Reliabilities.....	129
Table 3.2. Descriptive Statistics and Inter-correlation Matrix.....	133
Table 3.3. The Model Fit Indicators of Main Effect and Indirect Effect Models.....	135
Table 4.1. Constructs' Validities and Reliabilities.....	185
Table 4.2. Descriptive Statistics and Inter-Correlations Matrix (n = 164).....	190

List of Figures

Figure 2.1.	Hypothesised Model.....	60
Figure 2.2.	The Full Structural Model with Path Coefficients (Results of the Analysis.....	76
Figure 2.3.	Interaction Effects of Market Orientation and Market Disruptiveness Capability on Economic Performance.....	77
Figure 2.4.	Interaction Effects of Market Orientation and Market Disruptiveness Capability on Social Performance.....	78
Figure 3.1.	Conceptual Framework.....	122
Figure 3.2.	The Results of the Analysis (Path Coefficients).....	136
Figure 4.1.	Conceptual Model.....	178
Figure 4.2.	The Results of the Analysis.....	192
Figure 5.1.	Composite Model Showing Hypotheses and the Results of their Test.....	223

Chapter 1

Introduction

1.1 Background

This dissertation investigates how the adoption and implementation of commercial business practices influences the performance of social enterprises. Social enterprises are considered important organizations for solving social issues, generating employment, and creating social change and sustainable societies (Martin & Osberg, 2007; Santos, 2012). Particularly, due to the adoption of not only social but also economic goals by social enterprises to achieve financial self-sufficiency and provide sustainable solutions to social problems simultaneously, governments, scholars, and practitioners have high expectations of social enterprises to solve and address complex social issues (Santos, 2012; Zahra et al., 2008). However, there is a huge discrepancy between the stakeholders' expectations and the actual achievements of social enterprises (Di Domenico et al., 2009) because social enterprises are still fragile and weak organizations (Battilana & Dorado, 2010) with a high failure rate (Amin et al., 2003).

Broadly, a social enterprise is defined as 'a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community rather than being driven by the need to maximize profit for shareholders or owners' (DTI, 2002, p. 7). It is important to note that the definition of social enterprise varies among scholars and across regions (Defourny & Nyssens, 2010; Kerlin, 2006) because the term 'social enterprise' encompasses many different forms of

organization. According to Defourny and Nyssens (2017), social enterprises can be divided into four categories: entrepreneurial non-profits, social businesses, social cooperatives, and public-sector social enterprises. Some distinguishing characteristics of each of the four categories of social enterprises are presented in the Table 1.1 below.

Table 1.1: Some Distinguishing Characteristics of the Four Categories of Social Enterprises

Category	Definition	Governance	Profit Distribution
Entrepreneurial non-profits	Charities and non-governmental organizations adopting an entrepreneurial approach towards accomplishing their social mission.	Democratic (Trustees, Members)	Prohibited
Social businesses	Commercial businesses applying business models and practices to develop business activities that are social mission(s)-driven.	Independent, Capitalist	Prohibited, Limited with and without asset lock, Unlimited
Social cooperatives	Co-op supermarkets, as well as credit unions, both being typically run by members and stakeholders to create values for either only members or both the members and stakeholders	Democratic (Members as co-owners)	Limited
Public-sector social enterprises	Public sector spin-offs intending to provide public services to the target catchment with increased accuracy and efficiency through commercialization.	Bureaucratic	Prohibited, Limited

(Adopted and developed from Defourny and Nyssens, (2017).

The broad definition of social enterprise (i.e. DTI, 2002) which is adopted in this study incorporates such different social enterprises. Nevertheless, despite the differences, the notable characteristic of all social enterprises is their dual emphasis of social and financial or economic performance (Dart, 2004b; DTI, 2002; Santos, 2012). Social

performance refers to the performance of an organization in creating social values for the customers or in achieving social missions, goals, and objectives (Coombes et al., 2011), while economic performance refers to the performance of an organization in capturing economic value from its activities (Kropp et al., 2006). A successful social enterprise should, therefore, be able to improve the dual objectives simultaneously (Dart, 2004b; Di Zhang & Swanson, 2013). Because of the dual emphasis, however, deciding on the right strategies for social enterprises can be more complex than for commercial businesses. Social enterprises, unlike commercial businesses and charities, need to find market strategies that can not only address the needs of those they intend to target, but also to be financially viable (Maclean et al., 2013; Rey-Martí et al., 2016). As a result, whether a social enterprise can attain both from adopting commercial business practices is far from guaranteed (Foster & Bradach, 2005; Massetti, 2008; Rispoli & Servantie, 2016).

Commercial business practices refer in this study to the activities, strategies, resources, and capabilities that commercial businesses adopt or develop to improve their performance. Indeed, commercial businesses adopt and develop various strategies, resources, and capabilities to improve their performance (Barney, 1991; Barney, 2001; Teece et al., 1997). However, this dissertation limits commercial business practices to the adoption and development of market orientation, learning orientation, market disruptiveness capability, new product development capability, and ‘trade versus grant dependency’ only because these marketing related concepts stand out within the existing literature.

Market orientation (Hult et al., 2005; Jaworski & Kohli, 1993; Kirca et al., 2005; Morgan et al., 2009; Narver & Slater, 1990) has long been considered in commercial

business literature as a valuable resource that improves the performance of commercial businesses (Morgan et al., 2009; Narver & Slater, 1990; Ngo & O'Cass, 2012a, b; Zhou et al., 2008). It refers to the extent to which a firm would expend efforts to generate, and respond to, information about customers and competitors (Deshpandé & Farley, 1998; Kohli & Jaworski, 1990; Narver & Slater, 1990). Equally, studies have found that, as social enterprises become more aware of the needs of their targeted catchment, they could devise better approaches in serving them (Liu et al., 2015). However, while market orientation is undoubtedly crucial for social enterprises, the mainstream literature is increasingly viewing it as a static and largely current-looking perspective of market resources (Helfat & Peteraf, 2003; Priem & Butler, 2001). The dynamic capability view (Teece et al., 1997), for instance, has long suggested that it is not just the ability to understand the current market that is crucial to the long-term prospects of an organisation, but also the capability to keep up with the changes in the external marketplace. Therefore, while market orientation focuses on current market intelligence that would be useful for the 'now', market disruptiveness capability (McKelvie & Davidsson, 2009), as a dynamic capability, focuses on the future market and hence it would be useful for the future market.

In contrast with market orientation, market disruptiveness capability is a concept relatively less touched upon in social entrepreneurship. The term was first coined by McKelvie and Davidsson (2009) in the entrepreneurship literature; the authors were looking at the magnitude and persistence of small firms in their attempt to explore new markets through innovations. Its use follows the tradition of the innovation literature which describes such disruptive capability as dynamic and change-orientated, and

distinguishes it from the more static, incremental modes of change (Christensen & Overdorf, 2000). Such capability would enable firms to bring out radical product and service innovations ahead of their competitors; this would disrupt the market status quo and force competitors to act accordingly (Markides, 2006; McKelvie & Davidsson, 2009; Tellis et al., 2009). However, as developing market disruptiveness capability entails costs (Assink, 2006; Henderson, 1993) and risk (McDermott & O'Connor, 2002; O'Connor et al., 2008), each organisation would make a calculative judgement in determining whether the cost associated with such innovation could be compensated by the long-term potential prospect of bringing the innovation to the market, which could enhance the firm's competitiveness. In the literature regarding conventional businesses, such cost is often deemed justified as market disruptiveness capability is found to be of crucial importance in a firm's exploration and, by implication, its economic performance (Prange & Verdier, 2011). In the social enterprise context, it is also likely that such emphasis on market disruptiveness capability would help social enterprises to increase social performance because, as with conventional businesses, such innovation would enable them to better serve the demands of those they intend to serve.

Similarly, learning orientation has long been considered in a commercial business literature as a valuable resource (Kropp et al., 2006; Real et al., 2014; Sinkula et al., 1997) that improves the performance of commercial businesses (Huber, 1991; Hult et al., 2004 p, 431). The learning orientation of a firm is simply defined as a 'basic attitude towards learning' (Real et al., 2014, p. 189). In the context of commercial businesses, learning is seen as a crucial resource for the generation and application of new knowledge and, in turn, for the development of new product and service development

capability and thereby improving firm performance (Calantone et al., 2002). New product development capability is a dynamic capability and it simply refers to the ability of firms to produce new products or services (McKelvie & Davidsson, 2009). Equally, scholars (Carmen & María José, 2008; Garrido & Camarero, 2010) argue that learning orientation, as an important source of knowledge resource (Wiklund & Shepherd, 2003), enables not only commercial businesses but also not for profit firms to innovate new products and services that address the needs and demands of their customers or beneficiaries. However, although the generation of new knowledge and its applications in the development of new products and services un-doubtedly provide competitive advantages to a firm (Grant, 1996; Teece et al., 1997), it also simultaneously incurs costs to the firm (Patrucco, 2009). Hence, for resource constraint firms, such as social enterprises (Austin et al., 2006; Kickul & Lyons, 2015), how learning orientation and new product development capability influence the performance is important to understand.

Finally, it is obvious that trading or selling of products and services in market is the main source of income for any commercial business. So, improving trading or selling of products and services is a crucial strategy for commercial firms to improve their financial performance. Recent studies (Epstein et al., 2015; Wang et al., 2016) show that commercial businesses can improve not only their financial performance through increasing sales of their products and services, but also their social performance through fulfilling their social responsibilities, simultaneously. This indicates that depending on trading or selling of goods and services in market for income may not necessarily create hurdles to the firms, such as social enterprises, that want to achieve both their financial

and social performance simultaneously. However, it is important to note that the focus of commercial businesses and social enterprises on the financial and social goals are different. For example, commercial businesses primarily focus on achieving financial goals while social enterprises primarily focus on achieving social goals (Austin et al., 2006). Moreover, relative to commercial businesses, social enterprises are resource constraint organizations (Austin et al., 2006). Consequently, unlike commercial businesses, social enterprises may not direct their resources to support marketing and sales of products and services. Nevertheless, some scholars (Dart, 2004a, b) believe that the adoption of ‘trade vs. grant dependency’ strategy enables social enterprises to adopt other resources, capabilities, and strategies that facilitate them to achieve not only economic but also social performance. ‘Trade vs. grant dependency’ refers to the higher degree of dependency of a firm to the income obtained from selling products and services than to the income obtained from grants, donations, and funding (Chell, 2007).

1.2. Research Gaps

The majority of social entrepreneurship studies have remained focused on defining and conceptualizing social entrepreneurs and social enterprises (Dacin et al., 2010; Doherty et al., 2014; Martin & Osberg, 2007). Very few studies (Dart, 2004a, b; Leroux, 2005; Liu et al., 2015; Liu et al., 2014) have investigated how social enterprises improve and manage their resources, capabilities, and performances; however, the majority of them are conceptual and theoretical. Hence, the empirical research that demonstrates how social enterprises can improve and manage their resources, capabilities, and performances is still rare in social entrepreneurship literature (Sassmannshausen & Volkmann, 2016).

Furthermore, theoretical assertions vary regarding how social enterprises can influence their economic and social performance in the social entrepreneurship literature. For example, some scholars (Dart, 2004a, b; Leroux, 2005) argue that social enterprises can achieve their financial self-sufficiency as well as social missions by adopting commercial business practices. The authors (Dart, 2004a, b; Leroux, 2005) argue that the adoption of commercial business practices enables social enterprises to be efficient and effective not only to generate earned income but also to address social problems. However, others (Dees, 1998; Dees & Elias, 1998; Foster & Bradach, 2005) argue that the adoption of commercial business practices increases value conflicts among the individuals of the social enterprises, distracts managers away from social missions, jeopardizes their legitimacy and hence reduces the competitiveness as well as non-market based income, and eventually may lead to the deterioration of both the economic and social performance of the social enterprises. It is important to note that the commercial business practices in those studies (e.g. Dart, 2004a; Dart, 2004b; Foster & Bradach, 2005) mainly refer to the adoption or implementation of trade dependency or earned income generation strategies. Hence, due to such conflicting literature, our understanding of how ‘trade versus grant dependency’ influences the performance of social enterprises is still unclear.

As mentioned earlier, adoption and implementation of commercial business practices in this study refers to the adoption and implementation of market orientation, learning orientation, market disruptiveness capability, new product development capability, and ‘trade vs. grant dependency’ (more dependency on income from selling products or services than on income from grants, donations, and funding) only. I selected

these commercial business practices in this study for two main reasons. First, it is established in the literature that they can improve the performance of commercial businesses. Second, their roles, individual and/or combined, in social enterprises are still unclear due to the lack of empirical studies and/or the conflicting literature. For instance, the positive relationship between market orientation and firm performance has long been established in the context of commercial business (Hult et al., 2005; Jaworski & Kohli, 1993; Kirca et al., 2005; Kohli & Jaworski, 1990; Kohli et al., 1993; Morgan et al., 2009; Narver & Slater, 1990; Slater & Narver, 1994; Slater & Narver, 1995). Furthermore, this positive relationship has also been explored in the context of not-for-profit firms (Kara et al., 2004; Levine & Zahradnik, 2012; Pinho et al., 2014; Wood et al., 2000) and Vincentian social enterprises (Miles et al., 2014). However, although scholars have established the positive role of market orientation in commercial businesses and social enterprises, the understanding of how this resource is deployed to improve dual performance goals of social enterprises is still unclear. In the context of commercial businesses, dynamic capability perspectives (Teece et al., 1997), scholars have empirically investigated how market orientation should be deployed to improve firm performance. For example, prior studies in commercial businesses show that innovation capabilities (Keskin, 2006) and marketing capabilities (Morgan et al., 2009) deploy market orientation to improve the economic performance of commercial businesses. However, no study has yet investigated how the market orientation is deployed in social enterprises to achieve their dual goals, economic and social.

It is important to acknowledge that the positive relationship between market disruptiveness capability and firm performance has been established in commercial

business literature (Markides, 2006; McKelvie & Davidsson, 2009; Tellis et al., 2009). Furthermore, some scholars have also extended this relationship to the context of not-for-profit firms. For example, scholars (Christensen et al., 2006; Christensen & Overdorf, 2000) assert that market disruptiveness capability or disruptive innovativeness enables not-for-profit firms to develop affordable and alternative new products and services, which the beneficiaries or the customers of the not-for-profit firms can afford, and also by so doing it provides competitive advantages against the expensive products and services of commercial firms. However, these assertions have not yet been empirically tested in the context of social enterprises. Furthermore, as argued previously, dynamic capability perspectives (Teece et al., 1997) suggest that the valuable resources, for example market orientation, of a firm should be combined with capabilities in order to improve the firm's performance, and this has been empirically supported in the marketing literature (Morgan et al., 2009). However, the impact of the pursuit of this strategy, the adoption and the development of both market orientation and market disruptiveness capability, specifically in the context of social enterprises with dual objectives (economic and social) has not yet been explored to the best of our knowledge and hence is not clear.

Likewise, the positive relationship between new product development capability and firm performance has been established in the literature in the context of commercial firms (Calantone et al., 2002; McKelvie & Davidsson, 2009). This has also been extended to the context of not-for-profit firms, for example museums (Carmen & María José, 2008; Garrido & Camarero, 2010). However, as argued previously that social enterprise is a broad concept that includes but not limited to such not-for-profit firms

(Defourny & Nyssens, 2017). Hence, the knowledge of how social enterprises can develop new product development capability, and how it influences their economic and social performance, is still underdeveloped. Similarly, although prior studies (Garrido & Camarero, 2010; Garrido & Camarero, 2014) have explored the crucial role of organizational learning in improving innovativeness and, in turn, the performance of not-for-profit museums, the outcomes of such studies in the single sector or industry may not be applicable to the other sectors or industries (Bhuiyan et al., 2005; Miles et al., 2014). As social enterprises incorporate many different forms of organizations (Defourny & Nyssens, 2017), the outcomes of the study of the single sector, for example not-for-profit museums (Garrido & Camarero, 2010; Garrido & Camarero, 2014), may not be applicable to all social enterprises. Thus, the knowledge of how the adoption and development of learning orientation and new product development capability, individually as well as together, influence the economic and social performance of social enterprise is still underdeveloped.

Furthermore, the literature on how the adoption of ‘trade vs. grant dependency’ influences the economic and social performance of social enterprises has long been conflicting. For example, some scholars (Dart, 2004a, b; Froelich, 1999; Leroux, 2005) suggest that income from trade is crucial for social enterprises to improve not only their economic performance but also social performance. The authors (Dart, 2004a, b; Froelich, 1999; Leroux, 2005) argue that trade dependency enables social enterprises to adopt commercial business strategies that are proved to be effective and efficient in commercial businesses, and hence trade dependency enables social enterprises not only to generate income but also to effectively and efficiently solve complex social problems.

However, others (Dees, 1998; Foster & Bradach, 2005) argue that the income from trade is neither adequate to achieve break even income nor it is beneficial for achieving social goals because due to lack of adequate resources social enterprises cannot compete in the market which is essential for them to generate income from the market and the adoption of income generation strategies may distract managers from the social missions and goals. Due to these conflicting literatures and the lack of empirical studies, our understanding is still unclear of how ‘trade vs. grant dependency’ influences the economic and social performance of social enterprise performance.

The main purpose of this dissertation is to contribute towards filling the above-mentioned research gaps and, thereby, to provide guidance to social enterprise managers and owners regarding how they could improve both the economic and the social performance of their organizations. This dissertation includes three different but related empirical research papers. Answering the specific research questions, each empirical research paper contributes to answering the main research question of the dissertation.

1.3. Research Questions

This dissertation aims to advance our understanding of how the implementation of commercial business practices in social enterprises influences both their economic performance and social performance. Thus, the main research question this dissertation aims to answer is: ***How does the adoption and implementation of commercial business practices influence social enterprise performance?***

The main research question of the dissertation will be answered by answering the specific research questions of all three empirical essays included in this dissertation. As

mentioned previously, the adoption and implementation of commercial business practices refers to the adoption and implementation of market orientation, market disruptiveness capability, learning orientation, new products development capability, and ‘trade vs. grant dependency’ in this dissertation. The first essay investigates individual and interaction effects of market orientation (Jaworski & Kohli, 1993; Kohli & Jaworski, 1990; Kohli et al., 1993; Narver & Slater, 1990; Slater & Narver, 1994; Slater & Narver, 1995) and market disruptiveness capability (McKelvie & Davidsson, 2009) on the economic performance and social performance of social enterprises. Hence, drawing on the resource based view (Barney, 1991) and dynamic capability perspective (Eisenhardt & Martin, 2000; Teece et al., 1997) and analysing 164 sampled UK social enterprises, the first essay answers the following research questions:

1. Does adoption of market orientation enhance both the social and economic performance of social enterprises?
2. Does the pursuit of market disruptiveness capability improve both the social and economic performance of social enterprises?
3. Does the simultaneous implementation of both market orientation and market disruptiveness capability contribute to better performance (social and economic) of social enterprises?

The second essay investigates the mediating role of new product development capability (McKelvie & Davidsson, 2009) in the effect of the adoption of learning orientation (Baker & Sinkula, 1999a, b; Calantone et al., 2002) on economic and social performance. Hence, drawing on the resource based view (Barney, 1991) and analysing 164 sampled UK social enterprises, the second essay answers the following research questions:

1. Does the adoption of learning orientation, and development of new product development capability, improve both the economic and social performance of social enterprises?
2. Does learning orientation improve the new product development capability of social enterprises?
3. Does the new product development capability mediate the effect of learning orientation on both the economic and social performance of social enterprises?

The third essay explores the effects of ‘trade vs. grant dependency’ (Chell, 2007; Dart, 2004a, b; Froelich, 1999; Leroux, 2005) on the economic and social performance of social enterprises, and also explores the mediating roles of learning orientation in processing these effects. Hence, drawing on the resource dependency theory (Pfeffer & Salancik, 1978) and the resource based view (Barney, 1991) and analysing 164 sampled UK social enterprises, the third essay answers the following research questions:

1. Is trade dependency better than grant dependency in improving the economic and social performance of social enterprises?
2. Does learning orientation process or mediate the effect of ‘trade vs. grant dependency’ on the economic performance and social performance of social enterprises?

1.4. Theoretical Foundations

Over the last few decades there have been extensive theoretical debates on an important question regarding firm performance, namely: how do some firms perform better than others? Many theories and concepts have emerged and been developed to

answer this question. Among them, scholars have increasingly adopted a resource based view (Barney, 1991) and recently, a dynamic capability perspective (Eisenhardt & Martin, 2000; Teece et al., 1997), as an extension of a resource based view, to explain performance variations among firms or businesses. In addition to the resource based view and the dynamic capability perspective, some scholars (Hillman & Dalziel, 2003) have also adopted resource dependency theory (Pfeffer & Salancik, 1978) to explain firm performance. These three theories thus provide the theoretical foundations to this dissertation. Details of these theories are presented below.

1.4.1 Resource Based View

The Resource Based View proposes that the heterogeneity in the valuable and rare resources and/or capabilities that firms owned or controlled could create heterogeneity in firm or business performances (Barney, 1991; Peteraf, 1993; Wernerfelt, 1984). Hence, the resource based view has been considered as a useful perspective for strategic management research (Barney, 1991). Recently, scholars have started adopting it in social entrepreneurship research too ((Coombes et al., 2011). According to the logic of the resource based view, sustained competitive advantages occur when the resources or capabilities that firms acquired are not only valuable and rare, but also inimitable, immobile, and non-substitutable (VRIN) (Barney, 1991; Hoopes et al., 2003). A resource refers to ‘an asset or input to production (tangible or intangible) that an organization owns, controls, or has access to on a semi-permanent basis’ (Helfat & Peteraf, 2003, p. 999). Similarly, a capability refers to ‘the ability of an organization to perform a coordinated set of tasks, utilizing organizational resources, for the purpose of achieving a particular end result’ (Helfat & Peteraf, 2003, p. 999). In other words, capabilities are the

efficiency by which firms can transform inputs into outputs (Dutta et al., 2005). It is important to note that this study considers market orientation and learning orientation as two valuable resources, and market disruptiveness capability and new product development capability as two valuable capabilities of social enterprises.

Although the resource based view (Barney, 1991) has widely been adopted in the literature to explain heterogeneity in firm performance, some scholars (Priem & Butler, 2001; Teece et al., 1997) have criticized it as an incomplete theory. For example, Priem and Butler (2001) argue that the resource based view does not explain how (through what processes) resources improve firm performance. According to Priem and Butler (2001), resources need to be processed to realize their values. Priem and Butler (2001) argue that resources improve firm performance through resources deploying capabilities. Similarly, drawing on Priem and Butler (2001), Sirmon and Hitt (2003) argue that bundling and management of resources are crucial for the development of capabilities through which firms create and capture values. Therefore, this study adopts the resource based view of Barney (1991) and also the arguments of Priem and Butler (2001), while developing conceptual models (especially the mediation effect models in the Chapter 3 and Chapter 4).

1.4.2 Dynamic Capability Perspective

The dynamic capability perspective has rapidly been emerging since the publication of Teece et al. (1997) and Eisenhardt and Martin (2000), two seminal papers, in the *Strategic Management Journal*. As an extension of the resource based view, dynamic capability perspectives emphasize that firms need to combine and configure

resources and capabilities to improve their performance. According to the dynamic capability perspective, the combination and configuration of complementary resources and capabilities is difficult for competitors to copy and hence it creates positive synergy effects on the firm performance (Eisenhardt & Martin, 2000; Teece et al., 1997). The first paper of this dissertation (Chapter 2) adopts the dynamic capability perspective in addition to the resource based view (Barney, 1991) while developing a conceptual model.

1.4.3 Resource Dependency Theory

Since the seminal work of Pfeffer and Salancik (1978) on resource dependency theory, this theory has been applied broadly across the research domain to explain how and why organizations reduce environmental interdependency. According to the resource dependency theory (Pfeffer & Salancik, 1978), organizational external sources (institutions and organizations) on which a firm depends for key resources influence the autonomy and flexibility and therefore eventually the performance of dependent firms (cf. Froelich, 1999; Gras & Mendoza-Abarca, 2014). The third paper of this dissertation (Chapter 4) adopts the resource dependency theory (Pfeffer & Salancik, 1978) in addition to the resource based view (Priem & Butler, 2001), while developing a conceptual model.

1.5. Methodological Approach

1.5.1. Sample and Data Collection

Ontologically and epistemologically, this study follows a purely objective/positivistic approach (Hayes, 2000; Lee, 1991) and answers the research questions of all three papers through analysis of empirical sample survey data. The samples were drawn from the UK social enterprises registered in online social enterprise

directories (see Appendix A for the list of the social enterprise directories and Appendix C for the questionnaire of the survey). We used the UK government definition, DTI (2002), to define and include social enterprises in this study. According to the UK government definition, social enterprise is defined as ‘a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community rather than being driven by the need to maximize profit for shareholders or owners’ (DTI, 2002, p. 7). I adopted this definition for two main reasons. First, this study is conducted in the UK and hence this definition better suits this context. Second, as this definition bridges the European and American definitions of social enterprise (Doherty et al., 2014), its adoption may widen the scope and applicability of this study. It is also important to note that social enterprises in the UK have no definite legal form or status (Amin et al., 2002; Lepoutre et al., 2013) and hence it is difficult to identify them. To cope with the identification difficulties, social enterprises registered in online directories of UK social enterprises were chosen for this study.

The self-registered social enterprises were contacted via phone and/or email to probe whether they were in line with the DTI (2002) definition of a social enterprise. Then, permissions to send email questionnaires to the owners or managers of the social enterprises that were in line with the definition of the DTI (2002) were obtained from them. In total, 1000 social enterprises accepted the request to participate in the survey and granted permission to send the questionnaires to their managers or owners.

Then, following the procedures described in Dillman (2011), email surveys with a cover email requesting recipients to participate in the survey were sent to the owners or managers of the 1000 social enterprises. After sending two reminders, 210 responses

were obtained. Out of them, only 164 responses were found useful for this study. This is an acceptable response rate because the response rate is usually low in organizational surveys (Baldauf et al., 1999; Greer et al., 2000; Scarborough, 2011; Tomaskovic-Devey et al., 1994). Low response rates risk the presence of non-response bias. Therefore, following the procedures described in Armstrong and Overton (1977) the non-response bias was assessed and there was found no issue regarding non-responses.

The descriptive statistics and inter-correlation matrix are presented in Table 1.2 below. Out of 164 sampled social enterprises, the majority of them are more than five years old (70%). Similarly, 63.2 per cent of the sampled social enterprises reported that their important source of income was trade, while only 36.8 percent reported that their important source of income was grant. In Table 1.2, except the mean values of “trade vs. grant dependency” and “age”, which are derived from binomial data, the mean values of the other variables are derived from 7 points likert scale responses (1 to 7) where 1 is strongly disagree, 4 is neutral, and 7 is strongly agree.

Table 1.2. Descriptive Statistics and Inter-Correlations Matrix (n = 164)

Variables	Mean	Standard Deviation	1	2	3	4	5	6	7	8	9
1. MO	5.1	0.821	1								
2. MDC	4.21	.797	.587***	1							
3. NPDC	5.21	1.12	.544***	.723***	1						
4. LO	5.81	.884	.478***	.388***	.433***	1					
5. EP	4.42	.856	.521***	.430***	.427***	.255**	1				
6. SP	5.64	1.1	.396***	.257**	.430***	.326***	.175*	1			
7. TVGD	0.613	.487	.030 ^{ns}	.093 ^{ns}	.060 ^{ns}	.222**	-.242**	.254**	1		
8. Age	0.706	.456	-.002 ^{ns}	-.011 ^{ns}	.029 ^{ns}	-.390	.222**	-.054 ^{ns}	-.071*	1	
9. ATE	4.683	1.37	.030 ^{ns}	.146 ^{ns}	.076 ^{ns}	.052 ^{ns}	.052 ^{ns}	.061 ^{ns}	-.040 ^{ns}	.116 ^{ns}	1
10. AFC	3.467	1.59	-.065 ^{ns}	.041 ^{ns}	-.028 ^{ns}	-0.116 ^{ns}	.291***	-.051 ^{ns}	-.151*	.189*	.157*

Note: *** = significant at $p < 0.001$, ** = significant at $p < 0.01$, * = significant at $p < 0.05$; ns = not significant at $P < 0.05$. MO = Market orientation; MDC = Market disruptiveness capability; NPDC = New product development capability; LO = Learning orientation; EP = Economic performance; SP = Social performance; TVGD = 'Trade vs. grant dependency'; Age = Age; ATE = Access to technical expertise; AFC = Access to financial capital. The variables that have correlation coefficients above 0.6 are not in the same model to avoid potential multicollinearity effect although scholars suggest that correlation coefficients below 0.8 do not cause serious multicollinearity effect (Kennedy, 2002; Mustakallio et al., 2002, p. 214).

1.5.2. Measures, Validity, and Reliability of Constructs

Confirmatory factor analysis and structural equation modelling with Mplus (Muthén & Muthén, 2012) were used to analyse the survey data in all three essays (Chapters 2, 3 & 4) of this dissertation. Overall, this study included six latent constructs, namely *market orientation*, *learning orientation*, *market disruptiveness capability*, *new product development capability*, *economic performance*, and *social performance*, and an observed dichotomous dummy variable, '*trade vs. grant dependency*'. The '*trade vs. grant dependency*' variable was created from the responses to the question: *What is your most important source of income?* Value "1" was assigned for one of the following responses: trade, fees, sales, investments, and contracts. Value "0" was assigned for one of the following responses: grants, donations, and funding. The measurements of all the latent constructs were adopted or derived from established prior literature. The indicators of market orientation were taken from Deshpandé and Farley (1998), which were adopted in the study of Kropp et al. (2006). Similarly, the indicators of learning orientation and economic performance were derived from Kropp et al. (2006). Likewise, the indicators of market disruptiveness capability and new product development capability were derived from the study of McKelvie and Davidsson (2009). Finally, the indicators of social performance were derived from the study of (Coombes et al., 2011). Likert scales ranging from 1 to 7 were used to measure the indicators of all the latent constructs (see Appendix B for their indicators and Appendix C for questionnaire).

Although all the constructs were derived from established literature, the constructs' reliability and validity, and the goodness of fit of measurement and structural models, were assessed in all three essays. The results of the assessments confirmed that

there is no issue with constructs' reliability, validity, and the goodness of fit of measurement and structural models in all three essays (see Chapter 2, Chapter 3, and Chapter 4 for details).

At the questionnaire designing stage, the information about the independent and dependent variables was designed to be collected from the same respondents in the same questionnaire, which risked the presence of response bias. However, the questions for the dependent and independent variables were spread out in the survey questionnaires and the identities of the respondents were kept anonymous to minimize the possible response bias (Podsakoff et al., 2003). Three tests, Harman's single factor (Podsakoff et al., 2003), goodness of fit statistics of the single factor model (Bentler & Yuan, 1999; Byrne, 2012) and the common latent factor (Eichhorn, 2014; Liang et al., 2007; Podsakoff et al., 2003; Williams et al., 2003), were carried out to ensure whether the issue of common method bias was present in this study. The results of the all three tests confirmed that the response bias is not a serious issue in this study (see the results of the tests in each essay. The first essay is in Chapter 2, the second essay is in Chapter 3, and the third essay is in Chapter 4).

1.6. Summary of the Three Papers

This PhD dissertation consists of three empirical essays, each of which explains heterogeneity in performance (economic and social) among social enterprises. The first essay, *Market Orientation, Market Disruptiveness Capability, and Social Enterprise Performance: an Empirical Study from the United Kingdom*, employed a resource based view (Barney, 1991) and dynamic capability perspective (Eisenhardt & Martin, 2000; Teece et al., 1997) and conducted the first comprehensive examination of the effect of

market orientation (Narver & Slater, 1990), a resource, and market disruptiveness capability (McKelvie & Davidsson, 2009), a resource deploying capability, on the economic as well as social performance of social enterprises. Using a sample of 164 UK social enterprises, the study shows that the implementation of market orientation improves both the economic and social performance, whereas, the implementation of market disruptiveness capability improves only the economic performance of social enterprises. However, it also shows that the implementation and development of both market orientation and market disruptiveness capability simultaneously diminishes the strengths of their positive effects on economic performance but amplifies the strengths of their positive effects on their social performance. The findings offer opportunities for scholars, practitioners, and policy-makers to reassess the core assumptions related to the implementation of commercial business practices in social enterprise.

The second essay, *Learning Orientation and Social Enterprise Performance: The Mediating Role of New Product Development Capability*, employed resource based view (Barney, 1991; Priem & Butler, 2001) and analysed how the adoption of learning orientation (Calantone et al., 2002) and the development of new product development capability (McKelvie & Davidsson, 2009) influences the economic and social performance of social enterprises. The results of the analysis show that the implementation of learning orientation improves the new product development capability and, thereby, both the economic and social performance of social enterprises simultaneously. Furthermore, this study shows that new product development capability mediates or process positive effect of learning orientation on the economic and social performance of social enterprises.

Finally, the third paper, *'Trade vs. Grant Dependency', Learning Orientation, and Social Enterprise Performance*, drawing on the resource dependency theory (Froelich, 1999; Pfeffer & Salancik, 1978) and the resource based view (Barney, 1991; Priem & Butler, 2001), investigated how 'trade vs. grant dependency' (Dart, 2004a, b; Leroux, 2005; Pfeffer & Salancik, 1978) and learning orientation influences the economic and the social performance of social enterprises. The results of the analysis show the effect of 'trade vs. grant dependency' positive significant on the social performance but negative insignificant on the economic performance which mean that moving social enterprises from grant dependency to trade dependency enables them to improve their social performance, but not economic performance. The results indicate that the shifting of social enterprises from grant dependency to trade dependency is beneficial for improving their social performance but is inconclusive for improving their economic performance. However, the results of the analysis also show the effect of 'trade vs. grant' dependency positive significant on learning orientation, the effect of learning orientation positive significant on both economic and social performance, and the indirect effect of 'trade vs. grant dependency' positive significant on both economic and social performance which, together, clearly indicate that shifting social enterprises from grant dependency to trade dependency enables them to improve their learning orientation and in turn, both their economic and social performance. Surprisingly, as a bi-product of the analysis, this study reveals that if the learning orientation remains constant, the effect of shifting from grant dependency to trade dependency weakens the economic performance but still improves the social performance. This paper, therefore, highlights the crucial role of learning in social enterprises.

The three individual essays of this dissertation have utilized structural equation modelling with Mplus (Muthén & Muthén, 2012) to analyse survey data obtained from 164 UK social enterprises. Taken in sum, this troika of empirical investigations makes a strong case for how and why commercial business practices are implemented or adopted in social enterprises. In addition, together the three essays offer comprehensive explanation of how and why the economic and social performance varies among social enterprises. Therefore, the outcomes of this research add values and new perspectives to the growing body of social entrepreneurship literature, and provide important guidance to the practitioners of social enterprises and the policy makers.

1.7. The Thesis Structure

The thesis includes three empirical essays and is organized in five chapters. Following this introductory chapter, Chapter 2 covers the first essay and presents an empirical study about individual and combined (interaction) effects of the adoption of market orientation and market disruptiveness capability on social enterprise performance. Chapter 3 covers the second essay and presents an empirical study about the effect of the adoption of learning orientation and new product development capability on social enterprise performance. This paper also investigates the mediating role of new product development capability in the relationship between learning orientation and social enterprise performance (economic and social). Similarly, Chapter 4 covers the third essay and presents an empirical study about the effects of shifting social enterprises from grant dependency to trade dependency (trade vs. grant dependency) on their economic and social performance. This paper also investigates the mediating role of learning orientation in the effect of the shifting of social enterprises from grant dependency to

trade dependency on their economic and social performance. Finally, Chapter 5 discusses and concludes the thesis (all three essays) and offers managerial implications, presents its limitations and offers recommendations for future research. The dissertation concludes by adding all the references of each chapter as a bibliography in order to present each essay as a self-contained feature without reducing the conjoined characteristic of the whole PhD dissertation.

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Chapter 2

Market Orientation, Market Disruptiveness Capability, and Social Enterprise Performance: an Empirical Study from the United Kingdom

Abstract: This study investigates whether and how the pursuit of certain commercial business practices such as market orientation and market disruptiveness capability improves both the economic performance and social performance of social enterprises. Based on the empirical data collected from 164 UK social enterprises, the results of the study show that market orientation improves their social performance and economic performance simultaneously, whereas market disruptiveness capability improves only the economic performance of social enterprise, not their social performance. However, interestingly, this study found a positive interaction effect of market disruptiveness capability and market orientation on social performance, while its effect is negative on economic performance.

Keywords: Market disruptiveness capability, innovation, market orientation, social entrepreneurship, social enterprise, social performance

2.1. Introduction

Increasingly, social enterprises are recognised as playing a crucial role in solving complex social problems by employing innovative strategies, particularly in the context of limited resources and capabilities (Di Domenico et al., 2010). They can be broadly defined as businesses with ‘primarily social objectives whose surpluses are principally reinvested for that purpose in the business, or, in the community, rather than being driven by the need to maximize profits for shareholders and owners’ (DTI, 2002, p. 13). Under this definition, the term ‘social enterprise’ encompasses many different forms of organisation. According to Defourny and Nyssens (2017), these social enterprises can broadly be divided into four categories: entrepreneurial non-profits, that are charities and non-governmental organisations adopting an entrepreneurial approach towards accomplishing their social mission; social business, such as the Big Issue, commercial businesses applying business models and practices to develop business activities that are social mission(s)-driven; social cooperatives, such as the Co-op supermarkets, as well as credit unions, are typically being run by members and stakeholders and can be found across the world; and public-sector social enterprise, essentially spin-offs intending to serve the needs of the target catchment with increased accuracy and efficiency through commercialisation. Nevertheless, despite the differences, the notable characteristic of all of these social enterprises is their dual emphasis of social and financial performance (Dart, 2004; DTI, 2002; Santos, 2012). Social performance refers to the performance of an organisation in creating social values for the customers or in achieving social missions, goals, and objectives (Coombes et al., 2011), while economic performance refers to the performance of an organisation in capturing economic value from its

activities (Kropp et al., 2006). A successful social enterprise should be able to improve the dual objectives simultaneously (Dart, 2004; Di Zhang & Swanson, 2013). Because of the dual emphasis, however, deciding on the right strategies for social enterprises can be more complex than for conventional businesses. Social enterprises are facing huge pressures to find market strategies that can not only address the needs of those they intend to target, but also to be financially viable (Maclean et al., 2013; Rey-Martí et al., 2016). As a result, whether a social enterprise can attain both is far from guaranteed (Foster & Bradach, 2005; Massetti, 2008; Rispal & Servantie, 2016).

Two marketing-related concepts stand out within the existing literature: *market orientation*, which refers to the extent to which a firm would expend efforts to generate, and respond to, information about customers and competitors (Deshpandé & Farley, 1998; Kohli & Jaworski, 1990; Narver & Slater, 1990), and *market disruptiveness capability*, which is defined as a dynamic capability that enables firms to innovate new products and services and bring them in the marketplace ahead of competitors (McKelvie & Davidsson, 2009). Scholars (Hult et al., 2005; Jaworski & Kohli, 1993; Kirca et al., 2005; Morgan et al., 2009; Narver & Slater, 1990) have long considered market orientation as a valuable resource that improves the performance of commercial businesses (Morgan et al., 2009; Narver & Slater, 1990; Ngo & O'Cass, 2012a, b; Zhou et al., 2008). Equally, studies in not for profit firms (Bhuyan et al., 2005; Pinho et al., 2014; Wood et al., 2000) show that the adoption of market orientation enables not for profit firms to understand the market needs and in turn facilitates them to develop better strategies in addressing those needs. Similarly, studies have found that, as social enterprises become more aware of the needs of their targeted catchment, they could

devise better approaches in serving them (Liu et al., 2015). By addressing the needs and demands of beneficiaries they may achieve social objectives, and by addressing the needs and demands of other stakeholders, they may attract more resources (Liu et al., 2015).

Likewise, scholars (Markides, 2006; McKelvie & Davidsson, 2009; Tellis et al., 2009) argue that market disruptiveness capability play crucial roles to improve firm performance through developing radical product and service innovations ahead of competitors and thereby enabling firms to capitalise first and fast moving advantages (Lee et al., 2000). However, developing market disruptiveness capability may entail high costs (Assink, 2006; Henderson, 1993) and risk (McDermott & O'Connor, 2002; O'Connor et al., 2008). In the context of commercial businesses, the costs could be compensated from their customers, who are usually affluent. But, in the context of social enterprises, it could be difficult to compensate the high costs and risks of developing radical innovations from the customers because the customers or beneficiaries of social enterprises are usually poor and marginalized (Seelos & Mair, 2005, 2007). Therefore, although the positive relationship between market disruptiveness capability and performance has been established in the context of commercial businesses, it should not be generalized, without testing, to the context of social enterprises. Furthermore, as the main objectives of commercial businesses and social enterprises are different (Austin et al., 2006), it is far difficult to assert, based on the findings of the studies in the context of commercial businesses, that the market disruptiveness capability can improve both the economic and social performance of a social enterprise. Nevertheless, it is likely that emphasis on market disruptiveness capability would help social enterprises to increase social performance because, as with conventional businesses, radical innovations would

enable them to better serve the demands of those they intend to serve. However, due to lack of such studies in the context of social enterprises, knowledge about how market disruptiveness capability influences social enterprise performance is limited.

Similarly, although studies in commercial businesses and not for profit firms have shown positive relationship between market orientation and firm performance, our understanding about its roles in the performance (economic and social) of a social enterprise is still limited for the following main reasons. First, prior studies linking market orientation to the performance of not for profit firms have focused mainly on the service provider not for profit firms (Kara et al., 2004; Vázquez et al., 2002), specifically, health services providers (Pinho et al., 2014; Wood et al., 2000). Hence their ‘findings cannot be generalised to other sectors’ (Pinho et al., 2014, p. 338). Second, most of the prior such studies have linked market orientation to the organizational performance (in general) (Pinho et al., 2014; Wood et al., 2000) or the economic performance from attracting donations, grants, and funding (Balabanis et al., 1997; Kara et al., 2004; Levine & Zahradnik, 2012) or the social goals and missions (Vázquez et al., 2002) of the not for profit firms, but not to their economic and social performance. Given the importance of both the social and economic goals of social enterprises and together they represent the social enterprise performance, they should be studied in isolation. With an exception, Miles et al. (2014) have linked vincentian marketing orientation to the economic and social performance of social enterprises. However, Miles et al. (2014) acknowledge that the finding of their study of Australian social enterprises may have suffered from the issue of validity and generalisability due to the small sample size, use of judgemental sampling procedure, and the differences in the economic conditions between Australia

and other developed nations. Hence, more studies investigating the relationship of market orientation with the economic and social performance of social enterprises are still needed to expand our knowledge.

Moreover, mainstream literature is increasingly viewing market orientation as a static and largely current-looking perspective of market resources (Helfat & Peteraf, 2003; Priem & Butler, 2001). For example, empirically, Atuahene-Gima (2005) shows that market orientation enables firms to address the current needs of the market through incremental innovations, but not the future or latent needs of the market through radical innovations. It is important to note that for the long term prospect of an organisation, not just the ability to understand the current market that is crucial, but also the capability to understand the future market (Teece et al., 1997). The focuses on both the current and future market enable the firms to escape the “tyranny of the served market” (Slater & Narver, 1998, p. 1002). Hence, as market orientation is current looking and market disruptiveness capability is future looking, to have both could be more beneficial for the long-term prospect of the organisation. Scholars (Connor, 1999) suggest that a firm could, if intended, pursue both, market orientation and market disruptiveness capability, to enhance its current position within the market, while exploring new opportunities through change. Furthermore, empirically, marketing literature (Ngo & O’Cass, 2012a) demonstrates the positive synergy effect of market orientation and innovation capability on firm performance. However, some literature on ambidexterity (Andriopoulos & Lewis, 2009) suggest that simultaneously exploitation of current market and exploration of new market can create organisational tensions, which must be balanced and managed to have positive effect of ambidexterity on performance

(Raisch et al., 2009). However, for resource constraint firms, management of such organisational tensions is quite difficult (Andriopoulos & Lewis, 2009). It is important to note that relative to commercial businesses social enterprises are resource constraint firms (Austin et al., 2006). Additionally, they may also need to manage the organizational tensions generated from having two contrasting goals, economic and social (Smith et al., 2013), in addition to the organizational tensions generated from simultaneously adopting and implementing exploration and exploitation strategies. Hence, due to such differences between social enterprises and commercial businesses, the effect of focus on both the current and future market simultaneously may have different impact on the performance of social enterprises than the performance of commercial businesses. Thus, although the impacts of ambidexterity, simultaneous development of market orientation and market disruptiveness capability, on the performance of commercial businesses have already been studied, the impact of pursuit of both of these strategies in the context of social enterprises with dual objectives is still unclear. Both academic research and conventional wisdom suggest that only a very few companies could serve the varied needs of different segments of customer (Short & Ketchen Jr, 2005). Therefore, the danger of focusing both on the now and on change is that the two goals can be contradictory; the result is that firms become 'stuck in the middle' (Porter, 1980), and consequently perform poorly (Cronshaw et al., 1994; Pertusa-Ortega et al., 2009). Investing in both current and forward thinking, undoubtedly, has a cost implication. Facing a resource-poor context, social enterprises need to be even more prudent over how their resources will be spent (Tasavori et al., 2017), which mean that understanding the performance implications of such investments would be crucial.

Utilising quantitative data obtained from an online survey of 164 UK social enterprises, and drawing on the resource based view (Barney, 1991) and dynamic capability perspective (Teece et al., 1997), the main research aim of this study is to explore whether developing both market orientation and market disruptive capability would offer a social enterprise an additional advantage in their ability to attain good economic and social performance. To do so, this study sets out research questions into three logical steps:

1. Does the adoption of market orientation enhance both the social and economic performance of social enterprises?
2. Does the pursuit of market disruptiveness capability improve both the social and economic performance of social enterprises?
3. Does the simultaneous implementation of both market orientation and market disruptiveness capability contribute to better performance (social and economic) of social enterprises?

This study offers several contributions to theory and practice. First, I believe that the exploration of how marketing orientation and market disruption capability interact in affecting social and economic performance is the main contribution of this paper. At present, to the best of our knowledge, no information is available regarding whether the simultaneous development of both market orientation and market disruptiveness capability can contribute to superior economic and social outcomes. Practically, understanding this could help social enterprise managers to make an informed decision regarding how their resources could be best directed. This guidance is crucial and timely because the current political and economic climate is encouraging social enterprises not

only to generate income from the market but also to solve increasing complex social problems (Kerlin & Pollak, 2011). Theoretically, by empirically analysing the individual and combined effects of market orientation and market disruptiveness capability on the economic performance and social performance of social enterprises, I can shed light on the theoretical conundrum of ‘stuck in the middle’ within the existing strategic management literature (Brenes et al., 2014; Porter, 1980; Salavou, 2015), and further explore whether the emphases on both now and the future would result in superior performance outcomes. This paper also contributes to the social enterprise literature in relation to the complications of dual foci. Secondly, this study serves a confirmatory purpose in allowing us to extend the existing knowledge on market orientation and market disruptive capability that is specific to this research context. This is particularly the case with the latter, where only a few studies have been conducted not just in the context of the social sector but in resource-poor environments in general. Finally, by adopting a quantitative research design, this study responds to the call for more quantitative studies in the field of social entrepreneurship research (Dacin et al., 2011; Grimes, 2010; Liu et al., 2015; Meyskens et al., 2010).

2.2. Background

Ever since Porter (1980) published his thesis on competitive advantage, a firm’s strategic orientation has become the major focus of strategic management research. Slater and Narver (1998) have, within the discipline of marketing, distinguished two forms of market strategies: strategies that are current-led, focusing on the existing market, and strategies that are forward-thinking, focusing on the potential of product and new market

development. The former requires pragmatism, focusing on customers' needs on a daily basis, and often involves continued dialogue with customers through extensive market research. This approach enables firms to attain a strong market orientation towards the existing market, allowing them to implement a strategy according to market demand, which, in turn guarantees the current income stream (Narver & Slater, 1990; Slater & Narver, 1998). The latter, on the other hand, is long-term and change-orientated, involving the exploration of the unknown future market, and developing innovation capability to do so. Such capability to envisage the needs of the future is dynamic and market-disruptive (McKelvie & Davidsson, 2009), which is crucial in firms' revival and prevents them from plateauing after reaching the stage of maturation (Prange & Verdier, 2011). In this section, I further elaborate on the nature of both market orientation and market disruptive capability. I then hypothesise their performance implications, before discussing the choice and potential trade-off between the two.

2.2.1. Market Orientation and Social Enterprises' Performance

Market orientation was first articulated by Kohli and Jaworski (1990), in the theory of market orientation, which was referred to as the organisation-wide generation and dissemination of, and responsiveness to, the information about their customers and competitors (Deshpandé & Farley, 1998; Jaworski & Kohli, 1993; Narver & Slater, 1990). Firms that have a clear vision and definition of their own markets devote considerable resources to obtain market intelligence in relation to the demands of the target catchment, clearly articulate their vision to their employees, and, collectively, develop a product or range of products that would be most aligned to the needs of the

catchment (Webb et al., 2011). The notion has since been extended to different non-profit contexts such as non-governmental organisations (NGOs) (Hashim & Abu Bakar, 2011; Modi, 2012), hospitals (Bhuian et al., 2005; Wood et al., 2000), and other health-sector firms (Pinho et al., 2014). Most of the studies found that enterprising non-profits with strong market orientation and awareness of their customers' needs can improve different performance indicators including fund-raising, commercialisation, volunteers' deployment, and collaboration with stakeholder and other for-profit and not-for-profit businesses (Cooney, 2011; Gainer & Padanyi, 2005; Macedo & Carlos Pinho, 2006). Such improvements contribute to customers' and stakeholders' satisfaction (Bhuian et al., 2005; Hashim & Abu Bakar, 2011; Modi, 2012; Wood et al., 2000) which, in turn, contributes to better financial performance (Pinho et al., 2014), funding (Kara et al., 2004; Levine & Zahradnik, 2012), gross income, and surpluses (Bhuian et al., 2005; Wood et al., 2000). Empirically, in a study in Australia, Miles et al. (2014) show that, by adopting Vincentian marketing orientation, social enterprises can improve their economic performance. This leads to the following hypotheses:

Hypothesis 2.1 (H2.1): Market orientation positively influences the economic performance of social enterprises.

It has long been argued that the adoption of market orientation enables firms to understand the needs and demands of customers. Hence, the market-oriented firms can focus on developing strategies, resources, and capabilities that could address the needs and demands of customers effectively and efficiently. Therefore, market orientation enables firms to fulfill the needs and demands of customers (Singh & Ranchhod, 2004; Slater & Narver, 1995, 1998). Equally, social entrepreneurship scholars (Liu et al., 2015;

Liu & Ko, 2011; Miles et al., 2014) argue that social enterprises that adopt marketing concept are better in understanding the needs and demands of their beneficiaries or customers. As with commercial businesses, this knowledge enable the social enterprises to develop strategies, resources, and capabilities that are effective and efficient to address the needs and demands of their beneficiaries and thereby to achieve their social mission and objectives. Empirical evidence obtained from a study of private not for profit firms (Vázquez et al., 2002) supports this argument. Additionally, an empirical study of Miles et al. (2014) in Australia show that, by adopting Vincentian marketing orientation, social enterprises can improve their not only economic but also social performance. This leads to the following hypothesis:

Hypothesis 2.2 (H2.2): Market orientation positively influences the social performance of social enterprises.

2.2.2 Market Disruptiveness Capability and Social Enterprises Performance

In recent years, the dynamic capability view has emerged as a forward-looking perspective in understanding how firms develop their market in the long run (King & Tucci, 2002). This perspective emphasises the development of capabilities that enable firms to reconfigure, renew, deploy and redeploy their resources and capabilities to better capture, create and exploit opportunities in order to achieve superior long-term performance (Teece et al., 1997). Market disruptiveness capability is one of such dynamic capabilities that enable firms, including social enterprises, to disrupt the existing market (disruptive innovations) and create new markets or opportunities (González et al.,

2017; McKelvie & Davidsson, 2009). Disruptive innovations generally refer to either radical business model innovations or radical products and services innovation (Markides, 2006). In this study, market disruptiveness capability refers to the capability in generating the latter. Studies have shown that disruptive or radical products and services innovation is crucial to fulfil the unmet needs and demands of customers and beneficiaries of firms (Christensen et al., 2006), and is positively associated with financial performance (Tellis et al., 2009). This generates the following hypothesis:

Hypothesis 2.3 (H2.3): Market disruptiveness capability positively influences the economic performance of social enterprises.

Unlike the emphasis of market orientation, developing new market disruptive capability requires changes, often involving out-of-the-box free thinking, creativity, and imagination in enabling firms to see opportunities that no other firms think exist. Consequently, market disruptive capability can often take firms into completely new products, or even new market segments (McKelvie & Davidsson, 2009). In the social entrepreneurship context, possessing market disruptive capability would enable social enterprises to develop innovative solutions to social problems that would previously have been considered impossible (Austin et al., 2006; Brooks, 2009; Fowler, 2000; Kong, 2010; Mair & Marti, 2006). For instance, possessing such capability may empower social enterprises to develop affordable products and services not only to address the unmet needs and demands of existing beneficiaries and (or) customers (Chalmers & Balan-Vnuk, 2013; Weerawardena & Mort, 2006), but also to gain first- and fast-mover advantages by entering a new market with products or services that differ radically from

what is currently available (Barnett et al., 2013; Carbonell & Rodriguez, 2006; Makadok, 1998; Vesey, 1992). Therefore, I hypothesise that:

Hypothesis 2.4 (H2.4): Market disruptiveness capability positively influences the social performance of social enterprises.

2.2.3. Complementary or Getting ‘Stuck in the Middle’? Hypothesising the Interaction Relationship between Market Orientation and Market Disruptiveness Capability on Social Enterprises’ Performance

Following Slater and Narver’s (1998) logic, it is crucial for social enterprises to have both well-defined current-led and forward-looking market strategies, as is the case for any other businesses (Hillebrand et al., 2011). In the marketing literature, studies have long highlighted the importance for market instruments to be both diagnostic – i.e. investigate whether the current market needs are being fulfilled and whether a market gap exists (Parasuraman et al., 1994), and predictive – i.e. whether an instrument can respond to the market and is well received by customers (Cronin Jr & Taylor, 1992). Therefore, research argues that market orientation and market disruptiveness capabilities should go hand-in-hand. Connor (1999), for instance, advocates that there is nothing preventing a firm from adopting both current and future thinking in their strategy, for the simple reason that ‘future is developed from the present’ (p.1138). From a path-dependence perspective, it is apparent that firms do not develop radical innovations out of thin air; instead, these are developed upon a foundation of strong competencies in a few areas, and expand from there. Often, when firms invest excessively in market disruptive capability with a view to develop innovative products and services, rather than

trying to understand the existing market better, it leads to an unbalanced programme of investments and overlooks the need to maintain income stream (Connor, 1999). Who still remembers the short-lived products of Sony Betamax or the new Coke, where the products are supposed to be far superior to those in existence, but nevertheless did not take off as they neglected the needs and demands of their current customers (Schindler, 1992)?

Thus current-led and future-looking are mutually related and complementary (Connor, 1999). Similarly, the literature on dynamic capability has emphasised that in order for firms to optimise value, it is important for them to engage with existing resources and competencies and in capacity building for the future (Teece et al., 1997). Empirical studies show that firms can successfully combine and configure market orientation with market disruptive capability; thus creating a positive synergistic effect on performance (Morgan et al., 2009). All these suggest that firms can accrue additional benefits in terms of economic performance by developing both concurrently. This leads to the following hypothesis:

Hypothesis 2.5a (H2.5a): The interaction between market orientation and market disruptiveness capability positively influences the economic performance of social enterprises.

The complementarity view, however, is by no means clear-cut. One of the key conclusions coming from the Porterian tradition is the danger of being ‘stuck in the middle’ of multiple, often contradictory objectives. A lack of well-defined market positioning could diminish firms’ capability to differ from the competitors and,

consequently, perform poorly (Bruner, 2012), while firms that achieve market clarity and have a focused strategy could ensure that their market strategy is consistent and thereby efficient (Cronshaw et al., 1994). In the market resource context, both anecdotal findings and empirical research experiences have pointed to the conclusion whereby firms with a strong current market focus may struggle to develop truly path-breaking innovation for the future (Karim & Mitchell, 2000). Such a trade-off may push firms into what Hamel and Prahalad (1991, p. 83; 1994) described as the ‘tyranny of the served market’, when managers only see the world through the lens of their current customers, who can be lacking in foresight. The dual emphasis on both present and future markets could mean that firms are being constrained in their ability to expand into radical innovation because they are reluctant to move away from their existing market (Christensen & Bower, 1996). This could result in firms developing core rigidity and ‘lock-in’ (Cowan & Gunby, 1996; Liebowitz & Margolis, 1995), which would lead to risk avoidance in product and process development (Baker & Nelson, 2005; Ruttan, 1997; Slater & Narver, 1998). Kodak is an example of a firm that invested heavily in current *and* future innovation. Kodak had good knowledge of their existing market of plastic film rolls, and also pioneered the digital camera market, being the first to develop such capability (Munir & Phillips, 2005). However, their strong current market orientation meant the firm was reluctant to embark further on future innovation development, which affected their economic performance in the long run (Lucas & Goh, 2009). Similarly, a firm’s ability to serve their existing market may be jeopardised if they develop future innovations.

Moreover, although some studies suggest that by focusing on the exploitation of current market and exploitation of future market simultaneously organisations can

achieve sustained performance (Raisch et al., 2009), current studies 'recognise that focusing on both exploitation and exploration may form a paradoxical relationship' (Koryak et al., 2018, p. 413), which then creates organisational tensions. Such organisational tensions, as suggested by Andriopoulos and Lewis (2009), are difficult to manage. It is important to note that organisations must successfully manage their organisational tensions to be successful (Smith & Tracey, 2016). It is equally applicable for social businesses too (Smith et al., 2013). He & Wong (2004, p. 483) state that 'unless these tensions are well managed, firms that try to pursue both exploration and exploitation may actually end up worse off, i.e., the interaction effect between exploration and exploitation may turn out to be negative rather than positive'.

Furthermore, 'stuck-in-the-middle' has cost implications. Many have argued that the development of current market research and innovation that could potentially take off in the long run requires different tools (Hamel & Prahalad, 1994; Leonard-Barton, 1995; Lynn et al., 1996). The former requires considerable market research resources (Liu et al., 2015), while those developing disruptive capability would require significant physical, financial and human investments in research and development, product testing, and brand refocusing based on the new products and services developed (Christensen & Overdorf, 2000; Mohr et al., 2009). All these suggest that, in the context of finite resources, the simultaneous investment in both may reduce the economies of scale and thereby the potential additional impact that may have been anticipated. In the context of the social entrepreneurship sector that is characterised by a penurious environment (Di Domenico et al., 2010; Kwong et al., 2017), cost constraint does magnify the trade-off between current focus and future focus. Additionally, social enterprises, which may

usually suffer from organizational tensions generated from adopting two contradictory goals, social and economic (Masseti, 2008; Smith et al., 2013), focusing on current and future market simultaneously could mean that they are adding more organizational tensions in their organizations. Given the resources requirement to manage the organizational tensions (Andriopoulos & Lewis, 2009; Smith et al., 2013), on the one hand, and the penurious environment of social enterprises, on the other hand, the addition of more organizational tensions (generated from focusing simultaneously on both the current and future markets) may deteriorate the efficiency of social enterprises. Therefore, I come up with the following competing hypothesis:

Hypothesis 2.5b (H2.5b): The interaction between market orientation and market disruptiveness capability negatively influences the economic performance of social enterprises.

In the social entrepreneurship context specifically, mission drift is seen as undesirable, as the danger is that the originally intended beneficiaries of the social enterprises no longer receive adequate support if the social enterprises shift their focus from the current market to new market (Copestake, 2007; Cornforth, 2014; Ebrahim et al., 2014). Therefore, emphasis on developing both market orientation and market disruptiveness capability or focus on both the current and future markets may enable social enterprises to keep their social performance in check. Such dual emphasis would enable social enterprises to possess both the capability to bring in competitive innovation that would disrupt the current market while, at the same time, the ability to continue to orientate towards their existing market to ensure that their new products or services

remain affordable, low cost, and applicable to their target markets (Christensen et al., 2006). In some instances, when social enterprises choose to serve new market in addition to the current one, they can be more efficient and effective in addressing social problems or issues and thereby achieving their social goals better than just serving the current market. For example, medical and community health scholars (Kushel, 2018) argue that organisations that address not only the current social problems but also the root causes of them simultaneously are more effective than the organisations that focus on addressing the current social problems only. In a study, Salomon et al.(2005) found that focusing on both the treatment of HIV aids patients (current market) and offering preventive products and services to high risk populations (new market) as well as to those HIV affected, HIV prevalence and HIV related deaths could be controlled more effectively and efficiently (achievement of social goals) than offering either the treatment of HIV or the prevention of HIV, individually. Thus, by developing radical products and services for future market or new market, social enterprises may be more effective in solving complex social problems of the current market. Therefore, for a social enterprise, to have both market orientation and market disruptive capability strong could be beneficial to effectively address the social issues. Thus, I propose the following hypotheses:

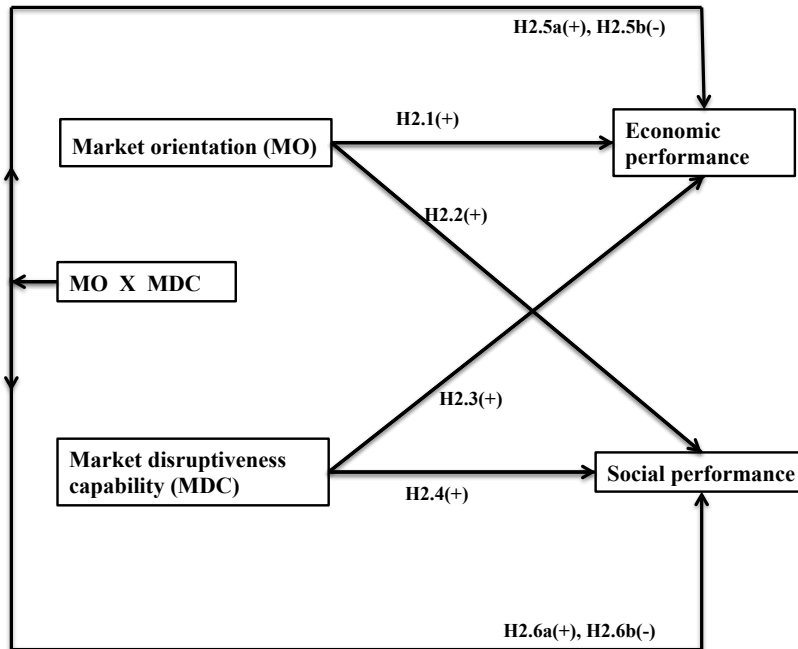
Hypothesis 2.6a (H2.6a): The interaction of market disruptiveness capability and market orientation positively influences the social performance of social enterprises.

However, a question from a social perspective is how can social enterprises continue innovating and bringing out new products that would keep them competitive in

the marketplace and also socially relevant to those they intend to serve (Bennett & Savani, 2011)? According to some marketing scholars (Atuahene-Gima, 2005), strong market orientation of a firm can have negative impact on radical innovation. Drawing on this, I argue that there could be a danger that although a social enterprise focuses on improving both market orientation and market disruptiveness capability simultaneously, it may result in the social enterprise developing core rigidity that may hinder its ability to introduce radical innovation that would be most relevant to address the need and demands of customers or beneficiaries in the future. For instance, a social enterprise supporting refugees may be reluctant to engage in innovation that moves it away from its target catchment, despite the fact that, over time, as the refugees become settled or return to their country of origin, they are no longer serving a catchment that would create most social impact. A strong focus on current market orientation may mean that a firm is unable to unlearn a previously pertinent but possibly now-obsolete business model. Equally, the over-reliance on a successful dominant design or business concept could in turn become the crucial inhibitive factor in the development of disruptive innovation capability (Assink, 2006). Therefore, I propose the following contrasting hypothesis:

Hypothesis 2.6b (H2.6b): The interaction of market disruptiveness capability and market orientation negatively influences the social performance of social enterprises.

The conceptual model that shows the relationships between independent and dependent variables and the hypotheses is as follows:



Note: (+) = positive effect, (-) = negative effect.

Figure 2.1. Hypothesised Model

2.3. Research Method

2.3.1. Sample and Data Collection

The samples were drawn from the UK social enterprises registered in online social enterprise directories (see Appendix A). I used the UK government definition, DTI (2002), to define and include social enterprises in this study. I adopted this definition for two main reasons. First, this study is conducted in the UK and this definition better suits this context. Second, as this definition bridges the European and American definitions of

social enterprise (Doherty et al., 2014), its adoption may widen the scope and applicability of this study.

Following the procedures described by Dillman (2011), I sent initial emails providing a link to the survey to the owners/managers of 1000 social enterprises. I selected owners/managers as respondents because they usually have better knowledge of the overall business than other stakeholders of the firm do (Zahra et al., 2002). After sending two reminders, I received responses from 210 social enterprises. After eliminating unusable, incomplete, and unengaged responses, I retained 164 useable responses (16.4%) to test the hypotheses. This is an acceptable response rate in organisational surveys (Baldauf et al., 1999; Greer et al., 2000; Scarborough, 2011; Tomaskovic-Devey et al., 1994). I used the extrapolation procedure to assess potential non-response bias (Armstrong & Overton, 1977). According to Armstrong and Overton (1977), the extrapolation method, which compares the early responses of the respondents with those of the late responses, can be used to assess non-response bias in mail surveys. Following the prior studies (Heide et al., 2014; Miles & Arnold, 1991), I assumed that the late responses in a sample are similar to the theoretical non-responses. In this study, the responses were ordered sequentially by the date received, with the first quartile selected to represent the early responses and the last quartile selected to represent the late or non-responses. Then, *T*-tests were used to confirm if there were significant differences in the mean scores of market orientation, market disruptiveness capability, economic performance, and social performance constructs between early and late responses. The findings demonstrate no significant difference (at the 0.05 level of significance) in the

mean scores of all the four constructs between the early and late responses, suggesting no issue of non-response bias in this study (Armstrong & Overton, 1977).

2.3.2. Variables and Measures

2.3.2.1. Dependent and Independent Variables

Social entrepreneurship literature is still in its infancy (Mair & Marti, 2006; Short et al., 2009) and there are not many constructs specifically designed for the context of social enterprises. Traditionally, constructs were being deployed from the existing commercial literature and then adopted for social entrepreneurship research (e.g., Liu et al., 2015). This is through amending the existing constructs, or refocusing, adding relevant items or subtracting irrelevant items, to make them more applicable (for instance, Bhuian et al., 2005; Chen & Hsu, 2013; Choi, 2014; Coombes et al., 2011; Liu et al., 2015; Liu et al., 2014; Miles et al., 2014; Morris et al., 2007). I took a similar approach when considering the constructs to be adopted for this study. As social enterprises have some degree of emphasis on commercialisation and income generating activities (Peredo & McLean, 2006), I focused on the constructs that had previously been applied to the entrepreneurship and small business context while taking into account the specific nature of social enterprises.

Multi-item measures with a 7-point Likert scale (1 = strongly disagree, 7 = strongly agree) were used to assess both dependent and independent variables (see Appendix A for the list of questions). Dependent variables were economic performance and social performance, while independent variables were market orientation and market disruptiveness capability.

For the dependent variables, I extracted items for measuring economic performance and social performance from Kropp et al.(2006) and Coombes et al. (2011), respectively, and their standardised factor loadings are above the lowest cut off value of 0.5 (Hair et al., 2006) (see Table 2.1). Both constructs were regularly applied in the social entrepreneurship literature (Coombes et al., 2011; Liu et al., 2015). In line with previous studies examining economic (Kropp et al., 2006; Narver & Slater, 1990; Pinho et al., 2014; Slater & Narver, 1994; Stam & Elfring, 2008; Vickery et al., 2003; Ward et al., 1994) and social performance (Coombes et al., 2011; Liu et al., 2015), these measures are subjective self-reported ratings. Economic performance focuses on whether objective performance targets, such as sales, turnover and growth, were satisfactory, as well as subjective judgments as to whether social enterprises consider themselves to be ‘doing well’. Social performance is a construct designed specifically for social entrepreneurship and public sector management research. Due to the diverse nature of social enterprise objectives (Kroeger & Weber, 2014; Norman & MacDonald, 2004), a comparative subjective approach, as deployed by Li, Zhao, Tan, and Liu, (2008) and Tan and Litschert (1994), was particularly applicable. The focus of the construct is on the extent to which the managers of social enterprises feel they have implemented social strategies to accomplish their social objectives and missions.

Table 2.1. Indicators and Standardised Factor Loadings of Latent Constructs

Latent Constructs	Indicators (Likert scales ranges from 1 to 7)	Std. Factor Loadings
Market orientation	We have routine or regular measures of customer service	0.683
	Our product and service development is based on good market and customer information	0.769
	We know our competitors well	0.721
	We have a good sense of how our customers value our products and services	0.786
	We are more customer-focused than our competitors	0.668
	We compete primarily based on product or service differentiation	0.629
	Our products/services are the best in the business	0.697
Market disruptiveness capability	Over the past few years, our firm has released very many new products or services to the market	0.646
	Over the past few years, changes to our product lines have been radical	0.504
	Our firm generally initiates changes that our competitors are forced to react to thereafter	0.800
	Our firm is often the first firm to introduce new	0.815

	products, systems, production methods, etc.	
	We heavily invest in innovation and the development of new products and services	0.623
Economic performance	The firm has been very profitable	0.614
	The firm has generated a high volume of sales	0.585
	The firm has achieved rapid growth	0.671
	The performance of this firm has been very satisfactory	0.910
	The firm has been very successful	0.914
	The firm has fully met our expectations	0.752
Social performance	Implementation of social strategy (relative to competitors)	0.877
	Fulfilling the social mission	0.986
	Fulfilling the social objectives	0.968

In the social sector, defining a specific market towards which a social enterprise is orientated is particularly difficult (Gainer & Padanyi, 2005), as most social enterprises typically simultaneously engage in relationships with several markets, including beneficiary, donor, and peer (Modi & Mishra, 2010). Therefore, social enterprises have to be aware of the various markets and develop their marketing activities in relation to all these different markets. Although some prior studies have only focused on donor market orientation (Balabanis et al., 1997; Kara et al., 2004; Levine & Zahradnik, 2012) or beneficiary market orientation (Vázquez et al., 2002), because of the nature of social

enterprises, I preferred a broader range of market orientation. Limiting the market to just one group, such as beneficiaries, would narrow the scope and would not reflect truly the complex nature of these social enterprises' entrepreneurialism. The objective of this study is also to explore the full range of markets that the social enterprises can explore, and how the utilisations of commercial market principles (market orientation and market disruptive capability) for customers of all kinds could affect not only their economic but also social performance. When considering the constructs, it is envisaged that the respondents would identify their end-users through considering the commercial market of their own business model, regardless of type. In the process of data collection, whenever I contacted any respondents, I also answered any questions that they might have, to prevent any confusion.

Specifically, I extracted market orientation and market destructiveness capability measurements from Deshpandé and Farley (1998) and McKelvie and Davidsson (2009) respectively and their standardised factor loadings are above the lowest cut off value of 0.5 (Hair et al., 2006) (see Table 2.1 above). These two are amongst the most well known constructs for the two concepts. Market orientation focuses on social enterprises' awareness of its current customers' demands, competitors' actions, market segmentation, and unique selling points. These items are current focused and are relevant to all social enterprises regardless of their nature and strategic orientation. In line with prior studies on enterprising non-profits and public-sector social enterprises (Chen & Hsu, 2013; Choi, 2014; Modi, 2012; Morris et al., 2007), I used the word 'customers' to refer to 'end-users' in the questionnaires.

Market disruptiveness capability is change-orientated, focusing on new products and services releases, changes made to the products and services, investment into innovation, product and service development, and whether they deploy a competitive strategy focusing on creating first mover advantage. The focus of the items is on the tendency of social enterprises to introduce disruptive innovation into the marketplace with the view to improve the revenue generation capability of their products and services. Thus, as with market orientation, the emphasis of the construct is on how having such capability influences a diverse range of end-users of the products or services, regardless of whether they are the beneficiaries, donors, government agencies, or others.

2.3.2.2. Control Variables

To increase the robustness of this study, I included the age of social enterprises and access to technical expertise as control variables in the model. Research shows firms' age influence the firms' performance (Brush & Chaganti, 1999; Coad et al., 2016; Cucculelli et al., 2014; Durand & Coeurderoy, 2001). Similarly, scholars (Ainuddin et al., 2007; Chandler & Jansen, 1992; Huselid et al., 1997; McKelvie & Davidsson, 2009; Ravichandran & Lertwongsatien, 2005) argue that firms' access to technical expertise can influence the firms' performance.

The relationship between firms' age and firm performance has been observed in various organisations such as joint ventures (Park et al., 2015), multinational firms (Zhou & Wu, 2014), small and medium enterprises (Arend, 2014), family firms (Lee, 2006), and not for profit firms (Hager et al., 2004). Thus, the age of a firm is considered to be an important determinant of firm performance (Dobbs & Hamilton, 2007; Evans, 1987). It is

argued that older firms perform better than new firms because older firms tend to acquire more experiences and have stronger resource base than the new firms (Dobbs & Hamilton, 2007; Evans, 1987). Due to the “liability of newness” (Freeman et al., 1983), new firms may have lower access to resources than the older firms.

Similarly, research shows that access to technical expertise can improve firm performance (Ainuddin et al., 2007; Huselid et al., 1997). Technical expertise of a firm refers to the human capital (employees or others) that has technical knowledge and skills (McKelvie & Davidsson, 2009). In another word, the technical expertise is an ‘intellectual or knowledge-based resource’(Andriopoulos & Lewis, 2009, p. 52). As studies show that the knowledge based resource of a firm is positively associated with the firm performance (Grant, 1991; Grant, 1996), the access to technical expertise, which is a source of knowledge based resource, should therefore be positively associated with the firm performance. Furthermore, McKelvie and Davidsson (2009) show that access to technical expertise is crucial for a firm to develop a dynamic capability, which is positively associated with the firm performance (Eisenhardt & Martin, 2000; Teece et al., 1997). The access to technical expertise may enable social enterprises to develop new products and services not only to generate more income but also to address social issues. Therefore, access of social enterprises to technical expertise may influence their performance. Hence, for the robustness of this study, the effects of age and access to technical expertise on the performance (economic and social) of social enterprises are controlled for.

2.3.3. Reliability and Validity

I performed confirmatory factor analysis (CFA) using Mplus version 7.0 (Muthén & Muthén, 2012) and evaluated composite reliability, convergent validity, and discriminant validity of each construct, as well as the goodness-of-fit of the measurement model. The data are suitable for performing CFA because the Kaiser-Meyer-Olkin (KMO) score is 0.824, above the minimum threshold of 0.6 (Pallant, 2010). The measurement model included all four latent constructs (market orientation, market disruptiveness capability, economic performance, and social performance). The CFA produced the following goodness-of-fit statistics: comparative fit index (CFI) = 0.95, Tucker-Lewis Index (Bridgstock et al.) = 0.94, root mean square error of approximation (RMSEA) = 0.06, standardised root mean square residual (SRMR) = 0.06, and chi-square (X^2) = 295.376 (df = 179, $X^2/df=1.65$, P = 0.000), indicating the measurement model's good fit with the data (Bentler & Yuan, 1999; Byrne, 2012; Hu & Bentler, 1999).

Since the measurement model's good fit with the data and standardised factor loadings of each construct are above 0.5 (the majority of them are above 0.7) (see Table 2.1 above), the convergent validity of all four latent constructs can be assumed (Hair et al., 2006). Furthermore, the Cronbach's alpha and composite reliability of each of the latent constructs is above 0.7 (see Table 2.2), confirming their acceptable level of internal consistency, composite reliability, and convergent validity (Fornell & Larcker, 1981; Hair et al., 2006; Pallant, 2010).

Moreover, the AVE of each latent construct is above the minimum threshold of 0.5 and below the composite reliability (see Table 2.2), confirming their convergent validity (Fornell & Larcker, 1981; Hair et al., 2006). In addition, the square root of the AVE of

latent constructs is greater than the correlation coefficients between them (see Table 2.2), confirming their discriminant validity (Farrell, 2010; Fornell & Larcker, 1981; Hair et al., 2006). The highest correlation coefficient is 0.59, which is observed in the correlation between market orientation and market disruptiveness capability. The inter-correlation matrix, as presented in Table 2.2, shows that the largest correlation coefficient is 0.59 (correlation between market orientation and market disruptiveness capability). Therefore, ‘correlations are all below .8, indicating that multicollinearity is not a problem in the model’ (Kennedy, 2002; Mustakallio et al., 2002, p. 214).

Table 2.2. Descriptive Statistics, Cronbach's Alpha (Alpha), Composite Reliability (CR), Average Variance Extracted (AVE), and Inter-Correlations Matrix

Variables	Mean	Std. Deviation	Cronbach's alpha	CR	AVE	1	2	3	4	5
1. Age:	0.71	0.46	-	-	-	-				
2. Technical expertise	4.68	1.37	-	-	-	0.12	-			
3. Market orientation	5.10	0.83	0.99	0.88	0.50	-0.01	0.24**	0.71		
4. Market disruptiveness capability	4.23	0.79	0.81	0.81	0.53	-0.01	0.15	0.59***	0.73	
5. Economic performance	4.42	0.85	0.89	0.89	0.58	0.22**	0.05	0.52***	0.43***	0.79
6. Social performance	5.64	1.05	0.96	0.96	0.89	0.60	0.06	0.39***	0.26**	0.18 0.945

Note: CR = composite reliability. AVE = average variance extracted. Diagonal values (**bold face**) are the square root of AVE. *** = p<0.001, ** = p<0.01.

2.3.4. Assessment of Common Method Bias (CMB)

As I asked the same respondents about both dependent and independent variables in the same self-administered survey, this risks the presence of CMB (Podsakoff et al., 2003). To reduce the risks of CMB, following the suggestions of Podsakoff et al. (Podsakoff et al., 2003), I guaranteed firms' anonymity and I strategically distributed the questions for dependent and independent variables in the questionnaire (Krishnan et al., 2006), which is an effective procedural step to minimise the risk of CMB.

I then assessed the presence of CMB in the data. First, I performed Harman's single factor test (Podsakoff et al., 2003), which showed that the single factor explained less than 50% of variance (36.5%). This level of variance cannot invalidate the relationships between independent and dependent variables (Doty & Glick, 1998; Fuller et al., 2016), confirming no serious issue of CMB (Podsakoff et al., 2003). Second, I evaluated the goodness-of-fit statistics of the single factor model, which is as follows: $\chi^2 = 1316.75$ ($df = 186$, $\chi^2/df = 7.1$, $P = 0.000$); RMSEA = 0.19; CFI = 0.49; TLI = 0.43; SRMR = 0.14, indicating that the single factor model did not fit with the data (Bentler & Yuan, 1999; Hu & Bentler, 1999). Third, I created a common latent factor and performed a statistical test to estimate and evaluate the variance explained by the common latent factor. Following a procedure described in prior studies (Eichhorn, 2014; Liang et al., 2007; Podsakoff et al., 2003; Williams et al., 2003), a common latent factor was created. Then, following the method described in Eichhorn (2014), I included a common latent factor in CFA whose indicators included all the principal constructs' indicators that I set to equal; also, the variance of the common latent factor was constrained to one in order for the model to be identified. The model shows that the common latent factor explained

30.58% of variance with the following goodness-of-fit statistics. Chi-square value = 279.621 (df = 161, p = 0.000), RMSEA = 0.067, CFI = 0.943, TLI = 0.933, and SRMR = 0.069. It is important to understand whether this variance is significantly different from zero (0) to know whether this variance of common latent factor (common method bias) contaminates the results of the analysis or not. To perform the test, I developed another model in which all the factor loadings of common latent factors were constrained to zero (0) and the variance constrained to one. The model in which the factor loadings of common latent factor were constrained to zero shows the following goodness-of-fit statistics: chi-square value = 280.879 (df = 162, p = 0.000), RMSEA = 0.067, CFI = 0.943, and TLI = 0.933, SRMR = 0.057. Then, I performed a chi-square difference test between these two models, which shows that, with the difference of one degree of freedom, the chi-square difference is 1.258. The difference in chi-square is not significant at the P value 0.05 ($P < 0.05$), confirming that the variance explained by common latent factor is not significantly different from zero. Therefore, based on the results of the three tests mentioned above, I confirm that there is no serious issue of common method bias in this study.

2.4. Results

I used maximum likelihood SEM with Mplus (Muthén & Muthén, 2012) to estimate the path coefficients and then to test the hypotheses of the conceptual model (see Figure 2.1). As the conceptual model included paths from market orientation, market disruptiveness capability, and their relationship (interaction) to economic performance and social performance, I required two steps of analysis to estimate the coefficients of all

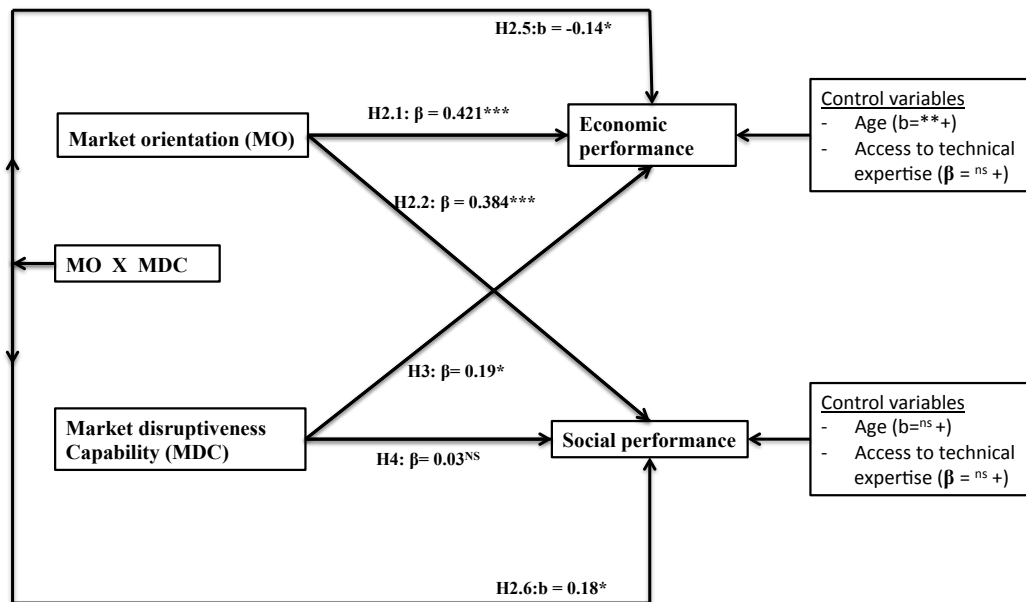
paths (Muthén & Muthén, 2012). In the first step, I estimated the individual effect of market orientation and market disruptiveness capability on economic performance and social performance. In the second step, I created interaction between market orientation and market disruptiveness capability, using a method recommended in Muthén and Muthén (2012), and estimated its effects on economic performance and social performance. I also centred the indicators of market orientation and market disruptiveness capability from their mean in the second step to reduce potential multicollinearity effects (Marsh et al., 2004; Ping Jr, 1995). I tested hypotheses H2.1, H2.2, H2.3 and H2.4 in the first step, and hypotheses H2.5a, H2.5b, H2.6a, and H2.6b in the second step. The model that I developed in the first step is hereafter known as the “main effect model”, and in the second step as the “interaction effect model”. The “main effect model” includes the paths from market orientation and market disruptiveness capability to economic performance and social performance, whereas the “interaction effect model” includes the paths from market orientation and market disruptiveness capability, as well as their relationship to economic performance and social performance.

I evaluated the goodness-of-fit statistics of the “main effect model” and the “interaction effect model”. The goodness-of-fit statistics of the “main effect model” are as follows: chi-square (X^2) = 345.887 (df = 217), RMSEA = 0.060, CFI = 0.943, TLI = 0.933, SRMR = 0.064, Loglikelihood = -4420.222, Akaike (AIC) = 8994.443, Bayesian (BIC) = 9232.662, Sample-Size Adjusted BIC = 8988.891, indicating an acceptable level of fit with the data (Byrne, 2012). I performed a log likelihood ratio test, as presented below, to evaluate the goodness of fit of the “interaction effect model”, following a procedure described in Byrne (2012).

$$\begin{aligned} \text{Log likelihood ratio} &= 2 * \{(\log \text{ likelihood value of the "interaction effect model"}) - \\ &(\log \text{ likelihood value of the "main effect model"})\} \\ &= 2 * \{(-4414.677) - (- 4420.222)\} = 11.09. \end{aligned}$$

The likelihood ratio test statistic is 11.09 (distributed chi-square) with two degrees of freedom, and the associated P-value is smaller than 0.005 ($P < 0.005$) in the Chi-square distribution table, indicating that the "interaction effect model" is a good fit with the data.

The path coefficients from market orientation, market disruptiveness capability, and their relationship to economic performance and social performance are presented in Figure 2.2. This shows that market orientation positively and significantly influences both economic performance (standardised path coefficient = 0.421, $p = 0.000$) and social performance (standardised path coefficient = 0.384, $p = 0.000$) simultaneously, supporting hypotheses H2.1 and H2.2. Interestingly, the results of the analysis shows that market disruptiveness capability positively and significantly influences economic performance (standardised path coefficient = 0.193, $p = 0.049$), but not social performance (standardised path coefficient = 0.033, $p = 0.757$), supporting hypothesis H2.3 but rejecting hypothesis H2.4.

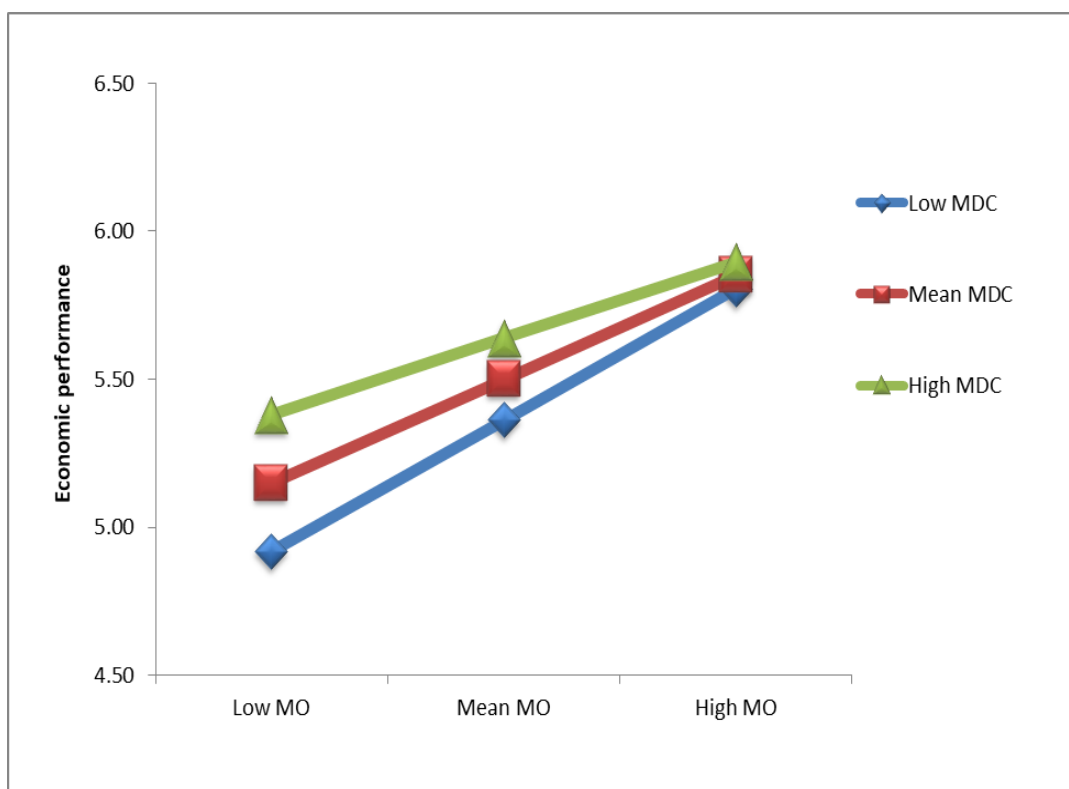


Note: *P<0.05, **P<0.01, ***P<0.001, NS = not significant (p>.1). Path coefficients are standardized except for the interaction term (MO X MDC), which is unstandardized. MO X MDC = Interaction between market orientation and market disruptiveness capability.

Figure 2.2. The Full Structural Model with Path Coefficients (Results of the Analysis)

Furthermore, the results of the analysis presented in Figure 2.2 show that the effect of interaction between market orientation and market disruptiveness capability on economic performance is negative (unstandardised path coefficient = -0.144, $p = 0.013$), whereas on social performance it is positive (unstandardised path coefficient = 0.184, $p = 0.032$). This means that the strength of the positive effect of market orientation on economic performance becomes weaker, but becomes stronger on social performance when it is combined with a high level of market disruptiveness capability. Similarly, the

strength of the positive effect of market disruptiveness capability on economic performance becomes weaker, but becomes stronger on social performance when it is combined with a high level of market orientation. This is clearly observable in Figures 2.3 and 2.4. Hence, hypothesis H2.5b and hypothesis H2.6a are accepted.

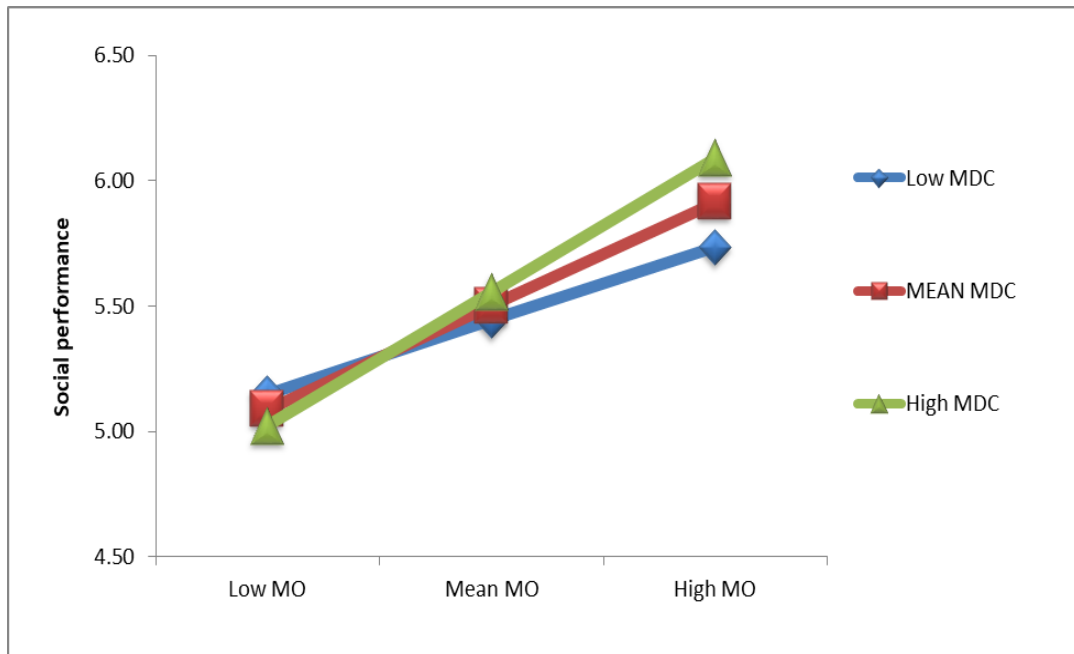


Note: MO = market orientation and MDC = market disruptiveness capability.

Figure 2.3. Interaction Effect of Market Orientation and Market Disruptiveness Capability on Economic Performance

Nevertheless, despite the negative interaction effect of market orientation and market disruptiveness capability on economic performance, together they still improve the economic performance of social enterprises because the net effect of market

orientation, market disruptiveness capability and their interaction is positive (see Figures 2.2 & 2.3).



Note: MO = market orientation and MDC = market disruptiveness capability.

Figure 2.4. Interaction Effect of Market Orientation and Market Disruptiveness Capability on Social Performance

Between the two control variables, the *age* of social enterprises is significantly and positively associated with economic performance, while *access to technical expertise* is associated with neither economic performance nor social performance.

2.5. Discussion and Conclusion

2.5.1. Theoretical Implications

In this study, I asked the question as to how the *market orientation* and *market disruptive capability* of firms may affect the economic and social performance of social

enterprises. The finding of this study is consistent with the existing literature, such as Liu et al. (2015), that having strong market orientation is crucial in the attainment of both high economic and social performance of social enterprises. Another finding that is consistent with my expectations, and the literature on radical product innovation (Chandy & Tellis, 2000; Tushman, 1997) and disruptive innovation (Christensen et al., 2006), is that market disruptiveness capability is a crucial resource for improving performances of social enterprises. I consider the contribution here is to extend the finding to the context of social enterprise.

However, the finding of this study in relation to market disruptive capability and social performance is inconclusive. This suggests that radical innovations within social enterprises often do not address their social missions if they are not developed with a focus on beneficiaries. This finding runs contrary to the dynamic capabilities view. It could be a result of misdirected investments in innovations (Christensen et al., 2006) and also the inherent unpredictable and uncontrollable nature of radical innovations resulting in projects drifting away from their intended recipients (Jones, 2007; Weisbrod, 2004). This could also be a result of either terminating costly innovation projects for fear of mission drift or seeing out a financially viable innovation project that does not fulfil the social needs of the intended recipients (Cornforth, 2014; Smith et al., 2013).

I believe that the main theoretical contribution of this study is the exploration of the relationship between the interaction of market orientation and market disruption capability, and performance outcomes. First, I found that the interaction creates a positive synergistic effect on the social performance of social enterprises. This finding enables us to extend the theory of mission drift (Copestake, 2007) to the implementation

of social innovation. This finding suggests, together with the previous finding, that the relationship between market disruptive capability and social performance is inconclusive, that, in order to create added social value for the market disruptive innovation in their new products and services, the social enterprise must ensure that they continue to learn about and address the needs and demands of existing markets and target clientele to remain true to their social missions and objectives (Christensen et al., 2006).

Second, the finding of this study also adds to the Porterian debate on the performance implication of adopting multiple strategies. Consistent with Porter (1980) as well as Slater and Narver (1995), but contrary to some market orientation literature on commercial firms (Connor, 1999; Morgan et al., 2009; Ngo & O'Cass, 2012a) and the dynamic capability perspective (Teece et al., 1997), I found evidence of a trade-off between current-led market orientation, and future-looking market disruptive capability. I found that the interaction between the two creates a negative synergistic effect on the economic performance of social enterprises. This indicates that market orientation and market disruptiveness capability together and individually can improve the economic performance of social enterprises, but that they are less effective together than individually. This suggests that, economically speaking, it would be most efficient for organisations to embark on either one, or both. That said, although I found that the interaction effect of market orientation and market disruptiveness capability on the economic performance is negative, I also revealed that together they still improve the economic performance (see Figure 2.3). Therefore, if a social enterprise has strong financial backup, then implementing both capabilities has an appeal, as it would allow it to maximise its social performance.

My finding from social enterprises is not expected to replicate with the case of commercial firms. It should be noted that the main objective of commercial businesses is to maximise profits whereas for social enterprises it is to maximise social impacts (Austin et al., 2006). The market power of commercial businesses is also higher than the market power of social enterprises because social enterprises' customers are poor and deprived whereas commercial businesses' customers are affluent (Austin et al., 2006, p. 13). Therefore, strongly market-oriented commercial businesses may charge the highest prices possible for their products and services to their customers, who are usually affluent, to maximise profit whereas, in contrast, strongly market-oriented social enterprises may charge the lowest prices possible for their products and services to their beneficiaries, who are usually less well-off and unable to afford expensive products, to maximise their social impacts by minimising the profits.

2.5.2. Managerial Implications

The main managerial implication for the managers of social enterprises is that they need to keep one eye on the current market, and another on the future. Therefore, social enterprise managers should strive to develop market orientation and market disruptive capability, both of which would ensure strong economic performance. Keeping an eye on the current market would also enable them to better serve their existing market catchment, in turn enabling them to attain superior social performance.

This study voices caution to social enterprise managers intending to enhance their social enterprise's market disruptive capability for the development of innovation. I found that market disruptive capability alone is not sufficient in generating strong social performance. This is because developing innovation can be costly and time-consuming,

and while these enterprises can become economic successes as this study suggested, their success in bringing about positive social impact is far from guaranteed. One reason may be due to the unpredictability of innovation, which means that social enterprises are able to introduce a product or service that can be a financial success, but no longer serve the social needs of those they initially intended to serve.

For social enterprises striving to be innovative and intending to develop market disruptive capacity to do so, this study offers one potential suggestion to improve their ability to create a social impact. Based on the findings of this study, I recommend that social enterprises intending to pursue innovations that are disruptive should not only focus on the development of market disruptive capability, but also continue to focus on learning about and addressing the needs and demands of the existing target catchment.

However, a clear drawback of developing both a good market orientation and market disruptive capability is, as the findings of this study suggest, that this does not necessarily result in economic efficiency. Essentially social enterprises can become 'stuck-in-the-middle'. This can be down to the cost trade-off, but also due to the fact that the current market focus may restrict the ability of social enterprises to truly develop path-breaking innovation. Therefore, I am not suggesting that developing both simultaneously is necessarily the best way but that, consistent with the contingency perspective of strategic development, social enterprises have room to choose. Undoubtedly, social enterprise managers should understand and address the needs and demands of their existing market rather than engage in developing radical products and services for new markets if they want to improve the economic and social performance of their organizations simultaneously. It is down to the strategic choice of the social

enterprise manager to decide on the strategic current focus and future focus of their social enterprise, and make strategic decisions based on the trade-off suggested in this study.

2.5.3. Limitations and Future Research

This research is not without limitations: however, these limitations reveal exciting areas for future research. First, I have distinguished between different types of customers (e.g., beneficiaries, donors, governments, etc.). Future researchers may want to shed light on the impact of each of these different groups on social enterprises' performance. Additionally, I have identified four different categories of social enterprises. Future studies may investigate the effect of adoption of market orientation and market disruptiveness capability on the performance of each of the four categories of social enterprises.

Second, this study has tested the effects of interaction between market orientation and market disruptiveness capability on the social performance and economic performance of social enterprises and found a positive effect on social performance but a negative one on economic performance. Future studies should empirically test the reasons why market orientation and market disruptiveness capability together *reduce* the strength of the positive effect of each other on economic performance but *enhance* the strength of the positive effect of each other on the social performance. I considered market orientation as a resource and market disruptiveness capability as a market orientation-deploying capability in this study. However, indeed, not only market disruptiveness capability but also other capabilities – for example, marketing capability and innovation capability – may deploy market orientation. Similarly, market

disruptiveness capability may deploy not only market orientation but also other resources; for example, learning orientation. Hence, future research should analyse the effect of the interaction of market orientation and other capabilities (not limited to only market disruptiveness capability), and market disruptiveness capability and other resources (not limited to only market orientation) on economic and the social performance to advance the resource-based view and the dynamic capability perspective.

Finally, this study is one of the very few quantitative studies in the context of social enterprises. However, the sample size is relatively small (164 social enterprises) and the samples were only drawn from UK social enterprises registered in some UK social enterprise online directories. Similar studies could benefit from a larger sample drawn from UK social enterprises, not limited to only those registered in the online directories, and also from social enterprises from countries other than the UK.

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Chapter 3

Learning Orientation and Social Enterprise Performance: The Mediating Role of New Product Development Capability

Abstract: Although social enterprises are encouraged to improve their performance not only to fill the increasing funding gaps but also to address the increasing social issues, little is known about how they can do so. Scholars have identified learning orientation and new product development capability as two valuable resources that improve commercial firm performance. However, considering the differences between social enterprises and commercial businesses, how they improve the economic and social performance of social enterprises is still unclear. Aiming to fill such research gaps, I analysed data obtained from a survey of 164 UK social enterprises and found that the adoption and the development of learning orientation and new product development capability can improve both the economic and social performance of social enterprises. Furthermore, I also found that new product development capability fully mediates the learning orientation to improve the economic and the social performance of social enterprises.

Key words: Social enterprise, learning orientation, new product development capability, and social and economic performance

3.1. Introduction

The current socio-economic and political environment has increasingly encouraged social enterprises to improve not only their economic performance to meet the increasing funding gaps but also their social performance to address the increasing social problems (Kerlin & Pollak, 2011; Maclean et al., 2013; Rey-Martí et al., 2016). It is therefore crucial for social enterprises to adopt and develop resources and capabilities that improve not only economic but also social performance. Prior studies in commercial businesses have identified several valuable resources and capabilities that improve the performance of commercial firms. Learning orientation (Kropp et al., 2006) and new product development capability (McKelvie & Davidsson, 2009) are among those identified as valuable resources and capabilities, respectively. Empirical studies have provided evidence of a positive association between learning orientation and firm performance (Baker & Sinkula, 1999a, b; Calantone et al., 2002; Real et al., 2014), learning orientation and new product development capability (Calantone et al., 2002), and new product development capability and firm performance (Guan & Ma, 2003). However, empirical evidence of how learning orientation, a knowledge-based resource, is deployed and processed to improve firm performance is still limited (Calantone et al., 2002). Specifically, our knowledge of how social enterprises process learning orientation to improve not only economic performance but also social performance is still unclear. Social performance simply refers to the performance of an organization in creating social values for the customers or in achieving social missions, goals, and objectives (Coombes et al., 2011), while economic performance refers to the performance of an organization in capturing economic values from its activities (Kropp et al., 2006).

Although prior studies in the context of commercial businesses have established a positive relationship between learning orientation, new product development capability, and firm performance, it could not be generalised to the context of social enterprises without testing it in social enterprises (Costanzo et al., 2014) because the context of commercial businesses and social enterprises are different (Austin et al., 2006; Barraket et al., 2016) and in the different contexts the values of the resources and capabilities of a firm could also be different (Barney, 2001b; Priem & Butler, 2001). Furthermore, the prior studies in the context of commercial businesses have linked learning orientation to the economic performance but not the social performance of commercial firms (Calantone et al., 2002). Hence, although based on the business literature some inferences could be made regarding the relationship between learning orientation and the economic performance of social enterprises, no such inferences could be made regarding the relationship between learning orientation and the social performance of social enterprises. Moreover, due to the conflicting arguments and assertions concerning whether and how social enterprises can simultaneously improve both economic performance and social performance, our understanding of social enterprise performance is still underdeveloped. For example, some scholars argue that the economic and social goals of social enterprises are independent (Stevens et al., 2015) and complementary (Di Zhang & Swanson, 2013) to each other and hence they could be improved simultaneously. However, others (Masseti, 2008) argue that the economic and the social goals of social enterprises lie at the opposite ends of a continuum and hence they trade off each other.

Therefore, drawing on the resource based view (Barney, 1991; Barney, 2001a;

Barney, 2001b; Priem & Butler, 2001), this study aims to address the above mentioned research gaps. Specifically, adopting a resource-processing perspective (Priem & Butler, 2001), I examine learning orientation as a valuable resource and new product development capability as one of the valuable resource-deploying or processing capabilities. According to Barney (1991, p. 101), resource is defined as “all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm and that enable it to conceive of and implement strategies that are efficient and effective”. The resource based view (Barney, 1991) posits that heterogeneity in firms’ valuable resources can create heterogeneity in their performances. However, according to Priem & Butler (2001), valuable resources can improve firms’ performance, but they need to be processed to realise their values, and hence firms should have not only the valuable resources but also the capabilities to process such resources and thereby to improve their performance. Therefore, drawing on this aspect of resource-based view, I develop a mediation effect model, and utilizing the quantitative data obtained from a survey of 164 UK social enterprises, this research attempts to answer the following research questions:

1. Does the adoption of learning orientation and the fostering of new product development capability improve both the social and economic performance of social enterprises?
2. Does the adoption of learning orientation improve the new product development capability of social enterprises?
3. Does new product development capability mediate the effect of learning orientation on the economic performance and social performance of social enterprises?

The expected contributions of this research are as follows. First, this study is possibly the first to offer a comprehensive explanation of how learning orientation and new product development capability collectively influence (directly and/or indirectly) the economic and social performance of social enterprises. Second, this research responds to important calls for more quantitative and empirical studies in social entrepreneurship (Dacin et al., 2011; Grimes, 2010; Liu et al., 2015; Meyskens et al., 2010) as well as learning orientation literature (Calantone et al., 2002). Third, this research sheds light on conflicting arguments about the effect of the implementation of commercial business practices on the economic and social performance of social enterprises. Specifically, I highlight whether the adoption of learning and innovating practices in social enterprises can improve their economic performance and social performance *simultaneously*. Fourth, by linking a resource and a capability to the economic performance and social performance of social enterprises, this study extends the scope and applicability of the resource based view (Barney, 1991) to the context of social enterprises. Finally, this study offers practical implications to social enterprise managers about whether and how they should implement and develop learning orientation and new product development capability in their organizations to achieve not only financial sustainability but also social objectives. The findings of this study will be very insightful and useful for managers given the increasing pressures on social enterprises to rely more on market-based strategies and less on government grants and funding and to address increasing social issues (Kerlin & Pollak, 2011).

In the next section, I develop hypotheses for this study, followed by the research methodology section. The next section presents the results of the analysis and the tests of the hypotheses. Then, the final section discusses the findings, contributions, and implications of the study and offers some recommendations for future research.

3.2. Theory and Hypotheses

3.2.1. Learning Orientation and Social Enterprise Performance

Built upon a resource based view (Barney, 1991), scholars (Baker & Sinkula, 1999a, b) argue that learning orientation is a valuable resource and hence it can improve firm performance. The learning orientation is simply defined as a ‘basic attitude towards learning’ (Real et al., 2014, p. 189). This study views learning orientation as an organizational value that supports the idea that learning orientation is a key to improvement (Kropp et al., 2006; Real et al., 2014; Sinkula et al., 1997). Such organizational values and beliefs are crucial for ‘the development of new knowledge or insights that have the potential to influence behavior... of the organization’ towards the adoption and development of practices that can improve their performance (Huber, 1991; Hult et al., 2004 p, 431).

The positive relationship between learning orientation and firm performance has long been corroborated in business literature. Furthermore, studies have provided the evidence of a positive relationship between the learning orientation and firm performance in various contexts. For example, scholars have found positive association between learning orientation and firm performance in their empirical studies in small and medium

sized firms (Rhee et al., 2010), medium and large firms (Wang, 2008) as well as commercial firms from a variety of industries (Calantone et al., 2002). Similarly, studies (Salavou et al., 2004) show that learning orientation is crucial for a firm that operates in a competitive or a stable environment. However, the authors (Salavou et al., 2004) found that the learning is more effective in the firms that operate in a competitive environment than the firms that operates in a stable environment.

Slater and Narver (1995) suggest that learning in organizations enables firms to generate information about customers' needs and demands and competitors' actions, and disseminate such information among the individuals working in the organizations. Hence, learning may enable firms to understand and then fulfil the needs and demands of customers better than their competitors. Similarly, other scholars (Calantone et al., 2002) argue that learning oriented firms are proactive in updating and upgrading their operations, products, and services as per current and anticipated needs and demands of customers. Hence, learning orientation may enable firms to address not only the current needs and demands but also prepare for addressing latent needs and demands of the customers.

Scholars argue that learning oriented firms promote and create favourable environments for the development and promotion of learning and innovating cultures and values in their firms (Baker & Sinkula, 1999a). Such firms' learning and innovating cultures and values can encourage employees to commit to and then engage in learning new knowledge and skills and sharing the existing ones (Colquitt & Simmering, 1998; Matzler & Mueller, 2011; Wu & Lin, 2013). Through learning and sharing of knowledge and skills, firms can acquire, create, and develop their knowledge-based resources (Bell

& Kozlowski, 2002; Grant, 1996a; Kaya & Patton, 2011). The knowledge-based resources or the knowledge and skills of individuals working in a firm are critical in processing and utilizing their resources to operate and achieve their goals effectively and efficiently (Calantone et al., 2002).

Scholars suggest that learning can play an important role in social enterprises. Liu et al. (2015), for example, suggest that implementation of a learning culture and values in social enterprises enables them to understand the interests and concerns of their potential and existing donors, funding agencies, volunteers, employees, customers and beneficiaries. Information about them may enable social enterprises to identify and grasp opportunities related to fund-raising and financing, commercial trading activities, recruitment of volunteers and employees, and the development of appropriate new products and services not only to fulfil the financial needs of the social enterprises but also to address social issues and problems (Cooney, 2006; Gainer & Padanyi, 2002; Liu et al., 2015; Macedo & Carlos Pinho, 2006). I thus propose that:

Hypothesis 3.1a (H3.1a): Learning orientation positively influences economic performance of social enterprises, and

Hypothesis 3.1b (H3.1b): Learning orientation positively influences social performance of social enterprises.

3.2.2. Learning Orientation and New Product Development Capability

Firms' valuable resources are crucial for developing and strengthening their capabilities (Barney et al., 2001; Helfat & Peteraf, 2003). As learning orientation is one of the valuable resources of firms (Baker & Sinkula, 1999a), it can play a considerable

role in the development of their capabilities. Slater and Narver (1995) suggest that learning orientation is directly related to new product success because the development of new products and services is itself a learning process (McKee, 1992). Furthermore, by creating and promoting the learning culture, values, and environment of a firm, and thereby motivating and encouraging their employees to engage in learning new and sharing existing knowledge and skills, learning orientation significantly contributes to improving the knowledge, skills, and creativity of employees (Flores et al., 2012; Hanvanich et al., 2006; Hirst et al., 2009). Studies show that such employees' human capital can improve innovativeness (Amabile, 1988), innovation capability (Çakar & Ertürk, 2010; Calantone et al., 2002) or new product development capability (McKelvie & Davidsson, 2009), and in turn the performance of the firms (Gong et al., 2009).

Moreover, scholars argue that the creation of a learning environment and opportunity in a firm can improve employees' positive attitudes and behaviours towards learning, creative self-efficacy, and commitment to the organization (Bunderson & Sutcliffe, 2003; Gong & Fan, 2006; Porter, 2005; Porter et al., 2010). These traits drive employees to improve their innovativeness and creativity, and thereby collectively improve the innovativeness of the organization as a whole (Cottam et al., 2001; Gong et al., 2009; Green & McIntosh, 2001; Tierney & Farmer, 2002).

Similarly, scholars suggest that learning orientation enables firms to enhance the knowledge and skills of employees to create, develop, and execute the knowledge-based resources of a firm (Calantone et al., 2002). The knowledge based resource is one of the most important resources for the development of new products and services in a firm (Leonard-Barton, 1995). Furthermore, organizational learning enables firms to

understand the needs and demands of customers and the actions of competitors (Slater & Narver, 1995). Hence, learning offers the firms the opportunity to create and capture marketing and product development opportunities (Argote et al., 2003; Calantone et al., 2002; Slater & Narver, 1995). Learning can improve the ability of a firm to generate, evaluate, assimilate and use information about customers and competitors, and hence learning can improve the capability of a firm to innovate new products and services (Cohen & Levinthal, 1990).

Learning organizations are proactive towards engaging in not only generating knowledge in the firm, but also accessing external knowledge from stakeholders such as suppliers, users, and customers from whom they may get new useful ideas (Lasagni, 2012). The generation of such new knowledge and ideas can enhance the innovativeness of the firm. The positive relationship between learning orientation and the firm performance is evident in the empirical studies in the commercial business sector (Calantone et al., 2002) as well as in the not-for-profit sector (Garrido & Camarero, 2010; Garrido & Camarero, 2014). Furthermore, Dees (1998) argues that product innovation in a socially oriented organization stems from a continuous process of learning, exploring, and improving. I thus propose that:

Hypothesis 3.2 (H3.2): Learning orientation positively influences the new product development capability of social enterprises.

3.2.3. New Product Development Capability and Social Enterprise Performance

Scholars (Slater et al., 2014) argue that the development of new products and services is crucial to capture values for the firm by generating revenues and also to create

values for customers by offering them choices for fulfilling their needs and demands. Indeed, to produce such new products and services, firms need to develop their new product development capability (McKelvie & Davidsson, 2009; Schilke, 2014). New product development capability is a dynamic capability (Eisenhardt & Martin, 2000; McKelvie & Davidsson, 2009; Schilke, 2014; Teece et al., 1997b), which enables firms to configure and combine resources to produce new products and services as per the changes in environment (e.g. changing the needs and demands of customers, and the actions of competitors).

The firm that displays a greater ability to develop new products and services can not only respond more successfully to but also create the changes in their environment (Hult et al., 2004). These changes in environments may create imbalance or instability for the competitors (Schilke, 2014). Hence, new product development capability may enable firms to destroy the harmony of the market in which the competitors were enjoying market equilibrium. The destruction of an existing market can be a catastrophe for competitors and hence through the development of new products or services, firms can achieve competitive advantages in the market (Schumpeter, 1950).

The firm with a higher level of new product development capability can develop and offer new products and services to the market before the competitors do, and hence innovative firms may enjoy first-mover advantages (Kerin et al., 1992; Lieberman & Montgomery, 1988). A firm's developing and offering new products and services to the market means that the firm is offering multiple choices to their customers. When customers are offered multiple choices to address their needs, they may take a better option that suits their circumstances and hence the offering of new products and services

in the market can improve customer satisfaction (Nemati et al., 2010). Customer satisfaction is positively associated with a firm's long term profitability (Anderson et al., 1994).

Scholars have empirically studied and established the positive relationship between new product development capability and firm performance in various commercial business sectors. For example, empirical studies on large and medium firms (Darroch, 2005), small and medium firms (Rosenbusch et al., 2011), technology firms (Chow & Gong, 2010; Thornhill, 2006), manufacturing firms (Thornhill, 2006), and service industries (Agarwal et al., 2003; Hipp & Grupp, 2005) have all corroborated the positive association between new product development capability or innovativeness and their economic performance.

In addition, some studies in not-for-profit sectors also attest to the positive relationship between new product development capability and the performance of not-for-profit firms (Garrido & Camarero, 2010; McDonald & Srinivasan, 2004; Voss et al., 2006). In a study on U.S. hospitals, McDonald and Srinivasan (2004) show that innovation can reduce not only the hospitals' operational costs, but also enhance the values of the products and services offered to customers. Similarly, in a study of the not-for-profit professional theatre industry, Voss et al. (2006) demonstrate that innovations can improve their economic performance by increasing revenue from royalties and selling of tickets. Likewise, in a study of not-for-profit museums, Garrido and Camarero (2010) show that product innovations enable the not-for-profit museums to attract more visitors and generate more revenues, and also enable them to improve the conservation and collection of rare items.

Moreover, the beneficiaries of social enterprises are usually the poor and deprived who need affordable alternative products and services rather than high quality premium products and services of commercial firms. Therefore, by developing and offering affordable alternative products and services, social enterprises can not only compete against commercial businesses to achieve their economic goals but also fulfil the needs and demands of customers and/or beneficiaries to achieve their social goals (Christensen et al., 2006; Kramer, 2011). The affordability and social values of new products and services of social enterprises could serve as a source of competitive advantage over the competing products and services of commercial firms (Porter & Kramer, 2002). Thus, the development and marketing of such new products and services can generate not only revenue for a firm, but also create social values for societies and communities (Kramer, 2011). It can thus be proposed that:

Hypothesis 3.3a (H3.3a): New product development capability positively influences the economic performance of social enterprises, and

Hypothesis 3.3b (H3.3b): New product development capability positively influences the social performance of social enterprises.

3.2.4. The Mediating Role of New Product Development Capability in the Relationship between Learning Orientation and Social Enterprise Performance

Some scholars have suggested that the relationship between learning orientation and firm performance is conditional or dependent on other organizational factors (Baker & Sinkula, 1999b). Similarly, Calantone et al. (2002) propose that research should focus

on identifying the underlying processes that determine the contribution of learning orientation to firm performance. The authors (Calantone et al., 2002) surmise that one of the most profound contributions of learning orientation may lie in its links with innovation capability or new product development capability, which enable a firm to process the knowledge and skills of employees and its other resources to develop new products and services. Hult et al (2004) report that learning orientation is one of the crucial antecedents of introducing new products, processes, or ideas in organizations, and has direct positive links to business performance. Furthermore, Hult et al (2004) state that learning orientation ‘occurs primarily at the culture level of the firm and is likely to be mediated by factors that impact directly on business performance’ (p. 431). As studies show that the learning orientation and the product innovation capability or the new product development capability improve firm performance, and the learning orientation positively influences the innovation capability of the firm (Calantone et al., 2002), drawing on the literature of Priem and Butler (2001), it could be argued that the positive effect of learning orientation on firm performance could be processed or mediated through the new product development capability.

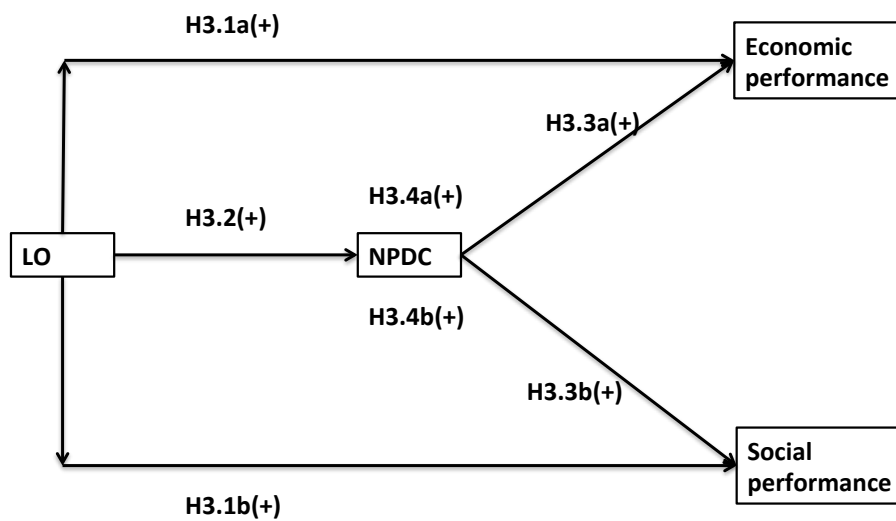
Some studies in not-for-profit firms also suggest that innovativeness may mediate the impact of learning on the economic performance and social performance of the not-for-profit firms. For example, researchers (Garrido & Camarero, 2010; Garrido & Camarero, 2014) demonstrate that the adoption of learning culture and values in not-for-profit museums can improve their products’ innovativeness, and in turn increase the revenues (economic goal) by developing and offering new products and services to the

customers, and also increase the social performance by expanding the collections of rare items (social objectives).

Furthermore, scholars suggest that through learning, social enterprises can understand the unmet needs and demands of customers, concerns and expectations of potential and existing donors, volunteers, and employees, and about other accessible resources (Liu et al., 2015). The knowledge of these resources, particularly the information about the needs and demands of customers, offers an opportunity to develop new products and services in such a way that may fulfil not only their needs and demands but also generate revenues (Edvardsson & Olsson, 1996; Han et al., 1998). As social enterprises usually blend both social and economic objectives in their innovative activities or products and services (Austin et al., 2006; Garrido & Camarero, 2010; Garrido & Camarero, 2014), I expect that new product development capability serves as a driving force of not only the economic performance but also the social performance of social enterprises. I thus propose that:

Hypothesis 3.4a (H3.4a): New product development capability acts as a mediating variable between learning orientation and the economic performance of social enterprises, and

Hypothesis 3.4b (H3.4b): New product development capability acts as a mediating variable between learning orientation and the social performance of social enterprises.



H3.4a(+): NPDC mediates the positive effect of LO on economic performance
 H3.4b(+): NPDC mediates the positive effect of LO on social performance

Note: LO = learning orientation and NPDC = new products development capability

Figure 3.1. Conceptual Framework

3.3. Methodology

3.3.1. Sample and Data Collection

The sample of this study was drawn from UK social enterprises registered in online social enterprise directories (see Appendix A). I used the UK government definition of social enterprises (DTI, 2002), which suited the context of this research. According to the DTI (2002, p. 13), social enterprise is ‘a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners’.

Following the procedures described by Dillman (2011), I sent initial emails providing a link to the survey to the owners/managers of 1000 social enterprises. I selected owners/managers as the respondents of this study because they usually have better knowledge of the overall business than other stakeholders of the firm (Zahra et al., 2002). After sending two reminders, I received responses from 210 social enterprises. I then eliminated 46 unusable, incomplete, or unengaged responses, and retained 164 useable responses (16.4 per cent) to test the hypotheses. Scholars (Baldauf et al., 1999; Greer et al., 2000; Scarborough, 2011; Tomaskovic-Devey et al., 1994) suggest that the surveys sent to organizations (organizational surveys) usually have low response rates and hence a response rate of above 15 per cent is considered to be an acceptable response rate in an organizational survey. A low response rate may engender non-response bias. Following the procedure described in Armstrong and Overton (1977), I assessed potential non-response bias and found no response bias in the data.

Out of 164 social enterprises (sample size), the majority of them are more than five years old (70%). Furthermore, the majority of the sampled social enterprises have access to financial capital (51.2%) and technical expertise (61.6%).

3.3.2. Variables and Measures

3.3.2.1. Dependent Variables

The dependent variables were the economic performance and social performance of social enterprises. I extracted the items for measuring economic performance and social performance from the research of Kropp, et al. (2006) and Coombes et al. (2011), respectively (see Appendix B for their items). In line with previous studies examining

economic performance (Kropp et al., 2006; Liu et al., 2015; Narver & Slater, 1990; Slater & Narver, 1994; Stam & Elfring, 2008; Vickery et al., 2003; Ward et al., 1994), and social performance (Coombes et al., 2011; Liu et al., 2015) for small and medium-sized enterprises and social enterprises, I used subjective self-reported ratings for measuring them. Employment of subjective indicators for the measurement of economic performance is quite common in social enterprise research for three main reasons. First, not all social enterprises are legally obliged to publish financial information, and hence it is quite difficult to obtain their financial hard data; second, due to the sensitivity of financial information (hard data), respondents are usually reluctant to share such financial information with external agents (Narver & Slater, 1990; Vickery et al., 2003; Ward et al., 1994), for example, researchers; and, third, the use of objective indicators may underestimate economic performance due to the rent appropriation effects, while the use of subjective indicators to measure economic performance can overcome the issue of underestimation (Crook et al., 2011).

The employment of subjective indicators for the measurement of social performance is also common in social enterprise research because it is difficult to quantify social performance and therefore difficult to apply objective indicators for its measurement (Kroeger & Weber, 2014; Stevens et al., 2015). Scholars argue that, due to a lack of a common scale for measuring social performance (Kroeger & Weber, 2014; Norman & MacDonald, 2004), it is still difficult to apply even subjective measures to estimate the social performance of a social enterprise. To overcome this issue, I used a comparative and subjective approach to measure social performance in this study. This approach allowed us to capture the diversity of social performance emphasized by

different social enterprises. The use of a comparative approach in handling performance is consistent with many previous studies (Li et al., 2008; Tan & Litschert, 1994). I believe that the adoption of the comparative approach is essential for the measurement of social performance given its diversity and therefore the difficulty in finding a common measurement scale. I used a standard seven point Likert scale (e.g. ‘strongly disagree’ to ‘strongly agree’) to measure all the subjective indicators of dependent and independent latent constructs because the Likert scale is considered to be better at capturing the magnitude and degree of responses than ‘non-Likert-type’ questions (Gliem & Gliem, 2003).

3.3.2.2. Independent Variables

Learning orientation and new product development capability are the independent variables of this study. They are latent constructs. The measurement indicators of learning orientation and new product development capability were derived from the established research of Kropp et al. (2006) and McKelvie and Davidsson (2009), respectively (see Table 3.1 below for their indicators). New product development capability has been conceptualised as the mediator in the relationship between learning orientation and social enterprise performance (economic and social) in the conceptual model of this study.

3.3.2.3. Control Variables

To increase the robustness of this study, I included the age of social enterprises, access to technical expertise, and access to financial capital as control variables in the model. Research shows firms’ age influence the firms’ performance (Brush & Chaganti, 1999; Coad et al., 2016; Cucculelli et al., 2014; Durand & Coeurderoy, 2001). The

relationship between firms' age and firm performance has been observed in various organisations such as joint ventures (Park et al., 2015), multinational firms (Zhou & Wu, 2014), small and medium enterprises (Arend, 2014), family firms (Lee, 2006), and not for profit firms (Hager et al., 2004). Thus, the age of a firm is considered to be an important determinant of firm performance (Dobbs & Hamilton, 2007; Evans, 1987). It is argued that older firms perform better than new firms because older firms tend to acquire more experiences and have stronger resource base than the new firms (Dobbs & Hamilton, 2007; Evans, 1987). Due to the "liability of newness" (Freeman et al., 1983), new firms may have lower access to resources than the older firms.

Similarly, scholars (Ainuddin et al., 2007; Chandler & Jansen, 1992; Huselid et al., 1997; McKelvie & Davidsson, 2009; Ravichandran & Lertwongsatien, 2005) argue that firms' access to technical expertise can influence their performance. Technical expertise refers to the human capital (employees or others) that has technical knowledge and skills (McKelvie & Davidsson, 2009). In another word, technical expertise is an 'intellectual or knowledge-based resource' (Andriopoulos & Lewis, 2009, p. 52). As studies show that the knowledge based resource of a firm is positively associated with the firm performance (Grant, 1991; Grant, 1996b), the access to technical expertise, which is a source of knowledge based resource, should therefore be positively associated with the firm performance. Furthermore, McKelvie and Davidsson (2009) show that access to technical expertise is crucial for a firm to develop a dynamic capability, which is positively associated with the firm performance (Eisenhardt & Martin, 2000; Teece et al., 1997a). The access to technical expertise may enable social enterprises to develop new products and services not only to generate more income but also to address social issues.

Therefore, access of social enterprises to technical expertise may influence their performance.

Likewise, scholars argue that financial resources are the most important resources for firms because access to financial resources enables the firms to buy or create other crucial resources and capabilities (Penrose, 1959) that improve their performance (Barney, 1991). Additionally, Cooper et al. (1994, p. 375) argue that ‘the availability of financial capital can affect the performance of the venture by creating a buffer against random shocks and by allowing the pursuit of more capital-intensive strategies, which are better protected from imitation’. Scholars argue that access to financial resources can influence the strategic orientations of a not for profit firm (Macedo & Carlos Pinho, 2006). For instance, access to finance may encourage the not for profit firms to take risks, be proactive, and to engage in innovative activities. Empirically, scholars have demonstrated that such strategic orientations of social enterprises are positively associated with their economic and social performance (Liu et al., 2014). Therefore, access to financial resources (which influence the strategic orientation) could influence the performance of social enterprises. Hence, the effects of the age, access to technical expertise, and access to financial capita of social enterprises on their performance (economic and social) are controlled for in this research.

3.3.3. Reliability and Validity of the Constructs

I assessed constructs’ validity by evaluating the convergent validity and discriminant validity of each latent construct. I performed confirmatory factor analysis (CFA) to evaluate measurement model (Byrne, 2012) and to estimate and evaluate the

composite reliability, convergent validity and discriminant validity of latent constructs. The data is suitable for performing CFA because the Kaiser-Meyer-Olkin (KMO) value is 0.78, which is well above the minimum cut-off point of 0.6 (Pallant, 2010).

The CFA included learning orientation, new product development capability, economic performance, and social performance, all latent constructs, and produced goodness of fit statistics as follows: Chi-square test (χ^2) = 118.281 (df= 94, P = 0.0459), root mean square error of approximation (RMSEA) = 0.040 (90% CI = 0.006 to 0.060), comparative fit index (CFI) = 0.988, Tucker-Lewis index (Bridgstock et al.) = 0.985, standardized root mean square residual (SRMR) = 0.057, indicating the measurement model fit with the data at an acceptable level (Bentler & Yuan, 1999; Byrne, 2012; Hu & Bentler, 1999).

Since the measurement model is a good fit with the data and all the standardized factor loadings of each construct are above 0.5 (the majority of them are above 0.7) (see Table 3.1), the convergent validity of all latent constructs of the conceptual model can be assumed (Hair et al., 2006). Furthermore, the Cronbach's alpha and composite reliability coefficient of each latent construct is above 0.7 (see Table 3.1), suggesting that all the latent constructs of this study exhibit an acceptable level of internal consistency, composite reliability, and convergent validity (Fornell & Larcker, 1981; Hair et al., 2006; Pallant, 2010).

Table 3.1. Constructs' Validities and Reliabilities

Dimensions and items	SFL	AVE	CR	α
$X^2=81.788$ (59), $X^2/df=1.39$, RMSEA= 0.048, CFI = 0.983, TLI = 0.978, SRMR = 0.059				
<u>Learning orientation</u>		0.629 (0.794)	0.869	0.883
LO1. The sense is that employee learning is an investment not an expense	0.852			
LO2. The basic values include learning as a key to improvement	0.920			
LO3. Once we quit learning we endanger our firm	0.644		0.868	0.866
LO4. We agree that the ability to learn is the key to improvement	0.726			
<u>New product development capability</u>		0.688 (0.829)	0.868	0.866
The development of new products or services	0.856			
The quality of newly developed products or services	0.805			
The diversity of newly developed products or services	0.826			
<u>Economic performance</u>		0.578 (0.79)	0.889	0.896
EP1. The firm has been very profitable	0.631			
EP2. The firm has generated a high volume of sales	0.613			
EP3. The firm has achieved rapid growth	0.684			
EP4. The performance of this firm has been very satisfactory	0.906			
EP5. The firm has been very successful	0.914			
EP6. The firm has fully met our expectations	0.750			
<u>Social performance</u>		0.893 (0.947)	0.961	0.958
SP1. Implementation of social strategy	0.878			
SP2. Fulfilling the social mission	0.986			
SP3. Fulfilling the social objectives	0.968			

Note: SFL= standardized factor loading; AVE = average variance-extracted; CR = composite reliability; α = Cronbach's alpha; RMSEA = root mean square error of approximation; CFI = comparative fit index; TLI = Tucker-Lewis index; SRMR = standardized root mean square residual. The values in parenthesis are the square roots of AVE.

Similarly, the values of AVE of all the latent constructs are above the minimum threshold of 0.5 and lower than the composite reliability of their respective constructs (see Table 3.1), exhibiting an acceptable level of convergent validity (Fornell & Larcker, 1981; Hair et al., 2006). Similarly, the square root of the AVE of latent constructs is bigger than the correlation coefficients between them (see Table 3.1 & 3.2), exhibiting an acceptable level of discriminant validity and no serious issue of multicollinearity (Fornell & Larcker, 1981; Hair et al., 2006). Furthermore, all the correlation coefficients are well below 0.8, indicating no serious issue of multicollinearity in this study (Kennedy, 2002; Mustakallio et al., 2002).

3.3.4. Assessment of Common Method Bias (CMB)

Because I asked the same respondents about both dependent and independent variables in the same self-administered online survey, this could risk the presence of common method bias in the responses (Podsakoff et al., 2003). To reduce the risk of CMB, I employed the suggestions of Podsakoff et al. (2003) as follows. First, I guaranteed firms' anonymity so that the respondents could answer the questions freely and honestly. Second, I spread out the questions for dependent and independent variables in the questionnaire so that the respondents could not easily perceive a relationship between dependent and independent variables presented in the questionnaire and hence it deterred them from manipulating their responses (Krishnan et al., 2006).

I then followed three steps to assess the presence of common method bias in responses and their potential effect on the relationship between the dependent and the independent variables. First, I performed Harman's one factor test, which showed that

the single factor explained less than 50 per cent of variance (24.9 percent), indicating no potential significant effect of CMB would be on the relationship between independent and dependent variables in this study (Doty & Glick, 1998). Second, I evaluated the goodness of fit statistics of the single factor model. The single factor model exhibited the following goodness of fit statistics: Chi-square test (X^2) = 988.843 (df= 100, P = 0.0000), RMSEA = 0.233 (90% CI = 0.220 to 0.246), CFI = 0.571, TLI = 0.485, SRMR = 0.229, indicating that the single factor model does not fit with the data (Bentler & Yuan, 1999; Chen et al., 2008; Hu & Bentler, 1999). Third, I created a common latent factor and performed a statistical test to estimate and evaluate the variance explained by the common latent factor. Following a procedure described in the prior studies (Eichhorn, 2014; Liang et al., 2007; Podsakoff et al., 2003; Williams et al., 2003), a common latent factor was created. Then, following the method described in Eichhorn (2014), I included a common latent factor in CFA whose indicators included all the principal constructs' indicators that I set to equal, and also the variance of the common latent factor was constrained to one in order for the model to be identified. The model shows that the common latent factor explained 3.69% of variances with the following goodness of fit statistics. Chi-square value = 131.135 (df = 94, p = 0.007), RMSEA = 0.049, CFI = 0.982, TLI = 0.977, and SRMR = 0.060. It is important to understand whether this variance is significantly different from zero (0) to know whether this variance of common latent factor (common method bias) contaminates the results of the analysis or not. To perform the test, I developed another model in which all the factor loadings of common latent factors were constrained to zero (0) and the variance constrained to one. The model in which the factor loadings of common latent factor were constrained to zero

shows the following goodness of fit statistics. Chi-square value = 131.183 (df = 95, p = 0.008), RMSEA = 0.048, CFI = 0.983, TLI = 0.978, SRMR = 0.059. Then, I performed ‘chi-square different test’ between these two models which shows that with the difference of one degree of freedom the chi-square difference is 0.048. The difference in chi-square is not significant at P value 0.05 ($P < 0.05$), confirming that the variance explained by the common latent factor is not significantly different from zero. Therefore, based on the results of the three tests mentioned above, I confirm that there is no serious issue of common method bias in this study.

3.4. Analysis and Results

3.4.1. Descriptive Statistics and Inter-correlation Matrix

Table 3.2 presents a summary of the descriptive statistics and inter-correlations matrix of the variables. As expected, learning orientation was positively related to new product development capability, (correlation = 0.436, $P < 0.001$), economic performance (correlation = 0.254, $p < 0.001$) and social performance (correlation = 0.323, $p < 0.001$), and ‘trade vs. grant dependency’ was positively related to learning orientation (correlation = 0.218, $p < 0.01$) and social performance (correlation = 0.325, $p < 0.01$), providing initial support for *hypotheses H3.2, H3.1a, and H3.1b*. Similarly, as expected, new product development capability was positively related to economic performance (correlation = 0.428, $p < 0.001$) and social performance (correlation = 0.431, $p < 0.001$), providing initial support for *hypotheses H3.3a and H3.3b*. Table 3.2 shows that all the correlation coefficients are well below 0.8 (the highest is 0.436), ‘indicating that

multicollinearity is not a problem in the model' (Kennedy, 2002; Mustakallio et al., 2002, p. 214).

Table 3.2. Descriptive Statistics and Inter-correlation Matrix

Variable	Mea n	SD	1	2	3	4	5	6
1. Age	0.71	0.46						
2. ATE	4.68	1.37	.116 ^{ns}					
3. AFC	3.46	1.59	.189*	.157*				
4. LO	5.81	0.88	-.039 ^{ns}	.046 ^{ns}	-.116 ^{ns}			
5. NPDC	5.21	1.10	.027 ^{ns}	.083 ^{ns}	-.052 ^{ns}	.436***		
6. EP	4.42	0.85	.222**	.052 ^{ns}	.291***	.254**	.428***	
7. SP	5.64	1.05	-.054 ^{ns}	.060 ^{ns}	-.051 ^{ns}	.325***	.431***	.175*

Note: *** correlation is significant at $P < 0.001$ (2-tailed), ** correlation is significant at $P < 0.01$ (2-tailed), * correlation is significant at $P < 0.05$ (2-tailed), ^{ns} not significant at $P < 0.05$. ATE = Access to technical expertise, AFC = Access to financial capital, LO = Learning orientation, NPDC = New product development capability, EP = Economic performance, SP = Social performance.

3.4. 2. Results of Hypotheses Testing

I employed structural equation modelling (SEM) with Mplus (Muthén & Muthén, 2012) to analyse the survey data and then to test the hypotheses. I tested the hypotheses by creating two structural equation models. In the first model (Model 1), I allowed paths from learning orientation to new product development capability and then the new product development capability to economic performance and social performance to test

hypotheses H3.2, H3.3a, and H3.3b. In the second model (Model 2), I allowed direct paths as well as indirect paths through new product development capability from learning orientation to economic performance, and social performance. Then, I used bootstrap (1000) analysis (Bollen & Stine, 1990) to test hypotheses H3.1a, H3.1b, H3.4a, H3.4b.

The use of the bootstrapping method in SEM has recently been increasing in social science research to evaluate mediation or indirect effects (Iacobucci, 2008). Unlike Baron and Kenny's (1986) method, the bootstrapping method enables the estimation of indirect effects (mediation effect), total (direct plus indirect) effects, and direct effects of independent variable(s) on dependent variable(s) simultaneously. Furthermore, it provides the level of significance (confidence intervals) of these effects (Zhao et al., 2010). Therefore, in line with several scholars (Collins et al., 1998; Efron & Tibshirani, 1993; MacKinnon et al., 2000), I employed the bootstrapping method to investigate mediation or indirect effects in this study.

Table 3.3. The Model Fit Indicators of Main Effect and Indirect Effect Models

Indicators	Main effect model (Model 1)	Indirect effect model (bootstrap) (Model 2)
Free parameters	62	64
Log likelihood (H0)	-3065.411	-3062.802
Akaike	6254.823	6253.604
Bayesian	6446.635	6451.604
Sample size adjusted Bayesian	6250.352	6248.989
Chi squared test (X^2)	184.873 (df = 138, P = 0.0048)	179.654 (df = 136, p = 0.0001)
RMSEA	0.046 (90 Percent C.I. = 0.026 to 0.062)	0.044 (90 Percent C.I. = 0.024 to 0.061)
CFI	0.978	0.979
TLI	0.973	0.974
SRMR	0.067	0.063

Note: RMSEA = root mean square error of approximation; CFI = comparative fit index; TLI = Tucker-Lewis index; SRMR = standardized root mean square residual.

The goodness of fit statistics of Model 1 and Model 2 presented in Table 3.3 confirms that these models have a good fit with the survey data (Bentler & Yuan, 1999; Chen et al., 2008; Hu & Bentler, 1999).

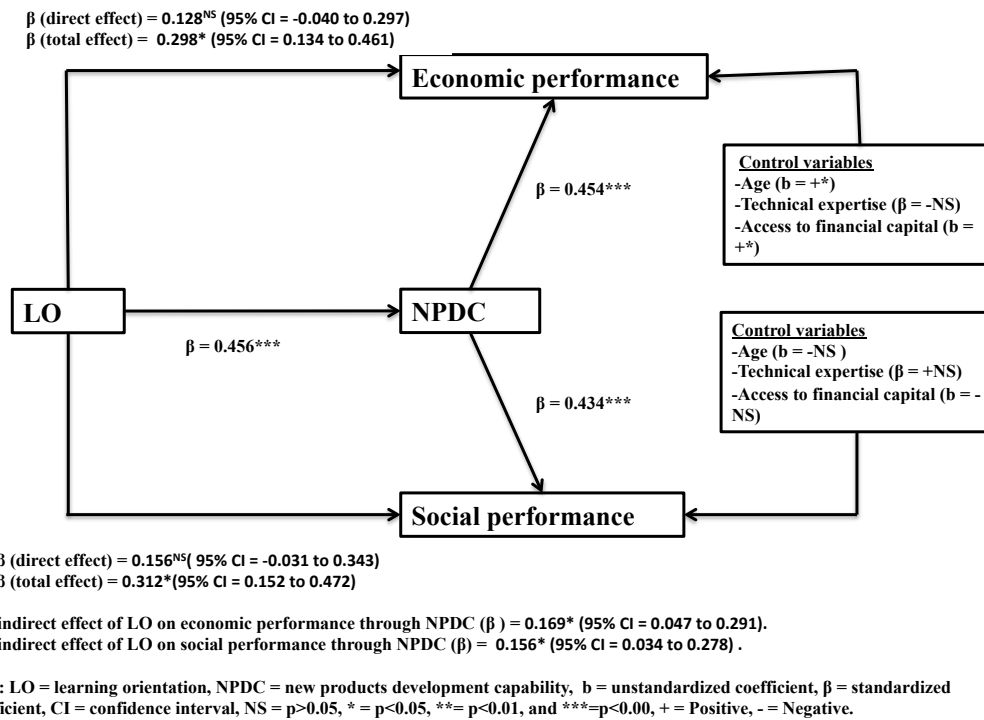


Figure 3.2. The Results of the Analysis (Path Coefficients)

The results of the analysis presented in Figure 3.2 show that the effect of learning orientation is positive on new product development capability (standardized path coefficient = 0.456, $p < 0.001$), economic performance (standardized path coefficient = 0.298, at 95% CI = 0.132 to 0.461), and social performance (standardized path coefficient = 0.312, at 95% CI = 0.152 to 0.472). Similarly, the results of the analysis also show that the effect of new product development capability is positive on both the economic performance (standardized path coefficient = 0.454, $p < 0.001$) and the social performance (standardized path coefficient = 0.434, $p < 0.001$) of social enterprises.

Furthermore, the results of the analysis presented in Figure 3.2 demonstrate that new product development capability fully mediates the positive effect of learning orientation on both the economic performance (standardized path coefficient of indirect effect = 0.169, 95% CI = 0.047 to 0.291; standardized path coefficient of total effect = 0.298, 95% CI = 0.134 to 0.461; and standardized path coefficient of direct effect = 0.128, 95% CI = -0.040 to 0.297) and the social performance (standardized path coefficient of indirect effect = 0.156, 95% CI = 0.034 to 0.278; standardized path coefficient of total effect = 0.312, 95% CI = 0.152 to 0.472; and standardized path coefficient of direct effect = 0.156, 95% CI = -0.031 to 0.343). Therefore, the results of the analysis supported all the hypotheses.

3.5. Discussion and Conclusion

The current socio-economic and political environment has increasingly been exerting pressure on social enterprises to improve not only their economic performance to fill the increasing funding gaps but also social performance to address the increasing social issues (Kerlin & Pollak, 2011; Maclean et al., 2013; Rey-Martí et al., 2016). Therefore, it is important for social enterprises to employ their resources and capabilities in such a way that improves not only economic performance but also social performance simultaneously.

Scholars have identified several valuable resources and capabilities that improve the performance of commercial firms. Learning orientation and new product development capability are among such identified valuable resources and capabilities, respectively. However, considering the differences between commercial businesses and

social enterprises (Austin et al., 2006), the explanation of how the adoption and development of the learning orientation and the new product development capability, although they are proved to be valuable for improving commercial firm performance, can improve social enterprise performance (economic and social) is still unclear. Given the urgent need for improvement of both the economic and social performance of social enterprises on the one hand and the lack of empirical studies showing how it could be achieved on the other, the knowledge of how learning orientation and new product development capability improves both the economic and social performance of social enterprise is thus crucial to contribute not only to develop theory but also to improve practice. In this research, I adopted the resource based view (Barney, 1991; Barney, 2001b; Priem & Butler, 2001), and examined learning orientation as a valuable resource and new product development capability as a valuable resource processing mechanism. Put simply, in this research, I studied how learning orientation and new product development capability influence the economic and social performance of social enterprises. Specifically, I investigated whether new product development capability mediates or processes the influence of learning orientation on the economic and social performance of social enterprises.

The results of this research suggest that learning orientation is a crucial resource to improve new product development capability and, in turn, both the economic and social performance of social enterprises. The findings of this study also show that new product development capability is a processing mechanism through which learning orientation improves both the economic performance and the social performance of social enterprises. The findings of this study have fully supported conceptual model (as

all hypotheses are supported) and have significant implications for both theory and practice.

3.5.1. Contribution to Theory

This research offers several implications for theory. First, consistent with commercial business literature on learning orientation (Baker & Sinkula, 1999a, b; Calantone et al., 2002; Real et al., 2014) and innovation capability (Calantone et al., 2002; Guan & Ma, 2003; Ngo & O'Cass, 2012), the findings of this research show that learning orientation and new product development capability can improve both the economic and social performance of social enterprise. By so doing, this study contributes by shedding light on the conflicting conceptual assertions about whether these two goals of a social enterprise can be improved *simultaneously*, and about whether the resources that are valuable for improving commercial business performance are also valuable for improving the social enterprise performance. Specifically, in contrast with some studies (Masseti, 2008), and in line with others (Costanzo et al., 2014; Di Zhang & Swanson, 2013; Liu et al., 2015), the findings of this research suggest that economic and social values of social enterprises do not necessarily trade off each other, and can be created and improved simultaneously.

Second, consistent with learning orientation literature in the context of commercial businesses (Calantone et al., 2002), this study shows that learning orientation is a valuable resource and is crucial for improving new product development capability and, in turn, both the economic and social performance of social enterprises. Thus, this study suggests that the values and the roles of learning orientation could be similar

between commercial businesses and social enterprises. This suggestion contrasts with the conceptual assertions of some scholars, namely that the values of resources and capabilities may change when the context of the firm changes (Barney, 2001b; Priem & Butler, 2001). Here, the context of social enterprises and commercial businesses is different to some extent (Austin et al., 2006).

Furthermore, importantly, by providing evidence of systematic positive links between learning orientation, new product development capability, and performance, this research redirects attention to the resource based view of the firm (Barney, 1991) as a potentially fruitful theoretical lens through which to study this very important phenomenon, not only in the context of commercial firms but also in the context of social enterprises. Thus, this study extended the applicability of resource based view to the context of social enterprises to explain heterogeneity in not only economic but also social performance.

Third, the findings of this study corroborate prior works suggesting that valuable resources on their own are not adequate to create values in a firm: they need to be processed to realize their values (Priem & Butler, 2001). Specifically, in this research I suggest that learning orientation should be combined with new product development capability to enhance social enterprises' performance because this study shows that new product development capability fully mediates or processes the positive effect of learning orientation (a resource) on both the economic performance and the social performance of social enterprises. I thus suggest that new product development capability is a processing mechanism through which a firm can utilize the knowledge resources obtained or generated from learning. This finding also reaffirms the research of Garrido and

Camarero (2010) in not-for-profit museums, which shows that the adoption of learning in not-for-profit museums can improve their innovativeness and in turn their economic and social performance.

3.5.2. Contribution to Practice

I believe that the findings of this study have significant practical implications for social enterprise managers, as the results of this study will guide social enterprise managers on how to achieve both the financial and social goals of their organizations. According to the findings of this study, social enterprise managers should implement learning orientation and develop new product development capability in order to improve the economic performance as well as the social performance of their organizations. Indeed, as social enterprises have very limited resources (Kickul & Lyons, 2015), they should be very careful in allocating them, and they should adopt and develop only those resources and capabilities that could enhance the creation of economic and social values simultaneously. The findings of this study clearly suggest that the social enterprise managers should create learning and innovating environments, culture, and values in their organizations if they want to achieve both economic and social goals simultaneously. Considering the currently surging socio-economic and political pressures on social enterprise managers to improve the performance of their organizations not only to fill the increasing funding gaps but also to address the increasing social issues, this study is timely and its findings are crucial guidance for social enterprise managers, owners, policy makers.

3.6. Limitations and Avenues for Future Research

This study has some limitations. However, the limitations of this study also provide exciting areas for future research. First, I acknowledge that there are many other resources and capabilities, including but not limited to learning orientation and new product development capability, respectively, that commercial business adopt and develop to enhance their performance. In this study, I focused only on the investigation of the influence of learning orientation (as a resource that commercial businesses adopt and develop to improve their performance) in strengthening new product development capability leading to better economic performance and social performance of social enterprises. Future research could investigate how the adoption and the development of other resources and capabilities than learning orientation and new product development capability that are proved crucial for improving commercial firm performance influence, individually and together, the economic performance and the social performance of social enterprises to expand our understanding of how the adoption and implementation of commercial business practices can influence the economic and social performance of social enterprises.

Second, this study investigated new product development capability only as a capability that processes the learning orientation; other capabilities of social enterprises might process the values of learning orientation to improve performance. Hence, future research could investigate other capabilities in addition to new product development capability to expand our understanding of how social enterprises process learning orientation to improve not only their economic performance but also social performance.

Third, although this study is quantitative, which is scarce in social entrepreneurship research (Liu et al., 2015), the sample size (164 UK social enterprises) is still small. Future studies might consider a larger sample size.

Finally, this study focused only on UK social enterprises that are registered in online directories of the UK social enterprises; future studies could also include the social enterprises that are not registered in the online UK social enterprise directories for the sample to be more representative of wider social enterprises. Furthermore, as the definition of social enterprises may vary among countries (Kerlin, 2006), future studies might consider doing similar studies in countries other than the UK, to understand whether this model holds among wider social enterprises.

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Chapter 4

‘Trade vs. Grant Dependency’, Learning Orientation, and Social Enterprise Performance

Abstract: Increasingly, social enterprises are under pressure to adopt strategies similar to those of commercial businesses and depend on trading or selling products and services rather than on grants, donations, and funding for their income. However, there is still a lack of understanding about whether and how the adoption of ‘trade vs. grant dependency’ enables social enterprises to achieve their dual mission of *social* and *economic*. Based on a sample of 164 UK social enterprises, I show that trade dependency is better than grant dependency in improving ‘social’ performance. Furthermore, I also demonstrate that trade dependency is better than grant dependency in enabling social enterprises to adopt and develop learning orientation, thereby improving both ‘economic’ and ‘social’ performance. Specifically, I show that learning orientation mediates the positive effect of ‘trade vs. grant dependency’ on both the economic and social performance of a social enterprise. However, surprisingly, we find that the total effect, the sum of direct and indirect effects, of ‘trade vs. grant dependency’ on economic performance is insignificant. Furthermore, I also reveal that moving the dependency of social enterprises from ‘grant’ to ‘trade’ without improving learning orientation can impair their economic performance but still improve their social performance.

Keywords: Learning orientation, social enterprise performance, social entrepreneurship, trade dependency

4.1. Introduction

Recent political and economic circumstances as well as limited government financial resources have pushed social enterprises to be more trade dependent, and rely more on selling their products and services rather than grants for their income (Kerlin & Pollak, 2011; Liu & Ko, 2014). Social entrepreneurship scholars (Chell, 2007, p. 5) also suggest that although initially, social enterprises have ‘engendered survival strategies premised on grant dependency’, they should adopt strategies that lead them to be self-sustaining in the long run. Hence, the adoption of commercial business practices is considered crucial for social enterprises to achieve not only self-sufficiency but also their social missions and goals. Indeed, they ‘combine commercial activities with social objectives’ (Chell, 2007; Luke & Chu, 2013, p. 764-765) and attempt to offer innovative and sustainable solutions to complex social problems. Pursuits of such dual missions (social and economic) and the hybrid nature of social enterprises have provided a unique context that constrains the generalisability of existing business theories (Battilana & Dorado, 2010; Cooney, 2006; Doherty et al., 2014; Zahra et al., 2008). While social enterprises are encouraged to adopt commercial business practices, it is not clear whether pursuit of trade dependency versus grant dependency enables them to enhance *both* economic and social performance.

On the one hand, there is a conventional belief that the adoption of trade dependency can endanger social enterprises; some scholars argue that trade dependency can distract the focus of the social enterprise managers away from social missions, and may drift the social missions towards commercial purpose (Alter, 2006; Dees, 1998; Foster & Bradach, 2005). Furthermore, it is also argued that compared to commercial

businesses, social enterprises may not have the skills, resources, and capabilities to serve the market competitively and as a result they may generate very little or no income from the market, which may not be adequate to achieve break even income (Foster & Bradach, 2005).

On the other hand, it is believed that the adoption of grant dependency can also endanger social enterprises because it makes them dependent on funders and donors (e.g. government and private institutions that provide grants, donations, and funding). Drawing on the resource dependency theory (Pfeffer & Salancik, 1978; Pfeffer & Salancik, 2003), scholars (Ebrahim, 2005; Froelich, 1999; Gras & Mendoza-Abarca, 2014; Kwong et al., 2017) argue that donation of money puts funders and donors in a more powerful position. Therefore, the dependent social enterprises have to follow what the resourceful organisations suggest in terms of how to spend money, what goals to set, and what goals to prioritise, etc. Dependence on grants and pursuit of the donors' preferences will then limit social enterprises in learning about their markets and developing more innovating strategies that might be more efficient and effective in serving the targeted group (Ebrahim, 2005; Hull & Lio, 2006). It implies that grant dependent social enterprises are less likely to engage in learning and innovating new ideas as compared to the practice of trade dependent social enterprises, which in the long run can affect their performance (Camarero et al., 2011; Hull & Lio, 2006). Furthermore, to be attractive to funders and donors, grant dependent social enterprises may suppress some of the costs, e.g. staff learning and administrative costs, that the donors may consider not directly associated with social goals (Hull & Lio, 2006; Smith et al., 2012).

Considering the above argument and drawing on the resource dependency theory (Pfeffer & Salancik, 1978; Pfeffer & Salancik, 2003), I aim to explore whether and how shifting social enterprises from grant dependency to trade dependency improves their economic and social performance. I also examine whether shifting from grant dependency to trade dependency enables social enterprises to engage in learning about their market, and can consequently improve their economic and social performance. Specifically, I investigate the role of learning orientation in mediating the relationship of ‘trade vs. grant dependency’ and social enterprise performance (economic and social).

Learning orientation is related to organizational commitment and propensity to learning (Baker & Sinkula, 1999b; Salge & Vera, 2012; Sinkula et al., 1997). It is established in the business literature as a valuable resource that improves the economic performance of commercial firms (Calantone et al., 2002). However, despite the growing interest in the field of social entrepreneurship (Ruvio & Shoham, 2011), to the best of my knowledge, the impact of the pursuit of learning orientation on social and economic performance has not yet been empirically studied in the context of social enterprises and, specifically, our knowledge about whether learning orientation plays crucial roles in improving the performance of social enterprises that shift their main source of income from ‘grant’ to ‘trade’ is limited.

In this study, as a contribution towards filling these research gaps, drawing on a sample of 164 UK social enterprises, I attempt to answer the following research questions:

1. How does the adoption of trade dependency versus grant dependency influence the social and economic performance of social enterprises?

2. Does learning orientation mediate the relationship of trade versus grant dependency on the social and economic performance of social enterprises?

The findings of this study offer several key contributions. First, they cast light on the conflicting literatures on the relationship between the generation of earned income and social enterprise performance. Importantly, by investigating the mediating role of learning orientation, this study explores the process through which trade vs. grant dependency can influence social enterprise performance. Although previous studies (Dart, 2004a, b; Froelich, 1999; Leroux, 2005) have explored the relationship between trade dependency and social enterprise performance, the process by which (e.g. what strategies, resources, and capabilities) a social enterprise that shifts their income dependency from 'grant' to 'trade' can improve performance has not been fully explored. As some recent studies (Froelich, 1999; Gras & Mendoza-Abarca, 2014; Kwong et al., 2017) have considered how social enterprises should manage their resource dependency to achieve their goals, this study adds value to them. Second, by exploring whether 'trade versus grant dependency' influences learning orientation and, thereby, the economic and social performance of social enterprises, this study extends the applicability of the resource dependency theory (Pfeffer & Salancik, 1978; Pfeffer & Salancik, 2003) to explain heterogeneity in resource utilization, and performance, in the context of social enterprises. Third, as empirical studies are still rare and scholars have called for more empirical studies in social entrepreneurship literature (Liu et al., 2015; Sassmannshausen & Volkmann, 2016), by adopting a quantitative survey design, this study responds to their calls. Finally, the findings of this study provide precious insights for managers into

whether they should focus on market/nonmarket based income, and learning, in order to enhance the performance of their organizations.

The structure of this paper is as follows. In the next section, I develop hypotheses. Following the hypothesis development, I discuss research methodology. The next section presents the results. The final section discusses the findings and presents the implications of the study regarding theory and practice, acknowledges limitations of the study and offers recommendations for future research.

4.2. Theoretical Background and Hypothesis Development

4.2.1. 'Trade vs. Grant Dependency' and Social Enterprise Performance

The core of the resource dependency theory is that successful firm performance depends on the ability to acquire resources from their environment (Pfeffer & Salancik, 1978; Pfeffer & Salancik, 2003). Hence, firm performance is dependent on its ability to successfully acquire and assimilate resources from their environment (Barringer & Harrison, 2000; Gras & Mendoza-Abarca, 2014; Pfeffer & Salancik, 1978; Pfeffer & Salancik, 2003). It is important to note that there is a reciprocal relationship between the firms and their environment and it is, therefore, important for the firms to manage the dependency or the reciprocal relationship with the environment or resource providers to ensure the continuous access to the resources from them. One of the important strategies a firm can employ to manage this dependency is to reduce the criticality of the need for resources from a particular source or environment by diversifying the resource providers or by seeking alternative resources (Frumkin & Keating, 2011; Gras & Mendoza-Abarca, 2014; Pfeffer & Salancik, 1978; Pfeffer & Salancik, 2003). According to the resource

dependency theory (Pfeffer & Salancik, 1978; Pfeffer & Salancik, 2003), resource ownership usually affords resource providers with a strong position, which empower the resource providers to influence how the resources be used and to bring about desired outcomes at the expense of resource dependent firms (Kwong et al., 2017).

It is important to understand that the shifting of social enterprises from grant dependency to trade dependency means giving more value and importance to the income from trading or selling goods and services than to the income from grants, donations, and funding. Hence, shifting from grant dependency to trade dependency may not reduce the amount of grants, donations, and funding as long as they maintain their legitimate status (Lu, 2015); it will reduce only the criticality of the income from grants, donations, and funding (Gras & Mendoza-Abarca, 2014). Scholars (Froelich, 1999; Gras & Mendoza-Abarca, 2014) argue that reduction in the criticality of the grants, donations and funding may reduce the influencing powers of donors and funders in social enterprises.

Similarly, according to the resource dependency theory (Pfeffer & Salancik, 1978; Pfeffer & Salancik, 2003), the criticality of the resources of dependent firms provides resource owners with a strong position in the bargaining process through which the resource providers and resource dependent firms establish a relationship, which is most likely to be asymmetrical in such cases. Hence, trade dependency enables social enterprises to reduce the power advantage position of funders and donors by reducing the criticality of the grants, donations, and funding, as earned income generated from trading or selling products and services is likely to be more stable and certain than the income obtained from grants, donations, and funding (Froelich, 1999; Gras & Mendoza-Abarca, 2014; Williams et al., 2003). Consequently, trade dependency enables social enterprises

not only to generate income from the market but also to establish symmetrical or balanced relationships with funders and donors and hence it should ‘buffer the organizations against financial instability’ (Gras & Mendoza-Abarca, 2014, p. 395). In the symmetrical relationships, the influence of funders and donors is lower than that in the power advantage position of the donors and funders (Froelich, 1999; Gras & Mendoza-Abarca, 2014; Kwong et al., 2017). The resource dependency theory (Pfeffer & Salancik, 1978; Pfeffer & Salancik, 2003) claims that external influences can threaten the long term survival of firms. This may imply that trade dependency is better than grant dependency in improving the survival chances of social enterprises. Drawing on such arguments, scholars (Dart, 2004a, b; Froelich, 1999; Leroux, 2005) suggest that trade dependency is better than grant dependency in enabling social enterprises to utilize their income in the manner of their choice (e.g. to develop new products and new markets, to enhance capability, to develop or adopt other resources etc.). Usually, the income obtained from funders and donors is attached to conditions (Aiken & Nyssens, 2006) and the need for compliance with the conditions of funders and donors can threaten the viability of social enterprises (Gras & Mendoza-Abarca, 2014). Compliance with the conditions of resource providers can be managed or avoided by reducing the criticality of their resources (Pfeffer & Salancik, 1978; Pfeffer & Salancik, 2003). As by shifting from grant dependency to trade dependency, social enterprises can reduce the criticality of grants, donations, and funding, and hence ‘avoid need for compliance with external influences, which enhances their survival prospect’ (Gras & Mendoza-Abarca, 2014, p. 396).

Scholars argue that as compared to grant dependency trade dependency allows social enterprises to adopt and develop the necessary steps to fulfil the needs and demands of customers and beneficiaries because external influence is less in social enterprises that adopt trade dependency than in the social enterprises that adopt grant dependency (Fowler, 2000; Gras & Mendoza-Abarca, 2014; Haugh, 2007; Leroux, 2005). A study of Fowler (2000), for example, shows that, compared to grants and donations dependent not-for-profit organizations, trade dependent not-for-profit organizations, due to having flexibility and adaptability, are better at identifying and grabbing opportunities to diversify target groups and income streams, to increase revenues, to improve existing products, and to reduce the operational costs without compromising, instead improving social impacts. It means that trade dependency not only enables social enterprises to achieve financial sustainability but also helps them to be more efficient at fulfilling their social objectives (Dart, 2004a, b; Dees, 1998). Being more autonomous, flexible, and efficient than grant dependent social enterprises, trade dependent social enterprises may be better at fulfilling their social objectives by providing cost effective products and services to those in need (Austin et al., 2006; Brinckerhoff, 2000; Froelich, 1999; Wei-Skillern, 2007).

Moreover, when social enterprises rely more on market based income than non-market based income, they, like commercial businesses, may develop strategies to increase the market share (increase the numbers of beneficiaries/customers) of their products and services so that they can generate more income (Foster & Bradach, 2005). The more beneficiaries/customers the social enterprises serve and increase the market share of their products and services, not only the more economic values they can capture

but also the more social values they can create (Battilana et al., 2015; Sirmon & Hitt, 2003; Smith et al., 2013). Thus, I propose that:

Hypothesis 4.1a (H4.1a): Trade versus grant dependency can improve the economic performance of social enterprises.

Hypothesis 4.1b (H4.1b): Trade versus grant dependency can improve the social performance of social enterprises.

4.2.2. ‘Trade vs. Grant Dependency’ and Learning Orientation

As argued earlier, the influence of funders and donors on trade dependent social enterprises is lower than that of grant dependent social enterprises (Froelich, 1999; Gras & Mendoza-Abarca, 2014). It means that funders and donors can influence strategies, goals, and operations of grant dependent social enterprises, but not that much of trade dependent social enterprises (Gras & Mendoza-Abarca, 2014; Kwong et al., 2017). Drawing on this aspect of resource dependency theory, scholars (Froelich, 1999; Gras & Mendoza-Abarca, 2014) argue that trade dependent social enterprises could be more autonomous and flexible than grant dependent social enterprises. This autonomy and flexibility enables social enterprises to adopt, develop, and implement any resource, capability, and strategy when they realize that they are essential for them (Dart, 2004a, b; Froelich, 1999; Leroux, 2005). Drawing on those literatures, I argue that trade dependency could be better than grant dependency in enabling social enterprises to adopt and develop learning orientation.

The adoption and development of resources involves costs for social enterprises. Funders and donors may see these costs as unnecessary as they are not directly related to

addressing social problems or achieving social goals, and hence grant dependent social enterprises may consider that controlling these costs can attract donations, grants, and funding (Frumkin & Kim, 2001). Hence, compared to trade dependent social enterprises, grant dependent social enterprises are more likely to suppress the costs (e.g. administrative and learning costs) that are not directly associated with their social goals (Frumkin & Kim, 2001). Scholars argue that although engaging employees in learning in the longer term improves performance, initially it increases the costs of the organization (Mills & Friesen, 1992). As some funders and donors are impatient to achieve the result of their donations and funding (Platteau & Gaspart, 2003) and they wish to ‘retain a measure of control over the projects they sponsor’ (Maclean et al., 2013, p. 757), it is highly likely that funders and donors may deter grant dependent social enterprises from adopting and developing resources (e.g. learning orientation) that increase firms’ costs initially although it improves the performance of the firm in the longer term. Furthermore, scholars argue that if social organizations are obsessed with social goals and financial supports to achieve them, it is highly likely that they will be unable to realize the need for learning and innovation and the need to adopt, develop, and implement alternative (effective and efficient) ways to achieve their goals (Ebrahim, 2005; Hull & Lio, 2006).

Learning orientation is a critical resource for all social enterprises. However, it is more critical for trade dependent social enterprises than for grant dependent social enterprises for several reasons. Firstly, compared to grant dependent social enterprises which may offer their products or services free of charge or at a subsidized price, trade dependent social enterprises may need to price their products above their average costs in

order to generate income. It is also important to note that the consumers and beneficiaries of social enterprises are likely to be poor and disadvantaged who may be unable to afford expensive products and services (Christensen et al., 2006; Christensen & Bower, 1996). Thus, trade dependent social enterprises have to learn about the needs and wants of their customers, the actions of competitors, and how the costs of their products and services could be reduced without compromising their quality in order to compete successfully in the market to generate income as well as social impacts by fulfilling the needs and demands of beneficiaries and/or customers (Christensen et al., 2006; Miles et al., 2014; Sabeti, 2011; Slater & Narver, 1995).

Secondly, the environment of trade dependent social enterprises is likely to be more competitive than the environment of grant dependent social enterprises because trade dependent social enterprises, unlike grant dependent social enterprises (that obtain most of their income from funders and donors), need to generate most of their income by selling their products to the consumers whom commercial businesses might also target to (Foster & Bradach, 2005). Competing with commercial firms is very difficult for social enterprises (Foster & Bradach, 2005) because compared to commercial businesses, social enterprises have very limited skills, resources, and capabilities (Austin et al., 2006; Kickul & Lyons, 2015; Schiff & Weisbrod, 1991). It is, therefore, more crucial for trade dependent social enterprises than for grant dependent social enterprises to improve their competitiveness to survive and grow. Being learning oriented allows firms to learn about the competitors and analyse their offerings (Baker & Sinkula, 1999a, b; Slater & Narver, 1995). Learning orientation also allows firms to develop a culture in their organisation to identify inefficiencies and learn about how they can improve their activities and reduce

their costs to better compete in the market (Calantone et al., 2002; Mavondo et al., 2005). Research has also revealed that the values of learning orientation could be higher in the firms operating in a more competitive environment than the firms operating in a less competitive environment (Salavou et al., 2004; Slater & Narver, 1995). Finally, developing a learning culture in the trade dependent social enterprises, like in the grant dependent social enterprises, can also support them in learning about the priorities of their stakeholders and having a better chance of obtaining grants and donations from the stakeholders whenever they engage in non-market based activities (Garrido & Camarero, 2010; Garrido & Camarero, 2014; Liu et al., 2015). Therefore, I propose that:

Hypothesis 4.2 (H4.2): Trade dependent social enterprises are more learning oriented than grant dependent social enterprises.

4.2.3. Learning Orientation and Social Enterprise Performance

Drawing on the resource based view (Barney, 1991), scholars (Baker & Sinkula, 1999a, b) have demonstrated a positive relationship between learning orientation, as a valuable, rare, inimitable and non-substitutable resource, and economic performance of commercial firms (Calantone et al., 2002; Rhee et al., 2010; Wang, 2008). Learning orientation has also been proved to enhance the performance of not-for-profit firms (Garrido & Camarero, 2010; Garrido & Camarero, 2014).

Scholars argue that learning orientation is a set of organizational values promoting and creating a learning culture and environment in a firm (Baker & Sinkula, 1999a, b; Hurley & Hult, 1998). Hence, it motivates individuals of the firm to engage in learning and developing their knowledge and skills (Colquitt & Simmering, 1998;

Matzler & Mueller, 2011; Real et al., 2014; Spicer & Sadler-Smith, 2006; Wu & Lin, 2013). Collectively, the knowledge and skills of the individuals of a firm develop knowledge-based resources (Grant, 1996; Kaya & Patton, 2011), which are rare, inimitable, non-substitutable, and valuable (Tamer Cavusgil et al., 2003), and play important roles in processing and utilizing resources (Calantone et al., 2002).

Furthermore, Calantone et al. (2002) argue that learning oriented firms proactively evaluate their operations, products, and services and then they continuously update and upgrade them, even though they are working well. This proactive behaviour thus enables learning-oriented firms to adapt in current and future dynamic environments. Slater and Narver (1995) suggest that learning in organizations plays crucial roles in generating information about customers' needs and demands and competitors' actions, and in disseminating such information among the individuals working in the firm. Hence, the adoption and development of learning orientation facilitates the firms to develop and adopt resources, capabilities, and strategies to address the needs and demands of customers better than the competitors do (Slater & Narver, 1995).

Furthermore, scholars argue that learning organizations are better than others in understanding their key stakeholders (Slater & Narver, 1995). In the case of social organizations, thus, the adoption and development of learning orientation may enable them to understand and address not only the interests and concerns of customers and competitors, but also the interests and concerns of potential and existing donors, funding agencies, volunteers, and employees (Garrido & Camarero, 2010; Garrido & Camarero, 2014). Understanding the interests and concerns of such key stakeholders is crucial for

social enterprises to develop strategies that can attract those stakeholders and their support (Gainer & Padanyi, 2005; Liu et al., 2015; Macedo & Carlos Pinho, 2006).

Moreover, the adoption of learning orientation in social enterprises may facilitate and promote communications among the stakeholders such as employees, volunteers, donors, and customers. The communication of the missions and objectives of social enterprises among the stakeholders, for examples donors and volunteers, can attract their both financial and non-financial supports, while the communication of the products and services of social enterprises among the stakeholders, for example customers, can increase their sales (Hahn & Ince, 2016). Empirical studies have provided evidence that social firms can improve their economic and social performance by adopting and developing learning culture and values in the organizations (Garrido & Camarero, 2010; Garrido & Camarero, 2014). Hence, the adoption of learning orientation in social enterprises may contribute to improve both economic performance and social performance. I thus posit that:

Hypothesis 4.3a (H4.3a): Learning orientation positively influences the economic performance of social enterprises, and

Hypothesis 4.3b (H4.3b): Learning orientation positively influences the social performance of social enterprises.

4.2.4. The Mediating Role of Learning Orientation in the Relationship between ‘Trade vs. Grant Dependency’ and Social Enterprise Performance

Based on the arguments and the hypotheses stated above I expect that learning orientation mediates the effect of ‘trade vs. grant dependency’ on both the economic and social performance of social enterprises. Thus, I propose the following hypotheses:

Hypothesis 4.4a (H4.4a): Learning orientation mediates the effect of ‘trade vs. grant dependency’ on economic performance.

Hypothesis 4.4b (H4.4b): Learning orientation mediates the effect of ‘trade vs. grant dependency’ on social performance.

The research model of this study is presented in Figure 4.1.

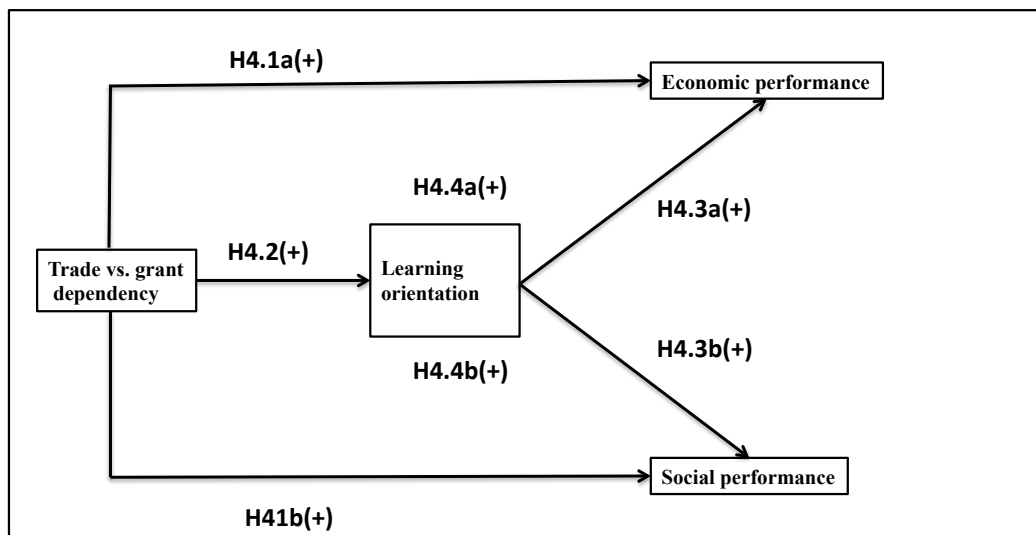


Figure 4.1. Conceptual Model

4.3. Methodology

4.3.1. Sample and Data Collection

The sample of this study was taken from self-registered UK social enterprises listed in the online directories of UK social enterprises (see Appendix A for details about the UK social enterprises directories). UK government defines social enterprise as ‘a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community rather than being driven by the need to maximize profit for shareholders or owners’ (DTI, 2002, p. 7). I adopted this definition as a criterion to evaluate eligibility of the self-registered social enterprises to be included in this study for two reasons. First, this definition better suits this context as this study investigates UK social enterprises. Second, this definition bridges the European and American definitions of social enterprises (Doherty et al., 2014) and hence it broadens the scope of this study.

A total of 1000 social enterprises were randomly selected from the online directories of UK social enterprises (Appendix A). Then, following the procedures described in Dillman (2011), I sent initial emails with a link to the questionnaire on Survey Monkey to their owners/managers. According to Zahra et al. (2002), owner and managers have better knowledge of the overall business than other stakeholders. After two reminder emails, I received 210 responses (21%). Out of them, I retained 164 useable responses (16.4%). This is an acceptable response rate as organizational surveys usually yield low response rates (Baldauf et al., 1999; Greer et al., 2000; Scarborough, 2011; Tomaskovic-Devey et al., 1994). To analyze response bias, I followed Armstrong and Overton’s (1977) approach and compared the answers of the respondents who

completed the survey early with those who completed the survey late. The result of the comparison was insignificant, suggesting non-existence of the non-response bias.

4.3.2. Measurement

4.3.2.1. Dependent Variables

Economic performance and social performance were two dependent variables. Six items for measuring the economic performance were extracted from Kropp et al. (2006) and three items for measuring social performance were adopted from Coombes et al. (2011) (see Table 4.1 below for their items). The items for measuring both the economic and social performance were subjective. The subjective self-reported items were selected in line with prior literature examining economic performance (Kropp et al., 2006; Liu et al., 2015; Narver & Slater, 1990; Slater & Narver, 1994; Stam & Elfring, 2008; Vickery et al., 2003; Ward et al., 1994) and social performance (Coombes et al., 2011; Liu et al., 2015). I preferred subjective to objective indicators for measuring economic performance for three reasons. First, as not all social enterprises are legally obliged to publish financial information (Nicholls, 2010), obtaining their financial data is quite difficult. Second, financial information is sensitive and hence such information is usually not shared with the external agents (Narver & Slater, 1990; Vickery et al., 2003; Ward et al., 1994). Third, the use of objective indicators may underestimate the economic performance due to rent appropriation effects whereas the use of subjective indicators has no such effect (Crook et al., 2011).

Similarly, I adopted subjective indicators for measuring social performance because quantification of social performance is difficult (Kroeger & Weber, 2014;

Stevens et al., 2015). In addition, I adopted a comparative subjective approach for measuring social performance because due to the diversity of social enterprises and their social performance, a common scale has not yet been developed for its measurement (Kroeger & Weber, 2014; Norman & MacDonald, 2004). The use of a comparative approach in handling performance is consistent with some previous studies (Li et al., 2008; Tan & Litschert, 1994). Standard seven point Likert scales (e.g. ‘strongly disagree’ to ‘strongly agree’) were used to measure all their indicators. A Likert scale is considered to be better at capturing the magnitude and degree of responses than ‘non-Likert-scale’ questions (Gliem & Gliem, 2003).

4.3.2.2. Independent Variable

‘Trade vs. grant dependency’ is the independent dichotomous binary variable. I created ‘trade vs. grant dependency’ from responses to the following structured question: What is your most important source of income? I assigned value ‘1’ to the income from market sources (e.g. fees for services and income from selling of products and services) and value ‘0’ to the income from non-market sources (e.g. grants, funding and donations).

4.3.2.3. Mediator

Learning orientation has been conceptualized as a mediator in the relationship between ‘trade vs. grant dependency’ and social enterprise performance (economic and social). It is a latent construct. The four items for measuring learning orientation were derived from Kropp et al. (2006) (see Table 4.1 below for items).

4.3.2.4. Control Variables

To increase the robustness of this study, I included the age of social enterprises, access to technical expertise, and access to financial capital as control variables in the model. Research shows firms' age influence the firms' performance (Brush & Chaganti, 1999; Coad et al., 2016; Cucculelli et al., 2014; Durand & Coeurderoy, 2001). The relationship between firms' age and firm performance has been observed in various organisations such as joint ventures (Park et al., 2015), multinational firms (Zhou & Wu, 2014), small and medium enterprises (Arend, 2014), family firms (Lee, 2006), and not for profit firms (Hager et al., 2004). Thus, the age of a firm is considered to be an important determinant of the firm performance (Dobbs & Hamilton, 2007; Evans, 1987). It is argued that older firms perform better than new firms because older firms tend to acquire more experiences and have stronger resource base than the new firms (Dobbs & Hamilton, 2007; Evans, 1987). Due to the "liability of newness" (Freeman et al., 1983), new firms may have lower access to resources than the older firms.

Similarly, scholars (Ainuddin et al., 2007; Chandler & Jansen, 1992; Huselid et al., 1997; McKelvie & Davidsson, 2009; Ravichandran & Lertwongsatien, 2005) argue that firms' access to technical expertise can influence the firms' performance. Technical expertise refers to the human capital (employees or others) that has technical knowledge and skills (McKelvie & Davidsson, 2009). In another word, the technical expertise is an 'intellectual or knowledge-based resource' (Andriopoulos & Lewis, 2009, p. 52). As studies show that the knowledge based resource of a firm is positively associated with the firm performance (Grant, 1991; Grant, 1996), the access to technical expertise, which is a

source of knowledge based resource, should therefore be also positively associated with the firm performance. Furthermore, McKelvie and Davidsson (2009) show that access to technical expertise is crucial for a firm to develop a dynamic capability, which is positively associated with the firm performance (Eisenhardt & Martin, 2000; Teece et al., 1997). The access to technical expertise may enable social enterprises to develop new products and services not only to generate more income but also to address social issues. Therefore, access of social enterprises to technical expertise may influence their performance.

Likewise, scholars argue that financial resources are the most important resources for firms because access to financial resources enables the firms to buy or create other crucial resources and capabilities (Penrose, 1959) that improve their performance (Barney, 1991). Additionally, Cooper et al. (1994, p. 375) argue that ‘the availability of financial capital can affect the performance of the venture by creating a buffer against random shocks and by allowing the pursuit of more capital-intensive strategies, which are better protected from imitation’. Scholars argue that access to financial resources can influence the strategic orientations of a not for profit firm (Macedo & Carlos Pinho, 2006). For instance, access to finance may encourage the not for profit firms to take risks, be proactive, and to engage in innovative activities. Empirically, scholars have demonstrated that such strategic orientations of social enterprises are positively associated with their economic and social performance (Liu et al., 2014). Therefore, access to financial resources (which influence the strategic orientation) could influence the performance of social enterprises. Hence, the effects of the age, access to technical

expertise, and access to financial capital of social enterprises on their performance (economic and social) are controlled for in this research.

4.3.3. Reliability and Validity of the Constructs

I assessed constructs' validity by evaluating the convergent and discriminant validity of each latent construct. I performed confirmatory factor analysis (CFA) using maximum likelihood estimation in Mplus (Muthén & Muthén, 2012). The CFA results of the four-factor model indicated that the model was a good fit with the data {Chi-square test (X^2) = 81.788 (df = 59, p = 0.0265), root mean square error of approximation (RMSEA) = 0.049 (90% CI = 0.017 to 0.072; Probability RMSEA \leq .05 = 0.516), comparative fit index (CFI) = 0.987, Tucker-Lewis index = 0.983, and a standardized root mean square residual (SRMR) = 0.056} (Bentler & Yuan, 1999; Byrne, 2012; Hu & Bentler, 1999). In addition, the standardized factor loadings of each latent construct were above the recommended threshold of 0.5 (Hair et al., 2006) (see Table 4). Since the model was a good fit with the data and the standardized factor loadings were above the threshold, convergent validity of the constructs was established (Fornell & Larcker, 1981; Hair et al., 2006).

Table 4.1 Constructs' Validities and Reliabilities

Dimensions and items	SFL	AVE	CR	α
$\chi^2 = 81.788$ (59), $\chi^2/df = 1.39$, RMSEA = 0.049, CFI = 0.987, TLI = 0.983, SRMR = 0.056				
Learning orientation		0.629 (0.793)	0.869	0.883
LO1. The sense is that employee learning is an investment not an expense	0.850			
LO2. The basic values include learning as a key to improvement	0.927			
LO3. Once we quit learning we endanger our firm	0.640			
LO4. We agree that the ability to learn is the key to improvement	0.723			
Economic performance		0.578 (0.760)	0.889	0.896
EP1. The firm has been very profitable	0.633			
EP2. The firm has generated a high volume of sales	0.615			
EP3. The firm has achieved rapid growth	0.681			
EP4. The performance of this firm has been very satisfactory	0.909			
EP5. The firm has been very successful	0.910			
EP6. The firm has fully met our expectations	0.756			
Social performance		0.893 (0.946)	0.961	0.958
SP1. Implementation of social strategy	0.877			
SP2. Fulfilling the social mission	0.987			
SP3. Fulfilling the social objectives	0.967			

Note: Values in parentheses are the square roots of AVE. SFL = standardised factor loading; AVE = average variance-extracted; CR = composite reliability; α = Cronbach's alpha; RMSEA = root mean square error of approximation; CFI = comparative fit index; TLI = Tucker-Lewis index; SRMR = standardised root mean square residual.

I also calculated Cronbach's alpha, composite reliabilities (CRs), and average variance extracted (AVE) as indicators of convergence. All Cronbach's alphas and CRs were above the minimum thresholds of 0.7 and all AVEs were above the minimum threshold of 0.5 (see Table 4.1), indicating internal consistency, composite reliability, and convergent validity (Hair et al., 2006; Pallant, 2010). In addition, the AVE of all the latent constructs were above the minimum threshold of 0.5 but lower than the composite reliability of their respective constructs (see Table 4.1), indicating convergent validity (Fornell & Larcker, 1981; Hair et al., 2006). To test the discriminant validity of the four latent constructs, I ran a series of CFA model comparisons, in which I constrained the correlation between each pair of constructs to one. The hypothesized four-factor model fit the data better than any of the alternative models, which indicates sufficient discriminant validity (Anderson & Gerbing, 1988). In addition, the square root of the AVE of the latent constructs was bigger than the correlation coefficients between them (see Table 4.1 and 4.2), which also indicates sufficient discriminant validity and no serious issue of multicollinearity (Fornell & Larcker, 1981; Hair et al., 2006).

4.3.4. Common Method Bias (CMB)

To minimize the effect of CMB, I employed the suggestions of Podsakoff et al. (2003) as procedural remedies. Specifically, I guaranteed firms' anonymity, and spread out the items measuring dependent and independent variables in the questionnaire to reduce the CMB (Krishnan et al., 2006; Podsakoff et al., 2003). In addition, I performed statistical analysis to assess the severity of CMB. First, I performed Harman's single

factor test (Podsakoff et al., 2003), which showed that the single factor explained less than 50 per cent of variance (33.03%). This level of variance cannot invalidate the relationships between independent and dependent variables (Doty & Glick, 1998; Fuller et al., 2016), confirming no serious issue of CMB (Podsakoff et al., 2003). Second, I evaluated the goodness of fit statistics of the single factor model and compared that with the three-factor model (my conceptual model). Compared to the goodness of fit statistics of the three factors model (see in Table 4), the goodness of fit statistics or indicators of the single factor model {Chi-square test (X^2) = 955.590 (df= 52, P = 0.000), RMSEA = 0.296 (90% CI = 0.280 to 0.313, Probability RMSEA \leq .05 = 0.000), CFI = 0.494, TLI = 0.363, SRMR = 0.218} is extremely poor (Bentler & Yuan, 1999; Byrne, 2012; Chen et al., 2008; Hu & Bentler, 1999), indicating that the three-factor model is better than the single factor model. Third, I created a common latent factor and performed statistical tests to estimate and evaluate the variance explained by the common latent factor. Following a procedure described in prior studies (Eichhorn, 2014; Liang et al., 2007; Podsakoff et al., 2003; Williams et al., 2003), a common latent factor was created. Then, following the method described in Eichhorn (2014), I included a common latent factor in structural equation model whose indicators included all the principal constructs' indicators that I set to equal, and also the variance of the common latent factor was constrained to one in order for the model to be identified. The model shows that the common latent factor explained 27% of variances with the following goodness of fit statistics. Chi-square value = 82.388 (df = 58, p = 0.02), RMSEA = 0.051, CFI = 0.986, TLI = 0.98, and SRMR = 0.057. It is important to understand whether this variance is significantly different from zero (0) to know whether this variance of common latent

factor (common method bias) contaminates the results of the analysis or not. To perform the test, I developed another model in which all the factor loadings of common latent factors were constrained to zero (0) and the variance constrained to one. The model in which the factor loadings of the common latent factor were constrained to zero shows the following goodness of fit statistics. Chi-square value = 85.136 (df = 59, $p = 0.015$), RMSEA = 0.052, CFI = 0.985, TLI = 0.980, SRMR = 0.059. Then, I performed 'chi-square difference test' between these two models which shows that with the difference of one degree of freedom the chi-square difference is 2.748. The difference in chi-square is not significant at P value 0.05 ($P < 0.05$), confirming that the variance explained by the common latent factor is not significantly different from zero. Therefore, I confirm that there is no serious issue of common method bias in this study.

4.4. Analysis and Results

I employed structural equation modelling (SEM) with Mplus (Muthén & Muthén, 2012) and conducted bootstrapping (10,000) analysis (Bollen & Stine, 1990; Shrout & Bolger, 2002) in SEM to test the hypotheses using path analytic procedures (Hayes & Preacher, 2014; Preacher et al., 2007). I preferred bootstrapping analysis to Baron and Kenny's (1986) approach to test mediation effect for two reasons. First, according to Baron and Kenny (1986), to test the mediation effect, there must be a statistically significant total effect. However, the recent development in the literature on mediation analysis (Kenny & Judd, 2014; O'Rourke & MacKinnon, 2015; Rucker et al., 2011; Zhao et al., 2010) established the fact that an indirect effect can be significant even when the total effect is not statistically significant. Second, unlike Baron and Kenny's (1986)

method, the bootstrapping method enables researchers to estimate indirect, direct, and total effects simultaneously with a level of significance (confidence intervals) (Zhao et al., 2010).

4.4.1. Descriptive Statistics

Table 4.2 presents a summary of the descriptive statistics and inter-correlations matrix of the variables. As expected, learning orientation was positively related to economic performance (correlation = 0.253, $p < 0.001$) and social performance (correlation = 0.323, $p < 0.001$), and ‘trade vs. grant dependency’ was positively related to learning orientation (correlation = 0.218, $p < 0.01$) and social performance (correlation = 0.256, $p < 0.01$), providing initial support for *hypotheses 4.1b, 4.2, 4.3a and 4.3b*. However, unexpectedly, the correlation between ‘trade vs. grant dependency’ and economic performance was negative (correlation = -0.208), indicating no initial support to *hypothesis 4.1a*. As all the correlation coefficients are well below 0.8, indicating no serious issue of multicollinearity in the model (Kennedy, 2002; Mustakallio et al., 2002).

Table 4.2. Descriptive Statistics and Inter-Correlations Matrix (n = 164)

Variables	Mean	Standard deviation	1	2	3	4	5	6
1. LO	0.251	0.884						
2. EP	0.446	0.856	0.253**					
3. SP	0.612	1.1	0.323***	0.175*				
4. TVGD	0.613	0.487	0.218**	-0.208**	0.256**			
5. Age	0.706	0.456	-0.065 ^{ns}	0.222**	-0.54 ^{ns}	-.298***		
6. ATE	4.683	1.37	-0.017 ^{ns}	0.034 ^{ns}	0.046 ^{ns}	-0.078 ^{ns}	0.116 ^{ns}	
7. AFC	3.466	1.59	-0.034 ^{ns}	0.315***	-0.031 ^{ns}	-0.156*	0.189*	0.157*

Note: *** = significant at $p < 0.001$, ** = significant at $p < 0.01$, * = significant at $p < 0.05$; ns = not significant at $P < 0.05$. LO = Learning orientation, EP = Economic performance, SP = Social performance, TVGD = 'Trade vs. grant dependency' ATE = Access to technical expertise, AFC = Access to financial capital.

4.4.2. Test of Hypotheses

I developed and evaluated the structural equation model to test the hypotheses. The goodness of fit statistics demonstrated that the structural equation model is a good fit with the data {Chi-square test (X^2) = 141.977 (df = 102, $p = 0.0055$), CFI = 0.978, TLI = 0.972, RMSEA = 0.049 (90 % CI = 0.027 to 0.067), SRMR = 0.058} (Bentler & Yuan, 1999; Chen et al., 2008; Hu & Bentler, 1999).

The results of the analysis presented in Figure 4.2 shows that trade dependent social enterprises and grant dependent social enterprises were indifferent in their

economic performance because the total effect of ‘trade vs. grant dependency’ on the economic performance was statistically insignificant ($b = -0.233$, 95 % CI = -0.542 to 0.049). Thus, the *hypothesis 4.1a* was not supported. However, the total effect of ‘trade vs. grant dependency’ on social performance was positive and statistically significant ($b = 0.576$, 95 % CI = 0.211 to 0.912). Hence, trade dependent social enterprises were better than grant dependent social enterprises in their social performance, supporting *hypothesis 4.1b*. The total effect is the sum of direct effects and indirect effects (MacKinnon et al., 2007; Zhao et al., 2010).

The results of the analysis as presented in Figure 4.2 also show that trade dependent social enterprises are more learning oriented than grant dependent social enterprises ($b = 0.398$, $p < 0.001$). Hence, *hypothesis 4.2* is supported. Similarly, the hypothesized positive relationship between learning orientation and economic performance ($\beta = 0.289$, $p < 0.001$) (*hypothesis 4.3a*), and social performance ($\beta = 0.322$, $p < 0.001$) (*hypothesis 4.3b*), is supported.

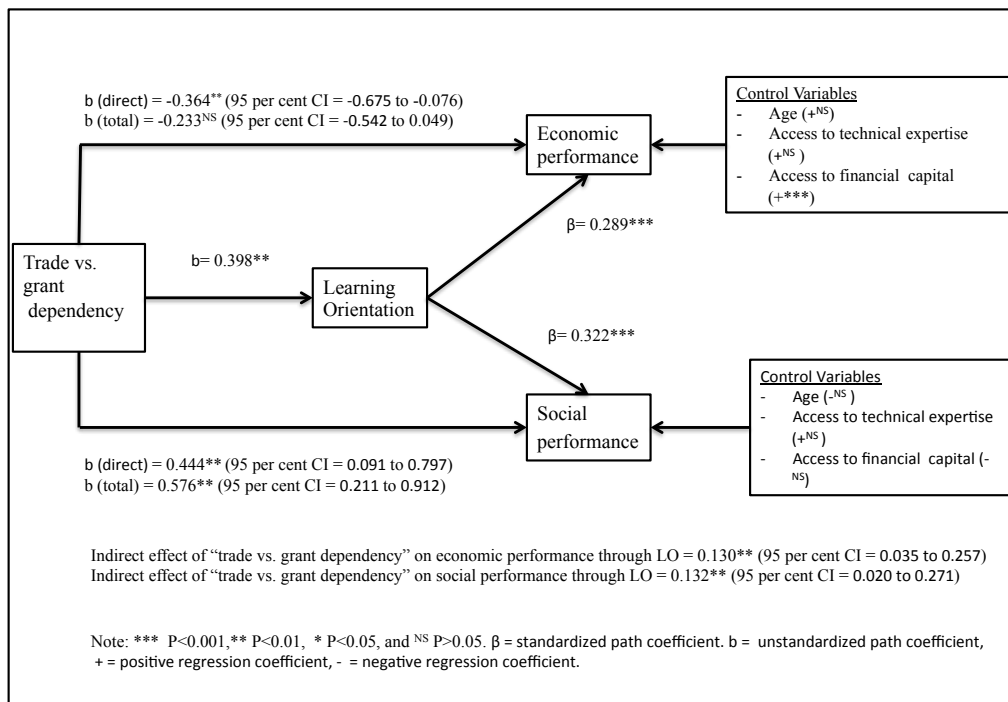


Figure 4.2. The Results of the Analysis

Similarly, the results of the analysis presented in Figure 4.2 demonstrate that the indirect effect of 'trade vs. grant dependency' through learning orientation is positive on both economic performance {indirect effect (b) = 0.130, 95 % CI = 0.035 to 0.257} and social performance {indirect effect (b) = 0.132, 95 % CI = 0.020 to 0.271}. Therefore, *hypothesis 4.4a* and *hypothesis 4.4b* are supported. However, surprisingly, Figure 4.2 also shows that the direct effect (in absence of indirect effect through learning orientation) of 'trade vs. grant dependency' on economic performance is negatively significant {direct effect (b) = -0.364, 95% CI = -0.675 to -0.076} and on social performance is positively significant {direct effect (b) = 0.444, 95% CI = 0.091 to 0.797}. Hence, the mediation of learning orientation is inconsistent or competitive

(MacKinnon et al., 2007; Zhao et al., 2010) in the relationship between ‘trade vs. grant dependency’ and economic performance, whereas, the mediation of learning orientation is consistent or complementary (MacKinnon et al., 2007; Zhao et al., 2010) in the relationship between ‘trade vs. grant dependency’ and social performance.

Figure 4.2 also shows that access to technical expertise and ages of social enterprises, control variables, have no effect on social enterprise performance. However, the other control variable, access to financial capital has a positive significant effect on economic performance but no significant effect on social performance.

4.5. Discussions and Conclusions

Drawing on the resource based view (Barney, 1991) and the resource dependency theory (Pfeffer & Salancik, 1978; Pfeffer & Salancik, 2003), I investigated whether and how moving from trade dependency to grant dependency (trade vs. grant dependency) influences the economic and social performance of social enterprises. Unexpectedly, I found that ‘trade vs. grant dependency’ is insignificant in improving the economic performance of social enterprises. However, as expected, I found that trade dependency is better than grant dependency in improving the social performance of social enterprises, suggesting that trade dependency does not distract social enterprise managers away from social missions. Furthermore, as expected, I found that shifting social enterprises from grant dependency to trade dependency enable them to improve learning orientation and thereby both their economic and social performance. In other words, the findings of this study demonstrate that learning orientation mediates the positive effects of ‘trade vs. grant dependency’ on both the economic and social performance of social enterprises.

However, I also reveal that, as a by-product of the analysis, when learning orientation remains constant, the adoption of trade dependency over grant dependency weakens the economic performance but still improves the social performance of social enterprises. Overall, the findings of this study suggest that social enterprises can improve social performance by moving their dependency for income from grant dependency to trade dependency but they *must* concurrently improve learning orientation to improve or at least not to deteriorate economic performance from this move.

4.5.1. Implications for Theory

In contrast to my first hypothesis, the first finding shows that trade dependency and grant dependency are indifferent (not significantly different) in improving the economic performance of social enterprises. The finding contrasts with the studies in the social entrepreneurship literature that argue that the generation of earned income can improve the economic performance of social enterprises (Dart, 2004a, b; Froelich, 1999; Leroux, 2005). However, the finding aligns with the studies that suggest that compared to commercial businesses, social enterprises may not have the skills, resources, and capabilities to serve the market competitively and as a result they may generate very little or no income from the market, which may not be adequate to achieve even break even income (Foster & Bradach, 2005). Another possible explanation for this finding is that although some scholars (Lu, 2015) argue that the generation of earned income may not reduce the income from grants, donations, and funding, it could also be possible that the funders and donors may think that trade dependent social enterprises have other sources of revenue to be able to serve beneficiaries and hence they might think that their support

may no longer be needed (Segal & Weisbrod, 1998; Smith et al., 2012). As a result, even though they generate earned income from selling products in the market, the generated income may be a trade-off for the income to be obtained from funders and donors (Segal & Weisbrod, 1998). Hence, shifting the strategy of social enterprises from grant dependency to trade dependency may not always contribute to improve their economic performance.

In contrast, some argue that as long as the trading activities are in line with missions, funders and volunteers will not penalize social enterprises for adopting trade dependency (Herman & Rendina, 2001). Therefore, another possible explanation for this finding could be that unlike the customers of commercial business, the customers or beneficiaries of social enterprises could be poor and deprived, who may not be able to afford the market price of their products (Christensen et al., 2006; Christensen & Bower, 1996). Therefore, if trade dependent social enterprises really want to achieve their social goals, they may have to offer their products for the price that the customers or beneficiaries can afford, and not always at a profitable price. It is highly likely that social enterprises really want to achieve their social goals because social entrepreneurs are highly influenced by non-financial rather than financial motives (Ruskin et al., 2016; Yitshaki & Kropp, 2016). As a result, by selling products in the market or adopting trade dependency over grant dependency, social enterprises may not be able to achieve better economic performance than the economic performance they had while depending on funders' and donors' money (Foster & Bradach, 2005). The findings of this research are also consistent with the study of Gras and Mendoza-Abarca (2014) who found that

generation of low and moderate levels of market-based income is beneficial but a high level of market-based income is harmful for the survival of charities.

The second finding, namely that trade dependency is better than grant dependency in improving the social performance of social enterprises, sheds light on the longstanding misconception that the adoption of trade dependency in social enterprises can distract the focus of social enterprise managers away from social missions and can drift the social mission towards commercial purpose (Dees, 1998; Foster & Bradach, 2005). In fact, this finding has provided strong empirical support to the social entrepreneurship literature that advocates that the adoption of trade dependency over grant dependency enables social enterprises to address social problems and concerns effectively and innovatively (Dart, 2004a, b; Froelich, 1999; Leroux, 2005).

The third finding, namely that trade dependency is better than grant dependency in the adoption and development of learning orientation and, thereby, in improving both the economic and social performance of social enterprises, reveals a boundary condition (i.e. if they improve learning culture and values) under which trade dependent social enterprises can be better than grant dependent social enterprises in improving both their economic and social performance. This finding aligns with and provides strong empirical support to the social entrepreneurship literatures that suggest that trade dependency over grant dependency enables social enterprises to adopt and develop any strategy or commercial business practice that enables them to improve both economic and social performance (Dart, 2004a, b; Froelich, 1999; Leroux, 2005). The significant difference in the adoption of learning orientation between trade dependent and grant dependent social enterprises (trade dependent social enterprises are more learning oriented than grant

dependent social enterprises) implies that the adoption of trade dependency over grant dependency may trade-off with the autonomy and flexibility of social enterprises (Dart, 2004a, b; Froelich, 1999; Leroux, 2005). The findings also corroborate prior studies which show that grant dependency may drive social enterprises to suppress the costs that are not directly related to achieving social goals aiming to attract funders and donors (Hull & Lio, 2006; Smith et al., 2012).

However, as a by-product of the analysis, I also found that if the learning orientation of the social enterprises remains constant, the switching social enterprises from trade dependency to grant dependency weakens the economic performance but still improves the social performance. In other words, I found that the direct effect of ‘trade vs. grant dependency’ is negative on economic performance while it is positive on social performance. The finding, the negative direct effect of ‘trade vs. grant dependency’ on the economic performance of social enterprises, corroborates the study of Gras and Mendoza-Abarca (2014) who concluded that it is dangerous for not-for-profit firms to significantly reduce their dependency on funders and donors because it pushes them into a highly competitive market and it may shift their dependency from funders and donors to highly competitive commercial markets. Similarly, it supports the argument that the generation of income above the break-even costs from only the competitive market is tough for social enterprises because of their inadequate skills, resources, and capabilities (Foster & Bradach, 2005). However, if the social enterprises engage in learning they will improve their skills, resources, and capability and hence by shifting from grant dependency to trade dependency, social enterprises can also improve their economic and social performance through learning orientation (as I found that learning orientation

mediates the positive effects of ‘trade vs. grant dependency’ on both the economic and social performance of social enterprise).

The other finding, the positive direct effect of ‘trade vs. grant dependency’ on the social performance of social enterprises, supports the arguments that the adoption of trade dependency over grant dependency enables social enterprises to adopt strategies that could lead them to be efficient and effective in solving social problems (Dart, 2004a, b; Froelich, 1999; Leroux, 2005). Chell et al. (2010, p. 485) argue that ‘social enterprises seek business solutions to social problems’ and hence it is not surprising to find that the adoption of trade dependency, which is a commercial business strategy, improves the social performance of social enterprises.

Further explanation for this finding is that when social enterprises rely on market-based income, they, like commercial businesses, adopt and develop strategies that enable them to increase the market share of their products and services expecting to increase their revenues. The increase in the market share of their products and services means that they also increase their customers or beneficiaries, if their customers are the beneficiaries or vice versa. Battilana et al. (2012, p. 53) state that ‘traditional businesses usually think of their consumers as customers, whereas traditional nonprofits think of their consumer base as beneficiaries. Hybrids, however, break this traditional customer-beneficiary dichotomy by providing products and services that, when consumed, produce social value’. Therefore, the more customers or beneficiaries the social enterprises serve, the more social impact they create (Battilana et al., 2015; Sirmon & Hitt, 2003; Smith et al., 2013).

A further important theoretical implication of the finding is that the revelation of inconsistent mediating (MacKinnon et al., 2007; Zhao et al., 2010) role of learning orientation in the relationship between ‘trade vs. grant dependency’ and economic performance. The inconsistent mediation indicates that the conceptual model of this study that links ‘trade vs. grant dependency’ to the economic performance is incomplete. What is missing in the conceptual framework is a mediator(s) that mediates the negative effect of ‘trade vs. grant dependency’ on the economic performance. It has thus made an important contribution to social entrepreneurship literature by revealing the dual nature, both positive and negative, of ‘trade vs. grant dependency’ in social enterprises. The inconsistent mediation justifies the idea that the inconclusive (statistically insignificant) effect of ‘trade vs. grant dependency’ could be a result of both the positive and negative effects of ‘trade vs. grant dependency’ through different mediators on the economic performance of social enterprises.

The fourth finding that the adoption and development of learning orientation improves both the economic and social performance of social enterprises supports emerging social entrepreneurship discourse that suggests that both the economic and social performance of social enterprises could be improved simultaneously (Dacin et al., 2011; Dacin et al., 2010; Di Zhang & Swanson, 2013; Liu et al., 2015; Liu et al., 2014). In addition, by showing the positive effects of learning orientation, a valuable resource, on both the economic and social performance of a social enterprise, the findings of this study extends the applicability and scope of a resource-based view (Barney, 1991) to the context of social enterprises (Coombes et al., 2011). Furthermore, by showing the effects of ‘trade vs. grant dependency’ on learning orientation and, thereby, the economic and

social performance of social enterprises, this study contributes to extend resource dependency theory (Pfeffer & Salancik, 1978) to explain performance variations in the context of social enterprises.

Finally, this paper is one of those few studies adopting a quantitative research design approach (Liu et al., 2015; Weerawardena & Mort, 2006), which is still rare in social entrepreneurship literature (Austin et al., 2006; Dacin et al., 2011; Peredo & Chrisman, 2006; Sassmannshausen & Volkmann, 2016). Hence, this research contributes to answering the calls for more quantitative studies in social entrepreneurship research (Liu et al., 2015; Liu et al., 2014; Sassmannshausen & Volkmann, 2016). Furthermore, by investigating the relationship between learning orientation and performance in the context of social enterprises, this study also answers a call for the investigation of the learning orientation-performance relationship in various contexts to establish the positive relationship between them (Calantone et al., 2002).

4.5.2. Implications for Practice

The findings of this study have several implications for practice. Firstly, the findings of this study serve as an important guide to the managers and owners of social enterprises as to how they could improve the performance of their organizations. The findings of this study suggest that social enterprise managers can enhance their social performance by selling their products and employing market-based approach. The findings of this study also suggest that the adoption and development of learning culture, values, and environment plays a crucial role in social enterprises in general and in the social enterprises that depend on the income obtained from selling products in the market

in particular, in improving both economic and social performance. However, at the same time, this study's findings suggest social enterprise managers not to shift the dependency of their organizations from grant dependency to trade dependency unless they improve learning orientation of their organization concurrently, otherwise, this move can weaken the economic performance of their organization. The findings of this study also illustrate and suggest that the managers and owners of social enterprises should not be concerned about engagement in the generation of market-based income as it actually enhances their social performance, which is the primary goal of social enterprises (DTI, 2002). Finally, the findings of this study suggest and recommend that all social enterprises in general and trade dependent social enterprises in particular should develop learning culture, values, and environment to improve both their economic and social performance simultaneously.

4.6. Limitations of the Study and Recommendations for Future Research

While acknowledging some limitations of my study, I also offer recommendations for further research. First, although this study is based on quantitative analysis, which is still scarce in social entrepreneurship research (Liu et al., 2015; Sassmannshausen & Volkmann, 2016), my sample size (164 social enterprises) is relatively small. Future studies might consider a larger sample size. In this study, I included in the sample the social enterprises that are registered in online directories of UK social enterprises. Similar future studies could expand the sampling frame and sample size of social enterprises by including both the registered and unregistered UK social enterprises in the online UK social enterprise directories.

Second, this study has considered only learning orientation as a mediator in the relationship between ‘trade vs. grant dependency’ and the economic performance and the social performance of social enterprises. The findings of this study show that the mediation of learning orientation is inconsistent or competitive (MacKinnon et al., 2007; Zhao et al., 2010) in the relationship between ‘trade vs. grant dependency’ and economic performance (the mediating effect is positively significant but the direct effect is negatively significant). According to Zhao et al. (2010), the presence of competitive mediation in a theoretical model means that the conceptual model is incomplete. Hence, future studies should investigate the mediator(s) that mediate the negative effect of ‘trade vs. grant dependency’ on the economic performance. I believe that the findings of this study, particularly the inconsistent or competitive mediation, will generate more interest from social entrepreneurship scholars to explore why and how ‘trade vs. grant dependency’ positively as well as negatively influences the economic performance of social enterprises.

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Chapter 5

Conclusions and Discussions

5.1. Introduction

The purpose of this section is to integrate the findings and issues raised in the discussion sections of all three essays presented in prior chapters (Chapters 2, 3 & 4). Therefore, this chapter not only summarizes the main findings and results, research contributions, future research agendas, and research limitations of the three individual essays included in this dissertation, but also provides important insights obtained from integrating the findings and issues raised in the discussion sections of all three papers. A composite model showing hypotheses of all three essays and the results of their test is in Figure 5.1 below.

5.2. Main Findings and Results

This research examined the effects of the adoption and implementation of commercial business practices on social enterprise performance drawing on a sample of 164 UK social enterprises. In this study, commercial business practice refers to any act, resource, capability, or strategy that commercial businesses adopt and develop, or aim to do so, to improve their performance. The review of the literature suggests that the adoption and development of market orientation (Jaworski & Kohli, 1993; Kohli & Jaworski, 1990; Kohli et al., 1993; Kropp et al., 2006; Narver & Slater, 1990), learning orientation (Baker & Sinkula, 1999a, b; Calantone et al., 2002), market disruptiveness capability (McKelvie & Davidsson, 2009), and new product development capability (McKelvie & Davidsson, 2009) are positively associated with firm performance.

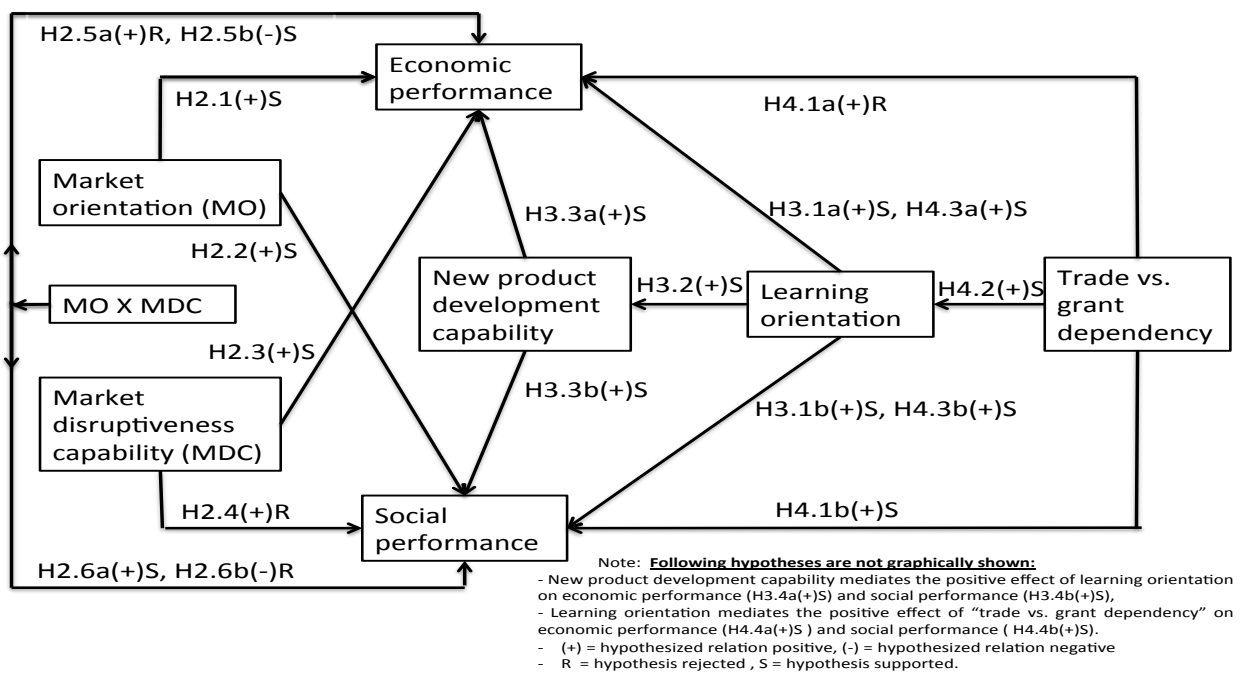


Figure 5.1. Composite Model Showing Hypotheses and the Results of their Test

Furthermore, most commercial businesses generate income from trading or selling products and services and some entrepreneurship scholars (Dart, 2004a, b; Froelich, 1999; Leroux, 2005) consider that ‘trade vs. grant dependency’ is a commercial business practice. Hence, the adoption and implementation of commercial business practices refers to the adoption and implementation of market orientation, market disruptiveness capability, learning orientation, new product development capability, and ‘trade vs. grant dependency’ in this thesis. Therefore, this thesis investigated the effects of the adoption and implementation of these commercial business practices on the economic and social performance of social enterprises collectively in three independent but interrelated empirical essays.

The first essay (Chapter 2), drawing on the resource-based view (Barney, 1991) and the dynamic capability perspective (Teece et al., 1997), and utilizing a sample of 164 UK social enterprises, examined the individual and combined (interaction) effects of the adoption of market orientation and market disruptiveness capability on the economic performance and the social performance of social enterprises. The paper revealed that the adoption and implementation of market orientation improves both the economic performance and the social performance of social enterprises while the adoption and implementation of market disruptiveness capability improves their economic performance only. However, interestingly, the study found that the adoption and implementation of both the market orientation and market disruptiveness capability (interaction) boosts the strength of their positive effects on the social performance but reduces that on the economic performance. Importantly, the study revealed that although market orientation and market disruptiveness capability when adopted and developed

together reduce the positive individual effect of each other on the economic performance, together they still improve the economic performance because of the smaller negative interaction effect in relation to their positive main effect (see Figure 2.3 in Chapter 2).

The second essay (Chapter 3), drawing on the resource based view (Barney, 1991; Barney, 2001a; Barney, 2001b) and the literature of (Priem & Butler, 2001), and utilizing a sample of 164 UK social enterprises, examined how the adoption of learning orientation improves both the economic and social performance of social enterprises. Specifically, the study investigated the mediating role of new product development capability in the effects of learning orientation on both the economic performance and the social performance of social enterprises. The paper demonstrates that the learning orientation improves new product development capability. The paper shows that both the learning orientation and new product development capability improve the economic and the social performance of social enterprises. Importantly, this paper provides empirical evidence that new product development capability mediates or processes the positive effects of learning orientation on both the economic performance and the social performance of social enterprises.

Finally, the third essay (Chapter 4), drawing on the resource dependency theory (Pfeffer & Salancik, 1978; Pfeffer & Salancik, 2003) and resource-based view (Barney, 1991; Barney, 2001a; Barney, 2001b; Priem & Butler, 2001), and utilizing a survey of 164 UK social enterprises, examined how social enterprises can improve their economic and social performance when they shift their dependency on income from grant dependency (depending mainly on grants, donations, and funding for income) to trade dependency (depending mainly on trading or selling products or services for income).

Specifically, the third paper investigated the mediating role of learning orientation in the effects of ‘trade vs. grant dependency’ on the economic and social performance of social enterprises. The paper demonstrates that relative to grant dependency, trade dependency makes social enterprises more able to improve their social performance. Surprisingly, the results of the analysis show that the adoption of trade dependency or grant dependency has no significantly different effects on the economic performance of social enterprises. Importantly, nevertheless, the study found that compared to grant dependency, trade dependency is better for social enterprises in adopting and developing learning orientation, thereby improving both their economic and social performance. In summary, the positive effects of ‘trade vs. grant dependency’ on both the economic and the social performance of social enterprises are mediated through learning orientation. However, as a by-product of the analysis, the paper also revealed that if learning orientation remains constant, the shifting of social enterprises from grant dependency to trade dependency can have a negative effect on economic performance but still have a positive effect on social performance. Therefore, the findings of this paper highlight the critical roles of learning in social enterprises, especially when they shift from grant dependency to trade dependency.

The findings of all three papers are interesting and significant for the advancement of social entrepreneurship theory and in providing guidance to social entrepreneurship practitioners and policy makers. Together, the findings of all three papers generally suggest that the adoption of commercial business practices can improve both the economic and the social performance of social enterprises.

5.3. Contribution to Theory

This thesis makes several noteworthy contributions to theory. Collectively, the thesis constitutes a value greater than the sum of the values of the three individual essays of this thesis by making a strong case for why social enterprises adopt and implement commercial business practices. The study provides important insights into how the adoption and implementation of commercial business practices enable social enterprises to achieve financial sustainability as well as their social goals and missions. These insights are critical to understand how and why performance variance occurs among social enterprises and yet empirical studies that investigate the causes of heterogeneity in social enterprise performance have often been simply unavailable. Furthermore, these insights contribute to cast light on longstanding conflicts and contradictions in the social entrepreneurship literature about the effects of the adoption of commercial business practices on social enterprise performance. Yet, conflicts and contradictions in the literature and the lack of empirical studies have a deleterious impact on the theory-building efforts in social entrepreneurship research (Weerawardena & Mort, 2006). Thus, the findings of this empirical study contribute to the advancement of social entrepreneurship theory.

By empirically demonstrating the positive effects of the adoption of commercial business practices on both the economic and social performance of a social enterprise, this thesis explicitly supports the arguments of some social entrepreneurship scholars (Dart, 2004a, b; Froelich, 1999; Leroux, 2005). However, at the same time it rejects the argument that the adoption of commercial business practices can lead to mission drift and jeopardize legitimate status and eventually the financial sustainability of social

enterprises (Dees, 1998; Dees & Elias, 1998; Foster & Bradach, 2005). Similarly, implicitly, this finding supports the argument that the economic performance and social performance of social enterprises could be independent of each other (Dacin et al., 2011; Stevens et al., 2015). Likewise, this finding rejects the argument of (Masseti, 2008) that the economic performance and social performance of social enterprises lie on the opposite ends of a continuum, and that the improvement in economic performance may trade off with social performance and vice versa. Hence, the findings of this study significantly contribute to the advancement of social entrepreneurship theory and discourse.

Importantly, this study demonstrates that the adoption and implementation of not all commercial business practices improve social enterprise performance in a way that they do in commercial businesses. Put simply, this thesis shows that the adoption of some commercial business practices directly improves both economic performance and social performance, while other commercial business practices do so indirectly. For example, the results of the analysis in the first paper (Chapter 2) show that market orientation improves both the economic performance and social performance individually and directly, while market disruptiveness capability does so only through combining with market orientation (see Figure 2.3) which clearly shows that despite negative interaction effect of market orientation and market disruptiveness capability on economic performance they together still improve the economic performance). Similarly, the results of the analysis in the third paper (Chapter 4) shows that the shifting of social enterprises from grant dependency to trade dependency positively influences both economic performance and social performance indirectly through learning orientation.

However, as a byproduct of the analysis, the results of the study also show that if the learning orientation remains constant, the shifting of social enterprises from grant dependency to trade dependency reduces their economic performance but still improves social performance.

More importantly, by exploring the processes through which commercial business practices can improve social enterprise performance, this thesis offers explanations for and sheds light on the prior conflicting social entrepreneurship literatures on the relationship between the adoption of commercial business practices and social enterprise performance (Dart, 2004a, b; Dees, 1998; Foster & Bradach, 2005; Leroux, 2005; Liu et al., 2015; Liu et al., 2014; Massetti, 2008). Particularly, the exploration of variations, positive and negative, in the processes through which the adoption and implementation of commercial business practices influence social enterprise performance (economic and social) in this study helps in the understanding of why the arguments of social entrepreneurship scholars on the relationship between the adoption and implementation of commercial business practices and social enterprise performance (economic and social) has long been conflicting.

Finally, this thesis is one of the few empirical quantitative social entrepreneurship studies (Liu et al., 2015; Liu et al., 2014; Miles et al., 2014) that has examined the relationships between the resources, capabilities, and performance (economic and social) of social enterprises. The prior empirical literatures explaining social enterprise performance have focused on the influence of either capabilities (Liu et al., 2015) or resources (Liu et al., 2014; Miles et al., 2014) alone. Yet, the specific combined effects of resources and capabilities on the economic performance and social performance of

social enterprises have largely passed unexamined and hence the advancement in the development of social entrepreneurship theories is affected (Sassmannshausen & Volkmann, 2016; Weerawardena & Mort, 2006). This thesis has significantly contributed to fill this research gap and also answers the calls for more quantitative studies of social entrepreneurship (Liu et al., 2015; Sassmannshausen & Volkmann, 2016) by empirically analysing individual as well as combined effects of resources and capabilities on both the economic and social performance of social enterprises.

Consolidating the findings of all three papers, this thesis has thus made important contributions not only to social entrepreneurship literature, but also to resource based view, dynamic capability perspective, and resource dependency theory. For example, by showing the positive relationship of some resources, such as market orientation and learning orientation, and some capabilities, such as market disruptiveness capability and new product development capability, with the performance of social enterprises, this study has extended the boundaries and also set some conditions for the applicability of the resource based view and the dynamic capability perspective (Coombes et al., 2011). Similarly, by showing how dependency on external sources (e.g., grants, donations, and funding) for income creates hurdles to the adoption of learning orientation in social enterprises and thereby an improvement in their performance, this study contributes to extend resource dependency theory to the context of social enterprises and to explain the performance variations among them (Froelich, 1999).

In addition to the collective contributions of these three research papers, each paper makes some specific contributions to theory. For example, by showing the positive roles of market orientation and market disruptiveness capability in improving both the

economic and social performance of social enterprises, the first essay (Chapter 2) offers empirical evidence for the argument that the implementation of marketing concepts in social enterprises is important for achieving financial sustainability and social objectives simultaneously (Liu et al., 2015; Miles et al., 2014). However, the study's finding in relation to market disruptiveness capability and social performance is inconclusive. This suggests that radical innovations within social enterprises often do not address their social missions if they are not developed with a focus on beneficiaries. It further suggest that this could be a result of misdirected investments in innovations (Christensen et al., 2006) and also the inherent unpredictable and uncontrollable nature of radical innovations resulting in projects drifting away from their intended recipients (Jones, 2007; Weisbrod, 2004). This could also be a result of either terminating costly innovation projects for fear of mission drift or seeing out a financially viable innovation project that does not fulfil the social needs of the intended recipients (Cornforth, 2014; Smith et al., 2013).

The main theoretical contribution of the first essay is the exploration of the relationship between the interaction of market orientation and market disruptiveness capability, and performance outcomes. First, I found that the interaction creates a positive synergistic effect on the social performance but negative synergy effect on the economic performance of social enterprises. The finding enables us to extend the theory of mission drift (Copestake, 2007) to the implementation of social innovation. The finding of this study suggests, together with my previous finding that the relationship between market disruptiveness capability and social performance is inconclusive, that, in order to create added social value for the market disruptiveness innovation in their new

products and services, social enterprises must ensure that they continue to learn about and address the needs and demands of existing markets and target clientele to remain true to their social missions and objectives (Christensen et al., 2006). Second, my finding also adds to the Porterian debate on the performance implication of adopting multiple strategies. Consistent with Porter (1980) as well as Slater and Narver (1995) but contrary to some market orientation literature on commercial firms (Connor, 1999; Morgan et al., 2009; Ngo & O'Cass, 2012) and the dynamic capability perspective (Teece et al., 1997), I found evidence of a trade-off between current-led market orientation, and future-looking market disruptiveness capability. I found that market orientation and market disruptiveness capability together and individually can improve the economic performance of social enterprises, but that they are less effective together than individually (see Figure 2.3). This suggests that, economically speaking, it would be most efficient for organisations to embark on either only market orientation, or both market orientation and market disruptiveness capability together. Therefore, if a social enterprise has strong financial back-up, then implementing both market orientation and market disruptiveness capability has an appeal, as it would allow it to maximise its social performance.

Similarly, by showing the positive effect of learning orientation on new product development capability and thereby on both the economic performance and social performance, the second essay (Chapter 3) provides empirical support to the argument that learning and innovativeness are crucial for improving not only the economic performance of commercial firms (Baker & Sinkula, 1999a; Calantone et al., 2002) but also for improving both the economic and social performance of social firms (Garrido &

Camarero, 2010; Garrido & Camarero, 2014). The findings of the second essay also highlight the roles of resources deploying capabilities, for example new product development capability, to process the effects of valuable resources, for example learning orientation, on performance, and hence provides strong empirical support for the advancement of the study of Priem and Butler (2001).

Finally, by showing the positive significant effects of ‘trade vs. grant dependency’ through learning orientation on both economic performance and social performance, the third essay (Chapter 4) provides strong empirical support to the argument that the generation of earned income can enable social enterprises to adopt commercial business practices (such as learning orientation in this case) to be efficient and effective not only to generate earned income but also to solve complex social problems (Dart, 2004a, b; Froelich, 1999; Leroux, 2005). However, by showing the insignificant total effect of ‘trade vs. grant dependency’ on the economic performance of social enterprises, this essay provides empirical support to the argument of (Foster & Bradach, 2005) that due to high levels of competition in the consumer markets and the lack of resources of social enterprises to compete in such markets, it is very difficult for them to generate earned income above the break-even point from selling products and services in the consumer markets.

Overall, this thesis provides important insights into how some social enterprises perform better than others. Hence, this thesis tangibly enriches the efforts to formulate better predictive models for explaining heterogeneities in social enterprise performance.

5.4. Contribution to Practice

Recent economic and political changes worldwide have hugely affected how social sectors should generate income to sustain their operations and address the rapidly increasing complex social issues and problems. For example, the current economic and political environments have encouraged social sectors, including social enterprises, to depend on the market not only to achieve financial self-sufficiency, but also to achieve sustainable solutions to surging social problems (Kerlin & Pollak, 2011; Maclean et al., 2013). In this context, the findings of this study are critical for managerial practices because they offer important guidance to social enterprise managers and owners about how they can achieve financial self-sufficiency and create sustainable solutions to social problems. Specifically, this study offers important insights to social enterprise managers regarding whether, and how, they should implement market orientation, learning orientation, new product development capability, market disruptiveness capability, and trade dependency to improve both the economic and social performance of their organizations. For example, the findings of the first paper (Chapter 2) of this study encourage social enterprise managers to adopt market orientation to improve the economic and the social performance of their organizations. The findings further suggest that social enterprise managers can adopt both market orientation and market disruptiveness capability to boost their social performance; however, caution must be taken if they adopt this strategy as it may lead to a reduction in the strength of their economic performance. Similarly, the findings of the second paper (Chapter 3) and the third paper (Chapter 4) suggest that social enterprise managers should implement learning orientation to improve both the economic and social performance of their

organizations. The findings of the third paper also suggest that the adoption of trade dependency over grant dependency can improve the social performance but can weaken the economic performance of their organizations if the learning environments and cultures are not improved while shifting from grant dependency to the trade dependency.

Hence, the findings of this thesis provide a clear picture to social enterprise managers about what commercial business practices they should adopt and how they should utilise them in their organizations in order for them to achieve both their economic and social goals simultaneously.

5.5. Policy Implications

Governments and policy makers have high expectations of social enterprises to solve surging social problems innovatively and sustainably (Harding & Cowling, 2006; Santos, 2012; Zahra et al., 2008). They also expect social enterprises to rely more on generated earned income and less on grants, donations, and funding (Kerlin & Pollak, 2011; Maclean et al., 2013). As the findings of this thesis offer insights into how, by depending more on market based income and less on non-market based income, social enterprises can improve both their economic performance and social performance, policy makers can utilize the findings of this study to formulate and implement policies and programmes to encourage and support social enterprises to enable them to successfully achieve their economic and social goals simultaneously. For example, this study explored how the adoption of commercial business practices such as market orientation, learning orientation, market disruptiveness capability, and new product development capability

can improve both the economic performance and social performance of social enterprises simultaneously. Hence, policy makers can develop policies and programmes that encourage and enable social enterprises to adopt these commercial business practices in such a way that can improve both their economic and social performance simultaneously. Importantly, this thesis demonstrates that relative to grant dependency, trade dependency can be better in improving both the economic and social performance simultaneously but to do so they must improve their learning attitudes and behaviours. Hence, policy makers can formulate and implement policies and programmes that encourage social enterprises to shift from grant dependency to trade dependency and also to simultaneously engage in learning. In sum, individually and together, the three empirical essays, which comprise this PhD thesis, offer fresh insights to policy makers about what and how commercial business practices should social enterprises be adopted and developed to improve both their economic and social performance. Hence, the findings of this thesis enable policy makers to formulate and implement the policies and programs that encourage and enable social enterprises to select, adopt, and implement commercial business practices to improve their economic and social performance and thereby contribute for economic development and the improvement of social prosperity.

5.6. Research Limitations

This research has some limitations that are necessary to recognize as they may provide important opportunities for future research. Listed below are the limitations of this study:

1. One important limitation of this research is related to the data collection. Indeed, all the variables used in this study have been obtained through self-reporting scales. This procedure may incorporate a high level of subjectivity in the data. However, the use of self-reporting subjective scales in online surveys is suggested as a valid procedure in the literature (Coombes et al., 2011; Dillman, 2011; Shan & Jolly, 2012; Wright, 2005). Furthermore, in the case of economic performance data, the objective data of the economic performance of social enterprises is difficult to obtain for two main reasons. First, most social enterprises are small and they are not obliged to publish their economic data, meaning that financial information about all social enterprises cannot be obtained from public domain. Second, due to the sensitive nature of the financial information of organizations, respondents are reluctant to share their objective financial information to external agents, including researchers (Liu et al., 2015; Vickery et al., 2003).

2. The second important limitation is related to the constructs of this research. The indicators for measuring some of the constructs such as market orientation, learning orientation, new product development capability, market disruptiveness capability, and economic performance are adopted from established commercial business literature in this study. Although social enterprises are similar to commercial businesses in some aspects such as operations, they are different in other aspects such as primary goals (Austin et al., 2006). Thus the adoption of constructs and their indicators from commercial business literature in this study could raise question marks on their compatibility and applicability in the context

of social enterprises. However, the borrowing of measures of the constructs should be considered as a valid procedure given the lack of the measures of such constructs in social entrepreneurship literatures. Furthermore, this is not the first social entrepreneurship research that borrowed the measures of the constructs from commercial business sectors. Borrowing of constructs from commercial businesses is an acceptable practice in social entrepreneurship research (Liu et al., 2015). Moreover, as the main objective of this research was to investigate the effects of the adoption and implementation of commercial business practices on social enterprise performance, the adoption of measures used in commercial business research for the constructs representing commercial business practices should be a valid process in this study.

3. The third limitation is related to the sample. The sample of social enterprises was obtained from online directories of UK social enterprises. The social enterprises unregistered in online directories of the UK social enterprises were considered as impractical to include in the study due to the identification issues of social enterprises and also due to the resource limitations for this study. As social enterprises have no definite form or legal status in the UK (Amin et al., 2002; Harding & Cowling, 2006; Lepoutre et al., 2013), it would have been difficult to identify and distinguish social enterprises from not-for-profit firms and commercial businesses if the sample was taken from both the registered and unregistered social enterprises in the UK online social enterprise directories. Furthermore, although this study adopted quantitative research design and have

contributed to answer the calls for more quantitative research in social enterprises to contribute to the development of social entrepreneurship theory (Liu et al., 2015; Sassmannshausen & Volkmann, 2016), due to the small sample size, the impact of this study is still small.

4. The fourth limitation is related to the categorisation of social enterprises. This study adopted the DTI's (2002) definition of social enterprise and included all the sampled social enterprises, irrespective of their differences in forms, in one category. This approach is acceptable as it is in line with a study of Milles et al. (2014). However, recent studies (Defourny & Nyssens, 2017) suggest that social enterprises should be classified into four categories: 1) entrepreneurial non-profits, 2) social business, 3) social cooperatives, and 4) public sector social enterprises. These four categories of social enterprises are different in their forms, governance structures, and profit distribution policies (Defourny & Nyssens, 2017). Due to such differences, the effect of adoption of commercial business practices may differ among the four categories of social enterprises.

5.7. Future Research Agendas

This research focuses almost exclusively on UK social enterprises that are registered in online directories. Future studies should expand the scope of this study by including social enterprises not only that are registered in the online UK social enterprise directories but also others that are not registered in them. By doing so, the research could

extend the sample size and thereby the applicability and the generalizability of the findings of the studies. Moreover, due to the limitation of resources, specifically, financial resources, the sample size of this study is small ($n = 164$). Thus, future similar research in the UK should be carried out with the support of funding bodies, such as ESRC, so as the researchers could increase the sample size to better represent the social enterprises nationally. Furthermore, similar studies should also be carried out in different countries to test and validate the models and the findings of this study.

Moreover, this study has included market orientation, learning orientation, market disruptiveness capability, new product development capability, and 'trade vs. grant dependency' as commercial business practices. They represent a small set of commercial business practices. Thus, the inclusion of other commercial business practices such as access to management and marketing expertise (McKelvie & Davidsson, 2009), human resource management (Sheehan, 2014), the development of marketing capability (Liu et al., 2015), and the adoption of entrepreneurial orientation (Lumpkin & Dess, 1996) in the conceptual models of this study could offer more insights into why and how social enterprise performance (economic and social) varies and how the adoption of commercial business practices influence social enterprise performance. Additionally, this research included all social enterprises, irrespective of their forms, governance structure, and profit distribution policies, in one category. However, due to the differences among the social enterprises in their forms, governance structure, and profit distribution policies, the effect of adoption of commercial business practices could be different among different categories of social enterprises. Therefore, either future research should control for the effects of different categories of social enterprises in similar studies or future

research should compare the effects of adoption of commercial business practices on the performance of different categories of social enterprises. Recently, Defourny and Nyssens (2017) have classified social enterprises into four categories: 1) entrepreneurial non-profits, 2) social business, 3) social cooperatives, and 4) public sector social enterprises, and they are different in their forms, governance structure, and profit distribution policies.

Interestingly, contrasting with the dynamic capability perspective (Teece et al., 1997) and marketing literature (Morgan et al., 2009), in the first essay of this dissertation (Chapter 2), I found that the interaction effect of market orientation and market disruptiveness capability on the economic performance of social enterprises is negative. Similar studies should be carried out to test and validate the findings of this study and the interaction effects of other resources and their deploying capabilities on the economic performance of social enterprises should be investigated to understand whether the dynamic capability perspective could be employed to explain heterogeneity in the economic performance of social enterprises. Furthermore, more interestingly, in the third essay of this dissertation (Chapter 4), I found inconsistent or competitive mediation (MacKinnon et al., 2007; Zhao et al., 2010) effect of learning orientation in the relationship between ‘trade vs. grant dependency’ and economic performance (the mediating effect is positively significant but the direct effect is negatively significant). This is an indication of incompleteness of the conceptual model of the third essay in which a mediator or mediators that mediate the negative effect of ‘trade vs. grant dependency’ on the economic performance is missing (Zhao et al., 2010). Hence, the future studies could include the mediator(s) that mediates the negative effect of ‘trade vs.

grant dependency on the economic performance of social enterprise.

In addition, the business literature has established the important roles of firm size (e.g., micro, small, medium, and large) (Orlitzky, 2001; Stanwick & Stanwick, 1998) and firm type (e.g. service and manufacturing) (Prajogo, 2006) in determining firm performance. Hence, future studies could also include size and type of social enterprises as control variables for the robustness of the analysis.

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Appendix A: Online Directories of UK Social Enterprises

- <http://www.bis.gov.uk/cicregulator>;
- http://www.can-online.org.uk/social_enterprises_directory.php;
- <http://www.seb2b.co.uk/business-directory>;
- www.sel.org.uk/directory.aspx?;
- <http://www.socialenterprise.org.uk/>; and
- www.buyse.co.uk.

Appendix B: Indicators and Standardized Factor Loadings of Latent Constructs

Latent Constructs	Indicators (Likert Scales ranges from 1 to 7)	SFL
Market Orientation	We have routine or regular measures of customer service	0.683
	Our product and service development is based on good market and customer information	0.769
	We know our competitors well	0.721
	We have a good sense of how our customers value our products and services	0.786
	We are more customer focused than our competitors	0.668
	We compete primarily based on product or service differentiation	0.629
	Our products/services are the best in the business	0.697
Market Disruptiveness Capability	Over the past few years, our firm has released very many new products or services to the market	0.646
	Over the past few years, changes to our product lines have been radical	0.504
	Our firm generally initiates changes that our competitors are forced to react thereafter	0.800
	Our firm is often the first firm to introduce new products, systems, production methods etc.	0.815
	We heavily invest in innovation and the development of new products and services	0.623

Economic	The firm has been very profitable	0.614
Performance	The firm has generated a high volume of sales	0.585
	The firm has achieved rapid growth	0.671
	The performance of this firm has been very satisfactory	0.910
	The firm has been very successful	0.914
	The firm has fully met our expectations	0.752
	Social	Implementation of social strategy (relative to competitors)
Performance	Fulfilling the social mission (relative to competitors)	0.986
	Fulfilling the social objectives (relative to competitors)	0.968
Learning Orientation	The sense is that employee learning is an investment not an expense	0.852
	The basic values include learning as a key to improvement	0.924
	Once we quit learning we endanger our firm	0.644
	We agree that the ability to learn is the key to improvement	0.726
New Products Development Capability	The development of new products or services	0.856
	The quality of newly developed products or services	0.805
	The diversity of newly developed products or services	0.826

Note: SFL = Standardized factor loadings.

Appendix C: Survey Questionnaire

Social Enterprises							
<p>1. Social Enterprises are businesses with primary social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners. Does this describe your organisation?</p> <p><input type="radio"/> Yes</p> <p><input type="radio"/> No</p>							
<p>2. Please rate the following statements about your firm:</p>							
	Very strongly disagree	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Very strongly agree
We have more promising ideas than we have time and the resources to pursue	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We never experience a lack of ideas that we can convert into profitable products/services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Changes in the society-at-large often give us ideas for new products and services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
While going about day-to-day activities, I see potential new ideas all around me	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I have a special alertness or sensitivity toward new opportunities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Seeing potential new opportunities does not come very naturally to me	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Over the past few years, our firm has released very many new products or services to the market	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Over the past few years, changes to our product lines have been radical	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Our firm generally initiates changes that our competitors are forced to react thereafter	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Our firm is often the first firm to introduce new products, systems, production methods etc.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We heavily invest in innovation and the development of new products and services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Social Enterprises

3. Relative to your two most important competitors, how would you rate your firm's performance over the past three years concerning . . .

	well above average	above average	slightly above average	average	slightly below average	below average	well below average
The development of new products or services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The quality of newly developed products or services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The diversity of newly developed products or services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The development of new product development methods	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The adaptation of new technologies in existing processes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

4. Has your company made changes during the last three years that were perceived to be new for the company, but which have previously been used by other firms, within the following areas?

	Yes	No	N/A
New products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
New services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
New methods of production/process	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Opening new markets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
New sources of supply	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
New ways of organizing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

5. Has your company made changes during the last three years that were perceived to be new to the industry in which the company operates, within the following areas?

	Yes	No	N/A
New products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
New services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
New methods of production/process	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Opening new markets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
New sources of supply	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
New ways of organizing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Social Enterprises

6. Please rate the following statements about your firm:

	Very strongly disagree	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Very strongly agree	N/A
The firm has been very profitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The firm has generated a high volume of sales	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The firm has achieved rapid growth	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The performance of this firm has been very satisfactory	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The firm has been very successful	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The firm has fully met our expectations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

7. Relative to your two most important competitors, how would you rate your firm's social performance over the past three years concerning...

	well above average	above average	slightly above average	average	slightly below average	below average	well below average
Implementation of social strategy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Fulfilling the social mission	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Fulfilling the social objectives	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Social Enterprises

8. Over the past three years, our firm has had...

	Very strongly disagree	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Very strongly agree	N/A
Access to staff with a positive commitment towards the company's development	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Access to highly productive staff	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Access to staff educated in giving superior customer service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Access to staff who like to contribute ideas for new products/services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Access to staff capable of marketing our products/services well	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Access to expertise in marketing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Access to top management time to devote to long-term development	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Access to special expertise regarding management	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Access to technical expertise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Access to expertise in development of products/services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Access to financial capital	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Access to modern plants and equipment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Social Enterprises

9. Please evaluate the extent to which your access to the following resources has changed over the past three years . . .

	Very much worse	Much worse	Worse	No changes	Better	Much better	Very much better
Changes to brand name recognition	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Changes to company name	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Changes to company reputation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Changes to the reputation of company executives	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Changes to human capital	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Changes to financial capital	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Changes to manufacturing resources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Changes to marketing resources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Changes to technological resources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Social Enterprises

10. Please respond to the following statements about your business...

	Very strongly disagree	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Very strongly agree	N/A
We have routine or regular measures of customer service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Our product and service development is based on good market and customer information	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We know our competitors well	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We have a good sense of how our customers value our products and services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We are more customer-focused than our competitors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We compete primarily based on product or service differentiation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The customer's interest should always come first, ahead of the owners'	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Our products/services are the best in the business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I believe this business exists primarily to serve customers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The sense is that employee learning is an investment not an expense	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The basic values include learning as a key to improvement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Once we quit learning we endanger our firm	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We agree that the ability to learn is the key to improvement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Social Enterprises

11. Which of the following statements better describe the orientation of your enterprise?

	Very strongly disagree	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Very strongly agree
Financial sustainability is our top priority over other social and environment objectives	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Throughout the years, we are increasingly focusing on our financial over social performance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
It is more important for our project to reach those who are most needed (depth) rather than being obsessed with the number of recipient reached (breadth), even if it means we will end up reaching less people	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Throughout the years, we are increasingly committed to depth over breadth of outreach	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cost reduction is more important than product quality enhancement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We focus on one single social or environment goal	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Social Enterprises

12. How much do you agree with the following statements?

	Very strongly disagree	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Very strongly agree
Our enterprise is constantly on the look out for businesses that we can collaborate with	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Our competitors generally pre-empt us by expanding capacity ahead of us	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We are willing to sacrifice surplus to gain market share	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Our operations can be generally characterized as high-risk	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We seem to adopt a rather conservative view when making major decisions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
New projects are approved on a "stage-by-stage" basis rather than with "blanket" approval	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
A tendency to support projects where the expected returns are certain	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Operations have generally followed the "tried and true" paths	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

13. Was the idea of the business discovered as a result of (please tick all applicable):

- Personal interest
- Previous work experience
- Academic background
- Personal network
- Market opportunity
- Other

Other (please specify)

Social Enterprises

14. How do you agree with the following statements?

	Very strongly disagree	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Very strongly agree
The board primarily deals with high level decisions affecting the organization	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board is primarily concerned with issues involving external stakeholders	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board is hands-off in terms of the day-to-day operations of the organization	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

15. Please identify the extent to which board members...

	Very strongly disagree	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Very strongly agree
find themselves working at cross-purposes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
share similar agendas, goals and priorities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
help one another on the job	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
the board contains 'subgroups with conflicting goals'	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

16. How will the following factors change in the next 5 years?

	Decrease more than 50%	Decrease between 21%-50%	Decrease between 0%-20%	No change	Increase between 0-20%	Increase between 21%-50%	Increase more than 50%	N/A
The number of employees	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The sales revenue	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The surplus	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The number of people benefiting from your projects	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Social Enterprises

17. How long has your enterprise been established?

- 0 (less than 1 year) 3 years More than 5 years
 1 year 4 years
 2 years 5 years

18. What is the legal status of your enterprise?

- Unincorporated association
 Trust
 Company limited by guarantee (other than Community Interest Company)
 Community interest company (CIC)
 Industrial & Provident Society (IPS) (Co-operative)
 Industrial & Provident Society (IPS) (Community Benefit Society (BenComm))
 Charitable Incorporated Organisation
 Limited liability partnership
 Others

Other (please specify)

19. Does your organisation receive income from any of the sources listed below (tick all that applies)?

- Donations and fundraising activities
 Member fees
 Grants from non-statutory bodies
 National lottery
 Grants or core funding
 Earned income from contracts
 Earned income from trading
 Income from investments
 Don't know
 Others

Other (please specify)

Social Enterprises

20. Which one of these is the most important for your organisation (choose one)?

- Donations and fundraising activities
- Member fees
- Grants from non-statutory bodies
- National lottery
- Grants or core funding
- Earned income from contracts
- Earned income from trading
- Income from investments
- Don't know
- Others

Other (please specify)

21. If you earn income from contracts or from trading, do these sources account for over 50% of your total income? Please refer to the most recent year

- Yes
- No
- Don't know
- Not applicable

22. How much of your surplus do you reinvest on external civic and/or social and environment projects? What is the estimated proportion?

- 0% (Because no profit is made)
- 0% (Despite being profitable)
- 0-25 %
- 26-50%
- above 50%

23. What is your position in this enterprise? (select as many as that may apply)

- Founder
- Board of director
- CEO
- Other

Other (please specify)

Social Enterprises

24. What is your highest level of completed education?

- GCSE or below
- A level
- Undergraduate
- Postgraduate
- PhD

Other (please specify)

25. Have you received any formal education in business administration?

- Yes
- No

26. Before you became the manager of this company, did you have any experience from management positions in other companies?

- Yes
- No
- Not applicable

27. Before you became the manager of this company, did you have any previous work experience from this industry?

- Yes
- No
- Not applicable

28. Before you became the manager of this company, did you have any previous work experience in social sector?

- Yes
- No
- Not applicable

29. If you would like to receive a copy of the findings of this research, please write down your name and email address in the box below:

First name:

Surname:

email address: