

**Market orientation, market disruptiveness capability, and social enterprise performance**

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**To cite the paper:** Bhattarai, C., Kwong, C., Tasavori, M. (forthcoming) Market orientation, market disruptiveness capability, and social enterprise performance. *Journal of Business Research*.

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### **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, our results show that market orientation improves social performance and economic performance simultaneously, whereas market disruptiveness capability improves only the economic performance, not the social performance, of social enterprises. However, we 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

## **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, Haugh, & Tracey, 2010). ‘Social enterprise’ encompasses many different forms of organisation. According to Defourny & Nyssens (2017), social enterprises can broadly be defined 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: both 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. Despite these apparent differences, a similar characteristic among all social enterprises is pursuit of social mission (Defourny & Nyssens, 2017; Doherty, Haugh, & Lyon, 2014). Considering the definition suggested by the Department of Trade and Industry in the UK, social enterprises are 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). In contrast to commercial firms, social enterprises pursue a dual mission, and not only have to engage in the generation of income to achieve financial self-sufficiency, and improve their economic performance, but also have to focus on enhancing their social performance (Dart, 2004b; DTI, 2002; Santos, 2012). Social performance refers to the performance of an organisation in creating social values to the customers or in

achieving social missions, goals, and objectives (Coombes, Morris, Allen, & Webb, 2011), while economic performance refers to the performance of an organisation in capturing economic value from its activities (Kropp, Lindsay, & Shoham, 2006). A successful social enterprise should 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 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, Harvey, & Gordon, 2013; Rey-Martí, Ribeiro-Soriano, & Sánchez-García, 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 and market disruptive capability. Market orientation (Hult, Ketchen, & Slater, 2005; Jaworski & Kohli, 1993; Kirca, Jayachandran, & Bearden, 2005; Morgan, Vorhies, & Mason, 2009; Narver & Slater, 1990) has long been considered in commercial business literature as a valuable resource that improves performance of commercial businesses (Morgan et al., 2009; Narver & Slater, 1990; Ngo & O'Cass, 2012a, 2012b; Zhou, Li, Zhou, & Su, 2008). It refers to the extent to which a firm will 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 can devise better approaches in serving them (Liu, Eng, & Takeda, 2015).

While, however, 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, Pisano, & Shuen, 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 is current-looking in its focus on market intelligence that would be useful for the 'now', market disruptive capability is focused on the future.

In contrast with market orientation, market disruptive capability is a relatively less touched-upon concept 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 (Clayton M 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, Prabhu, & Chandy, 2009). As developing market disruptive capability entails costs (Assink, 2006; Henderson, 1993) and risk (McDermott & O'Connor, 2002; O'Connor, Ravichandran, & Robeson, 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 disruptive 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 disruption 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.

Nevertheless, it is important to note that market orientation and market disruptive capability are not mutually exclusive, and that a firm could, if intended, pursue both to enhance its current position within the market, while exploring new opportunity through change (Connor, 1999; Raisch, Birkinshaw, Probst, & Tushman, 2009). However, the impact of pursuit of both of these strategies specifically in the context of social enterprises with dual objectives is not clear. While dynamic capability scholars (Teece et al., 1997) argue that some valuable resources such as marketing orientation of a firm should be combined with capabilities in order to improve the firm's performance and it has been empirically supported in the marketing literature (Morgan et al., 2009), others argue that the simultaneous adoption of these two strategies may not be fruitful. 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 (Koryak, Lockett, Hayton, Nicolaou, & Mole, 2018); the result is that firms become 'stuck in the middle' (Porter, 1980), and consequently perform poorly (Cronshaw, Davis, & Kay, 1994; Pertusa-Ortega, Molina-Azorín, & Claver-Cortés, 2009). Furthermore, 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, Kwong, & Pruthi, 2017), which means that understanding the performance implications of such investments would be crucial.

Utilising quantitative data obtained from an online survey of 164 UK social enterprises, our main research aim 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, we set out our research questions into three logical steps:

1. Does adoption of market orientation enhance both social and economic performance of social enterprises?
2. Does pursuit of market disruptiveness capability improve both social and economic performance of social enterprises?
3. Does 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, we 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, we can shed light on the theoretical conundrum of ‘stuck in the middle’ within the existing strategic management literature (Brenes, Montoya, & Ciravegna, 2014; Porter, 1980; Salavou, 2015) by exploring whether the emphases on both now and the future would result in superior performance outcomes. Our paper also contributes to the social enterprise literature in relation to the complications of dual foci. Secondly, our study serves a confirmatory purpose in allowing us to extend the existing knowledge on market orientation and market disruptive capability that is specific to our 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, Dacin, & Tracey, 2011; Grimes, 2010; Liu et al., 2015; Meyskens, Robb-Post, Stamp, Carsrud, & Reynolds, 2010).

## **2. Background**

Ever since Michael 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; Stanley F 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' revivals and prevents them from plateauing after reaching the stage of maturation (Prange & Verdier, 2011). In this section, we further elaborate on the nature of both market orientation and market disruptiveness capability and then hypothesise their performance implications.

### *2.1. Market orientation and social enterprises' performance*

Market orientation was first articulated by Kohli & 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). Since then, the relationship between market orientation and economic performance has been studied in the context of commercial firms (Herhausen, 2016; Narver & Slater, 1990). Almost all of the prior empirical studies (Morgan et al., 2009; Narver & Slater, 1990; Ngo & O'Cass, 2012a, 2012b; Pinho, Rodrigues, & Dibb, 2014), including meta-analysis (Cano, Carrillat, & Jaramillo, 2004; Ellis, 2006; Kirca et al., 2005) in the context of commercial firms have demonstrated a positive relationship between market orientation and economic firm performance.

The notion has since been extended to different non-profit contexts such as non-governmental organisations (NGOs) (Hashim & Abu Bakar, 2011; Modi, 2012), charities

(Balabanis, Stables, & Phillips, 1997), hospitals (Bhuiyan, Menguc, & Bell, 2005; Wood, Bhuiyan, & Kiecker, 2000), and other health-sector firms (Pinho et al., 2014). Similarly, most of the studies in not for profit firms 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 stakeholders and others in for-profit and not-for-profit businesses (Cooney, 2011; Gainer & Padanyi, 2005; Macedo & Carlos Pinho, 2006).

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, Ireland, Hitt, Kistruck, & Tihanyi, 2011). Similarly, in the context of social enterprises, pursuit of market orientation allows social enterprises to offer products that even their customers with limited income are willing to purchase (Kara, Spillan, & DeShields, 2004). Studies demonstrate that by adopting market orientation, not for profit firms can improve customers' and stakeholders' satisfaction (Bhuiyan et al., 2005; Hashim & Abu Bakar, 2011; Modi, 2012; Wood et al., 2000), which plays a crucial role in improving economic performance (Anderson, Fornell, & Lehmann, 1994). An empirical study of Miles et al. (2014) in Australia also corroborates that, by adopting Vincentian market orientation, social enterprises can improve their economic performance. Similarly, scholars have positively linked the market orientation with the funding (Kara et al., 2004; Levine & Zahradnik, 2012) and financial viability of not for profit firms (Levine & Zahradnik, 2012). This leads to the following hypothesis:

***H1.*** Market orientation positively influences the economic performance of social enterprises.

We also argue that market orientation improves the social performance of social enterprises. As explained before, social performance refers to creating social value by addressing the neglected needs of beneficiaries (Coombes et al., 2011) who are usually disadvantaged (Austin, Stevenson, & Wei-Skillern, 2006; Seelos & Mair, 2005, 2007). ‘In many social enterprises, the intended beneficiary is unable to pay anything close to the cost of the services delivered’ (Dees, 1998, p. 61). It is therefore crucial for a social enterprise to understand the specific needs of the beneficiaries and how their needs could be addressed. By adoption of market orientation, social enterprises can better learn about and address the specific needs and demands of their customers. Empirical studies (Singh & Ranchhod, 2004) confirm that market orientation of a firm can improve its customers’ satisfaction, which can consequently improve social firm performance (M. Miles et al., 2014; Modi, 2012). Empirical evidence from private not for profit firms (Vázquez, Álvarez, & Santos, 2002) also supports that market orientation can improve the social performance of social enterprises. The study of Miles et al. (2014) in Australia also endorses that by adopting Vincentian market orientation, social enterprises can improve their social performance. This leads to the following hypothesis:

**H2.** Market orientation positively influences the social performance of social enterprises.

## *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). The 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, Husted, & Aigner, 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 (Clayton M. Christensen, Baumann, Ruggles, & Sadtler, 2006), and is positively associated with financial performance (Tellis, Prabhu, & Chandy, 2009). In a study, McDonald and Srinivasan (2004) have shown that innovation enables organizations to secure competitive advantages because it allows them to serve the market more efficiently and effectively than competitors. Additionally, studies, though in the context of commercial business, show that disruptive innovation enables the organisation to gain first- and fast-mover advantages (Barnett, Feng, & Luo, 2013; Carbonell & Rodriguez, 2006; Makadok, 1998; Vesey, 1992), competitive advantages, which leads to a better financial performance (Murray, Gao, & Kotabe, 2011). Social enterprises usually compete against other social enterprises and charities for funding, donations, and grants (Weerawardena & Mort, 2012; Weerawardena & Sullivan-Mort, 2001), and against commercial businesses for their market share (Darby & Jenkins, 2006; Lasprogata & Cotten, 2003; Weerawardena & Mort, 2012; Weerawardena & Sullivan-Mort, 2001). Gaining competitive advantages can also enable social enterprises to improve their economic performance. This generates the following hypothesis:

**H3.** Market disruptiveness capability positively influences the economic performance of social enterprises.

Unlike the emphasis of market orientation, developing new market disruptiveness 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 disruptiveness capability can often take firms into completely new products, or even new market segments (McKelvie & Davidsson, 2009). In the social entrepreneurship context, possessing market disruptiveness 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 to address the unmet needs and demands of beneficiaries and (or) customers (Chalmers & Balan-Vnuk, 2013; Weerawardena & Mort, 2006). Therefore, we hypothesise that:

**H4.** Market disruptiveness capability positively influences the social performance of social enterprises.

### *2.3. The impact of interaction of market orientation and market disruptiveness capability on social enterprises' performance*

In the marketing literature and context of commercial firms, 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, Zeithaml, & Berry, 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 conducted in the context of commercial firms argues that market orientation and market disruptive 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 fact 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 out from there. Often, when firms invest excessively in market disruptiveness capability with a view to developing innovative products and services, rather than trying to understand the existing market better, it could lead to an unbalanced programme of investments and overlook 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, the commercial firm literature suggests that current-led and future-looking are mutually related and complementary (Connor, 1999). Similarly, the literature on dynamic capability has emphasised that in order for commercial 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 prior research in the context of commercial firms

suggests that firms can accrue additional benefits in terms of economic performance by developing both concurrently.

However, in the context of social enterprises with finite resources, it might be a different story. The simultaneous investment in both market orientation and market disruptiveness capability 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, Morone, & Paulson, 1996). The former requires considerable market research resources (Liu et al., 2015), while those developing disruptive capability would require significant physical, financial and human investment in research and development, product testing, and brand refocusing based on the new products and services developed (Clayton M Christensen & Overdorf, 2000; Mohr, Sengupta, & Slater, 2009). Therefore, simultaneous focus on both may reduce the economies of scale and thereby the potential additional impact that one may expect to gain.

One of the key conclusions coming from the Porterian tradition is also 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 differentiate from the competitors and, consequently, perform poorly (Bruner, 2012), while firms that achieve market clarity and have 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 (Atuahene-Gima, 2005; 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 current and future 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 (Clayton M. 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; Stanley F 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.

To summarise, in the context of the social enterprises that are characterised by a penurious environment (Di Domenico et al., 2010; Kwong, Tasavori, & Cheung, 2017), cost constraint does magnify the trade-off between current focus and future focus. Therefore, we suggest the following hypothesis:

**H5.** The interaction between market orientation and market disruptiveness capability negatively influences the economic performance of social enterprises.

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)? In the social

entrepreneurship context specifically, a danger is that if the innovation of new products and services generates and addresses the needs and demands of future market, but does not address the needs and demands of current market, the originally intended beneficiaries of social enterprises may no longer receive adequate support. As a result, the social enterprises may drift away from their social mission (Copestake, 2007; Cornforth, 2014; Ebrahim, Battilana, & Mair, 2014). Therefore, emphasis on developing both market orientation and market disruptiveness capability or focus on both the current and future market may be a way that social enterprises can keep their social performance or social missions and objectives in check. Such dual emphasis would enable social enterprises to both possess the capability to bring in competitive innovation that would disrupt the current market while, at the same time, 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 (Clayton M. Christensen et al., 2006). In some instances, when the social enterprises choose to serve the new market in addition to the current one, they can be more efficient and effective in addressing social problems and thereby better achieve their social goals compared to just serving the current market. Some social enterprises pursue this strategy in order to address not only the current problems but also root causes that have led to the current problems (Kushel, 2018). For example, 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 goal) than offering either treatment of or prevention of HIV individually. Thus, social enterprises better serve the market that they intend to serve (Bennett & Savani, 2011) by addressing the needs and demands of both current markets and new markets ( e.g. the causes of

the current social issues). In addition, even when the new market is not the source of the social issues of the current market, diversification strategy can still increase the number of customers or beneficiaries of social enterprises. As the number of beneficiaries increases, the social impact of the social enterprises also increases. Hence, developing both market orientation and market disruptive capability enhances social value creation of social enterprises. Thus, we propose the following hypothesis:

**H6.** The interaction of market disruptiveness capability and market orientation positively influences the social performance of social enterprises.

### **3. Research method**

#### *3.1. Sample and data collection*

Our samples were drawn from the UK social enterprises registered in online social enterprise directories (see Appendix A). We used the UK government definition, DTI (2002), to define and include social enterprises in this study. We 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), we sent initial emails providing a link to the survey to the owners/managers of 1000 social enterprises. We selected owners/managers as our respondents because they usually have better knowledge of the overall business than other stakeholders of the firm do (Zahra, Neubaum, & El-Hagrassey, 2002). After sending two reminders, we received responses from 210 social enterprises. After eliminating

unusable, incomplete, and unengaged responses, we retained 164 useable responses (16.4%) to test the hypotheses. This is an acceptable response rate in organisational surveys (Baldauf, Reisinger, & Moncrief, 1999; Greer, Chuchinprakarn, & Seshadri, 2000; Scarborough, 2011; Tomaskovic-Devey, Leiter, & Thompson, 1994). We 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 responses of the "early" respondents with those of the "late" respondents, can be used to assess non-response bias in mail surveys. Following prior studies (Heide, Kumar, & Wathne, 2014; M. P. Miles & Arnold, 1991), we assumed that the "late" or "last" respondents in a sample are similar to the theoretical non-respondents. In our study the responses were ordered sequentially by date received, with the first quartile selected to represent the "early" respondents and the last quartile selected to represent the "late" or "non" respondents. 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 respondents. 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 respondents, suggesting no issue of non-response bias in this study (Armstrong & Overton, 1977).

### *3.2. Variables and measures*

Social entrepreneurship literature is still in its infancy (Mair & Marti, 2006; Short, Moss, & Lumpkin, 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 are 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, Takeda, & Ko, 2014; M. Miles et al., 2014; Morris, Coombes, Schindehutte, & Allen, 2007). We took a similar approach when considering the constructs to be adopted for this study. As social enterprises have some degrees of emphasis on commercialisation and income generating activities (Peredo & McLean, 2006), we 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, we extracted items for measuring economic performance and social performance from Kropp, et al.(2006), and Coombes, et al. (2011), respectively. 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; Stanley F. Slater & Narver, 1994; Stam & Elfring, 2008; Vickery, Jayaram, Droge, & Calantone, 2003; Ward, Leong, & Boyer, 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 impression judgement on 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 enterprises 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 felt they have to implement social strategies to accomplish their social objectives and missions.

In the social sector, defining a specific market to which a social enterprise is orientated towards is particularly difficult (Gainer & Padanyi, 2005), as most social enterprises typically engage in relationships with several markets, including beneficiary, donor, and peer, at once (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, we preferred a broader range of market orientation. Limiting our market to just one group, such as beneficiaries, would narrow our scope and does not truly reflect the complex nature of these social enterprises' entrepreneurialism. Our objective is also to explore the full range of markets that the social enterprises can explore, and how the utilisation 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 their type. In the process of data collection, whenever we contacted any respondents, we also answered any questions that they might have to prevent any confusion.

Specifically, we extracted the market orientation and market destructiveness capability measurements from Deshpandé and Farley (1998) and McKelvie and Davidsson (2009)

respectively. The two are amongst the most well-known constructs for the two concepts. Market orientation focuses on social enterprises' awareness of its current customers' demands, competitor's 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-profit and public-sector social enterprises (Chen & Hsu, 2013; Choi, 2014; Modi, 2012; Morris et al., 2007), we used the word "customers" to refer to "end-users" in the questionnaires.

Market disruptive 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 improving 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.

Control variables included in this analysis were 'age' and 'access to technical expertise of SEs'. Scholars argue that compared to new firms, older firms tend to possess a stronger resource base. Hence, age is an important determinant of firm performance (Dobbs & Hamilton, 2007; Evans, 1987). Similarly, some studies (McKelvie & Davidsson, 2009) show that access of a firm to technical expertise influences the development of dynamic capability (Eisenhardt & Martin, 2000; Teece et al., 1997) and improves knowledge-based resources, which could be positively associated with firm performance (Grant, 1991).

### *3.3. Reliability and validity*

We performed confirmatory factor analysis (CFA) using Mplus version 7.0 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 (TLI) = 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 (Byrne, 2012; Hu & Bentler, 1999). Since our 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 Appendix A), the convergent validity of all four latent constructs can be assumed (Hair, Black, Babin, Anderson, & Tatham, 2006). Furthermore, the Cronbach alpha and composite reliability of each of the latent constructs is above 0.7 (see Table 1), confirming their acceptable level of internal consistency, composite reliability, and convergent validity (Fornell & Larcker, 1981; Hair et al., 2006; Pallant, 2010).

\*\*\* **Table 1** goes about here\*\*\*

Moreover, the AVE of each latent construct is above the minimum threshold of 0.5 and below the composite reliability (see Table 1), 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 1), confirming their discriminant validity (Farrell, 2010; Fornell & Larcker, 1981; Hair et al., 2006).

### *3.4. Assessment of common method bias (CMB)*

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

We then assessed the presence of CMB in the data. First, we 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, Simmering, Atinc, Atinc, & Babin, 2016), confirming no serious issue of CMB (Podsakoff et al., 2003). Second, we 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 good fit with the data (Bentler & Yuan, 1999; Hu & Bentler, 1999). Third, we 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, Saraf, Hu, & Xue, 2007; Podsakoff

et al., 2003; Williams, Edwards, & Vandenberg, 2003), a common latent factor was created.

Then, following the method described in Eichhorn (2014), we included a common latent factor in CFA whose indicators included all the principal constructs' indicators that we set to equal; also the variance of the common latent factor was constrained to be one in order for the model to be identified. The model shows that the common latent factor explained 30.58% of variances 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, we 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, we 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, we confirm that there is no serious issue of common method bias in this study.

#### **4. Results**

We used maximum likelihood SEM with Mplus to estimate the path coefficients and then to test the hypotheses of our conceptual model (see Figure 2). As our conceptual model included paths from market orientation, market disruptiveness capability, and their relationship to economic

performance and social performance, we required two steps of analysis to estimate the coefficients of all paths (Muthén & Muthén, 2012). In the first step, we estimated the individual effect of market orientation and market disruptiveness capability on economic performance and social performance. In the second step, we 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. We also centred the indicators of market orientation and market disruptiveness capability from their mean in the second step to reduce potential multicollinearity effects (Marsh, Hau, & Wen, 2004; Ping Jr, 1995). We tested hypotheses H1, H2, H3, and H4 in the first step, and hypotheses H5 and H6 in the second step. The model that we 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.

We 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 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). We performed a log likelihood ratio test, as presented below, to evaluate 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. 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 H1 and H2. Interestingly, 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 H3 but rejecting hypothesis H4.

\*\*\* Fig. 2. goes about here \*\*\*

Furthermore, the results of the analysis presented in Figure 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 3 and 4. Hence, hypothesis H5 and hypothesis H6 are accepted. 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 and 3).

\*\*\* Fig. 3. goes about here\*\*\*

\*\*\* Fig. 4. goes about here\*\*\*

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.

## **5. Discussion and conclusion**

### *5.1. Theoretical implications*

Social enterprises are increasingly advised to pursue commercial business strategies and practices (Dart, 2004a; Froelich, 1999; Leroux, 2005; Liu et al., 2015). However, the applicability and suitability of existing theories and the related suggested strategies in the context

of commercial firms have been less studied in the context of social enterprises. Social enterprises not only have very limited resources compared to commercial firms (Austin et al., 2006; Kickul & Lyons, 2015; Kickul, Terjesen, & Justo, 2013) but also have to pursue strategies that improve their economic as well as social performance (Austin et al., 2006; Liu et al., 2014). In this study, we explored whether pursuit of *market orientation* and *market disruptive capability* that have proved to improve commercial firm performance can also be beneficial for social enterprises. Interestingly, while our findings corroborate some of the existing understanding in commercial firms, we reveal that there are specific differences between social enterprises and commercial firms that should be taken into account.

First, consistent with the existing commercial business literature (Hult et al., 2005; Morgan et al., 2009; Narver & Slater, 1990), we show a positive relationship between market orientation and firm performance. Specifically, in line with some prior studies in social enterprises (Liu et al., 2015; Liu et al., 2014), we show 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 commercial business literature, and specifically the literature on radical products innovation (Chandy & Tellis, 2000; Tushman, 1997) and disruptive innovation (Clayton M. Christensen et al., 2006), is that market disruptiveness capability is a crucial resource for improving the economic performances of social enterprises. We consider our contribution here is to extend the finding to the context of social enterprise.

However, our findings reveal that market disruptiveness capability does not improve social performance. Therefore, despite the positive proven role of disruptiveness capability in improving the economic performance of commercial firms (Markides, 2006; McKelvie & Davidsson, 2009; Tellis et al., 2009), social enterprises should be aware that pursuit of such a

capability cannot help them to improve their economic and social performance simultaneously. This finding casts doubt on the applicability of accepted theories such as dynamic capability (Eisenhardt & Martin, 2000; Teece et al., 1997) in the context of social enterprises. In fact, according to our results, adoption of dynamic capabilities can only create competitive advantage economically but not socially. Our findings suggest that radical innovations within social enterprises often do not address their social missions if they are not developed with a focus on beneficiaries. It could be a result of misdirected investments in innovations (Clayton M. 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, Gonin, & Besharov, 2013).

We believe that our main theoretical contribution is the exploration of the relationship between the interaction of market orientation and market disruptiveness capability, and performance outcomes. First, we found that the interaction creates a positive synergistic effect on social performance of social enterprises. The finding enables us to extend the theory of mission drift (Copestake, 2007) to the implementation of social innovation. Our finding suggests, together with our previous finding, that the relationship between market disruptiveness capability and social performance is inconclusive, and 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 it continues to learn about and address the needs and demands of existing markets and target clientele to remain true to its social missions and objectives (Clayton M. Christensen et al., 2006).

Another interesting finding of our research that contradicts the dominant accepted knowledge in commercial firms, and highlights the necessity of developing new understanding in the context of social enterprises is related to the impact of the interaction of market orientation and disruptiveness capability on economic performance. In contrast to the accepted dynamic capability view in commercial firms' literature, we reveal that simultaneous pursuit of market orientation and disruptiveness capability has a negative impact on the economic performance of social enterprises.

This can be explained by considering that the main objective of commercial businesses is to maximise profit whereas for social enterprises it is to maximise social impact (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 as high prices as 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 as low prices as 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 impact by minimising profit.

Our findings, however, are in line with the Porterian debate on the performance implication of adopting multiple strategies. Consistent with Porter (1980) as well as Slater and Narver (1995), we found evidence of a trade-off between current-led market orientation, and future-looking market disruptiveness capability. By simultaneous pursuit of market orientation and market disruptiveness capabilities, social enterprises would be stuck in the middle and cannot benefit from each of these strategies sufficiently.

## *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.

Our study voices caution to social enterprise managers intending to enhance their social enterprise's market disruptive capability for the development of innovation. We found that market disruptive capability alone is not sufficient to generate strong social performance. This is because developing innovation can be costly and time-consuming, and while these enterprises can become economic successes as our 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 were 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, our study offers one potential suggestion to improve their ability to create a social impact. Based on our findings, we recommend that social enterprises that intend to pursue innovations that are disruptive 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 our findings 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, we are not suggesting that developing both these strategies 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.

### *5.3. Limitations and future research*

This research is not without limitations; however, these limitations reveal exciting areas for future research. First, we have not 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 enterprise performance. 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. The negative interaction effect of market orientation and market disruptiveness capability, despite their positive individual effect, on economic performance contradicts with the dynamic capability view (Teece et al., 1997). 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 the *economic* performance but enhance the strength of the positive effect of each other on the *social* performance. It is possible that there could still be a ‘positive lagged effect’ of interaction between market orientation and market disruptiveness capability on the economic performance (Guo, Kumar, & Jiraporn, 2004, p. 132). However, as this research was cross sectional, we could not investigate the lagged effect which future researchers can further investigate. Furthermore, as we considered market orientation as a resource, and market disruptiveness capability as a market orientation-deploying capability in this study, 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 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 the economic and the social performance to advance the resource based view and the dynamic capability perspective. In this research, we considered a broad definition of social enterprises and did not test and compare our model for different types of social enterprises based on their focus, size and different categories suggested by Defourny and Nyssens (2017). Future studies can also

explore how market orientation and market disruptiveness capability individually as well as together might influence the performance of each category of social enterprise.

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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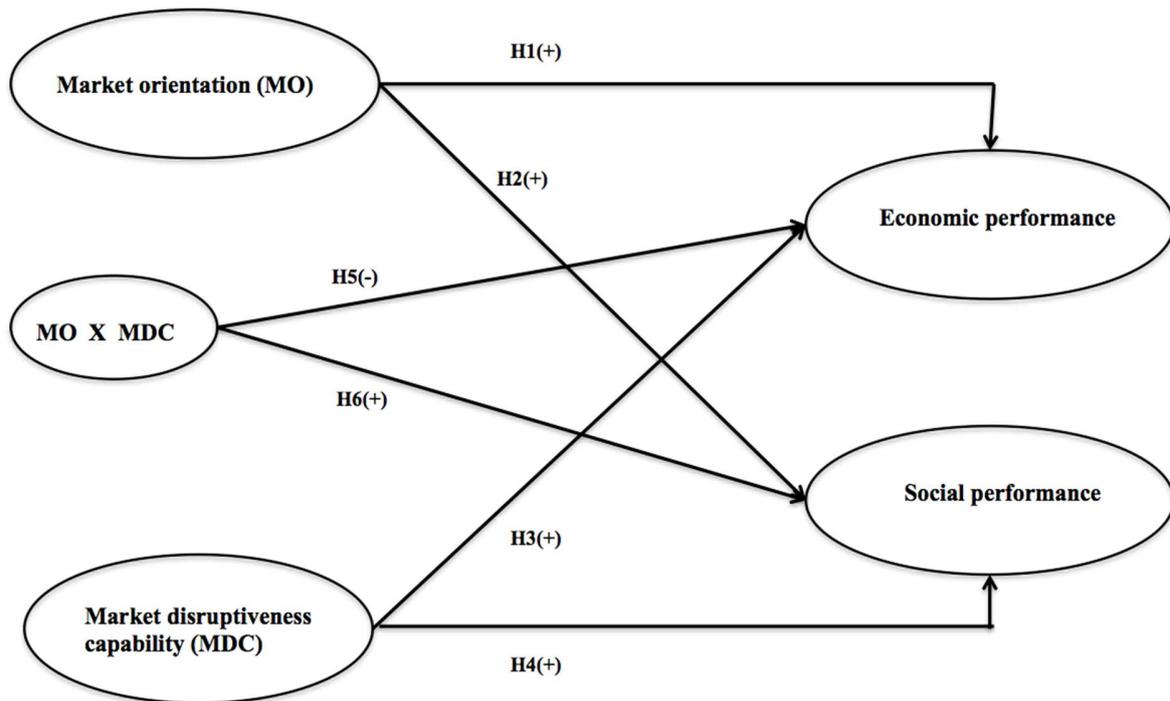
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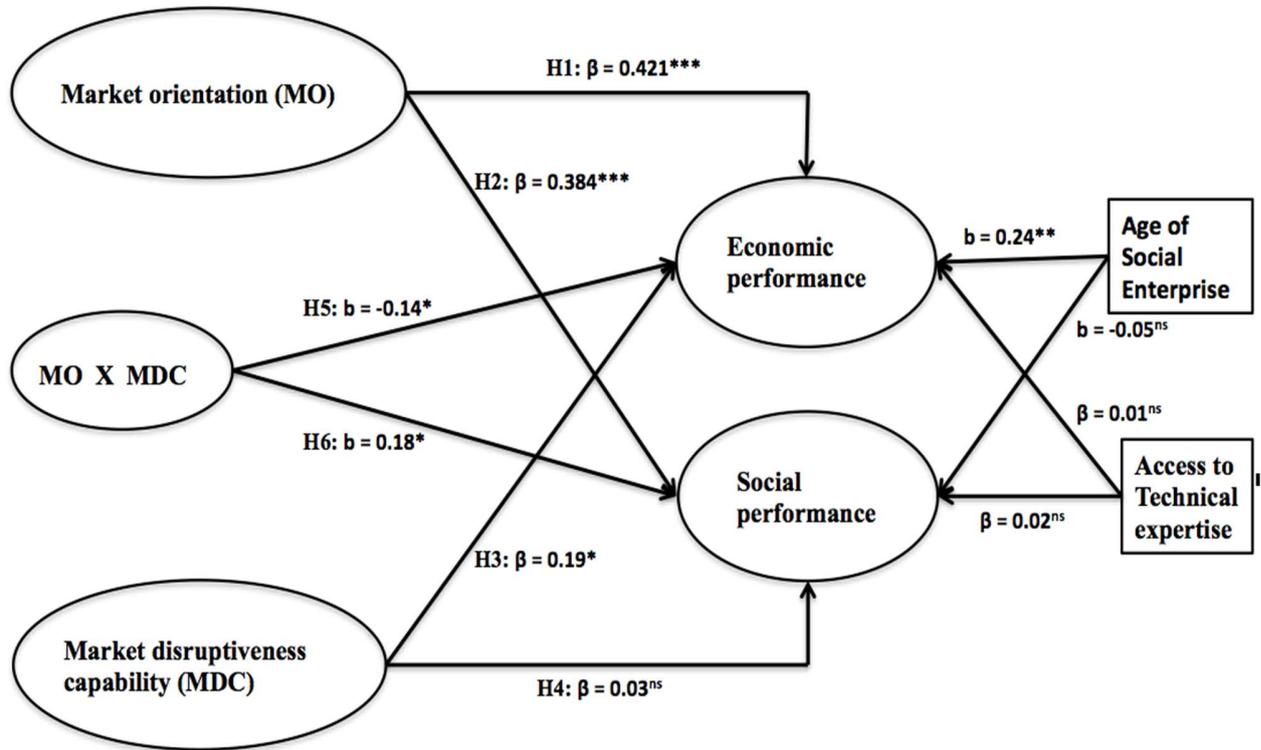
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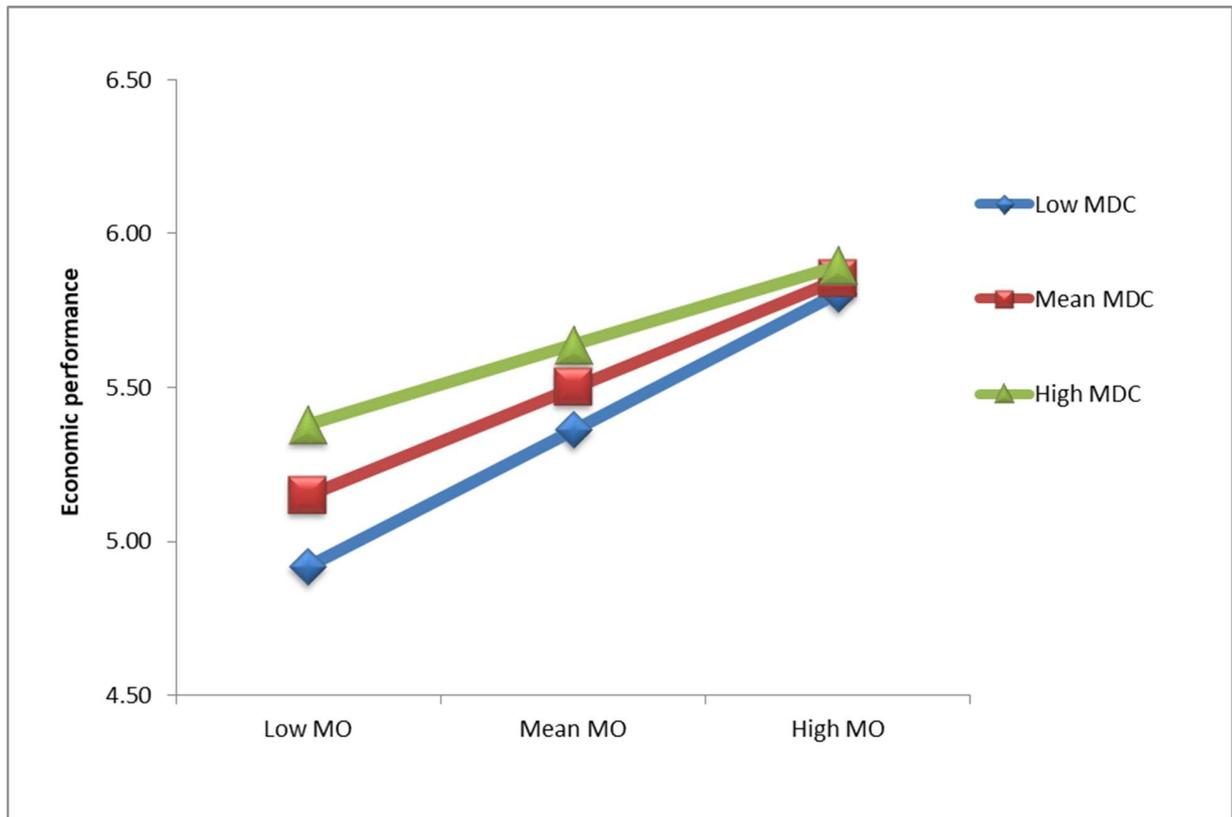
Note: Circle represents latent variable. Control variables are not shown. H = hypotheses. (+) represents positive relationship. (-) represents negative relationship. MO X MDC = Interaction between market orientation and market disruptiveness capability.

Figure 1. Hypothesised model



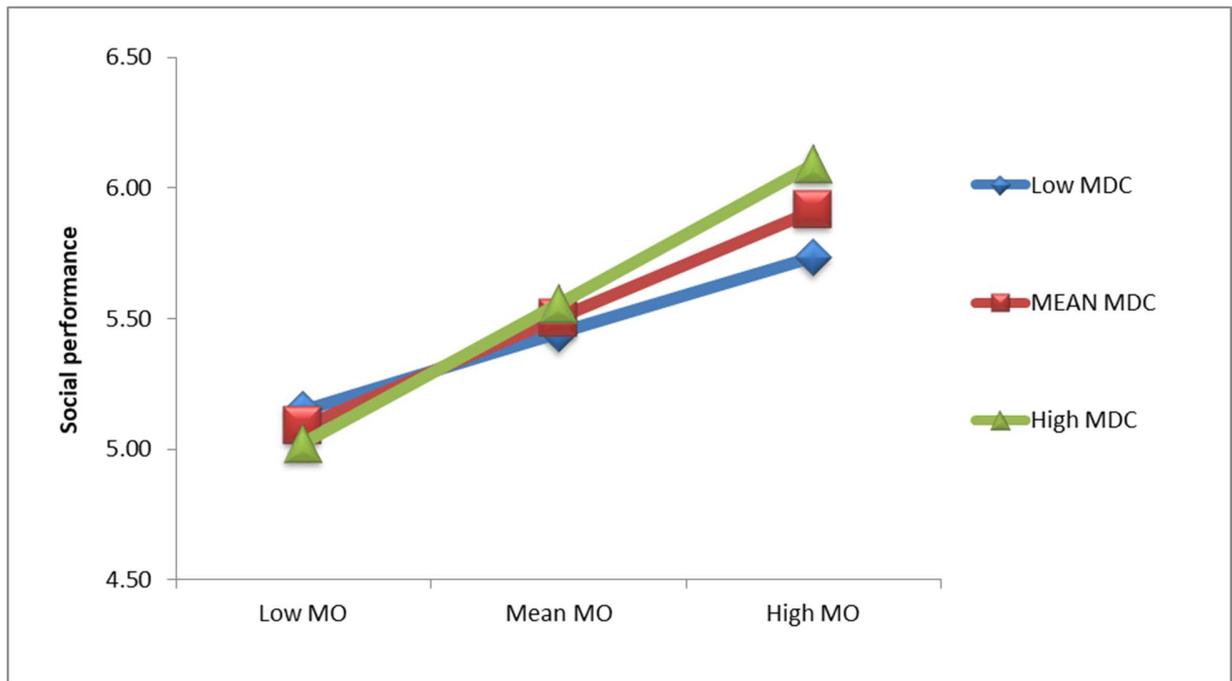
Note: \* =  $p < 0.05$ , \*\* =  $p < 0.01$ , \*\*\* =  $p < 0.001$ ,  $\beta$  = standardised path coefficient,  $b$  = unstandardised path coefficient, MO X MDC = interaction between market orientation and market disruptiveness capability.

**Figure 2.** The full structural model with path coefficients (results of the analysis)



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

**Figure3.** Interaction effects of market orientation and market disruptiveness capability on economic performance



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

**Figure 4.** Interaction effects of market orientation and market disruptiveness capability on social performance

**Table 1.** Descriptive statistics and inter-correlation 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**	<b>0.71</b>	-	-
4. Market disruptiveness capability	4.23	0.79	0.81	0.81	0.53	-0.01	0.15	0.59***	<b>0.73</b>	-
5. Economic performance	4.42	0.85	0.89	0.89	0.58	0.22**	0.05	0.52***	0.43***	<b>0.79</b>
6. Social performance	5.64	1.05	0.96	0.96	0.89	0.60	0.06	0.39***	0.26**	0.18 <b>0.945</b>

CR = composite reliability. AVE = average variance extracted. Diagonal values (**bold face**) are the square root of AVE.

\*\*\* =  $p > 0.001$ , \*\* =  $p > 0.001$ .

## Appendix A. Sources of sample of social enterprises

- <http://www.bis.gov.uk/cicregulator>;
- [http://www.can-online.org.uk/social\\_enterprises\\_directory.php](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.sel.org.uk/directory.aspx?);
- <http://www.socialenterprise.org.uk/>; and
- [www.buyse.co.uk](http://www.buyse.co.uk).

**Appendix B.** Latent constructs, their indicators, and standardised factor loadings

Latent Variables	Indicators	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 products, systems, production methods, etc.	0.815
	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
Control variables	Age of social enterprise; Access to technical expertise.	

