



Understanding the impact of learning orientation and the mediating role of new product development capability on social enterprises' performances

Journal:	<i>International Journal of Entrepreneurial Behavior & Research</i>
Manuscript ID	IJEBR-12-2021-1009.R4
Manuscript Type:	Research Paper
Keywords:	Social enterprise, Structural equation modelling, Learning
Note: The following files were submitted by the author for peer review, but cannot be converted to PDF. You must view these files (e.g. movies) online.	
20221011-Figures1-3.pptm	

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3 **Understanding the impact of learning orientation and the mediating role of new product**
4 **development capability on social enterprises' performances**
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10 **Abstract**

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12 **Purpose** – Social enterprises (SEs) offer a unique context as they have the challenge of finding
13 solutions that not only improve their economic performance but also their social performance,
14 simultaneously. The purpose of this paper is to investigate whether learning orientation and
15 new product development capability can support SEs to enhance both their economic and social
16 performances.
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24 **Design/methodology/approach** – A quantitative research design has been employed and data
25 has been collected from a sample of 164 SEs in the UK.
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29 **Findings** – Our findings illustrate that if SEs want to enhance their economic performance,
30 they should ensure that learning orientation leads to new product development capability.
31 Otherwise, learning orientation cannot improve their economic performance. However,
32 surprisingly, learning orientation can impact SEs' performance not only by developing new
33 product development capability but also by having a direct impact on their social performance.
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41 **Originality/value** – This article contributes to the social entrepreneurship literature by
42 illustrating the role of learning orientation and new product development capability in
43 enhancing the economic as well as the social performance of SEs.
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47 **Keywords** Social enterprise, learning orientation, new product development capability,
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51 **Paper type** Research paper
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Introduction

Social enterprises (SEs) pursue economic and social missions simultaneously (Cornelissen *et al.*, 2021; Piboonrungraj, 2012; Wagenschwanz and Grimes, 2021), which has differentiated them from charities and commercial businesses (Austin *et al.*, 2006; Gold, 2003). These apparently contradictory dual missions (Masseti, 2008) have created a uniquely challenging context for both managers and researchers as they have to unravel solutions that enable SEs to improve both economic and social performance, concurrently (Bull, 2008; Doherty *et al.*, 2014). SEs 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 profit for shareholders and owners” (DTI, 2011, p. 2).

Although research on SEs has been growing and has flourished rapidly in recent years (Bonomi *et al.*, 2021), ‘empirical’ research on SEs’ performances is still rare (Gupta *et al.*, 2020). Recently, some scholars (Bhattarai *et al.*, 2019; Liu *et al.*, 2015) have endeavoured to examine whether those resources and capabilities that have proved beneficial for commercial businesses can also improve both economic and social performance of SEs. However, their findings have been inconclusive, highlighting the necessity to re-examine commercial business findings in the context of SEs (Bhattarai *et al.*, 2019). In this line, the first objective of this study is to investigate whether learning orientation as a dynamic capability that has been proved to enhance commercial business performance (Wang, 2008; Wolff *et al.*, 2015) can also improve economic and social performance of SEs simultaneously.

Learning orientation is a sensing dynamic capability (Teece, 2007) as it refers to the activities of firms in acquiring and employing the required knowledge for designing and implementing their strategies (Calantone *et al.*, 2002; Real *et al.*, 2014). Despite the proven relationship between learning orientation and firm performance in commercial business literature (Kropp *et al.*, 2006; Wang, 2008), considering the different context of commercial

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3 businesses and SEs (Austin *et al.*, 2006), this study investigates the impact of this sensing
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5 capability on SEs' economic as well as social performance.
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8 In addition, according to Teece (2007), organizations should possess seizing capability to
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10 exploit sensed opportunities. Therefore, the second objective of this research is to investigate
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12 whether, in the context of SEs, learning orientation should be combined with new product
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14 development capability, a seizing dynamic capability (Teece, 2007), to improve their both
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16 economic and social performances. It should be mentioned that in this research, the term
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18 'product' broadly refers to products, services, or a combination of both (Kotler *et al.*, 2020).
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21 The two research questions of this study can be thus articulated as:

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23 1) Does learning orientation improve both economic and social performance of SEs?
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25 2) Does new product development capability mediate the relationship between learning
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27 orientation and economic and social performance of SEs?
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31 To achieve the aim of this research, data was collected and analysed from 164 SEs in the
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33 UK.
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36 This research offers several new insights. First, this study contributes to the SE literature
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38 by shedding light on a sensing and a seizing capability that might enhance both the economic
39
40 and social performance of SEs. In addition, there is scant quantitative research design about
41
42 SEs (Gupta *et al.*, 2020), and this study contributes to the bridging of this gap by conducting a
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44 survey. Second, this research extends the understanding and applicability of the dynamic
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46 capability perspective (Teece, 2007; Teece *et al.*, 1997) to the context of SEs by investigating
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48 whether a sensing dynamic capability should be combined with a seizing dynamic capability
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50 to improve economic and social performance of SEs. Finally, this study allows SE managers
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52 to understand whether they should pursue learning orientation and new product development
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54 capability in their organizations to achieve not only financial sustainability but also better social
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56 performance.
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Social enterprises in the UK

There are a number of different definitions for social businesses (Young and Lecy, 2014). Pärenson (2011) explains social businesses as organizations with a social purpose that have the capability to be socially constructive and economically sustainable. Seelos and Mair (2005) point out that SEs employ new models to offer products to serve basic needs that are usually ignored by other commercial or social organizations. To define SEs, Brozek (2009) offers a spectrum from conventional non-profit organizations to conventional for-profit businesses, and positions SEs in the middle of this spectrum that emphasizes both social and financial returns.

Insert Figure 1 about here

In this research, we focus on the definition provided by the UK government (DTI, 2011). Like commercial businesses, SEs in the UK still aim to gain profit, but what distinguishes them from commercial firms is how they spend their profit. In contrast to for-profit firms, SEs make money to reinvest in their business to tackle more social problems (Social Enterprise UK, 2022).

Some examples of SEs in the UK are The Big Issue, Change Please, and the Eden Project. The Big Issue, for example, recruits vulnerable people to sell its magazine and supports them to earn money. The mission of the company is to eradicate poverty through self-help, by providing more job opportunities, and offering business solutions (The Big Issue, 2022). As an SE, The Big Issue makes a profit but reinvests it in its business to provide jobs for more people.

SEs in the UK are usually understood as organizations with dual missions, economic and social. Hence, they aim to improve both their economic and social performance to achieve their missions simultaneously (Bhattarai *et al.*, 2019). 'Economic performance' refers to

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2
3 creating value for the firm by increasing its sales, earning profit, and growing its business
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5 (Kropp *et al.*, 2006). Like commercial businesses, SEs also generate all, or at least a part of,
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7 their income from the market (Austin *et al.*, 2006). ‘Social performance’ refers to achieving
8
9 the social mission and objectives of the firm and the successful implementation of social
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11 strategies (Bhattarai *et al.*, 2019; Coombes *et al.*, 2011). The social mission of an SE can be
12
13 considered as helping disadvantaged people by providing them with affordable products
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15 (Brooks, 2009; Christensen *et al.*, 2006). Now that we have shed light on SEs in the UK, next
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17 section provides definitions of other concepts and builds hypotheses.
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24 **Theoretical background and literature review**

25 *Dynamic capability*

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30 Dynamic capabilities are processes that enable firms to build and reconfigure their resources
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32 to respond to or even create environmental changes to exceed the performance of their
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34 competitors (Teece, 2014; Teece *et al.*, 1997). Teece (2007) explains that there are two types
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36 of dynamic capabilities: 1) sensing capability, and 2) seizing capability. ‘Sensing capability’
37
38 refers to activities that are related to scanning the environment, anticipating changes in the
39
40 environment, and identifying potential opportunities (Benner and Tushman, 2003; Pidduck and
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42 Zhang, 2022; Teece, 2007; Wang and Ahmed, 2007). ‘Seizing capability’, however, involves
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44 mobilizing the required resources to respond to potential opportunities (Benner and Tushman,
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46 2003; Teece, 2007). Learning orientation can be considered as a sensing capability and new
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48 product development capability can be considered as a seizing capacity, as defined and
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50 explained in the sections below.
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Learning orientation capability

Learning orientation is a sensing dynamic capability (Teece, 2007), as it refers to the inclination of a firm to create, collect, and employ knowledge for designing and implementing its strategies (Calantone *et al.*, 2002; Real *et al.*, 2014). Individuals of learning-oriented firms are more likely to be engaged in actual learning because these firms always create and promote a learning culture and environment (Real *et al.*, 2014). Learning contributes to building capabilities of firms through the three stages of learning process: articulation, codification, and sharing of new knowledge (Kale and Singh, 2007).

In this research, 'learning orientation' is conceptualised as individuals' activities in a firm to collect and employ knowledge to improve a firm's competitive advantage (Calantone *et al.*, 2002). Even though some argue that individual learning and organizational learning are two different concepts and that individual learning may not necessarily lead to organizational learning (Frank *et al.*, 2012), others explain that by changing organizational values, individuals' learning can be transformed to organizational learning (Baker and Sinkula, 2009).

New product development capability

New product development capability is simply defined as an ability of a firm to produce new products to address market needs and demands (Helm *et al.*, 2020; McKelvie and Davidsson, 2009; Teece, 2007). New product development capability can be considered as a seizing dynamic capability (McKelvie and Davidsson, 2009; Teece, 2007) because it enables firms to seize market opportunities by developing new or improving existing products and bringing them into the markets ahead of their competitors (Helm *et al.*, 2020; Rubera *et al.*, 2016; Teece, 2007). It is considered to be one of the most important capabilities as the development and implementation of marketing strategies always depend on the development

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3 of new products (Helm *et al.*, 2020). Tasavori *et al.* (2018) provide some examples of new
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5 product development capability of SEs. For example, an SE that used to provide managerial
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7 solutions to SEs in the UK decided to support SEs with measuring social impact when it
8
9 received requests from its existing customers. Then, building upon its new product
10
11 development capability, the SE utilised its existing knowledge and resources to develop and
12
13 offer this new product to its customers.
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16 17 18 **Hypothesis development**

19 20 21 *Learning orientation and economic performance*

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24 This section explains how learning orientation can improve the economic performance of SEs.
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26 SEs endeavour to improve their economic performance by increasing their sales, earning profit,
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28 and growing their businesses (Bhattarai *et al.*, 2019; Kropp *et al.*, 2006). As a result,
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30 understanding their potential customers' needs and learning about the actions of their
31
32 competitors are crucial (Bhattarai *et al.*, 2019; Liu *et al.*, 2015). A learning-oriented SE would
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34 thus be able to sense opportunities and adjust, for example, the price and quality of its products
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36 to serve more customers or keep the existing customers satisfied, which can lead to an increase
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38 in its sales. In such an organization, as soon as individuals learn about changes in the
39
40 environment, they formulate specific actions that an SE should take, codify that knowledge and
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42 discuss how it can be translated to better economic performance. This knowledge will then be
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44 shared with all employees which can be the base of the firm's future actions (Kale and Singh,
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46 2007).
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52 In addition to penetrating markets and selling their existing products to existing
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54 markets, learning-oriented SEs would benefit from gathering information about new markets
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56 in order that they can sell their existing products to them. Tasavori *et al.* (2018) have given an
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58 example of an SE in the UK that focuses on patients' hearing impairments. When they have
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3 some products in excess of the needs of their customers, they sell these products (though at a
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5 low price) to developing countries (a new market) to serve the needs of patients there.
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8 Learning orientation can also contribute to a better economic performance by enabling
9
10 SEs to reduce their costs and be more profitable. Learning orientated firms are more inclined
11
12 towards learning, and create a learning culture and environment (Baker and Sinkula, 1999) that
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14 encourage employees to engage in learning and fostering their creativity and innovativeness
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16 (Sinha *et al.*, 2022; Wolff *et al.*, 2015). More creative and innovative employees can then
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18 design a firm's operations more effectively and efficiently (Miles *et al.*, 2014). Learning
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20 orientation has also been proved to enhance the productivity of employees, and support
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22 development of more efficient organizational structures and better use of technology which can
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24 then reduce firms' costs (Baker and Sinkula, 1999). Moreover, with a learning-oriented culture,
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26 employees can critically analyse firms' operations and be open to new ideas that might reduce
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28 unnecessary costs (Calantone *et al.*, 2002). Thus, it can be hypothesised that:
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35 *H1a*. Learning orientation improves economic performance of SEs.
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40 *Learning orientation and social performance* 41 42

43 Learning-oriented SEs like commercial firms also encourage their employees to engage in
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45 collecting information about the external environment, and, in turn, acquire, develop, and
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47 employ new knowledge (Baker and Sinkula, 1999; Bhattarai *et al.*, 2019). These SEs can thus
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49 better identify social problems, issues, and needs (Dobson *et al.*, 2018), and formulate their
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51 social mission and objectives accordingly. In addition, a learning-oriented SE constantly
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53 collects and codifies data about the real needs of its existing and potential beneficiaries, and
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55 shares knowledge in the organization which can then lead to selling its existing products to
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57 more beneficiaries and creating more social value for them (Tasavori *et al.*, 2018). Those SEs
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3 that gather information about markets can sense opportunities, find potential
4 customers/beneficiaries in new markets, and expand their markets (Tasavori *et al.*, 2018) to
5 address the neglected needs of their customers (Brooks, 2009). The more beneficiaries the SEs
6 serve, the more social value they create (Bhattarai *et al.*, 2019; Miles *et al.*, 2014).
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12 Learning-oriented firms not only generate, disseminate, and use market intelligence,
13 but also promote and create favourable environments for the development and promotion of
14 learning and innovative cultures in their organization (Baker and Sinkula, 1999). They tend to
15 be proactive and innovative in updating and upgrading their processes (e.g., articulation of
16 knowledge) and products to address current and latent needs and demands of their customers
17 effectively and efficiently (Calantone *et al.*, 2002), which can support better implementation
18 of social strategies (Brooks, 2009).
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29 Learning-oriented SEs can not only acquire information and knowledge about their
30 markets but also about their other stakeholders such as funders and donors (Bhattarai *et al.*,
31 2019). Liu *et al.* (2015) suggest that the implementation of a learning culture allows SEs to
32 understand the interests and concerns of their stakeholders such as potential and existing
33 donors, funding agencies, employees, and volunteers. As a result, they will be able to develop
34 and implement strategies that address the interests and concerns of their key stakeholders which
35 can result in attracting more resources (e.g. donations, and skilled volunteers) (Liu *et al.*, 2015).
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With these resources, SEs would be able to provide efficient and effective solutions to the needs
of their beneficiaries and, in turn, would achieve improved social performance (Bhattarai *et al.*,
2019). In addition, when SEs learn about the priorities that funders give to social problems,
they can better design their social mission considering those priorities (Smith *et al.*, 2012).
Alignment of social missions and objectives of SEs with their funders and other stakeholders
may facilitate implementation (Bartkus and Glassman, 2008; Smith *et al.*, 2012) of their social
strategy (Kwong *et al.*, 2017; Tasavori *et al.*, 2018). Thus, it can be proposed that:

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6 *H1b*. Learning orientation enhances social performance of SEs.
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10 *The mediating role of new product development capability in the relationship between learning*
11 *orientation and economic performance*
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15 We explained the direct impact of learning orientation on the economic performance of SEs
16 (by selling their ‘existing’ products to existing markets or new markets). Now, we elaborate on
17 the reasons that learning orientation impacts economic performance through a mediating factor,
18 new product development capability. In other words, we explain how learning orientation
19 creates the capability to develop new products which can then improve economic performance.
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27 According to the dynamic capability perspective, learning orientation as a sensing
28 dynamic capability allows firms to recognize environmental changes and sense opportunities
29 (Teece, 2007, 2012). When individuals in the organization have articulated, codified and shared
30 knowledge (Kale and Singh, 2007) about the specific needs of customers, SEs can develop
31 their capabilities to come up with new ideas about new products (Bhattarai *et al.*, 2019; Garrido
32 and Camarero, 2010). When opportunities are then seized through a mediator such as new
33 product development capability, firms can sell more products in the existing and/or new
34 markets and gain more profit (Teece, 2007, 2012). Obviously, if a firm does nothing or little to
35 seize the sensed opportunities, its performance and profitability will not improve (Hughes and
36 Morgan, 2007).
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50 It is also postulated that if SEs employ their market knowledge, which is usually
51 developed through learning, to continuously improve their products, they can better sell their
52 products and generate higher revenues (Bhattarai *et al.*, 2019; Distanont *et al.*, 2019). Lasagni
53 (2012) explains that learning orientation drives a firm to access market and non-market
54 knowledge from external stakeholders such as suppliers and customers, which can support
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3 them in developing better quality products, and consequently lead to more sales and better
4 economic performance.
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8 Learning from stakeholders can also help SEs to access, create, develop, and implement
9 knowledge-based resources and other resources (Di Domenico *et al.*, 2009), which are crucial
10 for improving innovativeness and developing a *variety* of new products (McKelvie and
11 Davidsson, 2009). Such innovative products can provide the firm with competitive advantage
12 (Grant, 1996) and better economic performance (Çakar and Ertürk, 2010; Calantone *et al.*,
13 2002). Tasavori *et al.* (2018) provide several examples of SEs that have been able to grow their
14 markets by learning about the different needs of their existing customers or potential new
15 customers and mobilising resources of their networks/stakeholders to develop the required new
16 products and serve those markets.
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28 Finally, learning-orientated firms promote a learning culture and create a learning
29 environment in firms (Calantone *et al.*, 2002). The pursuit of a learning culture supports SEs
30 to collect data, identify gaps in the market, and, in turn, differentiate their products and services
31 to address the gaps (Liu *et al.*, 2015). In addition, learning can help SEs to sell their products
32 either at a better price or to a larger market (Bhattarai *et al.*, 2019). It can be thus stated that:
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42 *H2a.* New product development capability mediates the relationship between learning
43 orientation and the economic performance of SEs.
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49 *The mediating role of new product development capability in the relationship of learning*
50 *orientation and social performance*
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54 It can also be postulated that learning orientation can enhance the social performance of SEs
55 through a mediating factor such as new product development capability. In this line, we explain
56 how learning orientation impacts new product development and then how new product
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3 development capability can improve social performance. Prior research has confirmed that SEs
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5 strive to create social value by developing innovative solutions to social hurdles or needs of
6
7 beneficiaries that are not usually addressed by commercial businesses (Austin *et al.*, 2006;
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9 Brooks, 2009). Learning enables SEs to understand such social hurdles, share their
10
11 understanding, and then generate ideas about how to develop a new product or service to
12
13 address those social problems (Garrido and Camarero, 2010). According to Christensen *et al.*
14
15 (2006), SEs should develop more affordable new or existing products than the products of
16
17 commercial businesses to address the needs and demands of their beneficiaries and create better
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19 social value. Therefore, new product development capability and the ability to develop a variety
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21 of solutions, depending on the needs and demands of beneficiaries, play a crucial role in
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23 creating social values (Garrido and Camarero, 2010). SEs can gain knowledge of the needs and
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25 demands of beneficiaries and the knowledge and skills to develop new products that address
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27 those needs and demands, by engaging in learning (Garrido and Camarero, 2010).
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33 Learning orientation can also enable SEs to explore needs other than the one currently
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35 being addressed, which then enables them to develop and offer new products that address the
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37 other unmet needs of their existing customers/beneficiaries and thereby create more social
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39 values. Tasavori *et al.* (2018), for instance, provide an example of an SE that mainly focused
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41 on providing accommodation to homeless people. When pursuing learning orientation and
42
43 better understanding of other needs of this market, the SE decided to develop a new
44
45 product/service by offering workshops on health, hygiene, and safety to this market segment.
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49 By pursuit of learning orientation, SEs can also learn about other potential markets and
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51 customers, develop new products and create more social values by serving those markets.
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53 Tasavori *et al.* (2018) refer to an SE that focuses on offering some training (e.g., stress
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55 management) and mentoring students to help them perform better academically. When this SE
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57 learns about the needs of people with mental health problems, they decide to collaborate with
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3 a charity that serves this market segment to better learn about the needs of this market. Then,
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5 in collaboration with this charity, they develop new stress management workshops (new
6
7 product) based on arts and music for this market segment. Thus, it can be hypothesised that:

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10 *H2b*. New product development capability mediates the relationship between learning
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12 orientation and the social performance of SEs.
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15 A summary of the hypotheses is presented in Figure 2.

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19 ***Insert Figure 2 about here***
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21 **Methodology**

22 *Sample and Data Collection*

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25 Data for this research was collected in 2014 from a sample of SEs in the UK that were registered
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27 in online SE directories (see supplementary document 1). Online SE directories were used to
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29 create a sampling frame of SEs as there was not a comprehensive directory which included the
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31 list of all SEs in the UK. To collect data, first, a list of SEs with their contact details (e.g., email
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33 and telephone number) was prepared from online searches of the SEs listed in the online
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35 directories of SEs in the UK. The searches produced 1004 SEs, which was the sampling frame
36
37 of this study. Second, a self-administered structured survey questionnaire was designed and
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39 piloted in four SEs. Third, using Survey Monkey, and following the procedures described in
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41 Dillman (2007), initial emails providing a link to the finalised self-administered structured
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43 survey questionnaire were sent to the owners/managers of those 1,000 SEs listed in the
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45 sampling frame, excluding the piloted SEs. Owners/managers were chosen as respondents
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47 because they usually have better knowledge of their SEs than other stakeholders to answer the
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49 survey questions accurately (Zahra *et al.*, 2002). As mentioned previously, in this study we use
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51 the UK government definition of an SE (DTI, 2011), which suits the context of this research.
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53 As a result, only those SEs that met the criteria of the UK government definition were included
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3 in the analysis. After sending two reminders, we received responses from 210 SEs. The data
4
5 collection took about four months. After eliminating unusable, incomplete, and unengaged
6
7 responses, we retained 164 useable responses (16.4%) which is acceptable in organisational
8
9 surveys (Greer *et al.*, 2000). Although the response rate is acceptable, there could still be a risk
10
11 of non-response bias in surveys. Following the procedure suggested in Armstrong and Overton
12
13 (1977), we compared the late responses with early responses to assess non-response bias.
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19 *Variables and Measures*

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22 Economic performance and social performance are the dependent variables. The indicators of
23
24 economic performance and social performance were extracted from Kropp *et al.* (2006), and
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26 Coombes *et al.* (2011), respectively. The indicators of both economic and social performances
27
28 were self-evaluated by the respondents. Therefore, they are the proxies of economic
29
30 performance and social performance. This study employed such subjective self-reported
31
32 ratings for the following main reasons. First, financial hard data of SEs are difficult to obtain
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34 because not all SEs are legally obliged to publish their financial information (Sarman *et al.*,
35
36 2015). Second, due to the sensitivity of financial information, respondents are usually reluctant
37
38 to share financial hard data with external agents (Modi, 2012). Third, the use of objective
39
40 measures can lead to an underestimation of economic performance, which can be overcome by
41
42 using subjective measures (Crook *et al.*, 2011). Fourth, quantification of social performance is
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44 difficult (Kroeger and Weber, 2014; Stevens *et al.*, 2014).
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50 Learning orientation is the independent variable. The items for measuring the learning
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52 orientation were adopted from established literature. While some studies have developed and
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54 used multidimensional scales (Calantone *et al.*, 2002; Sinkula *et al.*, 1997), others have found
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56 them too long and have suggested the use of unidimensional scales (Hult and Ketchen Jr, 2001;
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58 Hult *et al.*, 2003; Kropp *et al.*, 2006). Using a large number of items measuring learning
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3 orientation construct may also create issues with the internal validity of the scale (Kropp *et al.*,
4
5 2006). In line with the latter studies, we have employed the four items measuring learning
6
7 orientation from Hult (1998).
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10 Items measuring the new product development capability were adopted from McKelvie
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12 and Davidsson (2009). A standard seven-point Likert scale (e.g. ‘strongly disagree’ to ‘strongly
13
14 agree’) was used to measure the indicators of dependent, independent, and mediating variables
15
16 (see Appendix A) because a Likert scale is better at capturing the magnitude and degree of
17
18 responses for subjective indicators (Bhattarai *et al.*, 2019).
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24 *The age, access to finance, and access to technical expertise of SEs* are the control variables.
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26 Scholars suggest that older firms can have better access to resources than new firms, which can
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28 influence firm performance (Dobbs and Hamilton, 2007). According to McKelvie and
29
30 Davidsson (2009), access of a firm to technical expertise improves dynamic capabilities, which
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32 has proved to be crucial for a firm to achieve improved performance (Eisenhardt and Martin,
33
34 2000; Teece *et al.*, 1997). Similarly, prior studies (Wiklund and Shepherd, 2005) demonstrate
35
36 that access to financial resources is crucial for a firm to achieve improved performance.
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38 Therefore, to increase the robustness of this study, following Bhattarai *et al.* (2019), the effects
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40 of age, access to finance, and access to technical expertise of SEs were controlled.
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48 *Measurement model, Reliability and Validity of Constructs*

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51 Confirmatory factor analysis (CFA) was performed to evaluate the goodness of fit of the
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53 measurement model (Byrne, 2012), and to estimate and evaluate the composite reliability,
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55 convergent validity, and discriminant validity of latent constructs. Composite reliability is a
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57 measure of internal consistency of scale items of a construct. It indicates whether all items are
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59 constantly measuring the same construct (Hair *et al.*, 2019). Convergent validity is “the extent
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3 to which a latent construct explains the variance of its indicators” (Hair *et al.*, 2019, p. 760),
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5 while discriminant validity is “the extent to which a construct is distinct from other constructs
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7 in a theoretical structural model” (Hair *et al.*, 2019, p. 761). The Kaiser-Meyer-Olkin (KMO)
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9 value (i.e. 7.8) confirmed that the data is suitable to perform the CFA (Pallant, 2013). The CFA
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11 produced the following goodness of fit statistics: Chi-square test (X^2) = 88.542 (df= 58, P =
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13 0.006), root mean square error of approximation (RMSEA) = 0.057, comparative fit index
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15 (CFI) = 0.981, Tucker-Lewis index (TLI) = 0.975, standardized root mean square residual
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17 (SRMR) = 0.065, which indicate that the measurement model fit with the data at an acceptable
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19 level (Bentler and Yuan, 1999; Hu and Bentler, 1999; Pallant, 2013).
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24 Similarly, the CFA shows that the standardized factor loadings of each latent construct
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26 are above 0.5 (most of them are above 0.7) (see Appendix A). Also, Cronbach’s alpha and the
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28 composite reliability coefficient of each latent construct is above 0.7 (see Table I), confirming
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30 an acceptable level of internal consistency, composite reliability, and convergent validity of all
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32 the latent constructs (Fornell and Larcker, 1981; Hair *et al.*, 2019; Pallant, 2013).
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38 ***Insert Table I about here***
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42 Likewise, the average variance extracted (AVE) of all the latent constructs are above the
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44 minimum threshold of 0.5 and lower than the composite reliability of their respective constructs
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46 (see Table I), confirming further the convergent validity of the constructs (Fornell and Larcker,
47
48 1981; Hair *et al.*, 2019). The square roots of the AVE of the latent constructs are bigger than
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50 the correlation coefficients between them (see Table I and Appendix B), confirming their
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52 discriminant validity and suggesting no serious issue of multicollinearity (Fornell and Larcker,
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54 1981). Multicollinearity is the occurrence of a high level of intercorrelations or
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interdependence among independent variables in a multiple regression model, reducing their independent explanatory ability (Alin, 2010).

Assessment of Common Method Bias (CMB)

The questions about both independent and dependent variables were asked in the same questionnaire, risking common method bias in their responses (Podsakoff *et al.*, 2003). Common method bias is a phenomenon that influences different respondents to answer the questions of the questionnaire in the same general directions, creating common variations in their responses (Siemsen *et al.*, 2010). The risk of common method bias was reduced by following the procedures suggested by Podsakoff *et al.* (2003). First, firms' and respondents' anonymity were guaranteed so that the respondents could answer the questions freely and honestly. Second, the questions were spread out in the questionnaire so that the respondents could not easily perceive a relationship between the dependent variables and the independent variables, deterring them from manipulating their responses (Krishnan *et al.*, 2006).

To ensure that there is no significant effect of common method bias in this study, the presence of common method bias was assessed. Harman's one factor test (Podsakoff *et al.*, 2003) was performed. The test shows that the single factor explained less than 50 per cent of variance (24.9 per cent), indicating no potential significant effect of common method bias on the relationship between independent and dependent variables in this study (Doty and Glick, 1998).

Analysis and Results

Structural equation modelling (SEM) with Mplus (Muthén and Muthén, 2012) was used to analyse the data to test the hypotheses. A model allowing direct paths as well as indirect paths through new product development capability from learning orientation to economic

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3 performance and social performance was created. To estimate path coefficients of the direct
4 and the indirect paths, bootstrap (1000) analysis (Bollen and Stine, 1990) was employed in line
5 with prior studies (MacKinnon *et al.*, 2000). The goodness of fit statistics of the structural
6 equation model (Chi square test value = 140.216, df = 91, P = 0.0007; RMSEA = 0.058; CFI
7 = 0.971; TLI = 0.962; SRMR = 0.063) confirms an acceptable level of fit with the data (Bentler
8 and Yuan, 1999; Byrne, 2012; Chen *et al.*, 2008).
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17 The results of the analysis are presented in Figure 3 and Table II, which illustrate that
18 the total effect, which is the sum of direct and indirect effects, of learning orientation on
19 economic performance is not statistically significant at a 95% confidential interval ($b =$
20 0.126^{ns}), rejecting hypothesis H1a. Despite this, the total effect of learning orientation on social
21 performance is positive and statistically significant at a 95% confidential interval ($b = 0.552^*$),
22 supporting hypothesis H1b.
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33 ***Insert Figure 3 about here***

34 ***Insert Table II about here***
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Figure 3 and Table II further demonstrate that the indirect effect of learning orientation on economic performance through new product development capability is positive and significant at 95% confidence interval ($b = 0.214^*$), supporting hypothesis H2a. The total effect of learning orientation is positive insignificant at a 95% confidence interval ($b = 0.126^{ns}$) and its direct effect is negative insignificant at a 95% confidence interval ($b = -0.088^{ns}$), suggesting inconsistent mediation (MacKinnon *et al.*, 2000).

Similarly, as presented in Figure 3 and Table II, the indirect effect of learning orientation on social performance through new product development capability is positive and significant at 95% confidence interval ($b = 0.228^*$), supporting hypothesis H2b. The total effect

of learning orientation is positive significant at 95% confidence interval ($b = 0.552^*$) and its direct effect is also positive significant at 95% confidence interval ($b = 0.324^*$), suggesting partial mediation. In sum, hypotheses H1b, H2a, and H2b are supported and hypothesis H1a is rejected.

Robustness analysis

Some (e.g., Ben, 2012) may argue that a better social performance is the result of a better economic performance of SEs, whereas others (e.g., Shin, 2018) may argue that a better economic performance is the result of a better social performance. Therefore, to test the robustness of these results, a path from economic performance to social performance in the structural model was added and investigated as to whether the achievement of improved social performance was also a result of improved economic performance. The results of the analysis confirm that there is no significant effect of economic performance on social performance ($b = 0.017$, $p > 0.05$). Furthermore, it is also corroborated that learning orientation does not contribute to enhanced social performance indirectly through improving economic performance ($b = -0.002$, 95% CI = -0.036 to 0.031).

Similarly, the effect of social performance on economic performance and the indirect effect of learning orientation via social performance on economic performance were tested. The results of the test confirm that social performance has no linear effect on economic performance ($b = 0.021$, 95% CI = -0.170 to 0.208) and learning orientation has no significant effect on economic performance via social performance ($b = 0.007$, 95% CI = -0.096 to 0.070). As prior studies suggest that focus on one of the dual objectives can deteriorate the other objective (Foster and Bradach, 2005; Massetti, 2008), their non-linear relationship was also tested. The results of the analysis show that the effect of the square of social performance (social performance X social performance) on economic performance is negative and

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3 statistically significant ($b = -0.209$, $p < 0.05$), while the effect of the square of economic
4 performance (economic performance X economic performance) on social performance is
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6 positive but statistically insignificant ($b = 0.046$, $p < 0.05$). This reveals that social performance
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8 contributes to economic performance, economic performance does not contribute to social
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10 performance, and the relationship between economic performance and social performance is
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12 non-linear inverse “U” shaped.
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19 Discussion

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22 In response to growing interest in SE performances, this research employed the dynamic
23 capability perspective (Teece, 2007; Teece *et al.*, 1997) and investigated whether learning
24 orientation improves both the economic and social performance of SEs. In addition, it was
25 examined whether the impact of learning orientation as an opportunity sensing dynamic
26 capability (Teece, 2007; Teece *et al.*, 1997) on SE performances is through a mediating factor
27 such as new product development capability as an opportunity seizing dynamic capability
28 (McKelvie and Davidsson, 2009; Teece, 2007). The results, as presented in Figure 3, confirm
29 that learning orientation contributes to improving both economic and social performances
30 indirectly through new product development capability, and, interestingly, only social
31 performance (not economic performance) directly.
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45 It has been widely corroborated that learning orientation can directly improve the
46 economic performance of commercial businesses (Calantone *et al.*, 2002). Surprisingly, this
47 study failed to validate this in the context of SEs. As the “total effect is the sum of direct and
48 indirect effects” (Biesanz *et al.*, 2010, p. 664), the insignificant total effect of learning
49 orientation on economic performance could be a result of the sum of its positive and negative
50 indirect effects and direct effects, respectively. Despite this, interestingly, the findings
51 demonstrate that learning orientation can improve the social performance of SEs directly (total
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effect is positive and significant). This might be because the primary goal of SEs being to achieve their social missions/objectives (DTI, 2011), they may direct their learning more on sensing social opportunities than economic opportunities. Social problems (e.g. poverty, inequality, lack of education, etc.) are opportunities for SEs (Corner and Ho, 2010; Drucker, 1984). Therefore, understanding and exploitation of different aspects of these opportunities might create social value and enhance social performance which may not necessarily be translated to better economic performance (Ko and Liu, 2021). Some studies (Lin *et al.*, 2019) in commercial business have also corroborated that learning orientation does not necessarily directly improve firms' financial performance, but it does indirectly. It could also be due to learning orientation possibly impeding radical innovations (Sheng and Chien, 2016), which is a critical source of competitive advantage and better financial performance of firms (Sorescu *et al.*, 2003). The findings thus illustrate that in the context of SEs, penetrating existing markets or serving new customers with the 'existing products' may not necessarily enhance economic performance, though it can improve social performance. This can be because such incremental innovations, which learning orientation promotes (Sheng and Chien, 2016), can easily be copied by competitors and hence they cannot provide the firms with competitive advantages (Barney, 1991; Sorescu *et al.*, 2003; Teece *et al.*, 1997).

The findings of this study also corroborate the findings of the commercial business literature about the critical role of new product development capability (McKelvie and Davidsson, 2009) in mediating the relationship of learning orientation and the economic performance (Eris and Ozmen, 2012) of SEs.

Conclusion

Theoretical contributions

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3 Theoretically, this study offers several contributions. First, this research contributes to the
4 development of social entrepreneurship literature. Specifically, our findings add to the prior
5 understanding that a combination of learning orientation and new product development
6 capability can improve firms' economic performance (Calantone *et al.*, 2002) by demonstrating
7 that it can also improve social performance. However, by showing that learning orientation has
8 no significant total effect on the economic performance of SEs, our findings highlight that
9 caution should be used in the generalization of business literature (Baker and Sinkula, 1999;
10 Calantone *et al.*, 2002; Wolff *et al.*, 2015) to SEs. Our research thus also contributes to the
11 existing debate (e.g., see Austin *et al.*, 2006; Dacin *et al.*, 2010) and corroborates the necessity
12 of studying social entrepreneurship as a separate field of study.
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26 Second, this study sheds light on the conflicting arguments as to whether the dual
27 objectives, economic and social, of SEs can be improved *simultaneously*. Therefore,
28 contradicting the arguments of some researchers (Foster and Bradach, 2005; Massetti, 2008;
29 Weisbrod, 2004), but in line with others (Roundy and Bonnal, 2017), we show that there should
30 be a balance between economic and social performance (Austin *et al.*, 2006; Doherty *et al.*,
31 2014; Smith *et al.*, 2013) by simultaneously developing and implementing learning orientation
32 and new product development capability. In so doing, this study advances the current literature
33 on how an SE can balance its economic and social objectives (Cornforth, 2014; Santos *et al.*,
34 2015).
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48 Third, this research also contributes to the dynamic capability perspective (Teece, 2007;
49 Teece *et al.*, 1997). First, the findings illustrate that dynamic capabilities do not only create a
50 competitive advantage for SEs in terms of better economic performance but also create a better
51 social performance. In addition, it was found that while a sensing dynamic capability can
52 improve the social performance of SEs, it cannot improve their economic performance unless
53 it is channelled through a seizing dynamic capability such as new product development
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3 capability. Therefore, to achieve a better economic performance, SEs should integrate both
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5 sensing and seizing capabilities. This is in line with prior findings and assertions that suggest
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7 these two capabilities should be combined to achieve better firm performance (Breznik *et al.*,
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9 2018; Teece, 2007). Interestingly, the findings also illustrate that when it comes to SEs' social
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11 performance, they can benefit from both the direct impact of sensing capability and the
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13 combination of sensing and seizing capabilities. This could be because by sensing social
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15 problems, SEs may enter and serve new markets with their existing products, but it may not
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17 necessarily always create economic value for the SEs for the following main reasons: 1) Such
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19 a new market development strategy requires additional capital investment which may neutralise
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21 the additional revenue generated, and increase the risk of misunderstanding market threat
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23 (Verhoeven and Johnson, 2017); 2) Serving new markets with the existing products means
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25 impeding innovations or specifically, radical innovations (Sheng and Chien, 2016), which is a
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27 critical source of competitive advantage and better financial performance (Sorescu *et al.*, 2003).
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33 Fourth, by confirming a mediating role of new product development capability in
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35 processing the values of learning orientation to improve both the economic and social
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37 performance of SEs, this study adds value not only to SE literature but also to learning
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39 orientation literature (Calantone *et al.*, 2002; Eris and Ozmen, 2012). Specifically, this study
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41 responds to the call for further investigation of the role of learning orientation in other contexts
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43 (Calantone *et al.*, 2002) and reveals that the generalisation of the findings in commercial
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45 business literature may not be easily applied to other contexts such as SEs.
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49 Finally, by adopting a quantitative research approach, this study responds to the calls
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51 for undertaking more quantitative and empirical studies in the domain of social
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53 entrepreneurship research (Bhattarai *et al.*, 2019; Liu *et al.*, 2015).
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Management and policy implications

The findings of this study also have significant implications for SE managers and policy makers. Since SEs have very limited resources and capabilities (Brooks, 2009), they should be very careful in allocating them, and should adopt and develop only those resources and capabilities that simultaneously improves both economic and social performances. As this study has revealed that learning orientation and new product development capability improve not only economic performance, but also social performance of SEs, it will serve as a guide to SE managers in making decisions on what resources and capabilities should be developed and implemented to achieve their dual objectives.

The findings of this study suggest that while SE managers should create and promote a learning environment, and encourage their employees in learning, sharing, and using their knowledge and skills, they should also be cautious. Specifically, SEs should be wary that learning orientation might improve their social performance, but not necessarily their economic performance. Instead, to achieve their dual mission, they should ensure that they develop both learning orientation and new product development capabilities. The findings of this research also provide a guide to policymakers to develop a policy about how they better support SEs (e.g., by encouraging SEs to engage in learning and improving their new product development capability) and in turn address social issues and problems in a sustainable manner.

Limitations and future research opportunities

Research limitations also provide exciting areas for future research. First, this study focused on only two capabilities, learning orientation and new product development capability, to explain variations in economic and social performance of SEs. Future studies can explore the impact of other resources and capabilities on the economic and social performance of SEs.

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3 Second, we have employed a specific set of questions to measure the economic and social
4 performance of SEs which may not be comprehensive and reflect all aspects of their
5 performance. In addition, the measures used in this research were only subjective self-reported
6 answers. Other studies can build on our findings by employing more comprehensive and
7 generalisable measures of these constructs, and even complement the primary data with some
8 secondary data to enhance the quality of the research. Fourth, this study analysed SEs only in
9 the UK. Future research can test this model in other countries. In addition, the number of
10 variables that we have controlled the effect of has been limited. Future researchers can also
11 control for other variables such as SEs' sectors of operations, location of their operations, and
12 the number of their employees. Finally, as the sample of SEs was drawn from online directories
13 of SEs, findings of this study may not be generalisable to the SEs that are not registered with
14 online directories of SEs.
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Variables	Mean	Standard deviation	Cronbach's alpha	Composite reliability	Average variance extracted	Square root of average variance extracted
Social performance	5.64	1.05	0.960	0.963	0.896	0.947
Economic performance	4.42	0.85	0.895	0.883	0.848	0.921
New product development capability	5.21	1.10	0.866	0.868	0.688	0.829
Learning orientation	5.81	0.88	0.883	0.870	0.630	0.794
Age of social enterprise	0.71	0.46				
Access to technical expertise	4.68	1.37				
Access to financial capital	3.46	1.59				

Table I.

Descriptive statistics, Cronbach's alpha, composite reliability, and average variance extracted.

Unstandardised effect of learning orientation	Economic performance				Social performance			
	Estimate	Confidence Interval at 95% level		Result	Estimate	Confidence interval at 95% level		Result
		Lower	Higher			Lower	Higher	
Total effect	0.126	-0.227	0.229	Not significant	0.552	0.270	0.846	Significant
Direct effect	-0.088	-0.490	0.242	Not significant	0.324	0.025	0.596	Significant
Indirect effect	0.214	0.044	0.454	Significant	0.228	0.083	0.458	Significant

Table II.

The total, direct, and indirect effects of learning orientation on economic performance and social performance (bootstrap analysis)

Appendix A. Variables, indicators (questions), and standardized factor loadings of latent constructs

Variables	Indicators (questions)	Factor loading
Social performance	<i>Relative to your two most important competitors, how would you rate your social enterprise's performance over the past three years concerning (well below average = 1 to well above average = 7). . .</i>	
	SP1. Implementation of social strategy	0.878
	SP2. Fulfilling the social mission	0.986
Economic performance	SP3. Fulfilling the social objectives	0.968
	<i>Please rate the following statements about your social enterprise (very strongly disagree = 1 to very strongly agree = 7):</i>	
	EP1. The firm has been very profitable	0.612
New product development capability	EP2. The firm has generated a high volume of sales	0.586
	EP3. The firm has achieved rapid growth	0.668
	<i>Relative to your two most important competitors, how would you rate your social enterprise's performance over the past three years concerning (well below average = 1 to well above average = 7). . .</i>	
Learning orientation	NPD1. The development of new products or services	0.856
	NPD2. The quality of newly developed products or services	0.805
	NPD3. The diversity of newly developed products or services	0.826
	<i>Please rate the following statements about your social enterprise (very strongly disagree = 1 to very strongly agree = 7):</i>	
Age of social enterprise	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	0.924
	LO3. Once we quit learning, we endanger our firm	0.644
	LO4. We agree that the ability to learn is the key to improvement	0.726
Access to technical expertise	How long has your social enterprise been established? (Up to 5 years = 0, above 5 years = 1)	
Access to financial capital	Please rate the following statement (<i>very strongly disagree = 1 to very strongly agree = 7</i>):	
	Over the past three years, our social enterprise has had access to technical expertise	
Access to financial capital	Please rate the following statement (<i>very strongly disagree = 1 to very strongly agree = 7</i>):	
	Over the past three years, our social enterprise has had access to financial capital	

Appendix B. Inter-correlation matrix

Variables	1	2	3	4	5	6
1. Social performance						
2. Economic performance	.175*					
3. New product development capability	.431***	.428***				
4. Learning orientation	.325***	.254**	.436***			
5. Age of social enterprises	-.054 ^{ns}	.222**	.027 ^{ns}	-.039 ^{ns}		
6. Access to technical expertise	.060 ^{ns}	.052 ^{ns}	.083 ^{ns}	.046 ^{ns}	.116 ^{ns}	
7. Access to financial capital	-.051 ^{ns}	.291***	-.052 ^{ns}	-.116 ^{ns}	.189*	.157*

Note: *** = P < 0.001 (2-tailed), ** = P < 0.01 (2-tailed), * = P < 0.05 (2-tailed), ^{ns} = P > 0.05.

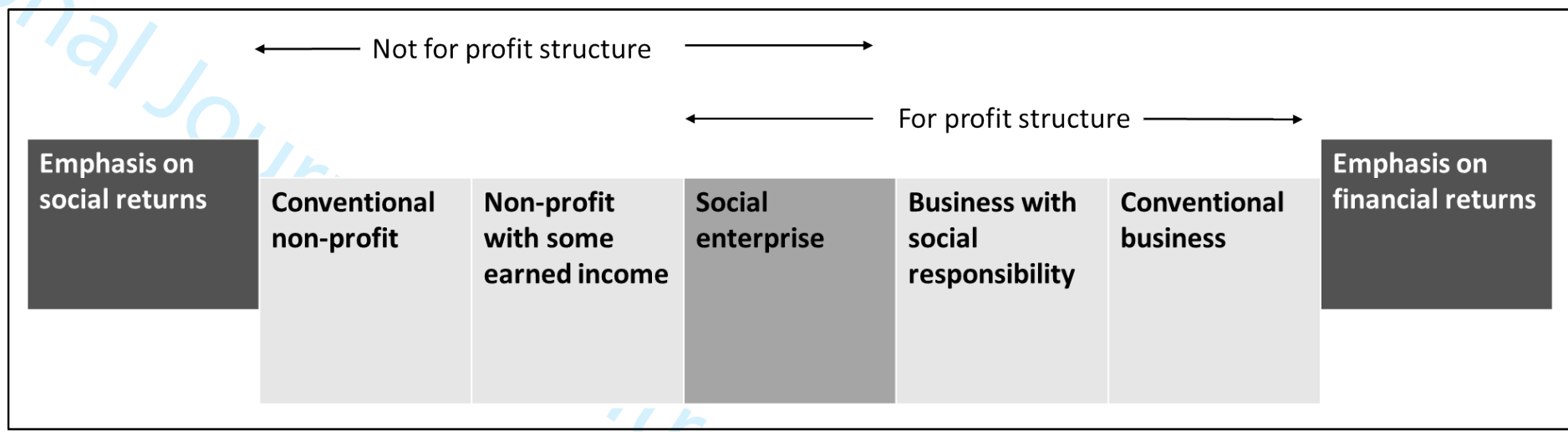


Figure 1. Spectrum of social and financial returns (adapted from Brozek, (2009))

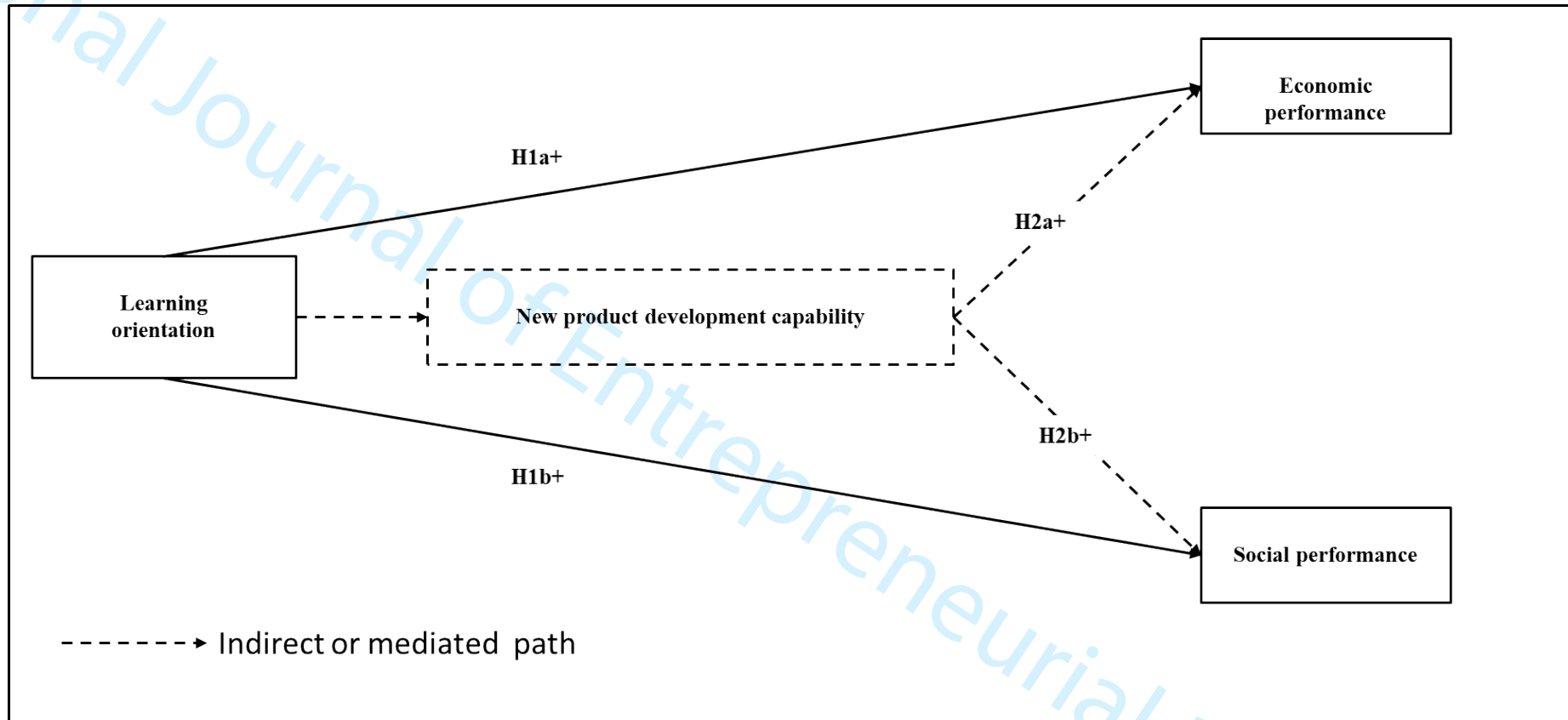


Figure 2. Conceptual framework

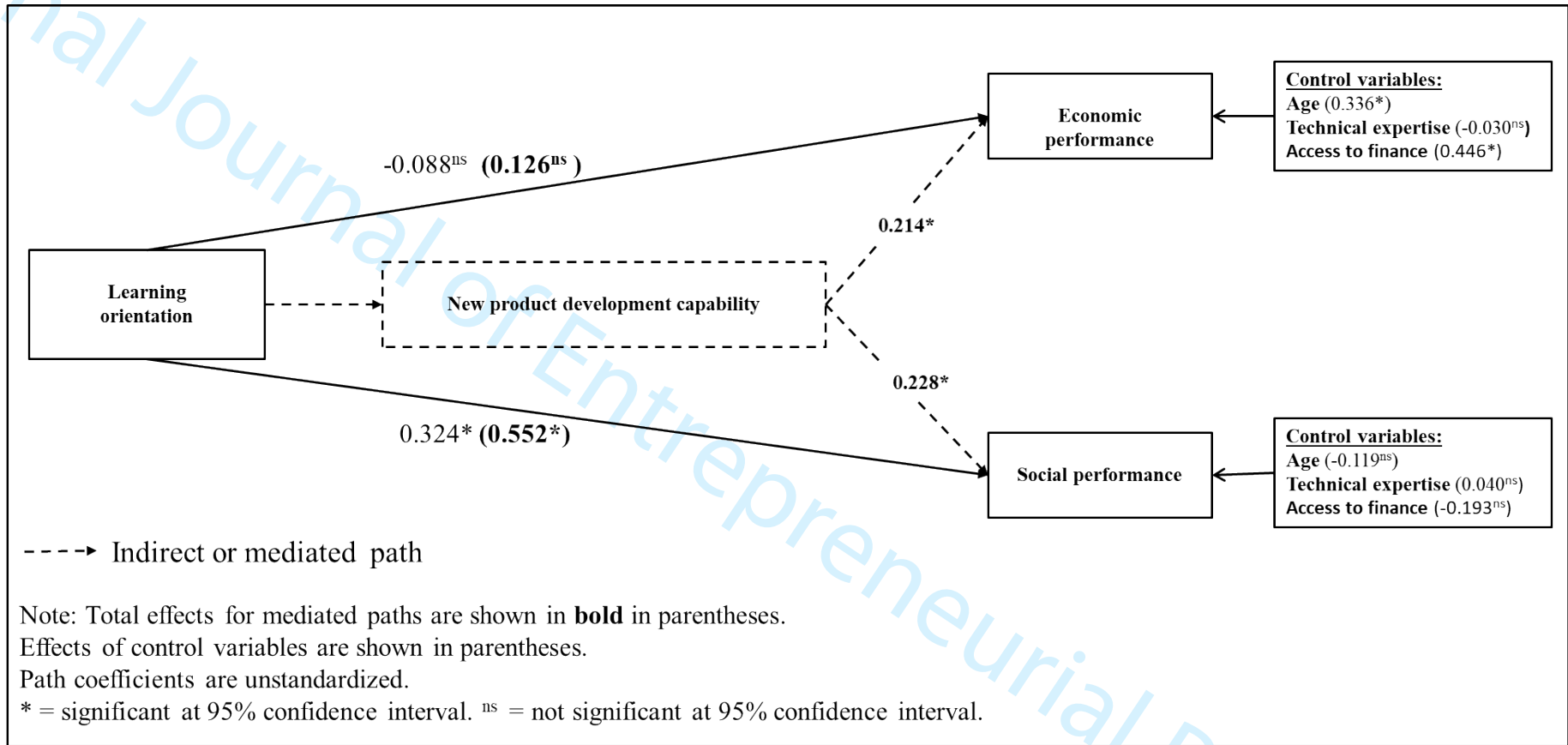


Figure 3. The results of the analysis (path coefficients)

Supplementary document 1: List of social enterprise online directories used in this research

- <http://www.bis.gov.uk/ciregulator>;
- http://www.can-online.org.uk/social_enterprises_directory.php;
- <http://www.seb2b.co.uk/business-directory>; (not in operation)
- www.sel.org.uk/directory.aspx; (not in operation)
- <http://www.socialenterprise.org.uk/>; and
- www.buyse.co.uk (not in operation)