

Entrepreneurial Orientation and Social Innovation Practices in Social Enterprises: The Rhetoric and Reality

Dr. Maria Elisavet Balta

Lecturer in Strategy
Brunel Business School
Brunel University
Uxbridge, UB8 3PH, UK.

Mrs. Catherine Darlington

Researcher
Brunel Business School
Brunel University
Uxbridge, UB8 3PH, UK.

Dr. Stephen Lloyd Smith

Senior Lecturer
Brunel Business School
Brunel University
Uxbridge, UB8 3PH, UK.

Professor Nelarine Cornelius

Professor of Human Resource Management and Organization Studies
Associate Dean, Research
Bradford University, School of Management
UK

Abstract

Social enterprises in UK are operating in a turbulent environment due to a combination of a changing policy context and economic recession which has limited the opportunities for growth for many. However, they have the opportunity to develop and provide social enterprises innovative and high quality services, albeit in direct competition with other potential providers. The study suggests that adoption of entrepreneurial orientation and social innovation practices including customer and service customisation provides the potential for sustainability and growth of social enterprises, potential often not realised. Based on a multi-facet longitudinal case study, data have been collected from focus groups with senior directors and trustees and the researchers' participant observations. The research findings provide a clear understanding on the challenges that social entrepreneurs face and suggest the adoption of a market oriented strategy that may enhance their chances of securing contracts and overcoming challenges.

Keywords: entrepreneurial orientation, social innovation, social enterprises

1. Introduction

Increased attention has been given to social entrepreneurship and social enterprises among social activists, policy makers and academics (Chell *et al.*, 2010). Over the past decade, social enterprises have been recognised for the contribution that they make to social, economic, cultural and environmental wealth (Shaw and Carter, 2007); although there is no clear terminology of what social entrepreneurship stands for. Chell (2007, p. 18) provides a definition of entrepreneurship that includes both business and social enterprises and describes it as the process of “recognising and pursuing opportunities with regard to the alienable and inalienable resources currently controlled with a view to value creation”.

As social enterprises are operating in a competitive external environment, they have to comply with not only changing governmental policy context, but also with other external factors regarding the delivery of public services (Anheier and Kendall, 2001). Although the role of social enterprises has already been highlighted in the field of entrepreneurship, no research has yet explored the need for the adoption of innovation practices within social enterprises. The challenges that social enterprises face can be addressed if social enterprises become more innovative in the delivery of the services and pursue market-oriented practices that have been applied in commercial organisations.

Social enterprises have to manage their operations effectively by achieving short-term survival goals and long-term strategic positioning (Chew, 2005, 2006) through market orientation (Nicholls and Cho, 2006). Adopting a social innovation approach that conceptualises social entrepreneurship as being a process of change in the delivery of public and social goods and social/environmental services, the current study contributes to the literature of social entrepreneurship and social innovation by suggesting that social innovative techniques that are widely applied to commercial organisations are applied to social enterprises, with the aim of helping them to strategically position themselves and to adopt an entrepreneurial orientation. The study proposes entrepreneurial orientation through customer orientation and market orientation as an innovation practice that will allow social mission organisations to sustain and to grow.

2. Social entrepreneurship and social innovation

The term “social entrepreneurship” has emerged as a new label for describing the work of community, voluntary and public organisations (Shaw and Carter, 2007). The social enterprise sector has been valued at approximately £18 billion, with such organisations accounting for 1.2 per cent of all enterprises in the country (Department of Trade and Industry, 2005). In the early 1980s, the idea of a “mixed economy of welfare” was introduced in the UK, which shifted “voluntary and community organisations” to become “public services” providers (Cairns *et al.*, 2005; Harris *et al.*, 2001). On the one hand, the Office of the Third Sector (OTS) recognises the role of social enterprises and creates an environment that enables the sector to campaign for change, deliver public services, promote social enterprise and strengthen communities. On the other hand, government has exerted pressure on third sector organisations to be effective and efficient in the delivery of services to clients. Social enterprises are encouraged to trade and become self-financing through organic growth (Mason *et al.*, 2007).

Social enterprises require creative and innovative solutions to intractable social problems (Shaw and Carter, 2007). Zahra *et al.* (2009, p. 519) examined the phenomenon of social entrepreneurship as a sequence of innovative activities and processes that are undertaken to discover, define and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organisations in an innovative manner. They have to develop the ability to identify opportunities that will help them to solve social problems or to create social value (Shaw and Carter, 2007). Therefore, they need to foster innovation and the social and economic value from their service provision, aiming to create social value through income generation for disadvantaged populations. Innovation in the case of social enterprise has been associated with the development of new product/services and the creation of new markets or satisfying existing markets (Wan *et al.*, 2005). The current study explores the potential of exploiting strategic positioning opportunities for SE including social marketing, customer focus and service customisation: potentially at least, social enterprises can benefit from the transfer of these strategies developed for for-profit organisations to non-profit ones (Hockerts, 2006).

2.1. External environment and policy context for social enterprise organisations

Nowadays, social enterprises face two big institutional challenges: firstly the movement of “voluntary and community organisations” to “public services” delivery over the last 20 years (Harris *et al.*, 2001), which has actually caused the dependency of social enterprises on public sector funding (Funnell and Cooper, 1998); and secondly the dramatic increase in non-profit organisations over the last 20 years (Harris *et al.*, 2001), which has created enormous competition among third sector organisations (Parker, 1998). The government encourages community organisations to become “better” providers of public services by using their building capacity in third sector organisations. Apart from the competition for financial resources, third sector organisations also face a lot of competition from the proliferation of charity organisations (Chew and Osborne, 2009). Charities do not compete solely with other charities in the sector, but also compete with commercial organisations that provide the customers with the same services at lower prices.

Competition might encourage charities to seek constantly to offer a high quality of services (McLeish, 1995) and therefore to adopt a high degree of market orientation (Laing and Galbraith, 1997). The adoption of *market orientation* by the organisation can take the following three dimensions: customer orientation, competitor orientation and the inter-functional integration of the organisation's marketing efforts (Narver and Slater, 1990). Social enterprises in order to survive have to develop strategies that will allow them to position themselves, differentiate their services and compete in the market. They have to respond to the new policy development and the external environmental influences by adopting entrepreneurial orientation and social innovation practices that will help them to sustain and grow.

2.2. Entrepreneurial and marketing orientation

In the United Kingdom, the heightened competition and constant changes in governmental funding have exerted pressures on social enterprises to develop a more strategic planning perspective (Conway and Whitelock, 2004). Entrepreneurial marketing orientation is regarded as the solution for the survival and growth of many organisations (Tzokas et al., 2001). The adoption of a more formalised marketing culture will help social enterprises to position themselves in the market and to use the social aims and social contribution as a potential source of differentiation and competitive advantage. Marketing orientation is associated with customer orientation, customer satisfaction; co-ordinated or integrated marketing and a focus on profitability (Miles and Arnold, 1991). Entrepreneurial orientation is associated with risk-taking, innovation and proactiveness. Such activities enable the firm to respond rapidly to the competitive actions of other firms and provide certainty, order and uniformity (Covin and Slevin, 1988).

Entrepreneurial and marketing orientation has three distinct features; change focuses, opportunistic in nature and innovative in management approach (Collinson and Shaw, 2001). Through entrepreneurial and marketing orientation, entrepreneurs respond to the environment and develop an intuitive ability to anticipate changes in customer demands. Part of their entrepreneurial orientation is the development of a positioning strategy. Chew (2005) defined strategic positioning as a managerial decision process that helps organisations to differentiate themselves from other service providers. Porter (1980) identified three ways in which companies can position themselves in the market: differentiation, focus and low-cost positioning. Organisations adopt differentiation positioning in the way that they provide products or services that meet the needs of their target audiences and are valued by them. Focus or niche positioning focuses on serving a particular group of target users/beneficiaries, a geographic area, or providing a type of service better than that of other providers. Low-cost leadership is where the organisation leads the market by setting low prices.

2.3. Social innovation practices

Entrepreneurial and marketing orientation has attracted an increased interest in both marketing and entrepreneurship literature, but there is lack of research regarding the market orientation and innovation (Han *et al.*, 1998). Narver and Slater (1990) suggest that market-driven organisations are able to anticipate the developing needs of customers and respond to them by adding innovative products. Customer contact and service customisation are innovation practices that are used in service firms (Skaggs and Youndt, 2004) and they mainly focus on service provision and address the stakeholders' needs. Those practices can be applied in the context of social enterprises in an effort to help social enterprises to achieve their social and economic mission.

Customer contact refers to the degree of interaction that the customers have with the firm's production process. Organisations that are planning to increase the level of customer contact require qualified employees, who will be able to deal with customers, understand their idiosyncrasies and make quick decisions (Skaggs and Youndt, 2004). In the case of social enterprises, face-to-face contact between beneficiaries, employees of the organisation and other representatives increases client trust as they feel more valued (Hakansson and Snehota, 2000). Beneficiaries and intermediaries can help the organisation to maintain a customer relationship and also to gain feedback on the beneficiaries' needs, levels of satisfaction with the organisations' services and to generate ideas for future service provision. Service customisation aims to differentiate the services that the organisation offers to individual customers in the competitive marketplace (Normann, 1984). High levels of service customisation requires particular procedures in order to assess and meet customers' needs, choosing the most appropriate production path through the organisation.

Enhancing the customer relationship through utilising large-scale direct/database marketing tools and techniques is widely applied in charity organisations (Eiriz and Wilson, 2006). This process requires information about beneficiaries' motivations, preferences and characteristics (Perrien and Ricard, 1995). The beneficiaries' needs have to be identified, anticipated and met (Buttle, 1996). Other scholars (e.g. Lindsay and Murphy, 1999; Birks and Southan, 1991) suggest a movement for social enterprises away from being funds oriented and towards being needs oriented. Thus, the services provided have to be tailored to the needs of the target market. Firms seeking to position themselves as superior service providers need to understand first how customers evaluate service; and second, the extent to which they are important to them. They then have to adopt strategies and systems that ensure the delivery of high quality service by the staff (Berry and Parasuraman, 1991). In this study, we report an empirical study of a social enterprise facing a potential funding crisis, during their efforts to enhance their capacity to understand and engage with the changing policy climate and their capability to develop stronger market awareness and innovation activity.

3. Research Methodology

The case study approach was selected because it illuminated the concepts of opportunity identification and exploitation and facilitated the development of conceptual patterns pertinent to the stages of the entrepreneurial process (Eisenhardt and Graebner, 2007). The case study approach has been used by various studies in small business and entrepreneurship (Floyd and Fenwick, 1999). The selected case study approach allowed the development of social innovation practices, enabling a variety of different "voices" to be heard. Qualitative data will help us to get inside the organisation and observe the complexity or dynamism of the context or organisational setting (Harrison and Leitch, 2000). Also, the use of exploratory case research will help us to develop ideas and propositions for future research. The chosen social enterprise offered a rare opportunity for valuable insights into a unique phenomenon that facilitated solid theory building (Yin, 2003).

3.1. Research setting

The case-study research site is within a non-profit making organisation that provides interpreting and translation services in over 55 languages to local people accessing health, social services, housing legal and education services. The organisation provides access to quality, culturally and linguistically appropriate information and services within a strong advocacy tradition. In this research, the case organisation denoted by the pseudonym Language Support in order to ensure its anonymity and confidentiality. The unit of analysis was the entrepreneurial and innovation processes of social enterprises organisations.

3.2. Data collection approach

Longitudinal data were gathered through four focus groups, participants' observations and secondary archival data from annual reports, board minutes, and discussions with senior officers and employees. The use of a multiple data collection approach for our study aimed to enhance the reliability and validity of the findings. The permission of participants was requested prior to the interviews and the focus groups and the anonymity and confidentiality of the information was assured. The focus groups were 90–120 minutes in length and captured data from key organisational informants including social enterprise managers and deputy directors, employees and trustees. The questions were about the informants' history with the organisation, the environmental and governmental challenges and the adoption of strategies applied to commercial organisations, such as social marketing and social innovation practices. Focus groups as a qualitative data collection method enable us to gain a meaningful understanding of phenomena "which emerge out of sharing and discussing issues, exchanging opinions, revising perceptions and highlighting commonalities and differences" (Carson *et al.*, 2001, p. 115). Semi-participant observations took place with three members of the research team. Notes from regular meetings and discussions that the research team had during this period of research were taken. Two of the academic researchers acted as semi-participant observers in the social enterprise from 2008 till 2012; one from 2008 until 2009, before becoming a participant observer. Rich longitudinal data from multiple sources have been collected for the purpose of the study.

3.3. Data analysis

Inductive data analysis was applied as suggested by Yin (2003).

The inductive analysis of data involved the reading and re-reading of transcripts and field notes, the search for similar emergent themes and the use of codes to bring order, structure and meaning to raw data (Neuman, 2006). The data were audio-recorded and transcribed which allowed the researcher to capture “the whole of the conversation verbatim, as well as the tone of voice, emphases, pauses and the like” (Arksey and Knight, 1999, p.70). The data was organised into “meaningful and related parts” which allowed the building of a theory that was “adequately grounded in the data” (Saunders *et al.*, 2007, p. 479). The emerged themes have been categorised by similarities, dissimilarities and recurrent words and by the degree of significance.

4. Presentation and Discussion of the Findings

Theme 1: Influential factors towards the adoption of social innovation practices

Language Support faced a number of challenges resulting from government policy changes, in particular the potential challenge of competing with providers offering services (albeit not as exhaustive) at lower prices. Therefore, social entrepreneurs need to develop the ability to sustain the enterprises, reinvest in the business and create social value for the stakeholders (Chell, 2007). Both the quotations below illustrate the challenges that Language Support faced. “We used to get funding from local authority.... and in return to provide subsidised rate from the local authority. The funding gone they said, now you become financially self-managed to run as a business, to earn or gain corporate contract with the council” (Hafesza, General Manager of Language Support).

As the funding processes for social enterprises changed, including increased competition from not only other social enterprises but also private sector providers, Language Support found itself in a potentially vulnerable position, with reductions in governmental funding increasing the need to act independently in generating income. Despite the fact that Learning Support had the ability to understand their strengths, weaknesses and the opportunities and threats of their organisations, they lacked the ability to respond rapidly to emerging matters. In fact, they believed that apart from the change in the funding process, there is a change in the organisations regarded as preferred providers, to Learning Support’s detriment.

“Contracts...are given to these big private companies with no consideration to [our] small so-called...“community” or “voluntary sector” (Darinka, Deputy Manager of Language Support). However, as researchers, we observed that Learning Support struggled to understand that increased competition could be used as a catalyst to improve efficiency, attentiveness to users’ needs, enhances innovation and strategic clarity (Weerawardena and Mort, 2001). An entrepreneurial orientation (Laing and Galbraith, 1997) can initiate higher quality services (McLeish, 1995) and changed circumstances can exert pressure to become more highly differentiated (Hibbert, 1995) and market-oriented. Learning Support struggled to engage with most of these aspects.

Theme 2: Entrepreneurial orientation for social enterprises

The literature suggests that innovative entrepreneurs are risk-takers (Khan and Manopichetwattana, 1989) who through entrepreneurial marketing, respond to environmental changes and anticipate changes in customer demands (Shaw, 2004). Thus, entrepreneurship and marketing have the following concepts in common: change-focused, opportunistic in nature and innovative in the management approach (Collinson and Shaw, 2001). When invited to expand upon entrepreneurial marketing, the following extracts provide evidence of how Learning Support’s orientation towards more marketing of social enterprises.

“We haven’t marketed hard enough or we haven’t been doing any marketing. The people who use our services, to whom we’d be marketing our services, aren’t in a position to choose.” (Kashia, Office Manager of Language Support).

The research participants of the study suggested that “in a way the website could be used as a subtle effective tool in the way of aligning your position and perhaps other partners’ positions in the conference or workshop”. Web site innovation is crucial for the development and expansion of the social enterprise organisation. Innovation in the web site involves changes in the aesthetic design, content, interactivity, or the services the web sites offers (Bennett, 2005). The web site of Language Support lacked creativity and distinctiveness. However, there was little appetite for any real change to their marketing endeavours.

Theme 3: Customer-led and market orientation as social innovation practices

Innovativeness as described by Lumpkin et al. (2011) refer to the predisposition to engage in creativity and experimentation through the introduction of new products/services as well as technological leadership via R&D in new processes. The entrepreneurial process dimension of innovativeness is vital for social enterprises. Language Support first steps towards understanding the possibility of doing things differently started with a re-imagining of their policies and agenda:

“I think really you know to kind of reiterate or put it in another way is that the policies that we address and the question was ‘what do we see as the overall agenda for Language Support and that is language service provision and in order to help people understand each other, communicate so that correct decisions can be made, informed decisions can be made and more recently that people’s opinions can be fed back to services in order to help create and develop and kind of make differences to the way the services are provided” (Darinka, Deputy Manager of Language Support).

Adoption of innovation helps firms create products, processes and strategies that better satisfy the customer needs (Covin and Miles, 1999). A customised approach to market and innovation in products, services and strategies will be the key for Language Support to move forward its business in order to sustain and to grow. From the perspective of the participant researchers, the organisation needed to change in order to survive: their contracts were becoming increasingly more difficult to secure and the competition was growing. However, Learning Support struggled to get beyond the recognition that change was needed. Although there was the sensing of a need to do things differently, the suggestion made were incremental, minor improvements than truly creative ideas with commercial potential, the latter characteristic of entrepreneurial action. Importantly, although there was the rhetoric around the need to understand the market better and act more creatively, this was not acted upon.

5. Conclusions and Implications

The study sought, firstly, to identify the challenges that have exerted pressures to social enterprises to adopt entrepreneurial orientation, and secondly, to explore social innovation practices in social enterprises. A number of conclusions have emerged from the longitudinal case study. Previous research into SMEs has highlighted that through entrepreneurial orientation (Jones and Rowley, 2011) and marketing orientation (Shaw, 2004; Tzokas *et al.*, 2001); SMEs as well as social oriented organisations can gain competitive advantage in the market. However, there is lack of awareness on the precise entrepreneurial and marketing orientation activities that contribute to the social enterprises’ sustainability and growth.

This study has demonstrated the specific entrepreneurial orientations as well as social innovation practices could help sustainability and growth, social enterprises struggle to move towards them. Social enterprises have certain unique characteristics including their small size, limited capacity and the need to tackle social problems and to help deprived populations. The usual challenges associated with their remit to add value both economically and socially include the changing funding process and the dependence relationship with multiple stakeholders’ mainly third sector organisations and neighbouring boroughs.

During the early start-up stage as an organisation, Learning Support demonstrated many of the characteristics of an innovative, entrepreneurial organisation. From an entrepreneurial perspective, it created new combinations, disturbing market equilibrium through its combination of language services and advocacy, in order to met social need (Mulgan and Landry, 1995); had strong social and personal networks to opportunity seek and realise (Chell and Baines, 2000); and developed solutions helping to solve social problems through service customisation (Thompson and Doherty, 2006). However, although Learning Support overcame initial institutional hurdles they struggled to overcome emerging ones became dependent on public sector funding (Funnel and Cooper, 1998); and consequently, had become more focused on the requirements of funders than how to engage with the dynamics of the market. The issue of orientation that we identified – marketing orientation, entrepreneurial orientation and service orientation – would suggest that service orientation became the dominant consideration.

Within the current longitudinal case study of a social enterprise the contribution of social innovation to social enterprise was examined also.

Although highly innovative at its inception, the depth of the struggle to understand and be aware of, let alone adopt, social innovative practices by Learning Support, was clear and the difficulty of creating any movement towards such practices, especially given the increasing competitiveness and reduced opportunities for the services Learning Support offered. What emerged was maturation of understanding social needs within the market, and of the market dynamics, but not how best to respond to it. This may be a reflection of the Learning Support's income stream. The organisation's income was very much tied into government funding from an array of agencies. Therefore the organisation's survival was perceived as tightly aligned to building know-how of government policy and networking with community organisations, and client groups. However, the entrepreneurial and innovative drive that characterised Learning Support when it was founded had become bureaucratized and reactive. The findings suggest that social entrepreneurs have to develop more than an understanding of the competitive environment in which they operate: they need to develop the capability to proactively develop coherent strategies that enable them to act decisively in respond to the dynamics of the market and adopt an entrepreneurial orientation that is not just social needs driven but market driven also. This needs to be cascaded through their organisations but is unlikely to occur without a gradual realignment of organisational norms and values.

In the literature, social entrepreneurs are encouraged to strive to cultivate both a marketing and entrepreneurial orientation. In reality, social entrepreneurs may struggle not only to appreciate the relevance of these orientations. In part, this may be because these orientations are regarded as too commercial, too removed from the social focus of core services. In reality, in the UK at least social enterprises are operating in a more commercialised and marketised environment. However, much social enterprise provision is heavily directed towards government and its agencies. This works when the provision made by social enterprises is valued in particular because of its explicit community relevance and community tailored approach, but less so when governments focus shifts towards consistency of service and scaling of service provision, and a tightening of service definition parameters.

There has been increased political and community support for social enterprises to deliver public services. The current UK coalition government has committed to involve community groups in the design and delivery of public services to an unprecedented scale. The study suggests the reform of social enterprises as effective service providers through the adoption of social innovation practices will require more than skills development and capacity building. It may be that fundamental norms and values in social enterprises require systems that challenge them more systematically. In this way, the needs of client groups can be met in a sustainable way, with changes to market engagement and the creation of new revenue streams integral to management practice underpinning good governance. Social enterprises may be better prepared for growing market pressures if they are established with active processes of acculturation towards *blended* norms and values in which social and economic factors can be more satisfactorily reconciled: this will be central to moving UK social enterprises towards the practices that will improve their chances of survival in the changing –politico-economic environment. It should be noted that the study is limited to a single but multifaceted case study. Future research could involve the examination of social innovation practices as a solution for growth of social mission organisations in other social organisations.

6. References

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