

CONCEPTUALIZING THE ROLE OF MARKET LEARNING IN SOCIAL INNOVATION-BASED COMPETITIVE STRATEGY

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ABSTRACT

With the increased recognition of the contribution of social purpose organizations (SPOs) to the economy, there has been a heightened academic and practitioner interest in social innovation and social value creation. Whilst the role of market learning in this process has received increased attention, many researchers have attempted to adopt the 'market orientation' view that has primarily evolved within the for-profit context. These approaches will have a limited effect in advancing social innovation research as any attempt for theory building in this field must address the unique characteristics of SPOs which substantially differ from for-profit organization. Addressing this research gap this study attempts to conceptualize the constituent elements of market learning in SPO context and how such learning potentially relates to the types and degrees of social innovation. We draw on the organizational learning and the dynamic capabilities literature to conceptualize SPO market learning capability and its potential relationship with social innovation. We will also discuss theoretical implications of our conceptualization.

Keywords; *Social Entrepreneurship, Social Innovation, Social Mission, Market Learning.*

INTRODUCTION

Over the last decade social purpose organizations (SPOs) (also referred to as not-for-profits) have received increased attention of academia, practitioners as well as government policy planners due to its notable contribution to socio-economic development (Leo, 2013; Lee et al., 2013; Simon, 2010). They contribute to economic development, social justice, and environmental stewardship, and improve the quality of life of their constituents and communities. They typically emerge to satisfy needs that business sector cannot satisfy (Etzioni, 1972; Kotler and Murray, 1975). However, they operate in an increasingly competitive environment characterised with increasing needs in their target communities, tighter funding environment with growing competition for donors and grants (Weerawardena and Sullivan-Mort, 2008). This has necessitated them to be highly competitive (Bennett, 2005) while being exposing themselves for new learning possibilities to increase the performance. There is growing consensus that the turbulent operating environment requires SPOs to adopt a socially entrepreneurial posture (Weerawardena and Sullivan Mort, 2001, 2006; Weerawardena, MacDonald and Sullivan Mort, 2010) and to be innovative in all their strategic initiatives aimed at delivering social value to their targeted communities (Weerawardena and Sullivan Mort, 2001).

Although the literature suggests that social innovation is the primary mechanism through which SPOs create value, the literature is limited on three fronts. First, although the literature on social innovation has grown in significance over the

recent years (Nichols, 2006; Drayton, 2006), there have been limited attempts to conceptualize and operationalize the construct. Second, as occurred in for-profit strategic marketing literature, the role of market learning has received increased attention in the social entrepreneurship literature. The well-established market-driven view of competitive strategy (Kohli and Jaworski, 1990; Slater and Narver, 1995; Day 1994) that has dominated strategic marketing literature over two decades, suggests that market driven or market-oriented firms actively collect information from markets (customers and competitors), share such information across the firm and initiate an organization-wide response to market needs. Influenced by this stream of literature there has been an increased adoption of market orientation construct to SPO context (Gainer and Padanyi, 2002; Voss and Voss, 2000; Kara et al., 2004; Padanyi and Gainer, 2004). Whilst majority of this research has directly *applied* market orientation measure (Kara et al. 2004; Voss and Voss, 2000; Chan and Chau, 1998) there have been some attempts to adapt the concept with some attention to the unique SPO context (Padanyi and Gainer, 2004; Duque-Zuluaga and Schneider, 2008). The direct application of established theories from other disciplines as a way of advancing research has received substantial criticism (Oswick et al., 2011; Markoczy and Deeds, 2009). Third, although the dynamic capability theory that has gained popularity in competitive strategy literature suggests that firm's dynamic capabilities contribute to competitive advantage by creating new knowledge configurations (Eisenhardt and Martin, 2000), this discussion has escaped empirical scrutiny in SPO context. This paper is aimed at conceptualizing market learning as a dynamic capability that has potential to contribute SPO competitive advantage through greater innovation. We concur with the proponents of the view that borrowing and direct application of established theories from for-profit context without paying adequate attention to SPO context will have limited effect to the advancement of the SPOs literature because of the substantial differences between the two contexts. Further, such approaches may hinder the development of new, original or indigenous theories (Oswick et al., 2011; Whetten et al., 2009). Building on this conjecture, this paper addresses the unique contextual characteristics of SPOs and conjecture how such learning relates to social innovation and SPO performance outcomes. The paper addresses the broad research question: "*what constitutes market learning in social purpose organizations and how such learning relates to SPO performance outcomes?*"

The remainder of the paper is organized as follows. Firstly, we discuss the theoretical perspectives relating to the focal research problem. Secondly, we build a conceptual framework and a set of theoretical propositions capturing key theoretical relationships in the model. Thirdly, we discuss some of the issues that may arise in operationalizing the proposing conceptual model. We conclude with theoretical implications and directions for future research.

THEORETICAL PERSPECTIVES

Market learning and 'Market Constituents'

The role of market learning in firm performance has been primarily examined in the for-profit context. Market focused learning has primarily evolved within the market driven view (Day 1994; Sinkula et al. 1997; Slater and Narver, 1995) and market orientation (Kohli and Jaworski, 1990), within which the latter is seen as an integral part of the former. The market orientation literature argues that firms that engage in market learning as a strategic activity gain competitive advantage (Kohli and Jaworski, 1990; Slater and Narver, 1995; Day,

1994). Such firms engage in three activities; (a) market intelligence generation (closely monitoring changes in customer needs, understand the environmental factors impacting such changes and monitor competitor actions), (b) dissemination of market information through formal and informal mechanisms and (c) organizational-wide response to market needs (Kohli and Jaworski, 1990). Broadly, market orientation is widely considered as the most effective means of achieving and maintaining market advantage (Kohli and Jaworski 1990; Jaworski and Kohli 1993). As indicated above, market orientation is viewed largely in terms of customer or competitor related activities (Day 1990; Kohli and Jaworski 1990; Jaworski and Kohli 1993). Market orientation view therefore focuses on two market constituents, namely, customers and competitors (Kohli and Jaworski, 1990; Day 1994; Slater and Narver 1995). With this market knowledge, market-oriented firms are suggested to be competent in responding for the rapidly changing market demands and conditions and capable of readily adapting market offerings to meet changing market demands (Day, 1990).

From For-profit context to SPO context

Market learning within SPOs has primarily evolved within attempts to adopt market orientation construct to SPO context. Two notable approaches are evident. First, the direct application of the market orientation measure to the SPO context (Voss and Voss, 2000; Kara et al. 2004) can be seen. Second, adaptation of market orientation measure with modifications addressing the contextual and operational characteristics of SPOs (Padanyi and Gainer, 2004; Duque-Zuluaga and Schneider, 2008) is evident.

Within the SPO market orientation literature there has been a substantial debate on the suitability of market orientation construct to SPO context. Though the ongoing debate reflects the importance of bringing the marketing literature to SPOs context (Duque-Zuluaga and Schneider, 2008; Levine and Zahradnik, 2012), the literature is still silent on three fronts; a) how the market learning happens, b) what are the constituents of market learning process, and, c) how the market learning is related with innovation based competitive advantage of SPOs. The major challenge in conceptualising the link of market learning and social innovations arises with the inconclusive nature of capturing the true market constituents who have potentials to influence strategic initiatives of the SPOs. Though the process of determining market has been challenging in this unique context (Gainer and Padanyi, 2005), there have been several attempts to define “market” in SPOs context (e.g. Balabanis et al., 1997; Chan and Chu, 1998; Voss and Voss, 2000; Gainer and Padanyi, 2002). Some scholars argue that even the term “market orientation” is not appropriate for the SPO context (Sargeant, 2001). For example, Liao et al. (2001) Duque-Zuluaga and Schneider (2008) suggest that applying market orientation theories for SPO context requires modifications.

Organizational learning, dynamic capabilities and firm competitive advantage

Organizational learning is suggested as an essential element of firm strategic initiatives aimed at increased firm performance (Huber, 1991) that has provided the foundation for examining the role of market learning within the for-profit marketing literature. Similarly, dynamic capabilities view that has gained popularity in the competitive strategy literature as a potential explanation of firm heterogeneity (Eisenhardt and Martin, 2000; Weerawardena et al., 2014) is suggested to be linked with organizational learning (Weerawardena et al., 2014). It is argued that dynamic capabilities enable the firm to compete better by providing new knowledge resource configurations to undertake innovative

initiatives. The new knowledge resources are developed through three processes, namely, *building*, *integration* and *reconfiguration* (Teece et al., 1997). These three processes are aimed at enhancing the firm's capability to deliver superior value for stakeholders via grasping novel opportunities created with changing market demands (Zahra et al. 2006). Whilst the dynamic capabilities view (DCV) has been examined in many for-profit contexts, its applicability has escaped the SPO context.

Conceptualizing market learning construct

In a departure from 'market orientation path' to capture market learning, our conceptualization of market learning is built on the contextual and operational characteristics of SPOs. We find that SPO market constituents are substantially differ from those of for-profit markets on three fronts. First, although customers and competitors are the major constituents of for-profit markets exerting a strong influence on their marketing strategies, the influence that these constituents can exert on SPO marketing strategies will be relatively less. For example, whilst the consumer enjoys substantial power in for-profit markets, the client or the service recipient of a SPO has little or no economic capability and has few consumption alternatives. Arguably, the SPO service recipients will broadly determine the type of services and where such services will be located beyond which they will be passive service recipients. Similarly, degree of competition will defer in terms of nature of service and the clientele targeted. Relative to these two, it is evident that two other constituents exert a greater influence on the financial sustainability and long-term growth of SPOs. Second, SPOs depend on donors since they provide funding for sustenance of services that SPOs provide. Donors include the government and many private corporations, institutions and individuals. With the increased competition for 'donor' dollar, the donors have the potential to influence the type and extent of services that can be delivered by SPOs. Third, the SPOs to a larger extent depend on voluntary labour (Esmond, 2004; Gill, 2006) which is a critical source of human resources for the sector. "Free labour" provided by volunteers is a crucial input for SPOs as they do not have predicted strong cash flows and their operations are highly sensitive to funding sources which do not permit them to maintain a paid workforce. On these grounds, this paper identifies four constituents those compose "market" from SPOs context by making a clear departure from constituents of market defined in for profit context; a) beneficiaries, b) donors, c) volunteers and d) competitors and market learning is defined as learning from those four constituents accordingly as illustrated follows.

Beneficiaries

SPOs usually serve population subgroups that are disadvantaged or marginalized in economic, social or political terms (Duque-Zuluaga and Ulrike, 2008). Customers of SPOs are distinctive from customer for-profit organizations on two fronts; a) they have a lower capacity for influencing on the operational decisions of the organizations compared to customers of for-profit organizations and, b) they have a less degree of bargaining power to demand what they exactly need from SPOs compared to customers of for-profit organizations. For an example, helping poor people is a strong component of Wesley Mission's mission in Australia. As they have estimated, ½ million Queenslanders are living in poverty (Wesley Mission Brisbane, 2013). In this context, poor people are the beneficiaries and this group is substantially different from the end users those can be seen in for-profit literature. They may have a less bargaining power with the SPO and demand what they need not like a customer of Apple Company who has more consumption alternatives and bargaining power.

Donors

Donors are identified as a main constituent of SPOs market. As donors play a pivotal role in ensuring the sustainability of SPOs (Sargeant and Woodliffe 2007; Waters 2009; Human and Terblanche 2012), SPOs have to understand the intentions, interests, and behaviours of them and keep keen eye on attracting new donors and retaining existing donors by satisfying them. Hence, retaining current donors and attracting new donors (Duque-Zuluaga and Ulrike 2008) should be a crucial part of SPOs' strategies. The significance of donors as a major market constituent is increased year by year due to two reasons. First, many SPOs show a trend of reducing the dependency on government funds and relies on public funds. The reason is when they highly depend on government funds they have to entertain government objectives rather than their organizational missions. For an example, Care International gets only 20% of funds what they need from the government which means that they obtain 80% of the funds they need from public (Care International, Australia, 2013). Second, the number of SPOs is increasing yearly (AusAid, Australia 2009) and since many SPOs rely on public support to stay viable, they have to compete each other and this is how the competition for "philanthropic dollar" has been intensified. On these grounds, this study argues that, as a main market constituent, donors are a vital source of learning and obtaining new ideas for innovations for SPOs.

Volunteers

Formal volunteering has been defined as "long-term, planned, pro-social behaviours that benefit strangers and occur within an organizational setting" (Penner, 2002) and it is significant for SPOs to craft better strategies to understand and learn from them as volunteers play a main role in SPOs operations (Garner et al., 2011). Developing strategies those can attract more individual volunteers and retaining existing volunteers have been strong components of strategic landscape of SPOs (Stukas et al., 1999) since volunteers provide the "free labour" which is a critical success factor for SPOs. "Free labour" is crucial for SPOs since they are lacking regular estimated strong cash flows like in for profit organizations. SPOs contribute significantly to employment, accounting for 889,900 employed persons and over 4.6 million volunteers in Australia (Australian Bureau of Statistics, 2009). This is a point where for-profit organizations and SPOs are clearly differentiated. SPOs largely depend on volunteers (84%) when reaching the labour that they need. Since the relative importance of volunteers is higher in this sector, this study views volunteers as a strong constituent of SPOs market.

Competitors

With the increased competition in many domains where SPOs operate such as non-profit, public sector and social enterprises, SPOs require to have a greater understanding of how the competitors operate their marketing campaigns and their capabilities. As noted earlier, competitors are a core constituents of for-profit markets and the importance of monitoring competitor actions and how they might affect customer preferences is emphasised in the market orientation literature (Kohli and Jaworski, 1990). Although market intelligence pertains to customer needs and preferences, it includes an analysis of how they may be affected by exogenous factors such as government regulation, technology, competitors, and other environmental forces. 'Environmental scanning activities are subsumed under market intelligence generation' (Kohli and Jaworski, 1990, p. 4)

In sum, we conceptualize that SPO market has four constituents who influence the strategic initiatives of SPOs, namely, clients, donors, volunteers and competitors. Having a greater understanding of their behaviour is critically important for the survival and growth. Looking at the way SPOs manage social transformation, and serve the society, SPOs must be explicitly market driven and they must maintain a higher degree of market learning focus.

Conceptual framework and theoretical propositions

Our conceptual framework is presented in Figure 1. The framework suggests that SPOs that are characterised with higher social entrepreneurship, actively engage in market learning. Such learning enables them to pursue social innovation that creates potentials for them to gain competitive advantage. Further, social mission acts as an overarching influence guiding the whole SPO value creation process.

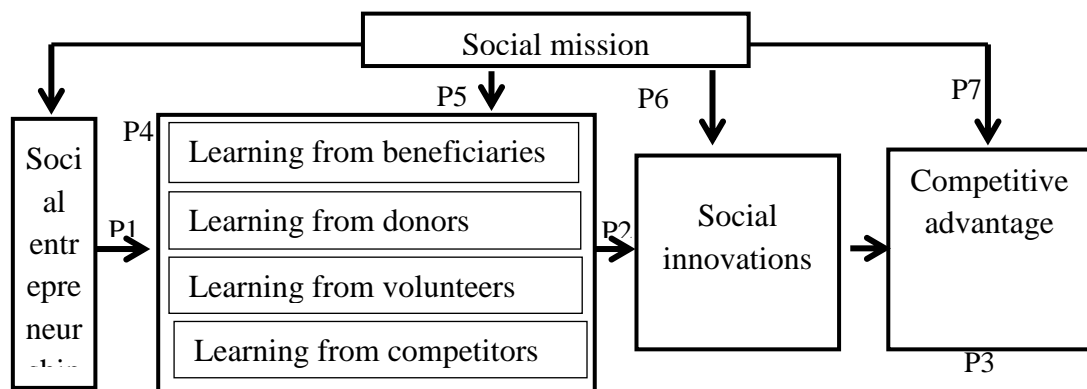


Figure 1: Conceptual framework

Social entrepreneurship and market learning

Social entrepreneurship is a behavioural phenomenon at delivering social value through the exploitation of perceived opportunities (Weerawardena and Sullivan Mort, 2001). There is substantial ambiguity on what constitutes social entrepreneurship (Dees and Anderson, 2006; Dorado, 2006) due to the multiple domains in which social entrepreneurship-led value creation occurs. We adopt the definition by Nichols (2006): 'Social entrepreneurship is a set of innovative and effective activities that focus strategically on resolving social market failures and creating new opportunities to add social value systemically by using a range of resources and organizational formats to maximize social impact and bring about change'. Simply put, 'social entrepreneurship is defined by its two constituent elements: a prime strategic focus on social impact and an innovative approach to achieving its mission' (Nicholls, 2006, p.13). The broader literature views the role social entrepreneurship from three schools of thoughts namely American Social Innovation School, American Social Enterprise School and European perspective (Bacq and Janssen, 2011). The American Social Innovation School views the role of social entrepreneurship as establishing of new and better social means to tackle social problems or to satisfy social needs (E.g. Seelos and Mair, 2005; Mair and Marti', 2006). The American Social Enterprise School focuses on its income generation capacity (E.g. Stryjan, 2006) while conducting social mission while the European aspect's focus is on social enterprises (EMES network 2006).

METHODOLOGY

Conceptualizing the market learning construct

Based on this discussion and building on organizational learning and dynamic capability literature market learning capability of a SPO is defined as the ‘capacity of the SPO relative to its competitors to build and integrate knowledge gained from its market constituents then reconfigure for the use of such knowledge for firm’s value creating activities’ (Weerawardena and Sullivan-Mort, 2001).

The literature suggests that social entrepreneurship pursues long term growth and sustainability since it provokes the innovative capabilities, risk managing capabilities and proactivity or proactive behaviours of SPOs (Weerawardena and Sullivan-Mort, 2006). Based on literature we conjecture that social entrepreneurship drives the strategic initiatives aimed at having a greater understanding of broader market constituents. Thus, the relationship between social entrepreneurship and market learning is advanced as follows;

P1: Social entrepreneurship positively relates to market learning

Social innovation

Organizational innovation is defined as the application of ideas that are new to the firm, whether the newness is embodied in products, processes, and management or marketing systems (Weerawardena et al. 2006). The type and the degree of social innovation pursued. The typology of social innovation developed by Caulier-Grice et al. (2012) includes; new products, new services, new processes, new markets, new platforms, new organizational forms and new business models. Interestingly, SPOs tend to focus more on fund-raising innovations due to the emphasis on achieving financial/organizational sustainability amidst growing competition from other SPOs that are chasing the same donor dollar (Weerawardena and Sullivan Mort, 2012). This highlights the importance of donors and volunteers in these strategic initiatives. This is a notable departure from the product innovation literature which emphasizes the importance of a customer focused physical product as the primary basis of value offering. With regard to the degree of innovation adopted, recent case evidence suggests that like for-profit firms, non-profit organizations (NPOs) also actively undertake incremental, continuous and radical innovation (e.g. Weerawardena and Sullivan Mort, 2012).

Innovation is considered as a prime source of competitive advantage, survival, and renewal for many organizations (Howell et al. 2002) and market is believed to be an amazing source for business organizations to acquire ideas for firm level innovations. Hence for-profit based studies motivate business organizations to stay closer to their customers and market needs in the highly turbulent environment. As competition intensifies, firms need to renew themselves by exploiting existing competencies and exploring new ones (Floyd and Lane, 2000) which reflects the significance of innovations repeatedly. The degree of innovation reflects the extent of new knowledge embedded in an innovation (Dewar and Dutton, 1986; Ettlie, 1983). There are ample evidence from for-profit literature to suggest that market learning is a prerequisite for greater innovation (Slater and Narver, 1995; Day, 1994). Therefore we propose that market learning positively relates to social innovation. Thus, the relationship between market learning and social innovations is advanced as follows.

P2: Market learning positively relates to social innovations***Social innovation and competitive advantage***

Further, for-profit literature suggests a strong positive correlation between innovations and firm performances (e.g., Damanpouret al., 1987; Khan and Manopichetwattana, 1989). Turning to non-for-profit context, SPOs are supposed to be innovative in both survival and growth since they operate in a highly competitive environment (Jaskyte, 2004; Sullivan-Mort et al. 2003). Since innovation is the prime answer for operational efficiency and effectiveness (Hunt, 2000; McDonald and Srinivasan, 2004), SPOs' focus on fostering innovations is significant as a strategy for both survival and growth. It is argued that non-for profit innovations are quite distinctive from for-profit innovations since SPOs context is dominated by non-technical innovations (Weerawardena and Sullivan-Mort, 2001). Weerawardena and Sullivan-Mort (2001) propose two categories of innovations; a) product and process (i.e., technological) and, b) managerial and marketing (i.e., non-technological) innovations. In most of the cases, product and process innovations are focused at beneficiaries and managerial innovations are focused on new managerial initiatives while marketing innovations involve like new initiatives for fund raising etc. What is lacking related to innovations in non-for-profit context is, the literature is still silent on how social innovations lead SPOs to gain competitive advantage. Thus, this study argues that SPOs with higher degree of innovations gain higher competitive advantages and the relationship is advanced as follows.

P3: Social innovations positively relates to SPO competitive advantage.***Social mission***

Mission is the direct reflection of the values, beliefs, and guidelines for the way the organization conducts its business and determines its relationship with its stakeholders—employees, customers, shareholders, suppliers, government, and the public at large (Lloyd and Thomas, 1987) though relative lack of research can be observed on the fulfilment of the non-profit's mission (Sawhill and Williamson, 2001). SPOs have a strong social mission (Leadbeater, 1997; Austin et al., 2006; Shaw and Carter, 2007; Weerawardena and Sullivan-Mort 2006; Defourny and Nyssens, 2010) which is the fundamental feature which distinguishes social from commercial entrepreneurship (Austin et al., 2006). 'For social entrepreneurs, the social mission is explicit and central.' (Dees, 1998. p.5). It is vibrant that all the definitions implicitly or explicitly retain the *social mission* as the foundation of social entrepreneurship and social value creation (Bacqand Jansen, 2011; Austin et al., 2006; Dorado, 2006; Defourney and Nyssens, 2010; Nicholls, 2006). The social mission emerges as an overarching characteristic of SPOs, which sufficiently differentiates them from their for-profit counterparts. We therefore theorize that social mission will guide the social mission, the direction of market learning, social innovation and SPO competitive advantage. Thus, the relationships between social mission and the other constructs of the model are advanced as follows.

P4: Social mission positively relates to social entrepreneurship.***P5: Social mission positively relates to market learning.******P6: Social mission positively relates to social innovation.******P7: Social mission positively relates to competitive advantage of SPOs.***

Operationalizing the model

As in many areas of research that are early stage of development there can be several issues in operationalizing our model. The model suggests the need to develop measures for five constructs that are included in our model; a) social entrepreneurship, b) market learning, c) social innovation, d) sustainable competitive advantages of SPOs and e) social mission. Whilst there have been some evidence, particularly based on qualitative evidence, that can be used; for example social entrepreneurship (Weerawardena and Sullivan-Mort, 2006), market learning (Weerawardena and Sullivan-Mort, 2006, 2012), social innovation (Caulier-Grice, Davis, Patrick and Norman, 2012) competitive advantage (Weerawardena and Sullivan-Mort, 2012), it is proposed to develop measures for identified constructs in the conceptual framework after inductive field studies. This will enable the researchers to build such measures on the unique contextual characteristics of SPOs. Using case studies is especially appropriate in new topic areas (Eisenhardt, 1989) like social innovation based competitive strategy since the approach facilitates “discovering of theory/theories from data that is systematically obtained from research” (Weerawardena and Mort, 2006; Glaser and Strauss, 1967, P.5).

The next stage is empirical testing of the model in a larger number of SPOs. SEM (Structural Equation Modelling) is proposed as analysis technique since SEM is a kind of multivariate analysis technique used to examine multiple and interrelated dependence relationships and enable to take into account the measurement error of the independent variables (Chan 2005) and also it simultaneously reflects a theoretical network of manifest (observed) variables and latent (unobserved) variables (constructs) as well as general statistical technique. Hence, SEM represents a versatile and powerful tool for addressing a variety of substantive and methodological issues (Chin et al. 2008), it would be proposed to analyse data.

DISCUSSION AND CONCLUSION

This paper was intended to conceptualizing SPO marketing learning activity and its suggested relationship with SPO competitive advantage. In this effort we were guided by the well-developed body of literature on market learning and firm performance that had evolved within the market orientation literature. Market orientation had received substantial attention within the SPO literature within which a healthy debate has occurred on the suitability of directly applying established theories from other disciplines or originated in for-profit context. We concurred with those who argue that direct application of borrowed theories will not help advancing social entrepreneurship literature from its current situation which displays a pre-paradigmatic state. Considering the fact that social innovation-based value creation is central to SPOs, the role of market learning as a key antecedent in that process will provide a promising path to future research.

As a further research direction, learning from the market is only a single component of organizational learning. Hence, there is a need to learn from other sources that possess knowledge valuable to the business (Dixon, 1992; Slater and Narver, 1995) that would shift the boundaries of learning needed for enhanced value creation and competitive advantage. Many researchers advocate that market is not the only source for organizations to learn (Dixon, 1992; Slater and Narver, 1995) and a firm can adapt multiple approaches of learning in the process of acquiring competitive advantages. Thus, we conjecture that market learning is necessary to understand markets better and it can be an amazing source of absorbing ideas

for social innovations of SPOs, at the same time, it is not sufficient to deliver what the market desires and focusing on other learning sources can build a strong pathway in achieving innovation based competitive advantage for SPOs.

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