

Competitive Strategy in Socially Entrepreneurial Nonprofit Organizations: Innovation and Differentiation

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Social entrepreneurship has attracted an increasing volume of research in an attempt to understand the basis of successful value creation aimed at solving social problems. In an effort to advance social entrepreneurship research beyond its current focus on conceptualizing the concept, this article addresses the role of innovation in achieving greater social impact. Using multiple theoretical case studies, this research finds that innovation-based competitive strategies of socially entrepreneurial nonprofit organizations substantially contribute to the achievement of social value. Innovation-based strategies are uniquely characterized by a primary focus on differentiation, with innovations directed at product, process, and system change levels. They tend to actively involve both externally and internally focused learning. Nonprofit organizations' innovation strategies are strongly influenced by their organizational characteristics, in particular the need to build sustainable organizations. The article concludes with implications for theory and practice and directions for further research.

Keywords: socially entrepreneurial nonprofit organizations, social entrepreneurship, social innovation, differentiation, external learning, internal learning

For most of the past century, a deliberate partnership between government and nonprofit organizations (NPOs) contrived to deliver a range of services and fill the gaps of market failure to enhance social well-being and quality of life. However, the environment in which services are provided has rapidly changed as a result of increased targeting of government initiatives and an overall tighter funding environment, along with growing intersector competition for donors, grants, and government contracts. The result has been both the creation of more space for civil organizations and the attraction of commercial providers to markets usually served exclusively by the nonprofit sector. The following examples amply demonstrate the situation:

- The increasing success of the well-known Marriott hotel chain entering into innovative areas of delivery of services U.S. government agencies had traditionally contracted to nonprofits;
- The recent success of a joint venture between Ingeus, an Australian firm, and Deloitte, the financial services giant, in winning a \$1.4 billion contract for the delivery of welfare-to-work services in the United Kingdom; and
- The Obama administration's establishment of the Social Innovation Fund to award \$49 million in grants to innovative charities in the United States, with a further \$74 million of matched funding.

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The changed context increasingly rewards discipline and performance and requires the development of organizational capabilities that deliver greater value to clients and stakeholders, rather than accruing advantage simply on the basis of for-profit or nonprofit status and mission (McDonald 2007; Ryan 1999; Weerawardena and Sullivan Mort 2001). These changes have generated increased interest on the part of marketing researchers in the role of innovation and social entrepreneurship in NPOs (Svensson and Bengtsson 2010). This interest in social innovation-based value creation is consistent with the strategic marketing literature that assigns a central role to innovation (Day 1992; Kerin 1992). However, researchers observe that the marketing literature has primarily examined the role of product innovation and paid scant attention to other forms of innovation (Han, Kim, and Srivastava 1998; Varadarajan and Jayachandran 1999). In the social entrepreneurship literature, there is growing consensus that social entrepreneurs create greater social value by engaging in high-social-impact initiatives (Goldstein, Hazy, and Silberstang 2010; Leadbeater 2007). Doing so requires social entrepreneurs to continually challenge the current social equilibriums and perceive new ways of creating social value (Hazy, Moskalev, and Torras 2010).

Recently, attention has focused on a newly identified type of NPO—namely, the socially entrepreneurial NPO (Mair, Robertson, and Hockerts 2006; Nicholls 2006; Peredo and McLean 2006). These organizations are characterized by sociality, market orientation, and innovation, and many social entrepreneurs “may move dynamically between

these dimensions, shifting as they aim to maximize social impact and bring about change” (Nichols and Cho 2006, p. 104). According to prior research, social entrepreneurship occurs not only in the voluntary or nonprofit sector but also in profit-seeking firms that have some commitment to doing good (Thompson 2002), in public sector organizations (Eikenberry and Kluver 2004), and in social enterprises established for a social purpose but operating as businesses. Thompson (2002, p. 413) argues that the “main world of the social entrepreneur is the voluntary [NPO] sector”; thus, NPOs provide a rich focus for further research. Although researcher interest in these firms has grown in significance in recent years (Haugh 2007; Mair and Marti 2006; Peredo and McLean 2006), the role of social innovation in the competitive strategies adopted by NPOs remains largely unexplored. The purpose of this article is to advance beyond definitional issues and descriptions of social entrepreneurship and to deepen understanding of the role of social innovation in social entrepreneurship and organization competitive strategy. Using socially entrepreneurial NPOs as the research context, the article specifically examines four facets of social innovation that have escaped empirical scrutiny: (1) the environmental characteristics fueling innovation, (2) the type and degree of innovation NPOs pursue, (3) the role of learning, and (4) the organization-specific factors affecting social innovation-based competitive strategy.

This article proceeds as follows: First, a critical review of literature on NPO innovation and competitive strategy provides the rationale for the study. We establish that the literature is fragmented and lacks a strong empirical foundation, reflecting the need for this research. Second, we present the research design and qualitative method. Third, we provide the key findings from the analysis. Fourth, we discuss implications for theory, practice, and public policy and provide directions for further research.

Conceptual Background

The literature on NPO competitive strategy has addressed social entrepreneurship in terms of its nature and characteristics, the competitive environment and its dynamism, and the role of innovation in competitive strategy. We begin by addressing the first direction—namely, the conceptualization of the domain of social entrepreneurship—as a mechanism for NPO strategy development. Many authors agree that social entrepreneurship is a multidimensional construct that involves the expression of virtuous behavior and the ability to recognize social value-creating opportunities with key decision-making characteristics of innovativeness, proactiveness, and risk taking, with the organization as the unit of analysis (Sullivan Mort, Weerawardena, and Carnegie 2003; Weerawardena and Sullivan Mort 2006). Subsequent attempts to delineate the role of social entrepreneurship in NPO strategy include incorporating the role of social networks into the social entrepreneurship process (Sharir and Lerner 2006), identifying social goals and community needs as catalytic processes in venture philanthropy (Pepin 2005), and developing community-led programs that enable social transformation (Alvord, Brown, and Letts 2004; Peredo 2005; Peredo and Chrisman 2006). As a departure, other

authors (e.g., Weerawardena, McDonald, and Sullivan Mort 2010; Weerawardena and Sullivan Mort 2006) suggest that NPOs substantially differ from their for-profit counterparts in terms of contextual factors and operational characteristics. Some also argue that social entrepreneurship manifests within a set of factors—social mission, sustainability of the organization, and environmental/market orientation interaction—that constitute a framework for constrained optimization (Weerawardena and Sullivan Mort 2006).

The second direction in the literature addresses the examination of the competitive environment and its influence. Contributors to this stream of research have examined structural changes and their impact on service delivery (Gaynor and Haas-Wilson 1999), patterns of intra- and intersector competition and their impact on commercialization of NPO activities (Tuckman 1998), and distinctive characteristics of industry structure in terms of Porter’s Five Forces (Ritchie and Weinberg 2000). In a notable contribution, Eikenberry and Kluver (2004) argue that increased competitiveness requires “marketization” (adoption of businesslike principles) in NPOs. Although they note that this trend may cause NPOs to lose sight of their social mission, other researchers have found that increased marketization improves service delivery while having no impact on the social mission (Zolkiewski 2004). Weerawardena and Sullivan Mort (2006) find that socially entrepreneurial NPOs do not need to adopt marketization as a primary strategy for success but can be highly competitive and successful even within the constraints of the social mission. Other research examines the impact of market structure, age, and size of the firm on firm performance (Feigenbaum 1987) and the influence of industry structure on the development of internal strategic core competencies (Bennett 2003; Douglas and Ryman 2003).

Influenced by the “market-driven” proactive firm view that has dominated the for-profit strategic marketing literature (Day 1994; Kohli and Jaworski 1990; Slater and Narver 1995), several researchers have argued for the need to adopt a market orientation as an organizational response to increased competitive pressure (Duque-Zuluaga and Schneider 2008; Gainer and Padanyi 2002; Liao, Foreman, and Sargeant 2001). Recent research suggests that market orientation is one of the key features differentiating socially entrepreneurial ventures from other social organizations (Nicholls and Cho 2006).

Prior research has argued that in response to competitive pressures, NPOs must adopt an entrepreneurial posture (Dees 1998; Sullivan Mort, Weerawardena, and Carnegie 2003; Wallace 1999; Weerawardena and Sullivan Mort 2006) and challenge the status quo and conventional thinking in their efforts to create social value creation (Mair and Marti 2006; Seelos and Mair 2005). However, assessing social performance and the impact of social entrepreneurship is one of the greatest challenges for practitioners and researchers (Mair and Marti 2006).

In an attempt to understand the primary strategies through which social entrepreneurs create social value, an increasing number of researchers have emphasized the role of innovation in social value creation, the third direction in the literature. Dees (1998) describes the social entrepreneur as one who “relentlessly” pursues new opportunities to fol-

low the social mission and engages in “continuous” innovation. Early literature specifically focused on the sources or mechanisms of social innovation, including innovative marketing practices adopted by social enterprises (Rentschler 1999), organizational culture as a factor mediating leadership and innovation (Jaskyte 2004), the use of multifunction stage-gate processes in the new product development processes of nonprofits (as in for-profits), the infrequent use of team-based reward systems (Bennett and Savani 2004), and the critical role of the NPO’s mission in developing and adopting innovations (McDonald 2007). Research in this literature stream reflects an increased adoption of case studies. For example, from case work, Svensson and Bengtsson (2010) find that users of social services are adept at providing innovative solutions and using their superior problem and related solution knowledge. Similarly, Alvord, Brown, and Letts (2011) find that social entrepreneurs tend to adopt a set of innovations, which encompasses capacity-building, dissemination, and movement-building initiatives.

The broader innovation literature, which primarily evolved from the study of commercial firms, suggests a typology of innovations: *technical* and *nontechnical* innovations (Damanpour 1991; Damanpour, Szabat, and Evan 1989; Han, Kim, and Srivastava 1998; Schumpeter 1934). Although evidence suggests that both types of innovation lead to improved performance (Damanpour, Szabat, and Evan 1989; Han, Kim, and Srivastava 1998), the innovation literature has primarily focused on technical innovations, mostly in products. In contrast, social value-creating innovations may involve new forms of social institutions, social relationships, and forms of business practices (Drucker 1999; Moulart et al. 2005). The growing NPO innovation literature includes nontechnical innovations (e.g., Goldstein, Hazy and Silberstang 2010; Jacobson 1999; Jones and Eadie 1994; Shin and McClomb 1998).

This somewhat fragmented nature of conceptual and empirical evidence on social innovation necessitates a clearer working definition of social innovation. Building on the work of Mumford (2002) and Svensson and Bengtsson (2010), we define “social innovation” as the generation and implementation of new social service ideas for solving social problems manifested at either the product or process level or the social system level. We define “incremental innovations” as refinements and extensions to current services, operational processes, and system changes, whereas “radical innovations” are extensively effected changes to the services, operational processes, and systems (Banbury and Mitchel 1995; Henderson and Clark 1990).

Overall, despite the growing emphasis on innovation (Nichols and Cho 2006; Weerawardena and Sullivan Mort 2006), research examining the types and degrees of innovation pursued and the capabilities needed to be built and nurtured to pursue innovation is limited. Similarly, the role of social innovation in NPO competitive advantage has received limited attention (e.g., the role of alternative funding and donor choices in proactive differentiation [Barman 2002], sources of sustainable competitive advantage in NPOs [Miller 2002]), suggesting the need for an in-depth examination of this topic.

Considering the strong emphasis placed on innovation in the for-profit literature as the primary strategy for value

creation (Calantone, Cavusgil, and Zhao 2002; Hurly and Hult 1998; Kerin 1992), and because innovation has been proposed as a defining dimension of the socially entrepreneurial NPO (Nichols and Cho 2006; Peredo and McLean 2006), there is a need to address the issue of innovation in this domain. Thus, the research question guiding this study is, What is the role of innovation in competitive strategy in socially entrepreneurial NPOs?

Method

Research Methodology and Sampling Issues

We used multiple case studies to examine the research question, which is appropriate for the study of contemporary issues embedded in contexts that use multiple sources of data (Yin 1994), that have socially constructed meanings (Easterby-Smith, Thorpe, and Lowe 1991), and in which boundaries are uncertain. Qualitative case studies are the most appropriate approach to address the specific research question of this study. A questionnaire-based approach at this stage of the development of the field would not offer a fine-grained view of the issues at hand. Consistent with Eisenhardt (1989), we entered the organizations with a well-defined research focus. An extensive review of nonprofit competitive strategy literature led to the identification of a broad research problem. Although the presence of a well-developed for-profit theory of competitive strategy appropriately informs this research (Yin 1989), we assumed no preordained theoretical relationships among constructs and were alert to the identification of constructs specific to the NPO context and to developing context-specific specifications to enable their inclusion in the emerging theory.

Nine enduring and successful socially entrepreneurial NPOs took part in the study; this number is consistent with the range of four to ten cases necessary for the development of theory from case studies (Eisenhardt 1989). We identified the NPOs as enduring if they had existed for five or more years and as successful if they were nominated as innovative by their peers; these NPOs also were accredited as charities and service providers. This approach is consistent with similar research examining the role of social entrepreneurship in societal transformation (e.g., Alvord, Brown, and Letts 2004).

We used purposeful sampling (Eisenhardt 1989; Patton 1990), designed to provide exemplars of polar types, to draw our cases from a population of socially entrepreneurial NPOs. The organizations that took part in the study are Australian and located in the major cities on the eastern seaboard. The sampled organizations also varied in terms of their overall management philosophy; some firms used businesslike pragmatic approaches in their competition, while others had a more traditional charity mission orientation. All exhibited a social entrepreneurial posture, in terms of being innovative, proactive, and risk managing in their strategic decisions. The sample of cases also varied in terms of size and the nature of activities undertaken, satisfying Patton’s (1990) criterion of maximum variation. Sampling proceeded until theoretical saturation was achieved. Theoretical saturation is a process in which themes and constructs from one case are substantiated by the evidence of

another case; sampling proceeds until no new issues or constructs are introduced (Hirschman 1986). Table 1 lists the characteristics of the organizations.

Data Collection

We developed cases from a variety of data sources (Yin 1994). We conducted in-depth interviews with key decision makers of the organizations because they possess the most comprehensive knowledge of the characteristics of the organization, its strategy, and performance (Snow and Hrebiniak 1980). The chief executive officer (CEO) is familiar with all aspects of the company's operations, influences the company's strategic direction, and plays a key role in technology adoption decisions (Miller and Toulouse 1986). Data on strategy gathered from middle and lower managers have questionable validity because these managers typically do not have access to information about how the entire system operates (Snow and Hrebiniak 1980). We conducted follow-up interviews periodically to clarify points during data analysis. We also collected relevant documents and archival data about the organization at the time of the interviews. In addition, we recorded field observations and newspaper articles about the organizations. These multiple data sources provided triangulation of reference material for thematic analysis and postresearch inquiry (Creswell 2003; Patton 1990). The interviews were recorded and transcribed verbatim and subjected to coding and thematic and further analyses, as we discuss subsequently.

Analytical Process and Research Soundness

Soundness of qualitative research (Lincoln and Guba 1985) can be enhanced by adopting procedures that make the research more dependable, transferable, confirmable, and credible. We ensured dependability, in many ways parallel to reliability in quantitative method (Lincoln and Guba 1985), in several ways. For the interviews, we used a protocol (Eisenhardt 1989), in which the questions were accompanied by suggested prompts and probes that helped initiate the topics, extend discussion, and elicit further relevant information. This protocol helped us more clearly understand emergent constructs and the relationships among constructs.

As an additional measure to achieve dependability, we employed matrices as an analytical tool to analyze and report the data (Creswell 2003; Glaser and Strauss 1967; Yin 1994). The matrix technique promotes pattern matching and the effective categorization of data (Miles and Huberman 1984). After initial examination of the transcripts, we adopted a general analytical approach, prioritizing information by developing categories of data and examining similarities. We then organized the transcripts and documentary evidence from each organization into "chunks," which we labeled with a term often based on the natural language of the interviewee or document, forming the basis of the coding frame. We developed subtopics or subthemes using codes and then identified larger emergent themes. Finally, returning to the literature, we compared the emergent themes and initial research question with the literature in an attempt to obtain both conflicting and similar frameworks, in line with Pandit (1996) and Eisenhardt (1989). Enfolding the literature enhances transferability and generalizability.

In addition, we undertook cross-case analysis to reach a deeper understanding of competitive strategies NPOs are adopting. Cross-case analysis increases generalizability (Eisenhardt 1989; Miles and Huberman 1984). Creative insights often arise from the juxtaposition of contradictory or paradoxical evidence, and "building theory from case studies centers directly on this kind of juxtaposition" (Eisenhardt 1989, p. 546).

Findings

Theme 1: Wide-Ranging Innovation Is Necessary in Highly Turbulent Environments

All the sampled NPOs perceived the operating environment as highly uncertain. One of the primary sources of uncertainty is changing government policies. A major problem facing the sampled NPOs is the absence of strategic funding in the form of block grants. Large and sustained funding, which increases NPOs' financial stability and long-term horizons for service development and provision, is absent. This problem has had a dual effect on their strategy forma-

Table 1. Characteristics of Sample

Case	Size of Organization ^a	Person Interviewed	Purpose	Location (Australia)
A	Small	CEO	Support for children of drug addicted parents	Melbourne
B	Large	State manager	Safety and community recreation on beaches	Brisbane
C	Medium	CEO	Housing for disabled	National organization
D	Medium	CEO	Legal services to disabled	Melbourne
E	Large	CEO	Services and advocacy for the poor	Melbourne
F	Medium	Site manager	Aged housing and community services	National organization
G	Large	Divisional manager	Aged services	Brisbane
H	Small	CEO	Incubator and social venture funding	Sydney
I	Medium	CEO	Economic and community development services	Brisbane
				Sydney

^aWe categorized the size of the organizations using Australian Bureau of Statistics (2001) definition, in which small is fewer than 20 employees, medium size is 20–200 employees, and large is greater than 200 employees.

tion. First, NPOs need to be more cautious in strategic resource commitments, requiring strict financial management. This effect is particularly pronounced for smaller, newer, and more resource constrained NPOs. Second, all the NPOs agreed on the need to be innovative and to diversify their income streams to minimize their reliance on government sources for project funding.

The majority of the NPOs agreed that they were required to be inherently innovative, sometimes more so than for-profit organizations, because of the increased complexity of issues they must address as a result of environmental changes. Many perceived the external environment in which they operate as increasingly turbulent and competitive. As such, many NPOs have moved away from path-dependent decision making (i.e., doing what has always been done) toward developing innovative practices and strategic responses. Although prior employment experience and learning of founders affected the initial selection of the social value creation area, the competitive environment has forced them to be more innovative in all their operational activities, particularly in service delivery and capital raising. For example, as Case H indicated,

I thought that social entrepreneurs ... you need far more creativity and innovation than ordinary business and I find this. People keep hitting you with problems;... it is far more challenging, I reckon.

Case D further elaborated on the need for innovation:

Innovation is important in that we have to constantly think of new ways across the whole spectrum of our work.... We have to look at new ways of marketing, new ways of influencing government, new ways of delivering service, we have to stay up to date with changing trends in relation to theories that are revolving around service provision.

In general, innovation targets two primary strategic areas—capital raising and the delivery of services to targeted clients—and a reflexive relationship exists between them because high performance in capital raising provides increased service delivery. We suggest that capital raising should broadly include donor contributions, earned income streams, and goodwill relationships in social capital networks.

The scope and quality of services that a social enterprise can deliver are constrained by the funds that can be generated, regardless of whether funds are coming from governmental or nongovernmental sources. Reflecting this importance, the sampled socially entrepreneurial NPOs strived to be innovative in most of their capital-raising activities. For example, Case A (support of children of drug addicted parents), Case B (community recreation and safety on beaches), and Case I (community development services) all undertook various innovative capital-raising activities that traditional social enterprises would not have pursued. For example, Case I runs a large electronics contracting business, undertaking repairs and service to automated teller machines and computer monitors for a leading commercial bank. As Case I explained, “These contractual arrangements have been profitable as well as achieving our social purpose and in some ways, better than the government dependent funding.”

Similarly, Case B, with its historical presence in Australia as a beach safety provider, has received substantial funding from state government sources. However, the

increased competition for government funding has compelled Case B to search for nongovernmental sources, such as corporate partnerships and club-level fund-raising activities. This organization has had a successful strategic partnership for more than 30 years with a leading commercial bank, sponsoring the bank’s rescue helicopter, which is one of its critical services. It has also entered a sponsorship agreement with a major logistics firm, sharing not only brand elements but also goals.

In the area of service delivery, sampled NPOs actively sought new ways to deliver value-added services to their targeted clients. Case C needed to adopt a highly innovative approach to reach a solution to an important problem in the delivery of an essential service to the disabled. As Case C explained,

We wanted to build a sink unit in a house. This was to be a minor innovation for people in wheelchairs. And our idea was the sink unit could move up and down which isn’t difficult to imagine because if you’re standing there you want it this high but if you are in a wheel chair you want it that high.... But technically you have to have plumbing that will move up and down. That’s not a problem with the taps because you just put flexible taps on but the drainage system has to be [a] sleeve and it’s not sealed. Now in Australia, that wasn’t allowed. You had to have sealed units. It took us eight weeks of arguing to get it right.... So fighting petty regulations is part of the deal.

This example amply demonstrates the complexities involved in new service development in an NPO setting. It reflects a problem-solving exercise with substantial client cocreation, which was evident in most of the service delivery innovations in the sampled NPOs.

Theme 2: Characteristics of Social Innovation Contribute to NPO Effectiveness

Socially entrepreneurial NPOs undertook both incremental/continuous and radical innovations, including innovations at the system level. Incremental innovations, which involve minor improvements to existing services, were adopted by both small, resource-constrained NPOs and large NPOs. Incremental innovations included, for example, (1) extending current beach life saving programs toward children and building a computerized database of the geographic profile of every beach in Australia for effective beach safety management (Case B) and (2) changing the format of participation in the annual Melbourne comedy festival (Case A). As Case A explained,

We look at different things every year. There are some things we have a very good reputation for, like the Comedy Festival, Rock and Roll concerts. Every year in Melbourne there is the International Comedy Festival. It is very big. We have been supported by comedians from day one.

These incremental innovations have added value to the targeted clients and constitute continuous innovations undertaken by the sampled NPOs as strategic efforts to avoid competitors imitating successful capital-raising innovations.

The sampled NPOs also undertook radical innovations. By definition, radical innovations are embedded with discontinuous knowledge (discontinuous technology in a new product development context), which involves substantial risk of possible market failure (Henderson and Clark 1990;

Martin and Scott 2000). The founder of Case C (housing for disabled), in a consultancy project on intellectually disabled housing, identified an attractive opportunity for social value creation. There was a latent need in the community to move from institutional care to community-based facilities. It was this opportunity, to come up with a radical solution that had not been tried in the industry before, that Case C explained:

[We] came up with this idea that many families had said they could help finance the house but they wanted their kids to live close to them in the community and many of them said, “we have money that we would like to invest in that.” So the [organization] that I ... started ... [arranges] how [to] take money from families, government, and elsewhere and turn it into a house that people who are disabled can live in.

This new intellectually disabled aged-care model reflects the extensive knowledge that the Case C founder had about the industry, the extent of his social networks, and the market knowledge acquired through extensive consultation with the parents of the intellectually disabled children. With the uncertainty of continued support from the government, Case C, from the beginning, adopted a businesslike funding model, enriched with benevolence, of which the parents of disabled children became shareholders. This model ensured continued sustainability of the project. This example reflects radical system-level innovation.

The CEO of Case E, a large and well-endowed advocacy and charity organization, explained a highly risk-oriented innovation strategy. Spurred by the NPO’s social advocacy mission, the CEO related the need to abandon successful initiatives, embrace system-level change, and explore new ways to break down the existing social structures to benefit the core constituency:

I don’t want to run any service at XXX which just every year do good things the same as they did last year. It is not enough. Society is changing rapidly and I want our organization to be an organization where every single manager recognizes the excitement ... of giv[ing] [successful services] away to other people and say[ing] this is a really nice service, there is no innovation that we can see. Let somebody else have them. I don’t want to take up our energy and our management energy and our potential to use our name on stuff lots and lots of [other] people can do quite comfortably.

Similarly, the CEO of Case H, a private nonprofit incubator and social venture capital fund, emphasized a focus on changing resource endowment and building capacity. For this organization, the target of change and innovation is directed not at a product, process, or program level but rather at a capacity-building level and development of more social entrepreneurs:

I started as an angel investor in ethical ventures but a lot of them were business-type things and it has gradually gone through a transition down to the social end of the spectrum, which are now more interesting than businesses.... [I] met a lot of people through the social entrepreneurs’ network that I’ve worked with. That was a really important network.

These radical innovations primarily focus on system changes and can be viewed as the NPOs’ responses to turbulent situations in which incremental changes to existing schemes would not be adequate.

Theme 3: External and Internal Learning Are Prerequisites for Innovation

In general, the majority of the sampled cases regard the strategic importance of learning from multiple sources as a source for innovation. We found evidence of three types of learning: learning from markets, learning from networks, and internal learning.

Market-Focused Learning

Case I places great emphasis on monitoring client satisfaction for continuous service improvement:

[We] measure client satisfaction quarterly in all of our services so that we know whether our satisfaction level is improving. Of course, as the challenges are overcome and as you improve the service, so do people’s expectations also grow. It is always a moving target!

Case I involves market learning when new services and products are developed; in a sense, this is similar to for-profit organizations working with lead customers. In contrast, some of the large NPOs actively undertake formal market research. For example, Case B hired the services of a marketing research firm for a specific branding audit. Case B has one of the highest brand equities of any organization in Australia and now manages it strategically. Our findings suggest that the sampled NPOs learn not only by monitoring customer preference changes but also by monitoring their competitors. This is evident in both fund-raising and service delivery activities. As Case I indicated,

The pressure from government moving into competitive tendering has meant that many of the nonprofits that would have worked collaboratively with us now are our key competitors. So we have to gather intelligence on those organizations and figure out how we can design a better solution to the tender [a competitive bid for work] there may have been, whereas once we would have shared a lot of information quite openly with those organizations

With regard to capital raising in particular, all the NPOs compete for the same donor dollar. Cases A and H indicated that they actively monitor what others do in capital raising. Case H believes that social enterprises should define their industry broadly, particularly when it comes to fund-raising. Every year, Case A comes up with an innovative idea for capital raising because the successful ones are eventually copied by others.

Internally Focused Learning

Internal learning focuses on experimental and experiential learning. New methods, new routines, adaptations, and incremental learning all provide opportunities to test ideas and learn from their implementation. Case C explained how it developed ideas to manage some clients with severe mental illness living in the community:

We bought four two-bedroom units and put ... people with [different] disabilities in each unit, so they had their own rooms, their own house but on a block so it allowed them to be separate, but together. So with things like support and control, we didn’t have neighbor problems, because we were the neighbors. And then physical design of houses and things like that, we did experiments.... It wasn’t that hard!

Similarly, Case A runs pilot programs for high-risk projects:

We are running a pilot program in rural Victoria. Some people are happy to fund that sort of funding and that's a good way of cutting your teeth and working out what will work.... In that way [it gives] us time to get ongoing funding for that project.

These examples reflect the importance the sample NPOs assigned to experimental learning in minimizing the risks associated with unfamiliar projects.

Relational Learning

Learning also arises outside the organization from the linkages and networks with other organizations. We found that the majority of the sampled NPOs actively learned from external sources. For example, Case A identified learning through networks:

We all have to watch each other closely because that's how we get our information and I think it's all about working together.

Case F specifically identified the need to train staff in new skills by accessing external organizations:

We've got a senior nurse and a diversional therapist who are flying to England next week and Europe. We are paying for them to go to learn about complementary therapies which are the rage in Europe at the moment.

Overall, all the sampled NPOs had processes in place to integrate the acquired knowledge into value-creating activities.

Theme 4: Organization-Specific Factors Affect Social Innovation-Based Competitive Strategy

Organization-specific factors influence (1) the types and the degree of innovations adopted, (2) the intensity of the learning capabilities built and nurtured, and (3) the types of competitive strategies NPOs adopt. The enveloping factors of demographics and heritage have a marked influence on the degree of innovation pursued and the focus of competitive strategy.

As we noted previously, the sample NPOs pursue both incremental and radical innovations. However, as we found in Theme 2, radical innovations were primarily adopted by medium-sized and large NPOs, whereas small, resource-constrained NPOs adopted incremental innovations. The latter reflects their vision of "treading cautiously." For example, although Case A believes that innovations are important, it adopts a cautious approach:

It's imperative ... [but] there's no point being innovative just for the sake of being innovative. You don't reinvent the wheel.... We have to get the funding first. There is no way I will start a project without the money in the bank. It's crazy!

Most of the small, resource-constrained NPOs chose a specialized area that fits with their capabilities and knowledge. These enterprises, driven by a desire to achieve sustainability in the long run, have found serving a narrow market segment safe because doing so fits with their resources and capabilities. As is the case with most niche marketers, they thrive through specialization and penetration. Furthermore, the segment selection decision is driven

by the background and prior experience of the social entrepreneur. As Case A stated,

We are the only organization in Australia (and maybe the world) that is specifically dealing with this group of children and I think that's why we have grown so quickly.... We are the only organization working with this group of kids.

Similarly, Case D is the only organization providing training to the unemployed with disabilities within the state.

Whereas the small, resource-constrained NPOs opted to be niche players, the medium-sized enterprises tended to target a substantially large homogeneous market segment. As Case D indicated,

Our target clientele? People with a disability—full stop. Anyone with a disability. We are not disability specific. We are a generalist disability service provider, so anyone that identifies as a person with a disability or is entitled to services through them being on the disability support pension can access [our] services.

In general, the competitive strategy of medium-sized NPOs reflects *differentiation*, in terms of the particular cause they are advocating. They also seem to prefer to remain within their geographic locale, reflecting their willingness to be close to the segment they serve and their resource constraints.

Mimicking some of the behavioral characteristics of the medium-sized NPOs, the large NPOs displayed several elements of mass marketing. They operate at the national level, have resources to adopt sophisticated management techniques also used by large for-profit firms, and are successful in attracting those who want to support their cause. For example, Case B, the leading beach safety and rescue authority in Australia, aims to provide a safe beach and aquatic environment throughout Australia (i.e., targeted clients are all beachgoers in Australia). This is in contrast with small and medium-sized NPOs in the sample, which primarily operate within a region or state. Thus, Case B enjoys a somewhat monopolistic status. However, with the growing competition from other NPOs, it has been compelled to reposition its brand and to be continuously innovative in its marketing campaigns. Market leaders cannot rest on their laurels but must undertake continuous innovation to keep competitors at bay (Kotler and Burton 2009).

Discussion and Implications for Theory

Our findings advance the social entrepreneurship literature in several ways. Socially entrepreneurial NPOs that operate in a highly competitive environment tend to adopt an innovation posture in their quest for greater social impact. Consistent with Covin and Slevin's (1989) study, our findings suggest that the socially entrepreneurial NPOs that perceive their operating environment as highly competitive tend to conceive new ways to perform value-creating activities, in particular raising much-needed capital, and to pursue the development of innovative services.

We find that socially entrepreneurial NPOs pursue innovation in both incremental and radical steps. These enterprises are primarily service organizations that must pursue continuous innovation because successful innovations are copied by their competitors. This reflects the current debate

in the services innovation literature about whether competitive advantages gained through new services can be sustained. A growing number of researchers suggest that service innovation-based advantages can be sustained only when innovations are supplemented by strong client relationships (e.g., Bharadwaj, Varadarajan, and Fahy 1993; Gustafsson and Johnson 2003). The evidence we elicited previously suggests that the sampled NPOs have been successful in safeguarding their markets (clients served) in two ways: (1) by undertaking continuous innovation in an effort to avoid ease of copying by competitors and (2) by complementing innovations with strong relationships. Such strong relationships act as an “inimitability” barrier to competitors (Bharadwaj, Varadarajan, and Fahy 1993). A substantial presence of cocreation is evident in the service innovations the sampled NPOs undertake. Service cocreation has received increased attention in the services marketing literature in the past decade (McCull-Kennedy et al. 2009). The socially entrepreneurial NPOs pursue radical innovation and find opportunities not only to adopt radical innovations within their organizations but also to innovate at a system level. Both small and large NPOs pursue system-level innovation, with a broader focus on change that delivers value to marginalized clients or enhances capacity to deliver change through capacity building. Thus, these NPOs attempt to achieve impact beyond what can be achieved within or by one organization.

Socially entrepreneurial NPOs pursuing innovation actively learn from both external and internal sources. Prior research has not examined the role of learning capabilities in NPO innovations, though recent research suggests the presence of an assortment of capabilities as a prerequisite for social entrepreneurial impact (Bloom and Chatterji 2009). The sampled NPOs build and nurture capabilities in market learning, internal learning, and relational learning and integrate the knowledge gained through these sources to innovation.

The need to build sustainable organizations, along with resource constraints, heavily influences the competitive strategy focus of the socially entrepreneurial NPO. This is consistent with the view that entrepreneurial orientations tend to be resource consuming (Covin and Slevin 1991; Romanelli 1987). Social entrepreneurs are heavily constrained in generating funds for their operations. Their revenue comes from diverse sources, including client fee for services, government grants, donations, and sponsorships, and much uncertainty remains about government funding and increased competition for the donor dollar (Weerawardena and Sullivan Mort 2006). In this context, resource-constrained socially entrepreneurial NPOs are predominantly niche marketers. As Miller (1986, p. 242) notes, smaller NPOs “may flourish by producing a somewhat distinctive product for the niche of the market that is the least competitive. This minimizes some of the disadvantages of smallness.” However, medium-sized NPOs tend to target a larger segment and offer a broader range of services differentiated from competitors in terms of the service provided. Large NPOs, having a strong resource base and well-established brands, also tend to undertake more radical innovations; they tend to adopt sophisticated marketing strategies, normally the domain of their for-profit counterparts.

Overall, all the sampled socially entrepreneurial NPOs tend to follow differentiation as a primary focus of their competitive strategy. That is, they tend to differentiate in terms of their cause, which is critically important in markets cluttered with closely competitive causes, providing a substantial variety of choices to potential donors. In terms of the two prominent competitive strategies—namely, differentiation and cost leadership, socially entrepreneurial NPOs have little scope to pursue cost leadership, which requires a substantial market and standard product offerings (Porter 1990).

Implications for Management and Policy

Regarding the limitations of this study, which was primarily exploratory, the study’s findings provide valuable insights to practicing NPO managers attempting to gain social value-based competitive advantage in increasingly competitive environments. We argue that in the context of competitive markets and resource constraints, organizations adopting a posture mirroring that of the socially entrepreneurial NPOs are those most likely to deliver, through innovation and differentiation, social value and organizational sustainability. In effect, the socially entrepreneurial NPO forms an ideal type. It provides an exemplar of effective, innovation-based, value-creating strategy and provides a range of options for practitioners in pursuing social value-based competitive advantage.

As we noted previously, an organization’s entrepreneurial capacity will be somewhat limited by its resource base. All the sampled NPOs follow a differentiation strategy because the “cost leadership” approach is beyond their reach. As such, practicing NPO managers should fulfill their goals by pursuing distinct service offerings and, more important, constantly striving to innovate in capital raising. Innovation not only helps NPOs remain sustainable but also increases their ability to be competitive. However, NPOs may choose not to innovate in all areas but rather focus on those areas with the potential to make a high impact in value creation, in light of their resource constraints.

The findings of the study indicate that learning from multiple sources is a prerequisite for innovation. Building and nurturing learning capabilities should be viewed as a strategic activity. Market-focused learning should be accompanied by internally focused learning and organizational flexibility and renewal, in addition to network-based learning and collaborative approaches to social value creation.

Smallbone et al. (2001) consider NPOs the third sector, recognized as increasingly important in multiple areas, including effective and efficient service delivery. Third-sector organizations often do things that governments cannot do or for which no government is jurisdictionally responsible. Policy planners need to recognize the increasingly influential role of successful socially entrepreneurial NPOs and to create an environment in which these types of organizations can grow and flourish.

Policy efforts should specifically be directed toward encouraging innovative approaches in all operational areas. This could be accomplished in several ways. First, investment in training for sustainable organizations should be considered. Management tools with high social-value-added

should be identified and specifically inculcated in NPO managers. Second, NPOs should be encouraged to work in networks, with large for-profits and NPOs mentoring smaller organizations and facilitating skills transfer. Third, policy planners should facilitate investment in research examining organizational-level factors affecting NPO efficiency and superior value creation. The need to build and maintain a sustainable enterprise to continue to deliver social value to targeted clients was a primary concern of all the sampled NPOs in this study.

Future Research Directions

There is an identifiable need for more fine-grained empirical research directed toward developing robust measures of constructs and testing emergent interrelationships. One path is the development of appropriate measures for social entrepreneurship. Other aspects requiring further investigation include how environmental turbulence affects capability development and the primary strategies socially entrepreneurial NPOs can adopt to remain competitive in their chosen markets. Our findings suggest that environmental turbulence forces NPOs to develop new ways to create social value. Further research might explore whether existing measures for innovation are adequate for the types and degrees of innovations socially entrepreneurial NPOs pursue. An in-depth examination of service cocreation is also an avenue for further investigation. Finally, this research focused on social innovation in the nonprofit organizational context. Further research could also examine how social innovation is enacted in emerging organizational forms (Frumkin 2002), including for-profit contexts in which market-based mechanisms are used to solve social and environmental problems, sometimes termed the “fourth sector.”

Conclusion

This study examines the role of innovation in competitive strategy in socially entrepreneurial NPOs. To our knowledge, it is one of the few investigations of innovation in the field of social entrepreneurship. The findings indicate that innovation is central to competitive strategy in these organizations. The findings also suggest that in response to increased market turbulence, NPOs need not necessarily pursue the path of “marketization” or use for-profit market-based models in their strategies. There is great scope for them to remain competitive by actively pursuing innovation, challenging the social equilibrium, fulfilling the true purpose of social entrepreneurship, and building organizational longevity.

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