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# **An Investigation of Marketing Capabilities and Social Enterprise Performance in the UK and Japan**

## **Abstract**

The purpose of this article is to extend the existing research on the relationship between eight different types of marketing capability and social enterprise performance. More specifically, we examine third sector organizations that have transformed their traditional business model to become more business-like social enterprises and how these marketing capabilities influence the success of this transformation in both the UK and Japan. We identify, among other things, that not all marketing capabilities are positively associated with social enterprise performance. These findings challenge the conventional wisdom that market-driven organizations must develop all types of marketing capability. We suggest that social entrepreneurs should develop their marketing capabilities selectively according to their specific performance objectives.

**Keywords:** Social Enterprise, Social Entrepreneurship, Marketing Capabilities, Market Orientation, Social Performance, Enterprise Performance

## INTRODUCTION

This research investigates the relationship between different types of marketing capability and social enterprise performance. The proliferation of social enterprises is fuelled largely by the growing concern about the government and businesses' capability to solve social and environmental challenges (Dacin, Dacin, & Tracey, 2011; Harding, 2007). In order to survive and continue to provide social services, social enterprises must engage in the entrepreneurial process of recognizing and seizing potential opportunities for obtaining resources (Austin, Stevenson, & Wei-Skillern, 2006; Brooks, 2008; Corner & Ho, 2010). The process of implementing the marketing concept is considered a key market-based resource, which plays an important role in supporting the entrepreneurial process of opportunity recognition and exploitation by assisting organizations' moves toward acquiring knowledge about their customers' needs and communicating these to their employees (Webb, Ireland, Hitt, Kistruck, & Tihanyi, 2011). From the perspective of social entrepreneurship, many studies suggest that this type of market-based resource can also help social enterprises to identify and grasp opportunities related to fundraising, commercial trading activities, the acquisition of volunteers (including voluntary employees), collaboration with for-profit businesses, and so on, in order to compete with others in the marketplace (Cooney, 2011; Gainer & Padanyi, 2005; Macedo & Pinho, 2006). While market-based resources provide social enterprises with a source of competitive advantage (e.g. Cano, Carrillat, & Jaramillo, 2004; Wood, Bhuian, & Kiecker, 2000), few empirical studies have examined specific market-based resources and capabilities, and their relevance to social enterprise performance. The present study addresses this gap by integrating insights from a capability perspective and examining multiple marketing capability components simultaneously, which the literature describes as a marketing function that enables an organization to align its resource deployment with its market environment more effectively than its rivals (Vorhies, Harker, &

Rao, 1999; Vorhies & Morgan, 2005). Floyd and Wooldridge (1999) suggest that organizational capabilities play a critical role in creating a long-term competitive advantage and prosperity for an organization. The development of marketing capabilities in social enterprise advancement corresponds to the evaluation and transformation of social enterprises into more market-oriented entities. From the resource-based perspective, the “possession” of market-based resources only has potential value that is realized if the organization has the required marketing capability. Marketing capability is key to the market-related deployment mechanism that helps an organization to acquire, combine and transform its market-based resources to assist it to achieve its desired performance (Day, 1994; Morgan, Vorhies, & Mason, 2009). Moreover, marketing skills may not be easily transferable from commercial contexts to social enterprises (Andreasen & Kotler, 2003; Gallagher & Weinberg, 1991). Social enterprises extend the scope of their business activities, so the identification of the precise nature of the marketing capabilities that allow them to apply their market knowledge and deploy their market-based resources to recognize opportunities and attract more resources may prove vital to their survival. This study focuses specifically on social enterprises that have entered the domain of third sector blended entities, in an attempt to become more business-like in their operations, with the purpose of creating economic value to support their social mission. In the current economic downturn, social enterprises play an important role in improving social and economic well-being. However, there is increasing political and economic pressure on social enterprises to obtain resources (revenues and donations) from diverse sources and to reduce their dependency on private and government support (Cooney, 2006; Froelich, 1999; Hodge & Piccolo, 2005).

Thus, this study makes several important contributions. Firstly, we highlight that different types of marketing capability have both positive and negative effects on social enterprises’ social and economic performance under varying market environments. Critically,

we also show that there are different performance implications for marketing capabilities with regard to both marketing achievement and value creation that extend beyond the traditional view of social enterprise performance, such as revenues from business activities (i.e. revenues generated by providing services) and social activities (i.e. donations). These findings are important because they not only contribute to the social enterprise research by providing new insights into the impacts of different marketing capabilities on performance, but also have many important managerial implications regarding how social enterprise managers can be selective in allocating their limited budget to improve a particular type of organizational performance by enhancing a specific type of marketing capability. Secondly, this study contributes to the methodological aspects of research on social enterprises by employing a quantitative approach to analyze survey data collected from 534 social enterprises in the UK and Japan to examine the impact of different marketing capabilities on their performance. This study answers the call by several field scholars to employ large-scale databases and quantitative data analysis techniques in social enterprise studies (e.g. Dacin et al., 2011; Grimes, 2010; Meyskens, Robb Post, Stamp, Carsrud, & Reynolds, 2010). Finally, a significant contribution is made by examining social enterprises operating in the context of the UK and Japan. The advanced social enterprise market of the UK and Japan could serve as exemplar market-focused social enterprises and/or the industry's best practice for other countries. The contextual differences between these two countries highlight how the deployment of marketing capabilities affects social enterprises' both economic performance and social value achievement.

## **THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT**

### **Social Enterprise and Marketing**

Social entrepreneurship can be defined as the act of recognizing and pursuing opportunities to solve social problems through the creativity of the typical entrepreneurial process (Corner & Ho, 2010; Perrini & Vurro, 2006). A social enterprise, on the other hand, is an organization that has applied the principal of social entrepreneurship to create social value in order to produce solutions to social problems (Bornstein, 2007; Chell, 2007). In practice, there are many routes to establishing a social enterprise, such as an independent charitable foundation springing from a corporation (“Wal-Mart Stores, Inc.” and the “Wal-Mart Foundation”)(Walmart Foundation, 2011), a community interest company whose assets and profits are dedicated to community interests (“Warm Wales”)(Warm Wales, 2011), a new start-up that aims to address societal problems and improve social welfare (“Trussell Trust”)(Trussell Trust, 2012), and so on. In this research, we aim to explore, in particular, social enterprises that take the route of adopting the entrepreneurship principle to develop the necessary organizational capabilities (i.e. different types of marketing capability) to transform themselves from conventional, third-sector organizations into more business-like, market-oriented entities. The third sector (also called the voluntary, community or non-profit sector) represents a group of organizations, belonging neither to the private nor the public sector, that emphasize engagement with social activities and the provision of a social service (Salamon & Anheier, 1997). For example, the Salvation Army is a good example of a conventional third sector organization that has transformed itself into a social enterprise, which was established in 1865 in London’s East End to provide a social service to disadvantaged people. Through a series of developments, the Salvation Army has transformed itself from a single Christian church, that mainly relied on private donations and volunteers to finance its social mission, into one of the largest providers of social services, supported by diverse revenue schemes, ranging from trading companies, shops, and so on (Salvation Army, 2012).

The extant literature suggests that the key difference between commercial and social enterprises is that the former focuses on the maximization of economic value (Austin et al., 2006; Meyskens et al., 2010), while the latter emphasizes the creation of social value (Brooks, 2008; Dees, 1998). This differentiation exacerbates the erroneous assumption that economic objectives are less important than a social mission for social enterprises; numerous arguments support this point. The primary reason is that overemphasizing economic objectives – even with the good intention of reducing financial dependency – may damage a social enterprise’s legitimate status due to conflicting priorities (Eikenberry & Kluver, 2004; Foster & Bradach, 2005; Weisbrod, 2004). Although the initial driver for developing such a venture is to pursue a social mission, this does not necessarily mean that there are contradictions prior to the creation of social and economic value. Dacin et al. (2011, p. 1206) argue that “a social value creation mission does not necessary negate nor diminish a focus on economic value.” In fact, many experts have argued that, in order to provide social services continuously and incorporate entrepreneurialism into their endeavors, a social enterprise must adopt survival strategies entailing economic value creation that are premised on self-sustainment (Chell, 2007; Dacin et al., 2011). It is clear that social entrepreneurship should fulfill the defined role and function of creating and balancing both social and economic value, while social enterprises should focus on undertaking projects or ventures that possess these characteristics. Experts suggest that social enterprises can include both private and third sector blended entities (Dees, 1998; Guo, 2006; Harding, 2007).

Social enterprises attract resources by developing new products (i.e. via corporate fundraising and volunteer schemes, publication subscription services) in direct competition with each other (Foster & Bradach, 2005; Weisbrod, 1998). To become more competitive in the marketplace, social enterprises integrate marketing concepts into their operating systems in order to gather information and identify new opportunities (Gainer & Padanyi, 2002;



Mottner & Ford, 2005). For example, Macedo and Pinho (2006) found that, by adopting marketing concepts to collect and study the information about their resource providers, Portuguese social enterprises were able to attract the resources to support their social mission. Wood et al. (2000)'s study of nonprofit hospitals suggests that, by embracing an organization-wide commitment to implementing marketing concepts with the purpose of gathering, analyzing and sharing information about their clients' concerns, social enterprises can improve their care quality, increase revenue, and enhance overall patient satisfaction.

Prior studies have long recognized the close relationship between marketing and entrepreneurship (e.g. Morris, Coombes, Schindehutte, & Allen, 2007; Webb et al., 2011). Entrepreneurship reflects an organization's process of recognizing business opportunities through exploration, and pursuing them through innovation and experimentation to provide more efficient, effective solutions (Covin, Green, & Slevin, 2006). Hitt, Nixon, Hoskisson, and Kochhar (1999) suggest that the entrepreneurship process enables organizations to anticipate the changes in the marketplace and develop new products to satisfy their customers' latent needs in exchange for economic rewards. On the other hand, marketing reflects an organization's activities with regard to learning and understanding their customers' needs and communicating offers to their customers, in order to react or respond to the changing business environment (Slater & Narver, 1995). These marketing activities allow organizations to recognize business opportunities, and develop new products and services to meet their customers' needs (Atuahene-Gima & Ko, 2001).

Webb et al. (2011) provide detailed assessments and explanations of how marketing concepts can be closely integrated with the entrepreneurship process to improve an organization's performance by discussing the role of marketing activities in opportunity recognition and exploitation, and innovation. Firstly, to recognize business opportunities, marketing activities play a role in gathering and dissemination of market information, which

alert the employees to the customers' needs that remain unmet by their competitors (Cano et al., 2004). Secondly, to support innovation, marketing activities play a role in coordinating the collaboration within organizations, such as in sharing ideas and bridging the knowledge boundaries between the functional departments (Atuahene-Gima & Ko, 2001; Slater & Narver, 1995). Finally, to exploit the business opportunities, marketing activities play a role in communicating products' benefits and delivering product offerings to potential customers by factoring their competitors' strengths and weaknesses into their offerings (Morgan, 2012; Murray, Gao, & Kotabe, 2011). In this sense, when the entrepreneurship process is complemented by marketing activities, organizations would improve their efficiency and effectiveness with regard to serving the market needs by gaining greater access to market information and delivering better communication to the end customers, which enhances the organization's competitive advantage and profitability (Atuahene-Gima & Ko, 2001).

### **Marketing Capabilities and Performance**

The fundamental principle of the resource-based perspective is that competitive advantage development lies primarily in the strategic exploitation of a bundle of valuable resources and capabilities that are at the organization's disposal. If these are rare, valuable, inimitable, and non-substitutable, then the competitive advantage is sustainable over time (Barney, 1991) because organizations "develop isolating mechanisms or resources-position barriers that secure economic rent" (Lavie, 2006, p. 640). In recent decades, the resource-based perspective has been criticized for failing to explain why certain organizations – despite possessing abundant resources – face economic challenges. Barney (1995) further indicates that the possession of resources alone is insufficient to guarantee organizational prosperity because these resources are not productive in themselves; resources produce value only if the organization has the ability to assemble, integrate, and manage them effectively to

produce a superior performance. More specifically, an organization's capability to use resources is equally important to its possession of an abundance of them for generating a competitive advantage in the market. Many past entrepreneurship studies suggest that an organization's capabilities, acquired primarily through prior subject knowledge, business experience and repeated efforts of trial and error, enable it to add value to its goods and services and hence, gain an advantage in the marketplace (Covin et al., 2006; Walter, Auer, & Ritter, 2006).

From the perspective of social enterprises, certain unique capabilities related to deploying specific organizational resources also drive their competitive advantage. For example, Hackler and Saxton (2007) found that the ability to deploy information technology resources was found to be vital for success in developing computer-based applications to enhance social enterprises' effectiveness with regard to managing donor, volunteer and customer relationships. The present study focuses on the value of a specific type of marketing capability that enables social enterprises to become more effective through applying marketing concepts and deploying market-based resources which, as we argued earlier, are essential elements for the success of social enterprises. This specific type of organizational capability is known as marketing capability, defined as the integrative process of applying the collective organizational knowledge, skills, and resources to market-related needs. Marketing capability enables a business to add value to its products and meet the competitive demands (Day, 1994; Vorhies et al., 1999; Vorhies & Morgan, 2005), and plays a pivotal role in the deployment of market-based resources to respond to the changing market environment (Morgan et al., 2009; Murray et al., 2011).

It follows from the literature review that to reduce the degree of resource dependency and provide social services continuously to the public, social enterprises need to attract resources using a more business-like strategy from diversified sources and direct such efforts

towards solving social problems (Froelich, 1999; Harding, 2007; Macedo & Pinho, 2006). The implementation of marketing concepts creates market-based assets, providing social enterprises with an advantage in terms of attracting resources. Drawing on the resource-based view, the literature suggests that these market-based assets have potential value for organizations in contributing to their desired performance alone (Murray et al., 2011; Vorhies et al., 1999). In order to deploy these market-based assets effectively, the organization needs to develop sufficient market capabilities to transform them into valuable output (Eng & Spickett-Jones, 2009; Morgan et al., 2009). Although prior research suggests that social enterprises that integrate marketing concepts into their business strategy can enhance business performance (e.g. Dees, Emerson, & Economy, 2002; Gainer & Padanyi, 2002), the role of different types of marketing capability has not yet been examined in the social enterprise context.

The literature notes that the possession of marketing capabilities leads to superior organizational performance in various business disciplines and industrial sectors. For example, a study conducted by Vorhies and Morgan (2005) on twelve end-consumer and business service industries found that the development of marketing capabilities enhances customer satisfaction, market effectiveness, and profitability. Eng and Spickett-Jones (2009) studied the Chinese manufacturing industry and found that the development of marketing capabilities impacts on the success of the number of intellectual property rights for patent products, the number of new product releases, the return on investment, and the initial public offering in raising capital. Murray et al. (2011) found that export ventures with advanced marketing capabilities help improve financial, strategic, and product performances. In the context of this study, we argue that, in order to achieve both their social and economic objectives, social enterprises must be capable of deploying market-based resources to recognize opportunities, develop and deliver innovative solutions, and communicate their

benefits to the public. Thus, the development of marketing capabilities may enhance social enterprises' both social and economic performance.

We argue that, all else being equal, social enterprises that have superior marketing capabilities should be able to deploy market-based resources more effectively and achieve better social performance than those that do not. Several studies have found that the deployment of market-based resources can help social enterprises to raise more charitable funds (donations or grants), attract volunteers, provide better/more satisfactory social services, and so on (e.g. Balabanis, Stables, & Phillips, 1997; Gainer & Padanyi, 2005; Macedo & Pinho, 2006). When social enterprises collect and use market information to identify donors, volunteers, and the general public's needs, and design and deliver specific products (i.e. fundraising schemes, social service programs) to address those needs, and communicate them effectively to people, they can attract more resources, which provide important growth opportunities. To take advantage of using market-based resources to achieve their social objectives, social enterprises must be capable of integrating, building, and reconfiguring these resources into their operation systems. With insufficient marketing capabilities, social enterprises will be unable to utilize their market-based resources effectively in their social activities. Thus, social enterprises that achieve high social performance would be expected to have more advanced marketing capabilities for deploying market-based resources. This leads to our first hypothesis, formally stated below:

*Hypothesis 1: A social enterprise's marketing capabilities are positively associated with its social performance.*

Advanced marketing capabilities can also lead to better economic performance for social enterprises. According to Vorhies and Morgan (2005), the impact of an organization's

marketing capabilities on its economic performance can be explained through two interrelated aspects. We propose that these two aspects are also applicable in the context of social enterprise. Firstly, Vorhies and Morgan (2005) suggest that the organization's marketing capabilities enable it to convert its resources to valuable outputs to reach target customers. When social enterprises attempt to raise funds through commercial trading activities, they face demands from customers with different attitudes, who judge them more on their capacity to deliver superior products and services than their perceived success at carrying out social activities (Dees et al., 2002). To do so, it has been suggested that social enterprises need to enhance their innovation capacity in order to differentiate their products and services from those of the competition (Weerawardena & Mort, 2012; Weerawardena & Sullivan-Mort, 2001). Nevertheless, the development of the organization's innovation capacity requires the capacity to manage and allocate internal and external resources effectively (Garcia, Calantone, & Levine, 2003; Grand, Von Krogh, Leonard, & Swap, 2004). Together with Morgan (2012)'s suggestion that an organization's marketing capabilities allow them to become more effective in acquiring, combining and transforming resources, this implies that social enterprises that possess marketing capabilities can improve their innovation capacity to develop and deliver superior product and service offering to their customers.

Secondly, Vorhies and Morgan (2005) suggest that an organization's marketing capabilities allow it to orchestrate its resources to manage marketing information, and develop and execute its marketing strategy. This embraces a business culture that focuses on the external environment, which social enterprises competing with other social or commercial enterprises to deliver superior products and services. Such business culture focused of implementing marketing concepts has been known as market-based resources that contribute to the overall competitive advantage (Hurley & Hult, 1998; Morgan et al., 2009). Social

enterprises that coordinate the complex processes of acquiring, combining and transforming these market-based resources in ways that anticipate and fulfill their customers' needs and enable the organization to move ahead of its competitors can be considered to possess marketing capabilities (Liu & Ko, 2012). It can be argued that social enterprises with superior marketing capabilities are more likely to be able to coordinate complex processes more rapidly and with greater effect than those without them. Social enterprises with advanced marketing capabilities are more likely to excel compared to their less capable rivals, as they are more capable to serve the needs of customers and outperform their rivals.

Combining the above two arguments, we propose that advanced marketing capabilities would be a source of competitive advantage, and hence social enterprises that possess relevant marketing capabilities would produce better economic performance. Formally, it can be hypothesized:

*Hypothesis 2: A social enterprise's marketing capabilities are positively associated with its economic performance.*

## **RESEARCH METHOD**

### **Research Design**

We adopt a cross-sectional research design, in line with several extant studies, to enhance the variability and generalizability of our data (Farmer, Yao, & Kung McIntyre, 2011; Mitchell, Smith, Seawright, & Morse, 2000; Morgan, Zou, Vorhies, & Katsikeas, 2003) that is drawn from British and Japanese social enterprises. The governments of both countries have encouraged the development of social enterprises and adopted a similar system for managing social business. In November 2006, the British government launched a social enterprise action plan (UK Cabinet Office, 2006) to raise awareness, and encourage people to

make a difference in their community and support social investment, which focuses on capacity development for increasing the effectiveness and efficiency of public goods provision (Nicholls, 2010). Research conducted by the National Council for Voluntary Organizations (NCVO) in 2009 found that social enterprise activity accounted for 71% of the total income of this sector (NCVO, 2009). The Japanese government, in the 1990s, eased its control over third-sector organizations involved in public service in response to a plethora of social phenomena particularly the country's ageing society. This created new competitive markets, such as the new competition surrounding service provision for the elderly (Ushiro, 2008). Furthermore, nonprofit organizations do not have significant tax advantages or government subsidies. As such, it is imperative for nonprofit organizations to generate their own revenue from business activities. It has been noted that the future development of the Japanese third sector often referred to the system in the UK (Japanese Cabinet Office, 2008a, b). In a 2008 report by the Japanese Ministry of Economy, Trade and Industry, the UK system has been cited when exploring the development of a new system for the future development of social business in Japan (Japanese Ministry of Economy Trade and Industry, 2008). This attitude of learning from the UK model crystalized in 2009 in the establishment of JACEVO, a Japanese version of the UK Association of Chief Executives of Voluntary Organizations (ACEVO). ACEVO has more than 2,000 members. By imitating the function of ACEVO, JACEVO aims to develop the third sector organizations' CEOs' entrepreneurial abilities in order to promote the development of the Japanese third sector (JACEVO, 2009). A 2009 survey by the Japanese Cabinet Office (2010) found that revenues from social enterprises accounted for 69.9% of the total income of nonprofit organizations. The UK and Japan have differing national and business cultures that may affect how managers manage a non-profit organization and develop new products (e.g. Newman & Nollen, 1996). As such, research about social enterprise performance in two developed nations with a similar policy



would enhance the generalizability of our research findings. Since we examine third-sector organizations in the process of becoming more business-like social enterprises, they usually derive highly diversified sources of revenue from both their economic and social activities (Balabanis et al., 1997; Cooney, 2006; Weisbrod, 2004). In this study, the target population in each country comprised social enterprises with a medium to high level of total revenue, including funds raised from both social and economic activities.

### **Measurement**

We adopted and modified the measurement of marketing capabilities, social performance, and economic performance, and synthesized perspectives from the marketing, social enterprise, and nonprofit literature. Using a seven-point Likert scale, ranging from strongly disagree (1) to strongly agree (7), multiple-item measures are used to capture each construct. Our initial measures were refined following a pilot test to enhance their validity. Based on the suggestions of several pilot test participants, we provided brief instructions at the beginning of the survey, defining the key terms employed in the questionnaire and how they are referred to (i.e. product/service refers to: fundraising events, enterprise products, fundraising merchandise, and any other activity that can bring benefits to your organization). The pilot test participants also asked us to provide brief definitions of several of the specific terms (featuring in several sections) that reflect the reality of social enterprises (i.e. price – event ticket price, minimum donation of time and money, price of retail item, or anything that customers use to exchange products or services). These descriptions are necessary due to the different definitions of the terms used by various social enterprises.

Eight market-related capabilities, identified as potentially valuable determinants of business performance, are measured by adopting the existing scales (see Appendix 1), namely pricing, product development, channel management, marketing communication, selling,

market information management, marketing planning, and marketing implementation (Eng & Spickett-Jones, 2009; Morgan et al., 2009; Vorhies et al., 1999; Vorhies & Morgan, 2005). From the perspective of social enterprises, pricing capability measures social enterprises' ability to set prices when responding to market changes and competition (Ansari, Siddarth, & Weinberg, 1996; Mottner & Ford, 2005). The variable consists of four items, two of which deal with social enterprises' skill in setting prices in response to the market, and the other two focus on skill in response to the pricing strategy of their competitors. Product capability measures social enterprises' ability to develop and launch products to meet their customer needs. The measurement consists of five items that measure the extent to which the social enterprises make efforts to understand their customers' needs, develop and produce innovative products to meet these needs, and acquire new technology to develop new products (Bennett & Savani, 2004; Mottner & Ford, 2005). In terms of distribution capability, six items were used to measure how well the social enterprises can manage their distribution, such as developing relationships with their distributors, attracting and retaining the best distributors, and so on (Zhao, Niu, & Castillo, 2010). Marketing communication capability measures the social enterprises' ability to manage their communications with their customers and other stakeholders (Jenkinson, Sain, & Bishop, 2005; Waters, 2011). A five item scale was used to measure the extent to which social enterprises can effectively manage their advertising, promotion, and public relations programs using their marketing skills. We measured marketing information management capability using four items, which assess the social enterprises' ability to acquire information about their key stakeholders (e.g. consumers, competitors, etc.) in the market and analyze it to develop effective marketing programs (Balabanis et al., 1997; Gainer & Padanyi, 2005). We measured selling ability using four items based on the assessment of the social enterprises' ability to develop sales management plans and controlling systems, and provide training for their sales representatives (Camarero

& Garrido, 2009). The measurement of marketing planning capability consists of five items that assess the extent to which the social enterprises are able to conceive marketing strategies that optimize the match between the organization's resources and its markets (Sargeant & Ewing, 2001; Simerly, 1995). Finally, we assessed marketing implementation capability using five items that explore whether social enterprises can transform their intended marketing strategies into actions through allocating marketing resources and monitoring their marketing performance (Liu & Ko, 2012).

This study used subjective ratings to measure financial performance because published financial data about small operations are difficult to obtain and/or the respondents are often unwilling to share sensitive "hard" data (e.g. Narver & Slater, 1990; Slater & Narver, 1994; Vickery, Jayaram, Droge, & Calantone, 2003; Ward, Leong, & Boyer, 1994). Moreover, some studies use only two items for subjective performance measurement (Gu, Hung, & Tse, 2008). It has been noted that managerial decisions and actions are primarily driven by perceptions of organizational performance (Day, 1994; Dess & Robinson Jr, 1984; Morgan, Kaleka, & Katsikeas, 2004), and hence, the perceptual measures can produce reliable and valid assessments of financial performance. Social performance is assessed through social marketing achievements and social value creation by adopting and modifying the measurement methods suggested in the extant literature. We measured social marketing achievement through the respondents' subjective assessment of their organizations' marketing program's effectiveness with respect to whether or not it has achieved its preset, market-based goals. This measurement consists of five items that we modified based on previous studies related to third sector organizations' performance with regard to acquiring donations and volunteers using a market-oriented approach (Balabanis et al., 1997; Hodge & Piccolo, 2005; Macedo & Pinho, 2006). Social value creation consists of five items that measure the key social performance indicators over the past twelve months, as discussed in

the previous research (Gainer & Padanyi, 2005; Mottner & Ford, 2005; Nicholls, 2010). Similarly, we assessed economic performance using economic marketing achievement and economic value creation, adopting and modifying the measurement methods suggested in previous studies. The commercial marketing achievement comprised five items and measured through the respondents' subjective assessment of the effectiveness of their organization's marketing programs with regard to preset, market-based goals (Cano et al., 2004; Wood et al., 2000). The six items for economic value creation were modified based on the discussions of scholars regarding the key economic performance indicators for social enterprises over the past twelve months (Cooney, 2006; Meyskens et al., 2010; Weisbrod, 2004).

The control variable included in the analysis was the size of the social enterprise. Since large social enterprises tend to possess a strong resource-based of well-established brands to attract more business opportunities in both the social and commercial context (Desa, 2012; Weerawardena & Mort, 2012), an organization's size is likely to affect social enterprises' ability to achieve high social and economic performance. To measure the size of a social enterprise, we used a five point scale (1 = very small, 5 = very large) to differentiate the social enterprise's total revenues. The interval between each point scale is £100,000 (¥13,000,000; approximately US\$160,000). We employed a Likert scale because this format can overcome the respondents' unwillingness to disclose financial information and, even when they do, the accuracy of their figures cannot be assumed (Zahra, Neubaum, & El-Hagrassey, 2003). This approach offers us relevant ideas about the size of social enterprises. Furthermore, the reason why we choose size rather than the number of staff is due to the type of social enterprises (which engaged in both social and business activities) that we studied. In this type of social enterprise, the staff consists of paid and voluntary personnel who may engage in both social and economic activities. There is considerable variation between the total number of hours that each volunteer can commit to the assigned activities (Garner &

Garner, 2010; Liu & Ko, 2012). Thus, the total number of staff may not be a good reflection of the size of the social enterprises in this study.

This study forms part of a larger project on social enterprises in the UK and Japan. Primary data were collected via a mail survey of British and Japanese social enterprises that generate revenue from enterprise business activities, such as subscription services, business franchises, and the marketing of products, and alliances with for-profit or other third-sector organizations (Weisbrod, 1998). The English-language version of the questionnaire was translated independently into Japanese by one of the co-authors, then validated by three other native Japanese speakers. In the UK, we obtained responses from organizations registered with the UK Charity Commission, which regulates the administration and affairs of UK charities. In Japan, we collected responses from social enterprises listed on NPO Hiroba (a Japanese nonprofit organization database website), Social Ecoo (a Japanese social business and eco-business database website), and the Ministry of Economy, Trade, and Industry website (which lists a selection of 55 social businesses).

We searched for organizations that fulfilled the following two criteria. Firstly, the social enterprises in our sample need to generate income from business activities. Thus, we only selected organizations that generate revenue from multiple sources, one of which is trading activities, as suggested in the previous literature (Dees, 1998; Guo, 2006; Weisbrod, 1998). Secondly, the social enterprises in our sample need to have generated sufficient revenue from multiple sources and established trading activities to enable them to develop multiple marketing capabilities. We identified social enterprises with annual revenue above £100,000 in the UK and above ¥5,000,000 (£37,000) in Japan, which represent 25-35% of the third-sector organizations in both countries. We also sought social enterprises with a track record of conducting any form of trading activity for at least three years. Although a small number (less than 7%) of the social enterprises in our sample have more than ten years' experience of

conducting trading activities, they are still engaged in an entrepreneurial process through the constant introduction of new fundraising and enterprise schemes. We selected 2,000 organizations randomly from each country and sent out three waves of e-mails at 4-6 week intervals to increase the response rate. [The data collection took place between June 2010 and January 2011.](#) The participants could choose to participate in this research by either completing a questionnaire or giving an in-depth interview covering the topics of interest. We obtained 534 usable questionnaires – 297 from the UK (Education  $n = 29$ ; Health/Recreation  $n = 43$ ; Disability/General Care  $n = 49$ ; Housing  $n = 24$ ; Art  $n = 27$ ; Animal  $n = 9$ ; Religious  $n = 13$ ; Environment  $n = 8$ ; Others  $n = 95$ ), and 237 from Japan (Education  $n = 21$ ; Health/Recreation  $n = 22$ ; Disability/General Care  $n = 39$ ; Housing  $n = 5$ ; Art  $n = 7$ ; Animal  $n = 3$ ; Religious  $n = 0$ ; Environment  $n = 35$ ; Others  $n = 106$ ). This excludes incomplete questionnaires and organizations that did not fulfill the selection criteria. The median revenue for the UK-based social enterprises is £216,919 (US\$ 350,549) and that for the Japan-based ones is ¥ 20,012,500 (US\$ 250,527). We found that there were no significant differences between the early and late respondents, using the technique suggested by (Armstrong & Overton, 1977). Therefore, the probability of non-response bias is minimal.

### **Validation and Reliability**

We first assessed the key descriptive statistics of the data (see Table 1).

*“Insert Table 1 here”*

In both the UK and Japan samples, the mean values (on the 7-point scale) for certain marketing capabilities are slightly greater than those for others. For example, in the British sample, product (5.56), channel management (5.27) and market communication (5.34) capabilities are greater than pricing (4.41) and selling (4.19) capabilities. In the Japanese sample, product (5.31) and channel management (4.96) capabilities are greater than

marketing implementation (3.21) and market planning (3.81) capabilities. These values indicate that the participants in both countries perceive that there are differences between the levels of development of the different types of marketing capability. In addition, the correlations show that marketing capabilities have a significant positive correlation with both the social and economic performance indicators. This means that marketing capabilities and social enterprises' social and economic performance move in relation to each other.

We then assessed the threat of common method bias. Since our data were collected from the same sources, and the same respondents answered both the dependent and independent variables, this study may be susceptible to common method bias. During the data collection period, we took several actions to control for common method bias, such as assuring the respondents of the anonymity and confidentiality of their responses, emphasizing that there are no right or wrong answers, and covering the items related to the independent variables before those relating to the dependent ones (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). At the beginning of the data analysis, we used Harman's single factor test (Podsakoff & Organ, 1986) to assess the existence of common method variance at the item level. The result of an unrotated principal component analysis indicated that a single method factor fails to explain the majority of the variance (the highest single variance extracted from the UK data is 34.93% and that from the Japanese data is 38.11%). This indicates that common method bias is not a problem in this study.

Thirdly, we evaluated the measurement properties of the constructs using confirmatory factor analysis (CFA). We first calculate the Kaiser-Meyer-Olkin (KMO) value to measure the sampling adequacy, which should be greater than 0.5 for the factor analysis to proceed (Janssens, de Pelsmacker, Wijnen, & Van Kenhove, 2008). We then follow the acceptable model fit guidelines of the CFA using the comparative fit index (CFI): when greater than .90, a reasonable fit is indicated, and when close to or greater than .95, a good fit

is assumed (Harrington, 2008; Kline, 2005). We report the root mean square error of approximation (RMSEA): when close to or less than .05, an approximate fit is indicated, and when greater than .1, an unacceptable fit is assumed (Byrne, 2010). According to these indicators, our full model fits well (chi-square = 2526.73,  $p < .00$ , CFI = .93, RMSEA = .05, KMO = .93 for the British social enterprises; chi-square = 2324.93,  $p < .00$ , CFI = .94, RMSEA = .06, KMO = .94 for the Japanese social enterprises). For each construct, we found an acceptable fit for eight marketing capability constructs (chi-square = 1039.05,  $p < .00$ , CFI = .96, RMSEA = .05, KMO = .94 for the British social enterprises; chi-square = 1097.93,  $p < .00$ , CFI = .95, RMSEA = .06, KMO = .95 for the Japanese social enterprises), for two social performance constructs (chi-square = 47.51,  $p < .05$ , CFI = .96, RMSEA = .05, KMO = .85 for the British social enterprises; chi-square = 65.18,  $p < .00$ , CFI = .96, RMSEA = .08, KMO = .87 for the Japanese social enterprises), and for two economic performance constructs (chi-square = 68.31,  $p < .00$ , CFI = .98, RMSEA = .07, KMO = .77 for the British social enterprises; chi-square = 47.39,  $p < .05$ , CFI = 0.99, RMSEA = .05, KMO = .76 for the Japanese social enterprises). Although the chi-square is significant, the RMSEA indicates that the effect of sample size is not a major concern.

Fourthly, we assessed the possibility of multicollinearity. For marketing capability variables, the study by Vorhies and Morgan (2005) has already suggested that interdependency exists among different types of marketing capability. Thus, a high degree of correlation among them has been anticipated. For the dependent variables, as the link between marketing performance and social enterprise performance has long been recognized by researchers (e.g. Camarero & Garrido, 2009; Dees et al., 2002), a correlation between them is also expected. In both samples, there have been several incidences where there is a high correlation (more than .70) between the variables. To assess the threat of multicollinearity, we calculated the variance inflation factors (VIF) among the variables. The



results suggested that, for the highly correlated variables, such as marketing communication and marketing planning (UK VIF = 3.89; Japan VIF = 4.56), marketing information management and marketing planning (UK VIF = 4.22; Japan VIF = 4.73), marketing information management and marketing implementation (UK VIF 3.74 =; Japan VIF = 3.35), marketing planning and marketing implementation (UK VIF = 3.08; Japan VIF = 2.47), social marketing achievement and social value creation (UL VIF = 1.63; Japan VIF = 1.43), and commercial marketing achievement and economic value creation (UK VIF = 2.34; Japan VIF = 2.04), the VIF values are all below five. Moreover, we also calculated the VIF value among the other variables. The results suggest that they are all below three. Since a VIF value of greater than 10 would indicate that multicollinearity poses a serious problem (Hair, Black, Babin, & Anderson, 2010; Kennedy, 1992), the results demonstrate that multicollinearity is not a problem in this research.

Finally, we also took several steps to ensure the data's reliability and validity (see also Table 1). We assessed the reliability of the composite by calculating the composite reliability coefficient (CR) for all constructs for both samples. The results suggest that they all exceed the threshold value of .70, so construct reliability is confirmed (Hair et al., 2010). Subsequently, we calculated the average variance extracted (AVE), a measure of the shared or common variance in a latent variable, for all constructs for both samples. Our results indicate that all AVE exceed the .50 benchmark (Fornell & Larcker, 1981). As a last step, we compared the CR and AVE and found that the former is greater than the latter for all constructs for both samples. Moreover, we also found that, except for 11 items (out of 118), whose loading values are over .60, all other items in the various scales were above the threshold of .70 (see Appendix 1). Thus, convergent validity can be established (Hair et al., 2010).

## RESULTS AND ANALYSIS

With the properties of our measures established, we used two methods to test our hypotheses. First, we used AMOS 17.0, graphical data analysis software, to perform structural equation modeling (SEM) (Byrne, 2010) and estimate the effects of marketing capabilities on the social enterprises' social and economic performance. To control for size in our SEM analysis, we follow the suggestion of Kline (2005) and Byrne (2010) to treat the control variable like the other exogenous variables (i.e. marketing capabilities) and have it regress the second order factor (i.e. social and economic performance) of social enterprise performance. We first developed a model of the relationship between social enterprise marketing capabilities and social performance.

*“Insert Figure 1 here”*

*“Insert Figure 2 here”*

Figure 1 shows the results with regard to marketing capabilities and the British social enterprises' social performance (chi-square = 2001.27, CFI = .92,  $p < .00$ , RMSEA = .05). The British social enterprises' pricing capability ( $\beta = .21$ ,  $p < .05$ ), product capability ( $\beta = .32$ ,  $p < .00$ ), and marketing information management capability ( $\beta = .39$ ,  $p < .05$ ) were found to be related positively to their social performance. Figure 2 shows the model of the effects of marketing capability on the social performance of the Japanese social enterprises (chi-square = 1811.28, CFI = .93,  $p < .00$ , RMSEA = 0.05). The results suggest that none of the marketing capabilities has a significant impact on the Japanese social enterprises' overall social performance. Hypothesis 1 predicts that social enterprises' marketing capabilities are positively associated with their social performance. Thus, Hypothesis 1 is supported in the British sample but rejected in the Japanese sample. We then tested the model concerning the effects of the social enterprises' marketing capabilities and economic performance.

*“Insert Figure 3 here”*

*“Insert Figure 4 here”*

Figure 3 shows the results of the relationship between the British social enterprises' marketing capabilities and economic performance (chi-square = 2091.59, CFI = .92,  $p < .00$ , RMSEA = .05). The effects of pricing capability ( $\beta = .29$ ,  $p < .00$ ), product capability ( $\beta = .18$ ,  $p < .05$ ), and channel management capability ( $\beta = .15$ ,  $p < .05$ ) on the British social enterprises' economic performance are positive. Figure 4 shows the connections between marketing capability and the Japanese social enterprises' economic performance (chi-square = 1857.47, CFI = .93,  $p < .00$ , RMSEA = .05). We found that the effect of product capability ( $\beta = .26$ ,  $p < .05$ ), channel management capability ( $\beta = .16$ ,  $p < 0.1$ ), and marketing planning capability ( $\beta = .39$ ,  $p < .05$ ) are related positively to the Japanese social enterprises' economic performance. Hypothesis 2 states that marketing capabilities are positively associated with social enterprises' economic performance. Thus, Hypothesis 2 is supported by both the British and Japanese samples.

The results of our analysis reveal some interesting findings. We found that not every type of marketing capability is important for either the British or Japanese social enterprises' success in either the social or economic domain. These findings differ from the general assumptions that all types of marketing capability have a positive impact on organizational performance (e.g. Morgan et al., 2009; Vorhies & Morgan, 2005). In the British case, three types (pricing, product and market information management capability) of marketing capability are positively associated with social performance and three types (pricing, product and channel management capability) with economic performance. This echoes the suggestions of experts in this area that the performance of social enterprises can be predicted from their capacity to develop a greater understanding of the needs of society (e.g. Brooks, 2008; Chell, 2007), and develop products that address societal needs at suitable prices, using the appropriate channels to reach people (e.g. Liu & Ko, 2012; Vázquez, Álvarez, & Santos,

2002). Thus, social enterprises that have developed these particular types of marketing capabilities can outperform their third sector competitors.

In comparison to the Japanese case, we found that none of the eight types of marketing capability provided any advantage to the Japanese social enterprises with regard to conducting their social activities. These findings contrast with the popular notion that marketing strategy will have substantial impacts on social enterprises' social performance (Dees et al., 2002; McLeish, 2010). It is possible that Japanese social enterprises are not highly market driven (they generate sufficient market-based resources) when conducting their social operations, so the possession of marketing capabilities does not really affect their social performance. Nevertheless, we found that the Japanese social enterprises which possess high product, channel management and marketing planning capabilities are more likely to enjoy high economic performance. One explanation for this is that, when the Japanese third sector organizations attempt to transform themselves into more business-like social enterprises, they generally lack the ability to design and develop products, manage the distribution of their products and plan a marketing strategy that optimizes their use of their market-based resources. Those that possess these three types of marketing capability are more likely to outperform their competitors. This reflects the findings of other researches that highlight the critical role of product development, channel management and marketing planning in improving economic performance for third sector organizations (e.g. Mottner & Ford, 2005; Zhao et al., 2010). Moreover, in connection with the findings on social performance, our findings suggest that the development of the marketing capabilities of the Japanese social enterprises have a greater impact on their economic performance than on their social performance.

In the above analysis, it has been shown that not all of the marketing capabilities are positively or significantly associated with social enterprises' performance. Besides the

possible explanations discussed above, we also expected that marketing capabilities will have different relative impacts on individual performance indicators. For example, marketing capabilities may enable social enterprises to deploy market-based resources to acquire new resources (i.e. marketing achievement) but not to create value. Therefore, we carried out an additional hierarchical regression analysis to examine the extent of salient individual effects of marketing capability on each of the four social enterprise performance indicators. For the hierarchical regression analysis, we used SPSS (PASW) 17, a statistical package for analyzing data in the field of social sciences (Janssens et al., 2008). We follow experts' advice regarding hierarchical regression analysis by first entering the control variable (i.e. organization size), and then adding the eight marketing capabilities variables against each of the four performance indicators (Gelman & Hill, 2006; Janssens et al., 2008). Our findings are presented in Table 2:

*“Insert Table 2 here”*

For the British social enterprises, channel management capability ( $\beta = .34, p < .00$ ), marketing communication capability ( $\beta = .21, p < .05$ ), and selling capability ( $\beta = .13, p < .05$ ) have positive effects; conversely, marketing planning capability ( $\beta = -.23, p < .05$ ) has negative effects on social marketing achievement. Pricing capability ( $\beta = .14, p < .05$ ), product capability ( $\beta = .26, p < .00$ ), and market information management capability have positive effects on social value creation. In terms of economic performance, the British social enterprise pricing capability ( $\beta = .20, p < .00$ ), product capability ( $\beta = .13, p < .05$ ), channel management capability ( $\beta = .20, p < .05$ ), marketing communication capability ( $\beta = .16, p < .05$ ), and selling capability ( $\beta = .11, p < .10$ ) have positive effects on economic marketing achievement. The results for pricing capability ( $\beta = .23, p < .00$ ), product capability ( $\beta = .20, p < .00$ ), and marketing communication capability ( $\beta = .12, p < .10$ ) suggest that these have positive effects on economic value creation. For the Japanese social enterprises, channel

management capability ( $\beta = .14, p < .10$ ), marketing communication capability ( $\beta = .16, p < .10$ ), and marketing planning capability ( $\beta = .32, p < .05$ ) are related positively to social marketing achievement, while selling capability ( $\beta = .18, p < .05$ ) is related positively to social value creation. In terms of the Japanese social enterprises' economic performance, product capability ( $\beta = .18, p < .05$ ), channel management capability ( $\beta = .13, p < .10$ ), marketing communication capability ( $\beta = .14, p < .10$ ), and marketing planning capability ( $\beta = .34, p < .00$ ) are related positively to economic marketing achievement. Finally, pricing capability ( $\beta = .11, p < .10$ ) and product capability ( $\beta = .24, p < .00$ ) are related positively to economic value creation.

This additional analysis not only confirms our conclusion that hypotheses 1 and 2 are particularly supported, but also provides further evidence of the importance of selective marketing capability development. Our findings show that, in both the British and Japanese cases, the different types of marketing capability have an impact on either their marketing achievement or value creation, but rarely both (except for the effects of pricing, product and marketing communication capabilities on the economic performance of the British social enterprises, and the effects of product capabilities on that of the Japanese ones). These findings are also consistent with Liu and Ko (2012)'s qualitative study, that found the different types of marketing capability play different roles in enhancing social enterprise performance by either acquiring more resources or creating social and economic value. As a result, social enterprises should be selective when developing particular types of marketing capability to meet specific performance requirements. Secondly, despite the several negative effects on individual types of marketing capability for each of the performance indicators, we found that marketing planning capabilities have both negative and significant effects on the British social enterprises' social marketing achievement. These additional findings highlight the fact that, in different situations, the focus on certain types of marketing capability may

damage a social enterprise's performance. This finding concurs with some experts' opinion that the public may regard the possession of advanced marketing capabilities as an indication of over-commercialization (Eikenberry & Kluver, 2004; Foster & Bradach, 2005), which may potentially damage their reputation and resource generating ability. Thirdly, if we compare the effects of specific types of marketing capability on the British and Japanese enterprises, some contradictory findings emerge. Notably, marketing planning capability has both negative and significant effects on the British social enterprises' performance, but positive, significant effects on that of the Japanese ones. This may reflect the country or cultural differences, suggested by the researchers, with regard to how the residents of different countries view the idea of social enterprises, which may affect their willingness with regard to donations, their purchase of products or services, their reaction to volunteer schemes, and so on (e.g. Kerlin, 2006, 2009).

## **DISCUSSION AND CONCLUSIONS**

The purpose of this article is to extend the existing research on the relationship between eight different types of marketing capability and social enterprise performance. Contrary to the study of the for-profit industry marketing capability (e.g. Kotabe, Srinivasan, & Aulakh, 2002; Vorhies & Morgan, 2005), our results suggest that not every type of marketing capability contributes positively toward social enterprises' social and economic performance. For example, we found that marketing planning capability has negative but non-significant effects on the British social enterprises' overall social performance, and the additional regression analysis shows that the marketing planning capability has negative effects on social marketing achievement, a construct of social performance measurement. Regarding the Japanese sample, we identify a similar pattern whereby marketing information management and marketing implementation capability have negative but non-significant

mutual effects. These results provide fresh input to the long debate about whether or not the adoption of commercialization (or more market-oriented operational approaches) is beneficial for third-sector organizations (Cooney, 2011; Foster & Bradach, 2005; Macedo & Pinho, 2006; Weisbrod, 2004), suggesting that certain types of marketing capability are useful for social enterprises while others are not. Thus, social enterprises need to be selective when developing different types of marketing capability.

This study makes several theoretical contributions. First, the quantitative study simultaneously examines multiple components of market capabilities in relation to social enterprises' social and economic performance and extends the current work on marketing capabilities (Fahy et al., 2000; Morgan et al., 2009; Vorhies et al., 1999; Vorhies & Morgan, 2005) with regard to social enterprises. Our findings challenge the conventional wisdom that market-driven organizations must develop all types of marketing capability (Fahy et al., 2000; Morgan et al., 2009; Vorhies et al., 1999), suggesting that, in the social enterprise sector, the development of marketing capability should be selective. More specifically, social enterprises should not adopt any marketing capability blindly without understanding the consequences of this for their performance. They should choose appropriate capabilities with regard to their organizational objectives.

Second, our research responds to the requests by several field experts for urgent, large-scale, quantitative research on social enterprises (Dacin et al., 2011; Grimes, 2010; Meyskens et al., 2010). In this study, we conduct a questionnaire survey of both British and Japanese social enterprises. We found that different types of marketing capabilities have varying effects on social enterprises' social and economic performance in different marketing environments.

Finally, our findings (see table 2) provide specific suggestions about the types of marketing capability that either improve or weaken specific social enterprise performance



objectives for the managers of the British and Japanese social enterprises. For example, a British social enterprise manager who wishes to enhance the organization's social value can target the improvement of the pricing, product, and market information management capability, while a Japanese social enterprise manager who wishes to improve the organization's commercial marketing effectiveness can make improvements to the product, channel management, and marketing planning capabilities. Social enterprise managers can make informed choices in order to enhance their organization's economic and social performance.

As government spending on third-sector organizations decreases, demographic and social changes continue to expand the need for social services, which exacerbates the role and demand for third-sector organizations. To survive, third-sector organizations are relying increasingly on commercial income (including service fees, product sales, and publications) by adopting market-oriented strategies to deploy market-based assets and become more market-driven, business-like entities, known as social enterprises (Austin et al., 2006; Grimes, 2010; Weerawardena & Sullivan-Mort, 2001). Extant studies suggest that the deployment of market-based assets requires organizations to develop relevant marketing capabilities (Day, 1994; Morgan et al., 2009). In this study, we find that this principle only applies partially to the social enterprise sector because the results suggest that not every marketing capability has positive consequences for social enterprises social or commercial performance. Thus, social enterprises need to develop marketing capabilities selectively in order to meet their company-specific objectives.

## **IMPLICATIONS**

The results of this study also have important managerial implications. The first implication concerns the selective development of marketing capability. Our results show that

not every type of marketing capability has a consistent, positive relationship with social enterprise performance. In different scenarios, some types of marketing capability contribute more to social enterprise performance than others. Furthermore, certain types of marketing capability may have positive effects on one performance indicator but prove insignificant to others. Put simply, different marketing capabilities have either positive or negative effects on specific types of social enterprise performance. Therefore, the managers of social enterprises should recognize the consequence of the different types of marketing capability and develop appropriate marketing capabilities to meet social enterprises' performance objectives.

In relation to the first implication, the second implication relates to the selective development of different categories of marketing capability. Liu and Ko (2012)'s study on the development of marketing capabilities in the British charity retailing sector separates it into two categories: new and existing marketing capabilities. The former refers to relatively new types of marketing capability in the social enterprise sector, such as pricing, product development, channel management, and selling. These capabilities require third-sector organizations to become more businesslike and develop operating routines for these marketing functions from scratch. Alternatively, the existing marketing capabilities refer to various types of marketing capability, such as market information management, marketing communication, marketing planning, and marketing implementation, which the third-sector organizations already possess under the concept of nonprofit marketing.

To become a social enterprise, third-sector organizations need to modify their existing marketing capabilities into more business-like operations. Through conducting a regression analysis, we found that 31 of the 32 paths between marketing capability and social enterprise performance are related positively, 16 of which 31 are statistically significant, except for channel management capability in relation to social value creation in the Japanese case, which is negative and non-significant. For the existing marketing capabilities, meanwhile, 20

of the 32 paths between the marketing capability and social enterprise performance measurement are related positively, but only 7 of these 20 are statistically significant. In addition, marketing planning capabilities are negatively related to social marketing achievement in the British samples. These findings imply that, in the social enterprise context, the development of marketing capabilities under new marketing capability categories has a greater impact on social enterprise performance. The action of modifying the marketing capability from the social marketing categories may be perceived by the public as over-commercialization that may have potential negative impacts on both social and commercial performance.

The final implication concerns the country differences in connection with the effects of marketing capability on social enterprise performance. In terms of social performance, our structural model shows that certain types of marketing capability have positive effects on the British social enterprises' social performance but not on that of the Japanese ones. In contrast, both the British and Japanese social enterprises' economic performance is related positively to certain marketing capabilities. Overall, our findings suggest that marketing capabilities have a strong impact on the British social enterprises' both social and economic performance, but only on the economic performance of the Japanese social enterprises. This may reflect the differences in social enterprise development due to specific factors existing in these two countries. The British government and society, for example, is more advanced in supporting social enterprise development. Despite the increasing demands of the sector and the large potential market size for social businesses, the Japanese government has failed to create a comprehensive policy to support social enterprise development (like that created by the UK government), even though considerable progress has been made (Japanese Ministry of Economy Trade and Industry, 2008). Compared to the UK (UK Cabinet Office, 2006), the Japanese government has delayed the creation of support systems for social enterprises in

terms of capital, human resources, and knowledge accumulation. As a result, the Japanese social enterprises identify gaining public recognition (45.7%), fund raising (41%), and personnel development (36.2%) as the issues that they face. Consequently, the growth of social enterprises in Japan has been far slower than in the UK, with the number of social enterprises estimated at about 8,000 (compared to the UK's 55,000), with 32,000 employees (compared to the UK's 775,000), and a market size of ¥240 billion/£1.78 billion (compared to the UK's £27 billion).

In addition to the degree of social enterprise development, the cultural differences between Japan and the UK may also help to explain the differences in our findings. For example, Japanese culture is more long-term oriented (Franke, Hofstede, & Bond, 1991; Hofstede, 2001), which may encourage and reward organizations to plan their business activities ahead. Thus, we found a positive impact of marketing planning capability on Japanese social enterprises' economic performance. Hofstede (1991) also suggests that British culture is strongly individualistic while Japanese culture is collectivistic. Hartung, Fouad, Leong, and Hardin (2010) found that there is a positive relationship between collectivism and altruism. This may explain why certain marketing capabilities, such as pricing, do not contribute toward social value creation. In an altruistic society, where "contributing to the welfare of others" (Hartung et al., 2010, p. 39) is a commonly-held value, people tend not to compare the prices of different organizations when making a purchase from social enterprises for social purposes. Furthermore, besides cultural differences, another possible explanation of the non-significant effects of pricing capability on Japanese social enterprises' performance may be the nature of the distribution system in Japan. Studies have suggested that distribution costs are high in Japan due to its complex, localized, multi-layered system (Ito & Maruyama, 1995; Ohara, 2004). In this sense, there is little scope for Japanese

social enterprises to compete on their pricing strategy. Thus, even organizations possessing a greater pricing capability will find that this has a limited impact on their performance.

### **LIMITATIONS AND FURTHER RESEARCH**

We recognize that our study suffers from several limitations due to the research design, but also that these produce opportunities for future research. First, we adopt the marketing capabilities construct (e.g. the eight marketing capabilities measurement) from previous studies (Eng & Spickett-Jones, 2009; Morgan et al., 2009; Vorhies & Morgan, 2005), which has been used to analyze the effects of marketing capabilities on for-profit enterprises. This precludes the assessment of other types of marketing capability that are related to social enterprises exclusively. Future research should explore undiscovered types of marketing capability that relate specifically to social enterprise performance. Second, the design of previous studies, which involved inviting a representative of a firm to complete a survey questionnaire (e.g. Eng & Spickett-Jones, 2009; Morgan et al., 2003; Murray et al., 2011; Vorhies & Morgan, 2005), leaves open the possibility of self-serving bias. Although we took care to ensure that the design of our questionnaire would maximize respondent objectivity, the question remains of how valid it is for an organization to assess its own marketing capabilities. Future research may utilize a secondary data-based research design to overcome this limitation. Third, we perform a cross-national study involving both the UK and Japan, attempting to enhance the research variability and generalizability (Farmer et al., 2011; Mitchell et al., 2000; Morgan et al., 2003). As a result, we do not explore country-specific factors (e.g. culture). However, the effects of marketing capability on social enterprise performance show that there are few differences between these two countries. Further research might examine country-specific factors in relation to the effects of marketing capabilities. **Fourthly, although we have acknowledged the relationship between life cycle and enterprise performance, we did not control for the age of the social enterprise in our**

original data analysis, mainly because it is difficult if not misleading to obtain the age information of the type of social enterprises that we studied (conventional, third-sector organizations that have transformed themselves into more business-like, market-oriented entities). Many of our respondents found it difficult to state exactly when their organization embarked on this transformation. Moreover, the age when the organization began to pursue both social and commercial objectives could be a gradual process and an evolving life cycle of an organization. The only information that we can obtain is the registration date for third sector organizations. From this, we calculate an average age of 18.5 years for the British and 15.7 years for the Japanese social enterprises in our sample. We then run our model, controlling for organizations' age and size, and found that there is no difference between these new findings and our original ones (presented in Figure 1~4 and Table 2). Thus, we are confident that the age factor will alter our results. Finally, the cross-sectional design of our study does not allow us to draw any definite conclusions about the causal processes and effects of marketing capability over time. Consistent with the SEM approach, our interest lies in the causal inference and validity of the hypothesized measures rather than causality. Moreover, the survey methodology, that measures a single point in time, limits the conclusions that may be drawn about causality in these social enterprises. As suggested by the literature, although the vast majority of the structural equation model studies use cross-sectional data, researchers still need to acknowledge that a set of relationships among the variables occurs simultaneously, rather than being a purely causal relationship (Baumgartner & Homburg, 1996; Holbert & Stephenson, 2002). Rindfleisch, Malter, Ganesan, and Moorman (2008) argue that a cross-sectional approach may be a viable (and less costly) means of reducing common method variance bias and enhancing causal inference under conditions related to survey design. Given that third-sector organizations adopt marketing concepts gradually and develop their marketing capabilities over long periods of time

(Cooney, 2011; Foster & Bradach, 2005; Nicholls, 2010), combined with the fact that we have established linkages between marketing capabilities and performance using cross-sectional data, future researchers might employ a longitudinal research design in order to confirm causality empirically and assess performance over time in order to provide further contributions to the existing knowledge on this subject. Despite these limitations, our research contributes to the understanding of the effects of marketing capability on social enterprise performance, adds to social enterprise theory and practices, and also provides managerial implications for social enterprise managers.

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**Table 1: Construct Means, Correlations, and Reliability**

<b>British Social Enterprises</b>																
	<b>Mean</b>	<b>S.D.</b>	<b>CR</b>	<b>AVE</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>
<b>1. Size</b>	3.50	N/A	N/A	N/A												
<b>2. Pricing</b>	4.41	1.71	.88	.65	.21											
<b>3. Product</b>	5.56	1.23	.93	.73	.31	.39										
<b>4. Channel Management</b>	5.27	1.16	.91	.63	.40	.25	.35									
<b>5. Marketing Communication</b>	5.34	1.23	.91	.68	.28	.38	.43	.32								
<b>6. Market Information Management</b>	4.98	1.35	.87	.62	.35	.45	.43	.41	.63							
<b>7. Selling</b>	4.19	1.80	.95	.84	.26	.41	.26	.32	.39	.54						
<b>8. Marketing Planning</b>	4.98	1.39	.95	.79	.30	.44	.46	.37	.72	.74	.55					
<b>9. Marketing Implementation</b>	4.80	1.41	.95	.80	.27	.46	.45	.32	.68	.75	.54	.84				
<b>10. Social Marketing Achievement</b>	4.80	1.37	.89	.63	.16	.28	.27	.29	.35	.35	.30	.29	.34			
<b>11. Social Value Creation</b>	4.84	1.42	.89	.63	.20	.34	.41	.26	.27	.39	.27	.33	.33	.34		
<b>12. Commercial Marketing Achievement</b>	4.54	1.36	.86	.54	.29	.46	.41	.37	.47	.49	.41	.48	.50	.63	.43	
<b>13. Economic Value Creation</b>	5.00	1.12	.89	.58	.27	.49	.48	.34	.49	.50	.39	.53	.54	.49	.58	.73
<b>Japanese Social Enterprises</b>																
	<b>Mean</b>	<b>S.D.</b>	<b>CR</b>	<b>AVE</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>
<b>1. Size</b>	3.22	N/A	N/A	N/A												
<b>2. Pricing</b>	3.77	1.51	.82	.53	.19											
<b>3. Product</b>	5.31	1.33	.95	.80	.30	.52										
<b>4. Channel Management</b>	4.96	1.41	.95	.75	.34	.37	.59									
<b>5. Marketing Communication</b>	4.22	1.26	.92	.70	.27	.38	.48	.54								
<b>6. Market Information Management</b>	4.01	1.26	.84	.56	.24	.55	.52	.53	.66							
<b>7. Selling</b>	3.99	1.56	.94	.79	.29	.34	.48	.66	.51	.58						
<b>8. Marketing Planning</b>	3.81	1.47	.95	.79	.25	.47	.51	.56	.73	.72	.66					
<b>9. Marketing Implementation</b>	3.21	1.44	.96	.82	.23	.40	.45	.45	.69	.68	.56	.82				
<b>10. Social Marketing Achievement</b>	3.88	1.32	.87	.58	.19	.24	.31	.37	.37	.27	.31	.39	.28			
<b>11. Social Value Creation</b>	4.25	1.23	.88	.61	.15	.26	.29	.25	.29	.37	.36	.38	.35	.43		
<b>12. Commercial Marketing Achievement</b>	3.90	1.32	.88	.59	.24	.36	.48	.49	.50	.45	.44	.56	.45	.72	.42	
<b>13. Economic Value Creation</b>	4.42	1.01	.89	.57	.24	.42	.53	.50	.47	.48	.46	.51	.45	.51	.50	.70

Notes:

For British social enterprise sample: n = 297, correlations are significant at p < .05

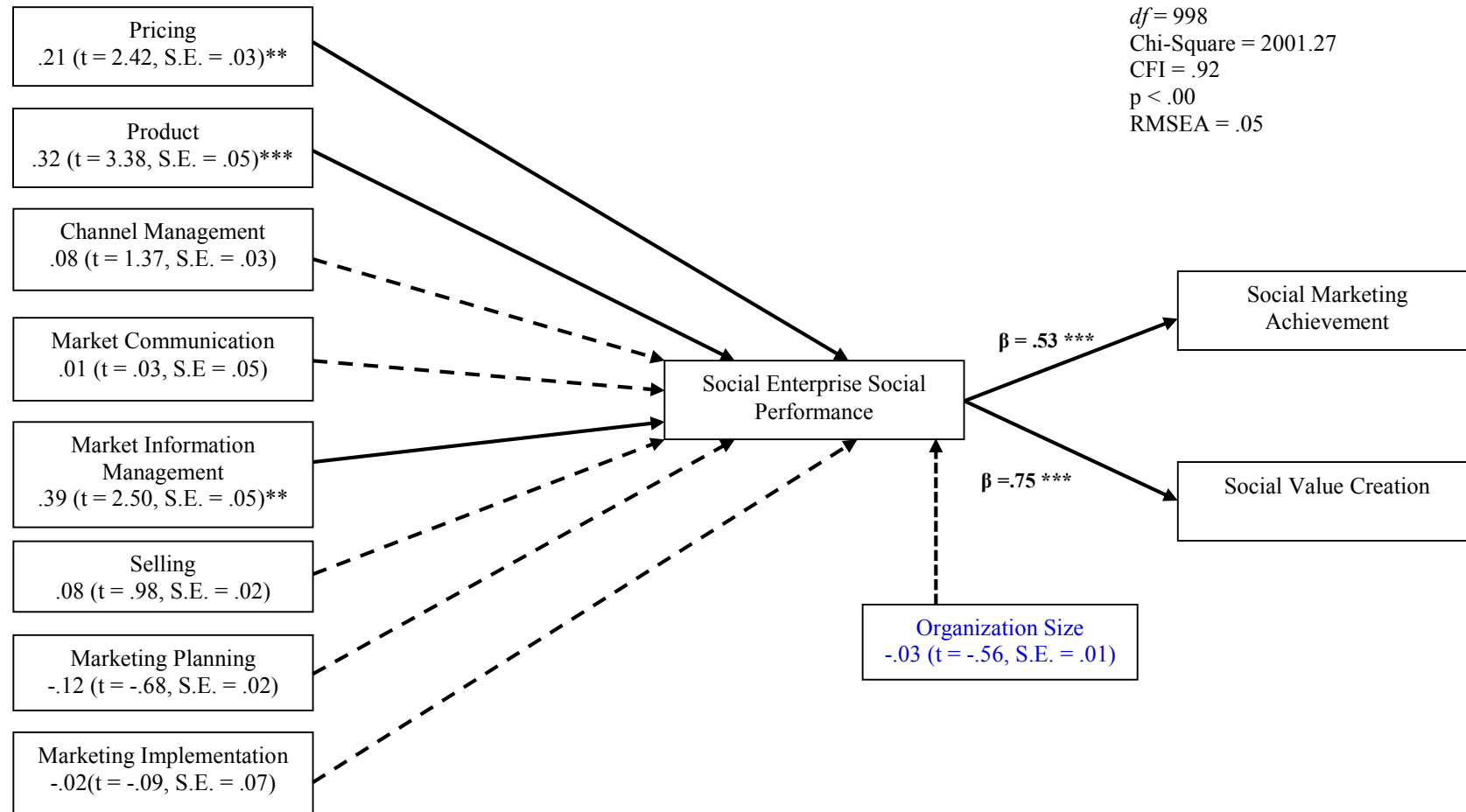
For Japanese social enterprise sample: n = 237, correlations are significant at p < .05

CR = Composite Reliability

AVE = Average Variance Extracted

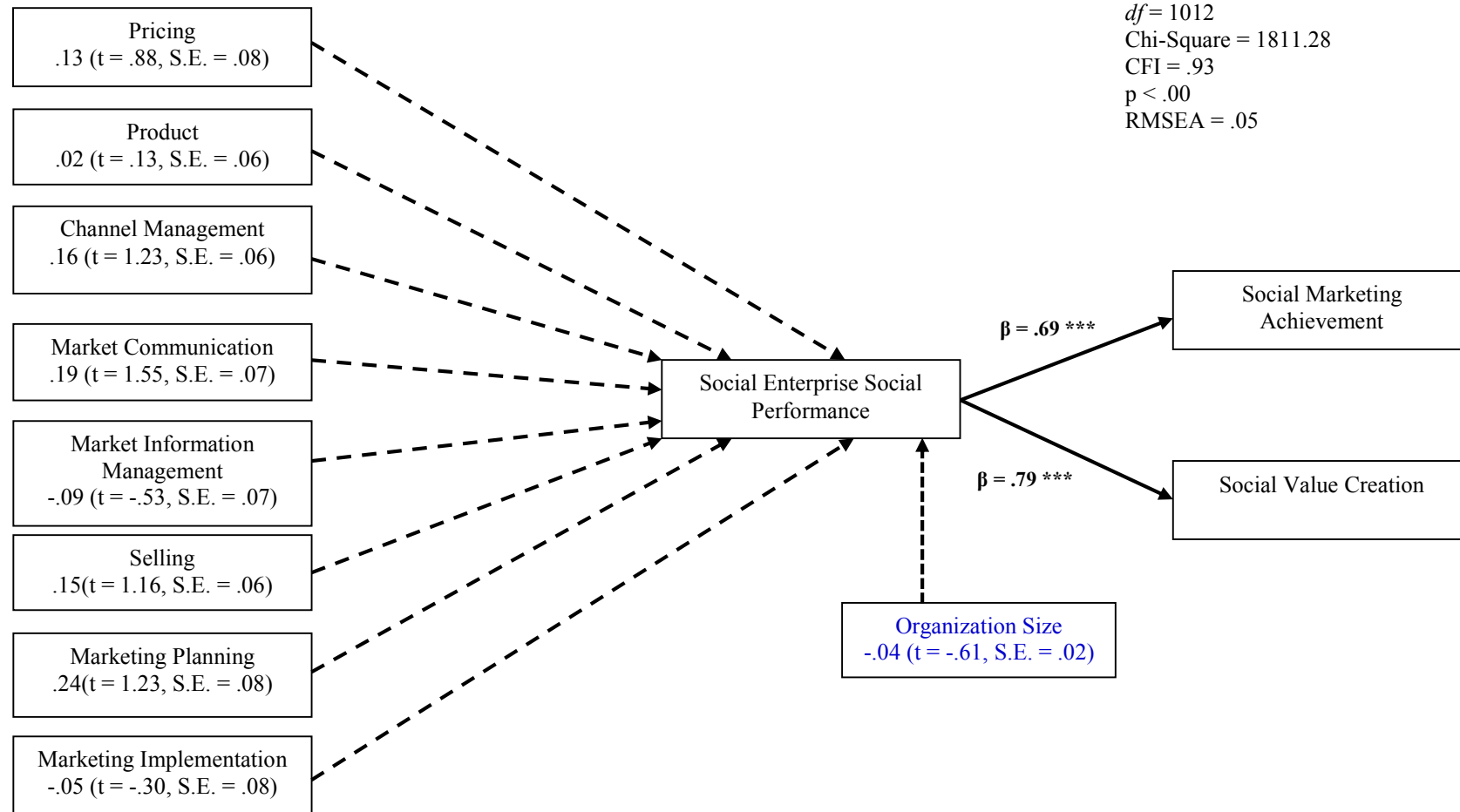
S.D. = Standard Deviation

**Figure 1: British Social Enterprise Sample Structure Model for Social Performance**



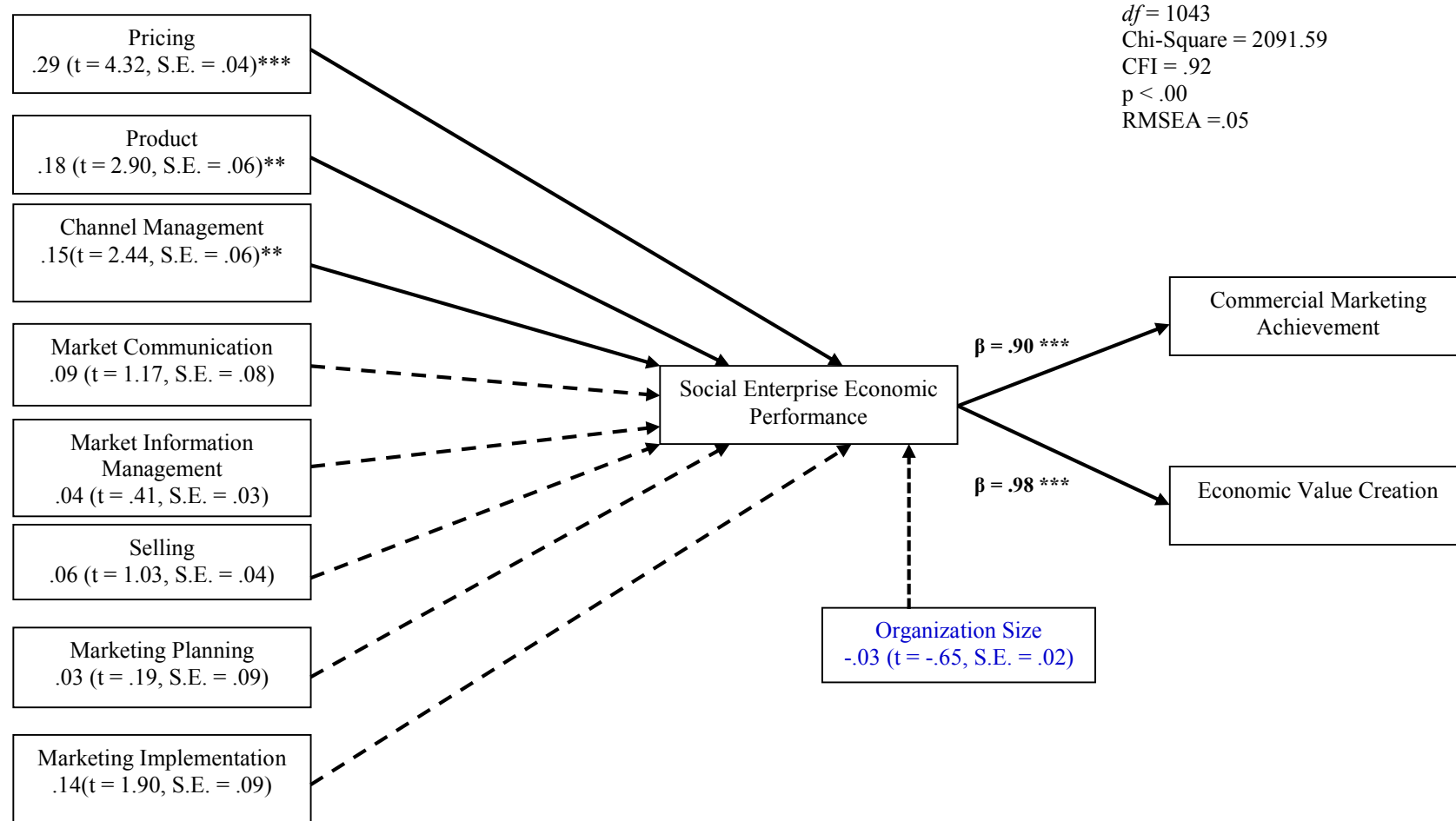
Note:  
 \* $p < .10$ ; \*\* $p < .05$ ; \*\*\* $p < .01$   
 Bold lines indicate statistical significance  
 Social Enterprise Social Performance is a second order factor

**Figure 2: Japanese Social Enterprise Sample Structure Model for Social Performance**



Note:  
 \* $p < .10$ ; \*\* $p < .05$ ; \*\*\* $p < .01$   
 Bold lines indicate statistical significance  
 Social Enterprise Social Performance is a second order factor

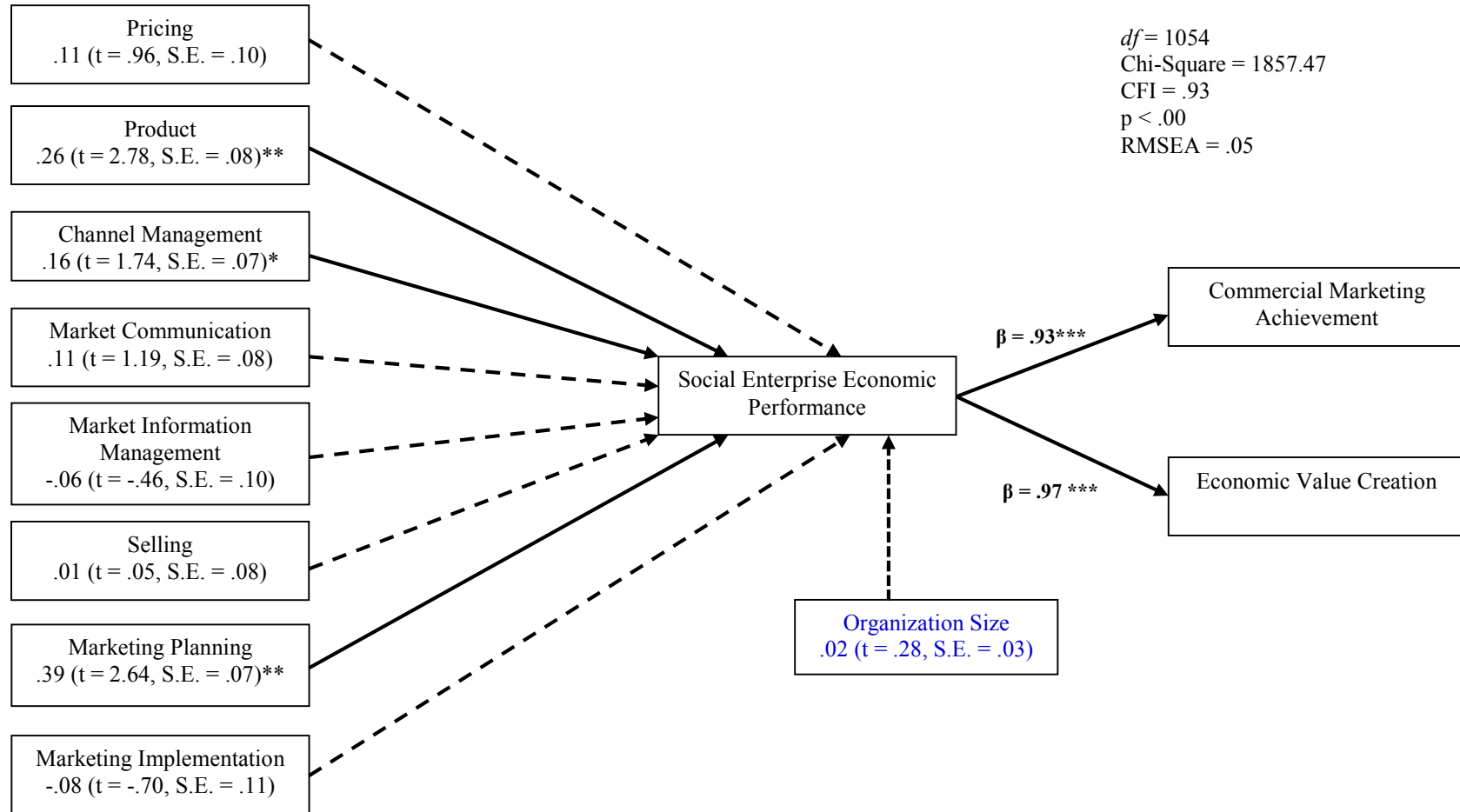
**Figure 3: British Social Enterprise Sample Structure Model for Economic Performance**



Note:  
 \* $p < .10$ ; \*\* $p < .05$ ; \*\*\* $p < .01$   
 Bold lines indicate statistical significance  
 Social Enterprise Economic Performance is a second order factor



**Figure 4: Japanese Social Enterprise Sample Structure Model for Economic Performance**



Note:  
 \* $p < .10$ ; \*\* $p < .05$ ; \*\*\* $p < .01$   
 Bold lines indicate statistical significance  
 Social Enterprise Economic Performance is a second order factor

**Table 2: The Effects of Marketing Capabilities**

	British Social Enterprise							
	Social Marketing Achievement		Social Value Creation		Commercial Marketing Achievement		Economic Value Creation	
Size	.16(2.81; .03)**	-.25(-2.79; .05)	.20(3.54; .04)***	-.05(-.56; .06)	.29(.51; .04)***	-.08(-.96; .05)	.27(4.90; .03)***	-.03(-.39; .04)
Pricing		.08(1.32; .05)		.14(2.32; .05)**		.20(3.68; .04)***		.23(4.33; .04)***
Product		.07(1.19; .07)		.26(4.27; .07)***		.13(2.30; .06)**		.20(3.69; .05)***
Channel Management		.34(3.70; .09)***		.09(.96; .11)		.20(2.47; .09)**		.09(1.26; .07)
Marketing Communication		.21(2.72; .08)**		-.06(-.74; .09)		.16(2.34; .08)**		.12(1.71; .06)*
Market Information Management		.10(1.14; .08)		.23(2.65; .09)***		.07(.87; .08)		.04(.47; .06)
Selling		.13(2.01; .05)**		.04(.63; .05)		.11(1.95; .05)*		.05(.91; .04)
Marketing Planning		-.23(-2.14; .10)**		-.01(-.06; .11)		-.05(-.48; .09)		.07(.75; .07)
Marketing Implementation		.12(1.17; .09)		-.01(-.13; .10)		.10(1.25; .09)		.11(1.41; .07)
<i>df</i>	296	296	296	296	296	296	296	296
F-value	7.89***	9.27***	12.54***	10.45***	26.36***	20.35***	24.01***	24.27***
Adjusted R-square	.02	.23	.04	.22	.08	.37	.07	.41
	Japanese Social Enterprise							
	Social Marketing Achievement		Social Value Creation		Commercial Marketing Achievement		Economic Value Creation	
Size	.19(3.02; .04)**	.03(.42; .04)	.05(.80; .04)	-.08(-1.12; .04)	.25(3.91; .04)***	.02(.37; .04)	.24(3.83; .03)***	.02(.26; .03)
Pricing		.05(.65; .07)		.03(.43; .06)		.05(.74; .06)		.11(1.67; .05)*
Product		.07(.89; .08)		.09(1.11; .07)		.18(2.55; .07)**		.24(3.33; .06)***
Channel Management		.14(1.48; .09)*		-.04(-.36; .08)		.13(1.57; .08)*		.11(1.35; .06)
Marketing Communication		.16(1.74; .10)*		-.04(-.44; .09)		.14(1.69; .09)*		.09(1.11; .07)
Market Information Management		-.13(-1.34; .10)		.13(1.36; .10)		-.04(-.41; .09)		.03(.30; .07)
Selling		.01(.12; .08)		.18(2.00; .07)**		.01(.09; .07)		.09(1.10; .05)
Marketing Planning		.32(2.59; .11)**		.11(.89; .11)		.34(3.02; .10)***		.09(.84; .08)
Marketing Implementation		-.14(-1.28; .10)		.07(.66; .09)		-.07(-.70; .09)		.03(.34; .07)
<i>df</i>	236	236	236	236	236	236	236	236
F-value	9.12***	6.70***	.64	6.05***	15.29***	16.13***	14.70***	16.17***
Adjusted R-square	.03	.18	.01	.16	.06	.37	.06	.37

Note:

\*p < .10; \*\*p < .05; \*\*\*p < .01

Finding presentation: standardized coefficients (t-value; S.E.)

## Appendix 1: Measurement and Factor Loadings

<b>Social Enterprise Marketing Capabilities</b>			UK*	Japan*
<b>UK:</b> $\chi^2 = 1039.05, p < .00, CFI = .96, RMSEA = .05, KMO = .94$				
<b>Japan:</b> $\chi^2 = 1097.93, p < .00, CFI = .95, RMSEA = .06, KMO = .95$				
<b>Pricing</b>	Developing pricing skills and techniques to respond quickly to market changes		.70	.71
<i>(Price can be, price of retail item, or anything that customers use to exchange products or services)</i>	Developing knowledge of competitors' pricing tactics		.80	.84
	Developing an effective job of pricing products/services		.84	.72
<b>Product</b>	Developing a system to monitor competitors' prices and price changes		.87	.64
<i>(Product can be fundraising scheme, product/service sales for social enterprise, volunteer opportunities, or any activity that brings benefit to social enterprise)</i>	Learning to develop new products/services		.76	.83
	Developing new products/services to exploit current or future production skills and/or technology		.82	.91
<b>Channel Management</b>	Acquiring new technology to develop products/services		.95	.93
<i>(Distributors include any paid or volunteer individual or organization that helps delivery products or services to customers)</i>	Developing knowledge of coordinating new product launches		.95	.91
	Gaining knowledge of customer needs to match new product development		.78	.89
<b>Marketing Communication</b>	Developing good relationships with distributors		.88	.99
<i>(Distributors include any paid or volunteer individual or organization that helps delivery products or services to customers)</i>	Attracting and retaining the best distributors		.75	.82
	Gaining knowledge of distributors' partners		.72	.88
<b>Market Information Management</b>	Striving to add value to our distributors business		.85	.86
<i>(sales forces and fundraisers help nonprofits sell products and services, either paid or volunteer)</i>	Developing partnerships with our distributors and their business partners		.72	.82
	Providing high levels of service support to distributors		.81	.80
<b>Selling</b>	Knowledge of developing and executing advertising programs		.87	.77
<i>(sales forces and fundraisers help nonprofits sell products and services, either paid or volunteer)</i>	Developing advertising management and creative skills		.75	.81
	Using public relations skills		.76	.88
<b>Marketing Planning</b>	Developing brand image skills and positioning		.91	.90
<i>(sales forces and fundraisers help nonprofits sell products and services, either paid or volunteer)</i>	Knowledge of nonprofit image and reputation management		.82	.84
	Gathering information about customers and competitors		.83	.80
<b>Marketing Implementation</b>	Using market research skills to develop effective marketing programs		.79	.66
<i>(sales forces and fundraisers help nonprofits sell products and services, either paid or volunteer)</i>	Tracking customer wants and needs		.77	.79
	Making full use of marketing research information		.77	.73
<b>Marketing Planning</b>	Giving salespeople the training they need to be effective		.95	.88
<i>(sales forces and fundraisers help nonprofits sell products and services, either paid or volunteer)</i>	Developing sales management planning and control systems		.94	.91
	Developing selling skills of salespeople		.86	.86
<b>Marketing Planning</b>	Providing effective sales support to the sales force		.91	.90
<i>(sales forces and fundraisers help nonprofits sell products and services, either paid or volunteer)</i>	Developing marketing planning skills		.92	.90
	Developing the ability to effectively segment and target market		.90	.90
<b>Marketing Planning</b>	Developing marketing management skills and processes		.90	.94
<i>(sales forces and fundraisers help nonprofits sell products and services, either paid or volunteer)</i>	Developing creative marketing strategies		.81	.82
	Thorough knowledge of marketing planning processes		.91	.88
<b>Marketing Planning</b>	Knowledgeable of effective allocation of marketing resources		.82	.84
<i>(sales forces and fundraisers help nonprofits sell products and services, either paid or volunteer)</i>	Developing effective delivery of marketing programs		.91	.94
	Knowing how to translate marketing strategies into action		.89	.91
<b>Marketing Planning</b>	Knowledgeable of executing marketing strategies effectively		.92	.96
<i>(sales forces and fundraisers help nonprofits sell products and services, either paid or volunteer)</i>	Developing a monitoring system for marketing performance		.92	.89
<b>Social Enterprise Social Performance</b>			UK*	Japan*
<b>UK:</b> $\chi^2 = 47.51, p < .05, CFI = .96, RMSEA = .05, KMO = .85$				
<b>Japan:</b> $\chi^2 = 1097.93, p < .00, CFI = .95, RMSEA = .06, KMO = .87$				
<b>Social Marketing Achievements</b>	Acquiring new donors		.77	.67
<i>(sales forces and fundraisers help nonprofits sell products and services, either paid or volunteer)</i>	Acquiring new volunteers		.72	.73
	Increasing donation amount from current donor		.67	.65
<b>Social Value Creation</b>	Increasing volunteer hours from current volunteer		.89	.84
<i>(sales forces and fundraisers help nonprofits sell products and services, either paid or volunteer)</i>	Growth in overall donation/volunteer time		.88	.90
	Bidding for public service contract		.72	.63
<b>Social Value Creation</b>	Bidding government (or its funding body's) grants for enterprise activities		.71	.87
<i>(sales forces and fundraisers help nonprofits sell products and services, either paid or volunteer)</i>	Serves more beneficiaries in the community		.82	.65
	Provide more social service (different types)		.86	.83
<b>Social Value Creation</b>	Expand social service to different locations		.84	.89
<b>Social Enterprise Economic Performance</b>			UK*	Japan*
<b>UK:</b> $\chi^2 = 68.31, p < .00, CFI = .98, RMSEA = .07, KMO = .77$				
<b>Japan:</b> $\chi^2 = 47.39, p < .05, CFI = .99, RMSEA = .05, KMO = .76$				
<b>Commercial Marketing Achievements</b>	Market share growth relevant to competition		.63	.73
<i>(sales forces and fundraisers help nonprofits sell products and services, either paid or volunteer)</i>	Acquiring new enterprise customers		.80	.77
	Acquiring new business sponsor/donation/support		.82	.90
<b>Economic Value Creation</b>	Increasing sales from enterprise customers		.77	.70
<i>(sales forces and fundraisers help nonprofits sell products and services, either paid or volunteer)</i>	Increasing the amount of business support from current business partners		.65	.73
	Business unit profitability		.73	.65
<b>Economic Value Creation</b>	Reaching enterprise financial goals		.65	.85
<i>(sales forces and fundraisers help nonprofits sell products and services, either paid or volunteer)</i>	Enterprise customer satisfaction		.85	.65
	Delivering value to your enterprise customer		.64	.86
<b>Economic Value Creation</b>	Expand enterprise activities to different locations		.83	.72
<i>(sales forces and fundraisers help nonprofits sell products and services, either paid or volunteer)</i>	Engage more enterprise activities (different types)		.85	.77

\* Factor loadings are standardized