The hybridity advantage: How do social entrepreneurs respond to conflicting demands to foster social innovation?

*Helen M Haugh
Email h.haugh@jbs.cam.ac.uk
Tel 0044 1223 766592

*Kate Thirlaway
Email k.thirlaway@jbs.cam.ac.uk
Tel 0044 1223 761019

*Cambridge Judge Business School
University of Cambridge
Trumpington Street
Cambridge
CB2 1AG

August 2014
The hybridity advantage: How do social entrepreneurs respond to conflicting demands to foster social innovation?

Introduction

The paper presents results from research that examines how social innovations emerge from entrepreneur responses to competing demands. This is achieved in a qualitative study of founders and leaders of 25 social enterprises in the United Kingdom (UK). The study is guided by two research questions: What are the competing demands encountered by social entrepreneurs? How do social entrepreneur’s responses to competing demands lead to social innovation?

We identify twelve types of competing demands that operate at institutional, organizational and individual levels. Five types of competing demand are supported by previous research: (1) exploration – exploitation, (2) divergent leader – employee goals, (3) control – collaboration, (4) market – social mission, and (5) the cost – usefulness of performance measures. From our data we identify seven additional competing demands encountered by social entrepreneurs: (6) resource dependence – autonomy, (7) network benefits – constraints, (8) commercial – caring organizational culture, (9) risk taking – risk aversion, (10) asset – liability, (11) aspiration – reality and (12) debt – sweat equity. Our analysis finds that founders and leaders leverage competing demands to foster social innovation by developing new social institutions, products, services and business processes.

Theoretical context

Innovation is a process that progresses from idea(s) to the introduction of new products, services and processes to the market (Cohen & Levinthal, 1990; Katila & Shane, 2005). More specifically, social innovation refers to “initiatives, products, processes or programmes that change basic routines, resources and authority flows or beliefs in any social system” (Moore & Westley, 2011, p. 2). In practice, social innovation is generally found in the invention of novel and incremental solutions to social needs and problems.
Successful social innovation diffusion rests on offering more effective, efficient, sustainable or socially-just solutions in which the value created accrues not just to individuals but to society as a whole (Phills, Deiglmeier & Miller, 2008, p. 8). The potential of social innovation to address individual and societal needs by providing access to services e.g., health and education, and reducing poverty, inequality and social exclusion has stimulated scholarly, and policy, interest in social innovation (Cukier, Trenholm, Carl, & Gekas, 2011; Leadbeater, 2007; Lepoutre, Justo, Terjesen, & Bosma, 2013; Lumpkin, Moss, Gras, Kato, & Amezcuea, 2013; Phills et al., 2008; Westall, 2007).

The relationship between innovation, entrepreneurship and economic growth (Schumpeter, 1934) has been dominated by arguments concerning economic efficiency, profit maximization and diffusion by organizations that are profit motivated (Moulaert, Martinelli, Swyngedouw & González, 2005). However, social innovation in which the aim is to create social value by increasing public benefit or reducing social costs (Phills et al., 2008) is predominantly associated with social entrepreneurship (Hockerts & Wüstenhagen, 2010; Mulgan, 2006). Although definitions of social entrepreneurship vary they converge on the pursuit of financial sustainability, social and environmental outcomes and social change (Laville & Nyssens, 2001; Mair & Martí, 2006; Peattie & Morley, 2008; Peredo & McLean, 2006). Typically referred to as hybrid organizations (Doherty, Haugh & Lyon, 2014; Smith, Gonin & Besarov, 2013), social enterprises foster innovation (Chell, Nicopoulou & Karataş-Özkan, 2010) in the face of competing demands as they strive to deliver multiple, sometimes contradictory, outcomes.

Exposure to conflicting demands is an experience shared by organizations in the public, private (Gebert, Boerner & Kearney, 2010; Miron-Spektor, Erez & Naveh, 2011; Poole & Van de Ven, 1989; Sundaramurthy & Lewis, 2003) and non-profit sectors (Jay, 2013; Kreutzer & Jacobs, 2011). For social enterprise, conflicting demands are instantiated at three levels of analysis. Institutionally, social enterprises are embedded in a web of competing societal expectations concerning their aims and responsibilities (Pache & Santos, 2010). At the organizational level, tensions are related to governance (Cornforth, 2004; Michaud, 2014), operational practices (Battilana & Dorado, 2010) and strategic choices (Margolis & Walsh, 2003). At the individual level, contradictions and
tensions are salient and common experiences for social entrepreneurs (Smith et al., 2012; Smith & Lewis, 2011; Smith & Tushman, 2005; Tracey & Jarvis, 2006) and impact on leadership (Smith, Besharov, Wessels & Chertok, 2012), learning (Bernstein, 2012) and decision-making (Smith, Binns & Tushman, 2010). In our study we focus on investigating the extent to which competing demands encountered by entrepreneurs lead to social innovation.

**Methodology**

The research intent was to build grounded theory to explain how entrepreneurs respond to competing demands (Glaser & Strauss, 1967). We employed an inductive research approach (Glaser & Strauss, 1967) and used an exploratory multiple case study method (Yin, 1989). Interviews were conducted with entrepreneurs from ventures that had adopted the community interest company (CIC) organizational form. The CIC was established in the UK specifically for social enterprises to pursue community benefit.

In-depth semi-structured interviews were conducted with 25 informants between January 2013 and June 2014. Informants were drawn from the database of active CICs in the UK and the sample was designed to include a range of age, size, industry and locations to blend homogeneity, assist data comparison and heterogeneity and aid theoretical generalizability. Recruitment of informants continued until additional interviews failed to refute existing competing demands or reveal any new innovations therefore indicating theoretical saturation (Strauss & Corbin, 1994). The interview guide was derived from the social innovation and entrepreneurship literatures and pilot tested with three informants (not included in the final data analysis). Interview questions gathered background information on general and specific topics (Spradley, 1979) i.e., company history, mission and strategy, products, services and projects, markets served, income streams, culture, governance, performance and future plans.

Supplementary documentary evidence for each social enterprise was gathered from four sources: literature from the company website; the registered name, date of registration, region in England and Standard Industrial Classification (SIC) code from the
The goal of a grounded theory analysis is to generate a plausible and useful theory of the phenomena, which is anchored in the data (McLeod, 2001). Thematic analysis is useful for identifying, analyzing and reporting patterns within data (Braun & Clarke, 2006) and the semantic approach identifies themes in the explicit and surface meanings of the data (Braun & Clarke, 2006). To enhance validity and trustworthiness of the analysis (Easterby-Smith, Thorpe & Lowe, 1991) investigator triangulation was adopted in the first stage of analysis. Data analysis progressed in four stages; generating first order codes, clustering first order and creating second order codes, reviewing codes and documentary evidence and reviewing the grounded theory framework.

Results

**Institutional** level competing demands. (1) Resource dependence – autonomy: Securing funds from external organizations at the same time as endeavoring to remain independent. Entrepreneurs’ respond by ‘**mission stretching**’ whereby the ventures aims are intentionally altered but remained aligned with original goals.

**Organizational** level competing demands. (2) Network benefits – constraints demands: reliance on existing networks reduces costs at the same time as constraining opportunities. Entrepreneurs respond by ‘**continuously monitoring**’ the balance between coats and benefits of relying on networks. (3) Risk taking – aversion demands: investing in innovative activities may advance commercial value whilst simultaneously jeopardizing the ability to meet social objectives. (4) Commercial – caring organizational culture: Promoting a commercial working environment at the same time as empowering employees. (5) Asset – liability demands: Acquiring assets with revenue generating potential also incurs management costs that may divert revenue from the social mission. Entrepreneurs respond to competing demands (3), (4) and (5) by ‘**temporal evaluation**’ whereby future projects are evaluated in relation to current and future venture aims and identity.
**Individual** level competing demands. (6) Aspiration – reality: Entrepreneurs’ desire to benefit society even when ambitions are unrealistic. (7) Debt – sweat equity: The entrepreneur’s sacrifice financial remuneration so the enterprise can fulfill social commitments without incurring debts. Entrepreneurs respond to individual competing demands by ‘**positive determination**’.

Social enterprises leverage competing demands (Poole & Van de Ven, 1989) to foster social innovation in new social strategies, products, services and processes (Dees, 1998). Resource dependence – autonomy demands encouraged social innovation by mission stretching to accommodate new products and services for the disadvantaged and excluded. Both network benefits – constraints and risk taking – aversion demands also stimulated entrepreneurs to develop new social products and services. Asset – liability demands inspired social enterprises to develop new business models (Battilana & Dorado, 2010; Seelos & Mair, 2007) and new sources of revenue e.g., to acquire community assets at below market value to use for community benefit.

However, not all competing demands stimulated social innovation. Exploration - exploitation demands elicited a **defensive** response which constrained social innovation. Divergent founder – employee goals served to polarize entrepreneurs’ responses and created internal **conflict** and mission drift. Control – collaboration demands provoked **resistance** when entrepreneurs were unwilling to share board level control and thus sacrificed potential social innovation gains from collaborative approaches (Michaud, 2014). Social entrepreneurs seemed **ambivalent** to cost – usefulness of performance measures.

**Conclusion**

All the informants in our study reported facing multiple types of institutional, organizational and individual competing demands that each required the deployment of physical and cognitive resources in order to respond effectively. We identify twelve competing demands at institutional, organizational and individual levels and our analysis finds that social entrepreneurs leverage competing demands to foster social innovation in new institutions, products, services and business processes, as well as to maintain their
passion for creating social and public value.

Our study makes two contributions to the entrepreneurship and innovation literature. First, existing research on competing demands has been dominated by qualitative case studies that have identified the challenges faced by specific types of social enterprise e.g., microfinance (Battialana & Dorado, 2010) and work integration social enterprises (Pache & Santos, 2013). We extend these studies by gathering data from a mixed sample that include arts, hospitality, administrative and environmental social enterprises. The data from our cross section of social enterprises supports previous studies of competing demands and identifies seven new types of competing demand.

Second, previous research has found that hybrid organizations cope with conflicting demands by adopting strategies of acceptance, resolution (O’Reilly & Tushman, 2008; Poole & Van de Ven, 1989; Smith & Lewis, 2011; Smith et al., 2012) and spatial, social and temporal separation (Andriopoulos & Lewis, 2009; Jay, 2013; Poole & Van de Ven, 1989). In our study, we isolate how social entrepreneurs are able to leverage some, but not all, competing demands to foster social innovation.