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THE EMERGENCE OF SOCIAL ENTERPRISE IN NOT-FOR-PROFITS

by Patricia Mary Fitzgerald

A thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy in Management and International Business
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Abstract

With restrictive or uncertain income available from government and the public, many not-for-profits seek to develop social enterprises with commercial revenue streams, as a means to increase their financial autonomy and sustainability. Much remains to be learned about how social enterprises might be successfully generated within this context, however, as the disruptive challenges of bringing innovative commercial processes into not-for-profits are often underestimated. This research explored how not-for-profit organisations develop social enterprises. More specifically, it asked how do not-for-profits introduce and accommodate a business model with commercial logics within a social organisation, what are the most significant changes they make to accommodate a commercial business model and how might the not-for-profits configure themselves when introducing a commercial business model?

Complexity theory was used as the primary theoretical lens because of its appreciation that social enterprises developing within not-for-profits are often in a state of continual change and are at risk of instability. Complexity theory was supported by the field of institutional logics that acknowledges the potentially different co-existing logics, and a business model framework to track the development of core business operations. Using qualitative abductive research, interviews and document analysis were conducted in three large not-for-profits from different sectors over an eighteen-month period.

This research contributes two ideal types of social (not-for-profit) and commercial (for-profit) organisations to the academic literature. In addition, a theoretically based model outlines the key emergent themes from the analysis, identifying the point of bifurcation that led to the establishment of the social enterprise and the adaptive tensions that required development. The model presents the business model as a structural attractor with some components that were challenging to implement in all cases and also required internal change. Organisational configuration is presented as a second structural attractor, with a discussion on the emerging structural and cultural configurations of each social enterprise, in relation to its not-for-profit parent. A typology of structural options for a social enterprise within a not-for-profit is provided to help manage the type and level of commercial logic diffusion. This model and its related constructs aim to usefully inform key decisions for not-for-profits when developing a social enterprise.
Acknowledgements

This thesis would not have been possible without the agreement of the not-for-profits engaged in this research. Thank you for your willingness to be open and honest about the challenges you faced, as well as the many successes, as you learned on the way. This thesis is dedicated to all those not-for-profits brave enough to test the waters of social enterprise.

I am indebted to my supervisors Associate Professor Christine Woods and Dr Deb Shepherd for their guidance, patience, encouragement and critique. I cannot thank you enough for accepting a practitioner as a PhD candidate and ensuring I emerged as someone who admires the work undertaken by academics and is capable of providing an academic contribution.

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Chapter 1. Introduction

*The species that survives is the one that is able to adapt to ... (their) changing environment*  
(Charles Darwin as cited in Megginson, 1964, p. 91)

1.1. Context

Motivated by a long-term vision to address need but constrained by a lack of resources, not-for-profits seek to strengthen their financial sustainability. Consequently, many not-for-profits are drawn to increase their autonomy and fiscal resilience by developing commercial revenue streams and thereby supplementing the resources available from government and the public (Boschee, 2006; Defourny & Nyssens, 2010a).

The academic literature around social enterprise\(^1\) is relatively recent, but has grown rapidly in the past twenty years (Battilana & Lee, 2014; Granados, Hlupic, Coakes, & Mohamed, 2011). Social enterprise is defined in this research as an organisation which has a social mission and derives a substantial portion of its income from trade, and reinvests the majority of its profit in the fulfilment of its mission (Department of Internal Affairs, 2013). The inherent focus in this definition on generating earned income reflects the interest of not-for-profits in using social enterprise primarily as a means to increase their financial self-sufficiency and thereby achieve their social purpose. It is the holding of dual social\(^2\) and commercial\(^3\) purposes that is new for the not-for-profit.

Social enterprise is idealised as being more entrepreneurial, market-oriented and efficient than either public sector organisations or not-for-profits, and more collaborative and ethically aware than the commercial sector (Bull, Ridley-Duff, Foster, & Seanor, 2010). While some see this hybrid organisational form as potentially being the engine of economic reform (Battilana, Lee, Walker, & Dorsey, 2012), others see it as a naïve and unproven method to address social issues (Dart, 2004; Teasdale, Kerlin, Young, & Soh, 2013; Young, Kerlin, Teasdale, & Soh, 2012). This research takes the view that social enterprise is a useful hybrid that blends social and

\(^1\) The term social enterprise refers to the collective organisational form, but the terms social enterprise or social enterprises refer to individual organisations of this kind.

\(^2\) The term social, when referring to organisations, change or need, henceforth refers to organisations that are focusing on achieving all social, cultural, environmental and other types of common good.

\(^3\) When referring to organisations, the term commercial, rather than economic, is used to highlight the profit-seeking activity of exchanging products and services with the market. Not-for-profits do have to manage material wealth and are therefore already economic entities, but do not usually participate in commercial trading.
commercial characteristics to produce sustainable social value, but is not a universal remedy for all social challenges.

In practise, successful social enterprises typically have a saleable product or service and a market that pays for it. They are likely to have an entrepreneurial culture and engage with a diverse range of customers and stakeholders who support the social enterprise (Boschee, 2006; Dees, 2012). Fundamental social and ethical values lead the organisation’s development and are somehow reconciled with profit seeking (Trivedi & Stokols, 2011). Access to resources for investment are needed at various stages of business growth and leadership, and business skills are in place to deal with the operational complexity of blending the social and commercial aspects of the organisation (Battilana et al., 2012; Lyon & Fernandez, 2012).

Although many writers reserve the term ‘social enterprise’ for a stand-alone hybrid organisational model (Battilana & Dorado, 2010; Emerson, 2003), social enterprises can and do exist within not-for-profits (Kerlin, 2010; Young, 2001). With their existing social missions, infrastructure and networks, not-for-profits might be considered useful conduits for innovative social enterprises that adopt some form of commercial activity to generate revenue in pursuit of social goals (Doherty, Haugh, & Lyon, 2014; Peattie & Morley, 2008b). In New Zealand, for example, more than two thirds of social enterprises are within or run by not-for-profits (Department of Internal Affairs, 2013).

However, there is still much to learn to fully understand how, within the context of not-for-profits, social enterprises might be successfully generated. There is some evidence that this adjustment is a challenging one. As the opening quote from Darwin implies, it requires adaptation to a very different way of working. Holding strong values of participation in a social mission, sharing, mutuality and fairness (Lohmann, 1992), not-for-profits are electing to develop a business that requires investment, is market and customer focused, competitive, adaptive and risk-taking (Harris, Mainelli, & O’Callaghan, 2002). The potential for conflict between these organisational logics is high.

While it is likely that many not-for-profits have considered this option, relatively few may be commercially successful (Foster & Bradach, 2005; Oster, Massarsky, & Beinhacker, 2004). Not-for-profits do not figure prominently in the social enterprise sector internationally (Allinson, Braidford, Houston, Robinson, & Stone, 2011; Bull, Crompton, & Jayawarna, 2008; Hentz, 2009). Their success rates with social enterprise appear low and poorly understood (Oster
The disruptive challenges of incorporating commercial innovative processes to diversify funding efforts may be underestimated (Kirkman, 2012; Teasdale et al, 2013).

With growing need but limited income, significant growth of the not-for-profit sector internationally has emerged in recent decades from undertaking more public sector roles and charging fees (Salamon, 1997). Despite the fact that US and European not-for-profits already earn around half their income from fees and other business activity, not-for-profits are still perceived as inexperienced in starting and running competitive commercial businesses (Boschee, 2006; Dees, 2012).

Although not-for-profits could be critical to the growth of the social enterprise sector, further learning is needed on how this can be achieved (Short, Moss, & Lumpkin, 2009). Some authors call for more comparative research between commercial and social organisations to see where the differences and similarities lie, and how social enterprises can incorporate aspects of both (cf. Peattie & Morley, 2008b; Trivedi & Stokols, 2011). While there is some academic and practitioner knowledge already published on the various challenges and success factors for social enterprise, and specifically on the conflict emerging from having social and commercial missions (Boschee, 2006; Dees & Elias, 1998; Lyon & Sepulveda, 2009), the academic literature is largely silent on how the successful development of a social enterprise might be achieved by not-for-profits.

This research is therefore interested in how the commercial paradigm might be incorporated into the not-for-profit. Establishing a social enterprise requires not-for-profits to somehow incorporate the different logics or technologies, rules, assumptions and skills of commercial organisations, usually at the same time they are continuing to manage their social services (Besharov & Smith, 2014). Incorporating very different commercial logics within the not-for-profit requires an important and substantial paradigmatic shift.

1.2. Research purpose and questions

Given the importance of generating independent income for not-for-profits, the lack of information to understand the development of social enterprise within not-for-profits was the specific gap targeted and puzzle to be solved by this research. Understanding these phenomena aimed to improve both theoretical and practical understanding of how social enterprises may be developed within not-for-profits and reduce their failure rate (Thomas, 2004; Sutton & Staw, 1995).
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The research therefore asked how not-for-profit organisations develop social enterprises. More specifically, how do not-for-profits introduce and accommodate a commercial business model with commercial logics into a social organisation? What are the most significant changes made to accommodate the business model and its logics? How might the not-for-profits configure themselves when introducing a commercial business model and its commercial logics?

This thesis has sought to contribute to an emerging academic conversation on the challenges for not-for-profits in developing a social enterprise; the differences and similarities in organisational logics between not-for-profits and the commercial aspects of social enterprises; and the structures and strategies employed to implement their business models that create social and/or commercial value.

1.3. Theoretical framework

In selecting a primary theoretical lens, this research considered the development of social enterprise within not-for-profits to be a complex activity. Utilisation of complexity theory is fitting, because not-for-profits pursue both economic and social value and, in doing so, experience change and disorder. Complexity theory appreciates the interconnected, non-linear and unpredictable processes involved in accommodating a social enterprise, and offers concepts and tools that assist understanding of the phenomenon occurring at multiple levels within dynamic and potentially unstable systems (Lichtenstein, 2011). Some complexity theorists have linked complexity with social entrepreneurship, an area of scholarship closely associated with social enterprise, and have been particularly important in guiding this research from a complexity viewpoint (Allen, 2013b; Goldstein, Hazy, Silberstang, & Schultz, 2009; Hazy, 2011; Swanson & Zhang, 2011; Tapsell & Woods, 2010). Like social entrepreneurship, complexity is interested in innovation, adaptation and emergence (Goldstein, 2011).

While complex reality cannot be reduced easily, some reduction is required in order to understand the organisational environment (Allen, 2001b; Snowden, 2009). Underpinning this research is the wider literature on social enterprise, social entrepreneurship and not-for-profits. Two additional theoretical frameworks were used to explore the change occurring, and better understand the not-for-profit’s journey, decisions and outcomes. Complexity theory was supported by institutional logics and business model frameworks to address the uncertain and frequently paradoxical world of social enterprise. Both frameworks are compatible with complexity theory as they both anticipate self-organisation, chaordic properties (simultaneous
Chapter 1: Introduction

order and chaos) and unpredicted emergence over time (Osterwalder, Pigneur, & Clark, 2010; Thornton, Occasio, & Lounsbury, 2012; van Eijnatten & Putnik, 2004).

The field of institutional logics provides a pivotal lens for understanding the required changes in the essential nature of a not-for-profit when introducing a commercial logic (Pache & Santos, 2013a; Thornton et al., 2012). Institutional logics encourage an exploration of the broad belief systems, values and organising frameworks that actors use to assign meaning and organise the workplace. Such a lens is useful for exploring how not-for-profits might accommodate significantly different ways of working, as divergent logics may contribute to the high failure rate of social enterprises in not-for-profits.

The business model framework was selected because it outlines the logic of core business operations and strategies, and therefore enables the examination of commercial business development over time (McGrath, 2010; Osterwalder, Pigneur, & Tucci, 2005). Osterwalder’s Business Model Canvas (Osterwalder et al., 2010) was used as a mediating artefact on which the research interviews were based.

1.4. Research approach and method

Accepting that social enterprises within not-for-profits are complex, and because research on this area is nascent, a qualitative approach was considered the best fit for this research. Narratives were sought from participants to understand the accommodation process within a contextualist and social constructionist framework that acknowledges the uniqueness of each context and the collective construction of knowledge through social interactions (Berger & Luckmann, 1967).

Three case studies were explored at an organisational level at four time periods over an eighteen-month period. These organisations were all large, well-established not-for-profits and involved in developing their first social enterprise (Eisenhardt, 1989; Knutsen, 2013). Nevertheless, the cases also had many differences, coming from diverse sectors, with different missions, contexts, histories, and access to human and financial resources. Each of their business models was distinctive and provided useful variety in this research. These illustrative cases were selected in the hope of providing sufficient comparative variance in exploring the phenomena of introducing a social enterprise within a well-established not-for-profit through the eyes of those who were living it. A group of participants from different organisational levels within these three organisations were selected by leaders in each not-for-profit to consider the development.
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A strategy of abduction was employed, systematically and reiteratively combining theory and data, derived from the analysis of 54 semi-structured individual and group interviews together with 35 documents. Codes were developed from the data directly in addition to complexity theory, the business model and institutional logics. The many experiences of the business model development process were sought through thematic analysis from case summaries, within case coding, and cross-case analysis. Through the process of mapping and grouping data and themes into first-order concepts, second-order theoretical themes and aggregated theoretical dimensions, a model, typology, ideal types and suggested amendments for existing constructs were developed. Some consensus was found on the phenomena of developing a social enterprise (Denzin, 2011; Huff, 2009; Ozanne & Saatcioglu, 2008).

1.5. Thesis structure

This thesis is organised into seven chapters, as can be seen in Figure 1 below. This introductory chapter provides an overview of the thesis. Chapter 2 reviews the literature, describing the historical and current international context of social enterprise, definitional challenges and common features. The range of research methodologies and use of theory with social enterprise are outlined. The chapter then gives some background to not-for-profit theory and organisational trends to contextualise their introduction of social enterprise. A review of complexity theory, institutional logics and business models is undertaken in relation to this research. The chapter ends by discussing emerging issues from the literature relating to the management of different logics inside a social enterprise that sits within a not-for-profit.

Figure 1: Thesis chapters

1. Introduction
2. Literature review
3. Methodology
4. Within-case findings
5. Across-case findings
6. Discussion
7. Conclusion

Chapter 3 presents the research approach and methods selected, outlines the research question and the purpose and influence of complexity theory on the research foundations and methods. It explains why a contextualist ontology and social constructionist epistemology with a
Chapter 1: Introduction

A qualitative method was selected. Reasons for selecting illustrative case studies and interviews as a method, together with the use of the business model, are given, and the selection process for cases is outlined. Clarification is provided on the level of analysis and how integrity in the findings can be relied upon. The process of data analysis and the limitations of the research are described.

Chapter 4 presents the within-case findings as stories of each of the three social enterprises as they emerged within their not-for-profit parent. These illustrative cases aim to give the context, history, and motivations of each social enterprise, its business model, and organisational configuration, to illuminate their distinctive patterns of development. Challenges, issues, and solutions are highlighted as depicted by research participants. The across-case analysis in Chapter 5 shows that, while exhibiting unique contexts and business models, cases share several things in common. The chapter examines the themes that emerged across all of the cases, including in their business models and social and commercial logics, identifying their key similarities and differences in the way they accommodated their first social enterprise. Evidence is presented on how the not-for-profits established a social enterprise, the main adaptive tensions experienced, the factors that supported and challenged the execution of the commercial business model, and the ways the organisations configured themselves both culturally and organisationally so as to accommodate the social enterprise.

Chapter 6 discusses the research questions in light of both the academic literature and findings from the data, presenting aggregated theoretical dimensions of the findings. It is built around the key contributions this research makes to both theory and practice in some detail. First, the essential distinctions between social and commercial organisations are presented to clarify some of the key changes required of the not-for-profit, and a suggested amendment to the current definition is made. Then, based on complexity concepts, a model is presented that attempts to explain the process of accommodating a business model with commercial logics within a social organisation. Organisational structural choices are paid particular attention. Finally, Chapter 7 concludes by identifying the key contributions of the research to theory and practice, in addition to some implications for policy. The limitations of this research are acknowledged and, finally, recommendations are made for future research.
Chapter 1: Introduction
Chapter 2. Literature review

There is no other help but self-help (Bruce Lee as cited in Little, 1996, p. 133)

Not-for-profits develop social enterprises internally to develop autonomous funding streams, in line with Bruce Lee’s guidance above (Boschee, 2006; Defourny & Nyssens, 2010b). Due to their existing infrastructure, social purpose and social networks that are so essential for establishment, not-for-profits might be expected to provide the foundation of social enterprise development. Yet the disruptive challenges of bringing commercial innovative processes into not-for-profits and diversifying funding efforts are often underestimated (Kirkman, 2012; Teasdale et al, 2013).

This literature review attempts to capture the essence of emerging academic understanding of social enterprise and the not-for-profit organisations choosing to develop them. The conversation that focuses on the characteristics and tensions facing hybrid social enterprises within not-for-profits has both prompted and guided this research (Alter, 2004; Besharov & Smith, 2014; Billis, 2013; Dees, 2012; Diochon & Anderson, 2009; Froelich, 1999; Gidron, 2016; Kistruck & Beamish, 2010; Knutsen, 2013; Maier, Meyer, & Steinbereithner, 2016; McBrearty, 2007; Pache & Santos, 2013a; Peattie & Morley, 2008b; Stull, 2009; Teasdale et al, 2013; Thornton et al., 2012; Trivedi & Stokols, 2011; Young & Kim, 2015).

The research builds upon a blend of academic literature on the management of commercial and social organisations. Commercial organisations have conspicuously dominated the academic management and business literature, while a distinct and specialist literature focuses on not-for-profits (Child, 2010). There is some criticism that the commercial business literature has failed to either transfer relevant knowledge to or learn enough from not-for-profits (Drucker, 1989; Peattie & Morley, 2008b). Social enterprise requires both social and commercial expertise, and it is important to bridge this gap as hybrid organisations continue to evolve. Management theory also needs to align with social organisations, and this thesis seeks to assist this aim (Zeyen et al., 2012).

Firstly, this chapter describes the historical and current international context of social enterprises, their rise in numbers, academic interest in recent decades and the challenge of attaining an agreed definition. Nevertheless, the common features, constructs and diverse philosophical perspectives on social enterprise help to outline its parameters. Subsequently, there is an examination of the range of academic research methodologies and theories used to
understand social enterprise better. The chapter then gives some background to not-for-profit theory and organisational trends to contextualise their introduction of social enterprise. There follows some discussion on the entrepreneurship required of not-for-profits to meet both social need and compete profitably.

Next, outlining the research’s theoretical framework, complexity theory is introduced as the primary theoretical lens. Institutional logics help clarify the essential differences in operating a for-profit, not-for-profit and social enterprise and therefore the nature of the change required to blend these organisational forms. Business models are also used to analyse the developing social enterprise. The chapter concludes by discussing emerging issues from the literature relating to the management of different logics inside a social enterprise that sits within a not-for-profit.

2.1. Social enterprise

2.1.1 Historical context

Social enterprise is not new. Since the mid-19th century, not-for-profits have generated income from trading to augment their core activities through worker cooperatives in the United Kingdom (UK). Examples of fair-trade organisations in the United States (US) have existed since the 1950s, job creation enterprises have been acknowledged since the 1960s, and microfinance and community development organisations emerged in the 1970s (Alter, 2004; Dart, 2004). Not-for-profits with strategies to develop commercial income streams also include universities, hospitals and residential care for the elderly.

Despite the long history of practice, theoretical development has only started recently. The term ‘social enterprise’ itself was first coined in the late 1970s by social change agencies in the US, working with cooperatives who wanted to specify organisations that use commercial approaches to achieve social outcomes or social good4 (Borzaga & Defourny, 2001). More commonly used since the 1990s, there has been the burgeoning documentation of social enterprise development in Europe, UK, US and developing countries (Brourad & Lavriet, 2010; Defourny & Nyssens, 2010a; Kerlin, 2010). Social enterprise is now increasingly recognised as a novel hybrid

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4 It is not always clear what is understood by the term social good or value. Lumpkin and colleagues (2013) note that social value creation is problematic because of its subjective nature and challenged when it comes to measurement. Robb-Post and colleagues (2010), also observing this vagueness, define social good loosely as a contribution to the well-being of a community.
organisational form with wide-ranging implications for the workforce and organisational processes (Doherty et al., 2014; Young, Searing, Brewer, & Edward Elgar, 2016). There is an immense diversity of social enterprises, although the dual social and commercial focus is the distinctive feature of this hybrid organisation (Haigh, Walker, Bacq, & Kickul, 2015). This duality of purpose leads to the coexistence of divergent values, institutional logics, sectors, goals and characteristics from more than one sector, justifying the frequently used ‘hybrid’ term (Besharov & Smith, 2014; Billis, 2013).

Galera (2009) notes that social enterprise practice is still significantly further advanced than theory, and this may explain the high level of contribution from practitioners to the social enterprise literature (Roberts & Woods, 2005). Nevertheless, scholars have observed the small but emerging theoretical base that still has a strong focus on definitions and descriptions (Meyskens, 2010; Short et al., 2009).

2.1.2 Social enterprise definitions and features

With significant variation in social enterprise between and within countries (Defourny & Nyssens, 2010a; Kerlin, 2010), the boundary of social enterprise is still debated, and a widely agreed definition has not yet developed (Barraket & Collyer, 2010). Yet it is important to define this organisational form for several reasons. Firstly, a definition enables both academics and practitioners to discuss social enterprise more precisely. Governments and scholars need a stable definition if they are to map its prevalence, practices and societal impact (Dart, Clow, & Armstrong, 2010). For example, Teasdale, Lyon and Baldock (2013) argue that UK official statistics of social enterprises are significantly inflated because they do not include the 50% trading income required in one definition. Secondly, greater definitional clarity may enable enhanced public awareness and the development of an accommodating environment through legislative or policy changes, such as legal structures or taxation (Dees, 2007; Defourny & Nyssens, 2010a).

The concept of organisational form refers to those characteristics of an organisation that identify it as a distinct entity and, at the same time, classify it as a member of a group of similar organisations (Romanelli, 1991, pp. 81-82). There are potentially an infinite number of organisational forms, but only core features that apply to multiple organisations and persist over time tend to gain external recognition and acquire formal status (McKendrick, Jaffee, Carroll, & Khessina, 2003). The dual social and commercial purpose of social enterprise accords with this definition. Despite their importance, new organisational forms have received comparatively little attention from institutional researchers, and the question of how they are created remains essentially unresolved by new institutional theory (Daft & Lewin, 1993; Tracey, Phillips, & Jarvis, 2011).
Delineating a boundary around all social enterprises has proved to be challenging. The sheer volume of types of social enterprise and range of legal and organisational structures pose barriers to classification. As such, definitions need to be inclusive enough to cope with this variety (Dart et al., 2010; Young, 2012). Another problem is that the term ‘social’ is used in both the term and its meaning, leaving the definition somewhat tautological (Haugh, 2012; Mair, Robinson, & Hockerts, 2006). It is also difficult to disentangle the social enterprise literature from that of social entrepreneurship, with overlapping and interchangeable terminologies and definitions (Defourny & Nyssens, 2008; Trivedi & Stokols, 2011). This is partly because social enterprises are, by definition, expected to be entrepreneurial and deliver social innovation (Cukier, Trenholm, Carl, & Gekas, 2011; Dees, 1998). This next section looks at the primary schools of thought around social enterprise before proceeding to identify its key features and theoretical constructs.

**Three schools of thought**

Defourny and Nyssens (2010a) note three distinct approaches that explain social enterprise within Europe and the US. These approaches distinguish three key aspects of social enterprise that reveal their features more completely. The interrelated concepts of social entrepreneurship, social entrepreneurs and social innovation are briefly discussed under the second Social Innovation School.

1) The Earned Income school of thought focuses on the commercial revenue-generating activities of social enterprises. Consistent with this school, the definition of social enterprise used most often in New Zealand, and this research is ‘an organisation which has a social, cultural, or environmental mission, that derives a substantial portion of its income from trade, and that reinvests the majority of its profit/surplus in the fulfilment of its mission’ (Department of Internal Affairs, 2013, p. 1).

Income generation is undoubtedly a significant feature of social enterprise. Kerlin’s (2010) study of thirty-four countries found that social enterprises earn an average of 53% of their income from fees and charges. There are a number of authors who reserve the term social enterprise for organisations that are fully self-sustaining from trading activities (Boschee & McClurg, 2003; Emerson & Bonini, 2003). Defourny and Nyssens (2010a) distinguish between the early focus on all social enterprises being not-for-profits (the commercial non-profit approach), and a broader, self-sustaining version in which social enterprises emerge from any sector (the mission-driven business approach). There is a substantial amount of
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academic literature on earned income for not-for-profits that does not necessarily link with social enterprise, further discussed in section 2.2.1 below.

Social enterprise is conceptualised as being at the crossroads of the commercial, public and social sectors, skilfully generating income to meet social needs (Chell, Nicolopoulou, & Karataş-Özkan, 2010; Defourny & Nyssens, 2010b). Alternatively, they have been described as an emerging ‘fourth sector’ that is a recombination of all three ("Fourth Sector," 2012). Scholars increasingly agree that the key components of social enterprise are the multiple logics required in trading for a social purpose (Doherty et al., 2014).

2) The Social Innovation school of thought is based on the Schumpeterian idea of entrepreneurs instituting new combinations of services or products, methods of production, forms of organisations or markets to solve entrenched social problems (Dees, 1998; Defourny & Nyssens, 2010a; Schumpeter, 2011). Social innovation is a key construct within the social entrepreneurship literature and, similarly to Westley and Antadze (2010), is described as an outcome of social entrepreneurship activity in this research. It may involve the disruption of the basic routines, distribution of power and resources, or beliefs at the level of the social system to meet social needs (Lettice & Parekh, 2010; Westley & Antadze, 2010). It is the novelty or newness in the way a social mission is achieved that justifies the term innovation (Shepherd & Woods, 2011).

Figure 2: Relationship between social enterprise, entrepreneurship and innovation

![Figure 2: Relationship between social enterprise, entrepreneurship and innovation](image)

Developed from: (Westley & Antadze, 2010)

Social entrepreneurship is viewed in this research as the innovative and proactive activity of recombining organisational elements that seeks and takes opportunities to increase social and/or commercial value, regardless of the current resources available (Emin & Schieb-
Bienfait, 2011; Peredo & McLean, 2006; Sullivan Mort, Weerawardena, & Carnegie, 2003). This definition enables a separation of the term from social enterprise, highlighting the activity rather than the organisational entity that delivers social innovation. While the role of individual social entrepreneurs has been considered key in achieving social impact, the pivotal role of the team, organisation, community or partnerships are increasingly acknowledged as critical for this activity (Goldstein, Hazy, & Silberstang, 2009; Mair & Marti, 2006; Peredo & McLean, 2006).

Brouard and Lavriet (2010) argue further that entrepreneurship, as a concept, has increasingly come to denote a creative frame of mind or adaptive problem-solving capability to reach goals within a complex and ever-changing economy. This research agrees with the idea that both the opportunity-seeking and problem-solving skills of entrepreneurs are required for developing commercial income opportunities (Alvord, Brown, & Letts, 2004; Chell, 2007). However, the Social Innovation school considers that the social impact delivered is more important than issues of organisational sustainability (Weerawardena & Mort, 2006). Proactive and innovative risk-taking to achieve social change can occur in any organisational form and do not necessarily involve income generation (Hentz, 2009; Peredo & McLean, 2006).

Internal entrepreneurship, such as new venture creation inside a not-for-profit, is sometimes called ‘intrapreneurship’ (Mair et al., 2006; Short et al., 2009). The more generic entrepreneurship and social entrepreneurship terms have been used in this research for two reasons. Firstly, the amount of intrapreneurship and social intrapreneurship literature is still very small in contrast to its entrepreneurship counterparts, and it was simpler to maintain a consistent generic vocabulary. Secondly, intrapreneurship can refer to the more general new activity and intentions of an organisation and the more autonomous structure required to seek and exploit opportunities, rather than the establishment of a new type of organisation (Antoncic & Hisrich, 2003; Gündoğdu, 2012).

3) The third school of thought is attributed to the European EMES International Research Network (EMES) and their broad definition of social enterprise that includes four economic and five social criteria (Defourny & Nyssens, 2010a). The economic descriptors of social enterprise align with the ‘earned income school’ and include a continuous activity of producing goods and/or selling services; a high degree of autonomy; a significant level of economic risk; and a minimum amount of paid work. The social indicators include an
explicit aim to benefit the community; an initiative launched by a group of citizens; a decision-making power not based on capital ownership; the participation of the various parties affected by the activity; and a limited profit distribution. This definition essentially views social enterprises as not-for-profits selling goods or services that both benefit and involve the community. The dominant European form of cooperatives exemplify this focus on direct benefits to organisational members and collective decision-making (Nyssens, Adam, & Johnson, 2006). Recent European research suggests that being a participative organisation leads to higher social enterprise performance (Imperatori & Ruta, 2015).

Observing the three schools of thought above, Defourny and Nyssen (2010a) advise that each country must develop its own contextually situated approaches, and key international influences are discussed in the next section. In contrast, Brouard & Lavriet (2010) have attempted to integrate all three schools. They scoured the literature to identify over 30 definitions, the vast majority of which refer to the economic focus of the social enterprise through trading and business disciplines. One quarter of the definitions focus on the importance of social innovation and a smaller number again address the importance of the instigation and participation of beneficiaries and community members.

A composite definition sees social enterprises as organisations, enterprises or projects which ‘pursue social missions or purposes that operate to create community benefit regardless of ownership or legal structure and with varying degrees of financial self-sufficiency, innovation and social transformation’ (Brouad & Lavriet, 2010, p. 39). This definition is comprehensive and recognises that not all social enterprises trade significantly, are innovative or create social change. Significantly, for this research, it recognises that the social enterprise may just be a part of the organisation, rather than a stand-alone entity. The definition avoids exclusion of any social enterprise but, consequently, the ability to distinguish social enterprises from traditional not-for-profits is lost. Moreover, the definition does not acknowledge the cultural and process shift required in a not-for-profit developing a social enterprise, and so the earlier described Department of Internal Affairs definition is used instead.

**Features of social enterprise**

Scholars have identified a large and variable range of other economic and social characteristics, including a range of functions, structures and investors, as can be seen in Table 1 below. Social enterprises might undertake, for example, wealth redistribution (e.g., housing or health care), employment generation, environmental improvements, political, cultural, religious services or
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the enhancement of social cohesion. They might also undertake completely unrelated work but redirect all profits to the social mission. Forms can include development trusts, co-operatives, associations, social businesses, companies or employee-owned firms (Allan, 2005).

This variability suggests that social enterprises are as diverse as for-profit businesses that only share a commercial focus (Lyon & Sepulveda, 2009; Paton, 2003). Peattie and Morley (2008b) observe that acknowledgement of this immense diversity enables further scholarly examination of social enterprise sub types, such as not-for-profits that trade commercially. Nevertheless, there are some common social enterprise characteristics.

Table 1: Social enterprise features

<table>
<thead>
<tr>
<th>Feature</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>Social and commercial, with social purpose dominating</td>
</tr>
<tr>
<td>Business operations</td>
<td>Focus on social goals, stakeholder management and accountability as well as commercial disciplines</td>
</tr>
<tr>
<td>Profit</td>
<td>Used for social purpose and not distributed to individuals</td>
</tr>
<tr>
<td>Intended beneficiaries</td>
<td>Specific target market or geographical area</td>
</tr>
<tr>
<td></td>
<td>Wider public</td>
</tr>
<tr>
<td>Organisational structures</td>
<td>Project or internal division within a not-for-profit</td>
</tr>
<tr>
<td></td>
<td>Not-for-profit subsidiary (e.g., charitable trust, limited liability company)</td>
</tr>
<tr>
<td></td>
<td>Joint venture with a for-profit</td>
</tr>
<tr>
<td></td>
<td>Independent company</td>
</tr>
<tr>
<td>Investors</td>
<td>Individuals, communities</td>
</tr>
<tr>
<td></td>
<td>Not-for-profit organisations</td>
</tr>
<tr>
<td></td>
<td>Business partners or sponsors</td>
</tr>
<tr>
<td></td>
<td>Philanthropists and funding organisations</td>
</tr>
<tr>
<td></td>
<td>National or local government</td>
</tr>
<tr>
<td>Stakeholders</td>
<td>Accountability to multiple stakeholders is formal (ownership or governance) or informal (reporting, links)</td>
</tr>
<tr>
<td>Risk</td>
<td>Financial capital is put at risk to earn profit. Reputations are put at risk using social capital.</td>
</tr>
<tr>
<td>Workforce</td>
<td>Paid employees and/or volunteers</td>
</tr>
<tr>
<td>Self sufficiency</td>
<td>Funding may come from trading in addition to contracts, donations or grants</td>
</tr>
</tbody>
</table>

Adapted from Peters (2006, p. 55)

The most frequently mentioned feature is the balancing of both social and commercial objectives (Galaskiewicz & Barringer, 2012; Peattie & Morley, 2008a). While the social aims may predominate, the commercial goals are a mechanism to achieve them, even if partially, and are therefore vital for the organisation (Haigh et al., 2015; Trivedi & Stokols, 2011). Consequently, the skills required in a social enterprise include the ability to dynamically manage multiple goals.
and stakeholders. Maintaining a consistent and integral identity within the social economy (Moreau & Mertens, 2013; Peattie & Morley, 2008b) occurs simultaneously with generic business experience and beneficiary representation (Santos, Pache, & Birkholz, 2015). Personnel are likely to need to have a combination of skills for entrepreneurial commercial and social operations (Battilana & Dorado, 2010; Peattie & Morley, 2008b).

The lack of distribution of profits to individuals is another major feature, as assets and profits tend to be held in trust for community benefit. Reputations, rather than personal capital, tend to be risked (Pearce 2003). There is commonly active involvement of constituents or recipients in governance, formal ownership, or possibly through less formal means, such as in an advisory capacity. Revenue sources are often mixed as commercial revenue may not be sufficient (Teasdale, 2012).

Crossan’s (2011) survey found that organisational structures and business models did not significantly vary between not-for-profits and social enterprises, but the latter were more focused on tangible outcomes, had smaller boards, fewer volunteers and fewer long-term funding sources. Social enterprises also had fewer networks than not-for-profits that involved more constant contact, leveraged their assets more, made more commercial decisions and earned greater surpluses.

Two additional features merit further mention because they are often difficult to attain. Firstly, scaling up a social enterprise is a major challenge, perhaps because of a lack of funding possibilities and local ownership (Bradach, 2003). Other researchers have suggested a range of skills and resources are needed for growth (Bloom & Chatterji, 2009; Lyon & Fernandez, 2012). Battilana and colleagues (2012) claim the ‘hybrid ideal’, producing both social and economic value, reduces the likelihood of mission drift and therefore makes it easier to build large-scale solutions to social problems.

Secondly, the inevitable imprecision in multi-dimensional performance measurement, particularly in establishing the level of social impact, has made it more important but also more difficult to see how well social enterprises operate and therefore flourish (Bagnoli & Megali, 2011; Emerson & Bonini, 2003; Meadows & Pike, 2010). There is also some challenge in judging social organisations with only commercial perceptions (Young, 2012). Organisations focusing on social change want to contribute, not compete, for example, and rather than focusing

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6 The term personnel is used to refer to all the people who work for the organisation, including staff, volunteers, management and board members.
on the control of valuable, rare and inimitable resources, social enterprises often want to mobilise common, cheap and substitutable local resources (Robb-Post et al., 2010; Zeyen et al., 2012). Bull and colleagues (2010) further argue that social enterprises maximise ethical virtue more than any other organisational form. This may be one of the keys to establishing its legitimacy with the public, even if social impact measurement is difficult.

Not all of these features are shared by all social enterprises. For example, the non-distribution of profits is not a universal requirement, as cooperatives frequently share profits with members and some social enterprises distribute dividends to investors (Peattie & Morley, 2008a). Many have business led boards rather than stakeholder ownership (Chell, 2007). Some have no or few volunteers (Crossan et al., 2011). Some primarily earn contestable contract income rather than trading income, as do some for-profits (Allinson et al., 2011). The conclusion of this review is that the single defining feature of social enterprise that remains constant is its dual social and commercial focus.

**Key social enterprise constructs**

This section outlines some key constructs that have been developed to describe social enterprises. Firstly, the continuum outlined in Figure 3 of social and commercial hybrid organisations is widely referred to and demonstrates some conceptual demarcation between the social and commercial sectors (Alter, 2004).

**Figure 3: Hybrid spectrum of private and social enterprise**

<table>
<thead>
<tr>
<th>Traditional Non-profit</th>
<th>Non-profit with Income-Generating Activities</th>
<th>Social Enterprise</th>
<th>Socially Responsible Business</th>
<th>Corporation Practicing Social Responsibility</th>
<th>Traditional For-Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mission Motive •</td>
<td>Stakeholder Accountability •</td>
<td>Income reinvested in social programmes •</td>
<td>Profit-making Motive •</td>
<td>Shareholder Accountability •</td>
<td>Profit redistributed to shareholders</td>
</tr>
<tr>
<td></td>
<td></td>
<td>or operational costs</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: (Alter, 2004, p. 22)

The three right hand columns describe for-profit organisations that may create social value but their primary purpose is the creation of shareholder wealth. On the far right, employment opportunities provided by traditional for-profits are of social value, and owners may address a complex social problem through donations of time or money. Moving closer to the left, an example of socially responsible business that values social outcomes but operates commercially
might include the Body Shop (2011) that prides itself on being an ethical beauty brand that contributes to global change.

The left-hand columns include organisations that have a primary motive of social value creation. The more traditional not-for-profits will undertake their core work primarily with the support of funders and donors on the far left (e.g., church and social service organisations) and the middle column includes those organisations that do generate some earned income from fees or other charges. Alter (2004) argues that income generating not-for-profits only become social enterprises when they are run like a commercial business and have social impact. This differentiation suggests that many not-for-profits may generate earned income (e.g., residential fees) and be business-like but may not necessarily operate like a competitive commercial business nor solve complex social problems. This is further discussed in section 2.2.1 below.

There are broader social enterprise conceptualisations that include both not-for-profit commercial activity, if it is aligned to mission, and businesses that donate to charity (Mitchell, Kingston, & Goodall, 2009). The public sector is rarely included and, while their hybrids are not a focus of this research, they can also operate innovative trading or social change companies, such as in health, recreation, meteorology and community development (Hall, Miller, & Millar, 2012; Luke & Verreynne, 2006).

According to the hybrid spectrum above, social enterprises only sit in the column just to the left of the for-profits. It is also possible to imagine them in the middle straddling both the social and commercial worlds, as discussed in chapter 6. A leading example of a social enterprise commonly cited is the Grameen Bank, which provides micro finance for small businesses that cannot access finance in the traditional banking sector and is jointly owned by borrowers and the government (Young et al., 2016; Yunus, Moingeon, & Lehmann-Ortega, 2010).

Alter (2004) developed a social enterprise typology that relates the level of centrality of the social organisation’s mission. The commercial activity of social enterprises is often embedded into the organisation’s mission, so profit-generating activities also produce the desired social benefit (e.g., Fair Trade shops increase producer incomes). There is some indication that aligning both mission and the business leads to greater sustainability (Haigh et al., 2015; Santos et al., 2015). Wealth generation can also be integrated within the social organisation by expanding income sources beyond the target group. For example, the Scojo Foundation subsidises reading glasses to poorer people by also selling to wealthier customers (Christiansen & London, 2008). A social enterprise’s trading activities can also be completely external to
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social programmes, but dedicated to resourcing them (Alter, 2004). For example, Sanitarium, a local health food manufacturer in New Zealand, dedicates its profits to the Seventh Day Adventist Church (Sanitarium, 2015).

Figure 4 below is another of Alter’s valuable conceptualisation of the complexity of social enterprise endeavours. The framework consists of four key performance criteria that assess social enterprises’ depth of impact; the blended value that creates both wealth and social value; the efficiency of the enterprise to make the optimal use of resources; and adaptability in responding to changing need and environments. In addition, four strategic lenses assist in analysing any social enterprise: stakeholder engagement; resource mobilization; knowledge development; and culture management all have a significant impact on the efficacy of social enterprise.

Figure 4: The four lenses strategic framework

Source: (Alter, 2009, p. 13)

In conclusion, while writers such as Boschee (2003) suggest that fully self-sufficient commercial enterprises emerging from not-for-profit organisations are the ultimate goal, this research accepts that internal divisions of not-for-profits that operate as commercial businesses also conform to the general definition of social enterprise (Brouard & Lavriet, 2010; Muller, 2010). Many social enterprises start as not-for-profits, and their strong social goals, networks and desire for financial sustainability create interest in the role (Bull et al., 2008; Hentz, 2009; Madichie & Read, 2008). Included in this research, therefore, are those not-for-profits’ social
enterprises that recombine or develop new goods or services, methods of production, markets, or organisations (Schumpeter, 2011) and develop a commercial focus.

2.1.3 International context and perspectives

Despite the challenge to maintain a clear social and commercial focus (Alegre, 2015; Huybrechts & Mertens, 2014), social enterprise is flourishing in many parts of the world for the reasons that are outlined in this section. The analysis highlights the US, UK and European environments, which have led the development of social enterprise. It explains why these differences and similarities occur and places New Zealand within this context. These international differences help to explain why there are such strong views on social enterprise in terms of its desirability and efficacy.

Social enterprises vary in their alignment with the three sectors (social, commercial and public) depending on their local social, economic, welfare, political and legal systems (Monroe-White, Kerlin, & Zook, 2015). For example, strong market economies (e.g., US, Japan) are more likely to stimulate market-oriented social enterprises, while strong social economies (e.g., Europe, Canada) are more likely to foster social enterprises that are a reconfiguration of government and not-for-profit roles in social services (Kerlin, 2010; Mendell, 2010). Kerlin’s (2010) international study revealed that social enterprises with the highest proportion of income from fees and charges are found in developing countries, where there are fewer public subsidies available. In general, however, social enterprises grow most where they can provide government-funded social services and where supportive legal frameworks are available (Borzaga & Defourny, 2001). For example, the UK is a world leader in social enterprise, with substantial government support (Hoogendoorn, Pennings, & Thurik, 2009). There are an estimated 70,000 organisations that are a very good fit with the definition of social enterprise in the UK, contributing £55 billion to the UK economy (Cabinet Office, 2013). Monroe-White and colleagues (2015) add that social enterprise sectors are also larger in countries where there is both economic competitiveness with an acceptance of unpredictability and also strong values of collectivism or social cohesion. Kerlin (2013) argues that individualism supports innovation while collectivism supports better resource acquisition.

There has been considerable international growth in fiscal law and legal structures, specifically designed for enterprises that pursue social as well as financial goals (Defourny & Nyssens, 2010b; Galera & Borzaga, 2009). For example, sixteen new laws were passed across Europe in the first decade of this century, including the Community Interest Company in the UK.
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(Defourny & Nyssens, 2008). The US has also recently developed new types of legal structures for social enterprise: the L3C (Low-Profit Limited Liability Company), the Benefit Corporation, and the Flexible Purpose Corporation (Battilana & Dorado, 2010).

While local influences clearly have an important effect on the shape of social enterprise, there are also drivers that are common to many countries. In particular, the pressure to constrain public expenditure, most notable in the 1980s and the more recent global financial crisis, has encouraged the expansion of self-sustaining social enterprises and their commercial approaches, including in public sector roles. For example, from 1977 to 1992, a period of slowed US public spending on social programmes, the number of US social enterprises increased from 36% to 47% of all social service provision (Eikenberry & Kluver, 2004). Also influential has been increasing confidence in the capability of the third sector, combined with attraction to the idea that non-traditional entrepreneurial approaches may better address long-term entrenched social challenges (Nyssens et al., 2006).

Table 2: Comparative overview of social enterprise trends in the United States and Europe

<table>
<thead>
<tr>
<th>Feature</th>
<th>United States</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emphasis</td>
<td>Revenue Generation</td>
<td>Social Benefit</td>
</tr>
<tr>
<td>Common Organisational Type</td>
<td>Non-profit (e.g., L3C, B-Corp)</td>
<td>Associations/Co-operatives</td>
</tr>
<tr>
<td>Focus</td>
<td>All Non-profit Activities</td>
<td>Human Services</td>
</tr>
<tr>
<td>Types of Social Enterprise</td>
<td>Many</td>
<td>Few</td>
</tr>
<tr>
<td>Recipient Involvement</td>
<td>Limited</td>
<td>Common</td>
</tr>
<tr>
<td>Strategic Development</td>
<td>Foundations</td>
<td>Government/European Union</td>
</tr>
<tr>
<td>University Research</td>
<td>Business and Social Science</td>
<td>Social Science</td>
</tr>
<tr>
<td>Context</td>
<td>Market Economy</td>
<td>Social Economy</td>
</tr>
<tr>
<td>Legal Framework</td>
<td>Lacking</td>
<td>Underdeveloped but improving</td>
</tr>
</tbody>
</table>

Source: (Peattie & Morley, 2008b, p. 24)

Two dominant trends of social enterprise within the US and Europe have been identified (Peattie & Morley, 2008b) and are represented in Table 2 above. The US model of social enterprise is more market and business oriented, and strongly influenced by private foundations, and closely related to the Earned Income school. The European (EMES) model is more influenced by the government and the social economy, and social benefits are considered more important than financial profit (Peattie & Morley, 2008b). This binary view is useful to identify differences but is not always accurate. For example, social enterprise in the UK has a more market-driven
approach like the US, but also has a strong social economy like Europe, and therefore incorporates both types. Kerlin (2013) views both the UK and US as having smaller welfare states than much of Europe and environments that support innovative entrepreneurialism.

**The New Zealand context**

A drive for accountability and increased efficiency undelay the neoliberal government reforms of the 1980s and 1990s in New Zealand focussed on opening up government service provision to market forces (Grant, 2008). Contractualism was a tool to demand business-like activity of the not for profit/community organisations providing a range of services, particularly health, education and social services. In this way, government developed a means of ensuring the continued supply of mandated services, while reducing direct costs to government. Organisations that had previously received grants and/or subsidies were now required to compete for contracts that typically focussed on government determined outputs while complying with bureaucratic accountability and evaluation processes to meet government reporting requirements. Grant (2008) wondered if this development was to pave the way for social enterprise. This research suggests that because this process led to not-for-profits becoming community - public sector hybrid organisations, with a heavy reliance on bureaucratic requirements to ensure stable and reliable service provision, the adaptable, experimental and entrepreneurial market orientation of social enterprise may have become even more challenging to adopt. Simultaneously, it demonstrates the flexibility of not-for-profits in adopting unfamiliar logics successfully.

In terms of Peattie and Morley’s (2008b) analysis (see Table 2) New Zealand most resembles the US and UK market-driven approach in several respects. In a recent Department of Internal Affairs report, an inaugural social enterprise online survey identified 420 organisations with a wide range of aims and activities (Department of Internal Affairs, 2013). Over two thirds (69%) of respondents identified as not-for-profits. The survey focused on their trading characteristics and identified a long and varied list of recipients. Survey participants were not asked if they involve recipients in management and governance. Apart from this survey and unlike many of its main trading partners, there is limited Government involvement or interest in the development of social enterprise in New Zealand, although their involvement has been encouraged (Kaplan, 2013). Instead, self-organisation among practitioners and philanthropic funder support have been the primary drivers of recent advances (Office for the Community and Volunteer Sector, 2013). There are no legal frameworks specifically designed for social
enterprise in New Zealand, and most social enterprises are either a charitable trust (52%) or an incorporated society (37%) (Department of Internal Affairs, 2013). A much less frequently used option is a limited liability company for charitable purpose.

**Conflicting perspectives on social enterprise**

Conflicting views may be expected in complex systems (Trexler, 2008). This section now explores the practical and philosophical reasons to include and exclude social enterprises within social organisations (Zimmerman & Dart, 1998). Depending on one’s point of view, social enterprise can be seen as either creatively embedding the market in civil society or inappropriately and ineffectively imposing a market solution on social problems (Mendell, 2010).

A formidable challenge for the twenty-first century is to create more environmentally and socially sustainable economies, communities and enterprises (Peattie & Morley, 2008a). Many people do not believe that current capitalist economic models can achieve this and that a new model is needed (Battilana & Lee, 2014; Porter & Kramer, 2011). At a time of growing wealth disparity, both government-funded welfare and traditional charity can also foster dependency and limit opportunities for self-determination (Dees, 2007, 2012). This mixture of market and government failures has inspired social enterprise, seen by some as the engine of reform within ‘conscious capitalism’ that finds sustainable solutions for large social problems (Battilana & Dorado, 2010; Kay, Roy, & Donaldson, 2016; O'Toole & Vogel, 2011).

It is the recombination of organisational form, sectors, resources and capabilities that enables this prospect of change (Diochon & Anderson, 2009; Phillips, Deiglmeier, & Miller, 2008). Social enterprises are constructed to be more like businesses than charities, more entrepreneurial, market oriented and efficient than public-sector organisations and not-for-profits, and more collaborative and ethically aware than the commercial sector (Bull et al., 2010). Many researchers have found that social enterprises increase social and economic capital and assist in the reduction of social ills (Alter, 2004; Moss, Short, Payne, & Lumpkin, 2011; Rotheroe & Miller, 2008; Villeneuve-Smith, 2011).

However, the recent enthusiastic adoption of social enterprise methods is criticised by concerned academics and practitioners who associate the emergence of social enterprises with neoconservative market liberalism and a faith in market-based mechanisms that neither challenge the status quo nor deliver social results (Dart, 2004). Some scholars argue that there is no proof that social enterprises are more efficient, innovative or create more social benefits
than other social organisations (Bull, 2008; Butler, 2010). Some research has found few social enterprises in not-for-profits to be fully self-sustaining and requiring additional financial support, and that when pursuing economic efficiency and competition, not-for-profits often experience strong tensions with their social missions and can thereby create some distance from the communities they serve (Casselman, 2007; Thompson and Williams, 2012).

Chernega (2007) sees an inherent irony in the use of capitalist tools to face social problems, such as poverty and exclusion, that are seen as caused by capitalism. Some argue further that an emphasis on entrepreneurship and self-interest is unsustainable because of the stark incompatibility with democratic citizenship and its emphasis on accountability and collective action for the public good (Eikenberry & Kluver, 2004; Teasdale et al, 2013). As a result, many not-for-profit practitioners are not inspired by and do not identify with social enterprise (Dey & Teasdale, 2013). Bestowing too much faith in social enterprises may distract not-for-profits from advocating essential structural reforms and discourage resource transfers to social organisations or listening to the voices of the marginalised (Anheier & Kendall, 2001; Teasdale, 2012). Not-for-profits may be risking their community-based soul, stakeholder relationships and their very existence by pursuing commercial opportunities unless commercial customers have close links with other stakeholders and the mission (Billis, 2010; Teasdale et al, 2013).

Some researchers conclude that the challenges facing social enterprises are insurmountable, and are being pursued naively (Foster & Bradach, 2005; McBrearty, 2007). Others see tough but achievable hurdles that can inspire the creation of needed social innovation and a more self-sustaining future for the not-for-profit sector (Dees, 1998; Muller, 2010). Extant literature suggests there is truth in both views. All not-for-profit income sources have disadvantages (Froelich, 1999). Social enterprises may not provide a panacea for all social problems nor work effectively in all situations, but there are sufficient numbers of successful hybrid models to argue that social enterprises are firstly possible and secondly offer not-for-profits a fresh, inspiring and, most importantly, a self-sustaining approach to addressing some current social ills (Allinson et al., 2011; Billis, 2010; Villeneuve-Smith, 2011). The rising academic interest in social enterprise discussed in the next section suggests agreement that these new hybrid models warrant further investigation.

2.1.4 Research method

Academic interest in social enterprise is recent and increasing. The number of articles published on social enterprise leapt from 37 in 1997, to 529 in 2000 to 14,264 in 2012 (Battilana & Lee,
Granados and colleagues (2011) found a similar rise and that over three quarters of the 300 academic contributions in their review were qualitative studies. Four fifths of those were in the form of case studies, often outlining the historical development of individual social enterprises or comparative case studies. Interviews have been the dominant data collection method and thematic analysis was used in nearly half of the case studies. Social enterprise is still in an early stage of conceptual development and is not fully understood (Bull, 2008; Curtis, 2008). Therefore, explorative qualitative approaches are appropriate for this novel and complex area (Edmondson & McManus, 2007).

Cukier, Trenholm and Gekas (2011) undertook a review of the related social entrepreneurship literature that has developed over the similar time frame of twenty five years. The number of academic papers is growing quickly, with 560 articles identified. Unlike the more practitioner-based social enterprise literature, social entrepreneurship has tended to concentrate on theory building (Hoogendoorn et al., 2009; Short et al., 2009). Focus has largely been given to at least one of four key factors: the characteristics of the individual entrepreneur, the operating sector and in particular social enterprise, the processes and resources used, and the outcomes sought (Dacin, Dacin, & Matear, 2010).

The interwoven social enterprise and social entrepreneurship literature are both important in addressing the creation of economic and social value from a practical and theoretical perspective. However, we are still far from being able to explain the development of social enterprises (Short et al., 2009). In one of the few empirical studies exploring the process of developing social enterprises within not-for-profits, the emergence of social enterprise was seen as ten life stages ranging from courtship to death (Bull et al., 2008). Haugh also produced a descriptive model of the six stages of new social venture creation from a qualitative study of five new community-led ventures: 1) opportunity identification, 2) idea articulation, 3) idea ownership, 4) stakeholder mobilization, 5) opportunity exploitation, and 6) stakeholder reflection. While these studies offer useful insight into the development process, they do not explain the accommodation of commercial business models and logics within not-for-profits. Other case studies undertaken have tended to look at specific aspects, such as tensions, identity, dependability, mission focus or time of conception, rather than the broader process of emergence (Cooney, 2006; Grant & Kinley, 2010; Madichie & Read, 2008; McDonald, 2007; Muller, 2010; Smith et al, 2010). While there is a great deal of useful information and insight scattered through the literature on the development process, further exploration is required to understand how the
organisation manages to incorporate the culture and practices of a very different organisational form in order to operate a successful social enterprise.

2.1.5 Theory use in social enterprise

With 25 years of academic development, social enterprise has an established presence in academic circles, and scholars might be expected to be advancing and testing theory in the area (Haugh, 2012). However, the small-scale and practice-led nature of social enterprise research has generated criticism that there is insufficient knowledge transfer between academics and practitioners (Peattie & Morley, 2008b). For example, scholars still have no overarching theoretical explanation for social enterprises that prioritise a social mission, yet still aim at for-profitability (Perrini, 2006). Haugh (2012) adds that generalisation and theory can be usefully developed from case studies but has rarely been provided to predict when, why and how social enterprises emerge. The use of theory in social enterprise is now examined.

There is little focus on not-for-profits developing social enterprise successfully within the literature, even though they form a significant part of this sector (Kirkman, 2012). There is, however, a separate literature on earned income among not-for-profits, discussed in section 2.2.1 below. Haugh (2005) typifies many scholars when she suggests eight key research themes for development, but does not mention development within a not-for-profit, nor advocates greater understanding of this process. However, some authors (Peattie & Morley, 2008b; Trivedi & Stokols, 2011) call for more comparative research between commercial and social organisations to see where the differences and similarities lie, and how social enterprises can incorporate aspects of both. This lack of information to understand the development of social enterprise within not-for-profits is the specific puzzle targeted by this research.

Regardless of this gap, scholars have used a variety of theoretical perspectives to better explain social enterprise. Table 3, below, identifies examples of theory use that explain aspects relevant for not-for-profits developing social enterprise. It shows that a number of scholars are attempting to explain the attraction and viability of social enterprise, for example, through institutional theory and institutional logics (Battilana & Dorado, 2010; Besharov & Smith, 2014), organisational field theory (Cooney, 2006); business models (Grassl, 2012) or institutional entrepreneurship (Tracey et al., 2011). Resource dependence theory focuses on protecting resources in times of uncertainty, and is helpful in understanding not-for-profit constraints in procuring resources as a social enterprise (Eikenberry & Kluver, 2004; Santos & Eisenhardt, 2009). Stakeholder theory has shed some light on the multiple stakeholders that are key to setting
Table 3: Theory and concepts to explain social enterprise or social entrepreneurship

<table>
<thead>
<tr>
<th>Theory or Concept</th>
<th>Examples of Scholarly Work</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bricolage</td>
<td>(Desa, 2008; Di Domenico, Haugh, &amp; Tracey, 2010)</td>
</tr>
<tr>
<td>Business model</td>
<td>(Cooney, 2011; Grassl, 2012; Michelini &amp; Fiorentino, 2012; Morris, Schindehutte, Richardson, &amp; Allen, 2006; Osterwalder, 2009)</td>
</tr>
<tr>
<td>Configuration</td>
<td>(Dart, 2000; Imperatori &amp; Ruta, 2015; Marwell &amp; McInerney, 2005)</td>
</tr>
<tr>
<td>Competitive strategy</td>
<td>(Hull &amp; Lio, 2006; Weerawardena &amp; Mort, 2012)</td>
</tr>
<tr>
<td>Paradox, duality, ambiguity and ambidexterity</td>
<td>(Diochon &amp; Anderson, 2011; Graetz &amp; Smith, 2009; Jarzabkowski, Smets, Bednarek, Burke, &amp; Spee, 2013; Peattie &amp; Morley, 2008a; Smith, Gonin, &amp; Besharov, 2013)</td>
</tr>
<tr>
<td>Entrepreneurship</td>
<td>(Badelt, 1997; Busenitz, Sharfman, Townsend, &amp; Harkins, 2016; Chell et al., 2010; Corner &amp; Ho, 2010; Duvnäs, Stenholm, Brännback, &amp; Carsrud, 2012; Peredo &amp; Chrisman, 2006; Perrini, 2006; Sharir &amp; Lerner, 2006)</td>
</tr>
<tr>
<td>Identity</td>
<td>(Busenitz et al., 2016; Moss et al., 2011; Pratt &amp; Foreman, 2000; Smith, Knapp, Barr, Stevens, &amp; Cannatelli, 2010; Young, 2001)</td>
</tr>
<tr>
<td>Institutional</td>
<td>(Battilana &amp; Dorado, 2010; Dart, 2004; Sharir, Lerner and Yitshaki in Robinson, Mair, &amp; Hockerts, 2009; Tracey et al., 2011; Warm, 2004)</td>
</tr>
<tr>
<td>Institutional logics and hybridity</td>
<td>(Battilana &amp; Lee, 2014; Besharov &amp; Smith, 2014; Galaskiewicz &amp; Barringer, 2012; Haigh et al., 2015; Johansen, Olsen, Solstad, &amp; Torsteinsen, 2015; Pache &amp; Santos, 2013b; Santos et al., 2015; Thornton et al., 2012)</td>
</tr>
<tr>
<td>Isomorphism</td>
<td>(Chew, 2010; Mason, 2012b; Reid &amp; Griffith, 2006)</td>
</tr>
<tr>
<td>Legitimacy</td>
<td>(Dart, 2004; Marwell &amp; McInerney, 2005; Sherer &amp; Lee, 2002)</td>
</tr>
<tr>
<td>Resiliency</td>
<td>(Young &amp; Kim, 2015)</td>
</tr>
<tr>
<td>Resource based view</td>
<td>(Chew &amp; Osborne, 2008; Liu &amp; Ko, 2012; Meyskens, Robb-Post, Stamp, Carsrud, &amp; Reynolds, 2010)</td>
</tr>
<tr>
<td>Resource dependency</td>
<td>(Eikenberry &amp; Kluver, 2004; LeRoux, 2005; Madill, Brouard, &amp; Hebb, 2010; Santos &amp; Eisenhardt, 2009; Short et al., 2009)</td>
</tr>
<tr>
<td>Social entrepreneurship</td>
<td>(Hockerts, 2011; Mason, 2012a, 2012b; Roberts &amp; Woods, 2005)</td>
</tr>
<tr>
<td>Social innovation</td>
<td>(Lettice &amp; Parekh, 2010; Nicholls &amp; Murdock, 2012; Phillips et al., 2008; Tapsell &amp; Woods, 2008; Westley &amp; Antadze, 2010)</td>
</tr>
<tr>
<td>Stakeholder</td>
<td>(Bull et al., 2010)</td>
</tr>
<tr>
<td>Strategic orientation</td>
<td>(Liu, Takeda, &amp; Ko, 2014)</td>
</tr>
<tr>
<td>Structuration</td>
<td>(Chell, 2007; Mair &amp; Marti, 2006)</td>
</tr>
</tbody>
</table>

and advancing a specific mission ethically (Bull et al., 2010; Chew, 2010). The importance of legitimacy to organisational innovation and market growth has also been usefully examined (Dart, 2004; Sherer & Lee, 2002).
Chapter 2: Literature Review

Strauss’s theory of bricolage has been extended to social enterprise by proposing a theory of social bricolage or the recombination of resources by social entrepreneurs, making do with whatever resources are at hand (Di Domenico et al., 2010). A growing number of scholars are utilising complexity and related concepts of paradox, duality, resiliency, ambiguity and ambidexterity to better understand the sustainable balancing of social and financial goals (Young & Kim, 2015). Robb-Post and colleagues (2010) used the resource-based view and the entrepreneurship literature to develop the concept of sustainable contributive advantage as an alternative framework to competitive advantage within social entrepreneurial ventures. Several scholars in competitive strategy or resource dependence advise not-for-profits to acquire the required human, financial and physical capital they need for commercial operations (Madill et al., 2010; Weerawardena & Mort, 2012).

Summarising this section, social, economic, welfare, political and legal systems within the local context, and their underlying philosophies of individualism and/or collectivism, strongly influence the development and support for social enterprise. Social enterprise is an umbrella construct that operates in a continuum of commercial and social organisations, with many configurations and approaches possible. This review concludes that the only defining feature of social enterprise that remains constant is the dual social and commercial purposes, although non-distribution of profits to individuals, strong values and multiple stakeholders are also key features.

The three schools of thought each contribute unique and important perspectives. This research most closely aligns with the earned-income school that sees social enterprise as using business logic and solutions to meet its social goals (Battilana & Lee, 2014; Haugh, 2012). New Zealand is most closely aligned with the earned-income model, given its focus on revenue generation among a wide range of not-for-profits, weak legal infrastructure, low Government involvement and high levels of self-organisation. Notwithstanding the differences in view on its suitability, social enterprise offers the opportunity for local sustainable and innovative responses to social need.

Academic interest in social enterprise is rising but it remains a nascent field. Most studies are qualitative, involving case studies, and many theories have been employed to better understand this organisational form. This research confirms that social enterprises can be formed by not-for-profits internally as a division or project, as well as an external subsidiary and require further academic investigation. An overview of this organisational form is now provided.
2.2. Not-for-profit development

An exploration of the background to not-for-profit development provides context for their transformation required when developing a social enterprise. This section therefore briefly identifies their definitional challenges, tracks trends in theory and explains not-for-profit growth and diversity.

While not-for-profits exist all over the world, few countries have a clearly distinctive sector (Salamon, 1997). Descriptive terminology includes the charitable sector, independent sector, voluntary sector, tax-exempt sector, NGO (non-governmental organisation) sector, social economy and the non-profit or not-for-profit sector, all of which have slightly different meanings (Salamon, 1997). Not-for-profit is the term most commonly used in New Zealand and is used to refer to all organisations that primarily exist to increase social good rather than generate personal wealth (Badelt, 2003; Lohmann, 1992). Factors that encourage not-for-profit development include societies with sizeable middle classes and diverse social roles, less centralised states, and supportive legal systems and government policies (Salamon, 1997).

Scholars have increasingly acknowledged the enormous diversity and multiple dimensions in not-for-profits and challenges in generalising about their nature (Anheier & Ben-Ner, 2003; Knutsen, 2012). Although a large number are in the health, education and social sectors that are most likely funded by government, not-for-profits might also have a religious, scientific, banking, environmental, trade union, arts or cultural role, any of which may involve advocacy or change (Anheier & Ben-Ner, 2003).

Not-for-profit theory is still not well developed (Galaskiewicz & Barringer, 2012; Knutsen, 2013). From the 1970s to the 1990s, economic theory treated not-for-profits as ‘residuals’ of government and business activity (Salamon, 1997; Weisbrod, 1975). Voluntary failure theory instead saw government as the residual institution, when the voluntary sector cannot meet need (Salamon, 1987), because of insufficient resources, too tightly targeted populations, paternalism or lack of professionalism (Young, 2003). Contract failure theory saw not-for-profits as more trustworthy than their commercial equivalents, and less likely to cheat consumers because they are motivated by ideology or ethics, do not distribute profit, and tend to be run by consumers and donors (Hansmann, 1980). Their independence from government, skills in maintaining stakeholder relationships and ameliorating conflict are valued (Anheier & Ben-Ner, 2003; Hansmann, 1980). The theory of impure altruism recognises that donors also receive private benefits, such as prestige, friendship, reduction of guilt or some psychological benefit.
Chapter 2: Literature Review


Tired of negative terminology, Lohmann (1992) introduced the overarching concept of the commons to represent the not-for-profit sector, characterised by unforced participation, shared purposes and resources, mutuality, fairness, and the common goods they produced. The heart of not-for-profits may be seen in their values, relationships, and lack of self-interest (Anheier & Ben-Ner, 2003).

Salamon (1997) defined not-for-profits universally, selecting a structural–operational definition. This recognised a not-for-profit as organised, private, non-profit distributing, self-governing and voluntary (membership is not compulsory, voluntary donations are sought, and volunteers are employed, including on boards). To be considered a not-for-profit, all these conditions must be met (Salamon, 1997). More recently, Billis (2010) added that there are no individual legal owners, even if there are individuals or groups that select a governance board and make decisions.

No single theory has yet identified the many characteristics of not-for-profits. Knutsen (2013) describes not-for-profits as an artificial construct, without boundaries or definitive organisational form or identity. The concept of hybridity has provided a new and challenging theoretical perspective, as it acknowledges that not-for-profits may already straddle the private, public and/or charitable sectors (Anheier & Ben-Ner, 2003; Billis, 2010; Maier et al., 2016). For example, many not-for-profits are also hybrid public sector providers through government contracts (Maier et al., 2016; Young & Grinsfelder, 2011). This adaptability in function has enabled the continued growth of the sector (Salamon, 2001).

2.2.1 The growth of not-for-profits

Growth in not-for-profit activity has been substantial in the late twentieth century (Austin, Stevenson, & Wei-Skillern, 2006). From 1990 to 1995 alone, there was 24% growth across Europe and the US (Salamon, 1997), which may be a sign of increased demand for new organisational forms (Anheier & Ben-Ner, 2003; Salamon, 2001). Other drivers influencing this development include not-for-profit’s strong community linkages, increasing entrepreneurialism and their ability to assist policy development and target welfare systems (Anheier & Kendall, 2001). Since 1990, growth in earned income has also coincided with economic growth, growing wealth disparity, and a shift of government resources to the not-for-profit sector, and also reductions in total public spending and subsequent constraints on not-for-profit resources.
(Anheier & Kendall, 2001). LeRoux (2005), for example, found that not-for-profits operating commercially were likely to be larger organisations that have experienced a reduction in both government funding and public donations.

While there is little academic focus on social enterprise development within a not-for-profit, there is academic literature on earned income strategies within not-for-profits. This confirms that increasing income from business activity, such as charging fees, has also been pivotal to not-for-profit growth, in conjunction with constrained government expenditure, lower donation levels and increased fundraising costs (Anheier & Ben-Ner, 2003; Steinberg, 2003). A recent study of European charities shows that 47% of not-for-profit’s resources come from earned income, exceeding government income and donations (Defourny & Nyssens, 2010b). Salamon (1993) also observes earned income from fees and charges in the US rising from 47% in 1977 to over half of all revenue in the 1980s. Locally, the 97,000 not-for-profit charities in NZ have 38% of their income from commercial earnings (Department of Internal Affairs, 2016; Statistics New Zealand, 2005). The not-for-profit literature suggests that earned income has long been common among not-for-profits for a long time (Child, 2010; Zimmerman & Dart, 1998). In stark contrast, Leroux (2005) found that only 20% of his smaller US non-profits sample had adopted commercial income strategies.

This inconsistency may be due to the different uses of the term ‘earned income’ and its separate literature from social enterprise. For example, Anheier & Kendell (2003; 2001), Harris, Mainelli, O’Callaghan, (2002) and Sanders (2015) all talk about earned income but not social enterprise. Searches for social enterprise correspondingly do not unearth much of the not-for-profit earned income literature. Further, some academics argue enterprising not-for-profits that charge fees to generate income are subtly but significantly different to social enterprise, that operates like a commercial business with a strong market focus (Alter, 2004; Dees, 2012).

Growth in earned income is nevertheless thought to have occurred without fully understanding the organisational impact of taking on business-like activity and ways to retain not-for-profit values (Anheier & Kendall, 2001; Tuckman, 1998). As a result, Anheier and colleagues (2001) have seen the not-for-profit sector in the US at a cross-roads. As the sector grew in size, influence and professionalism, often partnering with government, it has been seen as increasingly elitist, unresponsive and unaccountable to the communities they serve. Salamon (2001) describes this crisis as one of fiscal capacity, in the face of government spending reductions, and effectiveness in measuring social impact and generating legitimacy. With more
commercial income, not-for-profits are better able to attract and retain staff, become self-sufficient and better known, but there may be a negative effect on donations of money and time (Guo, 2006). Lohmann’s (1992) commons, with not-for-profit social purpose and shared ethical values, is thought by opponents of social enterprise to be at risk. A public dialogue on the developing nature of modern not-for-profits has been recommended (Salamon, 2001). The level of entrepreneurialism expected of not-for-profits, discussed below, might form part of that dialogue.

### 2.2.2 Entrepreneurship in not-for-profits

Entrepreneurial organisations, whether creating social or economic value, tend to be innovative and proactive, taking risks where necessary (Covin & Slevin, 1989). Entrepreneurship has long been considered critical to the commercial world but only more recently has become a focus within social change literature (Morris, Coombes, Schindehutte, & Allen, 2007; Schumpeter, 2011). Nevertheless, entrepreneurship theories are not used often to explain not-for-profits (Badelt, 2003), despite the fact that they have long been seizing opportunities to innovatively increase social value and more recently developing social enterprises (Peattie & Morley, 2008b; Stull, 2009).

The close link between entrepreneurship and commercial growth may have limited the term’s appeal to not-for-profits (Perrini, Vurro, & Costanzo, 2010; Young, 2003). Not-for-profits may prefer to see themselves as making a difference rather than as being entrepreneurial, and the term may be resisted by those who fear dissolution of voluntary effort or tainting ethical approaches with a profit focus (Weisbrod, 1998; Westley & Antadze, 2010). Some not-for-profits may also aim to mitigate rather than transform social problems (Diochon & Anderson, 2009; Trivedi & Stokols, 2011).

Social entrepreneurship is therefore a more useful concept for not-for-profits because it involves the creation of social value (changing attitudes, practices or recombining resources to achieve targeted social outcomes), in addition to adapting processes, systems, products and service innovations that create economic value (Weerawardena & Mort, 2006). Social enterprises within not-for-profits are likely to require entrepreneurial approaches in order to absorb market logics and create both social and economic value (Emerson & Bonini, 2003; Thornton et al., 2012). As they develop new initiatives, they are likely to be opportunity focused on novel solutions and require some resource slack for developments (Nicholls, 2006; Short et al., 2009). To accommodate both social and commercial approaches, there needs to be experimentation to
develop the capacity for double-loop learning, and valuing of diversity and uncertainty (Van de Ven, 1986).

Entrepreneurial organisations may often require a more organic, rather than mechanistic, structure and approach (Burns & Stalker, 1961; Diochon & Anderson, 2009). Traditional hierarchies do work well when work is predictable and efficiencies are possible, but their dominant focus is on control and, therefore, they do not suit uncertain environments where rapid decentralised decisions may be needed (Black, 2000; Graetz & Smith, 2008). Flexible organisational forms can, however, operate successfully within large hierarchical structures, testifying that bureaucracies are dynamic entities that can accommodate new forms of organising (Brown & Eisenhardt, 1997). The ability to operate more than one managerial approach is discussed further in section 2.3.2.

There are many examples and counter examples of entrepreneurial behaviour in not-for-profits. Supporting the existence of entrepreneurialism in not-for-profits are, for example, Santos and Eisenhardt (2009) who indicate that there are similar approaches in both commercial and not-for-profit organisations to innovation, opportunity, risk and networks. Not-for-profit social entrepreneurship can be seen particularly in their creation of social value through the following:

- managing multiple stakeholder demands (Weerawardena & Mort, 2006),
- recombining resources innovatively despite resource constraints (Mair & Marti, 2006),
- redesigning products, process and systems (Lumpkin et al., 2013)
- building unconventional value chains, driving costs to near zero and designing products with multiple value points (Corner & Kearins, 2011),
- developing partnerships, financial capital, innovativeness, organisational structures and knowledge transferability (Meyskens et al., 2010),
- bringing new services to the marketplace (Drucker, 1989),
- creating social change (Austin et al., 2006), building social value (Weerawardena & Mort, 2012), or social capital (Anheier & Ben-Ner, 2003).

Drivers for not-for-profit entrepreneurial behaviour include competition for revenue, client need, prestige, political power, and personnel, often in times of turbulence and scarcity (Kirkman, 2012; Weisbrod, 1998). Many not-for-profits are already linking government, business and the unemployed, for example (Badelt, 2003). Large, confident and dynamic not-for-profits that are determined to create change are likely to be entrepreneurial (LeRoux, 2005; Skloot, 2000).
In contrast, however, some scholars have found that not-for-profits tend not to be entrepreneurial for various reasons (Eikenberry & Kluver, 2004; Madill et al., 2010). Not-for-profits’ mission and tradition are sometimes seen as fixed, adapted only when fundamental and usually external change requires it (Diochon & Anderson, 2009; Stull, 2009). Demand for not-for-profit services also often exceeds the supply of resources, so many not-for-profits will have little available organisational slack and limited resources to see or act on entrepreneurial opportunities (Doherty et al., 2014).

Government funders have influenced not-for-profits considerably, requiring a clear definition of their outputs, increases in efficiency and effectiveness and mastery of key business disciplines (Dees, 2002; Grant, 2008). Delivering public services on contract, however, may also encourage hierarchical management approaches that focus on planning, outputs, control and reliable delivery rather than on being adaptive (Anheier & Ben-Ner, 2003; Damanpour, 1991; Diochon & Anderson, 2009). Detailed regulations and reporting requirements may encourage the not-for-profit to learn to operate as a risk-averse public sector hybrid (Knutsen, 2013; Thornton et al., 2012; Young, 2001). Priorities for resource allocation may also be influenced by the political beliefs of the government in power. For example, even if the not-for-profit may want to experiment with a programme’s effectiveness, government funding may be restricted to specific programmes intended to reduce political risk (Harris et al., 2002). Financial risk and experimentation may be challenging for not-for-profit boards wishing to avoid failure and public scrutiny or disturbing stakeholders (Stevens, 2008; Trivedi & Stokols, 2011).

Some not-for-profits are seen as unprofessional, ineffective or lacking in basic business skills (Badelt, 2003). Bull and Crompton’s (2006) research on the business practices of fifteen UK social enterprises emerging from the not-for-profit sector showed many deficits in commercial skills and processes. Allinson and colleagues found that nearly half (47%) of social enterprises in their survey that had started as a not-for-profit declared a management skill gap, as opposed to only 24% of those that originated from other sectors. Key gaps included financial and cost management, raising external finance, human resources, understanding risk and operational and strategic planning.

In summary, not-for-profits aim to make the world a better place for their target community and also seek long-term financial sustainability, but not profit for its own sake. There are multiple stakeholders committed to the same social outcome, who require close collaboration and communication. Funding sources include government contracts, philanthropic grants, user fees
and public donations, including volunteer labour (Austin et al., 2006). Contracts and grants can prescribe key activities, encourage bureaucracy and there may be little room for adaptive or risky resource-intensive strategies (Froelich, 1999). Nevertheless, both enterprising and non-enterprising not-for-profits exist (Spall & Zetlin, 2004). The not-for-profit sector has been growing and both targeting social change and generating earned income for many years (Defourny & Nyssens, 2010a).

2.3. Research theoretical framework

In selecting a primary theoretical lens, this research considered the development of social enterprise within not-for-profits as a complex activity. This section outlines the usefulness of complexity theory in appreciating the challenging and non-linear processes involved in social enterprise development. It also discusses where the theory emerged from, how it is defined in this research, and introduces some key complexity and related constructs.

While complex reality cannot be reduced easily, some reduction is required in order to understand the organisational environment (Allen, 2001b; Snowden, 2009). For this reason, as Figure 5 below shows, further focus is given to two additional theoretical areas, namely institutional logics and business models, to explore the change occurring within the not-for-profit and social enterprise within it.

Figure 5: Theoretical areas within this research

As previously noted, the field of institutional logics provides a pivotal lens for understanding the changes required in the essential nature, or way of being within a not-for-profit when introducing a commercial logic (Pache & Santos, 2013a; Thornton et al., 2012). The business model framework outlines the logic of core business operations and enables the examination of a commercial business over time (McGrath, 2010; Osterwalder et al., 2005). The subsequent
two sections provide a brief overview of these two frameworks, and their acknowledgement of
the new business and the experience of the not-for-profit in starting it. Particular attention is
given to the impact of dual logics in social enterprises within not-for-profits.

2.3.1 A complexity perspective

The experience of many social enterprises is that they are in a state of continual change and at
risk of instability with insufficient resources, powerful external influences and active internal
dynamics at play (Alter, 2009; Russell & Duncan, 2007). It is therefore plausible to see evolving
organisations with simultaneous social and commercial approaches as complex adaptive
systems (Swanson & Zhang, 2011). While traditional research methods may anticipate more
static or stable environments, complexity is a theoretical lens that is increasingly being used to
understand these dynamic systems within social entrepreneurship or a developing social
enterprise (Rhodes & Donnelly-Cox, 2008; Shepherd & Woods, 2011; Smith et al. 2012). Like
entrepreneurship, complexity is interested in innovation, adaptation and emergence (Goldstein,
2011).

Complexity thinking has emerged from a number of disciplines over the last century. Emergence, for example has been traced back to the 1920s (Ablowitz, 2010) and self-organisation to the 1940s (Mahmud, 2009). Momentum in theoretical development increased in the 1980s, with many complexity concepts developing out of other theories, including chaos, cybernetics, systems, swarm learning, and critical theories, and have been considered by a range of disciplines including physics, mathematics, biology, management, economics, psychology and sociology (Mackenzie, 2005; Mahmud, 2009).

Complexity theory has proponents in two divisions: general complexity is either a philosophical and epistemological approach, or the science of complex adaptive systems can merit a more methodological scientific approach involving mathematics and modelling (Malaina, 2015). This research is based on the former approach, and has used complexity concepts to better explore patterns of relevant social enterprise phenomena. Many of these concepts are outlined below.

In its philosophical approach, complexity theory prompts a significant shift in the way practitioners and academics see the world. A complexity lens emphasises the interconnected, non-linear, self-organising, interacting and therefore unpredictable nature of complex adaptive systems (Cilliers, 2002). The world and many of its constituent parts are open systems that are moving, often operating under conditions that are far from equilibrium, and need to adapt both constantly and extensively. Causality is hard to isolate and prediction is therefore difficult, if
not impossible (Allen, 2001b). In contrast, linear systems are highly structured and more predictable and efficient but not necessarily adaptive. Chaotic systems are more unstructured, resulting in potentially random and disorganised outcomes that inhibit adaptation. Complex adaptive systems lie between these, with partially connected interacting agents that lead to outcomes that are neither fully controlled nor arbitrary (McCarthy, Tsinopoulos, Allen, & Rose-Anderssen, 2006).

Within organisations, complexity theory suggests that managers have limited knowledge and less control than we previously assumed or hoped (Hazy, 2011; Maguire & McKelvey, 1999). Some organisational dynamics may be predictable as a whole but there is often unpredictability at a lower level (Hazy, 2011). There is, therefore, no ‘right’ or optimal way to manage an organisation and often no permanent solutions possible. Much depends on context and the management of a myriad of interacting perspectives on what is occurring (Kurt, 2015). Ongoing curiosity, exploration and reflection are needed to work in these environments (Allen, 2013a),

Yet today’s managers are often seen to operate with ‘an illusion of control’ and naturally prefer rules and clarity to fluidity and uncertain outcomes (Chia, 1998; Hazy, 2011). Complexity theory is useful and helps organisations to work in these conditions, by enabling the researcher to look for patterns, rather than a simple template. It offers a range of conceptual tools, for example in modifying the boundary conditions of the attractor, such as increasing perceptions of the social enterprise as legitimate by personnel (Imperatori & Ruta, 2015), so that preferred outcomes may result.

There are many levels of complexity and different approaches are required, depending on the circumstances (Snowden & Boone, 2007). Incremental gains might be sought in some areas, while in other areas more radical and disruptive innovations are trialled. Some parts of the organisation may be stabilised while others stimulated. Sometimes simple rule management (e.g., outcomes, project priorities, deadlines) is needed to encourage innovation, and at other times traditional planning and control tools are more effective (Maguire & McKelvey, 1999). The efficiency, stability and control of traditional organisational forms can complement the responsiveness provided by flatter and more explorative network-driven structures in uncertain environments (Brown & Eisenhardt, 1997; Graetz & Smith, 2008). Ambidexterity or the dynamic capability of managing two different types of organisation is discussed further at the end of this section.
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There is no commonly accepted overarching definition of complexity but, for the purposes of this research, one definition provides a useful summary. Uhl-Bien and Marion (2008) describe complexity as the study of the dynamic behaviours of complexly interacting interdependent, networked and adaptive agents who are bound in a collective dynamic by common need, and are working under conditions of internal and external pressure, leading to emergent events such as learning and adaptations.

Complexity theory is a plausible contextualist and social constructionist lens that is still emerging, offering useful tools and concepts for experiments and framework for analysis (Axelrod, 1999; Cohen, 1999; Uhl-Bien & Marion, 2008). A number of key complexity concepts that are useful in examining the intricate development of a social enterprise in a not-for-profit are now outlined, for their later use in the discussion and conclusion chapters.

The concept of emergence suggests that organisations can deliver spontaneous and unpredictable solutions to problems through self-organisation or the interdependent creation of new order (Lichtenstein, 2000; Mitleton-Kelly, 2003; Smith & Humphries, 2004). While not yet fully understood, emergence refers to the arising of novel and unpredicted but coherent structures, patterns and properties from the recombination of elements, such as a new social enterprise (Goldstein, 2011). Emergence involves system learning, memory and change over time and feedback and beyond-equilibrium dynamics that push the system at a macro scale towards instability, where innovation can occur (Chiles, Meyer, & Hench, 2004; Goldstein, 1999; Lichtenstein & Plowman, 2009). Emergence can be influenced by simple order generating rules, disequilibrium and positive (amplifying) feedback (Eoyang, 2011; MacIntosh & MacLean, 2001). Emergence also requires adaptive tension, or the difference between an organisation’s current state and activities and what it needs to accomplish so as to optimize its performance (McKelvey & Andriani, 2010).

An attractor is the state towards which a system tends, and can be anything that attracts nearby solutions, including ideas, things, people or practices (Mackenzie, 2005; Tsoukas, 1998). In complexity terms, an attractor represents an area of phase space, where all possible states of a dynamical system exist, that the system tends to move towards. As shown in Figure 6 below, when elements of the system stay close to the attractor, a basin of attraction forms. If the basin is deep, as on the left of Figure 6, the attractor is likely to be more stable, withstanding change. When the environment is turbulent or complex, the basin becomes more shallow, allows change, and can be unstable. Complex systems are sensitive to initial conditions and often oscillate.
between stability and instability at the edge of chaos (Plowman, Baker, Beck, & Kulkarni, 2007). The emergence of a new attractor is believed to signify the onset of self-organisation, passing over a threshold where qualitative changes are made to the system, referred to as bifurcation (Goldstein, Hazy, & Silberstang, 2008).

Two attractor basins can co-exist at or near bifurcation and activity can fluctuate between, in this case, both the social and commercial firm identity. As the organisation experiments and finds its way, convergence or stabilising factors deepen the attractor basin, allowing both to exist. Divergence may be introduced to the system with new challenges, potentially destabilising but also stimulating the environment (Goldstein, Hazy, Silberstang, et al., 2009). Resilience refers to the magnitude of a disturbance that can be absorbed before the system changes and moves to another phase state (Folke et al., 2010; Young & Kim, 2015).

Another related construct is a structural attractor that involves broader representation of the system with multiple interacting attributes and components that are developed by autonomous agents (Allen, 2001a, 2001b; Allen, Strathern, & Baldwin, 2007). Hazy (2011, p. 6) contemplates the example of a warehouse or factory with its characteristics, including location, that both reflect the nature and impact on the dynamics of the business and its eco-system of customers and suppliers, employees. Structural attractors can be manufactured, physical, natural or symbolic (Hazy & Backström, 2013).

Some complexity theorists point to the existence of dualities or paradox, conceptualised as simultaneous, interdependent but seemingly contradictory elements (Morin, 1996; Smith et al, 2012; Tsoukas & Chia, 2002). Paradox does exist in social enterprises that operate with both social and commercial aims, are both collaborative and competitive in the marketplace; rely on teams, but the heroic leaders are often the only ones publicly visible; are both like and unlike commercial businesses; and are innovative but spend little on research (Peattie & Morley, 2008a). Both chaos and order commonly co-occur in complex environments (van Eijnatten, 2004). These contradictions can provide the very valuable tension that drives change and innovation (Graetz & Smith, 2009; Hundsnes & Meyer, 2006). Organisational fitness refers to an organisation’s ability to self-organise, evolve and adapt as required (Kelly, 1999). Co-
evolution refers to the reciprocal influence in interacting entities, like a not-for-profit and a social enterprise, that can co-create new order and impact on organisational fitness levels (Mitleton-Kelly, 2006).

Two complexity concepts required for social innovation to occur are thought to be opportunity tension, or the degree of collective coordination and organisation required to solve social problems, and informational differences, or the ability to connect key players and their different perspectives and skills to address an issue (Goldstein, Hazy, & Silberstang, 2010). In particular, social and commercial informational differences are sought within social enterprise. Allen (2001b) adds that complexity appreciates the contribution of multiple subjectivities from agents that overlap but are not identical. Heterogeneity recognises that diversity and the sharing of differences, together with high levels of shared vision and trust, are required to collaboratively solve problems within complex organisations that operate in a diverse environment (Ashby, 2011; Page, 2007). Diversity of views can create cognitive conflict that challenges underlying assumptions, stimulates conversations and changes perspectives, thereby enabling change (Majchrzak, Logan, McCurdy, & Kirchmer, 2006; Stacey, 2003). Complexity encourages recognition of uncertainty, that we frequently ‘don’t know what we don’t know’ and that we need to be prepared to change our beliefs in the light of experience (Allen, 2014). Organisational personnel need to be comfortable with the many existing contradictions and search for the big picture (Li & Lin, 2011). However, some complexity writers caution that consensus can limit adaptability if it requires accommodation, rather than finding a new solution (Maguire & McKelvey, 1999; Rosenhead, 1998).

2.3.2 Institutional logics

Institutional theory considers how structures, rules, norms, and routines become established as influences on the culture of an organisation. It posits that these rules and norms become even more important in times of ambiguity and uncertainty, such as when there is a significant change in organisational focus. An institutional perspective is ideal for examining the accommodation of new commercial rules and norms brought into a not-for-profit by a social enterprise.

Friedland and Alford (1991) postulate that the overarching, and at times contradictory, institutional logics within Western society, derived within institutional theory, include the capitalist market, bureaucratic state, democracy, nuclear family, and Christianity. These societal level logics are refracted through organisational fields and attributes, expressed in, for example, structure, ownership and governance and identity, often influencing all organisational decisions
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and responses (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011). Emerging over time through social interaction, these logics are ‘socially constructed, historical patterns of material practices, assumptions, values, beliefs and rules’ that shape behavioural choices (Thornton & Ocasio, 1999, p. 804). Because of their ingrained nature, organisational personnel commonly respond unconsciously to these different logics and prescriptions; they are simply the way the world is seen and, at an organisational level, the way the organisation works at that time (Greenwood et al., 2011).

Organisations may have multiple internal logics, even if they are not consciously acknowledged (Besharov & Smith, 2014). Not-for-profit examples may include management, volunteer or social worker logics, each of which has its own underlying assumptions, proffering different solutions for challenges (Kreutzer & Jäger, 2011). Often, however, autonomous agents transform these logics in a variety of ways into a dominant logic that accommodates differences, is perceived as legitimate and serves to provide clarity and consistency in action (Thornton et al., 2012). Holding multiple institutional logics consciously may enable organisations to innovatively provide more services and products and access more resources through new opportunities (Mair, Mayer, & Lutz, 2015).

Now that conceptualising the institutional logics of organisational forms has become possible (Greenwood, 2008), this research seeks to answer the research question by first understanding the distinctions of only two logics in a specific setting: the commercial and social logics that coexist within social enterprises. In this way, the complex transformation undertaken by the not-for-profit generating commercial revenue may be better understood and managed.

While the notion of logics provides a useful sense-making framework from which to explore organisations, the question remains whether there are, or ever can be, clearly distinct logics for not-for-profits and indeed for-profits. Like for-profit organisations, the sheer range and number of not-for-profit organisations means that universal conclusions cannot be easily drawn (Knutsen, 2013). Some writers argue that there is no clear or absolute distinction between the social and economic roles of organisations and that all organisations, to some extent, demonstrate both commercial and social traits on a continuum, rather than in a duality (Battilana & Dorado, 2010; Dees & Elias, 1998). The literature provides many examples of for-profits who practice corporate social responsibility (Alter, 2004; Emerson, 2003) and not-for-profits that are efficient and market focused (Drucker, 1989; Mair & Marti, 2006). Furthermore, overlaps in function between not-for-profits and for-profits are considerable, including mission,
governance, strategy, finance, operational management, and personnel development (Dees & Elias, 1998; Drucker, 1989).

Nevertheless, there is a strong argument that for-profits and not-for-profits do operate on fundamentally distinctive principles that warrant further understanding if we are to explain how not-for-profits might accommodate both commercial and social logics within hybrid social enterprises (Battilana & Dorado, 2010; Knutsen, 2013; Peattie & Morley, 2008a). As Billis (2010) notes, to understand the hybrid, one must understand ‘non-hybrid’ or the essence of each, even if these features evolve and change (Austin et al., 2006). Peattie and Morley (2008b) argue that more research on the crucial differences between these organisational forms is needed. If reduced to simplistic and representative ideal types (Morgan, 2006), some generalisations can be made that depict inherent differences in approach and identify those aspects that are merging. Enhanced understanding of these may allow not-for-profits to choose suitable organisational configurations to accommodate social enterprise with greater clarity and confidence.

Some writers on institutional logics observe a strong overlap in constructs between the hybrid organisation’s logic and its identity (Battilana & Lee, 2014; Greenwood et al., 2011; Kreutzer & Jäger, 2011). In the face of continual or episodic external and internal change, organisational identity is formally defined as those characteristics perceived as central, distinctive and enduring (Albert & Whetten, 1985). These epitomise the perception of the organisation’s logics, at least for a period of time, even if incremental transformation is occurring within the organisation.

An identity enables the influence of behaviour by engaging its stakeholders and positioning itself clearly (Clegg, Rhodes, & Kornberger, 2007; Kraatz & Block, 2008). Thus, the organisational identity may be seen as the ‘face of the logics’ and therefore can also help to understand the incorporation of a social enterprise within a not-for-profit. Literature from both institutional logics and organisational identity see the organisation as an open system influenced by its internal and external environment, and both refer to prioritised organisational characteristics (Galaskiewicz & Barringer, 2012). Consequently, logics and identity literature have been both used to identify organisational characteristics.

**Social enterprise within a not-for-profit**

Social enterprises, created to develop an alternative revenue stream, are often significantly smaller than the not-for-profit and may be peripheral to its core functions (Battilana & Lee, 2014; Besharov & Smith, 2014). Nevertheless, they are expected to operate as an entity that has ‘a social, cultural, or environmental mission, a substantial portion of its income from trade, and
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the majority of its profit/surplus reinvested in the fulfilment of its mission’ (Department of Internal Affairs, 2013, p. 1).

Social enterprises sit at the intersection of the for-profit and not-for-profit sectors that are thought of as distinct but often incompatible (Besharov & Smith, 2014). The dual logics of social enterprise are therefore central to the organisation, and this research is interested in how they are combined within an organisation that has historically functioned with a primary social remit.

Not-for-profits’ need for financial sustainability is usually immediate but it may be several years before a social enterprise is generating profit after having paid back any initial loans (Kirkman, 2012). Some key strategies found for developing social enterprises in not-for-profits include slow and gradual growth, cross subsidisation to and from the parent organisation and, finally, a diversification of products and services that meet the market need (Cooney, 2011). Expectations therefore need to be realistic and carefully planned to ensure there is adequate capacity and to avoid failure (McBrearty, 2007; Young & Kim, 2015). However, many new social enterprises within not-for-profits fail, just as many new small businesses fail (Chell, 2007; Dees & Elias, 1998).

Profitability is a key indicator of success but profitable social enterprises within not-for-profits may be relatively rare. Foster and Bradach (2005) surveyed a random sample of 41 not-for-profits seeking earned revenue. Nearly three-quarters (71%) were unprofitable, and, while a quarter (24%) of the organisations believed they were profitable, half of this group did not account for their indirect costs. Only 5% performed at breakeven. This is broadly consistent with findings from other studies that many social enterprises are often not completely self-sufficient from trading (Cooney, 2011; Madill et al., 2010). Casselman (2007) similarly reports on a major US study that found few financially self-sustaining social enterprises and considerable internal tension between mission and profit-seeking. However, there is also some acknowledgement that complete self-sufficiency may not ever be possible and that some social enterprises will always require mixed-revenue streams. Continued economic transfers through grants or donations are an acceptable outcome for many, perhaps most not-for-profits (Teasdale, 2012; Wallace, 2005).

Despite the apparently high failure rates, at least some not-for-profits are successful. One US study of 105 social enterprises developed by not-for-profits, found 42% of the ventures were profitable after two-and-a-half years of operation. Over three quarters (78%) of these said they only engaged in businesses that were closely aligned with their mission (Unzueta, 2004). This
may well be a predictor of success, given that mission is a primary driver of not-for-profit activity, as is now discussed (Young, 2012).

The logics of for-profit, not-for-profit and social enterprises

Drawing from a wide range of literature and research data, this next section outlines the key logics of not-for-profits and for-profits, summarised as the values-based mission and the market focus. While the term institutional logics is not always explicitly invoked, much of this literature reflects on common practices, values and beliefs, as explained by this field.

Commercial logics

As Table 4 below suggests, a competitive market orientation with the goal of profit maximization are the primary features of for-profit organisations. Exchanges between producers and customers are built around cost and profit calculations (Gidron, Hasenfeld, & Palgrave, 2012). Market position therefore becomes a critical source of legitimacy and is a result of those exchanges through a well-executed strategy with a unified brand (Thornton & Ocasio, 1999). Market research typically assists in this pursuit by gathering information on customer needs and the forces that shape those needs to enhance customer responsiveness and business growth and enable a niche to be filled (Liao, Foreman, & Sargeant, 2001; Morris et al., 2007). A focus on the efficiency of the business model and return on investment for the owners urges resource distribution to the areas with the highest predicted economic return, such as research and development, marketing or technology (Galaskiewicz & Barringer, 2012; Thornton & Ocasio, 1999). Reason dominates key commercial decisions (Dees, 2012).

Table 4: Commercial logics summary

<table>
<thead>
<tr>
<th>Logics</th>
<th>Commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desired outcome</td>
<td>Economic value (profit)</td>
</tr>
<tr>
<td>Primary driver</td>
<td>Market preferences</td>
</tr>
<tr>
<td>Tactic</td>
<td>Competitive</td>
</tr>
<tr>
<td>Source of legitimacy</td>
<td>Market position</td>
</tr>
<tr>
<td>Funding source</td>
<td>Trading income</td>
</tr>
<tr>
<td>Stakeholders</td>
<td>Customers, owners</td>
</tr>
</tbody>
</table>
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As market needs and competition continually change, for-profits often adapt their offerings along with the manner and methods for engaging customers (Dees, 2012; Stull, 2009). Consequently, an entrepreneurial orientation is common (Lumpkin et al., 2013), with business success frequently emerging from ongoing innovation and, at times, short-term gains (Smith, Gonin, & Besharov, 2013).

Drawing on a range of writers in the not-for-profit and for-profit sectors, a succinct descriptor of commercial logics has been developed here by isolating the primary driver, funding source and source of legitimacy: *market preferences – trading profits – market position.*

**Social logics**

In comparison, many not-for-profits have been established as a result of market failure and there is often no direct financial exchange occurring with service or product users (Anheier & Ben-Ner, 2003; Seanor et al., 2013). Not-for-profits may prioritise and closely engage with clients, who often do not have the same influence or choices as a paying customer (Dann & Hollis, 2011; Wallender & Newman, 1978). Furthermore, the notion of customer satisfaction might be understood quite differently within a not-for-profit that seeks a broad and long-term benefit to society, and may in fact be targeting customer or public behavioural change rather than satisfaction (Austin et al., 2006; Shaw & Carter, 2007). Moreover, for most not-for-profits the social need being addressed is typically greater than available funding can satisfy (Knutsen, 2013). One outcome of high demand, is that not-for-profits are much more likely to collaborate with other providers to meet the identified need, and direct competition is rare (Liao et al., 2001).

<table>
<thead>
<tr>
<th>Logics</th>
<th>Social</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desired outcome</td>
<td>Social value</td>
</tr>
<tr>
<td>Primary driver</td>
<td>Values-based mission</td>
</tr>
<tr>
<td>Tactic</td>
<td>Collaborative</td>
</tr>
<tr>
<td>Source of legitimacy</td>
<td>Unity of purpose</td>
</tr>
<tr>
<td>Funding source</td>
<td>Contracts and donations</td>
</tr>
<tr>
<td>Stakeholders</td>
<td>Clients and families, funders, community</td>
</tr>
</tbody>
</table>
Consequently, market disciplines are often not required or look quite different within a not-for-profit context, particularly in terms of managing marketing channels (Liu, Eng, & Takeda, 2013; Liu & Ko, 2012). However, these conditions do not preclude entrepreneurial activity occurring as not-for-profits seek to expand services, change systems, or develop a new organisation to deliver more social value (Harris et al., 2002; Haugh, 2007).

As can be seen in Table 5 above, social and ethical values, beliefs and practices typically lie at the heart of not-for-profits, at least in the Western context (Anheier & Kendall, 2001; Social Enterprise Alliance, 2010). Harris and colleagues (2002) suggest that the values and practices of not-for-profits often include strong stakeholder communication, democratic governance, shared consensus and commitment to the group’s cause. These values are often reflected in the commitment and compassion of not-for-profit actors, striving to make a difference in the world (Dees, 2012; Doherty et al., 2014). The not-for-profit’s social mission is built around beliefs about how a particular entrenched social problem has developed and the long-term approach needed to mitigate it and meet need (Gidron et al., 2012). Other common values that may be described as ‘heart-led’ include being community-focused and caring, meeting social needs, behaving ethically, loyalty, and teamwork (Dees, 2012; Diochon & Anderson, 2009; Thornton et al., 2012).

Often with little resource, unity of will and purpose among key stakeholders drives collective efforts and legitimises the mission (Thornton et al., 2012). Profit can be viewed negatively and in some instances as a generic source of social problems (Dees, 2012; Knutsen, 2013). Not-for-profits in New Zealand are frequently financially supported by government contracts in addition to donations and grants to support the mission (Department of Internal Affairs, 2016). Public service funders often prioritise reliable and safe service delivery, influencing not-for-profit practice (Young & Grinsfelder, 2011). Using the descriptor framework for identifying the primary driver, funding source and source of legitimacy, social logics can therefore be summarised as values-based mission – donations/contracts – unity of purpose.

**Social enterprise logics**

For social enterprises emerging from within existing not-for-profits, elements of social and commercial logics need to combine in a way that befits the host (Smith, Gonin and Besharov, 2013). The focus may be on social innovation, but social enterprise, as defined in this research,
will always include commercial performance as a means to provide social value. Strong values may exist but in conjunction with a clear focus on opportunity within a market (Doherty et al., 2014; Hoffman, Badiane, & Haigh, 2012). Combining both collaboration and competition, along with being both market and mission focused, social enterprises endeavour to find a delicate balance between for-profit and not-for-profit operational behaviour. A market and profit orientation may also involve cross-subsidising client fees or other programmes and multiple funding sources (Galaskiewicz & Barringer, 2012; Haugh, 2007). Social enterprises by definition are entrepreneurial (Boschee, 2006; Doherty et al., 2014).

In summary, while all organisations have to manage vision, aims, resources, staff, finances and much more, not-for-profit and for-profit organisations typically have different underlying assumptions, norms, and practices. Young (2016) suggests these two organisational forms can be considered different organisational species and social enterprises straddle both, sometimes uncomfortably (Billis, 2010; Dart et al., 2010). A construction of logic descriptors for the social enterprise might therefore be *mission and market – earned/donated/contracted income – unity of purpose and market preferences.*

**Managing contradictory logics**

This section considers the need for and method of managing these potentially disparate logics that lie within social enterprises. Some organisations adopt dual forms of organising to manage both continuity and change. It explores how and why these are challenging to manage before identifying possible options that are available for managers.

The for-profit and not-for-profit organisational logics required in social enterprise are recognised as potentially disruptive and confounding. Many social enterprises experience tension between their social service and commercial selves (Dees & Elias, 1998; Diochon & Anderson, 2011). This may result in ambiguity and conflict around why the organisation exists and how it meets its mission. At worst, if the differences are irreconcilable, this dichotomy can lead to organisational failure, especially if there are incompatible goals involved (Besharov & Smith, 2014; Lounsbury & Boxenbaum, 2013). Examples of decisions include whether a social housing landlord should take tenants to court for not paying their rent, or whether an employment enterprise should lay off disadvantaged workers if the service is losing money. (Stull, 2009). Employing people in need may be encouraged by those identifying with the social logic while the commercial logic encourages the recruitment of the best workers. The social enterprise needs to clarify its purpose carefully from commencement (Boschee, 2006).
When the social enterprise is an internal unit of a not-for-profit, cultural differences between the logics may be even more problematic (Kirkman, 2012). Not only may the social enterprise be pulled in two directions, it stands in strong contrast to the larger existing social organisation. For example, the need for the social enterprise to be entrepreneurial and adaptive may differ from the parent not-for-profit’s need to position itself as having strong control, with consistent policies and processes (Chew, 2010). As the number of decisions required in the social enterprise and their interrelationship increases, the social enterprise may be more likely to move towards instability (Perrini, 2006; Rhodes & Donnelly-Cox, 2008).

Some of the delicacy of balancing the social and commercial logics in a social enterprise can be seen in Moizer and Tracey’s (2010) loop diagram in Figure 7, below. Having an organisation perceived as legitimate requires both social action and revenue generation, even when resources are scarce. There is a complex interaction between social action to meet community need, and the resource accumulation and competitive advantage leading to revenue generation, which in turn supports the social action. Organisational legitimacy acts as a lubricant between them, and if achieved well, this reinforces the cycle and enhances organisational sustainability.

Figure 7: Causal feedback loop representation of business and social activity tensions.
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In resolving the tension between the commercial and social logics, social enterprises have three essential choices, according to Hockerts (2011). They isomorphically move towards either commercial for-profits or social not-for-profits (Borzaga & Defourny, 2001; DiMaggio & Powell, 1983). Thirdly, they can continuously innovate by re-examining and realigning their market and mission to reduce the tension between them (Hockerts, 2011).

Although there are many concerns about the combining of conflicting logics, sometimes these logics can complement each other (Dees, 2012; Imperatori & Ruta, 2015). The entrepreneurship present in good commercial businesses can find some accommodation with the ethical, community and collective culture of the social enterprise (Billis, 2010; Diochon & Anderson, 2011). Moreland (2008) demonstrated that it is possible to conduct seemingly conflicting activities but still maintain a strong organisational identity. Moss, Short, Payne and Lumpkin (2011) also found in their analysis of 118 dual purpose social enterprises that they do find a way to exhibit dual identities. They demonstrated a utilitarian organisational identity; that is, an entrepreneurial business entity that focused on customer service, market factors, revenue maximisation, product or service quality and cost. Also verified was a normative organisational identity, which used ideology to mobilise organisational commitment to mission and values, community involvement and reputation, for example. Moss and colleagues (2011) found that in comparison to Fortune 500 organisations, social enterprises have an equivalent utilitarian identity but an even stronger normative identity.

In contrast, however, another study of 27 directors of social enterprises found that tension between the dual social and commercial identities varied depending on when the social enterprise was started in relation to the not-for-profit (Smith et al. 2010). Those that developed a social enterprise ‘after-conception’ tended to have stakeholders who were specifically attracted to the initial not-for-profit identity and more likely to be resistant to the for-profit identity. In contrast, social enterprises that were formed at the same time as the not-for-profit or ‘at-conception’ tended to integrate both commercial and social identities into a meta-identity (Smith et al. 2010, p. 116). Nevertheless, at-conception enterprises are more likely to dis-identify with negatively perceived aspects of social service identities, such as continued reliance on donations, and instead strongly identify with perceived positive features of social enterprises, such as independence and innovation. Kistruck and Beamish (2010) add that commercial organisations find it easier to shift to social logics than for social organisations to incorporate commercial approaches.
Similarly, Allinson and colleagues (2011) found, in their telephone survey of one hundred UK social enterprises, that only one fifth started as not-for-profits, with around half starting as social enterprises and a quarter as for-profits. Organisations explicitly formed as social enterprises appear to have clearer business models and less ambiguous identities (Smith, et al., 2010).

Much of the social enterprise literature focuses on reducing the complexity and adaptive tensions that emerge from holding conflicting social and commercial logics and balancing these internally (Battilana et al., 2012; Seanor et al., 2013). However, institutional logics can also be seen as a strategic resource to creatively build context-specific frameworks of operation (Venkataraman, Vermeulen, Raaijmakers, & Mair, 2016). Drawn from the institutional logics and organisational identity literature, this section now describes two seminal articles that help to explain that holding a balanced dual purpose is not necessarily essential.

Besharov and Smith’s (2014) logics typology captures four key possibilities of ways the two logics may sit in the organisation, depending on the compatibility of the logics’ goals and mutual centrality (the impact of the secondary logic on core activities). Extensive conflict may exist in contested organisations with logics that are not compatible but are mutually central. When there is low compatibility but also low mutual centrality, there may be some conflict but one of the logics is likely to operate at the periphery of the organisation and consequently be estranged. If the logics are both compatible and mutually central, they may become aligned. Logics that are compatible but not central may generate one that is dominant with little or no conflict and is reinforced by the other (Besharov & Smith, 2014).

Compatibility and mutual centrality of logics are clearly key but are not the only considerations. Pratt & Foreman (2000) developed a classification scheme that examined structural responses depending on the level of plurality (number of identities) within the organisation and synergy (compatibility) existing between organisation’s identities. These authors argue that logics or identities may be integrated or aggregated internally, if they are widely considered legitimate, supported by powerful stakeholders, are of high strategic value, and share some synergies. Dual identities may even be competitively advantageous, as in a changing and diverse environment it allows a greater range of possible organisational responses (Pratt & Foreman, 2000). Social enterprises can therefore emphasise the commercial or social identity as required by circumstance (Battilana et al., 2012; Emerson & Bonini, 2003). When there are very high resource constraints, Pratt (2000) suggests that organisational personnel may not be willing or
able to attend to the competing demands, and logic deletion may ultimately be more appropriate. The management of these logics is now discussed further.

**Ambidexterity**

Options for the management of multiple logics have been further assisted with the concept of ambidexterity. Ambidextrous management may be needed for organisations that simultaneously explore the future and seek radical innovations, and exploit the present, seeking more incremental innovations (Greenwood et al., 2011; O'Reilly & Tushman, 2004). Exploitation tends to have a short-term time frame with a focus on efficiency, discipline, and ongoing incremental improvements, while exploration has a longer timeframe, more autonomy, flexibility and risk taking, and less formal systems and control (O'Reilly & Tushman, 2008). Ambidextrous management may enable traditional management and rule-based reliability for not-for-profit contracted services, while a newer social enterprise might be operated more entrepreneurially as a flexible semi-structure, in order to be able to deliver both innovation and stability (Brown & Eisenhardt, 1997; Graetz & Smith, 2009). Ambidexterity is the dynamic capability enabling both to co-occur through an inclusive and compelling strategy, vision values and identity and an ability to develop a suitable culture with sufficient resources and skills in place. Ambidextrous managers combine the attributes of rigorous cost managers as well as free-thinking entrepreneurs when needed (O'Reilly & Tushman, 2004).

The provision of both innovative and stable service delivery is highly relevant for a government funded not-for-profit developing a social enterprise, but the dual commercial and social logics of the social enterprise add a layer of complexity into these concepts. It can be argued that a not-for-profit needs to manage a social enterprise differently, firstly because development likely requires innovative experimentation, and secondly because the underlying logic of commercial endeavours is substantially different to those within the not-for-profit. The logics of both exploration and commercial business are often so different for the not-for-profit, that an alternative management approach may be needed. Ambidexterity is challenging for most organisations but may be even more challenging in a not-for-profit with such high resource constraints that additional human resources cannot be allocated to the new social enterprise (Doherty et al., 2014; Fredericksen & London, 2000). This may explain why slow development is important (Cooney, 2011).

This research has focused on changes occurring at the organisational level, but, as complexity suggests, all levels are interconnected and their analysis may be needed for a fuller picture
(Hazy, 2011; Rosenhead, 1998). It is difficult then to ignore the influence of individuals within an organisation. Not only does the social enterprise have to be adaptive and able to cope with pluralism, so do individuals. Organisational personnel need to be able to work with paradox, adjusting the way they operate and switching between logics, as required and much may depend on context (Hustinx & De Waele, 2015; Jarzabkowski et al., 2013).

Deliberately changing logics is challenging for personnel who are also nested in their current institutional logic. Methods to encourage this change can include story telling that transforms symbols and practices; structural overlap in which roles are forced together; and event sequencing that unfolds changes gradually (Greenwood, 2008). Teams of personnel might also recombine logic elements so that they work in the context of the organisation (Christiansen & Lounsbury 2013). Blending the social and commercial cultures takes considerable personnel skill and time, and requires some cultural accommodation to minimise unconstructive conflict and unnecessary uncertainty (Kirkman, 2012).

Personnel who exhibit cognitive and behavioural complexity and emotional equanimity are more likely to accept paradoxical tensions, rather than respond defensively. Smith and colleagues (Kurt, 2015; Smith and Lewis, 2011). Smith and colleagues (2012) also posit there are three key meta-skills that enable people to embrace competing demands. Acceptance, differentiation and integration are possible options for living with, valuing or creating synergies between those demands. These skills are not necessarily easy to acquire because they require shifting from traditional thinking that is based on linear and dyadic logic that assumes only one truth is possible at a time. Dilemmas framed as either/or must instead move to both/and, but this will only happen if there is interpersonal capability to surface and resolve the tensions (Hockerts, 2011).

It is conceivable that not-for-profits that actively value diversity of perspective, particularly the dual commercial and social perspectives, are more likely to resolve critical tensions and thereby transition to social enterprise more successfully. The question remains, however, as to whether this disrupts the unity of purpose that commonly legitimises and motivates not-for-profits.

To summarise, despite their strong social missions, extensive social networks and their inherent need for finance, there is compelling evidence that establishing a social enterprise is challenging for a not-for-profit. It requires the adoption of different technologies, rules, assumptions and skills of commercial organisations, at the same time as it continues to manage its established social services. Motivated by strong ethical values and a long-term mission to meet social need,
not-for-profits are constrained by lack of resources and the need to satisfy multiple stakeholders. In order to compete successfully, a not-for-profit must develop a business that attracts investment, and is more market and customer focused, adaptive, risk-taking, and encouraging of experimentation. The potential for conflict between these organisational logics is high, as they require time and other resources in negotiating their acceptance and fit within the organisation, in addition to the establishment of the new business itself (Pratt & Foreman, 2000). Success rates appear low (Foster & Bradach, 2005; Oster et al., 2004).

As Dacin and colleagues (2010) argue, managing the tensions between the logics is essential but requires more than the additive skills of commercial and social entrepreneurship skills. It requires the ability to embrace conflicting demands, tension and uncertainty, but there is little academic literature that explains how this is achieved (Smith et al. 2012). Rather, writers tend to simply advise that social enterprises should consider the balance of social and commercial goals, the probable lag time for profitability and the need for general business skills before commencing the social enterprise journey (Dees, 2002; McBrearty, 2007).

Practical advice, such as examining the development of comparative social enterprise business models within not-for-profits, may provide useful insights around the specific processes, challenges and skills required by not-for-profits. Complexity theory could provide help to practitioners and academics alike in understanding the messy development process and choices in accommodating a commercial business model with commercial logics, now discussed in more detail.

### 2.3.3 Business model

Although there has been little academic consensus about the definition, nature, structure, and evolution of business models, there has been some recent progress in understanding them. This section outlines the purpose of the business model in this research to observe business development, its core components and its challenges, and a brief summary is given of the use of the business model in social enterprise.

The term business model has been both widely and loosely used. Without a precise or agreed definition of the term, it has been referred to as a statement, description, representation, an architecture, method or pattern of a business (Zott, Amit, & Massa, 2011). Nevertheless, in the last decade, there has been increasing interest in and growing clarity about the purpose and components of a business model. Drawn from a range of business areas, including economics, entrepreneurship, finance, marketing, operations and strategy, the business model can make
sense of an entire business, simplifying its essence and describing how value is created, delivered and captured (Chesbrough, 2009; Teece, 2009). Business strategies can be communicated easily to key stakeholders, as the business model acts as a point of reference for all ongoing company operations and adaptations (Morris et al., 2006). The business model describes the dynamic fit between the people, external context, deal offered and opportunity that lies at the heart of both the social and commercial value proposition and the mechanisms that link the key activities (Austin et al., 2006; Sahlman & Stevenson, 1991; Zott & Amit, 2013). It may operate as a structural attractor, in complexity theory terms.

Morris and colleagues (2005) found thirty definitions of the business model that fell into three main categories. Firstly, the economic domain dominates some definitions referring to the revenue stream, pricing models, cost structure and controls and the logic of profit generation. The second category primarily focuses on business operations and specifically architectural configuration of processes, infrastructure, knowledge management and internal capabilities. Thirdly, some scholars emphasise the entrepreneurial business strategies, vision, values and positioning in relation to the value creation for specific customers and finally links with stakeholders that enable the offering.

Osterwalder developed a comprehensive but simple business model tool that addresses these three categories (Osterwalder, 2004; Osterwalder et al., 2010). He demonstrated the applicability of the tool for social enterprises, which blends commercial and social value propositions (Emerson, 2003; Osterwalder, 2009). The Business Model Canvas comprises key internal and controllable features of the business architecture: customer segments, customer relationships, channels for reaching customers, value proposition(s), key activities, resources and partners delivering customer value, revenue streams and the cost structure. These components enable business models to be compared across organisations and across time, which may help to advance social enterprise theory (Morris et al., 2005; Perrini & Vurro, 2006).

Business models need to develop over time in uncertain and fast-moving environments (McGrath, 2010; Sosna, Trevinyo-Rodríguez, & Velamuri, 2010). McGrath (2010) contends that business models tend to be discovered rather than planned, as critical conversations with key stakeholders take place gradually. Sosna and colleagues (2010) observe that trial, error and even failure can be useful if they promote learning and improvement of the business model. Business model research therefore needs to be dynamic, bottom up and non-linear (Zeyen et al., 2012).
Social enterprise business models have not been rigorously analysed within the academic literature, with most understanding having come from anecdotal evidence, practitioner insights, or limited case studies (Wilson & Post, 2013). One development has been the Social Value Proposition that can help to integrate social and commercial purposes, ensuring the focus remains on the desired social impact (Austin et al., 2006). Most of the discussion on social enterprise business models however has focused on the features of the organisation at sector level, rather than the individual business and its distinctive value and infrastructure.

For example, Grassl (2012) suggests that social enterprises can be seen as four distinct types of business models, which may be better described as business strategies to generate reciprocity, solidarity, trust, and service. Firstly, they can be seen as an eco-system, composed of networks of connections focusing on delivering individual and/or collective value. Secondly, they may act as a hive-mind, relying on close internal collaboration to satisfy stakeholders. Thirdly, they can be seen as a dynamic signal, receiving information from customers about their requirements. Lastly, they can be seen as a metafilter, processing customer information efficiently so that it leads to the appropriate action. Grassl (2012) defines a social enterprise business model as being driven by a social mission and abstaining from distributing profit to shareholders; generating positive externalities for society; recognising the centrality of the entrepreneurial function; and achieving market competitiveness through effective planning and management.

Alter (2004) provides another example in her operational models, as seen in Table 6 below, that outline key methods of organising activities and may be seen as generic business models (Teece, 2009; Zott & Amit, 2010). Many combinations of these models are possible to meet the needs of social and business entities with varying purposes, markets, and target populations, and are useful examples for not-for-profits considering how a social enterprise might be designed internally.
Table 6: Operational models for commercial activity

<table>
<thead>
<tr>
<th>Operational Model</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneur Support Model</td>
<td>Sells to clients who then on-sell to the public, e.g., KickStart selling low cost irrigation pumps to African farmers.</td>
</tr>
<tr>
<td>Market Intermediary Model</td>
<td>Involves value-adding and on-selling the clients’ product, e.g., Fair Trade.</td>
</tr>
<tr>
<td>Employment Model</td>
<td>Provides employment for disadvantaged workers creating goods or services which are then sold commercially, e.g., a work integration social enterprise.</td>
</tr>
<tr>
<td>Fee-for-Service Model</td>
<td>Sells services directly to clients or a third party, e.g., a university.</td>
</tr>
<tr>
<td>Low-Income Client as Market Model</td>
<td>Involves the sale of low cost products directly to a bottom of the pyramid market, such as eye surgery.</td>
</tr>
<tr>
<td>Cooperative Model</td>
<td>Involves client members, e.g., agricultural cooperatives.</td>
</tr>
<tr>
<td>Market Linkage Model</td>
<td>Facilitates trade relationships between the client and a market, rather than sells on their behalf, e.g., an information or market research function for farmers.</td>
</tr>
</tbody>
</table>

Source: (Alter, 2004, pp. 48 - 62)

2.4. Chapter summary

Not-for-profits are critical to the growth of the social enterprise sector and yet relatively little is known about the development of these hybrid organisations within this context. This final section summarises the research’s approach, theoretical framework, the essential differences between the different organisational forms, and the known challenges and requirements to develop social enterprises successfully. The contribution of this research to current gaps in the academic literature is clarified.

The academic literature has grown rapidly in the past 20 years (Grassl, 2012). Definitions of social enterprise and the closely associated concept of social entrepreneurship remain overlapping and contradictory, swinging between the use of entrepreneurial means to either generate income or create social change (Brourad & Lavriet, 2010; Defourny & Nyssens, 2008). The extreme variation in social enterprises between and within countries also thwarts the formation of a clear definition. This research nevertheless accepts the definition of social enterprise as an organisation which has a social mission and derives a substantial portion of its
income from trade, and reinvests the majority of its profit in the fulfilment of its mission (Department of Internal Affairs, 2013). The inherent focus on generating commercial income reflects the interest of not-for-profits in using social enterprise primarily as a means to increase their self-sufficiency.

Researchers have primarily used case studies as methods to explore these organisations together with a wide variety of theoretical lenses to illuminate these complex organisations. In this case, complexity theory supported by institutional logics and business model frameworks, are considered useful to address the uncertain world of social enterprise attempting to operate dual social and commercial logics. Institutional logics enable the analysis of the differences between the not-for-profit and its social enterprise in order to see how these differences can be accommodated and the changes made. Business models help to analyse each developing business and its commercial logic being accommodated within the not-for-profit, noting the changes made or needed.

Social enterprises aim to provide the best of not-for-profits, businesses and the public sector, being entrepreneurial, market oriented, and efficient, in addition to being collaborative and ethically aware (Bull et al., 2010). While some see this new organisational form as having the potential to be the engine of economic reform (Battilana et al., 2012), others see it as a naïve and unproven method to address social issues (Dart, 2004). This review concludes that social enterprise is a useful hybrid that attempts to blend the social and commercial characteristics to produce sustainable social value, but is not a universal remedy for all social challenges. Legitimacy may be earned only by increasing social value (Anheier & Kendall, 2001).

Lohmann’s (1992) conceptualisation of not-for-profits as the commons, involving participation, shared purposes and resources, mutuality and fairness, is helpful for this research because it highlights the ethical and community values inherent in not-for-profits. The significant growth of this sector in recent decades has emerged from undertaking more public sector roles, and charging fees in the face of growing need but limited government income (Salamon, 1997). Not-for-profits are therefore already hybrids with some public sector and business-like characteristics (Billis, 2010), and may also be able to adapt to social enterprise. The earned income literature is to some degree separate from social enterprise, reflecting a distinction between the charging of client fees and operating a market focused venture.

Despite the fact that US and European not-for-profits already earn around half their income from fees and other business activity, not-for-profits are perceived as inexperienced in starting and
Chapter 2: Literature Review

running commercial businesses, with very different organisational logics. Success rates appear low and poorly understood (Oster et al., 2004). This research is therefore interested in how the commercial logic can be incorporated into the social enterprise and its parent not-for-profit, while they are continuing to manage their social services (Besharov & Smith, 2014). Incorporating very different commercial logics within the not-for-profit requires an important and substantial paradigmatic shift.

Motivated by social need and a long-term vision, not-for-profits are constrained by lack of resources, highly specified contracts and multiple stakeholders to satisfy. Holding values of caring, reliability, consensus and group cohesion, they are electing to develop a business that requires investment, is market and customer focused, adaptive, risk-taking, and experimental in order to compete successfully. The potential for conflict between these organisational logics is high.

Successful social enterprises have a saleable product or service and a market that pays for it. They are likely to have an entrepreneurial culture and identity that seeks opportunities to increase social and economic value and are engaging with a diverse range of customers and stakeholders. Support is strong from internal and external stakeholders who consider the enterprise as legitimate, and can navigate the dual logics as required. Fundamental social and ethical values lead the organisation’s development and are somehow reconciled with profit seeking. There is access to resources for investment at various stages of business growth, often in the form of grants in the earlier stages or flexible use of human resources. Leadership and business skills will be in place to deal with the complexity of the operation and personnel will be confident in the face of uncertainty. The different logics are understood and the blend is managed in a way that is constructive for the organisation. Ambidextrous management may be needed for the not-for-profit and social enterprise. Even though not-for-profits are in a prime position to develop social enterprises, further learning is needed on how this can be achieved (Short et al., 2009).

This literature review provided context for how a not-for-profit develops a social enterprise, identified many of their challenges, considered the value of using business models to compare business development, and explored the notion that the institutional logics of social and commercial organisations are very different and therefore difficult to assimilate. In so doing, the research has sought to contribute to the academic understanding of the challenges experienced and strategies employed by not-for-profits developing a social enterprise business model that
Chapter 2: Literature Review

aims to create value for social and/or commercial customers. The next chapter explains how the research was undertaken in more detail.
Chapter 3. Research approach

*Innovation—the heart of the knowledge economy—is fundamentally social. (Gladwell, 2000, p. 60)*

This chapter presents the research approach and methods selected, acknowledging that not-for-profits are an important part of the growth of the social enterprise sector, but that relatively little is known about the development of these hybrid organisations within this context. First, the research question is reiterated, and then explains why a contextualist ontology and social constructionist epistemology with a qualitative method have been selected to describe these phenomena is explained. The purpose and influence of complexity theory on the research foundations and methods is then outlined. Reasons for selecting illustrative case studies and interviews as a method, together with the use of the business model as a mediating artefact are given and the selection process for cases is identified. Clarification is then provided on the level of analysis and how integrity in the findings can be relied upon. Finally, the process of data analysis and the limitations of the research are described.

### 3.1. Research question

The aim of this thesis is to explore the development of social enterprises within not-for-profits, as the academic literature on social enterprises has not explicitly researched this area to date. While there is some academic and practitioner knowledge already published on the various challenges and success factors for social enterprise, the academic literature is largely silent on how the successful development of a social enterprise might be achieved by not-for-profits. This is a puzzle that requires solving if not-for-profits are to successfully develop social enterprises.

Not-for-profits typically have strong social goals, networks and desire financial sustainability, and might therefore be expected to dominate the social enterprise sector. Yet there is some evidence that not-for-profits are challenged to develop social enterprises internationally (Allinson et al., 2011; Bull et al., 2008; Foster & Bradach, 2005; Teasdale et al, 2013). By using a complexity lens, supported by institutional logics and business model frameworks, to investigate the not-for-profit’s development of a social enterprise within real life contexts, this research aims to contribute to greater understanding of the phenomena relating to their accommodation of a commercial business model with commercial logics, and thereby also...
provide practical learning for not-for-profits wishing to develop a social enterprise (Thomas, 2004; ).

The following questions aim to increase understanding of how the development unfolds, generating insight about the phenomena in which not-for-profits must learn to hold both social and commercial aims simultaneously (Edmondson & McManus, 2007). Seeking participant and organisational understanding of the issues relating to the development of the social enterprise and the decisions made, the research sought to better understand how not-for-profit organisations develop social enterprises and asked:

- How do not-for-profits introduce and accommodate a commercial business model with commercial logics within a social organisation?
  - What are the most significant changes made in accommodating a business model with commercial logics?
  - How might not-for-profits configure themselves when accommodating a commercial business model with commercial logics?

These questions are based on five fundamental assumptions that are drawn from relevant research. Firstly, social and commercial logics are fundamentally different (Billis, 2010; Thornton & Ocasio, 1999). Secondly, these logics can co-exist even if they do not commonly do so or are potentially in conflict (Battilana et al., 2012; Davis, 1971). Thirdly, the accommodation of commercial logics is a difficult and complex process (Dees & Elias, 1998; Foster & Bradach, 2005). Fourthly, business models can assist in describing the key elements of the social enterprise’s business logic over time, and can help to focus participant stories on the journey towards commercial activity (McGrath, 2010). Finally, social enterprise can be a good fit for some not-for-profits or in some contexts (Unzueta, 2004). This indicates that more can be learned how social good might be provided by not-for-profits through these hybrid organisations, and the approach of this research is now discussed.

3.2. Research foundation

The research design, and in particular the ontology and epistemology, need to be compatible with complexity as the primary theoretical lens. The reasons for selecting contextualism and social constructionism as an ontology and epistemology respectively, are explained. This section then outlines the philosophical underpinning of complexity and the ability to represent knowledge from a complexity perspective, and discusses the different levels of organisational complexity. This section then addresses representation within a complexity lens, the use of
mediating artefacts, and why the business model was selected to act as one. The rationale for selecting an abductive strategy and the researcher’s values and stance in relation to this study is then examined, including the need to be both involved and detached in the organisational environments.

3.2.1 Ontology and epistemology

Contextualism views everyday life as involving interconnection and constant change, resulting in unique contexts (Pepper, 1942). This research employs the contextualist view that each case organisation is a whole system that cannot be easily analysed by looking at their individual elements (Pepper, 1942). Rather, contextualism focuses on patterns of activity rather than a set of discrete facts, which tend to be seen as loosely structured and not necessarily governed by systemic or consistent relationships (Tsoukas, 1994). This ontology acknowledges the disorder (including order), change and novelty as key parts of reality. The historic event is the root metaphor for contextualism, understood by its unique quality or wholeness, and the texture or details of that quality, which is impacted by both past and future time.

The quality of a system can be detected through our perception or might be inferred through artefacts such as maps or symbolic systems (Pepper, 1942). Business models are formed through co-constructed narratives and therefore are considered valid artefacts. Contextualism acknowledges that there is some arbitrariness in the co-construction of features of importance. The perception of truth and knowledge depends upon people’s context and perspective that forms and is formed through social interaction. Contextualism therefore tends to be anti-foundational; that is, it does not subscribe to any permanent beliefs about the nature of truth or reality.

Social constructionism can similarly be supported by complexity theory because inquiry relies heavily on narrative and sense-making to understand changes occurring, particularly for more complex and highly connected situations (Snowden & Boone, 2007). It maintains that local people are experts in their own domains and are therefore deemed to be the best and primary source of information on the nature of transitions. Not-for-profits that are starting social enterprises can be expected to be in a state of disequilibrium, and this research considers the insights and constructions of participants as key to understanding the accommodation of a commercial business model and logics, even if they do not generate large-scale generalisations of truth.
As an epistemology, social constructionism argues that all knowledge, even common-sense knowledge is collectively constructed within social interactions (Berger & Luckmann, 1967). Human beings imagine constructs that may take the form of ideologies, which in turn create whole realities (Stacey & Griffin, 2005).

Both contextualism and social constructionism see reality as local and emergent, and accept that universal truth or uncontested knowledge is impossible (Lincoln & Guba, 1986). People, including the researcher, can only see the external world through the lens of their experience and knowledge, a mere sliver of the many prismatic views possible (Ellingson, 2011). Collaboration and trust are required between the researcher and participants to process and make sense of such subjective realities and thereby develop confidence in the emerging knowledge.

Consequently, academics seek multiple rich detailed descriptions (Creswell & Miller, 2000) that describe the behaviour and context so that it can be understood by an outsider, and seeks sufficient consistency or agreement to mount a limited but credible view of reality. Some consensus on some issues, approaches or experiences can be achievable at least in a local place limited in time and space (Cilliers, 2002; Dacin, et al., 2011). Where such consensus is feasible, robust reconstructions and conclusions are more likely to be generally considered truthful by participants. A broadly coherent and comprehensive view therefore could conceivably be developed among internal actors of how their not-for-profit developed a social enterprise (Deetz, 2009).

The contextualist and social constructionist research process proposed is comprised of setting a clear research question that asks how the phenomenon occurs, analysing the relevant existing literature and capturing the phenomenon in the natural world in many forms and stories. Then the phenomenon is bracketed through analysis and reconstructed in the order of process or experience. Finally, the findings are contextualised back into the social world as the research participants make comment on the findings.

In summary, contextualism and social constructionism acknowledge that events are real but rely heavily on the views of participants and the researcher to provide or construct the most credible representation of what it takes to develop a social enterprise by a not-for-profit. This research has sought to faithfully clarify, richly describe and astutely distil people’s context and perspective on the development of social enterprises over time in a way that is useful for understanding but is not necessarily universally true.
3.2.2 The complexity influence

Complexity theory is the primary theoretical lens used in this research and is congruent with the researcher’s philosophical approach. Blaikie (2010) describes complexity theory as a contemporary research paradigm that presents itself as an ontology, and, while this is accepted by some academics (Chiles et al., 2004; Fuller & Moran, 2000; Malaina, 2015; Schindehutte & Morris, 2009; Snowden, 2009), not all agree. For example, leading academic methodologists such as Denzin and Lincoln (2011) and Huff (2009) do not include complexity in their classifications of ontology or epistemology. Nevertheless, it is useful to explore the basic tenets of this theory and its approach to the nature of existence and knowledge in order to ensure, at least, ontological and epistemological compatibility in this research.

Blaikie (2010) argues that complexity rejects many of the essential tenets of positivism, including universal knowledge, determinism or a linear logic of causal explanation, but also rejects some essential beliefs of modernism (e.g., the world is orderly and can be reduced to its components and rules governing them), and post modernism (e.g., relativism that argues that independent explanation is not possible). Complex reality may be able to be explained but is inevitably based on limited and contextual knowledge.

Complex and non-linear interaction between system components that can impact on each other in multiple directions and at different times and small feedback iterations may initiate significant spontaneous changes to the whole system (Plowman et al., 2007). From this perspective, complexity may place greater pressure on a researcher’s epistemology. For example, how can we be sure that emergent events, attractors or systems are deterministic, random or even a combination of the two, and, therefore, what can we reliably learn from them (Goldstein, 2004)?

Some complexity writers (cf. Boisot Esade & McKelvey, 2010; Mark & Snowden, 2006) acknowledge that the level of complexity within organisations varies. Depending on the degree of tension, connectivity and ability to determine cause and effect in the existing system, different research approaches are recommended to elicit knowledge. While positivist approaches might be more useful in simpler and less interconnected environments, narrative-focused approaches are useful for more complex and highly interconnected situations. Not-for-profits establishing social enterprises that adopt dual social and commercial processes in some way are likely to exist in complex, highly interconnected and uncertain environments, both internal and external, with possibly incompatible prescriptions from multiple institutional logics (Goldstein et al.,
2008; Greenwood et al., 2011). Such contexts therefore are best understood through the sense-making and experiences of those that work in them (Maguire, 2011; Snowden, 2010).

Some complexity theorists (Lorino, Tricard, & Clot, 2011; Stacey, 2003) see all organisations not as structures with impermeable boundaries, but rather as constituted of often paradoxical patterns of interaction, which make it difficult to see the whole system in its entirety. Continuity and transformation in the organisation occur at the same time as individuals are changing. Complexity therefore sees obtaining an accurate representation of complex reality as problematic.

Despite the challenges in fully understanding or even influencing complex causation, new knowledge must be constructed and understood. Events and outcomes must make sense to others, resonate with their experience, and be persuasive and plausible (Stacey & Griffin, 2005). Even if events are not entirely created by personnel, the interpretation of them in light of external influences is still a powerfully creative response and a construction in itself. Complexity writers focusing on the interconnected nature of life acknowledge that research is an interpretation of the often dense and convoluted nature of human interaction, and encourage participants to focus on the uncertainty, emotion and messiness of human endeavour rather than attempt to present a decontextualised retrospective view (Goldstein, 2004; Snowden, 2010; Stacey & Griffin, 2005).

Therefore, the inquirer is tasked with understanding complexity not just as an objective feature of the organisation and its environment, but to recognise the individual and collective understanding of what is happening within that environment. Tsoukas and Hatch (2001, p. 980) call this ‘second order complexity’. Seeing organisations as complex acknowledges the high diversity of interrelationships within the system, and the need for narratives to interpret complex systems and the many perspectives within the inquiry. Complexity can therefore describe the interpretation of systems as much as the systems themselves (Lorino et al., 2011; Snowden, 2010).

Other theoretical lenses may have been selected to witness the accommodation of a commercial business model and logics within not-for-profits. Social entrepreneurship, in particular, has a focus on the creation of social change (Nicholls, 2006), institutional theory helps to explain institutions at the organisational field (Greenwood, Hinings, & Whetten, 2014), and resiliency theory, linked to complexity theory, helps to explain the sustainability or change of organisations to another state due to systemic disruptions. They all may have been useful theoretical lenses, but lack complexity theory’s comprehensive approach to understanding the
interconnected events and activities that are a part of accommodating a commercial business model and lack the range of conceptual tools to understand change. Complexity theory also allows and perhaps encourages the use of multiple but compatible frameworks to address a research issue (Layder, 1998).

Blaikie (2010) argues that complexity draws heavily on the ontology of social realism, which states that reality is both what is experienced and not experienced and the structures and mechanisms that cause events. Complexity theory suggests that some independent reality may be unknown to participants or the researcher and therefore is not explored, and yet nevertheless exists as an influence. Nevertheless, complexity is also comfortably aligned with contextualism and social constructionism, because all three perspectives view life as interconnected, often changing and socially constructed.

3.2.3 Representation of reality

Some complexity writers argue that the observation of reality is rarely possible because systems are incompressible and cannot be fully analysed reductively. The systems cannot be over simplified or assessed by their component parts, because too much information is lost from the interrelated and synergistic whole. The numerous connections between research and related phenomena are all interacting with each other, possibly in unexpected ways, and cannot be seen comprehensively from any single perspective (Cilliers, 2002; Goldstein, 2013).

Lorino and colleagues (2011) note that many complexity scholars have developed non-representational approaches to organisations. These all acknowledge that the human mind cannot precisely reproduce a representation of reality, particularly around the temporal flow of experience and the continuous process of creation and destruction at many levels of the system. Non-representational approaches have consequently contributed ideas around the need to contextualise organisational research; to make the researcher’s personal identity and position visible, and to recognise that the observer cannot simply be a rational processor of information (Tsoukas, 1998; Weick, Sutcliffe, & Obstfeld, 2005).

However, while complex reality cannot be easily reduced, some reduction is required in order to provide ways for the mind to grasp uncertain environments, where causal relationships are not always clear (Small & Walker, 2011; Snowden, 2009; Vesterby, 2008). Lorino and colleagues (2011) argue persuasively that symbolic descriptions of real systems can be useful as interpretive tools to mediate inquiry, support sense making and thereby develop tools for action. They postulate that symbolic representations or ‘semiotic mediations’ are needed that
are semantically linked with the objects of the organisation, are time relevant and are of agreed meaning that pragmatically lead users to useful practices. The meaning of the sign lies in the social context in which it is used and there must be some genuine correlation between the representation and reality in the minds of its users (Lorino et al., 2011). If successful, the representations can both preserve the richness of contextual processes and also produce generic, but not universal, propositions to enable further learning. These authors suggest a research approach consisting of modest learning through the development of mediating artefacts (e.g. narratives, models, drawings, plans, videotapes) which are usable in generic situations and can also be contextualised. This research has therefore used a mediating artefact, the Business Model Canvas, to focus discussion.

Mediating artefacts help to resolve the duality of subject/object epistemological requirements by providing clear and comparable data. From this, propositions can be developed using abduction (described further in section 3.2.4 below), including the mixing of intuition and reasoning, to validate the story and/or induction to further develop them into testable propositions (Lorino et al., 2011). It is in this context that Osterwalder’s Business Model Canvas was used to understand the development of the new business and the ability of the not-for-profit to assume a way of working often thought antithetical to it. The business model is discussed more fully in the section below.

Institutional logics were also considered when developing a representation of the differences between social and commercial organisations. This theoretical framework was included in the research design because it became clear that greater understanding of the differences between these organisational forms was essential to understanding the accommodation process and a logics perspective would enable the research questions to be answered more fully. Institutional logics are compatible with complexity theory in that they accept that organisational logics are socially constructed but not fixed patterns of practices, assumptions, values, beliefs and rules that shape the behavioural choices of personnel. Institutional logics also acknowledge the ambiguity of hybrid organisations bridging multiple sectors and the immense variability in the ways they do so (Billis, 2010; Greenwood et al., 2011).

In summary, complexity theory reminds researchers to consider their limited perspectives, given the varying levels of interconnectedness, nonlinearity and unpredictability of interactions as significant features of organisational life. The researcher needs to manage a careful balance of
involvement and detachment in capturing participant narratives. Institutional logics and the business model also provided a supporting framework for exploring the research questions.

The use of the business model fits the description of a mediating artefact within complexity research as previously described by Lorino and colleagues (2011) and has been intended to act as a mechanism that engages the consideration of research participants on the social enterprises’ key business variables and any of their changes within the research (McGrath, 2010). It was expected to provide clear ‘cognitive trails’ of thought, focusing participants on identifying what they do now and what they want to do in the future. Even if not a perfect representation of reality, it encouraged a variety of internal perspectives on the business development process to decrease the likelihood of unexplored influences.

The Business Model Canvas (Appendix 3) is built for change and adaptation, because business models need to operate in uncertain and fast-moving environments, and is therefore compatible with complexity theory approaches (McGrath, 2010; Sosna et al., 2010). A key benefit for participants was that the business model might continue to be useful to the organisation after the research was completed.

3.2.4 Researcher values and stance

The values and position of the researcher are expected to be formally acknowledged in qualitative research. Therefore, I include an outline of my background and value base at the commencement of research here.

Having worked in the not-for-profit sector for thirty years both in management and as a consultant, I have a strong management interest and viewpoint. Working in not-for-profits and Government in the 1980s, I supported the idea of not-for-profits becoming more business-like to deliver public benefit. I became interested in social enterprise over 10 years ago, largely from my time on a board in a work integration social enterprise (WISE) but I also started a self-funding service in a national not-for-profit around 25 years ago. At the start of this research, I had sensed the need felt by not-for-profits to develop social enterprises and I became intrigued with the puzzle of understanding the process of accommodation.

Supporting the development of social enterprise, I have been involved in the development of Social Enterprise Auckland, an industry body aiming to educate and encourage the development of social enterprise regionally. On request, I have provided presentations to practitioners, particularly around the issues and challenges with accommodating a social enterprise in a not-
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for-profit, and have undertaken some consultancy work with developing social enterprises. During this research, I was also the Chair of a social enterprise disability employment service. However, other than researcher, I have not held any role in the cases within this study.

I see social enterprise as an additional mechanism to enhance social good, even if simply through the provision of resources for not-for-profits. I intend to work in this area for the foreseeable future to help managers create sustainable social enterprises. At the start of this research, I did not understand how not-for-profits can best utilise this organisational form, but sensed the need and had heard of the pressure felt by not-for-profits to enter this organisational space. This has been the underlying motivation of the study: to locate and understand the process of accommodation in order that others may learn from it.

My intention in this research has not been to create change directly but instead explore the emergent themes around changes occurring, while at the same time recognise the mutual impact on the research system, the participants, and the researcher (Denzin, 2011). I have aimed to be a ‘passionate participant’ in the unfolding of knowledge, rather than the generating of change like the action researcher, or providing disinterested scientific knowledge like the positivist researcher (Denzin, 2011).

Stacey and Griffin (2005) argue that complexity theory requires a researcher to consider herself as participating in a self-organising process rather than simply observing a system. Both subjectivity and objectivity are required. While there is a continual movement toward some objectivity, in that some independence in explanation may be possible (Blaikie, 2010), there is also a recognition of the limits of the researcher’s role, the importance of being reflexive, and a commitment to open-ended inquiry within the interconnected whole (Bradbury & Lichtenstein, 2000). Similarly, Stacey and Griffin (2005) argue that a balance of both involvement and detachment is sought in researchers, who should not profess to be purely objective but should nevertheless strive for impartiality, rigour and truth. Complexity theory suggests that involvement and detachment can indeed be paradoxically co-existent in a focused and emergent self-awareness. Gilstrap (2009) further argues that research requires interobjectivity (shared knowledge of external phenomena) as well as intersubjectivity (shared internal perspectives) to co-exist. While a completely objective picture on how not-for-profits develop social enterprises may never be possible, participants’ sense-making of events and their responses to them did enable a credible, even if limited, representation of what occurred.
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3.2.5 Research strategy

This section outlines the strategies used to explore and understand the phenomena of social enterprise development. It briefly describes the choices considered and the rationale for selecting abductive reasoning as a research strategy in some detail.

With limited extant theory focusing on the development of social enterprises within not-for-profits to test or corroborate, deduction was not considered realistic as a sole strategy for this research (Edmondson & McManus, 2007). An inductive strategy was selected initially because of its commitment to learn from research participants and its effectiveness in exploring and describing situations, focusing on recognising patterns of relationships among constructs within and across-cases (Denzin & Lincoln, 2005; Yin, 2009).

Ultimately however, this research accepted Esade and McKelvey’s (2010) compelling argument that neither induction nor deduction are always sufficient to explain phenomena within a complex environment, and that an inferential strategy is needed. Abductive reasoning was determined to be the most useful strategy for this research because of its ability to work with uncertainty, ambiguity and weak signal detection. Lorino and colleagues (2011) observe that abduction combines logical reasoning with intuition and Blaikie (2010) adds that the abductive research strategy helps to find understanding or reasons, but does not expect to witness linear causality when there is limited or contextual knowledge. For all these reasons, abduction was considered compatible with complexity theory and appropriate for this research.

Like induction, abduction focuses on delivering plausible and coherent accounts of the participant’s meanings and motives (Lorino et al., 2011; Snowden, 2010). Abductive reasoning uses theory and fragments of meaning within stories and then pieces them together to build a credible narrative account (Huff, 2009; Snowden, 2010). Disrupted by researcher questioning, this approach encourages participants to reflect on key events and trends occurring in their situation. Often closely linked with social constructionism, abduction does not seek to construct a true representation of the world, but rather to help reconstruct the perspective and experience of participants’ ‘inside view’ (Blaikie, 2010; Lorino et al., 2011).

However, because participant views echo a sample of a larger, but not necessarily whole population, the researcher acts as a linguistic mediator, re-describing meanings, motivations and context in technical language, and abstracting them into typical actions in typical situations to construct findings that can later be further developed, modelled or tested deductively (Blaikie, 2010; Huff, 2009). In the current research, an abductive approach is advantageous when trying
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to answer a research question that is believed to be relevant for many not-for-profits in New Zealand, but has not been asked specifically before.

Dubois and Gadde (2002) contribute further to the idea that research processes intertwine theory and the empirical world in case studies. Their process of ‘systematic combining’ is based on abduction and commends researchers to go back and forward between both theory and data, enabling consideration of both unforeseen practice issues and the theoretical framework together. Dubois and Gadde (2002) agree with the description of induction by respected academics Glaser and Strauss’s (1967), in contrast to deduction, highlighting that data should not be forced into categories, but rather that categories should emerge from the data. Unlike deduction or induction, abduction is not generated at the beginning or end of the research but rather as an integral part of the research process (Blaikie, 2010).

Figure 8: Abduction, induction and deduction

Adapted from (Blaikie, 2010; Huff, 2009)

The researcher’s representation of abduction can be seen in Figure 8, above. Blaikie (2010) describes abduction as a dialogue between data and theoretical ideas in a creative process mediated by the researcher. The researcher assembles the participants’ views faithfully, with all their gaps and deficiencies, and then iteratively begins to construct her own non-linear interpretation in the form of a more academic account that not only explores and describes, but in this case primarily focuses on understanding how not-for-profits develop social enterprises (Blaikie, 2010). There is some legitimate criticism that this latter interpretive process begs the
question of whose account this really is. Deflecting this methodological dilemma, abduction commonly ensures that participants validate the final analysis and conclusions as being an accurate depiction of the situation and that they are not too contaminated by the researcher’s views. This research sought a credible account of what participants experienced, in light of theoretical understanding, and to isolate what may be useful learnings for other similar not-for-profits.

3.3. Qualitative approach

This section first explains why a qualitative approach was considered the most appropriate means to investigate the development of social enterprises in not-for-profits. It describes the case study design and the level of theory targeted. Research methods and sources of data are then outlined before identifying the trustworthiness of the data, ethical issues in collecting it and documenting how the data was analysed.

As Daft (1983) argues, new knowledge is not understood and cannot be predicted in advance, and theory building research often begins with neither theory nor hypothesis to test (Eisenhardt, 1989). Because social enterprise is an area of academic learning where there are few constructs and little formal theory or measures (Haugh, 2012), questions tend to be more open ended and require a methodology and method that allow the researcher to develop an understanding of the phenomenon of how or why things happen within context (Daft, 1983; Edmondson & McManus, 2007). This allows meaning, patterns, and characteristics of empirical evidence to be analysed (Huff, 2009).

Qualitative research suits a contextualist and social constructionist approach that is collaboratively exploring developments with practitioners and developing new knowledge to inform future practice. It is highly descriptive, concerned with meaning within narratives, and emphasises the social construction of reality (Eisenhardt & Graebner, 2007; Sutton & Staw, 1995). Cause and effect relationships are often not clear in organisations (Goldstein et al., 2010), which may be especially true in organisations that are attempting to deliver social and economic value, while also delivering their social services. Because social enterprises are complex social systems involving multiple influential processes and interactions (Lorino et al., 2011; Stacey & Griffin, 2005), the research helped participants make sense of the phenomena occurring by questioning developmental progress (Denzin, 2011; Huff, 2009). A qualitative approach was consequently seen as an appropriate methodology to explore emerging patterns.
Sandberg and Tsoukas (2011) developed the concept of practical rationality in which theory can be legitimately derived from practice, arguing that the practice of absorbed coping is the most common form of engagement by practitioners, and reflects their immersion in responding to a developing situation at hand. It is only when people encounter a breakdown (temporary or complete interruption or disturbance of workflow) that they start to focus on what is actually happening and move to either thematic deliberation, such as new actions, scenario planning or thought experiments. It is only in these breakdowns that people turn to subject–object relations to understand what is happening. The interviewing process acted as a temporary breakdown and, according to most participants, an opportunity to reflect. Within the analysis itself, the research sought to uncover the moments of difficulty and change experienced by participants.

Snowden (2009) agrees with Huff (2009) that no research method will ever be perfect and be able to provide generality, depth, precise measurement, replicability and an accurate representation of system characteristics (Huff, 2009; Jick, 1979). However, qualitative research that uses interviews can explore the subtlety and patterns within the phenomena, and may lead to enhanced understanding or explanation (Huff, 2009).

3.3.1 Case study

A case study is a design frame that may incorporate a number of methods (Thomas 2011). The research approach is now described, including the rationale for the selection of three illustrative, in-depth and heterogeneous case studies, in contrast to either looking at a single case or a large number of randomly selected cases (Denzin, 2011). The limitations of this design frame are also acknowledged.

A case study is usually a qualitative enquiry that investigates a current phenomenon in depth and within its real life context, and is especially helpful for understanding when the boundaries between phenomenon and context are not clear, the researcher has little control over events and when ‘how’ or ‘why’ questions are asked (Yin, 2009). Yin (2009) also observes that the case study is considered to be the most appropriate means to appreciate the complexity of organizational phenomena, which was considered crucial for this study. Predota (2009) confirms that case studies do not seek to change the status quo but rather to understand it as fully as possible. Case studies may identify more linkages than surveys or experimental strategies (Yin, 2009). Sutton & Staw (1995) argue that more descriptive narrative about organisations is often needed to provide good understanding before theory is developed.
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Short and colleagues (2009) note that cases are not expected to be representative, predictive or even precisely replicable elsewhere but they will involve unique and information-rich contexts for learning (Denzin & Lincoln, 2005). This research did not expect to answer how often social enterprise logics are successfully accommodated within a not-for-profit, nor how many organisations experience them exactly like the case studies being researched (Eisenhardt & Graebner, 2007). Instead it aimed to understand how a diverse group of well-established not-for-profits actually experience the phenomenon of developing a social enterprise, and how their business models and related structures, processes and activities are socially produced and change over time (Deetz, 2009).

The decision on how many cases to explore was given extensive consideration. Multiple cases are seen as providing a stronger base specifically for theory building because they allow consideration of context (Blaikie, 2007; Eisenhardt & Graebner, 2007). Multiple sites are also valuable for describing what the phenomena is or could be through explorative or illustrative cases (Denzin, 2002; Gilstrap, 2009). Adding three cases to a single one can potentially quadruple the analytic power (Eisenhardt & Graebner, 2007; Kvale, 1996). This is because each case acts as a single experiment that stands on its own as an analytic unit.

The advantage of comparisons of cross-case patterns is that they may confirm whether an emergent finding is unique to a single case or replicated by several cases in different contexts and can help to eliminate alternative explanations (Yin, 2009). While complexity argues that organisations have their own unique influences and that no two situations are exactly the same (Eoyang, 2011), it is possible that some broad experiences can be inherently similar (Alter, 2004; Bull et al., 2008). The range of large, well-established not-for-profits selected for this research may lend the findings some credence and be generalisable to some extent.

Eisenhardt (1989) argues that searching for cross-case patterns is most useful because people are poor processors of information, leap to conclusions on limited data, respond to elite actors and sometimes drop disconfirming evidence. In addition, groups or types of source data can be compared within each case, such as interviews or documents. Heterogeneous case studies that enable variation across important dimensions of typical cases enabled some generalisability or at least provide understanding that may be useful in a wider sphere of social enterprises (Denzin, 2002).

The main argument against using multiple cases is that their descriptions may be thin, with an inadequate amount of time spent on the less obvious aspects and dynamics of the contextual
setting. This can prevent a close description of the phenomena and its deep structure being developed (Dyer et al, 1991). Dyer and colleagues question whether the four to ten cases recommended by Eisenhardt enable content intelligibility and theory generation. However, as Eisenhardt and Graebner (2007) respond, the challenges of multiple case study research can be mitigated through thoughtful research design, interviews that limit informant bias, attention to conflicting evidence, rich presentation of evidence in tables and appendices, and a clear statement of theoretical arguments. This research has endeavoured to meet these requirements in three case studies, in line with other key researchers on social enterprise (Jones & Keogh, 2006; Young & Kim, 2015). The selection of three cases sought to provide both sufficient variability and depth to the analysis and to determine whether emergent features, themes and explications of accommodations were prevalent or unique (Denzin, 2002).

There are a variety of possibilities in selecting cases for research. Cases are often chosen because they are unusual, revelatory or extremes, or for their similarities or differences (Eisenhardt, 1989; Eisenhardt & Graebner, 2007). Cases may also be purposefully chosen theoretically from a range of conceptual categories including typical cases, or cases with a wide range of variation on dimensions of interest, depending on the focus and requirements of the study (Patton, 1990). Given the many characteristics of social enterprises discussed in the literature review, it was difficult to match cases to all of these.

Because too little is known about social enterprise in New Zealand, unusual or revelatory examples could not be selected. Instead, a variety of social enterprises emerging from not-for-profits was chosen as a strategy. A disciplined focus with a limited range of variables aimed to help the research to be manageable and illuminating (Eisenhardt, 1989).

The research controlled some variables, by selecting only larger not-for-profits that had been in operation for at least thirty years, were largely funded through government contracts, and had developed their first social enterprise during the previous five years and considered themselves still to be in this process. They were all generating market revenue or were intending to do so in the near future. Profit was not a requirement. Each case needed to have at least two staff or volunteers allocated to the development of the enterprise, even if part time, and the organisation was potentially scalable in their view. Each of the organisations involved in this research were assumed to be independent of influence from each other, with their own unique sectors, contexts, missions and needs. This between-group variability in multiple illustrative case studies was
expected to assist in assessing whether key emergent trends are likely to be widespread among not-for-profits.

As Chew (2010) observes, developing a social enterprise is expected to occur over many years and so it was concluded that the research should take a longitudinal approach, first taking a retrospective look at developments to date and then addressing the changes made every five to six months over an eighteen month period. Although there are no definitive time frames for longitudinal studies, this research is longer than the minimum of one year specified by Young, Savola, and Phelps (1991). A slice of the development was sought, as it was not considered realistic to seek ‘completion’ in what can be a slow and ongoing process (Cooney, 2011).

In summary, case study is a method that fits comfortably with contextualism, social constructionism, complexity and qualitative research. The quality of interaction with participants to elicit their views and information has been considered more important than a selecting a large quantity of sites (Kvale, 1996). Instead, a small number of cases that varied in specific dimensions were selected to elicit data that may be broadly typical. Specifically, well-established not-for-profits were sought from varied service sectors but were all involved in developing their first social enterprise (Eisenhardt, 1989; Knutsen, 2013). Three illustrative case studies aimed to provide sufficient breadth of understanding about and comparative variance in developing phenomena through the eyes of those who were living it. These cases were researched in parallel to each other over time in order to witness the variety and contrast of experience.

3.3.2 Level of theory, measurement and analysis

We theorise because we cannot always fully understand what we observe. Theory can increase broad understanding, shift a paradigmatic view or more simply and incrementally provide constructs or propositions that further understanding (Huff, 2009). This research aimed to support theory development and therefore needed to consider the level of theory targeted by the research. Ascertaining and aligning the levels of theory and analysis, for example at individual, group or organisational levels, reduces confusion in data collection and analysis (Klein, Dansereau, & Hall, 1994). Multiple or inconsistent levels of data collection and analysis can reduce confidence in emergent data. In contrast, some complexity theorists argue that multiple levels of analysis are needed, including the individual level, to best understand phenomena (Lichtenstein, 2011). This section explains the levels of theory and analysis that were selected to address the organisational developments occurring.
The organisational level was considered appropriate to investigate the dynamics of complex social systems, because of its interwoven social networks and connections both up and down to multiple levels (Eisenhardt, 1989; Goldstein, 2010; Yin, 2009). The level of theory to which generalisations were made was also at an organisational level. The primary sources of data were organisational documents as well as a cross-section of personnel to identify and monitor the business model development and the attendant organisational journey (Fuller & Moran, 2001).

To ensure the level of analysis was consistent with the level of theory, participants from different levels of the organisation were encouraged to discuss what was happening in the organisation overall and comments were also aggregated to an organisational level (Klein et al., 1994; Markus & Robey, 1988). It was expected that personnel responses would provide insights into what was occurring for them as individuals during the accommodation process, but the research focused on what that meant for the organisation. There is also some argument that the experience of individuals may mirror that which is occurring in the organisation overall. Snowden (2009), for example, argues that the stories or narratives collected in qualitative research can be fractal in nature; that is that they depict phenomena occurring at multiple levels, including at the micro or individual level as well as at an organisational level or even a wider societal level.

It is reasonable to expect that personnel within each social enterprise and their parent not-for-profit might offer a variety of perspectives, although recruitment, induction and socialisation practices as well as shared experiences may result in some commonality within each organisation. Consequently, the research explored areas of broad consensus as well as differences in view of the accommodation process (Bell, 2010; Klein et al., 1994).

### 3.3.3 Research method

The research question, researcher ontology and practice focus are considered the primary drivers in the selection of research method in this study. The research was keenly interested in how not-for-profits introduce and accommodate a social enterprise and now describes the methods that were selected to most effectively answer the questions posed (Edmondson & McManus, 2007).

Qualitative research tends to use naturalistic methods, including interviews, observations, longitudinal investigations and relevant documents as sources of information and the basis of stories about arising phenomena. Logic and reason is used to compare and contrast these varied views and thereby generate one or more constructions where some consensus can be found (Thomas, 2004). Daft (1983) argues that these are key methods for learning with an open mind. Eisenhardt and Graebner (2007) add that research that is exploring episodic or strategic
phenomena, such as in this accommodation process, often uses interviews as the primary data source, because they are so efficient in gathering rich empirical data. They also advocate retrospective focused interviews in conjunction with a longitudinal study involving interviews and observations to mitigate bias.

This study elected an eighteen-month time frame with four time periods for interviews, undertaken in the work-based setting of organisational meeting rooms and offices. Efforts were made to include a representative cross-section of personnel from different levels within the organisation to minimise the gap between what was said and done by any one participant (Blaikie, 2007; Lorino et al., 2011).

Lengthy observations were not conducted for practical reasons. Firstly, it was reasoned that participants would give the best overview of events over time. Secondly, initial brief observations that were undertaken within work places did not generate very valuable data on the social enterprise developments, as the social enterprise was in most cases a minor part of the organisation’s efforts, not always in operation, and therefore could not be easily observed. Much of the work activity in two of the cases also occurred outside of the main work base. It was therefore decided to focus on interviews as a primary source of data.

Interviews are a highly subjective technique and there is persistent risk of bias, so the questioning approach is critical. Interview questions should not suggest that stories of either positive or negative experiences are being looked for but should rather stimulate meaningful background context from the participant (Snowden, 2009). Purposeful and exploratory conversations that had some loose structure aimed to allow participants to talk freely (Bell, 2010; Kvale, 1996). A careful balance of involvement to develop trust and detachment are needed to reassure participants and their organisations that, while researchers cannot stand outside of the organisation, they are nevertheless able to look at patterns independently (Stacey & Griffin, 2005).

Kvale (1996) suggests that the wording of questions needs to be standardised in order for the answers to be comparable. However, because theory in the area of social enterprise is relatively undeveloped, it was considered more important to learn from the participants and adapt to their perspective than follow a strictly regimented process (Minichiello, 2008). An interview guide was developed (shown in Appendix 1) so that while conversational, there was sufficient structure and purpose to enable some comparison across the case studies (Bell, 2010; Kvale, 1996). The business model diagram was the basis of the discussion and there was a list of
standardised as well as some unique organisational questions that followed the organisation’s story. These were not used rigidly, however, as participants often told their story with little prompting. There was room for people to discuss areas of their own interest relating to the organisation’s progress to social enterprise and the associated business model, as the aim was to attain general knowledge in the area (Denzin, 2011). As data and concepts developed, changes were made to guiding questions and later from emergent themes (Bell, 2010; Edmondson & McManus, 2007). Clarifying, nudging, reflective, encouraging and contradicting probes were all used to elicit views and information (Minichiello, 2008).

Tape recording interviews occurred with some minimal note taking, so as to enable full focus on the participant and their stories without distraction. However, journal notes were taken after each interview to provide additional thoughts, reflections and observations. Data sources are now outlined.

### 3.3.4 Data sources

Fontana and Frey (2005) discuss the need to consider the language and culture of each research site in order to more freely gain access to participant’s perspectives and ensure there is some shared understanding of the research. Therefore, they argue that researchers need to be conscious of how they present themselves and the research, how to locate an informant and gain trust and establish rapport in order to collect empirical material. The process of introduction and selection to the research sites and the methods of data collection are consequently now described.

Because organisational understanding and perspective has the greatest influence on the accommodation process and its outcomes, and innovation is inherently social (Gladwell, 2000), the organisation’s internal perspective was therefore of primary interest in this research. Although consumers, funders or other external stakeholders might also be pivotal influences, an internal view was sought that considered these stakeholders in decisions and actions.

Each of the sites in this research involved an introduction to the researcher initially through a contact who knew the organisation. Without any experience working with the social enterprises selected, the researcher had met the organisational leaders from two of the sites previously. Through e-mail or phone conversations, a basic outline of the research was provided to see if potential sites were interested in discussing participation in the research in a face-to-face meeting. Possible benefits for the organisation and the research criteria were provided to them (Eisenhardt & Graebner, 2007), including an opportunity for internal reflection; public
acknowledgement as an organisation moving into social enterprise through the PhD and any resulting papers; access to assisted development of a formal business model; and the opportunity to assist the development of knowledge within the area.

Once organisations had agreed to participate, the researcher made contact with all potential participants through the CEO or manager, following organisational engagement. Interviews were sought with diverse internal hierarchical levels (governance, management, staff) and functional areas, such as finance and marketing, where possible, to minimise retrospective sense making (Yin, 2009). A support e-mail was sent from the CEO together with the invitation to potential participants from the researcher. Upon consent being formally provided, the researcher contacted each participant individually for interviews. The exception was in the Lifewise Hub, where varied social service staff attended interviews as they were available, and were contacted through their manager.

Prior to each meeting, the researcher familiarised herself with the services provided by the organisation through website searches. Six organisations approached chose not to become involved in the research for many internal reasons or did not meet criteria. Because the organisations were from different sectors, no case study was in competition with any other, which encouraged openness and also offered the possibility for key participants to meet and share information, if they wished to do so. This occurred for some participants at some local events, although no group meetings were specifically requested by participants.

Methods within case included:

1. A small expert group interview was held with individuals, determined by the organisation, who had sufficient knowledge to outline the current business model using the Business Model Canvas (Krueger, 2009; Minichiello, 2008). This aimed to enhance familiarity with the organisation’s strategies before individual interviews commenced.

2. Semi-structured individual interviews were undertaken with a small number of negotiated key relevant internal stakeholders, including key managers and board members individually. The numbers depended on the size of the organisation and the advice of the organisation (Bryman, 2003). The focus of the discussion was on the accuracy of the business model’s representation of the social enterprise’s current operations and the story of what had led to this approach or what had occurred since the previous meeting.
3. A cross-section of staff, management and board, including some volunteers who were considered important informants by the organisation, also gathered in one or more group interviews if that was their preference, and if it was possible to ensure enough diversity of views and homogeneity for participant comfort (Bell, 2010). Groups were also offered the opportunity to comment on the business model and the narratives behind it or simply to tell their story on recent developments.

While there needs to be some caution around group think and false cohesion, group interviews did provide synergistic perspectives, often revealing unstated norms and assumptions within the organisation. The value of this information outweighed the risks of participants breaking commitments to honour anonymity (Denzin, 2011), which is not known to have occurred.

4. Document analysis was undertaken on relevant organisational minutes, strategies, plans and annual reports that were suggested by participants as relevant for the study, as well as organisational web sites. These helped to explain both historical and current information on aims and processes to reach them, as well as how success was measured. Initial analysis was expected to familiarise the researcher with historical context and assist in developing themes for exploration in interviews. Documents selected were not expected to go back any further than five years or the start of the social enterprise development (Bryman, 2003). Although relevant documents were asked for prior to the interviews, some were also accessed after the initial interviews when participants better understood their usefulness to the researcher or were later developed.

5. Journal notes that followed the researcher’s stream of consciousness after analysing documents and interviews and throughout the research process, formed part of the data.

Table 7: Number of research interviews and documents

<table>
<thead>
<tr>
<th>Type of Interview</th>
<th>Total Interviews</th>
<th>Total Documents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lifewise café</td>
<td>26</td>
<td>5</td>
</tr>
<tr>
<td>Ako Books</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>Changeability</td>
<td>16</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>54</td>
<td>35</td>
</tr>
</tbody>
</table>

As can be seen in Table 7, above, a total of 54 expert, individual and focus group interviews of organisational personnel were used, together with analysis of a total of 35 documents, to develop
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a rich account of developing a social enterprise for each case and triangulate data sources within method (Bryman, 2003; Jick, 1979). Interviews lasted between fifteen to seventy-five minutes but the vast majority were of one-hour duration.

Table 8: Research participants and organisation levels

<table>
<thead>
<tr>
<th>Case Study</th>
<th>Level within organisation</th>
<th>Numbers of people</th>
<th>Total people</th>
<th>Core group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lifewise café</td>
<td>Board</td>
<td>1</td>
<td>19</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td>7</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Staff</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Adviser</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ako Books</td>
<td>Board</td>
<td>2</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Staff</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changeability</td>
<td>Board</td>
<td>2</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Staff</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total people interviewed</strong></td>
<td></td>
<td><strong>34</strong></td>
<td><strong>10</strong></td>
<td></td>
</tr>
</tbody>
</table>

Table 8, above, also outlines the 34 participants’ level of operation in the organisation, the numbers of people interviewed and their organisational level. In one case, a group of participants could not be assembled immediately to describe the business model, because of time constraints, so some individual interviews were held first to discuss the journey of the organisation toward social enterprise. However, in this case, the expert interview occurred within the first two months of initial contact. Similarly, if the participants preferred to be interviewed in groups rather than individual interviews, that was what transpired. If participants did not wish to address the business model directly, they were asked to comment on developments in the service from their perspective.

Table 9 then details their professional background and gender. The number of individuals involved is high because some were involved in group interviews and some were able to attend only one or two meetings because of work commitments, leaving the organisation or they thought their view had been given and did not need to repeat it. The number of people who participated in all four time periods is also provided.

In one case, a group of participants could not be assembled immediately to describe the business model, because of time constraints, so some individual interviews were held first to discuss the
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journey of the organisation toward social enterprise. However, in this case, the expert interview occurred within the first two months of initial contact. Similarly, if the participants preferred to be interviewed in groups rather than individual interviews, that was what transpired. If participants did not wish to address the business model directly, they were asked to comment on developments in the service from their perspective.

Table 9: Research participant characteristics

<table>
<thead>
<tr>
<th>Professional Background</th>
<th>Lifewise café</th>
<th>Ako books</th>
<th>Changeability</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Commercial and Social</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Social</td>
<td>11</td>
<td>2</td>
<td>3</td>
<td>16</td>
</tr>
</tbody>
</table>

Gender

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>9</td>
<td>5</td>
<td>5</td>
<td>19</td>
</tr>
<tr>
<td>Male</td>
<td>10</td>
<td>5</td>
<td>34</td>
<td></td>
</tr>
</tbody>
</table>

The first round of individual and group interviews explored retrospectively how and what changes in the organisation had been made since the decision was made to develop a social enterprise. All interviews were held between November 2012 and May 2014. Subsequent interviews were held at six monthly intervals to reveal stories of mechanisms and processes of change in business models during that period, as advocated by Dacin (2011).

Because there were some contradictions in the descriptions of organisational characteristics within the literature, a card sorting exercise (see Appendix 2) was also undertaken in the third round of interviews. This was designed to ascertain the participants’ view of the key features and differences between not-for-profits and social enterprises, which helped to form the logics descriptions that were later developed. Thirty cards, each with a single organisational characteristic that had been drawn from the academic literature, were provided to each individual. Participants were asked to place each card on a page headed not-for-profit, social enterprise, neither or both. The sample size was small with sixteen participants and there was considerable variation between both individuals and organisations.

In summary, organisational documentation, individual and group interviews and journal notes over an eighteen-month period with three developing social enterprises were the primary data.
sources used. With only one researcher, the integrity of that data will certainly be questioned and the following section now explains how confidence in the data may be sustained.

3.3.5 Data integrity

As already noted, there is considerable acceptance in the social sciences that research cannot ever be truly independent or impartial, and aims to conduct value-free inquiry are now critically challenged (Denzin & Lincoln, 2005). Social constructionism argues that knowledge is historic, fluctuating and contextual rather than absolute and fixed (Reason & Bradbury, 2006). There are unlimited combinations of, for example, structures, practices, motives, values, beliefs, resources, personalities, communities, political histories, organisations and systems that all impact on the perspectives of individuals and groups. As a result, it is difficult for a researcher to accurately ‘know’ all aspects of the complex situations that emerge in social enterprises. This section discusses how confidence may be held in the research data, and details the criteria for qualitative researchers and how these were met. The limitations of certainty in any qualitative research are acknowledged and the role of the researcher in managing both involvement and detachment simultaneously is examined.

Guba and Lincoln (1986) argue that criteria do exist as an alternative to quantitative measures for exploring the truth value of qualitative research (internal validity), its applicability (external validity or generalisability), its consistency (reliability or replicability) and its neutrality (objectivity). Specifically, both trustworthiness and authenticity are the most important measures of quality and recommend a number of process-focused criteria to verify whether they have occurred.

Trustworthiness can be measured through the credibility it has among participants. Social constructionism agrees that individuals and groups use common sense to determine real knowledge from false knowledge and whether any conclusions or developing theory are useful or interesting (Daft, 1983; Denzin, 2011). This research process has used the social constructionist practice of validating the knowledge emanating from research in the community from which it was derived, through debate and discussion of the findings. For example, the business model was confirmed or amended at each interview. Case studies were provided for comment. A formal presentation was also provided to each of the case studies after the last interviews when findings and model had been refined but not finalised. Differences in views among participants helped to clarify and confirm or reject findings.
In addition to credibility, Denzin and Lincoln (2011) cite three other trustworthy measures. Firstly, the richness of the research descriptions within the thesis and the case synopses clarify the transferability or comparability with other social enterprises. It is argued that the variety of social enterprises within this research and consistency in results leads to the conclusion that the findings may be useful for many larger and well-established not-for-profits considering social enterprise development. Secondly, dependability demanded complete and accurate research records and processes that outlined precisely the way the evidence was produced, as described within this chapter. Thirdly, confirmability measures insist on a reflexive and depersonalised approach to validate emergent data, knowledge and conclusions. Continuous reflection on the researcher’s actions and impact on others aimed to achieve both involvement and detachment with an open mind (Mowles, Stacey, & Griffin, 2008). Reflexive praxis aimed to ensure that the study provided reliable insight and value without being intrusive or controlling.

For example, in this study, the researcher accepted that the use of the Business Model Canvas would involve some intervention in the case studies that would not normally have occurred. Participants may not have heard of or used this tool without the research. Going through the business model potentially involved understanding the business in a different way, which may have altered future organisational activity. Nevertheless, although arguing that researcher participation is acceptable, the researcher aimed to avoid influencing the direction of business model construction or its changes through impartial questioning.

This research therefore was undertaken on the basis of respectful partnership between the researcher and participants, acknowledging their opinion and perspective (Denzin, 2011; Tsoukas, 1998). Regular journal entries and regular debriefing sessions with supervisors assisted this process (Bryman, 2003; Denzin, 2011).

To return to Guba and Lincoln’s (1986) second evaluative criteria, authenticity asks whether the data represents a diverse group of stakeholder views (fairness). The collection of data from people at governance, management and staff levels of the organisation that were identified by each organisation demonstrates the authenticity of this research and served to check internal consistency or reliability. While the holistic advantages of between-method triangulation were not realised in this research, it is suggested that group and individual interviews with multiple roles and layers of the organisation, together with documents and journal entries as well as participant corroboration, provided acceptably authentic data for analysis (Blaikie, 2007). Ellingson (2011) agrees that a crystalline or prismatic form of validity that mirrors the many
different views of participants that can be held simultaneously can serve as a substitute for triangulation. Jick (1979) also argues that requirements for ‘within method’ triangulation can be met with multiple comparison groups, such as in these three case studies.

Authenticity also requires that actors and organisations are better informed about their situation and others perspectives (educative) and use the information to act on the knowledge to further their mission (catalytic). In developing the findings, proposition and model, the researcher considered whether a person could trust themselves if they acted on them as a means to assess their practical validity (tactical). Even though case studies do not attempt to change current reality, it can be argued that without action from participants enabled by the new knowledge, validity and trustworthiness cannot be fully demonstrated (Denzin, 2011). Only time will tell to see if this research is catalytic for others in the social enterprise sector.

The research process made every effort to meet these trustworthiness and authenticity criteria, and also sought to meet four other useful tests that are focused on the inherent logic of the analytical process and construct development within a case study (Yin, 2009). Construct validity required multiple sources of evidence to justify the findings, and the chain of evidence to show how they were developed can be seen in Figure 9 in section 3.3.7 below, on within-case coding. Internal validity required pattern matching, explanation building and logic models, as well as the systematic addressing of rival explanations during the data analysis. External validity used replication logic in the multiple case studies to ensure that results may be transferable in similar situations. Reliability requirements were met through the use of a case study protocol or interview guide and database to ensure consistent treatment was given to each case (Yin, 2009).

It is important that areas in which the researcher has any strong or vested interest are not given any special focus, in order to be trustworthy and authentic (Denzin, 2011; Geertz, 1992). Organisations in which the researcher had recent experience in were not selected for the research, relevant personal values and beliefs were clarified within the thesis, and efforts have been made to constantly locate herself within the study and pursue a practice of transparent honesty in all research operations. This research has attempted to meet the criteria for Guba and Lincoln’s trustworthiness and authenticity as well as Yin’s validity and reliability, motivated by the need to maximise the ability of readers to trust constructions and perspectives emerging from this research.
3.3.6 Ethical issues

Some key ethical issues and the research approach to them were identified in the application made to the ethics committee and are summarised here. No other key ethical challenges were raised during this research.

Conflict of interest: If, as Bradbury and Lichtenstein (2000) espouse, organisations can be seen as configurations of relationships, then my research values and interests could be expected to have some reciprocal effects; that is, they would have an impact on the research which would also have an impact upon the researcher. While the researcher was presented to organisations as an impartial interviewer, in the interests of reciprocity, an offer was made to share information from the literature review with the participating organisations. This was not in the form of advice but rather a sharing of understanding of specific areas of literature that they wished to explore. Information was provided only if requested, which occurred occasionally in only two of participating organisations. There was no pecuniary compensation from or previous involvement in any of the social enterprise research sites.

Because I have been working as a consultant for twenty years in the not-for-profit sector, it was possible that the research participants would expect some advice or input into the development of their services or that I would want to suggest options as a means to assist the organisation. Influencing the organisation in any way towards preferred choices or affecting organisational activity beyond that which was requested would not have been an acceptable outcome of the research and was not offered.

Anonymity: Organisations were named openly in the thesis or other related documents but individual participants interviewed were not named. In case there was any danger of being identified because of small numbers and identifying characteristics, personnel were only referred to as a staff member, adviser, board member or management without any reference to characteristics to maximise personal safety. Participants accepted this and, while many were happy to be named, none were named in the final document to conform to commitments in the Participation Information Sheet.

Participants were not asked to comment on their employer. However, in discussing the development of their particular social enterprise and social change, comments on employers were made during individual or focus group interviews. Therefore, the researcher did not release the names of people or any recorded interviews to management that may identify them. Any
written material provided ensured comments remained anonymous and mitigated any harm that might have been otherwise caused.

Interview recordings and journal notes were not provided to management. No specific individual or group perspectives were discussed with management, but, if needed, this would have been negotiated with the person or group to ensure their requirements for anonymity were respected. In the final thesis, care was taken to ensure anonymity was protected.

Commercial sensitivity: Social enterprises involved in the study sometimes discussed matters of commercial sensitivity during the period of the research in meetings. I asked managers about the organisation’s financial and time investment, whether this was what they expected and if it was worthwhile. However, the thesis describes the general approach to value creation in entrepreneurial business models rather than detailed financial data. The thesis does not provide more detail than is publicly available information from annual reports. If more detail was considered relevant or important in answering the research questions, participating organisations had the right to determine what level of commercial data was divulged, and saw draft documents to ensure their wishes around divulging material were respected.

Informed consent: Each organisation and participant in the research was provided information on the proposed project and informed consent to participate in the interviews was provided. Consent sheets were always signed before initial interviews, with one exception. Although the person had received the information and consent sheet more than one week in advance of meeting, he was unable to attend the planning interview and chose to meet by phone. He gave verbal consent instead, having previously read the sheet. A sample participant information and consent sheet is provided in Appendix 4.

Participant’s rights to withdraw: Each participating organisation had the right to withdraw from the study. Having three organisations involved minimised risks for the research, should one choose to withdraw.

Each person had the right to withdraw, which required any individual interviews with them to be removed from the data. Group interview participants also had the right to withdraw from future groups and were warned that individual data from a group interview could not be withdrawn, because of jeopardy to all the shared group data.
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Participant access to findings: A case summary, summary of findings, conclusions and possible implications were provided to participants for comment. They were also provided with a final case summary and summary of conclusions at the end of the research.

Accuracy of quotes: Each participant had the opportunity to request a review of their transcribed quotes and withdraw them.

Harm to vulnerable population: Consumers of services were not involved in interviews unless they were also staff or management, and therefore were not considered more vulnerable or dependent than other participants.

Security of Information: The data will be kept for six years in a secure location on University premises. All computer access is password protected.

3.3.7 Data analysis

A systematic approach to data analysis is essential, given the well-established tendency for researchers to demonstrate bias in their processing of data because of their tendencies, for example, to reduce and simplify when there is too much information; ignore evidence that conflicts with preconceptions or first impressions; focus on novelty; or be overly confident in intuitive judgement (Royce-Sadler, 2002). Yet the judgement of the researcher is also central to the analytical process. As Edmondson and McManus (2007) argue, working within a nascent theoretical area like social enterprise requires both an intense learning orientation and judgement on what is important.

Clarity in the research approach is needed even though replication is not considered essential in qualitative research. The locations, cases, contexts and, importantly, the researcher’s idiosyncratic style makes precise repetition extremely difficult (Blaikie, 2010). Nevertheless, as is common in abductive research, the researcher endeavoured to walk a middle line, providing both systematisation and responsive judgement, with some theoretical categories from complexity theory, institutional logics and business models, but then also allowing the analysis to emerge organically. Within this research framework, the empirical findings also guided flexible responses, for example, in redeveloping the interview questions in subsequent time periods or the recombination of codes (Daft, 1983).

If the steps in this analysis are clear, other researchers may be able to see that they might have come to similar conclusions. These steps involved creating categories, coding documents, sorting data to locate patterns, describing those patterns and generating theoretically based
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conclusions and constructs, and validating these from within the data (Blaikie, 2010). This section describes the processes that aimed to develop a coherent and illuminating account of each and all of the cases. The research has used a number of strategies for analysing evidence within the case studies (Yin, 2009). An outline of how interviews were constructed using table shells, then transcribed, coded, charted and analysed, is now provided in addition to how within-case and cross-case analysis was undertaken.

Table shells

In accordance with the decision to transparently use both data and theory to answer the research questions in an abductive approach, the table shells in the interview guide (see Table 29 in Appendix 1) were constructed from existing complexity and business model theory to guide the researcher in interviews and analysis. The shells informed the development of the initial and subsequent refined interview questions for each organisation, and served to enhance reliability across all cases (Denzin, 2002). In analysing the data, the table shells helped to form initial codes which were iteratively adapted to best see the emergent data through the business model and complexity lenses.

Transcription and familiarisation

The researcher recorded and transcribed all of the interviews in the first two rounds of data collection. In the final two rounds, time constraints required an external transcriber for most of the interviews. The transcriber was employed from the USA and signed a confidentiality agreement prior to commencing the work. Regardless of who transcribed the interviews, they were read thoroughly two to three times to correct mistakes and to familiarise with the story of each organisation. In total, the first interviews were read thoroughly nine times through checking and coding, while the second, third and fourth round of interviews were read between eight and six times thoroughly, in addition to cross checking and amending individual code allocations.

Case summaries

Initial case descriptions were drafted and aided the development of a descriptive analytical framework. Placing each organisation’s background story in temporal order and condensing into a narrative, each case used a similar format and explored similar aspects of, for example, not-for-profit and social enterprise history (Denzin, 2002). Case summary development occurred iteratively after the second, third and fourth rounds of interviews, in part because this research has contributed to an EMES international study of social enterprises. After the fourth round of
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interviews, the essence of each story line was reduced by hand from codes three times until a thirty-page, ten-page and then one-page summary was developed. These assisted in developing themes in addition to revising the case summaries, including the timelines, which were again sent to all remaining participants in each organisation for additions and amendments, in terms of content and confirmation of the level of confidentiality they would like to use.

Writing the case studies enabled a deeper familiarisation with and summary of the data available and timelines within each case. This within-case strategy assisted the unique contexts and patterns to start emerging prior to any formal thematic analysis (Eisenhardt, 1989). Describing the motives and actions of the participants, the case descriptions formed an important source of the coding framework. Similarly, the thematic analysis further developed the case studies in a spiralling process of development.

Model and construct development

Abductive reasoning uses fragments of understanding from the experience of others to build a plausible narrative account of the situation and ultimately develop conclusions and enhance or develop theory (Huff, 2009; Snowden, 2010). Primarily derived from the literature but also from these fragments derived from the literature and first round of interviews, the researcher formed tentative constructs and model early to understand better emerging data. This process was undertaken principally to see if the literature, participant’s considerations, and the researcher’s thoughts could be summarised or aligned after the first and each subsequent round of interviews. The research sought new constructs to understand the development of social enterprises, but it was unclear whether the initial findings would change or even survive the analysis. However, these constructs did help to shape the next round of data collection and analytic strategies. Despite these preparations, the large number of interviews made data management unwieldy, so significant effort was put into detecting, defining, reiteratively categorising, and mapping the phenomena that emerged within the interviews in order to understand it better (Denzin, 2002).

Within-case analysis

Blaikie (2010) observes that some researchers start with predefined concepts, themes and categories, as often occurs in deduction and some start with the data directly, as is more common in induction. Thematic analysis is perhaps the most common form of analysis in qualitative research and focuses on recording patterns within the research participants’ descriptions.
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Organising the data into coherent stories of experience and sense-making processes through the development of themes were the core analytic activities of this research (Edmondson & McManus, 2007). Large volumes of data were synthesised in this way, enabling intimate familiarity with each participant’s view within each case as a unique entity. This within-case strategy supported the understanding of unique patterns before looking for generalisable patterns across all cases.

This form of analysis normally involves a process of coding in distinct phases: familiarisation with the data, generating initial codes, searching for themes among codes, comparing and contrasting themes, defining and naming themes, and building constructs and models (Denzin, 2011). Data collection and analysis were overlapped not only to commence analysis early, but also to enhance the researcher’s focus within the interviews (Eisenhardt, 1989).

Because this research started with both a strong theoretical lens and a tool to focus the interviews, this research elected to start with key theory-based codes. All of the interviews and documentation were allocated first to the categories identified in the table shells; that is, the key business model and complexity concepts. Each of the categories was defined from within the literature and each excerpt was considered against the definitions. Extracts were allocated to multiple categories if they fitted more than one. After the first round of allocating codes in Dedoose, the definitions of all codes were tightened and the data was searched through again to ensure the codes were consistently applied to all interviews and documents collected (Denzin, 2002). Where extracts did not seem to be covered adequately by these categories, they were placed in an ‘other’ category and a list of additional categories was created for consideration. Memos were written to explain data excerpts or thoughts throughout the process (Layder, 1998).

As can be seen in Figure 9, below, a subsequent and separate coding process was undertaken that searched for emergent themes only from the data. Participants’ answers to the research questions, without reference to the theoretical coding, developed new codes. The separation from the first coding activity was undertaken to avoid contamination from any previous thinking around theory or models, and generated a second set of codes. Both steps were then merged with new codes contrasted and matched to the initial theoretically driven codes to see the relationships between codes, where there were gaps or overlaps with the excerpts. Decisions

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7 The first interview rounds were entered into NVivo 10 and then transferred into Dedoose, online software. The researcher had tried the latter software and considered it a more intuitive analytical tool to use and used four training sessions to become more familiar with it. The dangers of online software were discovered when Dedoose experienced a major crash and three weeks of data was lost and had to be re-entered.
were then made to collapse or add codes which generated changes in some of the thematic categories to better understand the phenomena, as is common in abductive research strategies (Blaikie, 2010).

Another round of coding occurred once the initial ideal social and commercial types from the literature developed to test that they were ideas that reflected the simplest elements of the organisational forms and the views of research participants (Morgan, 2006). Four unique data sets for each case were therefore developed directly from the data and the three theoretical areas of complexity, business model and institutional logics.

This generated a new set of first-order themes from the data, which shifted and changed over time as codes were sought to give an adequate rendering of participant views (Blaikie, 2010). Emergent themes were informed by but did not entirely depend on the frequency of their occurrence, but rather the understanding that they provided in answering the research questions. Events and views were put into a timeline so that clear narratives could be developed (Huff, 2009). This process allowed a more concise second-order set of theoretical themes to develop before these were aggregated iteratively into theoretical dimensions until they resonated with the case summaries and cross-case analysis (Tracey et al., 2011). This process is shown in Figure 9 above and Figure 10 below.
Cross-case analysis

Within-case analysis can be expected to enhance the degree of familiarity with the data and capacity to form conclusions and constructs. However, cross-case patterns force the researcher to see through multiple case lenses (Eisenhardt, 1989). After the within-case analysis looked for patterns for each organisation and each time period, a cross-case analysis was undertaken to look at how the data between case studies related to each other and whether it showed similarity (literal replication) or contrast (theoretical replication) in identified patterns (Yin, 2009). This enabled a higher level meta-analysis that is not simply the aggregation of individual key case study findings (Gilstrap, 2009).

The data was examined in as many ways as possible, using tables, maps and diagrams, so as to avoid staying with any first impressions (Eisenhardt, 1989). Particular note was taken of any apparent contradictions in the evidence and its source (Bryman, 2011). Complexity theory encouraged the researcher to see the emerging themes constituents of an eco-system and consequently the mapping process often perceived themes in an interconnected atom-like structure. When these became confusing because of the number of themes involved, a static presentation was developed that still suggested motion and contextual variability.
As regularities, singularities and variations were observed, a small subset of key themes iteratively emerged that enhanced understanding of the accommodation process and was used to redefine the model and propositions. Sensitising or flexible concepts were developed at an early stage to start the process (Blaikie, 2007). These were repeatedly compared against the data and the literature, shifting and enabling the typologies, constructs and model to most closely fit the data (Eisenhardt, 1989). Key features of the cases were also considered in relationship to each other to see if any causality could be determined and to assist in thematic development. This included considering the observation as a result of chance, researcher bias or other contextual reasons, or that it could be explained better by other theories (Yin, 2009).

Coding both within- and across-cases has enabled this thesis to develop a narrative with quotations from key informants and other supporting evidence. This narrative has aimed to intertwine the data with theory, keeping both theory and evidence at the forefront of the research.

### 3.3.8 Research limitations

There was only one researcher involved in this study and therefore perhaps there has been an inadequate amount of time dedicated to contrasting the views of a larger number of social enterprises or even one organisation at greater depth. Diversity of internal view has been sought however, to ensure that a variety of perspectives was gathered at all levels within each participant organisation to obtain a rich account of phenomena.

The lens of complexity theory, together with the business model and institutional logics frameworks, as well as the researcher’s personal lens, provided at best a useful but inevitably limited perspective on reality could be portrayed. Generalisability may also be limited because of the small number of organisations involved in this research. However, the level of commonality between them suggests they may be relevant for other not-for-profits in New Zealand and possibly more broadly. Because the cases were similar in that they were all larger government contractors, and no superior rival explanatory theory was developed, some limited analytic generalisability is suggested (Denzin, 2011; Huff, 2009).

Care was taken in this study to develop an interview guide in order to increase cross-case reliability. Nevertheless, there is an inevitable bias through the interpretation and deconstruction of participant responses through the researcher’s lens. This was balanced by the sharing of themes, constructs and conclusions with the participants to test credibility. Efforts at structuring the research thoughtfully and ensuring respectful, constructive and honest relationships with
participating organisations, a thorough approach to design, a systematic approach to records, and the reflexive approach of the researcher have enhanced the trustworthiness of this work.

### 3.4. Chapter Summary

By investigating how not-for-profits accommodate the development of a social enterprise within real-life contexts, this research aimed to contribute to greater understanding of the phenomenon, using a complexity theory lens. It also aimed to provide practical learning for not-for-profits wishing to develop a social enterprise (Thomas, 2004; Sutton & Staw, 1995). Little research has been undertaken on this phenomenon to date.

Accepting that social enterprises within not-for-profits are complex, the research sought narratives from participants to best understand the accommodation process. This research was built on a contextualist and social constructionist framework, which acknowledges this complexity. A qualitative approach was employed with three case studies over an eighteen-month period, focusing on an organisational level of analysis.

A group of participants within these three organisations all considered the question of how not-for-profit organisations develop social enterprises, in light of their business models. The findings reflected their perspective, through the lens of complexity theory. It provided a valuable but still imperfect answer to the research question because it involved the contextual views of participants in a limited number of cases within one area of one country. A qualitative methodology, while not providing perfectly replicable knowledge, was nevertheless the best fit for this research.

A strategy of abduction was employed, systematically and reiteratively combining theory and data, derived from 54 semi-structured individual and group interviews with 34 people, 35 documents and their analysis. An institutional logics framework was used to consider participant and organisational responses and decisions, and the Business Model Canvas was utilised as a mediating artefact to understand the business changes made. Both the business model and institutional logics are compatible with complexity theory, as they both anticipate self-organisation and unpredicted emergence over time (Thornton et al., 2012).

The many participating voices and their experiences of the business model development process were sought through thematic analysis, case summaries, within-case coding, and cross-case analysis. Some consensus was found on the phenomena of developing a social enterprise (Denzin, 2011; Huff, 2009; Ozanne & Saatcioglu, 2008). Trustworthiness and authenticity
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criteria have been met and no problematic ethical issues have arisen. The next chapter now describes the cases in more detail.
Chapter 4. Findings: Within-case analysis

There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things. (Machiavelli, 2009, p. 23)

This chapter presents the key empirical findings from the research undertaken for this thesis. It provides the story of each of the three social enterprises in terms of their not-for-profit parent; the context and sector in which the social enterprise was established; the business model selected and its changes during the research period; and finally the way the dual logics were managed in each case. These three illustrative cases give the context and history of each social enterprise to illuminate their distinctive and often unpredicted patterns of development.

Challenges and solutions are highlighted as told by the participants and shows how difficult this shift can be, as Machiavelli acknowledges in the quote above. All participants have had their names changed and have been described as staff, management, (internal or external) advisers or board members. It is their voices that are presented in both sections, supported by quotes. An overview of the cases is provided in Figure 11, below.

Figure 11: Overview of social enterprise (SE) in not-for-profits (NFP) cases

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Not-for-profit sector</th>
<th>SE staff</th>
<th>Full time/ part time</th>
<th>Volunteers in SE</th>
<th>NFP staff</th>
<th>NFP established</th>
<th>SE established</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lifewise Hub and Merge Café</td>
<td>Social development</td>
<td>9</td>
<td>Mixed</td>
<td>Yes</td>
<td>300</td>
<td>1860</td>
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</tr>
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<td>Early Childhood Education</td>
<td>9</td>
<td>Mixed</td>
<td>Yes</td>
<td>500</td>
<td>1943</td>
<td>2012</td>
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<tr>
<td>Changeability</td>
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<td>9</td>
<td>Mixed</td>
<td>Yes</td>
<td>140</td>
<td>1980</td>
<td>2010</td>
</tr>
</tbody>
</table>

The structure of each case introduces the parent not-for-profit and the social enterprise before outlining its business model and its changes during the research period, the attributes of the evolving system and the key issues arising for the organisation(s) in working with both social and commercial logics. Each case ends with a visual timeline to summarise the development of the social enterprise and the chapter is completed with a brief summary of all the cases. The next chapter on cross-case findings identified key emerging themes and the subsequent discussion chapter then explores the emerging themes in conjunction with the existing literature, developing aggregated theoretical dimensions, typology and model.
Chapter 4. Findings: Within-case analysis

4.1. Lifewise hub and Merge café

4.1.1 The not-for-profit parent: Lifewise

Lifewise emerged from Methodist Mission Northern (MMN), an organisation that has been providing Aucklanders with social services for over 150 years. In 2009, MMN established three separate organisations as charitable trusts. Lifewise became the social service arm. Airedale Property Trust took over MMN’s asset base as a commercial partner for MMN and Lifewise. MMN continued to hold theological responsibility in close connection with the Methodist Church. Collectively, the three arms of MMN are seen by some senior managers as a social enterprise, managing the theological, commercial and social aspects and entrepreneurially achieving new and better social outcomes. Lifewise and Airedale Property General Managers are accountable to the MMN Executive Director, and all three managers meet together fortnightly as an executive team.

Lifewise: Turning lives around

From the early days of the Helping Hand Mission in the late 1800s, through to the establishment of a central city Mission in 1927 and the creation of Lifewise in 2009, the vision of building a thriving, inclusive and caring society has underpinned all MMN work undertaken in the community. Innovation and collaboration are valued highly within Lifewise, initiating new ways to solve challenging social issues and serving the city’s vulnerable people and leading the way in areas such as micro-finance and restorative justice (Lifewise, 2012). Rather than seeing itself as a not-for-profit, MMN has seen itself as not-for-loss and has long required some parts of the organisation to make a profit in order to sustain the organisation overall. Value for money, investment and innovation are terms commonly used by MMN management.

We’re never not for profit, we’re not for loss. (Luke, Manager, November 2013)

There is a wide range of social services provided by over 300 Lifewise staff, largely in the Auckland region, aimed at ‘turning lives around’. For example, Family Services provide parenting courses, family counselling, social work, foster care and respite care. Older and

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8 The real names of the organisations involved in this research are provided with permission, but all names of individuals have been changed to protect anonymity.

9 In New Zealand, a Charitable Trust is registered under the Trustee Act 1956, and must have a charitable purpose. Trustees are accountable to the beneficiaries and must comply with the trust deed, and profits must be used to run the charitable trust to achieve its purpose and cannot be distributed to members.

10 Lifewise’s slogan.
disabled people receive Homecare Services. Infrastructural support services are provided to nine small independent organisations. A Know Your Neighbours Day is run annually in Auckland. The Employment Generation Fund, a micro-finance enterprise, has been making loans to business ventures since the early 1990s to help create jobs (Lifewise, 2012).

Figure 12: Lifewise organisation structure

Source: (Lifewise, 2013)

Figure 13: Lifewise lobby, 2013

Lifewise has concluded that the charitable service model of simply meeting immediate need can inadvertently perpetuate dependency. They prefer to provide sustainable solutions to social issues rather than putting a ‘band aid’ on the problem. This has meant providing the services and support needed for individuals and families to improve their own future, as well as
supporting communities to meet their own social needs. Lifewise’s senior management is proud of its subsequent reputation with government. While the Methodist ethos of social justice still shapes the values underlying its operations, Lifewise believes in going beyond the traditional charitable model and making real change.

*The way we used charity was actually awful because it creates dependence and what we actually have to do is build interdependence.* (Luke, Manager, October 2012)

### 4.1.2 The social enterprise: the Lifewise Merge café

MMN had operated a soup kitchen for homeless people since the 1930s in a large hall in downtown Auckland, where 120 ‘rough sleepers’ would arrive for quick daily meals. The environment was described as ‘the wild west indoors’, and the newly appointed Lifewise General Manager questioned in 2007 whether the service was consistent with MMN’s values or was achieving MMN’s desired outcomes and notes:

*They lined up ... this is the food you are going to eat, at a time when we said they were hungry... You could be down there at five to 12 before lunch. The doors would be locked. They’d all be gone by ten past.* (Bill, Manager, November 2012)

Breaking up fights and de-escalating situations required a forceful attitude from staff that was not thought to support good therapeutic work. The large public space in the soup kitchen was also thought to discourage homeless people from seeking support with life changes. In 2008, the new General Manager recruited a new Service Manager, Noah, who also had extensive experience in mental health services. They found the negative and chaotic atmosphere very hard to shift and agreed that a new physical environment was required to achieve substantial change. Fortunately, this was around the same time MMN decided that they would sell a whole block of city properties, which enabled a transition for the soup kitchen, although it was at first unclear what form that would take.

With support from the board and senior management, a search was undertaken for alternative options, notably exploring programmes that emphasised housing as essential in solving homelessness. In 2008, key team members also visited a homeless hub in Australia that operated a café and provided case management services to homeless customers, with some collaboration from other community agencies. Although other local homeless services were sceptical, Bill and Noah agreed that this service model was a good one and could be further improved upon, particularly in the way other community agencies were engaged.
Lifewise became focused on ending homelessness, through the provision of food, clothing, support and housing. The logical extension of that was to close the soup kitchen and open a café. In this way, homeless services would be more sustainable and provide opportunities for positive community integration and personal change. The philosophy of normalising homelessness and bringing it into public view was central to starting the café. All Hub and café decisions were aligned with organisational core values and philosophy, including encouraging interdependence for clients and agencies, community, connectedness and innovation.

The prime thing that attracted the Board was the normalisation of life … that they would choose when they would eat; they could choose the food they would eat and that they could sit alongside people who were not the marginalised of society. (Audrey, Board, April 2014)

After an extensive search and some false starts, an existing café that had been struggling financially was leased in late 2010. Fittingly named Merge, the café sits in a bohemian street in Auckland’s central business district with 24-hour nightlife that was in walkable distance from the previous soup kitchen.

We’re edgy … it’s a mind shift from that dependency … to actually one that has to be fluid, flexible, and very responsive. (Luke, Manager, November 2013)

The closure of the soup kitchen and opening of the café was a financial and reputational risk for Lifewise. No one was sure it would work, but Lifewise believed in responsive experimental approaches.

4.1.3 Business model

The Lifewise Merge café (herein referred to as the café or the Lifewise café) was a part of the Lifewise Hub, a social service for homeless people that includes a social work service (also referred to as the Hub when referring to the social work service and the café). Figure 1, below, outlines the business model development for both as described and confirmed by research participants. The business model reflected the various intertwined strands of the social
enterprise, and was adjusted incrementally through the research period. Bracketed entries on the composite business model show the date that emerging business model changes were captured at different points of the research.

Regionally, the goal is to have a Merge in South Auckland, a Merge in West Auckland and you know one on the Shore and out east. (Noah, Manager, June 2013)

Even though the café accounted for only 1.5% of Lifewise’s income, the café was of high strategic value to Lifewise as a means to provide sustainable programmes. Consequently, the café has taken the name Lifewise Merge Cafe and acted as a shop front for the organisation. The service manager hoped that if the model worked well, other social services could be built around businesses supporting homeless people in other parts of the city. However, the café needed first to survive and the model proven achievable.

Figure 15: Lifewise café composite business model

**Customer segments and value propositions**

The café’s value proposition of providing a welcoming and safe environment drew many homeless or potentially homeless people, as evidenced in records showing their attendance in
the café and the Hub. The transitory nature of the population made it difficult to pinpoint the numbers of homeless people from the soup kitchen moving to the café. An undetermined number of homeless people did not migrate to the new café from the soup kitchen but they could access another service that provided free meals within the city. Staff and management perceptions of client numbers transitioning varied from half to the vast majority.

The café allowed the Hub to broaden its client base. A significant change in customer segments involved the inclusion of the ‘working poor’ in November 2013, who might be at risk of homelessness. Without any formal eligibility criteria, but in line with Statistics New Zealand’s definition of homelessness, the Hub sought to attract a wider range of clients using the new café, such as marginalised ‘fringe dwellers’ and the ‘working poor’ that included ‘working girls’, elderly people or anyone who was temporarily housed, living in boarding houses or at risk of homelessness. Homeless people and the working poor were jointly offered the opportunity to change and socialise in a safe and hospitable environment.

Some days ... I ... see the little old lady ... sitting down with the big homeless guy that’s tattooed up and seeing they’re having an incredibly pleasant conversation about something ... In that environment, you’re safe ... to engage. (Noah, Manager, January 2013)

In addition to homeless clients, roughly half of the café population was described as local people who valued the low-cost food and/or the social mission that was clearly outlined on a café wall. The local public and Lifewise supporters remained an important target segment for the café and were offered hospitality, cheap food and the opportunity to ‘do good’ in the community. While it was challenging to meet the needs of two separate and different populations with an attractive food quality and price, these value propositions did not change.

Corporate social responsibility was added as a value proposition provided by the new commercial catering service in November 2013, as a part of an effort to generate more revenue.
**Key activities**

The key activities did not change at all during the research period. The Hub social workers focused on working with partners to house and enable change for homeless clients, providing dedicated wrap-around customer service. The production and serving of food remained the café’s focus, including the new catering service.

**Customer relationships**

While café customer relationships did not record any changes in the business model, as an early priority for managers, substantial effort was made to improve methods for engagement, such as enhancing the environment and customer service levels. At the request of Lifewise marketing personnel, a service evaluation and the employment of a mystery shopper in mid-2012 encouraged the café to consider and then improve its quality and customer focus. A project group combining management, marketing and service staff was established to oversee the café’s development, before further marketing was undertaken. Marketing staff contended that, while the café was a considerable advance on the soup kitchen, it still wasn’t operating like an ordinary café and attracting mainstream customers.

*I think it took time for the team over there to see it from a different perspective other than the clientele. They had to put on a different hat, so I think it was a little of that commercial hat that was missing.* (Madison, Adviser, November 2012).

A rise in the price of basic meals from three to four dollars in July 2013 generated no customer complaints, but some staff maintained that it distanced some homeless clients. Café customers declined by nearly 30% in August and September of 2013, according to internal records, but this trend was investigated and credited to violent incidents in the homeless community that had generated fear and reduced people’s mobility. In the following two months there was a 13% increase in customer numbers.

**Revenue streams**

Lifewise management saw social enterprises as being fully self-sufficient and so the term social enterprise was not used often internally to describe the café. Although the café may always require subsidies, it still meets the definition of a social enterprise in this research, by meeting its social objective through the development of commercially earned income.

The café was initially established as a service, rather than a commercial business. Lifewise was always prepared to support the café financially, but a cash-flow quandary was projected in 2015–
2016, due to other commitments, and required increased contributions from the cafe. Without any government funding, roughly half the service cost was met by a major philanthropic agency in partnership with Lifewise and the Airedale Property Trust. A further five-year grant was received in late 2013, on the understanding that the cafe would become more self-sustaining. The level of contribution expected from the cafe was not clearly outlined, due to uncertainty as to what was possible. In 2012–2013, the cafe contributed around 40% of its direct costs.

A small but growing catering business developed within the cafe to both increase the level of financial contribution and provide employment opportunities for homeless people. This stretched the capacity of cafe staff but it also proffered the promise of better cross-subsidising the cafes’s ‘social meals’ for homeless people. Other commercial options, such as graffiti removal, have been explored without result.

_The whole idea of the catering is that it will become the commercial driver that will self-sustain the cafe._ (Noah, Manager, June 2013)

Retrospectively, to avoid unnecessary tensions, the service manager would have liked to have identified the expectations of financial contribution when it started. This view was shared by one of Lifewise’s commercial consultants, who argued that clear performance measures are essential and, although they can be changed, they should not drift freely.

_We bought Merge and we’ve set it up as a service. So now we’re back pedalling and trying to run it as a business, and there’s a lot to do._ (Noah, Manager, June 2013)

Low charges of three to four dollars were made for basic meals. This was a significant change from the soup kitchen, where food was totally free. The model was tested with homeless clients prior to starting the cafe and it was deemed to be acceptable to clients and consistent with the Lifewise value of encouraging interdependence and moving away from the charity mind-set. Nevertheless, social workers retained the capacity to provide free food for clients, as necessary.

 рассказал, что они пойдут на сделки с бизнесом и будут участвовать в ее деятельности. Это значительно изменилось от супермаркета, где продукты были абсолютно бесплатными. Модель была протестирована с бездомными и ее считали приемлемой для клиентов и соответствующей значению Лифиза, которое обеспечивало межличностное сотрудничество и переход от благотворительного сознания. Тем не менее, социальные работники сохраняли возможность предоставлять бесплатную еду клиентам, если это необходимо.

_We did little experiments … if we changed the food that we did and we were more intentional about our quality and customer service, would people then pay for that? What we learned is that they would._ (Noah, Manager, November 2012)

Revenue rose as quality systems were implemented. One carefully considered decision to raise basic meal prices by a dollar in July 2013 was debated widely. At the same time, the availability of counter foods was increased and prices were raised to just below the market rate. Mechanisms
to distinguish between the café’s local and targeted homeless populations were contemplated so that different prices could be applied.

**Cost structure**

*(We’re) looking at managing our food costs and percentages and we’re slowly dragging that down.* *(Noah, Manager, June 2013)*

The key fixed costs incurred in the Hub and Merge café related to salaries for staff and the variable costs of café food. Although the cost structure did not ostensibly change in the Business Canvas, there was a strong internal focus on reducing costs. Café management were conscious of bringing costs down while increasing revenue and improving customer service. Expenditure fell as new purchasing and portion control systems were put in place.

*I don’t think we’ve ever sat down and said, ‘What does it cost for us to provide that $4 container of muesli?’* *(Noah, Manager, April 2014)*

Although the café did cost the food provided, accurate costing of individual portions remained a challenge to achieve within the financial reporting framework that focused on service-wide costs.

**Key partnerships**

*This is now part of the Lifewise way, partnership is the basis of everything we do.* *(Noah, Manager, November 2012)*

Above the café, the Hub office space existed for a group of staff who offered comprehensive wrap-around services and problem solving in partnership with a range of specialist agencies, including Housing NZ, Homeless Support (a mental health team), Community Alcohol and Drug Services, Work and Income, and YWCA. In return for their staff time, the Hub has provided these agencies with a ready pool of clients and a meeting location in the café. Café partners included the Toi Ora mental health arts group. Business investors, philanthropic funders and public supporters were all considered partners in ending homelessness. Like Hawken (n.d.), Lifewise believed that social change requires the resources and skills of many individuals and agencies. The three MMN trusts working in close collaboration were the epitome of this approach.
Key resources

The financial backing and reputation of Lifewise were considered a key resource, as was the intellectual capital of the three MMN trusts. This included knowledge of community development, social work and homelessness. The Airedale Property Trust was also seen by the Lifewise board and senior management as providing strong commercial expertise for the café and teamwork was considered essential. Specific hospitality skills only lay within the café.

People who work here have to be comfortable in their own skin, and they have to be OK that they are not the sole genius in the place. (Luke, Manager, October 2012)

The staff and volunteers involved were considered the primary resource, however. The Hub social-work service employed a service manager, Noah, with five social service staff, including three social workers, a youth worker and a housing social worker, plus an administrator. The café employed four people, including a café consultant, a cook, a kitchen hand and a front-of-house person. Hopes of employing many clients through the café did not materialise during the research period, although the kitchen hand position was held for three years by a previously homeless client, and a client who became an office volunteer was employed as the administrator.

[We wanted to] provide this employment opportunity for homeless people so that ... they could actually sustain a rent, because they were employed. I don’t believe that dream is actually a reality yet, or in fact, if it will be. (Audrey, Board, April 2014)

Several changes in café staff occurred as the café evolved. For example the initial cook also took the front-of-house role, but cooking and serving customers proved unworkable. Fortunately, another cook with a strong social leaning was found in late 2012. Three temporary front-of-house staff were employed until a suitable candidate was found in late 2013 who had both hospitality experience and sensitivity to working with homeless people. These staff changes were considered relatively high for Lifewise by managers, and there was an intense desire to provide reliable staff for clients who were more likely to trust familiar faces.

In other parts of the organisation, we’ve had high retention ... and I think in this case particularly they should be striving to retain staff because retained staff let your vulnerable people feel safe. (Luke, Manager, November 2013)

After service evaluations concluded that changes were needed to improve customer service, efforts were made by the manager to learn the café business rather than simply continuing the
Chapter 4. Findings: Within-case analysis

soup kitchen in a much better environment. Noah allocated a third of his time to actively learn the hospitality trade, opening the café at 7am to ensure all was ready for breakfast.

_I dial up my personality and it becomes I’m smiling hi how are you, how was your day? And that hat looks lovely and blah blah blah. And it’s weird, it’s something that I didn’t understand, didn’t know I had._ (Noah, Manager, June 2013)

Key to the service manager’s learning was the engagement of Sophie in July 2012, who was hired first as a mystery shopper and then as a part-time consultant to manage the refurbishment and develop the café.

_One of the reasons we brought Sophie in was because (she’s had) over 20 years of hospitality experience, running cafes and restaurants._ (Noah, Manager, November 2012)

As a friend of Noah’s, she understood the extreme pressures on his time well.

_Noah wears a lot of hats, and for him to manage the cafe as well as doing everything else is not really viable. He can manage it from afar but he can’t realistically manage it on a day-to-day basis._ (Sophie, Adviser, November 2013)

Sophie led the redesign of all purchasing and service systems to maximise income and minimise expenditure. She contributed significantly to the core skills needed for the café, especially knowledge of the café/hospitality sector, developing a keen customer focus, treating all customers the same, and providing a pleasant environment, in addition to managing costs. She also took the time to build up more understanding with and support from Head Office.

_(There’s) people asking how you are doing, and you don’t get a sense of being hurried ... people’s names are remembered, the knives and forks being wrapped in serviettes instead of a big pile of knives at the cash register ... it feels cleaner, there’s smiles on the front-of-house staff ... the food standard, the customer service and employee attitudes [have improved]._ (Madison, Adviser, November 2012)

Lifewise’s board and management actively supported the café with funding, visits and discussions on developments. However, management gave the café some autonomy.

_I think they were coming from an aspect of actually of not knowing about that side of the industry ... I think it was very much, there’s the service and just go ahead and do what you need to do with it._ (Sophie, Adviser, July 2013)
Chapter 4. Findings: Within-case analysis

Noah recognised that Sophie’s leadership was highly valued but caused her pressure, and when she left in March 2014, she took some core but undocumented knowledge with her, leaving a management vacuum in the café. He observed the front-of-house staff member and cook attempt to fill the gap, with some conflict emerging between them.

While Lifewise had access to considerable resources, MMN also sought to minimise losses in the café. The soup kitchen had been open for only two short periods a day, and the café now required more staff for a longer period. Although there was some revenue coming in, it was not cheap to run and resources were very tight. Noah and James, however, argued it was cheaper to run because of the trading income.

The Hub has always been funded from us, it’s not self-sufficient but it’s not as expensive as it was in the past. (James, Adviser, October 2012)

It’s also more expensive to run than a soup kitchen because you’ve got more staff ... You need a different environment ... We’re open six hours day where the soup kitchen was only open two or three hours a day. (Brook, Manager, April 2014)

Extraordinary efforts from the service manager and consultant drove some key changes, such as the enhancement of an attractive patio area out the back of the café. Evenings and weekend work became common. Developing a sustainable café took so much effort that stress levels were high among café management and staff, who volunteered some of their free time. Additional pressures included when income requirements increased and when the General Manager left Lifewise.

There’s so much to do, it’s like where do I start? As well as that you’ve just got the daily stuff that just keeps pouring in. (Noah, Manager, April 2014)

Noah’s despondency at times was matched with a paradoxical preparedness to fail, yet a determination to succeed. Committed to serving their clients better, Lifewise Hub leaders searched to find ways to make the transition into social enterprise a reality.

I think you’ve just got to go in with your eyes wide open, and be prepared to fail ... if it’s not working, change it. (Noah, Manager, April 2014)

Despite all team efforts, there was a consideration running through the service of whether it was too hard for an operational manager of a social service to run a commercial café. The shifts in mind-set were considered possibly too challenging, and perhaps that it should be run by Airedale
Property Trust, the commercial arm of MMN. Alternatively, the café might employ its own manager.

*I’m not a business man, I’ve never claimed to be, I’m not a café manager either, I’ve never claimed to be. What I do is run good social services that have huge impacts on people. I do innovation well. I see ways and multiple solutions to solve social problems. I don’t see how best to market a café.* (Noah, Manager, April 2014)

The Hub and Merge café were located in leased premises. In early 2014, Lifewise refurbished the café. The renovation sought a balance between an attractive and comfortable café for locals and the homeless customer base. The balance was hard to get right, and a new café staff member noted that he had heard some homeless clients thought it was too ‘flash’.

**Channels**

The primary channels used to communicate with customers and clients was café signage and word of mouth, including from partnering agencies. The refurbishment of the café was followed up with a re-launch of the café to market itself to more customers and clients. Messages through social media to Lifewise followers (400) told the story of the café and some of its clientele; celebrations were held; specials generated at the café; and new café signage was supplied.

*The café should be ... the hook ... it’s the point of engagement.* (Madison, Adviser, November 2013)

The café shared Lifewise’s Facebook page, and flyers were also developed for the homeless and local business community to encourage café use. After the refurbishment and internal changes, Lifewise associated publicly with the café, renaming it the Lifewise Merge café.

**4.1.4 Working with social and commercial logics**

Seeing the café as a commercial enterprise that was expected to contribute substantial revenue to café operations was a significant change for Lifewise management and staff. From the outset, however, managers were optimistic of financial success. It was hoped that homeless people would be drawn to support services through food and a non-judgmental but nurturing approach. Where the soup kitchen had perhaps 15–20% of service users engaging with social services, the Hub aimed to get 60–70% of homeless and marginalised people coming through the cafe to use the attached social services. The café was seen as a hook to get people through the door.
We hold hope for people. We actually believe that they can change and that just because they’ve tried once and failed, it doesn’t mean that they can’t do it again. And so you’ve just got to keep trying. (Noah, Manager, November 2013)

Opportunities to wrap services around self-sustaining businesses, such as cafés were considered a way to grow the business, once the model was proven. The small catering business within the café also offered an opportunity to scale up with a centralised kitchen that could allow food costs to be better controlled and provide employment opportunities for homeless people. However, survival, rather than expansion, gradually became the focus, as challenges to generating commercial income became clearer. Nevertheless, the Hub social-work team experienced success in supporting greater numbers of homeless people and the café increased its level of financial contribution to Lifewise. The number of diners was also recorded.

The café and its associated social support service were two different services operating in the same Lifewise division. In this case, the social and commercial approaches were not instantly compatible, and the two parts of the homeless service operated more separately than envisaged by senior Lifewise decision makers. Lifewise always intended that the Hub’s social workers would be present in the café most of the time, but demanding workloads generated conflicted priorities. Social work and café team meetings were held separately, with little sharing of skills and approaches. However, if café staff needed assistance with a client, social work staff would readily come down to help.

While some senior managers believed the social work and café roles should be shared to some extent, at least one senior staff held the view that these commercial and social roles should be separated so as to minimise role confusion. Some social workers challenged the idea that a commercial café for homeless people was possible, while others supported its potential for delivering social integration and increasing resiliency.

I think the move away from Airedale St was a very positive move ... It can be improved upon certainly, (but) it’s a million miles away from where we were. (Michael, Staff, January 2013)

I think the tension between running a financially viable cafe and the social agenda – there’s a tension that I don’t think ... is resolved. (Logan, Staff, November 13)

Managing both its social and commercial approaches generated challenges. For example, balancing cost control with an increase in prices created some tension for some social workers, who saw the rise in meal cost as too high for the homeless population but too low for the general
population. Some personnel envisaged a largely self-funding commercial café (some managers and consultants), while others sought a small financial contribution from the café (some staff and managers). At times, there was imperfect understanding of each other’s positions, needs and areas of expertise. Nevertheless, there was a commitment to collectively resolve these issues through a project team and ongoing communication.

They have increased the prices from $3 a meal to $4 a meal, and that has meant large numbers of unemployed people aren’t coming, because they can get a $2 meal at McDonalds. (Logan, Staff, November 2013)

Charging a higher rate to mainstream customers was a dilemma. Identifying those who were homeless or in need was so challenging that it was simpler to keep fixed prices for all, with some counter food at just below market rates to cross-subsidise lower cost meals. However, after the research concluded, consideration was given to using some form of identification and access for people with low income to lower food prices, while others paid market rates.

It was one of the big decisions we had to make, we would have a flat price for everybody, or a tiered price depending on whether you were waged or unwaged or could afford it, and we decided that was against the philosophy of the cafe. (Bill, Manager, January 2013)

The Service Manager and social workers recognised that a commercial approach did change some relationships at times with homeless clients.

A lot of times it brings you into conflict with the people you are trying to help. Because why can’t I have two spoonfuls of that? (Noah, Manager, June 2013)

Some senior managers and café staff described holding dual social and commercial perspectives in balance. The service manager argued that there was not yet sufficient understanding within Lifewise of the café’s very specific requirements, although the General Manager acknowledged the emerging knowledge in managing café staff.

Professionals [social workers] … expect a degree of autonomy to exercise their professional judgment… Within a kitchen environment … it is much more systematised … there is a stronger degree of oversight and I think dependence on management. (Bill, Manager, November 2013)

While fully involved in the work of Hub social workers, Noah initially had a more hands-off style at the café because of his lack of familiarity with hospitality. The Lifewise café manager took a strong role in learning the café business and saw that it needed a different management
approach to personnel and systems. He noted the need for a complete mind-shift to manage the café and adapted his management style to accommodate the need for stronger systems, consistency and greater sensitivity with staff.

*I think you could ... manage quality and systems, and the customer experience, and outcomes, and data, and all of that really superbly, but fail abysmally at running a commercial operation. I think it does require a different skill set. (Bill, Manager, November 2013)*

The café benefitted from the input of personnel with hospitality experience, which led to greater customer focus, balanced with Lifewise’s values and vision. In-house marketing expertise was also pivotal in repositioning the café to be customer-oriented. However, marketing a café was different to a social service, and café management wanted a more dedicated and commercial marketing approach. Sophie and Noah drafted the initial marketing plan for the café, which was later built upon. There was a stated willingness to acknowledge where skills were lacking in the cafe and a determination to find these externally if necessary.

*I think what we’ve learned from this is that if you don’t have the expertise, you have to find the expertise. I guess it’s about admitting what you do or don’t know. (Madison, Adviser, November 2012)*

*What (Lifewise is) lacking is a lot of the other skills around assessing market opportunity ... how do we monetise our service, how do we market, brand and sell it? (Max, Adviser, April 2014)*

The service manager wished at times for more or different support from Lifewise’s finance, marketing and human resources, although the advantages of having access to these resources in-house were also acknowledged. A variety of skills and perspectives were both valued and available to robustly appraise developments. Openness to learning and change was considered important in Lifewise. Despite not having much spare finance, the organisation was willing to risk mistakes in order to make a stronger impact on a social problem.
We need a multi-disciplinary team for this type of work ... we can call on the finance guys to ... look at business case models ... the project can call on us in terms of marketing and fundraising ... the social workers can look at it from that perspective. (Madison, Adviser, November 2012)

While diverse views were appreciated within the café and Lifewise, some tension emerged between the marketing department and café. Café management wanted the café to have its own website, Facebook page and twitter feed. However, the café was just one of Lifewise’s services and the marketing team, also stretched in capacity, believed existing Lifewise marketing systems and resources could be more feasibly shared, rather than duplicated. In addition, marketing felt that the café did not adequately understand marketing as a communication tool.

The Hub team would say all you have to do to make this a success was to tell people about it. (Madison, Adviser, November 2012)

I just sort of feel like we get let down a little bit in our marketing and PR. (Noah, Manager, June 2013)

Staff and management largely saw the café’s stage of growth as a teenager or young adult, with some development still required. Nevertheless, the Hub has been successful in several different ways. Awarded an International Innovation Award from the Australasian Housing Institute in 2009, the Hub found that by changing the service model, the relationship with clients also changed. Violent incidents dramatically reduced as homeless clients made an effort to present themselves positively in a public café where they were welcomed as customers. The Hub’s well-established social work skills were considered effective in engaging and supporting personal change. Increased rates of housing and employment have been achieved among a growing number of homeless clients, in collaboration with other agencies.

4.1.5 Summary

The café’s most significant development in its business model was in its broadened customer segments, consideration of channels to access them, the addition of commercial catering activity, focus on expenditure control to reduce costs, refurbished facility resources, and finding prices that were fair for both customer segments and generated sufficient revenue. Key partnerships continued to be forged as Lifewise found more synergies with external agencies.

The significant changes made in staffing, customer service and internal café systems were not well reflected in their business model. In particular, key personnel with hospitality sector
expertise and some senior leaders were pivotal in moving the café to hold a more commercial viewpoint.

Already entrepreneurial in delivering social change, Lifewise navigated the tensions that arose in developing its social enterprise in line with its philosophical values. Emergent challenges in relation to structures, identity, scale, logic diffusion and performance measures were often unexpected and spontaneous, as the café evolved.

4.2. Ako Books

4.2.1 The not-for-profit parent: Playcentre

Playcentre is an eminent New Zealand voluntary organisation providing early childhood education. It began as a pioneering co-operative in the early 1940s to support women as well as to promote new developments in early childhood education (ECE). Unique in the world, it is a grassroots parent-led organisation that aims to empower adults and children to work, play, learn and grow together, with a strong philosophy that messy and imaginative play contributes to children’s mental health. (Playcentre, 2012a; Stover, 2003).

In 2014, Playcentre served around 11,000 families in New Zealand and around 15,000 children from birth to school age. Playcentres are co-operatively managed locally and supervised by parents with support from experienced personnel, enabling lower child-to-adult ratios than any other ECE organisation. The number of local Playcentres has reduced since the 1970s, when single family incomes were common. Then there were over 700 Playcentres throughout New Zealand, and Playcentre and kindergarten were the two dominant ECE models. By 2014, there were 489 Playcentres that competed with a host of ECE services that do not require parental input (Playcentre, 2012a; Stover, 2003).
This bottom-up movement has been acknowledged internationally for its innovative family-centred approaches (Playcentre, 2012b; Stover, 2003). Research participants maintained that uncertainty, ambiguity and disorder are considered natural features of Playcentre organisational and human life. Playcentre encourages adaptation within each local environment and believes that diversity in view creates better decisions. Playcentre typically seeks consensus to harmonise these views, even if it takes longer to find a resolution (Stover, 2003).

Prior to 1973, Playcentre had no paid staff and relied on volunteers and community support. Since the 1990s, Playcentre has moved closer to government funding equivalent to other ECE providers, although funding has still been considered inequitable (3 News, 2014). Although necessary for survival, research participants suggested that Playcentre associates Ministry funding with bureaucracy rather than community creation. While it has had to deliver services to government-led educational requirements, Playcentre has continued to recruit and train parents rather than education professionals and to develop democratic environments that acknowledge parents’ practical abilities as decision makers. The tension between adhering to both contractual requirements and core mission has been challenging. A strong belief in self-determination and a search for independent streams of funding was seen by the Publications board as the prime motivation for Playcentre’s recent move towards social enterprise.

Figure 20: Playcentre Federation organisational structure

Figure 19: Playcentre organisation chart

(Playcentre Federation, 2013)
Chapter 4. Findings: Within-case analysis

4.2.2 The social enterprise: Ako Books

While Playcentre began producing books in 1945, it was in 1974 that a centralised Playcentre Publications committee (Publications) was established as an internal division of Playcentre that employed part-time staff in its Auckland centre. The Publications committee was run by a fluctuating group of Playcentre volunteers, many of whom were highly skilled in writing and editing early childhood educational books. The educational interests of many Playcentre parents supported their efforts by providing rich material for new books.

The Publications committee’s competence was seen as reflected in that seven of the top eleven currently recommended books from the Ministry of Education were Playcentre Publications books and there were few strong competitors in New Zealand for these specialist publications. Nevertheless, no matter how competent the committee was in publishing, a revolving committee was not considered by the Playcentre Federation or the new board to be in a position to build a strong business.

*I think the problem lies in the fact that it’s been an ever-changing committee of volunteers that have been responsible for making sure that things have been run properly and nobody has ever taken responsibility for the finances and actually working it out. Because it’s hard and it takes time and if you’re a volunteer you’ve got other things to be getting on with.* (Harper, Board, June 2013)

Sales peaked in 1992, and profits that were not required to cover book development costs were ploughed back into Playcentre’s general funds. Publication’s sales were traditionally advocated through local convenors and centre librarians, but by early 2000 many of these positions were disestablished because they could not be filled by volunteers. Skilled volunteers had become harder to find as many women found increasingly paid work to supplement their family income or the requirements of the volunteer position became too large. At the same time, Playcentre equipment shops and some Centres and Associations were closing because of growing competition in the early childhood sector.

As a result of these developments, in 2008, the Publications and Promotions committees were combined into one committee, Promotions. As the new name suggested, the dominant focus became the production and promotion of journals, stationery, calendars and diaries used by Playcentre parents. Profits became rarer as contractors were employed to take over some of the volunteer roles in the production of books. One year of financial loss was circumvented only because copyright fees for the previous ten years were collected. In 2010, the Promotions
committee was disbanded during a national restructure. After some years of internal consultation within the Federation, Playcentre agreed to establish a limited liability company\textsuperscript{11} for charitable purpose to run the publishing business. In September 2012, a new board formed to take over Publications and started to explore whether they could turn the fortunes around of this struggling Playcentre division.

Publication’s long term goal was to create a substantial independent income stream for Playcentre. The six-member volunteer board was excited at the prospects of creating an income stream that could begin freeing Playcentre from bureaucratic government requirements and was confident of achieving this.

4.2.3 Business model

In February 2013, Playcentre Publications legally separated from its parent and came under the direction of the newly appointed Board of Directors, with the NZ Playcentre Federation as the sole shareholder. Separation from Playcentre had multiple purposes. Firstly, the commercial structure of Publications was thought to enable faster management decisions and rapid growth, with less consultation required in Playcentre.

\textit{If by some chance things didn’t work out … it wouldn’t mean that the whole organisation goes down. Whereas before, it wasn’t separate … so any risk we took, was a risk to federation. (Haley, Board, November 12)}

In addition, less financial risk for Playcentre was expected and finally, separation was considered important in order to appeal to the wider early childhood market.

\textit{Customer segments}

While Playcentre’s 11,000 families provided Publication’s biggest market, declining parent participation within Playcentre indicated to the board that existing markets needed to be expanded or new markets found. Some consideration was given to a potential conflict with the values of Playcentre, but a broader market was seen as necessary from a financial perspective.

\textsuperscript{11} A limited liability company exists as a formal and legal entity in its own right, separate from its owner(s).
Chapter 4. Findings: Within-case analysis

As Figure 22, below, shows, the Publications board and staff were clear about its customer segments from its inception. Both Playcentre and the broader early childhood education sector, including training establishments, were targeted. It was this broadening of customer segments that stimulated Publications’ rebranding into Ako Books so it would appeal to a bigger market.

_We are going to do something about the Playcentre brand because it is going to exclude a whole lot of the market._ (Harper, Board, September 2012)

Figure 22: Ako Books’ Composite Business Model

An analysis undertaken in June 2013 (Playcentre Publications, 2013) confirmed Publications customer segments, with the largest being Playcentre parents, parents at home and other caregivers of children. A second key group were educators working in early childhood centres, commercial and not-for-profit providers, such as Barnardos, and private providers in the home, such as PORSE and private nannies, in addition to tertiary trainers and libraries.

**Value Propositions**

Because of its extensive history, the board wanted Publications to be widely recognised both in New Zealand and globally as a trusted supplier of quality educational resources for parents,
whānau (extended family) and educators within 5–10 years. Publications saw itself as reinventing a new and ambitious organisation.

*When the opportunity to be part of Playcentre Publications came up ... I saw it as critical to the future of Playcentre in terms of being the only tangible opportunity at the moment to develop a really viable income stream, independent from Government funding.* (Harper, Board, September 2012)

To earn this revenue, Publications aimed to enhance parenting through play that was in line with Playcentre’s values and philosophy. It intended to produce and distribute high quality but affordable publications that increase parents and ECE teachers’ ability to develop children’s learning. This value proposition stayed constant throughout the research period.

**Key activities**

The board understood they were governing both the promotions and publishing activities, but their motivation was solely to develop the publishing business, producing and distributing early childhood books. These latter activities stayed constant through the research period.

*Playcentre Promotions is something we’ve inherited as well. We’re negotiating that relationship.* (Harper, Board, November 2012)

Promotional material was not seen as lucrative, and indeed much of the material was considered out of date. The production and distribution of the organisation’s journals, diaries, calendars and stationery were considered extraneous and distracting from the core business of developing and distributing saleable books. During the research period, staff that estimated a third of their time was on Promotions activity but the board thought it was much higher and up to 90% at times. Publications’ new board began a lengthy negotiation with Playcentre to ease out of its obligations to produce promotional material.

**Customer relationships**

The board saw that effective sales and marketing systems were critical for good customer service and profitability, and that poor mechanisms were currently available for Publications customers. While the national Playcentre website did have a static page for Publications, the new board thought it inadequate. Buying a book involved challenging self-service that was comprised of direct e-mail or postal contact and subsequently sending cash or cheques.
Chapter 4. Findings: Within-case analysis

There are no customer relationships, and our staff do not see themselves as people who need to manage customer relationships. (Harper, Board, November 2012)

As a result of the efforts described below to improve customer service, research participants identified the customer relationship genuinely as self-service in November 2013, as opposed to a service that was difficult for customers to access.

**Channels**

Publications’ primary communication with Playcentres occurred through their annual national conference, Playcentre website and local training events. Communication with individual Playcentres was difficult as they were overloaded with information and there was no systematic means of communication, with each Playcentre having their own idiosyncratic e-mail addresses.

Whoever is the president at the time will have their [local] email for the centre. So they’re really hard to get to. (Harper, Board, November 2013)

Word of mouth was therefore the primary channel of communication within the highly interconnected Playcentre groups and external customers. For example, some toyshops, book retailers or teaching centres held Playcentre books, but this largely depended on their connection to a Playcentre advocate. Similarly, some early childhood and teacher training centres held Playcentre books, but were found hard to reach as a group. Although Publications attended early childhood conferences, sales were much lower in the ECE sector than in Playcentre, and the board wondered if their books were valued by them.

Are our products not what they want? (Haley, Board, June 2013)

With very few resources, the new company established an e-commerce website that was linked with the national and local Playcentre websites. By November 2013, Publications had achieved their aim to sell easily online from anywhere in the world (Ako Books, 2014). Facebook, Twitter, Pinterest and two monthly e-mails to customers were also developed by their new employee. A newsletter was also offered to customers. Collaboration was sought with large Playcentre-connected businesses to increase sales.

The integration of systems behind the scenes to run an e-commerce website have almost taken us right to the edge of what we can cope with resource wise. (Harper, Board, November, 2013)
Chapter 4. Findings: Within-case analysis

Prior to establishing their new website, Publications rebranded itself so as to appeal to the larger ECE market that includes private early childhood education centres and the working parents using them. In addition, profit seeking was not sought within Playcentre, so a different identity appeared appropriate for Publications.

By August 2013, Playcentre Publications created its new brand, Ako Books, which reflected Playcentre’s commitment to biculturalism. Ako is a Māori word that describes a reciprocal teaching and learning relationship, where educators’ practices are both deliberate and reflective, and the learner and whānau (extended family) cannot be separated. By early 2014, the board was aware that some Playcentre parents were not happy with the change, as there had been no consultation around the decision outside of the new organisation. The Chair later described this discontent as ‘minimal and short lived’.

**Key resources**

Ako Books physical resources included rented premises within the Auckland Playcentre rooms in a warehouse in a commercial area of west Auckland. The conditions were not ideal as it was overly hot in summer, very cold in winter and noisy when it rained. The only computer available was seven years old. Nevertheless, staff were accepting of these conditions.

*You just take (the working conditions) because it’s Playcentre and it’s worth doing stuff for.* (Evelyn, Staff, November, 2012)

Figure 23: Playcentre and Ako Books’ offices

The newfound Ako Books inherited thousands of books in storage, as 3,000 copies had been made for each book. A pre-Christmas sale was planned in 2012 to get rid of stock and bolster resources for development, but was not successful. Busy Playcentre parents did not buy the older books, and the offerings largely remained in the warehouse. Later efforts to sell the stock to a discount book store also did not succeed, as these specialist educational books were not seen as material that sold easily.

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12 Māori are the indigenous people of New Zealand.
Two key Playcentre leaders took vital roles in establishing this enterprise. Firstly, Haley was involved for over 30 years, was the Māori Co-President of Playcentre Federation, had been the national Treasurer and was actively involved with the Publications committee for over 10 years. Beginning to think about Publications as a business in 2004, she commissioned a review in 2006 looking at the potential for a sustainable publications service. The consultant publisher advised that to build on Playcentre’s good reputation for quality material, a publications unit would need to take some risks in obtaining loans and perhaps employ an editor or manager who was purely focused on publishing books commercially. Later a financial adviser suggested setting up as a not-for-profit company, and Haley has steadily worked towards this over recent years.

Secondly, Harper, an active Playcentre parent and leader, Past President of the local Association, volunteered for the role of Publications Chair. Considered to be dynamic and influential by staff, she was part of restructuring Playcentre nationally, exploring how Playcentre might adapt, while supporting its core purpose and philosophy. With a background in both social work and business, Harper was interested in social enterprise and led the transition from the old Publications committee to Ako Books.

*I think we actually have ... a good varied board of directors at the moment.* (Haley, Board, November 2012)

The new Publications board was comprised of a diverse group of professional women, half of whom had no experience in Playcentre. This was seen as a radical shift, because Playcentre traditionally encouraged internal self-management, but the new board was seen as an opportunity to gain external skills to appeal to a broader early childhood market. Board members had experience in early education, developing educational books, and finance, and there was some commercial experience, but there was no one with commercial publishing experience.

Having given up their small honorarium to minimise costs, the board’s first aim was to stabilise the new enterprise. Although governance training was provided to focus the group, the board struggled to consider strategy when operational decisions dominated. Financial and sales information was sought, although this was difficult to obtain with no full-time or managerial staff. The finance function was undertaken by Auckland Playcentre personnel and no financial analysis was available. Job descriptions and the skills needed in Publications were reviewed.

*I guess we’re in a stabilising stage and information collecting stage.* (Haley, Board member, November 2012)
Publications initially employed two long-term half-time staff, three contractors and also used some volunteer board members to undertake some key operational roles. The main employee, Evelyn, had worked in Publications as the Coordinator for 20 years. In this role, she organised the production of books and promotional material, but did not design or develop them. Her colleague was responsible for managing their distribution.

The development of the books had been undertaken by the volunteer committee and later by contractors. When the new board was formed in 2012, the title of Evelyn’s job was changed to Publications Manager on a twelve-month contract, but the job description did not change significantly. On one hand, Evelyn saw change as necessary, but, on the other, she saw her job continuing as before. She thought the staff and committee roles were not well defined but that change was largely the responsibility of the new board. The new board, however, wanted staff to take more responsibility, rather than to continue as order takers, and encouraged them to make decisions that would previously have normally been made by the overseeing committee or the contractors.

_We have a culture on our Board of empowering staff to make decisions ... we don’t want to be holding up decision making._ (Harper, Board, November 2013)

Evelyn appreciated the board’s enthusiasm for change, but found getting decisions or information to be challenging and expressed some cynicism that they would stay the course to achieve their vision. The separation of the new business was time consuming, requiring extra work, such as running two sets of accounts for the new and old organisation. Evelyn expressed a mixture of emotions including excitement at the prospect of change, frustration at the new board’s limited understanding of what information was needed and possible resentment of and stress from the fresh requirements of change and detachment from the process and outcomes. With some life coaching and a sounding board provided by a friend, Evelyn managed the emotion generated by the transformation in Publications that was difficult for her.

_Oh you [board] should have got that sorted, why should I have to worry about it? ... You wanted this to happen, why is that now my responsibility as well? ... It’s just one more thing to think about, there’s just so much._ (Evelyn, Staff, November 2012)

In late 2012, the board decided to discontinue publishing contractors and, by early 2013, planned to develop an e-commerce website. The board took the risk to hire a person with strong business and marketing skills to lead the development of customer engagement as a sales and marketing manager in May 2013 for 20 hours a week. She had both a government and commercial
background, an MBA and was eager to ‘sort out the shambles’ to help Publications get back on its feet. With no budget, finance manager or general manager, she focused on doing what she could to bring the service up to date, thinking the organisation would not survive more than a year without increasing income and gave the service two months to turn around.

*In two months’ time, we ideally need to have all the new systems and procedures in place which have been revamped completely in order to make sure when we sell something, we sell it at a profit.* (Ellie, Staff, June 2013)

This sense of urgency to get to break-even was also present among the board, as reserves were depleting rapidly. The new marketing manager started to take action. A toll-free number was installed, and cordless phones and computers were bought for staff. Board leaders saw the two long-serving employees becoming more enthusiastic about their work, and the new marketing manager assumed contact with the board.

*What I have seen in (Evelyn) is that she’s suddenly got enthusiastic.* (Haley, Board, June 2013)

Ako Books joined the Publishers Association of New Zealand and in so doing gained some useful contacts and considered how it could better position itself in the international as well as the New Zealand market. The board recognised that more knowledge of publishing was needed. In addition, even with a new website and credible products, when profits still did not increase, despite having much improved marketing channels, internal sales capacity became more important to attain.

*What we would ideally like probably would have been another Board member who had a little bit more publications knowledge or experience.* (Haley, Board, May 2014)

Idealistic at first, the board had believed better marketing would deliver instant sales, but learned from other businesses that profitability would take time. The board considered contracting out parts of the managerial role in small bits, but with intense resource constraints, the Chair reluctantly operated as the CEO.

*I want to chair the Board, I don’t want to be a pseudo CEO and general manager of staff.* (Harper, Board, May 2014)

Without a manager, board and staffing resources were stretched thinly during the transition to the new company, the organisational redesign and the drive to profitability. The limitations of a voluntary board that met every six weeks, supported by part-time staff, became clear to the team.
Board members were expected to give four hours a month, far less than what was thought to be needed. There was no time for detailed analysis, decisions were largely taken on a gut feel and only small steps were possible. With severe resource constraints, volunteers from the board had to be used for functions that were above expected requirements. The board of directors was added as a key resource for getting the new business operation in May 2014, although they had taken a lead role throughout the research period, filling in needed roles at no cost to the organisation.

The first new book was developed and launched in November 2013. *Messy Play* was a revision of a book that was developed in association with Playcentre parents who contributed recipes. The book resonated with Playcentre parents and the Facebook page had 4,500 views with 800 copies sold in four days, enabling survival for a little longer. Local Playcentres participated in selling the book and earned 20% for their own fundraising. The Chair had devoted several full-time weeks to developing this book and wished a manager of the publishing process was affordable. She felt overworked and stressed but reduced her other commitments to focus on Ako Books. By early 2014, she was considering resigning as Chair.

*What's been the most difficult thing? Frustration about having a bigger appetite for wanting to make it work, than having personal resource and time to put into it, and constantly balancing that, giving everything I had really. I have given everything I have been able to for the past couple of years.* (Harper, Board, May 2014)

In late 2013, the board decided to restructure the enterprise and the two existing staff were made redundant. Multi-tasking and a higher level of responsibility were seen as needed and the board saw the staff as unable to change sufficiently to meet the demands of the new organisation. A mixture of anger and relief was expressed by these staff who had already been through significant stressful change. The Chair was distressed by this action but the board considered it essential for the future of the organisation. Publications needed a fresh start to its business, unconstrained by past systems and processes, but it was not easy to do.

*But then having to tell the organisation what we’ve done, that we ended the contracts of very long-standing Playcentre people, (Evelyn’s) been around for a long, long time. [Evelyn] saw it coming, not that that made it initially any easier, nor did it make our decision any easier. But for [Janet], it completely came out of nowhere and she reacted really badly to it. So that was a tension filled, difficult time as well.* (Harper, Board, Nov 2013)
Chapter 4. Findings: Within-case analysis

Although not formally recorded in the business model, these changes in key human resources were seen by the board as a crucial step in commercialising. The redundancies of older staff were accompanied by the employment of two new staff, who were without a Playcentre history but had the desired commercial expertise. Staff were therefore added as an important resource in November 2013, in addition to the Playcentre community who had extensive community and organisational links throughout New Zealand.

A publishing and administration manager was recruited by the board in October 2013, as there was no resource for an external recruitment process. Sarah was appointed because of her background in commercial retail and project management. Skilled in collaborative systems development, but without specific publishing knowledge, she was seen by the board as a process focused ‘fixer’. Winning the position over senior publishers because of her willingness to multi-task and do whatever it took to make a small business successful, she was employed for 30 hours a week instead of the two existing twenty hour a week positions, but at a higher rate. Ako Books’ new structure can be seen in Figure 24 below.

[Sarah’s] a real grafter, a real practical lady ... She gets it. We’ve got no resources... just get on with it. (Harper, Board, May 2014)

Figure 24: Ako Books’ Organisation Structure, October 2013

Sarah was challenged by the lack of systems in place but ‘excited’ by possibilities for Ako Books. With the board’s help, she reorganised the premises and redesigned the administrative, financial and service systems with a strong customer focus. By early 2014, a database of contacts for early childhood centres, teaching establishments, and Playcentres was underway. New accounting software was installed with help from an accountant on the board.

Getting systems and processes in place that I’m comfortable with, so that things are done in a more efficient way ... so that really feels like that’s all I’ve done for the last six months. (Sarah, Staff, May 2014)
By May 2014, a literacy book was being developed that was targeted at the ECE and teacher market. A board member and Sarah worked with two academic Playcentre authors to develop the book. Another revision of a bestselling book was underway and two other books were in the pipeline.

Playcentre’s reputation and credentials were seen as a valuable asset and provided the potential social capital that could be further developed, particularly with authors. Sarah and the board therefore continued to explore how Ako Books could improve the way it worked with authors, as their intellectual capital available for books was considered a primary resource.

New staff, the website and the new book had used existing funding for staff and overheads and some available reserves, in addition to vast amounts of volunteer time. It brought Ako Books ‘down to the wire’ in terms of available resources. Grant funding was sought, including from Playcentre, which turned down the request for funding partly because there was no written business plan. Any subsequent book therefore needed to be self-funded on Messy Play’s sales and operating at least at break-even was essential. All resources were ploughed into the enterprise with little left for growth. The board remained optimistic.

*I don't think there’s anybody on the board and certainly not our staff who don’t believe that we have a business that could work.* (Harper, Board, May 2014)

Access to development capital proved to be an ongoing issue on the board’s agenda. Research participants mentioned that moving from a not-for-profit to a for-profit model seemed extremely difficult. The Chair commented that she would have treated the business differently if it was her own, using more volunteers and fewer staff members.

**Key partnerships**

Playcentre, represented by the Federation executive, was the sole shareholder of Ako Books and its primary partner. However, Playcentre was busy with managing its own service during this period and was consequently not actively involved in the development of Ako Books, other than through its representatives on the board. To some extent, the board felt neglected.

*Actually I feel a little bit forgotten to be honest.* (Harper, Board, May 2014)

Many Playcentre authors were appreciated as highly credible in the early childhood world and were valued highly by the board as partners. In June 2013, the board of directors saw author relationships as needing too much work to be called authentic partners, and were removed from the business model while better systems for communication were developed.
Chapter 4. Findings: Within-case analysis

The board members ... have gone out and made direct contact with the authors. The relationships with the authors are actually better than they’ve been in a long time. (Haley, Board, May 2014)

Authors’ contracts and royalties were therefore reviewed, trusting that clarity together with ongoing communication would assist the drive to improve relationships with these key partners. A process for selecting authors and books was developed in July 2013.

Revenue streams and cost structures

Lacking information on the true costs of the books, in June 2013 the first analysis of book sales within the previous five years revealed those books that had not been selling and should be written off. There were only three profitable books and, while other books were considered to be high quality and desirable, they were deemed to have been poorly promoted. A new marketing plan identified three new books that could be produced in the short term and also considered new products and markets in the longer term. The plan also called for a rationalisation of pricing and discounts in line with industry practices, an increase in sales through the proposed website, and rebranding and improvements in both author relationships and product pipeline. Discounts of 50% were commonly given to both Playcentre associations and retailers, but were out of step with the publishing sector, which tended to provide only 30–40%. This anomaly allowed retailers to undersell Publications. By late 2013, these were rationalised and prices were raised in time for the launch of the website.

It’s the norm for publishers to discount their recommended retail price for retailers ... 30 to 40%. Currently Playcentre Publications discounts to all retailers (and) Playcentre ... 50% ... it’s unnecessary so we have to change that. (Ellie, Staff, June 2013)

Despite all the efforts made to improve systems and processes, sales continued to fall throughout the research period. The Chair had a sense of failure because sales did not escalate as expected, but also knew that Ako Books had come a long way and was now in a much better position to sell. In retrospect, the Chair considered that perhaps internal changes could have been made faster, but she would have had to be there full-time when she had to attend to her own business and family.

We found things as we went along. (Haley, Board, May 2014)

Ako Books largely eliminated Promotions activity by March 2014, only retaining some older products for distribution. Playcentre had paid Ako Books a set fee for staffing and the direct
production costs, although poor financial records did not make this clear to the board until early 2014. Financial information had taken so long to unravel that the loss of this revenue was a surprise to the Board, who then expressed ambivalence about losing essential revenue to cover staff but eliminating non-publishing work.

*We have a serious cash-flow issue.* *(Haley, Board, May 2014)*

Ako Books’ costs were largely fixed and related to staff, printing and accommodation, and there were variable royalties paid to authors, depending on the number of sales made and their contract with Ako Books. Ako Books was highly cost conscious but identified strongly as being driven by values, rather than being value-driven; that is, by creating premium value, as described by Osterwalder (2009).

### 4.2.4 Working with social and commercial logics

Ako Books emerged from a ‘rebirth’ of a once successful but now outdated publishing model, now aiming to operate essentially as a commercial organisation for social purpose. Initial expectations of high income shrank to survival when it was clear that it would be a challenging climb to profitability, but the board still saw long-term profitability as their reason for existing.

*We need to reach a critical mass of profitable products.* *(Harper, Board, May 2014)*

Ako Books retained its mission of enhancing parenting through play. At the same time, the business actively sought to appoint people with valued commercial experience to develop new marketing and purchasing systems and capabilities within the small team. The board and staff recognised that skills in sales, costing, pricing and financial analysis, as well as publishing sector knowledge and capital were needed and only some of those could be provided within the financial constraints. Turning Publications into a commercial operation was an enormous challenge, requiring a greater amount of work, finance and skill required than was ever expected by the board.

*So it’s been the best time for us because we feel like we’re really making progress now. But also I’ve really held on for dear life.* *(Harper, Board, Nov 2013)*

The separate structure and identity limited organisational involvement with Playcentre other than through reporting, although at least half of the board members continued to be actively involved in the parent organisation. However, separation also minimised their financial risks and enabled Ako Books to make rapid commercial decisions if needed. Seeking profit was the
primary purpose of Ako Books, and less tangible benefits of commercialisation were not sought for Playcentre. Organisational performance was measured by the number of books produced, sales levels, and website and social media use.

_We don’t have to keep going back to the organisation to make a decision on where we are going._ (Haley, Board, November 2012)

Research participants from the board saw Ako Books operating very differently to Playcentre. It was a commercial organisation focused on generating profits and appointed staff and volunteer board members with some commercial experience to achieve those. For example, while supportive of consensus approaches within Playcentre, the Chair saw the need to be ‘more pushy’ in this new board in order to get things achieved quickly. The board saw Ako Books as a challenge but also an organisation that was operating strategically and very agile. In terms of life stages, Board members saw Ako Books go from infancy to a teenager during the research period, although one new staff member saw it still as a toddler just beginning to stand on its own feet. The urgency to reach break-even stretched personnel to their limits of time and skill. Yet board members articulated strong support for Playcentre values as well, including empowerment, minimising bureaucracy, partnership and play, innovation, and biculturalism.

_I’ve still got my values in the back of my mind which don’t quite go with the profit making. But if we want to make this work, we have actually got to turn it into a business._ (Haley, Board, June 2013)

Conflicts in values have arisen for board members at times, however, for example when making staff redundant. Ako Books’ first book was a collaborative effort with Playcentre families and used a local printer, rather than the cheaper option of printing in China.

### 4.2.5 Summary

Ako Books’ intensive development is evident in Figure 25, below. The value proposition held constant through the research period offering to enhance parents’ and educators’ skills through play and high quality affordable books. Key activities similarly remained stable and focused on the production and distribution of books. While the cost structure did not change, without any internal financial staff, cost analyses and pricing product were challenging. During the research period, however, there were significant changes in other parts of the business model.
Improvements in customer service, customer relationships and communication channels, changing prices and revenue collecting systems and stopping promotions activity were the key business model changes. The reconfiguration of human resources and systems were not reflected in the business model. Their greatest challenges were in accessing resources, developing a customer focused approach and systems, marketing and sales, costing, and strengthening partnerships with authors.

After the research was completed, the new Chair in 2015 noted that Ako Books had become even more commercially focused, had a workable business model, lean processes, robust accounting, a growing customer base and a clear direction for growth.

4.3. Changeability

4.3.1 The not-for-profit parent: Connect SR

Changeability is a social enterprise within Connect Supporting Recovery (Connect), which offers a range of services to people experiencing mental illness. Largely based in Auckland, Connect works “in partnership towards healthy communities” to see “people living satisfying lives of their choice”. Standing Together In Wellness, Connect believes in “doing the right thing”, “whatever it takes”, “keeping it real” and “being all you can” (Connect, 2012, p. 5).

Connect is an incorporated society\textsuperscript{13} that emerged out of a more traditional residential mental health service for people experiencing mental illness. An incorporated society is a group or organisation that has been registered under the Incorporated Societies Act 1908 and, when incorporated, is authorised by law to run its affairs as though it were an individual person. This
Chapter 4. Findings: Within-case analysis

health service, which had been in some financial difficulty. In 2005, Beth was appointed as CEO, and research participants noted that she then led a modernisation and service expansion process. The service was repositioned to empower people to choose the way they lived their lives. A rebranding with the new Connect name and approach took place in 2006.

By 2014, Connect had become a large not-for-profit, employing 120 full-time positions, working in ten different sites, and serving over 750 service users each year, with annual revenue of over seven million dollars.

Service growth was based on Connect’s ability to deliver innovative responses for their service users, through their experienced, qualified and independent mental health professionals. Connect’s management style is self-described as empowering and participative. A recent advertisement for staff on Connect’s website searched for “innovation, flexibility and pioneering achievements … met in equal measure with grounded reality and the ability to speak out at an Emperor’s lack of new clothes” (Connect, 2013a). Staff expertise and their flexibility have been key strategies for the service. Connect management and board reasoned that they could be more financially sustainable if there was a broad range of government mental health contracts in a wider geographical area.

We’ve diversified our income streams that way ... so if we get cut off anywhere, we can move our staff around, because they are the key to it. (Ryan, Board, January 2013)

Connect has been organised into thirteen service teams and the organisational structure is shown in Figure 27, below. All community, employment, peer and housing support services focus on developing service users’ readiness to change. Connect also runs practical Free to Be courses for community members or workplaces that need to increase their resiliency by managing stress. Both board and management envisaged that several activities could be commercialised in the future.

It is about other income-generating possibilities so (Free to Be) has become the first off the taxi rank [after Changeability]. (Beth, Manager, November 2013)

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means that the members are not personally liable for the society's debts, contracts or other obligations. Likewise, members do not have any personal interest in any property or assets owned by the society. Decisions are made or ratified by members at an annual general meeting. If the society is wound up, surplus assets can be distributed amongst members. Profits must be used to run the society to achieve its purpose and cannot be distributed to members.
4.3.2 The social enterprise – Changeability

As a part of Connect’s diversification strategy, Beth and Mia, the CEO and Deputy CEO, started discussing possibilities for further income generation in 2007. Both managers reported some commercial work experience and entrepreneurial orientation, as evidenced in their reversing of Connect’s fortunes. Mia had been employed in a large social enterprise in England, which subsidised support services with commercial housing profits, and was eager to see what could be developed for Connect.

_I came from a really huge not-for-profit in the UK, which had a very, very well-structured profit-making arm that fed the charitable arm of the main organisation … that kind of floated my boat as a model._ (Mia, Manager, January 2013)

In 2008, Beth and Mia, with the Connect Chair and a Trade and Enterprise\textsuperscript{14} representative, applied for a six-month Community Internship Programme from Internal Affairs, a government agency interested in strengthening community organisations. The grant was awarded in 2009 to employ a full-time person to identify commercial opportunities. The board developed a Terms of Reference for the feasibility study under Mia’s management and the project attracted a Trade and Enterprise employee, Lily, to take a leave of absence for the role.

\textsuperscript{14}Trade and Enterprise is a government agency that helps New Zealand businesses grow in international markets.
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Lily talked to staff across the organisation to assess Connect’s core skills and the value that might be offered commercially. She found that staff were largely positive about helping clients access currently unfunded services through commercial income. In contrast, managers described some staff as very resistant at first, with many worried that the enterprise would distract Connect’s management from core business. While a few remained opposed to the use of corporate profit as a matter of principle, resistance among staff was seen to largely dissipate as Changeability reached financial break-even, began contributing to Connect’s mission and did not threaten Connect’s core work.

_They don’t want to be part of that corporate profit; they want to be part of the social service world ... But I think things are changing (as) it starts to break even ... and not needing to be carried._ (Grace, Staff, April 2013)

Lily developed a list of around ten potential ideas that were then reduced to three. All were measured against their market potential, organisational readiness and their fit with Connect values and objectives (Connect, 2009). The ideal service would also strengthen core competencies, not impact on current services and generate a revenue of $100,000 revenue within three years (Connect, 2009). Lily considered one option for stress reduction programmes to be too basic for the corporate environment and that Human Resource directors were more attracted to fostering change readiness in staff.

_I think key to developing Changeability was really hearing the market saying what they need._ (Lily, Board, January 2013).

In November 2009, Lily successfully presented a business case back to the Connect board, which recommended the sale of change management assistance to organisations. It was based on the adaptation of a tool that was already used within the organisation to measure and encourage individual readiness for change.

Lily argued that she and the social enterprise project should be responsible to the CEO, rather than the Deputy CEO, if the new business was to have adequate organisational support. This was agreed, although the CEO later regretted doing so, given her time pressures and Mia’s passion for social enterprise. Mia noted she lost some motivation for the project as a result, but the project was returned to her when Lily later left the role.

_I tried hard not to but lost lots of motivation to drive it forward. I’m only human and it’d been my baby._ (Mia, Manager, January 2013)
Lily spent one year developing the tool, assisted by a Connect psychologist who understood the readiness model well and redesigned it to be used in a commercial environment. To get feedback from businesses, organisations received free or low-cost workshops. For an organisation that experienced much change, Connect management also found them valuable. The workshop was reduced from two days to two and a half hours, in line with business responses.

_There was really no marketing or selling done in that year really, and it was like having the most beautiful beautiful car in the garage and no one could drive it._ (Mia, Manager, January 2013)

By November 2010, the change readiness tool was ready for sale. In retrospect, some managers and board members wondered if they spent too long on trying to perfect the product when it could have been taken to market and then developed over time.

### 4.3.3 Business model

Figure 28: Changeability Composite Business Model
The business model developments during the research period, as seen in Figure 28 above, reflected the shifts of understanding and opportunity for Changeability occurring over time. Bracketed time periods refer to the dates of additions or changes to the business model.

**Value propositions**

Connect’s initial motivation to establish Changeability was to increase organisational financial sustainability and also undertake a broader role of encouraging positive mental health in local communities. Connect had already identified a need for preventive and early intervention services within the general public, but did not have funding to establish any services. Changeability was seen as the first commercial service to achieve these goals.

Changeability offered to strengthen organisational changes made in roles, structures or processes by empowering individuals to voice their thoughts and participate actively in the change. This offered to reduce the risks of failure by helping to engage staff more effectively, building staff resiliency and minimising their resistance. A minor clarification was therefore made in July 2013 that the offer was to help successful change occur and reduce the risks of unsuccessful change. Otherwise, having been tested in its development phase and clarified with commercial customers over time, the value proposition remained essentially unchanged through the research period.

*I think fundamentally we’re just adding value to change processes, making sure that they are more likely to change than if we weren’t there.* (Ethan, Manager, April 2013)

Changeability prided itself on helping organisations use their resources most effectively to achieve successful change. Changeability’s work with some of New Zealand’s biggest companies enhanced both its status and confidence that change readiness was valuable to business (Changeability, 2013).

*A company like [this] giving us that purchase order suggests there is value in what Changeability does.* (Jacob, Board, May 2013)

By purchasing from a social enterprise, customers were able to meet some of their Corporate Social Responsibility at no additional cost to them, in addition to ensuring their change was both productive and cost-effective. Changeability became aware later that some customers valued Connect’s mental health experience. While this linkage was initially downplayed because of a potentially negative perception, in May 2013 it was highlighted when appropriate, as part of Changeability’s unique selling proposition.
Key activities

Changeability aimed to understand organisations’ need in change. Engaging staff and prioritising solutions for change managers were the other key activities. Guided interviews assess an individual or group’s readiness for change and each person receives a personalised action plan that focuses on what they can control. A report also provides detailed and prioritised actions to assist management in change implementation. Managers therefore might become better informed and skilled to respond to staff needs by using Changeability.

Really helping people to focus on what you can control and influence ... making recommendations to change leaders about what they can do to strengthen the change process. (Ethan, Manager, May 2013)

Key activities remained the same through the research period with one exception. Initially, it was envisaged that existing ‘off the shelf’ packages would be sold, but customers wanted workshops tailored to their needs, which were added to the business model’s key activities in May 2013. By early 2013, customisation of four possible specific and generic change workshops was usual. Such tailoring of products was more costly, but pricing was kept in line with typical local training fees and feedback from customers. Connect’s psychologist and managers preferred a limited range of products because of time constraints, but there was also an acceptance among Changeability personnel that customer needs had to be met. Furthermore, new products were seen as potentially adding new strings to Changeability’s bow, as learning evolved.

Customer segments and relationships

Changeability’s customers were primarily businesses from its Auckland base. Larger corporates were seen as more likely to manage complex change, have more staff and the ability to pay for the service. Not-for-profit agencies may have had the need for Changeability but they may not have had the resource to pay. Although one engaged Changeability, Government agencies did not usually issue tenders for such a specific service and were challenging to access for Changeability. Nevertheless, all requests would be responded to, including from the public sector. The Connect Business Manager and Chair argued that Changeability must seek and take whatever work it could get and then do whatever it took to deliver it.

I remember one conversation about work and whether we would take it, and I think that’s crazy in a start-up, you take whatever [work] you can. (Liam, Adviser, Jan 2013)
In May 2013, targeted customer segments were also further refined to focus primarily on commercial customers in Auckland and those that cared about engaging their staff. The Changeability 2014 strategic report included a focus on New Zealand-owned corporates and larger not-for-profits. Changeability identified 4,500 potential organisations that met these criteria in Auckland. Dedicated personal assistance was a constant description of customer relationships.

*I’m wired to meet customer needs and in fact exceed them probably and that can be sometimes doing more than we need to.* (Ethan, Manager, December 2012)

Closely aligned with its parent, Changeability shared Connect’s desire to do whatever it takes to deliver a quality product for customers. Exceeding customer expectations was a normal part of Changeability’s dedicated personal assistance, partly to get ongoing or repeat business.

*A guy with a lifetime of experience as a project manager - he said that’s the best report of its kind I’ve ever seen, it tells me exactly what I need to do and the order I need to do it, and if I want to see the analysis, I can.* (Ethan, Manager, December 2012)

Changeability’s ‘readiness for change’ workshop was considered by managers to be unique in the New Zealand market. The biggest competitors for the corporate market were change and management consultancies who specialised in human resource or organisational development. There were also many training businesses, but none were known to provide the tailored reporting and recommendations offered by Changeability.

*The thing we are doing so well, is ... the strength and depth of relationship and seen as being you know a partner that’s easy to deal with, authentic, values driven.* (Ethan, Manager, May 2013)

Customer feedback was found to be consistently positive, and internal managers and advisers thought Changeability was seen as both credible and authentic by its customers.

**Channels**

*Getting people into the beginning of that pipeline has been one of the biggest and remaining challenges.* (Ethan, Manager, April 2014)

Channels of communication primarily relied on word of mouth and referrals through contacts and the website and this was considered common for consultancy work in Auckland. Introductions seemed necessary in meeting key organisational personnel and staff and their
networks were added as a channel to the business model in July 2013. Advertisements were considered unlikely to work because trust is such an important ingredient in the customer relationship. So all Changeability personnel were encouraged to offer up their warm leads in businesses as the primary means to obtain work, including from emerging connections like the Global Women’s Network. Connect’s business manager encouraged Ethan to ‘pick up the phone’ to make contact with any potential customers in order to grow. One Advisory Board member connected Changeability to a global dairy exporter, when she was thought to be confident of the product being offered.

_We’d been asking (for contacts), that had been withheld [by an Advisory board member] for a number of months … probably for her own reputation._ (Beth, Manager, May 2013)

Connect used relational marketing and Changeability similarly had a strong focus on building positive relationships to obtain ongoing work, and thereby lowering the costs of acquiring work. For example, one corporate customer purchased eight workshops and coaching over a six-month period. However, marketing for Changeability proved to be substantially different to Connect and more difficult to do than expected.

_Getting those new introductions is not the same for Changeability as the rest of our business._ (Mia, Manager, January 2013)

There was some internal difference of view on whether cold calling was effective. The Connect Chair had experience of cold calling successfully, but Connect’s business manager believed relationship connections were essential. Mia carved out time for some cold calling to see how hard it was. She managed to make four calls, one of which resulted in a telephone meeting for Ethan, suggesting it might be possible.

Changeability did not have a marketing budget, but case studies and testimonials have been gradually developed by Changeability, and articles on the service were submitted to the New Zealand Human Resources magazine. In July 2013, articles in relevant magazines were added as a channel and case studies were added in November 2013.

A newsletter was developed for customers, and conference presentations in 2013 included Human Resources, Project Managers and Social Enterprise Auckland, and were included as channels in November 2013. A LinkedIn account was established. Google analytics were used to support Changeability’s website searches and continued to be further refined over time as it generated some enquiries and customers.
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**Key resources**

The change readiness tool was first developed by Boston University and, although significantly adapted, was aligned with evidence-based practice and theories of change. The intellectual property of the model was deemed critical, as was Connect’s experience in mental health and supporting individuals to change. However, most of Changeability’s resources were human.

Changeability’s value and investment risk was closely watched by Connect’s ten-member board, with their strong linkages and interests in the mental health sector and a perceived high-risk appetite for advancing Connect’s mission. There was varying knowledge on the board in building a business, but two key board members had strong and relevant business backgrounds. Jacob, the board Chair, has been a senior banking advisor with some specialisation in business start-ups and a strong belief that social and commercial success were both ultimately about people and well-being. Connect’s Treasurer, Ryan, has been a serial entrepreneur in both the commercial and social sectors and has been an advisor for Connect’s Edge Employment service. These two leaders have seen getting the right people in the right position at the right time as key to success, even if it meant making hard decisions on recruitment.

*NGOs are not very good at making the hard decisions ... You’ve got to have the right personalities and the right skills. So we had someone very, very good at what she did at preparing it all ... but when it came to operations, we needed somebody else, and so we had to make that change. There was no issue with that.* (Ryan, Board, May 2013)

To assist Changeability’s development, the Connect board established an Advisory Board in 2010. Its members were selected for their commercial expertise in human resources, start-ups, branding and marketing, as well as their interest in supporting mental health development. The Connect Chair and Treasurer also sat on the Advisory Board, aiming to assist the Service Manager with ideas, tasks and resources. For example, a branding specialist helped to develop a new logo for Connect. Connect considered the Advisory Board key to operationalising Changeability, because of their business knowledge and connections.

*I just don’t have the knowledge and insight and understanding of start-up business in NZ ... We’re really busy and 95% of our time is focused on social work and people, service delivery processes, not business building, not marketing.* (Beth, Manager, Jan 2013)

After Lily’s contracts were completed and Changeability was established, she was appointed to the Connect board. Careful to avoid any adverse financial impact on Connect’s existing services,
management then juggled resources to appoint Ethan in November 2011 to a 60% position running Changeability. Ethan was a change management and team development specialist, having operated his own training business in the UK in both the commercial and government sectors. Already having worked in Changeability as a facilitator since June 2010, Ethan was viewed as very skilled in managing customer relationships, understanding business needs and designing and running the processes that meet those needs. He was able to use corporate language and was considered an excellent facilitator, but was less drawn to sales.

Ethan also continued to manage Connect’s Edge employment service in two days a week. He described himself as a ‘completer-finisher’ and found the split role to be difficult. Three staff similarly expressed concerns that leading a start-up was hard for Ethan to do on three days a week. By November 2013, after revenue targets had been reached, Mia juggled budgets and people so that Changeability could employ Ethan as a full time manager, responsible for both sales and provision of training. Some Connect personnel were concerned that, despite the background support, this was essentially a one-person business and there was no succession plan.

*I think for Ethan to still have had part of his time focused on another role within Connect has been a detraction ... I think in a start-up you have to be solely focused on one thing.* (Liam, Adviser, January 2013)

By mid-2013, Ethan expressed difficulty in accessing managers for decisions, as they were so busy with new government-contracted services. Ethan was aware Connect’s core business was demanding, so he was reluctant to unduly pressure them. Connect’s business manager, appointed partly because of his commercial experience in human resources, noted in early 2014 that Ethan did not shout loud enough for contacts or resources, including management time.

*Probably what I would do different is ... to really demand (good senior management time) ... and then protect it ... I think I’ve kind of put up with things and allowed us to get probably to where we are.* (Ethan, Manager, April 2014)

A number of other staff have been key to Changeability. Working closely with Ethan was Grace, a clinical psychologist, who designed the workshops, made sense of the data that returned and helped to develop the recommendations for the business. Other Connect staff also assisted, with part-time product development and findings, facilitation, marketing, administration, finance, management and reception. Other related part-time staff were clarified as a key resource in April 2014.
Chapter 4. Findings: Within-case analysis

The long lead time between meeting a client and invoicing for work created a tenuous cash flow for Changeability, which was operating ‘on the smell of an oily rag’ with intense time constraints. Like the senior managers, most people involved with Changeability felt overloaded, struggling to fit the social enterprise work into their primary role and purpose.

*I think just doing that within a not-for-profit, where resources are so tight, and the focus needs to be entirely on core business. That leaves social enterprise like ours ... very under resourced with ... a lack of management focus.* (Ethan, Manager, April 2014)

By November 2013, two contracted facilitators were in place and were being considered as future potential partners. Contractors were seen potentially as a low-cost way of scaling up and meeting specialist organisational needs or peaks of work requirements, and were added as a key resource to assist in flexibly scaling up in November 2013. Contractors were seen as most useful for areas required by customers outside of Changeability’s skill set, such as leadership training. The primary contractor was an experienced leadership consultant who gave 40% of his normal fee to Changeability, and considered it a contribution to social good.

*Once we start using contractors, which we know we’ve got to ... in terms of ... growing our business. We’ve got to be skilful about how we manage ... the relationship with clients.* (Ethan, Manager, January 2013)

Management considered whether expanding the number of contractors on commission and/or further investment in a business development manager could grow the business. If it was the latter, should Changeability hire a brash sales person or a perfectionist deliverer like Ethan? Could they be combined in the same person? If the salesperson also delivered workshops, customers would only have to meet one person and this might enhance customer relationships.

*I don’t know if they are going to carve up my role ... whether a business development manager comes in ... and I focus on delivery and relationships.* (Ethan, Manager, April 2014)

There was some support among the contractors and board members for using a very broad range of contracted services that assisted change in some form. A percentage of all revenue could be paid to Changeability and, in this way, scaling up could require little capital. If businesses could acquire competent consultancy services, they might well choose a social enterprise over commercial competitors.

There were different views on the desirability of using contractors, however, with trust and quality being the biggest issues. Despite the advantages that contractors brought, Ethan worried
that unknown contractors could be brought in who might damage the reputation of Changeability. There was also the risk of customers being poached by contractors, although one contractor pointed out that the risk of stealing clients went both ways if his clients were introduced to Changeability. Senior management also wondered if contractors would remain with Changeability when the economy was stronger and work was easier to find independently. Another concern was that they charged too much, leaving little profit for Changeability. Scaling up past one full-time workshop facilitator and two contractors did not eventuate during the research period.

Lingering questions for Changeability’s future resources included: should there be a manager for Ethan because he enjoyed service delivery or should Ethan be the manager because of his expertise? Should Changeability be one of the products sold under a commercial division of Connect, or should Changeability be the umbrella for other products? Could large investors, like Ernst and Young, be interested in helping to scale up? If Changeability achieved some scale and fiscal sustainability, Changeability could become a separate entity as a limited liability company dedicated to supporting Connect.

**Key partnerships**

External to Connect, a number of partnerships were considered during the research period, including the Global Women’s Network, and a national mental-health agency offering programmes on maintaining mental health at work. This latter partnership was removed in July 2013, when functional linkages did not develop as needed. In July 2013, change consultants from major firms were added as potential key partners to refer clients to Changeability for implementation. Although links with consultants did not develop on any scale during the research, senior managers always thought this option had potential.

*The huge success has been the depth of relationship with [customer] ... it’s about people ... spending some time alongside service users doing something that is a benefit to both. (Ethan, Manager, May 2013)*

A partnership developed with one customer whose staff provided direct support to some of Connect’s clients, and contractors and some Changeability customers were added as partners in November 2013.
Cost structure

The board had decided to invest conservatively in providing Changeability with a 60% leader and facilitator until it proved itself by generating sufficient income to cover costs. The essential cost structure stayed largely the same during the research period, although staffing growth continued, making Ethan full time and adding two part-time contractors. A key Advisory Board member noted he did not want to waste money on marketing.

*You’ve got to be conservative ... I’ve spent too much money over the years on marketing or sales activities, which is just wasted. You keep it as tight as you can until such time as you’ve got the money coming in.* (Ryan, Board, Connect Treasurer and Advisory Board member)

By 2012, the board had invested significantly over three years and expected the service to break even soon, at which point the board would consider future targets and investment. By May 2013, the financial budget was reached and even exceeded. Yet senior Connect managers noted that their time supporting Changeability and some corporate overheads were not included in that budget analysis. This was noted in the business model in July 2013.

*Sometimes it’s 10% of my week, and other times ... 50% ... we don’t really cost (all overheads) ... that’s not realistic to do that for Changeability now.* (Mia, Manager, January 2013)

Changeability was not a core service for clients in Connect, but used the Connect infrastructure for cost efficiency reasons. For example, a new client database was purchased in 2013 and, although it was an improvement for recording Changeability customers, it was not a customer relationship management system and did not fit its needs perfectly. Resource challenges also discouraged growing the business. Increasing permanent staff for Changeability would require more office space, computers and cars, much of which would require new expenditure.

*We cost all of our services very well ... but (Changeability) is all in tiny bits, and sometimes people are stepping up to do bits to help out ... unlike a service which you can ... put a boundary around it and allocate sensibly on either ... a per client basis or a funding basis.* (Mia, Manager, June 2013)

There were challenges in costing and pricing customers’ commercial services, as opposed to the cost of contracted services that were collectively examined. It took some time to assess the total cost of the Changeability programme, at which point the methods of costing and which overheads should be included were still debated. One senior manager argued that some
organisational overheads would not be saved if the service was stopped and suggested the team should not terminate a service as long as it was contributing to overheads.

**Revenue streams**

Initially, Connect’s management had high expectations of Changeability’s ability to generate resources, thinking it might ‘make millions’, even if not immediately. The CEO mentioned the initial plan was to repeatedly grow then break even in three cycles over six years. The board aimed to first achieve profitability within three years.

*For me it’s about managing expectations. We kind of thought it would be ‘woof’ … because we know how good Changeability is.* (Mia, Manager, January 2013)

Revenue was received from largely fixed but also some variable fees for customised workshops, audits and reports. The business model was amended to include a variable fee for tailored workshops in May 2013 and a percentage of the contractor fee in November 2013. Getting a pipeline of customers was a major concern and the uncertainty of future income generated anxiety in the team. There was a frequent sense of urgency to gain more clients and sell more workshops, but it was not easy to achieve. Ethan was busy meeting work commitments, but sales were not flourishing as hoped. For example, in April 2014, there had not been much work all year. Income was unpredictable.

*We are very unlikely to get fifty thousand dollars’ worth of business this year but we might get $200,000 worth of business this year.* (Beth, Manager, November 2013)

Ethan sometimes did not have time to always respond to website queries, as his focus was on delivering the workshops. By early 2014, Ethan acknowledged that there were disincentives to sell, as it created pressure on him to deliver workshops. There was an acceptance that direct sales was a skill in short supply, as it was not required within the not-for-profit.

*One of the comments that was made by a board member was our ability to sell is like taking a knife into a gun fight … it’s, you know, such an alien thing.* (Beth, Manager, April 2014)

The board and management considered ways to expand Changeability, specifically by increasing sales and business development expertise. Ethan acknowledged that this was not his greatest strength nor interest and yet was a critical need.

In March 2014, a different revenue stream was considered. A review by the Advisory Group on the future of Changeability had raised the potential goal of $500,000 profit a year. This was only
5% of Connect’s annual turnover but would more than double its recorded surplus in 2013 and 2014.

*We asked for feedback from the Advisory Board members around what they wanted from Changeability and that half million came through quite strong. (Mia, Manager, April 2014)*

The time frame expected to achieve this target was unclear and seemed unrealistic to managers. By April 2014, the Deputy CEO wrote a report for the Advisory and Connect boards, which outlined three options facing Changeability to raise revenue levels. The status quo was not an option considered, as something had to change. Broadening the contractor base was not cited as an option. Changeability could, firstly, stop providing services or, secondly, more sales expertise could be provided. Thirdly, a whole new model could be introduced that involved charging licensing fees. A Train the Trainers course could teach human resource leaders how to provide change readiness assessments within their own business.

This was the option that Mia and Ethan most favoured, as it was clear to them that the current business model was too resource hungry to be profitable and not easily scalable. Mia and Ethan calculated that 80 workshops could be delivered a year at most by a full-time facilitator, as a tailored half-day workshop in fact took two and a half days to prepare, deliver and provide a report and recommendations. Too little profit was able to be made at current prices.

*Our pricing ... needs to be reviewed ... getting the time and focus to do it is a ... challenge. Mia, Manager, June 2013)*

Training trainers would be less resource intensive and could use more standardised programmes. Up to double the number of off-the-shelf workshops could be run. Beth worried that the useful interpretive report and recommendations would be lost without the focused input from the workshop leader and psychologist, and Connect relationships with business would diminish. In April 2014, the Advisory Board recommended balancing two recommendations to provide some additional sales support, as well as further testing out the potential for a Train the Trainers course. At the beginning of 2016, this had not yet been instigated.

Price comparisons on Changeability’s workshops were perplexing for management. Compared to other training courses that were more standardised and did not provide the report and recommendations, and consultancies that took broader views on change management, Changeability’s offer was either inexpensive consultancy or reasonably expensive training. The
Advisory Board was confident that more could be charged for existing workshops, but senior managers thought their price may be at the upper limit of what the market would bear.

*There’s a feeling within the Advisory Group … probably the current costing level is too low, it needs to be moved up … the corporates that we’re working in at the moment, they can afford it, it’s not an issue.* (Ryan, Board, April 2014)

Despite all the benefits Changeability brought, the Service Manager often wondered if having a new people-intensive product in a market that was new to Connect was more challenging a business model than it needed to be. Would it not be easier to buy and sell property or buy an existing business, or provide something that Connect already provided, like counselling in Employee Assistance Programmes? Ethan and Mia thought that training was unlikely to be a profitable business, but Advisory board members and a new contractor saw Changeability as a management consultancy that could be lucrative.

*The model we chose was not to go out and find a profitable business, a café or supermarket or whatever … we chose something that was a brand new product in a brand new market. We weren’t even going to a market that we knew about. I think it was one of the most challenging choices in terms of social enterprise.* (Ethan, Manager, April 2013)

### 4.3.4 Working with social and commercial logics

Positioned within Connect as a division, Changeability was separately branded but shared some of Connect’s structure and resources. Nevertheless, Connect gave Changeability a different name and identity so that it could develop its own persona as it grew and customers did not have to closely associate the service with mental illness.

Connect management were always aware that the internal requirements of commercial services would be different from their contract-based services. All research participants acknowledged the need to have both social and commercial perspectives within Changeability, and Ethan was seen by research participants to blend both. The social enterprise felt like part of its parent because Changeability was expected to demonstrate Connect’s values and also because Ethan was there. He provided authentic, values-driven and passionate leadership to achieve Connect’s long-term vision.

*I think it was a master stroke … having someone who was already in the organisation … leading Changeability … it felt like part of Connect… not really having that tension of values*
that could have happened if you’d had something really separate and stand-alone. (Mia, Manager, April 2013)

The new business was perceived as complimentary to Connect by senior management and the board, with commercial expertise appointed within Connect’s management and Changeability’s Advisory board, and adaptive innovation actively encouraged throughout the organisation.

We were always quite entrepreneurial but ... this has made us really entrepreneurial. Things like what we’re prepared to sell. It’s quite a different thinking place. (Beth, Manager, January 2013)

The Advisory Board members provided useful experience of commercial start-ups and understood that new businesses must be propped up for a while until they are self-sufficient. Start-ups might look good at first but then go into a ‘valley of death’, before emerging again if they have the right input. Changeability requirements for entrepreneurship, risk taking, investment, perseverance and developmental timing were championed by both the board and senior management.

For me it was like any other start up. You had to understand what your market is, what it is you’re offering that’s of value ... have a good brand, have a good website. Then once you’ve set all that up, really all about sales and marketing. (Jacob, Board, January 2013)

Specific hurdles surfaced only slowly, although the Board Chair noted how different a commercial start-up is to running a not-for-profit.

The needs of a start-up change very quickly ... (and) are a whole world away from a mature NGO, so bridging that requires that commercial perspective. (Jacob, Board, May 2013)

While it was clear that the social and commercial aspects blended within Changeability, management considered the balance to be a delicate one. Connect’s business manager argued that if Ethan was more commercial he would prioritise sales more highly and that Changeability did not demonstrate a typical commercial hunger for sales. Ethan acknowledged not wanting Changeability to be too commercial and thought staff would leave if it was.

It’s too much like a not-for-profit. Bound to be (because it’s) surrounded by one [and if it wasn’t] I think it would be hungrier for sales. (Liam, Adviser, April 2014)

Changeability was not seen to be managed very differently to Connect, with the Service Manager also in Connect’s management team. Moreover, entrepreneurial innovation and
supportive management approaches were considered integral to both Connect and Changeability. Differences between them were not easily articulated, with Changeability seen as another arm of Connect that was embedded in its culture and values.

So in terms of have we managed him hard enough. No, in terms of in a commercial model saying if you don’t reach your sales target before you ... that doesn’t fit with our culture. (Mia, Manager, November 2013)

In terms of staff outside of Changeability, most of Connect’s personnel did not need to understand commercial perspectives, as they were not directly involved in the business. Connect’s personnel were also encouraged to value diversity, which may have been helpful in tolerating a commercial perspective within the organisation.

We work in multi-disciplinary teams, we work with lots of different stakeholders, with family members as well as the clients ... People ... having to work with that all the time also enables them to have the skill to ... be able to listen and integrate other people’s views. (Grace, Staff, April 2013)

Even though most Connect staff did not interact with Changeability other than through internal change workshops, Connect management sought staff support for the development of Changeability, because organisational resources were being diverted and personnel had a strong sense of ownership of Connect. Support was premised on providing services that also met mission, financial dependency was only for a short period of time, and it was staffed by people who embraced Connect’s values and mission. The service was seen as increasing the resilience and mental wellbeing of people in the business community and therefore fitted Connect’s larger mission, a constant guide for decisions.

We’ve also got the internal customer, and that is the rest of the staff. Because if you don’t have the support of the organisation and its staff. (Ryan, Board, May 2013)

Isolating performance expectations and measurement was challenging for Changeability. The financial return was the initial stimulus for developing a social enterprise, but this became not the only nor possibly even the most important benefit for Connect. The CEO noted that Connect managers bought the idea of social enterprise by focusing on income generation, but other benefits were not known then. She wondered whether they would have still supported the social enterprise if they had known how long it would take to reach profitability.
Most senior Connect managers came to accept that break-even was tolerable with several less tangible benefits emerging. Any further investment in Changeability would need to be taken from front-line social services, which seemed to defeat the objective of making profit for Connect and its clients. However, benefits included developing connections with businesses, both at an organisational level and also between Connect service users and the staff of one customer. Connect managers also saw Changeability influencing the wider organisational culture, integrating and increasing the level of existing entrepreneurship and money awareness in other operational areas. Connect used the workshops to assist their own internal change processes.

*The initial goal was ... a big revenue stream. That has now changed ... to break even and some spin off from some good partnerships ... and from the internal workshops. (Liam, Adviser, May 2013)*

Furthermore, the CEO saw the board as becoming more sophisticated through its commercial oversight. With an emerging additional income stream, Connect managers also valued the ability to creatively develop new services separately from their work with government funders and planners. Board members noted that the diverse skills required for social enterprise piqued the interest of and therefore helped to retain their very competent managers in addition to offering a broader range of skills to personnel. Changeability also helped to market Connect. With all these intangible benefits, management saw high profits as less essential as long as Connect was no worse off financially. Advisory Board members, however, retained hopes of higher profits to support Connect.

*To be honest, when we couldn’t justify it on financial measures, we started talking about non-financial stuff ... so there’s a lot of intangibles that are really important but they need to go alongside some financial performance as well. (Jacob, Board, May 2013)*

At its current size, there was no culture clash between Changeability and Connect values. One administrative staff member noted that if Changeability stayed small, that might continue. However, if it grew much bigger, she argued that Changeability might require more corporate and ‘hard-nosed’ leadership and skills that might be incompatible with Connect. Change and uncertainty was normal and expected in Changeability, however.

After the research was completed, the outgoing CEO considered that scaling up was difficult for Changeability because it was not meeting market demand and that businesses were more honest
about that after she no longer worked at Connect. The feasibility study had targeted human resource directors as informants rather than those who paid the bills.

*You know how a snake grows? ... they shed their skin on a very regular basis and become something quite different, and I think those cycles are slowing down a bit, but we still are going to be doing that every six months. (Beth, Manager, December 2012)*

Participants in this research described Changeability’s current stage of development from infancy to teenage years. Participants with strong commercial backgrounds were most likely to think the enterprise was in infancy or childhood, with a small staff and not yet selling confidently. Personnel with social sector backgrounds tended to think the enterprise was operating like a young adult, not fully formed but well on its way. Changeability was seen as shedding skin like a snake every six months.

### 4.3.5 Summary

Changeability’s business model clarified during the research period, particularly in the expression of the value proposition, targeted customers, customisation of the product, development of channels and revenue structure. Significant changes in the use of contracted resources and partnerships available to sell the service are also reflected in the business model. While motives for establishing the social enterprise were about developing income, less tangible benefits became more important over time with a break-even financial goal becoming more acceptable among management.

Despite Changeability’s many strengths, three key skills-based challenges were noted by research participants. Firstly, there were some significant challenges in costing and pricing customers’ commercial services, as opposed to Connect’s collectively and annually costed contracted services. Changeability’s offer was either inexpensive consultancy or relatively expensive training, and the possible price of services varied according to these perspectives. Secondly, winning customers through sales and marketing was challenging without a skilled and dedicated salesperson. Thirdly, despite having a proven product, the strategy for scaling up was not yet agreed. The use of contractors was considered and trialled but permanent staff who were fully committed to Connect became a preferred option. Organisational performance was measured by introductions, sales levels, business contacts and website and social media use.
4.4. Chapter summary

This chapter has provided an overview of the social enterprises and their not-for-profit parents. The intensive development undertaken to develop each social enterprise and the challenges and strengths encountered in managing the new commercial logic have been outlined, together with the structures used and the most significant changes made in the business model.

Lifewise, the large regional church-based social service, developed the Merge café in order to deliver homeless services more effectively. A public café supported a more normalised and integrated setting for homeless people, and a business model that could contribute financially to the service. The entrepreneurialism, partnership building and social work expertise within the Lifewise Hub supported this development. Substantial efforts were made to develop a strong customer focus and quality systems with the help of internal commercial advisers and specifically an expert in hospitality. The greatest challenges for the café were in marketing and sales, costing and pricing, beginning a new catering service and finding the appropriate personnel to operate the service.

Playcentre, the large national early childhood education service, was publishing books for several decades, but appreciated the opportunity to develop a stand-alone publishing arm and, it was hoped, a more autonomous funding stream. Seeing the decline in volunteers available for publishing encouraged the organisation to experiment with a commercial approach within a separate subsidiary. With determination to succeed and an existing pool of authors and
customers, the board of the Ako Books grappled with many challenges. These included restructuring and hiring new staff, with sought-after commercial skills, who could focus on developing customer focussed systems, including communication with the widened customer base. Their greatest challenges were in having sufficient time and resources to redevelop the business, marketing and sales, pricing and costing, and managing cash flow.

Connect, a regional mental health service, rigorously sought a business idea that would enable them to provide another income stream to expand services. The establishment of a corporate change consultancy within the new Changeability division met their requirements well, because it allowed Connect contact with the local business community. With a hand-picked Advisory Board and strengths in forming partnerships, the small team developed the business within tight resource constraints, identifying customer preferences as they went. The greatest challenges for Changeability were sales and marketing to potential corporates, costing and pricing, and identifying the right human resources required to expand sales.
Chapter 5. Findings: Cross-case comparisons

Strong ethics keep corporations healthy... values are the immune system of every organisation (Dixon, 2005, p. 131)

All the not-for-profits in this research were large and well established services, largely funded by government contracts, but received no government funding for their new social enterprise. They also had many differences, coming from diverse sectors with different missions, contexts, histories, and access to human and financial resources. As a result, each of their business models was distinctive and provided useful variety in this research. The Business Model Canvas served to illuminate and discuss the new business and its development and changes made as a result of its context during the research period. This chapter now identifies the key across-case findings, noting the similarities and differences between the cases.

Themes emerging from the across-case analysis are set out in tables throughout this chapter, supported by participant quotes. The development of four key second-order theoretical dimensions linked with the academic literature from complexity, business models and institutional logics are outlined from the reduced data. This chapter first presents the evidence of why the not-for-profits established a social enterprise and, in so doing, the adaptive tensions the not-for-profits experienced. The business model analysis is then presented, including the factors that support or challenge the execution of the commercial business model within the social enterprises. Participant’s perceptions of the essential differences between the not-for-profit and social enterprise are also examined here. Finally, the ways the organisations configured themselves both culturally and organisationally are described. These four theoretical dimensions are aggregated to theoretical dimensions in the following Discussion chapter.

5.1. Initial conditions

As can be seen in Table 10 below, the stimulus for all the social enterprises in this research was initially to increase financial sustainability, by providing income that was distinct from unavailable, uncertain or unwanted government funding. In this way, self-sustaining programmes could be more freely designed, and would not be constricted by government funding requirements. Ako Books was the most focused on the goal of providing income for their not-for-profit, as a subsidiary existing for that purpose. In addition, more intangible benefits, such as increased contact with business or the public were attractive to communicate
Connect and Changeability’s messages. Changeability cited the largest number of other intangible benefits, including links to the business community and increasing entrepreneurship (i.e., innovative and proactive activity that seeks opportunities to increase social and/or economic value) and money awareness among staff throughout Connect. Lifewise found the public ‘shop front’ afforded by the café to be particularly useful for publicising their work.

Table 10: Strategic value theme

<table>
<thead>
<tr>
<th>Concepts from data</th>
<th>Quotes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Becoming more financially sustainable</strong></td>
<td>In five years’ time we’ve got to report that we’re now able to be self-reliant and independent. (Audrey, Board, Lifewise, April 2014) In five years’ time we’ve got to report that we’re now able to be self-reliant and independent. (Audrey, Board, Lifewise, April 2014) Income generation ... will allow Connect to provide preventative and early intervention services. (Connect Project Plan, 2009)</td>
</tr>
<tr>
<td><strong>Increasing networking capacity with public and/or business</strong></td>
<td>It gets us out to the community, it gets us to the business community who may not find us easy to access otherwise. (Mia, Manager, Changeability, June 2013) It came out of an absolute desire ... to create a service that was inclusive of the general public. (Bill, Manager, Lifewise, November 2012)</td>
</tr>
<tr>
<td><strong>There are other intangible benefits</strong></td>
<td>It’s a shop front for a bigger support service. (Madison, Adviser, Lifewise, November 2013) The organisation themselves uses the workshops internally as well and that’s been helping change management within the organisation. (Ryan, Board, Changeability, April 2014)</td>
</tr>
<tr>
<td><strong>We have many entrepreneurial skills to meet new need or create income</strong></td>
<td>(Lifewise) have management skills, they have delivery skills, they have the organisational skills and some very special skills around social work and community. (Max, Adviser, Lifewise, April 2014) We’re on a journey and we’re learning as we go, so with every one we do we learn and we improve the next one. (Grace, Staff, Changeability, May 2013)</td>
</tr>
<tr>
<td><strong>Leading the establishment</strong></td>
<td>I have given everything I have been able to for the past couple of years. (Harper, Ako Books, Board, May 2014) I was brought in primarily ... as a change manager. (Noah, Manager, Lifewise Hub, November 2012)</td>
</tr>
</tbody>
</table>

For these reasons, all the not-for-profits considered the introduced social enterprise to be of very high strategic value. Each social enterprise was conscious of their parent organisation’s mission and considerable need for resources.
5.1.1 Entrepreneurship

It was established in the literature review that social entrepreneurship, or the opportunity-seeking and problem-solving skills of entrepreneurs recombining are required for developing commercial income opportunities in social enterprises (Alvord et al., 2004; Chell, 2007). All three social enterprises and their parent organisations reported entrepreneurial behaviour, by developing new combinations of services, products or markets (Schumpeter, 2011) and fostering a learning and experimental culture, as the sample of quotes in Table 10, above, shows. Participants in each not-for-profit noted their openness to learning and change in developing their social enterprise. In addition, two of the three cases established another social enterprise during the research period. Only Ako Books was solely focused on developing their publishing social enterprise.

5.1.2 Leadership

Maximising gains and minimising risks for the not-for-profit were important for all, especially the leaders that drove the development throughout the research period. Each not-for-profit demonstrated leadership in seeing and progressing the social enterprise opportunity. Two or three people in each organisation from the board (Ako Books), senior management (Lifewise) or both (Changeability) led the development, gaining active support from other key organisational members to establish the social enterprise. This leadership was sustained throughout the research period, identifying issues, opportunities and solutions for challenges.

5.2. Adaptive tensions

Once the decision to start a social enterprise was made, some initial capacities and constraints within the not-for-profit were key to establishing the social enterprise. Specifically, the adaptive tension, defined in this research as the difference between the organisation’s current and desired state, was closely connected with the need for a range of resources.

<table>
<thead>
<tr>
<th>Adaptive Tension</th>
<th>Finance &amp; time</th>
<th>Informational differences</th>
<th>Legitimacy</th>
<th>Performance measures</th>
</tr>
</thead>
</table>
5.2.1 Finance and/or time

Firstly, finance or time of existing staff or volunteers was needed to support the establishment of the business. No government funding was available for the operations of any of the social enterprises. Financial capital was therefore pivotal in staffing the development of the social enterprise in all cases.

Ako Books appointed a new marketing manager, Changeability located a grant to develop and test business ideas, and Lifewise appointed more staff in the café than the soup kitchen and a paid consultant to develop the business from internal funds. The not-for-profits each invested tens of thousands of dollars in the establishment phase. As a result of these investments, there was a high expectation of payback for the parent organisation and a commitment to grow the enterprise.

Time from key people also proved crucial. In each not-for-profit, both paid and volunteer personnel, committed to the formation of the enterprise, donated additional hours to their normal work week. Allocating personnel time to operate and support the social enterprise from existing budgets was especially important for Changeability, whereas Lifewise and Ako Books had existing staff working in the previous services. Nevertheless, there was also mobilisation of social capital in the form of volunteer expert advisers for the Ako Books board and Changeability’s Advisory Board. Social capital and networks also helped in identifying potential customers for all the social enterprises. For example, Playcentre users were the primary focus of Ako Book’s marketing, and all Changeability staff and networks were asked to enable introductions to businesses. Lifewise used their networks and social media to advertise the café.

These financial and time resources, including of not-for-profit management, proved to be crucial for launching the business. All the cases, however, found themselves struggling to provide the level of resources needed, as can be seen in Table 11, below. With high resource constraints, it was difficult to give all the attention, capital and support required by each social enterprise. The frequency of code allocation to getting adequate human and financial resources in place was twice that of any other code and 38% of all business model codes, reflecting the stress the organisations experienced in ensuring that adequate resources were available for commencing commercial operations.
### Concepts from data

<table>
<thead>
<tr>
<th><strong>Table 11: Finance and time theme</strong></th>
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</thead>
<tbody>
<tr>
<td><strong>Acquiring the needed resources</strong></td>
</tr>
<tr>
<td><em>Is our passion bigger than our ... ability to generate resources?</em> (Hayley, Board, Ako Books, May 2014)</td>
</tr>
<tr>
<td>It’s also actually about being committed to resourcing something properly. To me that’s the biggest issue. (Noah, Manager, Lifewise, April 2014)</td>
</tr>
<tr>
<td><strong>Management are stretched so thinly</strong></td>
</tr>
<tr>
<td>Within a not-for-profit, where resources are so tight ... the focus needs to be entirely on core business. That leaves social enterprise like ours ... very under resourced with ... a lack of management focus. (Ethan, Manager, Changeability, April 2014)</td>
</tr>
<tr>
<td><strong>It’s difficult to plan ahead</strong></td>
</tr>
<tr>
<td>We’ve decided that instead of ... investing time and money in a lengthy business planning process, we’re going to hire ... a business development manager to grow income as fast as possible. (Harper, Board, Ako Books, September 2012)</td>
</tr>
<tr>
<td><strong>We use sweat equity</strong></td>
</tr>
<tr>
<td>We’re all working part-time or otherwise committed; that makes it difficult to actually move faster. (Hayley, Board, Ako Books, May 2014)</td>
</tr>
<tr>
<td>There are other enquiries coming through on the website from potential customers, which Dick at the moment can’t really follow up because he doesn’t really have the time to do it. (Ryan, Board, Connect, May 2013)</td>
</tr>
<tr>
<td><strong>Growing the business is problematic and we have to survive first</strong></td>
</tr>
<tr>
<td>Because we’ve ploughed it all back in. We’ve got nothing to go out, to grow. (Hayley, Board, Ako Books, May 2014)</td>
</tr>
<tr>
<td>Having a big [profit] goal like that ... seems unachievable to an extent ... you’re always running and chasing. (Mia, Manager, Connect, April 2014)</td>
</tr>
<tr>
<td><strong>Getting bigger requires more investment, defeating primary purpose</strong></td>
</tr>
<tr>
<td>You get one decent catering contract and you are away. But it’s being able to know that if you get it, then it’s going to be an investment to ramp up. (Noah, Manager, Lifewise, November 2013)</td>
</tr>
<tr>
<td>If they weren’t putting money into Changeability, they would be putting it into the department of services or frontline paying for staff. (Ethan, Manager, Changeability, April 2014)</td>
</tr>
</tbody>
</table>

Board, management, staff and volunteer resources were stretched and all research participants reported stress from business demands or urgent changes required. The social enterprises in the three not-for-profits all expressed some disappointment in the amount or type of management support provided by the parent organisation. Leaders of all three social enterprises were aware of the not-for-profits’ management time constraints and the intensive demands of core business and, in that context, expressed gratitude for the support provided. However, all three also found
that more time was intermittently needed for sharing the learning of managing the social enterprise and generating solutions for arising issues. Sometimes specific skills were needed, such as when the café wanted specific marketing approaches or Human Resources advice, but these roles could not be instructed directly, as they existed to support the whole not-for-profit.

None of the social enterprises in this study scaled up significantly since inception and some of the challenges are shown in Table 11, above. The three not-for-profits initially aimed to build their social enterprises to be much larger in the future. Lifewise envisaged building sustainable homeless services around social enterprises in other parts of the city and Ako Books aimed to expand both local and international sales. Changeability thought local expansion might be possible through either paid staff or contractors to reach their profit target. All three, however, first focused on finding a way to survive and cover costs. In terms of investment, Ako Books was most worried about their cashflow and gaining access to investment funds for survival and then growth. In contrast, although finances were tight, the café had access to some development resource for the refurbishment from philanthropy, but Lifewise aimed to contribute rather than cover all the café’s costs because the focus was on feeding the homeless. Investment resource was available internally for Changeability, but only when it had proven its value proposition and showed positive signs of growth.

5.2.2 Informational differences

The second type of key resource that was of critical importance to developing the social enterprise was the level of informational differences, or the ability to connect key players and their diverse perspectives and skills. Careful recruitment practices to employ appropriately skilled people in the social enterprise occurred in all cases. Participants expressed a sense of needing different or additional skills than were already available in the not-for-profit.

With existing skills in their not-for-profits’ sector, the additional general commercial expertise came in the form of voluntary advisers or employed personnel. Each organisation valued these people because of their commercial skills and their commitment to generating social benefit through the social enterprise. However, it was not just generic business skills that were needed, but also experience in start-ups and commercial skills in relation to their specific sector or market, as can be seen in Table 12 below. The two organisations that had the highest level of resources, Lifewise and Changeability, also had the most access to voluntary or employed expertise from the social enterprise’s specific sector, which were seen as very useful in understanding their immediate business environment, such as practice norms, supply chains or
types of competition. The Lifewise café employed an experienced hospitality person to develop
the café once they knew it needed changing, had access to commercial expertise from Airedale
Property Trust and the marketing team internally, and later a commercial advisor. Changeability
appointed a volunteer Advisory board comprised of people with a range of sought-after
commercial skills and had an internal manager/advisor with strong commercial experience.

Table 12: Informational differences theme

<table>
<thead>
<tr>
<th>Concepts from data</th>
<th>Quotes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Right people, right time, right place</td>
<td>In terms of lessons ... probably ... having the right skills at the right time. (Jacob, Board, Changeability, January 2013)</td>
</tr>
<tr>
<td></td>
<td>She does have the personality and the MBA and she’s got all of the right stuff we need right now. (Harper, Board, Ako Books, June 2013)</td>
</tr>
<tr>
<td>Hard decisions</td>
<td>You’ve got to have the right personalities and the right skills. So we had [a manager who was] very very good [but later] we needed somebody else, and so we had to make that change. (Ryan, Board, Changeability, May 2013)</td>
</tr>
<tr>
<td></td>
<td>The café manager/chef used to run the café and the kitchen[but] you can’t actually do both. So we had to ... change that [and] we brought on a café manager and a chef and a kitchen hand. (Sophie, Adviser, Lifewise café, November 2012)</td>
</tr>
<tr>
<td>Commercial, start-up and/or sectoral expertise is needed</td>
<td>I think for me the frustration is around not having a better knowledge of the publishing business. (Hayley, Board, Ako Books, May 2014)</td>
</tr>
<tr>
<td></td>
<td>Start-ups ... are a whole world away from a mature NGO, so bridging that requires that commercial perspective. (Jacob, Board, Changeability, May 2013)</td>
</tr>
<tr>
<td></td>
<td>I think we need private sector expertise in order to have that focus on profits and the knowledge of how profit-driven business units function. (Ellie, Staff, Ako Books, November 2013)</td>
</tr>
</tbody>
</table>

Ako Books did have two people on the board with some commercial background and hired two
staff with commercial backgrounds during the project, but overall had the least start-up,
commercial and specifically sectoral expertise available to them. Although Ako Books did not
obtain sectoral knowledge during the research, they appointed a board member with publishing
knowledge shortly after research completion.

At times, if roles demanded different skills, difficult decisions were made to replace staff. For
example, Ako Books replaced its two long-term, part-time staff with one multi-skilled person
more suited to the challenges facing the organisation at that time, and Lifewise changed its café
staff when needed, sometimes using temporary staff for lengthy periods of time until the right
person was found. Changeability’s consideration of using flexible consultants or more dedicated
employed staff, and the future management structures for both the café and Changeability proved to be complex and ongoing deliberations. The need for a sense of curiosity and experimentation among personnel building the social enterprise was expressed in all three social enterprises and this is further discussed in section 5.5.1 below.

5.2.3 Legitimising the social enterprise

Table 13: Legitimacy theme

<table>
<thead>
<tr>
<th>Concepts from data</th>
<th>Quotes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Getting everyone on board who needs to be</td>
<td>There were quite a few people who weren’t interested ... in making profit ... and then there was a group of people who ... just got it ... this extra money ... could help my clients? (Lily, Board, Changeability, January 2013) Some people say ... “we ... would never have ... thought about making the soup kitchen sustainable so why would we think that way about a café?” Other people say “any part of Lifewise has to be sustainable.” (Brook, Manager, Lifewise café, April 2014)</td>
</tr>
<tr>
<td>This social enterprise helps meet the need outlined in our mission</td>
<td>I think that’s important so people don’t see it as a separate alien system that is doing something quite different in a different world. (Grace, Staff, Changeability, May 2013) You can read ... say, a book on sand play and it’s going to directly going to help you in your work as a Playcentre educator. (Harper, Board, Ako Books, February 2013)</td>
</tr>
<tr>
<td>Our social enterprise fits our values</td>
<td>The prime thing that attracted the Board was the normalisation of life ... the staff observed that the street people were cleaning themselves up because they were coming and sitting beside other people. (Audrey, Board, Lifewise, April 2014) I think the values of Connect have held to Changeability. (Mia, Manager, Changeability, June 2003).</td>
</tr>
<tr>
<td>It cannot make (organisation) worse-off</td>
<td>In some months we go to 40% and other months we’re at 25 or 30 % of the total costs of running the café]. (Noah, Manager, Lifewise, April 2014) If all internal teams had paid for the product out of their budgets, it would have more than broken even. (Mia, Manager, Changeability, June 2013)</td>
</tr>
</tbody>
</table>

Strong and positive internal relationships were useful in legitimising the allocation of much-needed human or financial resources to the social enterprise, as can be seen in Table 13 above. Two of the not-for-profits sought support from their whole organisation. Changeability made significant effort to gain the support of all staff, as key stakeholders, for developing non-core areas. Connect board and management saw the ability to demonstrate the fit with its mission and
values and estimate the social enterprise’s positive social and economic impact to be key to winning staff approval. Playcentre held a strong commitment to consensus on major decisions and Ako Books needed its Federation Council’s agreement and ongoing support, which was achieved through organisation-wide consultation over three years.

In contrast, Lifewise leaders sought legitimacy from parts of the organisation, such as the board, management and directly affected staff to develop a service that would contribute to its operation financially. As the café developed its new approach, varying levels of support from Hub social workers closely connected with the café became apparent. Most Lifewise staff in other divisions, were informed of the development, but did not need to know details about or engage with the café, although organisational leaders agreed that lessons learned from the café could be used in other parts of the organisation.

Each social enterprise also contributed to its mission, retaining intense commitments to the parent organisation’s values and purpose. After the completion of the research in 2015, Ako Books noted they were developing their own values as a separate entity, but nevertheless still looked forward to collaborating closely with Playcentre in meeting their mission to support families to learn through play.

The widespread expectation of generating a positive financial contribution from the social enterprise created some tension for the not-for-profit when allocating resources to establish and grow the social enterprise. Consequently, it was important for all cases to ensure the not-for-profit was at least no worse off financially, where additional direct costs of the social enterprise were covered as a minimum requirement. Therefore, all cases aimed to break-even or at least avoid financial loss for the parent organisation in the short term. For example, the café, previously a soup kitchen funded by public donations, needed to provide a financial contribution that did not make the shift to the café costlier for Lifewise, and the Lifewise board and management were interested in seeing how much sustainable income could be provided over time. The enterprise did not have to be completely self-sufficient; covering the direct costs and a contribution to salaries was sufficient for management at that time. Changeability was required to cover its direct costs but this did not include all overheads, such as management time, allocated to it during the research period. The board of Ako Books also concentrated on surviving financially, achieving break-even performance after their initial web and other systems’ development, trusting that profits would come later.
Chapter 5. Findings: Cross-case comparisons

5.2.4 Performance measurement

The final adaptive tension observed in this research relates to the capability to identify the desired state in some detail. Participants in Changeability and Lifewise noted how important it was to clarify purpose and vision of the social enterprise early. Starting the Lifewise café as a not-for-profit but later changing to a social enterprise created some tension among staff and management and challenges for performance measurement. Participants suggested that new social enterprises should clarify whether the social enterprise was primarily there to provide social benefits or surplus profits, or a mixture of these. Such decisions were believed to affect the type, structure and staffing of the operation and its performance measures.

Table 14: Performance measurement theme

<table>
<thead>
<tr>
<th>Concepts from data</th>
<th>Quotes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose must be clear with realistic measures</td>
<td>The Connect board ... is their expectation that Changeability will deliver significant revenue? (Ethan, Manager, Changeability, April 2014)</td>
</tr>
<tr>
<td></td>
<td>It’s a commercial discipline ... what are the KPIs? How do we know we’re being successful? (Max, Adviser, Lifewise café, April 2014)</td>
</tr>
<tr>
<td>Financial performance is lower than expected</td>
<td>For me it’s about managing expectations. We kind of thought it would be woof ... because we know how good Changeability is. (Mia, Manager, Changeability, January 2013)</td>
</tr>
<tr>
<td></td>
<td>The global market is enormous. (Harper, Board, Ako Books, November 2012)</td>
</tr>
<tr>
<td>Impact is hard to measure</td>
<td>What is the impact if [corporates] choose to (use us), what will the bottom line look like for them? ... It’s hard to measure. (Ethan, Manager, Changeability, April 2014)</td>
</tr>
<tr>
<td></td>
<td>If we can’t just measure profit, if it’s a mixture of profit and other things, we need to measure those other things too. (Max, Adviser, Lifewise, April 2014)</td>
</tr>
</tbody>
</table>

All of the social enterprises initially had high expectations of rapidly increasing income, as indicated in Table 14, above, and as is common in many start-ups (Minniti, 2011). Changeability was concerned that they might be overwhelmed with customers who would stress internal systems, while Ako Books and the café eagerly anticipated high profits. Each social enterprise adjusted these expectations as the realities of implementing their business models and attracting customers became clearer. All cases noted retrospectively the need to be more realistic about the longer time and cost of development than expected. Within this trend of idealistic
Chapter 5. Findings: Cross-case comparisons

expectations, the Connect board involved some members with commercial experience who set conservative budgets for Changeability.

Performance was a frequent code in the data in all the cases and was measured in a variety of ways internally and individually. There were challenges in setting realistic but inspiring financial targets for all the organisations, regardless of logic compatibility, as expectations of profit varied over time and among personnel. Economic performance measures consistently involved income in relation to expenditure and the number of products or services purchased.

Performance measures that were simple to use and measured the social impact of the enterprise were not easily defined. The number of diners in the café, homeless clients at the Hub, books produced and sold, consultancy assignments and items recycled were all recorded, but the wider impact of the business was more challenging to measure. Lifewise marketing and communications developed brief stories of individuals who had successfully used the homeless service for social media. Measurable social enterprise outputs were therefore in place, but realistic financial measures and social impact measurements were difficult for all the social enterprises.

In summary, the efforts to develop a social enterprise created adaptive tension. Four resources were found to be most important in this endeavour. Firstly, the key resources essential for initiating a social enterprise included adequate finance for staffing and operational expenses and/or time from reorganised and/or dedicated personnel to support the development. Financial and time constraints were universally tight in all three cases. Secondly, commercial and sectoral expertise that also supports the social outcome sought was valued for providing the new knowledge needed for the social enterprise. Having the right people with the right skills in place was considered key, even if this meant making hard decisions on appointments. Thirdly, having the social enterprise legitimised by all or some of the not-for-profit was easier to do because the social enterprise fitted with the not-for-profit’s mission and values and did not financially burden the parent organisation unduly. The number of key stakeholders (personnel or members) required to approve the decision varied among the cases depending on context. Fourthly, developing a range of social and commercial performance measures was difficult for all cases, as expectations changed over time and the complexity of social impacts made them difficult to measure.
Chapter 5. Findings: Cross-case comparisons

5.3. Developing the business model

The business model and its nine linked components outline the characteristics of each social enterprise and their modifications over time. In each of the cases there were some components of the business model that were similar to not-for-profit service development. They were therefore relatively straightforward in their implementation, requiring the least amount of change, as can be seen in Table 15, below. Other components required new areas of skill, were more challenging in implementation and changed more frequently during the research period. These changes required reorganising resources and capabilities and are now discussed.

5.3.1 Business model capabilities

Table 15: Changes in business model within cases

<table>
<thead>
<tr>
<th></th>
<th>Lifewise café</th>
<th>Ako Books</th>
<th>Changeability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key activities</td>
<td>-</td>
<td>-</td>
<td>✓</td>
</tr>
<tr>
<td>Customer relationships</td>
<td>-</td>
<td>✓</td>
<td>-</td>
</tr>
<tr>
<td>Customer segments</td>
<td>✓</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Value proposition</td>
<td>✓</td>
<td>-</td>
<td>✓</td>
</tr>
<tr>
<td>Key partnerships</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Channels</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Key resources</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Revenue structure</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Cost structure</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Firstly, some business model components were sometimes clarified but required comparatively little change over the research period, as can be seen in Table 15 above and Table 16 below. The identification of customer segments and customer relationships remained essentially stable. Although appearing as an exception to the rule in customer relationships, Ako Books steadfastly worked towards providing an effective self-service purchasing relationship with its customers, but did not like to call it such until it was largely in place. Similarly, Lifewise formally acknowledged the broadening of its customer segments it had envisaged to include the working poor and people at risk of homelessness during the research period. They wanted to work at the preventative end of homelessness and with people who wanted to turn their lives around, while homeless people living on the street could continue to be served by themselves and other agencies.
Table 16: Business model existing capabilities theme

<table>
<thead>
<tr>
<th>Concepts from data</th>
<th>Quotes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activities are clear</td>
<td>A majority of workshops delivered have been ‘bespoke’ and therefore have required significant development time. (Changeability Narrative Report, May 2012)</td>
</tr>
<tr>
<td>Defining customer segments</td>
<td>I think there’s a market for people who have their kids in day care, absolutely. You get your kid in the weekend, what do you do with them? (Harper, Board, Ako Books, November 2012) We’ve got a lot of people that are coming to us with employment issues and just struggling to exist and function. I think we have a broader range of clients [now]. (Noah, Manager, Lifewise, November, 2013)</td>
</tr>
<tr>
<td>Developing customer relationships and responsiveness</td>
<td>Sales volume – both domestic and international – has been negatively affected by a lack of modern e-commerce facilities. (Ako Books Marketing Plan, June 2013) They come in, they get their meals. At that point we talk to them about the needs that they might have, connect them with the staff upstairs. (Emma, Adviser, Lifewise café, November 2013)</td>
</tr>
<tr>
<td>Testing and refining the value proposition</td>
<td>There was no skin off their back for being really brutally honest, and ... that honesty was really really helpful. (Lily, Board, Changeability, January 2013)</td>
</tr>
<tr>
<td>Building partnerships</td>
<td>(We) plan ... to start building those relationships back up with the authors. (Sarah, Staff, Ako Books, May 2014) We’ve just linked in with Toi Ora, and they are going to display some of their artwork [at the café] (Sophie, Adviser, Lifewise café, November 2012)</td>
</tr>
<tr>
<td>Controlling costs</td>
<td>We’re looking at managing our food costs and percentages and we’re slowly dragging that down. (Noah, Manager, Lifewise Hub, June 2013) Nobody has (yet) ... attributed our overheads to the cost equation. (Ellie, Staff, Ako Books, June 2013)</td>
</tr>
<tr>
<td>Getting the business model right</td>
<td>The most important things for start-ups is getting the business model right. (Jacob, Board, Changeability, May 2013)</td>
</tr>
</tbody>
</table>

All of the social enterprises understood the importance of offering something valued by the customer and each tested their value propositions in different ways. Changeability took one year to develop and test their offer. Lifewise tested their homeless customers’ acceptance of having to pay a small amount in small experiments and their leased premises allowed flexibility in service provision. Ako Books had already tested demand for their offering as a small Playcentre
division. Value propositions therefore remained largely stable, although there were some important changes. Lifewise began to develop a catering service within the café, aiming to sell to corporates who wanted to demonstrate corporate social responsibility, but initially sold internally and to key supporter organisations. Changeability realised over time that their mental-health expertise was valuable for some clients and so added that to their value proposition.

Key activities also remained largely stable. One exception was that Changeability began to provide bespoke services, as opposed to off-the-shelf products, in response to customer demand. However, key elements of the service remained the same (workshops, understanding business needs and engaging staff). The Train the Trainer approach was a significant proposed change in activity, but was not actioned at the completion of the research.

Accustomed to collaboration, each social enterprise continued to develop both informal and formal partnerships throughout the research period. It was normal for each not-for-profit to constantly develop partnerships as needed and where possible. Lifewise developed several partnerships with residential and other relevant providers during the research period, in addition to their large group of existing community, government and funding partners. Changeability’s management prided itself on its ability to form resilient relationships, and formed a strong partnership with a significant corporate customer, started developing links with other change consultancies, liaised with the Global Women’s Network and saw key contractors as partners. Ako Books worked hard on developing positive relationships with their authors, and developed relationships, if not partnerships, with some large businesses and their customer base connected to Playcentre.

5.3.2 Business model capability challenges

The most significant business model component challenges across all cases largely occurred in skill areas not traditionally required in the not-for-profits. Learning from these challenges, key human resources changed frequently for all three social enterprises, obtaining the right mix of informational differences.

New skills and knowledge were needed, especially in the areas of sales and marketing, pricing and costing. As noted under the need for informational differences, generic commercial expertise was made available in all the social enterprises, and specific sectoral skills were made available in two cases. For example, the Lifewise café hired a hospitality consultant, enabling a greater focus on customer service, communication channels, sales, and costing and pricing. Changeability had access to commercial skills through its Advisory Group, some of whom had
experience with start-ups, change management and human resource management. Ako Books employed staff with more general commercial backgrounds to develop the website, costing and selling systems needed, and later contemplated, then acquired, publishing skills on the board.

Although identifying customer segments and relationships was considered straightforward by not-for-profit personnel, developing a focus on communicating with paying customers was novel and challenging for all the not-for-profits who sought to attract and satisfy them. As can be seen in Table 17 and Table 18 below, channels to engage and communicate with customers were problematic and frequently adapted among the social enterprises, as learning occurred on what was needed. For example, Lifewise held ongoing concerns about raising the number of café customers and added Facebook and flyers to their refurbished and rebranded site. Changeability was also worried about gaining a steady stream of customers in a pipeline and added articles, case studies and staff networks as new channels. Prior to the research, Changeability had developed its own brand and website, which was later managed internally for easy and cost-effective access, although participants noted a struggle to find the time to develop and update the website. Ako Books prioritised improving their customer channels, using up much of their limited funds. They employed a staff member to focus on that specifically, developing an e-commerce website, a range of social media, and customer databases for Playcentres. Both Ako Books and the café developed a marketing plan. Although Connect and Changeability participants deeply appreciated the importance of gaining new customers, there was debate whether to achieve this through cold calling or introductions led by a business manager, salesperson or trainer. No marketing plan was evidenced.

Revenue structures also changed significantly for the social enterprises in the larger not-for-profits, either in fixed prices charged, discounts to some customer segments or charging fees for the use of consultants. Finding the right price for the market and costing individual services and products were new challenges for all the not-for-profits that tended to cost whole programmes rather than individual products or services. The Lifewise café increased the price of meals for the homeless from three to four dollars, streamlined their expenditure and struggled to identify how to stagger prices for different customer groups. Ako Books rationalised their prices and decreased the discounts given to different customer segments. Changeability experimented with charging a commission from contractor services and debated pricing approaches in comparison to employing staff, and there were differences in views as to the level of pricing appropriate for the market.
Table 17: Business model capability challenges theme

<table>
<thead>
<tr>
<th>Concepts from data</th>
<th>Quotes</th>
</tr>
</thead>
</table>
| **Communicating with and engaging customers** | *We have to market directly to each Playcentre individually ... with no specific e-mail address [now because the shops are closing down].* (Sarah, Staff, Ako Books, May 2014)  
*I think that the challenge [is in] getting that [customer] pipeline ... when it is word of mouth and relationship building, it takes a long time.* (Liam, Adviser, Changeability, November 13) |
| **Costing and pricing the product** | *The big chunks we can cost in, but all the [tiny bits of other people’s time] ... isn’t easy... unlike a service which you can ... put a boundary around.* (Mia, Manager, Changeability, June 2013)  
*We have to have a radical reorganisation of the way things are priced.* (Ellie, Staff, Ako Books, June 2013)  
*(We're) looking at managing our food costs and percentages and we’re slowly dragging that down.* (Noah, Manager, Lifewise, November 2013) |
| **Generating revenue** | *It would be impossible [to do variable charge rates] really because you’d have to say to people, “well now, are you homeless?” ... maybe we’ll figure out a way to do it.* (Brook, Manager, Lifewise café, April 2014)  
*There’s a feeling within the advisory group ... that probably the current costing level is too low, it needs to be moved up ... the corporates ... can afford it.* (Ryan, Board, Changeability, April 2014) |

All the social enterprises had a strong focus on and were accustomed to containing costs but not in a commercial environment. As a result, there were significant developments in cost structures of the social enterprises. For example, the café put much effort into developing cost management systems for the café including reducing wastage and improving purchasing practices; Ako Books strove to develop accurate financial information on the cost of book production and sales; and Changeability grappled with allocating overheads to fairly represent the costs of services. Cost structures were complicated because any additional direct costs had to be covered, while contributions to staffing or overheads were not always required, nor would they be recouped if the social enterprise ceased to operate. For example, Changeability’s costs of management input or tenancy would not be recovered if the enterprise did not continue.

Each case reported that the specific business model they built was a difficult one and that an easier business model might have been found, as can be seen in Table 18, below. Café management thought it could have been easier to have started a brand new café if they were clear it was to operate as a business from the beginning. Similarly, Ako Books board members
found changing from the not-for-profit operation to a commercial business difficult, especially changing the mind-sets of existing staff. The Changeability manager thought it would have been easier to have bought an existing business or start with a product or market that they were already familiar with. The three not-for-profits were eager to optimise the business model to achieve as much commercial income as possible in addition to progressing their mission.

<table>
<thead>
<tr>
<th>Concepts from data</th>
<th>Quotes</th>
</tr>
</thead>
</table>
| **We have a hard business model** | Previously it’s ... been seen as a service, rather than an actual business, so everyone has needed to have a mind-set change. (Sophie, Adviser, Lifewise café, November 2012)  
We were inheriting something ... and trying to transform it into a commercial model. (Hayley, Board, Ako Books, May 2014)  
Training is not necessarily ... one of the most profitable activities that you can choose to do. (Ethan, Manager, Changeability, May 2013) |
| **Acquiring the skills needed (including costing/pricing, sales & marketing)** | The basic problem is that we’re not selling enough ... if we can’t sell fish, we’re not going to sell fishing rods either because we’re not very good at selling. (Liam, Adviser, Changeability, April 2014)  
My skills were quite broad, but there were definitely gaps ... particularly with hard-core sales. (Lily, Board, Changeability, January 2013) |
| **Working with uncertainty, risk and failure** | We are very unlikely to get fifty thousand dollars’ worth of business this year, but we might get two hundred thousand dollars ... You just don’t know. (Beth, Manager, Connect, November 2013)  
We are going to have to act fast, invest some money ... because if we don’t have something to draw people to, we’re ... dead in the water. (Harper, Board, Ako Books, June 2013) |
| **New systems and patterns emerge** | Getting systems and processes in place ... so that things are done in a more efficient way ... that’s all I’ve done for the last six months. (Sarah, Staff, Ako Books, May 2014)  
[Sophie has developed] ordering, cleaning rosters, suppliers, and getting the best deal from suppliers ... cleaning up on the back end ... since she’s been there, it’s miles ahead of where it was. (Emma, Adviser, Lifewise café, November 2012) |

Without any guarantee of sales or contract, uncertainty, risk and failure were universally considered higher in the social enterprise than in the not-for-profits because earnings could not be predicted. Unpredicted external and internal events and needs also made planning more difficult. For example, Lifewise management were initially unsure as to how the homeless and
mainstream populations would respond to their café and its fare. Similarly, managers did not expect the parent organisation’s need for capital, the focus on developing a commercial café as opposed to a social service, nor the rising local housing shortage that affected the working poor and homeless. Changeability’s challenges to developing a customer pipeline and the subsequent low level of income, internal reaction to the use of contractors, and customers’ acceptance of links with a mental-health service were all unforeseen until they emerged.

Ako Books expected their existing staff to transition more easily into the social enterprise and that financial information would be readily available, but never expected the level of effort to turn the business around or the sense of separation for some Playcentre parents with the rebranding. The Ako Books board strove to divest their promotional service because they saw it both as unprofitable and extraneous to the publishing role. With inadequate financial information available, however, they found that this divestment involved a substantial loss of regular base income and the challenge of generating income through publications increased.

A number of emerging patterns and systems developed for the social enterprise activities, evolving in response to these challenges and developments. After hiring a café consultant to lead the development of a more customer-conscious café, as a result of the mystery shopper evaluation, for example, purchasing and quality service systems were redesigned. As it transpired, the café consultant was also a landscape designer and, together with the service manager, developed the outside patio area for café customers at no cost to the organisation during weekends. Ako Books also redesigned their administrative, marketing, production and pricing systems as they learned what was needed and worked best. The knowledge and preferred practices of the new personnel appointed had some role in these developments, in addition to board decisions made once required information became available.

Changeability began to routinely tailor their range of products according to customer need and demand, even though it was simpler and more cost effective to provide standardised programmes. Management envisaged using contractors as a means to expand the service flexibly and began to do so, and even though they highly valued the contractors they brought into the organisation, they became inclined to think that trust and continuity might be more easily ensured through employed staff. Although many systemic changes were made to improve the service or product, the business model did not record all of these, recognising only major component changes, but nevertheless provided a useful structure for discussions.
Important questions lingered during the research period. For Changeability, there were questions over whether contractors or permanent staff were best able to help scale, whether cold-calling new customers would work, whether and how to manage the Train the Trainers programme, setting realistic or challenging financial targets for the enterprise, and the ideal structure for Changeability and future social enterprises. For Lifewise, questions dominated ongoing discussions included the position and skill base of the person managing the café, how the social work and café staff should actively work together, the true social and economic purpose of the café, and how much contribution was reasonable to expect from café operations. The Ako Books board’s primary focus was on how to get further investment for cash flow and survival, which books to develop with available authors, how to engage more widely in the early-childhood-education sector and produce more sought-after books.

Underlying the business model of each of the case studies, the values-based mission inspired the social enterprise to act consistently with the not-for-profit. For example, although the café increased the price of basic meals for the homeless, this was aligned with Lifewise’s philosophy of interdependence and normalisation in service delivery. While structural separation reduced the level of consultation required on Ako Books’ business decisions, the organisation remained committed to books that supported Playcentre philosophy, at least initially. Ako Books personnel thought that broadening out their reach to the wider early childhood education sector might involve publishing books later that were not specifically designed for Playcentre, even if they remained focused on learning through play. Changeability’s values could not be easily distinguished from that of Connect’s and its location and operations were interwoven within its parent organisation.

In summary, some components of the business were relatively easy to develop for all the not-for-profits. In particular, identifying value propositions, customer segments, desired customer relationships, planning and operationalising key activities, and developing partnerships were all achievable within the organisations’ capacity, often using commercial and/or sectoral expertise made available for the social enterprise. Furthermore, the three case studies were all skilled service providers in their area and demonstrated entrepreneurialism and experimental approaches with the social enterprise. Most challenging were those business model components that were new to the not-for-profit. Engaging with scattered customers who had many choices of service, developing effective marketing channels, costing and pricing services competitively and managing higher levels of uncertainty required skill and processes that were not usually required in the not-for-profit setting.
5.4. Not-for-profit and social enterprise logics in this research

This research considered it critical to analyse the differences between a not-for-profit and a social enterprise. To identify these differences, it is necessary to examine the essential differences between social and commercial organisations. What are the commercial logics being brought into the social enterprise, and therefore the not-for-profit? This section discusses these perceptions and key findings on the characteristics of this research.

This research sought participants’ perceptions of the differences between not-for-profits and social enterprises to see if there were any common beliefs. During the second interview round, sixteen research participants completed a simple card sorting exercise to identify their perceived differences between their not-for-profit and social enterprise. Research participants saw significant overlaps between their own not-for-profits and social enterprises, and a smaller but critically important list of differences.

As can be seen in Table 19, below, and in Appendix 2, social enterprises were associated most closely with the market, a positive attitude to profit, risk taking, costing products and services, and sales and marketing. Not-for-profits were most closely associated with consensus, meeting as much need as possible and reducing risk. Nearly half (46%) of the characteristics were ascribed to both forms of organisation, including having a clear organisational identity, customer focus, diverse networks, experimentation, external focus, a social mission, social change or transformation, a value focus, planning and control, recombining resources, reliability and financial sustainability. Neither a not-for-profit nor a social enterprise were associated with hierarchy or having a problem focus. Neither were they associated with homogeneity in views, although not-for-profits (31%) were more closely associated with this than social enterprises (19%). These perceptions are consistent with the research literature that argues there are significant overlaps in approaches between not-for-profit and more commercially oriented organisations (Dees & Elias, 1998; Drucker, 1989).

Even though there was considerable variation between colleagues, it was clear that each person answered from the context of their particular organisation. Changeability participants considered that two thirds (67%) of the characteristics apply to both a not-for-profit and a social enterprise, as befitting an organisation that was in the process of blending commercial and social logics. In contrast, Lifewise Hub and Ako Books participants demarcated more between the organisational forms with only 34% and 31% of the characteristics attributed to both. This may be fitting for an organisation that runs a social work and a social enterprise side by side,
witnessing the differences on a daily basis, and an enterprise legally separated from its not-for-
profit parent. Organisational characteristics and perspectives were clearly influenced by context
(Pepper, 1942).

Table 19: Characteristics associated by research participants with organisational forms

<table>
<thead>
<tr>
<th>Not-for-profit</th>
<th>Social enterprise</th>
<th>Both</th>
<th>Neither</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consensus</td>
<td>Costing services &amp; products</td>
<td>Clear organisational identity</td>
<td>Hierarchy</td>
</tr>
<tr>
<td>Meet as much need as possible</td>
<td>Market</td>
<td>Continuous learning</td>
<td>Problem focus</td>
</tr>
<tr>
<td>Reducing risk</td>
<td>Positive attitude to profit</td>
<td>Customer focus</td>
<td>Most people (in the organisation) have similar views</td>
</tr>
<tr>
<td>Risk taking</td>
<td>Diverse networks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>Experimentation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tough performance management</td>
<td>External focus</td>
<td></td>
<td></td>
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<tr>
<td>Social mission</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planning and control</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Recombining resources</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Reliability</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Social change/ transformational</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Financial sustainability</td>
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<td></td>
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<tr>
<td>Capital investment</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Flexibility in structure or approach</td>
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<td></td>
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<tr>
<td>Long-term view</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Empowering staff to make decisions</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Conflict is good</td>
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</tbody>
</table>

Again, although organisations share many characteristics that could be considered aspects of
social and/or commercial organisations, their differences enable examination of how non-profits
might try to accommodate significantly different ways of working. Coding all interviews and
documents against these key logics both confirmed and amended the initial logics summaries
developed from the literature in chapter 2. This research supported seven key differences
between non-profits and for-profits that help to clarify the process of combining both social and commercial logics.

The primary ultimate outcome for all three social enterprises was to enhance social value. The café was a significantly modified service to deliver food to homeless people. Changeability both aimed to increase its reach to enhance mental wellness in the business community, supporting the work of Connect. Ako Books aimed to both deliver funding to enable Playcentre to be freer of government ties, while providing resources that would support parents and children to learn through play.

*Whatever we end up doing (we need to make sure) that we are very clearly guarding our social purpose.* (Brook, Manager, Lifewise café, April 2014)

*What you’re doing in one area in social enterprise [needs to] fit with the value system on the other side of the organisation.* (Grace, Staff, Changeability, May 2013)

The value-based and ‘heart-led’ missions of all three not-for-profits underpinned all the new social enterprises as Dixon recommends in his quote for all organisations at the beginning of this chapter. Generating trading income was a means to achieve their social outcomes sustainably. Moving away from reliance on government contracts and donations to even a small degree was viewed positively.

Even if homogeneity in views was not considered common in not-for-profits, in presentations at the end of the research, research participants agreed that unity of purpose was customary for all the not-for-profits. This expectation was transferred to the social enterprise by gaining legitimacy among all or key stakeholders. Even though Ako Books was not required to operate by consensus, for example, research participants did acknowledge the importance of having Playcentre membership support in purchasing their books. Collaborative approaches continued in the social enterprises, as described in the business model capabilities section on partnerships.

All three social enterprises operated in areas where buyers had strong purchasing power with substitution options available from competitors, and it was very challenging to migrate customers to their service. Although questions about competition were not asked in interviews, nor was it a component of the Business Model Canvas, all the social enterprises made some comment about this area. It was clear that competitors were of varying degrees of importance to each enterprise.
Chapter 5. Findings: Cross-case comparisons

*It’s just been little things like making the food prices in line with other ... cafés, and making what we actually have available... people want.* (Sophie, Adviser, Lifewise cafe, July 2013)

*You’ve got other big players ... in terms of competing with them ... why would you put yourself up against them if you were just about the product?* (Mia, Manager, Changeability, June 2013)

All had a general awareness of who their competition was, but only two cases inspected their competitors closely. The café was situated among many other cafes and so a comparison between prices and styles was easily accessible. Changeability undertook a detailed competitor analysis that helped them understand their offer better and who else was operating in their market. The Ako Books board saw few direct competitors in their specific early childhood education niche, but wanted to learn how other publishers promoted their books. Industry norms for pricing and discounts for books were found and followed.

*It reinforces that need to practice what we preach and ensure that everyone comes away with a positive experience from the Hub or café.* (Noah, Manager, Lifewise, June 2013)

In contrast to significant collaborative behaviour discussed, direct competitive behaviour was not evident from any of the interviews. Nor was attaining an improved market position mentioned either as a target or priority for any of the social enterprises, although challenges in the consultancy and/or training, hospitality and publishing markets were all noted. However, efforts to develop commercial capabilities can be clearly seen in efforts in each social enterprise to identify market preferences and both engage and satisfy customers.

Performance measures will be discussed in more detail in section 5.2.4, below, because they were of significant importance but very challenging to each of the not-for-profits. For the purposes of confirming the logics, it was found that all the not-for-profits focused on staying within budget in addition to developing key quantitative measures of outputs, such as meeting financial targets, social meals provided, books sold, or workshops run. There were no clear social impact measures cited in any interviews except for the number of people housed by the Lifewise Hub.

**5.5. Configuring the social enterprise and the not-for-profit**

Identifying the motivations, areas of constraints and changes required in implementing a commercial business model are useful in answering how not-for-profits accommodate social
Chapter 5. Findings: Cross-case comparisons

enterprises. The data also revealed issues of how these logics were diffused and managed, and the impact they had on the organisations’ structure and public identity. It is to these questions that this section now turns.

5.5.1 Commercial logics diffusion and compatibility

The not-for-profit developing a social enterprise must somehow accommodate commercial logics within its environs, and this section addresses how widely diffused these logics were in the social enterprises and not-for-profits within this research. It has already been established that bringing in informational differences through people with commercial, start-up and/or sectoral experience enabled logic diffusion to occur. Commercial logic diffusion throughout the not-for-profits was low, however, as this was each organisation’s first attempt at establishing a social enterprise that was a small subset of a much larger organisation.

Logic compatibility, in this situation, refers to the level of comfort and synergy between the social and commercial logics within the organisation. With greater compatibility, tensions tend to be minimised, as the different perspectives are better understood and tolerated. This may be because there are high levels of acceptance of differences in the way the people see the world and work, or because the differences between the two logics are not substantial or are possibly not occurring in important areas. Logic incompatibility in this research was noted if research participants made comments about tensions between commercial and social approaches. Compatibility was evidenced where positive comments were made on the inclusion of commercial approaches.

Figure 31: Compatibility with commercial logics in not-for-profits

As can be seen in Figure 31 above, compatibility between social and commercial logics was higher in Lifewise and its café, and for Connect/Changeability, where generic and sectoral commercial logics were present within the not-for-profit and internal social enterprise, there were more financial resources available, and there was some interdependence between staff.
Similarly, the same social enterprises had the greatest impact on the culture of the not-for-profit because there was greater familiarity with and valuing and acceptance of the social enterprise and its commercial logics.

Lifewise and Connect experienced more co-evolution, at least partly because boards and management wanted to see whether the experiential learning of establishing a social enterprise could be beneficial for other parts or even the whole organisation, and there were opportunities for information to be shared across the organisation. The café, closely linked with the Hub social service within Lifewise, had daily interactions between social work and hospitality staff. This was considered largely a positive interaction although there were some Hub staff who thought that commercial operations were inappropriate for a social service. Many of Lifewise’s managers and specialist advisers also interacted with café management, supporting social enterprise development in the organisation.

Most Connect staff were not interacting directly with their social enterprise, although Changeability used some of Connect’s staff to support the social enterprise to provide reception, financial reporting, clinical advice, and so on, as shown in Table 20, below. The Changeability manager was an integral part of the Connect management team. There was also involvement of Connect staff in internal workshops. Co-evolution was therefore strongest within this case, as lessons from Changeability were transferred across the organisation and also to another new social enterprise under development.

In contrast, Ako Books had the least amount of interaction at board or staff level. There was some liaison between the Ako Books board and the national Playcentre Federation, reporting progress and negotiating the divestment of promotions work. Support for the Publishing Coordinator with accounting expertise was also provided from the local association, as the social enterprise was based in its building. Overall, however, it was only some social enterprise personnel, and in some circumstances, who interacted with not-for-profit personnel. There was little interdependence or coevolution between organisational staff and board. Logic diffusion in the not-for-profit was therefore very low.
### Table 20: Commercial logic diffusion and management theme

<table>
<thead>
<tr>
<th>Concepts from data</th>
<th>Quotes</th>
</tr>
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</table>
| **Some social enterprise and not-for-profit personnel must work together** | [Social workers] come down [to the café] when they’re called. (Noah, Manager, Lifewise, April 2014)  
I’m at 60%, then there’s Grace – 20%, and there’s Amelia who does admin and marketing (20%), and I get bits of Mia and Beth. (Ethan, Manager, Changeability, December 2012) |
| **Social enterprise does/does not change the not-for-profit** | It’s got added benefit ... in terms of actual delivery of [workshops] internally ... you ... get the change in culture of the organisation. (Mia, Manager, Changeability, June 2013)  
I think ... from Federation point of view “it’s now a company and they’re taking care of it and we don’t have to worry about it”. (Hayley, Board, Ako Books, May 2014) |
| **Blending, separating and switching logics** | We were always quite entrepreneurial but would say this has made us really entrepreneurial. (Beth, Manager, Connect, January 2013)  
I think [the board] switches as opposed to blends ... sometimes they ... hire a salesperson ... commercial, but on the other routes, we need to improve the community’s links. (Liam, Adviser, Changeability, May 2013) |
| **Partnerships, advisers &/or new staff can provide the commercial expertise** | We have the advisory board to kind of give us that business acumen and that commercial nuance that we know we haven’t got. (Ethan, Manager, Changeability, April 2014)  
She has been utterly instrumental in coaching Noah how to run a café business. What to look for, what to not worry about ... the different systems ... it was absolutely essential to have that [sector expertise] in place. (Bill, Manager, Lifewise, November 2013) |
| **Diversity in view can foster disagreement and innovative solutions** | [The diversity of view in project meetings is] good and what I really love is that we’ve really come to a place of agreement. (Emma, Adviser, Lifewise café, November 2012)  
There is a climate of accepting different viewpoints [in Connect] on things and having to have conversations and find a middle way. (Grace, Staff, Changeability, April 2013) |
| **Managing the social enterprise differently (or not)** | Have we managed him hard enough ... in terms of in a commercial model saying if you don’t reach your sales target before you? That doesn’t fit with our culture. (Mia, Manager, Changeability, 2014)  
In the social services area we are managing people who are professionals and who ... expect a degree of autonomy ... Within a kitchen environment it seems to me that it is much more systematised and you continue to do the same things every day well. (Bill, Manager, Lifewise, November 2013) |
| **You have to be hungry for profit** | I think it would be hungrier for sales [if it was truly commercial]. (Liam, Adviser, Changeability, April 2014)  
Greed is not good but surplus cash is essential. (Max, Adviser, Lifewise, April 2014) |
Chapter 5. Findings: Cross-case comparisons

Each organisation chose whether to blend or amalgamate the logics internally (Connect and Changeability), separate them completely (Playcentre and Ako Books), or retain both logics in separate divisions and switch between them as needed (Lifewise Hub and café). However, switching occurred even in organisations that ostensibly blended the logics. One Changeability manager observed that the board sometimes switched between social and commercial logics as required rather than blending the logics. This process is discussed in greater depth in the next chapter.

To accommodate the new logics, the organisations actively sought to value the diverse views and skills or informational differences available, even if they were challenging to assimilate. Lifewise and Changeability already had this principle established in their culture. For example, Lifewise managers advocated the use of diverse views in many aspects of their work, on the basis that no one could have all the information or rigorously check their own assumptions. Lifewise supported the highest level of contact between social enterprise and not-for-profit personnel on a daily basis, even though the commercial orientation of the café generated some dissonance for some social workers. Lifewise also established a multi-disciplinary group of managers and advisers to oversee the development of the café, which developed some agreement on approaches after lengthy discussions from different perspectives. While the café was imbued with some social purpose and blended commercial and social logics, overall the Hub consisted of two logics that were separated but had ongoing contact with each other in the Hub social work service and the café.

Changeability was entrenched in Connect and became accepted as just another part of the organisation. Staff across the organisation were aware of Changeability and were encouraged to further develop entrepreneurialism and commercially minded approaches to social services. Informational differences were already established as a practice in Connect, as personnel were expected to support their clients with their families, landlords, employers and others, notwithstanding their personal views. Commercial and social logics were to some extent integrated or blended in the organisation and the Changeability manager was seen by Connect managers to personify this.

In contrast, the separation of Ako Books enabled the development of a separate and more commercial culture, without influencing the logics of the parent not-for-profit. Nevertheless, within Ako Books, commercial logics were blended with the social purpose and mission. The
new Ako Books board chair noted that the organisation became increasingly commercially focused after the research.

With dual commercial and social logics operating separately or blended within a social enterprise and/or a not-for-profit, the question arises as to whether there was a different method or style of management applied to the social enterprise, that was different to the rest of the not-for-profit. In this research, ambidexterity refers to the management of the seemingly contradictory elements of social and commercial organisations at the same time, which may require quite different approaches.

Ambidexterity was utilised in Lifewise, where the café and social support service formed two connected parts of a Lifewise division. The café was managed quite differently to the Hub social-work team, as the service manager gradually became acquainted with the different requirements of the café. He initially stood back from café staff operations as he was not familiar with them, but as he learned café management, he took more but a different type of control. The café needed more structured systems with a strong customer focus, while the social work service required more autonomy with oversight of practice issues. This case provided the only example of a single manager spanning both a division of the not-for-profit and the social enterprise and recognising the dual logics and different management needs. The commercial logic that existed in the café was blended with some social logic and did not substantively migrate to the Hub social worker team. Social workers did not need to understand in detail how the café operated but nevertheless had everyday interactions with café staff, as diners revealed they needed social assistance, or social workers met with clients or colleagues in the café environment. With close physical proximity and an expectation of some interdependence between staff, there was some challenge to the commercial orientation of the café from social workers. The approach of social workers and café staff were accepted as different but complimentary, and greater levels of interaction were encouraged by management. There was some debate about the type of interaction and role sharing there should be between the two distinct staff.

*You can’t have them doing social work one day and the next running a commercial enterprise.*
*(James, Adviser, Lifewise, November 2013)*

Ako Books, structurally separated from Playcentre, was managed quite differently to the not-for-profit. The board was focused on developing only Ako Books, and did not have to consider the management of Playcentre.
Chapter 5. Findings: Cross-case comparisons

In contrast, Changeability was managed in a similar manner to Connect. Both social and commercial perspectives were required of staff and management working in Changeability and the Advisory Board, but appreciation of the single blended logic extended throughout the not-for-profit to increase entrepreneurial and financially aware behaviour. Senior managers agreed, however, that Changeability overall retained primarily not-for-profit qualities.

Overall, the not-for-profits preserved their strong social purposes and the diffusion of the commercial logic was largely restricted to the social enterprises with low to medium levels of diffusion in the not-for-profits. All the social enterprises also retained strong social logics, with varying degrees of commercial logics.

### 5.5.2 Structure

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<tr>
<th>Concepts from data</th>
<th>Quotes</th>
</tr>
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</table>
| Intuiting structural choices | *Changeability may just become the commercial arm of Connect instead of being a separate organisation, because the values of Connect have been reflected in what Changeability is doing.* (Ryan, Board, Changeability, May 2013)  
*It’s a shop front for a bigger support service. So there needs to be a real strong connection between the two.* (Madison, Adviser, Lifewise, November 2013) |
| Getting bigger might create more culture clash | *[If we] took that step to go really big ... there needs to be a lot more hard-nosed business people running that side of things ... what we have now is ... very personable ... but I think it could only grow so far with that type of environment.* (Amelia, Staff, Changeability, May 2013) |

The structure of the social enterprises varied significantly according to the not-for-profit’s need. The café formed one part of a homeless service division. The Connect board debated the advantages and disadvantages of holding Changeability close to Connect. They saw the possibilities of separating Changeability legally to run a variety of social enterprises, or developing an internal commercial arm of Connect, while retaining Connect ownership. The Connect board, however, first wanted Changeability to demonstrate it could grow larger and generate adequate commercial income if it was to be a stand-alone operation. Ako Books compartmentalised itself structurally as an external and primarily commercial organisation that blended in the social mission and values. These structural options are examined in greater depth in the next chapter.
A small number of comments made around both Changeability and the café suggested that scale required a dedicated commercial logic that focused on achieving profits. The specific question of how scale might affect organisational culture was not asked or answered in this research. However, a weak signal from one staff member suggested that, as the size of the commercial organisation grows, cultural incompatibility may be more likely as the commercial logics become stronger and more conflicted with the social organisation. Although this may be true, further exploration is needed to test this assumption.

Identity

One of the social enterprises retained the same identity as their parent organisation, while two forged different identities, and this did not seem to be affected by the structure chosen, as can be seen in Table 22 below. Once Lifewise was confident of the café’s quality, the café was proudly rebranded as the Lifewise café and served as a public presence for the organisation. In contrast, although Changeability was seen as an important arm of Connect, it was seen as a different service with a different market. Similar to Connect’s Edge employment service, Changeability was rebranded. There had been some concern that the association with mental health might not be attractive for some consultancy customers. However, the discovery that some clients valued the link with Connect’s mental-health expertise, caused the separation of identity to be reconsidered by the board and management, although it has not yet been changed.

<table>
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<tr>
<th>Concepts from data</th>
<th>Quotes</th>
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| Identity is same as (different to) parent | *I do wonder ... whether [changing identity] has affected the sales to Playcentres, because they don’t see it as a Playcentre publication.* (Hayley, Board, Ako Books, May 2014)  
*We decided to keep the mental health thing separate ... but then ... we determined that the mental health connection, the NGO connections are a unique selling proposition.* (Jacob, Board, Changeability, May 2013) |

Ako Books targeted a broader market that might not value the close association with Playcentre, so a different brand was developed. As noted in Table 22 above, this was reconsidered when it seemed that the name change created some distance from their core Playcentre customers who still dominated sales. As a result, after the research was completed, Ako Books started to use ‘Playcentre Publications’ as a tagline when engagement with Playcentre needed to be emphasised.
5.6. Chapter summary

This chapter has identified the key across-case findings, noting case similarities and differences. Key differences were witnessed in their business models, contexts, resources and how they managed the commercial logics both culturally and structurally. However, the cases shared several things in common. They all:

- were large well-established not-for-profits, with a minimum of 140 staff;
- have demonstrated significant skill in their respective areas of work, having gained their funders’ trust, as evidenced by their growth in government contracts;
- received no government funding for their social enterprise;
- had strong underlying values and had high expectations of commercial activity when starting the social enterprise;
- demonstrated leadership and entrepreneurial orientations in establishing the social enterprise, and were open to learning new ways to operate;
- have experienced uncertain and challenging environments that led to launching their social enterprise during its operation and in optimising the social enterprise’s performance;
- struggled to develop scale, and none of the social enterprises were providing profitable returns to their parent organisation; and
- acknowledged the need for a distinctly commercial perspective when operating a social enterprise, and this led to the assignment of key people to crucial roles in the enterprise.

Four groups of findings have been reported that assist in understanding the introduction and accommodation of a commercial business model with commercial logics within a social organisation. Firstly, this research has found the strategic value to the not-for-profit that motivated the initiation of a social enterprise was premised on the belief that flexible and untagged funding could be attained and that contact with a wider range of the public or business community would be enabled. Other intangible benefits discovered for Connect and Lifewise included increasing commercial knowledge and approaches within the organisation. Every case involved senior management or board members leading the development and engaging support from others within the organisation. All three cases demonstrated entrepreneurialism, or the innovative and proactive activity that seeks and takes opportunities to increase social and/or economic value, within their not-for-profit and social enterprise.

Secondly, a number of key resources were required to address arising adaptive tensions, including adequate finance for staffing and operational expenses and/or time from reorganising
staff and management requirements. Finance and time were intensely constrained in all cases. Commercial and sectoral expertise were particularly valued for providing the new knowledge needed for the social enterprise, as was having the right people with the right skills in place. New appointments sometimes required hard decisions for social service managers. Gaining legitimacy for the social enterprise from all or some key parts of the not-for-profit was another key resource, and was assisted by the social enterprise fitting with the not-for-profit’s mission and not putting unsustainable financial burdens on the parent organisation.

Thirdly, the business model was useful in describing and aligning the key elements of the business, although it did not reflect all the system development undertaken in the new social enterprises. Some components of the business model were relatively straightforward to develop. In particular, identifying value propositions, customer segments, desired customer relationships, planning and operationalising key activities and developing partnerships were all within the organisations’ capacity. Most demanding were those business model components that were new to the not-for-profit. Developing a paying customer focus was novel for contract-based services, with greater uncertainty of income. In addition to incorporating commercial and sectoral expertise into key resources, developing effective marketing channels, costing and pricing services competitively all required skill and processes not usually required in the not-for-profit setting. This finding is closely associated with participants’ own perceptions of the key differences between the not-for-profits and commercial aspects of the social enterprise.

Fourthly, commercial logics were not widely diffused in any of the not-for-profits but there was some variation in the degree of impact on the wider not-for-profit and whether a single logic (social or commercial) or dual (social and commercial) logics were maintained in the not-for-profit. Separation and blending of these logics occurred in a variety of ways in the organisations, and are discussed in greater depth in the next chapter. Much depended on the level and type of interaction required of personnel, the level of commercial and sectoral expertise available, and the culture of valuing the commercial approach. Structural choices also varied considerably, and social enterprise identities either remained under the not-for-profit or a new brand was sought if disassociation was preferred. Nevertheless, two of the cases managed the social enterprise differently to the not-for-profit. The three case studies were all skilled service providers in their area, although scaling up and achieving more than a break-even financial performance did not occur during the research period. Measurable social enterprise outputs were in place, but social impact measurements were difficult for all the social enterprises.


Chapter 6. Discussion

*Change will not come if we wait for some other person or some other time. We are the ones we’ve been waiting for. We are the change that we seek.* (Obama, 2008, p. 1)

The quote above from Barack Obama captures the essence of not-for-profits, which need more money to provide services than their contracts and donations provide. Social enterprise is seen as a potential tool to acquire resources to create the change they seek. The questions posed by this research sought to understand better how not-for-profit organisations develop these social enterprises. The subtle details of this development is the specific gap within the academic literature and puzzle targeted by this research, asking specifically how a commercial business model with commercial logics is introduced and accommodated within a social organisation, what significant changes are made, and how social enterprises might be configured or organised in response to this development.

This chapter discusses the researcher’s interpretation of both the extant literature and findings made from the data collected during this research process. It is built around the three primary contributions made to both theory and practice. Firstly, based on institutional logics, ideal types of commercial and social organisations have been constructed. Their essential distinctions are presented to clarify some of the key changes required of the not-for-profit when developing a social enterprise. Amendments are suggested for the New Zealand definition for social enterprise (Department of Internal Affairs, 2013) and Alter’s (2004) hybrid continuum of organisations.

Secondly, based on complexity concepts, an overarching model is presented that explains this researcher’s view of the process that the three not-for-profits undertook. Key issues to consider when introducing a social enterprise are identified. These include the initial motives for developing a social enterprise (bifurcation); adjustments made in the developmental phase (adaptive tensions); how the business model develops, including which parts of the business model required the most change (business model as a structural attractor); and considerations for organisational configuration, including logics compatibility, diffusion and management (organisational configuration as a structural attractor). Thirdly, the question of how social enterprises might be configured within a not-for-profit is explored in some detail by recombining two previously unrelated theoretical contributions to provide a multidimensional typology that delineates four structural options.
6.1. Summary of commercial and social logics

6.1.1 Complex foundations

Operating two significant and potentially conflicting logics in one organisation is not a simple task. Complexity theory supported by institutional logics and business-model frameworks brought to light the starkly different perspectives that were evident in social enterprises’ dual commercial and social goals (Graetz & Smith, 2008; Kurt, 2015). The commercial orientation was new to each case study, with many aspects of markets or production that were unfamiliar, and managers’ information inevitably imperfect. The social enterprises were all small internal or external divisions with various impacts on the not-for-profit and its leadership. Both order and chaos existed in the organisations as they grappled with the development (Lichtenstein, 2000). With scant resources, the radical disruption of starting a social enterprise needed to be managed at the same time as the remainder of the organisation was kept stable, delivering their government contracted services. Although clarity and certainty were sought by the research participants, some tolerance for ambiguity and uncertainty was necessary (Graetz & Smith, 2009; Maguire & McKelvey, 1999). Not-for-profits establishing a social enterprise are often far-from-equilibrium, and can be seen as complex adaptive systems (Swanson & Zhang, 2011). The differences between the new hybrid and its parent organisation are now explored.

6.1.2 Differences in commercial and social logics

In identifying how social enterprises and not-for-profits are different from each other, it is necessary first to identify the aspects of commercial organisations that are significantly different from social organisations and are included within the social enterprise. This research supports the idea that there are important and discernible differences between social and commercial organisations. Table 23, below, outlines two ideal types for social and commercial organisations, derived from the literature and data emerging from this research. These ideal types are not necessarily expected to exist in real life, with most organisations encompassing a mixture of characteristics (Morgan, 2006). Indeed, Austin and colleagues (2006) and Williams and Nadin (2011) agree that key differences between commercial and social approaches, including market and mission, should be seen on a continuum rather than as a dichotomy. However, understanding these essential differences is expected to help not-for-profits reflect on what changes they need to accommodate in order to develop and manage social enterprises in not-for-profits.
Chapter 6: Discussion

The social organisation is collectively focused on delivering social value, as outlined in the ‘heart-led’ values-based social mission, collaboratively with and for a wide range of stakeholders. The unity of purpose shared by personnel for this mission can create a strong shared focus on creating change or mitigating social harm. In some contexts, personnel effectively can take the role of moral owners of the organisation (Billis, 2010).

Table 23: Ideal types of social and commercial organisations

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Social</th>
<th>Commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desired outcome</td>
<td>Social value</td>
<td>Economic value (profit)</td>
</tr>
<tr>
<td>Primary driver</td>
<td>Values-based mission</td>
<td>Market preferences</td>
</tr>
<tr>
<td>Tactic</td>
<td>Collaborative</td>
<td>Competitive</td>
</tr>
<tr>
<td>Source of legitimacy</td>
<td>Unity of purpose</td>
<td>Market position</td>
</tr>
<tr>
<td>Funding source</td>
<td>Contracts and donations</td>
<td>Trading income</td>
</tr>
<tr>
<td>Stakeholders</td>
<td>Clients and families, funders, community</td>
<td>Customers, owners</td>
</tr>
<tr>
<td>Performance measures</td>
<td>Quantitative social output and financial measures, and qualitative social impact stories.</td>
<td>Quantitative financial measures (e.g., profit, ROI)</td>
</tr>
</tbody>
</table>

Drawn from data and literature (Anheier & Ben-Ner, 2003; Billis, 2010; Boschee, 2006; Dees, 2012; Haugh, 2007; Hull & Lio, 2006; Knutsen, 2013; Liao et al., 2001; Seanor et al., 2013; Thornton et al., 2012)

Government contracts provide some stability for the not-for-profit financially and require reliable service provision (Anheier & Ben-Ner, 2003; Diochon & Anderson, 2009). These not-for-profits may also to some extent be constrained by highly specified contracts and are less exposed to financial risk than commercial organisations. Furthermore, often with higher levels of social or environmental need than can be met within their allocated funding, the strong customer and market focus required of competitive commercial organisations may not be necessary in a not-for-profit (Dees, 2012). It is this dedicated attention to customers and their decision to pay for the product or service that is essential in a profit-seeking social enterprise. Commercial decisions are inherently ‘reason-led’, driven by the profit sought.

A new performance measurement category was included in these ideal types as a result of data analysis. Participants in each organisation mentioned several issues around performance measures. Challenges in determining inspiring but realistic performance measures, especially
social impact measures, were confirmed in both the literature and data (Austin et al., 2006; Lane, 2010). The research therefore supports the future development of relatively easy social-impact measures for social enterprise. The inspiring stories told by Lifewise about homeless clients provide an example of what may be a partial answer to this dilemma.

There are a variety of ways that these two logics can be introduced and accommodated in a not-for-profit and these will be discussed throughout this chapter. Essentially, however, the logics may be distilled to a single logic within the not-for-profit by either blending the social and commercial logics, that is, as a single dominant logic internally (Connect and Changeability) or maintained as a single blended logic operating in an external social enterprise. This leaves the not-for-profit still operating its uncompromised single social logic (Playcentre and Ako Books). Secondly, the two (dual) social and commercial logics may be managed side by side within the not-for-profit (Lifewise Hub).

6.1.3 Social enterprise definition

The definition of social enterprises could be improved by highlighting the need to, in some way, accommodate both commercial and social logics, mind-sets and skills to achieve both the mission and trading income. Greater emphasis on this central paradox may be helpful in clarifying the challenges facing social enterprises and the personnel within them.

So, for example, the definition of a social enterprise used in this research might be enhanced by adding (as shown in italics) that a social enterprise is ‘an organisation that combines social and commercial approaches, having a social, cultural, or environmental mission, and deriving a substantial portion of its income from trade. The majority of its profit/surplus is reinvested in the fulfilment of its mission’ (adapted from Department of Internal Affairs, 2013). The term ‘approaches’, rather than logics, has been used as it is more easily understood by the wider public.

6.1.4 Social enterprise continuum

Figure 32, below, builds on Alter’s (2004) hybrid spectrum of private and social enterprise. It highlights that the key attribute of social enterprise is the development of a hybrid social and commercial operation, in which dual purposes and approaches are both strongly held. By clarifying the focus and funding sources, it is clearer that commercial activity within a not-for-profit is included, but a distinction is made, in line with the academic literature, between the charging of client fees and operating a market-focused venture (Alter, 2004; Dees, 2012). Social
businesses that target social change but distribute profits are highlighted as another distinct organisational form, and donations to a social activity or socially responsible activity from a commercial organisation remain under the traditional for-profit business form.

Figure 32: Social enterprise continuum

Adapted from (Alter, 2004)

6.2. Accommodating a commercial business model with commercial logics

To answer the research question as to how not-for-profits introduce and accommodate a commercial business model with commercial logics, this chapter now interprets the across-case findings as viewed through the lens of complexity theory, supported by institutional logics and the business model. In light of this theoretical understanding and the cases’ similarities and differences, this research asserts that there are three main complexity concepts that help to explain these findings theoretically, as shown in Figure 33, below: bifurcation, adaptive tension, and two structural attractors: the business model and organisational configuration. Organisational configuration acts as a technique to manage the compatibility and diffusion of the logics (Hasselbladh & Kallinikos, 2000). These model components are now discussed in detail.
6.2.1 Bifurcation to social enterprise

A bifurcation represents a threshold where the system moves from one phase space, where a number of possible states exist within the dynamical system, into another where the system experiences qualitative changes and a new range of possible states (Goldstein et al., 2010). The bifurcation that led to the introduction of the social enterprise and income generation was similar in all cases in this research. As can be seen in Table 24, below, the level of strategic value ascribed to the social enterprise was pivotal for the not-for-profits making the decision to establish one. If the social enterprise was seen as vital, either by leaders or stakeholders, extraordinary efforts were made to put it in place. In turn, this led to a new phase space for the organisation with new challenges and options available.

This research found that the not-for-profits, like most complex adaptive systems, were sensitive to changes in their initial conditions (Eoyang, 2011). Their path was affected by their histories and resources. None of the not-for-profits had experienced any retrenchment of funding from government (Anheier & Kendall, 2001; Defourny & Nyssens, 2010b). Nevertheless, funding
constraints and reliability were issues in all cases. There was a desire to increase their financial self-reliance, in case funding reductions did occur, and add untagged flexible funding to their repertoire of resources. Setting up a social enterprise was, in a sense, an insurance policy to protect existing services against future financial calamity, in addition to enabling some more immediate service diversification. The lack or risk of losing available funding created some disequilibrium for the not-for-profit and drove the emergence of a new social enterprise to address it (Lichtenstein et al, 2007).

Table 24: Bifurcation dimension

<table>
<thead>
<tr>
<th>First order concepts from data</th>
<th>Second order theoretical themes</th>
<th>Aggregated Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Becoming more financially sustainable</td>
<td>Strategic value</td>
<td>Bifurcation to social enterprise</td>
</tr>
<tr>
<td>Increasing networking capacity with public and/or business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>There are other intangible benefits from the social enterprise (e.g., enhancing money awareness in organisation, motivating staff)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We have many entrepreneurial skills in our sector to meet new need or create income</td>
<td>Entrepreneurship</td>
<td></td>
</tr>
<tr>
<td>Leading the establishment of the social enterprise</td>
<td>Leadership</td>
<td></td>
</tr>
</tbody>
</table>

The second most significant benefit for the three cases was in increasing contact with the business community and/or the general public. This tended to be suggested as a secondary and less important motive, but one that was unexpected for each organisation, and was not anticipated from the academic literature. Valuing their shop-front to communicate their mission to the public, Lifewise was the only organisation to have an external communications function. The other two not-for-profits primarily focused on internal communications with their clients and/or supporters. Connect, for example, clearly identified its relationship marketing approach that involved close ties with funders and partners, and Changeability offered the opportunity to engage with a much wider group on mission matters. This may also explain why it was important for each case to embed the social enterprise in mission related activity (Morris et al., 2007; Young et al., 2012).

Other less tangible benefits of the social enterprise were specifically mentioned by only one of the cases. Connect wanted the learning from Changeability to be filtered across the organisation.
because the board and management saw the not-for-profit as already highly entrepreneurial and valued the additional skills social enterprise might bring to the organisation and its personnel. The enhancement of commercial skills in the organisation brought the organisation into a new phase space, in complexity terms, where new options and behaviours became possible.

In each case, two or three senior managers and/or board members, supported by committed personnel, led and sustained the developments. This included encouraging and supporting the entrepreneurial mind-set and a learning orientation to the development of new commercial skills within each social enterprise. All the not-for-profits practiced social entrepreneurship, proactively and opportunistically recombining organisational elements to increase social and economic value (Emin & Schieb-Bienfait, 2011; Peredo & McLean, 2006; Sullivan Mort et al., 2003).

In summary, introducing a social enterprise for all the not-for-profits in this study can be represented as a bifurcation. This occurred when the strategic value was high for the organisation, particularly the idea of autonomous funding, and increasing public or business engagement to further their mission. Organisational leaders championed the development, building on existing entrepreneurship.

6.2.2 Adaptive tension in business development

Turning to the question of how not-for-profits accommodate a commercial business model with commercial logics, there were four key initial capacities and resources required in each new social enterprise that generated adaptive tensions. Adaptive tension refers to the difference between an organisation’s initial state and activities and what it needs to accomplish, and the efforts to optimise its performance (Lichtenstein et al., 2007; McKelvey & Andriani, 2010). As discussed in the Findings chapter and can be seen in Table 25, below, the most significant adaptive tension experienced by all the case studies centred on financial resources and the time of paid or volunteer personnel. This section partially answers the second research question around the most significant changes made in accommodating a business model with commercial logics.

Finance and time

Not-for-profits are widely known as having tight resource constraints (Defourny & Nyssens, 2010b). The additional resource requirement for the not-for-profit to develop a social enterprise was both difficult to find and justify because of the risks involved. In contrast to securing a
government contract, a social enterprise could not guarantee that the work undertaken would generate any financial return. If the business model was profitable, there was still some uncertainty as to when any return would occur. Even the two not-for-profits with the most substantial reserves available (Lifewise and Connect) were very cautious about using their resources and wanted an early indication that the new business could generate more funds before investing further. This may help to explain why only relatively small amounts of finance were committed by the three not-for-profits.

Table 25: Adaptive tension for business model dimension

<table>
<thead>
<tr>
<th>First order concepts from data</th>
<th>Second order theoretical themes</th>
<th>Aggregated Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquiring the needed resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management are stretched so thinly</td>
<td></td>
<td></td>
</tr>
<tr>
<td>It’s difficult to plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We use sweat equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growing the business is problematic and we have to survive first</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Getting bigger requires more investment, defeating primary purpose</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Right people, right time, right place</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hard decisions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Start-up, sectoral and/or commercial expertise is needed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Getting everyone on board who needs to be</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The social enterprise meets the need in our mission</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The social enterprise fits our values</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The social enterprise cannot make the organisation worse off</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purpose must be clear with realistic measures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial performance is lower than expected</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impact is hard to measure</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

These social enterprises acted effectively as low cost probes to develop a future income stream (Brown & Eisenhardt, 1997). Some tension emerged in the organisation, however, as it approached financial break-even. More investment resources were needed in all cases to sustain
or scale up the enterprise. It was hard to justify removing access to these resources by the not-for-profit’s core service, considering the social enterprise was not yet generating any profit for the social mission. This tension also helps to explain the importance to not-for-profit personnel that the social enterprise contributes to the social mission, and therefore justifies the investment of otherwise much needed resources.

Resource mobilisation is both important and often constrained in many commercial start-ups (Villanueva, Van de Ven, & Sapienza, 2012). However, there are fewer financial lending options for social enterprises in New Zealand (Kaplan, 2013) and little appetite among not-for-profits to risk resources (Alter, 2004; Borzaga & Solari, 2001). Therefore, the level of tension in social enterprises may be higher than in their commercial counterparts.

If finance for additional staffing is unavailable or insufficient, there are two options facing a not-for-profit wanting to develop a social enterprise. Firstly, staff time may be obtained from existing publicly funded (contract or donated) resources, if it meets the criteria for which it was given. With few other financial options available to initiate the social enterprise, all the case studies used some internal resources from organisational reserves, other donated funds and/or earnings to sustain the enterprise in its early development. Paid commercial advisers, contractors, staff or consultants were made available to all the social enterprises. Such an enterprise may need to be kept at a small level, but only require sufficient income to cover additional direct costs with perhaps some contribution to staffing and overheads. However, having small amounts of staffing available created other difficulties in establishing the enterprise, with personnel commonly citing high stress levels in achieving progress. Secondly, social capital can be used to provide volunteer support and all the not-for-profits used volunteers at board level or in an advisory capacity to support the young social enterprise. Many paid staff also donated additional time outside of regular work hours.

Resource allocation needs to be carefully managed when establishing a social enterprise. Too few resources may make bridging the adaptive tensions impossible but, as Changeability board members noted, generous allocations of resources are likely to be imprudent until the business model is proven an attractive one that is both feasible and sustainable. Resources are scarce and need to be tightly controlled.

**Finance or time to grow the social enterprise**

Scaling up the business and/or social impact delivered by organisations has been an area of academic interest because of the significant challenges involved in growing commercial and
social value (Bloom & Chatterji, 2009; Dees, Anderson, & Wei-Skillern, 2004; Lyon & Fernandez, 2012). While this research did not address scaling up specifically, participants spoke about their plans.

All three social enterprises initially aimed to be larger in the future, but for the first few years had to find a way to survive and cover costs. None of the social enterprises in this study had scaled up the business or its impact significantly since their inception, although there was small growth in two of the social enterprises, Lifewise café and Changeability.

There are many reasons a not-for-profit may choose not to grow the business, including difficulty in developing an effective business model or specific components within it, lack of access to investment resources and a desire to incur no additional costs to the organisation. A not-for-profit could simply want to keep the business at a manageable size or serve a local constituency.

**Informational differences**

The complexity concept of informational differences is another resource required to ease adaptive tension in beginning a social enterprise within a not-for-profit. It refers to the diverse differences in perspective and skills that are present and needed to achieve the outcome sought (Goldstein et al., 2010). Because commercial logics necessitate a different mind-set and skills, the availability of this experience enables more rapid and astute decisions in the development of a social enterprise. Ideally, generic commercial skills, and specific start-up and sectoral expertise can all provide useful advice at critical points because they are entrenched in commercial logics.

As the case studies attest, these informational differences can be provided through employed staff but also at board or advisory board levels. Having the right people available at the right time in the social enterprises, even if it meant making difficult decisions, was a consistent message from each of the cases. It was not just commercial expertise that was valued, however. Each social enterprise noted these experts’ personal commitment to their social mission, but nevertheless providing a new way of seeing the social enterprise.

As can be seen in Figure 34, below, the organisations that had the benefit of the most generic and specific commercial expertise, the Lifewise café and Changeability, had higher levels of financial and time resource available, higher levels of not-for-profit compatibility with commercial logics, and higher levels of interaction between not-for-profit and social enterprise
personnel. They were also both internally structured social enterprises. This suggests that if the informational differences are available internally and there is an acceptance of their value at senior levels of the not-for-profit, some co-evolution between the social enterprise and the not-for-profit becomes possible. Appendix 5 shows a more detailed matrix of co-occurring features of the social enterprises.

Complexity helps us understand that causality can be difficult to isolate, however. Was it internal structures or greater access to resources that drove the greatest commitment to social enterprise development? Did having commercial expertise available make for more financially well-off organisations or did having financial resources lead to being able to attract commercial expertise? Regardless, these features appear to be interconnected and, once the informational differences were in place, some logic diffusion was possible in the social enterprise and not-for-profit.

**Legitimacy**

The third key and related adaptive tension is the degree of legitimacy granted to the social enterprise by its stakeholders, with its actions seen as desirable, proper, or appropriate within current and socially constructed set of norms, values and beliefs (Suchman, 1995). Legitimacy is widely considered critical for social enterprises, given their evolving novel cultural norms and beliefs (Clegg et al., 2007).

Not-for-profit leaders are more willing to accommodate different logics if they are supported by key internal and external stakeholders, especially when there is some incompatibility in values or beliefs (Connolly & Kelly, 2011; Pratt & Foreman, 2000). Without sufficient support for
taking a commercial approach in some part(s) of the organisation from key stakeholders, the social enterprise might expect resistance (Curtis, 2008; Newth, 2016; Seanor & Meaton, 2007) and the commercial expertise provided may not be valued and well used.

Legitimacy for a social enterprise within a social organisation may even be more important and difficult to obtain, given the potential clash in logics. This fundamental change in the not-for-profit may require full or partial organisational approval, depending on what level of support is considered sufficient.

In the Lifewise Hub, the only case where partial organisation support was sought from the board and directly affected staff, there were dual logics operating. This may indicate that personnel resistance to the social enterprise was not expected in the situation of a very large not-for-profit where few staff needed to engage with an experimental social enterprise in one division. In contrast, Connect valued the contribution of the commercial enterprise to the entire not-for-profit, used its services internally and sought its support from all staff, who were considered a key stakeholder in the service. Playcentre’s long commitment to consultation also drove organisation-wide discussions and decision making about the social enterprise. There was consensus that setting up a commercial activity outside the organisation, so that it did not impinge on the not-for-profit unduly, was a sensible option. Every context may generate different responses to the breadth and level of stakeholder support required for the social enterprise.

Figure 35: Legitimacy, logics and identity
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Whether legitimacy was sought from the whole or part of the organisation did not seem related with logic compatibility, higher levels of resources or commercial expertise, structure of the social enterprise or how much profit was sought. As can be seen in Figure 35, above, there was some alignment with the identity selected and the management of the logics within the not-for-profit, although larger samples of social enterprises and not-for-profits may see clearer patterns emerge.

To help garner legitimacy for the establishment of a social enterprise from either part(s) of or the whole not-for-profit, at least three conditions were fulfilled. While Young (2015) argues that not-for-profits resist retaining commercial activities that are not making money, this research suggests that, as long as (1) the basic additional costs of the social enterprise are met, (2) the organisation is not financially worse off nor core services negatively impacted, and (3) there is a positive financial or service contribution to the mission, the social enterprise can be seen to have merit and become legitimate from the perspective of personnel. In contrast to Boschee (2006) and Foster and Bradach (2005), who advocate that profit making is essential in a social enterprise, this research suggests that tolerating lower levels of profit may be a valid option of developing sustainable new operations that are acceptable to the not-for-profit’s stakeholders (Newth, 2016).

The increasing importance of the contribution to the social mission and the fit with organisational values gradually surpassed the need for profit for many research participants in two of the social enterprises, Changeability and the Lifewise café, once the other benefits to the not-for-profit became clearer. To show the changes in approach to profit-seeking for both social enterprises diagrammatically, Hazy and Ashley’s (2011) diagram of attractors in conflict has been adapted, as seen in Figure 36, below.
Depicting a new attractor supplanting an existing one, Figure 36 above presents the idea that income generation was the initial primary motivation for establishing the social enterprise, albeit to support the long-term social mission in some way. The not-for-profit prioritised income generation initially from the social enterprise, but if a decision between delivering profit or serving the social mission was required, the latter dominated. Benefits of operating commercially, other than profits, were highlighted to rationalise the lower levels of profits. This shift in approach may be true in many not-for-profit situations, although these research findings support the idea that both attractors can co-exist paradoxically (Billis, 2013; Unzueta, 2004), even if the primacy of commercial or social value may vary in context and over time.

Obtaining legitimacy for the social enterprise requires some internal acceptance of a different way of thinking and operating. It may be that not-for-profit personnel understand and accept that a more commercially oriented part of their organisation will operate differently (Lifewise café and Ako Books), or that some commercial logics may be blended gradually throughout the organisation in an organisation-wide change process (Changeability). Not-for-profits that actively value and manage diversity of perspective, appreciating the paradox and complexity of operating dual commercial and social logics, may be more likely to accommodate social enterprises internally (Allen, 2014; Majchrzak et al., 2006; Stacey, 2003).

This adjustment, however, may conflict with the unity of purpose that underlies the social logics and legitimises the social organisation. If having a commercial business model disrupts the determined defined focus of the not-for-profit, this accommodation will need to be managed carefully. No other literature cited in this research has identified this challenge clearly, and yet this may be a key barrier to legitimising the accommodation of commercial business models and logics within a not-for-profit. Kistruck and Beamish (2010) do find, however, that the cognitive, network, and cultural embeddedness of not-for-profits commonly constrain the development of
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a commercial endeavour, which may have close links to what is termed in this research ‘unity of purpose’.

This research suggests that early discussions on the commercial logics and how they may operate in the organisational context may increase the chances of resolution and decrease the chances of harm, should there be any clash of logics at a later point. Optimism may be useful in inspiring the establishment phase of the social enterprise, but realism may also be useful in preparing for potential conflicts. Therefore, these early discussions might also encompass a full range of benefits and challenges that might or might not accrue from accommodating the commercial logic.

Performance measures

The fourth resource that caused adaptive tension was the capability to measure performance. Social impact measures are often required by funders and investors and are therefore critical for new social enterprises and their parent organisations (Emerson & Bonini, 2003). In uncertain environments, performance measures can also help provide managers clarity and focus on what is most important (Emerson & Bonini, 2003). Quantitative performance measures in this research consistently involved income in relation to expenditure and the number of products or services purchased. However, before the social enterprise was in operation for a period of time, clarity around the specific level of financial contribution sought was difficult to determine in all cases.

Each of the social enterprises initially had higher expectations of financial performance than they were able to deliver and all later emphasised the importance of having realistic expectations. Targets may need to be conservative initially, until the market and systems are tested, as uncertainty around income expectations generated anxiety for managers. Although all the social enterprises contributed to the not-for-profits’ missions, clear social impact measurement was challenging. This is common to many social enterprises and the provision of easy-to-use tools and guidance is a significant gap to be filled (Dees et al., 2004; Lane, 2010).

In summary, there are four key adaptive tensions that need to be addressed by a not-for-profit developing a commercial business model with commercial logics. Firstly, finance and/or time will be required to establish the new service and needs to be allocated realistically and prudently. Secondly, informational differences are pivotal in providing the new knowledge required in the not-for-profit, specifically with start-up, commercial and/or sectoral expertise that is also committed to the social mission targeted. Thirdly, the social enterprise requires legitimacy from
internal stakeholders for its establishment, which involves some acceptance of the dual logics that operate and acceptance that the not-for-profits’ core services are at least not endangered. Fourthly, easy-to-use measures of both financial performance and social impact are needed but were problematic to implement in all cases. Despite all these tensions, two of the three not-for-profits aimed initially to establish more social enterprises in the future and did this during the research period.

6.2.3 Business model as structural attractor

Research participants were focused on developing the essential components of their business and rarely described it as a business model. In this research, however, these components are collectively termed a business model, and this provided a valuable framework to describe the logic of core business operations and strategies, and how value is created, delivered and captured (Osterwalder et al., 2005; Teece, 2009). This research supported Morris, Schindehutte, & Allen’s (2005) argument that if business models can be delineated and compared across organisations, greater understanding of the social entrepreneurship process is possible. As a mediating artefact, the business model enabled consistent comparisons to be made between the three case studies, identifying which parts were easier or harder to implement. The section below on business model capability challenges particularly provides some additional answers to the second research question as to the most significant changes made in accommodating a business model with commercial logics.

The business model is designed to characterise the social enterprise by providing an overview of its key elements, linking the key components conceptually, and helping to both generate and reflect the characteristics and capabilities of the social enterprise (Allen et al., 2007; Surie & Singh, 2013). During the analysis of findings, it therefore became clear that the business model also acted effectively, in complexity theory terms, as a structural attractor.

The complexity construct of a structural attractor refers to the emergence of a set of interacting factors that have mutually supportive and complementary attributes that are developed through collaborative and self-organising processes, which can subsequently lead to higher performance (Allen, 2001a, 2001b). The elements of a structural attractor may emerge by chance or in response to the system (Hazy, 2011). Structural attractors are ‘structural’ in that they reflect the nature, characteristics, synergies and conflicts of the constituent components within the system and are applied by a group of diverse and autonomous individuals. They are ‘attractors’ in that there is at least one stable attractor within the dynamic system of interacting entities and
activities, drawing activity towards it, shaping patterns of human interaction and the systems they create (Lythberg et al., 2015). When elements of the system stay close to the attractor, a basin of attraction forms (Hazy & Backström, 2013). If the basin is deep, the attractor is likely to be more stable, effectively constrained and therefore able to withstand change. When the environment is turbulent, complex or challenging, the walls of the basin become more shallow, allowing change, and can be unstable (Allen et al., 2007; Hazy, 2006).

Structural attractors can be human-made, physical, natural or symbolic, like a business model (Hazy & Backström, 2013). Allen (2001b) argues that structural attractors cannot be easily analysed by mathematical modelling tools because they spontaneously emerge in a complex system where processes do not run at average rates and individuals are not homogenous. This describes the context for not-for-profits and their new social enterprises. Because structural attractors can end at a steady and final value, or point attractor, they have been visually represented in the diagrams below as operating in a fitness landscape, with valleys of attraction (Maguire & McKelvey, 1999; Snowden, 2010).

As a structural attractor, the business model represents a reduced set of business activities from all possible alternatives that appear to work together synergistically. Its components (value proposition, customer segments and channels, and so on) interact in a complimentary way to shape the social enterprise, and they stimulate positive or negative feedback to support or challenge the viability of the business, resulting in further adaptations made by the personnel involved. For example, testing the value proposition stimulates activity and decisions for future communication channels or revenue streams.

The ability to explore and change is key to enabling sustainable structural attractors to emerge (Allen et al., 2007). There is rarely an optimal strategy, but individuals explore what works and what doesn’t in the midst of prevailing logics that react to both expectation and new experiences. This stimulates further exploration and learning even within uncertainty, and the components of the structural attractor and, in this context, the business model to emerge (Allen, 2001b). The emerging systems and business model components that developed in each of the cases within this research are a testament to this.

A different business model may develop if there is enough variety in the system and stable alternatives that may form a new attractor basin (Hazy, 2006). Once emerging trends are recognised, the shape of the attractor basin can be changed by adapting the constraints or boundary conditions (Hazy, 2011). For example, changes in organisational culture may
legitimise the growth of commercial activity in a not-for-profit and deepen the attractor basin, or capability challenges can be eased with more focus on their development.

As the business model reduces the complexity of core social enterprise activities (Maguire, 2011), it offers a convergence or stabilising and clarifying context for the organisation (Goldstein, Hazy, Silberstang, et al., 2009). If the structural attractor basin is perceived as a valley, some features of the business model deepen the attractor corral, making it harder to move away from it. In contrast, divergence refers to the generative dynamics that draw the attractor and organisation in a different direction (Goldstein, Hazy, & Silberstang, 2009). Underlying both and holding the attractor in place are some unifying dynamics.

Figure 37: Overview of the business model as a structural attractor

Developed from the works of (Allen, 2001b; Goldstein, Hazy, Silberstang, et al., 2009; Hazy, 2011; Young & Kim, 2015)

Structural attractors can be seen at multiple levels. Figure 37, above, shows that, from one organisational perspective, the business model as a whole can be seen as providing clarity and continuity for the actions of both individuals and groups in seeking commercial income, and therefore generates convergence in developing a social enterprise. Divergence comes from having introduced a commercial logic into a social organisation and the experimental learning to accommodate it, such as getting appropriate skills and systems in place. Repeated amplifying actions noted in this research resulted in business model innovations, and these generative dynamics potentially destabilised but also stimulated the organisational environment.

Underlying these paradoxical processes was the values-based mission, as it oriented all active dynamics to the ultimate outcome sought. This unified personnel around a business model that was changing, as the wider not-for-profit system also continued to change (Goldstein, 2009),
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because of the introduction of the social enterprise in addition to many other unrelated influences.

Business model capabilities

At a more detailed organisational level, this research found that a number of elements of the business model across the cases were relatively undemanding for the not-for-profit and therefore deepened, stabilised and entrenched the structural attractor, as can be seen in Table 26 and Figure 38, below. These activities were not significantly different to operationalising a social service. Generating and testing the value proposition, and identifying customer segments, the type of desired customer relationships and the key activities required for the business were all achieved and stayed relatively stable over the research period. Partnerships morphed over time but the not-for-profits in this research had little trouble in forming and nurturing pivotal relationships. Participants in all cases spoke of an intense focus on containing costs.

Table 26: Business model as structural attractor dimension

<table>
<thead>
<tr>
<th>First order concepts from data</th>
<th>Second order theoretical themes</th>
<th>Aggregated Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activities are clear</td>
<td></td>
<td>Business model – capabilities</td>
</tr>
<tr>
<td>Defining customer segments</td>
<td></td>
<td>Business model is a structural attractor</td>
</tr>
<tr>
<td>Developing customer relationships and responsiveness</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Testing and refining the value proposition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building partnerships</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Controlling costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Getting the business model right</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communicating with and engaging customers</td>
<td></td>
<td>Business model – capability challenges</td>
</tr>
<tr>
<td>Costing and pricing the product</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generating revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We have a hard business model</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquiring the skills needed (e.g., sales and marketing)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working with uncertainty, risk and failure</td>
<td></td>
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</table>
At the same time, divergence was introduced to the system as commercial activities were tackled and commercial personnel introduced. Divergent activities comprised business model activities that were not traditionally necessary in a not-for-profit and therefore required new and different skills. There were some areas of commercial skill that were in short supply, and to some degree these destabilised the new social enterprise, making it easier to move towards or back to another attractor, such as a purer social or commercial business model, depending on the not-for-profit’s conscious or unconscious inclinations.

Key human resources allocated to the business changed frequently in the three social enterprises, as having the right people available with the right skills or support proved a crucial feature for all the social enterprises. Start-up, commercial and/or sectoral expertise were considered particularly important, as long as the experts were also committed to the social mission. Channels to engage and communicate with customers were novel, problematic, and often adapted in all cases. Persuading customers to spend their money with the social enterprise is very different to delivering services on contract. Revenue structures also changed significantly for the enterprises, either in fixed prices charged, discounts to some customer segments or charging fees for the use of consultants. As not-for-profits with contracted programmes that are costed collectively, experience in price setting or costing individual services was not readily available. Finding the right price for the market and costing individual services and products were therefore new challenges for all cases.

The reasons given for finding each case’s business model ‘hard’ were that it was demanding to change from a not-for-profit to a for-profit, and that the business should have been started as a business or in an area in which the organisation had more expertise. Each business model had
its own challenges, but a number of challenges were shared by all. Developing a range of new skills and new logics in a new sector, in which there was greater short-term uncertainty than experienced within the not-for-profit, may have made any business model challenging.

**Unifying dynamics**

As outlined in the complexity literature (Goldstein, Hazy, & Silberstang, 2009; Hazy, 2011), there were unifying dynamics occurring at the same time. In particular, the values-based mission of the social enterprise, closely aligned with that of the not-for-profit parent, acted to balance the divergence and convergence involved in generating a legitimate social enterprise. For example, while Ako Books had a strong drive to make profit, and legal separation enabled more rapid business decisions than was possible in their parent organisation, they remained committed to publishing books that supported Playcentre philosophy on parenting and play. Similarly, Lifewise’s commitment to community integration for homeless people and Changeability’s drive to improve mental wellness in the wider community motivated the development of new skills that were difficult to acquire in a not-for-profit environment.

The values-based mission acted as an ‘anchor’ for the enterprise, supporting reconciliation of the capabilities both possessed and needed. Embedding the social enterprise activity into the mission of the parent organisation increased legitimacy and active support for the new income-generating endeavour. Purpose and profit aligned were more attractive to the not-for-profit and its personnel than if undertaken separately.

Radical change in the business models did not occur in any of the cases during the research period, and may have been influenced by these unifying dynamics. Accepting that the social enterprise focus was primarily on the social mission, it may have limited the commitment to commercialism or, as one senior manager called it, their ‘hunger’ for profit.

In summary, the business model acts as a structural attractor, identifying, reflecting and aligning the core components of the business and drawing activity towards it, as learning within the social enterprise occurs. There are some business model components that are easier to execute than others, deepening the attractor basin. If new capabilities most required by commercial business models in not-for-profits are not provided, this can make the attractor basin more shallow. These include sales and marketing, costing and pricing individual goods and services, general commercial and sectoral expertise and management of higher levels of uncertainty.
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The values-based mission acts as an anchor that unifies these and reminds the system of the essential social purpose for which the commercial activity exists. With some supporting empirical data, seeing the business model as a structural attractor contributes to the academic conversation around this topic.

6.2.4 Emergence of organisational configuration as a structural attractor

The complexity concept of emergence suggests that organisations can deliver spontaneous and unpredictable solutions to problems through self-organisation or the interdependent creation of new order (Lichtenstein, 2000). McKelvey (2004) submits that adaptive tension and far-from-equilibrium dynamics, as found in these social enterprises, are the primary catalysts of emergence. Lichtenstein and Plowman (2009) add that emergence requires amplifying actions, recombination and stabilising feedback from the many connected parts in both the close and wider environment to develop new order. As chapters 4 and 5 demonstrate, in every case there was ample evidence of self-organisation and feedback among the social enterprise personnel developing the business, its systems and processes with few resources, but recombining what was available.

Figure 39: Two structural attractors

This research suggests that a structural attractor can also stimulate the emergence of another structural attractor in response to the social enterprise business model and its commercial logics. There may be many structural attractors interacting within the phase space of a social enterprise, but this section discusses a second attractor that helped to answer the third and final research question.

The commercial business model, with its associated commercial logics and resources, shaped important management decisions on the structure and culture or configuration of the social enterprise within the not-for-profit. This in turn shaped other activity, such as recruitment, governance, decision making structure, identity, and the business model and its components, as suggested in Figure 39, above. For example, the decision on externalising Ako Books also affected its ability to access resources, and channels of communication were developed.
separately to those of Playcentre. The inclusion of the café as part of the Lifewise Hub made Lifewise communication channels available for use and philanthropic funding easier to access, but pricing decisions for two populations more complex. Changeability’s integration of some aspects of the social enterprise meant that sharing internal staff resources was easier to justify and partnerships with Changeability were automatically extended to Connect.

Like the business model structural attractor, the organisational configuration structural attractor reflected the interacting characteristics of system components, including logics compatibility and diffusion, levels of interdependence sought among staff, financial resource availability, access to commercial skills and the existing not-for-profit structure. Organisational configurations were sought that could interact in a complimentary way to best accommodate the social enterprise without jeopardising the not-for-profit, and ideally would result in mutually supportive and synergistic features (Hazy, 2011). By selecting one organisational configuration, the phase space and the range of other possible states were altered. For example, some alternative options were less available once Ako Books was externalised, such as increasing the level of interdependence and logic diffusion within Playcentre.

Data and literature analysis confirms that the two key components of organisational configuration were the structural and cultural composition. Many of these important management decisions were made by organisational leaders without access to an institutional logics perspective. This discussion may give not-for-profits the opportunity to consider their options more deliberately.

Figure 40: Organisational configuration as a structural attractor

All organisational characteristics are influenced by context, interact and vary over time, but the organisational configuration structural attractor illustrates some important tendencies. The
historical and existing structure and culture of the not-for-profit acts as the convergent and stable context into which the social enterprise arrives. The business model of the social enterprise and its associated profit focus may stimulate divergence or instability for the not-for-profit. This will depend on factors, including the level and management of logics compatibility, the desired outcome for the not-for-profit, and influences the way the new enterprise is culturally and structurally configured in relation to its parent not-for-profit, as can be seen in Figure 40, above. Finding an optimal configuration provides a way to unify these dynamics.

This section answers the third research question as to how not-for-profits might configure themselves when accommodating a commercial business model with commercial logics. Firstly, the next section on cultural configuration considers the degree to which commercial logics are diffused within the not-for-profit and the degree to which ambidexterity is or needs to be practiced. A section on structural configuration follows that focuses on the organisational structure of the social enterprise and the identity employed. The rest of the chapter then explores the choices that not-for-profits have in configuring themselves structurally, specifically identifying the advantages and disadvantages of each option.

Table 27: Organisational configuration attractor dimension

<table>
<thead>
<tr>
<th>First order concepts from data</th>
<th>Second order theoretical themes</th>
<th>Aggregated Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Some social enterprise &amp; not-for-profit personnel must work together</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social enterprise does/does not change not-for-profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blending, separating and switching logics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partnerships, advisers and/or new staff can provide the commercial expertise</td>
<td></td>
<td></td>
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<tr>
<td>Diversity in view can foster disagreement and innovative solutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managing the social enterprise differently (or not)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>You have to be hungry for profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intuiting structural choices</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Getting bigger might create more culture clash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identity is same as (different to) parent</td>
<td></td>
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</tr>
</tbody>
</table>
Chapter 6: Discussion

Cultural configuration

As the organisation decides how to sustain the commercial logics within the not-for-profit, the culture of the organisation can be affected in a number of ways, as can be seen in Table 27, above. All of the social enterprises were conscious that the commercial logic being introduced was substantially different than that of the not-for-profit. Each case obtained commercial or sectoral expertise, integrated these within the not-for-profit and managed logic compatibility in different ways. The levels of logic diffusion and ambidexterity are considered in this research to be particularly important to addressing the accommodation of a commercial business model, and are now discussed.

Logic diffusion

The level of logic diffusion (Scott, 2008) and interdependence between social enterprise and not-for-profit personnel (Pratt & Foreman, 2000) was not high in any of the not-for-profits in this research, as can be seen in Figure 41, below. This was because the social enterprise was a small part of the not-for-profit and not central to core business (Besharov & Smith, 2014; Kistruck & Beamish, 2010).

Participants identifying their view of social enterprise logics in the case studies overall saw social enterprise as similar to not-for-profits in general, with some important differences that related to commercial approaches, including the market, a positive attitude to profit, risk taking, costing products and services and sales and marketing.

Research participants with commercial backgrounds across all cases consistently tended to think their social enterprise was at an earlier stage of development than those with social backgrounds. Two commercial advisers in Connect and Lifewise assessed their own social enterprises as not being strongly profit-driven, indicating the social logics still dominated the social enterprises.
despite their efforts to commercialise. This further justifies incorporating this commercial perspective and expertise.

The two organisations with higher moderate levels of logic diffusion required at least some staff from the not-for-profit parent and social enterprise to work together, and so their interdependence has also been categorised as moderate. Only one of these, the Lifewise café, which was closely connected to a social service, experienced sufficient discord among personnel to concern managers. The second social enterprise, Changeability, interacted with not-for-profit personnel moderately, integrated the logics to some degree internally, and gradually increased the level of legitimacy of the enterprise among staff by emphasising the positive contribution made by the social enterprise to its values-based mission. As a stand-alone organisation, Ako Books did not have to diffuse logics into Playcentre, as it had permission to operate both commercially and separately. This had many advantages, but also stimulated a sense of unwanted separation and being forgotten. Nevertheless, Playcentre members were their core customers, and Ako Books expressed their awareness that they needed to continue to actively engage them.

The two logics are not always managed separately. Blended commercial and social logics will require all decisions to find a way to incorporate both logics, impacting on everything in the organisation from personnel recruitment to pricing strategies (Battilana & Dorado, 2010). Having only one internal logic and associated set of organisational rubrics can be simpler to manage. However, if the logics are separated in some way, managers might ‘switch’ between the two logics as context demands (Jarzabkowski et al., 2013). Alternatively, separate managers might be allocated to different divisions so that the ‘switching’ is contained among a smaller number of people. It is to the management of this process that this section now turns.

**Ambidexterity**

The academic literature asserts that there are times that ambidextrous management is needed to manage conflicting logics that simultaneously explore the future and paradoxically exploit the present, providing both innovative and adaptive developments in addition to stable and reliable service delivery (Greenwood et al., 2011; O'Reilly & Tushman, 2004). Ambidexterity is then important when dual logics are retained in the same organisation, with the larger social service requiring management of stable contracted services that encourage incremental improvements, while the social enterprise may require more adaptive and experimental approaches.
While it can be argued that a not-for-profit should manage a social enterprise differently because of the requirements of the different logics, Lifewise was the only organisation in this research that consciously learned to do so as they managed a social service that was closely connected to the social enterprise, as shown in Figure 42, below. The other social enterprise that was managed very differently to the not-for-profit, Ako Books, was structurally separated. In contrast, Connect already saw itself as entrepreneurial and Changeability was seen by participants as amplifying that characteristic. Overall, management responses were based on the collectively perceived need of the organisation and social enterprise at that time. Having the capacity and a desire to manage the social enterprise differently could be vital for structural and cultural configuration within a not-for-profit. Delineating a framework of management approaches appropriate for a large contract-driven not-for-profit and a small entrepreneurial social enterprise may be a valuable consideration for a not-for-profit entering the social enterprise sector.

Figure 42: Ambidexterity and logics

When there are dual logics operating in the same organisation and very high resource constraints, highly ambidextrous responses may not be effective because organisational personnel may not be willing or able to attend to intensely competing demands (Pratt & Foreman, 2000). Hazy (2010) adds that higher resource constraints can create pressure to conserve rather than experiment. Given that not-for-profits are commonly in situations of high resource constraint (Doherty et al., 2014; Fredericksen & London, 2000), this may make ambidexterity more challenging in developing an adaptive social enterprise, but still necessary in order to accommodate the dual logics. Another barrier to ambidexterity may be the unity of...
purpose that is a central feature of the social logic, generating resistance to having a very
different way of operating into the existing culture.

While this research primarily focused on developments at the organisational level, complexity
theory argues that all levels are interconnected and multiple-level analysis is preferred (Hazy,
2011; Rosenhead, 1998). Not only does the social enterprise have to be adaptive and able to
cope with pluralism, so do individuals. Organisational personnel need to be able to work with
paradox, adjusting the way they operate and blending or switching between logics, as required.
Therefore, supporting the work of Smith and colleagues (2012; 2011), social enterprises in not-
for-profits require personnel with high levels of interpersonal skills to somehow adapt and
reconcile differences generated by the existence of two logics.

However, much may depend on context (Jarzabkowski et al., 2013). Individuals and
organisations may see commercial and social logics as conflicting or complimentary depending
on the situation within the organisation and the perceived desirability of the blend (Jarzabkowski
et al., 2013). Depending on their level of familiarity with the logic, individuals may ignore,
reject, comply, combine, or compartmentalise the logic (Pache & Chowdhury, 2012; Pache &
Santos, 2013a). Given that there is often a high level of personnel involvement in not-for-profit
decision making, without their commitment to both logics, organisational conflict may occur
(Christiansen & Lounsbury, 2013; Newth, 2016).

Complexity’s message to individuals within complex environments is not to give up but attend
to signals, including weak signals, and be prepared to change (Schultz, 2008). Kurt (2015)
contends that non-dogmatic or flexible attitudes are required to cope with pluralism because our
understanding will never be complete, so we must be comfortable in not knowing everything
and not necessarily being right. Each individual must be aware of and comfortable with seeing
only part of the picture that comprises reality. Transparent communication processes that openly
explore differences in logics and arising issues may then be possible to find ways to
accommodate these differences when needed (Stacey, 2003).

**Structural Configuration**

Data analysis suggested the two primary components of structural configuration include the
organisational structure of the social enterprise and its public identity in relation to the not-for-
profit. This first section now focuses primarily on structural options as a means to describe the
responses to logic compatibility and use among the not-for-profits in this research.
Determining the appropriate structure of a social enterprise is a key decision for a not-for-profit in managing different and potentially contradictory logics that inevitably arise when introducing a different logic (Besharov & Smith, 2014; Santos et al., 2015). Structure both influences and is influenced by logic compatibility and diffusion, shaping a range of organisational functions, including resource allocation, who is employed by the social enterprise, how and by whom decisions are made within the enterprise, and the capital and funding support given. For example, Battilana and Dorado (2010) argue that developing a hybrid workforce, that is staff who have a dual allegiance to both social or commercial goals, can avoid tensions between two otherwise differently focused workforces. However, such a stance is unlikely to be achieved in a not-for-profit that employs expert social service staff and where the social enterprise is a small part of the parent organisation. Other ways to structure resources need to be considered. This research posits that a number of structural options are available to not-for-profits.

Drawing from institutional logics and organisational identity literature, this section builds on and explores ways to recombine the conceptualisations offered by Besharov and Smith (2014) and Pratt and Foreman (2000). In applying a conceptual lens to emerging empirical data, the research offers a typology that suggests four ways a not-for-profit might structure a social enterprise and in what circumstances they might occur.

How institutional logics manifest in social enterprise has been the subject of recent research and the conclusions various authors have drawn are divergent. Besharov and Smith (2014) and others view most social enterprises as ‘contested’, which may explain why many social enterprises ‘wobble’ towards one or other of the logics (Young & Kim, 2012). Others, for example Teasdale and colleagues, argue that for many not-for-profits, the commercial logics may be considered ill-suited within the organisation and the perfectly balanced hybrid difficult to achieve (Teasdale et al, 2013). On the other hand, research evidence suggests that hybrid organisations do indeed exist (Battilana et al., 2012; Haigh et al., 2015). This thesis takes a position somewhere between these views and posits that social and commercial characteristics can materialise in numerous ways in not-for-profits with social enterprises beyond the standard dichotomous options frequently assumed. A broader range of structural responses are available than perhaps are commonly considered, with equally balanced social and commercial logics just one of many options that are neither mutually exclusive nor static.
As can be seen in Figure 43, above, the two primary dimensions that impact on the structure of a social enterprise and therefore the management of the dual logics are, firstly, logic compatibility (Besharov & Smith, 2014) and, secondly, how the logic is managed within the not-for-profit; that is whether it chooses to combine or separate the dual logics internally or externally (Pratt & Foreman, 2000).

The higher the assessed compatibility or acceptability of logics within the not-for-profit, the more likely the social enterprise can be accommodated within the not-for-profit through structural options labelled as integration or aggregation. Integration occurs when both the commercial and social logics are compatible and they combine to form a single dominant logic. Aggregation results from both commercial and social logics being managed simultaneously as dual logics within the not-for-profit and social enterprise. Alternatively, if there is low logic compatibility, the structural alternatives include compartmentalisation, which occurs when the commercial logic of the social enterprise is maintained as a single logic but within a separate organisation to the parent not-for-profit. When there is low logic compatibility but dual logics evident then the peripheral commercial logic may be subordinated as a minor logic to the dominant social logic. Each of these four structural responses represents a unique combination of multiple factors (Doty & Glick, 1994).

The commercial logic cannot be assumed to be consistently imported and may vary in intensity throughout the wider not-for-profit. As can be seen in both Figure 43 and the previous two case-based chapters, organisations may also vary their structural response over time and may locate themselves in any position within the quadrant and possibly in more than one of the quadrants.
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at any given time. To indicate this variability, a more accurate location of each organisation in terms of their logic compatibility and management of single or dual logics has been marked in each quadrant with an icon of that structure. The four delineated options are now discussed in greater depth.

1) Integration involves organisations finding an acceptable balance in a single hybrid logic, which then allows sense-making of any inconsistencies to occur for stakeholders (Besharov & Smith, 2014; Pache & Santos, 2013a; Pratt & Foreman, 2000). Organisations may select whole elements of each logic to project a legitimate and consistent identity. Most commonly it involves the integration of both mission (social) and profit (commercial) goals and values (Battilana & Dorado, 2010; Dees, 2012). Merged key features may subsequently develop (Pache & Santos, 2013a).

Changeability is illustrative of an integrated social enterprise. During its formation and development stages, there was an explicit endeavour to integrate both commercial and social logics into a single logic seen as broadly compatible with Connect. Changeability was seen as strongly linked to Connect through the staff appointed by the consultancy and their collective commitment to Connect’s values.

Although the social logic remained dominant, and the social enterprise operated differently to the rest of the organisation in selling and pricing services, for example, strands of the commercial logic, such as entrepreneurialism and money awareness, were woven into a single blended logic within the whole organisation. The board initially thought Changeability might be separated from Connect in the future when it became profitable, but the integration process enabled an internal view that enabled the consulting arm to continue within Connect as a commercial division.

There are two key advantages of this structural option. The structure itself is a cost effective one, utilising organisational overheads, such as reception, finance and management. The intangible benefits may be many, in this case including the stimulation of staff and a more entrepreneurial culture and money awareness, developing links with business and their staff and more autonomously fulfilling the mission. Blending logics, however, required support from across the whole organisation for the social enterprise, which in turn required time for discussion and consideration. There is a potential risk, however, that blending the logics may mean there are significantly diluted commercial logics focused on developing the business.
2) Aggregation occurs when an organisation retains two logics internally. The not-for-profit and social enterprise are seen separately but of equal value as composite parts of the whole organisation, and linkages are forged to generate positive synergies among staff and volunteers who accept the importance of both logics (Pratt & Foreman, 2000). There may be some hierarchical importance of the logics or decisions may vary depending on the logic’s importance at any given time. Staff may be employed separately in the social enterprise or could work in both the not-for-profit and social enterprise, and simply switch between the commercial or social logics as context demands (Jarzabkowski et al., 2013).

The commercially oriented café is an example of aggregated logics, as it provides a pivotal part of a homeless service, with commercial logics that starkly contrast to those in the social work service. Both parts of the service needed to work together to a certain extent to deliver the complete food and support service. As noted previously, the logics were not completely compatible for staff members with some concern from social workers over the more commercial approach of the café, even though the not-for-profit only expected to subsidise the café’s cost. However, at a management level and among some staff, the logics were accepted as broadly compatible within the organisation, and the differences acknowledged as useful because they contributed both financial value and the opportunity for another of the agency’s goals, that of increased community integration.

There are several advantages to this structural option. Again, it may be cost effective because it uses existing overheads of the not-for-profit, such as human resources, marketing and fundraising. The dual logics can be maintained somewhat separately, with clear but different roles and responsibilities. Legitimacy may only be needed from the part of the organisation most affected. The key disadvantage is that conflict may be more common, when different styles of operation work together closely and comparisons of different conditions and approaches are easily visible.

3) Compartmentalisation involves developing a separate organisational unit in which a different set of logics and mind-sets are located. This creates a separate context for the various logics to exist, thereby avoiding the likely logic clash or tension that might arise if there was an attempt to locate divergent or conflicting logics within the larger organisation. Writers often suggest developing a separate internal division or project can be the compartmentalisation option (Battilana & Lee, 2014; Pratt & Foreman, 2000). However, a new social enterprise within a larger not-for-profit will inevitably form a division or project,
and so is not considered a sufficiently delineated option. Therefore, this term is only assigned when a separate organisation is formed as a subsidiary of the not-for-profit, with its own governance and typically a blended single logic within the social enterprise.

Ako Books is an example of a compartmentalised social enterprise. Its board shared many Playcentre values, but also saw the limitations of Playcentre’s commitment to consensus when rapid commercial decisions were needed and actively sought to compartmentalise itself structurally. A separate entity also limited the level of Playcentre’s financial risk and commercial logic diffusion within the not-for-profit.

While supportive of the emerging social enterprise and with few available resources, Playcentre was restructuring the organisation significantly and was aware it needed to not be distracted in time or attention to assist the new publishing service. There was little interdependence with the staff of Playcentre, and Ako Books operated a single blended social and commercial logic internally, which, according to some of the research participants, became more commercial over time. The main advantage of this structural option is that different ways of operating do not tend to cause conflict, with less contact between the social enterprise and not-for-profit personnel. There is less influence on the existing culture of the not-for-profit, and a stronger commercial focus may be taken, even if blended with social logics to some degree. Disadvantages include additional resource requirements for a focused board and possibly additional separate premises, with all the associated overheads. There may also be fewer additional benefits accruing to the not-for-profit, such as engaging with the business community or increasing entrepreneurialism within the organisation.

4) Subordination involves retaining a minor logic in spite of it not being embraced within the wider organisational setting. At one extreme within this structural option, a logic may be removed because it is essentially incompatible and not considered to offer sufficient value to the organisation (Pratt & Foreman, 2000). However, in the situation where a social enterprise has been consciously developed by the organisation, the removal of the social enterprise and its logic may be considered an excessive response and, instead, subordination may be more likely. This option may equate to the dominance or estrangement of logics described by Besharov and Smith (2014).

Subordination can involve ostensibly endorsing but not fully implementing the practices required of one logic, while retaining the practices of another that is more aligned with the
goals of the organisation (Boxenbaum & Jonsson, 2008; Pache & Santos, 2013b). While sometimes viewed as deceptive, this strategy can allow the organisation to present a legitimate façade, while not requiring staff to change practices. Should a not-for-profit experience unintended subordination, this research suggests that managers could consider other structural options that they have available to them.

This research has not associated the subordination option with any of the three case studies provided. However, it is possible to imagine a not-for-profit that takes on a small project, possibly in partnership with a commercial provider, uses existing staff to develop it and does not seek to change its culture. Examples might include an opportunity or thrift shop providing used clothing to people in need that is run by volunteers, or a work centre for disadvantaged people with one or a few key contracts. The culture does not have to change significantly as the link with the mission and client focus remains strong, and the need to identify and meet market preferences is relatively weak. This option, however, may be a valid one for those not-for-profits that want to test the commercial waters, have few resources to establish a new service, only need to cover additional direct costs, and do not want to change the organisational culture nor seek support for any significant shifts in direction. The key disadvantage is that there is likely to be a weak commercial focus, and therefore possibly low levels of commercial success.

These four structural options can be aligned with Alter’s (2004) typology based on centrality to mission and also considers structure. Logic compatibility and the number of logics operating is suggested as an alternative matrix that leads directly to identifying optimal structural options.

A number of constructs from institutional theory and organisation studies are supported by the research data as additionally important to the structural choices made including legitimacy, interdependence and resource levels. These constructs are now briefly discussed, followed by an examination of each of the structural options with an illustrative example of a social enterprise from the research.

Where there is higher legitimacy for the social enterprise, from multiple stakeholders within the not-for-profit, commercial logics may be more diffused throughout the organisation and the structural options of integration and aggregation are more likely to occur internally. Similarly, the level of interdependence required of not-for-profit and social enterprise staff/volunteers also affects structural choices. Low levels of interdependence make compartmentalisation and subordination more likely choices.
Resource levels are defined as the organisational capacity to address the competing demands of the dual logics and include access to finance or time made available for existing staff or volunteers, depending on the level of social capital available. When resource constraints are high, it is more difficult to give the attention, capital and support required by the social enterprise. Pratt and Foreman (2000) argue that it costs more to compartmentalise as a separate organisation or division with its own management infrastructure. If that is so, higher resource constraints may encourage integration or subordination. If resource constraints can be lowered through grant donations or the use of reserves, and support for the social enterprise logic is high, but compatibility with and diffusion of the commercial logic is low, compartmentalising may be the best option (Pratt & Foreman, 2000).

However, as can be seen in Figure 44, above, this argument was not true in this research. Ako Books had the least resources available to it and compartmentalised itself, using volunteer labour and existing funding. The organisations that had more resources chose to internalise their social enterprise.

Identity

Determining how the social enterprise should be presented to the world is another critical decision for the not-for-profit (Alter, 2004). The preference to associate the not-for-profit closely with the social enterprise by sharing identity may be based on many factors and may not be closely linked with the organisational configuration. As can be seen in Figure 45, below, structure, and for that matter choice in logics use, does not explain identity choice. The Lifewise Hub, the aggregated organisation in this research, with dual social and commercial logics, retained the same identity as the not-for-profit. Both the not-for-profit with a single internally
blended logic, Changeability, and the externally compartmentalised social enterprise, Ako Books, chose to give the social enterprise a different identity.

However, when presenting the findings of this research to the cases, Ako Books noted that they now used their old name ‘Playcentre Publications’ as a tagline to stay better connected with their core Playcentre customers. Connect mentioned their initial decision to develop a separate brand for Changeability was based on an assumption that customers would be uncomfortable with the mental health link, but found to their surprise that many did appreciate that expertise. If they had known that, their decision on identity may have been different.

The two primary options for the identity of the social enterprises in this research were either closely linking the new enterprise with the not-for-profit identity, or developing a separate identity, albeit with some association. A continuum may exist where degrees of association, regardless of the social enterprise’s identity, might depend on the not-for-profit and its stakeholders’ context. For example, the social enterprise might have a different name but be listed on the parent organisation’s website, as in the case of Ako Books and Changeability.

Close consideration of the reasons to associate or not with the social enterprise would be useful when beginning a social enterprise, and may benefit from market testing. Sharing the same identity may include advantages of expanding public recognition and association with innovative business practices. Reasons to disassociate may include avoiding unwanted linkages with the not-for-profit or specific sector, or avoiding internal or external association with profit-seeking.
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Revisiting a social enterprise construct

The accommodation model emerging from this research in Figure 33, page 194, theoretically supports and deepens Alter’s four lenses strategic framework (2009) for social enterprises, as described in section 2.1.2. These four lenses also emerged as key themes in this research, three under the heading of adaptive tension. Stakeholder management may be compared to the legitimacy required to develop a social enterprise. Resource mobilisation is similar to finance and time, although Alter also includes the activities initiated by these resources. Knowledge management may be viewed as close to the informational differences required to launch a commercial business. Finally, cultural management may be compared to cultural configurational considerations, and the theorisation around logic diffusion and ambidexterity deepen the understanding of the cultural management requirements.

This research makes some further adaptations to Alter’s model, as can be seen in Figure 46, below. Firstly, organisational configuration was also a key consideration in the context of a not-for-profit developing a social enterprise. Secondly, the business model provides an excellent lens into and overview of the business and could replace the four performance criteria listed in her model, because it provides an overview of the social and commercial value provided, adaptability, efficiency, and having adequate performance measures.

Figure 46: Four lenses framework revised

Adapted from (Alter, 2009)

The theorisation around organisational configuration provides a fresh perspective on social enterprise logics within a not-for-profit context (Besharov & Smith, 2014; Pratt & Foreman, 2000). In summary, commercial logics were not widely diffused throughout each not-for-profit. If findings from this research are generalisable, higher (moderate) levels of logic diffusion seem to occur in those not-for-profits that have commercial expertise in the organisation, see the
logics at least as partially compatible, and have some financial and labour resources available, there is some willingness or desire to co-evolve, and the social enterprise and not-for-profit reciprocally influence the development of each other. The level of personnel interdependence is also closely related to the level of logic diffusion and logic compatibility. More successfully accommodated social enterprises might be expected from organisations that have these features or are alternatively separated physically or structurally from the not-for-profit.

Conflict is more likely when there are low levels of logic compatibility and high levels of interdependence (Pratt & Foreman, 2000). Where two logics are maintained internally, this research suggests some consideration be given to different management approaches to both optimise outcomes and minimise cultural clashes. Specifically, four options for structure and two options for identity of the social enterprise have been identified.

Determining an appropriate structure may help to minimise unproductive conflict, especially as the social enterprise grows, but maximise engagement and legitimacy, considering the extent of differences in logics between the not-for-profit and social enterprise, and therefore support growth of the social enterprise and its alternative logics.

6.3. Chapter summary

The introduction of a social enterprise within a not-for-profit is a complex and challenging process. Aided by complexity theory and drawing on business models and institutional logics, the phenomenon of accommodating a commercial business model with commercial logics within a not-for-profit, in the form of a social enterprise, has been further conceptualised. This research first explains in what way commercial organisations have fundamentally different institutional logics to not-for-profits. Ideal types that abstract the fundamental differences between not-for-profits and for-profits help to better understand the requirements and process of accommodation. A subsequent improvement was made to an existing definition of social enterprise and Alter’s continuum of organisations is enhanced.

With its appreciation for the interconnected and unpredictable characteristics of the organisational world, complexity theory encourages the view that learning and combining commercial logics depends on context and requires an entrepreneurial approach that tolerates some ambiguity and uncertainty at both the organisational and individual level. This approach stands in contrast to not-for-profits that both emphasise unity of purpose in legitimising and galvanising momentum towards a core mission, and provide public services that require service
Chapter 6: Discussion

reliability and stability. Understanding the necessity for and ability of personnel to shift from holding a collective purpose to being comfortable with uncertainty and different perspectives involved in growing a commercial business may help to manage the accommodation. Accommodation of the not-for-profit’s social logics is also essential.

A theoretically based model outlines the four key emerging themes to answer the research questions. Firstly, the strategic value of the enterprise in terms of independent finance and contact with the public and businesses provided the motivation to introduce social enterprise (bifurcation) in addition to internal leadership and entrepreneurship within the not-for-profit.

Secondly, the social enterprises experienced four key challenges to optimising performance (adaptive tensions) in accommodating the commercial business model. Particularly important were finding the financial and time resources, legitimacy from key stakeholders and skills, and necessary informational differences including commercial and, specifically, start-up and sectoral expertise for its growth. Performance measures were also required but problematic in implementation, especially developing easy-to-use social impact measures.

Thirdly, the business model (structural attractor), shapes and aligns key business components. Some activities were relatively easily achieved by the social enterprises and served to deepen or entrench the business model in place. However, getting the right human and financial resources and channels of customer communication, optimising revenue and cost structures, and managing higher levels of uncertainty and risk were the most significant changes made in accommodating the commercial business model. Specifically, informational differences in commercial, start-up and sector expertise, sales and marketing, costing and pricing should be acquired, as they do not normally exist in not-for-profits. These areas acted as divergent forces, potentially destabilising the enterprise, while the values-based mission, strong in all cases, acted to unify these paradoxical tensions, justifying the innovations to increase social value through commercial operations.

Fourthly, the organisational configuration of the not-for-profit and social enterprise, both culturally and structurally, emerged as a second structural attractor. It was suggested that the meeting of multiple and paradoxical requirements of accommodating a commercial business model with commercial logics may be possible if the configurations are amenable within the context.

There is some evidence that developing a social enterprise with higher compatibility between social and commercial logics is associated with engaging commercial expertise from the social
enterprise’s sector, some financial and personnel resources to call on, greater interdependence between the not-for-profit and social enterprise staff, and a greater desire for co-evolution. Blending, switching, and separating logics in a variety of ways could be determined within the organisation when starting the social enterprise, in order to offer greater clarity to personnel.

Structural configuration options included integration, aggregation, subordination and compartmentalisation. Only the aggregated structural case practised ambidextrous or two methods of management, with the other cases either blending or separating logics to avoid clashes. Ambidexterity does not seem to be instinctively sought or used in this research but some level of ambidexterity at board and management level may be needed within not-for-profits that operate dual logics, in order to develop the social enterprise in addition to continuing the core services. However, this requirement may be minimised if the social enterprise is structurally separated or internally integrated.

The identity of the social enterprise also emerged as a structural feature. The social enterprise may be the same or different to the parent organisation and the advantages of association or disassociation need to be considered.

This research supports the idea that the development of a social enterprise within a not-for-profit is challenging but feasible (Dees, 2002; Muller, 2010; Unzueta, 2004). Firstly, the organisation needs to consider its motives for instigating a social enterprise, clarifying its expectations of performance and outcomes as much as possible. Identifying the resources able to be allocated, including the support, skills and attitudes required for the business model, is essential. If the commercial logics are substantially different to those existing in the not-for-profit, a culture that accepts different ways of operating is needed. The advantages and disadvantages of the potential array of configurations in the organisation’s structure and culture may assist in making the decisions that lead to a profitable enterprise and/or furthering their mission.
Chapter 7. Conclusion

There is a point at which a transformation has to take place. (Drucker, 1973, p. 640)

7.1. Research context

This research set out to explore how not-for-profits with a primary social remit might develop a hybrid social enterprise that includes a strong commercial focus. More specifically, it asked how they introduce and accommodate a commercial business model with commercial logics into a social organisation, what the most significant changes made are and how the not-for-profits might configure themselves when doing so. The ability to operate differently is key, as Drucker’s quote above suggests.

With their existing infrastructure, networks, strong social remit and need for resources, not-for-profits could be developing profitable social enterprises. However, there is evidence that the adjustment to a very different way of working is a challenging one, and relatively few are both commercially successful and retain their commitment to their social mission (Foster & Bradach, 2005; Oster et al., 2004). The disruptive challenges of bringing commercial processes into not-for-profits and diversifying funding efforts may be underestimated (Kirkman, 2012; Teasdale et al, 2013). Yet there is also evidence that social enterprises do exist within and earn income for not-for-profits (Dees, 2002; Muller, 2010; Unzueta, 2004).

The lack of information to understand the subtleties of social enterprise development within not-for-profits was the specific gap targeted by this research. Understanding the phenomenon of a not-for-profit accommodating a social enterprise contributes to the development of social enterprise theory and provides practical learning for not-for-profits, and potentially enhances the proliferation of social enterprises that generate sustainable social good (Thomas, 2004; Sutton & Staw, 1995).

Perhaps part of the reason there is little research on this phenomenon is that the two opposing discourses on social enterprise tend to take strong positions, with little agreement between them. These discourses describe social enterprise as either a disturbing and ineffectual neo-liberal market-based solution for not-for-profits (Teasdale et al, Dart, 2004; 2013) or as a new economic model that creatively uses market-based solutions to address large social problems (Alter, 2004; Battilana et al., 2012). In the end, this research attempts to bridge the idealists and the sceptics arguments.
Social enterprises are unlikely to solve all not-for-profits’ financial concerns or social problems and cannot be expected to work effectively in all not-for-profits or fund all not-for-profit functions. However, successful hybrid models can and do exist, some of them within not-for-profits. If challenges can be identified and mitigated, social enterprises offer an additional inspiring and self-sustaining tool for not-for-profits to address current social ills (Billis, 2010; Unzueta, 2004; Villeneuve-Smith, 2004), if challenges in implementation can be mitigated.

Complexity theory and institutional logics have been useful in this research because they explain why social enterprises in not-for-profit are complex developments. The duality of logics occurs at multiple levels, within the social enterprise and therefore also within the not-for-profit parent. The development of a social enterprise is one of continuous change, with high levels of uncertainty, insufficient resources and powerful dynamics as the organisation grapples with the requirements of commercial logics. The new social enterprise is a complex adaptive system that innovates over time within its unique context (Goldstein, Hazy, Silberstang, et al., 2009).

Contextualism and social constructionism lie beneath the selection of a qualitative method, using abduction, case studies and thematic analysis derived from reiterative exploration of carefully coded interview transcriptions and archival material. The Business Model Canvas (Osterwalder et al., 2005) acted as a mediating artefact for the interviews of the personnel in the three not-for-profits who best understood this complex development. This enabled the social enterprise development to be tracked and compared over an 18-month period.

This chapter now addresses the key empirical and theoretical contributions and their implications that assist in answering the three research questions. Policy implications and the limitations of this research are outlined, and the recommendations for future research are considered.

7.2. Contributions to theory and practice

How might not-for-profits develop social enterprises so that they are able to expand the social value of their mission? In attempting to answer the related research questions, this thesis has provided an insight into what is required to develop a social enterprise and move towards a more sustainable future. The answer, at least in part, is in appreciating the differences between social and commercial organisation, making commercial expertise or informational differences available to the social enterprise, while carefully managing the logics within the organisation. How did this research come to this conclusion? This section first considers the differences...
between social and commercial organisations, then revisits the three primary research questions and their answers, and identifies the main contributions made to both theory and practice, as can be seen in Table 28, below.

Table 28: Contributions of this research to theory and practice

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<tr>
<th>Theory</th>
<th>Both Theory and Practice</th>
<th>Practice</th>
</tr>
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<tbody>
<tr>
<td>Ideal types of not-for-profits and social enterprises, identifying key differences between commercial and social logics.</td>
<td>The internal combination of both social and commercial approaches is emphasised in the definition of a social enterprise.</td>
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<td></td>
<td>Refines the social enterprise hybrid spectrum with social enterprises straddling the middle of being mission and market focused.</td>
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<td>Complexity-based model that outlines considerations for introducing and accommodating a social enterprise</td>
<td>Identifies initial conditions at bifurcation to social enterprise.</td>
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<td>• Strategic value: flexible funding and linkages</td>
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<td>• Leadership</td>
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<td>Identifies key adaptive tensions</td>
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<td>• Finance and/or time</td>
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<td>• Performance measures</td>
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<tr>
<td>Business model presented as a structural attractor.</td>
<td>Comparisons of three business models over 18-month period.</td>
<td>Identifies most changed and challenging parts of business models.</td>
</tr>
<tr>
<td>Organisational configuration presented as a structural attractor.</td>
<td>Understanding commercial logic diffusion and management in the not-for-profit context.</td>
<td>Structural and cultural considerations outlined.</td>
</tr>
<tr>
<td>Structural options typology from recombination of institutional logics and identity theory</td>
<td>Support for and revision of Alter’s Four Lenses Strategic Framework.</td>
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<td></td>
<td>Structural options of integration, aggregation, compartmentalisation, and subordination are outlined.</td>
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7.2.1 Differences between social and commercial logics

To understand how to best manage the different commercial and social logics, it is first necessary to understand these differences. This research identified key important distinctions
between social and commercial organisations, while acknowledging the many variations possible in practice. Both research participants and the academic literature confirm that there is considerable overlap between social and commercial organisations (Alter, 2004; Dees, 2012; Drucker, 1989). However, research participants associated social enterprises most closely with the differences associated with commercial organisations: the market, a positive attitude to profit, risk taking, costing products and services, and sales and marketing. Not-for-profits were most closely associated with consensus, meeting as much need as possible and reducing risk. Participant’s responses aligned strongly with the academic literature, which enabled the development of representative ideal types of these organisations (Morgan, 2006) for the purpose of depicting fundamental differences in approach and identifying those new organisational approaches required.

The not-for-profits were driven by their values-based mission, which underlay all decisions and activity designed to collaboratively deliver social value for a broad range of stakeholders. The unity of purpose shared by personnel for the mission reflected the strong ‘heart-led’ focus on creating social value and meeting as much need as possible. The new commercial operation could be tolerated if it contributed to the mission sustainably, in addition to the government contracts and donations received. Higher levels of uncertainty were experienced in the social enterprise than in the not-for-profit, with uncertain trading income and new skills developing. This required some comfort with or acceptance of increased ambiguity and uncertainty within the organisation.

In contrast, commercial organisations are driven by the market and their customers, and are competitive and ‘reason-led’ in order to generate profit. Clarity on market preferences was sought by all the not-for-profits in this research in a variety of ways, such as testing new offerings or talking to prospective customers. However, the dedicated attention to customers’ decision to pay for the product or service was new for all the not-for-profits. Competitive tactics tended not to be used although there was some awareness of competitors and their strategies. Clearer performance measures were sought that were both practicable and inspiring, beyond simple quantitative financial measures.

Many scholars have been instrumental in the development of these ideal types, particularly Anheier & Ben-Ner, 2003; Billis, 2010; Boschee, 2006; Dees, 2012; Haugh, 2007; Hull & Lio, 2006; Knutsen, 2013; Liao et al., 2001; Seanor, Bull, Baines, & Ridley-Duff, 2013; and Thornton et al., 2012. It is hoped that in turn the ideal types proffered may contribute to the
important discussion on these differences in order for practitioners to address their accommodation.

With these simple representations of organisational logics available, a suggested revision of the social enterprise definition was made to include a clarifying reference to the combination of both social and commercial approaches. Alter’s (2004) hybrid spectrum was also redrawn to better conceptualise the social enterprise as a more centralised hybrid that can incorporate both sides of the social-commercial continuum, rather than as a commercially oriented not-for-profit.

7.2.2 Accommodation of commercial business model with commercial logics

In providing answers to the three research questions below, this research analysed the narrative reconstructions and supporting documents of participants. It found several emerging themes in the way the not-for-profits began the social enterprise, the challenges they faced and organisational responses they made.

- How do not-for-profits introduce and accommodate a commercial business model with commercial logics within a social organisation?
  - What are the most significant changes made in accommodating a business model with commercial logics?
  - How might not-for-profits configure themselves when accommodating a commercial business model with commercial logics?

The primary theoretical contribution of this research is the complexity-based model developed to explain the introduction and accommodation of a social enterprise within a not-for-profit. Using the concepts of bifurcation, adaptive tension, and structural attractor, the model expands the work of a number of complexity writers into the specific context of social enterprise within a not-for-profit (Allen, Maguire, & McKelvey, 2011; Goldstein et al., 2008; Hazy, 2011). The feasibility of social enterprise development is discussed with writers on social enterprise and not-for-profits in complexity theory terms (Billis, 2010; Dees, 2012; Young & Kim, 2015). The model also increases practitioner understanding of the introduction and accommodation process by outlining the commonalities the not-for-profits experienced in their management of the social enterprise’s business model and its accompanying logics.

Firstly, to introduce a social enterprise, a bifurcation occurs when the undertaking is of high strategic value to the not-for-profit, that is for flexible funding, increasing autonomy or expanding networks within the general or business communities. The other major skill essential for social enterprise is entrepreneurship (Alter, 2009; Nicholls, 2006). Each of these well-
established organisations demonstrated their ability to innovate and take opportunities to increase social and/or economic value, supporting researchers who have witnessed similar capabilities among other not-for-profits (Corner & Ho, 2010; Weerawardena & Mort, 2012). Leadership was also required to garner support for and sustain the new organisational form. This research suggests that many not-for-profits can be adaptive organisations as they are already hybrids, having transformed themselves over recent decades from community organisations into those that provide government-funded public services.

Although profit or increased financial contribution was the initial stimulus for establishing the social enterprise, it became less important as the commercial challenges were experienced and other benefits witnessed. There are researchers who assert that a social enterprise must be fully self-sufficient from trading income (Boschee, 2006; Foster & Bradach, 2005). However, this research contends that if commercial logics are being used, a break-even financial performance or increased financial contribution still enables greater progress towards the mission at no cost or a lower cost to the not-for-profit. This steadily became a legitimate outcome for two of the not-for-profits. Such an entity might still be termed a social enterprise because of its hybrid social-commercial nature.

Secondly, there are adaptive tensions in accommodating the social enterprise successfully, and four significant changes in essential resources helped to manage these tensions:

1) Small amounts of finance and or time were made available to launch the social enterprise with paid and/or voluntary resources, even though these were often stretched to capacity. Like many small and medium enterprises, social enterprise development took longer than expected in all cases. No social enterprise scaled up significantly during the research period, and these findings support the idea that there are significant challenges in doing so, at least partly because of lack of access to investment resources (Bloom & Chatterji, 2009; Lyon & Fernandez, 2012).

2) Informational differences were sought in all cases, particularly general commercial and start-up in addition to specific sectoral advice, from people who also shared a commitment to achieving the social mission.

3) Legitimacy was sought for the social enterprise from internal personnel, as key stakeholders, because staff could have thwarted efforts if they were not supportive, and commercial logics may disturb the unity of purpose that typically legitimises the not-for-profit mission. Consequently, leaders assisted personnel to grapple with the need for social enterprise and
its allocated resources. There were different ways of gaining this support from the wider organisation. Two of the cases sought overall consensus that the social enterprise was the right way to progress, and one sought support from the board, senior managers and the specific division involved.

4) The identification of early, realistic, but inspiring financial targets and social impact measurement was more complex than the traditional quantitative measures required of commercial organisations or output measures of social organisations. The findings support the idea that multi-dimensional performance measurement may be inevitably imprecise but that improvements in measurement tools are needed (Bagnoli & Megali, 2011; Emerson & Bonini, 2003).

Thirdly, combining complexity theory with business models has resulted in a conclusion that the business model can act as a structural attractor, linking the key components conceptually and helping to both generate and reflect the characteristics and capabilities of the social enterprise (Allen et al., 2007; Surie & Singh, 2013). This may broaden complexity theorists’ understanding and use of this framework (Allen, 2001b; Hazy, 2011) and better enable the comparison of social enterprise business models (Morris et al., 2005). The research suggests that the capabilities stabilise or generate convergence, while capability challenges destabilise or generate divergence dynamics for not-for-profits developing social enterprises. However, this process is unified by their strong focus on the values-based mission, and affirm the committment not-for-profits have to mission-based activity (Haigh et al., 2015; Santos et al., 2015). These findings could be useful for developing theory in complexity, business model concepts and social enterprise in not-for-profits.

Given the overlap in many functions and skills in both social and commercial organisations, many capabilities in developing a business model existed. Each organisation in this research demonstrated that identifying and managing customer segments and activities, developing and testing a value proposition, strengthening positive customer and partner relationships, and controlling costs were all within their existing skills and capacity.

Each case experienced the same deficits in commercial skills that may be common to many not-for-profits and also required significant changes to be made. Communicating with and engaging customers, who did not necessarily require a service and were not easily contacted, was different to working with a client group with high needs that did not have to pay. Sales and marketing divisions did not exist in any of the not-for-profits, although Lifewise did have direct marketing,
communications and fundraising functions that nevertheless had no previous focus on sales. Accustomed to costing collective services for contracts, the new business also required, in a more uncertain environment, individual services to be precisely priced, which in turn required detailed knowledge of production costs, competitors’ prices and payment systems best suited to customers. These new skills reflected the most significant changes in the commercial business model, in addition to the resources to ease adaptive tensions previously discussed.

During the research period, the primary focus for each social enterprise was on survival and the development of the many new skills and resources required to accommodate the new business model and its associated commercial logics, in addition to their already stretched existing services. Commercial logic diffusion was not high within any of the not-for-profits and was not likely to ever be, given that their primary purpose was a social one.

Fourthly, in answering the final question on configuration choices, complexity theory has been combined with institutional logics. Organisational configuration is suggested as a second attractor that both reflects and shapes the interconnected and interacting components of the not-for-profit and its social enterprise system. The research found that the structure and culture of the social enterprise within the not-for-profit were the two key parts of this configuration.

**Cultural configuration**

Cultural configuration in the not-for-profit is vital to consider because of the potential impact of commercial logics on the organisation, its stakeholders and mission. This research supports the literature that suggests that there needs to be some tolerance within the not-for-profit of a very different way of working to cope with any logics incompatibility (Stacey, 2003; Uhl-Bien, Marion, & McKelvey, 2007; Van de Ven & Poole, 1995). The many ways of organising the diffusion and management of commercial logics depends upon many factors, including how compatible the logics are, how interdependent the personnel of the social enterprise and the not-for-profit need to be, their willingness to collaborate, and the availability of financial resources, social capital and commercial skills. Organisational configurations were sought that could best accommodate the social enterprise within its context without jeopardising the not-for-profit. By selecting one configuration, the phase space and the range of other possible states were altered.

Before proceeding to the structural discussion in the next section, the theoretical model constructed by this research supports but also suggests changes to Alter’s (2009) four lenses strategic framework. Firstly, structural and cultural configuration was a key consideration for a not-for-profit developing a social enterprise and has been added for this context. Secondly, the
business model provides an effective overview of the business and has replaced the performance criteria depicted in her model.

### 7.2.3 Organisational structure

Institutional logics has enabled a reconceptualization and recombination of the work of Besharov and Smith (2014) and Pratt and Foreman (2000) to answer how a not-for-profit might configure its structure. This work suggests that logic compatibility and whether the social and commercial logics are retained as two separate logics or one that is blended within the not-for-profit are key factors in this decision. The subsequent structural typology provides a useful tool for practitioners to manage the compatibility of logics and encourages further theoretical understanding of social-commercial logics and their management.

Four possible structural options are suggested for consideration: compartmentalisation (organisational separation); aggregation (synergistic internal separation); subordination (separated minor project); and integration (blended internal logics). There may be many variations of these options possible within and across the typology that depend on the unique context of each not-for-profit. In turn, selecting an appropriate structure influences the choices of social enterprise identity, methods of obtaining legitimacy, and resource allocations.

Separation may be the best, although more expensive option, if compatibility is very low and there is little requirement for not-for-profit and social enterprise staff to work closely together. Aggregation may be preferred if the social enterprise is required to work closely with not-for-profit staff in one or more areas. Subordination may be a valid option if testing out the organisation’s capacity for commercial operation or if a low level of financial contribution is needed. Integration may be preferred if some aspects of the commercial logics are beneficial for the whole organisation.

If blended or separated within the not-for-profit, the organisation’s infrastructural resources (e.g., finance, reception) can be most easily used to support the new enterprise. However, some ambidextrous management of social and commercial logics may be needed to enable the two logics, one more exploitive maintaining not-for-profit operations and the other more explorative developing the social enterprise, to operate simultaneously and without unnecessary conflict. The identity of the social enterprise in relation to the not-for-profit also requires consideration as to whether to associate or disassociate with the social enterprise and how closely.
7.3. Policy implications

While this research has aimed to enhance theoretical and practical understanding of developing social enterprises within not-for-profits, some policy implications have emerged. Firstly, if it chooses to support social enterprise, Government should understand social enterprise well. This might be in the form of public policy and legislation that recognises international models and their applicability in the New Zealand context.

Secondly, as Ridley-Duff (2008) notes, policy makers need to understand that social enterprises do not simply require not-for-profits to be ‘business-like’. The commercial requirement has many paradoxical and challenging components and government agencies should not expect the accommodation of commercial logics to be an easy or linear one (Seanor et al., 2013). This may result in the provision of workshops or other supports for not-for-profits to consider these challenges and the possible ways of overcoming them.

7.4. Research limitations

While offering a fresh examination of how not-for-profits develop social enterprises, this study is subject to several limitations. The largest of these is due to complexity theory’s understanding that the social enterprise development is hard to see accurately because systems are incompressible and cannot be analysed reductively. They cannot be over simplified or assessed by their component parts, because too much information is lost from the interrelated and synergistic whole, and cannot be seen comprehensively from any single perspective (Cilliers, 2002; Goldstein, 2013). Nevertheless, to answer the research questions, some reduction and simplification was necessary.

In terms of the findings, there are overlaps and interactions between the themes and constructs in the accommodation model emerging from this study that may not be fully understood. There could be missing constructs that other contexts, theories or researchers may have elicited. Furthermore, almost no quantitative data has been provided on frequency or levels of incidence.

As discussed in the methodology chapter, the focus on only three organisations in one country by one researcher means that the findings do need verification in other contexts. Only larger not-for-profits who were government contractors were selected because these were most likely to have the resources to establish and sustain a social enterprise, having demonstrated they were ‘well-established’, a criterion for the research. Nevertheless, participating organisations effectively self-selected once they knew about the study, and other organisations may have
Chapter 7: Conclusion

provided different results. Future studies could focus on a more heterogeneous selection of not-for-profits, including smaller and very large organisations to see if the findings remain consistent across a wider range of organisations.

Seeking only an internal perspective of the social enterprise development, the research largely ignored the wider environment, including the views of funders, customers and clients, and did not fully address the competitive environment. Again, this prohibits a comprehensive view being provided but did allow for the internal perspective to be explored at some depth.

Another limitation was that all the documentation collected and analysed was suggested by research participants. If they had not wanted to share any key material, they did not need to do so. Furthermore, this research did not seek to obtain or report any commercially sensitive information and data collection may have been incomplete as a result. This limitation is mitigated by involving participants from all levels of the organisation in this research.

Diversity of internal view was sought to ensure that a variety of perspectives was gathered and to obtain a rich account of relevant phenomena. Given that knowledge is historic, fluctuating and contextual rather than absolute and fixed (Reason & Bradbury, 2006), retrospective storytelling from participants was considered the best means of accessing an organisational view of events, even though there was a risk that stories might have been adapted in a person’s mind over time. Every effort was made to increase cross-case reliability through interview guides, including the Business Model Canvas, and the research sought to interpret narratives from participants faithfully, to best understand the accommodation process.

There is an inevitable bias in the interpretation and deconstruction of participant responses through the researcher’s lens (Blaikie, 2010). This was eased by the sharing of themes, constructs and conclusions with the participants to test credibility. Efforts at structuring the research thoughtfully and ensuring respectful relationships with participating organisations, a systematic approach to records, and the honest and reflexive approach of the researcher have all enhanced the trustworthiness of this work. The researcher’s background in not-for-profits may also be a limitation, although this familiarity also increased the level of receptivity among participants to the research.

Limitations can be expected in any research but it is hoped that the strengths of the many interviews and documents analysed in these longitudinal case studies provide a coherent version of events that may be useful to others in a similar context. Using rigorous thematic development processes, the emerging commonality between the organisations suggests the findings may be
relevant for other not-for-profits in New Zealand and possibly more broadly. Because no superior rival explanatory theory was developed, some limited analytic generalisability is suggested (Denzin, 2011; Huff, 2009), even though an inevitably limited perspective on reality has been portrayed. This research now provides the opportunity to explore the connections between and the impacts of constructs in a variety of ways, as discussed in the next section.

7.5. Recommendations for future research

From both a contextualist and complexity perspective, the conditions of each not-for-profit introducing a social enterprise are unique and often changing. The model and other conceptual tools developed in this thesis need further empirical testing in different geographical areas in different policy and cultural contexts, and among different types of not-for-profits. In addition, a number of questions have emerged during this research that require exploration.

Specifically, in relation to the findings of this research, it would be useful to explore whether the ideal types of social and commercial logics hold in other contexts, and whether understanding these essential differences between social and commercial logics catalyse the accommodation of commercial logics. Moreover, does familiarity with the accommodation model and its various components presented in this thesis make the accommodation of commercial logics for not-for-profits easier to manage? Is external support necessary or helpful for a not-for-profit to consider the accommodation of commercial logics?

In terms of the structural typology, exploration of the structural options, and whether there is greater variation of and within the options identified, would contribute to both institutional logics theory and provide a deeper understanding and range of options for not-for-profit managers.

The additional commercial skills identified as needed within not-for-profits in this research (i.e., sales and marketing, costing and pricing) need to be explored in other contexts as to whether they are consistently needed. If not, what are the contexts in which they were developed? In either case, how are they most effectively incorporated within existing not-for-profit personnel and structures? It would be helpful for both practitioners and institutional logics theory development to examine whether other core skills, such as commercial strategy and competitive behaviour, are ever present in not-for-profits and in what situations.
Similarly, further exploration into whether the adaptive tensions identified are consistent in other contexts, and whether their relief through the provision of finance and time, legitimacy, informational differences and performance measures are consistently required or provided.

In terms of informational differences, the ability of individual personnel in not-for-profits at all levels to tolerate the fundamentally different commercial logics needs significant research to explore how this can happen. While there are many academic writers who allude to the need for high levels of interpersonal skills in order to manage the contradictory logics (Christiansen & Lounsbury, 2013; Pache & Santos, 2013a), little has been researched on how these skills might be acquired or honed. Assuming not-for-profits will continue to be drawn to social enterprise as a funding and social change tool, an important area of future research is to identify effective processes for individuals to manage this accommodation.

Although considerable research has been undertaken on performance and the range of measures possible (Bagnoli & Megali, 2011; Lane, 2010; Meadows & Pike, 2010), and perhaps multi-dimensional performance measures will always be limited, it is vital to see how well social enterprises function for three reasons. Firstly, the participants in this research confirmed the need to have realistic but inspiring targets to reach in both financial and social performance. This requires clarity around what is realistic, and therefore future research could track financial performances over time and provide some guidance for the new enterprise as to what might be expected. Secondly, the challenges of developing clear social-impact measures are many, and the provision of easy-to-use tools and guidance is a significant gap to be filled (Dees et al., 2004; Lane, 2010). The research therefore supports the development of relatively easy social impact measures to enhance the delivery of and support for social enterprise. Thirdly, research on the effectiveness of creating social change by a social enterprise within a not-for-profit would clarify whether they should be encouraged.

Selecting the same or a different identity for a social enterprise has been identified in this research as an important decision for the not-for-profit. However, the small sample in this research did not allow a breadth or depth of examination as to the range of ways the not-for-profit can demonstrate linkages with social enterprise, other than through retaining the same name. There may be many possible techniques of creating linkages that can be used in different contexts when association is sought (e.g., taglines, website links, newsletters, proposals), but distancing from the social enterprise in other contexts. Might there be a continuum of identity options?
This research focused on three not-for-profits that all chose to position their social enterprises in mission-related activity. If the social enterprise is operating in a field unrelated to the not-for-profit’s mission, exploring the impact of commercial logics on the social logics would be a useful comparison to elicit whether and how non-mission activity might best be approached by a not-for-profit.

Furthermore, detailed examination across many not-for-profits may detect a relationship between the not-for-profit’s requirement to meet its mission in their social enterprise and subsequent commercial financial performance. Does retaining the values-based mission mean that some profit is foregone because commercial activity is limited in scope or concentration? Given that there is evidence of financially profitable social enterprises in not-for-profits (Dees, 2002; Muller, 2010; Unzueta, 2004), identification of their common features would not only contribute to institutional logics theory, but also provide direct benefit to practice.

On a related topic, there is a need for greater distinction between not-for-profits’ earned income and social enterprise. Given that not-for-profits have been charging fees for services for a long while (Child, 2010; Zimmerman & Dart, 1998), practitioners and the social enterprise and not-for-profit literature would benefit from clearer understanding of the subtle differences between this and operating commercially with a strong market focus (Alter, 2004; Dees, 2012). Additionally, research is needed on the theoretical basis for earned income or social enterprise developments being more appropriately termed intrapreneurship, rather than entrepreneurship.

Alter’s (2004) seven operational models, outlined in section 2.3.3, have been viewed as broad types of business models that social enterprises can adopt. In this research, all three not-for-profits provided fee-for-service models and more exploration would be useful as to the frequency with which other operational models are adopted and why some may be more often used.

Finally, the area of complexity theory has provided a valuable basis for this research. Many times, this research was drawn to viewing complexity as a world view (Pepper, 1942). Some researchers argue that complexity has its own ontological or epistemological realities or commitments that are different to other classic renderings, such as having no homogeneity or equilibrium assumptions about organisations (Blaikie, 2010; Eoyang, 2011; Fuller & Moran, 2000; Layder, 1998; Maguire, 2011; McKelvey, 2004; Schindehutte & Morris, 2009). Complexity makes its own ontological assumptions that are not necessarily mentioned in other
ontologies. Further exploration as to whether complexity can be utilised in research as an ontology, and not just a theoretical lens, would advance the use of complexity insights.

Theory surrounding the complexity concept of structural attractors is still at an early stage of development and further research is needed on how many might co-exist in an organisational setting such as not-for-profits, how they interact, and how they might be presented visually to present their qualities.

Ambidexterity or the dynamic capability of managing two different types of organisation has proven a useful concept for this research, although further conceptual development is needed on ambidexterity where there are not only explorative and exploitive approaches but also fundamentally different logics operating. Further work on how the social enterprise might be differently managed in the not-for-profit would not only add to theory around ambidexterity, but would provide valuable advice for not-for-profit managers.

7.6. Chapter summary

This thesis considers the importance of and challenge for not-for-profits accommodating commercial logics and business models when they establish a social enterprise. The research contributes to the small body of literature that has specifically addressed this issue for both the not-for-profit and social-enterprise sectors. Complexity theory, together with business model and institutional logics frameworks, has enabled an often-overlooked source of social enterprise to be explored in some useful detail.

This research argues that the differences between operating a social and a commercial organisation are important to understand for their accommodation. The theoretical model emerging from the empirical data in conjunction with theory increases understanding of the introduction and accommodation of a commercial business model and commercial logics in terms of the adaptive tensions faced. The importance of managing the culture and structure of the social enterprise in relation to its parent organisation has been emphasised, while acknowledging that bringing in a different organisational form will always involve uncertainty and the unexpected.

While there are limitations to this research, and there is still much to learn from future research, greater understanding of the accommodation model may lead to positive outcomes for not-for-profits. These include ensuring the appropriate skills and resources are put in place to develop the business model, accessing personnel support and their appreciation of these logic
Chapter 7: Conclusion

differences, and structuring the organisation appropriately to manage the type and level of logic diffusion desired within the organisation.
Chapter 7: Conclusion
Appendices

Appendix 1: Research interview guide

Overview
There are two primary purposes of this guide. It will act as a means to increase the reliability of analysis and comparability of each case within this research. The guide also aims to standardise the researcher’s line of inquiry, enabling future replication of this research (Yin, 2009).

Case study objectives
This research aims to explore the development of not-for-profits into social enterprises, using the business model as a means to understand the development process and outcomes. It aims to contribute to the emerging academic conversation on the challenges for not-for-profits in developing a social enterprise; the differences and similarities between not-for-profits, social enterprises and commercial businesses; and the structures and strategies that social enterprises choose in order to meet both social and commercial aims (Alter, 2004; Austin et al., 2006; Diochon & Anderson, 2009; Peattie & Morley, 2008b; Stull, 2009; Trivedi & Stokols, 2011).

While there is knowledge available on the challenges and success factors for social enterprise, the literature is largely silent on how this is achieved by organisations that already have strong social goals and networks, and desire financial sustainability, yet do not appear to figure prominently among social enterprises (Allinson et al., 2011; Bull et al., 2008; Hentz, 2009). By investigating not-for-profits that introduce a social enterprise within real life contexts, this research aims to contribute to greater understanding of the accommodation phenomena, as well as providing practical learning for the social enterprise sector (Thomas, Sutton & Staw, 1995; 2004). The research questions aim to increase understanding of how the processes of accommodation unfold, developing insight about this phenomenon and exploring the impact of the paradox inherent in holding dual social and commercial aims (Edmondson & McManus, 2007).

Theoretical framework
Constructs from complexity theory are expanding the traditional definitions of social entrepreneurship (Goldstein, Hazy, & Silberstang, 2009). For example, exploration and exploitation are seen through a complexity lens as creating adaptive tension and moving organisations to the edge of chaos, where innovation and opportunities can emerge organically.
at multiple levels (Schindehutte & Morris, 2009; Stevenson & Jarillo, 1990). Other complexity constructs that describe organisational innovation processes include emergence, adaptive tension, attractors, bifurcation, organisational fitness, paradox and bricolage. These can assist social enterprises to observe their changing environment through a fresh framework of thinking (Goldstein et al., 2010; Van de Ven, 1986). Complexity theory recognises that each long-standing social issue is entrenched within a complex web of causes and has already been used effectively exploring social entrepreneurship and social innovation, (Goldstein et al., 2008; McKelvey, 2004; Shepherd & Woods, 2011).

**Issues**

The researcher will conduct all interviews in this study but will not have a prior background in the sectors in which the social enterprises operate. Each of the three case studies will have its own unique context within a different sector. The size of the organisation, social enterprise, length of its operation and aims will all vary, as well as the sector environment. Each case will be understood and described, firstly by reading historical documentation on relevant organisational development for understanding of specific customers, goals, efforts and achievements already made.

The conclusions the researcher will draw through within-case analysis will focus on the social enterprise development within its unique context. Furthermore, emergent data and conclusions will aid in answering the central research question for this study: how do not-for-profit organisations develop social enterprises? Specifically, how do they accommodate commercial business models and commercial logics within a social organisation?

The researcher should be familiar with the literature on social enterprise, social entrepreneurship, not-for-profit and social innovation as well as complexity. The researcher also needs to have some understanding of the theory and practice of business models and have some experience in facilitating the development of business models.

**Data Sources**

Expert, individual and focus group interviews will be used in this research together with document analysis to develop a rich account of the development of a social enterprise for each case and triangulate data sources within method (Bryman, 2003; Jick, 1979):

1. Document analysis will be undertaken on relevant organisational minutes, strategies, annual report, as well as other important documents and web sites that are considered authentic representations of past decisions and events.
2. A small expert group interview will be held with individuals, determined by the organisation, who could outline the current business model using the Business Model Canvas (Krueger, 2009; Osterwalder et al., 2010).

3. Semi-structured individual interviews will be undertaken with a small number of negotiated key relevant internal stakeholders, including key managers and board members individually (Bryman, 2003).

4. A cross-section of staff and volunteers as well as board and management, considered essential informants by the organisation, will be also gathered in one or more group interviews.

5. The researcher’s stream-of-consciousness thoughts after analysing documents and interviews and throughout the research process will be provided, and journal notes form part of the data.

Field Procedures

Individual participants will first be given an overview of the research in person or through the personal information sheet. Each will be asked to complete a consent sheet to ensure they are aware of the purpose of the research and their involvement.

The researcher needs to be sensitive to the schedule of those interviewed. Interviews and focus groups will be established by phone or e-mail at least three weeks in advance to ensure it is feasible to attend. Interviews may be rescheduled as needed for individual interviews.

Focus groups will be slightly oversubscribed to ensure sufficient participation in the case of other urgent commitments on the part of some participants. If individual participants leave the organisation, others will be negotiated with senior management and the recommended individual to take their place. A schedule of times will be developed to ensure all interviews are collected in the time available. Some flexibility will be needed to accommodate the needs of all participants.

Interview Strategies

1. Listen carefully to the participants,
2. Let the participants talk about the past events in chronological or any order preferred by the participant,
3. Elicit specific examples that outline their view,
4. Keep asking questions until the issues are understood, and
5. Create as comfortable an atmosphere as possible for the participants.

Resources

The researcher will conduct all interviews face to face with two tape recorders to guarantee data capture. The researcher will transcribe or see that someone else transcribes the recorded interviews. Those transcripts will become part of the multiple case study database and will be saved in electronic form.

Presentation of Credentials

University of Auckland letterhead will be used on all information about the research and the background of the researcher will be provided.

Access to the sites will be provided by the senior manager and delegated authorities of each organisation. The names of potential participants will come from participant organisations. A support letter from the CEO will be e-mailed to all potential participants with an invitation from the researcher (see attachment), asking for contact to be made with the researcher.

All interviews will be conducted in English.

Use and presentation of other documentation

The Business Canvas Model (Osterwalder et al., 2010) will be used to identify the core business model (Appendix 3).

Case Study questions

The researcher will keep in mind key questions as reminders of what needs to be collected and why:

1) Tell me about your role in the organisation and how long you have been here
2) Length of Service
3) Role in organisation
4) Prior experience
5) Does the business model outlined reflect your understanding of what (organisation) is trying to achieve in this social enterprise?
6) How would you describe the stage of development of your social enterprise (infancy to adulthood)?
7) From your perspective, tell me about the journey (organisation) has been on to get where it is now (or since we last met)?
Appendices

8) What has been or is key to the success of (organisation) in developing a social enterprise?

Prompts if needed

9) What have been the challenges facing (organisation) in becoming a social enterprise?
10) What are the key challenges, issues or opportunities (organisation) faces in developing a successful social enterprise?
11) What do you think the social enterprise will look like in future years?
12) How important is this development for your organisation overall?
13) What, if any, innovation has been involved? Does it relate to process or product, channels or markets? Was it incremental or radical? How does it build on existing resources/capabilities?
14) Help me understand how these changes have occurred.
15) What evidence did you have/need that it was a good idea?

Table shells
Table shells used for specific arrays of data are helpful for the researcher to remind them what data needs to be collected and why, and to keep the researcher on task as the data collection and analysis occurs. The completed shell becomes part of the case study database, and is a strategy to enhance reliability.

The researcher will be attentive to what the respondent is saying that provides data to describe the changes made (including antecedents, process and effect or impact) by the organisation to social enterprise within its context. All comments will be examined through the lens of key complexity constructs, specifically emergence, adaptive tension, attractor, bifurcation, paradox and effectuation.

- Context and focus of organisation
- Size of social enterprise
- Size of parent organisation
The researcher will look for patterns across multiple cases (Yin, 2009). How do the data between case studies relate to each other? Do they show similarity (literal replication) or contrast (theoretical replication)? How do the data from the case studies describe the development of a social enterprise within its context? How do complexity concepts help to understand developments within the social enterprises?
Appendices

Appendix 2: Participant survey

Conducted face to face with verbal instructions: Please allocate each characteristic or feature to either a not-for-profit or social enterprise, both or none of them.

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Name</th>
<th>Date</th>
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<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Not-for-profit</th>
<th>Social enterprise</th>
<th>Both</th>
<th>Neither</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital investment</td>
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<tr>
<td>Clear organisational identity</td>
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<tr>
<td>Conflict is good</td>
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<td>Consensus</td>
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<tr>
<td>Continuous learning</td>
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<tr>
<td>Costing services &amp; products</td>
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<tr>
<td>Customer focus</td>
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<tr>
<td>Diverse networks</td>
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<tr>
<td>Empowering staff to make decisions</td>
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<tr>
<td>Experimentation</td>
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<tr>
<td>External focus</td>
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<tr>
<td>Flexibility in structure or approach</td>
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<tr>
<td>Hierarchy</td>
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<tr>
<td>Long-term view</td>
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<tr>
<td>Market</td>
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<tr>
<td>Meet as much need as possible</td>
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<tr>
<td>Social mission</td>
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<tr>
<td>Most people have similar views</td>
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<tr>
<td>Characteristic</td>
<td>Not-for-profit</td>
<td>Social enterprise</td>
<td>Both</td>
<td>Neither</td>
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<tr>
<td>Planning and control</td>
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<tr>
<td>Positive attitude to profit</td>
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<tr>
<td>Problem focus</td>
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<tr>
<td>Recombining resources</td>
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<tr>
<td>Reducing risk</td>
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<tr>
<td>Reliability</td>
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<tr>
<td>Risk taking</td>
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<tr>
<td>Sales and marketing</td>
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<tr>
<td>Social change/ transformational</td>
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<tr>
<td>Financial sustainability</td>
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<tr>
<td>Tough performance management</td>
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<tr>
<td>Values focused</td>
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<td></td>
<td></td>
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<tr>
<td>Other differences that stand out</td>
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</tbody>
</table>
Appendix 3: Business model canvas

The Business Model Canvas

Key Partners   Key Activities   Value Propositions   Customer Relationships   Customer Segments

Key Resources

Channels

Cost Structure

Revenue Streams
Appendices

Appendix 4: Participant information sheet

Transitioning from Not-for Profit to Social Enterprise: A Complexity View Project Invitation

My name is Tricia Fitzgerald and I am a PhD Candidate at the University of Auckland Business School. My doctoral research will explore ways in which not-for-profit organisations develop sustainable social enterprises and influence social change, acknowledging the complexity within the social, economic, and organisational environment. This is an area of business that is not yet well understood and so the study is trying to better appreciate both the nature and development paths of these types of organisations in New Zealand.

I would like to invite you to participate in research I am conducting for my thesis. You have been selected because you work in an organisation that may be considered a social enterprise that works for social change.

You may decline to be part of the study and/or query any aspect of the research at any time.

You are being asked to agree to be interviewed as part of this research, requiring one–two hours every 5–6 months between September 2012 and February 2014.

Anonymity and Confidentiality

No individuals will be identified in any publications that arise from this research. Only the organisation, with permission from the Chief Executive Officer, may be identified. The Chief Executive Officer has provided assurance that your participation or non-participation will not affect your employment or relationship in any way.

The identities of individual staff members or volunteers in groups or privately will remain confidential to the researcher, supervisors and you, the participant. The names of participants will not be shared with management in relation to specific comments. In addition, no recorded interview with any staff member or volunteer will be shown to the organisation.

Every effort will be made to ensure that you are not identifiable in any publication emanating from this study. If there is any risk that you may be identified, any of your comments used will refer to you simply as a staff member to avoid recognition. However, if there are a small number of participants, and the organisation is named, it is possible that some responses may make you identifiable. Every effort will be made to protect your confidentiality and anonymity, but the project cannot absolutely guarantee that others will not be able to identify you from your responses.

Your permission will be sought to audio tape the interviews with you, and you will be able to edit the transcription of each of your interviews should you wish to. If you choose to edit the transcript, the edited version will be used for analysis within this study, rather than the original version. I expect to transcribe the interviews myself, but if a third party is involved with this, s/he will be required to complete a confidentiality agreement.

Right to Withdraw from Participation
Appendices

This study is entirely voluntary.
If you choose not to be involved in this study, I will not require you to participate in any interviews. You have the right to view your individual data at any time during the project and have the right to withdraw any information given individually that you provide within four weeks of the conclusion of the project, without giving any reason. After this the information will only be available to you in the form of the finished thesis.

Data Storage
The only people with access to the actual data will be my supervisors and myself and the specific participant who contributed. The data will be used for the purpose of this research, the writing of my thesis, and may also be published in an academic journal or book. I will also provide you with a summary of findings of the research at its conclusion.

The data, in both electronic and paper-based forms, as well as any digital recordings, will be kept in a secure location on University premises for six years and then destroyed by shredding. Similarly, electronic data will be stored securely on my own password-protected computer for no longer than six years, at which point it will be deleted from all computer systems.

You have the right to view any data generated by the researcher at any time during the project and have the right to withdraw any information that you provide within four weeks of the conclusion of the project, without giving any reason. After this the information will only be available to you in the form of the finished thesis.

If you consent to be part of this study, please complete, sign and date the participant consent form attached.

Thank you for your time to read this. I do look forward to working with you in this research.

If you have any questions please do not hesitate to telephone or e-mail me. The contact details of myself, my supervisors and my Head of Department are as follows:

Contact Details
Tricia Fitzgerald
Department of Management and International Business, University of Auckland Business School
Private Bag 92019 Auckland
Email: pfit013@aucklanduni.ac.nz
Ph: 09 846 8466 or 0275 846846, Fax 09 846 9466

Deb Shepherd
Department of Management and International Business, University of Auckland Business School
Private Bag 92019 Auckland
Email: d.shepherd@auckland.ac.nz
Ph. 021452056

Christine Woods
Department of Management and International Business, University of Auckland Business School
Private Bag 92019 Auckland
Email: cr.woods@auckland.ac.nz
Ph. 373 7599 extn 85101
Appendices

Professor Hugh Whittaker
Head of Department
Department of Management and International Business, University of Auckland
Private Bag 92019 Auckland
Email: h.whittaker@auckland.ac.nz
Phone: 373 7599 extn 87667

For any queries regarding ethical concerns please contact:
The Chair
The University of Auckland Human Participants Ethics Committee
The University of Auckland
Research Office
Room 016 Alfred Nathan House Level 2
Alfred Nathan House
24 Princes Street
Tel: 373 7599 extn 87830

APPROVED BY THE UNIVERSITY OF AUCKLAND HUMAN PARTICIPANTS ETHICS COMMITTEE ON 20\textsuperscript{th} December 2012 for a period of (3) years. REFERENCE NUMBER 7722.
CONSENT FORM – Changeability: Interviews
Transitioning from Not-for-Profit to Social Enterprise:
A Complexity View This consent form will be held for a period of six years

Researcher: Tricia Fitzgerald

I have read the Participant Information Sheet and have had the details of the study explained to me. I have had an opportunity to ask questions and these have been answered to my satisfaction. I understand I am able to ask further questions at any time.

- I agree to take part in this research and understand it will involve 1-2 hour interviews every 5-6 months until February 2014.
- I understand that I am free to withdraw participation at any time, and to withdraw any data traceable to me up to one month after the conclusion of the research.
- I understand that the researcher will keep comments made by individual staff members or volunteers in the groups confidential to the researcher, supervisors and the participant.
- I understand that while every effort will be made to protect my identity, no absolute guarantee of anonymity is provided.
- I understand that I cannot withdraw data provided within focus group discussions, but can withdraw from future attendance.
- I agree / do not agree to be audio taped.
- I wish / do not wish to receive the summary of findings.
- I am aware that the data will be stored for six years for the purpose of developing the research for later publication, at which point it will be destroyed by shredding and permanent deletion.
- I understand that I have the right to withdraw any information that I provide within four weeks of the study’s conclusion, without giving any reason. After this the information will only be available in the form of the finished thesis.
- I understand that a third party, who has signed a confidentiality agreement, may transcribe the tapes.
- I understand that my participation or non-participation will not affect my employment or relationship in any way.
- I understand that data will be kept for six years and then be destroyed.
- I agree to participate in the study under the conditions set out in this consent form and the Participation Information Sheet.

Signed: ______________________________________
Name (Please Print Clearly): ______________________________________
Title: ______________________________________
Date: ______________________________________

DEPARTMENT OF MANAGEMENT AND INTERNATIONAL BUSINESS

APPROVED BY THE UNIVERSITY OF AUCKLAND HUMAN PARTICIPANTS ETHICS COMMITTEE ON 20th December 2012 for a period of (3) years. REFERENCE NUMBER 7722
## Appendix 5: Overview of emerging themes

<table>
<thead>
<tr>
<th>First order concepts from data</th>
<th>Second order theoretical themes</th>
<th>Aggregated Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Becoming more financially sustainable</td>
<td>Strategic value</td>
<td>Bifurcation to social enterprise</td>
</tr>
<tr>
<td>Increasing networking capacity with public and/or business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>There are other intangible benefits of the social enterprise</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leading the establishment of the social enterprise</td>
<td>Leadership</td>
<td></td>
</tr>
<tr>
<td>We have many entrepreneurial skills to meet new need or create income</td>
<td>Entrepreneurship</td>
<td></td>
</tr>
<tr>
<td>Acquiring the needed resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management are stretched so thinly</td>
<td>Key resources - financial and time</td>
<td></td>
</tr>
<tr>
<td>It's difficult to plan ahead</td>
<td></td>
<td></td>
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<tr>
<td>We use sweat equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growing the business is problematic and we have to survive first</td>
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</tr>
<tr>
<td>Getting bigger requires more investment, defeating primary purpose</td>
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<td>Purpose must be clear with realistic measures</td>
<td>Performance measurement</td>
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<td>Financial performance is lower than expected</td>
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<td>Impact is hard to measure</td>
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<td>Right people, right time, right place</td>
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<td>Hard decisions</td>
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<td>Commercial, start-up and/or sectoral expertise is needed</td>
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<tr>
<td>Getting everyone on board who needs to be</td>
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<tr>
<td>This social enterprise meets the need outlined in our mission</td>
<td>Legitimising the social enterprise</td>
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<td>Our social enterprise fits our values</td>
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<tr>
<td>It cannot make (organisation) worse-off</td>
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<td>Activities are clear</td>
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<td>Defining customer segments</td>
<td>Business model - capabilities</td>
<td>Business model is a structural attractor</td>
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<td>Developing customer relationships and responsiveness</td>
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<td>Testing and refining the value proposition</td>
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<td>First order concepts from data</td>
<td>Second order theoretical themes</td>
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<td>Building partnerships</td>
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<td>Controlling costs</td>
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<td>Getting the business model right</td>
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<td>Communicating with and engaging customers</td>
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<td>Costing and pricing the product</td>
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<td>Generating revenue</td>
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<tr>
<td>We have a hard business model</td>
<td></td>
<td>Business model - capability challenges</td>
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<tr>
<td>Acquiring the skills needed (e.g. sales and marketing)</td>
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<tr>
<td>Working with uncertainty, risk and failure</td>
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<tr>
<td>New systems and patterns emerge</td>
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<tr>
<td>Some social enterprise &amp; not-for-profit personnel must work together</td>
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<tr>
<td>Social enterprise does/does not change not-for-profit</td>
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<tr>
<td>Blending, separating and switching logics</td>
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<tr>
<td>Partnerships, advisers &amp;/or new staff can provide the commercial expertise</td>
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<td>Diversity in view can foster disagreement and innovative solutions</td>
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<td>Managing the social enterprise differently (or not)</td>
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<td>You have to be hungry for profit</td>
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<td>Intuiting structural choices</td>
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<td>Getting bigger might create more culture clash</td>
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<td>Identity is same as (different to) parent</td>
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### Appendix 6: Co-occurring organisational features

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<th>Commercial expertise in not-for-profit</th>
<th>Sector expertise available to SE</th>
<th>Finance &amp; time</th>
<th>Identity</th>
<th>Inter-dependence and diffusion</th>
<th>Legitimacy source</th>
<th>Higher logic compatibility</th>
<th>Single/dual logic</th>
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The co-occurring features witnessed in this research need further verification.
### Appendix 7: Perceptions of social enterprise

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<tr>
<th>Feature / Participant</th>
<th>Changeability</th>
<th>Ako Books</th>
<th>Lifewise Hub</th>
<th>Not-for-profit = A</th>
<th>Social enterprise = B</th>
<th>Both = C</th>
<th>Neither = D</th>
<th>Total</th>
<th>A%</th>
<th>B%</th>
<th>C%</th>
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<td>39%</td>
<td>17%</td>
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<td>6%</td>
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<td>17%</td>
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<td>6%</td>
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## Appendices

### Changeability

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<th>Feature / Participant</th>
<th>Ako Books</th>
<th>Lifewise Hub</th>
<th>Not-for-profit = A</th>
<th>Social enterprise = B</th>
<th>Both = C</th>
<th>Neither = D</th>
<th>Total</th>
<th>A%</th>
<th>B%</th>
<th>C%</th>
<th>D%</th>
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<td>17%</td>
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<td>39%</td>
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<td>17%</td>
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### Key:
More than 40% of total associate with Not-for-Profit (Blue); Social Enterprise (Green); Both (Pink); Neither (Brown)
References


References


References


References


Deetz, S. (2009). The SAGE handbook of organizational research methods In D. A. Buchanan & A. Bryman (Eds.), (pp. 21-38): Los Angeles : SAGE.


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(Eds.), *Using a positive lens to explore social change and organizations* [electronic resource] : building a theoretical and research foundation: New York : Routledge.


References


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References


References


References


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