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Facilitating cultural change in social enterprises

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# Facilitating cultural change in social enterprises

Facilitating  
cultural  
change

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## Abstract

**Purpose** – The purpose of this paper is to examine the relationships and influences of change enablers for social enterprises in organizations undergoing cultural change.

**Design/methodology/approach** – Data were collected through a survey of social enterprises in two Pacific Island nations, and analyzed with Pearson and regression analyses.

**Findings** – The study finds that social enterprises are better equipped to implement cultural change when they exploit a robust entrepreneurial capability while optimizing strategic, financial and adaptive capabilities. These capabilities should be aligned with the enterprise's culture and processes associated with transitioning the organizational culture to access resources and achieve its mission. Based on these results, a Cultural Change Enabling (CCE) Framework is proposed to help social enterprises leverage the dynamic interactions between the enterprise, its capabilities and environment, and organizational change processes.

**Practical implications** – Using the CCE Framework will benefit leaders of public benefit organizations, including social enterprises, to identify their capabilities, and develop an enabling culture to advance their trading activities and social mission so that social enterprises might operate sustainably.

**Originality/value** – As one of the first studies to examine the readiness for organizational change in social enterprises, this study provides new insights on the capabilities for organizational change, and the dynamics of organizations undergoing cultural transformation.

**Keywords** Capabilities, Social enterprise, Culture, Change, Change enablers, Cultural Change Enabling Framework

**Paper type** Research paper

## Linking organizational readiness with cultural change

An organization's commitment to change is associated with its readiness to implement change (Al-Haddad and Kotnour, 2015). Organizational readiness for change means that the organization is equipped to engage in specific change actions, based on its belief that it has the required capabilities (Cinire et al., 2009). This belief relates to self-efficacy (an individual's belief that he or she has the capability to take action) and collective efficacy (the belief of a group or organization that they can implement change) (Holt et al., 2011). Readiness for change has been examined in large organizations (Weeks et al., 2004; Weiner, 2009), but seldom in small to medium-sized organizations. In particular, very little is known about the effects of organizational capabilities on the commitment (or readiness) of social enterprises to change, such as adapting to a new culture associated with the market (commercial), or community (social welfare) logic.

Culture is a system of shared beliefs, values and norms collectively held by members of a society (Schein, 1996). An organization's culture is a dynamic system that reflects the collection of cultures within and beyond the organization, including occupational norms, practices, and societal moral values (Yin et al., 2014). Organizational culture as an integrated mechanism (Meyerson and Martin, 1987) must be considered acceptable and consistent with personal beliefs and values of organizational actors, such as senior managers and employees, and the evolving conditions in the organization's external environment. In this way, changes



in the culture and institutional order of society are frequently mirrored in the values, norms, and practices of organizations (Schein, 1996). This viewpoint echoes Trompenaars and Woolliams' (2004) assertion of the links between processes of organizational cultural change, institutional arrangements, and the culture of the society in which the organization is situated.

Cultural change in an organization may be implemented as a radical process, but is more frequently executed as a set of incremental actions and interventions (Meyerson and Martin, 1987). Organizations undergo cultural change when they replace internal structures and processes with new ones (Marks, 2007), and when actors decide collectively to shift towards new systems, beliefs, values and practices. Alternatively, external political and economic institutional change may alter the culture of organizations (Mirvis, 1994). Although cultural change takes place continually (Meyerson and Martin, 1987), it takes time for organizations to adapt their existing culture to rapidly changing conditions in their environment. This means that organizations will be advantaged if they can deliberately plan how to introduce cultural change rather than simply responding.

Enablers align the type of change an organization intends to implement with the processes managers will use to implement the change (Al-Haddad and Kotnour, 2015). Al-Haddad and Kotnour (2015) argued that organizations can enact change when they have relevant capabilities and resources, along with a commitment to initiate and support change initiatives. Capabilities are sets of knowledge and skills that allow an organization to perform tasks effectively, whereas change commitment is demonstrated by the readiness of organizational actors to implement change. Mobilizing and (re)bundling human and nonhuman resources generates value (or benefit) for a proposed change initiative. Thus, change enablers affect the success of organizational change; however, the relationship between enablers of social enterprise cultural change and the external environment is not fully understood.

Social enterprises strive to achieve a public benefit mission, such as improving quality of life and economic and social wellbeing, reducing poverty or domestic violence, protecting children's rights, or conserving the natural environment for a targeted beneficiary or place. Social enterprises operate with diverse organizational forms such as cooperatives, charities, nonprofit, faith based or microfinance organizations (Thompson and Doherty, 2006). As values-driven organizations operating as open systems, social enterprises are influenced by institutional arrangements, principles and values that are consistent with societal expectations in their local environment (Dart, 2004). Thus, the culture of social enterprises is shaped by market and community institutional structures and expectations. Although these organizations provide an appropriate context in which to examine cultural change processes, not many studies have explored this context. The capabilities social enterprises require to adapt and embrace a new social or economic logic are not well understood. The resource-based view suggests that an organization's internal resources and capabilities can provide competitive advantage (Newbert, 2008); however, social enterprises usually pursue collaboration, cooperation and participation more vigorously than competition (Domenico *et al.*, 2010). This suggests that resource and capability arrangements in social enterprises could differ from those of commercial firms.

Responding to Al-Haddad and Kotnour's (2015) call to advance understandings of organizational cultural change enablers, this study investigated which enablers would have the most impact on social enterprises that are undergoing cultural change from a social welfare logic to a combined social and commercial culture. This study examined the effects of key capabilities on the commitment of these organizations to adopt this new culture or dual logics. Based on the study results, a Cultural Change Enabling (CCE) Framework is developed that will assist managers of social enterprises and similar social purpose organizations to implement change effectively. The following section examines change management in relation to organizational culture, organizational capabilities, and the operating landscape of social enterprises.

## Dual logics and hybrid culture

Global citizenship, an increasing awareness of corporate responsibility and the environment impact of firms, is stimulating a cultural shift for organizations to adapt and incorporate socially and environmentally responsible practices (Humphries and Grant, 2005). Likewise, social enterprises are responding to institutional expectations and shifting from emphasizing public benefit, philanthropy and charity (Lohmann, 2007) to incorporate a commercial culture embedded in economic fundamentals (Brown *et al.*, 2013). In general, social enterprises are more aligned to a social welfare logic than commercial firms which are driven by market norms and practices. However, social enterprises need to operate with dual, but competing logics – a social welfare logic and commercial logic (Battilana and Lee, 2014), by using commercial activities to be financially sustainable to achieve their social or environmental mission. A social welfare logic enables these socially focused organizations to pursue and achieve socially desirable goals (Smith *et al.*, 2013), and a commercial logic enables social enterprises to use business tools and concepts, along with entrepreneurial and organizational planning, to generate revenue and improve return on investment (Dart, 2004). These dual logics shape the hybrid culture of social enterprises. Organizations that combine commercial and social welfare logics must be adaptable and know how and when to utilize these dual and distinct rationalities to respond effectively to conditions in their operating environment (Bruneel *et al.*, 2016).

Trompenaars and Woolliams (2004) pointed out that an organization changes to preserve its evolving identity. Social enterprises usually have a clear and unique identity, but need to allow this identity to evolve in order to align with changing conditions and cultural expectations in their operating environment. Typically, the social enterprise ethos combines beliefs and assumptions of being entrepreneurial, altruistic, empathetic, and compassionate (Miller *et al.*, 2012). These organizations could be expected, therefore, to have an open and creative hybrid culture (Shaw, 2004), which aligns with the needs of all stakeholders. Yet to be financially sustainable, there is an increasing expectation that social enterprises should be market focused while not deviating from their social mission (Alnoor *et al.*, 2014; Cornforth, 2014). Situated across different sectors, social enterprises are structured as complex hybrid organizations (Bruneel *et al.*, 2016; Teasdale, 2012) that cross traditional sector and cultural boundaries. They exhibit a hybrid culture, a set of integrated values and beliefs drawn from a distinct sector, such as the nonprofit sphere, while incorporating competing market and community logics. Understanding the process of cultural change – how social enterprises adapt their existing culture and move towards a more market focus or community oriented logic – would allow these organizations to develop, manage, and invest in capabilities that might assist them to achieve the desired mission.

### *Cultural change in social enterprises*

The need for these complex, hybrid enterprises to achieve their social mission while being financially sustainable results in contradictions which may undermine their capacity to adopt a suitable hybrid organizational culture. It is vitally important for social enterprises to be perceived as legitimate, but it is difficult for them to gain acceptance in their field of operation unless they display an appropriate hybrid culture and achieve an effective social impact (Barraket *et al.*, 2016). This cultural paradox involves multiple normative frames (Alnoor *et al.*, 2014) of competing and conflicting institutional expectations and demands (Pache and Santos, 2013), which present contextually related opportunities and challenges.

Bruneel *et al.* (2016) observed that social purpose organizations are likely to be ineffective if they fail to balance competing logics. Social enterprises must demonstrate an ability to conform and adjust to social norms and cultural expectations if they are to be considered legitimate and sustainable (Sarpong and Davies, 2014). It is important that they build their capacity to attend to competing logics successfully as they adjust to changing cultural expectations: however, there has been little scholarly effort to understand the process and

effects of this cultural shifting. In particular, the factors that enable social enterprises to develop a suitable culture in response to their external environment have not been examined adequately.

#### *Capabilities – a fundamental change enabler*

Organizations have capabilities that enable them to undergo a transition successfully and achieve a desired outcome (Helfat and Peteraf, 2003). These capabilities are strategic, and they must be applied continuously to achieve change (Winter, 2003). Capabilities are embedded in knowledge and skillsets that allow the organization to undergo purposeful change by executing new tasks, routines and processes effectively, such as setting the right price, developing a new product or managing risks. There are two levels of capabilities - operational and dynamic. Operational capabilities are low-level sets of knowledge and skills, such as administration skills, governance practices and operating routines that enable the organization to perform effectively and efficiently. Strategic management researchers have argued that operational routines can be transformed (and made even more effective) when organizations develop dynamic capabilities. Dynamic capabilities are higher-order sets of knowledge and skills that modify the resource base of the organization, and construct, expand or transform routine capabilities (Winter, 2003). These higher-order capabilities affect firm performance by enabling organizations to exploit market opportunities (entrepreneurial capability), maximize financial returns and improve firm sustainability (financial capability), respond to changing environment conditions (adaptive capability), and make strategic choices (strategic capability). All these distinct capabilities assist an organization to mobilize resources and stimulate its commitment to achieve desired change outcomes.

It could be assumed that dynamic capabilities would improve the performance of social enterprises, but the effects of organizational entrepreneurial, financial, adaptive and strategic capabilities on the readiness of social enterprises to undergo cultural change have not been empirically tested. Organizational capabilities could support social enterprises to overcome potential issues associated with different organizational forms (Galera and Borzaga, 2009), governance structures (Low, 2006), and contradictory operating logics (Battilana *et al.*, 2015) and are also likely to influence these organizations' access to external support. If they are to create social value effectively and efficiently, these hybrid organizations must have dynamic capabilities to combine resources and actions associated with commercial and social welfare logics (Pache and Santos, 2013). Scholars have examined the nature and effects of organizational capabilities such as marketing (Liu and Ko, 2012), value creating (Harding, 2004), and strategic capability (Liu *et al.*, 2014) on social enterprise performance. Social enterprises, like other businesses, are expected to demonstrate entrepreneurial capability as well as financial capability (Baltam *et al.*, 2012). Without these, it is difficult to sustain its operation in the long term. To maintain legitimacy, social enterprises must develop diverse revenue streams, manage their budget, expenditure, and cash flow to be financially sustainable while using profit generated commercial activities to achieve their social or environmental mission. Social enterprises must also have the ability to adapt, not only to local economic opportunities, but also different legal arrangements, governance models, and culturally influenced expectations in their social and market environments. A social enterprise may convert its ability to integrate distinctly different institutional logics into a dynamic capability which will enable the enterprise to respond strategically to external pressures or opportunities. Strategic capabilities constitute the set of knowledge and skills that these hybrid organizations need to employ to be financially sustainable and effectively achieve mission over the long term (Cornforth, 2014). The tendency of the organization to deviate from their mission is an ongoing challenge social enterprises face, and therefore they need to develop suitable capabilities to prevent this from occurring.

### Resource-constrained environment of social enterprises

There is an important connection between capabilities and resources. Al-Haddad and Kotnour (2015) found that the quality of resources also acts as a change enabler for organizations. Resources obtained from the organization's external environment, offer strategic benefits that generate value for the organization. Therefore, organizations target different kinds of resources depending on their needs. For example, virtual organizations rely on technological resources, whereas nonprofit organizations usually have less need for technology but may rely on paid and voluntary manpower. Different combinations of resources provide competitive advantage when combined as bundles in an innovative way, or when they enable or enhance other resources (Smith *et al.*, 1996).

Many social enterprises perform poorly, especially in developing countries, as they frequently lack the capacity to fulfill their goals (Holt and Littlewood, 2015). The social enterprise entrepreneurial process involves social value creation, opportunity recognition and resource mobilization (Austin *et al.*, 2006). Organizational income is essential for social enterprises to achieve their social mission, but these organizations are continually challenged to develop creative ways of securing sufficient financial and human resources so they may generate the desired value. Social enterprises may mobilize resources from the private, non-profit and public sectors (Teasdale, 2012), but they struggle to generate sufficient resources to address social and environmental needs due to their primary commitment to a social mission rather than maximizing profit (Teasdale, 2012).

Kerlin (2009) argued that as government support wanes, a strong market provides opportunities for non-profit organizations, such as social enterprises, to obtain financial resources from commercial activities. However, countries with institutional voids are resource constrained, and this is likely to undermine the capacity of social enterprises to gain sufficient financial income from the market. In developing countries, market and state institutions are weak, so social enterprises tend to rely on international aid from richer countries (Littlewood and Holt, 2015). Some studies have attempted to understand how social enterprises operate in resource-poor conditions (Di Domenico *et al.*, 2010); however, social enterprise performance in the resource-constrained environments of Small Island Developing States (SIDS) has received little attention.

The social enterprise concept is spreading out to many countries in the world. It commenced in the USA and Europe and has expanded across Africa, Latin America and Asia, and more recently Oceania, in particular Australia and New Zealand. SIDS in the Pacific region, such as Kiribati, Fiji and Samoa, continue to face significant economic and social problems. In these countries, social enterprises support the well-being of disadvantaged populations who rely on their initiatives and goods and services for their wellbeing. The concept of social enterprise however is poorly understood among business professionals, non-profit practitioners and politicians in the Pacific region. Yet, social enterprises are vital for achieving sustainable development in these nations (British Council, 2015). With underperforming economies and ineffective governments in the Pacific SIDS, it is a challenge for social enterprises to obtain resources from the market or national governments. These organizations have limited access to alternative sources of resources and thus it will be difficult for them to enable change without sufficient financial resources. Examining the effects of social enterprise capabilities in this previously uncharted site would offer valuable insights, including whether environmental conditions might affect the capacity of the enterprise to enable change successfully. To add to existing theory, this study set out to examine the capabilities of social enterprises and their readiness for cultural change in the low population, and resource-poor environment of Pacific SIDS.

### Construct identification and operationalization

This study examined organizational capabilities and the readiness of social enterprises to undertake a cultural shift from a social welfare logic to a combined social and commercial logic

in the low population and resource-poor environment of small Pacific island states. Data were collected with a modified version of the Developing Your Social Enterprise Toolkit (DYST). This instrument was initially developed by Enterprising Nonprofits to measure the readiness of social enterprises to engage in change (Enterprising Nonprofits, 2015). However, no study has tested the relationships among the key constructs found in this instrument. For example, testing the relationship between the construct of organizational readiness for change and the construct of entrepreneurial capability. Drawing from the literature, we modified the DYST instrument to measure organizational readiness for change, and assess the capabilities that could enable social enterprises to be more effective. For example, the construct on technological capability was not incorporated since many of the social enterprises in this region are located in rural and remote settings, and the small organizations in this region have very limited access to digital technologies. Entrepreneurial, financial, adaptive, and strategic capabilities were defined and operationalized since these capabilities support an organization in its process of mobilizing resources to create social and economic value.

Organizational readiness for change (OR) was operationalized as the commitment of the organization to undergo change, measured by its ability to recognize that it had the required capabilities to execute actions and implement change initiatives effectively and efficiently. The organizational capabilities presumed to have significant effect on the organizational readiness for change were operationalized as:

- strategic capability (STCAP) – the ability to manage a strategic orientation, measured by an organization's ability to share common understandings of its mission, strategy and objectives with key stakeholders and to update its strategy;
- adaptive capability (ADAPCAP) – the ability to adapt to new initiatives and processes, measured by an organization's ability to manage conflict and respond to internal and external changes;
- entrepreneurial capability (ENTCAP) – the ability to manage entrepreneurial undertakings, measured by the organization's ability to be proactive, show initiative, take risks, innovate and learn from its innovation in the market; and
- financial capability (FINCAP) – the ability to manage financial affairs, which was measured by an organization's ability to understand its past, current and future financial positions, and its ability to be cost effective in implementing activities.

Effects of these above-mentioned capabilities and the organizational readiness for change were examined in relation to the readiness for social welfare logic, and readiness for commercial logic as operationalized below followed by a conceptual framework in Figure 1:

- readiness for social welfare logic (SLOGIC) – the commitment of the organization to achieve social objectives, measured by the ability of the organization to create social benefits and improved social well-being of targeted beneficiaries by trading in the market; and
- readiness for commercial logic (CLOGIC) – the commitment of the organization to achieve economic objectives, measured by the ability of the organization to create and capture monetary profit and financial sustainability for the organization by trading in the market.

### *Hypotheses*

This study considers the following research question:

- RQ1.* Does the level of strategic capability (STCAP), adaptive capability (ADAPCAP), entrepreneurial capability (ENTCAP) and financial capability (FINCAP) have statistically significant positive effect on organizational readiness (OR)?

The following null hypotheses call for confirmatory investigation:

*H1*

*H<sub>0</sub>*. OR is statistically not significantly related to STCAP, ADAPCAP, ENTCAP and FINCAP.

Alternatively:

*H<sub>1</sub>*. OR is statistically significantly related to STCAP, ADAPCAP, ENTCAP and FINCAP.

*H2*

*H<sub>0</sub>*. SLOGIC has statistically no significant impact on STCAP, ADAPCAP, ENTCAP and FINCAP.

Alternatively:

*H<sub>1</sub>*. SLOGIC has statistically significant impact on STCAP, ADAPCAP, ENTCAP and FINCAP.

*H3*

*H<sub>0</sub>*. CLOGIC has statistically no significant impact on STCAP, ADAPCAP, ENTCAP and FINCAP.

Alternatively:

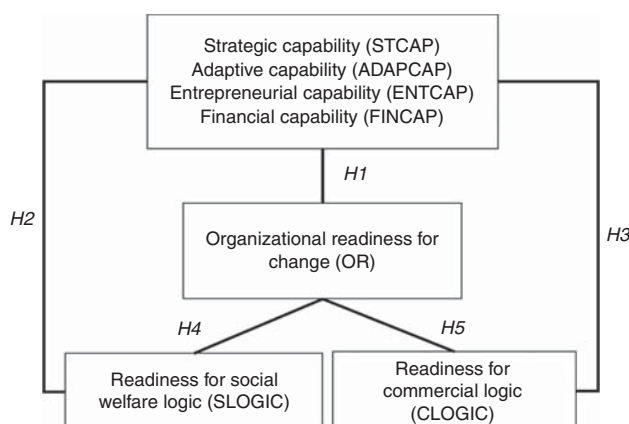
*H<sub>1</sub>*. CLOGIC has statistically significant impact on STCAP, ADAPCAP, ENTCAP and FINCAP.

*H4*

*H<sub>0</sub>*. OR is statistically not significantly related to SLOGIC.

Alternatively:

*H<sub>1</sub>*. OR is statistically significantly related to SLOGIC.



**Figure 1.**  
Conceptual framework



H5

H<sub>0</sub>. OR is statistically not significantly related to CLOGIC.

Alternatively:

H<sub>1</sub>. OR is statistically significantly related to CLOGIC.

### Methodology

This study employed a survey research methodology to analyze the relationship among, and quantify the effects of independent and dependent variables. The modified DYST employed as a survey instrument is a five-point response scale ranging from 1=Strongly Disagree to 5=Strongly Agree. After operationalizing the constructs, we developed and confirmed the survey items that measured the corresponding constructs. Organizational readiness for change (OR) is the key measurable construct. OR (as a variable) was determined and measured by four key organizational capabilities (strategic, adaptive, entrepreneurial and financial) which were also considered as variables. Survey items for variables SLOGIC and CLOGIC were also identified. The modified DYST survey instrument was disseminated to 61 social enterprises in Pacific SIDS, with 71 percent of the organizations successfully completing the survey questionnaire ( $n = 43$ ). The number of social enterprises was unknown due to a lack of reliable records in these countries, so the sample was selected purposively based on characteristics identified from the literature, and then government agencies assisted the sampling strategy by identifying social enterprises. Each organization had a clear social mission to benefit socially/economically disadvantaged people or place rather than solely maximizing profit/wealth of individual/private shareholders/owners; traded in the market while seeking alternative sources of finance; was formally registered as a business entity and had an observable structure and mechanism for decision making. These characteristics distinguish social enterprises from small- and medium-sized commercial enterprises.

Pearson correlation and multiple regression analyses were conducted using the Statistical Product and Service Solutions. The Pearson correlation analysis tested the nature and strength of the associations between the variables, which was useful for testing null hypotheses for H<sub>4</sub> and H<sub>5</sub>. The analysis focused on generating the values of the correlation coefficient,  $r$ , and coefficient of determination,  $R^2$  and producing results of a one-sample  $t$ -test for a one-tailed significance at 0.01 level. This test helped to confirm whether or not SLOGIC and CLOGIC was affected by OR. Multiple regression analysis tested the covariance of more than one independent variable and a dependent variable which was suitable for testing null hypotheses for H<sub>1</sub>, H<sub>2</sub>, and H<sub>3</sub>. This analysis verified the hypothesized proportional effect that independent variables might have on the dependent variable, and regression models were derived from this analysis to show these effects. The analysis also focused on the values of  $r$ ,  $R^2$ , and the unstandardized coefficient,  $\beta$ . A one-sample  $t$ -test for a one-tailed significance at 0.01 level, and the  $F$ -test were conducted to determine if the regression model depicted a real relationship. These tests helped to confirm whether or not the organizational capabilities (STCAP, ENTCAP, FINCAP and ADAPCAP) affected OR, SLOGIC and CLOGIC. If so, these tests would help to confirm which of these capabilities had the strongest or weakest effect. By adopting an inferential analysis, the results of this study were inferred for a population of social enterprises operating in similar developing and resource-constrained countries.

### Results and discussion

#### *Nature of commercial and social orientations*

Table I presents the results of the Pearson correlation analysis which shows that the relationship between OR and CLOGIC is significant at  $p < 0.01$  level ( $p = 0.001$ ), and this

also applies to the relationship between OR and SLOGIC. The correlation coefficients,  $r$ , for both relationships are positive, indicating they are not consistent with null hypotheses for  $H4$  and  $H5$ . The positive relationship between OR and CLOGIC is much stronger (whereby  $r = 0.732$ ) than the positive association between OR and SLOGIC (whereby  $r = 0.664$ ). These positive correlations indicate that when social enterprises undergo organizational change, they also experience a transition from old to new sets of values and principles. This result supports Pache and Santos's (2013) view that social enterprises can also embrace values and practices embedded in a commercial logic.

There is a positive relationship between each capability (STCAP, FINCAP, ADAPCAP and ENTCAP) and CLOGIC, as well as with the SLOGIC. These positive correlations are significant at  $p < 0.01$  level ( $p = 0.001$ ), however, they are relatively moderate and low positive associations. Specifically these data suggest that although null hypotheses for  $H4$  and  $H5$  are rejected (i.e. the relationships are positive and significant):

- current organizational capabilities of social enterprises are not strongly related to their commitment to shift toward a dual social welfare and commercial culture; and
- the commitment of social enterprises for change is more strongly associated with adopting a commercial logic than a social welfare logic.

Table I also shows that STCAP, ADAPCAP, FINCAP and ENTCAP do not provide strong explanations for the commitment of these organizations to embrace a social welfare culture, with STCAP explaining 29.5 percent of the variance in SLOGIC, while FINCAP only explains 27.1 percent of the variance in SLOGIC. On the other hand, STCAP and FINCAP, respectively, explain 33.6 percent of the variance in CLOGIC and 40.8 percent of the variance in CLOGIC. Furthermore, ADAPCAP and ENTCAP each explain about 41 percent of the variance in CLOGIC, compared with explaining 41.5 percent of the variance in SLOGIC and 46.4 percent of the variance in SLOGIC for ENTCAP and ADAPCAP, respectively. These results suggest that the potential influence of each capability on the commitment of these social enterprises to undergo cultural change may vary depending on the nature of the organization's culture. The small variations indicate that the capabilities embedded in the knowledge and skillset of social enterprises are not tailored for the needs of these organizations to undertake cultural change. The data in Table I indicate that these social enterprises have not yet developed strong and effective capabilities that support their transition to a dual social welfare and commercial culture.

These results support those of previous studies that social enterprises face contradictions and pressures when responding to competing internal logics and institutional demands in their operating environment (Smith *et al.*, 2013). Smith *et al.* observed that the simultaneous pursuit by social enterprises of the social mission and commercial activities is associated with divergent goals, values, norms and identities. Battilana and Lee (2014) identified negative consequences of the trade-off between the social expectations of enterprise's leaders, and increasing the economic productivity of

Statistics Country	$r$		$R^2$		Sig. ( $p$ -value)	
	CLOGIC	SLOGIC	CLOGIC	SLOGIC	CLOGIC	SLOGIC
STCAP	0.580**	0.543**	0.336	0.295	0.001	0.001
ADAPCAP	0.681**	0.642**	0.464	0.412	0.001	0.001
ENTCAP	0.644**	0.644**	0.414	0.415	0.001	0.001
FINCAP	0.639**	0.521**	0.408	0.271	0.001	0.001
OR	0.732**	0.664**	0.536	0.441	0.001	0.001

**Note:** \*\*Correlation is significant at 0.01 level (one-tailed)

**Table I.**  
Results of Pearson  
correlation analysis

social enterprises. This means that it is important for social enterprises to develop capabilities that enable them to balance cultural deviations, otherwise the pressure of balancing these tensions may lead to mission drift (Cornforth, 2014).

The results of the Pearson correlation analysis do not indicate that a change to a social welfare logic is necessarily more important than moving toward a commercial logic. However, these results do suggest that a trade-off between these logics is likely to exist, thus endorsing previous social enterprise studies of the competing logics and institutional demands. Jurie (2000) and Al-Haddad and Kotnour (2015) implied that the capabilities and commitment of an organization to change are inter-related elements of their organizational change capacity, and thus are likely to be positively correlated. Positive correlations between organizational capabilities and the level of change commitment confirm that organizations undergo change in order to survive (Soparnot, 2011). Soparnot (2011) argued that these organizations should establish themselves as competent entities with the capability of dealing with the change process and the desired change outcomes to provide value for their stakeholders. Organizations must have positive capabilities (the ability to learn from the positive aspect of the change process experience), and also the ability to absorb and respond to the emotional confusion and worries that will be experienced during change processes (French, 2001).

*Dynamic capabilities in social enterprises*

Tables II and III present the results of the multiple regression analyses, and a summary of the regression models developed from these analyses. Three regression models were developed, CLOGIC model, SLOGIC model and OR model:

$$\begin{aligned} \text{CLOGIC} = & 3.554 + (0.124 \times \text{STCAP}) + (0.383 \times \text{ADAPCAP}) \\ & + (0.691 \times \text{ENTCAP}) + (0.420 \times \text{FINCAP}) \end{aligned}$$

$$\begin{aligned} \text{SLOGIC} = & 11.580 + (0.127 \times \text{STCAP}) + (0.811 \times \text{ADAPCAP}) \\ & + (1.205 \times \text{ENTCAP}) + (0.212 \times \text{FINCAP}) \end{aligned}$$

$$\begin{aligned} \text{OR} = & -0.074 + (1.503 \times \text{STCAP}) + (1.006 \times \text{ADAPCAP}) \\ & + (0.977 \times \text{ENTCAP}) + (0.782 \times \text{FINCAP}) \end{aligned}$$

These models generated insights that complemented and advanced the Pearson correlation results (see Figure 2).

Based on these models, ENTCAP was found to be the most commonly employed capability, and this capability was expected to be a very reliable predictor of the commitment of social enterprises to undergo organizational change or adopt a new culture. This result advances the argument that social enterprises must have a strong entrepreneurial dimension. However, the robust effects of ENTCAP were complemented

**Table II.**

Summary of multiple regression models

Regression models	<i>r</i>	<i>R</i> <sup>2</sup>	<i>F</i> -value	Sig. ( <i>p</i> -values)
CLOGIC model	0.694 <sup>a</sup>	0.482	8.838	0.001 <sup>b</sup>
SLOGIC model	0.742 <sup>c</sup>	0.551	11.636	0.001 <sup>b</sup>
OR model	0.998 <sup>d</sup>	0.996	2,105.62	0.001 <sup>b</sup>

**Notes:** <sup>a</sup>Dependent variable = commercial logic; <sup>b</sup>predictor variables = strategic capability, adaptive capability, entrepreneurial capability and financial capability; <sup>c</sup>dependent variable = social welfare logic; <sup>d</sup>dependent variable = organizational readiness for change. Significant at *p*-value < 0.01

**Table III.**  
Results of multiple  
regression analysis

	Unstandardized coefficients			
Constant and predictor variables	$\beta$	SE	<i>t</i> -Value	Sig. ( <i>p</i> -value)
<i>Multiple regression models</i>				
CLOGIC (DV)				
(Constant)	3.554	3.252	1.093	0.281
STCAP	0.124	0.333	0.372	0.712
ADAPCAP	0.383	0.488	0.784	0.438
ENTCAP	0.691	0.370	1.865	0.70
FINCAP	0.420	0.228	1.843	0.073
SLOGIC (DV)				
(Constant)	11.580	5.097	2.272	0.029
STCAP	0.127	0.522	0.244	0.808
ADAPCAP	0.811	0.765	1.059	0.296
ENTCAP	1.205	0.580	2.077	0.045
FINCAP	0.212	0.357	0.593	0.557
OR (DV)				
(Constant)	-0.074	0.567	-0.131	0.896
STCAP	1.503	0.058	18.148	0.001
ADAPCAP	1.006	0.085	11.823	0.001
ENTCAP	0.977	0.065	15.140	0.001
FINCAP	0.782	0.040	19.695	0.001

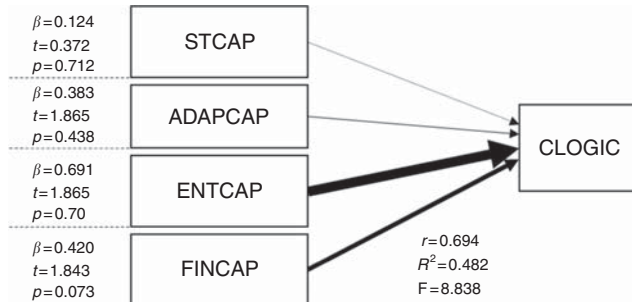
**Notes:** DV, dependent variable. Significant at  $p$ -value < 0.01

by stronger effects of STCAP, ADAPCAP and FINCAP in the OR model. The OR model represents a non-random relationship among social enterprises (see Table II). The  $F$ -value is particularly large ( $F=2,105.62$ ), which indicates that a consistent pattern of this relationship will occur in these social enterprises. The OR model in Table III depicts a negative constant ( $-0.074$ ) which means that the expected value of OR (representing the extent of change commitment) is negative (unimpressive) when the predictor variables are set to 0. In other words, these social enterprises initially did not see the need, or did not hope for change when they did not have the required capabilities. This result could indicate further that in the absence of necessary capabilities, resistance to change is likely to take place and therefore it might be possible that some social enterprises are not responsive to changing situations. However, as the level of OR increased, a sizeable increase in STCAP (150 percent), ADAPCAP (100 percent), ENTCAP (97 percent) and FINCAP (78 percent) occurred. These observed increases indicate that OR is dependent on the level of these capabilities with their respective  $t$ -values and  $p$ -values indicating a high level of significance,  $p < 0.01$ . Therefore, null hypothesis for  $H1$  is rejected.

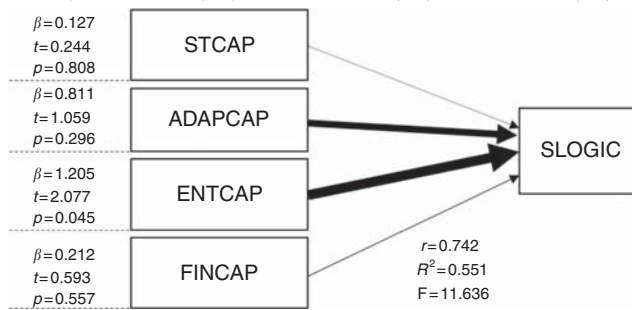
In Table II, the  $F$ -values were 8.838 (for CLOGIC model) and 11.636 (for SLOGIC model), which were not as large as the  $F$ -value depicted by the OR model, indicating that the CLOGIC and SLOGIC models may not have depicted relationships that were as real as the OR model. The relatively strong effects of ENTCAP occurred with weak effects of STCAP, ADAPCAP and FINCAP in both of these models; nevertheless, the constants for these models are positive as shown in Table III. As the CLOGIC increased, however, there were marginal increases in organizational capabilities, with ENTCAP having the highest marginal increase (69.1 percent) when CLOGIC increased, followed by FINCAP (42 percent), ADAPCAP (38.3 percent), and the lowest marginal increase occurring in STCAP (12.4 percent). Considering that  $p < 0.01$ , the  $p$ -values for the relationship between variables in the CLOGIC model indicate no significant relationship, thus null hypothesis for  $H3$  is accepted.

Comparable results were observed in the SLOGIC model. As SLOGIC increased, there were marginal increases in STCAP (12.7 percent) and FINCAP (21.2 percent), while with

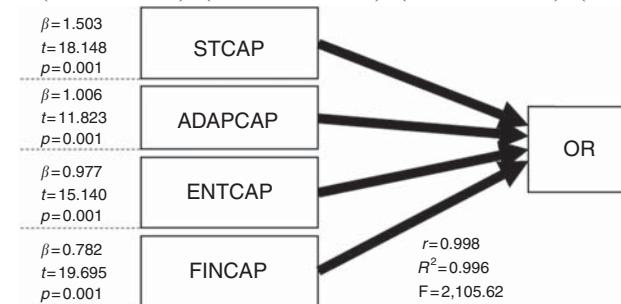
$$\text{CLOGIC} = 3.554 + (0.124 \times \text{STCAP}) + (0.383 \times \text{ADAPCAP}) + (0.691 \times \text{ENTCAP}) + (0.420 \times \text{FINCAP})$$



$$\text{SLOGIC} = 11.580 + (0.127 \times \text{STCAP}) + (0.811 \times \text{ADAPCAP}) + (1.205 \times \text{ENTCAP}) + (0.212 \times \text{FINCAP})$$



$$\text{OR} = -0.074 + (1.503 \times \text{STCAP}) + (1.006 \times \text{ADAPCAP}) + (0.977 \times \text{ENTCAP}) + (0.782 \times \text{FINCAP})$$



**Figure 2.**  
Multiple regression  
coefficient effects on  
the CLOGIC, SLOGIC  
and OR models

**Notes:** ENTCAP, entrepreneurial capability; STCAP, strategic capability; ADAPCAP, adaptive capability; FINCAP, financial capability; OR, organizational readiness for change. The thickness of the arrow represents the strength of the effect

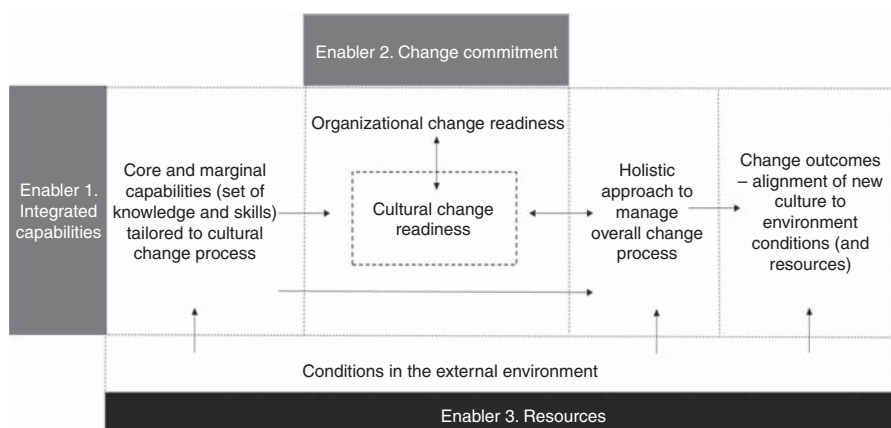
marginal increases occurring in ADAPCAP (81.1 percent) and ENTCAP (120.5 percent). The substantial effect of ENTCAP may support the view that the social enterprises pursue a social mission through market-based innovations which involves mobilizing resources and potentially risky initiatives to capitalize on opportunities (Austin *et al.*, 2006; Dees, 2007). Likewise, the substantial effect of ADAPCAP highlights the importance of context and institutional environments in shaping the goals, values and structures of social enterprises (De Bruin and Lewis, 2015; Kerlin, 2013). The relationships among the SLOGIC model variables indicate, however, that there is no significant relationship, given that the *p*-values are greater than 0.01. Therefore, null hypothesis for *H2* is accepted.

The results of these multiple regression analyses do not demonstrate that ENTCAP is the only capability required to manage social enterprises change initiatives. Instead, these results indicate the potential effect of other capabilities, which along with the robust effects of ENTCAP, might influence change process and outcomes. Table III displays the nature and impact of capabilities that enable organizations to change. These results indicate that it is preferable to integrate ENTCAP (presumed to be a core capability) with ADAPCAP, STCAP and FINCAP (presumed to be marginal capabilities). These results not only confirm the role of capabilities in enabling change, as Al-Haddad and Kotnour (2015) suggested, but also identify how different capabilities can be enhanced, rearranged and renewed to achieve effective organizational change. Thus, social enterprises would be better equipped to implement change by relying on ENTCAP while also optimizing STCAP, ADAPCAP and FINCAP.

### Aligning change enablers and new culture with organizational environment

Building on Al-Haddad and Kotnour's (2015) insights on the factors that enable change, these study results inform the development of a CCE Framework (Figure 3). This framework recognizes the interactive connections among change enablers identified as integrated capabilities (embedded in the organization's knowledge and skills), change commitment (embedded in the readiness of the organization to change, and adopt a new culture) and resources (strategically entrenched in the organization's external environment). These interactions have indirect and direct dynamic effects on the process of implementing organizational change, and in particular, the process of aligning the culture of the organization with conditions in the external environment, since adopting an appropriate organizational culture is critical for organizational effectiveness. Social enterprises aim to be socially and institutionally effective to generate an appropriate social benefit, and to be effective, they need to align their actions to societal expectations, and combine market principles with the societal values and norms into an integrated organizational culture.

The CCE Framework offers valuable insights on the resource base of organizations in relation to how external environmental conditions may shape the value that organizations can create from a limited resource base. Social enterprises (as hybrid organizations) draw resources from diverse sources in their external environment, for example, the market, state and community (Schmitz and Glänzel, 2016; Teasdale, 2012). However, these enterprises are likely to compete with other organizations if they rely on public funds or private sector resources. Market and state institutions in Pacific SIDS are relatively weak compared with institutions in developed countries; however, the culture of these nations has a strong set of



**Figure 3.**  
Cultural Change  
Enabling Framework

communal practices within institutionalized Christian and indigenous values (Saffu, 2003) among the majority of the population. The strong effects of ENTCAP in this study indicate that social enterprises are likely to mobilize a significant proportion of their resources from local community and indigenous sources as they seek to capture market opportunities and support from the state and international aid. Yet, the marginal effects of ADAPCAP, STCAP and FINCAP show that social enterprises in these SIDS nations need to improve their capacity to align actions strategically toward their mission, adapt to external environmental conditions and increase their capabilities to manage financial income streams effectively.

The results of this study confirm that change implementation involves some risks as the organization faces uncertainties and may fail to meet its intended goals (Jacobs *et al.*, 2013). Along with employee reservations, Zhang (2016) suggested that uncertainties in the external technical, ecological and societal institutional environment present barriers for organizational change. Transitioning into a different culture is an all-encompassing long-term change for any organization. It takes time for organizations to adopt a new set of values and principles, and then learn how to integrate these into appropriate new processes. This requires organizations to implement a network of practical and systematic change management approaches as a holistic alteration in processes, and behaviors are likely to be appropriate throughout the organization. All stakeholders must be motivated to first abandon old, and then embrace new attitudes, expectations and behaviors (Marks, 2007). For this reason, the change methods should focus on managing the organization's readiness, performance and responses before, during and after the transition to a new culture and different processes that are consistent with the enterprises and external rationalities. Efforts to stimulate a collective commitment from all those involved must be part of the holistic adjustment approach.

The CCE Framework elucidates that as an organization attempts to combine a market-based and social welfare culture, it must possess an organizational readiness for change. The organization demonstrates this by being able to instigate changes to its organizational culture, structure, strategy and business processes (Choi and Ruona, 2011; Weiner, 2009). Change processes are likely to be more effective when they do not deceive, but are driven by mutual understandings and agreements (Humphries and Grant, 2005). Haffar *et al.* (2013) observed that organizations which adopt a group culture are associated with high levels of organizational readiness for change. This is because staff are more likely to anticipate that changes will be inspired by team work, consensus, and collaboration, and these are less likely to have negative consequences for staff. The result of this study indicates the need for these socially oriented organizations to adopt a holistic approach, and attend not only to changes associated with culture, but also to the processes, people and content dimensions in the organization that would be affected by the cultural change. The CCE Framework demonstrates this influence by showing an interactive set of connections between the organizational change readiness and cultural change readiness.

### Contributions and conclusion

The CCE Framework developed in this study contributes important new insights on the nature of the internal organizational culture, the process of change, the connections of change enablers and the local resource environment. The framework is based on a data collected from social enterprises in the Pacific region which serve the needs of communities characterized by a small populations, geographical isolation and limited resources. The application of the CCE Framework therefore can be extended to social enterprises that operate in similar localities and to small commercial firms facing resource constraints in developing nations, and potentially even in developed nations. This framework extends Al-Haddad and Kotnour's (2015) proposition that to achieve a desired change outcome, organizations must align the change they are pursuing with the right approach and initiatives. In this study, we specifically find that change initiatives are influenced by

conditions in the organization's external environment that may either enable or hinder the process of gathering resources for organizational change. In turn, these conditions and processes shape the nature and effects of organizational capabilities. When an organization such as a social enterprise operates in a complex environment with dual logics, leaders must ensure that the organization has the right set of capabilities to balance and integrate the cultures and processes underlying complex economic and social intentions. Cultural change, in particular, involves a long-term transition that requires an organization to implement inclusive and holistic processes strategically. As such, this study establishes the need for organizations to develop dynamic capabilities that allow them to implement change strategically in order to respond effectively to uncertainties in their external environment.

The study extends the DYST instrument constructs and establishes it as an appropriate tool to examine social enterprise performance. Originally developed for Canada, we extended and applied this instrument to assess the capacity for social enterprises in Pacific SIDS to undertake change. In doing so, we contribute new insights that add new ways to measure the capabilities of social enterprises. Together with the Cultural Change Enabling Framework, this instrument provides a valuable tool to evaluate the capacity of social enterprises and similar social purpose organizations subjected to market forces, to organize change effectively. The Cultural Change Enabling Framework assist managers to embark on the process of cultural change and adopt an appropriate organizational culture. Future research could adapt this instrument to measure additional capabilities, and understand how these influence the cultural transformation and change capacity of organizations that operate for a social purpose.

Our study has two limitations. First, the study only investigated the effects of a few specific organizational capabilities which were identified from the DYST instrument. We modified the survey instrument to focus on constructs that were relevant to social enterprises operating in the small island developing states of the Pacific region. It is strongly recommended that future research could investigate other capabilities that are not examined in this study. The second limitation of this study is its small sample size which was constrained due to difficulty in identifying enterprises that were willing to participate in this study. Social enterprise researchers are encouraged to create their own databases of these organizations for future use.

This study not only adds to existing social enterprise and change management theories, it also offers valuable information for social enterprise managers in the developed and developing world. In addition, the study offers valuable information to assist the development of national and international policy. The results present strong evidence of a capability gap in social enterprises that policy makers need to address by designing better policies and capacity building programs. There is need for policy makers to work together with these enterprises on their capacity needs, and to find the best way to assist social enterprises to integrate their core and marginal capabilities. We believe that these robust results and the Cultural Change Enabling Framework provide a clear indication of how social enterprises and other small organizations operating in similar environments can envisage cultural change. We recommend that Pacific island governments should support the development and mainstreaming of social enterprises in their nations to advance the well-being of their citizens.

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