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Social or Commercial? Determinants of Social Enterprises' Innovations in Turbulent Times

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Abstract

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We find that administrative leaders of social enterprises, regardless the nature of their previous experience, deal with turbulence supporting commercially oriented innovations, thus increasing the risk of mission drift for the companies they manage. Our results also show that this focus on commercial innovations can be successfully counterbalanced by socially-oriented boards and by pressures exerted by socially-oriented external stakeholders, such as partners and

governmental agencies. Our study contributes to the literature that explores dynamics associated with mission drift by showing new nomological relationships that underlie financial pressure, social enterprises' innovation efforts, internal and external stakeholders.

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ABSTRACT

This study explores determinants of innovations in social enterprises exposed to situations of economic turbulence. Relying on survey data from a sample of Italian work integration social enterprises, we analyze the impact of internal and external stakeholders on innovations aimed at reacting to the economic turbulence affecting the social sector due to the financial turmoil of 2008. We find that administrative leaders of social enterprises, regardless the nature of their previous experience, deal with turbulence supporting commercially oriented innovations, thus increasing the risk of mission drift for the companies they manage. Our results also show that this focus on commercial innovations can be successfully counterbalanced by socially-oriented boards and by pressures exerted by socially-oriented external stakeholders, such as partners and governmental agencies. Our study contributes to the literature that explores dynamics associated with mission drift by showing new nomological relationships that underlie financial pressure, social enterprises' innovation efforts, internal and external stakeholders.

Key words: Innovation, social enterprises, stakeholders, leaders, social and commercial performances.

INTRODUCTION

In the last thirty years companies have been increasingly asked to hold a proactive and innovative role to tackle deep-seated social problems such as poverty (Margolis & Walsh, 2003), environmental damage (Spence, Jeurissen, & Rutherford, 2000) and wealth inequality (Hudon & Sandberg, 2013). Hence, a growing body of investigation has studied how business organizations can develop innovative solutions to tackle social issues (Scherer, Palazzo, & Matten, 2009) and how to manage the tensions that may emerge when an organization tries to integrate social concerns in its strategies and activities (Smith, Gonin & Besharov, 2014).

A research stream emerged in the last decade has approached this issue from the perspective of social enterprises (Battilana & Lee, 2014; Dees & Elias, 1998). Social enterprises are organizations that seek to address social problems through the conduction of business activities (Smith et al., 2013; Battilana & Lee, 2014). Hence a social enterprise embodies at its very core both commercial and social objectives (Battilana, Sengul, Pache & Model, 2015). Their successful achievement is based on managing apparently conflicting organizational arrangements (Canales, 2013), values (Besharov, 2014) and stakeholder (Pache & Santos, 2013) that create largely divergent prescriptions for action (Smith et al., 2013), either socially or commercially centric, and are therefore difficult to recompose in a single venture (Ashforth & Reingen, 2015; Smith et al., 2013).

Social enterprises face peculiar challenges for sustainability (Doherty, Haugh, & Tracey, 2014), stakeholder management (Pache & Santos, 2013) and internal coordination (Battilana, Sengul, Pache, & Model, 2015). However, they can also exploit unique opportunities for creativity (Tracey, Phillips, & Jarvis, 2011) and innovation (Jay, 2013) that can emerge as a result of their efforts to balance social and commercial objectives.

Social missions and business ventures are challenging to recompose in particular when social enterprises are exposed to situations of economic turbulence, due, for instance, to decreased resources (Battilana, Lee, Walker & Dorsey, 2012), changes in the organizational resource dependence pattern (Reay & Hinings, 2009) and shifts in the regulatory environment (Ramus & Vaccaro, 2014). A situation of economic turbulence may exacerbate tensions between social and commercial objectives (Almandoz, 2012), thus exposing social enterprises to the risk of unbalancing their strategic positioning in favor of one dimension, but at expense of the other (Ebrahim, Battilana & Mair, 2014).

A research stream (Battilana et al., 2015; Stevens, Moray, Bruneel & Clarysse, 2014) has showed drivers that lead social enterprises to imbalance their positioning in favor of social (Tracey et al., 2011) or commercial objectives (Battilana et al., 2015).

Another stream of investigation (Battilana & Lee, 2014; Santos, 2012; Smith et al., 2013) has instead studied how social enterprises can combine social and commercial objectives in innovative ways. In this stream, some scholars have highlighted the role of workforce composition (Battilana & Dorado, 2010), member distribution (Almandoz, 2012; Pratt & Foreman, 2000) and organizational design (Binder, 2007; Santos, Pache, & Birkhoz, forthcoming) to balance social value creation and wealth generation. Other scholars (Battilana et al., 2015; Besharov, 2014) have instead emphasized the role of administrative leaders - i.e. people who hold directive positions and find themselves at the top of the organization (Besharov, 2014; Selznick, 1957; Kraatz & Block, 2008) - in recomposing divergent objectives and priorities.

Taken together, these scholars' work has showed the role of different internal stakeholders to find creative and innovative solutions to balance social and commercial performances (Seelos, Mair, Battilana & Dacin, 2011; Smith et al., 2013). However, empirical research on determinants

of innovations in such organizations is still largely missing (Battilana & Lee, 2014; Doherty et al., 2014).

Particular events may prompt the introduction of innovations (Van de Ven, Polley, Garud, & Venkataraman, 1999). In particular, turbulence in the external environment (Huber, Sutcliffe, Miller, & Glick, 1993; Stevens et al., 2014) represents a trigger for organizational innovation and change. It forces organizations to modify their products, internal processes and collaborative efforts (Scott & Bruce, 1994; Van de Ven, 1986) in order to navigate the new environmental conditions (Stevens et al., 2014). Yet, turbulence also exposes social enterprises to the risk of unbalancing their strategic positioning because it polarizes the antithesis between social and commercial objectives (Almandoz, 2012).

In this study, we rely on survey data from a sample of 139 Italian work integration social enterprises (WISEs) to explain determinants of alternatively social or commercial innovations of social enterprises when they are exposed to situations of economic turbulence (Almandoz, 2012).

Interesting, our results show that the background (Lee & Battilana, 2014) of administrative leaders does not influence significantly their impact on social enterprises' behaviors, as instead indicated by previous literature (Besharov, 2014; Almandoz, 2012). Our empirical evidence further shows that the experience of social enterprises' administrative leaders increase the odds for them addressing turbulence introducing commercial innovations to boost organizational financial sustainability and survival. Our results also show that this focus on commercial innovations, that can potentially drive organizations to drift away from their original social mission in favor of commercial objectives, can be counterbalanced exposing social enterprises to socially oriented pressures at both board and field level.

These findings contribute to social enterprises research in several ways. In general, our study answers the recent call for a more comprehensive understanding of the functioning of social enterprises and of the mechanisms they enact to address the tensions inherent the coexistence of divergent objectives and priorities (Smith et al., 2013). In particular, our findings contribute to shed light on the influence of administrative leaders on social enterprises' strategies (Lee & Battilana, 2014). Namely, we challenge the characterization of social enterprises' leaders as "heroes" (Dacin, Dacin, & Tracey, 2011) who are capable to recompose largely divergent elements (Selznick, 1957; Besharov, 2014) by virtue of their motivations (Miller, Grimes, McMullen, & Vogus, 2012; Zahra, Gedajlovic, Neubaum, & Shulman, 2009), skills (DiDomenico, Haugh & Tracey, 2010) and values (Besharov, 2014). Our findings suggest that in situations of economic turbulence, administrative leaders do not work as mediators of different, diverging forces as argued by previous literature (Besharov, 2014), instead they drive their organizations to introduce organizational innovations to prioritize those forces they perceive to be more pressing.

Moreover, our work contributes to the literature that explores dynamics associated with mission drift, i.e. social enterprises' losing commitment to their original social mission in their effort to generate revenue (Ebrahim et al., 2014; Battilana et al., 2015; Ramus & Vaccaro, 2014). We show the role of socially oriented internal and external stakeholders to safeguard a social enterprise's social commitment despite the emergence of divergent pressures – both within and outside the organization - that may drive the venture to lose focus on its original mission, thus losing its *raison d'être* (Battilana et al., 2015).

Finally, showing new nomological relationships that underlie internal and external stakeholders' pressures and social enterprises' innovation efforts in a changing environment, our

work also contributes to the research investigating how business organizations can integrate social objectives in their strategies (Margolis & Walsh, 2003).

LITERATURE REVIEW AND HYPOTHESES

Social enterprises are organizations that compete in the market to achieve a social mission (Smith et al., 2013), thus combining in the same organization both social and commercial objectives (Battilana & Lee, 2014).

Social enterprises are constantly exposed to the risk of unbalancing their strategic positioning toward either social or commercial objectives at the expense of the others (Besharov, 2014; Ebrahim et al., 2014; Ramus & Vaccaro, 2015). This risk is particularly strong when social enterprises are exposed to situations of economic turbulence (Almandoz, 2012) and change (Jay, 2013) that requests them to modify their strategies. In such situations, the sustainability of social enterprises depends on their ability to innovate and adapt to changed conditions without unbalancing their strategic positioning in favor of one dimension but at expenses of the other (Dees, 2007; Smith et al., 2013). A situation of strategic unbalancing could be extremely dangerous for social enterprises because it could jeopardize their legitimacy (Pache & Santos, 2013), and capacity to attract critical resources from neglected stakeholders (Almandoz, 2012), eventually causing organizational inertia and even failure (Battilana & Dorado, 2010).

In this paper, we analyze antecedents of innovation (im)balance in social enterprises exposed to situations of economic turbulence. A social enterprise imbalances towards the creation of socially oriented innovations when its innovations are aimed at supporting mainly social performances. Conversely, a social enterprise imbalances towards the creation of commercially oriented innovations when its innovations mainly aim at enhancing commercial performances.

We develop three hypotheses for the innovation imbalance. They aim at testing the influence of key internal and external stakeholders –administrative leaders holding directive positions (Selznick, 1957; Battilana et al., 2015), board members (Almandoz, 2012) and external stakeholders (Pache & Santos, 2013) - on the innovations introduced by social enterprises.

Administrative Leaders

Previous research has proven the influence on social enterprises strategies of administrative leaders (Besharov, 2014) – i.e. those holding directive positions and finding themselves at the top of the organization (Selznick, 1957).

Of particular relevance for our work, research on imprinting (Marquis & Tilckis, 2013) and ambidexterity (Smith & Tushman, 2005) has emphasized that leaders' background shapes how they understand a situation, frame external pressures and make decisions (Levinthal & March, 1993), thus driving organizational strategies and action (Kaplan, 2003). In particular, background due to previous work experience has persistent effects on individuals' behavior (Higgins, 2005). People carry with them skills, knowledge, schemas and cognitive patterns that they had learned from previous experiences also when they move to a new organization (Higgins, 2005; Marquis & Tilcsick, 2013).

Applying this framework to social enterprises, scholars have shown that administrative leaders' work background alternatively in the for-profit or in the not-for-profit sector influences the way in which they filter information (Lee & Battilana, 2014), understand environmental conditions and prioritize demands coming from commercial and social stakeholders (Lee & Battilana, 2014). In this way, leaders' previous background shapes their influence on social enterprises positioning amidst social value creation and wealth generation (Almandoz, 2012; Lee & Battilana, 2014).

Administrative leaders with previous background in the not-for-profit sector bring with them their pro-social competencies, skills, cognitive schemata and values also when they enter in a social enterprise (Battilana et al., 2015), usually prioritizing social concerns when in conflicts with commercial objectives (Almandoz, 2012). Given their background, these leaders would frame a situation of economic turbulence as threat to the possibility to put adequate resources in socially oriented activities and to invest in the advancement of the social enterprise's mission.

Administrative leaders of social enterprises with a for-profit background rely on their commercial oriented baggage of knowledge, skills, cognitive schemas and routines to frame pressures and define priorities amidst social value creation and wealth generation (George et al., 2006; Staw et al., 1981). These leaders, are likely to perceive and frame changes in the environmental conditions and in particular a situation of economic turbulence as a potential threat for the financial sustainability of the venture and for its capacity to compete in the market.

When exposed to threats, i.e. to a situation of potential loss on which one has little control (Dutton & Jackson, 1987), individuals tend to rigidly replicate their routines and well-learned or habituated responses to address the situation (George, Chattopadhyay, Sitkin, & Barden, 2006; Staw, Sandelands, & Dutton, 1981).

Consistently with the aforementioned threat-rigidity hypothesis (George et al., 2006), we expect that leaders with a not-for-profit background would drive a social enterprise to address external turbulence relying on their well-established socially oriented skills and schemas, thus increasing the odds for social enterprises introducing socially oriented innovations to face economic turbulence. Complementarily, we expect that leaders with for-profit background would rely on their commercially oriented background of knowledge, routines and schemata to address threats associated with economic turbulence, influencing organizational strategies accordingly.

Thus, we expect they would drive social enterprises to introduce commercially oriented innovations to address customer expectations and increase operational efficiency. We therefore hypothesize:

Hypothesis 1. In situations of economic turbulence, if the administrative leader has a not-for-profit / a for-profit work background, the likelihood that the social enterprise creates socially / commercially oriented innovations increases.

Governance

As part of organizational design, governance represents a way by which the senior level formally translates strategy into action (Battilana & Lee, 2014; Mason & Doherty, 2015). In particular, the board of directors usually sets the strategic objectives of an organization and approves and controls its operational activities (Goodstein, Gautam, & Boeker, 1994). It also plays as an interface between the organization and the external environment, thus simultaneously carrying external pressures within the venture and buffering it from them (Battilana et al., 2015).

The strategy of a social enterprise largely reflects the orientation of the board members amidst social value creation and wealth generation (Almandoz, 2012; Cornforth, 2004; Ebrahim et al., 2014; Stevens et al., 2014). Board members' dominant identity (Golden-Biddle & Rao, 1997), motivations (Almandoz, 2012), values (Stevens et al., 2014) and competencies (Santos et al., forthcoming) influence how they frame external pressures and identify organizational priorities and objectives (Santos et al., forthcoming). So, boards mainly composed by socially oriented members and therefore characterized by socially oriented motivations (Coombes, Morris, Allen & Webb, 2011) and competencies (Ebrahim et al., 2014) will influence a social enterprise to give priority to social performances when in conflict with commercial ones (Ebrahim et al., 2014). On the contrary, boards mainly composed by commercially oriented members will use their power

and influence on organizational strategies to prioritize commercial performances when incompatible with commercial objectives (Almandoz, 2012; Santos et al., forthcoming).

The role of governing board is critical in particular when an organization faces situations of environmental turbulence (Almandoz, 2012; Coombes et al., 2011; Goodstain et al., 1994; Stevens et al., 2014) because board members have the responsibility to make strategic decisions that influence how the venture navigates external changing conditions (Goodstain et al., 1994). Socially oriented members sit in the board for their pro-social competencies (Santos et al., 2015) and because they share the social mission of the organization (Coombes et al., 2011; Wright & Millesen, 2008). In situations of environmental turbulence, they operate as *watchdog* of the consistency of the organization with its original mission (Almandoz, 2012; Brown & Iverson, 2004). They work to drive the organization to prioritize social value creation also under the new environmental conditions (Taylor, Holland, & Chait, 1996). So, we expect that the presence of socially oriented members in the board increases the odds of social enterprises introducing socially oriented innovations in situations of economic turbulence.

On the contrary, commercially oriented board members sit in the board to safeguard the commercial orientation of a social enterprise (Almandoz, 2012; Ebrahim et al., 2014) and to guarantee the quality and efficiency of its business strategy (Santos et al., forthcoming). Given their motivations and experiences they perceive a situation of economic turbulence as a possible challenge to the social enterprise's capacity to acquire financial sustainability. So in situations of turbulence they work to influence managers' decisions and set incentives to prioritize customers' satisfaction and productive efficiency. Hence, we expect that the presence of commercially oriented board increases the odds of social enterprises introducing commercially oriented

innovations as a reaction to situations of environmental turbulence. We therefore hypothesize the following:

Hypothesis 2. When facing economic turbulence, a social enterprise is more likely to create socially oriented innovations if its board of directors has a higher proportion of socially oriented members than commercially oriented members and vice versa.

External Stakeholders' Pressure

Along with internal stakeholders – particularly board members and administrative leaders - also external stakeholders can influence social enterprises' strategic positioning amidst social value creation and wealth generation (Cooney, 2012; Pache & Santos, 2013).

As any organization, also a social enterprise depends upon a broad set of external stakeholders (Freeman, 1994) for its survival. They provide legitimacy (Baur & Palazzo, 2011) and resources that are necessary to thrive (Pache & Santos, 2013; Ramus & Vaccaro, 2015). Stakeholders' demands and pressures, therefore, permeate social enterprises boundaries and influence their strategies and choices (Smith et al., 2013; Stevens et al., 2014).

By virtue of its social mission, a social enterprise depends on “social stakeholders”: e.g. public bodies, social services, nonprofit partners, and volunteers (Pache & Santos, 2013; Smith et al., 2013). Being motivated by socially oriented objectives and values (Baur & Palazzo, 2011), these stakeholders support and legitimate a social enterprise for its contribution to society wellbeing (Pache & Santos, 2013), thus pressing the venture to be primarily focused on social value creation through innovative projects and initiatives (Ramus & Vaccaro, 2015).

By virtue of their commercial bottom line, however, social enterprises depend also on “commercial stakeholders” like customers, commercial partners and investors. These stakeholders are mainly motivated by self-interested and profit oriented objectives (Pache & Santos, 2013) and

they legitimate a social enterprise (Nicholls, 2009) and provide it with their share of reciprocal benefits because of its productive efficiency, quality service and operational capacity (Smith et al., 2013).

In stable environments, social enterprises can develop organizational mechanisms to strike a balance between different stakeholders' expectations (Canales, 2013) and to incorporate them in organizational strategies (Haigh & Hoffman, 2012). In situations of economic turbulence, the incompatibility between social and commercial stakeholders' expectations exacerbates and incorporating them within a single organizational form become more challenging (Almandoz, 2012). Social needs intensify (Austin, Stevenson, & Wei-Skillern, 2006; Doherty et al., 2014). Social stakeholders increase their pressure on social enterprises for the implementation of socially oriented initiatives to enhance the provision of social services and to address unmet social needs. Also market competition intensifies and it reduces businesses players' profits; therefore, commercial stakeholders increase their pressure on social enterprise for in-time services and productive efficiency (Ramus & Vaccaro, 2015).

When confronted with multiple and incompatible stakeholders' expectations, an organization tends to adapt its strategies to give priority to those exerted by more pressing stakeholders (Stevens, Steensma, & Harrison, 2005), while defying those posed by less pressing ones (Oliver, 1991). So, we expect that in a situation of economic turbulence that intensify the incompatibility between social and commercial stakeholders' claims, a social enterprise would adapt its strategies and introduce innovation to satisfy the claims exerted by more pressing stakeholders. Thus, we hypothesize as follows:

Hypothesis 3. When facing economic turbulence, a social enterprise is more likely to create socially oriented innovations when pressures from its social external stakeholders are more intense than pressures from commercial external stakeholders and vice-versa.

METHODS

In order to study the determinants of innovation imbalance in social enterprises in turbulent economic periods we tested our hypotheses on a sample of 139 Italian Work integration social enterprises (WISEs).

Setting

WISEs represent a particular type of social enterprises (Battilana et al., 2014; Santos et al., forthcoming) as they compete in the market to help long term unemployed people to readjust to the world of work (Pache & Santos, 2013). Namely, a WISE hires marginalized people (e.g. ex drug and alcohol addicted, low-educated immigrants and people with disabilities) to produce products and services that it then sells on the market. As such, WISEs pursue both social and commercial objectives. On the one side they aim at enhancing their social performances providing training, mentoring and counseling services to marginalized workers. On the other side, they also aim at achieving commercial performances through production efficiency, and customer service.

Similarly to other European countries, WISEs emerged in Italy as nonprofit entities in late 1970s to address the rise of unemployment affecting the country (Borzaga & Fazzi, 2011). They became recognized by various laws between the 1990s and 2000s (Law 381/1991; Law 52/1996; Law 118/2005 and Law 155/2006), that allowed them to operate as economic entities and granted them subsidies and tax exemptions on condition that marginalized workers (as defined by Italian law 381/1991) made up at least 30% of their workforce.

Until 2008, WISEs faced a stable environment. WISEs were subsidized by public bodies and could collaborate with actors of the nonprofit sector (i.e. employment agencies, nonprofit and nongovernmental organizations) to provide marginalized worker with the skills and confidence they needed to be reintegrate into the workforce (Borzaga & Fazzi, 2011). Moreover, WISEs could also rely on resources of commercial partners and customers. In that period commercial partners supported a social enterprise not only for its efficiency and capacity to provide quality goods and services, but also to sustain its social commitment (Borzaga & Fazzi, 2011).

The financial turmoil affecting Italy from 2008 onward exposed WISEs to new situations of economic turbulence (ISTAT, 2009) that exacerbated the difficulty for WISEs to strike a balance between divergent social and commercial objectives.

As an effect of the financial crisis, WISEs had to improve their social performances. Unemployment began to raise (ISTAT, 2009) and an increasing number of jobless, marginalized people required the assistance of WISEs that, moreover, could not rely on adequate collaboration from public services because, as an effect of the crisis, they lacked the resources to properly support WISEs (Venturi & Zandonai, 2011).

Social enterprises also had to improve their commercial performance. They saw a reduction in subsidies granted by public bodies. Moreover, customers and commercial partners, also hit by the crisis, now supported and collaborated with a WISE only because of its efficiency and customer service and not because of its social commitment (Venturi & Zandonai, 2011).

Data collection

To address our research question and test our hypotheses, we rely on survey data from a sample of 139 WISEs (see *Appendix* for more details regarding the characteristics and construction of the sample).

Presidents and executive directors of each social enterprise were invited to participate by answering two different questionnaires. Consistently with previous literature, we referred to executive directors as administrative leading figures (Besharov, 2014) in the organizations under study whose role was to manage and activities of both the social and the commercial-production departments (Battilana et al., 2015).

Data were gathered between mid-March and mid-September 2013 mostly *via* online and telephone-aided questionnaires and referred to the period between 2010 and 2013. F-test ($F_{critic} = 0.00, p > 0.9973$) and t-tests showed no statistically significant difference due to different type of administration (see *Appendix*)¹.

We also tested for differences in the responses of early respondents, which are organizations that joined and completed the survey in the first months, compared to late respondents, which participated to the survey later or completed the survey after solicitations. *T-tests* (see *Appendix*) showed no statistically significant differences between early and late respondents.

Finally, we crosschecked for any differences in the sample due to the type of administration and the period of administration of the survey. Results from the *two-way ANOVA* did not show any statistically significant difference ($F_{critic} = 0.30, p > 0.9747$).

All the items, but the composition of the board of directors, the background of executive directors and some controls, were scored on seven-point Likert scales.

Measures

Dependent Variable

¹ 56.76% of questionnaires were completed online, 38.85% through telephone-aided administration and 3.38% and 1.01% questionnaires were filled in through word format or during a workshop on social enterprises held in Italy in September 2013. Considering that completed surveys are composed by two questionnaires, we created a categorical variable to assess the completion of the survey. The variable takes value 0 when surveys are completed through two online questionnaires, 1 if surveys are completed through two telephone-aided questionnaires, and 2 if surveys were completed through different types of questionnaire. For more details, see *Appendix*.

Building on the OECD definition of innovation as the “implementation of new significantly improved products, processes or new organizational methods in external relations” (OECD, 2005: 46), we analyzed product/services, process and network innovations introduced by WISEs between 2010 and 2013, i.e. the years following the financial crisis affecting Italy in 2008 and reaching the peak in 2009 (ISTAT, 2009).

We relied on previous research on WISEs (Battilana et al., 2015; Pache & Santos, 2013) to identify six types of innovations concerning: i) products/services commercialized, ii) products/services offered to marginalized workers, iii) processes to deal with productive activities, iv) processes to deal with marginalized employees, v) networks established with commercial partners and vi) networks established with nonprofit organizations.

For each of the aforementioned six typologies of innovations we investigated to what extent they were developed by WISEs with the aim to impact either social or commercial performances. Answers were scored on a 7-point Likert scale (1 was “minimal impact pursued” and 7 was “maximum impact pursued”).

Building on existing research on social enterprises (Battilana et al., 2015) we assesses social performances by 1) the quality of caring and counseling provided to marginalized workers (Pache & Santos, 2013) and 2) by the categories of marginalized people employed by the organization (DiDomenico et al., 2010). We assessed commercial performances 1) by the WISEs’ capacity to address customer expectations (Pache & Santos, 2013) and 2) by the organization’s profitability (Battilana et al., 2015).

We obtained the following measure for the *innovation social imbalance (ISIMB)*:

$$ISIMB = \text{Social performances pursued through innovations} - \text{commercial performances pursued through innovations}; (1)$$

A social enterprise imbalances toward the creation of socially oriented innovations when it creates innovations more aimed at enhancing social performances than innovations aimed at enhancing commercial performances. It imbalances toward the creation of commercially oriented innovations *vice versa*.

We calculated the performances pursued through the introduction of innovations as follows:

$$\text{Social performances pursued through innovations} = \sum_{i=1}^N \left(\frac{s_i}{n} \right); \quad (2)$$

$$\text{Commercial performances pursued through innovations} = \sum_{i=1}^N \left(\frac{c_i}{n} \right); \quad (3)$$

Where:

N is the number of innovation types;

s_i indicates the overall social performances pursued through innovation i ;

c_i indicates the overall commercial performances pursued through innovation i ;

The denominators (n) report the items (2) used for assessing the performances pursued on each innovation.

The measure *ISIMB* assumes positive values when innovations introduced by WISEs are more oriented at pursuing social performances than commercial performances, negative values vice-versa. In our sample, values for innovation imbalance range from -2.25 to 1.63, with average -.11 and standard deviation .56².

Independent Variables

We tested our hypotheses testing three independent variables: external stakeholders' pressure, governance, and leaders' work background.

² More information are reported in table 1 and 2.

Leader's work background. We adapted Lee's and Battilana's (2014) measure for past work experience to assess the work background of the administrative leaders in our sample organizations. We asked executive directors (i.e. the administrative leaders) to indicate in which sector they had worked before joining the actual organization. A dummy variable assumes value 0 in case of work background in the "for-profit" sector and 1 for the "not-for-profit" sector.

Governance. To assess the orientation of the board in business organizations with a social mission, Almandoz (2012) looks at the percentage of board members committed to either socially oriented or commercially oriented objectives. Adapting Almandoz' (2012) measure to our setting, we asked our informants to indicate the percentage of social enterprises' board members that are committed only to social objectives (i.e., socially oriented board members), only to commercial objectives (i.e., commercially oriented board members) or to both social and commercial objectives. From the total composition of the board, we deducted the percentage of board members committed to both social and commercial objectives, then we obtained the final measure for governance by subtracting the percentage of commercially oriented members from the percentage of socially oriented members. The measure assumes positive values when socially oriented board members are more than commercially oriented board members, negative values otherwise.

External stakeholders' pressure. To assess the intensity of pressure exerted on the social enterprises by external social and commercial stakeholders we adapted the measure developed by Stevenson's and colleagues (2005). Namely we asked our informant the level of pressure exerted by commercial and social stakeholders respectively. Answers were scored on a 7-point Likert scale (1 was "no pressure" and 7 was "highest pressure"). The final measure for external stakeholders' pressure considers the difference between pressure exerted by external social stakeholders and by external commercial stakeholders. The measure assumes positive values when pressures from

social stakeholders are higher than those exerted by commercial stakeholders, negative values otherwise.

Control variables

To exclude alternative explanation for social enterprises innovations, we included seven variables in the regressions as controls.

First, we controlled for administrative leaders' tenure. We expect that the likelihood that social enterprises react to economic turbulence with social innovations is positive related to the tenure of their administrative leaders. Thanks to their experience, more tenured leaders should be more capable than less tenured ones to navigate situations of exacerbate turbulence and economic constrains (Battilana et al., 2015), thus keeping the focus on social enterprises' mission despite exacerbated divergent environmental pressures.

Then, we control for variables associated with the organizational characteristics of social enterprises such as activity, size, and identity orientation. As WISEs grow they are less exposed to financial constraints and external shocks so they can deal with a situation of turbulence through social innovations in the effort to remain consistent with their mission, also under the new environmental conditions. We expect that medium-sized WISEs are more likely to address environmental turbulence through commercial innovations than large, established firms since formers are more exposed to financial constraints and more attentive to economic goals (Stevens et al., 2014). Moreover, identity orientation – i.e. the nature of assumed relations between an organization and its stakeholders as perceived by its members (Brickson, 2005: 864) – could have an influence on social enterprises innovations in case of economic turbulence. Indeed, we expect that social enterprises with an individualistic identity orientation (Brickson, 2005) might be more

profit and market oriented than social enterprises with a relational or communitarian identity orientation (Stevens et al., 2014).

We also control for the impact of human and financial resources on social enterprises innovations. Slack financial resources obtained from the public sector through the sale of good and services and subsidies could allow social enterprises to buffer increased economic pressures (Stevens et al., 2014). A high percentage of marginalized workers on the workforce composition shows strong social enterprise's focus on its mission.

Finally, we include three dummies to control for the effect of the type of innovation (product, network or process) on the model.

Table 1 presents the variables, definitions, items and references used for the dependent and independent variables. Table 2 summarizes the measures and rationale for control variables.

Insert table 1 about here

Insert table 2 about here

RESULTS

Table 3 shows descriptive statistics related to the variables in the dataset. Table 4 and 5 provide pairwise correlations.

Insert table 3 about here

Insert table 4 about here

Insert table 5 about here

We tested our hypotheses with robust regression models as the dependent variable was statistically not normally distributed³. The advantage of robust fitting method is lower sensitivity than ordinary least squares to large changes in small part of the data (Rousseeuw & Leroy, 1987; Wooldridge, 2003). We performed a base model (model 0) with only the control variable, a restricted model (model 1) including only the three predictors used for testing our hypotheses and three unrestricted models (model 2, 3 and 4).

Estimations from the five models are presented in table 6.

Insert table 6 about here

In all the four regression models that account for the predictors (i.e., external stakeholders' pressure, governance and leader's work background), we found statistically significant evidence to confirm hypotheses 2 and 3. We found no statistically significant support to confirm hypothesis 1. In particular all models confirm that, as we hypothesized starting from previous literature, social enterprises are more likely to create socially oriented innovations to respond to economic turbulence when in a social enterprise there are more socially oriented board members than commercially oriented, and vice-versa (H2). Empirical evidence also confirms our hypothesis that social enterprise are more likely to introduce socially oriented innovations as reaction to economic turbulence when pressures from socially oriented external stakeholders are higher than those exerted by commercial stakeholders, and vice-versa (H3). Interesting, our empirical results do not show statistically significant support for our first hypothesis. The background of the administrative

³ Shapiro-Wilk z, 3.22 (***), at 95% confidence level.

leader in terms of previous work experience does not matter significantly on the innovations introduced by social enterprises in situations of economic turbulence.

In Model 0 we analyze the effect of all the control variables in the dataset on the innovation social imbalance of the organizations. Counter intuitively, the model shows that a longer tenure of administrative leaders leads social enterprises to pursue more commercial performances through their innovations when facing economic turbulence ($\beta=-0.0187$; $p<0.028$). However, we have no statistically significant support to rely on the estimations of the model ($F_{critic}=1.02$; $p>0.05$).

Model 1 includes the predicted variable and the three independent variables (i.e., *work background*, *governance*, and *external stakeholders' pressure*). The restricted model shows a positive and statistically significant effect of external stakeholders' pressure ($p<0.001$) and governance ($p<0.05$) on the innovation (im)balance.

Model 2 - in which we included controls for administrative leaders' tenure, organizations' size, identity orientation and sector of activity – confirms results of Model 1. Among the control variables, we find that only the tenure has a negative and significant effect on the innovation social imbalance of social enterprise in periods of economic turbulence. A longer work experience of leaders in the social enterprise increases the odds for social enterprises creating imbalanced, commercially oriented innovations when exposed to economic turbulence ($\beta=-0.0147$, $p<0.05$). This indicates that, long tenure in social enterprises does not help administrative leaders to keep the focus on social enterprises' mission when these ventures are exposed to strong, divergent economic pressures due to economic turbulence.

In model 3 we control for slack of resources (Stevens et al., 2014): our results do not show any statistically significant effect on the innovation imbalance. Finally, model 4 includes controls for the percentage of marginalized workforce in the organization in 2009 and 2012. Differences in the

sample due to the amount of marginalized workforce did not show statistically significant effects on the innovation imbalance.

In general, all the regression models presented a moderate multicollinearity among the variables (average and max VIF were far from the 10 consensus).

DISCUSSION AND CONTRIBUTION TO THE LITERATURE

Our study contributes in at least three ways to the growing body of work focused on social enterprises (Ramus & Vaccaro, 2015; Smith et al., 2013) and to the broad research that investigate how business organization can integrate social issues at the core of their functioning in a sustainable way (Margolis & Walsh, 2003).

Firstly, it shows the influence of key internal stakeholders – such as administrative leaders and board members - on innovations introduced that aim to combine divergent objectives, in our case social and commercial. Our work also shows how external stakeholders' pressures affect social enterprises' strategies in situation of economic turbulence. Finally, this paper extends past studies on social enterprises by empirically proving the influence of internal and external stakeholders on these organizations' capacity to remain focused to their original mission in situation of greater and unexpected economic turbulence that may increase the odds for these ventures drifting away from their original mission.

Social Enterprises' Reaction to Situations of Economic Turbulence: The Influence of Internal Stakeholders

A growing research stream has investigated how internal stakeholders, particularly administrative leaders (Besharov, 2014; Lee & Battilana, 2014) and board members (Almandoz, 2012; Golden-Biddle & Rao, 1997), influence social enterprises' strategies.

Focusing on social enterprises' leaders, previous literature has proven that their background (Lee & Battilana, 2014) and experience (Battilana et al., 2015; Besharov, 2014) influence how they frame external pressures, identify organizational priorities and define strategies (Battilana et al., 2015). Leaders with work experience in the not-for-profit sector are more likely to design strategies primarily oriented toward social value creation, also at expenses of productive efficiency (Battilana et al., 2015). Conversely, a work experience in the for-profit sector increases the odds for social enterprises' leaders prioritizing commercial oriented strategies in case of trade-offs between social and commercial objectives (Lee & Battilana, 2014). Yet, long tenure in social enterprises helps leaders to develop the skills and competencies to recompose the apparently antithetic objectives of social value creation and wealth generation (Battilana et al., 2015). Indeed, through their experience in hybrid contexts, leaders can develop the capacity to recognize the distinctive value of multiple perspectives (Smith & Tushman, 2005) and values (Besharov, 2014). These "pluralist leaders" (Besharov, 2014; Jay, 2013) become capable to transform apparently antithetic priorities in opportunities for innovative and creative solutions (Jay, 2013) to scale social impact and attain profitability.

Aforementioned studies have provided useful insights to enrich our understanding of leaders' influence on social enterprises' strategic positioning in stable environments. Yet, they remain largely silent about leaders' reaction to situations of economic turbulence (Almandoz, 2012). Our empirical evidence contributes to fill this gap. We suggest that leaders' influence on a social enterprise's positioning amidst social value creation and wealth generation is shaped not only by their background (Lee & Battilana, 2014) and experience (Besharov, 2014), but also by the contingent and specific characteristics of the overall context in which they work. We show that, regardless their background, when facing economic turbulence, more expert social enterprises'

leaders tend to prioritize commercial objectives. Namely, they drive the venture to introduce innovations to foster economic productivity, and commercial performances in the effort to achieve financial stability (Smith & Lewis, 2011).

These results confirm and extend previous literature suggesting that, although imprinting has a longstanding impact on social enterprises' strategic positioning, these ventures can depart from it when exposed to particular situations (Battilana et al., 2015). For instance, Battilana and colleagues (2015) have recently proved that during sensitive period associated to organizational crisis, new generations of leaders may take over the organization and drive it to deviate from practices imprinted at organizational level. Our findings suggest that, in situations of economic turbulence and change, leaders can also deviate from their own imprinting and influence organizational strategies and practices accordingly.

Leaders have a significant role in defining social enterprises' innovative strategies in situations of exacerbated economic turbulence. Yet, our results show that, in order to fully understand how internal stakeholders influence the strategic positioning of a social enterprise, leaders' pressures should be complemented by what defined at board level. Indeed, our empirical evidence shows that the strategic orientation of a board (social vs. commercial) has direct effect on social enterprises' innovations.

Irrespectively from its background, an expert leader addresses economic turbulence favoring the introduction of commercial oriented innovation to guarantee financial stability and sustainability. Conversely, a socially oriented board - that is when the coalition of board members supporting the social mission is larger than the coalition of members supporting the business mission – drives the social enterprise to address turbulence through socially oriented innovations

to guarantee the accomplishment of the organizational social mission also under the new environmental conditions.

Aforementioned different reactions to turbulence of board members and leaders of social enterprises could be due to their divergent strategic horizon (Fletcher, 1992) and exposure to pressures exerted by the external environment (Green & Griesinger, 1996). In social enterprises, board members define the overall strategy of a venture (Brown & Iverson, 2004; Wright & Millesen, 2008) and they are less embedded in organizational daily life than the administrative leader (Fletcher, 1992). Thus, board members are almost detached from short-term (Fletcher, 1992; Wright & Millesen, 2008), contingent pressures and they can focus on the general strategic positioning of the venture. Board members are therefore more likely to have a long-term strategic orientation (Fletcher, 1992) and they define the enterprise's strategic positioning according to the vision and values dominating within the board (Coombes et al., 2011; Fletcher, 1992). This argument could explain why, in situations of turbulence that may also undermine the financial sustainability of a social enterprise, socially oriented board members influence the organization to remain consistent with their (socially oriented) values and motivations, driving the venture to introduce social innovations. Social enterprises' leaders, by virtue of their professional status and administrative authority (Kramer, 1985; Miller-Millesen, 2003), are more exposed to short-term priorities and pressures that, in social enterprises, are typically associated to commercial demands for customer service and financial sustainability (Smith et al., 2013). This might explain why, irrespectively from their background, when exposed to economic turbulence, long tenured administrative leaders tend to prioritize short-term, commercial goals over long-term oriented social objectives.

Social Enterprises' Reaction to Situations of Turbulence: The Influence of External Stakeholders

Past research has acknowledged that external social stakeholders - like donors, nonprofit organizations, and volunteers - can influence social enterprises' strategies and foster their social commitment (Cooney, 2012; Pache & Santos, 2013; Tracey et al., 2011). Active involvement of a social enterprise in dialogue and collaboration with social stakeholders can help the venture to scale its social impact more meaningful and to stick to its original mission despite divergent commercial pressures (Greenwood, 2007; Kania & Kramer, 2011; Laplume, Sonpar, & Litz, 2008). For instance, Almandoz (2012) has empirically proven that newly established social ventures should be strongly embedded in the social domain to exploit social stakeholders' support in terms of human, relational and financial resources (Uzzi, 1996). More recently, Ramus and Vaccaro (2015) have shown that the engagement of socially oriented stakeholders in new projects and initiatives help a social enterprise to rationalize pro-social value and objectives that are at the core of its mission. This, in turn, helps a social enterprise to counterbalance the commercial pressures that might otherwise foster the venture to prioritize commercial performances at expenses of social impact.

Our findings complement and extend aforementioned studies by showing that social stakeholders' pressures have a direct effect on social enterprises innovative efforts. Indeed, social stakeholders drive a social enterprise to introduce socially oriented innovations as reactions to situations of exacerbated economic turbulence that may undermine its financial sustainability and capacity to scale social impact.

Being motivated by pro-social values and objectives, social stakeholders frame situations of economic turbulence as potential trigger of societal problems (Doherty et al., 2014). Thus, they

press social enterprises to enhance the provision of social services to address emergent social needs (Austin et al., 2006). Through their pressures, social stakeholders drive social enterprises to address situations of turbulence introducing socially oriented innovations. In this way, social stakeholders push social enterprises to transform a situation of economic turbulence that may undermine their effectiveness in opportunities for change and innovation to scale their social impact.

Mission Drift in turbulent economic times

Social enterprises are constantly exposed to the risk of mission drift, i.e. to prioritize profit-seeking activities at expenses of social value creation (Battilana, Lee, Walker, & Dorsey, 2012; Mair, Battilana, & Cardenas, 2012). Hence, previous research has investigated strategies and mechanisms to prevent it (Grimes, 2010; Ebrahim et al., 2014; Ramus & Vaccaro, 2015).

In stable environments, a balanced exposure to socially and commercially oriented pressures, represented by both internal and external stakeholders, increases the odds for social enterprises avoiding mission drift and maintaining social value creation and wealth generation in purposeful tension (Battilana & Lee, 2014; Canales, 2013). Accordingly, previous research has suggested that social enterprises should be managed by “pluralist” leaders who are capable to embody both social and commercial values (Besharov, 2014). Moreover, social and commercial priorities should be both well represented at the governance level (Almandoz, 2012; Ebrahim et al., 2014) and by external stakeholders (Pache & Santos, 2013).

In our work, we extend this research and we provide a comprehensive understanding of the role of different internal and external stakeholders to avoid mission drift in situations of economic turbulence.

Our findings show that, when exposed to economic turbulence, leaders drive a social enterprise to imbalance its strategic positioning in favor of commercial priorities. Instead, the presence of socially oriented board members and external stakeholders increases the odds for social enterprises reacting to economic turbulence through socially oriented strategies. Thus, socially oriented board members and external stakeholders counterbalance the commercially oriented influence of organizational leaders. So, in situations of exacerbated economic turbulence, social enterprises should increase the presence and the influence of socially oriented representatives in their board and their exposure to external social stakeholders in order to strike a balance between social value creation and wealth generation.

In other words, our findings show that it is the divergent combination of commercially oriented pressures exerted by leaders and socially oriented pressures posed at board and at the community level that help social enterprises to navigate economic turbulence maintaining a balanced positioning amidst social value creation and wealth generation.

These findings also complement and extend Almandoz (2012) insights that in turbulent times a board sharing one social vision is more likely to be successful in establishing a social venture. We argue that a socially oriented board does not only favor the establishment of social ventures but also their sustainability. Indeed, it guarantees commitment and motivation toward the achievement of the social mission despite commercial pressures.

FURTHER RESEARCH

This paper opens several avenues for future research. We have provided some suggestions about drivers leading social enterprises to prioritize social and commercial responses to situations of economic turbulence. In particular, we have showed the impact of administrative leaders, board

composition and external stakeholders' pressures on social enterprises innovative choices. In this way, we have not accounted for the role of employees on social enterprises reaction to turbulence (Besharov, 2014). Future research may try to disentangle the effect of different workforce background (Battilana & Dorado, 2010) and composition (Canales, 2013) on social enterprises innovative efforts.

Second, in our paper we have argued that in situations of turbulence a socially oriented board composition can counterbalance the commercial orientation of organizational leader, thus helping social enterprises to stick to their mission, despite enhanced commercial pressures. However, we have not analyzed the tensions that such a strong social orientation at board level could cause with commercially oriented organizational leaders. Future research could therefore investigate this issue.

Moreover, relying on business ethics and strategic literature, in our study we have tested the impact of stakeholders' pressure on social enterprises strategies. Future research may use an alternative framework and test the effect of stakeholders' salience (Stevens et al., 2005) on social enterprises strategies, in particular analyzing how perceived legitimacy, urgency and power of alternatively social and commercial stakeholders affect organizational innovative choices.

Finally, in our study we have presented economic turbulence as an organizational threat. Further research may disentangle whether and under which conditions it can be perceived by social enterprises as a source of opportunity and whether a different understanding of turbulence leads to divergent responses.

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APPENDIX

The present appendix is divided in three parts. Part I presents the development of the questionnaire, part II describes sample and questionnaire administration, and part III discusses construct validity of the survey.

Part I: Questionnaire Development

Relying on studies on surveys and questionnaires development (e.g., Oppenheim, 1966; Peterson, 2000), we identified three main tasks in the development of our questionnaire: (1) specification of the theoretical domain and variables; (2) generation of items; and (3) purification and validation.

We accomplished the first task by reviewing past studies on social enterprises and hybrid organizations (Battilana et al., 2015; Battilana & Lee, 2014; Pache & Santos, 2013). We identified two main variables relevant to our research objective for the organizational level, i.e. external stakeholders' pressure and governance, and we individuated the leader's work background as predictor variable at individual level.

For each of the main variables we collected alternative measures and generated items through consecutive adaptations and additions. In the selection process, we retained those items that characterized themselves for brevity, relevance, unambiguity, specificity, and objectivity (Peterson, 2000). In this stage, particularly helpful was the consultation with experts of the field – three presidents and three executive directors of social enterprises - or familiar with survey data – two academicians (Bradburn, Sudman, & Wansink, 2004). We relied on their opinions for choosing between redundant measures, testing the clarity and brevity of the items, as well as for checking whether our measures were not excluding any potential relevant aspect of the phenomenon. For example, five experts suggested to shorten from 10 to 5 the Brickson's (2005)

items used for measuring organizational identity orientation in order to prevent the risk of nonresponse biases.

The purification and validation of the questionnaire took two months (January and February 2013) and accounted for two pilots conducted with presidents and executive directors of three large Italian WISEs (Bradburn et al., 2004). We controlled for possible sources of common response biases (Podsakoff, MacKenzie, Jeong-Yeon, & Podsakoff, 2003; Podsakoff & Organ, 1986). In order to avoid social desirability (Podsakoff et al., 2003), we explicitly indicated, at the beginning of the survey, that the focus of the research was the organization as a whole (see e.g., Brickson, 2005) and we framed questions by using the organization as subject. We deployed different controls in order to prevent the analysis from implicit theories and illusory correlations (Podsakoff et al., 2003). For example, we avoided respondents to elicit answers explicitly related either to the social mission or to the business venture, yet included answers that took into account also a more integrated organizational form and randomized the order of answers within the questionnaire. We also alternated items on more generic issues with more specific ones and items related to past with items referring to present. Moreover, we prevented the analysis from acquiescence biases (Podsakoff & Organ, 1986), by congruently alternating items with same response scales. In this phase, we controlled also for method effects produced by item characteristics (Podsakoff et al., 2003). For example, by shortening items, by including examples and by reframing questions with a proper jargon, we simplified items that during the pilots resulted too complex and abstract.

At the end of this phase, it became evident that we wanted to gather too much information and had far too many questions for a single respondent. Following Capon's (1987) example of survey on corporate strategic planning, we decided to split the questionnaire into two parts and seek two respondents per company (i.e., bifurcation). We noticed that questions fell into two basic

categories: general questions on the company, and more specific questions on the company's strategy and organizational internal processes. It became clear that we needed a figure like the executive director to answer the second category of questions. Executive Directors are overarching figures in the organizations under study (Besharov, 2014), who hold an overview on the two organizational departments – social and production-commercial department (Battilana et al., 2015)– and are involved in the management of day-by-day operations (Kramer, 1985; Miller-Millesen, 2003). We asked more general questions to presidents, who, as members of the board of directors, are knowledgeable about the general strategic plan of the organization (Brown & Iverson, 2004; Fletcher, 1992; Goodstain et al., 1994).

During the second pilot, in particular, we checked for nonresponse biases due to the bifurcation of the questionnaire (Capon, 1987). We relied on feedback from field experts (Bradburn et al., 2004) to finalize the allocation of items to the two types of questionnaire (Capon, 1987). At the end of this task, we created two online questionnaires, by assigning a code to each respondent in the database and by generating a direct hyperlink to the platform. We considered surveys complete once the two parts of questionnaires for each company were filled in.

Each type of questionnaire accounted for 4 sections. Questionnaires started with some introductory questions about the respondents (section 1) and about the organization in general (section 2) and continued with particular aspects of the organization (in section 3, Presidents were asked to respond about the organization's affiliations while we asked executive directors questions about training activities and innovation) and of its activity (section 4). Questionnaires for Presidents included 31 questions (56 items) and questionnaires for Executive Directors presented 43 questions (79 items).

Part II: Sample and Questionnaire Administration

The survey population was a sample of 1001 Italian largest Work-Integration Social Enterprises (WISEs) extracted by the European Research Institute on Cooperative and Social Enterprises (EURICSE)⁴ from its database. WISEs were previously classified by EURICSE – listed from larger to smaller – on the basis of the net income in 2011. We discounted the initial population of 94 WISEs by eliminating organizations that took part to the pilot study, that were inactive or impossible to contact by phone or by email at the period of the survey and by eliminating WISEs founded after 2009. We also made sure that respondents were employed in the company before 2009 to not generate nonresponse biases. In order to analyze complexity in social enterprises' dynamics, we also cut off small-sized organizations (i.e., net income in 2011 below 0.5 thousand Euros) from the initial population (11 WISEs).

Data gathering started in mid-March 2013 and lasted until mid-September 2013. In the first two weeks, we contacted directly WISEs' presidents and executive directors whose mails appeared on the organizational websites. We thus sent them the link to the online questionnaire with a short description of the analysis. After the first month, we started increasing the response rate by soliciting participation to the survey on the phone and by scheduling telephone-aided surveys. Respondents who faced problems in submitting the questionnaire online could also participate to the survey by mailing a word format questionnaire. Ultimately, in the last two weeks of the data gathering, we also met respondents at a workshop on social entrepreneurship held in Italy in September. We controlled for any statistically significant difference in the sample due to the administration of the survey by creating a categorical variable that takes value 0 if surveys were

⁴ EURICSE is a European research institute which promotes knowledge and innovation in the field of social enterprises and cooperatives, and other not-for-profit organizations. Further information are provided on the website: <http://www.euricse.eu>.

started and completed through online questionnaires, 1 if surveys were started and completed through telephone-aided questionnaires, and 2 if two different types of administration were involved. We did not find any statistically significant difference in the sample due to the administration of the survey ($F_{critic} = 0.00, p > 0.9973$). Controls for any difference between pairs of administration types confirmed our results (see tables A1 and A2).

Insert table A1 about here

Insert table A2 about here

We also checked for any statistically significant difference in the sample due to the length of the survey and crosschecked for any difference due jointly to the type of administration and the period of administration of the survey. Results showed that the survey instrument does not suffer from a biases in responses related to the administration and period of data gathering (tables A3 and A4).

Insert table A3 about here

Insert table A4 about here

The response rate was of 21.40%, based on 159 complete surveys and 18 partial surveys (16 compiled only by the presidents and 2 by the executive directors) and discounted by 20 WISEs that abandoned the survey and by 60 WISEs that refused to join the study.

The final sample included 148 WISEs aged between 4 and 55 years and mostly large- and medium-sized (79.05% and 20.95%, respectively). Consistent with the historical origin of Italian

cooperatives, organizations in our sample were predominately located in Northern Italy (Borzaga and Fazzi, 2011)⁵. Relying on NACE⁶'s activity classification for European firms, we controlled for sector of activity of WISEs in the sample. We found that WISEs were mostly involved in services to buildings and landscape activities (35.66%), social work activities without accommodation (8.29%), crop and animal production, hunting and related service activities (5.19%), and in waste collection, treatment and disposal activities, as well as materials recovery activities (4.10%). Most organizations (62.16%) were commercially oriented, while the rest was socially oriented as the non-profit orientation was indicated in the denomination of the organization. Lastly, the 94% of the sample (139 WISEs) created innovations between 2010 and 2013. In our paper, we relied on innovative processes of this smaller sample to test our hypotheses.

Part III: Construct Validity

In order to select the final items, we controlled for the validity of our scales for the innovation imbalance by calculating the *Cronbach's alpha* on the data gathered through the first 20 complete surveys. Results are presented in table A5.

Insert table A5 about here

⁵ The most represented Italian regions were Lombardy (51%), Veneto (25%), Emilia-Romagna and Trentino-Alto Adige (19%), while other regions of Italy (i.e., Basilicata, Calabria, Campania, Molise, and Sicily) were not represented.

⁶ NACE is the short form for the statistical classification of economic activities in the European Community. NACE consists of a four-digit classification providing the framework for collecting and presenting a large range of statistical data according to economic activity in the fields of economic statistics (e.g. production, employment and national accounts) and in other statistical domains developed within the European Statistical System (ESS). Further information can be found under the link: http://ec.europa.eu/eurostat/statistics-explained/index.php/NACE_background.

TABLES

Table 1 - Dependent and independent variables (Constructs, definitions, items, references, scales and measures)

Variables	Definitions	Items	References (for items definition)	Scales	Measures
<i>Dependent variable</i>					
<i>Innovation Social (Im)balance (ISIMB)</i>	A social enterprise imbalances toward the creation of socially oriented innovations when it introduces innovations more aimed at enhancing social performances than innovations aimed at enhancing commercial performances	Assessment of the Impact pursued on organizational performances through innovations between 2010 and 2013	Definition of innovation from OECD (2005) Definition of imbalance adapted from Oliver (1991)	7-point Likert scale: 1: "Minimal impact pursued" 7: "Maximum impact pursued"	Social performances pursued – Commercial performances pursued
<i>Independent variables</i>					
<i>Leaders' Work Background</i>	Field (for profit vs. non profit) of previous work experience (Lee & Battilana, 2014)	Indication of the leader's work background	Adaptation from Lee & Battilana (2014)	Dummy	0: "For-profit" background 1: "Not-for-profit" background
<i>Governance</i>	Governance, as part of the organizational design, is a way by which the senior organizational level formally translate strategy into action (Battilana & Lee, 2014)	Given the total composition of the board, indication of the percentage of members of the board of directors pursuing alternatively social or commercial objectives	Adaptation from Lee & Battilana (2014) and Almandoz (2012)	Percentage	Percentage of socially oriented board members – Percentage socially oriented board members
<i>External Stakeholders' Pressure</i>	Pressures on the organization raised by external stakeholders (Smith et al., 2013)	Indication of the intensity of the pressure exerted on the organization alternatively by social or commercial external stakeholders	Adaptation from Stevens et al. (2005)	7-point Likert scale: 1: "No pressure" 7: "Highest pressure"	Social External Stakeholders' Pressure – Commercial External Stakeholders' Pressure

Table 2 – Control variables (variables, items, references and measures)

Variables	Items	References	Measures
<i>Leader's Tenure</i>	Indication of year of entrance in the organization of the administrative manager	Adaptation from Battilana & Lee (2014)	Difference between the year of the survey (2013) and the year of entrance in the organization of the administrative manager
<i>Organizational Identity Orientation</i>	Indication of max 5 adjectives to describe the organization as it was a person. Each adjective is followed by a short explanation	Adaptation from Brickson (2005)	-1, in case of majority of adjectives associated to Individualistic Identity Orientation; 0, in case of majority of adjectives associated to Relational Identity Orientation, and +1, in case of majority of adjectives associated to Collectivistic Identity Orientation.
<i>WISE's Size</i>	Organizational income yield in 2011 (information provided by EURICSE ⁷)	Venturi & Zandonai, 2014	1 = Large size ($x \geq 1.5$ mio €); 2 = Medium-large size ($1 \text{ mio } \text{€} \leq x < 1.5 \text{ mio } \text{€}$); 3 = Medium size ($0.5 \text{ mio } \text{€} \leq x < 1 \text{ mio } \text{€}$); 4 = Small size ($x < 0.5 \text{ mio } \text{€}$)
<i>WISE's Activity</i>	Organizational sector of activity (Information provided by EURICSE)	NACE ⁸ 's classification firm's sector of activities	Categorical variable ranging from 1 to 54 according to NACE classification
<i>Product Innovation</i>	Indication of the new product/services created between 2010 and 2013	OECD (2005)	Dummy variable 0 if the organization did not create product innovations 1 if it created at least one type of product innovations
<i>Process Innovation</i>	Indication of the new processes created between 2010 and 2013	OECD (2005)	Dummy variable: 0 if the organization did not create process innovations 1 if it created at least one type of process innovations
<i>Network Innovation</i>	Indication of the new networks established between 2010 and 2013	OECD (2005)	Dummy variable: 0 if the organization did not create network innovations 1 if it created at least one type of network innovations
<i>Revenues from Public Sector</i>	Indication of the percentage of revenues yield by the organization from sales of goods/services to the public sector	Venturi & Zandonai (2014)	Percentage of revenues from public bodies in 2009 and in 2012.
<i>Public Subsidies</i>	Indication of the percentage of public funds obtained by the organization	Venturi & Zandonai (2014)	Percentage of public subsidies on total revenues obtained in 2009 and in 2012.
<i>Marginalized Workforce</i>	Indication of the percentage of marginalized workers in the organization as defined by Italian Law	Italian Law 381/1991	Percentage of marginalized workers on the workforce in 2009 and in 2012

⁷ European Research Institute on Cooperative and Social Enterprises (EURICSE), see *Appendix* for details.

⁸ NACE is the acronym for the statistical classification of economic activities in the European Community, see *Appendix* for details.

Table 3 – Descriptive statistics

	<i>Variables</i>	Mean	SD	Min	Max
1	<i>Innovation Social Imbalance</i>	-0.11	0.56	-2.25	1.63
2	<i>Governance</i>	-36.24	41.97	-100	100
3	<i>External Stakeholders' Pressure</i>	-0.65	1.88	-5	3
4	<i>Background</i>	0.57	0.50	0	1
5	<i>Tenure</i>	11.28	6.86	2	33
6	<i>Organizational Identity Orientation</i>	0.10	0.82	-1	1
7	<i>WISE's activity</i>	37.20	13.56	1	54
8	<i>WISE's size</i>	1.64	0.81	1	3
9	<i>Product (dummy)</i>	0.86	0.34	0	1
10	<i>Process (dummy)</i>	0.73	0.45	0	1
11	<i>Network (dummy)</i>	0.71	0.46	0	1
12	<i>Revenues from public sector 2009</i>	53.58	29.96	0	100
13	<i>Public Subsidies 2009</i>	6.28	11.28	0	76.5
14	<i>Revenues from public sector 2012</i>	50.44	30.10	0	100
15	<i>Public Subsidies 2012</i>	5.56	9.44	0	51.5
16	<i>Marginalized Workforce in 2009</i>	40.85	13.68	5	85
17	<i>Marginalized Workforce in 2012</i>	42.02	14.55	5	90

Table 4 - Pairwised correlation matrix (Part I)

Variables	Mean	SD	1	2	3	4	5	6	7	8
1 Innovation Social Imbalance	-0.11	0.56	1.00							
2 Governance	-36.24	41.97	0.15	1.00						
3 External Stakeholders' Pressure	-0.65	1.88	0.27*	-0.06	1.00					
4 Background	0.57	0.50	-0.12	-0.05	0.05	1.00				
5 Tenure	11.28	6.86	-0.12	0.08	-0.11	-0.00	1.00			
6 Organizational Identity Orientation	0.10	0.82	0.07	0.02	0.29*	0.13	-0.11	1.00		
7 WISE's activity	37.20	13.56	0.05	-0.06	0.14	0.08	-0.04	-0.08	1.00	
8 WISE's size	1.64	0.81	0.06	0.15	-0.01	0.00	-0.03	-0.01	0.03	1.00
9 Product (dummy)	0.86	0.34	0.11	-0.02	-0.03	0.09	0.10	-0.03	0.11	-0.03
10 Process (dummy)	0.73	0.45	0.01	0.05	-0.03	-0.04	-0.01	0.16	0.06	0.05
11 Network (dummy)	0.71	0.46	-0.00	-0.09	-0.08	0.10	0.16	0.09	0.08	-0.17*
12 Public Sales 2009	53.58	29.96	0.02	0.03	0.17	0.05	0.03	0.19*	0.11	0.11
13 Public Subsidies 2009	6.28	11.28	-0.04	0.06	-0.05	-0.05	-0.05	-0.02	-0.10	-0.11
14 Public Sales 2012	50.44	30.10	0.06	0.01	0.18*	0.07	-0.02	0.18	0.10	0.13
15 Public Subsidies 2012	5.56	9.44	-0.04	0.08	-0.08	0.00	-0.08	0.02	-0.02	-0.11
16 Marginalized Workforce in 2009	40.85	13.68	-0.05	0.09	-0.12	-0.10	0.13	-0.12	-0.09	0.00
17 Marginalized Workforce in 2012	42.02	14.55	-0.00	0.11	-0.17	-0.09	0.15	-0.10	-0.07	-0.01

* $p < 0.05$

Table 5 - Pairwised correlation matrix (Part II)

Variables	Mean	SD	9	10	11	12	13	14	15	16	17
9 Product (dummy)	0.86	0.34	1.00								
10 Process (dummy)	0.73	0.45	0.16	1.00							
11 Network (dummy)	0.71	0.46	0.23*	0.28*	1.00						
12 Public Sales 2009	53.58	29.96	-0.06	0.05	0.13	1.00					
13 Public Subsidies 2009	6.28	11.28	-0.05	0.01	-0.04	-0.21*	1.00				
14 Public Sales 2012	50.44	30.10	-0.11	0.05	0.10	0.92*	-0.15	1.00			
15 Public Subsidies 2012	5.56	9.44	-0.07	-0.01	-0.07	-0.20*	0.88*	-0.18*	1.00		
16 Marginalized Workforce in 2009	40.85	13.68	0.07	0.10	0.17*	-0.01	0.15	-0.02	0.08	1.00	
17 Marginalized Workforce in 2012	42.02	14.55	0.09	0.13	0.11	0.03	0.02	0.03	-0.04	0.85*	1.00

* $p < 0.05$

Table 6 – Results of regressions

<i>Variables</i>	Model 0		Model 1		Model 2		Model 3		Model 4	
	<i>Coef</i>	<i>SE</i>								
Governance			0.0023*	0.0010	0.0026*	0.0010	0.0026*	0.0012	0.0027*	0.0013
External Stakeholders [†]										
Pressure			0.0881***	0.0246	0.0825**	0.0256	0.0848**	0.0293	0.0940**	0.0312
Background			-0.1445	0.0905	-0.1352	0.1013	-0.1738	0.1210	-0.1637	0.1248
Tenure	-0.0187*	0.0084			-0.0147*	0.0067	-0.0159*	0.0076	-0.0185*	0.0080
Organizational Identity										
Orientation	-0.0192	0.0753			-0.0188	0.0575	-0.0461	0.0654	-0.0777	0.0656
WISE's activity	0.0000	0.0041			0.0006	0.0031	-0.0001	0.0040	-0.0008	0.0040
WISE's size	0.0252	0.0900			0.0259	0.0661	0.0202	0.0814	0.0336	0.0861
Product (dummy)	0.2231	0.3003			0.2892	0.2420	0.2666	0.2784	0.2831	0.2938
Process (dummy)	0.0685	0.1643			0.1131	0.1237	0.0645	0.1505	0.0850	0.1584
Network (dummy)	0.0704	0.1894			0.1532	0.1695	0.1517	0.1826	0.1893	0.1858
Public Sales 2009	-0.0008	0.0053					-0.0032	0.0047	-0.0025	0.0045
Public Subsidies 2009	0.0013	0.0066					-0.0052	0.0068	-0.0044	0.0068
Public Sales 2012	0.0022	0.0055					0.0039	0.0049	0.0031	0.0047
Public Subsidies 2012	-0.0055	0.0093					0.0021	0.0092	0.0020	0.0092
Marginalized Workforce										
in 2009	-0.0003	0.0069							-0.0059	0.0064
Marginalized Workforce										
in 2012	-0.0008	0.0059							0.0035	0.0062
<i>Innovation Social</i>										
<i>Imbalance</i>	-0.2654	0.3490	0.1186	0.0810	-0.2794	0.2917	-0.1274	0.3615	-0.0491	0.3762
<i>F critic</i>	1.02		6.73***		2.84**		2.00*		1.94*	
<i>R-squared</i>	0.07		0.12		0.17		0.18		0.19	
<i>Mean VIF</i>	3.27		1.06		1.10		2.65		2.94	
<i>(max VIF)</i>	(7.68)		(1.11)		(1.20)		(7.78)		(7.71)	

*** $p < 0.001$ ** $p < 0.01$ * $p < 0.05$

Table A1 - Administration of the survey (completion of surveys)

<i>Completion of surveys</i>	<i>Completed surveys</i>	<i>%</i>	<i>Cumulate</i>
<i>Two online questionnaires</i>	44	29.73	29.73
<i>Two telephone-aided questionnaires</i>	19	12.84	42.57
<i>Two different questionnaires</i>	85	57.43	100.00
<i>Total</i>	<i>148</i>	<i>100.00</i>	

Table A2 - Check for statistical differences in the sample according to the completion of the survey. T-tests, p-values in brackets

<i>Completion of survey</i>	<i>Two online questionnaires</i>	<i>Two telephone-aided questionnaires</i>
<i>Two telephone-aided questionnaires</i>	0.02 (0.99)	
<i>Two different questionnaires</i>	0.08 (0.94)	0.03 (0.98)

Table A3 - Administration of the survey (periods)

<i>Period of administration</i>	<i>Completed surveys</i>	<i>%</i>	<i>Cumulate</i>
<i>March '13</i>	1	0.68	0.68
<i>April '13</i>	5	3.38	4.05
<i>May '13</i>	14	9.46	13.51
<i>June '13</i>	33	22.3	35.81
<i>July '13</i>	83	56.08	91.89
<i>August '13</i>	3	2.03	93.92
<i>September '13</i>	9	6.08	100.00
<i>Total</i>	<i>148</i>	<i>100.00</i>	

Table A4 - Check for nonresponse bias. Statistical differences between early and late responses.

T-tests and p-values (in brackets)

<i>Periods of administration</i>	<i>Apr 13</i>	<i>May 13</i>	<i>Jun 13</i>	<i>Aug 13</i>	<i>Sep 13</i>
<i>May '13</i>	-0.07 (0.95)				
<i>June '13</i>	-0.76(0.45)	-0.99 (0.33)			
<i>July '13</i>	-0.81 (0.42)	-1.15(0.25)	-0.35 (0.73)		
<i>August '13</i>	-1.09 (0.32)	-1.23 (0.24)	-0.89 (0.38)	-0.63 (0.53)	
<i>September '13</i>	-0.22 (0.83)	-0.15 (0.88)	0.78 (0.44)	0.86 (0.39)	1.65 (0.13)

Table A5 - Cronbach's alpha for innovation imbalance

Variables	Items (observed measures)	Mean	SD	Cronbach's alpha	
				Pilot sample (first 20 surveys)	Final sample (N=139)
<i>Latent variables</i>					
<i>Innovation Social (Im)balance</i>	INN: [Impact pursued through innovations] (12 items) Assessment of the impact pursued through the innovations created by the organization between 2010 and 2013	4.99	1.31	0.89	0.92
	PRODUCT: [Impact pursued through product innovations] (4 items) Assessment of the impact pursued through product innovations created by the organization between 2010 and 2013	4.79	1.14	0.93	0.80
	PROCESS: [Impact pursued through process innovations] (4 items) Assessment of the impact pursued through process innovations created by the organization between 2010 and 2013	4.58	1.29	0.55	0.75
	NETWORK: [Impact pursued through network innovations] (4 items) Assessment of the impact pursued through networks established between 2010 and 2013	4.67	1.39	0.80	0.86