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## Strategic Orientation and Social Enterprise Performance

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## INTRODUCTION

The purpose of the current article is to extend our existing knowledge about the association between strategic orientation (SO) behaviors and performance in the social enterprise (SE) sector. SO behaviors refer to the process, practices, principles and decision making styles that guide organizations' activities when reacting to the external environment and generate the behavior intended to ensure the organization's viability and performance (Voss & Voss, 2000; Zhou & Li, 2010). In this article, we investigate, in particular, market orientation (MO) and entrepreneurial orientation (EO), two of the most fundamental and widely discussed SO behaviors that lead to improved performance (Atuahene-Gima & Ko, 2001; Li, Wei, & Liu, 2010). We address several important knowledge gaps in the current literature.

First, we seek to deepen the understanding of the relationship between SO behaviors and performance by examining potential mediators. Previous researches have suggested the direct impact of MO or EO behavior on SEs' performance (Morris, Webb, & Franklin, 2011; Shoham, Ruvio, Vigoda-Gadot, & Schwabsky, 2006). However, few studies have specified the contingencies through which this association might be shaped. For example, Gainer and Padanyi (2005) suggest that MO behavior will enable the building of a market-oriented organizational culture which will impact on performance. In this research, we propose that pursuing an SO allows SEs to enhance their market effectiveness, the degree to which their market-based goals are achieved (Vorhies & Morgan, 2003), and their customer satisfaction, the degree to which their customers experience the quality of their goods and services (Fornell, Johnson, Anderson, Cha, & Bryant, 1996), through which their SO behavior contributes to their performance. To enhance the generalizability of our findings, we collected data from both British and Japanese SEs. Second, we aim to clarify the moderating effects among SEs' social and commercial performance<sup>i</sup>. Seelos and Mair (2007) suggest that

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3 commercial performance can help to improve SEs' social performance because the revenue  
4 generated by commercial activities can be used to improve SEs' social activities. On the other  
5 hand, researchers argue that uncertainty within the context of business activities may create  
6 structural tension, leading to the underachievement of both the commercial and social  
7 objectives (Foster & Bradach, 2005; Weisbrod, 2004). Since each side provides valid  
8 propositions, we investigate how the potential effects of one aspect of practice (i.e. social and  
9 commercial) positively moderate the impact of SO behavior in another. Thirdly, we answer  
10 the call from scholars regarding the urgent need to conduct a large scale quantitative data  
11 analysis of SEs (e.g. Dacin, Dacin, & Tracey, 2011).  
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## 25 THEORETICAL BACKGROUND

### 26 **Brief summary of SE researches**

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28 The pursuit of transforming a traditional third sector organization into a more  
29 commercialized entity – an SE – has become increasingly popular over the last decade, due to  
30 the strong economic and political forces encouraging traditional third sector organizations to  
31 seek financial independence (Coombes, Morris, Allen, & Webb, 2011; Dacin et al., 2011).  
32 Recent studies on SEs can be divided into three major streams of literature. The first  
33 emphasizes the definition of SEs' concept and domain (e.g. Austin, 2000; Mair & Marti,  
34 2006), and debates what they are and what constitutes SE practice. The second research  
35 stream studies the SE business model (e.g. Cooney, 2011; e.g. Foster & Bradach, 2005;  
36 Weisbrod, 2004), focusing on investigating the uniqueness of the SE hybrid business model  
37 that combines both the commercial and social aspects of business operations, highlighting the  
38 structural tensions of the model and the legitimacy of SEs' commercial involvement, and  
39 developing managerial implications regarding SEs' operation. Finally, the third stream of  
40 studies documents the impact on performance when SEs adopt strategic marketing or  
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3 management tools for their business operations. For example, numerous articles adopt the  
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5 resource based perspective to explore the development of SEs' organizational capabilities  
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7 (Brooks, 2008; Dees, 1998; Voss & Voss, 2000). Here, we attempt to contribute to this  
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9 particular stream of studies on SO behavior, with a particular focus on how SO behavior  
10  
11 impacts on SEs' performance.  
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### 14 15 16 **Strategic orientation and performance in third sector studies** 17

18 SO behaviors refer to how organizations should interact with their customers,  
19  
20 competitors, the technology and other external factors in order to make the optimal strategic  
21  
22 choices. The literature almost unanimously suggests that SO behavior has a direct positive  
23  
24 impact on performance (Li et al., 2010; Zhou & Li, 2010). Table 1 summarizes the studies  
25  
26 examining the relationship between the different types of SO behavior and a wide range of  
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28 performance indicators.  
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32 [Table 1 Here]  
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34 Although the constructs of SO behaviors may differ, these studies generally attempt to  
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36 capture two fundamental aspects of an organization's posture in responding to market  
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38 demands (MO) and exploiting market opportunities (EO). MO is an organizational  
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40 philosophy that inspires a particular form of organizational behavior which enhances the  
41  
42 willingness of organizations to learn more information and knowledge about the market and  
43  
44 thus helps them to respond to their customers, competitors and other stakeholders more  
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46 effectively (Kohli & Jaworski, 1990; Shoham et al., 2006; Slater & Narver, 1995). EO, on the  
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48 other hand, studies the methods, practices, and decision-making styles that managers adopt in  
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50 order to act entrepreneurially in developing new products, implementing them before their  
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52 competitors and taking bold steps to capture the opportunities in the marketplace (Lumpkin &  
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54 Dess, 1996; Morris, Coombes, Schindehutte, & Allen, 2007).  
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3 The link between MO and EO behavior has long been recognized by researchers. For  
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5 example, Atuahene-Gima and Ko (2001) found that firms which place equal emphasis on MO  
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7 and EO enjoy a competitive advantage through both their adaptability and management of  
8  
9 their market environment. An organization with strong MO behavior places more emphasis  
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11 on gathering and disseminating market intelligence. However, this does not necessarily mean  
12  
13 that the organization will use this knowledge proactively to develop new products to satisfy  
14  
15 its consumers' latent needs (Narver, Slater, & MacLachlan, 2004). The limitation of MO  
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17 behavior can be compensated for by combining it with EO behavior, because the latter  
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19 encourages a proactive organizational culture. Bhuian, Menguc, and Bell (2005) suggest that,  
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21 at times, organizations are too entrepreneurially driven, which leads them to assign a low  
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23 priority to collecting information in order to attain a broad understanding of the market. In  
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25 other words, the organization is more likely to trust its internal assessment of the market and  
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27 take greater risks.  
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32 Previous studies used a wide range of measurements to assess the third sector  
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34 organizations' performance (see Table 1). For SEs, in particular, performance usually refers  
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36 to two aspects of organizational accomplishment - commercial and social (Chell, 2007;  
37  
38 Cooney, 2006). Although SEs' ultimate objective is to pursue a social mission, this does not  
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40 necessarily mean that there are contradictions prior to the creation of social and economic  
41  
42 value. In order to provide social services continuously and incorporate entrepreneurialism  
43  
44 into their endeavors, an SE must adopt survival strategies entailing economic value creation  
45  
46 that are premised on self-sustainment (Chell, 2007; Dacin et al., 2011; Mair & Marti, 2006).  
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48 On the other hand, other groups of experts express different opinions. For example, Foster  
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50 and Bradach (2005) and Weisbrod (1998) illustrate that commercial venturing may not  
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52 realize the financial contributions that SEs anticipate due to structural tensions (i.e.  
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54 conflicting priorities). More specifically, the engagement in commercial activities will not  
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3 only produce disappointing business results and but also further damage SEs' social  
4 performance. To develop our understanding of the relationship between SO behavior and  
5 performance, we aim to focus on MO and EO behaviors and their impact on both the  
6 commercial and social performance, as well as examining the possible moderating effects of  
7 the impact of one aspect of SE performance on SO behavior on another.  
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### 16 **Mediators: Market effectiveness and consumer satisfaction**

17 We examine the effect of two mediators: market effectiveness and consumer satisfaction.  
18 The former refers to "the degree to which desired market-based goals are achieved" (Vorhies  
19 & Morgan, 2003, p. 104). To achieve a high degree of market effectiveness, organizations  
20 must possess specific characteristics that allow them to implement a business strategy that  
21 enables them to deploy their resources properly (Vorhies, Morgan, & Autry, 2009). One of  
22 SEs' key motives is the desire to earn additional income to enable them to continue to pursue  
23 their social mission. SEs also compete with each other in order to obtain third sector specific  
24 resources, supported mainly by donor funding and volunteers' time. Previous researches  
25 suggest that SEs recognize the importance of securing resources from private contributors  
26 (Balabanis, Stables, & Phillips, 1997; Macedo & Pinho, 2006). Obtaining a higher percentage  
27 of their funding from private donors and possessing a great number of volunteers allow SEs  
28 to provide more social services for the public for free or at a discounted price (Balabanis et al.,  
29 1997; Dacin et al., 2011).  
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47 The second mediator is customer satisfaction, which refers to 'the quality of the goods  
48 and services as experienced by the customers that consumes them' (Fornell et al., 1996, p. 7).  
49 Field researchers often divide the theory of customer satisfaction into two distinct  
50 perspectives: transaction specific and cumulative (Anderson, Fornell, & Lehmann, 1994).  
51 The former is a person's evaluation of satisfaction during a specific purchase transaction,  
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3 while the latter is the overall evaluation of the total purchase and consumption experience  
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5 with regard to the good and service over time. Of these two perspectives, the cumulative  
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7 perspective of customer satisfaction is a more fundamental indicator of the firm's  
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9 organization, and current and future perspective (Anderson et al., 1994). Before proceeding,  
10  
11 it is important to clarify what is meant by the term 'customers' in the SE context. For third  
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13 sector organizations, the meaning of the term differs from that employed in the for-profit  
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15 context; namely, donors/volunteers, enterprise customers, and communities served  
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17 (Jenkinson, Sain, & Bishop, 2005). In this research, we specifically focus on evaluating the  
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19 customer satisfaction of two specific groups of customer: donors/volunteers and enterprise  
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21 customers, who are the major contributors to SEs' revenue (Cooney, 2006; Jenkinson et al.,  
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23 2005).  
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### 27 **HYPOTHESES DEVELOPMENT**

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29 Hurley and Hult (1998) suggest that MO behavior allows organizations to develop a  
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31 specific organizational culture that enables them to learn rapidly to adjust to change. Due to  
32  
33 changes in the external environment, SEs should adopt different abilities when formulating  
34  
35 their strategy to attract enterprise customers, donors and volunteers. The pursuit of MO  
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37 enables SEs to learn how to channel their resources appropriately to attain their market-based  
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39 goals (Bennett, 1998; Carmen & Jose, 2008; Pearce II, Fritz, & Davis, 2010). On the other  
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41 hand, organizations with strong EO behavior place greater emphasis on taking calculated  
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43 risks, being innovative and demonstrating strategic proactiveness, which provides an incentive  
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45 for them to acquire the necessary knowledge to fill the gap between their current resources  
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47 and their proactive vision (Li et al., 2010; Zhou & Li, 2010). In the SE context, Morris et al.  
48  
49 (2007)'s study suggests that SEs with strong EO behavior are more likely to take bold actions  
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51 and challenge the conventional thinking among their members, which is considered the  
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53 source of new ideas and opportunities. EO behavior amplifies the SEs' ability to gain access  
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3 to resources from contributors, as well as finding new market opportunities for fundraising  
4 and volunteer recruitment (Pearce II et al., 2010; Voss, Voss, & Moorman, 2005). As  
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7 discussed in the previous section, complementing EO behavior with MO behavior provides  
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10 the necessary incentive for SEs to gather more market intelligence before taking the decision  
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12 to enter a market. From the above discussion, we suggest:

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14 *Hypothesis 1: The positive relationship between SO behavior (MO, EO, and their*  
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16 *interaction) and performance in both the social and commercial domains is mediated*  
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18 *by SEs' market effectiveness*  
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23 At the same time, an organization with stronger MO behavior places a greater emphasis  
24 on developing sufficient knowledge of its target customers to create superior value for them  
25 continuously (Narver & Slater, 1990). Therefore, this motivates SEs to make efforts to  
26  
27 understand how to match their customers' needs and desires, and thus improve the level of  
28  
29 customer satisfaction. SEs with strong MO behavior prefer to meet their enterprise  
30  
31 customers' demands and quickly respond to their competitors' movements. Furthermore, SEs  
32  
33 with strong MO behavior also pay greater attention to and establish better communication  
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35 with their donors/volunteers (Gainer & Padanyi, 2002; Pearce II et al., 2010). Waters (2011)  
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37 found that engaging donors in more conversations to let them know that they are appreciated  
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39 will lead to greater donor loyalty and satisfaction. EO behavior, on the other hand, enhances  
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41 organizations' ability to focus on the utilization of their market knowledge resources to  
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43 discover and exploit opportunities (Li et al., 2010; Zhou & Li, 2010). In the case of SEs'  
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45 activities, EO behavior enable them to make better use of their market knowledge to assess  
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47 the value of potential opportunities in the social and commercial domains, and have the  
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49 ability to extract value from these opportunities. With the strengthening of EO behavior, SEs  
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51 are more likely to provide products and services that satisfy both their social and enterprise  
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3 customers' needs. Similarly to the argument presented earlier, we also suggest that MO and  
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5 EO behavior have complementary effects on customer satisfaction. In summary, the  
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7 following hypotheses can be formulated:  
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10 *Hypothesis 2: The positive relationship between SO behavior (MO, EO, and their*  
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12 *interaction) and performance in both the social and commercial domains is mediated*  
13  
14 *by SEs' customer satisfaction.*  
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18 Finally, we also expect that a relationship exists between SEs' commercial and social  
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20 practices. The literature suggests that the primary difference between commercial and social  
21  
22 enterprises is that the former focuses on maximizing their commercial value, while the latter  
23  
24 puts emphasis primarily on creating social value (Brooks, 2008; Dees, 1998). Although SEs'  
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26 primary mission is to create social value, this does not necessarily mean that commercial  
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28 objectives are unimportant to them. Dacin et al. (2011) argue that a high level of commercial  
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30 performance will enhance SE's achievement of social activities. SEs that generate additional  
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32 revenue from their commercial practice can use this to organize large scale fundraising  
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34 programs and provide more social services, which subsequently enhance their ability to  
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36 achieve high market effectiveness and customer satisfaction in social practice. Moreover,  
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38 Massarsky and Beinhacker (2002) found that SEs operating ventures tend to view themselves  
39  
40 as more entrepreneurial than those who have never ventured, and are able to transfer their  
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42 success to provide social benefits to the public. Similarly, SEs' social value creation can also  
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44 support their commercial practice. SEs' high level of achievement with regard to social  
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46 performance often correlates with a high social brand value (Napoli, 2006), which is often  
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48 able to yield commercial benefits with some strategic marketing maneuvers. In other words,  
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50 SEs with a high level of social performance can enjoy high achievement with regard to  
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52 commercial activities. SEs with a high social brand value can leverage this to attract more  
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3 customers to their commercial practices and create psychological effects, such as “concern  
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5 for the community” (Liston-Heyes & Liu, 2010), and thus can generate high market  
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7 effectiveness and customer satisfaction through their commercial practices. We therefore  
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9 propose:

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11 *Hypothesis 3: SEs' higher level of performance in one aspect of practice (i.e. social*  
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13 *and commercial) positively moderates the relationship between market effectiveness*  
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15 *and customer satisfaction, and performance in another aspect of practice.*  
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20 From the above discussion, we summarize our proposed theoretical model in Figure 1.  
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22 [Figure 1 Here]  
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## 24 25 26 **RESEARCH METHOD**

### 27 28 **Research Design**

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30 A survey research was conducted within SEs in two different countries, the UK and  
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32 Japan, for two reasons. Firstly, both countries' governments have encouraged the  
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34 development of SEs and adopted a similar system for managing social business. In the UK,  
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36 according to research conducted by the National Council for Voluntary Organizations in 2009,  
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38 SE activities now account for 71 percent of the total third sector income (NCVO, 2009). In  
39  
40 Japan, the discussions of the future development of the Japanese third sector often refer to the  
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42 case of the UK, and its system. For example, the report of the Japanese Ministry of Economy,  
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44 Trade and Industry in 2008 also suggests considering the UK system when exploring the  
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46 development of a new system for the future development of social business in Japan  
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48 (Japanese Ministry of Economy Trade and Industry, 2008). A survey by the Japanese Cabinet  
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50 Office (2010) found that revenue from commercial activities accounted for 69.9 percent of  
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52 the total income of third sector organizations in 2009. Thus, in both countries, the third sector  
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54 organizations are more involved with SE activities. Second, Morgan, Zou, Vorhies, and  
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3 Katsikeas (2003) suggest that a multi-country, cross-sectional research design can enhance  
4 the variability and generalizability of the data used for the hypothesis testing. The UK and  
5 Japan have been identified as differing with regard to their national and business cultures,  
6 that affects how managers run the organization and develop new products (Nakata &  
7 Sivakumar, 1996). Collecting data from two countries with distinct national and business  
8 cultures but a similar policy of encouraging social enterprise development may enhance the  
9 generalizability of our research findings.  
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### 20 21 **Sample and Data**

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23 The samples for the survey were SEs that met the criteria of: 1) generating income  
24 from enterprise business activities, and 2) being large enough to practice sophisticated  
25 business operations. For the first criterion, we looked for organizations whose sources of  
26 revenue were enterprise business activities, such as introducing subscription services,  
27 business franchises, and so on (Weisbrod, 1998). For the second criterion, we limited the  
28 sample to those with a medium to high level of revenue in each country; specifically, over  
29 £100,000 (approximately US\$160,000) in the UK and 5,000,000 Japanese yen  
30 (approximately US\$62,500) in Japan. The list provided by the Charity Commission UK, that  
31 regulates UK-registered charities' administration and affairs, was used in selecting the UK  
32 sample, while a list of Japanese organizations and their contact details were obtained through  
33 NPO database websites, such as NPO Hiroba and Social Ecoo, and the Ministry of Economy,  
34 Trade and Industry website. From those that met the criteria, we obtained a total of 534  
35 usable responses. The profiles of the organizations are presented in Table 2.  
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51 [Table 2 Here]  
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### 53 54 **Measurement**

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3 We adapt the existing measurements and modify them to suit the purpose of this study.  
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5 Our initial measures were refined following several personal interviews and a pilot test in  
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7 both the UK and Japan to enhance their validity and improve any potential deficiency. We  
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9 employed a subjective measurement (7 point Likert scale) for all of the variables, given that  
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11 previous researches suggested that subjective measurement tends to produce results  
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13 consistent with the objective measures, because the managerial decisions and actions are  
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15 primarily driven by the managers' perceptions (Day, 1994; Dess & Robinson Jr, 1984). More  
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17 specifically, in the context of this paper, we argue that the pursuit of MO and EO is based on  
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19 the SE managers' perceptions that these will lead to higher market effectiveness and  
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21 customer satisfaction, which ultimately leads to greater social and commercial performance.  
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27 ***Strategic orientation.*** To assess MO behavior, we adapted 18 items assessing market  
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29 intelligence generation, marketing intelligence dissemination, and responsiveness (Balabanis  
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31 et al., 1997; Macedo & Pinho, 2006), such as "We do a lot of marketing research". To assess  
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33 EO behavior, we used 9 items examining proactiveness, innovativeness, and risk-taking used  
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35 by Covin and Slevin (1989), after adjusting them to suit the context of this research, such as  
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37 "We have been or expect to be strongly emphasizing research and development".  
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43 ***Market effectiveness.*** We measure market effectiveness in both the social and  
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45 commercial aspects through representatives' subjective assessment of the degree to which  
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47 SEs' market-based goals had been achieved by adapting the scales of Vorhies and Morgan  
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49 (2003) and Vorhies et al. (2009). We used two items to assess the social aspects of market  
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51 effectiveness, such as "We are acquiring new donors", and three to assess the commercial  
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53 aspects of market effectiveness, such as "We acquire new business sponsor/donation/support".  
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3       **Customer satisfaction.** We measure customer satisfaction through representatives'  
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5 subjective assessment of their customer satisfaction by synthesizing the previous measures  
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7 from Fornell et al. (1996) and Gainer and Padanyi (2005). We adapted three items to assess  
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9 the social aspects of customer satisfaction, such as “We have been experiencing an increase  
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11 in volunteer hours from our current volunteers”, and four to assess the commercial aspects of  
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13 customer satisfaction, such as “We have been experiencing an increase in customer  
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15 satisfaction”.

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20       **Performance.** To assess SE’s commercial performance, we used a four item scale  
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22 adapted from Voss and Voss (2000) to gather SE representatives’ perceived opinions about  
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24 certain key economic performance indicators over the past 12 months, employing items such  
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26 as “We have been experiencing an increase in revenue” and “We have been engaging in more  
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28 enterprise activities”. To assess the SEs’ social performance, we adapted the three item scale  
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30 of Coombes et al. (2011) and Balabanis et al. (1997) to gather the SE representatives’  
31  
32 perceived opinions about certain key social performance indicators over the past 12 months,  
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34 employing items such as “We have been providing more social services” and “We have been  
35  
36 serving more beneficiaries in the community”.

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39       **Control variable.** We control the SEs’ size, given that this may affect their ability to  
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41 achieve high performance with regard to fundraising and attract business sponsorship  
42  
43 opportunities (Liston-Heyes & Liu, 2010). Many of the SEs which participated in this study  
44  
45 failed to differentiate their revenue sources (ie. commercial sales, charitable donations), so  
46  
47 we used total revenue as the measurement of their size. We used a five point scale to indicate  
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49 the extent of the SEs’ size (1 = very small, 5 = very large). The interval between each point  
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51 scale is £100,000 (¥13,000,000; approximately US\$160,000).  
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## FINDINGS AND ANALYSIS

### Measurement Validation and Reliability

We first assessed the reliability and validity of the constructs by confirmatory factor analysis (CFA) using AMOS (Byrne, 2010). We followed the acceptable model fit guideline using the comparative fit index (CFI) and report the root mean square error of approximation (RMSEA). The CFA results suggest that our measures demonstrate a good measurement property (CFI greater than .937, RMSEA less than .067,  $p < .05$ ). The Cronbach's alpha coefficients for all of the constructs for both samples exceed the threshold value of .70, so construct reliability is established. Since our data were collected from the same respondents, this study may be prone to common method bias. We use Harman's single factor test (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003) to assess whether a single latent factor may account for all of the manifest variables of our basic model and find that no common method factor emerged and no individual factor accounted for the majority of the variance explained, so concerns regarding common method bias were minimized. The descriptive statistics are presented in Table 3.

[Table 3 Here]

### Hypotheses Testing

We tested our hypotheses using hierarchical regression analysis. All of the variables are mean-centered to minimize the threat of multicollinearity in the equations. Tables 4 and 5 illustrate the results of each test.

[Table 4 Here]

[Table 5 Here]

To explore the mediating effects, we followed Baron and Kenny (1986)'s recommendation in examining the situation in both the UK and Japan. Firstly, we found that there is a positive

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3 and significant relationship between MO and EO behavior and the SEs' commercial and  
4  
5 social performance. Second, we found that the SEs' MO and EO behavior has a significant  
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7 positive relationship with market effectiveness and customer satisfaction. Finally, we found  
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9 that the direct effect of MO and EO behavior on performances has been weakened because of  
10  
11 mediation effects. However, in all situations, we found that the interaction between MO and  
12  
13 EO behaviors does not have any positive and significant effects on the SEs' commercial and  
14  
15 social performance, which in contrary to the findings of previous studies (e.g. Atuahene-  
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17 Gima & Ko, 2001). Moreover, we found that MO-EO interaction has negative and significant  
18  
19 effects on British SEs' market effectiveness ( $\beta = -.10$   $p < .10$ ) and customer satisfaction ( $\beta = -$   
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21  $.10$   $p < .10$ ), exclusively in the social aspect. Therefore, we performed additional tests to  
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23 strengthen our results. We median split (high EO and low EO) and then run a separate  
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25 regression for each to see if organizations with weaker EO have a significant relationship  
26  
27 between MO behavior and consumer satisfaction or market effectiveness, and another  
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29 regression to assess the relationship when the EO is stronger. It turned out that the regression  
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31 results were the same. MO and EO behaviors have negative and significant effects on market  
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33 effectiveness and customer satisfaction for UK SEs, when we measure the social aspect of  
34  
35 performance (see Table 6). To summarize the above analyses, hypotheses 1 and 2 are  
36  
37 partially supported.  
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43 [Table 6 Here]

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45 We employed the hierarchical regression analysis to test the hypotheses about the  
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47 moderating effects (Aiken and West 1991). We first entered the variables (i.e. size, MO, EO,  
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49 market effectiveness and customer satisfaction), then added the interaction terms. We found  
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51 that the SEs' performance in one aspect has a positively moderated relationship between  
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53 customer satisfaction and performance in the alternative aspect, but not market effectiveness  
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55 in all situations (see Table 4 and 5). Hence, hypothesis 3 is partially supported.  
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## DISCUSSION

By building conceptual models connecting various variables and testing them via a large amount of survey data obtained from two countries (the UK and Japan), we found the generalizable answer to our research questions. Our theory and results advance the theory and inform the practice while also suggesting promising directions for future research.

### **Theoretical and managerial implications**

This study has important implications for both theory and practice. Firstly, we answer the call from scholars regarding the urgent need to conduct a large scale quantitative data analysis of SEs and highlight the importance of being MO and EO in order to foster superior social and commercial performance in the SE sector. This means that SE managers need to pay more attention to market forces, adjust their strategies to respond to market demands, need to continue searching for ways to improve their current offerings or develop new offers before their potential competitors realize the changes in the market needs, and take necessary risks when they spot either commercial or social opportunities in the marketplace.

Second, this research contributes to the theory and literature on SO by developing and testing a model that suggests that SO behavior enhances SEs' performance through enhancing market effectiveness and customer satisfaction. Our findings demonstrate that the achievements of market effectiveness and customer satisfaction are an important measurement for explaining and understanding the association between SO and SEs' performance. More specifically, the positive effects of both MO and EO behavior on market effectiveness and customer satisfaction might be enhanced to the extent to which SEs implement institutional arrangements, a support structure and feedback systems to help their managers to design business strategies and monitor the results of these achievements. When



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2  
3 testing MO-EO interaction effects, to our surprise, we did not find that MO-EO interaction  
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5 behavior had a positive and significant impact on performance. For this reason, it is important  
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7 to highlight that there may be limits when applying this argument to SEs' situation.  
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10 Furthermore, interestingly, we found that MO-EO interaction has negative and significant  
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12 effects on British SEs' market effectiveness and customer satisfaction, exclusively in the  
13  
14 social aspect. Additional analyses suggest that this effect is mainly caused by SEs with  
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16 weaker EO behavior. One explanation is that, without strong entrepreneurial behavior, SEs  
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18 may not use their market knowledge proactively to develop social products/services to satisfy  
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20 the UK donors and volunteers' demands.  
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23 Thirdly, we found that the SEs' performance in one aspect positively moderates the  
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25 relationship between customer satisfaction and performance in the alternative aspect, but not  
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27 market effectiveness. These findings are important, because they provide further insights into  
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29 whether third sector organizations should pursue both social and commercial objectives to  
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31 become SEs. Our findings support the suggestion that a high level of the achievement in one  
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33 aspect of SEs' performance can enhance that in another (Dacin et al., 2011; Seelos & Mair,  
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35 2007). We found that one aspect of SEs' performance can enhance the effects of customer  
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37 satisfaction on performance in another aspect. Massarsky and Beinhacker (2002) suggest that  
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39 the success of a commercial venture can create a halo effect by improving its overall services  
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41 and programs' delivery. In this sense, the people are more likely to experience and be  
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43 satisfied with a better quality of goods and service delivered by the SEs. Our findings add to  
44  
45 the literature by suggesting that high social performance can also have a halo effect on  
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47 commercial performance. On the other hand, our findings also provide some indications for  
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49 the structural tension argument, although we found that performance in one aspect negatively  
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51 moderates the relationship between market effectiveness and performance, which reinforces  
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53 the suggestion that SEs that concentrate their resources on improving one aspect of their  
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3 performance may cause a lack of resources for achieving their market-based goals in another  
4 aspect (Foster & Bradach, 2005; Weisbrod, 2004). Nevertheless, even though we found that  
5 one aspect of SEs' performance can weaken the effect (i.e. not statistically significant) of  
6 another aspect of their activities, the improved aspect, on the other hand, may strengthen the  
7 effect of customer satisfaction significantly with another aspect of their performance.  
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9  
10 Therefore, the findings challenge the argument that SEs should try to balance the social and  
11 commercial aspects of their business (Cooney, 2006; Dacin et al., 2011), or should place  
12 social value above commercial value (Weisbrod, 2004), by arguing that, provided that SEs  
13 seriously engage in both commercial and social activities continuously, with the right  
14 management strategy, the success of one aspect of the business may enhance that success of  
15 another. In practice, SE managers should focus on developing the necessary skills to leverage  
16 SEs' advantages between different aspects of the business.  
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### 32 **Limitations and future research**

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34 Our research is subject to several limitations, which produce future research opportunities.  
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36 Firstly, this research focuses on the impact of SO behavior, so we chose the behavioral  
37 approach of the MO (Kohli & Jaworski, 1990) and EO (Coombes et al., 2011) construct. We  
38 might have generated different results had we considered including the culture approach of  
39 the SO construct. Future research might attempt to compare the results of two different types  
40 of SO construct in relation to SE performance. Secondly, we used the same sets of questions  
41 to examine MO and EO behaviors. This precludes the possibility that there may be separate  
42 MO and EO constructs for capturing SEs' behavioral tendency toward the commercial and  
43 social aspects of the business. Future researchers might attempt to use different types of MO  
44 and EO scales that relate specifically to SEs' social and commercial activities. Thirdly, in  
45 order to enhance the variability and generalizability of our findings, we chose to use data  
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3 from the UK and Japan. While our model did not include any country-specific factors, the  
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5 effects of these on strategic orientation may be considered in future research. Fourthly, due to  
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7 its design, this research only examines the subjective measure of SEs' social and commercial  
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9 performance. Future researchers may consider including objective measurements, such as  
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11 financial performance (i.e. ROI). Finally, we did not detect big difference between SEs'  
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13 commercial and social practices with regard to the relationship among the variables. One  
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15 explanation is that our data were collected from the same sources, aiming at understanding  
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17 the preferences from the SEs' perspective, and the same respondents answered both the  
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19 dependent and independent variable. Although we conducted further tests to ensure that there  
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21 is no common method bias, future researchers might conduct multi-level research to collect  
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23 data from different sources, such as SEs' managers, and social and commercial customers,  
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25 further to verify our findings. Furthermore, having established the linkage among the  
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27 variables using cross-sectional data, it may be worth utilizing longitudinal research to assess  
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29 the performance outcomes over time.  
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### 36 CONCLUSION

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38 Our results demonstrate that the pursuit of strategic orientation has positive effects on  
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40 SEs' performance in both the social and commercial aspects. Moreover, we have deepened  
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42 and expanded our understanding of the relationship between strategic orientation and  
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44 performance by investigating the mediating effects of market effectiveness and consumer  
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46 satisfaction in both the social and commercial domains, together with the moderating effects  
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48 of SEs' performance from one aspect to another. In general, this paper contributes to the  
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50 ongoing efforts to understand the strategic management aspect of SEs.  
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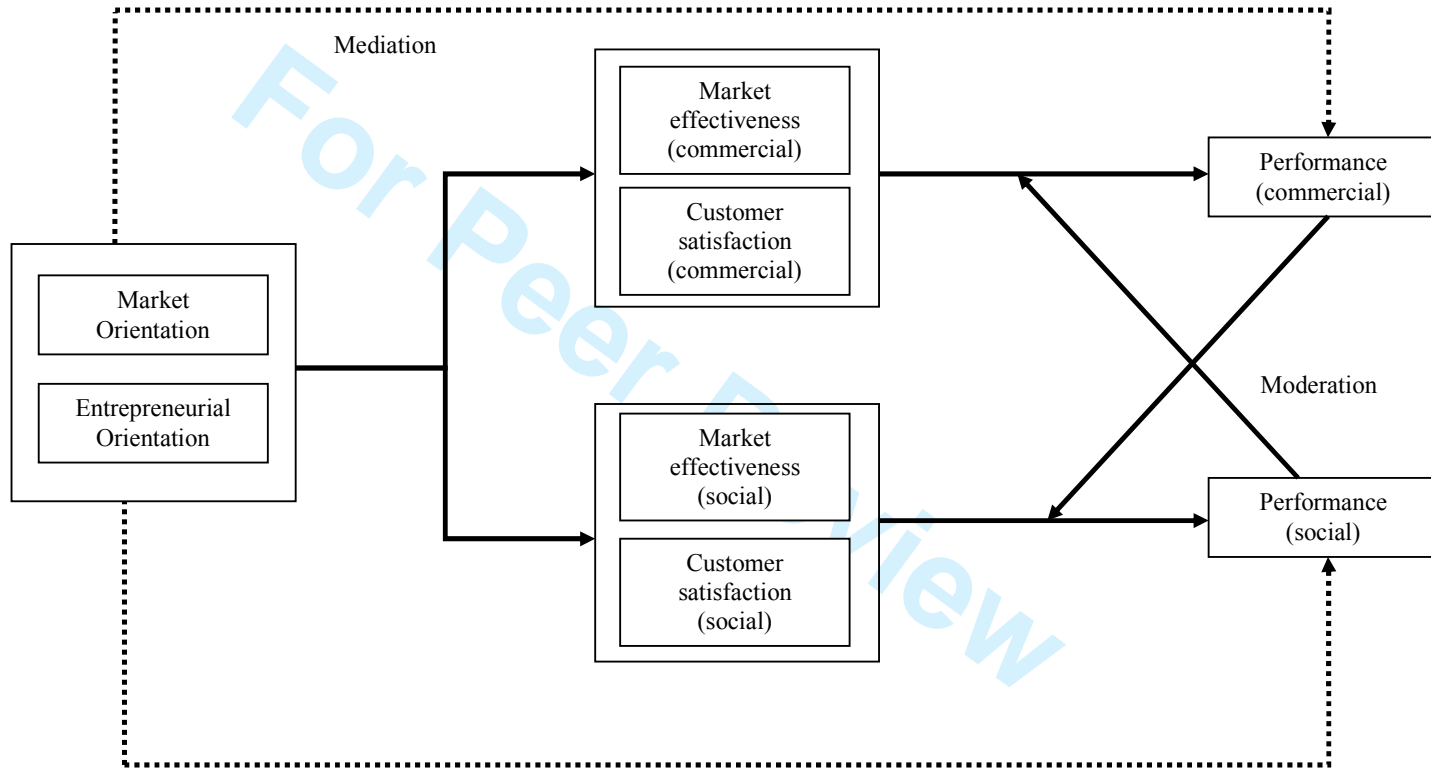


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Table 1: Key Quantitative Studies

Authors	Strategic Orientation Behaviour	Performance Measures	Key Findings
Balabanis et al. (1997)	Donor	Achievement of organizational objective, and donor contribution ratio	There is a lag factor between donor orientation and performance
Barrett et al. (2005)	Market Learning Entrepreneurial	Comparing subjective measures of performance this year versus last year, and with leading competitors or similar organizations.	Market, learning and entrepreneurial orientation impact performance
Bennett (1998)	Donor Competitor	Subjective opinion of fundraising performance	Donor and competitor orientation enhance fundraising performances
Carmen and Jose (2008)	Visitor Donor Competitor	Comparing results on visitor satisfaction and interest, reputation and prestige, impact on residents with similar museums	Positive link between market orientation and performance
Coombes et al. (2011)	Entrepreneurial	Subjective opinion of organization's performance in eight areas and objective measures on the changes in total revenue and net assets, and fundraising ratio	Entrepreneurial orientation affect social performance, but not financial performance
Voss and Voss (2000)	Customer Competitor Product/technology	Subscriber attendance, total income and net surplus/deficit, and subjective measures of performance in comparing with peer organizations' season subscription sales, single-ticket sales, and financial performance.	Strategic orientation and performance varies depending on the type of performance measure used.
Gainer and Padanyi (2002)	Client (culture) Client (activities)	Subjective opinion of comparing current performance (growth in client satisfaction, growth in reputation, growth in resources) and performance 5 years ago.	Client orientation develops client-oriented culture that enhances performance
Gainer and Padanyi (2005)	Client (culture) Client (activities)	Subjective opinion of the change in satisfaction levels over 5 years and with similar organizations	Positive relationship between market-orientated behaviors and performance
Morris et al. (2007)	Donor Client Entrepreneurial	Changes in total revenues, assets, fundraising expenses, total expense, and net revenues.	Entrepreneurial orientation plays an important role in developing market orientation that leads to impact to performance
Napoli (2006)	Brand	Subjective measures of organization's ability to serve stakeholders better relative to competitors.	Positive relationship between brand orientation and performance
Pearce II et al. (2010)	Entrepreneurial	Changes in giving and attendance, and subjective measures of change in overall giving and change in attendance over the same 3-year period	Entrepreneurial orientation positively associates with performance
Vázquez et al. (2002)	Market	Subjective opinion of providing activities and generating income in comparison to similar organization and the degree of fulfillment of the organization's mission	Positive effect of market orientation on performance
Wood et al. (2000)	Market	Subjective opinion of performance in quality of care, revenue increase, improvement of financial position and patient satisfaction	Positive relationship between market orientation and performance
Voss et al. (2005)	Entrepreneurial	Ticket sales and philanthropic contributions	Different dimensions of entrepreneurial behaviour gain different stakeholder supports

Figure 1: Model



Note:  
The dotted lines represent direct effects that may be fully mediated.

Table 2: Profile

	UK**	Japan**
Education	29	21
Health/Recreation	43	22
Disability/General Care	49	39
Housing	24	5
Art/Culture	27	6
Animal	9	3
Religious	13	0
Environment	8	35
Others*	95	106

\* Includes general charitable purpose, community development, law advocacy, and so on.  
 \*\*UK SEs – median revenue £216,919 (US\$ 350,549); Japanese SEs – median revenue ¥ 20,012,500 (US\$ 250,527)

For Peer Review

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Table 3: Construct Means, Alphas, and Correlations

		UK										
	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1. Size	3.50	N/A	.01	N/A								
2. Market orientation	5.13	1.21	<b>.34**</b>	.01	<b>.86</b>							
3. Entrepreneurial orientation	3.98	1.31	<b>.23**</b>	-.06	<b>.52**</b>	<b>.87</b>						
4. Market effectiveness (social)	5.18	1.37	<b>.19**</b>	-.08	<b>.29**</b>	<b>.23**</b>	<b>.86</b>					
5. Customer satisfaction (social)	4.55	1.53	<b>.12**</b>	.01	<b>.27**</b>	<b>.22**</b>	<b>.73**</b>	<b>.86</b>				
6. Performance (social)	5.18	1.41	<b>.20**</b>	.02	<b>.46**</b>	<b>.37**</b>	<b>.31**</b>	<b>.33**</b>	<b>.86</b>			
7. Market effectiveness (commercial)	4.81	1.36	<b>.31**</b>	-.01	<b>.47**</b>	<b>.43**</b>	<b>.62**</b>	<b>.52**</b>	<b>.44**</b>	<b>.84</b>		
8. Customer satisfaction (commercial)	5.01	1.09	<b>.30**</b>	.03	<b>.53**</b>	<b>.41**</b>	<b>.48**</b>	<b>.59**</b>	<b>.43**</b>	<b>.75**</b>	<b>.85</b>	
9. Performance (commercial)	4.54	1.41	<b>.21**</b>	.03	<b>.48**</b>	<b>.40**</b>	<b>.38**</b>	<b>.48**</b>	<b>.57**</b>	<b>.68**</b>	<b>.69**</b>	<b>.85</b>
		Japan										
	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1. Size	3.22	N/A	<b>.14**</b>	N/A								
2. Market orientation	4.48	1.01	<b>.25**</b>	<b>.07</b>	<b>.89</b>							
3. Entrepreneurial orientation	4.23	1.26	<b>.21**</b>	.11	<b>.63**</b>	<b>.88</b>						
4. Market effectiveness (social)	4.37	1.36	<b>.15**</b>	.04	<b>.38**</b>	<b>.35**</b>	<b>.88</b>					
5. Customer satisfaction (social)	3.56	1.40	<b>.19**</b>	.13	<b>.33**</b>	<b>.33**</b>	<b>.76**</b>	<b>.88</b>				
6. Performance (social)	4.55	1.39	.10	.03	<b>.39**</b>	<b>.44**</b>	<b>.41**</b>	<b>.54**</b>	<b>.90</b>			
7. Market effectiveness (commercial)	4.16	1.36	<b>.23**</b>	.12	<b>.57**</b>	<b>.61**</b>	<b>.70**</b>	<b>.64**</b>	<b>.43**</b>	<b>.86</b>		
8. Customer satisfaction (commercial)	4.27	1.11	<b>.22**</b>	.15	<b>.62**</b>	<b>.61**</b>	<b>.53**</b>	<b>.57**</b>	<b>.39**</b>	<b>.76**</b>	<b>.87</b>	
9. Performance (commercial)	4.11	1.15	<b>.25**</b>	.15	<b>.53**</b>	<b>.56**</b>	<b>.49**</b>	<b>.48**</b>	<b>.48**</b>	<b>.63**</b>	<b>.67**</b>	<b>.88</b>

Notes:

\*\*p < .05

Cronbach's alpha are show in bold on the correlation matrix diagonal

S.D. = Standard deviation

N/A = Not Applicable

Table 4: Regression Analysis – Commercial Aspect

UK									
	Performance (commercial)		Market effectiveness (commercial)		Customer satisfaction (commercial)		Performance (commercial)		
Size	.21***	.05	.31***	.14*	.29***	.13*	-.01	-.05	-.03
Market orientation (MO)		.35***		.24**		.37***		.17**	.11*
Entrepreneurial orientation (EO)		.19**		.26**		.15**		.06	.09*
MO x EO		-.01		-.10		-.04		.04	.01
Market effectiveness (commercial)							.38***	.34***	.35***
Customer satisfaction (commercial)							.36***	.31***	.23***
Performance (social) x Market effectiveness (commercial)									-.06
Performance (social) x Customer satisfaction (commercial)									.22**
Adjusted R <sup>2</sup>	.04	.24	.10	.27	.08	.25	.46	.49	.51
F-Value	14.00***	24.48**	31.06***	28.40***	26.84**	25.21***	85.57***	47.70***	39.72***
Japan									
	Performance (commercial)		Market effectiveness (commercial)		Customer satisfaction (commercial)		Performance (commercial)		
Size	.25***	.11*	.23***	.06	.23***	.06	.09	.08	.07
Market orientation (MO)		.25***		.29***		.30***		.09	.08
Entrepreneurial orientation (EO)		.37***		.40***		.42***		.15**	.14**
MO x EO		.02		-.04		.09		.02	.03
Market effectiveness (commercial)							.24**	.17**	.15**
Customer satisfaction (commercial)							.45***	.37***	.39***
Performance (social) x Market effectiveness (commercial)									-.07
Performance (social) x Customer satisfaction (commercial)									.12*
Adjusted R <sup>2</sup>	.06	.33	.05	.41	.05	.42	.45	.46	.46
F-Value	15.30***	29.95***	13.16***	42.11***	12.51***	43.51***	64.75***	34.78***	26.03***

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

Table 5: Regression Analysis – Social Aspect

UK									
	Performance (social)		Market effectiveness (social)		Customer satisfaction (social)		Performance (social)		
Size	.20**	.04	.19**	.11*	.12**	.04	.10*	.03	.05
Market orientation (MO)		.35***		.14**		.15**		.20**	.17**
Entrepreneurial orientation (EO)		.17**		.12**		.13**		.14**	.16**
MO x EO		-.01		-.10*		-.10*		.02	-.01
Market effectiveness (social)							.18**	.13**	.11*
Customer satisfaction (social)							.26**	.20**	.18**
Performance (commercial) x Market effectiveness (social)									-.02
Performance (commercial) x Customer satisfaction (social)									.15**
Adjusted R <sup>2</sup>	.04	.21	.03	.10	.01	.11	.13	.25	.26
F-Value	11.84**	21.20***	2.69**	9.26***	4.46**	6.81***	15.05***	17.68***	14.12***
Japan									
	Performance (social)		Market effectiveness (social)		Customer satisfaction (social)		Performance (social)		
Size	.10	-.01	.15	.06	.19**	.09	.03	-.03	-.01
Market orientation (MO)		.16**		.23**		.16**		.10	.10
Entrepreneurial orientation (EO)		.37***		.20**		.23***		.21**	.21**
MO x EO		.06		.03		.01		.05	.08
Market effectiveness (social)							.34***	.21**	.20**
Customer satisfaction (social)							.20**	.15*	.12*
Performance (commercial) x Market effectiveness (social)									-.10
Performance (commercial) x Customer satisfaction (social)									.22**
Adjusted R <sup>2</sup>	.01	.19	.03	.14	.03	.12	.14	.24	.26
F-Value	2.16	15.00***	5.67**	1.46***	8.77*	8.91***	13.84***	13.44***	11.46***

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

Table 6: Additional Analysis

	UK			Japan		
	Performance (commercial)	Market Effectiveness (commercial)	Customer Satisfaction (commercial)	Performance (commercial)	Market Effectiveness (commercial)	Customer Satisfaction (commercial)
High EO	.14	.09	.07	-.13	.09	-.10
Low EO	-.09	-.16*	-.18*	.10	.06	-.11
	Performance (social)	Market Effectiveness (social)	Customer Satisfaction (social)	Performance (social)	Market Effectiveness (social)	Customer Satisfaction (social)
High EO	-.12	.07	.09	.12	.11	.11
Low EO	-.05	-.04	-.05	.04	.11	.04

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

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<sup>i</sup> An anonymous reviewer pointed out this important relationship.

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