Organizational Learning and Marketing Capability Development in Charity Retailing Sector

Introduction and Literature Review

The adoption of a more market-oriented operation model to acquire revenue from commercial activities, also known as "marketalisation", enables a nonprofit organization to deploy market-based resources and achieve a competitive advantage (Gainer & Padanyi, 2005, Macedo & Pinho, 2006; Shoham et al., 2006). These more market-driven and business-liked hybrid forms of nonprofit organizations are usually referred to as social enterprises (Dart, 2004). In the social enterprise operation model, nonprofit organizations raise funds or generate revenue by competing with other commercial organizations, including charging fees for services, selling products, issuing publications, etc., which are vital for nonprofit organizations' survival by introducing new revenue streams and reducing their dependence on donor and government funds (Froelich, 1999). In fact, the latest research conducted by the National Council for Voluntary Organizations in the UK found that social enterprise activity accounts for 71% of the total income of this sector (NCVO, 2009). Among the many streams of enterprise-related commercial activities, we specifically look into the charity retailing operation, which is rising in popularity on the wider agenda of social enterprises' strategic movements in the competitive marketplace.

Coming from a resource-based perspective and its recent dynamic capability extension, the deployment of specific organizational resources requires the organization to develop the corresponding capabilities, such as "the ability to integrate, build, and reconfigure internal and external competences" in ways that match the change in the organization's market environment (Teece et al., 1997, p. 516). In order to capitalize on the movement of market-based resources deployment, as Morgan et al. (2009) suggested, the organization needs to develop marketing capabilities to orchestrate the execution procedures. Marketing capability is defined as an integrative process of applying the collective knowledge, skills, and resources of the organization to the market-related needs of the business, enabling the business to add value to its goods and services and meet the competitive demands (Day, 1994, Vorhies et al., 1999, Vorhies & Morgan, 2005). The development of marketing capabilities, like any other organizational capabilities, lies in the practice of organizational learning (Easterby-Smith & Prieto, 2008; Eisenhardt & Martin, 2000). In other words, the organization cannot employ certain market-based tactics if it does not have the "know-how". Differentiated from the lump sum of individuals' (members of the organization) learning, organizational learning aims to create, distribute, and communicate knowledge among the organization's members and integrate it into the overall business strategy and management practices (Kim, 1998).

In the UK, the Association of Charity Shops estimates that over 7,500 charity shops can be found on the high streets of towns and cities (Association of Charity Shops, 2010). The rapid expansion of charity shops' operation has attracted the attention of the academic community (*see* Broadbridge & Parsons, 2003a; Horne, 1998; Hibbert et al 2005; Gregson et al., 2002). Although a vast amount of work on UK charity retailing has been produced, comparatively little is known about the organizational learning practices that guide these practices. More specifically, to reap the reward of charity retail operations, social enterprises need to learn how to operate this business model in the first place through organizational learning. According to the prior research on capability learning, the learning mechanisms of the organization can be divided into three phases: accumulation, articulation, and codification (Kale & Sigh, 2007; Zollo & Winter, 2002). In this research, we adopt this organizational learning mechanism model to draw the implications from our research data. Our quest is to explore the process for social enterprise to develop the marketing capabilities that enable

them to enhance their performance of conducting commercial practices. This paper contributes to the understanding of organizational learning process of charity retailing.

Research Methodology

The case study method is suitable for the study because of the uncharted territory of organizational learning and marketing capability development for charity retailing. The cases selection was based on the theoretical sampling (Yin, 1994), which controls the location and industry (charity retailing) factors, and the following indications demonstrate clearly in their publications (i.e. organizational journal publications, the internet, annual reports) the nature of the business. There are: 1) a registered charity under the UK Charity Commission and 2) the organization has practiced charity retailing for raising charitable funding for over five years to allow for the analysis of tracking records. In the end, we have collected data from eight social enterprises for multiple case studies (see Table 1). In the qualitative approach, the research findings can be used for analytical generalization, theoretical propositions and models that can be developed for future testing (Blumberg et al., 2005).

[TABLE 1 HERE]

Social enterprises were contacted first by mail to explain the purpose of the research, and then followed up by telephone to screen against the criteria, and seek cooperation and assure anonymity. The data collection process is guided by our three research questions and lasted for a period of five months, from March until July 2009. The interviews were digitally recorded with the prior consent of the participants, with each interview lasting about forty-five minutes to an hour and a half. Thirty-six interviews have been conducted for this research with the senior managers of social enterprises, holding business titles such as managing director, director of business development and senior manager.

The interviews were subsequently transcribed and analysed using what is essentially an inductive approach. More concretely, we started with our research questions and allowed the theory and findings to emerge from the data. We began by highlighting the key passages in the transcripts, *i.e.* 'critical instances'. We then proceeded with the open coding by assigning these quotes to categories with labels summarising the key characteristics of their contents. This list was subsequently refined by deleting, combining categories together, and establishing any links between them. Once these general themes had been identified, we sought out the 'negative' cases which did not support our 'emerging' understanding of social enterprises and/or our theoretical perspective (organizational learning and capabilities development) and tried to produce explanations for them. The data were entered and analyzed using a qualitative program: Nvivo 7 (Welsh, 2002). Given space limitations, we only provide brief summaries of the interview data collected each of these themes. Sample quotas are available upon request.

Discussion and Analysis

Figure 1 highlights the conceptual model that has emerged from our results. We present the findings and analysis following the logic of our model, such as accumulation, articulation, and codification.

[FIGURE 1 HERE]

Theme 1: Accumulation

Accumulation is about acquiring the expertise and skills related to executing critical tasks (including the task of managing market-based resources) which can be categorized into two fundamental approaches: Exploration and Exploitation. The exploration approach aims to capture new ideas and the exploitation approach intends to replicate the existing methods into new contexts for continuing improvement (He & Wong, 2004; March, 1991). In terms of exploration approach, recruitment, in this context, refers to social enterprises attempting to

gain the necessary business knowledge through hiring experienced staff. The second way to accumulate knowledge is through external researching of the best practice from other social enterprises. The search for the best industry practice for the purpose of benchmarking and modernizing the business operation is not a new idea in the for-profit world (Drew, 1997; Prahalad & Hamel, 1994). These results lead to the insight that the informants depict a sector that has and is continuing to adapt to a changing environment, in which the constant change of the business model for individual organizations is an industry norm. Thirdly, staff training and development offer an effective way to acquire the targeted knowledge for the organization. The managers can use staff training as a tool to acquire and retain talented staff and volunteers in the organization. The final way of the exploration approach for information accumulation is through information sharing among social enterprises within the cross sector alliance, associations, and social networks. Activity of knowledge accumulation is to acquire knowledge through frequent gathering of it among members and from the regular publications from the association and social networks. In comparison to the exploration approach of acquiring the new idea externally, the exploitation approach is more geared towards the refinement of the existing method into an advanced version of the contexts (Easterby-Smith & Prieto, 2008). The first type of exploitation approach of organizational learning is to conduct internal research about the best practice within the social enterprise. The results suggest that some of the social enterprises have attempted to use internal research mechanisms to look for the best practice business units with the organization and encourage other business units to learn from it. The staff responses serve as a tactical level of organizational learning mechanism to seek immediate staff feedback on the implementation and execution of the current practices on a case by case basis.

Theme 2: Articulation

Articulation is the process of consolidating the information generated from the accumulation process and organizing it into explicit knowledge that everyone in the organization can access and practice through collective discussion, debriefing sessions, and the performance evaluation process (Zollo & Winter 2002). Our findings suggest that there are boundaries to the application of explicit knowledge accumulated through the learning process. Our results show that two conditions facilitate these adjustments that emerged from our research data: the social mission aspect and the social business aspect. For the social mission aspect, the application of explicit knowledge is conditioned by a nonprofit organization's specific social mission. To align with their social mission, social enterprises are willing to forgo the potential economic benefits that are very likely to arise after the practice of explicit knowledge and choose to honor its social mission in order to gain less desirable outcomes (economically). On the other hand, the social business aspect of the condition deals with the way in which social enterprises conduct business. Two major themes are associated with this aspect. The first theme is about maintaining the nonprofit legitimacy status. We found that social enterprises limit themselves to implementing certain knowledge in their commercial practice. The suggestions from data explain that the social enterprises are eager to maintain their legitimacy as nonprofit organizations by giving up some potentially beneficial business management ideas. The second theme is about dealing with voluntary staff. Voluntary staff has long been seen as the source of competitive advantage for the nonprofit organization (Farmer and Fedor 2001). However, our findings suggest that having a high portion of voluntary staff in the social enterprise can limit the organization's ability to develop key competence in business operations. Because of the voluntary and temporary nature of the volunteers, social enterprises are forced to make some adjustments about the explicit knowledge when applying it to the business operation. Therefore, some adjustments need to be made because of these. Since a larger portion of the volunteer workforce mixes

with paid staff, this can lead to higher organisational performance per money (cost) spent on conducting business, so the social enterprises appear to be reluctant to give up this advantage.

Theme 3: Codification and Marketing Capability Development

Codification, which is the process of documenting explicit knowledge in writing, such as operation manuals, performance indicators, etc., enables the organization to provide guidelines for the execution of future tasks (Kale & Singh, 2007; Zollo & Singh, 2004). The learning process should enable the organization to build certain types of organizational capability and the codification phase plays a pivotal role in ensuring that guidance can really be used by the organization by clearly identifying the sets of condition (such as resources, routines, etc.) required for the performance of tasks. To date, the measurements of marketing capabilities fall into eight interdependent dimensions: pricing, product development, channel management, selling, market information management, marketing communication, marketing planning, and marketing implementation (Vorhies and Morgan, 2005). The pricing capability is the ability to set the price to respond to market changes and the competition. We found that the social enterprise has developed certain guidelines for price research. Unlike the for-profit retailer, a high percentage of products that charity retailers carry are donated second-hand goods (Horne & Broadbridge, 1995) and almost all of the competition offers a similar product range (Hibbert et al., 2005). In terms of product development, although the context of innovation in the social enterprise sector is not really associated with technological advancement as in the for-profit sector, however we found that social enterprises have really made considerable efforts to design ways to commercialize their business ideas. The third type of marketing capability is channel management (Weitz & Jap, 1995). We find that social enterprises have established a standardized procedure for managing the relationship with their donors by letting the donors feel appreciated and sense their contribution to society. In terms of distribution channel management, the existence of either worker manuals are provided to allow the volunteers systematically to sort, price, label, and so on, or a project plan for store fit specification can be labeled as the written documents produced in the codification process of organizational learning. The fourth marketing capability is the selling capability. The uniqueness of social enterprises is that the organizations have to build selling strategy around their voluntary workforce by developing written documents in place to ensure that explicit knowledge can translate into a selling capability.

For the final four marketing capabilities (such as market information management, marketing communication, marketing planning and marketing implementation), we found that the representatives from social enterprises cannot really distinguish between them. We suspect that these probably have largely to do with their less complicated organizational structural. Many of their responses are overlapping from one type of capability to another. We attempt to discuss all four of these marketing capabilities at once in this section under three major themes generated from the case studies: such as 1) marketing information generation, 2) communications and public relations, and 3) planning, executing, and monitoring marketing strategy. In terms of marketing information generation, our results show those social enterprises have already capitalized on these kinds of opportunities by systematically collecting the information from their industry partners. Secondly, the communication and public relations are always taking place under a very tight advertising budget. The final theme that has emerged in this section is about the planning, executing and monitoring of the marketing strategy. Although the final decision will be made based on the human judgment, however there is a standard routine for guiding all of these tasks. In terms of monitoring the performance, we found that most social enterprises from our case studies do not have a comprehensive marketing performance monitoring system, due to the limited

amount of money spent on marketing and the very straight-forward marketing method, such as ads in the local newspaper about a store opening.

Discussion and Conclusion

In this research, we have explored how social enterprises using organizational learning to develop a marketing capability in conducting the charity retail operation. In term of accumulation activities, we have identified several knowledge acquisition approaches for social enterprises from both the exploration and exploitation perspectives. Using Kim's (1998) learning stage model, we interpret that social enterprises not only rely on the learning by doing approach to organizational learning, such as recruiting and training and development, but also engage in the more sophisticated learning by research approach, such as external and internal research and staff responses. Moreover, the social enterprises have also acquired and transferred knowledge through complex social contacts. All of these activities lead to the conclusion that social enterprises have adopted a more proactive approach to organizational learning in order to deal with the external changes. As we mentioned earlier, the social enterprises that we are referring to in this study have a background of being a nonprofit organization. The results imply that the entities do not view themselves as nonprofit organizations that conduct commercial activities. Instead, they view themselves as enterprises that engage in social activities. This shift in mind-set enables them to search for more innovative way of learning new knowledge for the purpose of making continual improvements.

For knowledge articulation, we find that the knowledge collected from the accumulation phase is required to be translated into a social enterprise specific context that is facilitated by certain conditions before integrating it into the operation activities. For the social mission aspect, we find that social enterprises are willing to forgo the knowledge that may help them to improve the retail operation, if the practice of such knowledge is against the organizational specific social mission. In other words, the organization has acquired this specific knowledge on operation management but has chosen not to use it, because the application of it has opposed the organization's specific social mission. It also implies that different social enterprises (with different social missions) will face different constraints in the organizational specific social mission aspect of the condition. In order to maintain their nonprofit legitimacy status, social enterprises are forced to undertake certain policies, such as declining to use an incentive pay system, which may enable the organizations further to improve their effectiveness and efficiency. We find that social enterprises are willing to adopt them into the business practice and forgo possible future benefits, because they want to be viewed (by the public) as a social business. Alternatively, the use of volunteers (voluntary and temporary in nature) may limit the organization's ability to develop key competences in its business operations, since even in the short-run the volunteers can bring big cost savings.

The final process of organizational learning is codification and capability development, and we are particularly interested in the development of marketing capabilities. The representatives from eight cases told us how the codified knowledge (such as operational manuals, guidelines, procedures…) is put to use to improve the marketing capabilities of the social enterprises. In particular, we have identified an interesting pattern here. The informants from the cases can clearly identify and discuss the development of the pricing, product development, channel management, and selling capabilities and their impact on organizational performance. Since these four former types of marketing capability can be considered as new fields of operation when social enterprises enter the charity retail business, social enterprises have purposely to acquire them. In other words, the other four marketing capabilities can be adopted from the other parts of social enterprises' business operations.

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Table 1: Profile of Cases

	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6	Case 7	Case 8
Description	The charity retailer offer a wide range of 100% donated goods such as clothing, furniture, household goods, sporting equipment, books, and so on.	The charity retailer offer second hand good and new furniture that made from individual has learning difficulty and disability.	The charity retailer (online and in-store) offer both donate and charity brand products	The charity retailers offer a wide range of cards and new goods, and a range of good quality, second items such as clothing, books, records, CDs, and electrical goods.	The charity retailer has a chain of 27 shops, one specializing in the sale of recycled furniture. It also sell a range of goods on eBay and Amazon	The charity retailer offer selling good quality nearly new clothing at an affordable price.	The charity retailer provides clothing and furniture to bric-a-brac and electrical goods.	The charity retailer retailers recycle unwanted domestic furniture and offer good quality, affordable furniture to the local community.
# of Interviews	7	4	5	3	5	3	6	3
Visible Social Impacts	One of the leading charitable organizations in the UK. The area of involvement includes homeless, drug rehabilitation, education, and medical assistants.	Education and work experience is embedding thought charity activities for the purpose of giving people with learning disabilities and difficulties a unique learning experience	Improving animal welfare, rescue and rehabilitate animals and advise government on animal related legislation	To provide specialist palliative medical and nursing care to patients with life limiting illnesses	Providing extensive range of clinical expertise in specialist palliative care. and working in close partnership with the NHS	Homelessness Service (a 22-bed hostel for people who are experiencing homelessness); Employability Service (information, advice and guidance on employment opportunities, training and education)	Help direct to individuals and families through projects that are practical and sustainable.	Supporting housing (safe environment and promotes independent living**); support training (Appropriate, non-threatening opportunities for learning, training and qualifications)

Figure 1: Organizational Learning Process

Accumulation	Articulation	Codification	Marketing Capability Development

Exploration
- Recruitment
- External Research
- Training and development
- Cross sector alliance, associations and social networks

Exploitation
- Internal research
- Staff response

Condition: Social Mission Aspect

Condition: Social Business Aspect
- Nonprofit Legitimacy
- Volunteers

- Operation Manuals
- Spreadsheets
- Decision Support System
- Performance indicator
- Blueprint
- Project management software
- …..etc

Pricing

Product Development

Channel Management

Selling

Market Information Management

Marketing Communication

Marketing Planning

Marketing Implantation