Master's Thesis

Balancing innovation and scaling on the microlevel in social sector organizations for maximizing social impact

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Abstract

This study explores how social sector organizations (SSOs), and for-profit organizations balance innovation and scaling. Performing a qualitative analysis of interviews from both types of organizations, the research identifies key criteria for prioritizing innovation and scaling initiatives, the impact of resource constraints on decision-making, and effective strategies for balancing these efforts. The findings reveal that **financial viability** drives scaling decisions, while **mission alignment** is central to prioritizing innovation. However, resource constraints, particularly **financial** and **human limitations**, often force organizations to prioritize scaling proven solutions over pursuing riskier innovation efforts. Key strategies include the use of **structural ambidexterity**, meaning separate teams for innovation and scaling, and **process ambidexterity**, meaning the integration of both processes in one team. While these strategies help balance short-term operational efficiency with long-term innovation goals, the study acknowledges that there are limitations in sample size and sector focus, suggesting the need for broader future research across diverse organizational and personal contexts. The research provides valuable insights for SSO managers on optimizing the balance between innovation and scaling in potentially resource-constrained environments, offering practical strategies for maintaining social impact and sustainable growth.

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1. Introduction

The intersection of innovation and scaling within social sector organizations presents a complex challenge that is fundamental to the realization of sustainable social impact (Seelos & Mair, 2017). While innovation introduces new and potentially disruptive solutions to social problems, scaling seeks to expand the reach and depth of these solutions to maximize their impact (Waitzer & Paul, 2011). The tension between these concepts; innovation, which inherently involves risk and uncertainty, and scaling, which demands stability and replicability, creates a unique problem space within the social sector (Bretos et al., 2020, Guerineau et al., 2022). Innovation is inherently associated with risk and uncertainty because it involves diving into uncharted territories and creating novel solutions. These initiatives are often not only likely to fail, but innovators are also likely to struggle with keeping up performance (Pisano, 2015). On the other hand, scaling is associated with stability because it involves the replication and expansion of proven solutions. The process of scaling requires a stable foundation to ensure that innovations can be properly reproduced (Bloom & Chatterji, 2009). This duality of innovation and scaling requires a balance between experimenting with new ideas and ensuring that proven solutions are effectively enforced. The problem is complicated by the scarcity of resources, the diverse nature of social issues, and the varying contexts in which these organizations operate (Zainol et al., 2019). Understanding how social sector organizations can effectively manage this tension is crucial for the development of strategies that not only foster innovation but also ensure that successful innovations achieve widespread impact. This research seeks to delve into this problem area, drawing on conceptual models and empirical evidence to examine the *mechanisms, strategies, and practices* that enable social sector organizations to innovate and scale their impact simultaneously. As the balancing act itself is well documented, this research will add to the discourse by specifically focusing on the decisions made by managers at the micro-level for social sector organizations, and the influence it has on their organizational ambidexterity and impact.

Social sector organizations (hereafter SSO) are defined as organizations whose main goal is to achieve a social mission. These organizations can broadly be divided into three categories: nonprofits (e.g. Humanity in Action, Oxfam International, Doctors Without Borders), for-profits (e.g. TOMS shoes, Tony's Chocolonely, Fairphone), and hybrids (e.g. Patagonia, Nationale

Postcode Loterij) (Urban Institute, n.d.). SSOs mostly focus on creating social value rather than financial returns, unlike pure profit-driven businesses. Some SSOs may focus on financial return in order to address their social mission. These organizations play a critical role in addressing social issues and improving community well-being. The context in which SSOs operate can further alter their role and function, often influenced by the context specific historical, political, and social trajectories (Neumayr et al., 2009). A key theory that applies to non-profit SSOs is resource dependence theory, where non-profits are usually dependent on donations, grants, social investments, and volunteer involvement (Shang-ren, 2004). Any surplus funds are reinvested into their mission-related activities. In recent time however the social sector has been shifting towards professionalism, moving from volunteer-based models to models emphasizing efficiency and effectiveness (Centre for Social Impact and Philanthropy & Indian School of Development Management, 2022). For-profits SSOs integrate social and/or environmental missions into their business models by using a market-based approach to address sustainability and social challenges. Hybrids combine elements of both non-profits and for-profits by trying to achieve social impact whilst maintaining financial sustainability, through a combination of the mission-driven focus of non-profits and revenue generation of for-profits. The role of and functioning of SSOs within society is highly complex. To successfully navigate the evolving landscape of social needs and governmental frameworks, competent management and adaptive strategies are of utmost essence to SSOs.

Regarding the topic in literature, there is a substantial amount of research on both innovating and scaling innovations. More commonly referred to as “exploration” and “exploitation” in the literature, the interplay between the two is also well studied. These two concepts have emerged as the pillars of organizational research (Gupta et al., 2006). There is however relatively little research on the balancing act of innovation and scaling in social sector organizations specifically, and of balancing at the micro-level. There is a gap existent in the literature concerning this context, and the theoretical relevance lies in enriching the organizational theory literature. This research will focus on micro-level analysis within SSOs, specifically aiming to examine the role and decision-making processes of managers. The unit of analysis will therefore be individual managers from SSOs with a role in strategic planning, innovation, and scaling. Exploring the reasons and strategies behind their decisions may bring more nuance to the balancing act of innovation and scaling. This research will contribute to a

deeper understanding of organizational behaviour at the micro-level and the impact it has on the balancing act. Focusing on individual perspectives, experiences, and decisions within the social sector organizations context, there may be theoretical advancements in management styles and decision-making processes.

The practical relevance of this research lies in the understanding on how to effectively balance innovation with scaling, possibly leading to more sustainable and widespread social benefits, effectively enhancing social impact of SSOs. By identifying best practices and strategies in SSOs, this research can contribute to solving pressing societal issues at a larger scale. Additionally, insights into balancing innovation and scaling can help organizations allocate their resources more efficiently, leading to resource optimization.

For the topic of balancing innovating and scaling within social sector organizations, the following **research question** has been constructed to guide a comprehensive investigation: "***How do managers of social sector organizations identify the optimal balance between investing in innovation and focusing on scaling existing solutions?***". This question explores the *decision-making processes* and *criteria* used in social sector organizations on a microlevel to allocate resources effectively between innovative initiatives and scaling efforts. To help answer the main research question, the following sub-questions will be addressed:

1. *What criteria do managers in SSOs use to evaluate and prioritize innovation versus scaling initiatives?*
2. *How do resource constraints influence the decision-making process between innovation and scaling in SSOs?*
3. *What strategies and practices are effective in balancing innovation and scaling within SSOs?*

Some of the participants in this study include SSOs like Triodos Bank and MUD Jeans. Triodos bank is known for their focus on ethical banking and supporting projects with positive social and environmental impacts. MUD Jeans is known for their innovative approach to sustainable production and consumption. They are practical examples of how SSOs can balance innovation and scaling, and by studying these organizations valuable insights on the decision-making process of managers can be gathered. For a full list of participants see *Table 1*.

The following chapters of this research will firstly delve into the theoretical framework and then the methodology section. Afterwards there will be a data analysis from which follows a discussion, limitations, and recommendations for future research, ending with a conclusion.

2. Theoretical framework

In this chapter, key concepts around innovation and scaling will be discussed from academic literature. By integrating relevant theories and models, the examination process on how social sector organizations can balance innovation and scaling becomes more straightforward.

2.1 Innovation

Innovation, or exploration, is commonly defined as "new combinations of production factors" (Hochgerner, 2011), they can range from the development of revolutionary technologies to gradual improvement of an already existing process. Historically innovation has been a key driver for both economic growth and social advancements (Branscomb & Keller, 1999). Innovation is however not only about new ideas, but also about successful implementation and adoption. Innovations are made to solve problems, fulfil (unmet) needs, or just to increase efficiency and effectiveness (Lee & Trimi, 2018). Within a business context, the purpose of innovation is often to generate or enhance competitive advantages, to drive growth and profits. In a social context, innovation differs from business innovation because it is driven by meeting social needs (Mulgan, 2006). Social sector organizations operate in a social context, meaning that while the core concept of innovation is the same, the focus is around creating social value to solve societal problems and improve community well-being. An argument can be made that, despite the difference in objectives, the theory around innovation traditionally aimed at for-profit companies is relevant and applicable to SSOs as well. Both types of organizations can benefit from similar processes (Brown, 2008), cultural attributes (Martins & Terblanche, 2003), and resource management strategies (Damanpour & Schneider, 2009).

It is widely acknowledged that innovations play a major role in value creation for companies, and that the potential for competitive advantages warrants continuous investments (Porter, 1990). In the for-profit sector these principles are widely recognized. However, innovation holds different, equally significant, implications in SSOs; mostly in addressing social issues. *For SSOs, innovation is not about potential competitive advantages, it is about improving their ability to solve complex social issues and maximizing their social impact* (Dees et al., 2004). The significance of innovation for SSOs therefore lies in the ability to develop and implement solutions for social issues, improve community well-being, and drive social change.

By leveraging innovation, SSOs may be able to create better, effective programs and strategies. Examples of successful innovations by SSOs include microfinance by Grameen bank and the one for one business model by TOMS Shoes. The Grameen Bank provides small loans without requiring collateral to the poor, empowering millions of people to start businesses and improving their livelihoods (Grameen Bank, n.d.). TOMS used to donate a pair of shoes for every pair sold, improving living conditions for children in developing countries. Having sold over 100 million pairs of shoes by 2020 (TOMS, n.d.), both these examples serve not only as successful innovations with social impact but may also serve as inspiration for other SSOs.

Despite the potential of innovations, investing in innovations is often met with risky challenges. Initiatives frequently fail, and innovators struggle to keep up performance (Pisano, 2015). With outcomes of innovation investments being uncertain, like failing to achieve the intended impact, the process of innovation becomes inherently risky for all firms. Additionally, there is also the significant resources that are required like time, capital and human resources. Nevertheless, effective strategies can mitigate these challenges. Pisano (2015) found that innovation capacity within an organization comes from innovation systems: "a coherent set of interdependent processes and structures that dictates how the company searches for novel problems and solutions, synthesizes ideas into a business concept and product designs, and selects which projects get funded" (Pisano, 2015, p. 46). As there is no one-size-fits-all innovation system, an innovation strategy is necessary to design a system that fits the organization's needs. Without one, different departments of the organization may end up pursuing conflicting priorities.

Innovation in both traditional and social sector organizations is driven by a variety of factors. In the literature these factors are usually often divided into internal and external drivers (Dani & Gandhi, 2022; Fu, 2022). However, as this research aims to investigate the decision-making process of managers, external drivers beyond the manager's control (e.g. macroeconomic factors) are not considered. Instead, this study emphasizes *internal drivers of innovation* as these are factors that the manager can directly influence. An ***organizational culture*** where creativity, risk-taking, and experimentation is encouraged is a necessity for nurturing innovation (Martins & Terblanche, 2003). Having an organizational culture where managers are in approval of experimental projects allows for creative employees to thrive and not be afraid of failure,

potentially creating more chances for new ideas to spring up. Additionally, this culture may also empower managers themselves to make bold decisions in regard to innovation. Another driver is ***leadership and management practices***. Visionary leadership and management practices that actively support and manage the innovation efforts are key in enhancing the innovation process (Mumford et al., 2002). Leaders with a vision for innovation can potentially guide managers with a framework for decision-making. Having managers actively support innovation initiatives can further enable effective decision-making processes, e.g. prioritizing certain projects and negotiating for resources. The level of innovation in an organization is further dependent on adequate financial, technological, and human resources (Damanpour & Schneider, 2009). Without sufficient resources, the creativity and visionary leadership of a company may prove to be pointless. ***Resource availability*** is therefore a key factor in sustaining innovation within an organization. The availability of resources is directly linked to the decision-making process of managers behind resource allocation, requiring them to choose projects based on current organizational goals and values.

In summary, the aforementioned internal drivers of innovation directly shape the decision-making process of managers by influencing the priorities, strategies, and actions that managers take. The decision-making of a manager can influence the entire innovation process within an organization. Especially within small and medium-sized enterprises (SMEs), managers play a crucial role in fostering a culture of innovation (Haddad et al., 2020). The personal characteristics of a manager can influence the adoption of innovation, with pro-innovation attitudes and liberal ideologies resulting in higher levels of innovation adoption (Damanpour & Schneider, 2009). Managers should make decisions to select the most appropriate practices and innovation priorities that aligns with all functions (Pisano, 2015). By understanding the internal drivers, managers can make more informed and strategic decisions to help achieve their innovation goals.

2.2 Scaling

Scaling, or exploitation, is commonly defined as "refinement and extension of existing competencies, technologies and paradigms" (Gupta et al., 2006). It involves expanding, adapting, and sustaining successful innovations or processes to reach a larger audience. The main goal of scaling is to maximize impact whilst maintaining the original effectiveness of the innovation or process (O'Reilly & Binns, 2019). It is not only about growth in size, often the goal is to increase the reach of an effective solution to more people or regions, such as bottom-of-the-pyramid markets, requiring modifications to the strategy to match different contexts (Foster & Heeks, 2013). Like the purpose of investing in innovations, the purpose of scaling is ambiguous: for for-profit businesses scaling is a means to increase market share, revenue, and influence. For social sector organizations, *scaling is a crucial process to increase the impact of social innovations and to better address societal issues* (Seelos & Mair, 2013).

In order to ensure that successful innovations achieve widespread impact, adopting effective strategies is key. These strategies should address various challenges that are inherent to the process of scaling. Grameen Bank is an example of successful scaling by an SSO; their microfinance model was performing excellently in Bangladesh. They have since expanded to many countries and helped over 10 million borrowers (Grameen Bank, n.d.). Another example is the Oxfam confederation which works with over 4,100 partner organizations in 85 countries (Oxfam, n.d.), by leveraging collective resources such as knowledge and networks, Oxfam can implement and scale programs more effectively across different contexts.

There are some inherent risks involved with scaling. For one, resource constraints can pose a challenge when scaling innovations. Securing additional resources without compromising the quality of delivery can be challenging. Specifically financial resource constraints have been found to pose a challenge to scaling efforts (Gibbert et al., 2014) together with knowledge resource constraints (Keupp & Gassman, 2013). Another risk is complexity of coordination in management when scaling innovations. Expanding operations increases coordination complexity, which can pose a challenge for organizational structure and design (Zhou & Wan, 2017). Furthermore, one of the biggest challenges of scaling is adapting to local contexts. Due to differences in cultural, economic, and/or environmental factors in another context, scaling existing solutions becomes risky as firms may experience loss of effectiveness. Solutions

effective in a firm's home country may not directly translate to another country for example, making adaptations to the original solution necessary (Blumenfeld et al., 2000).

Some key drivers of scaling are identical to those of innovation: ***organizational culture*** (Hartmann & Linn, 2008) and ***resource availability*** (Bloom & Chatterji, 2009). In the context of scaling however, managers must make decisions that prioritize efficiency and resource optimization. Having an organizational culture that promotes growth through efficiency and willingness to take calculated risks helps managers decide when and how to scale existing programs and processes. The decision-making shifts from fostering a creative culture (innovation) to focusing on replicating successful models (scaling). Managers play an important role in deciding which practices and processes get to be scaled, having to ensure consistent quality and impact. Essentially, given resource availability, managers must decide how to allocate resources for effective scaling efforts. Another key driver for scaling is ***standardization***; developing standardized processes and systems that are easily replicable (Dees et al., 2004). Managers must decide which aspects of the organization can be standardized and scaled. The decision-making process involves finding balance between efficiency and maintenance of the organization's core values. The mentioned drivers are applicable to both traditional for-profit companies and SSOs, though there is a difference between the context in which the companies find themselves in. SSOs face unique challenges and opportunities, on the one hand SSOs must make sure that their scaling efforts align with their core mission(s) and values to maintain the quality and sustainability of their social impact (Bradach, 2003). On the other hand, SSOs can make use of community engagement. By involving the community, local capacity and ownership to support scaled initiatives can be built (Kania & Kramer, 2011).

In summary, these concepts directly influence the decision-making process of managers in their approach to scaling their organization's impact. By guiding managers in making informed decisions, their scaling efforts may become more sustainable, contextually appropriate, and beneficial to the society that it aims to serve. Staying faithful to the social sector organization's missions and values.

2.3 Balancing Innovation and scaling

Innovation and scaling are related to each other in a counterproductive way: scaling past innovations may make future innovations less productive, and ongoing cycles of innovation may make scaling less productive (Seelos & Mair, 2013). In literature the balancing act of innovation and scaling is well documented, often referred to as organizational ambidexterity. This concept is defined as: "the synchronous pursuit of both exploration and exploitation via loosely coupled and differentiated subunits or individuals, each of which specializes in either exploration or exploitation" (Gupta et al., 2006, p. 693). The general theory behind organizational ambidexterity proposes that the long-term success of a firm is dependent on its ability to engage in both exploration and exploitation activities (Seelos & Mair, 2013). Exploration involves activities related to innovation and exploitation refers to the activity of scaling existing solutions. Firms need to manage the tension between innovation and scaling not only for achieving short-term objectives, but also for ensuring long-term sustainability and resilience. Successful firms often structure their operations to manage innovation and scaling, implementing organizational designs where different business units either focus solely on exploration or innovation, or a more integrated approach where different business units are pursuing both activities simultaneously (O'Reilly & Tushman, 2013).

Implementing ambidexterity is difficult and requires not only refined managerial capabilities but also a supportive culture. Given the uncertainty of innovations generating revenue in contrast to the more certain option of scaling operations, organizations are faced with the challenge of resource allocation. It is difficult to distribute resources properly without putting ongoing operations at risk or suppressing innovation (O'Reilly & Tushman, 2013). Organizations further need to cultivate a culture where both innovation and scaling are supported. Innovations often require a culture where failures are accepted, and creativity is valued in contrast to the prevalent culture of efficiency and risk aversion in organizations that are focused on scaling activities (Martins & Terblanche, 2003). Effective leadership is critical here, managers need to learn when to focus on exploration or exploitation, depending on the market conditions and organizational goals. Fostering a culture where both innovation and scaling strategies can take place is challenging, especially if the manager has a bias to one or the other (Gibson & Birkinshaw, 2004).

Despite the challenge, organizational ambidexterity can offer significant value. Ambidextrous organizations can, among other things, benefit from enhanced adaptability, allowing organizations to respond swiftly to new opportunities and threats which increases long-term sustainability and competitiveness (Tushman & O'Reilly, 1996). Supporting this, Gibson & Birkinshaw (2004) found that ambidextrous organizations tend to financially outperform organizations solely focused on either innovation or scaling. Another benefit of ambidexterity is higher employee satisfaction and retention rate, alongside a more versatile and skilled workforce (Raisch et al., 2009). As an ambidextrous organization encourages employees to learn and develop, they are more engaged in both creative and routine tasks. Additionally, being able to focus on and switch between innovation and scaling efforts allows for strategic flexibility (Benner & Tushman, 2003). For SSOs, organizational ambidexterity is particularly important due to the unique challenges they face and the dynamic environments they operate in. They must therefore be capable of adapting to rapid changes and innovations in social technology (Mardi et al., 2018). Through improving organizational ambidexterity SSOs can maximize social impact: *better innovation allows for development of solutions to social issues and better scaling ensures that these solutions can effectively reach a broader audience*. Balancing innovation and scaling consequently enables SSOs to drive meaningful change and help reach their mission.

Given the importance and benefits of achieving ambidexterity, there are strategies in the literature that can help an organization become ambidextrous. Early research by Tushman & O'Reilly (1996) for instance writes about creating separate units or teams within the organization, each dedicated to either innovation or scaling. With dedicated resources to both teams, the organization must ensure that neither is neglected. They further propose that integration mechanisms must be developed to integrate the work of both teams, this can be done through e.g. regular inter-team meetings, shared goals, and joint projects (Tushman & O'Reilly, 1996). Where this ambidexterity revolves around the structure of an organization, later research focuses on integrating processes (Benner & Tushman, 2003) and an organizational culture (Gibson & Birkinshaw, 2004) that can facilitate innovation and scaling within the operations of an organization. Strategies include creating innovation labs to develop and test new ideas without disrupting ongoing operations, making use of pilot projects to test new ideas on a small scale to minimize risk, and implementing feedback loops to learn from both innovation and scaling efforts (Benner & Tushman, 2003). From an organizational culture standpoint, Gibson &

Birkinshaw (2004) argue that organizations should empower employees at all levels to be flexible and switch between exploring new ideas and optimizing existing ones. Through proper leadership support the organization can foster a shared understanding of their values and goals, ensuring that the employees are motivated and know the importance of both innovation and scaling. Conversely, building on their earlier work, O'Reilly & Tushman (2013) go more in-depth on ambidexterity through resource allocation. Organizations should develop budgeting processes to ensure necessary resources are available to both processes. This can be done through dynamic resource allocation and resource sharing. The former entails flexibility, being able to reallocate resources based on changing priorities and opportunities. The latter entails promotion of resource-sharing practices, where teams can access shared resources such as technology, expertise, and data (O'Reilly & Tushman, 2013). It is important to develop managers who can think both strategically and operationally (Raisch et al., 2009). They should be able to set a vision for future innovation while ensuring the efficient execution of current programs. Raisch et al. (2009) notes that managers should be appointed to respectively oversee innovation and scaling, and that these should collaborate closely to ensure alignment and balance. It should be noted that there is probably no single "best" way to achieve organizational ambidexterity. There are many factors affecting the "optimal" approach to becoming ambidextrous: for example, the context in which the organization finds themselves in, the mission and goals of an organization, availability of resources, external environment, and organizational culture and leadership. The organizations that can successfully adapt strategies to their circumstances can ensure growth and effectiveness in achieving their missions.

The theory of ambidexterity is directly related to the decision-making process of managers. For example, managers must decide how to allocate resources between innovative projects and scaling initiatives. Through strategic decision-making, managers can help organizations with obtaining and maintaining their competitive advantages. The ability to reallocate resources based on changing priorities and opportunities is further key to being ambidextrous. Given the ever changing market conditions, it is crucial for managers to make decisions at the right time. Managers can further make decisions on organizational structure, for instance they may create separate teams focusing on innovation and scaling or integrate the teams. Leadership decisions on integrating and coordinating innovation and scaling activities are crucial for achieving ambidexterity.

To summarize, the interplay between innovation and scaling reveals the importance of a balance between these two activities, and that it is dangerous to focus too narrowly on only one (Seelos & Mair, 2017). Innovation represents the process of developing ideas, products, or services whereas scaling involves expanding and refining processes and programs. Organizations that successfully navigate this balance can drive sustained growth, adaptability, and competitiveness. Organizational ambidexterity acts as the overarching framework for how organizations may balance innovation and scaling efforts. It connects directly to the decision-making process of managers, who play an important role in strategically managing resources, fostering a supportive culture of innovation and/or scaling, and coordinating the activities between innovation and scaling. Organizations can increase organizational performance in the face of changing environments and emerging opportunities whilst increasing the impact of their

2.4 Conceptual model

Following the theoretical literature, the key factors influencing the micro-level decisions on balancing innovation & scaling in social sector organizations are positioned around the central hub with arrows pointing towards it, indicating an effect. The model shows how managers can navigate the balance between innovation and scaling, two potentially counterproductive processes. Below is the conceptual model:

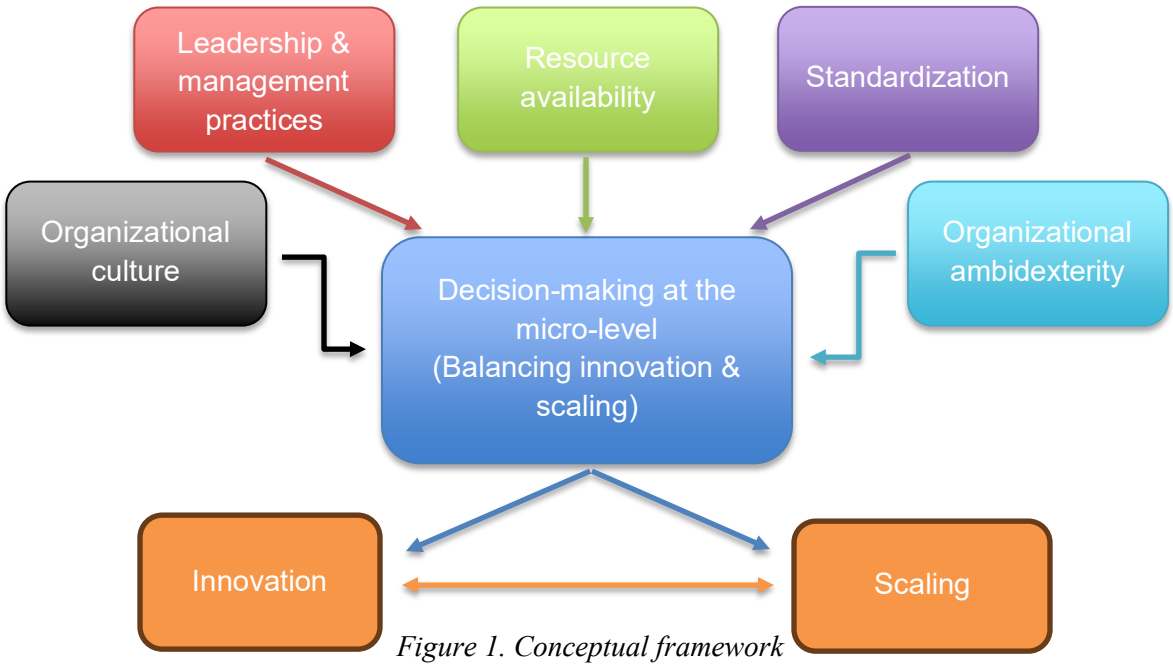

Figure 1. Conceptual framework

3. Methodology

To investigate the question "How do social sector organizations identify the optimal balance between investing in innovation and focusing on scaling existing solutions?", a deductive research approach is employed. Given the existing theory regarding organizational ambidexterity in for-profit and corporate settings, a deductive research approach will allow for the testing of theories in the under researched context of social sector organizations. By applying existing theories to SSOs, deductive research may help in refining those theories. Deductive research may further help with guiding the process of data collection, by providing a clear framework based on the concepts in the theoretical framework. Another reason to choose a deductive research approach is the testing of theoretical concepts and the practical recommendations that come from it. E.g. understanding how leadership and resource allocation influence ambidexterity can lead to actionable strategies for SSO managers regarding the balancing of innovation and scaling. The established theoretical concepts and frameworks in a deductive research may provide a basis for comparing results, potentially making the findings of this study more generalizable across different types of SSOs in various contexts. In other words, common patterns and differences in how SSOs manage the balance between innovation and scaling may be found.

To enhance the understanding of the decision-making process behind balancing investing and scaling innovations, a qualitative research strategy is chosen for this study. Qualitative research is effective for exploring the motivation, reasoning, and contextual factors that influence the actions and beliefs of people (Myers, 2019). As the research aims to give insights into the decision-making process of individuals at the helm of strategy, a qualitative study is better suited to capturing the nuances and complexities of decision-making processes that are often not visible in quantitative data. The research will further follow a multiple case study design. As the focus is on understanding the strategic decision-making by managers, a multiple case study design will allow for the examination of the research question across different contexts within social sector organizations. It therefore provides a more comprehensive view than examining a single case would. The multiple case study method enables comparisons of different organizations, e.g. through highlighting variations and similarities in their approach to balancing innovation and scaling (Bleijenbergh et al., 2023). The cases selected for this study include SSOs, such as

Triodos Bank, relevant for demonstrating growth without compromising core values, and MUD Jeans, relevant for integrating social impact in their scalable business practices. Traditional for-profit companies are also included, such as DairyCo and EnergySolutions. Some pseudonyms were used following confidentiality and consent agreements. For a full list of participants see *Table 1*. By highlighting the similarities and differences between the approaches to innovation and scaling of SSOs and for-profit companies, common strategies and success factors may be discovered with a comparative analysis. It may further enhance the validity and reliability of the research findings by using data from multiple sources in different contexts, known as triangulation (Denzin, 2012).

By focusing on multiple cases rather than a single one, the study may be able to explore how different organizational contexts influence the decision-making process related to balancing innovation and scaling. A broader perspective may prove useful for identifying strategies that are effective across various organizational contexts, therefore contributing to a deeper understanding of organizational ambidexterity in both social and for-profit organizations.

3.1 Data collection and data sources

The data for this research will be collected through semi-structured interviews. The reason being that semi-structured interviews allow predetermined topics but still provide flexibility for additional questions and interpretation (Symon & Cassell, 2012). As this study adopts a deductive approach, the questionnaire will be built based on indicators derived from the theoretical framework in order to test the predefined concepts. It is important that the participants represent various voices (Myers & Newman, 2007).

The data sources include 1) senior leaders who are involved in strategic decision-making, such as senior management/leaders and 2) program managers and leads. It is important that they are involved or at least knowledgeable about the topic of innovation and scaling. In this research, 9 participants were interviewed. The organizations were based in the Netherlands and varying in both size and industry. An overview of the participants can be seen in Table 1 below.

Sex	Role	Organization size	Sector
Male	Sustainability manager	Medium < 250	Solar Energy
Female	Director business relations	Large > 250	Banking
Male	Project manager	Large > 250	Charity
Male	Plant manager	Large > 250	Dairy
Male & Female	Co-founder/owner & sustainability manager intern	Small < 50	Jeans
Male	Co-founder/owner	Small < 50	Shoes
Male	Co-founder/owner	Small < 50	Food
Male	Co-founder/owner	Small < 50	Fintech
Male	Co-founder/owner	Small < 50	Stationery

Table 1. Participants

The participants were selected based on specific criteria, including their role and position within the organization, their experience in managing innovation and scaling processes, and their direct involvement in strategic decision-making. The focus was therefore mostly on individuals holding senior management positions in organizations relevant to the study. The primary unit of analysis was the organization, specifically SSOs and for-profit organizations with an emphasis on balancing innovation and scaling. Initial participants were identified through personal connections, leveraging personal connections to gain access to willing participants. Afterwards LinkedIn was used to identify potential participants that met the criteria. Organizational websites and professional contact information were further found as a basis for initial contact, ensuring that participants were in relevant positions to give thoughtful insights. All respondents were further selected on their availability and willingness to participate in the research, meaning that they had to allocate time in their schedules and provide explicit consent. Altogether this has resulted in the respondents presented in *Table 1*.

3.2 Data analysis

Most of the interviews were conducted in Dutch, with two exceptions that were conducted in English. The range in length of the interviews was between 15 and 35 minutes, and after completing the interviews, the recordings were transcribed. The transcription process was done in several ways: automatic transcription function of Microsoft Teams, privately uploading a video to YouTube and downloading the captions, using the website Restream to transcribe an audio file, and the dictate function in Word. Should the participant wish to check the transcription, a copy will be sent and not used until explicit consent has been given. To analyse the collected data, it was coded according to the predefined indicators derived from the theoretical framework.

According to Saldaña (2021), firstly a codebook should be developed based on the theoretical framework, consisting of predefined codes that correspond to the study's research questions and key concepts. During the first cycle of coding, these codes were systematically applied to the interview transcripts, focusing on identifying segments of data that aligned with the theoretical constructs. As coding progressed, the codebook was refined to include sub-codes and adjusted definitions, ensuring a comprehensive representation of the data.

In the next phase, related codes were grouped into broader categories, which facilitated the identification of overarching themes. These themes provided deeper insights into the decision-making processes behind balancing innovation and scaling within the organization. The final themes were then linked back to the research questions, allowing for a thorough analysis of the underlying processes and mechanisms. This systemic approach not only provided a clear structure for data interpretation but also ensured that the findings were robust and aligned with the study's theoretical framework.

3.3 Operationalization

Concepts from literature were broken down and adapted into specific dimensions and indicators in order to study the decision-making process. They are operationalized as follows:

Innovation	Dimension	Indicator	Reference
	Organizational culture	Support for (employee) creativity	Martins & Terblanche (2003)
		Risk-taking behavior and experimentation	Martins & Terblanche (2003)
	Leadership and management practices	Visionary leadership	Mumford et al. (2002)
		Management practices / leadership support for innovation	Mumford et al. (2002)
	Resource availability	Adequate financial, technological, and human resources	Damanpour & Schneider (2009)

Table 2. Innovation dimensions and indicators

Scaling	Dimension	Indicator	Reference
	Organizational culture	Support for scaling initiatives through efficiency	Hartmann & Linn (2008)
		Growth through calculated risks	Hartmann & Linn (2008)
	Resource availability	Adequate financial, technological, and human resources	Bloom & Chatterji (2009)
	Standardization	Development and implementation of standardized processes	Dees et al. (2004)
		Replicability of programs (consistency and delivery)	Dees et al. (2004)

Table 3. Scaling dimensions and indicators

Ambidexterity	Dimension	Indicator	Reference
	Structural ambidexterity	Existence of separate units for innovation and scaling activities	Tushman & O'Reilly (1996)
	Process ambidexterity	Integration between both units	Benner & Tushman (2003)
	Contextual ambidexterity	Organizational culture supportive of dual-tasking employees	Gibson & Birkinshaw (2004)
		Employee flexibility in roles	Gibson & Birkinshaw (2004)
	Resource allocation	Balanced allocation of resources to both innovation and scaling efforts	O'Reilly & Tushman (2013)
		Flexibility in resource allocation	O'Reilly & Tushman (2013)

Table 4. Organizational ambidexterity dimensions and indicators

3.4 Research ethics

There were some key ethical considerations to protect the integrity of the research process and the rights and well-being of participants. Informed consent was obtained from all participants before the interviews. They were further informed of the purpose of the study, the type of data that will be collected, and that they were able to freely stop and withdraw at any time from the study. The confidentiality of the answers and anonymity of participants will be guaranteed to be treated with utmost caution and respect, handled in compliance with the general data protection regulation (GDPR) and the Netherlands Code of Conduct for Research Integrity (VSNU, 2018). This data will be securely stored for a limited time on a personal computer with restricted access for anyone but the researcher. The interviews were recorded and transcribed only with the participant's explicit consent. The recordings were transcribed as soon as possible so that personal thoughts and interpretations around the interview were still fresh. Participants were also informed that, should they wish to be updated on the results and implications of the study, they will be sent a summary of the insights upon completion of the study. As a researcher, I will try to conduct myself professionally and respectfully, recognizing the value of the participant's time and contributions. There are principles that I will follow to best make the right choices in different circumstances, these include honesty, care, transparency, independence, and responsibility.

4. Results

In this chapter, the findings and results of this study will be presented. This study aimed to research the decision-making processes and criteria used in social sector organizations on the manager level in order to allocate resources effectively between innovative initiatives and scaling efforts. Data was collected from semi-structured interviews. The results are structured around key themes identified across literature and all interviews. Each sub-question will be addressed, drawing on the coded data and findings from the transcripts. Afterwards there will be a cross-case comparison to identify similarities or differences in how SSOs approach innovation, scaling, and the balance between them. Given that most of the interviews were conducted in Dutch, relevant quotes will be translated to English.

4.1 Sub questions

1. What criteria do managers in SSOs use to evaluate and prioritize innovation versus scaling initiatives?

When managers are tasked with deciding whether to prioritize innovation or scaling, they must evaluate many factors. These decisions are especially important in the complex context of social sector organizations. Understanding the criteria managers use to make these decisions may shed light on how organizations can successfully balance the need for scaling and innovation. In the analysis of the data, several key criteria emerged.

> *"What you're going to see is that now all kinds of standards are being developed, all kinds of labels are being developed ... So, we have to innovate in our design and incorporate such criteria." "In some cases, innovation is becoming a prerequisite… innovation is an enabler to scaling." (Resp. 1)*

> *"I like to think that our culture is very mission-driven… this really pushes us to be creative and innovative. We need new ideas and approaches to solve social problems" (Resp. 3)*

> *"We are also aware that uh we're not a typical fashion company, we thrive by being innovative, so we need to continue to do that and that's what makes us different than others." (Resp. 5)*

"So, what we are actually showing is that there is just a better way to make shoes than the current standard." (Resp. 6)

"We started marketing a new financial product a few years ago.... We did get into that because we noticed customer demand for that." "Energy storage is dropping so hard in price that that really does open up a whole new market ... we just want to be at the forefront of that as well and do that well" (Resp. 8)

From these quotes, some criteria for choosing innovation over scaling can be gathered. Respondent 1 discusses innovation in design, seeing it as a prerequisite for adapting to the evolving standards of nature-inclusive solar parks. Therefore, the external factor of **evolving regulatory standards** can be considered a criterion for investing in innovation. Respondents 3, 5 and 6 are similar in nature. Where respondent 3 invests in innovative projects to increase social impact, respondents 5 and 6 invest in innovation because developing sustainable jeans and shoes is part of their core identity. Their criterion for investing in innovation is **mission alignment**. Whether it is about achieving **social impact** or reducing environmental harm and promoting **sustainability**, innovations are evaluated not just for their profitability but for long-term impact. Another observed innovation criterion is **market demand**: respondent 8 describes how the organization decided to invest in an innovative project because they had observed market demand for it. They are further willing to invest in new technologies, such as battery storage systems, in order to stay ahead in the market.

Managers also identified some key criteria for choosing scaling over innovation:

"I know that generally the primary driver is the business case." (Resp. 1)

"And then we also look at what is the potential and what is the investment. We try to apply a 35 percent return on investment." (Resp. 4)

"We've always focused on scaling because the more jeans with recycled content we sell the less dirty jeans others will sell so that's always been our objective" (Resp. 5)

"There were still manual intermediate steps in there and we've eliminated all of that now and it's actually become a fully automated flow per payout. Well let's say it took 6 hours before, now its 5 minutes." (Resp. 8)

"We actually want the costs to be covered a little bit already so then we do a presale or see if there's a subsidy to get somewhere." (Resp. 9)

Financial viability is a key criterion for scaling decisions. Both respondents 1 and 4 emphasized the importance of a strong business case and return on investment when deciding to scale. It should be noted that respondents 1 and 4 were the only for-profit organizations representatives. For respondent 9 financial viability was a key criterion too, their organisation approaches scaling by seeking subsidies or presales to offset costs, making sure that scaling decisions are financially sustainable. Respondent 5 frames scaling efforts as an important part of achieving their mission to reduce environmental harm. By scaling their solutions, they are better able to maximize their social impact. The **scalability** of **social impact** can therefore be considered another criterion for scaling. In transcript 8, **operational efficiency** was a key criterion for investing in scaling. The gains from process automation has cleared up a lot of human resources.

The criteria identified in the data are aligned with the existing literature on organizational ambidexterity and decision-making. The findings highlight the importance of aligning innovation with **evolving regulatory standards, social impact, sustainability, and market demand**. This supports the literature that suggests that innovation is driven by external opportunities and long-term vision (Gupta et al., 2006), and that SSOs tend to prioritize innovation when it aligns with their mission to create social value (Seelos & Mair, 2013). Scaling decisions on the other hand are influenced by **financial viability, social impact, and operational efficiency**. This supports the literature that suggests that scaling is typically preferred when organizations are trying to optimize existing processes or solutions (O'Reilly & Tushman, 2013). Dees et al. (2004) highlights the importance of expanding proven solutions in order to reach a broader population, aligning with social impact as a criterion. Overall, both social impact and financial viability play central roles in the decision-making process of choosing between innovation and scaling.

2. How do resource constraints influence the decision-making process between innovation and scaling in SSOs?

Resource constraints play a critical role in shaping organizational strategies. Resources like financial capital, human resources, and technological capacity can be scarce. Organizations, especially those in the social sector, must be careful with investing their precious resources. This section explores how resource constraints influence the decision-making process of managers between investing in innovation and scaling.

> *"Cash flow is sometimes a problem. At a time when you're scaling so hard and are asset-heavy, you're not as liquid." (Resp. 1)*

> *"We have been extremely strict in materials we use and processes we use, everything you do is twice as expensive as if you would do it in the in the conventional way" (Resp. 5)*

> *"Yes. Yes 100%... Scaling that up also just costs a lot of money. We scaled up a start very quickly but at one point a 20 man and we've actually had to scale that back now because we do also recognize that we have to make a return on investment." (Resp. 9)*

Several respondents highlighted the influence of financial resource constraints on their decision-making regarding innovation and scaling. Organizations that are asset-heavy and expanding rapidly need to be careful with managing cash flow and liquidity (resp. 1). Financial constraints may therefore limit an organization's ability to invest in innovation while they are scaling. Similarly, respondent 9 experienced such high costs associated with scaling, that it forced them to scale back from 20 employees to 12 in order to focus on profitability. Respondent 5 noted that the significantly higher cost of sustainable materials and processes creates financial obstacles to scaling. These financial constraints will likely force organizations to choose between maximizing short-term returns through scaling or taking financial risk in order to drive innovation.

> *"We have a relatively limited number of colleagues, and they have to do all kinds of things... And so, you can't spend that time on other things." (Resp. 2)*

> *"Yes, just continuously of course because you are so ambitious... I'm constantly chronically short of people and resources. Just basically all the time." (Resp. 6)*

Human resources are another major constraint affecting the decision-making process between innovation and scaling. As can be seen in the responses of respondents 2 and 6. Being affected by limited human resources, organizations are expected to prioritize operational efficiency and scaling over innovation, as expanding existing solutions likely requires less input than developing new solutions.

> *"Yes, not only financial resource constraints are a reality for us. We need to balance our time and people between innovating, ongoing programs and scaling efforts. This often means making tough decisions about where to allocate funds and employees" (Resp. 3)*

> *"And yes, so we have to prioritize that as well. It also already has to do with money, time and people." (Resp. 4)*

> *"We have a huge shortage of IT capacity. It's constantly prioritizing what can be done first with the capacity we have.... both IT capacity and financial resources are scarce." (Resp. 8)*

In many cases, organizations are forced to make difficult decisions on allocation of their limited resources between innovation and scaling (resp. 3, resp. 4). Another limiting factor found in the data is technological constraint by respondent 8. Due to their lacking IT capabilities, they are forced to prioritize certain tasks over others.

These findings highlight that when **financial resources** are limited, managers often lean towards prioritizing scaling over innovation. This is because scaling existing solutions generates more predictable returns and is therefore safer and more stable than investing in new, potentially risky innovations. This finding is in line with the work of O'Reilly & Tushman (2013) who argue that financial constraints force an organization to favour exploitation (scaling) over exploration (innovation). This is further supported by the work of Pisano (2015), suggesting that scaling is often the more realistic choice when resources are limited as it involves less variability and quicker returns. **Human resource** constraints, particularly in smaller organizations, highlights a limit to innovation efforts. Without enough employees, organizations may not have the capacity to experiment and innovate as this process requires time, effort and creativity. This reinforces Damanpour & Schneider's (2009) work where they argue that adequate staffing (along with

adequate financial and technological resources) is critical to fostering innovation. **Technological constraints** are less frequent than financial and human constraints in the findings. However, following the work of Benner & Tushman (2003), who argue that technology is a critical enabler of both innovation and scaling, technological constraints may influence the decision-making on investing in innovation or scaling. If organizations are reliant on digital or technological innovations, outdated systems or inadequate technological capabilities may be so inefficient that it limits the ability to pursue scaling or innovation. To summarize, in resource-constrained environments, SSOs tend to prioritize scaling over innovation as it is deemed safer. Financial limitations often have the most direct impact on decision making, followed by human resource limitations and technological limitations.

3. What strategies and practices are effective in balancing innovation and scaling within SSOs?

Balancing innovation and scaling can be a challenge for SSOs trying to achieve both short-term impact and profitability and long-term sustainability. Unlike traditional for-profit companies, SSOs are generally driven by their mission to maximize social impact. This requires them to innovate and scale these initiatives at the same time, in order to maximize their social impact. Strategies and practices that SSOs employ to balance these counterproductive demands will be discussed in this section.

> *"We have colleagues working specifically on innovation, and that runs parallel to scaling up." (Resp. 1)*

> *"Shouldn't we have a special team dealing with new developments? Yes. We did experiment with that in the past" (Resp. 2)*

> *"Yes, we have separate units for innovation and scaling." (Resp. 3)*

> *"What is the innovation and what is the volume? If the innovation is done, i.e. a new product, new product line or whatever, then the scale-up is on with sales." (Resp. 4)*

One of the mentioned strategies in the data is the separation of innovation and scaling units. This approach is known as structural ambidexterity (Tushman & O'Reilly, 1996). It is said to foster creativity while maintaining operational efficiency. By having dedicated teams to innovation and

scaling, the organization can maintain a balance. The innovation team can develop and test projects, and hand these over to the scaling team for successful implementation. Tushman & O'Reilly (1996) argue that having different units can help with avoiding conflict between innovation and scaling activities.

> *"This new group at headquarters has been given its own budget and is doing both innovation and scaling. So, it does really mesh together. That budget is not divided." (Resp. 2)*

> *"No, it's the same team. Both operational work and innovation and long-term planning happen within the same team. We don't have separate departments for these things yet." (Resp. 8)*

> *"No, it is mostly me, yeah..." (Resp. 9)*

In contrast to structural ambidexterity, some organizations opt for the integration of innovation and scaling units, this is known as process ambidexterity (Benner & Tushman, 2003). In the data, smaller organizations like respondents 6, 8 & 9 tend to be more process-based but they expect to eventually separate innovation and scaling units when they grow larger in size. Respondent 2 their company has experimented with structural ambidexterity in the past and are now experimenting with an integrated unit. Although this approach lacks the clear boundaries as seen in structural ambidexterity, process ambidexterity can foster real-time collaboration between scaling and innovation. This means that teams can adapt their strategies based on the latest feedback from the market, consequently meaning that they have the opportunity to be more flexible.

> *"If we give signals to this group then they could independently decide of this is what we are going to do, and this is what we are not going to do." (Resp. 2)*

Another strategy that popped up was employee flexibility in switching between roles that involve innovation and scaling abilities. Respondent 2 says that there is flexibility in decision-making within their organization. This allows autonomous teams to quickly adapt and prioritize innovation or scaling based on market signals.

"Our organization is required to maintain a certain level of flexibility in resource allocation, because this allows us to respond quickly to new opportunities and challenges. We adjust our allocation of funds based on needs and priorities." (Resp. 3)

"So, at this stage especially key now for us is very much prioritization. I can steer very quickly with our attention at least now." (Resp. 6)

The last observed strategy in two SSOs is maintaining flexibility in resource allocation in order to support both innovation and scaling. Organizations should be able to dynamically allocate resources based on their priorities, shifting between innovation and scaling as needed. This strategy aligns with O'Reilly & Tushman's (2013) view that ambidextrous organizations need flexibility in how they allocate their resources. Briefly, the identified strategies in the data reflect both **structural** and **process** ambidexterity. These are two key frameworks for balancing innovation and scaling in traditional organizations yet appear applicable to SSOs. Smaller organizations tend to have integrated units, but the respondents generally expect to have separate units eventually given enough expansion. Other strategies in the data include flexible **resource allocation** or **employees**. All strategies align with existing literature on organizational ambidexterity, providing further insights into how SSOs can effectively balance their goals of maximizing social impact and operational sustainability.

4.2 Cross-case comparison

This section will highlight both similarities and differences in how SSOs balance innovation and scaling. The comparison is organized around the key themes based on the research sub-questions: 1) decision-making criteria, 2) resource constraints, and 3) strategies for balancing innovation and scaling

1) Across the organizations studied, **financial viability** emerged as a consistent theme and the primary criterion for scaling decisions, while **mission alignment** drives innovation efforts. Financial viability is based on considerations such as return on investment and cash flow stability. These two factors are essential in the decision-making process of investing in scaling efforts.

In contrast, innovation is often prioritized when it aligns with the organization's mission and social goals. This reflects a broader trend in SSOs, where innovation is not just about creating new products but also about making sure that those products contribute to the organization's social mission.

There are however some differences in how organizations approach innovation as some focus more on **market demand**. For instance, one responder mentioned that market demand played a significant role in their decision to prioritize innovation. This approach is in contrast to the general innovation approach, prioritizing innovation based solely on social impact.

2) Across the organizations studied, resource constraints emerged as a significant factor influencing how organizations balance innovation and scaling. Across multiple cases, particularly **financial** and **human** resources stood out as recurring themes. Financial constraints like cash flow instability and high associated scaling costs illustrate how SSOs are likely to focus on scaling efforts that promise financial returns rather than investing in risky innovations.

   Human resource constraints critically affects decision-making in SSOs by forcing the organization to focus on either innovation or scaling efforts due to lack of staffing required to pursue both. This scarcity of human resources pushes organization to prioritize scaling efforts rather than innovation efforts, due to the lower required creative input and development time.

   Another constraint found in the data was **technological** constraint. The impact of this constraint varies between organizations. For the heavily reliant on digital infrastructure organizations, technological constraints can be a significant barrier to investing in innovation. However, for product-based innovations, technological constraints were not found, indicating that the impact of technology depends on the organization's field of innovation.

3) Across the organizations studied, a variety of strategies was employed to manage the balance between innovation and scaling. These strategies ranged from **structural ambidexterity**, where innovation and scaling are handled by separate teams, to **process ambidexterity**, where innovation and scaling are integrated and performed by the same unit. Other strategies include flexible **resource allocation** and **employee flexibility**.

The strategy of **structural ambidexterity** is about separating innovation and scaling so that distinct teams can make sure that both processes receive the recognition that they need. If the organization is big enough to adopt a structural ambidextrous approach, it will allow them to simultaneously pursue both innovation and scaling while avoiding any potential tensions. In contrast, **process ambidexterity** is about integrating innovation and scaling so that both processes happen within the same team. While this approach has less clarity than that of structural ambidexterity, it allows you to become more agile and capable of switching between innovation and scaling based on immediate needs. Effectively increasing flexibility and responsiveness to market demands.

While resource constraints, particularly financial and human resources, challenge organizations, SSOs employ a range of strategies to balance innovation and scaling. The findings from this cross-case comparison, such as flexible resource allocation and employee flexibility, may help SSOs innovate within their resource limitations. The choice between structural ambidexterity and process ambidexterity varies between organizations, however. They each reflect different approaches to manging the tension between innovation and scaling. By examining these strategies, this analysis may provide valuable insights into how SSOs can effectively balance their mission-driven goals with the demands of scaling efforts.

5. Discussion

This section will address the theoretical and practical implications of the results, research question(s) will be answered, and discuss directions for future research

5.1 Theoretical implications

This study contributes to the theoretical understanding of ambidexterity in organizations, particularly within the context of SSOs. In addressing the sub-research questions, the findings reveal the following:

1) *What criteria do managers in SSOs use to evaluate and prioritize innovation versus scaling initiatives?* Managers in SSOs mainly use criteria such as financial viability and mission alignment to prioritize innovation over scaling initiatives. This aligns with the theory of organizational ambidexterity of O'Reilly & Tushman (2013), where managers must continuously balance exploration (innovation) with exploitation (scaling) of existing resources, to secure operational efficiency and growth. In line with the exploitative (scaling) side of ambidexterity, financial considerations were frequently emphasized. Particularly return on investment (ROI) and business case strength drive the decision to scale existing solutions. While the use of a ROI benchmark is common in organizations looking for immediate returns, the focus on financial viability confirms previous research by Pisano (2015) suggests that scaling decisions are often grounded in maximizing predictable returns. On the exploratory (innovation) side of ambidexterity, innovation efforts were found to be primarily motivated by mission alignment and social impact. Several SSOs mentioned that innovations are driven by the organizations commitment to sustainability, mostly with a focus on reducing environmental harm. This showcases the nature of SSOs where, in contrast to for-profit companies, innovation is often mission driven. This notion fits the work of Mulgan (2006), where he argues that social innovation in SSOs is distinct because it seeks to solve societal problems, not just generate profit. There are exceptions where organizations take market demand into account when they are considering innovation decisions. Evident in respondent 8's case where the SSO adopts a more market-oriented approach to innovation, effectively integrating elements of for-profit innovation strategies into their decision-making process.

2) *How do resource constraints influence the decision-making process between innovation and scaling in SSOs?* Resource constraints, particularly financial and human resources were considered key factors that influence decision-making between innovation and scaling. Organizations must make strategic decisions based on the resources available to them, this is consistent with existing literature on resource-based view of the firm (Damanpour & Schneider, 2009). Financial constraints emerged as the key determinant towards scaling rather than innovation. Several respondents mentioned that limited liquidity, cash flow issues, or high cost of scaling often forced them to focus on scaling proven solutions rather than investing in new solutions. Supporting Pisano's (2015) work, scaling tends to be a safer, less resource-intensive option when compared to innovation, which often carries more uncertainty and risk. In addition to financial limitations, human resource constraints also play a significant role in influencing decision-making. Many organizations report being understaffed, which make it difficult to pursue both innovation and scaling. Adequate human resources are crucial for innovation, as innovation requires time, creativity, and dedicated personnel (Damanpour & Schneider, 2009). In resource-constrained environments, organizations tend to favour exploitation (scaling) because it requires less creative input and development time than innovation. This reliance on scaling however may reduce overall impact in addressing complex social issues in the long run, due to the inability to innovate and remain adaptable. One respondent experienced technological constraints, forcing the organization constantly prioritize scaling over innovation. Following Benner & Tushman's (2003) work, without the right technology in place, organizations may be forced to focus on scaling activities that can be supported by the existing infrastructure. This means that innovation efforts may be limited, and that technological capability may be considered an essential enabler.

3) *What strategies and practices are effective in balancing innovation and scaling within SSOs?* The strategies that organizations employ in order to balance innovation and scaling reflect the concept of organizational ambidexterity (Tushman & O'Reilly, 1996). The two primary approaches emerging from the data are structural ambidexterity and process ambidexterity. Organizations adopt a structural ambidextrous approach by creating separate teams or units for innovation and scaling. The advantage of this approach is that it allows the organization to maintain focus on both innovation and scaling without overshadowing any team. However, it requires significant resources to support multiple specialized teams, likely not feasible for SSOs.

In contrast, other organizations may adopt a process-based ambidextrous approach where the same team handles both innovation and scaling. The benefit of process ambidexterity is its flexibility and adaptability, allowing organizations to shift resources between innovation and scaling as conditions change. However, it may lead to conflicts or delays if the team is not able to manage both tasks simultaneously. The literature suggests that dividing innovation and scaling activities can reduce internal conflict and allows organizations to pursue both (O'Reilly & Tushman, 2013). Earlier work of Benner & Tushman (2003) however aligns with the theory of process ambidexterity, emphasizing feedback loops and dynamic resource allocation to balance innovation and scaling activities.

5.2 Practical implications

By answering the research question "***How do managers of social sector organizations identify the optimal balance between investing in innovation and focusing on scaling existing solutions?***" This study may provide practical insights for managers of SSOs and may help them in identifying the optimal balance between investing in innovation and scaling initiatives. The study found several key factors that may help managers find this balance.

First, SSOs should continue to prioritize **mission-aligned innovation** that directly contributes to their social impact gaols. While financial viability and market demand are crucial for scaling, innovation efforts should be tied to the organization's core mission, ensuring long-term relevance and sustainability. Managers should incorporate **mission alignment** as a formal criterion in their innovation process, to ensure that all new projects are consistent with the organization's social objectives before moving into the scaling phase.

As resource constraints are inevitable, it may be beneficial for SSOs to opt for a **dynamic resource allocation** strategy. This will allow for flexibility between innovation and scaling. By frequently reassessing the resource allocation based on organizational priorities and external (market) opportunities, SSOs can benefit from a better balance. In practice SSOs and other organizations may benefit from adopting a real-time resource management system that will allow them to adjust financial, human, and technological resources as conditions change. This can help

improve flexibility and avoid bad budgeting potentially hindering innovation and/or scaling efforts.

SSOs should further consider which form of ambidexterity, structural or process, is best suited to this organization size, complexity, and resource base. Larger organizations may benefit from structural ambidexterity, with separate teams dedicated to innovation and scaling, whereas smaller organizations may benefit from process ambidexterity, where integrated teams handle both functions flexibly. Managers need to assess their organizational structure and resource availability in order to determine whether separating innovation and scaling teams or integrating these teams will yield better results. By aligning all these efforts, managers and SSOs can effectively balance innovation and scaling, ultimately enhancing their social impact while maintaining operational efficiency

5.3 Limitations and future research

This thesis on how managers can identify the optimal balance between innovation and scaling in SSOs has several limitations that must be acknowledged. Firstly, the study relies on a small sample size. This is due to difficulty in reaching and planning interviews with experienced managers, especially in resource-constrained companies with limited availability and busy schedules. This limited sample size may not fully capture the diversity of challenges and practices across different sectors, alongside the profile and diversity of participants. Future studies should therefore include a larger sample size to enhance the depth and richness of the findings.

Secondly, as the research setting is in the Netherlands, this study does not account for geographical differences that might influence how organizations approach innovation and scaling such as local regulations, cultural norms, and economic conditions abroad. Future research should include other geographical locations as this may reveal additional strategies or constraints that were not captured in this research.

Thirdly, as the data was collected through interviews that rely on self-reported responses from managers, this may introduce bias or subjectivity. Respondents may overstate the success of their strategies or underreport the challenges that they experience, creating an incomplete

picture of how innovation and scaling are managed. For future research it may be worthwhile to incorporate objective performance data or third-party evaluations in order to cross-check self-reported results. This should provide a more comprehensive view of how SSOs manage the balancing of innovation and scaling.

The limitations outlined above may affect the scope and transferability of this study. While this study provides valuable perspectives on how managers balance innovation and scaling in SSOs, caution should be exercised when attempting to apply these findings to other organizations or contexts. Do consider the specificities of each case. Further research should build on these insights by including a more diverse range of cases, such as participants and organizations from diverse geographical regions or sectors and incorporate objective performance data or third-party evaluations for cross-checking self-reported results.

6. Conclusion

This study on social sector organizations (SSOs) and for-profit organizations provides insights into the different approaches taken towards balancing innovation and scaling. To do so, this study employed a qualitative research method to answer the question "How do managers of social sector organizations identify the optimal balance between investing in innovation and focusing on scaling existing solutions?". Through a qualitative analysis of several case studies, this research sheds light on the decision-making criteria, resource constraints, and strategic practices employed by SSOs in order to navigate this balance

The findings highlight that **financial viability** and **mission alignment** are central to decision-making processes. Managers in SSOs tend to prioritize scaling based on financial returns and operational efficiency, while innovation is driven by the organization's commitment to social impact and long-term mission fulfilment. The ability to pursue both innovation and scaling is often limited by **resource constraints**, particularly **financial** and **human resources**. These limitations generally push organizations towards scaling existing solutions, which offers more predictable returns than innovation, which is seen as a riskier but mission-critical activity.

In order to manage these competing demands, SSOs can employ several key strategies, with the most common approaches being adapting either **structural** or **process** ambidexterity. Structural ambidexterity refers to dividing innovation and scaling efforts between separate teams, while process ambidexterity refers to integrating both processes within the same team to remain agile and responsive to change in market demand.

Despite these insights, the study acknowledges several limitations, including a relatively small sample size and a focus on specific sectors, which may limit the transferability of the findings to other contexts. Future research should therefore expand on the diversity of cases and include organizations from different regions.

In conclusion, this research contributes to a deeper understanding of how SSOs manage the tension between innovation and scaling. By offering practical actionable insights to managers and highlighting key strategies for success, this research helps SSOs navigate resource constraints, maintain their social mission, and achieve sustainable impact.

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Appendix

Interview guide

Introduction to the interview:
Hi, thank you for participating in my research! My name is Ximen Weijman, as part of my Master's Thesis at Radboud University I am conducting research on "How managers of social sector organizations identify the optimal balance between investing in innovation and scaling existing solutions".

Pre-interview questions:
During this interview you are encouraged to freely express your opinions. The answers given during this interview will be anonymized, and the interview will be recorded and transcribed afterward with your permission. If you wish, a copy of the transcription can be sent to you after the interview, the recording will be deleted. Do you agree to the recording, transcription, and anonymizing answers of the interview?

Reviewed questions:

Innovation
Organizational culture
- Can you describe the current organizational culture and how it supports creativity and innovation?
    - If yes, does your organization encourage risk-taking and experimentation among employees? How?
- Are there specific practices or policies in place to foster an innovative culture?

Leadership and management practices
- How does management support and/or promote innovation from within?
- Are there any examples of visionary leadership that have led to successful innovation initiatives?

Resource availability
- How are financial resources allocated to innovation projects in your organization?
- Are there any resource constraints?

Scaling
Organizational culture
- Can you describe how your organization's culture supports the scaling of successful initiatives?
- What values and goals align with your efforts to scale programs or projects?

Resource availability
- How are financial resources allocated to scaling efforts within your organization?
- Are there any resource constraints?

Standardization
- What standardized processes or protocols have been developed to support scaling initiatives?
- How do you ensure consistency in quality and delivery as you scale your programs?

Ambidexterity

Structural ambidexterity

- Does your organization have separate units for innovation and scaling? If so, how do they operate?
- Are there mechanisms are in place to integrate the work of innovation and scaling units?

Process ambidexterity

- Does your organization develop processes that support both exploration and exploitation activities? How?
- What steps are taken to ensure that these processes are flexible and adaptable?
    - Feedback loops?

Contextual ambidexterity

- Are there employees that engage in both innovation and scaling?

Resource allocation

- How are resources allocated between innovation initiatives and core operational activities?
- What level of flexibility does your organization have in reallocating resources to respond to changing priorities?

<u>Closing questions:</u>

- Is there anything you would like to add?
- Do you have any comments about the interview?

<u>End:</u>

Once again thank you for participating in in my research, your time and assistance are greatly appreciated!

DUTCH BELOW

Innovatie

Organisatiecultuur

- Kunt u de huidige organisatiecultuur beschrijven en hoe deze creativiteit en innovatie ondersteunt?
    - Zo ja, moedigt uw organisatie het nemen van risico's en het experimenteren onder werknemers aan? Hoe?
- Zijn er specifieke praktijken of beleidsregels om een innovatieve cultuur te bevorderen?

Leiderschap en managementpraktijken

- Hoe ondersteunt en/of bevordert het management innovatie van binnenuit?
- Zijn er voorbeelden van visionair leiderschap die tot succesvolle innovatie-initiatieven hebben geleid?

Beschikbaarheid van middelen
- Hoe worden financiële middelen toegewezen aan innovatieprojecten in uw organisatie?
- Zijn er beperkingen?

Schalen
Organisatiecultuur
- Kunt u beschrijven hoe de cultuur van uw organisatie het opschalen van succesvolle initiatieven ondersteunt?
- Welke waarden en doelen sluiten aan bij uw inspanningen om programma's of projecten op te schalen?

Beschikbaarheid van middelen
- Hoe worden financiële middelen toegewezen aan opschaling programma's binnen uw organisatie?
- Zijn er beperkingen?

Standaardisatie
- Welke gestandaardiseerde processen of protocollen zijn er ontwikkeld om schaalinitiatieven te ondersteunen?
- Hoe zorgt u voor consistentie in kwaliteit en levering als u uw programma's opschaalt?

Ambidexteriteit
Structurele ambidexteriteit
- Heeft uw organisatie aparte eenheden voor innovatie en opschaling? Zo ja, hoe werken deze?
- Welke mechanismen zijn er om het werk van de innovatie en opschaling eenheden te integreren?

Ambidexteriteit van processen
- Ontwikkelt uw organisatie processen die zowel innovatie- als opschalingsactiviteiten ondersteunen? Hoe?
- Welke stappen worden er genomen om ervoor te zorgen dat deze processen flexibel en aanpasbaar zijn? Feedback loops?
Contextuele ambidexteriteit
- Zijn er medewerkers die zich bezighouden met zowel innovatie als opschaling?

Toewijzing van middelen
- Hoe worden middelen verdeeld tussen innovatie-initiatieven en operationele kernactiviteiten?
- Hoe flexibel is uw organisatie in het herschikken van middelen om te reageren op veranderende prioriteiten?