

EMBRACING HYBRIDITY: A BUSINESS MODEL INNOVATION FOR SUSTAINABLE SOCIAL ENTERPRISES

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ABSTRACT

Unlike commercial enterprises, social enterprises are required to generate both social and economic value. Hence, the sustainability of social enterprises must be considered from a dual perspective: generating and sustaining the envisioned social impact and sustain financially over time to make the social impact continuous. Prioritising social objectives over financial endurance can be suicidal as it may jeopardise the long-term financial viability of the enterprise. Hence, both business and social impact dimensions are to be given equal weightage and incorporated into the enterprise business model, considering the frictions that may exist during their co-existence and finding ways to balance both in long term. The paper starts with an analysis of various dimensions and interpretations of social enterprises followed by a review of literature on business models. The need of innovating the conventional business models used by commercial enterprises to suit social enterprises are then discussed and a business model canvas for social enterprises is proposed, suiting the dual objectives of the enterprise. The paper concludes with the case of a social enterprise, set up for the upliftment of urban poor, to illustrate the application of the proposed social business model canvas.

Keywords: Sustainability; Social enterprises; Social Entrepreneurship; Financial sustainability; Social impact; Business model; Business model innovation; Business model canvas.

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1. INTRODUCTION

Traditionally, the notion of sustainability in an organisational context revolved around financial sustainability. The emphasis was on revenue growth, profit maximisation, working capital and capital expenditure management and building up the asset base (Shaughnessy, 2013). Achieving these yardsticks of financial performance led to shareholder wealth maximisation, higher stock prices and uninterrupted access to different financing sources, which in turn ensured the survival and growth of organisation over time. While the importance of financial sustainability in the long-term survival of an organisation is a priority, present day organisations are compelled to broaden the scope while thinking about sustainability due to environmental pressures. Mills-Scofield (2013) wrote in Harvard Business Review that 'every business is (or should be) a social business' which emphasises the importance of triple bottom-line of today's business. While it can be agreed that all business should have the elements of socio-environmental responsibilities embedded into their business models, the weightage of these individual elements vary depending on the organisational formats, which spans from purely profit oriented to purely not for profit organisations. The focus of this paper is on social enterprises, which falls in the centre of the continuum, where financial

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and social value coexists. Battilana and Lee (2014, p. 397) defines hybrid organizing as “the activities, structures, processes, and meanings by which organizations make sense and combine multiple organisational forms”. Social enterprises sit in this setting, and it is important to explore how social enterprises adapt their business models to sustainably achieve the multiple value creation objectives.

A wide array of literature is available on sustainable entrepreneurship primarily focusing on opportunity identification, venture creation, value creation process, personality aspects of entrepreneurs, social enterprise ecosystem etc. but there is minimal discussion on how enterprises tackle the issue of achieving multiple value creation objectives by holistically integrating it into a single business model (Dentchev et al., 2018; Margiono et al., 2018; Matzembacher et al., 2020). Literature shows that it is possible to incorporate multiple value creation objectives (economic, social, and environmental) into a single social business model (Davies & Chambers, 2018; Schaltegger et al., 2016). But the issue is that these multiple objectives can be conflicting and will create managerial tensions during the process of value proposition, creation, and capture. Holistic analysis and integration of the multiple objectives into the business model is essential for minimising or overcoming the tensions that may arise in pursuit of these contradicting/opposing objectives. The objective of this paper is to discuss the significance of co-existence of multiple faces of sustainability in social enterprises and propose how this can be embedded into a social business model, effectively, to overcome hybridity related tensions. The paper starts with a theoretical overview of the concepts based on detailed literature review. The complexities of multiple value creation and related tensions and capturing it in a comprehensive business model were discussed next. The views of different authors were then critically analysed with an objective of proposing a comprehensive business model canvas, suiting the multiple objectives construct of a social enterprise. To illustrate the proposed business model canvas in action, the case of a social enterprise (a real experiment set up for the upliftment of urban poor) is presented. The case details the complexities faced in the pursuit of multiple value creation and how the proposed business model canvas incorporates it effectively. The paper concludes with a discussion of implications and opportunities for further research in the area.

2. SOCIAL ENTERPRISES AND DUAL VALUE CREATION

Social enterprises and the notion of corporate social responsibility (CSR) have much in common but are essentially different. CSR can be seen as a corporation’s voluntary initiatives towards social and environmental concerns. With the passage of time, notion of CSR has evolved from a mere philanthropic perspective to being considered as one of the significant business strategies often embedded into the core operations but again, it remains secondary to the corporation’s prime objective of profit maximisation. This makes the notion different from that of social enterprise, whereby the social enterprises pursue financial objectives to ensure providing sustained social impact. Their primary motive is to do social good, and the financial objectives are a means to it. Even though CSR advocates propose ‘triple bottom line’ approach to evaluate a corporation, ultimately what matters in a capitalist system is financial profit/shareholder wealth maximisation and it is quite difficult to reconcile this with social objective (Yunus et al., 2010).

In general, enterprises can be roughly grouped as either for-profit businesses or non-profit organisations. Even though for-profit businesses are seen as profit maximising businesses with an

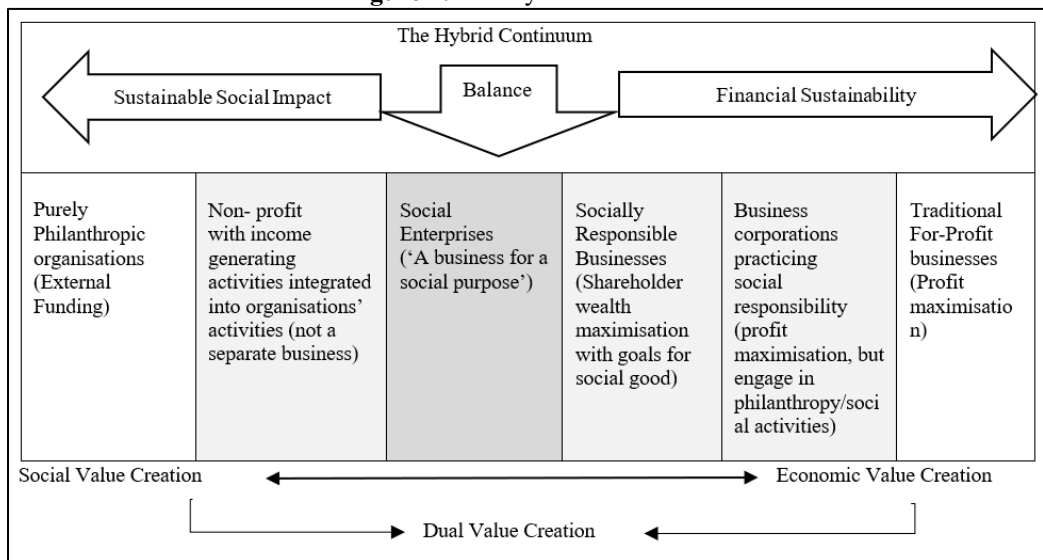
objective of shareholder value maximisation, stakeholder expectations force them to look beyond mere financial aspect and include social and environmental aspects to their bottom-line. Similarly, to ensure sustainable social impact, social oriented organisations have to find ways to be financially viable. Hence the for-profit/non-profit classification is not watertight as the objectives do overlap. A better approach is to put it in a continuum with a variety of organisational forms existing within the extremes of pure for-profit and pure philanthropic organisations. The importance of social and environmental bottom lines increases when moving towards non-profit extreme of the said continuum. Alter (2007) in her work *Social Enterprise Typology* discusses a spectrum which includes four different types of hybrid practitioners within the extremes. Social enterprises fall somewhere in the mid-point of this spectrum, where both financial and social objectives are equally important. The primary objective of the for-profit entities shown on the right-hand side of the hybrid continuum is economic value creation but may have to undertake some activities to address the socio environmental expectations of stakeholders, to survive in the competitive marketplace. On the other hand, the primary motive of non-profit entities is social value creation but to sustain the delivery of social good, they have to generate funding through commercial activities. Hence, there is dual value creation taking place in both the grouping in the continuum, in different proportions. Social enterprises fall in the midpoint of the continuum where there need to be an equilibrium of social and economic sustainability.

A social enterprise draws its characteristics from both for-profit and non-profit entities. Even though the primary motive is to do social good, unlike philanthropic institutions, social enterprises do not solely rely on grants, donor funding, crowdfunding, or similar one-off sources of funding for its survival. It aims to be financially independent by generating its own income which allows it to pay for itself in the pursuit of its social mission. The need of stable financial resource is achieved through the 'business' constituent of the enterprise which operates in the same way as a for-profit entity.

The theoretical foundation of the concept of social entrepreneurship/enterprise is still in an evolving stage. Despite the increased scholarly interest in the area, terminological confusion still prevails due to the hybrid nature of its organisational construct. The lack of a universally accepted definition and dimensionalisation of the social enterprises construct has paved way for widely differing operationalisation of the concept (Saebi et al., 2019) leading to researchers and practitioners from different backgrounds giving interpretations suiting their background and expertise. A plethora of terminologies like philanthropy, charities, Non-Governmental Organisations (NGO), socially responsible firms, social entrepreneurship, third sector etc. being widely used with vague differences in their meanings. Conceptual terminologies and interpretations even differ from geographical region to region (Defourny & Nyssens, 2010; Kerlin, 2013). Several academics have analysed these differences and contradictions in an effort to arrive at a more inclusive and widely accepted definition of social enterprise, but still the concept lacks a holistic definition (Martin & Osberg, 2007; Zahra et al., 2009; Teasdale, 2011; Brouard & Larivet, 2011, Saebi et al., 2019). Prof. Muhammad Yunus, 2006 Nobel Laureate, who popularised the concept of social enterprises through his micro financing experiments, describes the concept of social business as: "a self-sustaining company that sells goods or services and repays the owners' investments, but whose primary purpose is to serve society and improve the lot of poor" (Yunus et al., 2010, p.309). This explanation is based on his experimentation in Bangladesh, where the primary objective was upliftment of the quality of life of poor. The real scope can be much wider. The European Commission (2017) rightly pointed out that "social enterprises combine societal

goals with an entrepreneurial spirit” and describes it as a business where the societal objective of common good is the reason for doing commercial activities. The European Commission (2017) further elaborates that social enterprises reinvest the profits in pursuit of achieving its social objective. Zahra et al. (2009, p.522) suggests a comparatively well-constructed definition, based on their analysis of numerous definitions proposed by different authors: “Social entrepreneurship encompasses the activities and processes undertaken to discover, define, and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in an innovative manner.” To offer an operational definition which captures the dual value creation objective of the social enterprise, the definition suggested by Zahra et al. (2009) will be reframed for this paper as: Entrepreneurial activities and processes undertaken to discover, define, and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in a financially independent and sustainable manner.

Figure 1: The Hybrid Continuum



Notes: With inputs from Clohesy and Reis, 1999; Alter, 2007.

Dual value creation results in having duality of objectives. Within the same organisation, social objective and financial objectives co-exist. The tension existing between these opposing objectives within the same organisation have made sustainable existence of social enterprises challenging. The ongoing debates on ‘which objective should be prioritised’ illustrates two schools of thought. Some believe that social objectives should be prioritised over financial as the primary mission of social enterprise is to provide social good. They argue that higher attention on financial objective may derail the enterprise from focusing on its social mission. Others believe that this thinking is shallow and may jeopardise the long-term financial viability of the enterprise and eventually limits its capability of generating and maintaining social impact in long term. Ideally, the two aspects of value creation should not be bifurcated into opposing forces. Business models of sustainable enterprises should be innovated to seek possibilities to converge the opposing aspects thus resulting in total value creation.

3. SOCIAL BUSINESS MODELS

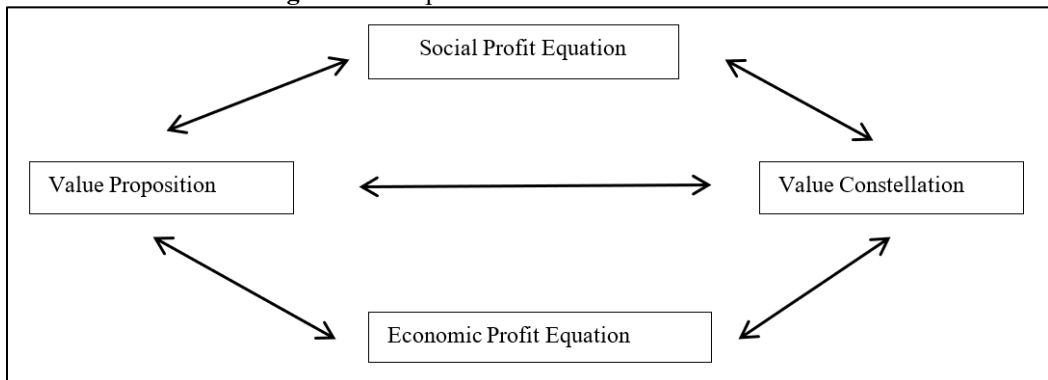
A business model explains how an organisation fulfils its mission. Discussion on business model has gained much importance in the last two decades and researchers as well as practitioners like Timmers (1998); Chesbrough and Rosenbloom (2002); Morris et.al (2005); Osterwalder et al. (2005); Richardson (2008); Zott and Amit (2010); Teece (2010) have proposed several approaches, designs and definitions. One of the most widely used definition is by Osterwalder et al. (2005) who defines a business model “as a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams” (p.10). A review of available literature on business model shows that the essence is to create, deliver and capture value through an arrangement of resources, networks and activities. Chesbrough and Rosenbloom (2002) listed six attributes which describes the functions of a business model: A business model “articulates the value proposition”, “identify a market segment and specify the revenue generation mechanism for the firm”, “define the structure of the value chain required to create and distribute the offering and determine the complementary assets needed to support the firm’s position in this chain”, “estimate the cost structure and profit potential of producing the offering”, “describes the position of the firm within the value network linking suppliers and customers”, “and formulates the competitive strategy by which the innovating firm will gain and hold advantage over rivals” (pp. 533-534). More recent works emphasise the importance of social and technological architecture and highlights the importance of cooperation and best use of resources leading to achievement of competitive advantage (Grabowska, 2020). The question here is whether conventional for-profit business models can be used for social enterprises?

It is common that social enterprises adopt commercial business models as they have to generate revenue to sustain its social cause. The danger here is that the emphasis of commercial business models on financial profit generation may derail the focus of social enterprises from attaining the ultimate social mission. Morris et al. (2005) reviewed the available literature on the perspectives of business models and proposed an integrative framework of characterisations of business models with six component decision areas: “1) how do we create value? (Factors related to the offering); 2) who do we create value for? (Market factors); 3) what is our source of competence? (Internal capability factors); 4) how do we competitively position ourselves? (Competitive strategy factors); 5) how we make money? (Economic factors); and 6) what are our time, scope, and size ambitions? (personal/investor factors)” (Morris et al., 2005, p.730). Adapting these six areas to capture the dual objectives of a social enterprise will be a good starting point to discuss social business models. Yunus et al. (2010), who pioneered micro financing in Bangladesh to help the poor who were exploited by local moneylenders, opines that mere replication of conventional for-profit/commercial business models do not work for social enterprises. Grameen entities in Bangladesh, which was established in 1983 with the formation of Grameen Bank by Muhammed Yunus, innovated the traditional for-profit business model to suit the expectations from a social enterprise (Yunus et al., 2010). They examined their experience with the successful Grameen entities and listed down five characteristics they have found, which provides solid foundations for social enterprise business model innovation: “Challenge the conventional wisdom, finding complementary partners, undertake continuous experimentation, favouring social profit-oriented shareholders and clearly specifying the social profit objective” (Yunus et al., 2010, pp 312-318).

The first three characteristics are similar to characteristics involved in conventional business model innovation and the latter two, is specific for social enterprises. Müller (2012) in her work cites various reasons for distinction of social enterprise business models from commercial ones. She highlights that social entrepreneurs create value for the society and for their beneficiaries, and hence “profits are a facilitator, but not the primary purpose of the organisation” (p.106). They pursue opportunities that are different from the commercial enterprises and often they may be operating in an informal, non-regulated and not predictable market environment and take different approaches to enact opportunities (Müller, 2012).

A clear specification of the stakeholders is another important factor when it comes to creation of a social enterprise business model as the value proposition focuses on the entire stakeholders, not merely customers. Vague identification of stakeholders and their expectations can contribute to the complexity when creating and capturing value. Conflict between social profit and economic profit can be minimised to a certain extent by specification of targeted stakeholders, developing appropriate value propositions and clearly defining social profit and economic profit equations. Commercial and social value delivery targets and appropriate value propositions developed should be separated in the canvas to avoid complexity. In social enterprise context, economic profit equations generally target at cost and capital recoupment and not profit maximisation. Yunus et al. (2010) proposes four components for a social business model: the value proposition (the stakeholders and the product/service), the value constellation (the internal value chain and the external value chain), the social profit equation (the social profit and the environmental profit), and the economic profit equation (the sales revenues, the cost structure, and the capital employed) (p.319).

Figure 2: Components of Social Business Model

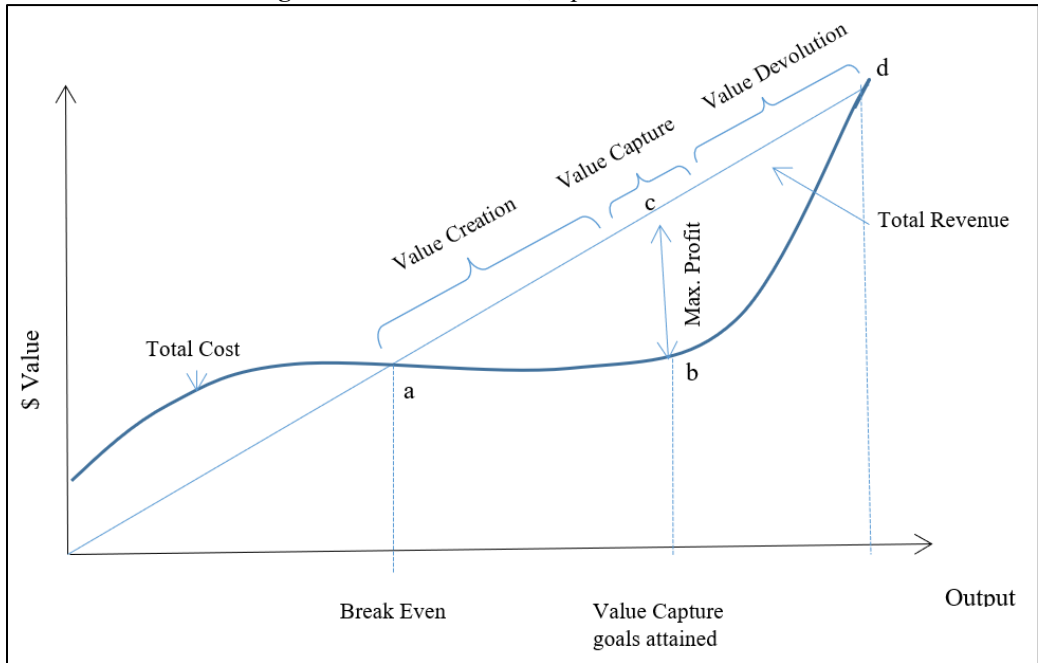


Source: Yunus et al., 2010

The opposing characteristics of the dual objectives of financial sustainability and social impact requires calculated trade-offs between financial gains and social good. The managers may have to forsake social good for a period if the financial viability has not been achieved, as financial sustainability is a necessity for delivering sustained social impact. Conversely, social good should be given priority at a financial cost, once the firm reaches a viable financial situation. The balancing act often derails when the enterprises' eagerness to attain financial objectives overwhelm the eagerness for social objective. This will lead to mission –drift. Social enterprises are mission driven

and to avoid mission- drift in its course of operation, clear definition of mission is important. Opportunities explored by social enterprises are part of a grand mission: 'social betterment'. Within the realm of this grand mission, social enterprises should develop specific mission statements based on subcategories of social entrepreneurship foundations they are involved in such as health, education, human rights, civic engagement or protecting the environment (Vial, 2016). This will help in designing appropriate value creation, delivery and capture perspectives, to suit the mission achievement. The identification of an overarching mission statement ensures that the social enterprise do not deviate away from its ultimate objective of social profit generation, that is profit generation for all stakeholders. The case of Grameen Phone and Grameen Danone, two entities of Grameen Group in Bangladesh, emphasises the importance of overarching mission statement (Yunus et al., 2010). Grameen Phone was established in partnership with Telenor, a Norwegian telecommunications giant, to make phone services accessible to Bangladeshi villagers. The venture was doing financially well but the idea of Grameen Group to give the majority shares of the company to the poor was not well received by Telenor. This is a clear deviation from the ultimate objective of a social enterprise: 'achieving social good'. The lesson learnt made Grameen Group to establish an explicit mission statement when they ventured into Grameen Danone project. Grameen Danone was set up with Danone as a partner to provide affordable dairy products (yoghurt) to Bangladeshi children, to address their nutritional needs. The overarching mission statement: "to bring daily healthy nutrition to low income, nutritionally deprived populations in Bangladesh and alleviate poverty through the implementation of a unique proximity business model" made the wider scope of the social business, very explicit (Yunus et al., 2010, pp. 317-318). This ensured that the value creation was sought at a higher level, leading to dual value creation, so as to serve the mission.

Danger of mission-drift does not imply that financial concern is secondary to social concern. Financial management is not be taken lightly in a social enterprise, as financial sustainability is a predecessor for sustained social impact delivery. Prime objective of commercial business entities is to maximise profits and achieve financial sustainability. They strive for this by efficiently managing the key financial performance indicators: increasing margins, management of cash flows, working capital and capital expenditures and expanding asset base. As social enterprises should have a viable business component in its business model to generate sustainable financial support to sustain the envisaged social impact, all the above-mentioned aspects are applicable to a social business model as well. Shaughnessy (2013) suggests the following steps that leads to financial sustainability of a social enterprise: grow the revenues, improve the gross and operating profit margins, manage the working capital well, efficiently invest capital in needed growth projects, nurture and increase free cash flow, build a cushion of cash and other assets base, use low-cost debts and engage with communities interested in investing in social causes with low return expectations. A much-debated question here is to what extent social enterprises should focus on financial profits? On one hand, profits are much required for impact investment and on the other hand, there is a potential risk of mission-drift. Agafonow (2015) suggests that social enterprises should have a mechanism of creating value that can sacrifice value capture and involve in value devolution in long term. Value devolution in simple terms means giving up market power for the vulnerable clientele's sake, that is, maximise the output and price the output lower than commercial price, thus making it accessible to vulnerable customers. A simple diagrammatic representation makes the concept clearer (See Figure 3).

Figure 3: Value Creation, Capture and Devolution

Source: Agafonow, 2015.

When the output level reaches intersection point a, costs will be equal to revenue and the enterprise breaks even. From this point the firm starts to capture value and it will be at its maximum when the difference between total costs and revenue is at maximum (point c-b in the diagram). The period between break even and maximum profitability is important as crucial financial management decisions need to be undertaken to ensure financial sustainability. The financial management model followed by the enterprise decides the trade-offs – whether the surpluses should be paid off or re invested to further expand the scale of operation. Attainment of this level satisfies the value capture goals set by the enterprise and now should turn to value devolution. Other than just focusing on profitability, social enterprises should also include strategies to improve the financial efficiency and effectiveness by reducing the dependence on donations, identifying diverse and reliable funding bases etc. Dual bottom line will naturally make the enterprise management complex and the associated risks and benefits (Alter, 2007) are shown in Table 1.

Table 1: Risks and Benefits of duality of objectives

	Risks	Benefits
Financial	<ul style="list-style-type: none"> • Possible Financial Loss • Start-up costs higher than willing to commit. • Traditional non-profit funders may not support. • Opportunity cost (earned income vs. fundraising) 	<ul style="list-style-type: none"> • Generates sustainable finance. • Diversified funding base • Diversified revenue streams • Reduces donor dependency. • Leverages existing assets. • Increases credibility with funders

Table 1: continued

Social mission	<ul style="list-style-type: none"> • Social mission and reputation could be compromised if venture is seen as a sell-out by stakeholders. • Imbalance of social mission and finance, causing mission drift. • Enterprise could have negative impact on clients 	<ul style="list-style-type: none"> • Sustainable programming vehicle • Accountability for achieving social objectives. • Leverages mission activities and core competence
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Adapted from: Alter (2007) Social Enterprises Typology, Virtue Ventures LLC.

How the enterprise is governed should be clearly articulated. The governance policy encompasses all the other building blocks as it includes the processes or laws that manage the enterprise, networks as well as its relationship with the stakeholders. Grameen group ventured into numerous for-profit not-for-profit joint ventures which led to establishment of new legal entities. The management of conflicting objectives of partners requires formulation of all-encompassing governance policies. Social enterprises may often find it difficult to source the required resources and securing them can be tedious and time consuming. Scarce resources are often shared, and networks play an important role here. Networks include partnerships, co-creators and champions in the field who contribute to the process of creating and delivering the commercial value and social impact. The motivations that underpin the network relationships may vary. Some contributes purely towards social impact which should be valued as it could optimise economies of depth and scope of social impact. Unlike commercial businesses, social enterprises tend not to compete with each other; normally they evolve through cooperation or cooptation and hence the importance of networks.

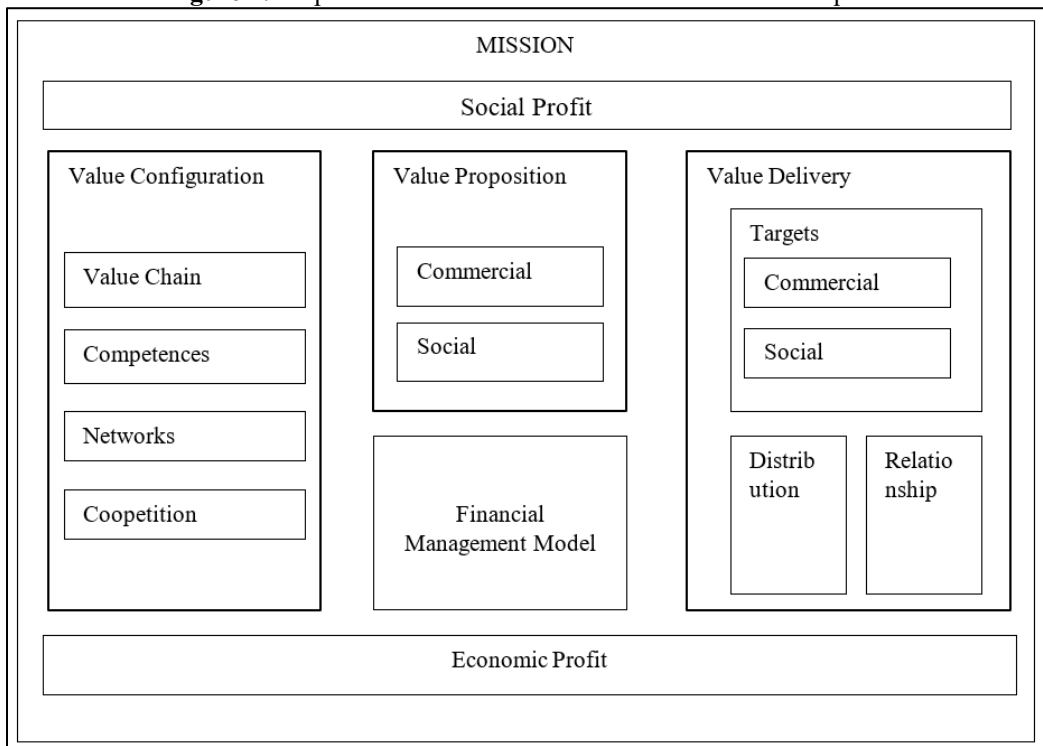
4. A BUSINESS MODEL CANVAS FOR SOCIAL ENTERPRISES

A business model canvas is a single page visual representation of the interrelations of the building blocks of a business model. Among the various business model canvases proposed by various researchers and practitioners, the one proposed by Osterwalder and Pigneur (2010) stands out as it is co-created by more than 470 practitioners from around the world. Their commercial business model canvas depicts nine building blocks: Key Partnerships, Key Activities, Value Proposition, Customer Relationships, Customer Segments, Key Resources, Channels, Cost Structure and Revenue Streams. Various other authors like Marquez et al. (2010); Michelini and Fiorentino, (2012) adapted the framework proposed by Osterwalder and suggested their own model in specific areas.

As discussed before, incorporating the social objectives into the business realm of conventional business model is the main challenge in developing a social business model. Social business model canvas should identify and depict the interactions between commercial operations which provide financial sustainability and the social impact the enterprise is trying to achieve. The interactions may be symbiotic and/or competitive and often brings some tensions in between them. Osterwalder et. al (2005) was commercial enterprises business model and hence the complexity of dual objectives was not dealt with in their model. Yunus et.al (2010) narrates the lessons they have learnt from promoting and running social enterprises, leading to the identification of four major

pillars of a social business, which could be used in the development of a social business model canvas. Michelini and Fiorentino (2012) focuses on the comparison of social and inclusive business models and the associated risks and benefits. An effort could be made on consolidation of these models. Vial (2016) has provided an account on how the work by Morris et al. (2005) could be used for explaining the business model of a social enterprise. All these works have highlighted some unique facets of commercial/social business models and capturing all these varied aspects in a single canvas makes it vividly different from other available business model canvases. Drawing from the works of Osterwalder et al. (2005); Michelini and Fiorentino (2012); Vial (2016); Yunus et al. (2010); and Burkett (n.d), and incorporating the characteristics discussed in the previous paragraphs, which makes social enterprise different from a purely commercial business, a canvas is proposed as given in Figure 4.

Figure 4: Proposed Business Model Canvas for a Social Enterprise



The proposed social business model canvas contains eight areas: Mission, Governance, Social Profit, Economic profit, Value Configuration, Value Proposition, Value Delivery and Financial Management Model. The importance of mission and governance and its influence on the whole business model was discussed in detail before. The opportunities explored by social enterprises are mission driven and clear articulation of mission is essential for appropriate design of value configuration, proposition and delivery. Overarching mission statements prevents the organisation from the danger of mission drift. Governance model lays out the laws, processes and practices that guides the overall governance of the enterprise in relation to its stakeholders. This ensures smooth

and synergic interaction between multiple stakeholders with varying objectives. Social profit looks at the comparison of risks and benefits associated with generation of social benefit. Economic profit describes the cost and revenue aspects of the enterprise resulting in the economic profit. The area of value configuration has four component parts: Value chain, Competences, Networks and Coopetition. Value chain lists the activities involved in the value creation process which is the backbone for the success of any business entity. Competences outlines the capabilities required by the enterprise, in terms of skill and ability, necessary for value creation. Networks include the key partnerships required to create and deliver value. Social enterprises, which are set up primarily with social missions, may lack expertise in certain areas to compete of its own within the industry and hence the option of cooperation and collaboration need to be explored. This will facilitate better access to resources and markets which the social enterprise may not be able to develop themselves. The nature of the mission to be pursued and the scarcity of required resources and competences makes competition counterproductive and hence cooperation or coopetition better suits social enterprises. Cross-sector collaborations can create and deliver both social and economic value and can be mutually reinforcing (Dahan et al., 2010). Value proposition should be looked at from commercial and social perspective. The financial objective of the social enterprise requires it to have a commercially viable value proposition and the social objective leads to a social value proposition ie. the social benefits generated by the entity. Non-distinction of commercial and social value proposition may lead to social enterprises taking commercial value propositions for granted as they may assume that the commercial products/services can be easily marketed due to the social cause they are championing. This is a pure misconception. Communicating the social value proposition to the customers of commercial value proposition as part of the marketing efforts may help the enterprise to draw more customers in as it may form part of their purchasing decisions. Value delivery targets are the segments that the enterprise is targeting to deliver the value propositions. Commercial targets buy the commercial products and services from the enterprise, contributing to the financial revenue and the social targets are those who supports or benefits from the social impact generated by the enterprise. Various channels that the enterprise uses to reach the targets are described under distribution and relationship explains how the enterprise create and maintain fruitful relationship with the targets of value delivery. Financial management model explains how the enterprise manages the revenue surplus.

5. AN ILLUSTRATION OF PROPOSED BUSINESS MODEL CANVAS APPLICATION

This case study illustrates how the proposed model can be applied to a real-life social business. Due to confidentiality issues, the commercial details of the enterprise are not revealed. A thorough analysis of the operations of the enterprise has been conducted and applied to the proposed business model canvas. This facilitated the verification of the relevance of identified building blocks of the proposed business model. The canvas helped to fine tune the existing business model of the enterprise to further improve its capability to embrace the dual objectives, by identifying certain gaps that were not clearly addressed by the enterprise. The main aim of this illustration is to express the ability of the proposed canvas to encompass the dual objective in one frame. The analysis and application to the business model canvas was done by the author, from a neutral perspective.

Interviews and observations are ideal tools for collection of qualitative primary data, especially for case studies (Yin, 2009). Office bearers of the social enterprise, management staff of the

commercial agricultural farming and marketing company and officials from the local municipality were interviewed and secondary sources like government reports and other published sources were referred to, to get a wider and clearer picture of the context in which the social enterprise is operating. The qualitative data collected led to the identification and analysis of different network participants, their functions, roles and the related value chain activities; required competencies; governance in relation to formation of relationships, managing the power dynamics, conflict and problem solving; external governance in terms of managing external stakeholders and determining the components of value proposition and value delivery system. The gathered information has been used to illustrate the proposed social business model canvas.

5.1. *The Problem:*

Urban poverty is a major concern of many fast-growing cities. Poor families from rural and suburban areas move to the city in search of better earnings and the majority end up in miserable living conditions as they are not skilled or educated enough to find a decent income. This ultimately led to urban poor facing high costs of living and to make both ends meet, many may resort to illegal ways of earning, leading to an increase in social unrest. The traditional philanthropic approaches to contain urban poverty like lumpsum financial grants from government / philanthropists, free meals, clothing etc. and one-off cash disbursements are neither sustainable financial sources for the poor nor sustained solution for poverty alleviation. As governmental agencies could not sustainably contain these issues, there is a need of looking at alternative solutions. Success of social enterprises in containing poverty is well documented in many countries, proving the effectiveness of social enterprises in urban poverty alleviation. Same was the situation faced by the city council of this major city in a fast-growing Asian country. Governmental agencies have tried one off mechanisms, but did not sustain and sought after the help of a Non-Governmental Organisation, who was active in the poverty alleviation programmes in the city.

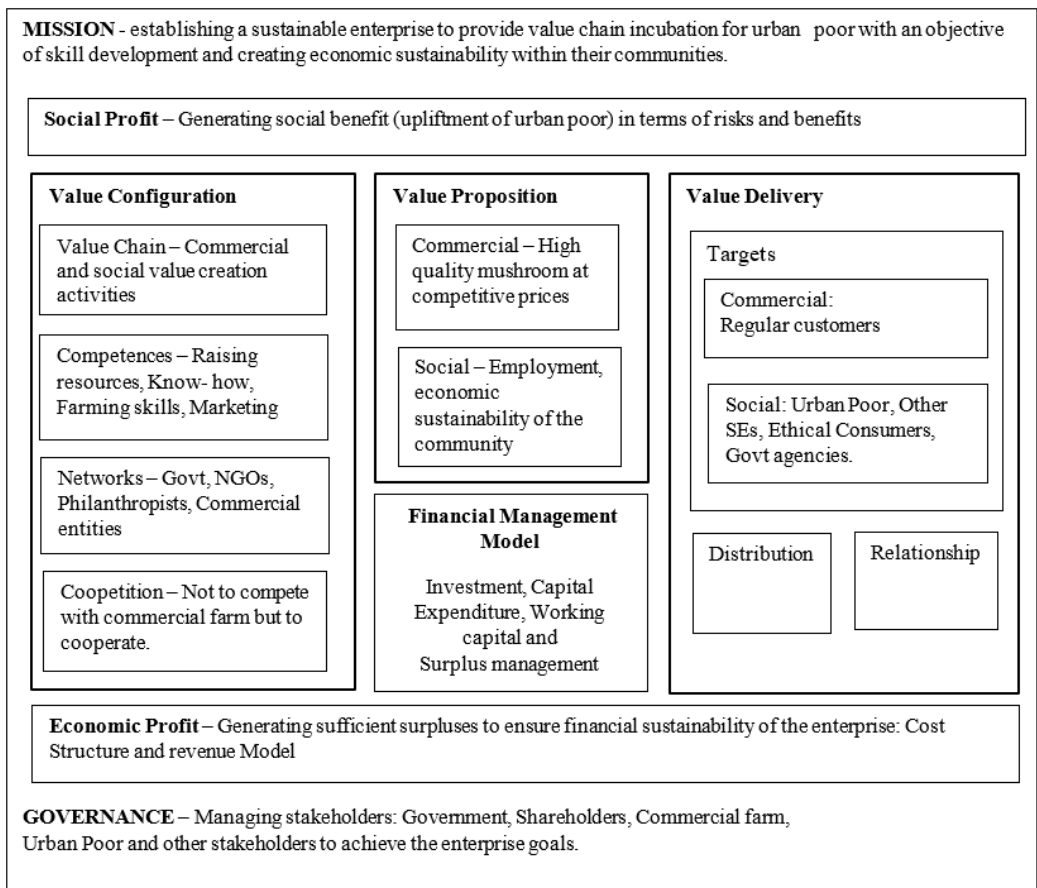
5.2. *The Project:*

Learning from the drawbacks and inefficiency of providing one off governmental and philanthropic initiatives to uplift urban poor, the Non-Governmental Agency (NGO) set up a social enterprise trying a novel business model. To ensure sustained social impact and organizational financial sustainability, they tied up with a commercial entity to ensure the commercial success of the enterprise. With support from governmental agencies and the said commercial establishment, they promoted a venture of mushroom farming and marketing to aid the urban poor.

The overarching mission of the social enterprise was to establish a sustainable enterprise to provide value chain incubation for the urban poor with an objective of skill development and creating economic sustainability within their communities, with the support of commercial enterprise. The enterprise, with initial capital from government agencies and other stakeholders, collaborated with an agricultural farming and marketing company to groom unskilled urban poor to run their own microenterprises for growing mushroom. Mushroom is a staple food in many southeast Asian countries and there is a year-round demand for quality mushroom in the region, especially among Chinese consumers. Mushroom cultivation requires minimal space and is comparatively easier to grow and harvest and the growth cycle is very short.

The urban poor were given micro loans to buy mushroom bags and they will lodge their mushroom bags at the commercial enterprise’s premises. Farm’s experts will provide the poor with mentoring and training on all aspects of mushroom farming and they consider this as their CSR activity. The poor will tend the mushroom and the commercial enterprise will buy the final product, mushrooms ‘owned’ by the poor, for ultimate distribution and sale at the retail level. A purely commercial transaction takes place between the commercial organisation and the poor in terms of buying and selling of mushrooms. Loans will be repaid by the poor from the revenue they earn from the sale of mushrooms. Once the enterprise certifies the capability of poor in running the micro enterprise of their own, the poor are given an option to transfer the mushrooms to their own premises. The commercial enterprise continues to provide with technical support even if the mushroom bags are not kept in its premises. The model canvas applied to the enterprise is shown in Figure 5.

Figure 5: Illustration of Business Model Canvas Application



5.3. The Outcome:

The ultimate objective of providing sustainable poverty alleviation was achieved by engaging multiple stakeholders, ensuring effective creation and delivery of both commercial and social value propositions. Networks and cooptation played a synergetic role in the whole process. The urban poor were able to secure capital easily and they learnt a skill which provided them a sustainable means of living. The sense of 'ownership', especially after repaying the loans, gave them a sense of achievement and in turn motivated them to work harder. Many have scaled up their operations in due course and became role models for others to take up the initiative.

As discussed before, it is important to have a mission which covers the dual objectives as the mission and the governance will encompass all other building blocks of the canvas. These elements have an influence on every other aspect and activity of the organisation. Mission is directed towards the upliftment of urban poor and social and economic profits building blocks elaborates the ways and means of achieving this mission. Clear articulation of the mission and governance guides the formulation of the value proposition, configuration, and delivery subsets. In the value proposition area, commercial and social value propositions are clearly demarcated, to ensure equal attention is being given to both in the process of value creation. Offering high quality mushrooms at competitive prices is the commercial value proposition and employment opportunities for urban poor leading to their economic sustainability constitutes the social value proposition. Value configuration has four component parts: Value chain, Competences, Networks and Cooptation. Value chain includes all the primary and secondary activities required in the creation of economic and social value. Activities involved in growing and marketing mushrooms at a profit and selection, funding, training, and rewarding the urban poor are essential elements of the value chain. Competences required by the enterprise includes raising of required resources, technical know-how, mushroom farming skills, marketing skills and general management. As social enterprises generally lack capabilities of developing competences of their own, networking with other entities can be a solution. The given enterprise networked with governmental agencies and philanthropists for initial funding, NGOs to identify and liaise with urban poor and commercial entities for technical know-how of mushroom farming. The enterprise chose to cooperate with commercial farms than competing with them for two reasons. First, the social enterprise does not have the competitive capability to compete successfully with commercial marketers and second, the enterprise hugely benefitted from the synergetic outcomes. Value delivery targets are also classified as commercial and social. Commercial targets are the regular customers for mushroom while social targets are ethical consumers, other social enterprises, government agencies and the urban poor. Identification of the social and economic profit equations and clear delineation between commercial and social aspects when it comes to value proposition, configuration and delivery helps the management to have a clear view of the dual value creation objective and ensure its balance in all the activities undertaken within the enterprise.

6. CONCLUSION, IMPLICATION AND FUTURE DIRECTION

Social entrepreneurship has gained more attention in the recent past and is seen as an engine contributing to social and environmental upliftment by generating social value in a financially self-sustaining way. The concept is still in evolving stage and there is a lot of dilemmas related to the prioritisation of the opposing dual objectives. While various works, by both academics and

practitioners, have proposed different models for social business, no serious efforts was found in converging the opposing aspects resulting in total value creation. Traditionally, social objectives were given priority as social enterprises were conceived to make the world a better place. Hence, financial considerations were given lesser attention ignoring the fact that without financial independence and stable revenue source, the enterprise may not sustain in delivering social good. More financially sustainable the enterprise is, more sustainable will be its social impact. Commercial business models cannot be adopted as such for social enterprises because of the duality of objectives. There should be a balance of social impact and financial sustainability for a social enterprise to be sustainable and this dual perspective has to be incorporated into its business model through business model innovation. Innovation fuels enterprise development in creating new value and this paper proposes a business model innovation that captures the tension existing between the opposing objectives of a social enterprise, social and financial, and attempting to converge the opposing dual objectives for total value creation.

Based on the review of related literature and analysis of existing frameworks, an attempt has been made to integrate the differentiated activities required to achieve the opposing multiple value objectives and bring it into a comprehensive business model canvas. Thus, the paper provides theoretical insight into the complementarity of opposing fields and show how these can be better managed to facilitate multiple forms of value creation and value capture. The proposed business model canvas guides social entrepreneurs in developing a business model that ensures proper balance between societal and commercial objectives, by making the value creating activities complementary than opposing. The case example provides an illustration of how business models can be innovated to face the challenges faced by a social entrepreneur by developing suitable management mechanisms to ensure organisational sustainability. The innovated business model with an overarching mission statement ensured prevention of derailment from the stated objectives, which in turn helped overcome many managerial tensions related to multiplicity of the objectives. Cooperation of multiple stakeholders with social inclination helped developing an emotional stake in ensuring sustainability.

Further research is needed to be empirically test the proposed business model canvas. The model presented is essentially suited for an embedded social enterprise (where social programs and enterprise activities are closely related as illustrated in the case example) but there are many cases of establishment of social business initiatives within established commercial corporations. Hence, the proposed model can only be seen as a starting point and further innovations are required to suit the emerging contexts. Further research will be to test the relevance of the proposed model by applying it to other social enterprises that differs in terms of structure and the way they acquire and manage resources. This will help in determining whether the generic representation given in the canvas can be generalised and the ideal situation would be to use it in a case where the building blocks are yet to be aligned to ensure achievement of dual objectives.

Battilana and her co-authors mentioned in their work back in 2012 that “someday, we may look at the advance of hybrid organizations as an early step in a broad reformulation of a current economic order, which for all of its successes has left many disenfranchised. Hybrid organizations offer a bold, sustainable infusion of humanitarian principles into modern capitalism (...) The promise of hybrids is very real, but much work lies ahead” (Battilana et al., 2012, p. 55). This paper is regarded as a small step in that direction.

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