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**Sustainable Business Model Innovation in Social Enterprises: A Potential Solution to the Tensions of Hybridity?**

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**Abstract:** Due to their dual objectives, social enterprises (SEs) use a hybrid business model consisting of social impact on one extreme and an economic objective at the other extreme. The hybridity in their business model generates tensions which question the fundamental existence of SEs. The conflicts between economic and social or environmental goals requires better understanding and hence warrants further research. A sustainable business model, which promotes the co-existence of social, economic and environmental goals will help SEs to mitigate the tensions due to hybridity. We have developed a number of research questions to examine the effectiveness of a sustainable business model. To examine these research questions, we intend to conduct in-depth case studies on 20 SEs in India. We plan to conduct interviews with the founders, senior managers, employees and other relevant stakeholders in our case study organisations. We also plan to analyse the key documents relating to the SEs.

**Key Words:** Social Enterprises, Sustainable Enterprises, Business Model, Business Model Innovation, Sustainable Business Model Innovation

**Track:** Entrepreneurship

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## **Sustainable Business Model Innovation in Social Enterprises: A Potential Solution to the Tensions of Hybridity?**

### **Introduction**

The motivation for future scholarship in the area of business model innovation (BMI) in social enterprises (SE) stems from several theoretical gaps that have been recently identified in the literature (Terjesen, Hessels and Li, 2016; Foss and Saebi, 2017; Olofsson, Hoveskog & Halila, 2018). The calls for further research to address the above gaps tend to fall into two main areas. First, in understanding how social enterprises can become sustainable social enterprises as there is an increasing proliferation of stories of failing social enterprises (Cain, 2014; Drencheva, 2013; Kolehmainen, & Salomaa, 2017; The Gaurdian, 2013). Second, there is now a growing acknowledgement of the move from a dichotomous and convergent approach of considering social enterprises to focus only on balancing social value with economic sustainability to a divergent view that incorporates the triarchy of social, economic and environmental goals for creating a sustainable social enterprise. There are calls also for adopting an inclusive, multidisciplinary and multi-level theoretical approach that integrates the related streams of literature of BMI and SEs. A related motivation for advancing scholarship of BMI in SEs is due to the significant role SEs play in addressing some of the grand millennial development goals as identified by the United Nations. Most of these grand challenges persist in emerging markets and less developed nations, where SEs have attempted to address some of these challenges by innovating their service/product offering or business models. There is evidence of political and business leadership from advanced nations in framing and supporting the millennial development goals agenda. Further, in Asia, close to 1.7 billion people live below the poverty line often facing not just the economic challenges associated with poverty but this group of population also has limited access to resources, finance, technology as well as other social amenities.

Social Entrepreneurship process involves recognition, evaluation and exploitation of opportunities to address the unmet needs of the society like food, shelter, education and health and hygiene services (Pathak and Muralidharan, 2016). Social Enterprises strive to create substantive changes in the society by adhering to their fundamental notion of creating social impact and economic gains. Social entrepreneurship is not a tidy concept and its untidiness as a field is due to the reflection of inconsistencies and imbalances which exist in real world (Peredo and McLean, 2006). Many contemporary businesses are reconfiguring their business models by emphasizing social and environmental purposes and encourage other businesses to follow their lead (Byerly, 2014). Scholars have defined Social Entrepreneurship in many ways. Various definitions of Social Entrepreneurship emphasize attributes like satisfying unmet needs (Thompson, Alvy and Lees, 2000); social welfare activities (Leadbeater, 1997); problem solving ability (Bornstein, 1998); balancing moral principles with profit motives (Boschee, 1995); innovativeness, pro-activeness and risk management within the constraints of environment, sustainability and social mission (Weerawardena and Mort 2006); balancing the interests of multiple stakeholders to create social value (Peredo and McLean, 2006); catalysing social change (Mair and Marti, 2004); maximising social impact (Nicholls, 2008) and social value creation through market-based activities (Bacq and Janssen, 2011). While these definitions largely, confirm their commitment towards social impact and economic gains, they experience significant difficulty in balancing these two objectives. Hence, a hybrid business model consisting of social impact on one extreme and an economic objective at the other extreme, generates tensions (e.g. Pache and Santos, 2010, 2013), which question the fundamental existence of social enterprises. The conflicts between economic and social or

environmental goals in social enterprises requires better understanding and hence warrants further research (Florin and Schmidt, 2011).

In this paper, we address a call for future research made by Schaltegger and Wagner (2011) to examine the possible transformation of social entrepreneurship to sustainable entrepreneurship. We also address a need to transition from divergence to convergence, by integrating the subdomains of social, environmental and sustainable entrepreneurship, as highlighted by Muñoz and Cohen (2017). We argue that social enterprises will greatly benefit by adopting a sustainable business model, which promotes the co-existence of social, environmental and economic dimensions (e.g. Davies and Chambers, 2018; Hahn, Spieth and Ince, 2018; Ludeke-Freund and Dembek, 2017; Piscicelli, Ludden and Cooper, 2018) in a mutually supportive manner. In the next section we try to clarify the concept of sustainable entrepreneurship by discussing key literature and then provide a clear distinction between social and sustainable enterprises. Subsequently we present a discussion relating to sustainable business models and sustainable business model innovation.

## **LITERATURE REVIEW**

### **Social and Sustainable Enterprises**

Sustainable organizations are characterized by their emphasis on social and environmental sustainability in addition to economic sustainability (Elkington, 1997). Environmental sustainability refers to the actions taken to protect natural environment and social sustainability refers to increasing social wealth through initiatives like creating social equality, providing access to education and healthcare and highlighting social inclusion (Brehmer, Podoynitsyna and Langerak, 2018). The concept of sustainable entrepreneurship has emerged in the recent years (e.g. Cohen and Winn, 2007; Dean and McMullen, 2007; Hockerts and Wustenhagen, 2010; Spence, Gherib and Biwole, 2010; Shepherd and Patzelt, 2011; Johnsen, Olaison and Sorensen, 2018). Shepherd and Patzelt (2011, p. 142) define sustainable entrepreneurship as a phenomenon ‘focused on the preservation of nature, life support, and community in the pursuit of perceived opportunities to bring into existence future products, processes, and services for gain, where gain is broadly construed to include economic and non-economic gains to individuals, the economy and society’. The core principle behind sustainable entrepreneurship is that, while pursuing opportunities, entrepreneurs should not undermine their ecological and social environments (Shepherd and Patzelt, 2011, Muñoz and Cohen, 2017). Research in the field of sustainable entrepreneurship has been gaining momentum over the years primarily due to the convergence to two separate research streams namely environmental and social entrepreneurship (Zahra, Gedajlovic, Neubaum and Shulman 2009). While social enterprises are social-purpose business ventures, environmental enterprises pursue profit driven, entrepreneurial opportunities (Schaltegger and Wagner, 2011). Social enterprises primarily focus on mission-driven activities whereas sustainable enterprises strive to address profit-driven endeavours (Dean and McMullen, 2007). Social enterprises secure funding to pursue societal goals and in their case, the means drive their economic goals, whereas in the case of sustainable enterprises, they aim for the creation of sustainable development such that their economic goals serve as their means and ends (Schaltegger and Wagner, 2011). Social enterprises are often referred to as hybrid enterprises due to the duality social and economic objectives (Battilana, Lee, Walker, and Dorsey, 2012; Bacq and Janssen, 2011). Hybrid enterprises configure their business models by highlighting specific social or environmental issues (Haigh, Walker, Bacq and Kickul, 2015). Because of the constraints imposed by the dual-mission outlining social innovation and profitability, significant tensions exist in the decision-making process in the context of social enterprises. Social enterprises with hybrid

business models operate in an environment of uncertainty because the final outcomes and the social impact generated are beyond their direct control (Florin and Schmidt, 2011). In other words, the hybridity in their business models leads to confusions while making key decisions. While literature on hybrid business models highlight tensions due to conflicting and conflicts in achieving objectives, however, the literature on sustainable business models suggests that social, environmental and economic value creation can co-exist in a mutually supportive manner for ensuring sustainable entrepreneurship (Lans, Blok and Wesselink, 2014; Schaltegger, Lüdeke-Freund, & Hansen 2016; Davies and Chambers 2018). Hockerts and Wüstenhagen (2010), for example, posit that the only approach that facilitates economic, social and environmental value creation with a concern for the welfare of the generations to come is through sustainable entrepreneurship.

### **Sustainable Business Model Innovation**

In an era where ‘globalisation’ has been questioned by academics and policy makers, entrepreneurship—economic, technological or social—is often looked at as a panacea and source for advancing, respectively, economic, collaborative and cooperative development, as well as a source for generating employment (Ahlstrom, 2010; Lu, Au, Peng, & Xu, 2013; Prashantham, Eranova, & Couper, 2018). Nevertheless, hyper-competitive and resource constrained business environments further exacerbate the challenges SEs face in implementing business model innovation (BMI) or creating new and sustainable business models for an identified social opportunity and offer social value to the identified community group(s). One way to engage with this challenge is through paradoxical thinking wherein leaders of SE must acknowledge the interdependencies and conflictual tensions (Peng, Li, & Tian, 2016) that prevail in delivering successful business models for SEs through their ongoing efforts in BMI. In addition to paradoxical thinking that is required of entrepreneurs (economic, technological or social), there is a growing body of literature that highlights the importance of developing an understanding of indigenous approaches and embedding solutions that are highly specific to the context where such social value is being delivered (Datta and Gailey, 2012).

Further, in light of our discussion on sustainable enterprises, social enterprises need business models that help them to achieve financial sustainability and social impact while managing social and business tensions (Margiono, Zolin and Chang, 2018). Not many studies have examined business models from this perspective. Managing tensions between commercial and social aspects is a key gap in the literature (Margiono, Zolin and Chang, 2018). Business models are typically characterized by the three design elements namely the content, structure and governance and four design themes namely novelty, lock-in, complementarities and efficiency (Zott and Amit, 2010). Business models in social enterprises can be classified based on two dimensions namely strategic monetization of social value creation and market revenue generation in excess of expenditures with the underlying social mission and there is a positive correlation between the monetization of social value creation and financial performance of social enterprises (Dohrmann, Raith and Siebold, 2015). Sustainable business models on the other hand are defined as ‘the business models that incorporate pro-active multi-stakeholder management, the creation of monetary and non-monetary value for a broad range of stakeholders, and hold a long-term perspective’ (Geissdoerfer, Vladimirova and Evans, 2018, p. 404). Brehmer, Podoyntsyna and Langerak, (2018) discuss the embeddedness of environmental and social dimensions in the content, structure and governance of sustainable business models. They found the representation of environmental sustainability in value creation content and the reflection of social sustainability in value capture content. Sustainable

business model innovation emphasizes sustainable development which adopts solutions that promote sustainability in its value proposition or value network and can be defined as ‘the analysis and planning of transformations to a more sustainable business model or from one sustainable business model to another. This comprises both the development of an entirely new business model and the transformation of an existing business model’ (Geissdoerfer et al 2018, p 409). Sustainable business model innovation can happen in four different forms namely sustainable start-ups, sustainable business model transformation, sustainable business model diversification and sustainable business model acquisition (Geissdoerfer et al 2018, p 409). It has been suggested that the key drivers of sustainable business model innovation is to focus on the triarchy of environmental, social and economic sustainability (Olofsson, Hoveskog and Halila, 2018).

Enterprises having sustainable business models should successfully operate in commercial markets in order to achieve their social and environmental goals, but the characteristics of such business models are under-researched (Hahn, Spieth and Ince, 2018). Not many studies examine business models from the perspective of managing tensions between commercial, environmental and social aspects (Margiono, Zolin and Chang, 2018). Spiess-Knafl, Mast and Jansen (2015) have identified six areas for business model innovation in the context of social enterprises namely *opportunity creation, smart distribution, ecosystem engineering, cheap sourcing, smart pricing* and *inclusive production*. The opportunities for researching business model innovation in social enterprises is likely to vary significantly within and between countries in the Asia-Pacific region due to differences in national business systems and historical path dependence (Defourny & Kim, 2011; Shahnaz & Tan, 2009). To this end, increased interest in sustainable business model research is likely to gain momentum in the coming years as a major stream of research (Ludeke-Freund and Dembek, 2017).

## **Research Questions**

We provide below the objectives of our study.

1. To assess the innovative activities carried out by SEs;
2. To examine the business model design themes and design elements of SEs;
3. To assess the social, environmental and economic impact created by the SEs;
4. To assess the tensions due to hybridity in SEs;
5. To examine the business model innovation in SEs;
6. To examine the extent to which SEs have been able to foster sustainable business model innovation;
7. To assess the value creation and capture by SEs;
8. To examine the human resource management practices of the SEs; and
9. To examine the general management practices of the SEs.

## **RESEARCH METHODOLOGY**

In order to examine our research questions, we will conduct in-depth case studies among 20 SEs in India. We will interview the founders, senior managers, employees and other relevant stakeholders of our case study organisations. We will also study the key documents relating to our case study organisations. We will analyse the interview transcripts using a suitable software for qualitative analysis. After analysing the interview transcripts and the key documents, we

will be able to answer our research questions. The interview guide for conducting semi-structured interviews, is provided in the appendix.

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## **Appendix**

### **Interview Guide**

Note: The following questions are to be used as prompts for initiating and subsequent questions:

### **CASE DEMOGRAPHIC INFORMATION (Key Informant/contact)**

***Background of the company:*** start by learning about the company's background.

***Industry group:*** use literature categorisation or new; could emerge from background as well.

***Ownership:*** use extant literature categorisation or as described.

***Nature of the main business activity:*** where available list activities by % of turnover.

***Main domains of business:*** industry verticals and domains; why certain verticals and domains only?

#### ***Nature of competition***

- *How would you describe the nature of competition for your products and services?*
- *How does the organisation gather information about its competitors?*
- *Is the market competing for certain skill sets?*

#### ***Enterprise size:***

- What is the total number of employees at this worksite as well as for the organisation as a whole?

## **INNOVATIVE ACTIVITY**

*Nature and extent of innovative activity in the last 24-36 months:*

### **General questions:**

- *How innovative is your business and what is/are the reason(s) for the nature and extent of innovative activity?*
- *Explore the nature of innovations (product, process, business model) and their success or failures? Explore reasons for failure.*
- *Do you measure innovation? Explore the volume/extent/incidence and ask for organisational documents and performance data on innovation activities?*
- *What are the tangible ways in which the organisation displays its commitment to innovation?*
- *Does your business have HR policies and practices that support innovation? (If not, why not?) How do these policies and practices impact on innovative capacity?*
- *What in your opinion are the key stimuli for innovation(s) employed by your organisation?*

## **BUSINESS MODEL OF YOUR ORGANISATION**

### ***DESIGN THEMES OF YOUR BUSINESS MODEL***

#### **Content:**

*Could you please explain the key activities carried out by your organisation?*

*Could you please specify the main beneficiaries from the products/services you offer?*

*Could you please explain the ways in which you are able to address the needs of those beneficiaries?*

#### **Structure:**

*Could you please explain how the activities carried out by your organisation are linked with each other?*

*Could you please explain the mechanisms used to streamline those activities?*

#### **Governance**

## *Sustainable Business Model Innovation in Social Enterprises*

*Could you please specify the key stakeholders involved in carrying out various activities in your organisation?*

*Could you please explain the roles played by the key stakeholders in carrying out the activities in various departments and locations?*

### **DESIGN ELEMENTS OF YOUR BUSINESS MODEL**

#### **Novelty:**

*Could you please explain the innovative practices adopted creating and delivering products/services to your beneficiaries?*

#### **Lock-in:**

*Could you please explain the strategies you adopt to attract and retain your customers?*

#### **Complementarities:**

*Could you please explain whether you have been able to combine different activities in order to create more value resulting in synergistic effects?*

#### **Efficiency:**

*Could you please explain whether you have been able to achieve greater cost efficiency in your operations by reorganising various activities?*

*To what extent have you been able to reduce costs associated with various activities through this process?*

### **SOCIAL AND ENVIRONMENTAL IMPACT**

*Could you please explain whether you have been able to create a social impact as a result of your business model innovation?*

*What are the major changes which have taken place as a result of the social impact you have created?*

*Could you please specify whether you have been able to create any impact in terms of environmental sustainability?*

*Could you please elaborate on the relative importance given to social and environmental aspects in your operations?*

*Do you think these impacts are sustainable going forward?*

### **ECONOMIC IMPACT**

*Could you please explain your key focus relating to pursuing the economic objectives in your operations?*

*Are economic objectives the primary consideration while evaluating projects and carrying out various activities?*

*Is the economic impact of your activities sustainable? Why/why not? (Depending on the answer received)*

### **TENSIONS DUE TO HYBRIDITY**

*Do you consider your social/environmental and economic objectives with equal importance as part of your business model and delivery of products and services?*

*If not, which one is more important and why?*

*Do multiple objectives create tensions in your operations? Which one is more difficult to resolve and why?*

### **BUSINESS MODEL INNOVATION IN YOUR ORGANISATION**

*Do you feel that voluntary and emergent changes have taken place in various components of your business model (design themes and design elements) over a period of time (Evolutionary BMI)? What are they, please describe some of these with reasons? Explore how these emerged.*

*Has there been an instance where you had to modify your business model either due to changes in the external environment or due to competition from a new business model in your industry (Adaptive BMI)? Explore instances with reasons thereof.*

*Has there been an instance where you have done some modifications in one area of your business model (e.g. targeting a new market leading to the development of a new market) keeping the other aspects of your business model like value proposition, value delivery and value capture mechanism intact (Focussed BMI)? Explore instances with reasons thereof.*

*Has there been an instance where you had to completely revamp your business model to respond to changes in the industry characteristics (e.g. preferences of the customers) (Complex BMI)? Explore instances with reasons thereof.*

## **SUSTAINABLE BUSINESS MODEL INNOVATION**

*As part of your business model (or explore generally as well), could you please explain the steps taken by your organisation to reduce any negative impacts for the environment and society?*

*What are the key steps that your business has taken to ensure the long-term prosperity of your organisation and for its stakeholders?*

*What are your key strategies to foster sustainability in your business model's core social value proposition?*

### **Type of Sustainable Business Model Innovation**

*When your organisation was formed, did it have the key sustainability aspects (e.g. negative impacts for the environment and society, long-term prosperity) embedded in your business model (e.g. a sustainable start-up)?*

*Have you made changes in your business model at any point of time to provide more emphasis to sustainability aspects (e.g. sustainable business model transformation)?*

*Without changing your core business model, have you ever established an additional business model giving more emphasis to sustainability aspects (e.g. sustainable business model diversification)?*

*Have you acquired an additional business model giving emphasis to sustainability aspects (e.g. sustainable business model acquisition)?*

## **VALUE CREATION**

- *Explore the set of attributes in the current product / service portfolio that help create value for the business*
- *What activities and managerial practices support in the development of:*
  - *Core value proposition for the customer*
  - *The profit formula*
  - *Resources – what sort of values and behaviours do people need for creating value in a social enterprise*
  - *Processes– what sort of values and behaviours do people need for creating value in a social enterprise*

- *Leadership – what sort of values and behaviours do people need for creating value in a social enterprise*

## **VALUE CAPTURE**

- *What activities and managerial practices support in the realisation of:*
  - *Profit formula*
  - *Resources and processes enable locking in and realisation of value*
  - *What leadership style and approaches enable value capture*
- *Explore the nature of innovation [process, product, business model] undertaken.*
- *Explore project details, scope, involvement, role, expertise, major vs minor contribution to the project?*

## **HUMAN RESOURCE AND MANAGEMENT PRACTICES**

*Nature of workforce:* (Head of HR and/or Training Managers and employees' experience)

*Work organisation:* strategic/technical/administrative/core and periphery groupings

- *In terms of the key job roles performed, how would you describe the main categories and percentage composition of employees in your organisation?*
- *In terms of a structure, how are business teams/ units organised?*
- *What is the extent to which teams exercise work autonomy?*
- *Describe how degree of leeway and choice you have in carrying out the daily tasks?*

*Workforce composition:*

- *In terms of the nature of the employment, e.g. F/T P; P/T P; casual; contract, etc, how would you describe the current composition in your organisation?*

## **Integration of HR strategy with business strategy of innovation**

- *Is the development of innovative capacity a key focus of the business strategy and HR function? If so, how does this work in practice?*
- *Thinking about the organisation's current strategy for innovation, how would you describe its core strengths and directions for the future?*
- *How is employee creativity fostered in your business?*
- *How does it link with the organisation's overall strategy?*

## *Sustainable Business Model Innovation in Social Enterprises*

- *Does the organisation invest in certain key capabilities, competencies, roles or work groupings more for supporting its current and future innovation strategy? If so, what are these and how does this work in practice?*
- *Does HR play a role at the innovation strategy formulation or implementation stage? Why/why not?*

### **Recruiting highly skilled employees**

- *Are different HR practices aligned to support /instil innovation and focus on the core business? If so, what HR practices are aligned to each activity?*
- *Explore the focus on acquiring certain skills (concept of differentiated workforce approach to support exploration/exploitation or both (ambidexterity) in skills acquisition) that underpin a role or more on a broad set of competencies to support existing/future strategy (ies) or both?*
- *Is the focus on recruiting at a high level of skills or are you focusing more on generic skill sets and looking at applicant's trainability?*
- *Do specific client/market/customer requirements form the basis for input in the recruitment process?*

### **Managing performance using the notion of core competencies**

- *Explore type(s) of performance management system(s) for various groups.*
- *How closely is performance linked and assessed around an organisation's need to innovate? [Explore formal administrative and efficiency focus versus a developmental informal, and flexibility focus]*

### **Aligning an organisation's training to its business strategy (especially of innovation)**

- *What is the organisation's overall philosophy towards learning and development/training? Explore business strategy-innovation link for L&D?*
- *Explore "make" versus "buy" decisions.*
- *What is the focus of skills development and learning to support the development of innovative capacity? Explore broad (generic) versus narrow and role- organisation-specific skill sets, such as – analytic ability, communication, problem solving, and supervision skills, or specialised (technical) etc for different levels?*
- *Do client/vendor/external networks requirements influence innovative activity? If so, explore how and why does this occur and what is its impact?*

## **GENERAL MANAGEMENT PRACTICES**

**Workplace change**

- *What are the main changes that the organisation has witnessed in the last three years? (Cover points such as impact of change on new business processes, technological and product innovations or business model changes)*
- *Has the change affected all levels of workforce?(use the categories of workforce identified earlier)?*
- *How does the organisation communicate these changes?*
- *How is it implemented? How often do these changes occur?*

*How does the organisation build a capacity to adapt to the changed business process or new business model? Explore the role of leadership, core management teams, dissemination and communication mechanisms, shared vision, training etc.*

**Innovation and learning approach (Exploration versus Exploitation)**

- *Explore whether there is a culture of constantly seeking to develop new processes, products, techniques for serving existing or new markets/clients/customers or even business model*
- *Explore whether there is a culture of constantly focusing on capitalising existing knowledge, capabilities and skills and developing deeper expertise in certain processes, products, techniques for serving existing markets/clients/customers or the current business model*
- *What is your organisation's philosophy towards promoting a learning culture? How is it communicated?*
- *How does the organisation ensure that learning is shared?*
- *Are current knowledge, assumptions, and learning continuously challenged?*
- *Does the organisation critically reflect upon the information sensed and disseminated?*
- *How responsive is it in terms of its actions?*
- *Are strategies put in place to address any immediate issues such as errors, low service levels, new technologies?*