



Social Business Model: An Exploratory Research

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ABSTRACT

If the Business Model is a central concept in traditional entrepreneurship research, it constitutes also an emergent concept and a subject of many pioneer investigations in the context of social entrepreneurship. Indeed, assuring a sufficient and sustainable financing of social activities is one of the most critical issues facing the social entrepreneurship. This paper introduces the concept of Social Business Model and present its specificities compared to the Traditional Business Model. By transposing the traditional business model literature, we will present a framework able to apprehend the specificity of social activities.

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Introduction

The 70's economic crisis proved the limitations of economic system adopted since the Second World War. In fact, this system produced many economic and social upheavals. Proposed solutions could be classified on four main orientations: entrepreneurship, microcredit, sustainable development and disengagement of the government in terms of public investment and social responsibilities (Boutillier, 2008).

To respond to the governmental social responsibilities recoil, one of the most effective solutions is the civil contributions through especially social activities addressed to the least disadvantaged persons. This was the essence of an emergent concept: social entrepreneurship. This new concept is gaining popularity and legitimacy throughout the planet. However, social business model remains a misunderstood concept especially in the Arabian context.

Indeed, the main problem of any entrepreneur is to convince stockholders to increase funds. He deploys an exercise of persuasion to win the support of different stakeholders. This exercise is formally known as Business plan.

The importance of business plan is greatest in the case of social activities as the entrepreneur deploys additional efforts to persuade stockholders to finance non-profit activities. If traditional business model received the attention of academics and researchers, the Social Business Model deserves more attention.

This paper introduces the concept of Social Business Model and present its specificities compared to the Traditional Business Model. By transposing the traditional business model literature, we will present a framework able to apprehend the specificity of social activities.

The entrepreneurship

It's of primary interest to define entrepreneurship beyond the overly restrictive meaning of starting or creation of a new venture. In fact, it's impossible to accept only one definition of entrepreneurship as it refers to different situations according to the authors and disciplines (economics, management, psychology...).

The first approach of entrepreneurship owes much to the Austrian school and especially the economist Schumpeter

(1947). For him, the entrepreneur is an innovator, a creator, an agent of change. It implements new combinations to bring change (creative destruction) contributing to economic change.

The second approach is related to the modern Austrian School which places the concept of opportunity in the heart of entrepreneurship (Kirzner, 1973; Shane & Venkataraman, 2000; Barthélémy & Slitine, 2011) ...). This approach defines entrepreneurship as detection and exploitation of an opportunity.

The third approach is the traits based approach which has a more psychological perspective (Julien & Marchesnay, 1996). The gurus of this approach have been interested in the personality and the entrepreneur's behavior as determinants of entrepreneurship. Need for achievement, independence and freedom, entrepreneurial spirit and leadership, risk-taking, are the main features associated with it. For Gartner (1989), this approach is insufficient to apprehend entrepreneurship. He suggests to study what the entrepreneur do (venture creation) and not only his characteristics. Nevertheless, it is interesting to note that, whatever the definition of entrepreneurship, the dimension related to the personality of the entrepreneur is always present.

Finally, one of the most complete conceptions was introduced by Bruyat (1993). He treats entrepreneurship from the act of an undertaking driven by an entrepreneur that runs a process to create, if successful, a company that could gradually take its autonomy. The conception of Bruyat (1993) is part of what can be called the "dialogic individual / value creation," which binds a strongly personally committed entrepreneur and an emerging project or organization.

More recently, Verstraete and Fayolle (2005) proposed a general framework of entrepreneurship around four paradigms: the business opportunity, the creation of the organization, value creation, and innovation. They define entrepreneurship as "Initiative carried by an individual (or several individuals joining for the occasion) building or exploiting a business opportunity by the impulse of an organization that could raise one or more entities, and creating new value to the stakeholders" (P44).

In a more syncretic way, Paturel (2007) defined entrepreneurship as the exploitation of an opportunity as part of

a driven organization created from scratch or taken initially and then developed by a single individual or team. It's a process allowing the creation of new value or waste economy of the existing one.

Starting from these approaches, we can already identify many concepts on which the entrepreneurial process is based (risk taking, uncertainty, innovation, opportunity, ventures, new resources combination, involvement, value creation,...). All these traditional entrepreneurship features could be a necessary theoretical framework for a better understanding of Social entrepreneurship.

Despite many convergences between traditional and social entrepreneurship, many elements constitute specific dimensions of the last one. For instance, goals, mission, and financing sources are different for one and another.

Social entrepreneurship

The rise of social entrepreneurship is the result of many factors such as the governmental disengagement from many social activities, privatization and the wild capitalism. Indeed, the disengagement of the government in many sectors has resulted in a growing not covered social needs and especially the rise of several non-governmental organizations whose influence is increasingly growing (Boutillier, 2008). To achieve social mission, these organizations were the remedy. However, these organizations are usually faced to the problem of stable funding. But, the proliferation of social organizations leads to intense competition for more stable and abundant funding than grants or public subsidies (Verstraete & Fayolle, 2005). Furthermore, the market reality essentially guided by the rules of power and competition fosters innovation and efficiency when responding to certain social needs (Acs & Audretsch, 2003).

These different circumstances have therefore led social sector organizations to adopt positioning strategies in new markets to fund their social activity: exploiting lucrative opportunities in their heart of business, developing profitable businesses in another profession, or through partnerships with commercial enterprises (Alter, 2006).

Generally, there are two main approaches interested in the study of social entrepreneurship: social innovation and social enterprise (Dees & Anderson, 2006).

The Social innovation focuses on the development of new and better ways to address problems or meet social needs (Dees & Anderson, 2006 ; Barthélémy & Slitine, 2011). Established in 1980 by its founder Bill Drayton in order to seek and support outstanding individuals with ideas models for social change, "Ashoka" is the basis of this approach. Since the creation of Ashoka, many other organizations supporting social entrepreneurs have emerged. These organizations promote further the development of social entrepreneurs' networks and put in place structures to facilitate access of funding (Dees & Anderson, 2006).

Social enterprise, on the other hand, focuses on income generation in the conduct of a social mission. The company "New Ventures" is one of the pioneering initiatives of the movement whose primary motivation is to help non-profit companies to search for new sources of revenue in addition to donations and government subsidies.

Social Entrepreneurship and Business Model

What a business model is?

The business model concept is currently attracting much attention from researchers and seems useful in offering guidance as how to create businesses. However, despite ever-growing literature on the business model concept, there is no consensus as to its definition. But despite the non consensual definitions of

this concept, three elements are usually distinguished: the product/service proposed to customers, the way the company is organized so as to deliver this product and service to its customers, and the revenue model (Muhamed, Bertrand, & Laurence, 2010).

The business model is the representation of the company's strategy to achieve the desired amount of turnover. It constitutes an element of the business plan. Thus, the business model incorporates the financial, human and technological means used to achieve the expected revenues. It reflects the established relationships with customers, partnerships, involved costs and communication activities (Verstraete & Jouison-Laffitte, 2009).

Jouison (2005) highlighted the usefulness for startups to use the concept of the business model to convince potential investors. Companies have to convince stakeholders about the appropriateness of their proposed value through a thoughtful formulation of their idea: the business model. For Verstraete and Jouison (2007), this concept can be understood under three theories: conventions, stakeholders and resources. For the theory of conventions, the entrepreneur must design a real business convention to reach a good way to do business by betting that the project relating will regulate optimally expected value among stakeholders. For the stakeholders theory the Business model is seen as a conceptualization business showing both concretely how money is earned and, more abstractly, how will unfold the exchange relationship with the different stakeholders. Finally, for the resources theory, the entrepreneur must show how it will match the combined resources to make capacity or skills.

In a coherent manner, Muhamed et al. (2010) suggested that a business model has three components, as shown in Figure 1:

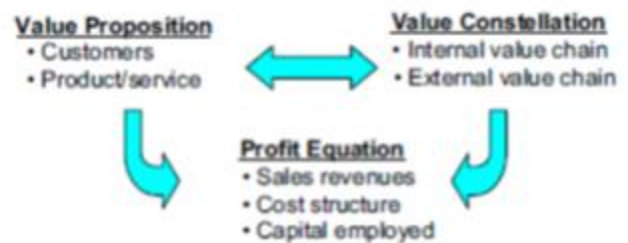


Figure 1. The components of a conventional business model (Muhamed et al. (2010))

By a value proposition, the authors mean the answer to the question: "Who are our customers and what do we offer to them that they value?". By value constellation they mean the answer to the question: "How do we deliver this offer to our customers?" This involves not only the company's own value chain but also its value network with its suppliers and partners. These two components need to fit together like puzzle pieces to generate a positive profit equation, which is the financial translation of the other two, and includes how value is captured from the revenues generated through the value proposition, and how costs are structured and capital employed in the value constellation.

Social Business Model

The diversity of situations in social entrepreneurship in terms of structures, legal status, profit or non-profit sector, creating its own income or not, etc., leads to a great diversity of Business Models.

Based on income, Elkington and Hartigan (2008) distinguished three types of social business models: the model of

"Leveraged non-profit ventures," that of "Hybrid non-profit ventures" and that of "Social Business Ventures".

In the case of Leveraged non profit ventures, Social enterprises meet needs ignored by the market to the benefit of disadvantaged members of the society. Financing its business is generally provided by public institutions, foundations or private donations. The mission of these companies is to enable a sustainable change for their beneficiaries. Hybrid non-profit ventures are companies that serve populations excluded or ignored by the market while having the opportunity to make a profit that should be reinvested. Part of the profit is used to offset the cost of operation. Their funding is often provided by public, private, philanthropic, but through the initial contribution of partners and reinvested profit. Finally, social business ventures refer to companies whose main mission is to produce social change, while generating profits. However, the profit is not intended to reward shareholders (the case of conventional business), but to develop and sustain the business and the social impact it induces. Funding prospects are broader than those of the first two models (possibility of loan, etc.). Investors in such cases should have the will and desire to combine economic and social.

Alter (2006) proposed a classification related to the relationship between the mission of the company and the income generating activity. In this context, there are three types of social enterprises, "Enterprise Social Embedded", "Integrated social enterprise" and "External social enterprise".

The first model implies that the company's business activities are inherently designed to have positive social impacts. In such companies, the social and the economic are embedded into each other. The second model, called integrated social enterprise implies that income-generating activities are linked to the social mission of the organization, but their main purpose is to generate profit to allow social activity to continue. A search for new markets or better penetration of existing markets are considered integrated operations, in synergy with the social mission of the company and are intended to finance social programs. For the third model called "External social enterprise", income-generating activities have nothing to do with the mission and have the sole purpose of generating profits to finance social programs or operating costs.

Drawing from Grameen Group experiences, Muhamed et al. (2010) highlighted the adjustments needed in switching from a traditional to a social business model framework. The first adjustment is related to the targeted stakeholders. The value proposition and constellation are not focused solely on the customer, but are expanded to encompass all stakeholders. The second is the definition of desired social profits highly associated with an eco-system-view. The third change is that the economic profit equation is only full recovery of cost and of capital, and not financial profit maximization. These changes are illustrated by Figure 2.

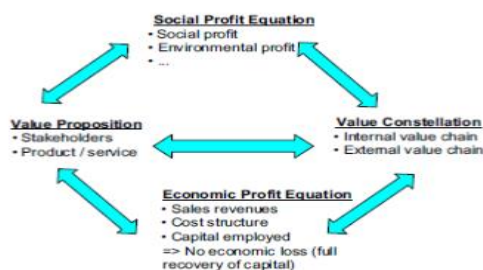


Figure 2. The four components of a social business model (Muhamed et al, 2010)

Conclusion

The growing popularity of social responsibility drives companies to revisit their profession to guide their business activities for the benefit of the community. If the field of corporate responsibility increased significantly, the attention given to organizations working specifically to meet social or environmental demand entrepreneurially is expected to increase. In this sense, the question of the business model, widely discussed in the context of traditional entrepreneurship is still raised in the context of social entrepreneurship. This paper highlighted the specificity of social business model compared to business model of conventional entrepreneurship.

If conventional business model and social business model are very similar, they differ in term of focus and results. Indeed, in a social business model, need become a social problem to solve. The cash flow can be either income from the sale of products/services or from philanthropic funding or grants.

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