

# A Business Model Design Process for Social Enterprises: The Critical Role of the Environment

Hadia Abdel Aziz, Raghda El Ebrashi

**Abstract**—Business models are shaped by their design space or the environment they are designed to be implemented in. The rapidly changing economic, technological, political, regulatory and market external environment severely affects business logic. This is particularly true for social enterprises whose core mission is to transform their environments, and thus, their whole business logic revolves around the interchange between the enterprise and the environment. The context in which social business operates imposes different business design constraints while at the same time, open up new design opportunities. It is also affected to a great extent by the impact that successful enterprises generate; a continuous loop of interaction that needs to be managed through a dynamic capability in order to generate a lasting powerful impact. This conceptual research synthesizes and analyzes literature on social enterprise, social enterprise business models, business model innovation, business model design, and the open system view theory to propose a new business model design process for social enterprises that takes into account the critical role of environmental factors. This process would help the social enterprise develop a dynamic capability that ensures the alignment of its business model to its environmental context, thus, maximizing its probability of success.

**Keywords**—Social enterprise, business model, business model design.

## I. INTRODUCTION

**S**Ocial enterprises proved to have a significant role in transforming adverse environmental conditions. The most cited example is Grameen bank that could, besides getting more than 5 million people out of poverty, improve Bangladesh people's lives through empowerment, nutrition, family planning, etc. The relationship between the social enterprises and their surrounding environments is a love-hate relationship, one in which the adverse environmental conditions open up opportunities for social enterprises to provide value that would, in return, change those conditions. The maximum success of the social enterprise is to transform those adverse environmental conditions into enabling ones to improve the lives of their target beneficiaries. This relationship calls for a powerful continuous link between the social enterprise and its environment, one in which the enterprise is responding to its failure and/or success in

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changing the surrounding environment by constantly adapting its business model. Thus, environmental variables become a very important driver of the business model design and innovation of social enterprises. Given the changing nature of those variables, especially when this change is the target of the social enterprise, monitoring and responding to environmental changes has to become an integral part of the social enterprise operations. This can only be efficiently achieved through developing a dynamic capability that would allow the social enterprises to constantly measure its impact on the environment and use it as an input to its business model innovation.

This research presents a business model design process for social enterprises that takes into account the mutual interaction and resulting impact between the social enterprise and its environment. The process is conceptually driven from literature pertaining to social enterprises, business model design, business model innovation, and the open system view theory in order to help social organizations efficiently manage this mutual environmental interaction to maximize their chances of success.

## II. BACKGROUND ON SOCIAL ENTERPRISES

Social enterprises are organizations that have created models to satisfy basic human needs that existing businesses and markets failed to meet. By combining the social mission with the for-profit mind set, they are considered an effective mean to satisfy unmet social needs [1]. Social enterprises, seek projects under the constraint of efficiency, and create new structures, strategies and business models that capitalize on very limited resources to create social value, then, use profits to distribute to their target group or invest in growth [1], [2].

Behind the social enterprise there is always a resourceful entrepreneur with a personal commitment to a cause and a mission to change society [1]. Reference [3] differentiated between the social entrepreneur who discovers opportunities to address market failures related to the provision of public goods and distributional equity, transformative social entrepreneurs who create systematic social change through measuring the impact their social enterprises and intentionally replicating the model through others to maximize and sustain social impact, and Serial social entrepreneurs who create other social entrepreneurial organizations after at least one organization has reached the transformative social entrepreneurship stage.

The main difference between social and business enterprises lies in their value proposition. Business enterprises design their value proposition to serve markets that can afford

their new products or services and thus achieving financial gain. Social enterprises, on the other hand, design their value proposition to achieve large scale transformational benefit to an underserved or disadvantaged population that lacks the means to achieve it on its own [1]. This difference in mission usually manifests itself in many other areas of the social enterprise management and human resource motivation including how they deal with market failure, mobilize resources, and measure performance. Social enterprises consider the business enterprises' problem of inability of customers to pay for goods or services as an opportunity to create value. Although the social enterprise inability to distribute profits might limit their funding options, it opens up other resource opportunities such as volunteerism and donations. Finally, in terms of performance measurement, social impact will remain the main measure differentiating social and business enterprises [4]. These differences necessitated developing a business model framework for social enterprises that is different than that of business enterprises

### III. THE SOCIAL ENTERPRISE BUSINESS MODEL

Business models can be defined in different ways with no single widely acceptable definition so far [5], [6]. The simplest and most cited definitions describe business models as "the rationale of how an organization creates, delivers, and captures value" [7], or "the combination of 'who', 'what', 'when', 'where', 'why', 'how', and 'how much' an organization uses to provide its goods and services and develop resources to continue its efforts" [8]. Reference [5] emphasizes value as the core of the business model around which all other elements are designed by defining the business model as "a description of how an organization combines a set of elements to create value to customers and partners. The value maintains relationships to customers, supports differentiation from competitors and is created with products and services". On the other hand, [9] emphasizes the boundary-spanning transactions between the organization and external stakeholders by defining business models as "the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities". Reference [10] clarified that the four main themes shared by most definitions are strategic choices, creating value, capturing value, and the value network.

Several authors discussed the main components of business models. Reference [11] identified them as core strategy, customer interface, strategic resources and value networks. Reference [12] identified customer, competitors, offering, activities and organization resources, supply of factor and production inputs, and longitudinal process component. Reference [7] identified the main components of the business model to be value proposition, distribution channel, relationship with customers, network of partners, and revenue model; and in his famous book "Business Model Generation" [13] with Pigneur, they settled on the famous nine blocks business model Canvas including customer segments, value proposition, channels, customer relations, revenue streams,

key resources, key activities, key partnerships and cost structure.

The concept and practice of business modeling became very popular during the last decade. Part of the growth and popularity of this concept is attributed to the need to develop new strategies for the Bottom of the Pyramid (BOP) in developing countries. Most academic research in this area agrees that, for companies to succeed in such different environments, they need to develop new business models [14]. Reference [13] explained that social enterprises, like business enterprises, must deliver value and generate enough revenues to cover their expense. Therefore, they have to have a business model. The acknowledgement that social enterprises have business models opened the door to business model innovation in order to optimize operations and deliver and capture more value [15]. In practice, social entrepreneurs constitute an important source of business model innovation [6].

Reference [13] started a wave of research on the social enterprise business models when they differentiated between third party funded models where the products or the service are paid by third parties such as governments or donors, not the recipients; and the triple bottom line business models that account for environmental, social and financial costs. To cater for triple bottom line business models, they extended their famous nine blocks business model canvas with two more blocks being the social and environmental costs of the business model, as well as, the social and environmental benefits of the business model. Triple bottom line businesses aim to decrease negative the social and environmental impacts of the business and increase the positive ones.

Over only few years, several variations were introduced to business model canvas of [13] for social enterprises since it was shared under the Creative Commons License. Reference [15] claims that business model canvas for social enterprises must start with the value proposition as the first building block followed by customer segments in order to maximize the impact. This argument might be the rationale driving GoGreen Portland to add two new building blocks to the business model canvas to be adapted to social enterprises; Problem, and impact & measurement. Another variation on initial model of [13] was introduced by the Social Innovation Lab. This model differentiated between customer and social value proposition while adding impact measurement to the social part. It also differentiated between customer segments and beneficiaries while replacing customer relationships with type of intervention block. The final and most interesting adjustment is the addition of a surplus block to highlight how profits are invested. Reference [16] proposed creating two business model canvases for every social enterprise to cover both the donor's perspective and the beneficiary's perspective, and Reference [17] proposed a unique business model canvas for NGO's. Finally, [15] introduced a unique business model canvas for social enterprises that combines elements from different models. The building blocks in sequence are mission, value proposition, customer segments, impact and measurement, channels, customer relationships, revenue streams, key resources, key activates, key partnerships, and

cost structures. In her model, the value propositions and customer segments blocks differentiate between co-creators (such as donors and volunteers) and beneficiaries.

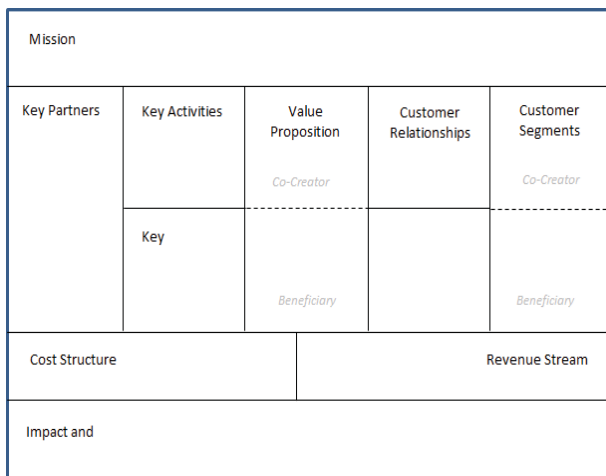


Fig. 1 Business model canvas for social enterprise [15]

As an extension of the research on components, typologies of business models for social enterprises started to emerge. Reference [18] identified nine widely implemented typologies of business models for social enterprises. These are the cooperatives model (e.g. farmer cooperatives), the entrepreneur support model (e.g. micro lending), the organizational support model (e.g. ethical investment funds), market linkage model (e.g. loan guarantees institutions), service subsidization models (e.g. enterprises selling products to secure income to fund social programs), employment model, market intermediary model, low income client as market, and fee for service model.

Other researchers tried to identify common features of successful social enterprise business models. Reference [2] claimed that promising business models for social enterprises must at least be driven by a social mission, generate positive externalities for society, achieve competitiveness through effective management, and recognize the importance of the entrepreneurial function. Reference [19] identified three important patterns that distinguish successful social venture business models; first, the creation and heavy dependence on value networks to facilitate the process of creating and disseminating value to the target group; second, the creation of innovative resource strategies to secure critical resources for their ventures; and third, the utilization of a special customer interface approach to transfer value to the target group by integrating them into the social value network a very early stage. Finally, [20] identified five lessons learned from the Grameen Bank experience for building innovative social business models. These are classified into lessons that are common with conventional business model innovation, namely, challenging the conventional wisdom, finding complementary partners, and undertaking continuous experimentation; and lessons which are particular to social

enterprises, namely, favoring social profit oriented shareholders, and clearly specifying social profit objectives.

#### IV. THE BUSINESS MODEL ENVIRONMENT

Business model literature suggests that the external environment plays a very important role in shaping the organization's business model. They recognize the importance of environmental forces within the context of business model design and innovation. Reference [13] suggests that business model innovation mainly depends on continuously scanning environmental forces, analyzing future trends in the company environment, and developing a number of hypotheses about the future that would serve as a base for business model scenario planning. On the other hand, [21] identified environment, industry, market, and competition analysis as an important input in the design of business models. They mentioned that all environmental analysis relevant facts must be examined and considered. Environmental conditions are also suggested to moderate the relationship between business model design and the performance of entrepreneurial firms [22].

If the environment is considered important in business enterprise business model design and innovation, it is considered crucial for social enterprises. In most cases, social ventures are created to change the inhospitable environmental context such as harsh economic conditions [4]. Social enterprises evolve in response to environmental change as they are created to meet specific societal needs by mobilizing available resources and through interaction between existing players. Therefore, they must be directly related to their specific economic, social, political, and cultural environment in order to be able to achieve their goals [23]. Social entrepreneurs create change by evaluating the dynamic interaction between resources and opportunities and then holding these against widespread institutional and cultural structures [2]. The business model environment is, therefore, the starting point for business model design in social enterprises as it derives customer needs and challenges, and consequently, the value proposition [5]. The three main components of the social enterprises are the identification of a stable but unfair equilibrium that causes the suffering or marginalization of a certain population that lacks the means to change it; the identifications of an opportunity in this unfair equilibrium, a social value proposition, and creative actions to challenge it; and finally, forcing a new stable equilibrium that is scaled up to alleviate the suffering and ensure a better future for the target population [24]. Environmental characteristics are also suggested to be used as generic dimensions in the conceptualization of the social business model innovation [25]. Despite this attributed importance of the environment for the success of social enterprises, [4] claims that social entrepreneurs tend to pay less attention to their environmental context since neither superior nor inferior performance are quickly realized in social enterprises, and therefore, the consequences of failing to account for the environment will only appear slowly.

The difference in socioeconomic contexts, therefore, can explain the diversity of social business models across regions. For example, a US model would only involve the interaction between the market and the civil society with no government intervention, while a west European model will involve the interaction between the government and the civil society with less intervention from the market; A Japanese model would involve more interaction between the government and the market with a weaker role for the civil society [26]. In East Asian countries, for example, the state power has been playing an important role in the development of social enterprises through regulations, policy measures, and associated funds [23].

Authors identified different environmental forces as being influential in business model design and innovation. Reference [4] defined environmental context as the variables that can influence the success or failure of the venture but are outside the control of the entrepreneur such as macroeconomic environment, regulatory structure, government policy and sociopolitical environment. Along the same line, [26] emphasized the role of the four socioeconomic factors of international aid, state capability, civil society, and market functioning. Reference [21] identified technology, market and deregulation as the most important drivers for business model change and [22] suggested that dynamism, complexity and munificence, or the availability of critical resources are identified as the most important environmental variables moderating the relationship between business model design and the performance of entrepreneurial firms. Reference [2] suggests that the main design elements of a social enterprise are community, culture, collaboration, and content. On the other hand, [13] suggested a broader framework for the business model environment that includes market forces, industry forces, key trends, and macroeconomic forces. Market forces encompass market segments, needs and demands, switching costs, revenue attractiveness and market issues. Industry forces include competitors, new entrants, substitute products, suppliers and other value chain actors and stakeholders. Key trends describe societal and cultural, technology, socioeconomic and regulatory trends. Finally, macroeconomic force covers global market conditions, capital market conditions, economic infrastructure and commodities and other resources. Reference [5] divided these forces into macro environmental forces that identify future customer needs drivers and micro environmental forces that identify Porters' five forces models from a customer perspective. While the macro environmental forces include the political, economic, social, legal, environmental and technological dimensions, the microenvironment includes dimensions pertaining to customers, partners, and stakeholders.

#### V. SOCIAL ENTERPRISES AS OPEN SYSTEMS

The above analysis suggests that successful social enterprise constantly scan the environment to identify stable but unfair equilibrium that causes the suffering of a certain population; then identify a social value proposition and creative actions to challenge it; and finally, force a new stable

equilibrium that changes the environment and alleviates that suffering. This suggests a continuous process of an informational and resource input from the environment (scanning), value creation to generate an output transforming this environment, and an impact measurement that provides feedback to change the informational and resource input.

This view of the social enterprise strongly relates to the open system approach of organizations. This approach highlights the continuous cycle of input, processing, output, and feedback between the organization and its external environment. Thus, it calls for designing organizations to make dynamic responses to the changing environment that forms the core of their work [27]. Open system strategies require system centering by determining where the system is and what is its core, and then designing and implementing strategies to engage with the environment. Those strategies involve determining the main domain, core activity and segments through environmental scanning. Reference [28] differentiates between two sets of environmental influential factors; Supra-organizational factors including demographic, economical, ecological, technological, political, and cultural variables; and immediate environment factors including suppliers, consumers and competitors. This classification corresponds to the common classification used by most researchers (e.g. [29], [30]) that divides the external environment into general environment and task environment. The general environment describes the macro factors that affect the organization [31]. These include the legal, social, political, cultural, economic, technology and physical infrastructure contexts in which the organization operates. On the other hand, the task environment involves the part of the environment with which the organization either transacts or competes [32]. This includes customers, suppliers, distributors, and competitors. It also corresponds to classifications of environmental factors affecting business model design and innovation as mentioned earlier.

The next step in designing the strategies involve predicting the future environmental trends, then, choosing actions to engage with the environment based on a deep understanding of the external dependencies between the system and parts of its environment and among parts of the environment themselves. The next step involves creating the environment which is an important central idea of this approach that holds organizations responsible for the design of the environment as much as that of the system. Purposeful adaptation management processes are also central to this approach whereby the organization can adapt by forming new goals, taking a proactive initiation of change, trying to improve the validity of measuring devices, etc. Finally, organizations have to assess their effectiveness in terms of achieving goals related to two environmental contexts; external and internal [28].

In order to constantly scan the environment, respond to its dynamic nature through business model innovation, measure the organizational impact on the environment and then provide a feedback loop, the social enterprise needs to embed and institutionalize a routine process that would incorporate environmental changes and the corresponding organizational

impact on the environment into its business model design process.

## VI. BUSINESS MODEL DESIGN PROCESS

Despite the importance of business model, only few researchers addressed the topic of business model design and only little is known about the *how* of the business model design [33]. Business model design requires more of a design than a decision attitude. It requires high ability and willingness to develop and try different models until a good solution emerges and the design is matured. The Design attitude requires that managers exert more efforts in designing alternatives than in deciding which alternative to adopt [34]. Business model design can also be approached from the activity systems perspective with two sets of parameters: design elements that describe the architecture of the activity system (Content, structure and governance), and design themes that describe the sources of value creation (novelty, lock-in, complementarities, and efficiency). Reference [35] expressed the need for a toolkit that would enable entrepreneurs to design their business models. Despite this, and although every organization has its own design space and starts from a different point according to its objectives, the design process can still be managed and structured into a clear process with phases [13].

The five phases suggested by and adopted by most practitioners and researchers in the field are 1- mobilizing: by setting the stage for the design by describing the motivation and establishing a common language for the model design; 2- understanding: by collecting the relevant information about the environment, customer, technology, needs, etc.; 3- designing: by transforming the information into different viable business design options and selecting the best; 4- implementing: by applying the selected business model design and 5- managing: by monitoring, evaluating, and changing the business model according to market response [13].

Business model design process can also follow the stage gate approach where the process is divided into phases with check points after each phase to take the Go/Kill decision. The stage gate process for business model design was developed by [5] and is based on future customer needs, or the value proposition. The starting point for this model is the business model environment that drives customer needs and challenges. The five stages are; customer needs derivation, business model analysis, business model development, business model test and validation, and business model launch. The decision gates focus mainly on customer needs review and industry vision evaluation.

Another approach for designing business models is based on using the same stages of all innovation processes; initiation, ideation, integration and realization [36]. This 4I framework for business model innovation starts with

analyzing the players and change drivers of the ecosystem to initiate the concept; overcoming the current business logic and thinking in business model terms to generate new ideas; integrating the piece of who, what, how and why along with managing the business partners to build the new business model; and finally, implementing the new model while trying to overcome internal resistance and mastering complexity through trial and error. This is an iterative process where implementation should provide feedback to the first three phases for redesign.

Aligned with their view of business model design as a dynamic capability, [33] introduced a five steps process for business model design; observing, synthesizing, generating, refining, and implementing. These steps correspond to the sensing, opportunity seizing and transforming dynamic capabilities approach of [37]. The first step involves gaining a thorough understanding of the design drivers of the business model, then synthesizing this information to gain a holistic understanding of the challenges and questions that the firm will face. The outcome of these two stages is that opportunities could be sensed, which is the first important capacity under the dynamic capability approach of [37]. The generation stage of the process involves creating alternative business model solutions, and the refining stage involves consolidating, evaluating, and prototyping alternatives by trying them on a small scale. These two steps correspond to the seizing opportunities capacity under model of [37]. The last stage of the business model design, implementing, calls for applying the design elements of the new model including content, structure, and governance; which in the dynamic capabilities approach corresponds to the transforming dimension.

## VII. DISCUSSION AND CONCLUSION

Social enterprises play a very important role in many societies by fulfilling the unmet needs of underserved communities, and introducing large scale transformational benefits to disadvantaged populations. They are mainly driven by a powerful mission to change the context those people live in, and thus, improve their lives. Therefore, the relationship between the social enterprise and the environmental context should be one of continuous interaction where the social enterprise monitors the environment, responds to its dynamic change through business model innovation, measures the organizational impact on the environment, and then provides a feedback loop. In order for this process to be efficiently carried out, a new business model design process, that incorporates environmental changes and the corresponding organizational impact on the environment into business model design and innovation, is proposed to be embedded and institutionalized as a routine process in social enterprises as follows:

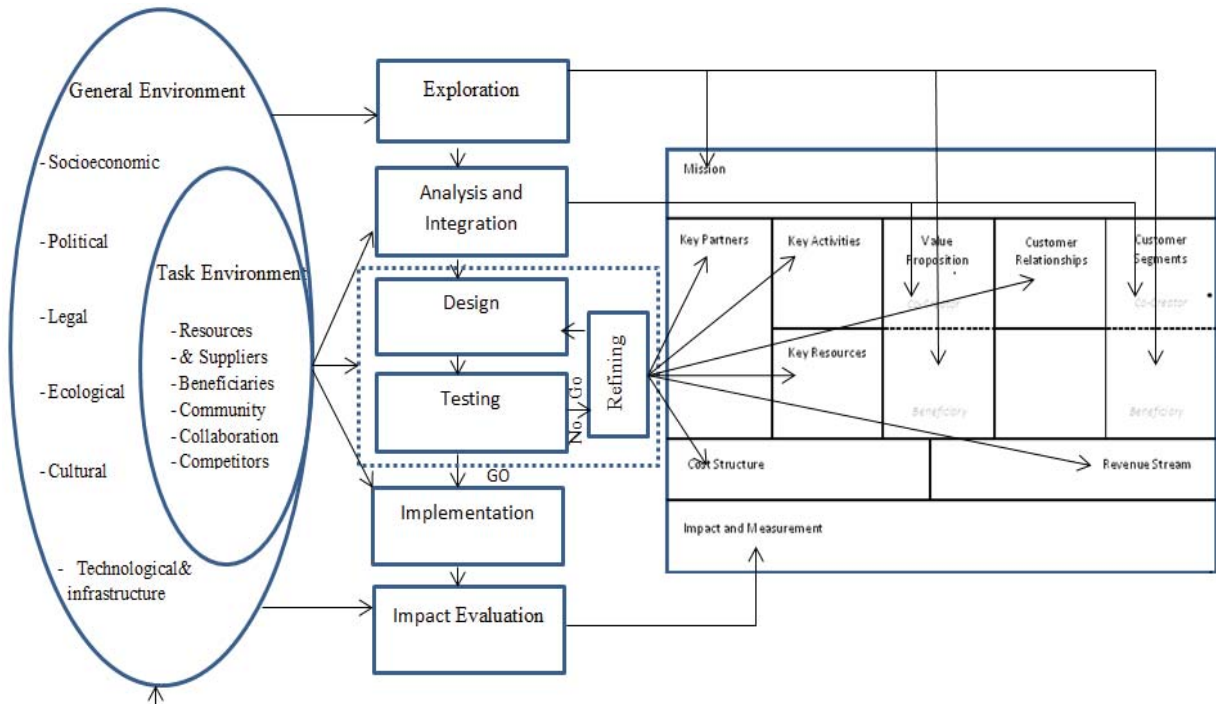


Fig. 2 Environment driven business mode 1 design process for social enterprises

Social enterprises usually start from an unfavorable environmental context in which they can spot an opportunity to provide value that serves the marginalized populations. Those unfavorable environmental conditions usually pertain to the general environment that shapes the economic, cultural, political, social and ecological realities of those beneficiaries. These forces are the input to the exploration phase of the business model development process which mainly shapes the mission, value propositions and target segments blocks of the business model. More specifically, they determine the value provided to beneficiaries and their customer segments served. This same context also provides the resources, partners, and other means that shape how the organization will exploit the opportunity and transform the unfavorable context. As previously mentioned, although the special nature of social enterprises restricts its ability to raise funds, it opens up opportunities for other resources such as donations, foreign aid, and volunteering. This shapes the task environment in which the social enterprise operates and provides a crucial input for the analysis and integration phase, which in turn directly impacts the value proposition and customer segments of the co-creators. Within these foundations, the iterative process of designing, testing, and refining the key activities, key partners, key resources, customer relationships and cost and revenue structures would start. The social and cultural environment would be an important parameter in testing the new business model since most underserved communities have a special cultural and social context that have to be respected. After making sure that the testing results are satisfactory. The new model would be implemented.

Since the main mission for social enterprises is creating transformational impact on the underserved and marginalized populations, their success is measured by the magnitude of social impact they created which is also their main differentiation from business enterprises; the more transformational to the context their impact is, the more successful they are. Thus, an impact evaluation phase is added to the business model development process and the impact that the enterprise would generate constitute the last block of the social enterprise business model, expected impact and measuring indices.

Since successful social enterprises transform the adverse environmental conditions they start from, this suggests that their starting business design point, or value proposition, should be revisited in light of their impact. Thus, their business model design would be an iterative process that moves with the base of their success, the more transformational they are, the more they need to update the model to respond to its transformational impact. With experience accumulation, knowledge articulation, and knowledge codification, this business model design process has the potential to turn into an organizational dynamic capability [38]. Business model design can be viewed as a higher order dynamic capability that distinguishes how the enterprise develops and innovates its business model, harmonizes it with the environment, and shapes the environment in its favor [33].

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