

Chapter 2

Corporate Social Entrepreneurship and New Business Models

Abstract The chapter analyzes social innovation at the level of the business model. The study clarifies the main characteristics and differences among alternative models of business to target the low income sector. Starting with the literature on social entrepreneurship and business models, a new theoretical framework “The Social Business Model Framework” is developed. The framework is used to identify the main characteristics of social business models and to emphasize the main area where social innovation can be applied.

Keywords Corporate social entrepreneurship • Business models • Social business • Inclusive business

2.1 The Emergence of Hybrid Enterprises

In the past decades, we have seen the emergence of two global phenomena. The first phenomenon is an evolution from the concept of Corporate Social Responsibility to the Creating Shared Value approach proposed by Porter and Kramer (2006). According to the authors, the capitalist system is sinking through a major crisis that is driving the need to revise the logic underlying the traditional business models; thus, “we need a more sophisticated form of capitalism, one imbued with a social purpose. But that purpose should arise not out of charity but out of a deeper understanding of competition and economic value creation. This next evolution in the capitalism model recognizes new and better ways to develop products, serve markets, and build productive enterprises” (p. 77).

The second phenomenon is the increasing role of emerging market economies (EMEs) in the global economy and the growing importance of the bottom of the pyramid market segment and, therefore, the beginning of the BOP 2.0 approach (see Table 2.1).

Both of these phenomena lead to a need for innovation and for the development of new business models. The borders between enterprises are becoming blurred, and companies are increasing their “area of action”; they will invade new space (for example, the public or the not-for-profit sector). Therefore, they are developing new ways of engaging with society; the area of competence

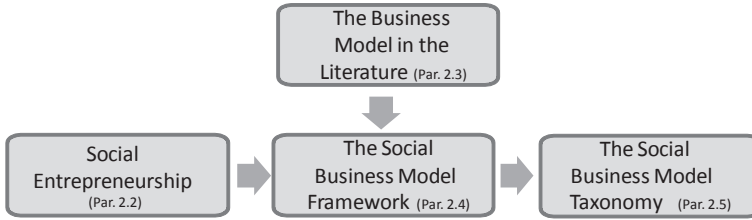


Fig. 2.1 The research process

includes simultaneously private (economic), public (political) and environmental (ecological) dimensions (Schieffer and Lessem 2009).

These new kinds of companies are defined as “integrated enterprises” or “hybrid enterprises”, and they can generate different forms of social innovation. Hybrid enterprises are those enterprises “straddling the boundary between the for-profit business world and the social mission-driven public and not for profit organizations. Thus they do not fit completely in either sphere” (Hockerts 2006, p. 145).

Through these new enterprises, a new sector, called the “fourth sector”, of organizations existing at the intersection of the public, private and social sectors is emerging (Fourth Sector Network 2009).

From this perspective, the aim of the following paragraphs is to identify the characteristics and distinct qualities of hybrid business models and to highlight where social innovation can be implemented to target the low-income market.

To reach this aim, first, the literature on social enterprises is analyzed to identify the main definitions and interpretations of the concept. Then, through an analysis of the business model literature, a new framework—the social business model framework—is developed. Finally, the framework is used to identify the main typologies of social enterprises and other forms of social innovations (Fig. 2.1).

2.2 Defining Social Entrepreneurship

In attempting to apply the principle of the creating shared value approach, which is characterized by the concept of generating mutual value, many companies have started to create alternative models of governance and strategies or management schemes, which can refer to the social entrepreneurship (SE) and corporate social entrepreneurship (CSE) field of study.

The concept of social entrepreneurship is a relatively new field of study; however, the literature is extending, and at times, the approaches and definitions conflict. A lack of agreement persists regarding the domain, boundaries, forms and definitions of social entrepreneurship (Peredo and McLean 2006). Social entrepreneurship is defined broadly in some cases and narrowly in others; thus, the literature has not yet achieved a consensus.

In the recent literature, many authors have collected and analyzed the key definitions of social entrepreneurship. For example, to highlight the complexity in giving a precise definition, Dacin et al. (2010) analyze 37 different definitions that emerged from 1991 to 2010, OECD (2010) analyzes 29 definitions in use from 2000 to 2010, and Swanson and Zhang (2010) summarized 14 theoretical constructs developed from 1998 to 2010.

The interpretation of social entrepreneurship ranges from a narrow perspective to a broader one (Perrini 2007). In this variety, there is an intermediate position favored by some authors and institutions (Yunus 2008; UNDP/EMES 2008).

A narrow interpretation of the phenomenon considers social entrepreneurship to be a not-for-profit initiative in search of alternative funding strategies or management schemes to create social value (Austin et al. 2003; Boschee 1998).

Box 2. Social Entrepreneur, Social Entrepreneurship, Social Enterprise and Corporate Social Entrepreneurship (CSE)

The concept of social entrepreneurship typically refers to a process or behavior, while the definition of a social entrepreneur focuses on the founder of the initiative.

Social entrepreneurs, specifically, are individuals who initiate activities that are focused on a social mission while behaving as true entrepreneurs through their dynamism, personal involvement and innovative practices (UNDP, EMES 2008).

The definition of a social enterprise refers to the tangible outcome of social entrepreneurship. Hence, when we talk about social entrepreneurship, we refer to the process that invests in private people who are oriented to pursue opportunity and are satisfying unmet social needs.

If this same process is applied to the business sector, we should refer to it as corporate social entrepreneurship (CSE), (Austin and Reficco 2009).

Two other conceptual frameworks are the source and foundation for CSE: corporate entrepreneurship and social entrepreneurship (Austin and Reficco 2009). Covin and Miles (1999) have defined the former as “the presence of innovation with the objective of rejuvenating or redefining organizations, markets, or industries in order to create or sustain competitive superiority.” Social entrepreneurship has been defined as a process involving the innovative use of resources to pursue opportunities to catalyze social change or address social needs (or both), (Mair and Marti 2006). From the synthesis of these two processes, a new model of business emerges: the CSE concept. The fundamental purpose of CSE is to accelerate companies’ organizational transformations into more powerful generators of societal betterment. CSE is not another form of CSR but rather is a process for invigorating and advancing the development of CSR (Austin and Reficco 2009).

For UNDP and EMES, social enterprises may be defined as “private, autonomous, entrepreneurial organizations providing goods or services with an explicit aim to benefit the community. They are owned or managed by a group of citizens, and the material interest of capital investors is subject to limits. Social enterprises place a high value on their autonomy and on economic risk-taking related to ongoing socioeconomic activity. Social enterprises are either legally prohibited from distributing profits or are structured to exclude profit as the main goal” (UNDP/EMES 2008, p. 18).

A similar interpretation of social entrepreneurship is given by Yunus (2008; 2010). He defines the social business as a subset of social entrepreneurship that operates as an enterprise, selling products and services to customers. Unlike traditional enterprises, there are no dividends for the shareholders. Investors who decide to set up a social business enterprise can take back the amount of money that they invested, after which the surplus would not be distributed among the partners. Any surplus revenue would be reinvested to improve the quality of the product or service or toward scaling up the social business.

The purpose of Yunus’ social entrepreneurship is not to eradicate or contrast with the traditional business model; he considers social business to be new, alternative way for entrepreneurship. He excludes the hypothesis of a social business model that admits dividends for shareholders because “profit-seeking companies with a strong CSR commitment try to make their pursuit of profit consistent with social considerations. However, their commitment to making a profit inevitably limits their contributions to social causes. (...) By contrast a social business is designed exclusively to deliver social value” (Yunus 2010, p. 11).

Furthermore, Yunus (2008) proposed a second typology of the social business model: a profit-making company that is owned by poor people. In this case, even if the business is profit oriented, it could be considered a social business because it is permitted to improve the social condition of low-income people.

Other contributions on SE agree with the broader definition: social enterprises are considered to be “organizations seeking business solutions to social problems” (Thompson and Doherty 2006). Several researchers, specifically, provide evidence that in SE the concept of the social mission is central. According to this vision, SE is a process that aims to

- address significant/alleviate social problems/needs (Light 2006; Mair and Marti 2006; Korosec and Berman 2006);
- catalyze social change (Mair and Marti 2006);
- alleviate the suffering of the target group (Martin and Osberg 2007);
- benefit society with an emphasis on marginalized people and the poor (Schwab Foundation 2011), and;
- create and distribute new social value (Peredo and McLean 2006; Perrini and Vurro 2006).

Thus, all of these definitions agree that social entrepreneurship is a means to alleviate social problems and improve well-being. Furthermore, the definitions

focus on the potential beneficiaries of social entrepreneurship activities: generically, as “the community” and, specifically, as the “target group”.

A broader definition of SE was also given recently by the European Commission (2011), which considers the social enterprise to be “an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities” (p. 2). The European Commission uses the terms social enterprise and social business synonymously.

According to the EU definition, the main characteristic of social enterprises is their primary social and environmental aim, independently from their legal forms.

The European Commission uses the term “social business” to cover “businesses providing social services and/or goods and services to vulnerable persons (access to housing, health care, assistance for elderly or disabled persons, inclusion of vulnerable groups, child care, access to employment and training, dependency management, etc.); and/or businesses with a method of production of goods or services with a social objective (social and professional integration via access to employment for people disadvantaged in particular by insufficient qualifications or social or professional problems leading to exclusion and marginalization) but whose activity may be outside the realm of the provision of social goods or services” (European Commission 2011, p.3)

A broader interpretation of SE also allows for an innovative form of business that is becoming more widespread: the inclusive business model.

As discussed in [Chap. 1](#), the Bottom of the Pyramid Theory proposed by Prahalad (2004) is based on the concept of “serving the poor profitably”. Profitability in the low-income sector could be achieved only if companies change their traditional opinions about developing countries, by no longer considering them to be a territory to exploit but a market composed of producers and consumers with specific needs, which, in turn, could be satisfied through specific and innovative business models.

An analysis of the literature suggests that the inclusive business model, along with the social business model, represent the most accommodating business models with which to implement the BOP 2.0 approach that honors the characteristics previously highlighted (Michelini and Fiorentino 2012).

The relationship between the inclusive business model and social entrepreneurship has been emphasized by Marquez et al. (2010), through a case study conducted on 12 inclusive businesses. The authors conclude the study by stating that social enterprises are distinguished from traditional ones by two main features: the social value that is created and the level of stakeholder involvement. Creating shared value is a key point in the inclusive business model, in addition to the need to engage with stakeholders to succeed and obtain mutual business and social opportunities. Thus, the inclusive business model “is driving a convergence

between traditional enterprise and social enterprise, with very different organizations behaving similarly” (Marquez et al. 2010, p. 322).

The inclusive business model can offer new opportunities to a company to conduct business responsibly and, at the same time, generate economic and social value.

Inclusive businesses are based on models with which to “include the poor on the demand side as clients and customers, and on the supply side as employees, producers and business owners at various points in the value chain. They build bridges between business and the poor for mutual benefit. The benefits from inclusive business models go beyond immediate profits and higher incomes. For business, they include driving innovations, building markets and strengthening supply chains. And for the poor, they include higher productivity, sustainable earnings and greater empowerment.” (UNDP 2008, p. 2).

For the SNV and the World Business Council for Sustainable Development (2008), the inclusive business model is “one which seeks to contribute toward the alleviation of poverty by including lower-income communities within its value chain while not losing sight of the ultimate goal of business, which is to generate profits” (SNV/WBCSD 2008, p. 2).

The inclusive business model is characterized by the involvement of the low-income sector in the following three ways:

1. as customers, where the poor are the primary target of the business and companies make products and services available at an affordable price;
2. as suppliers, distributors or business partners, where the poor are involved in their value chain and companies contribute to job creation and knowledge sharing but target the average or high-income local population, traditional/global markets, and non-profit local or international organizations, and;
3. as customers and as suppliers, distributors or business partners, where the poor are both targets and actors involved in the company’s value chain.

The main characteristics that differentiate inclusive business strategies from traditional ones are summarized below (see Table 2.1).

Economic growth is considered, in any case, to be the primary driver for the companies that develop inclusive businesses (International Finance Corporation 2010). However, this aim is pursued alongside the ethos of “create value for all” (*co-value creation*) with the awareness that by doing business with the low-income sector, firms create the potential for the growth of new business while they improve poor people’s lives. Hence, this business model “can give people the confidence and strength to escape poverty using their own means (UNDP 2008, p. 23). Indeed, the inclusive business model is based on the concept of the “value constellation”. This concept refers to the process of generating value within the company’s own value chain as well as the value network of its suppliers and partners (Norman and Ramirez 1993). From this perspective, the main focus of the business is not the company itself but the value-creating system “within which different economic actors—suppliers, business partners, allies, and customers—work together to co-produce value. Their key strategic task is the reconfiguration of roles and relationship among this constellation of actors in order to mobilize

Table 2.1 Principles of the inclusive business model

The “Co-”Principles in the inclusive business model

CO-value creation

The company generates value within its own chain while generating value with its suppliers and partners.

CO-dependency and co-evolution

The company has a strong link with the eco-system. The relationship is based on a mutual dependence that leads to co-evolution.

CO-learning

Knowledge and technology transfer from the top of the pyramid to the bottom and from the bottom to the top.

CO-invention

Knowledge sharing and engaging with the poor leads to innovation

CO-existence of local and global

A company can target both the local and the global market.

the creation of value in new forms and by new players” (Norman and Ramirez 1993, p. 66).

The inclusive business model is also characterized by a strong link with the ecosystem, which is an economic community based on the interaction of different organizations that are directed to the production of goods and services. It is more than the extended value chain. The ecosystem includes the structural environment, the regulators, the supporting organizations and other actors, such as competitors and neighboring communities. The relationship between the company and the ecosystem is based on a mutual dependence (*co-dependence*), and the company should evolve together with the actors in the environment (*co-evolution*), (Marquez et al. 2010).

The inclusive business model is characterized by a combination and transfer of knowledge and technology from the top of the pyramid to the bottom and from the bottom to the top (*co-learning*). For example, co-learning can refer to training and technical assistance from the company to the local producers or to the possibility for the company to access local knowledge, expertise and ideas. Co-learning is linked with *Co-invention*. Knowledge sharing at the top of the pyramid, with the wisdom and expertise at the bottom, enables co-discovery of new opportunities to serve those at the BOP (London 2008; Whitney and Kelkar 2004).

The last principle concerns the connection of the local with the nonlocal (London 2008). Indeed, the target of inclusive business models can be any of the following: local and nonlocal low-income people, middle and high income people (local and nonlocal), and non-profit local and international organizations (Michellini and Fiorentino 2012). Therefore, a company can take locally-produced goods and sell them in nonlocal markets, including both wealthier in-country and international markets. Furthermore, “a BOP venture can take a locally produced good, such as honey, and sell this product to BOP markets in other (nonlocal) regions or countries” (London 2008, p. 19).

In considering these definitions, it is possible to conclude that the term social entrepreneurship is used to refer to the rapidly growing number of organizations

that have created models for efficiently satisfying the basic human needs that the existing markets and institutions have failed to fulfill. Social entrepreneurship combines the resourcefulness of traditional entrepreneurship with a mission to change society and to increase well-being. Whereas corporate social entrepreneurship (CSE) is this same process developed by an existing traditional company, CSE represents an evolution and an advanced interpretation of CSR.

At this point in the study, it is useful to reaffirm the relationship between social entrepreneurship and social innovation.

As emphasized at the end of [Chap. 1](#), social innovation is implied in these forms of business models: *social innovation is generated by the combination of business model components that set up an enterprise with the aim of improving community well-being and, at the same time, guarantees economic and financial sustainability.*

From this perspective, the main aims of the next sections are to (1) identify the business model components that are useful for analyzing social enterprise and (2) distinguish the boundaries and differences among social and inclusive businesses and the general concept of social entrepreneurship.

2.3 The Business Model in the Literature

The academic literature offers various definitions and perspectives of the concept of business models that can be useful for an analysis of the CSE models of inclusive and social businesses (Michellini and Fiorentino [2012](#)).

The tool—the business model—was established with the aim of understanding the dynamics of technological change and was used to represent the processes of managing IT systems (Jones [1960](#); Konczal [1975](#)). Thus, the purpose of the business model concept has been historically defined by emphasizing value creation as a part of managing the development of technology. It was considered to be “a coherent framework that takes technological characteristics and potentials as inputs and converts them through customers and markets into economic outputs. The business model is conceived as a focusing device that mediates between technology development and economic value creation” (Chesbrough and Rosenbloom [2002](#), p. 532).

Because of the emergence of the New Economy, the use of the business model has greatly increased. Researchers and managers had the need to define “new business formulas” and to identify models that could express the concept of value creation.

Indeed, the recent pressure to gain access to markets in developing countries, particularly those at the middle and bottom of the pyramid, is driving a surge in business-model innovation (Casadesus-Masanell and Ricart [2011](#)).

However, Drucker in 1954 had already clarified the importance of a business model that can answer the following questions: Who is your customer? What does the customer value? How do you deliver value at an appropriate cost? Many

Table 2.2 Business model components in the literature

Authors	Business model components
Casadesus-Masanell and Ricart (2011)	Policy choices, asset choices, governance choices
Yunus et al. (2010)	Value proposition (stakeholders and product/service), social profit equation (social profit and environmental profit), value constellation (internal value chain and external value chain) and economic profit equation (sales revenues, cost structure, and capital employed)
Osterwalder et al. (2005) also used by Marquez et al. (2010)	Value proposition, distribution channel, relationship with customers, partner network and revenue model
Osterwalder and Pigneur (2010)	Customer segments, value propositions, channels, customer relations, revenue streams, key resources, key activities, key partnerships, cost structure
Zott and Amit (2010)	Design elements (content, structure, governance) and design themes (novelty, lock-in, complementarities, efficiency)
Rasmussen (2007)	Value proposition, market segment and revenue model, value chain, cost structure and profit potential, value network, competitive strategy
Hamel (2000) also used by Mair and Schoen (2005)	Core strategy, strategic resources, customer interface and value network

researchers define a business model by specifying its main components (see Table 2.2).

Zott and Amit (2010) define a business model as “the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities” (2010, p. 219).

Recently, Casadesus-Masanell and Ricart (2011) maintain that a business model consists of “a set of managerial choices and the consequences of those choices” (p. 103), and the following are its main components:

- policy choices, which determine the actions an organization takes across all its operations;
- asset choices, which pertain to the tangible resources a company deploys, and;
- governance choices, which refer to how a company arranges rights decision making.

Osterwalder et al. (2005) suggest a definition that integrates two perspectives: the way a company conducts business and the conceptualization of the strategy. For the authors, a business model is “a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm. Therefore we must consider which concepts and relationships allow a simplified description and representation of what value is provided to customers, how this is done and with which financial consequences” (2005, p. 5).

Recently, Osterwalder and Pigneur (2010, p. 14) suggest that “a business model describes the rationale of how an organization creates, delivers, and captures value” and propose the following building blocks for designing business models:

- value proposition, which presents an overall view of a company’s products and services;
- target customers, which include the segments of customers to whom a company wants to offer value;
- distribution channel, which describes the various means through which the company engages with its customers;
- relationship, which explains the type of links a company establishes between itself and its various customer segments;
- value configuration, which describes the arrangement of activities and resources available to the company;
- core competency, which outlines the competencies necessary to execute the company’s business model;
- partner network, which portrays the network of cooperative agreements with other organizations that are necessary to efficiently offer and distribute value;
- cost structure, which sums up the monetary consequences of the company’s means employed in the business model, and;
- revenue model, which describes the way a company makes money through a variety of revenue flows.

Recently, some authors have used the concept of business model to analyze new forms of business (e.g., social and inclusive business).

Mair and Schoen (2005) referred to Hamel’s business model components—core strategy, strategic resources, customer interface and value network—to identify the common features and patterns across the business models of successful social entrepreneurship.

Marquez et al. (2010), with the main aim of analyzing the specificity of the inclusive business model, selected some building blocks identified by Osterwalder et al. (2005) for their study. Specifically, they used the following components: the value proposition, the distribution channel, the relationship with the customers, the partner network and the revenue model.

Yunus et al. (2010) identified four components of a social business model: the value proposition (the stakeholders and the product/service), the social profit equation (the social profit and the environmental profit), the value constellation (the internal value chain and the external value chain), and the economic profit equation (the sales revenues, the cost structure, and the capital employed).

Michelini and Fiorentino (2012) adapted Osterwalder’s framework to identify the main difference between the social and inclusive business models. Specifically, the authors used the following categories and sub-categories for their analysis: the value proposition, the ecosystem (e.g., governance, the value chain, skills, and the network partners), the market (the customers and the distribution) and the economic features (revenue management).

2.4 The Social Business Model Framework

This literature review indicates that researchers, who have explored new forms of business using the business model concept, need to adjust the traditional business model frameworks. This need for adjustment is because the traditional frameworks have limitations in analyzing new forms of hybrid enterprises, in which the social component is of great importance.

In fact, the traditional models are not able to capture all of the specific aspects of these new forms of enterprise. Specifically, they do not allow for an analysis that highlights the specific features and innovations relating to the revenue management model, the model of governance and the social impact of the business.

In light of this shortcoming, a new framework was developed to define a model that could be used as tool for the analysis of new business forms and as a tool to analyze the creation of social innovation.

The model was developed from a literature analysis on business models and in consideration of the specificity of the new forms of business that were described above.

Specifically, the social business theoretical framework has developed, emerging from the frameworks of Osterwalder et al. (2005) and of Yunus et al. (2010).

The social business model framework is composed of the following 7 areas, which include 13 components:

- *offer*, which is characterized by the *value proposition* that is the benefit offered by the company through products and services;
- *market*, which includes the *market segment*, the segments of customers that a company wants to reach; the *relationship*, which describes the communication strategy and type of connection that the company establishes with its customers; and the *distribution*, which describes the various channels that a company uses to reach its customers;
- *governance*, which relates to the *governance model* of the company and includes the set of processes or laws that manage the relationship between stakeholders as well as the goals for which the corporation is governed;
- *ecosystem*, which includes the *value chain*, which refers to the chain of activities for a firm operating in a specific industry, and the *competences*, which outline the specific range of proficiency (skill, knowledge, or ability) of a company, and the *partner network*, which refers to the network of cooperative agreements with other organizations that are necessary to efficiently offer and distribute value;
- *surplus*, which describes how the company manages the revenue surplus. (Does it include dividends for shareholders?);
- *economic profit equation*, which includes the *costs structure* and *revenue model*, and;
- *social value equation*, which describes the way a company generates *social benefit* (in terms of risks and benefits) (Fig. 2.2).

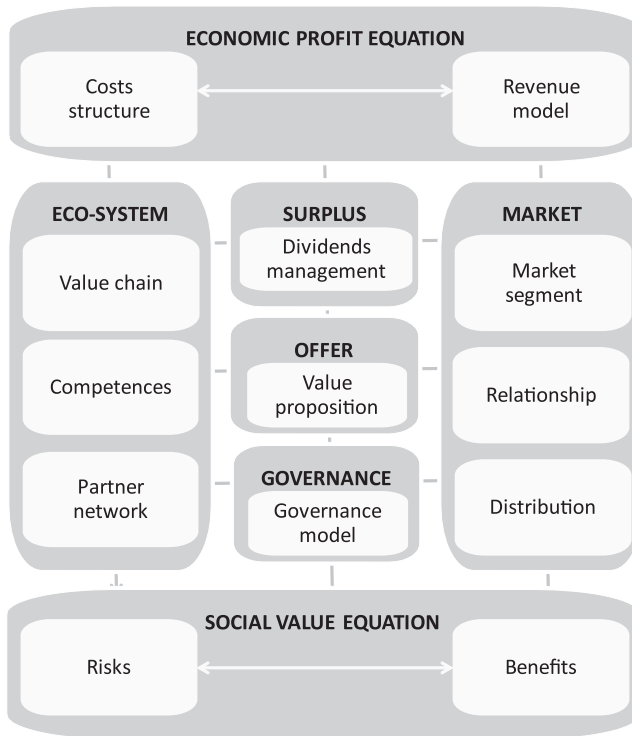


Fig. 2.2 The social business model framework

The components identified above will be used to highlight the main characteristics of the new forms of enterprise and to highlight the areas where social innovation can be expressed.

Specifically, we anticipate the following:

- the *social and economic value equation* and the *surplus* will be used to classify the main forms of social business models;
- the *eco-system* and the *governance* will aid in the identification of unconventional forms of innovations, and;
- the *offer* and the *market* will be explored in the next chapter through the social product innovation process and communication strategies.

2.5 CSE for the Low-Income Market

To better understand the characteristics and differences between the business models, a taxonomy will be developed that considers the social business model framework (described in the paragraph above) and the main classification that exists in the literature (Dacin et al. 2010; Yunus et al. 2010; Massetti 2008; WBCSD 2008).

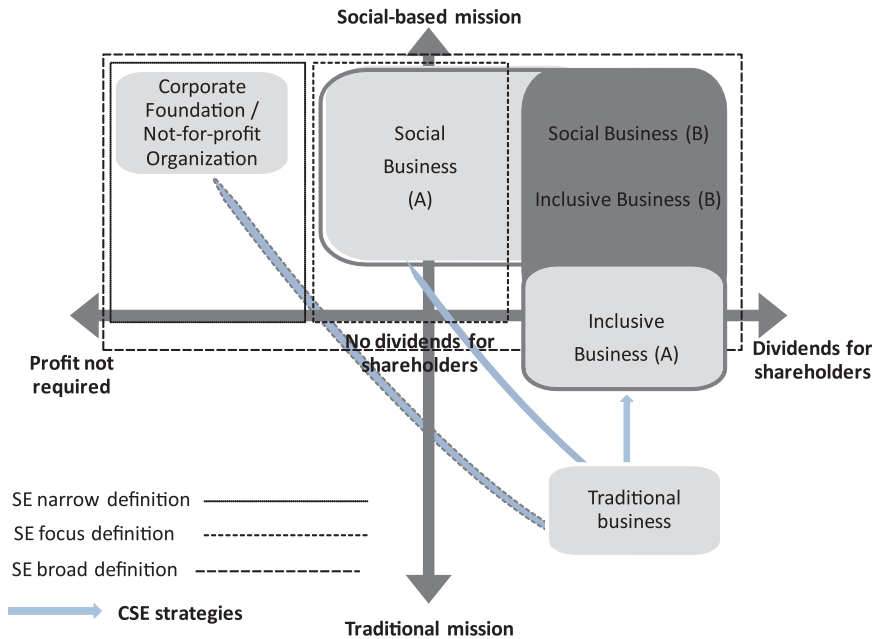


Fig. 2.3 The social business models taxonomy

From the literature review, two critical points emerge. The first point concerns the true meaning of the attribute “social” and how a social mission might distinguish SE from other organizational forms. The second point refers to the revenue model and surplus management as existing in a continuum from “profit not required” to “social business” and ending with “profit required”.

In considering the components of the business model framework to develop the matrix, the following two variables have been selected:

- the *social and economic profit equation*. By comparing the economic and social value generated by the enterprise, it is possible to identify the social impact. The comparison identifies whether a company is more social or profit oriented (a market-based mission *versus* a social-based mission);
- the *surplus*. Surplus management can range from “zero surplus”, where profits are not required, to profits are required and re-invested in the company (no dividends for shareholders), and to profits are redistributed among shareholders.

By using these two variables, a matrix can be developed wherein different forms of business models that target the low-income markets can be placed (Fig. 2.3).

The matrix identifies alternative CSE strategies that a traditional, existing company can implement to target low-income markets.

The traditional business model is located in the quadrant at the bottom right section of the matrix. This model is solely profit oriented, without consideration of social effects. The arrows show the alternative corporate social entrepreneurship strategies that a company can decide to pursue to target low-income markets.

The corporate philanthropy model, included in the area at the top left section of the matrix, is a cause-driven but not profit-oriented model. In reality, the philanthropic model itself does not represent a conventional form of the business model aimed at the low-income sector because it is based neither on selling a product or service directly to the poor nor on economic self-sustainability.

However, the philanthropic model can be considered a possible CSE strategy that the company can decide to implement along with the traditional business operation to increase the CSR level. The model can be accomplished by establishing a corporate foundation or a not-for-profit organization that is in charge of managing corporate donations.

The quadrant at the top right includes the social business and inclusive business models. Both models are oriented toward economic self-sustainability and are engaged in improving the community's well-being by generating profits.

The social business model is characterized by two main typologies:

- social business (A) that includes the companies that do not distribute dividends; this approach is in line with the social business model proposed by Yunus (2008), and;
- social business (B) that includes all the companies whose mission is socially oriented independently from the financial management; this approach is in line with the European Commission's definition (2011).

The inclusive business model is a traditional business activities model that moves along the ordinate axis and depends on the social level of the mission (from A to B). The inclusive business model represents an intermediate model that appears between a traditional business focus on the CSR approach and a social entrepreneurship with a high social orientation. The position in the matrix depends on the strength and importance of the social mission in the balance of the social and profit equation.

Moreover, this matrix illustrates the relationships that exist among the three aforementioned areas. Essentially, a traditional company could choose to approach the low-income market by implementing inclusive or social business models.

Regarding the social business model, it may represent an evolution of the philanthropic models because their priority is not only to achieve social sustainability but also to reach their economic goals. Finally, depending on the firm's priorities (i.e., economic benefit *versus* social benefit), conversions between social and inclusive businesses models cannot be excluded.

2.6 Social Innovation in Governance and the Ecosystem

The matrix discussed above shows how the balance between the profit and social equation and surplus management can generate innovative forms of enterprise.

By using the remaining components of the social business model framework, it is possible to identify additional types of innovations that refer to the following

components: the offer, the market, governance, and the ecosystem. The process and the innovation typologies concerning the offer and the market will be analyzed in the following chapter.

Social innovation can also refer to governance and the ecosystem areas.

These spheres of innovations relate to

- new forms of governance (governance innovation) and
- new forms of ecosystem relationships (relationship innovation).

Innovation in the governance system refers to the ability to identify new forms of control that allow for a balance between opposing or differing interests.

A traditional company that wants to enter in the low-income market—in line with the BOP 2.0 and the CSE approaches—has the following strategic options (Fiorentini 2006):

- build an internal spin-off company by forming a strategic social business unit (SSBU);
- modify the mission of the company by adding the social value, i.e., move from a market-based mission to a socially based mission, or;
- build an external spin-off company and decide which legal form to use (cooperatives, for-profit, non-profit) and how to manage the surplus (dividends or no dividends for shareholders).

New forms of governance can refer to the development of a profit-not-for-profit joint-venture (Yunus 2008). In this case, the partners establish a new legal entity called a social business enterprise (SBE). The governance model consists of the board of directors, which is made up of managers and professionals from the two founding organizations. Participation in the new entity in egalitarian ways helps to ensure that the specific interests of one of the two subjects could not prevail.

The second form of innovation refers to the eco-system. Concerning the eco-system, Marquez et al. (2010) affirmed that the most radical innovation that they observed—in their sample—was relational, which is a kind of innovation that is usually not found in traditional markets. This innovation comprised “ways of bringing together poor people and the company that wished to include them as a customers or suppliers and included the active participation of company personnel in low-income sector communal spaces” (p. 41).

The form of innovation that refers to the eco-system for the business model also relates to the market area (and the components of markets, relationships and distribution) and will be thoroughly analyzed in Chap. 4.

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