



# Social Business Models

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## ABSTRACT

A Social Business embraces networks of people to create business value. A Social Business connects people to expertise. It enable individuals – whether customers, partners or employees – to form networks to generate new sources of innovation, foster creativity, and establish greater reach and exposure to new business opportunities. It establishes a foundational level of trust across these business networks and, thus, a willingness to openly share information. It empowers these networks with the collaborative, gaming and analytical tools needed for members to engage each other and creatively solve business challenges. A Social business strives to remove unnecessary boundaries between experts inside the company and experts in the marketplace. It embraces the tools and leadership models that support capturing knowledge and insight from many sources, allowing it to quickly sense changes in customer mood, employee sentiment or process efficiencies. It utilizes analytics and social connections inside and outside the company to solve business problems and capture new business opportunities. A Social Business leverages these social networks to speed up business, gaining real time insight to make quicker and better decisions. It gets information to customers and partners in new ways -- faster. Supported by ubiquitous access on mobile devices and new ways of connecting and working together in the Cloud and on open platforms, a Social Business turns time and location from constraints into advantages. Business is free to occur when and where it delivers the greatest value, allowing the organization to adapt quickly to the changing marketplace. We believe the most effective approach to enabling a Social Business centers around helping people discover expertise, develop social networks and capitalize on relationships.

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## 1. Introduction

In the capitalist system, two extreme types of corporate bodies can be distinguished. On the one hand, companies can be seen as profit-maximizing businesses, whose purpose is to create shareholder value. On the other, non-profit organizations exist to fulfill social objectives.

Figure 1 shows how a social business borrows from both these entities: it has to cover its full costs from its operations, and its owners are entitled to recover their invested money, but it is more cause than profit-driven. Its position in the lower right quadrant shows that it has both the potential to act as a change agent for the world, and sufficient business-like characteristics to ensure it survives to do so. In organizational structure, this new form of business is basically the same as profit-maximizing businesses: it is not a charity, but a business in every sense.

The managerial mindset must be the same as in a business: when you are running a social business, you think and work differently than if you were running a charity, even though your objective is different from a profit-maximizing company. At the same time as trying to achieve their social objective, social businesses need to recover their full costs so they can be self-sustainable. Their owners never intend to make profits for themselves (there are no dividends), but they are entitled to get their money back if they wish.

Thus, a social business is designed and operated just like a 'regular' business enterprise, with products, services, customers, markets, expenses and revenues. It is a no-loss, no-dividend, self-sustaining company that sells goods or services and repays investments to its owners, but whose primary purpose is to serve society and improve the lot of the poor.

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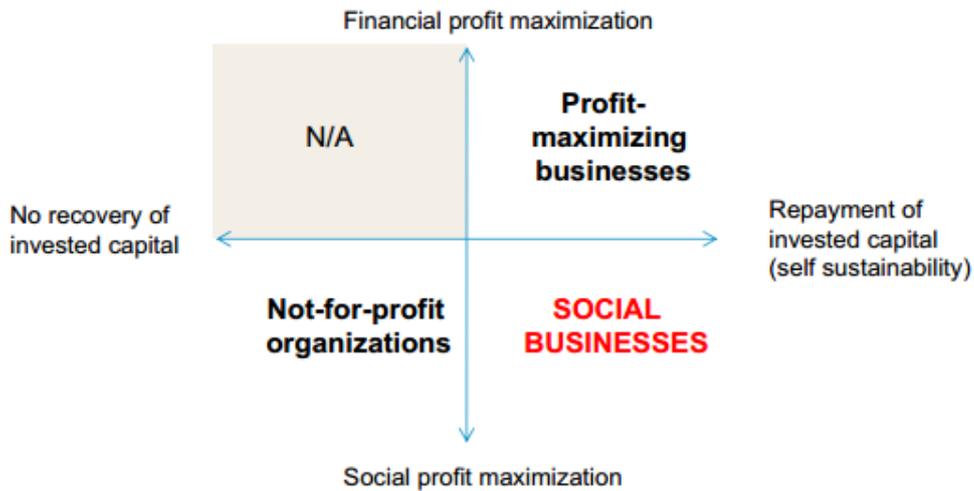


Fig. 1. - Social business vs. Profit maximizing business and not-for-profit organizations

## 2. Literature review

The literature on the design of social entrepreneurship models has suggested several architectures. For example, social enterprise can take this form (Figure 3):

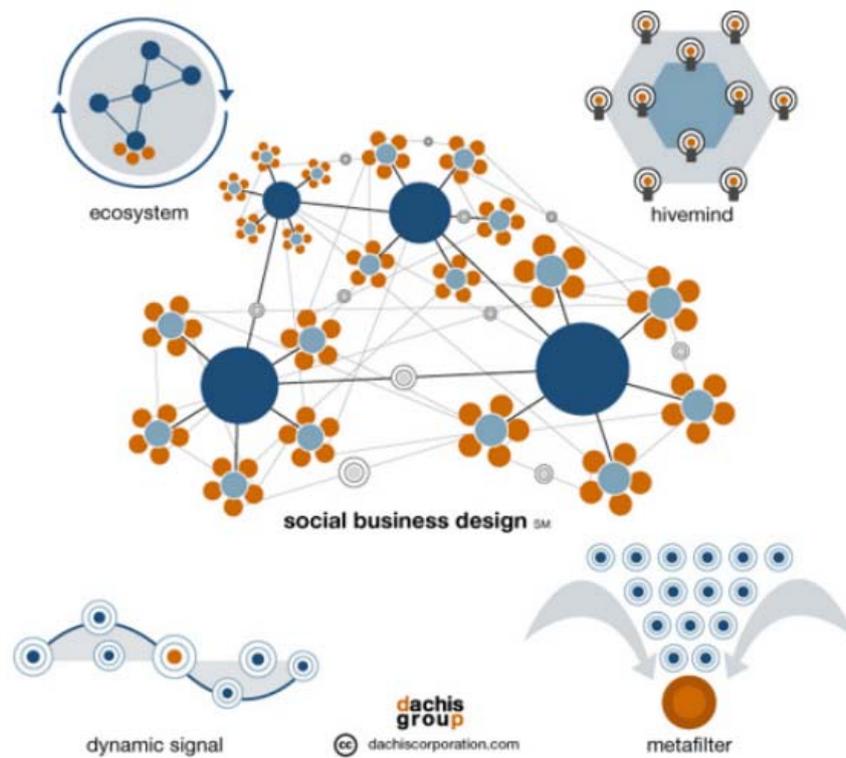


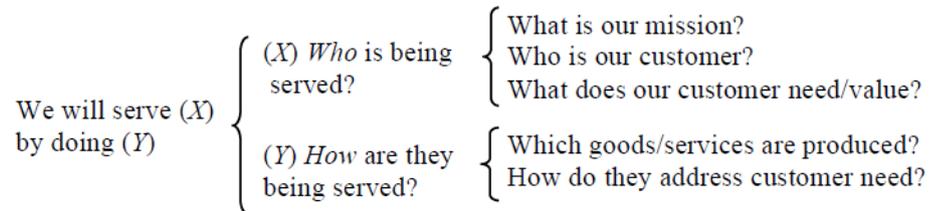
Fig. 2 - Social business design according to Dachis Group

- A social enterprise must be built as a robust, integrated network of nodes and connections with the knowledge of who the constituents of the business are and where they can find value individually and together as a whole (= ecosystem).
- If such an enterprise can also rely on collaboration in the workplace which translate into intensified stakeholder contacts, the model is that of a hive (= hivemind).
- Businesses differ as to the strength and frequency their customers send information about changes on markets, for example about the need by potential beneficiaries of support (= dynamic signal).

- Lastly, social enterprises must pick up these signals and process the information efficiently so that it leads to the required social action (= metafilter).

A business model depends on an underlying enterprise ontology, which defines an enterprise as a system consisting of a composition, structure, environment, and production. The business of an enterprise is then understood as its function, as characterized by the products and services that are delivered to the environment.

From a design perspective, a generic business model must as a minimum specify the what, for whom, and how of production. It must at its essential core identify content, structure, and governance. Content includes a value proposition, which takes the following generic form:



This, then, suggests a typology of social enterprise that suggests potential business. Social enterprises can be classified by their mission orientation, by the level of integration between non-profit social programs and for-profit business, and by their intended target markets. Three stages can be distinguished in the process of integration between profit-oriented and non-profit businesses. They largely correspond to the philanthropic, transactional, and integrative collaboration described elsewhere.

At the external stage, the relationship is one-sided, as one between a charitable donor and a recipient; there are no elements of integrated strategies or management functions. At the integrated stage, the flow of benefits becomes bilateral as resources are exchanged and learning becomes mutual, and at the embedded stage, the principles characteristic of the two types of enterprise have merged at the levels of strategy and execution such that social programs are managed with the efficiency typical of private business, and for-profit projects are designed with responsibility and care for others.

Applying insights of organization design to social entrepreneurship then means discovering the triadic nature of organizations in the dimensions of strategy, structure, and process, which are the key determinants of performance. How organizations compete is defined by the triad of differentiation, economy, and interaction, how they grow by the options of buying, making, or partnering, and how they organize by decentralization, centralization, or collaboration. These options themselves relate to the three types of social agents in what in abstract algebra would be called a homomorphic relationship, or in one of analogy (Figure 3):

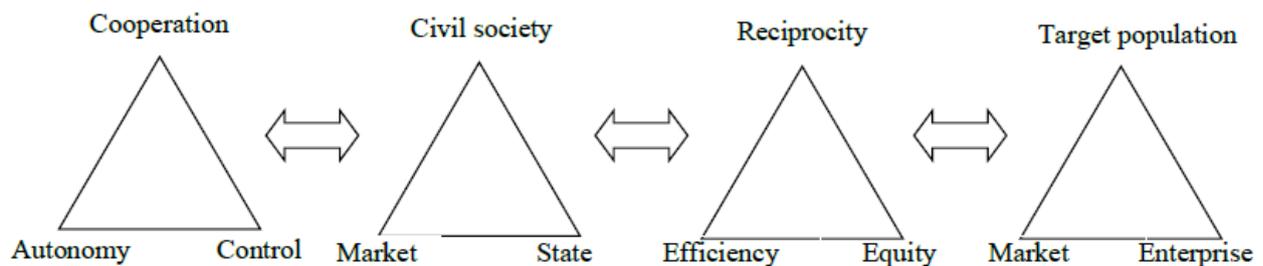


Fig. 3 - Models of social entrepreneurship

## 2. Business Model Frameworks

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 don't 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 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. 4).

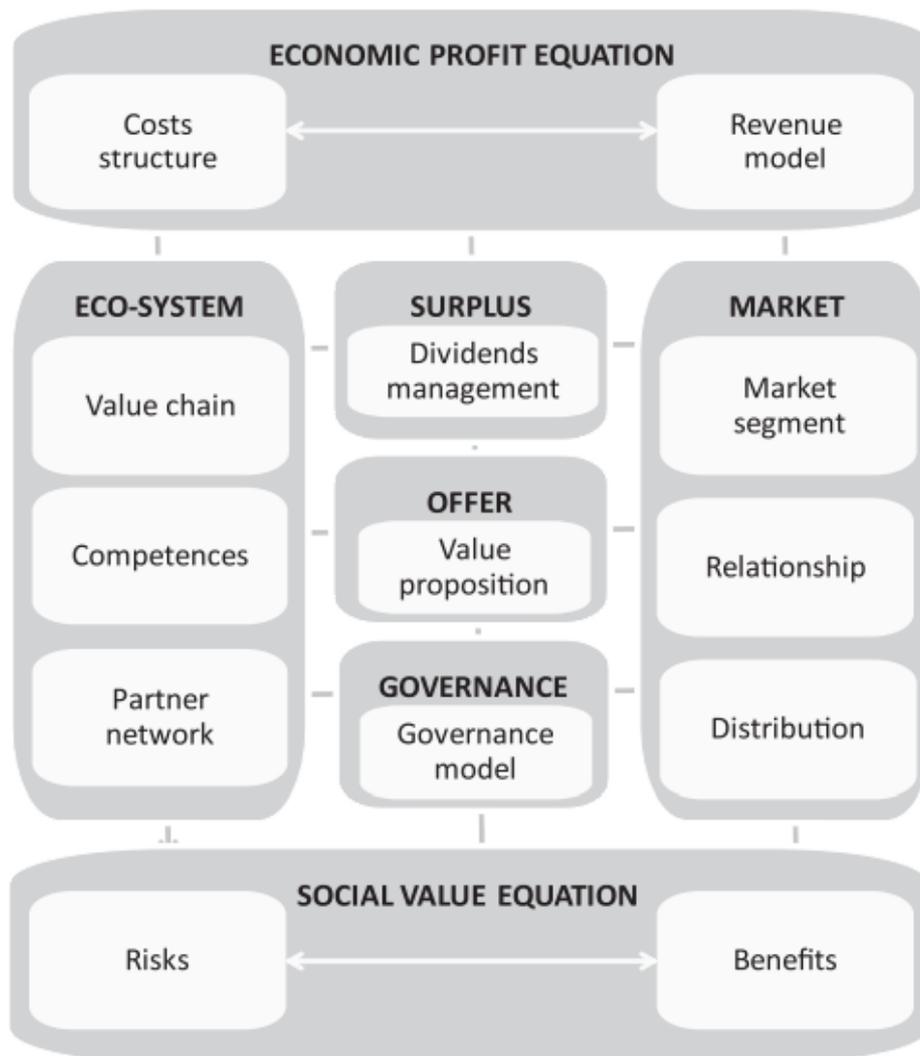


Fig. 4 - The Social Business Model Framework

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;
- the offer and the market will be explored in the next chapter through the social product innovation process and communication strategies.

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 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, 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.

## 5. Conclusions

Although social enterprise has often been understood as a correction to “profit seeking” business, and social entrepreneurs have been distinguished from “traditional” ones, many studies have in fact found more similarities than differences.

Personality characteristics or other subjective factors are not a promising basis for demarcation. Social entrepreneurship as the driving force behind social enterprise has a more profound function than is commonly envisaged. It is to foster a fusion of spheres that have traditionally been regarded as disjoint.

The critical distinction of social entrepreneurship lies in something real – the value proposition itself. Any promising business model for social enterprise must, in the light of the previous analysis, fulfill these necessary (if not yet sufficient) conditions:

1. it must be driven by a social mission (i.e., abstain from distributing profit to shareholders);
2. it must generate for positive externalities (spillovers) for society;
3. it must recognize the centrality of the entrepreneurial function;
4. it must achieve competitiveness on markets through effective planning and management.

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