

Business Models of Social Enterprises and Value Creation and Value Capture – Evidence from India

ABSTRACT

In the extant literature, the role of business models (BMs) was primarily examined in the context of commercial organizations. However, some scholars have extended this stream of research to the domain of social enterprises (SEs). The nature of the value creation process in SEs is different from the value creation in commercial enterprises (CEs), and hence the BM configuration becomes quite challenging. Some SEs function as not-for-profit organizations and rely entirely on grants and donations. However, some SEs have a completely for-profit model, and others have revenue streams based on profits generated and other channels like grants and donations. The business model configurations of the above three categories of SEs vary due to the significant differences in their revenue streams. A good understanding of the business model configuration of SEs is necessary to critically assess value creation and value capture. In this study, we thoroughly examine the business model configurations of SEs operating in various domains in India and discuss their value creation and value capture. We have done interview-based qualitative research by interviewing the founders/CEOs of 43 SEs located in various parts of India. We have thoroughly analyzed the interview transcripts using the NVivo software package. Our study is one of the few research studies that have examined these crucial aspects relating to SEs, and hence, it substantially contributes to the existing body of knowledge. In addition, social entrepreneurs and the other stakeholders associated with SEs will find our study immensely useful.

Keywords: Social Enterprises, Business Model, Value Creation, Value Capture

Track: Entrepreneurship

Word Count: 1860, excluding tables and references

INTRODUCTION

The literature on business models (BMs) has gained prominence over the years. BM configuration is critical during the emergence of start-ups since it helps entrepreneurs gain insights into the value-creation process. Many scholars have examined the role of BMs in enhancing the performance of organizations. In the extant literature, the role of BMs was primarily examined in the context of commercial organizations. However, some scholars have extended this stream of research to the domain of social enterprises (SEs). The nature of the value creation process in SEs is different from the value creation in commercial enterprises (CEs), and hence the BM configuration becomes quite challenging. Some SEs function as not-for-profit organizations and rely entirely on grants and donations for their sustenance. However, some SEs have a completely for-profit model, and others have revenue streams based on profits generated and other channels like grants and donations. The business model configurations of the above three categories of SEs vary due to the significant differences in their revenue streams. For a CE, the value creation can be assessed by its ability to convert certain inputs (e.g., raw materials) to a finished product that is more valuable to the target customers. The ability of a CE to create value is indicated by the price that its customers are willing to pay for the product or service it offers. We assess the performance of such firms by measuring their financial parameters. Hence the value created by CEs can be assessed using proxy measures like total sales and the value captured using the profits earned. Many SEs offer their products and services to their customers for a price. However, many others provide their service free of cost to their beneficiaries.

Primarily the performance of SEs is not assessed using financial parameters. Social impact is considered to be the fundamental measure of the performance of SEs. The type of social impact created by SEs across different domains varies. For example, the social impact created by an SE operating in the healthcare domain may be assessed by the number of people or families who benefitted from the services provided by the SE. Similarly, the social impact of an SE operating in the education sector could be assessed by using metrics like the number of children who were educated as a result of their intervention or the academic and professional accomplishments of the children. In the context of an SE operating in the microfinance domain, the social impact may be assessed using metrics like improvement in the beneficiaries' quality of life. The above examples indicate a lack of consistency in measuring the performance of SEs. Due to such inconsistencies, it becomes difficult to assess SE's value creation and value capture. It is essential for stakeholders like funding agencies, impact investors, and the founders themselves to understand the value creation and value capture of SEs. Insights based on value creation and value capture of SEs are immensely useful to academic researchers as well since the extant knowledge is very limited.

A good understanding of the business model configuration of SEs is necessary to assess their value creation and value capture. In this study, we thoroughly examine the business model configurations of SEs operating in various domains in India and discuss their value creation and value capture. We have done interview-based qualitative research by interviewing the founders/CEOs of 43 SEs located in various parts of India. During these interviews, we have thoroughly explored the business model configurations of these SEs and their value creation and value capture. We have thoroughly analyzed the interview transcripts using the NVivo software package and reported our findings in this paper. Our study is one of the few research studies that have examined the business model configurations and the value creation and

value capture of SEs; hence, it makes a substantial contribution to the existing body of knowledge. In addition, social entrepreneurs and the other stakeholders associated with SEs will find our study immensely useful.

METHODOLOGY

Case Selection and Data Collection

We identified the leading SEs in India by examining the details of Ashoka Fellows, the Skoll World Forum Fellows, and the Acumen Fellows. In addition, we have also examined the reports published by the Aavishkaar Group that takes an entrepreneurship-based approach to development. Furthermore, we also searched in the internet and examined the reports on SEs published by various organizations connected with entrepreneurship to identify the leading SEs in the country. Consequently, we identified about 200 SEs and invited them to participate in the interviews. 45 SEs accepted our invitation and agreed to participate in the interviews. Later on, Two SEs expressed their inability to participate in the study due to other commitments. Finally, we completed the interviews with the founders/CEOs/Senior Managers of 43 SEs. Each interview lasted for approximately 1.5 hours on average. We conducted the interviews on the Zoom platform and recorded them after obtaining the interviewees' permission. We conducted all the interviews in English and professionally transcribed them. We used NVivo software to analyze the data qualitatively.

We focused on business model design elements and design themes based on the activity system design framework (Zott & Amit, 2010). Based on this framework suggested by Zott & Amit (2010), we examined the design elements of BM using three dimensions, namely content, structure, and governance. We explored the design themes by applying four dimensions, namely novelty, lock-in, complementarities, and efficiency. We present the broad areas of discussion during the semi-structured interviews based on these design elements and themes in Table 1. The interviewees reflected on various aspects of SEs while discussing the broader areas under the design elements and design themes.

Details of the Analyses

We interviewed the founders/CEOs/Senior Managers of 43 SEs located across India. The positions of the interviewees, sectors of the SEs, whether they are “for-profit” or “not-for-profit” SEs, and their registration types are provided in Table 2. By analyzing the interview data using NVivo, we identified themes and sub-themes relating to the business model configurations, value creation, and value capture. We discuss the themes and sub-themes below.

Themes and Sub-Themes under Design Elements

Content

We primarily examined the nature of the activities of the SEs and how they address the needs of their beneficiaries. When we asked the interviewees about their key activities, they talked extensively about the nature of their operations and the value-creation process. For an in-depth understanding of the Content element, we classified the responses into three sub-themes, namely (i) Key activities conducted by the SE, (ii) Key beneficiaries of the SE, and

(iii) Feedback from beneficiaries. The value-creating activities of SEs vary across sectors. SEs operating in the education sector work with educational institutions primarily in rural areas with limited educational opportunities. Many SEs in the sanitation sector provide portable toilets, while others strive to build toilets in rural and deprived areas. Each SE serves the needs of certain beneficiaries. For example, a microfinance organization serves many individuals and families and helps them to enhance their quality of life. The feedback received from the beneficiaries is important for an SE since it helps them assess the effectiveness of their BM configuration. We closely examined the activities of SEs, their beneficiaries, and their feedback to understand their business models.

Structure

We asked the interviewees to explain the sequencing of their value-creating activities and whether they are linked. We classified the responses into the following sub-themes for an in-depth understanding of this design element. (i) Linkages among the activities and their sequencing, and (ii) Mechanisms used to streamline the activities.

Governance

The interviewees shared their insights regarding the involvement of various stakeholders in performing different activities. For detailed analyses, we classified the responses into two sub-themes, namely (i) Stakeholders involved in performing the key activities and (ii) Roles played by the stakeholders in carrying out the activities.

Themes and Sub-Themes under Design Themes

Novelty

The interviewees explained the innovative design elements adopted by the SEs. We classified their responses into the following three sub-themes. (i) Innovative processes adapted to create and deliver products/services, (ii) Measuring innovation, and (iii) Openness to new ideas.

Lock-in

The interviewees explained their strategies to retain their key stakeholders and customers. While analyzing the responses, we specifically looked at the strategies to attract and retain customers in the case of for-profit SEs and the main beneficiaries/stakeholders in the case of not-for-profit SEs.

Complementarities

The interviewees explained how they combined certain activities to reduce costs, generate synergistic effects and create more stakeholder value.

Efficiency

We classified the responses into the following two sub-themes. (i) Reorganizing the activities to reduce transaction costs incurred within the SE and between the SE and its stakeholders and (ii) Achieving cost reduction through operational efficiency.

Value Creation and Value Capture

The interviewees explained the value creation process in the SEs. They also talked about the attributes in the product/service portfolio that help create value for the enterprise. In addition, they elucidated the activities and managerial practices that support the development of core value proposition for the customer, The profit formula in the case of for-profit SEs, their resources, their processes, and their leadership.

FURTHER DEVELOPMENT OF THE PAPER

We have done a thorough literature review but could not present it in this developmental paper due to space constraints. We will present a proper literature review in the full paper. We have completed qualitative data analysis using NVivo. In the next stage, we will write it up and appropriately present the analyses and findings. We hope the full paper will be ready for submission to a good journal in the next few months.

SOME IMPORTANT REFERENCES *(We have not cited them in the paper since we did not include the literature review in this submission)*

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Table 1 – The Activity System Design Framework applied to our Study

Design Elements	Broader Themes of Discussion
Content	What activities are conducted by the SEs?
Structure	How are these activities linked and sequenced?
Governance	Which stakeholders perform the activities, and where do they perform them?
Design Themes	Broader Themes of Discussion
Novelty	What types of innovative design elements are adopted by the SE?
Lock-In	How do the design elements help retain beneficiaries, stakeholders, and customers?
Complementarities	How are the activities bundled to generate more value?
Efficiency	How can the activities be reorganized to reduce transaction costs?

Adapted from Zott & Amit (2010)

Table 1 – Details of the Social Enterprises Included in the Study

Sl. No.	Social Enterprise	Position	Sector	Whether For Profit/Not for Profit	Type of registration
1	SE1	Executive Director	Technology	Not for Profit	Trust
2	SE2	Executive Director	Rural development	Not for Profit	Society
3	SE3	Chief Executive Officer	Digital service	For-profit	Private Limited
4	SE4	Chief Mentor	Livelihood and skill development	Not for Profit	NGO
5	SE5	Chief Executive Officer	Food and education	Not for Profit	NGO
6	SE6	Co-Founder	Education	Not for Profit	Section 8
7	SE7	Co-Founder	Handmade products	Not for Profit	Society
8	SE8	Founder and Director	Health	Not for Profit	Society
9	SE9	Chief Executive Officer	Education	Not for Profit	Section 8
10	SE10	Chief Executive Officer & Co-Founder	Education	For-profit	Private Limited
11	SE11	Founder & Chief Executive Officer	Education	Not for Profit	Section 8
12	SE12	Chief Operations Officer	Logistics	For-profit	Private Limited
13	SE13	Founder	Health	For-profit	Private Limited
14	SE14	Executive Chairman	Sanitation	For-profit	Public Limited
15	SE15	Founder	Sanitation	For-profit	Private Limited
16	SE16	Founder	Agriculture equipment manufacture	For-profit	Proprietorship.
17	SE17	Founder	Agriculture	For-profit	Private Limited
18	SE18	Co-Founder	Education	Not for Profit	Section 8

19	SE19	Executive Director and General Secretary	Persons with disabilities	Not for Profit	Public Charitable Trust and Society
20	SE20	CEO	Health	For-profit	Private Limited
21	SE21	Director	Machine-livelihood	For-profit	Private Limited
22	SE22	Co-Founder (Not for Profit Team Leader)	Health	Both 'For-profit' and 'Not for Profit'	Trust
23	SE23	Co-Founder	Health	Not for Profit	Trust
24	SE24	Country Director - India	Agriculture	Not for Profit	Not Mentioned
25	SE25	Founder	Sanitation	For-profit	Private Limited
26	SE26	Co-Founder	Agriculture	For-profit	Private Limited
27	SE27	Founder	Health	For-profit	Private Limited
28	SE28	Founder	Disability inclusion	For-profit	Private Limited
29	SE29	Founder	Finance	For-profit	Private Limited
30	SE30	Founder	Poverty eradication	Not for Profit	Not Mentioned
31	SE31	Founder	Energy	For-profit	Private Limited
32	SE32	CEO	Energy	For-profit	Private Limited
33	SE33	Co-Founder	Finance	For-profit	Private Limited
34	SE34	CEO	Health	For-profit	Private Limited
35	SE35	Co-Founder	Education	Not for Profit	Trust
36	SE36	Founder	Child abuse	Not for Profit	Trust
37	SE37	CEO	Vocational skills	For-profit	Private Limited
38	SE38	COO	Agriculture	For-profit	Private Limited
39	SE39	Founder	Finance	For-profit	Public Limited
40	SE40	Program Manager	Energy	Not for Profit	Trust

41	SE41	CFO	Energy	For-profit	Private Limited
42	SE42	Co-Founder	Education	For-profit	Private Limited
43	SE43	Founder	Health	Not for Profit	Society

ED – Executive Director

CEO – Chief Executive Officer

COO – Chief Operations Officer

CFO – Chief Finance Officer