

# Business Models of Social Enterprise: A Design Approach to Hybridity\*

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***ABSTRACT.** Terminological confusion about social entrepreneurship derives largely from the fact that social enterprises are structurally hybrids in several dimensions. Hybridity is their essential characteristic, and it fulfills an indispensable role. An approach is developed that does not rest on dichotomous distinctions by sectors or profit orientation. On the basis of a reconstruction of the essential components of entrepreneurship, a generic structure of social entrepreneurship is proposed which in turn is founded upon an enterprise ontology. It emphasizes the entrepreneurial nature of such ventures in the sense of real causation. Through various combinations between the components (among which are mission, target population, and markets), types of business models can be distinguished. At an emergent functional level, these design configurations allow for a typological distinction between various types of strategy. The proposed design framework allows for a categorization of social enterprises and thus for explaining organizational pluralism while being founded on real distinctions in the social world rather than merely conceptual abstraction.*

***Keywords:** social enterprise, social entrepreneurship, hybrid enterprise, business models, business design, causality*

## Introduction

Terminological profusion and confusion, and underlying conceptual vagueness, still plague the field of social entrepreneurship to a point where different groups of practitioners, and even more so researchers, have developed their own preferred designations. Terms like “social enterprise,” “philanthropy,” “non-governmental organizations,” “non-profits,” “charities,” and “third sector” are often used interchangeably, or with only small differences in meaning. Yet at a deeper level of underlying social values and economic systems, the differences can be substantial. The preference for “social entrepreneurship” in the United States already implies that the solution to social problems is to be found in private (and usually individual) initiative; non-reciprocal donations are relegated to “philanthropy”. The European preference for “social enterprise,” on the other hand, leaves questions of profit

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status, funding, and corporate governance, open (Kerlin 2006, 2009; Defourny & Nyssens 2010; Van de Gronden 2011; Brouard & Larivet 2011). In Europe, social advocacy, cause marketing, and coordination of other efforts at a secondary level are typically regarded as social entrepreneurship (Chalençon & Pache 2006). In the United States, where think-tanks and lobbying organizations often take charge of such tasks, they are typically not so regarded. The case becomes even more complex if China or developing countries are added to the mix (Yu 2011; Defourny & Kim 2011), and confusion is aggravated by the use of different legal forms around the world, some being reserved for non-profit organizations. This situation in no small measure explains why no widely accepted definition of social entrepreneurship has yet emerged; one recent publication in fact lists twenty different definitions, and one year later another compilation lists twenty-seven (Zahra, Gedajlovic, Neubaum & Shulman 2009: 523; Brouard & Larivet 2011: 40-44). Despite these attempts, the concept remains poorly defined, and its boundaries with other fields is of an arbitrary and fuzzy nature (Mari & Marti 2006; Santos 2009; Mair 2011).

In social science, terminological proliferation is the hallmark of every new field that enjoys rapid growth. In the case of social entrepreneurship, two facts exacerbate the situation – that not primarily researchers but managers and entrepreneurs determine the evolution of the field, with the conceptual bases of these groups rarely converging, and that wide differences exist worldwide in socio-economic values and systems. In such situations, a rational reconstruction of the discipline, whether at a conceptual level, within a full-fledged axiomatic framework, or on the basis of an enterprise ontology, has often helped to unify a field (Munn & Smith 2008; Smith & Ceusters 2010).

This paper assumes that the essence of entrepreneurship lies in the design of effective business models of social enterprises (Casadesus-Masanell & Ricart 2007; Brouard & Larivet 2011). In reconstructing what is essential in social entrepreneurship, resorting to a design approach seems opportune. Enterprise design identifies the components of a business and their relationships, i.e. its architecture, with regard to its intended functions.

The essential properties of entrepreneurship have, according to the most influential theories, been located in psychological properties of individuals such as alertness, opportunity recognition, or acceptance of risk, which are all located in the subjective sphere. This paper, on the other hand, seeks to develop a model that ties social enterprises to structural and objective factors of social reality. Entrepreneurship as an indispensable condition for the success of a business is understood in a realist, and indeed causal, sense as bringing about real change. This approach seeks to reimplant social entrepreneurship within the scope of entrepreneurs (from which some streams of research seek to alienate it).

This paper will first describe hybridity as a hallmark of social enterprise. The specific nature of entrepreneurship must then be described, since entrepreneurs have an essential function in social enterprise. A generic business model of a social enterprise is subsequently proposed. Instead of developing a precise enterprise ontology, the less formalistic approach of design thinking is used, which leads to a typology of social enterprise. The paper confines itself to the level of business architecture (or structure) without embarking on business process modeling. The approach taken derives from applied ontology rather than from requirements engineering or computer science. It is meant to arrive at a number of successful business models for social enterprise that are able to support its mission of extending values germane to civil society to the spheres of markets and of the State.

## Phenomenology of Hybrid Businesses

Businesses have traditionally been categorized by ownership and predominant profit objectives. A typical classification is reflected in the following 2×2 grid (Figure 1):

		Primary objective	
		Commercial	Social
Ownership	Public	Private Enterprises	Social Enterprises
	Private	Public Enterprises	Public Administration

Figure 1: Traditional classification of types of businesses

Such classification divides economic activity neatly into two sectors and assumes two objectives of business. In analogy to “mixed” economies consisting of private and government activities, a limited number of mixed forms are conceivable. However, the development of economies has shown that *tertium datur* even though the “third” sector has never been and perhaps cannot be crisply defined. Several classifications of the “social economy”, or of non-profit businesses, have been developed. Demarcation of this sector by the goals businesses pursue – into groups of for-profit and non-profit organizations – is not straightforward. Economically the two groups have been converging for some time, and business law is not effective in drawing distinctions by intended purpose (Dees 1998; Brody 2003; Westall 2009; Boyd et al. 2009; Billis, 2010). Most classifications use institutional factors as criteria but are still committed to viewing the “third” sector as a “non-market” sector (Gassler 1986: ch. 3; Mintzberg et al. 2005; Westall 2009). Even if a 2×2 grid is expanded to a 2×3 grid, rectangular thinking itself relies on dichotomies, which in turn presuppose crisp divisions in the object domain (Keidel 2010). The dynamics of modern business defy such categorization and blur the boundaries between types (Ben-Ner 2002). This development is part of a larger trend to-ward hybrid institutions in the economy, as has been shown in the case of governance forms (Makadok & Coff 2009), of microfinance organizations (Battilana & Dorado 2010), of product and process standards (Bunduchi et al. 2008), and of various technologies (Costabile & Ancarani 2009). Crisp divisions between markets and states have long collapsed, as in all countries complex economic systems combine elements of both (Ostrom 2010). Hybrid enterprise has itself been classified according to several types depending on business models (Dees 1998; Emerson & Bonini 2003; Aspen Institute 2005; Alter 2006; Nyssens 2006; Ridley-Duff 2008; Makadok and Coff 2009; Brozek 2009; Landes Foster, Kim & Christiansen, 2009; Westall, 2009; Ridley-Duff & Bull 2011).

The hybrid nature of social enterprise is not a contingent and empirical fact about this institution; it is an analytical truth that follows from the composite term itself. Reducing the multiplicity of types and difficulty of clear classification to the hybridity of this sector is then an exercise in tautology (Laville & Nyssens 2001; Brandsen, van de Donk & Putters 2005; Mair & Martí 2006). This has not always been recognized and has undoubtedly contributed to the rapid growth of literature on the hybrid nature of social enterprise. However, the social sciences have generally understood hybridity as a simple mixture of characteristics on a continuum between two opposite poles (Brozek 2009; Makadok & Coff 2009).

Hybridity in business can bridge several divides according to the chosen criteria of classification, notably the following (Grassl 2012):

1. by ultimate ends: for-profit vs. non-profit (Brozek 2009; Boyd et al. 2009);
2. by societal sector: market vs. civil society vs. State (Brandesen, van de Donk & Putters 2005; Defourny & Nyssens 2010; Billis 2010);
3. by type of integration: external vs. integrated vs. embedded (Alter 2006; Malki 2009);
4. by goods produced: private vs. public (Bruni & Zamagni 2007: 239-45; Becchetti, Pelloni & Rossetti 2008; Bruni 2010: ch. 7);
5. by product status: goods vs. services (Lusch & Vargo 2011);
6. by agents of value creation: producers vs. consumers (Ramírez 1999; Payne, Storbacka & Frow 2008; Lessig 2008);
7. by ownership (corporate governance): private vs. cooperative vs. public (Boyd et al. 2009; Billis 2010).

Most traditional work in business research has investigated hybrids by societal sector, with an emphasis on cross-overs between “private” and “public” enterprise under the assumption of a dichotomous model. One focus has been on the interplay of markets and hierarchies as coordination mechanisms, with networks being a hybrid third (Makadok & Coff 2009). Business models discussed in this context include public-private partnerships and the outsourcing of government functions (Préfontaine 2008; Bollecker & Nobre 2010) or corporate-NGO collaboration (Dahan et al. 2010). Many other studies have limited their discussions of social enterprise to the field of non-profit management (Dees 1998; Ben-Ner 2001; Dart 2004; Landsberg 2004; Young 2007; Hoffman, Badiane & Haigh 2012). In a sense, even another dichotomy is bridged – that between the creation and redistribution of economic value, as social enterprises increasingly move into production and, differently from many privately held businesses, at the same time are attentive to socially desirable distributive results (Santos 2009; Becchetti & Borzaga 2010).

Hybridization of business is not restricted to the supply side. One of the most entrenched social dichotomies – that of market participants being either consumers or producers (including intermediaries) – is breaking down as value co-creation allows consumers to participate in the production of their goods (Ramírez 1999; Plé, Lecoq & Angot 2010; Porter & Kramer 2011). Consumer cooperatives already have much tradition, but open-source software, shared online resources such as Wikipedia, and music filesharing networks are recent phenomena (Giesler 2006; Lessig 2008), and the combination of open-source with proprietary models in the software industry leads to second-order hybridity (Bonaccorsi, Giannangeli & Rossi 2006). Better access to information, technology, and greater transparency of corporate decisions have reduced the asymmetry of information and thus price-setting power on which traditional forms of consumption and retailing relied. The latest paradigm to emerge in marketing – the “service-dominant logic” – builds on the idea of customers becoming co-creators of value (Payne, Storbacka & Frow 2008; Lusch & Vargo 2011). A business landscape is emerging that exhibits some properties of a civil economy and that often traverses several traditional categories. Consumer movements have created new models of household production, direct distribution, and quality-conscious consumption. One may think of the Slow Food movement, which started in Italy and has expanded to much of the world (Petrini 2007). Out of this movement grew Terra Madre, a worldwide network of “food communities” which spreads by by-passing the large commercial distribution systems although it utilizes markets (Petrini 2010). Under the cover term “collaborative consumption”, various models of sharing, swapping, bartering, trading, and renting, have been invented and have been facilitated by advances in social media and peer-to-peer online platforms (Botsman

& Rogers 2010). The transformation of passive consumers into collaborators through social media harbors the opportunity of creating new human communities (although the quality of these often still remains to be seen) (Shirky 2010). Influential business thinkers have recognized the importance of understanding companies as communities (Mintzberg 2009). On both sides of the market, that of consumers and of producers, the future may lie in sharing (Gansky 2010).

Not even classification along several continua can easily model the complexity of the social enterprise sector. It is important to realize that it overlaps but does not coincide with the non-profit sub-sector (which includes cooperatives, credit unions, and mutual aid societies). Social enterprises benefit not only their members but also a larger community. They are intentional communities of persons that are by necessity mission-oriented (Dees 1998). Even hybrid organizations (at least in the environmental sector) have recently simply been identified as being mission-driven (Boyd et al. 2009). This illegitimately elevates a necessary to a sufficient condition. A definition of social enterprises as “autonomous not-for-profit organizations providing goods or services that explicitly aim to benefit the community” (Becchetti & Borzaga 2010: 7) is equally ambiguous because the hallmark of social enterprise lies not in the generation but in the use of profit. Social enterprises pursue projects under the constraint of efficiency and therefore seek profit for distribution to target groups and investment into further growth; however, they do not simply maximize profits under some constraint of social responsibility (Becchetti, Bruni & Zamagni 2010: 314f.). Many non-profits are also social enterprises, but credit unions, housing cooperatives, or social service organizations are not; fair trade organizations and micro-finance institutions are social enterprises without having to be non-profits (Becchetti & Borzaga 2010). Social enterprises are different from traditional non-profit organizations because their earned income is directly tied to their social mission. Most of these businesses are financed with private funds and managed according to commercial principles; some may be in the public sector. The public-private hybridity thus overlays the other distinctions. Lastly, at a more fundamental level, most of these businesses can be attributed to the civil economy, i.e. the market economy under the guidance of civil society (Bruni 2010; Bruni & Zamagni 2007). The fundamental characteristic of the civil economy is to understand the market as a cooperative rather than a competitive arena and enterprises as communities pursuing social projects (including those of producing goods and services for private consumption at market prices) (Becchetti, Bruni & Zamagni 2010: 312f.). Social entrepreneurship then has a dual goal – at the microeconomic level to pursue projects that address specific social needs, and at the macroeconomic level to advance the civil economy within the economy as a whole.

## The Essential Role of Entrepreneurship

In hybrid business models, entrepreneurship is the synthesizing agency that makes disparate elements coalesce. Entrepreneurship is indispensable to social enterprise (Martin & Osberg 2007). First, the essential features of entrepreneurship must be delineated. Second, the specific differences of social entrepreneurship must be added (Austin, Stevenson & Weis-Skillern 2006; Murphy & Coombs 2008; Williams & Nadin 2011).

Entrepreneurs bring about real changes of some magnitude in the world. They are intentional about it and are therefore not mere *bricoleurs* who combine elements haphazardly. The essential difference to commercial entrepreneurship lies in the nature of the intentional relationship between entrepreneurs and projects, i.e. in motivation. Altruism *per se* need not be a motivator; more typical is the creation of value for a target population where this value is not privately appropriated. If entrepreneurial activity has a social nature, any distinction

between creation of economic and of social value then collapses. Positive externalities are consequently constitutive of social enterprise and demarcate it from mere membership organizations such as purchasing cooperatives or, in the commercial sector, warehouse clubs. Social entrepreneurs place a clear emphasis on value creation over value appropriation; they typically maximize on the creation and sacrifice on the appropriation of value (Santos 2009). Social entrepreneurship must therefore receive a stronger and less arbitrary definition than is reflected in “the discovery and exploitation of profitable opportunities” (Shane & Venkataraman 2000: 217) or in similar conceptualizations. The discovery of opportunities for social action is different from the commercial case (Mair & Martí 2006; Murphy & Coombes 2008). It is not the question of deliberate search or serendipitous discovery that is relevant but – in an Aristotelian formulation – the actualization of a potentiality. Nor is the focus on the question of constructed or recognized opportunities that has been much discussed in the literature (Vaghely & Julien 2010) – social entrepreneurs quite obviously recognize opportunities. Construal of social entrepreneurship from the viewpoint of philosophical idealism (whether in the form of constructivism, operationalism, or instrumentalism) must fail. Neither do social entrepreneurs provide symbolic value to their beneficiaries nor are the latter’s needs anything but real. Rather, social entrepreneurs must be envisaged as being motivated by a particular vocation and as having certain character traits (i.e., virtues) that allow them to act on their vocation (Teehanke 2008; Sirico 2010; Bruni & Smerilli 2009; Bruni 2011). The hallmark of social entrepreneurs (which need not necessarily exist in managers of social enterprises) is personal commitment to a cause.

Against the background of Aristotelian philosophy, a stronger model of entrepreneurship can be developed that exhibits a better fit with social enterprise (Dembinski 2006). It is based on entrepreneurs being causal agents, where for Aristotle, contrary to the presently dominant view, a cause is not what transforms  $A$  into  $B$ , but the transformation (or process) itself. Entrepreneurship rather than instances of entrepreneurs is therefore the *explanandum*. Causation in this sense must not be understood as  $A \Rightarrow B$  where  $A < B$  (in the sense of temporal antecedence). Rather, the cause of  $B$  lies in its nature (or form), or what today might be rendered as its explanatory factors; a cause makes something else what it is. There are four such causes: the form of the object ( $A$  is what it is to be  $B$ ), the matter underlying the object ( $A$  is what  $B$  is made out of), the agency that brings about the change ( $A$  is what produces  $B$ ), and the purpose served by the change ( $A$  is what  $B$  is for) (*Physics* II.3, 194b24 ff.). These are called, respectively, the formal, material, efficient, and final cause (Falcon 2006). Social entrepreneurship is influenced by all these, together with subjective visions, in a particular functional form:

$$\text{entrepreneurship} = [f(\text{vision, motivation, perceived opportunities, institutions})] \Rightarrow \text{purpose}$$

All of these factors must be present in sufficient quantity and quality for a person to become a social entrepreneur, and they must be directed at a social purpose. The formal cause may be economic or social regulations, and the material cause perceived opportunities to address needs. The motivation may be humanistic or religious, and the process must be guided by a vision for social entrepreneurship to be effective. The essential difference from commercial entrepreneurship lies in the nature of the purpose, which translates into a (qualitatively) different motivation. The entrepreneur is thus a change agent who evaluates the dynamic interaction between opportunities and resources, holds these against prevalent institutional and cultural structures, and is willing and motivated to do so by a vision that aims at a particular final purpose. Thus this end explains behavior always through or by means of one of Aristotle’s other modes. This model can then be depicted graphically (*Figure 2*, as an elaboration of Dembinski 2006: 349):

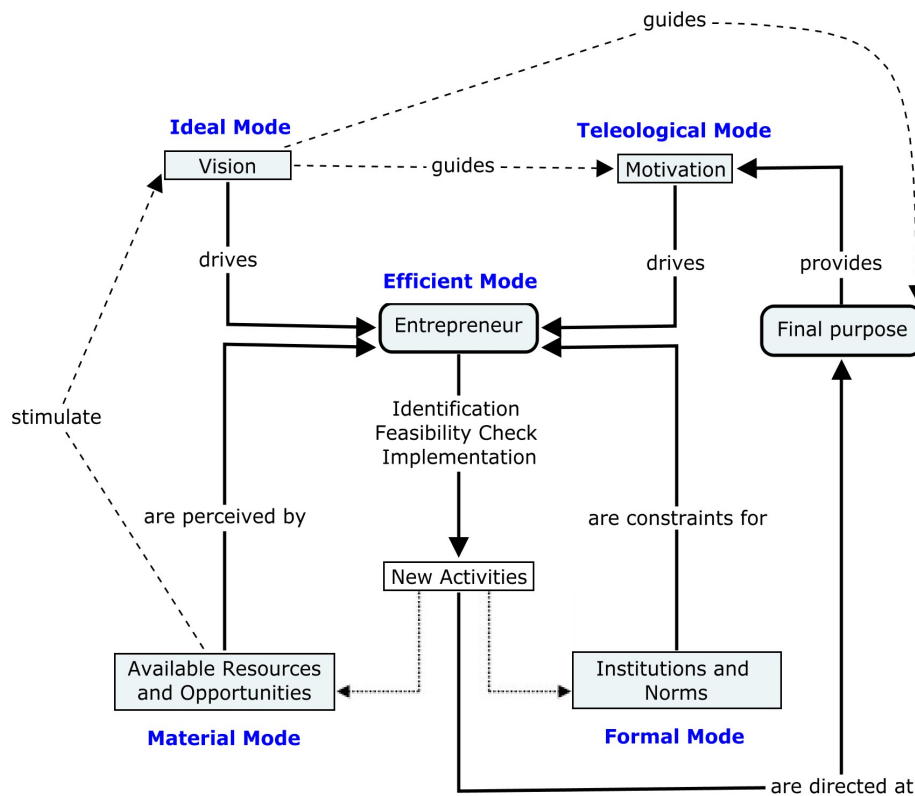


Figure 2: A model of entrepreneurship

Entrepreneurship in this view is not simply a function of coordinating resources or of recognizing opportunities and translating them into profitable ventures. It consists in optimizing a system composed of material and immaterial factors by using practical reason to direct the process towards a final purpose recognized to be good. Entrepreneurs are driven by visions and motivation and judge resources and opportunities as well as institutions and norms as to their mutual fit. These are real and causal relations on the basis of which new activities are planned that are directed at a final purpose, which in turn provides motivation. To make the model more complete, three relations on the “idealist” plane (represented by broken lines) are also accommodated: subjective visions can influence the choice and acceptance of the final purpose as well as guide motivation, and available resources and opportunities may stimulate the vision of entrepreneurs. New activities can create new resources and opportunities but also modify institutions and norms, which leads to feedback loops (represented by dotted lines) and makes entrepreneurship an interactive process. The components affect entrepreneurs differently, viz. by the four Aristotelian modes of causation. Entrepreneurship in this sense is an intentional, purpose-driven activity that is based on acts of judging enhancing and detracting factors, and social entrepreneurship is characterized by a specific final purpose. So conceived it has a better chance of actually being the synthesizing agent that makes social enterprise possible, which because of its hybrid nature is characterized by an uneradicable complexity and requires significant energy to coalesce the necessary components (McKelvey 2004; Goldstein, Hazy & Silberstang 2009, 2010).

## Design of Business Models

Social entrepreneurship creates new business models. The latter concept is at least as con-tested as that of social enterprise, and the literature on business models has grown exponentially (Morris, Schindehutte & Allen 2005; Zott & Amit 2010; Zott, Amit & Massa 2010; Casadesus-Masanell & Ricart 2007, 2010; Seelos 2010; Osterwalder & Pigneur 2010) including its application to social entrepreneurship. So has the literature on enterprise design, which is produced by several disciplines (Baldwin & Clark 2002, 2005). It may be expected that feasible business models have “dominant” design structures, i.e. particular architectures. To determine these would improve the performance of social entrepreneurs. The literature on the design of social entrepreneurship models has suggested several architectures. For example, social enterprise can take four forms (*Figure 3*):

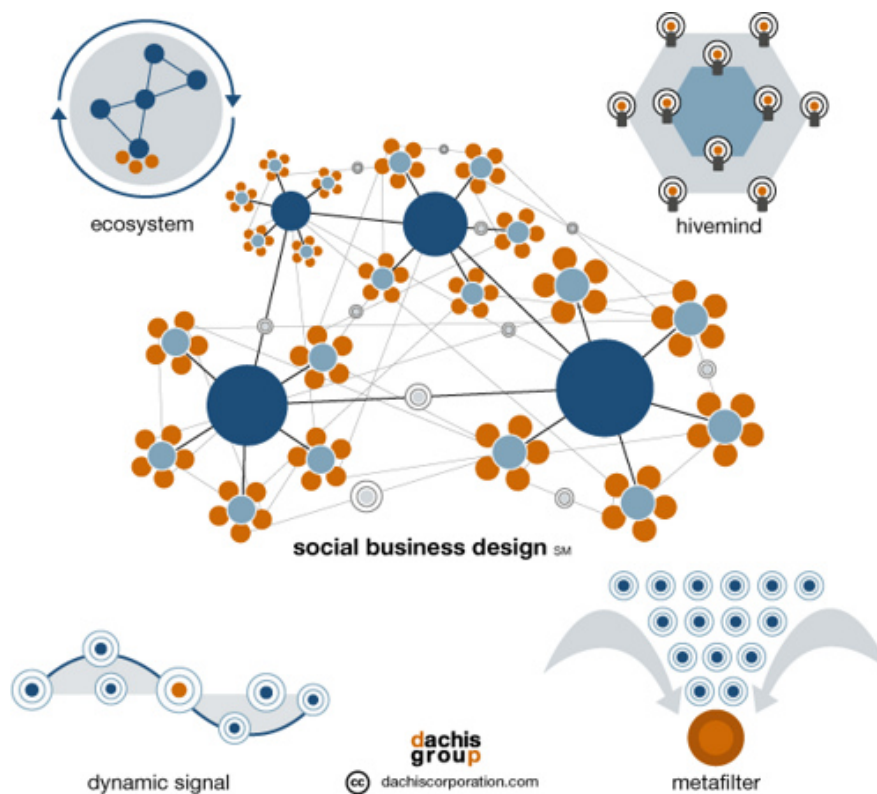


Figure 3: Social business design according to Dachis Group

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).<sup>1</sup> These patterns are design elements that apply cumulatively by

<sup>1</sup> Dachis Group at <http://www.dachisgroup.com/social-business-design/our-approach/>.



emphasizing, respectively, community, culture, collaboration, and content. These seem to be necessary ingredient of all social business models.

In a yet more general sense, business planning may be understood as occurring at several levels:

$n+2$	Tactics
$n+1$	Strategy
$n$	Business model
$n-1$	Enterprise ontology (applied and regional)
$n-2$	Ontology (formal and general)

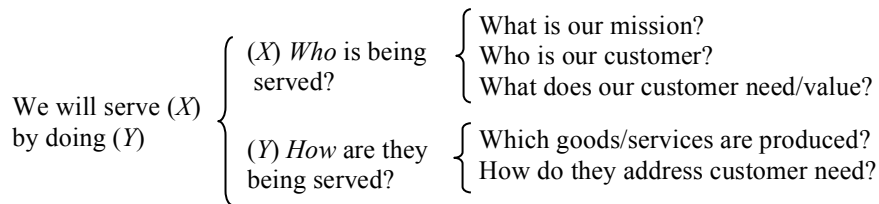
Business models are developed at the “kitchen table” level  $n$ . Strategy is founded on a business model, and tactics is founded on strategy (Seddon et al. 2004; Casadesus-Masanell & Ricart 2010). A business model depends on an underlying enterprise ontology, which defines an enterprise as a system 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. Being applied and regional (i.e., specific to enterprises), this level relies on a general (and formally expressed) ontology that specifies the ingredients of reality and their relations. All levels are emergent with respect to the lower ones. Analysis of social entrepreneurship considers levels  $n$  and  $n+1$  (although assumptions about lower levels must implicitly be made).

There is a tradition in social science (which includes the sociologist Georg Simmel and the economists Karl Polanyi and Kenneth Boulding) that demonstrates that a qualitative “phase transition” in human relationships occurs when one moves from the dyad (which facilitates opposition) to the triad. Triads are the smallest form of social organization that allow for social formations to be structured (into subgroups, alliances, families, clubs, etc.). They allow individuals to maintain their identity and to have control over it by withdrawal; they are likely to develop a group structure independently of the individuals in it, which makes them the true building blocks of society (Simmel 1908: ch. 2). At a higher level of aggregation, the communitarian tradition in social thought has recognized communities as a third agent besides individuals and government (Wicks 2009).

At all levels  $n_i$ , configurations should therefore be considered as of a ternary rather than a binary structure, even apart from the number of agents. Not only the transacting parties but also the objects of transactions (e.g., meals or medical services) are constitutive of social relations. The nature of a project determines whether or not to attribute it to social entrepreneurship. Thus the logical structure of social relations is not  $R(x, y)$  but, for example,  $H(x, y, L)$ , where  $H$  = housing,  $x$  = entrepreneur,  $y$  = target group,  $L$  = loans at sub-market conditions. This relation is not abstract but concrete and expresses what a project does for a target group, e.g. providing housing through concessionary loans. Envisioning such a structure brings social entrepreneurship, despite its market-based characteristics, close to gift-giving as described by anthropologists (Descombes 1996; Hénaff 2010: 418f.) and to the “logic of gift” advocated in Pope Benedict XVI’s social encyclical *Caritas in Veritate* (2009). Social relationality is “situated” or “embedded” in particular settings. This would imply that manufacturers of consumer goods should always target specific groups rather than produce for an “anonymous” mass market, and that social entrepreneurship projects must be developed by providing specific services for specific beneficiaries. Three components already allow for constellations that add up to complex business models (Malki 2009).

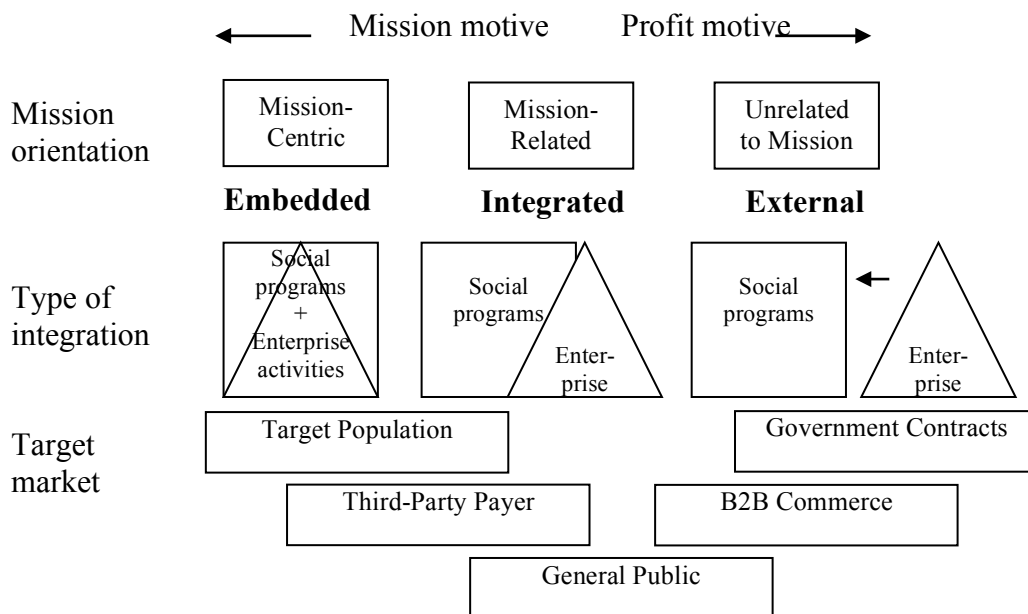
From a design perspective, a generic business model must as a minimum specify the *what*, *for whom*, and *how* of production. It must at its essential core identify content, structure, and governance (Zott & Amit 2010). Content includes a value proposition, which takes the

following generic form (*Figure 4*, adapted from Social Enterprise Knowledge Network 2006: 264f.):



*Figure 4: Value proposition for social enterprise*

This, then, suggests a typology of social enterprise that suggests potential business models (Dees 1998; Alter 2006; Malki 2009). 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 (Alter 2006). 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 (Austin 2000). 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 (*Figure 5*):



*Figure 5: Micro-typology of social enterprises*

If there are three types of mission-orientation, three types of integration between not-for-profit and for-profit activities, and five types of target markets, there would be  $3 \times 3 \times 5 = 45$  possible combinations. However, mission-orientation and type of integration are highly correlated, and a business unrelated to mission should not count as a social enterprise. This reduces conceivable combinations to  $2 \times 5 = 10$ . According to the logical structure of social relations,  $H(x, y, L)$ ,  $x$  = social enterprise,  $y$  = target population (or beneficiaries),  $L$  = goods

or services transacted on markets on which they are otherwise traded, and  $H$  is the specific model that results from the combinations between the three arguments. The options have been further consolidated into nine fundamental types of business models for social enterprises which are feasible and indeed widely implemented (Alter 2006) (Table 1):

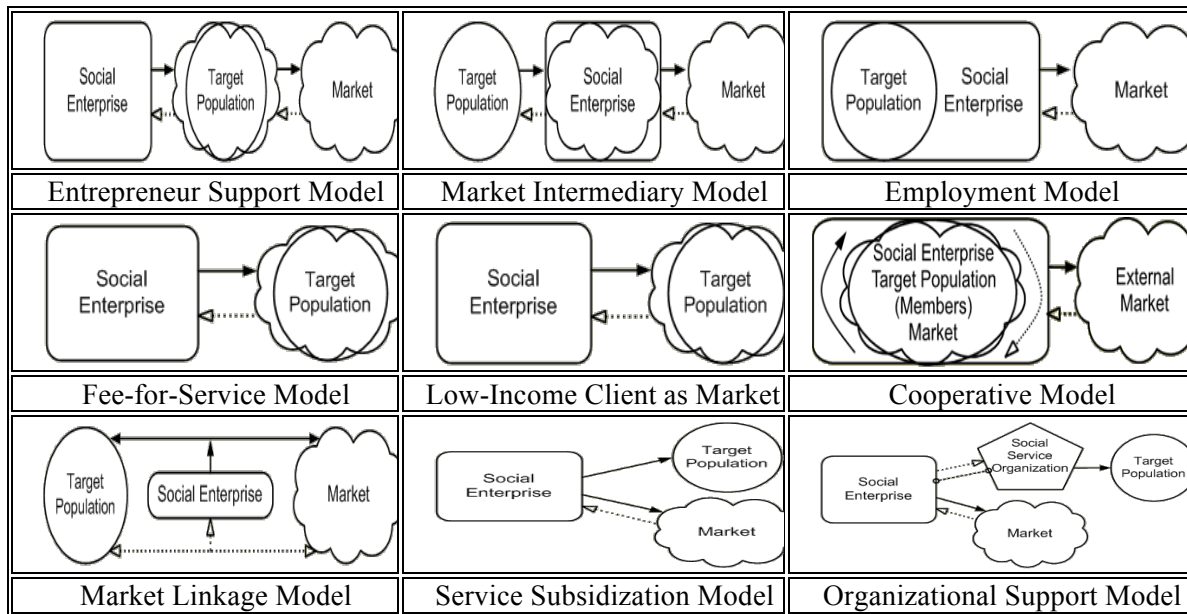


Table 1: Business models of social enterprise

Examples of these models can readily be identified. There are co-operative move-ments for farmers, craftsmen, shopkeepers, and consumers, that in some countries have be-come formidable players on factor and consumer markets (Cooperative Model). They allow smaller suppliers to bundle their otherwise atomistic market power to compete with multi-national corporations and thus at least partially to overcome diseconomies of scale. Several institutional forms have been created ranging from limited partnerships to marketing co-operatives and consortia based on rules of both efficiency and equity (Grassl 1998). Micro-lending on the Grameen model has facilitated the emergence of a new class of business owners in less developed countries (Entrepreneur Support Model). Ethical investment funds and fair trade organizations complement this trend (Organizational Support Model). Social enterprises that facilitate the performance of target populations on markets, for example by providing training or loan guarantees, make up the Market Linkage Model. In the United States, the Federal National Mortgage Association (Fannie Mae), which is a government-sponsored and publicly traded company with the purpose of expanding the secondary mortgage market by securitizing mortgages in the form of mortgage-backed securities, is an example (Koppell 2003). The worldwide Economy of Communion as a project of the Focolare Movement is a network of businesses that freely choose to share their profits ac-cording to three principles of equal importance – to grow their businesses, help people in need, and spread the culture of giving (Service Subsidization Model) (Gold 2010).

An argument can be made that, underlying the nine possible types, there is an even smaller number of basic configurations. If a business model is understood as a system, an analogy to Gibbs' phase rule in thermodynamics may be suggested:  $F = C - P + 2$ , where  $F$  = number of degrees of freedom for a system,  $C$  = number of independent components of the system at equilibrium, and  $P$  = number of phases (which in chemistry are solids, liquids, and gases). The generic business model has three components ( $C = 3$ ). The number of phases may be

assumed as three ( $P = 3$ ) in accordance with a triadic ontology, e.g. by being either a private, public, or communally owned and managed enterprise. Under these assumptions, a business model for social enterprise would have  $F = 2$ , with degrees of freedom being the number of intensive variables which are independent of each other.  $F$  expresses in how many ways an enterprise can “do business.” Gibbs’ rule would predict two such ways – seeking profit or not. Although there may be degrees of mission-orientation, this basic distinction still holds (and is usually required under tax law and sometimes and corporate law). If more complex models are devised (e.g.,  $C > 3$ ), the number of possible variations will increase. Enhanced hybridity of business allows for a greater number of successful business models though the promising options will still remain few.

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 (Keidel 2010: 66ff.). These options themselves relate to the three types of social agents in what in abstract algebra would be called a homomorphic relationship, or (in Thomistic language) in one of analogy (Figure 6):

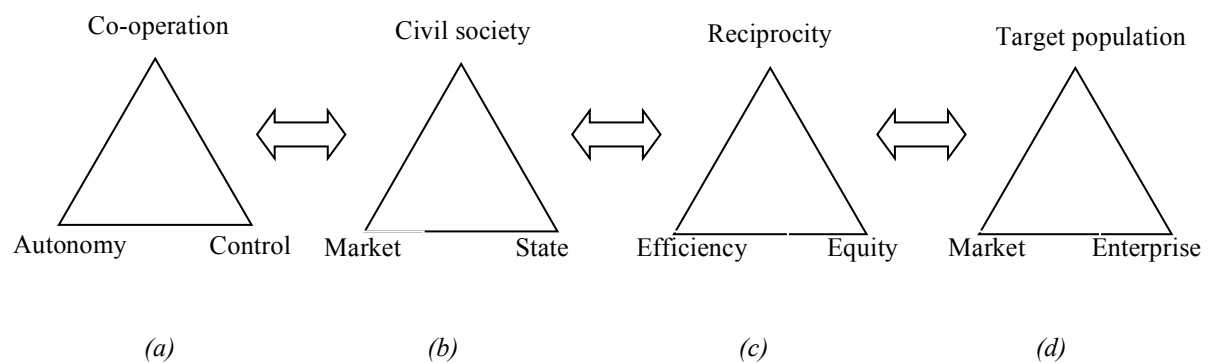


Figure 6: Models of social entrepreneurship (d) mirroring the functions (a) of social agents (b) and their aims (c)

This design perspective holds out a promise for the development of social entrepreneurship models that are not created in an *ad hoc* manner but that reflect the basic structure of human society. An integrated and consistent approach from level  $n-2$  of ontology up to level  $n+2$  of business tactics seems possible. Social entrepreneurship is then a process of decision-making at various levels of complexity within a clear hierarchy of cognitive levels (Ross 2009). This model also mirrors how hybridity in business comes about within networks of complex interactions that produce novel emergent properties through recombinations. Hybridity is no longer understood as a mixture of characteristics along a continuum between two opposite poles but consists of elements of diverse origin that are deeply integrated and yet preserve the identities of their constituents. The difference between non-profit and for-profit businesses, like other differences, is then one of degree, not of kind – they are both results of different admixtures of elements. Social enterprise as a movement may be studied as adaptive morphogenesis, where forms evolve through combinations to facilitate missing constructive behavior.

## Towards a Theory of Hybrid Business

Biology distinguishes between hybrid organisms arising from a cross between cultivars within a species and those that come about as the offspring of members of two different species. In business, the first case would be represented by joint ventures, by independent broker-dealers pursuing both a commission-based and a fee-based revenue model, or by wholesalers which through forward integration of the value chain have acquired retail operations. Such cases are so common that “hybridization” is an inappropriate category for them unless the term is rendered meaningless since nearly all businesses would be hybrid. True hybridization is thus limited to “cross-species” interactions, particularly such that integrate markets, civil society, and the State. Expanding the scope of activities – from the regional via the national to the international level – does not cross domains and therefore does not constitute hybridity. Necessary (if not yet sufficient) conditions of hybridity may then be defined. Hybrid businesses combine commensurable elements which are typical of disparate domains of society into an (at least functionally) independent organizational form such that the merged elements can no longer be separated (without negative impact on the entire entity). This definition is neutral with regard to the elements being merged – technology, governance structures, access to consumer markets, financial resources, etc. It requires that these elements be commensurable (or congruent), since contrary to some literature, the mere addition of technology to a business yields a more complex business but not a hybrid (Britt 2002). St. Thomas Aquinas’ notion of connaturality may apply here – elements constituting a hybrid must resonate with or be attuned to each other (*Summa Theologiae* I, q.93, a.6, ad 3; see also I-II, q.26, a.1, ad 3 and a. 2; I-II, q.31, a.8, ad 2, et passim). Organizational theory discusses a similar requirement of fit under the term “mirroring hypothesis”, and the idea is widely known in different disciplines (Colver & Baldwin 2010). The marketing orientation of a media company might be merged with the multi-layer reporting structure of a public-sector enterprise to produce a hybrid business. This definition implies some degree of stability and organizational independence although it does not require a legally separate entity. It excludes strategic alliances and inter-organizational cooperation, for collaboration on factor (and even on consumer) markets is an old phenomenon (Grassl 1998; Skelcher 2005). Contracting out, whether within the private or public sector, does not amount to hybridity nor does the existence of business networks, contrary to some literature (Kenis 2005; Raab and Kenis 2009). In a networked society, assuming this would trivialize hybridity.

According to one theory, organizations can be analyzed with regard to their business environment, their organization-environment transactions, and their organizational structures and processes (Rainey & Han Chun 2007). A business is then modelled as consisting of components and relations between these, or a structure, and of processes (which include policies and procedures) (*Figure 7*). This would represent level  $n-1$  in the hierarchical planning model and map out options for social entrepreneurs that would then facilitate or constrain those of business model development at level  $n$ :<sup>2</sup>

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<sup>2</sup> In more formal terms, the underlying business ontology is then simply a tuple  $\langle BUS [(Components_{BUS}, Relations_{BUS}), Processes], ENV_{BUS} \rangle$  where  $ENV =$  business environment.  $ENV$  can, for example, be represented by relevant PESTEL (political, economic, social, technological, ecological, and legal) factors.

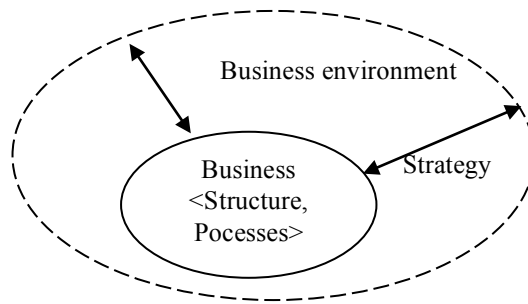


Figure 7: Business ontology

The business environment is generally given, even for government agencies. The nature of interactions with this environment defines the strategy of an enterprise, as relations between a business and its relevant environments. Hybridity can then emerge through mixture at the level of structure or processes (organizational hybrids), or through strategy (strategic hybrids). However, for strategic hybridity to be stable, it must always presuppose some amount of organizational hybridity. Public-sector welfare offices will not perform like Caritas Internationalis if they show no similarity in staffing, operational procedures, financing, or information systems, however many other differences will remain. The strategic fit that successful strategy requires may again be understood as an instance of connaturality – strategies must be attuned to the requirements and opportunities of the environment (Agarwal, Grassl & Pahl 2012).

Based on this ontology, a model may be developed that imports from biology different options of hybridization (Yao 2003). For simplicity, only two domains *A* and *B* (such as the public and private sector, or the for-profit and non-profit spheres) are assumed as “species”. By order of increasing adaptation and degree of novelty, at least five forms of hybridization can then be distinguished (Table 2):

Type of hybridization	Domain <i>A</i>	Domain <i>B</i>	Environments <i>A</i> and <i>B</i>
Mimicry	original element	new element mirrors element of <i>A</i>	same or different
Grafting	original element	imported element combines with element of <i>B</i> to create a hybrid third	same
Transplantation	original element	imported element produces new element in <i>B</i>	different
Cross-fertilization	original element	transplantation followed by mimicry	different
Mutation	original element	transplantation followed by grafting	same or different

Table 2: Forms of hybridity (descriptive)

Depending on the type of hybridization, enterprises will reflect the natures of their original components to different degrees. Transplantation, for example, is a very different process than cross-fertilization. The first case would be that of a market-driven and privately owned business inserted into the public sector, the second that of elements of public administration, or civil society, or the market, influencing another domain, as in the conversion of public railroads into a joint-stock corporation under public ownership or the introduction of an ombudsman into a private company.

These types can be represented in graphical form (where empty squares signify old and solid squares new, i.e. transformed, elements, and shaded domains *B* signify strongly different conditions in the business environment) (Table 3):

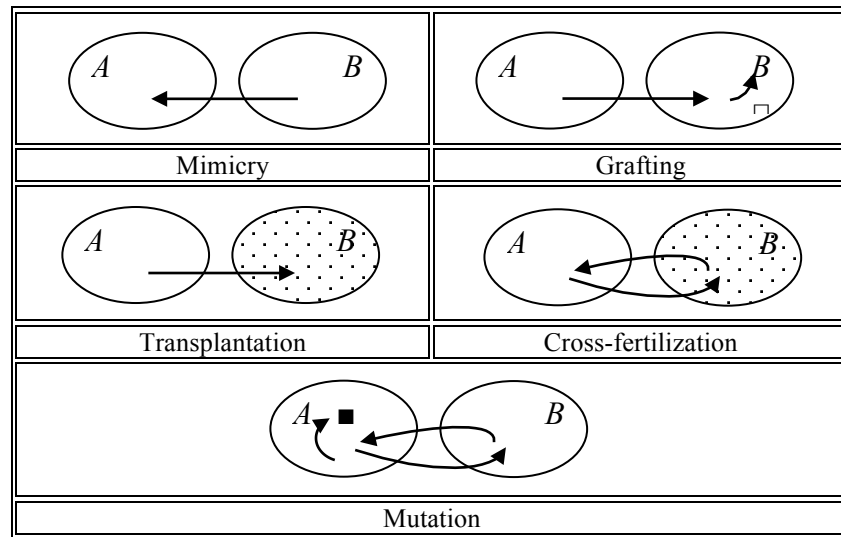


Table 3: Forms of hybridity (graphical)

If social entrepreneurship is by its nature hybrid, these forms indicate possible business models. Transplantation, for example, would be the case of a private-sector for-profit business that operates under the radically different conditions of the public sector, and cross-fertilization would be a mutual learning between an NPO and a traditional for-profit corporation. Forms of hybridity can be related to the nine business models (*Table 1*), and the five forms of hybridity (*Tables 2 and 3*) may suggest an approach to greater naturalness. A complete theory still awaits elaboration.

## Conclusion

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 (Malki 2009; Massetti 2009). 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.

The implications of this reorientation are important. No longer must social enterprise, as “intermediate bodies”, be attributed to some ill-defined “third sector” nor must they be identified with “non-profit” business. Creation of economic and of social value must not diverge, and the latter must not be understood to correct the results of the first (Grassl and

Habisch 2011; Grassl 2012). Wholesale solutions can be avoided in favor of a variety of hybrid models of social enterprise. It is the task of social entrepreneurs to introduce to markets and to the State gratuitousness, reciprocity, solidarity, trust, and service, and to create ventures that embed these values deeply in institutions serving the needs of target groups. However, despite an apparent heterogeneity of social enterprise, the number of fundamental business models is small. Successful businesses – from Grameen Bank, Sekem and Mondragón to Aravind Eye Care and 4everyoung – apply one of only few successful models of value creation to their specific customers. Lastly, there is no need for assimilation to the American model of sharp borders between markets and the State, and between for-profit business and philanthropy. Social values and political structures are different in Europe, and even more on other continents. The tradition of a civil economy has at least partially survived (Bruni 2010: chs. 10-11). Opportunities for hybridization of enterprise and the impregnation of market economies by civil society appear to be better there than in the United States, which is ideologically and institutionally built on the dichotomous model.

Only insignificant (within-species) “hybridization” occurs spontaneously, as marginal mutations of an organization. To bring about true hybrid structures requires energy, since the spheres of the market and of the State, of for-profit and non-profit enterprise, or of producers and consumers, have their own “laws of motion” that make them resistant to penetration and change. The required energy can be mustered only if social enterprise is of the right type in terms of business model, strategy, and structure. Certain combinations from among many possible configurations will succeed because they contain a high degree of naturalness; others will fail because they cannot meet all requirements simultaneously. Instead of pursuing a constructivist approach that assumes that any form of social enterprise has the potential to succeed if only propelled by enough resources, a more modest realist approach is called for. It sees the affordances and limitations of social enterprise rooted in immutable factors (such as human nature), and experience as the guide to learn about them. This is the task of the social entrepreneur as a causal agent who is driven by a vision and motivation, recognizes real needs, musters resources under institutional constraints and achieves at least partial relief for an intended target group. Design tools can be used to map out feasible models within an ever more heterogeneous landscape of hybrid business (Morris, Schindehutte & Allen 2005; Brown & Wyatt 2010; Casadesus-Masanell & Ricart 2011). Greater complexity of the object domain of studies demands also a crossing of traditional disciplinary divides. Such an approach opens up a stream of research on the conditions for creating social value through creative action that may reposition this field of studies by combining social engagement with analytical perspicacity.

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