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Doing Good While Making Profits: How Social Ventures Stay Financially Afloat

Lien De Cuyper (University of Amsterdam)
Bart Clarysse

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While business models for traditional startups are well understood, there's still a knowledge gap when it comes to social enterprises—those driven by social or environmental missions. Even though terms like "social enterprise" and "social entrepreneurship" have become popular, the unique business models that underpin these ventures aren't as widely recognized. This is important, because the strategies social entrepreneurs use are often quite different from those in conventional startups.

In a recent research article published in *Strategic Entrepreneurship Journal* (https://onlinelibrary.wiley.com/doi/10.1002/sej.1502) with our colleague Mike Wright, we aimed to explore these differences by analyzing the business models specific to social enterprises. In a time where sustainability, social responsibility, and alignment with the Sustainable Development Goals are increasingly vital, understanding these models is more important than ever.

Overall, we found significant distinctions between a "social business model" and the traditional business model found in conventional entrepreneurship. However, we also observed substantial variability among social enterprises regarding the type of "social business model" they employ. We identified four distinct types of social business models, each carrying specific opportunities and challenges for the financial sustainability of social enterprises. Based on this, we formulate which model might suit you best as a manager or entrepreneur, and what to look out for.

What We Studied

We used qualitative data from a sample of social enterprises around the world, which we selected from support networks for social entrepreneurs such as Ashoka and Echoing Green. We made sure to have enough variety in both location and type of business. Some of the companies operated in developed economies, but some were also in more developing contexts such as Mexico, Guatemala, India, and East-Africa. They operated in a variety of fields such as financial services, sustainable energy, and fair trade.

We collected the qualitative data for each social enterprise through interviews, phone calls, and video reports with the entrepreneurs and collected a lot of data from their websites and social media accounts as well. We combined these qualitative insights with what we already knew from past research on business models of startups as well as on social enterprises. This formed the basis for identifying the four types of social enterprises and their business models.

What We Found

We actually started by identifying and defining three strategic choices entrepreneurs need to make:

- What kind of impact do you want to create? What is the scope of your mission?
- If you have stakeholders other than customers, e.g. beneficiaries, how do you involve them in commercial transactions?
- And how do you communicate about your social mission? Do you explicitly include your social and environmental values in your value proposition?

Based on these strategic choices, we identified four distinct types of social business models that can guide your strategy in the social enterprise space: social stimulators, social providers, social producers, and social intermediaries.

Social Stimulators

Social Stimulators are a type of social enterprise that

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leverages the power of its products or services to spark awareness and action on pressing social or environmental issues. Think of iconic brands like Patagonia, or Chilly's in the UK, both of which have successfully embedded strong social and environmental values into their core mission, driving the widespread adoption of sustainable or reusable products.

Social Stimulators operate with a broad and ambitious social mission, striving to create meaningful value for customers who actively choose to support brands that align with their own values. The secret to their success lies in how effectively they communicate these values through the products they offer. For entrepreneurs and managers steering this type of enterprise, the challenge and opportunity lie in carefully crafting and framing the value proposition. This strategic framing not only draws in customers but also nurtures a loyal customer base willing to invest in the positive societal impact that the brand stands for. By doing so, Social Stimulators can drive both social change and sustainable revenue growth.

Social Providers

These are mission-driven enterprises that zero in on specific societal needs, delivering highly targeted products or services to a well-defined group of beneficiaries. Take, for instance, the Aravind Eye Hospital in India, which has revolutionized access to affordable eye care, making a profound impact on countless lives.

Social Providers operate with a laser-focused mission to enhance the well-being of their beneficiaries by offering solutions tailored to their unique circumstances. However, the challenge for managers of these enterprises lies in understanding that their customers often face financial constraints. This requires a creative and adaptive approach to the revenue model, ensuring that the business remains sustainable while still fulfilling its social mission. By striking this balance, Social Providers can make a lasting difference while maintaining financial viability.

Social Producers

These companies prioritize sustainability, ensuring their products or services are sourced in an environmentally and socially responsible manner.

They don't just interact with their beneficiaries—they empower them by involving them directly as producers within their value chain. On one end, they build meaningful partnerships with beneficiary-suppliers, and on the other, they deliver finished products to customers who appreciate the deep social and environmental values embedded in every step of the process.

A good example of a Social Producer is Tony's Chocolonely, the Dutch chocolate brand on a mission to revolutionize the chocolate industry. Tony's isn't just about making chocolate; it's about making a statement against inequality and striving to create a 100% slave-free chocolate supply chain. By forging direct, long-term relationships with cocoa farmers in Ghana and the Ivory Coast, paying them fair prices, and working together to tackle the root causes of modern slavery, Tony's Chocolonely exemplifies the power of the Social Producer model.

Leading this type of social enterprise requires a strategic approach to crafting and communicating the value proposition. It's about more than just selling products; it's about conveying a powerful story of social impact that resonates with customers willing to invest in a brand that aligns with their values. While this model can lead to higher operational costs due to the responsible integration of beneficiaries as suppliers, the payoff is a loyal customer base and a sustainable business that makes a tangible difference in the world.

Social Intermediaries

These enterprises act as connectors within the value chain, bridging the gap between customers and beneficiaries in a way that creates lasting impact. They have a mission to transform societal challenges into opportunities for both the beneficiaries they support and the customers they engage. One powerful example of this is Work Integration Social Enterprises (WISEs), which focus on enhancing employment prospects for individuals who are marginalized or farthest from the labor market.

A well-known example in this space is The Big Issue, one of the UK's leading social enterprises. The Big Issue isn't just a newspaper publication—it's a transformative platform that offers homeless individuals, or those at risk of homelessness, a legitimate way to earn an income. By doing so, it plays a critical role in helping them reintegrate into society, all while being the most widely circulated street newspaper in the world.

Leading a social enterprise that operates as a Social

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Intermediary demands a keen understanding of its dual structure. On one side, these organizations drive commercial value by engaging with customers; on the other, they are deeply committed to creating social value through direct interaction with beneficiaries. This dual focus can lead to higher operational costs, but it also unlocks the potential to make a profound difference. For managers, the challenge lies in balancing these two aspects—ensuring that the enterprise remains financially viable while staying true to its mission of social impact. This unique business model not only addresses societal issues but also creates a sustainable pathway for growth and meaningful change.

Which Model is Right For Your Enterprise?

Social Stimulator

Best for: Entrepreneurs who are passionate about raising awareness and driving action on large-scale social or environmental issues through products or services.

Why it might suit you: If you're driven by the idea of using your brand to spark conversations and create a movement around sustainability or social justice, this model is ideal. It's perfect for those who excel at storytelling and marketing, and who want to build a brand that customers identify with on a values level.

Challenges: Requires strategic framing of your value proposition to maintain both brand integrity and profitability.

Social Provider

Best for: Entrepreneurs who want to address specific, often underserved needs within a defined group of beneficiaries.

Why it might suit you: If your mission is to create solutions tailored to the needs of a specific community or demographic, and you have a clear understanding of how to navigate financial constraints while still delivering impactful services, this model could be your calling. It's about precision in mission and execution.

Challenges: Balancing financial sustainability with serving customers who may have limited ability to pay.

Social Producer

Best for: Entrepreneurs committed to sustainability and ethical sourcing, who want to create value by integrating beneficiaries directly into the production process.

Why it might suit you: If you're passionate about not just creating products, but transforming entire value chains to be more equitable and sustainable, this model allows you to engage deeply with the communities you aim to support. You can build long-term relationships with suppliers and convey a strong story of social impact that resonates with conscious consumers.

Challenges: Higher operational costs due to the responsible integration of beneficiaries as suppliers, but the potential for a loyal, value-driven customer base.

Social Intermediary

Best for: Entrepreneurs who are natural connectors, eager to create pathways for marginalized groups while also delivering value to customers.

Why it might suit you: If you see yourself as a bridge between those in need and those who can help, this model lets you create significant social impact by transforming societal challenges into opportunities. It's ideal if you have a strong sense of social justice and want to create systemic change by engaging both beneficiaries and customers.

Challenges: Managing the dual structure of creating commercial value while generating social impact can be complex, and may involve higher operational costs.

If you're looking to make a broad societal impact and are skilled at communicating and marketing social values, Social Stimulator might be the best fit. However, if you're more focused on sustainability and ethical supply chains, with a strong emphasis on direct engagement with beneficiaries, Social Producer could be your model. If your strength lies in addressing specific, targeted needs within a defined group, Social Provider would be ideal. And if your passion is creating pathways for marginalized communities, Social Intermediary is likely the best match.

Each model has its unique strengths and challenges, so consider which aligns most closely with your vision, skills, and the impact you wish to create

Takeaways for Entrepreneurs

It's crucial to recognize that social enterprises operate

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under different models. Instead of applying a one-size-fits-all strategy, understanding the diverse approaches within social enterprises can lead to more effective decision-making. Our research provides a framework for this understanding. For any startup, entrepreneur-led venture, or family business, looking at the business models we identified helps to understand how you're planning to create a positive impact for the environment or for society and what type of social enterprise you're leaning towards. This can have important implications for not only your cost structure or revenue structure, but also your way of organizing.

Each of these business models has key advantages and potential challenges that shape how they create and capture value. Understanding this can help you maximize the impact and profitability of your social enterprise. We propose ideas about the cost structures and customer willingness to pay specific to social enterprises. While these are initial suggestions that warrant further exploration, they offer useful perspectives for founders looking to strike the right balance between their company's mission and profitability. Understanding these dynamics can help you align your social impact goals with financial sustainability.

Explore the Research

Doing good while making profits: A typology of business models for social ventures. (https://onlinelibrary.wiley.com/doi/10.1002/sej.1502) Strategic Entrepreneurship Journal, May 2024

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