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# **DRIVERS OF BUSINESS MODEL INNOVATION: A FRAMEWORK FOR SOCIAL ENTERPRISES**

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## **ABSTRACT**

*Business model Innovation in social enterprises is different from the context of For-profit businesses. To address social issues, social businesses innovate to create social impact and transform their systems. Although Innovative solutions by social businesses to address complex social challenges have received increasing attention from entrepreneurs and academics but there are few studies about the drivers of innovations. In this study we review the literature and propose a theoretical framework for studying drivers of business model innovation in social enterprises. According to our framework, innovation drivers should investigate at three levels inclining environmental, organizational and individual levels. PESTEL analysis, dynamic capabilities and abilities and attitudes of people can guide searching drivers at this framework.*

**Keywords:** Business Model, Business Model Innovation, Social Enterprises, Drivers of Business Model Innovation.

## **INTRODUCTION**

Social entrepreneurship has received more attention in the last two decades (Yunus et al., 2010). Global changes have become a catalyst for the spread of social entrepreneurship not only among entrepreneurs, but also among academics and politicians. Welfare issues, environmental concerns, and growing economic inequalities, as well as lack of access to basic health care, water, and energy, raises the importance of social entrepreneurship (Nicholls and Murdock, 2012). Social businesses, like other businesses, need to have a proper business model. An appropriate business model has the ability to explain the economic logic of the organization by answering questions about the customer, value and how to earn money, and explain how to deliver the proposed value to customers at a reasonable cost (Magretta, 2002, 2008). In recent years, we see more Competition in various industries. Therefore, achieving a suitable competitive position is possible through a suitable business model. A successful business model represents a better way than the available options that can offer more value to a target group of customers and return more benefits to the company (Teece, 2010). There is no exception for social businesses, they also need to design and organize business models in order to act on opportunities and fulfill their social mission (Seelos & Mair, 2007; Seelos et al., 2011; Wilson & Post, 2013; Vanhaverbeke, 2012).

As the business environment becomes more complex and competition arises, a competitive business model which is tangible in today's context, may expire or become obsolete

tomorrow (Osterwalder et al., 2004). Therefore, the ability to innovate in the business model is vital for the growth and continuity of a business (Kemmis, 2012). Researchers have emphasized the importance of the business model in the context of social entrepreneurship (Yunus et al., 2010; Mair et al., 2012; Dohrmann et al., 2015; Santos et al., 2015). However, it is not only important to have a good business model when starting a company, but also to have and maintain an optimal business model throughout the life cycle of the business and innovate in it (Teece, 2010). Business model innovation enables firms to arrange possible product, technology, process, and market options by looking at creating new value proposition and adapting value from competitive advantage. While these uncertainties can be worrisome, changes can also provide opportunities for companies to improve performance (Pisano et al., 2015). The business environment of social companies is not a fixed environment; social challenges require unusual thinking and continuous learning at the core of the business. To benefit from these changes as well as exploit new market opportunities, business model innovation is an essential necessity for any social enterprise (Teece, 2010). While the innovation of the business model in the business environment has been widely studied, research about social enterprises is limited to a few studies. However, it seems that business model innovation should be closely related to social businesses; however, this concept has been studied sparsely in the social entrepreneurship literature (Achleinter et al., 2014; Cucari, 2020).

The development of an appropriate business model for social business is essential; however, research on the business models of social organizations has been very limited so far, especially in terms of innovation in the business model of these companies. There are many shortcomings and the main drivers of business model innovation in social organizations remain unanswered. Therefore, the purpose of this study is to insight about the innovation in the business model of social enterprises.

## LITERATURE REVIEW

### Social Entrepreneurship

About three decades have passed since the introduce of social entrepreneurship literatures and researchers have offered different approaches, definitions and concepts and various types of social entrepreneurship and innovative solutions to address complex social challenges (Gawell, 2013; Rotheroe & Miller, 2008, Gebauer et al., 2017, Weis, 2017; Qastharin & Vanourek, 2020). Social entrepreneurship is the process of creating value through new combinations of resources that seek to explore and seize opportunities to create social value, while also meeting social change or social needs. Social entrepreneurs take social responsibility beyond profit and maximize market value by putting social mission at the center of their business activities (Baron, 2007). Innovation and change are important in this context so therefore social entrepreneurs play role of change agents in the social sector (Becchetti & Borzaga, 2010; Borzaga & Torita, 2010; Dorado, 2006; Sharir & Lerner, 2006).

### Business Model

Numerous studies have been conducted on business models (Erwalder, 2004; Osterwalder & Pigneur, 2010; Teece, 2010; Zott & Amit, 2011). The introduction of the term business model into the business literature dates back to more than five decades ago. The term first appeared in an academic paper by Bellmann & Clark (1957) Business model is a system

that solves the problem of recognizing the company's customers and engaging with their needs, satisfying their needs, and the method of earning income from the value provided to them (Fuller & Hofflinger, 2013). A review of the literature shows that although the concept of business model has been studied by several researchers over the years, there is no standard definition for business model. As seen that the starting point of these definitions provided refers to concepts such as logic, perception, system, pattern, description, and so on. Some researchers with a conceptual perspective have considered the business model as a concept, logic, understanding, reflection, intermediate structure, or a story. Some researchers have defined the business model as a template, program, conceptual tool, path, design, method, configuration, task, set, system, framework, context, and core. To summarize Resource-based, activity-based, knowledge-based, economic, strategy-oriented and networked approaches can be extracted.

### **Business Model Innovation**

Business model innovation is a process for optimizing and re-engineering complex resources. Creating a frame for business model innovation can clearly explain the relationship between business value and the business model. Business model innovation is less expensive, more efficient and a more appropriate approach than other types of innovation in times of capital shortages, for example in times of recession. What should be noted is that corporate business models evolve over time. To design a sustainable business model, it must be dynamic, and dynamism requires strategic action, key capabilities, and small activities. Although business model innovation is crucial to a company's long-term success or failure, it is less understood than product innovation (Zott & Amit, 2011; Hansen, 2011; Mitechell & Coles, 2003; Schaltegger et al., 2011; Kemmis, 2012 and Eisenhardt, 1989).

### **Business Model Innovation in Social Enterprises**

To create a framework for social business models, the academic community has conducted researches based on social entrepreneurship and how to organize creation and acquisition of value in the company and at the social aspect. This can be done by targeting for-profit and non-profit effects simultaneously. Social business models are different from profit-based business models. This difference is not only due to their conceptualization, but also because these models have different goals, different types of business and markets (Seelos & Mair, 2007; Seelos et al., 2011; Wilson & Post, 2013; Austin et al., 2006 and Yunas et al., 2010)

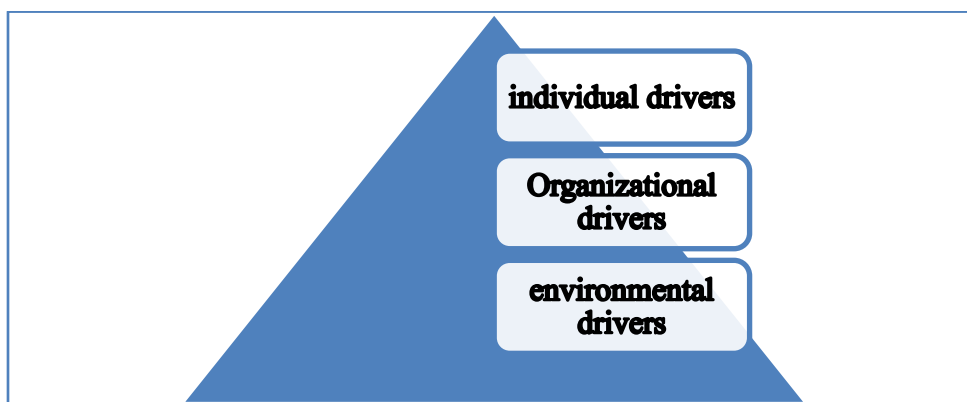
To date, however, there have been serious gaps in social organization business model innovation research. Research on social entrepreneurship has focused mainly on its meaning and scope, especially its separation from business entrepreneurship and less effort has been made on studying drivers of innovation in the social business model (Short et al., 2009, Sparviero, 2019; McMullen, & Vogus, 2012, Jabłoński & Jabłoński, 2020; Hoogendoorn et al., 2010; Franzidis, 2018 and Prokopovych & Ganguli, 2020) (Table 1).

<b>Author(s)</b>	<b>Year</b>	<b>Key Findings</b>
King & Roberts	1987	Social Entrepreneurship with Innovation Components and Leadership Characteristics Influence Government Policies

Waddock & Post	1991	Social entrepreneurs have the ability to solve complex problems, social credibility and commitment to social goals, and strive to build public organizations to change existing patterns of scarce public resource allocation.
Campbell	1998	Social entrepreneurs engage in activities that provide the production and services needed by society and use the profits from the sale of products and services to develop the infrastructure of that activity.
Henton et al.,	1997	Social entrepreneurs identify opportunities and use them to serve the common good.
Dees et al.,	1998	Five key dimensions in social entrepreneurship including social mission, search for new opportunities, continuous innovation, strong performance, sense of responsibility.
Thompson et al.,	2000	Social entrepreneurship is the process of creating something new and different with the goal of creating social capital by focusing on the actions of the private sector.
Hibbert et al.,	2001	Using entrepreneurial behavior to achieve social goals instead of focusing solely on profitable and economic goals or institutions that create benefits for the benefit of the disadvantaged.
Seelos & Mair	2005	The increasing growth of social organizations indicates that they provide effective models to meet human needs, needs that the market and human institutions provide, needs that the existing market and institutions have failed to meet.
Boucher	2012	The business model is a dynamic system that requires rapid adjustment to external and internal changes. Business model innovation has changed the core elements of the company and the business logic, including analysis, design, implementation and control.
Demil & Lecocq	2010	Factors that lead to model innovation include external and internal factors. Internal factors related to the output of technical decision-making processes of senior managers and internal factors related to the entry of newcomers, the increasing cost of resources or the emergence and replacements that require model change.
Giesen et al.,	2007	Categorizing innovations in Business models into three categories: industry model, revenue model, and company model
Spread	2012	Innovation in social business model can complement technical and policy innovation to achieve systematic and lasting changes in lifestyle and society to solve environmental problems.
Reeve et al.,	2013	Environmental issues are constantly changing and require adaptive and dynamic approaches that can be met by innovation in the business model of social organizations.
Foss & Saebi	2017	Environmental changes as destructive forces for new technologies, new regulatory frameworks and new market structures are among the factors driving business model innovation. These factors change the environment and industrial dynamics and cause changes in companies and business models
Defays	2018	Innovation in the business model of social organizations is influenced by various factors at the environmental, organizational and individual levels. Therefore, a valid and meaningful study of the drivers of innovation in the business model of this organization should be examined in these three levels of analysis.

Therefore, there is a research gap in this area. As a result, we need a deeper understanding of the drivers of social business model innovation. We suggested that Innovations in business model of social organizations can be driven by various factors at different levels including environmental, organizational and individual levels (Damanpour, 1991,1996; Damanpour & Schneider 2006; Dufays, 2018; Chesbrough & Crowther, 2006). As a result, a valid and significant study which wants to identify drivers of innovation in business model of these social enterprises should address these three levels of analysis (see Figure 1).

Factors related to social business model innovation that are related to the external environment can be classified based on PESTEL analysis. Organizational drivers are dynamic capabilities that guide the identification of factors affecting business model innovation at the organizational level and Business model innovation drivers at individual level are related to the abilities and attitudes of employees and managers.



**FIGURE 1**  
**FRAMEWORK FOR STUDYING DRIVERS OF BUSINESS MODEL**  
**INNOVATION IN SOCIAL ENTERPRISES**

### **DISCUSSION AND CONCLUSION**

The aim of this study was proposing a theoretical framework for studying drivers of business model innovation in social enterprises. It was one of the first researches in the field of social enterprise model and innovation and its drivers. A three level framework was introduced which can be applied in investigating drivers of innovation in these types of business. Future researches can apply this framework for studying and answering questions in this era. To name some are: What are the drivers of business model innovation in social enterprises at the environmental level? What are the drivers of business model innovation in social enterprises at the Organizational level? What are the drivers of business model innovation in social enterprises at the individual level?

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