The Tiresia Handbook in Management for Sustainability and Impact

Chapter 4

Social Ventures Business Models and Strategy

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This chapter illustrates the main challenges faced by hybrid organisations when it comes to the development of their business model, increasing social (scaling) and economic value creation (growth), and finding source of financing. The chapter particularly refers to those hybrid organisations pursuing simultaneously a social mission and the generation of income through entrepreneurial activities, particularly the forms of social ventures and profit for purpose that were illustrated in the previous chapter. Coherently with the wide literature on the topic, the terms social ventures, hybrid organisations and social enterprises are thus used in this chapter interchangeably as broad umbrella concepts.

1. Social Ventures' business models

In the so-called 'hybrid ideal', social and economic missions should have a fully symbiotic link to the extent that they are indivisible and the integration of social and economic value creation leads to a virtuous cycle of profit and reinvestment in the social mission. Moreover, in this ideal type of organization a social mission has a clear strategic imperative for making the business component work and for using it strategically to elicit economic viability. However, this ideal situation is rarely embodied in existing organisations, and actual SVs assumes different shades towards this optimal arrangement.

The academic debate has not yet developed a proper theorization on **how social impact and market revenues are intertwined with SVs' business models**. So, this paragraph discusses whether and how hybrid organization driven by a social mission can sustain the joint pursuit of social and financial goals over time.

Despite studies on organizational hybridity have gradually emerged in the last ten years, the understanding of how companies should jointly achieve financial and social goals is still in a pre-paradigmatic stage (Nicholls 2010). Indeed, the comprehension of this issue is still limited if compared to the body of knowledge we have accrued over the past century about how to maximize profit. It is unclear whether strong social and economic missions can actually operate in tandem, particularly when factoring in the strategic value of an organization's social mission (Kimmitt & Muñoz, 2018; Teasdale, 2010).

Many studies have conceptualized these two logics, creation of social value and generation of economic value, as apparently incongruous and conflicting logics. In this perspective, there is a tension between activities that generate economic profit and activities that generate social impact (Smith et. al., 2013; Yunas et. al., 2010; Laasch, 2018). While commercial organisations are expected to prioritise value capture for their owners, and charities are expected to prioritise value creation for their beneficiaries (subject to mobilising enough resources to continue operating), social ventures are expected to do both. Therefore, on the one hand there is a risk that overemphasis on profitable and competitive market models could lead to reduced services for beneficiaries that are most in need but are costly to serve – known as 'mission drift' (Zahra et. al., 2009; Ebrahim et. al., 2014). On the other hand, there is a risk that overemphasis on social impact will lead to unsustainable budget deficits.

Another stance has more recently emerged arguing that the managerial challenges raised by hybridity are not solely a problem for social ventures, but they can be turned into opportunities to innovate and change (Mongelli, Rullani, Ramus and Rimac, 2019; Shepherd, Williams, and Zhao, 2019). Embracing the tensions, using them to innovate, leveraging the dynamic equilibria they create, are ways to fully exploit the possibilities opened by hybridity (Tracey et al., 2011; Jay, 2013;). Such a strategic perspective suggests that social missions are strategically advantageous and enable competitive advantage (Weerawardena et al., 2019). Thus, according to this stream, social missions and business objective do not necessarily compromise each other; as a matter of fact, social mission may actually improve financial performance and social purpose organizations can achieve better performance precisely because of their hybrid nature.

1.1 Hybrid business models

The **Business Model** is defined as the "design or architecture of the value creation, delivery, and the capture mechanisms" (Teece, 2010, p. 172). The peculiarity of social purpose organization in designing their business model is that they constantly face the challenge to align the activities that generate profits with the activities that generate social impact.

To reach the "ideal" situation of alignment, a social business models should be designed to have (Spieth et al., 2019):

- *the interdependence of their social and economic benefits*: the economic profits should be considered an enabler of the social activities and there should be a reinforcement effect of social and economic returns with social benefits creating positive economic returns.
- *the social value integration into a firm's product and service offerings*. The social component is inseparably linked to firms' value offerings.
- *priority of social value*. This translates in the firms' emphasis on a fair and reasonable price for their product and service offerings, on resource efficiency or did not base their purchasing decisions on price.
- *emphasis on social value community development*. This dimension translates into values-based selection of partners and clients, active shaping of the entire value chain, encouraging and helping partners and firms' engagement in growing multipliers.

However, social purpose organizations struggle to reach the ideal social business model and they face a range of inherent tensions and trade-off situation that make business model design complicated.

Customers versus beneficiaries

Social ventures must meet the needs of "customers" (those who pay for the product or service) and "beneficiaries" (the target groups that are the focus of the social mission) – generating income from customers while meeting the needs of beneficiaries (Laasch, 2018). Furthermore, they exist in response to a need, rather than a commercial demand, often operating in areas of deprivation or delivering services to beneficiaries with no ability to pay for them. Unlike corporate businesses that can choose their market, social enterprises are constrained by the beneficiary group identified and often the beneficiaries may be unable to pay or physically unable to access the offering (Santos et al, 2015). Social enterprises must grapple with the tension of focusing on serving the needs of their paying customers as well as the needs of their beneficiaries (which sometimes may not generate income).

Stakeholders with social priorities versus stakeholders with commercial priorities

Social ventures' activities bring together stakeholders with different backgrounds and values (Smith et. al. 2013). A performance tension lies in the broad and diverse stakeholder community that is typical of a SV and is related to potentially competing strategies and goals (Van Bommel, 2018). Some stakeholders will align with the social mission (e.g. donors, partners) and some with the business venture (e.g. suppliers, some customers, investors).

Competitors versus partners

In a free market, traditional corporate businesses serving the same customer group are competitors. This competitive logic does not translate to the social ventures context, since social ventures seek social value rather than economic profit. Organizations serving the same beneficiary group have a shared interest in their peer social enterprises doing well; if a progress in meeting a social need is made is a good news, despite your social purpose organization or another has achieved it. Hence the relationship between social enterprises working in the same sector can be defined as "***coopetition***", where each may compete for funding and customers but still retain mutual benefit from working together by pooling resources and knowledge (Yuans et. al., 2010).

Short-term versus long-term thinking

Delivering social impact requires a systemic change and thus long-term view, whereas managerial reality is related often to short-term (Van Bommel, 2018). In SVs, multiple time horizons must be juxtaposed to allow for social value creation in the future while maintaining commercial stability in the present (Davies and Chambers, 2018; Laasch, 2018).

Low cost versus ethical supply chains

While corporate businesses will look for suppliers that meet their low cost (and quality) thresholds, social ventures require suppliers that they don't compromise their social mission. They often struggle with availability of suppliers that meet their sustainability criteria, and sourcing from ethical suppliers often leads to higher costs which then need to be offset by higher prices that may not be competitive (Short et. al., 2009). This requires customers who are willing to absorb the price premium, or imagine other strategies to make the products affordable for beneficiaries (Davies and Chambers, 2018).

These specific tensions might lead to the risk of **mission drift**, which describes a situation in which a social organization is forced to move away from its social mission since is not able to find a proper balance or integration among the social and commercial activities. When a SV prioritize the needs of clients over beneficiaries, it risk drifting away from its social mission. On the other hand, when the additional activities required to generate impact do not contribute to generating revenues the organization may suffer from a negative impact on profits.

Hybrid enterprises should be designed, from inception, to avoid these trade-offs. A ''social business thinking'' means building the social mission into the DNA of the business model. This allows to find ways to make investments in social impact that realize financial returns, and financial investments that achieve social returns.

1.2 Design a hybrid and socially driven business model

The potential for business model innovation in the hybrid sector requires the integration of a **customer value proposition (CVP)** for customers paying for a product or service of value to them, and a **social value proposition (SVP)** for organizations, communities, and/or individuals receiving the social/environmental benefit. A CVP comprises the attributes that drive consumers to purchase the product or service from the venture. A SVP, on the other hand, includes the service or benefit provided to individuals for whom the unmet needs are being addressed.

The key aspect to be considered with respect to the design of the social business models is the **interdependence of the social and economic benefits**.

The aim is to reach and then leverage on the complementarity of social and economic value (Spieth et al., 2015). Complementarity refer to situations in which bundles of goods or activities jointly provide more value than the parts could achieve in isolation. Concerning hybrid social ventures, it means using the economic profit as a means to generate social value and the re-enforcement mechanisms of the social and economic actions and benefits. The strategic challenge for hybrids is the integration and balance of social and private value, so that these apparently competing goals leverage each other to maximize operational efficiency and effective delivery the social/ environmental value.

Another crucial element to consider in designing the business model of a social purpose organization is the range of key stakeholder (Siebold, 2020) as presented in Table 1.

Stakeholder	Description
Beneficiaries	Consumptive or productive beneficiaries, who are the main recipients of social goods or services produced by the SPO. They are disadvantaged, underprivileged, or excluded target group with an unsatisfied consumptive and/or productive need and an inability or unwillingness to pay or a difficulty to access
Customers	Better-positioned target group that has an interest in consuming goods or services with social characteristics and exchanges them for money or resources and thus enable the generation of earned income
Donors	Better-positioned target group that has an interest in helping a disadvantaged, underprivileged, or excluded target group and provides monetary or in-kind donations to satisfy the needs of beneficiaries
Employees	A person who works full or part-time under a contract of employment and has recognized rights and duties within the SPO
Partners	A person or group who joins an arrangement (i.e., partnership) based on shared goals and interests, following the aim to pool money, skills, and other resources to apply them to activities and share associated risks and rewards in accordance with the terms of the partnership agreement
Competitors	An organization, independent of its legal or organizational form (i.e., for-profit, hybrid, non-profit), which offers the same/ similar goods and services or is in the same/ similar industry as the SPO
Government	A group of people governing a community, country, or state, who set and administer public policy and exercises executive, political, and souverain power through customs, institutions, and laws

Table 1 - Stakeholders of a social purspose organisation

Considering the tensions mentioned above, social purpose organizations should consider several dimensions when designing their business model to reach the "ideal" level of integration among the social and commercial activities (Dohrmann et al., 2015; Santos et al., 2015):

- **Overlap between clients and beneficiaries**

As we mentioned above, the typical target of SVs' products and services are users, that are *"unable to pay, unable to access the offering, or do not value it enough to intend to purchase it*" (Santos et al., 2015). In this regard, SVs' users can be defined *clients* if they are able to pay for the provided product or service, and *beneficiaries* when they benefit from SVs' activities for free or through some sort of subsidized price. From a managerial perspective, a quite peculiar situation is that in which the payer is not the direct beneficiary, since in this case fundamental logic of market discipline disappear and the need to serve two different target groups leads to the development of complex business models.

SVs can organize their business model to overcome the inability to pay, the inability to access the costumers (such as populations in remote villages), their unwillingness to pay because they do not perceive their social needs as urgent or do not value the offering. In this sense, SVs may include some solutions in their business models, such as: (a) re-design of the production value chain to lowering the costs and thus the price; (b) cross-subsidization (develop business models in which there is a client segment that is able and willing to pay for the service or product and that is different from the intended beneficiary); (c) complementary needs matching.

- **Monetization of the social value creation** (*contingent value spillover* vs *automatic value spillover*)

The monetization of social value creation refers to the **strategic direction**, **the role of the social mission within the complete process of value creation and the extent to which it is oriented toward commercial customer segments. It** describes the enterprise's position between **acquiring funds for the social mission** and **earning money with the social mission**. On one hand, the social mission itself constitutes the value proposition, **FOR** which the entrepreneur seeks to acquire funds (*value creation FOR the social mission*). Therefore, in this case there is a clear **strategic primacy of the social mission**, while the **business activity is instrumental** to achieve the social mission. At the other hand, the social mission becomes a means **WITH** which a further commercially oriented value proposition is generated. The social and economic value proposition are fully integrated and the **generation of social and economic value creation processes aligned**. In this latter case, the generation of social value may occur just by the fact of providing the product or service, so it is an ***automatic*** result of the commercial activities. Conversely, when the generation of social value and economic value creation are not integrated and aligned, the social impact generation is ***contingent*** on the implementation of additional interventions (such as training, awareness raising, and mentoring) and it requires additional effort from the organization providing the service. See horizontal axis in Figure 1.

- **Generation of market revenues**

The market revenues generated by a social venture indicate to which extent an enterprise has established a commercial position on a consumer market, as revenues are acquired by the sale of products and services. Since all social ventures incur expenditures, sustainability of the social venture requires expenditures (E) to be met by either market revenues (R) or other funding (F), e.g. public funds or private donations. Hence, if market revenues fall short of expenditures ($R - E < 0$), the social venture must acquire additional funding ($F > 0$) to maintain its operations. See vertical axis in Figure 1.

By plotting these dimensions in a matrix, Dohrmann et al. (2015) and Santos et al. (2015) propose different configurations of hybrid social business models (Figure 1 and Table 2).

In Figure 1, you can notice that moving toward the left on the horizontal axis, value creation with the venture occurs *for* the social mission, which requires external funding by social investors (vertical axis). Moving toward the right, one finds ventures that create value *through or with* the social mission, thereby generating market revenues and when they exceeds the expenditures the venture's business model achieves the economic sustainability (vertical axis).

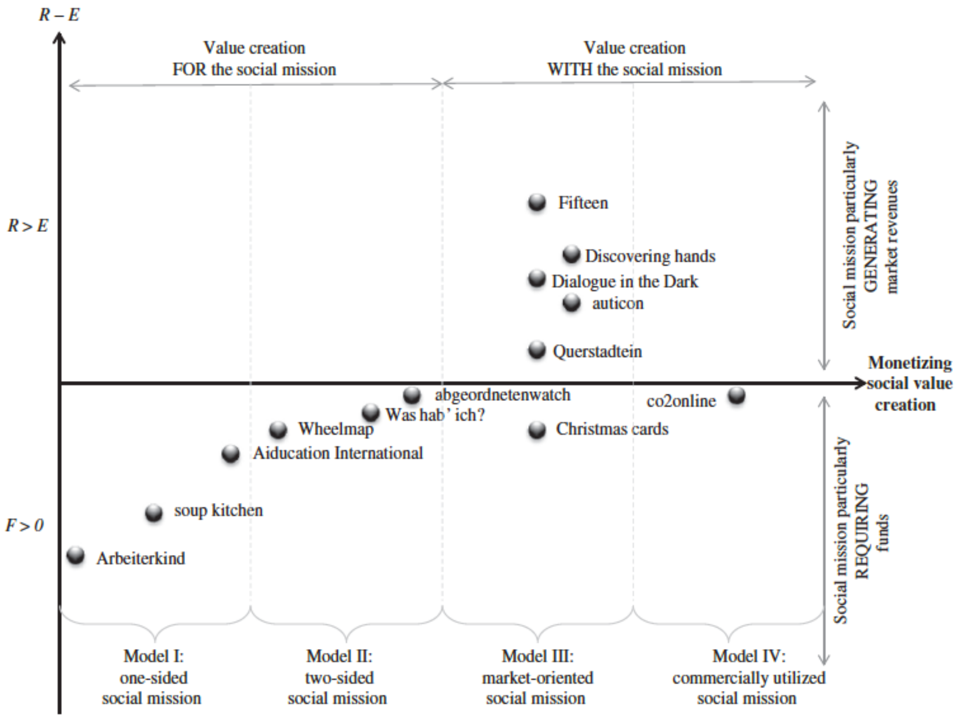

Figure 1 - Positioning social business models according to the monetization and market performance (Dohrmann et al. 2015).

Within this framework, the authors identifies four business model classes that can be recognized along the horizontal axis:

- **One-sided social mission:** the mission is aimed at a social target group, which is positioned on the consumption side, but which does not have the financial means to pay for the provided good or service. In order to finance the social mission, the venture additionally addresses other funds and/or donations to make the social mission available to the social target group.
- **Two-sided social mission:** social ventures in this category address two different target groups: on one side it satisfies the consumption need of a social target group and on the other side the production side of another group. The target group on the production side offers free production support (for example information, specific competences and skills provided free of charge) for the consuming social target group, which means that the group on the production side is used as a business model resource input, in order to satisfy the consumption need of the social target group on the consumption side. Similar to the first generic model, the value created by the venture is still entirely for the social mission.
- **Market-oriented social mission:** the social target group is only on the production side, which does not provide its support free of charge, but becomes a paid resource in the production of new value propositions and thus is simultaneously recipient of social value creation. Instead, the venture focuses on the consumption needs of a market target group. The central value proposition contains

a social mission, which is oriented toward the satisfaction of a production need and aimed at a social target group positioned on the production side.

- **Commercially utilized social mission:** a consumptive social target group is used as a resource for further value creation. The central value proposition comprises a social mission, which is aimed at a social target group positioned on the consumption side. Rather than having to pay for consumption, the target group itself is used as a resource to satisfy a consumption need of a market target group on the consumption side, with which market revenues are generated.

In Table 2, Santos et al. (2015) provide more details on four hybrid arrangements emerging by matching the previous dimensions in one single model. Market Hybrids are those organizations for which social impact is directly derived from commercial activities targeted at se of the population that are underserved by traditional commercial offers. In bridging hybrids attend to clients and beneficiaries who are from different groups and the challenge for this type of hybrid is that the business model needs to integrate clients and beneficiaries in the same intervention which automatically generated the social value as well. Blending Hybrids serve paying clients who are also the beneficiaries of their societal mission. For Blending Hybrids, however, achieving the desired societal impact requires blending commercial offerings with additional interventions (such as training or community outreach) upon which positive societal spillovers are contingent. Lastly, Coupling hybrids also have clients and the beneficiaries that are different but most value spillovers do not happen automatically, requiring distinct social interventions alongside the commercial operations.

	Clients = Beneficiaries	**Clients ≉ Beneficiaries**
Automatic value spill over	MARKET HYBRID *Examples: BOP initiatives for basic services*	BRIDGING HYBRID *Examples: job matching for people with disabilities*
Contingent value spill over	BLEDING HYBRID *Examples: microfinance*	COUPLING HYBRID *Examples: work integration social ventures*

Table 2 - Social business model hybrid model matrix (Santos et al. 2015)

Other drivers that should be considered in designing a social business model enabling the integration of social value creation and economic sustainability (Spieth et al., 2015):

- ***Responsible efficiency rather than mere efficiency***

Contrary to traditional business models, social business models should be interested in efficiency gains that help them operate with less waste and less resource consumption, but cutting costs at the expense of social value is not an option for them. This affects the structure of business model for example because purchasing prices are not solely based on profit maximization, while resource efficiency is consistently emphasized in all their activities.

- ***Replace lock-in with shared values***

For traditional business models, lock-in refers to mechanisms or business model elements that help retain customers or partners. Social business models focus less on forcefully locking in any stakeholders or partners. Instead, they emphasize the importance of developing their social value community. They empower their collaboration partners and appreciate customers who are well informed of and convinced by what the firm is doing, and the partners who share their passion. Social businesses consider a shared set of values a source of loyalty, long-term collaboration, and positive multiplication.

1.3 Types of hybrid and socially driven business models

Many academics and practitioners have begun to develop social ventures typologies to describe how in these organisations the creation of social impact and profit coexist[1].

Product social enterprise model	Solutions social enterprise models	Matchmaker social enterprise models	Multi-sided social enterprise models
Beneficiary as customer model	Beneficiary as business owner model	Market linking model	Cross-subsidy (customer) model
	Beneficiary as member or owner model	Market creating model	Cross-subsidy (parent company) model
		Service linking model	Campaigning beneficiary model
		Platform as intermediary model	Multiple beneficiary model
		Ecosystem model	Beneficiary as contributor model
			Donation model
			Beneficiary as producer model
			Beneficiary as employee model

Figure 2 - Social enterprise model types

- *Product Models:* product social enterprise models involve a product sold to customers, who are also beneficiaries. In this model the value proposition is integrated – social impact and profit are delivered simultaneously.

Business model types	Description
Beneficiary as customer model	Social venture offers product to a low-income beneficiary who pays an affordable price. Products are produced cheaply (e.g. smaller packages or basic quality) and sold at a low price. Social impact is generated in direct proportion to commercial activity (the more product sold, the higher the social impact).

1 Warrell, 2008; Grassl, 2012; Byerly, 2014; Weiss; 2015; Hockerts, 2015; Santos et. al., 2015; Dohrmann et. al., 2015; Wolfgang et. al., 2015; Fernando and Mario, 2017; Design Council, 2018; Stumbitz et. al., 2018; Hahn et. al., 2018.

- *Solution Models:* involve a customised solution developed with a customer. In this model the beneficiary is also the customer (paying a standard or reduced rate). It differs from the product model because the social venture engages with the customer/beneficiary about their needs and then provides an integrated solution.

Business model types	Description
Beneficiary as business owner model	Social venture sells business support and financial services to beneficiaries to start/run their own business.
Beneficiary as member or owner model	Beneficiaries are either members, or own and run the social venture in a cooperative structure.

- *Matchmaker Models:* involve brokerage that connect customers and beneficiaries. Income is usually created through a fee based on "trades" between the two groups. Value is created by reducing the search effort for customers and offering a marketplace to beneficiaries or subsidized access to support services from the brokering SV.

Business model types	Description
Market linking model	Social venture acts as an intermediary to connect beneficiaries with markets for their products or services e.g. as part of a sustainable supply chain.
Market creating model	Social venture sells the beneficiary's product or service for them.
Service linking model	Social venture integrates previously disconnected beneficiaries and customers in the same intervention e.g. complementary needs matching.
Platform as intermediary model	Use of an online platform to connect two previously disconnected sides.
Ecosystem model	Social venture facilitates collaboration between related social venture products and services to create a more valuable ecosystem.

- *Multi sided Models:* involve brokerage with three parties involved. Beneficiaries and customers are separate, meaning that separate value propositions are required for each group. The beneficiaries receive products or services at below cost, paid for by customers who gain from the "consumption" of the beneficiary group. The model generally relies on 'conscious' customers paying a premium for services that include delivery of social impact.

Business model types	Description
Cross-subsidy (customer) model	SV serves a customer group and uses revenues to support a beneficiary group. This model relies on adding "social elements" to a product or service to generate a price premium to enable cross-subsidy.
Campaigning beneficiary model	This model is focused on justice issues, building movements and community outreach. It involves two beneficiary groups - one that needs support to access their rights (students, citizens, immigrants or local communities) and one that needs support to campaign for disadvantaged groups access their rights.
Beneficiary as contributor	SV engages beneficiaries to provide inputs that are sold to

model	customers.
Beneficiary as producer model	SV manipulates trade relations to increase income for poor producers by charging premiums to conscious consumers.
Beneficiary as employee model	SV employs and trains beneficiaries and sells products or services to a separate customer group.

2. Scaling and growth

The growth process of social ventures is always referred to as “scaling social impact”, but a commonly accepted definition of what it is has yet to emerge (Scheuerle and Schmitz, 2015).

Many authors (Dees, 2008; Bradach, 2010; Waitzer and Roshan, 2011; Clark et al., 2012; Lyon and Fernandez, 2012; Davies and Simon, 2013) stated that social ventures’ growth follows principles different from those used by conventional enterprises. Specifically, the 1990s’ literature about non-profit and non-governmental organizations (Edwards and Hulme, 1992; Uvin and Miller, 1996) has introduced different models to expand impact without making the organization larger (Uvin et al., 2000).

In describing which actions different from organizational growth social innovators can use to spread their impact, Dees (2008) provided the most acknowledged definition of scalability as “*increasing the impact a social-purpose organization produces to better match the magnitude of the social need or problem it seeks to address*” (Dees, 2008, p. 18). Scaling a social business is referred to as expanding to match the level of need.

So, when we refer to social ventures, the idea of growth has evolved from scaling the organization to a broader perspective of increasing “the outcomes the organisation has generated beyond just the organisation itself” (Clark, 2012, p. 5).

Accordingly, three relevant assumptions can be drawn from the current debate on scaling the SVs’ social impact. First, the SVs’ aim is to increase the value created for the society (scaling impact) and it can be achieved by expanding the scope of SVs’ actions. Secondly, this goal of scaling impact, and the related features, affected how a SV grows, activating new strategies that are not driven by the same principles of business growth and where the scale is not judged in terms of its size (Uvin et al., 2000; p. 1418). Third, these new principles and strategies should be added to those of traditional firm growth (business size) and the interplay between them shapes how a SE grow.

Therefore, increasing financial performance does not guarantee an increase in social impact, but an increase in social impact may not be achievable without economic growth.

SVs experience a twofold tension to grow (Pache and Santos, 2013; Doherty et al., 2014). A first **impulse to dimensional growth**, underpinned by the market logic; a second impulse to **increase the social value created**, underpinned by the social welfare logic. This tension raises several managerial challenges and trade-offs. The way the SV decides to manage them determines its pattern of growth.

2.1 Scaling strategies

Scaling Social Impact can generally happen in different ways (Lyon and Fernandez, 2012; Andatze and Westley, 2012; Vickers and Lyon, 2014; Moore et al., 2015; André and Pache, 2016; El Ebrashi, 2018;):

- *Breadth-scaling* refers to expanding the organization’s activities and/or their scope (horizontal perspective).

- "*scaling wide*" where an organization attempts to affect more people and cover a larger geographic area providing the services to other more beneficiaries not yet served or in different geographical locations;
- "*scaling out*" where a broader diversity of services is offered to the same target audience;
- "*scaling across*" where the organization spreads impact through others by partnerships and replication of models. Here, the focus is on replication, diffusion by other actors, and adoption rather than organizational control; focuses on improving and enriching current processes in order to enhance the impact on beneficiaries.

▪ *Depth-scaling* refers to "deepen" the results of the existing activities (vertical perspective).

- "*scaling deep*" where the organization tends to improve and enrich the current processes in order to enhance the impact on current beneficiaries until it is able to affect the individual's cultural roots by changing relationships, cultural values and beliefs;
- "*scaling up*" where an organization aims to address the broader institutional or systemic roots of a problem; it refers to institutional changes in cultural beliefs or rules and it aims to impact on law and policy.

Specifically, the 1990s' literature about non-profit and non-governmental organizations (Edwards & Hulme, 1992; Uvin & Miller, 1996) started to investigates "how NGOs can scale up their impact without becoming large" (Uvin, Jain, & Brown 2000: 1410). Scaling social impact implies a wider set of opportunities, beyond the mere increase in the organisation's size . Growth of social ventures does not always entail an increase in employment and an accumulation of assets in a single organization.

Indeed, the modes SVs can use to generate more social value can be seen as a continuum ranging from internal organic growth to replicating through formal relationships and wider, open-access sharing and dissemination or advocacy (Bloom and Smith 2010; Lyon and Fernandez, 2012; Bocken et al., 2016; Dobson et al., 2018).

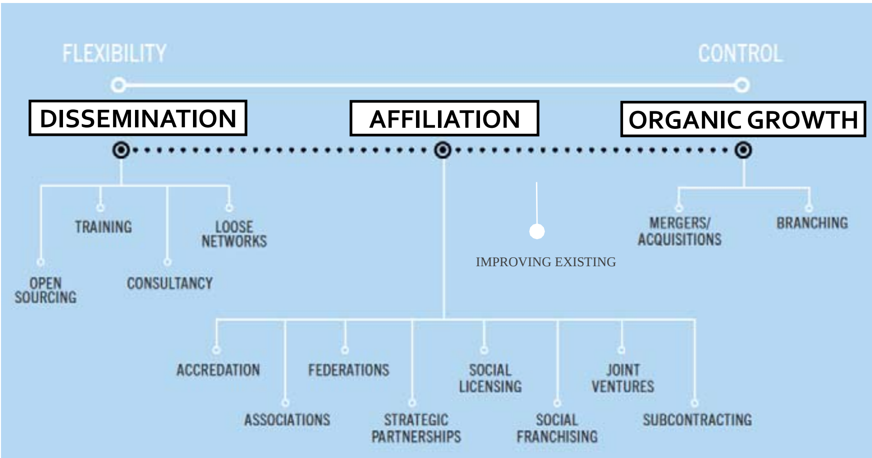

Figure 3 - Scaling strategy[2]

2 Source: https://www.the-sse.org/resources/scaling/introduction-to-social-replication/

Organic Growth

Organic Growth means expanding the organization's operations by using its own resources.

It implies a direct delivery of the programme in new locations, for example, through setting up local or regional offices. All the branches are owned and they are effectively a part of the original organization where ownership and management remains centralized (the difference with franchising is that the franchisee's organization are not necessarily owned by the mother company and they operate independently under specific requirements set by the franchising contract). Under this label, we can also include the so called "scaling deep", namely improving the social outcome of the current operations on the same users by, for instance, increasing the community engagement. Lastly, it involves two separate entities becoming one entity as in merger (when two entities become one through an equal joining of governance and operations), acquisition (one entity takes over another entity's operations and governance); and selling out.

This set of strategies stems from a company's existing businesses:

- More customers with the existing product/service in the current market;
- Selling the existing products/services in other markets;
- Developing new products/services to sell in the existing market;
- Developing new related/unrelated products/services to sell in other markets.

Affiliation

Social Growth by Affiliation implies spreading impact through formal relationship with others using licensing, franchising or partnerships (Tracey and Jarvis, 2007; Weber et al., 2012; Dobson et al., 2018; El Ebrashi, 2018).

Franchising is a contract-based collaborations between a trademark/product owner (franchisor/ licensor) and another firm (franchisee/ licensee) to exploit a trademark or produce a product/service. Licensing entails a company sells the permission to other companies to use intellectual property (IP), brand, design or business programs. Lastly, in joint ventures two or more business entities combine their resources to pursue a single project or transaction. Operated as a partnership, typically it generates a third corporation designed to operate the JV (the JV is a new subsidiary).

Dissemination

Social Growth by Dissemination means scaling through open access and dissemination such as let other organizations copy the model, train other organizations and help them replicate the model, performing activities to create awareness on a specific social problem (Bocken et al, 2016; Palomares-Aguirre et al., 2017). It involves a variety of methods of actively transferring information and ideas between two or more companies or stakeholders with low or no levels of formal/contractual commitment.

For example, as the activities of a SV become widely known, its programme may be emulated by another organisation without the involvement of the SV in which the idea originated. Or when the SV lends technical assistance, provide training or advise other organisations interested in offering similar programmes and activities.

2.2 Barriers to SVs growth

Balancing social and economic missions in the pursuit of growth is one of the greatest challenges faced by social ventures. The first risk is to move away from the social mission to the maximization of profits, the so called *mission drift*. This threat is particularly severe in the growing process of those social venture with a business model where the social and commercial activities are separate, such as for example the buy-one give-one (B1G1) business model (TOMS shoes) (Siebold et al., 2018).

Few studies attempted to jointly analyse for profit growth modes and scaling strategies of SVs to identify the barriers to social ventures' growth.

Davies et al. (2018) identified three types of barriers:

- *Value based barriers*, where conflicts between the ethical values of the organization and those of other stakeholders impede the social ventures' growth. For example, the social venture might put restriction on the selection of suppliers or retailers or rejet finance from funders whose values and principles did not align with their own values. For a social venture, decisions concerning suppliers and distributors are not based on cost alone, they also acknowledge the perceived fairness of policies and practices.
- *Business model based barriers,* which are related to finance, human resources, and identity authenticity. Social ventures have difficulties to secure the post start-up funds to finance commercial expansion and scaling social impact (see next section). The dual mission is incongruent with the return on investment required by commercial capital, yet the commercial growth of an established social enterprise to further social impact is less appealing to social financiers than the creation of new social enterprises. Social enterprise growth is constrained in terms of both recruitment and employee retention due to limited pools of human capital and low rewards for achievement. Lastly, social ventures should deploy additional effort to matain the control over the processess to preserve the integrity of their social mission.
- *Institutional barriers* refers to barriers relating to consumer behavior and traditional business norms. The first issue for social ventures is that their marketing strategies needed to either achieve multiple goals simultaneously and to communicate multiple messages simultaneously to a largely ambivalent customer audience and market. The second issue is related to challenges arising from the relative newness of social enterprise when com- pared to commercial entrepreneurship for example in terms of low investor awareness of social venture peculiarities.

Examples of how a social venture can overcome the above mentioned barriers and avoiding mission drift can be found in Siebold et al. (2018) and Tasavori et al. (2018).

Kannothra et al. (2018) identified two approaches to growth that help social ventures to manage tensions emerged from their dual mission: *community focused* and *client focused.* Both growth orientations are potentially viable approaches to growth.

Community focused growth is an *"orientation where growth was motivated and guided by community needs".* It is organised to maintain and incrementally expand existing client relationships in support of the social mission. In this situation, geographic proximity of clients becomes an important supporting condition, so the client base is mostly local or domestic. "Community-focused growth builds on high involvement of clients in training and business operations, in collaboration with community organizations who help with recruitment. This approach favours "the expansion of long-term client relationships over expanding the client base." (Kannothra et al., 2018, p. 284)

Client-focused growth is "*driven by pressure and aspirations to expand the client base while managing social missions independently*". This orientation is aimed to expand and diversify the client base, rather than just expanding existing client relationships. SVs pursuing this approach decoupled business and social objectives, with client and community relations being managed independently. This approach favors greater flexibility and independence, while sacrificing client buy-in into the social mission and exposing hybrids to mainstream competition . Client-focused growth, thus, typically matches a more diverse, international client base. "Being more geographically and institutionally distant from providers, clients may not be aware of nor buy into the social mission, and hybrids may compete based on professionalism, thereby entering more transactional client relationships". (Kannothra et al., 2018, p. 284).

So *geographic embeddedness* and *clients relationships* are two important dimensions to analyze and also plan the growth process of SVs.

3. Corporate Impact Finance for social venture

It is widely recognized by scholars that organizations with a twofold mission, social and economic, face higher barriers in accessing to commercial capital due to their hybrid nature (Sunley and Pinch, 2012). Nevertheless, hybridity can also help SVs overcome some of the above barriers (Doherty et al., 2014) because hybrid organizations can rely on a wider range of sources of different natures, engaging both commercial financiers and those interested in supporting social issues and attracting both market and non-market sources of external finance.

Internal financing is provided by cash flows generated through the operating activities of the social venture which consists of the provision of services or products. In SVs, income strategies can only be realized if either the target group has the financial means or a private third-party beneficiary has an incentive to cover the costs. As was outlines in the section on business model, in some situations there is not a perfect overlap between clients, who pay for the product/service, and beneficiaries, who benefits of the social outcome. When the target beneficiaries pay for services or products for their own benefit they are also client, and they can be considered a source of revenues for the SV's business model. When they are not able or willing to pay for the services or products they enjoy, the most common situation is that a public authority pays for the services that are provided to the target group. In both cases, payments of the beneficiaries or on behalf of the beneficiaries for the social services provided rarely cover the full costs incurred by the SV. This leads practitioners and researchers to classify social enterprises according to their cost recovery ability into social enterprises with no, near, full and more than full cost recovery.

External financing is generally used to finance long-term investments, such as buildings and equipment, or to cover temporary negative operating cash flows. The conventional external financing instruments usually exploited by profit maximizing ventures are equity, debt, and mezzanine capital. In addition to those financial instruments, hybrid organisations also have access to donations which are not repayable, and hybrid instruments which combines elements of grants and commercial finance (e.g. recoverable grants, convertible grants or forgivable loans); in this case the organization is required to repay the capital under certain conditions and outcomes.

As we have pointed out in the previous section, social ventures can generally choose between numerous financing instruments from different financing sources. However, conflicts can arise within a diversified financing structure caused by the specific design of the provided financing or the multi-dimensional return requirements of social investors.

Achleitner and Spiess-Knafl (2014) claimed that *"in contrast to the for-profit sector where financing follows strategy, it is intriguing that under certain conditions the social enterprise's strategy might be influenced by the composition of the financing structure and thus strategy follows financing".* Indeed, return expectations, both social and commercial, implied by the different financial sources, market and non-market based, that a SV can approach might lead to conflicts in case of simultaneous financing by different capital providers. For example, a crowding out effect might arise when the SV is supported at the same time by funding from the public sector institutions and donations from individuals because the latter might consider the public capital, which comes from the taxes paid by citizens, as a substitute for their voluntary private donations reducing net effectiveness of the grants received by the SV.

The different expectations concerning financial and social returns of investors lead to an increase of agency costs if the business model of the social enterprise is not well aligned with the expectations and interests of the external capital provider. Therefore, contrary to traditional financial theory which suggest to diversify their funding base to reduce the volatility of cash flows and thus the financing risk, for SVs a highly diversified financing structure is very likely to lead to conflicts. They only reduce those conflicts by increasingly relying on the most promising and reliable financing source leading to a concentrated financing structure. This type of structure causes SVs to align its business strategy with the expectations and interests of its capital providers.

Siqueira et al. (2018) analyses the differences in the capital structure between social ventures with for profit legal forms and commercial ventures. They pointed out a *level effect*, where **over time capital structures of social ventures will include less debt than capital structures of commercial enterprises**, and a *sensitivity effect*, where **over time the relationship between initial capital structure and future capital structure will remain stronger for SVs relative to commercial enterprises**.

The explanation of the first effect lies in the structural difference between equity and debt financing: unlike equity, debt has a fixed payment schedule for interest payments and the repayment of principal. This difference has important implications. Specifically, when future earnings get delayed unexpectedly, debt payments might further force them to subordinate their longer-term nonfinancial goals (e.g., social and environmental goals) to financial necessities. The fact that firms are legally obliged to the fixed debt payments to avoid financial distress, increases the risk of drifting from the social mission because they need to prioritize commercial goals to ensure the firm's survival. Thus, entrepreneurs social ventures may tend to demand less debt than entrepreneurs in matched commercial enterprises. A second reason is what we already mentioned, about the lack of familiarity of debt financiers with the business model of SVs and the higher level of information asymmetries. Bankers have guidelines to follow and contrary to equity investors they are unlikely (or less likely) to include pro-social aspects in their decision on granting a loan (or not).

The second effect, influence of initial leverage ratios on future leverage remaining stronger over time in social ventures, is justified by two inherent features of social ventures. First, social entrepreneurs are mainly driven by a pro-social motivation and ideology, and are willing to protect their social mission above all. Thus, they are less willing to change their financing structure once they found an arrangement able to protect also the social goals. Moreover, SVs usually have to manage a wider array of stakeholder that commercial enterprise, which share the social goals of the entrepreneur, but they often have very different natures and interests. Therefore, once they all found a consensus at founding on a specific financing structure, this might be more difficult to be changed. Social entrepreneurs may also pay more limited attention to financing activities since they are focused on effectively running the social activities, which further increases capital structure persistence.

To deepen the empirical analysis supporting this hypothesis see Siqueira et al. (2018). A longitudinal comparison of capital structure between young for-profit social and commercial enterprises. *Journal of Business Venturing*, 33(2), 225–240.

In the second part of this section, we introduce the main impediments encountered by SVs in accessing finance.

1. Information asymmetries and related problems

The issue of information asymmetries is greater for SVs because they do not fit neatly into either the traditional non-profit model or the for-profit model. Commercial investors are used to investing in traditional for-profit ventures and may be less aware of the characteristics of social ventures, particularly those concerning their business model and governance. In particular, SVs often operate in sectors that are traditionally very far from conventional business model, and potential investors not often see how their business model can be financially robust, because of the lack of knowledge about this specific fields.

Because investors are less familiar or do not understand business models that generate both social and financial return, they are very cautious in investing in social ventures. This may create a lack of understanding between organizations and potential investors, increasing the threat of moral hazard[3]. Indeed, profit-seeking investors may be not sure whether a social venture will give primary importance to its social objectives, disregarding the generation of income to repay them; and socially-oriented investors may be worried about the SV drifting away from the social mission because, given there are interested in social return, they might have a loss if the SV is not maximizing the social return.

These problems increase the agency costs. Moreover, these costs, including also those related to the undertaking of the due diligence process, are also higher due to the difficulty of monitoring in the social sector.
Indeed, we do not have a shared and standard methodology to measure and assess the social performance of these organizations. In addition, the practice of social impact measurements is still pretty young and specific competences in this fields are still scarce. Consequently, it is more difficult for social ventures to demonstrate their social impacts to potential funders due to the absence of commonly recognized performance metrics for social risk and return, and they often lack the necessary track record. Conversely, for funders it is difficult to get the information to pick the most promising organizations in terms of social impact.

2. *Risk and return profile*

For all the reasons we already mentioned, SVs might not be able to generate income levels that meet investors' return expectations. In SVs, the profit is rarely used to provide a direct return on share capital (but often reinvested in the activity) and dividends are capped at a certain threshold; so, the equity investment is

3 It refers to the risk that the entrepreneurs may behave opportunistically after obtaining external financing.

valued at a discount compared to the same amount into a comparable for-profit enterprise; moreover, exit mechanisms are not yet well established in the social sector. This lead to an unfavorable risk-return relationship. Moreover, the assessment of the performance of SVs should also include the estimation of the social return and social risk of the investment, alongside the financial ones. The previously mentioned lack of established methodologies to measure social impact has to date jeopardized the development of a way to include the social return and risk in the decision making instruments of investors. Furthermore, the aim of addressing a social problem often leads social impact organizations to operate in sectors with higher chances of failure, raising the perception of risk to potential investors. This makes the appraisal of the risk-return profile of SII investments unreliable because the higher perceived risk cannot be balanced by a fair assessment of the corresponding total, social plus financial, return of the investee.

3. *Inherent features*

There are some features distinctive of the SVs and inherent in their nature, which however make them less attractive for financiers.

First, SVs should shape some of the decisions related to aspect of the business model such as distribution channels, supply chain, marketing and pricing policy, to preserve the integrity of the social mission. For example, the social ventures' hybrid mission does not allow them to charge market prices or target customers with the highest purchasing power for their products and services, and, again, this might hinder their ability to generate the expected level of financial returns.

Second, problems arise when an organization assumes a legal structure, typically pertaining to the non-profit sector, which imposes some non-distribution constraints or interest payment restrictions or entails a particular ownership structure. In this case, SVs are not attractive or are less attractive to investors with financial return expectations. In contrast, the non-distributive restriction represents a protection for grant providers, resulting in a competitive advantage in the donation market.
Lyon (2016) reported an issue related to the eligibility criteria used by socially oriented investors (who seek a minimum level of capital repayment). He claims that they focus on repayable finance, but at the same time, to ensure a legal protection of the social mission, they target organizations that have an asset lock implied by the legal form (Bengo and Arena, 2019).

Third, these firms may have fewer assets available to use as loan security because they are equipped mainly to generate social rather than financial value. Consequently, the access to debt financing which requires collaterals is harder for SVs.

Lastly, although, this situation is changing, the lack of information about the existing financing instruments, many of which have appeared recently and the experience of firms to work with them is limited (Sunley and Pinch, 2012). Moreover, it is acknowledged that those entrepreneurs starting organizations with a social aim typically shows a social background and thus they seldom have strong managerial and financial skills (Achleitner et al., 2014), which might be seen from the investors perspective a lack of professionalism.

4. Future perspectives: The technological transformation of the SocialTech Ventures

As outlined above, hybridity is the distinctive feature of a new entrepreneurial genre, that we named social ventures and is located within a spectrum of organisational forms that goes from purely philanthropic organisation to traditional for-profit companies. In terms of offering a perspective on the future evolution of Social Ventures, there is a second characteristic that we can reasonably attribute to such entity: technology intensity. Our vision on the evolution of Social Ventures builds on the renewed centrality of hybrid value and on the solid conviction that technology matters.

Technology (knowledge) intensity, has greatly contributed to the emergence of the new form of social entrepreneurship that will be discussed in the following. To cut a long story very short, the basic idea is that the availability of relatively cheap technological opportunities, or even technological commodities, has played a very important role in generating the new economic paradigms that are the natural playing field of hybrid social enterprises (sharing, circular, inclusive economy) and in enabling new social-business models in such forms of market.

More specifically, the literature has identified at least four reasons why technology is bound to play a crucial role in the making of the social venture along with its market opportunities:

a. availability of commoditized technologies enabling new models of social intervention;
b. scaling potential;
c. increasing the capability of identifying emerging social needs;
d. decreasing transaction-cost through IT technology platforms;
e. dematerialization of assets opening up new market opportunities for non-large socially oriented companies.

From this perspective, **SocialTech Venture** is a fairly new variant of Social Venture generated by the contamination of technology and social innovation. It is still premature to consider such examples archetypes of a new entrepreneurial genre, but there are recurring features that are highly likely to become distinguishing features of the socialtech model of entrepreneurship.

Similarly, to high-tech start-ups, social tech start-ups are newly created organizations that are in the initial stages of their lifecycle and leverage technology to develop new products and services (Desa and Kotha, 2006; Kamariah et al., 2012). However, their distinctive feature, compared to other high tech start-ups, is that these ventures specifically aim to "develop and deploy technology driven solutions to address social needs in a financially sustainable manner" (Desa and Kotha, 2006). This feature – i.e. the twin cornerstone of intentionally addressing a social need and safeguarding a financial return – associate them to social enterprises, that are commonly defined as those organizations that have primary social objectives, but seek to achieve them through forms of enterprise and trading (Austin et al., 2006; Haugh, 2007).

In terms of social entrepreneurial model, there are at least two relevant implications. The first one is that social business models are typically characterized by thin economic sustainability margins, when existing. Technology typically enable scaling up and therefore allow social business models to be applied to larger volumes of intervention and larger market sizes. When thin sustainability margins are multiplied by larger volumes, this often makes the case for a more robust and sound business model, a crucial component of hybrid and blended value models.

The second feature is that the adoption of technology in traditional models of social entrepreneurship entails a fundamental transformation, i.e. it transform the nature of social ventures from labour-intensive to capital intensity; this latter observation opens up an important stream of literature that may well be considered an relevant part of new social innovation research, namely social impact investing.

Learning…

- Which are the key aspect to be considered in designing an hybrid business model?
- Which are the differences among scaling social impact and firm growth?
- Which are the critical success factors in the different types of scaling strategies?
- Which are the barriers face by SV in accessing to commercial capital?

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