Abstract

Social enterprises provide services and goods to alleviate social problems, and adopt business models to ensure financial sustainability. Little is known about how social enterprises understand the term "business model", what the business models of social enterprises are, or what informs them. It is also unclear whether any particular social enterprise business model may confer a financial advantage. In-depth interviews were carried out with Chief Executive Officers of 65 nonprofit social enterprises from a diverse range of sectors in Australia. Concept mapping was used to analyse qualitative interview data and revealed five conceptions of business models, and five trading activities underpinning these business models. Evaluation of the revenue growth of social enterprise trading activities using Qualitative Comparative Analysis revealed that each trading concept was equally useful. Social enterprise managers and strategists may use this set of five trading activities both to appraise existing trading activities, and creatively design new trading activities.

Introduction

Social enterprises are regarded as the "third sector" in the economy (Considine, 2003; Haugh, 2005), and are referred to as the social economy or nonprofit sector (Defourny, 2001). It includes organisations such as voluntary organisations, educational institutions, churches, charities, not-for-profit and community organisations, as well as social enterprises. Although the structure, activities, and form of these organisations differ, they each seek to address unmet social needs (Peattie & Morley, 2008; Townsend et al., 2008).

These social enterprises are a tangible outcome of social entrepreneurship (Mair & Martí, 2006), and deliver social services in a manner that governments and traditional nonprofits do not (Borzaga & Defourny, 2004; Haugh, 2007), such as improved access to health and social services care, low cost housing, and programs that alleviate deprivation and social exclusion.

This research focuses on financial sustainability or sustainable entrepreneurship defined as the "alleviation of environmentally relevant market failures through the exploitation of potentially profitable opportunities" (Dean & McMullen, 2007, p.51). Sustainability can be defined in terms of the financial viability of social enterprises, so that they may continue to serve their targeted constituents and beneficiaries, as declared in their mission statement. Trading as the "continuous activity producing goods and/or selling services" (Borzaga & Defourny, 2004, p. 16) to paying clients is considered essential for survival. For this research the presence of revenue generation through trading activity will be considered integral to a social enterprise to reduce dependence on government and donor support (Shaw & Carter, 2007).

To aid effective revenue generation, Certo and Miller (2008) suggest identifying the business models of these enterprises as an area for further research. Zahra et al. (2009) state that sustaining social ventures, or enterprises, requires "the use of business models" (p. 527), and Yunus et al. (2010) call for a better understanding of the business models of these organisations.

Social enterprises and their business models

While revenue generating activities are predominantly referred to in the social entrepreneurship literature as trading activities, they are also referred to as business models (Mair & Martí, 2006; Zahra, Gedajlovic, Neubaum, & Shulman, 2009), a term more commonly used in the management and business literature. A business model is generally understood to be a description of how a trading organisation generates and sustains its revenue stream (Stewart & Zhao, 2000). Little empirical research has been conducted into the business models of social enterprises, although it has been determined that social enterprises must balance their social mission and financial objectives to ensure their viability (Foster & Bradach, 2005).

Because of the confusion in the literature regarding the term business model and its components, this research instead identifies the strategy that informs an organisation's choice of business model, identified in this research as the trading concept. Typically, social enterprises report the trading activities, but neither their business models nor their strategies. For this reason trading activities are examined as a manifestation (Amit & Zott, 2001) or tactical outcome (Casadesus-Masanell & Ricart, 2010) of the business model.

This research adopts the structure outlined by Casadesus-Masanell and Ricart (2010), where the business model reflects the realised strategy of the organisation, and the tactics are the actions undertaken by the organisation to implement the business model. This is analogous to the structure of a marketing plan (McDonald, 1989) where a firm's corporate mission (substituted by trading concept) informs its marketing growth and competitive strategies (business model) by examining its marketing activities (trading activities). The trading activities are a concrete manifestation of the marketing growth and competitive strategies.

In this context, the research questions were (1) how do social enterprises understand the term "business model"?, and (2) what alternative business models are possible, and (3) which trading activities best result in financial sustainability?

Research method

Participants were Chief Executive officers of 65 local, national, and international social enterprises operating in Australia, that generated revenue through trading activities.

Qualitative data obtained from in-depth interviews, supplemented by website information and official reports were analysed using concept mapping (Borgatti *et al.*, 2013).

Annual reports or audited financial statements of 34 social enterprises were analysed using qualitative comparative analysis (QCA).

Findings

Participants were asked "what does the term 'business model' mean to you?" Analysis of their responses using concept mapping revealed five broad conceptualisations or definitional themes.

Participants were asked "what trading activities does your organisation undertake to earn income?" A concept mapping analysis of responses identified five distinct trading concepts.

Analysis using QCA of four years of annual reports or audited financial statements of 34 social enterprises showed no consistency in the pattern of results.

Discussion

The identification of five broad conceptualisations of the term "business model" showed that there was no clear consensus among the participants as to what a business model is or how it should be defined, and that the term was perceived to be fundamentally ambiguous. This indicates that asking CEOs of these enterprises to describe their business model would not produce usable data for comparative research.

The trading concepts identified in this research aligned with those that emerged from a prior study, and this suggests that these five trading concepts may apply both theoretically and contextually to the Australian nonprofit social enterprise sector. Given that business models are "a reflection of an organisation's realized strategy" (Casadesus-Masanell & Ricart, 2010, p. 195), these trading concepts provide a starting point to understand the business models of social enterprises. This empirical research contributes to the literature by proposing a theoretical generalization that the business models of social enterprises are informed by one or more of the five trading concepts. An additional contribution of this research is to provide an approach for examining the financial sustainability of social

enterprises without being distracted by the confusion surrounding the definitions of the term "business model" and their interpretation.

Analysis of financial data using QCA indicated that no particular combination of trading concept or business model conceptualisations conferred a financial advantage, so that there appeared to be no strong connection between trading concepts used by these organisations, and their financial performance. This means that social enterprises are free to adopt any one or more, or a combination of, the five trading concepts identified in order to achieve sustainability.

Conclusion

This research showed that the term "business model" had a high level of ambiguity in the social enterprises sector, and that there was no generally accepted definition or description of this term. The research therefore revealed that asking participants to describe their organisation's business model will most likely generate statements that cannot be meaningfully compared. The theoretical implication is that a clearer understanding of the operational dimensions of the term "business model" is required in order to conduct larger empirical studies. The research also revealed five broad trading concepts that underpin nonprofit social enterprises in Australia, and each of these was equally valid and useful in terms of its influence on financial performance. This finding has theoretical implications in providing an improved understanding of the nature of business activities that underpin business models, and practical implications by providing a framework for developing or improving the business activities and the financial performance of these social enterprises.