How a 'social good' firm is defined can impact its value creation and value capital

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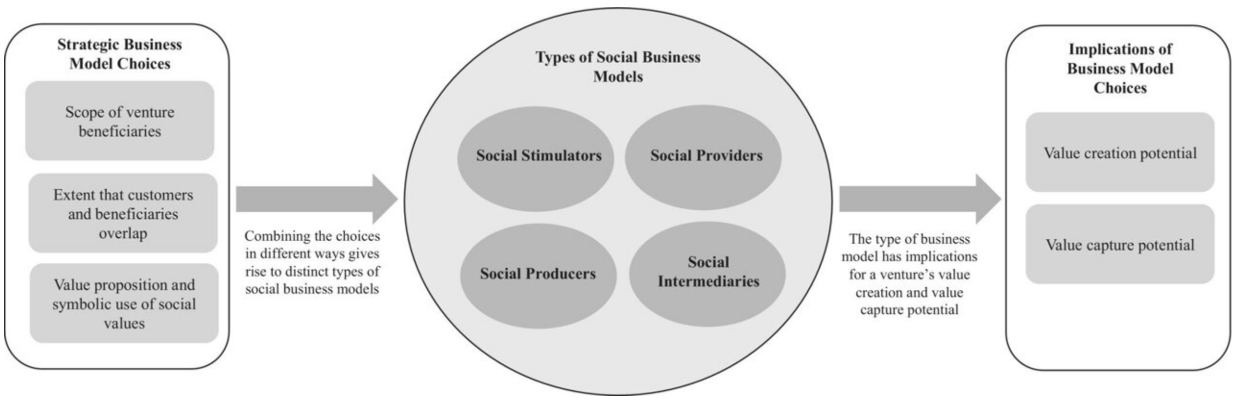

Strategic business model choices and a typology of social business models. Credit: *Strategic Entrepreneurship Journal* (2024). DOI: 10.1002/sej.1502

Ventures that pursue both commercial and social value creation have grown in popularity in recent years, but a study published in the *Strategic Entrepreneurship Journal* better defines four distinct types of social ventures. By training a business model lens on these social good ventures, the study offers insight on how the model choices impact a firm's value creation and value capture potential.

"Despite the popularity of the term 'social entrepreneurship,' not much was known about the business model of such companies yet," says study co-author Lien De Cuyper of the University of Amsterdam. "We also thought that the business model choices entrepreneurs in such a context make are significantly different from the choices entrepreneurs in general make."

De Cuyper and fellow authors Bart Clarysse of ETH Zürich and Mike Wright of Imperial College Business School, London, started by defining three choices entrepreneurs need to make. These included the scope of target beneficiaries of the venture, the degree of overlap between customers and beneficiaries, and how the venture communicates its social mission through its value proposition. The team then combined these choices in different ways to identify four distinct types of social business models:

1. Social Stimulators: These firms aim to stimulate awareness about a social and/or environmental issue. They have a broad definition of beneficiaries, with customers being the main beneficiaries. Its social values are conveyed in the products/services sold.
2. Social Providers: Such ventures target a clearly defined community of beneficiaries and provide them with products or services, which focus on the functional benefits of their value offering. Typically, the customers are the beneficiaries.
3. Social Producers: These firms have a specific focus on a beneficiary group, and the beneficiaries are both the customers of the product and the suppliers. The social values of the business are conveyed through the sourcing of the product.
4. Social Intermediaries: Such firms have a broad definition of beneficiaries, but customers are different from the beneficiaries. These firms' focus is on the functionality of the product. To fulfill their social mission and be financially self-sustainable, they sell services or products to a separate group of customers.

The researchers were also able to determine how these different models affected the venture's value creation and value capture. For example, Social Intermediaries are likely to have higher operating costs—compared with Social Stimulators and Social Providers—because they act as go-betweens for customers and beneficiaries. And customers of Social Stimulators have a higher willingness to pay, compared with customers of a Social Provider.

"Rather than just taking a one-size-fits-all approach to looking at social enterprises, we believe it's important to have a more structured understanding of their heterogeneity," De Cuyper says. "Looking at the three business model choices we identified helps you understand what type of social enterprise you're leaning toward. This can have important implications for your cost structure, your revenue structure, but also your way of organizing."

More information: Lien De Cuyper et al, Doing good while making profits: A typology of business models for social ventures, *Strategic Entrepreneurship Journal* (2024). DOI: 10.1002/sej.1502

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