



Business model design in sustainable entrepreneurship: Illuminating the commercial logic of hybrid businesses

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ABSTRACT

Sustainability entrepreneurs often rely on innovative approaches and business models to build a commercial logic for achieving social or ecological goals. We employ a deductive multiple-case study that builds upon a business model design framework to illuminate the commercial logic of hybrid/sustainable businesses. We identify four clusters of design themes and elements: niche novelty, integrated novelty, intermediary approaches, and platform approaches. We link our findings to the extant literature and provide suggestions for researchers and sustainable entrepreneurs for putting these design elements and themes into practice.

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1. Introduction

In recent years, a new stream of entrepreneurial activities and corresponding research have received increasing attention: businesses and entrepreneurs that pursue social and/or ecological goals while being guided by a distinct business mindset and some form of commercial orientation (e.g., see Battilana and Lee, 2014; Doherty et al., 2014). Such endeavors are often discussed with terms such as hybrid businesses, sustainable entrepreneurship or social enterprises. A very recent study by Todeschini et al. (2017) describes this phenomenon as born-sustainable business models, which follow shared values and principles of sustainability built upon collaboration and innovation. Such entrepreneurs and their respective ventures are said to be of significant practical, political, and academic interest (Haigh and Hoffman, 2012; Mair and Martí, 2006). One aspect that has attracted significant attention in research on hybrid and sustainable businesses is the entrepreneur's motivation (Cohen and Winn, 2007; Hahn and Ince, 2016; Yitshaki and Kropp, 2015). Beyond this microperspective, there is high demand to develop a better understanding of “the distinctive nature of the mission, processes, and resources leveraged” (Dacin et al., 2010, p. 53). This understanding is especially relevant in the sustainable and hybrid business context, where business approaches

reside somewhere between nonprofits and traditional companies (Battilana et al., 2012) to align social or ecological goals with economic ones (Zahra et al., 2009).

Recently, the business model peculiarities of such sustainability-oriented organizations have become the focus of academic research (see for an overview, e.g., Bocken et al., 2014; Schaltegger et al., 2016). Other than pure nonprofit organizations or charities, hybrid businesses often do not rely on donations or similar sources of income to pursue their nonfinancial goals; thus, hybrid businesses regularly seem to focus on innovative approaches to achieve the companies' mission (Murphy and Coombes, 2009; Wilson and Post, 2013). Specifically, hybrid businesses implement a business model following a commercial logic as a prerequisite for achieving sustainability for themselves and to contribute to a more sustainable society. However, little is known about the peculiarities of hybrid or sustainable business models with regard to their ability to successfully operate on commercial markets as a prerequisite of achieving social/ecological goals and research has only recently begun to dig deeper into issues of business models in this domain (see again, e.g., Bocken et al., 2014; Schaltegger et al., 2016).

Similar to the topic of hybrid businesses and sustainable entrepreneurship, academic focus on business model design has sharply increased in recent years (Spieth et al., 2014; Schneider and Spieth, 2013). Research on startup firms usually emphasizes the development of the business as a function that supports the firms' strategic development (Spieth et al., 2014). This emphasis on the business model design of new ventures will help identify opportunities and create sustainable competitive advantages (Amit and

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Zott, 2001; Morris et al., 2005). Various business model elements and themes have been shown to affect company performance (e.g., Bock et al., 2012; Desyllas and Sako, 2013; Zott and Amit, 2007, 2008). So far, however, insights from this stream of research have not been utilized to shed light on the commercial grounding of hybrid businesses. We thus see a missing link between the business model domain and the context of hybrid businesses. We deem this omission to be relevant for two reasons. On the one hand, the (non-financial) performance of a hybrid business can be directly linked to its success in achieving social or ecological goals. On the other hand, the (financial) performance of a hybrid business is relevant already because it is a prerequisite of achieving social/ecological goals.

We address this gap and build on these two emerging research streams to help explain the commercial stability of hybrid businesses as a prerequisite for achieving social or ecological goals and how these two aspects (i.e., commercial orientation and societal goals) are connected. We conduct a deductive multiple-case study that applies a business model design framework from an entrepreneurship perspective to 18 in-depth case studies of hybrid businesses. The framework is structured along two dimensions (see Amit and Zott, 2001; Zott and Amit, 2010): a) four business models design elements (novelty, lock-in, complementarities, and efficiency) and b) three business model themes (content, structure, and governance) that go beyond interdependencies among the activities or notions of network structure. This framework allows us to map the various hybrid businesses' commercial business models, which serve as their economic foundation to reach different social and ecological goals. With this framework, we will shed light on our research question: How do sustainable entrepreneurs strive for commercial stability in their businesses, to reach multiple sustainability-related goals? In sum, we contribute empirically to the emerging research fields of business model design and hybrid businesses by identifying distinct business model approaches in hybrid businesses.

The paper is divided into five sections: First, we briefly illustrate the status quo of research on hybrid businesses and derive our analytical framework from the literature on business model design. Second, we illustrate our method for collecting and qualitatively analyzing the data from 18 case studies of hybrid businesses. Third, we illustrate our findings before discussing the elements of business model design in the context of hybrid businesses in a fifth and final section along with limitations of our approach and suggestions for future research.

2. Conceptual background and analytical framework

A wide range of terms and definitions currently describes ventures and entrepreneurs that aim to improve social or ecological sustainability while—unlike non-profit organization—building upon a commercial orientation and striving for financial independence. Among these terms are hybrid organizations/businesses (Battilana and Dorado, 2010; Doherty et al., 2014; Haigh and Hoffman, 2012; Pache and Santos, 2013), social enterprises or businesses (Smith et al., 2013; Yunus et al., 2010), sustainability-driven organizations (Keskin et al., 2013; Parrish, 2010), sustainable entrepreneurship (Hockerts and Wüstenhagen, 2010), social entrepreneurship (Bacq and Janssen, 2011; Mair et al., 2012; Santos, 2012; Zahra et al., 2009) or born sustainable business models (Todeschini et al., 2017). The respective authors and studies usually only differ gradually (if at all) in their viewpoints of what constitutes their object of study while adhering to the general outline of the particular businesses as introduced above. For consistency reasons, we use the term sustainable entrepreneur(ship) throughout the paper and additionally refer to hybrid businesses when generally referring to respective ventures also beyond their

start-up phase. We deem this approach to be consistent with previous literature, because both concepts usually refer to businesses or entrepreneurs which aim to achieve non-financial (i.e., social and/or ecological) goals alongside financial goals. Furthermore, we build upon insights from the different mentioned streams of research where appropriate.

2.1. Business model issues in hybrid business and sustainable entrepreneurship research

To date, a number of studies have examined questions specifically related to the topic of business models for sustainability. In a literature review, Bocken et al. (2014) propose eight sustainable business model archetypes. They offer an insightful overview of the ecological or social traits of the respective organizations in terms of their value proposition, creation, and delivery. In a similar vein, Wells (2016) and Upward and Jones (2016) conceptually describe different elements and principles as characteristics of business models for sustainability. Turning more specifically to social businesses as an ideal form of hybrid businesses (Battilana and Lee, 2014), Yunus et al. (2010) provide a well-known single-case study (i.e., Grameen Bank and its subsidiaries), listing five lessons learned and comparing the results to conventional business models when building a hybrid business. One of the most obvious characteristics that differentiate hybrid businesses from conventional businesses is their mission: The mission of hybrid businesses purposefully includes a distinct focus on social and/or ecological goals (Austin et al., 2006; Stevens et al., 2014; Wilson and Post, 2013). Katre and Salipante (2012) conclude that successful sustainable (or specifically social) entrepreneurs focus on social goals first before developing an economic opportunity to achieve social change. To this end, Haigh and Hoffman (2012) propose that hybrid businesses are deeply connected to their environment and to various stakeholders. It seems as if these multiple actors are often directly linked, share information, and work collaboratively to achieve their various nonfinancial goals (Corner and Ho, 2010; Katre and Salipante, 2012).

Nonetheless, the focus on nonfinancial goals linked to simultaneous efforts to achieve profitability often leads to various tensions for these businesses, which may hamper them (e.g., Pache and Santos, 2010, 2013; Smith et al., 2013). These tensions create challenges at the business model level, because it leads to highly complex strategies and operations for aligning the different goals (Moizer and Tracey, 2010). Furthermore, hybrid businesses often seem to be confronted with a distinct scarcity of resources (Austin et al., 2006; Moizer and Tracey, 2010). Against this background, some authors argue that hybrid businesses often find innovative solutions and adopt new business model approaches (Wilson and Post, 2013; Di Domenico et al., 2010) that enable these businesses to achieve nonfinancial objectives alongside financial ones (Murphy and Coombes, 2009). Interestingly, although researchers have discussed business models for sustainable innovation (for an overview, see Boons and Lüdeke-Freund, 2013), researchers have not focused on the innovation of the hybrid business models themselves. While Bocken et al. (2014) specifically refer to the term business model innovation, they follow a general business model perspective by building upon the well-known business model canvas by Osterwalder and Pigneur (2010) instead of discussing elements of business model design elements (Zott and Amit, 2010) that influence the commercial orientation of hybrid businesses as a prerequisite for their multiple-goal orientation. Furthermore, Bocken et al. (2014) generally focus on (established) sustainability-oriented companies and offer an overarching view without specific insights into entrepreneurial activities. Regarding commercial success, Renko (2013) emphasizes the high novelty level in socially

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