Business model innovation in social enterprises: An activity system perspective

Tykkyläinen Saila, Ritala Paavo

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Abstract

Social enterprises aim to create both social and financial value and require business models that allow both objectives to be pursued simultaneously. The tensions between these objectives can make this a challenging task in terms of issues such as mission drift and commercial failure. This multiple case study of seven social enterprises operating in Finland examines business model innovation in social enterprises from an activity system perspective to identify different patterns of activity through which social and financial goals are developed, discarded, and reconfigured. The findings provide evidence of how social and financial goals guide the strategic framing of the business model in social enterprises by setting mutually constraining boundary conditions.

Keywords: social enterprise, business model innovation, process, activity-based approach, activity system

1. Introduction

There is increasing interest in organizations that focus on social mission or social value creation. A subset of these organizations employ a hybrid logic that combines social and financial goals (Battilana and Dorado, 2010; Pache and Santos, 2012). This approach can yield major benefits; in the best case, a viable business model allows for-profit firms to resolve social problems while providing opportunities to scale operations (e.g. Porter and Kramer, 2011). However, the potentially significant tensions between social and business domains can hamper growth and competitiveness in either or both (Davies and Doherty, 2018). For instance, if the financial mission begins to dominate, this can lead to "mission drift" (Cornforth, 2014). Equally, if achieving growth requires collaborating with partners regarded not to be in align with the firm's mission, the firm may decide not to pursue growth at all (Huybrechts et al., 2017; Vickers and Lyon, 2014).

Our study focuses on *social enterprises*—organizations that generate revenues through commercial activities while promoting their social mission and aiming to create intentional social value spillovers to particular stakeholders, as well as surrounding communities and society more broadly (Santos, 2012; for review, see Saebi et al., 2019). Research on social enterprises (and the related literature of social entrepreneurship) provides extensive evidence of how social and financial missions can be combined (Weerawardena and Sullivan Mort, 2006). One promising perspective on this issue focuses on *business models* and *business model innovation*. The existing literature includes case descriptions and business

model typologies in social enterprises, in which organizing logics and/or control structures serve as building blocks (Florin and Schmidt, 2011; Hockerts, 2015; Margiono et al., 2018; Wilson and Post, 2013). The recent emphasis on mechanisms for value creation, delivery, and capture in social enterprise business models focuses in particular on how the tensions related to hybrid logics are managed and mitigated (Battilana et al., 2012; Davies and Chambers, 2018; Davies and Doherty, 2018; Santos et al., 2015; Siegner et al.; 2018).

Despite a wealth of evidence in the literature regarding how social enterprises combine social and business logics in their business models, the *microfoundations* of these processes remain ambiguous, as recently noted by Muñoz and Kimmit (2019). A *process perspective* is also largely missing—that is, how social and business logics interact over time as social enterprises engage in business model innovation. (For a recent exception, see Davies and Doherty, 2018). We argue here that an activity-based perspective on business model (cf. Zott and Amit, 2010) can help to elucidate these issues by focusing on activities within business models rather than the broader building blocks, and how those activities are added, modified, or discarded over time.

While the utility of this approach has been recognized, informing some of the existing research, no study to date has examined actual activities within business model components as the unit of analysis (see for example Florin and Schmidt, 2011; Inigo et al., 2017; Margiono et al., 2018; Olofsson et al., 2018; Santos et al., 2015). New case-based studies based on a process perspective and longitudinal design have shown that business models change and develop over time, and that social enterprises utilize several different business models in parallel (Gebauer et al., 2017; Davies and Doherty, 2018). Recently, Muñoz and Kimmit (2019) identified the micro-foundations and -processes of various business models involving complex interactions among six strategic conditions. However, it remains unclear how social enterprises build and innovate their business models over time through multiple activity sets that address a given mix of social and financial goals.

To address these knowledge gaps in the social enterprise literature, we undertook a multiple case study of seven social enterprises operating in Finland, using the activity system perspective (Zott and Amit, 2010) to identify activities linked to various social and financial goals within the business model. By examining business model innovation as a process, we were able to identify distinct patterns of activities and how these are developed, discarded, and reconfigured. We also demonstrate how social and financial goals variously guide strategic framing of social enterprises' business models by setting mutually constraining boundary conditions. These findings respond to calls for further research on the process of change in social and profit orientation over time (Davies and Doherty, 2018; Muñoz and Kimmit, 2019,

p. 7), and to calls for a more nuanced understanding of how social enterprises actually combine (or fail to combine) social and financial objectives (e.g., Bull and Ridley-Duff, 2019).

2. Theoretical background

2.1 *Social enterprises and hybrid logics*

Social enterprises form a heterogeneous group of hybrid organizations designed to combine the best features of public, private, and third sectors in order to solve contemporary wicked problems (Doherty et al., 2014; Pache and Santos, 2012; Wilson and Post, 2013). While their exact form varies across societal systems, social enterprises are divided in populations characterized by a shared boundary condition stipulating that social enterprises should promote their financial and social missions simultaneously (Saebi et al., 2019). The nature of social enterprises' financial mission depends mainly on the importance of market revenues, attitude towards generating and distributing firms' profits, and the pool of available resources. Social missions range from addressing local concerns to alleviating global problems. Hence, intensity of financial and social missions as well as their relative weight vary from firm to firm, creating heterogeneity between different social enterprises (Defourny and Nyssens, 2010; Shepherd et al., 2019).

In this study, we follow a definition inspired by Santos (2012): social enterprises engage in commercial activities to exploit opportunities with to create intentional social value spillovers to the society and to generate revenues. *Intentional social value spillover* refers to a situation where a business transaction is designed to produce positive (social) value extending beyond the financial value received by the agents involved in the transaction. These spillovers are intentional in the sense that they mainly aim to create positive value to particular stakeholders, but they might also have a broader social value impact which contributes to the society also in unexpected ways (corresponding more the mainstream economics usage of "spillover"). For the sake of brevity, these are referred simply as "social spillovers" similarly to as in Santos et al. (2015) or Davies and Doherty (2018). The literature on hybridity is used to explore and explain the complexity of social enterprise strategic and management processes required to create value spillovers (Battilana and Lee, 2014; Doherty et al., 2014; Florin and Schmidt, 2011).

It has been widely suggested that simultaneous pursuit of financial and social goals leads to *hybrid tensions* in organizations (see Davies and Doherty, 2018). Combining organizing logics and value systems from different sectors to pursue multiple and sometimes contradictory objectives often proves challenging, exposing social enterprises to tensions such as mission drift or financial failure (Battilana and Dorado, 2010; Battilana and Lee, 2014;

Doherty et al., 2014; Smith et al., 2013), and disjunctions of multiple social missions have been reported (Siegner et al., 2018). Recent research has challenged the dichotomy between financial and social missions, as social enterprises may have several social goals but are forced to pursue only one or two (Muñoz and Kimmitt, 2019; Siegner et al., 2018).

Smith et al. (2013) assigned internal and external hybridity-related tensions to four distinct categories: *performing tensions* (differing valuations of goals and achievements and legitimacy issues); *organizing tensions* (clashes related to organizational cultures, use of resources, and priority setting) (Battilana and Dorado, 2010; Davies and Chambers, 2018; Gebauer et al., 2017); *belonging tensions* (identity-related issues, both within the organization and in stakeholder relations (Davies and Chambers, 2018; Florin and Schmidt, 2011; Olofsson et al. 2018); and *learning tensions* (aligning short-term financial outcomes and long-term social outcomes and balancing between growth of social and financial impact) (Dees et al., 2004; Smith and Stevens, 2010).

Given the prevalence of such tensions, business model research on hybrid ventures often reflects the need to mitigate tensions and align goals (Battilana and Lee, 2014; Doherty et al., 2014; Margiono et al., 2018; Santos et al., 2015). In this regard, researchers have distinguished between *integrated hybrids* and *differentiated hybrids*; while the former achieve financial and social impact through shared activities, the latter involve distinct activities in the two domains (cf. Battilana et al., 2012; Davies and Doherty, 2018). Integrated hybrids entail both benefits and challenges; in the best case, the different values they pursue are mutually supportive (Bocken et al., 2014; Boons and Lüdeke-Freund, 2013; Wilson and Post, 2013) and can lead to new business opportunities or competitive advantage (Alberti and Varon Garrido, 2017; Florin and Schmidt, 2011; Hockerts, 2015; Muñoz and Kimmit, 2019). On the other hand, integration may reduce the effectiveness of either or both logics (Battilana and Dorado, 2010; Davies and Doherty, 2018; Tracey and Jarvis, 2007). In the case of differentiated hybrids, logics may also compete for resources and attention (Gebauer et al., 2017). For that reason, it has been suggested that hybrid organizations are especially vulnerable to tensions if customers and beneficiaries belong to different groups and distinct value chains and differentiated activities are required in order to serve their needs (Battilana et al., 2012; Santos et al. 2015). Overall, it seems clear that successful deployment of hybrid logics makes particular demands on organizational design and activities, workforce, and culture, as well on as inter-organizational relationships (see Battilana and Lee, 2014).

To create a practical framework, Santos et al. (2015) developed a more detailed categorization of hybrid business models along two dimensions: 1) level of contingent social value spillovers and 2) degree of overlap between clients and beneficiaries (see Table 1).

Table 1 Typology of hybrid business models

Dimension	Clients are beneficiaries	Clients are not beneficiaries
Automatic social value spillover	MARKET HYBRIDS *Integrated business model* Risk of mission drift: Low Financial sustainability: Easy	BRIDGING HYBRIDS *Integrated business model* Risk of mission drift: Intermediate Financial sustainability: Moderately difficult
Contingent social value spillover	BLENDING HYBRIDS *Differentiated business model* Risk of mission drift: Intermediate Financial sustainability: Moderately difficult	COUPLING HYBRIDS *Differentiated business model* Risk of mission drift: High Financial sustainability: Difficult

Adapted from Santos et al. (2015)

Market hybrids are the simplest form of hybrid organization. Their beneficiaries are also their customers, and social value spillovers are created by the same market-based activities, which generate the business's revenue stream. In the case of *blending hybrids*, beneficiaries and customers again come from the same group, but creating social value spillovers requires special attention and targeted activities. For instance, Santos et al. (2015) note that introducing a new service or product in an underserved market (such as micro-loans for those who cannot access banking services) may sometimes require awareness-raising and training activities to ensure social value spillover. *Bridging hybrids* aim to create social benefits primarily for groups who are not customers, creating spillovers through the same business activities as for financial outcomes. The most complex form of hybrid is the *coupling hybrid*, as different value chains are needed to serve beneficiaries and clients. For example, work integration social enterprises (WISEs) and fair trade companies can operate as either bridging or coupling hybrids, depending on the level of support, training, and other interventions required by employees (WISE) and producers (fair trade) (see also Davies and Doherty, 2018; Hockerts, 2015; Tracey and Jarvis, 2007).

2.2. Business model innovation in social enterprises: focus on process and activities

As a broad concept in the management literature and in practice, the *business model* encapsulates the architecture of how firms create, deliver, and capture value-using activities that are both internal and external to the firm (see for example Teece, 2010; Amit and Zott, 2012). The business model can be understood as a bridge between a firm's strategy and its actual activities in the market and the broader external environment (Casadesus-Masanell and Ricart, 2010; Spieth et al., 2014). Furthermore, in the context of fast-changing business environments, business model can in itself be considered as a relevant unit of analysis (Morris et al., 2005; Massa et al., 2017). *Business model innovation* is increasingly relevant for firms to

differentiate from each other; the same technology or idea can be taken to market in variety of ways, and the heterogeneity in this regard is reflected in the firm's business model (Chesbrough, 2010; To et al., 2019). Business model innovation literature focuses broadly on changes in the firm's business model, and has adopted multiple perspectives to this change (for reviews, see Foss and Saebi, 2017; Spieth et al., 2014; Wirtz & Daiser, 2017). For the purposes of our study, we adopt the conceptualization of Foss and Saebi (2017, p. 201), according to which business model innovation involves "changes to the key elements of a firm's business model and/or the architecture linking these elements" (Foss and Saebi, 2017, p. 201). This approach is shared by many other business model scholars, such as Frankenberger et al. (2013) who views business model innovation as a process that changes firm's business logic or its core elements. In the process of business model innovation, companies often have to deal with various types of contradictions or activities that are not always easy to align (see e.g. Ricciardi et al., 2016). In the context of the current study, we focus on the dual logics of financial and social value creation in business model innovation.

Indeed, business models and business model innovation have recently attracted widespread interest within the social enterprise literature, focus on the simultaneous creation of financial and social value and the implications for social enterprise as a business model (Saebi et al., 2019; Weerawardena and Sullivan Mort, 2006; Wilson and Post, 2013). In this context, the term *business model* describes how social enterprises are managed, how their resource base is formed, and how revenue logics are designed (Hockerts, 2015; Margiono et al., 2018). This research has helped to establish social enterprise as a form of "business model" but at the expense of a more holistic view of value creation, delivery, and capture. Recently, however, there have been more thorough attempts to integrate the organizing and business model literatures in the context of social enterprise (e.g., Davies and Chambers, 2018; Davies and Doherty, 2018).

One distinctive feature of this area of research is that business models are seen as mechanisms for managing tensions related to hybrid logics (Battilana et al., 2012; Ebrahim et al., 2014; Santos et al., 2015). For instance, Florin and Schmidt (2011) listed several strategy paradoxes for social enterprises in relation to issues such as product-service system, HR policies, and profit orientation, which can be resolved through various forms of business model innovation. As a rule of thumb, the more complex the business model, the more intense the tensions it entails (Alberti and Varon Garrido, 2017; Battilana et al., 2012; Davies and Doherty, 2018; Santos et al., 2015). Building on these arguments, we view *business model innovation* (cf. Foss and Saebi, 2017) as a necessary process that allows social enterprises to configure architectures for value creation and capture over time to address both internal and external demands and tensions.

Existing research has already highlighted the importance of understanding business models as dynamic processes that change over time with varying outcomes (Davies and Doherty, 2018; Florin and Schmidt, 2011; Gebauer et al., 2017; Olofsson et al. 2018). Social enterprises use business model innovation to create, deliver, and capture value through parallel and sequential design processes, driven both by internal motives and external pressures (e.g., difficulties in creating partnerships, intensified competition) (Gebauer et al., 2017; Olofsson et al., 2018). While achieving a balanced triple bottom line sometimes proves difficult (Davies and Doherty, 2018), successes have also been reported in times of uncertainty (Dobson et al., 2018).

For present purposes, we chose to adopt an activity system perspective (Zott and Amit, 2010) to identify specific activities that might be introduced or configured over time within the process of business model innovation. Although there is growing awareness of the potential benefits of this approach for social enterprise research (Florin and Schmidt, 2011; Margiono et al., 2018; Olofsson et al., 2018), it has not yet been deployed as an analytical tool yet. For instance, Margiono et al. (2018) employed the business model design elements defined by Zott and Amit (2010) to specify the most suitable types of business models for certain social enterprises. After exploring the linkages between external and internal events within a firm and business model design elements, they then described how the firm's business model changed over time from novelty-centered to lock-in centered and finally to efficiency-centered. Olofsson et al. (2018) and Muñoz and Kimmit (2019) took this a step further. Muñoz and Kimmit (2019) argued that, in reality, simple business models are seldom found, making it necessary to explore the micro-foundations and processes underlying alternative configurations, as the relationship of social and financial goals is often more complex than first thought. For instance, turbulences in operational environment may cause social enterprises to prioritize financial value to ensure the organization's survival (ibid).

In sum, examining business model activity sets over time is a promising view means of investigating how business and social logics are configured and the implications that follow. It can also explain how the broader process of business model innovation in social enterprises unfolds as an architecture of multiple activity sets, temporally organized to address the challenges and opportunities of hybrid logics. The next section describes how the research design builds on these insights as the basis for empirical analysis.

3. Methods

3.1 Case selection and data collection

To examine business model innovation in social enterprises, we chose the multiple case study as a research strategy that is especially useful for inductive exploration of novel insights while accommodating the identification of broader theoretical patterns across different cases (Eisenhardt, 1989). The social enterprises were selected using theoretical sampling that explicitly identified firms using hybrid logics, and for a clearly expressed social purpose. Heterogeneity of social enterprises have proven as a challenge for researchers building and testing theories on social entrepreneurship. To overcome this challenge, it is recommended to start exploring new approaches with a specific population of social enterprises and then extend it to new ones if proven useful (Lepoutre et al., 2013). Finland was deemed as a suitable context for the study, for although Finnish social enterprises comply with the European definition of social enterprises, they belong to the most market-oriented end of the spectrum and thus form a part of distinctive social enterprise population (European Commission, 2011; Russell et al., 2014).

Finnish social enterprises are considered to derive from three main streams: work integration organizations, cooperatives and service providing civil society organizations (Kostilainen and Pättiniemi, 2016). Recently, these traditional forms have been accompanied with startups and small businesses designed to create social impact (Houtbeckers, 2016). Their strong market orientation is typically explained by external pressures and policy choices. Political support for social enterprises has been modest in Finland in comparison to some of the Nordic neighbors and many European countries (Kostilainen and Pättiniemi, 2016; Kostilainen, 2019). For instance, incentives such as tax relieves, dedicated financial instruments or counselling services have been rejected in fear of compromising competition neutrality. Social enterprises are expected to operate side by side with other businesses in the market. Civil society organizations have been pushed to differentiate their service provision from the civic activities, for instance. Same type of dynamics have been found elsewhere as well (Dart, 2004; Weerawardena et al. 2010).

Our search focused on holders of the Finnish Social Enterprise Mark (FSEM), criteria and definition of which we discuss more later in this section.[1] In selecting cases, we sought maximum variation (Suri, 2011) in terms of demographic factors, ownership structure, and business sector—all factors that can influence the process of business model innovation. For that reason, the cases' only common feature was their status as third-party verified social enterprises pursuing growth; beyond that, the maximum variation sampling strategy helped us

[1] For more information, see https://suomalainentyo.fi/en/services/finnish-social-enterprise/

to derive meaningful and holistic findings from the cases' heterogeneity (cf. Suri, 2011). The selection process yielded seven growth-oriented social enterprises, each certified by the Finnish Social Enterprise Mark. We anticipated that seven cases conforms with Eisenhardt's (1989) range of 6 - 10 cases for building theory and meaningful implications.

Table 2 Description of cases

Company and business sector	Founded	Size*	Owners	Social mission
SOCENT A (LTD.) Transcription services, accessibility consulting	2010	Micro	Non-governmental organizations (NGOs)	Work integration social enterprise (WISE)
SOCENT B (LTD.) Business model for care homes	2008	Small	Private	Promoting local entrepreneurship; providing high quality care services
SOCENT C (LTD.) ICT provider and consultant	2011	Micro	Private	More effective re-use of products and raw materials
SOCENT D (CO-OP) Domiciliary services	2004	Small	Private	Care services, personal assistance for disabled
SOCENT E (LTD.) ICT platform	2012	Micro	Private	Rapid access to mental health services
SOCENT F (FOUNDATION) multi-industrial	2004	Small	NGOs and municipalities	WISE
SOCENT G (LTD.) Construction contracting	2000	Small	NGOs	Communal living; support for people with special needs

* Based on definitions from Statistics Finland and the European Commission:
- micro enterprises employ ≤ 10 persons and have turnover ≤ €2 m or balance sheet total ≤ €2 m
- small enterprises employ ≤ 50 persons and have turnover ≤ €10 m or balance sheet total ≤ €10 m

When the first interviews were conducted in 2015, about 70 enterprises had been granted the FSEM, and its criteria were used in identifying candidates for this study. The mark is awarded by a committee, which evaluates each applicant against three primary criteria:

i) The primary purpose and objective of the social enterprise is to contribute to social good. The social enterprise is engaged in responsible business activities.

ii) The social enterprise uses most of its profit to contribute to social good in accordance with its business idea, either by developing its own operations or donating the profits in accordance with its mission.

iii) Openness and transparency of business activities.

The committee also assesses companies in terms of secondary criteria that include working place democracy, measuring social impact and employing long-term unemployed or disabled persons (Association for Finnish Work, 2019).

On these criteria, certified Finnish social enterprises can be viewed as hybrid organizations that aim to create financial and social and/or environmental value. Moreover, holders of the FSEM are representative of the Finnish social enterprise field in terms of organizational form and business sector (Russell et al. 2014). As shown in Table 3, the cases were built on rich empirical descriptions from various data sources.

Table 3 Data sources

	Interviews	**Official sources**	**News and media coverage**	**The case companies' own data**
Data items	16 interviews (295 transcribed pages)	Data related to two case companies (F and G)	Data related to all case companies	Marketing material for all case companies. Annual reports and strategies for three (B, F and G)
Period	2013–2017	2015-2018	2012-2018	2013-2017
Description of data	Longitudinal data acquired from thematic interviews with CEOs and owners (each interviewed at least twice; two on three occasions). Interview duration: one to two hours.	Minutes from different municipality administrative units. Announcements and evaluation documents related to public procurement and competitions.	Local, regional and national news. Public opinions. Articles by interested parties (e.g. workers' unions)	Webpages, blogs and videos. Press releases. Annual reports and strategies.
Type of information	Interview guide	Justifications for decisions (e.g. procurement-related). Politicization of issues.	Concept, current events, founder's story, new partnerships, awards.	Events, new initiatives, partnerships. Awareness-raising and lobbying.

3.2 Analysis

The three-stage analysis was designed to produce a nuanced understanding of business model activities and business model innovation in the selected social enterprises. To begin, activities related to the case companies' business models were identified and described. Secondly, the processes of business model development and business model innovation were investigated. Third, the analysis explored the boundary conditions defining the limits of business model innovation.

To fully exploit the richness of the data while also looking for more general patterns, we proceeded from within-case to cross-case analysis. The approach was inductive and data-driven, informed by theoretical perspectives that helped to decide what to analyze and how. For instance, in order to avoid some typical shortcomings of business model research, we followed the recommendations of Foss and Saebi (2017) throughout the analysis. Thus we paid close attention to defining the unit of analysis, and to conceptualizing business models as activity systems, articulating the dimensions of business model innovation, and maintaining a process perspective.

The initial within-case analysis served to establish how many and what forms of business model innovation the case companies had created. Business model innovation was defined as *a new configuration of set of interrelated activities transcending the boundaries of the focal organization*. Following Zott and Amit (2010), we assumed that each business model innovation involved a unique architecture of activities entailing; *what* is done, *who* does it, and

how activities within the set are linked. Before probing the architecture, it was necessary to identify the focal points around which the case companies' activity sets were built. Based on the interviews and internal company material, growth objectives emerged as appropriate focal points. However, not all such aims drove business model innovations—for example, some involved replicating services in a new area without modification. After excluding these, the remaining aims (e.g., diversifying services, developing B2C business, renewal of existing business units) were used to label activity sets and then to code the data. This procedure yielded one to three growth-oriented business model innovations per case company.

Having identified the activity sets, all activities were coded and subsequently cross-checked and organized as set-specific code trees. This revealed the relationships between different activities and enabled the development of hierarchy charts for cross-set and cross-case comparisons. Next, the elements of *who* and *how* were introduced and coded. The secondary material proved particularly helpful in identifying partners and other stakeholders in business model innovations, and in specifying timelines and links between activities—for example, how co-creation of a project proposal contributed to evaluation by public actors.

Technically, the architecture of each set was constructed using code matrices; using a set as filter, activities were first run with *who* codes and then with *how* codes. Given the complexity of this analysis, it was considered inefficient to describe all the cases in detail. (The detailed process of forming activity systems and extrapolating them into business model innovations is elaborated in Appendix, illustrated by the case of SocEnt A. Space limitations prevent detailed description of the technical details of each within-case analysis.) Business model innovations were categorized using the framework established by Santos et al. (2015) (see Theoretical background). The results of this within-case analysis are presented in Findings (Table 4), describing the observed business model innovations in terms of aims, core activities, and type.

Having captured the business model innovation architectures, a process perspective was applied, shifting the focus to antecedents and expected outcomes and exploring how the case companies had developed their business innovations. To identify antecedents from the data, we looked for drivers that seemed to either encourage or require the case enterprises to renew their modus operandi in order to grow. External and internal drivers were identified, along with social and financial motivations. Next, expected outcomes were analyzed and compared with drivers. Expected outcomes were expressed in terms of the value sought by the new business model configurations, including financial, environmental, social, and total value, as well as their different combinations.

The final element of the process perspective investigated how the case companies developed their business model innovations. Through cross-case analysis, developmental

patterns began to emerge from the data that related to sequential or parallel development of different business model innovations. The analysis also determined whether an innovation was built on prior business models or involved a discontinuous leap into a new business area. Results of the within-case analysis (Table 5) and cross-case analysis are detailed in the Findings section.

The third and final part of the analysis explored the internal boundary conditions of business model innovation in terms of the tension between social and business logics and goals. These boundary conditions were studied by searching for constraints, hindrances, and policies that either refocused, slowed, or prevented the implementation of certain innovations, even where there was a recognized need for business model innovation. As a result, three main types of boundary condition were identified, related to risk tolerance and social mission on the one hand and financial risks and organizational survival on the other.

4. Findings

4.1 Business model innovations as activity systems

Table 4 summarizes the results of the within-case analysis, describing the business model innovations designed by the social enterprises to pursue growth. The first two columns (left) conceptualize the business model innovations as activity systems built around a specific aim related to objectives for growth. These descriptions are enriched by an account of core activities in each system. The third column shows the classification of business model innovations according to the framework developed by Santos et al. (2015). The new configurations of activity systems are divided into four groups (market hybrids, blending hybrids, bridging hybrids, and coupling hybrids), depending on the extent to which they create automatic or contingent social value spillovers and the extent to which their clients and beneficiaries overlap.

Table 4 Description of business model innovations

Activity set	Core activities	Type of BMI
SocEnt A		
Set 1. Aim: Diversifying business	Exploiting an opportunity offered by national legislation	*Bridging hybrid*: employees as beneficiaries, customer a public service company
	Co-creating service process	
Set 2. Aim: Entering new business branch	Exploiting an opportunity offered by EU directive	*Bridging hybrid*: employees as beneficiaries, a variety of customers. Market creation and awareness rising by same activities.
	Consulting, testing and training on accessibility of web-services	
	Turning the staff's handicap into an USP	
SocEnt B		
Set 1. Aim: Renewal of existing business units	Experimenting new technologies	*Bridging hybrid*: business units as beneficiaries, public customers.
	Renewing service processes	

	Training and exchanging best practices	
Set 2. Aim: Expanding the network of care homes	Expansion through public procurements	*Coupling hybrid*: care home residents as beneficiaries, public customers. Separate activities to improve quality of the care and establish scalable, financially sustainable business model.
	Partnering with broader regional development project	
Set 3. Aim: Developing new service models	Searching more cost-effective service models	*Bridging hybrid*: beneficiaries and customers ibid.. Activities to design and implement service model integrating quality and lower costs.
	Enhancing quality of life of the users	
	Internationalization	
SocEnt C		
Set 1. Aim: Webstores for recycling centers	Development of stock management system	*Bridging hybrid*: employees of the customers as beneficiaries, customers recycling centers.
	Affordable and easy way of taking pictures	
	Starting commercial spin-off	
Set 2. Aim: Searching viable business case	Platform for trading of sidestreams	*Market hybrid*: connect ia. small businesses and manufacturers, both are customers and beneficiaries.
Set 3. Aim: From recycling to employment	Partner models with municipalities, recycling centers as intermediates	*Coupling hybrid*: employees of recycling centers and public sector as beneficiaries, public sector customers. Separate activities to develop practices of recycling centers and sell public sector.
	Proving the impact of more effective employment	
SocEnt D		
Set 1. Aim: First to markets	Exploited an opportunity offered by a national law	Social value spillover questionable
	Giving up the WISE status	
	Expansion to new locations via joint ventures and aquisitions	
	Going to B2C markets	
Set 2. Aim: Diversifying business	Offering catering and domiciliary care services in a new housing area for elderly	Social value spillover questionable
	Investing in facilities and getting knowhow on new business	
	Marketing activities	
SocEnt E		
Set 1. Aim: Partnering for volumes	Networking, partnering and selling the idea to public sector	*Bridging / coupling hybrid*: people w/ mental health issues as beneficiaries, service providers and public sector as customers. Partly separate activities to maintain the service platform and to evaluate and prove social impact.
	Including impact assessment into the contracts	
SocEnt F		
Set 1. Aim: Developing B2C -business	Importing a social franchising concept from abroad	*Bridging hybrid*: employees as beneficiaries, customers new franchisees.
	Modernizing the existing recycling centers	
Set 2. Aim: Job creation for disabled people	Running cafes and catering for a local manufacturer	*Bridging hybrid*: employees as beneficiaries, private customers (B2B and B2C).
	Piloting step by step	

Set 3. Aim: Large scale job creation for people outside labor markets	Encouraging municipalities to found an in-house company	*Coupling hybrid*: employees as beneficiaries, public customers. Separate activities to function as operator and ensure job opportunities for the target group.
	Operating as service operator	
	Pooling workforce	
SocEnt G		
Set 1. Aim: Servitization within social housing	Piloting and co-creating activities and services with habitants and partnering NGOs	*Market / blending hybrid*: habitants and neighbors as beneficiaries and customers. Some dedicated activities to support community formation without financial reward for the company.
	Community counsellor nudging	
	Creating communities within and around houses	
Set 2. Aim: From isolated houses to block-wide communities	Creating wider variety of common spaces, services and activities	*Coupling hybrid:* habitants and neighbors as beneficiaries, habitants and public sector as customers. Separate activities for providing housing services and community building.
	Promoting communities within and around houses	
	Pooling resources	
Set 3. Neighborhood development	Scaling the founding ideas of the company	*Coupling hybrid*: scaling the idea of Set 2 in a wider level. The amount of required activity chains multiply.
	Focusing on playing the role of service operator and community builder	

The analysis shows that almost all of the case companies have designed and implemented several business model innovations (one to three per company) tailored to promote their various aims. For example, SocEnt B's three business model innovations pursued very different objectives. In activity system 1, it seeks to develop and scale best practices across care homes to enhance service quality and to increase efficiency. Activities were performed mostly through business units. By expanding the network and setting up new business units (activity system 2), the company sought to achieve economies of scale in order to survive in a competitive market with the help of new partners and public sector buyers. Activity system 3 was designed to create an entirely new type of service model for the benefit of care home residents and to reduce public sector spending.

Types of business model innovation were also characterized by high diversity. Four of the six case companies that undertook more than one business model innovation have designed several distinct types of activity system. The business model innovation logic of SocEnt D could not be established using hybrid logics, as any creation of social value spillovers was questionable in this case.

Despite the variation within companies, bridging and coupling hybrid models predominate, with 13 of the 17 business model innovations labeled as one or other of these. Because these social enterprises typically have a multiplicity of clients and/or beneficiaries, there are few market or blended hybrids. In addition, the involvement of public sector actors in

all of the case companies often complicates their business models. Both of the work integration social enterprises, SocEnt A and SocEnt F, are dependent on wage subsidies, and their clients include public sector actors. Moreover, SocEnt F was founded by and steered by regional municipalities. SocEnt C has received funding for its development projects from a Finnish ministry, and municipalities are also important stakeholders as the main owners of the company's primary clients (recycling centers). The company's latest business model innovation was a further attempt to attract municipalities as clients by shifting the focus of value creation from environmental to social value.

> *Actually the problem* [our organization deals with] *is unemployment; we want to turn our service into an employment service. Lately, our communications have mentioned environmental values as a nice side benefit.* (CEO/owner, SocEnt C)

SocEnt G offers social housing and is therefore entitled to subsidies. Its construction and neighborhood development projects are also dependent on municipality decision making. Finally, most of the paying customers of the two companies that provide care services (SocEnt B and SocEnt D) are public sector buyers, with only a small proportion of their revenue coming directly from the people they serve.

While our cases confirm the utility of Santos et al.'s (2015) framework in classifying hybrid business models, the present findings suggest a need for even more fine-grained approaches. For example, our results indicate that social enterprises tend to develop their business models in a more complex direction, moving toward differentiated logics rather than looking for ways to integrate their financial and social value chains. Our data suggest that new business models are typically complicated by the involvement of new partners and an increasing range of beneficiary and/or customer groups. No single classification scheme can reveal these issues, but this can be achieved by taking a closer look at the architecture of the activity system.

As a case in point, SocEnt A has transformed its business model from one bridging hybrid to another, indicating that it has retained the same logic when viewed from a distance. However, as described in more detail in Appendix, the company began to serve one entirely new beneficiary group by developing design-for-all -consultation and testing services for web service providers alongside its original transcription services offering. Both new and existing beneficiaries are served mostly by activities that create market value—some by the more accessible web services and others by being paid to test and develop those services. However, the new business is characterized by uncertainties concerning the capabilities of current staff. In addition, there is a need to raise awareness of the importance of accessible web services by partnering with other actors working for people with disabilities.

Previously, we had no trouble in attracting the workforce we needed. Now, in this new business, the staff requirements are on a completely new level. We need either hardcore professionals or people with a growth mindset, and there aren't too many of those. Then we have to reconsider our employment policies. (CEO, SocEnt A)

These results confirm the utility of the activity system approach in eliciting the details of business model innovation in social enterprises while at the same time highlighting the further need to look more closely at the underlying processes. To this end, the next section adopts a process perspective to examine how activity sets develop over time in social enterprises.

4.2 Business model innovation as development process

Table 5 summarizes how business model innovations can be scrutinized in terms of the drivers that encourage or require companies to design new activity systems, along with expected outcomes and how new systems are planned and implemented. Although all of the case companies have a social mission, business model innovations are sometimes needed to enhance their financial position, and financial values prevail. For that reason, the order of the terms *financial*, *environmental*, and *social* is significant here, indicating preferences regarding the expected outcome. The term *total value* refers to situations where financial and social values are considered equally important.

Table 5 Development process perspective

Activity set	Drivers	Expected outcomes	Way of developing BMIs
SocEnt A			
Set 1. Aim: Diversifying business	Opportunity by a new regulation seized w/ partner External and internal drivers	Financial and social value	*Sequential* Developing the original concept step by step when driven by financial value and by leaps when detecting potential for total value.
Set 2. Aim: Entering new business branch	Opportunity by a new directive seized Internal driver	Total value	
SocEnt B			
Set 1. Aim: Renewal of existing business units	Innovation orientation. Internal driver	Total value	*Parallel* Developing the original concept step by step. Innovations to add new dimensions to the original concept.
Set 2. Aim: Expanding the network of care homes	Competition External driver	Financial value	
Set 3. Aim: Developing new service models	Innovation orientation External and internal drivers	Total value	
SocEnt C			
Set 1. Aim: Webstores for recycling centers	Opportunity by a new law seized Internal driver	Total value	*Sequential* Developing the original concept step by step and leaps.

Set 2. Aim: Searching viable business case	Organizational survival Internal driver	Financial and environmental value	Innovations to design viable business model delivering the expected social value.
Set 3. Aim: From recycling to employment	Organizational survival Internal driver	Total value	
SocEnt D			
Set 1. Aim: First to markets	Opportunity by a new law seized Internal driver	Financial value	*Sequential* Developing by leaps to new business branches. Innovations to diversify and create new footholds for business.
Set 2. Aim: Diversifying business	Opportunity offered by partner Internal driver	Financial value	
SocEnt E			
Set 1. Aim: Partnering for volumes	Opportunity created Internal driver	Total value	*Gradual* Developing the original concept step by step. Innovations to adapt and stretch the original concept to serve wider beneficiary and customer groups.
SocEnt F			
Set 1. Aim: Developing B2C -business	Opportunity created w/ partner Exernal and internal driver	Financial and social value	*Parallel* Developing the original concept step by step and leaps. Innovations to secure and create job opportunities for the target groups.
Set 2. Aim: Job creation for disabled people	Opportunity created Internal driver	Social and financial value	
Set 3. Aim: Large scale job creation for people outside labor markets	Opportunity created Internal driver	Social value	
SocEnt G			
Set 1. Aim: Servitization within social housing	Opportunity created Internal driver	Social value	*Sequential* Developing the original concept step by step. Innovations to adapt and stretch the original concept to serve wider and more versatile communities.
Set 2. Aim: From isolated houses to block-wide communities	Opportunity created w/ partners Internal driver	Total value	
Set 3. Neighborhood development	Opportunity created w/ partners Internal driver	Total value	

These findings indicate that the case companies pursued business model innovations for different reasons. Most innovations have been driven by internal motives, such as promotion of the company's social mission or development of new service models. Some financial drivers may also be considered internal; for instance, SocEnt C has been forced to innovate in search of viable business to ensure that there is a company to promote the social mission in the first place.

> *Our aim is to grow because providing employment is an important thing; we want to employ as many people as possible who are blind.* (CEO, SocEnt A)
>
> *A big driver of going abroad is that Finland is so over-regulated that you cannot provide anything but basic bulk, which does not work.* (CEO/owner, SocEnt B)

Growth is a precondition for realization of our vision. It will be realized through volume. (CEO/owner, SocEnt C)

However, some business model innovations are a response to external financial pressures caused by intensive competition, public procurement policies, and polarizing markets. Case companies A, B, C, and F are all examples of social enterprises that have had to renew their activity systems at a certain point in order to find new client groups and business opportunities or to achieve a minimum viable size, even though creating social and/or total value is the cornerstone of their business. This is well illustrated by the following the two quotes, both from the CEO of SocEnt F.

We should be constantly looking for opportunities bringing new benefits and with which we can increase our impact.

Orientation to grow is vital ... when the customer base shrinks due to a recession, for example, and we have nothing to replace the demand, it's goodbye. (CEO, SocEnt F)

Operating environment factors not only force companies to innovate but can also consolidate their focus. For instance, changes in the regulatory environment have made it easier for many companies like SocEnt A and SocEnt C to pursue their social mission.

This new law on waste management last May was really good for us. It stated very explicitly that re-use of products is to be the second most prioritized waste management activity. (CEO/owner, SocEnt C)

Although drivers and outcomes tend to go hand in hand, the same operating environment can produce different responses. SocEnt B and SocEnt D both operate in the highly polarized social and health services market, and both feel the pressure to grow in size to remain competitive. However, they have reacted to this pressure in quite different ways. SocEnt B operate in those markets, its original business idea was to help small care home entrepreneur-owners to grow their business without compromising the quality of care services. In contrast, encouraged by a change in the legislation, SocEnt D took the leap into a new personal assistance services business. At the same time, it had to surrender its status as a work integration social enterprise (WISE), as the original staff could not meet the new business requirements. In the end, both of its business model innovations seem to prioritize financial value, moving away from their original hybrid model.

SocEnt E and G, on the other hand, have emphasized total value creation in all of their business model innovations. They are also strongly driven by their respective social missions.

I said that we would participate on condition that social value is defined as having a value of its own and on top of the total value of the project ... Of course, we have to produce financial value—that's obvious—but on top of that, we must keep social value in mind at

all times. Our partner, a top-tier commercial company, said "OK, sounds good." (CEO, SocEnt G)

In sum, our results demonstrate that social enterprises' business model innovations fluctuate over time, creating very different paths for social and financial value. Interestingly, we also found that these innovations are not driven solely by a desire to create social or total value but may also be influenced by other drivers and objectives (as in the case of SocEnt D).

After analyzing the drivers and outcomes of each business model innovation, the analysis moved on to explore the various ways in which these processes unfolded. We identified four sequential and two parallel development processes. (As SocEnt E had only completed one business model innovation, no relevant conclusions could be drawn in that case.) Cases A, C, D, and G appeared to favor a sequential development process, in which one business model innovation is implemented at a time. The main reasons for this approach related to scarcity of resources and risk aversion.

We can't afford to expand to every city in Finland at the same time; we have to choose the region carefully. (CEO/owner, SocEnt E)

Well, I would buzz here and there, but the board's policy is that [the opportunity] *should be clearly aligned with our current concept.* (CEO, SocEnt A)

SocEnt B and SocEnt F ran parallel renewal processes. SocEnt F is among the biggest case companies and a relatively stable actor and can therefore afford to expend resources on multiple pilots and fairly radical initiatives. SocEnt B is led by a very innovation-oriented CEO, who is supported by the leaders of the company's business units.

What is great about this group is that we can provide a platform for various types of pilot. We have different customer groups. And we are quite positive about utilizing technology … and these leaders are really into trying out new things. (CEO/owner, SocEnt B)

Beyond the temporal dimension, it is interesting to see how some companies build on the existing concept with gradual development projects and pilots while others take discontinuous leaps into new initiatives and business areas. The gradualist approach was favored by case companies B, E, and F. This form of path dependency need not mean that developments are modest or small in scale. For instance, from being a construct contractor specializing in social housing and community building, SocEnt F has gone on to develop the award-winning concept of intergenerational blocks and is now on the way to becoming a neighborhood developer. Their original concept of building affordable living and active communities is still there, but new layers have been added in a gradual development process. Using a slightly different approach, SocEnt B proceeds in multiple directions at the same time but remains committed to its original business idea of developing care homes.

The remaining four case companies have developed some or all of their new business models in discontinuous leaps: SocEnt D in all of its innovations and firms A, C, and F in one each. SocEnt C's motivation was organizational survival; as it was unable to make its business model work, it had to move on from modernizing recycling centers to create a web-based platform for utilizing big manufacturers' side streams. SocEnt A (set 2) and SocEnt F (set 3) present different and surprising stories. In general, both are careful and risk averse; they both assess opportunities carefully and both have rejected options they saw as either financially risky or as their social mission. Paradoxically, these two have made some radical moves without substantial external pressure.

> *There is a real business case when one considers that about 15 to 20 percent of online service users belong to these groups* [with special needs]. (CEO, SocEnt A)
>
> *We have such a big problem on our hands … we should try to fade the legal perspectives into the background a bit … and if someone has to be punished, I'll take the blame. The impact outweighs the risk if something should happen.* (CEO, SocEnt F)

It seems that if the expected reward in form of social value spillovers is big enough (or if the threat is severe enough, in the case of SocEnt C), this encourages big leaps in business model innovation. However, it also seems clear that such major leaps are risky. SocEnt B realized this in surrendering its WISE status to pursue the business opportunities afforded by new legislation. SocEnt C and SocEnt F were ultimately unsuccessful in adopting a radical approach, as both of these business model innovations failed. Based on our data, SocEnt A alone managed to generate total value with a radically new business model innovation, despite also struggling with new forms of uncertainty.

4.3 Boundary conditions of business model innovations in social enterprises

Finally, we analyzed the boundary conditions of business model innovation by exploring internal tensions and constraints at the intersection of social and business logics. Three main boundary conditions were identified: social mission, risk aversion, and financial return. This in turn identified three clusters of firms facing different situations. In case companies A, C, and E, social mission has been the dominant factor in setting such boundaries, and new activity systems are evaluated against the social value they are likely to produce. At SocEnt A, the board has judged some new opportunities introduced by the CEO as too far from the current concept. While the owners of the two startups (SocEnt C and SocEnt E) remain committed to their social mission, both acknowledge that the platforms they developed have commercial potential that could help them to reach break-even point sooner. However, they have decided not to exploit these opportunities, which would not serve their social mission. They have experienced differing outcomes; despite its efforts, SocEnt C is on the edge of

bankruptcy. In contrast, SocEnt E recently acquired significant public partners, who would be unlikely to have come on board if shortcuts were taken.

> *This could have been a more general service for making appointments; the business potential would have been much bigger. But that kind of service wouldn't work in mental health services, so we come back to our original problem.* (CEO/owner, SocEnt E)

In the second group of firms (SocEnt F and SocEnt G), boundary conditions include both the primacy of social mission and avoiding financial risk. These firms are ready to make financial sacrifices to maximize their social impact but avoid opportunities that entail financial risk. For example, SocEnt G has tailored service models that enhance their beneficiaries' well-being but are sub-optimal from a financial perspective. At the same time, the company avoids further financial risk (and related opportunities) by choosing not to tap into all of the potential demand from the markets, as it would mean acquiring new capital by sharing ownership or seeking investment.

> *Our decentralized housing concept weakens our business financially; as the public subvention decreases, the less institution-like it becomes. It is absurd. Certain actors within the sector build massive institutions for assisted living because the subvention they get by doing so is so high… If you consider that, in operating assisted living like this, we get a million euros less in subsidies, I should be fired.* (CEO, SocEnt G)

> *We don't dare to meet all the demand we have … Our equity ratio holds us back.* (CEO, SocEnt G)

The third group is formed by SocEnt B and SocEnt D firms whose social mission does not seem to represent a decisive boundary condition; instead, opportunities are evaluated mainly in terms of their financial potential or newness. There are differences between the two firms; for example, the CEO/owner of SocEnt B stated that its social and financial objectives align well, and the business would scarcely be different if it were not a social enterprise. SocEnt D's social mission is obviously not a boundary condition; rather, social value has been diluted during the process of business model innovation, and the financial focus has actually steered the company to further success (at the cost of social mission/status).

In conclusion, financial and social missions clearly set boundary conditions for each other and, as the cases demonstrate, there is an interesting interplay between them. In fact, it seems that the boundary conditions set by financial and social missions may provide a stronger explanation for the tensions endured by social enterprises than the business model innovations themselves. Business model innovation may develop with changing internal and external pressures over time, but boundary conditions (linked to the mission) appear more permanent as structures based on organizational values and preferences.

5. Discussion and implications

In this study, we investigated business model innovation in social enterprises from an activity system perspective, adopting a process approach. Based on a multiple case study of seven Finnish-based social enterprises, we demonstrated that business model innovation in social enterprises can involve various forms of hybrid logic that combine social and financial outcomes, either sequentially or in parallel over time, and in a path-dependent and gradual manner or in more radical and discontinuous leaps. We also found that social and business logics can act as boundary conditions for each other in multiple ways, restricting or guiding opportunities for business model innovation. The rest of this section outlines the detailed implications of these findings for research and practice.

5.1 Toward a deeper understanding of hybrid logics in social enterprises

Our results contribute to recent discussion of hybrid logics and hybridity in organizations (Pache and Santos, 2012; Santos et al., 2015; Davies and Doherty, 2018) and, more specifically, in social enterprises (Battilana and Lee, 2014; Doherty et al., 2014). Using the activity system approach to business models (Zott and Amit, 2010), we were able to demonstrate the diversity of activities within a firm's overall business model. Our results confirm that social enterprises rarely have just one business model that integrates social and business logics but deploy several activity sets involving different configurations of logics.

These findings have important implications for research in this area. First, it seems that we should not view social enterprise as a "business model" in itself, as each such enterprise is likely to involve a distinctive mix of different logics. For instance, we found that the case companies encompassed a diverse range of hybrid logics (cf. Santos et al., 2015) in the portfolio of activity sets introduced through business model innovation. This means that any examination of how hybrid tensions are to be resolved might be best undertaken at the level of activity sets rather than at firm level. On the other hand, as firms may encounter increasingly complex hybrid tensions as they introduce new activity sets, a fuller understanding of synergies or conflicts across activity sets is also important. These findings regarding the heterogeneity of the business models in terms of financial and social logics is also a healthy reminder that social enterprises might not be best viewed as a separate segment of the economy, but rather an embedded subset that involves a partially different configuration of logics and related business models. In this regard, the question of "what is social in social enterprise" is an interesting one and deserves further scrutiny. Relatedly, as Dey and Steyaert (2012) point out, more conceptual and empirical studies are needed to critically revise some of the hidden assumptions within social enterprise

field, and for instance assess its political effects, normative assumptions, and overall legitimacy as a way to organize social value creation within economy.

We also found that some activity sets within the business model are better aligned with financial value creation, some with social value, and some with "total value". While some of the case companies were able to combine these across activity sets, other companies found it more challenging to develop such synergies. This again highlights the utility of viewing business model activities as an internally and externally interdependent system (as also noted in the context of sustainable business models; see for example Inigo and Albareda, 2016). Thus, we find that social enterprises are not rigid constructs. For instance, the balance between financial and social objectives may be compromised if an activity set tailored to produce mainly financial value begins to dominate.

5.2 Understanding business model innovation and growth in social enterprises

Our results show that social enterprises innovate their business models by adding new activity sets sequentially or in parallel rather than building on a single rigid growth strategy (see also Dobson et al., 2018; Gebauer et al., 2017). In this regard, our findings complement those of Davies and Doherty (2018), whose single case study showed that a social enterprise's value capture logic might change over time, with profound implications for how it operates.

Our findings suggest that social enterprises follow different trajectories in implementing business model innovation. Some of these are more path-dependent, where new activity sets are bounded by earlier choices in the business model; others depart from existing business paths by experimenting with completely new activities. In short, innovation strategies range from low risk iteration and expansion from the core mission to discontinuous and risky experimentation. Choosing the right business model innovation strategy is crucial, as social enterprises commonly operate with scarce resources and within the boundaries of business and societal stakeholders (Austin et al., 2006; Lumpkin et al., 2013; Margiono et al., 2018). These findings align with sustainable business model research, which suggests that business model experimentation is both necessary and challenging when firms tackle new sustainability challenges (e.g., Weissbrod and Bocken, 2017).

The diversity of trajectories is already recognized in the growth literature (Achtenhagen at al., 2013; Delmar et al., 2003; Dobbs and Hamilton, 2007), but in light of our findings here, we contend that BMIs tend to become more complicated in social enterprise contexts. Our results contribute to the growth literature by showing how social and financial value creation often serve as mutually constraining boundary conditions for growth. This perspective complements to studies that view social mission as the main boundary condition, setting the tone for other factors (Austin et al., 2006; Dees at al., 2004; Doherty et al., 2014;

Shaw and Carter, 2007). For instance, we found that some social enterprises may be largely driven by financial value, viewing social value as an automatic side product that does not constrain financial growth in practice. This leads back to the issue of mission drift (Cornforth, 2014) or to more foundational concerns regarding the nature of the social value component.

5.3 Managerial and policy implications

Our findings also have implications for practitioners, with three particular take-aways for (aspiring or current) social enterprise owners, managers, and boards seeking to grow their business in a sustainable way through business model innovation. First, social enterprises should be especially aware of the relevant boundary conditions for growth. This means clearly understanding the social enterprise's mission and whether business growth is to be led by internal or external drivers (or both). Here, it is important to ask, for instance, what financial risks the company can afford to take and to what extent growth should be steered by social or business opportunities. In other words, social enterprises benefit from a clearly defined growth strategy.

Second, social enterprises benefit from clear goal-setting for business model innovation to address the inevitable question of whether the new business model should prioritize financial or social value or try to balance these. The response to this question will have major implications for beneficiaries and clients, as well as the underlying value architecture—what to do, with whom, and how. For instance, in moving from a bridging to a coupling model, there are new issues to be resolved, such as how to handle separate value chains or develop a balanced performance measure across models. Existing research proposes structural differentiation as one possible solution, but this may lead to internal competition for resources and priorities within the company.

Third, implementation of business model innovation is crucial; we identified major variations in the success of new activity sets and processes for introducing them. Successful implementation depends on careful evaluation of available resources and the capacity to cope with the tensions associated with the new BM. For instance, while increasing complexity is sometimes unavoidable, this should be grounded in careful contemplation. In this regard, social enterprise owners must choose whether to expand their business model gradually and iteratively from the core mission or by taking an experimental and radical leap into new areas. The former approach is less risky but may lead to missed opportunities; the latter is riskier but opens up new areas.

Finally, we briefly discuss some of the policy implications of this study. The European Union has made continuous efforts to monitor and develop supportive ecosystems

for social enterprises throughout Europe (European Commission, 2011, 2015[2]). When reflecting these efforts to our findings, two observations on the role of policy makers and public sector actors at large emerge. First, social enterprises are framed as rather rigid constructs, even though the temporal dimension within development processes of their business models is vital for social enterprises ability to create social value spillovers. Turbulences in social enterprises' operational environment may lead them to stress organizational survival and promote financial missions at the expense of social ones (see also evidence from Australia, Weerawardena et al., 2010). Second, public sector can take actions to lessen the complexity of their business model. Public actors play various roles even in market-oriented social enterprises, and their involvement appears to be associated with complexity of business models. Complexity, in turn, increases the risk of mission drift and/or financial failure. To conclude, predictability and coherence of public policies and practices is vital to minimize the need for sudden actions and complex business models from social enterprises' part. Public sector actors should also follow common guidelines whether they interact with social enterprises as buyers, funders, partners or legislators.

5.4 Limitations and further research

The present study has a number of limitations that are typical of qualitative case study research, which also provide feasible ideas for further research. First, our focus on Finnish social enterprises may limit the scale and scope of opportunities for business model innovation, and the selected cases may not encompass all possible trajectories for adding, reconfiguring, or discarding business model activities over time. For those reasons, more research is needed to elucidate the temporal dynamics of business models in variety of social enterprise settings. For instance, there could be comparative studies examining how social enterprises are able to develop and grow their business models under different institutional settings. In some settings, the available subsidies or other benefits might make scaling up easier, while in other settings (such as ours) the social enterprises might compete mostly with a regular market logic. Second, as our focus was on activities and activity sets, we did not distinguish between the value creation, delivery, and capture elements of business models. Future studies could usefully combine these perspectives by focusing, for example, on activities that affect financial and social value creation, as well as activities that facilitate value capture in these domains. Concretely, this could be done e.g. via fsQCA methods (see To et al., 2019) in order to connect antecedents to variety of value creation on capture outcomes. Alternatively, quantitative studies – including those that use survey or archival data – could expand the generalizability of our

[2] A follow up report on the mapping of social enterprises and their ecosystems (2015) is in process during 2019.

findings by examining to which extent firms are able to capture value from combining hybrid logics. Third, it would also be interesting to further explore the internal interdependencies and management of the various hybrid logics (Santos et al., 2015) in business models. As recently suggested by Bull and Ridley-Duff (2019), it seems likely that there are many more ways of combining social and business logics, and more nuanced perspectives are therefore useful. Furthermore, studies have demonstrated that companies have to deal with variety of contradictory demands in their business model innovation, and some companies are better in accommodating those contradictions than others (Ricciardi et al., 2016). Therefore, further studies could examine how abilities such as adaptive culture or paradoxical mindset, for instance, improve social enterprises' abilities in business model innovation. In general, we would expect our results to promote further study of business model innovation in social enterprise settings.

APPENDIX. Building architecture of activity systems, example of SocEnt A

The analytical process behind forming activity systems of each case company is demonstrated here with the case of SocEnt A (similar level of detail is involved in other analyses as well). The company's original business idea was to employ visually handicapped people by providing transcription services to companies, universities and public sector actors. SocEnt A is growth oriented and aims at doubling the amount of its employees: Between the years 2010-2017 two business model innovations (BMIs) aiming to growth were identified. The first BMI, activity set 1 called 'Diversify business', was initiated around 2013, when competition within transcription business intensified and the company was compelled to find ways to develop new business leads and find new customer groups. The second BMI, activity set 2 called 'Enter into new business area', was designed around 2014-2015, when the information on upcoming EU directive on accessible web services was received.

To form the architecture of these BMIs, interviews and secondary material was coded. First, all the excerpts handling with one of the two business model innovations were coded. Then, single activities were coded with descriptive codes, which were later checked, compared and clustered to form broader categories. In the end, there were 25 codes describing *what* was done attached to SocEnt A's two BMIs. Several activities were typically attached to an excerpt, for various levels of activities were identified (see also Zott and Amit, 2010):

> *It is mainly public actors; ministries and administrative units under the ministries; who we have tested, trained and consulted, but there is also one broad-based partnership with a bank.* Codes used: Aim, Enter new business area; Act, training; Act, consulting; Act, testing.

We have cooperated with [a NGO]*, because there aren't any guide books explaining how to design accessible mobile apps. So, together we are drawing up sort of a check-list on how to take accessibility into account when developing mobile apps.* Codes used: Aim, Enter new business area; Act, training; Act, open sharing.

All the codes were imported and analysed set by set in order to find the overlaps of codes. Code hierarchies were illustrated with set-specific code trees (Figure 1) and cross-checked with running hierarchy charts for each set (Figure 2 represents hierarchy chart of activity set 2). In hierarchy charts, the size of areas reflect the numbers of items coded with particular codes.

Figure 1 Code trees illustrating hierachy of activities

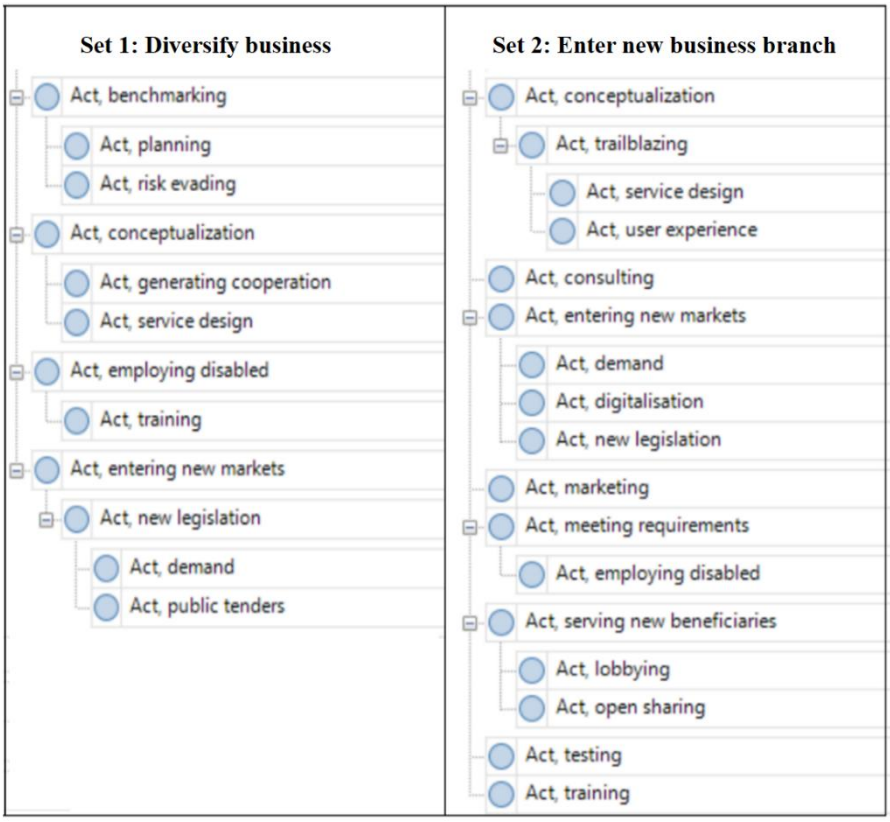
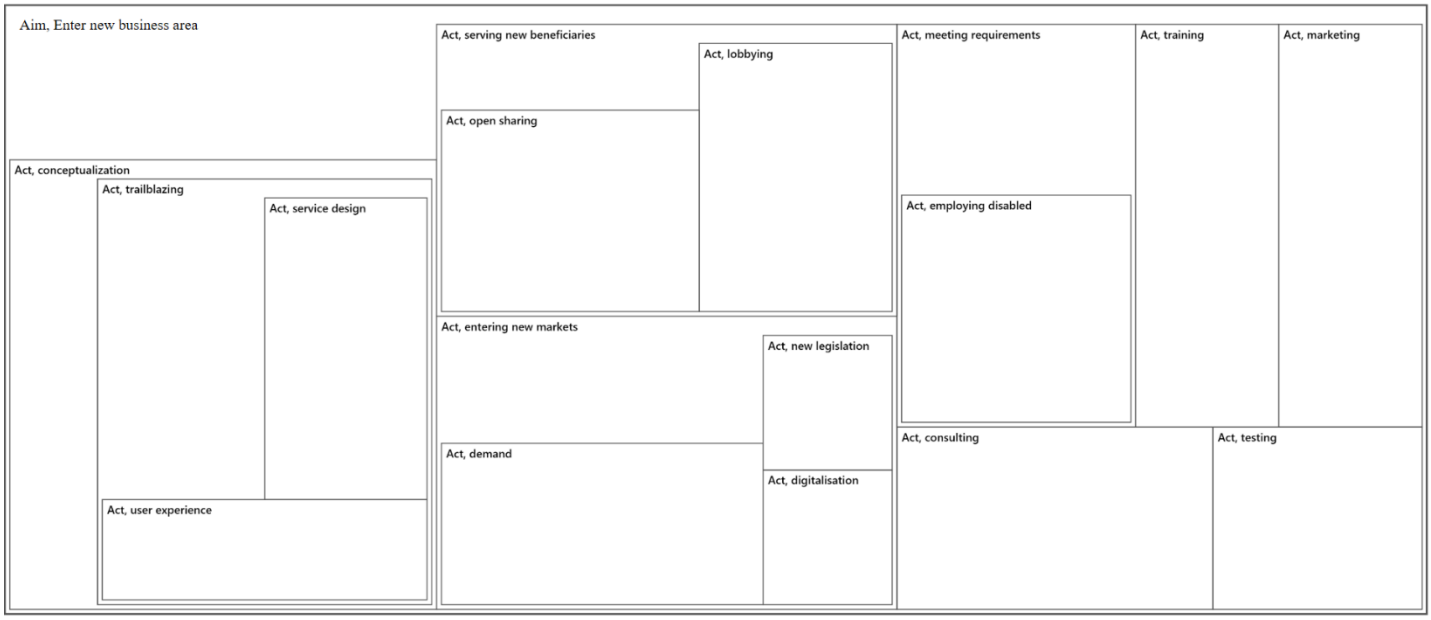


Figure 2 Hierachy chart of the activity set 2



To build the whole architecture of activity system, roles of partners (*who* codes) and relationships between activities (*how* codes) were explored and coded in the data. As for the partners, only actors involved in conducting the activities were included. For the activity set 1 three groups of partners were identified; private partner, public customer and public funder; whereas for the activity set 2 seven groups of partners were found; beneficiaries, gate keeper, a NGO, private customers, public customers, public funders and users. Code matrices of *what* and *who* codes were generated to analyze the intersections of activities and actors for each set. Finally, the relationships between different activities were placed on a timeline to showcase how the sets have evolved over time. Besides years, also different phases, such as beginning, second phase and expansion, were marked in the data.

Table 6 demonstrates how the business model innovations' architecture came together at the company level. The column furthest to the left summarizes the core activities within activity systems. Other activities are organised in rows based on which core activities they have contributed to. The order of the columns indicates timeline and thus helps to illustrate the sequencing of activities. Also information about with or by whom a certain activity was carried out was attached to the activities when considered relevant.

Table 6 Business model innovations as activity systems

Growth path:	**Turnover down by over 35%**	**Steady growth 2014-2017**	
Years:	**2013-2014**	**2015-2016**	**2017**
Set 1: Diversify services			
Service diversification	New legislation, public procurement process		
	Service design w/ private partner		
	Rejected by public customer, visual handicap seen as a burden		
Set 2: Enter new business area			
Recruiting disabled people		Wage subsidies necessary	Wage subsidies necessary
		Requirements for workforce change, potential social risk	Requirements for workforce change, potential social risk
Service diversification	Digitalization of services and upcoming legislation creates an opportunity	Investing	Marketing and communications
New markets and new services	Conceptualization of new services	Offering training, consulting and testing for public and private customers	
		User experience, unique selling point	
Serving new beneficiaries	About 15-20% of population benefits from accessible web services	Advocacy, open sharing and training w/ NGO partners	

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