Business Model Canvas for Social Enterprise

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Abstract: Business Model Canvas manages to make business model simple, and easily understood while capturing the complexities of how enterprises function. Therefore, it makes a useful tool to understand the business model of an enterprise and to conduct business model innovation. Social enterprise is no exception as all organisations must generate enough revenue to survive. However, social enterprise has different definitions and characteristics to business enterprise that adjustments to the Canvas are necessary to fully capture the business model of a social enterprise. Since it is licensed under Creative Commons, others could create new versions of the Canvas based on their understanding of business model, making Osterwalder’s Canvas for social enterprise not the only Canvas that can be used to capture the business model of social enterprise. Selecting the right Canvas becomes important for social enterprise in order to properly define and further innovate its business model. By evaluating the Canvas adaptations and understanding the definitions and characteristics of business model, business model canvas, and social enterprise, the best Business Model Canvas for social enterprise can be properly defined. The result reveals that the available Canvas adaptations cannot fully capture the business model of social enterprise and through a combination of the other Canvas adaptations, a new Canvas adaptation is made by adding two crucial blocks that represents mission and impact in the business model canvas.

Key words: business model canvas; business model innovation; social enterprise

JEL code: O350

1. Introduction

According to Dees (1998), social entrepreneurship combines the passion of a social mission with an image of business-like discipline, innovation, and determination commonly associated with, for instance, the high-tech pioneers of Silicon Valley. Bornstein & Davis (2010) further defines social entrepreneurship as a process by which citizens build or transform institutions to advance solutions to social problems, such as poverty, illness, illiteracy, environmental destruction, human rights abuses and corruption, in order to make life better for many.

Social entrepreneurship has emerged as a global phenomenon in the recent years. In those years, there was rising crises in environment and health and rising economic inequality (Bornstein, 2004). However, governments and multilateral agencies failed to provide timely and effective interventions. In many countries, government retreated from provision of public goods, which leaves market-driven models of welfare (Martin, 2002). This leads to the demand for new models that created social and environmental value in form of social enterprise.

Social enterprise, like any other enterprise, deal with the unknowns and uncertainties, and in order to survive,
it has to innovate. One of the ways it can innovate is by conducting business model innovation. Before it could innovate, it is important for the enterprise to properly define its business model. Business Model Canvas is one of the tools to define the business model of an enterprise. It is important to find the best Business Model Canvas that is able to fully capture the business model of a social enterprise before business model innovation.

2. Literature Review

2.1 Social Enterprise

Kerlin (2009) notes the different definitions of social enterprise. In the United States, social enterprise is a broad and relatively vague concept, referring primarily to market-oriented economic activities serving a social goal. In Europe, the concept made its appearance when the Italian parliament adopted a law creating a specific legal form for social cooperatives in 1991. Eventually European researchers noticed the existence of similar initiatives throughout Europe and decided to form a network to study the emergence of social enterprise in the continent. EMES European Research Network (Borzaga & Defourny, 2001) came up with the definition of social enterprise as organizations with explicit aim to benefit the community, initiated by a group of citizens and in which the material interest of capital investors is subject to limits. Social enterprises also place a high value on their autonomy and on economic risk taking related to ongoing socio-economic activity.

Social Enterprise Alliance (2009) defines social enterprise as an organization or venture (within an organization) that advances a social mission through market-based strategies. These strategies include receiving earned income in direct exchange for a product, service or privilege. For the entirety of this paper, this definition is used to describe social enterprise.

2.2 Business Model

The term of business model first appeared in an academic article by Bellman Clark et al. in 1957 and in the title and abstract by Jones in 1960 (Osterwalder, 2004). However, the concept wasn’t properly defined and only became significant with the emergence of the World Wide Web in the mid-1990s. Since then it has been gathering momentum (Zott, Amit, & Massa, 2011). There is no generally accepted definition of the term business model. The diversity of the definitions poses challenges for delimiting the nature and components of a model and determining what constitutes a business model. It also leads to confusion in terminology, as business model, strategy, business concept, revenue model, and economic model are often used interchangeably. Furthermore, the business model has been referred to as architecture, design, pattern, plan, method, assumption, and statement (Morris, Schindehutte, & Allen, 2003).

Amit & Zott (2001) assert that “business model” depicts the content, structure and governance of transactions designed so as to create value through the exploitation of business opportunities. Margretta (2002) defines business models as stories that explain how enterprises work. Osterwalder, Pigneur & Tucci (2005) define business model as the rationale of how an organization creates, delivers, and captures value. By using the term of organization, Osterwalder, Pigneur & Tucci does not exclude organizations that are not normally associated with business in business model, such as non-profit organizations, charities, public sector entities and for-profit social ventures.

Osterwalder & Pigneur (2010) argue that every organization has a business model, because it must generate enough revenue to cover its expenses to survive. The only difference between traditional business enterprise and social enterprise concerns the focus of the organization. Business enterprise focuses more on financial returns or
shareholder value, while social enterprise focuses more on ecology, social causes, and public service mandates. They use the term “beyond-profit business models” to characterize business models for organizations that are not traditional for-profit companies. They further split these “beyond-profit business models” into two categories: third-party funded enterprise models and triple bottom line business models.

2.2.1 Business Model Canvas

Osterwalder and Pigneur (2010) stood out among the others as they did not only offer business model definition and components, but also a visualization of business model. Business Model Canvas allows business model to be simple, relevant and intuitively understandable, while not oversimplifying the complexities of how enterprises function (Osterwalder & Pigneur, 2010, p. 15). The Canvas becomes a shared language and a useful tool for stakeholders to talk about business model.

The Business Model Canvas and the definition of the nine building blocks are presented below.

![Business Model Canvas](image)

Figure 1  Business Model Canvas

Adapted from Business Model Generation (2010) by Osterwalder A. & Pigneur Y.

The nine building blocks of the Business Model Canvas:

1. **Customer Segments**: The different groups of people or organizations an enterprise aims to reach and serve.

2. **Value Proposition**: The bundle of products and services that create value for a specific Customer Segment. Value may be quantitative (e.g., price, speed of service) or qualitative (e.g., design, customer experience).

3. **Channels**: How a company communicates with and reaches its Customer Segments to deliver a Value Proposition. Communication, distribution and sales Channels comprise a company’s interface with customers. Channels can be direct or indirect, owned or partner channels.

4. **Customer Relationships**: The types of relationships a company establishes with specific Customer Segments.

5. **Revenue Streams**: The cash a company generates from each Customer Segment.
(6) **Key Resources**: The most important assets required to make business model work. These resources allow an enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues. Key resources can be physical, financial, intellectual, or human. They can be owned or leased by the enterprise or acquired from key partners.

(7) **Key Activities**: The most important things a company must do to make its business model work. They are the actions that are required to create and offer a Value Proposition, reach markets, maintain Customer Relationships and earn revenues.

(8) **Key Partnerships**: The network of suppliers and partners that make the business model work.

(9) **Cost Structure**: All costs incurred to operate a business model.

### 2.3 Methodology

For this paper, qualitative research method was chosen, which implies designing a study that involves collecting qualitative data and analysing it using interpretive methods (Collis & Hussey, 2009). This method generally uses smaller data sets that are sufficient enough to reach reliable results, where the data collection continues until saturation is reached. This project is considered as conceptual research, as it attempts to develop new concepts or interpreting existing concepts. It concerns historical research, theory development, literature reviews, and critical analysis and can be used to establish concepts in an area (Håkansson, 2013).

In this paper, the qualitative data is the available Business Model Canvas adaptations for social enterprise. The main considerations in choosing the Canvas adaptations to be further reviewed are the recognisability and accessibility of the adaptations. Recognisability is defined by the ease of which the adaptation is recognized that it is based on Osterwalder’s Canvas. It can be seen whether the labelled blocks are arranged into a canvas and the blocks have labels that bear more than 50% similarity in title and meaning with Osterwalder’s Canvas. Accessibility is defined by the ease of which the adaptation is accessed by the aid of search engines using the keywords of “business model” and “social enterprise”, which is less than 10 pages by the time of the research.

Using inductive approach, theories and propositions with alternative explanations are formulated from observations and patterns found in the collected data. Through extensive literary review from books, journals, articles and websites about social enterprise and entrepreneurship, business model and business model canvas, all possibilities are explored to obtain as many relationships between different variables as possible in order to get an insight to the problem. From the literature review and critical analysis, criteria of the best Canvas for social enterprise can be defined and utilized to make the selection from the available adaptations, or if there is no adaptation that makes the selection, then to develop the Business Model Canvas for social enterprise.

### 3. Business Model Canvas Adaptations for Social Enterprise

For social enterprise, which Osterwalder & Pigneur consider as “beyond-profit business models”, they adjust the Canvas accordingly to fit the requirement of a social enterprise to define and further innovate its business model. In third-party funded enterprise model, the product or service recipient is not the payer. The payer is a third party, which might be a donor. The third party pays the organization to fulfil a mission, which may be a social, ecological, or public service nature. Examples are philanthropy, charities and government (Osterwalder & Pigneur, 2010). The Canvas is similar to multi-sided platform for for-profit business models and requires no significant change in comparison to the original Canvas.

However, for triple bottom line business models, the Canvas is extended at the bottom with two new building
blocks: the social and environmental costs and the social and environmental benefits, consistent with its values: People, Profit and Planet (Elkington, 2004). The triple bottom line model seeks to minimize negative social and environmental impacts and maximize the positive. Since Business Model Canvas is licensed under Creative Commons Attribution-ShareAlike, others could create new versions of the Canvas based on their understanding of business model, making Osterwalder’s Canvas for social enterprise not the only Canvas that can be used to capture the business model of social enterprise.

GoGreen Portland, a US sustainability conference for business and government, proposes additional building blocks of Problem and Impact and Measurements. Having a Problem building block would keep the focus on the problem the enterprise wants to solve, but makes the approach into solving them too broad. Impact and Measurements building block addresses the social/environmental impact that social enterprise wants to achieve, which is missing in Osterwalder’s Canvas.

Social Innovation Lab goes as far as rearranging the building blocks; differentiating value proposition into Social and Customer Value Proposition, adding Impact Measures in Value Proposition block; differentiating customers into beneficiary and customer; replacing Customer Relationship with Type of Intervention block; and adding Surplus block into the Canvas. It is an interesting take of Canvas thought it might be confusing for those used to Osterwalder’s Canvas, because the sequence is also affected. The most interesting addition is the Surplus building block, because for social enterprise, the Surplus has to be reinvested into the mission unlike the freedom of business enterprise with its surplus.

Smith (2012) proposes creating two different Canvas for social enterprise, one for Beneficiary and the other for Donor. The Canvas for Donor is similar to Osterwalder’s Canvas but has specific focus on Donor’s perspective. Meanwhile, the Canvas for Beneficiary replaces Value Proposition with Impact Metrics. This is the logical approach for social enterprise that has donors and beneficiaries, this would help to avoid confusion in having them in one Canvas. However, the advantage can also be the disadvantage, which means it requires two Canvas to understand the whole business model of social enterprise. However, the important building blocks such as Mission Offering and Impact Metrics are addressed.

Graves (2011) proposes changes on the labels of the building blocks: Customer Segments to Co-Creators; Customer Relationships to Relations; Cost Structure to Value Streams — outlay and costs; and Revenue Stream to Value Streams — returns. This change in labels is intended to broaden its scope, such as not limiting the customer segments to those that merely pay for product/service, but also those that benefit from it, and not limiting the value to monetary value or costs. Thus, the expected success of a social enterprise can be put in Value Streams — returns.

Yeoman and Moskovitz (2013) proposes Social Lean Canvas, which is based on Lean Canvas, another business model framework aside of Business Model Canvas, created by Maurya (2011). Lean Canvas has different definition and approach to business model. However, it provides new building blocks such as Purpose, Problem, Solution, Key Metrics, Unfair Advantage, Financial Sustainability and Social/Environmental Benefit.

The Purpose building block acts as the guidance for the rest of the business model. The problem and solution set helps to ensure the right solution is chosen to answer the problem the enterprise wants to answer. Key Metrics block give a set of measurements that can act as a goal and as a guidance, which is important for social enterprise that doesn’t use the different metric than business enterprise. Unfair Advantage block emphasizes what makes the social enterprise different and successful. Financial Sustainability is chosen well to replace Revenue Stream to cover all the potential revenue streams for social enterprise. Impact block addresses the impact the social
enterprise wants to achieve, but also puts the beneficiaries in this block instead in Customer Segment, unlike Business Model Canvas.

For better understanding of the differences between all the adaptations on Osterwalder’s Business Model Canvas for social enterprise, see Table 1.

<table>
<thead>
<tr>
<th>Business Model Canvas</th>
<th>Customer Segment</th>
<th>Value Proposition</th>
<th>Channel</th>
<th>Customer Relationship</th>
<th>Revenue Stream</th>
<th>Key Resources</th>
<th>Key Activities</th>
<th>Key Partners</th>
<th>Cost Structure</th>
<th>Additional Block(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Osterwalder (2010) Third-party Funded Model</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
</tr>
<tr>
<td>Osterwalder (2010) 3BL Business Model</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>Social&amp; Environmental Costs; S&amp;E Benefits Problem; Impact&amp; Measurements</td>
<td></td>
</tr>
<tr>
<td>GoGreen Portland</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>v</td>
</tr>
<tr>
<td>Social Innovation Lab Beneficiary: Customer</td>
<td>Social&amp; Customer Value Proposition; Impact Measures Mission Offering; Donor-focused Value Proposition</td>
<td>v</td>
<td>Type of Intervention</td>
<td>v</td>
<td>v</td>
<td>v</td>
<td>Partners+ Key Stakeholders</td>
<td>Surplus</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Smith (2012)* Beneficiary: Donor | v | v | v | v | v | v | Value Streams-
| Graves (2011) Co-creators | v | v | v | v | v | v | Value Streams |
| Yeoman and Moskovitz (2013) | v | Unique Value Proposition | v | Unfair Advantage | Financial Sustainability | Key Metrics | Solution | Problem; Existing Alternatives | Purpose; Social/Environmental Benefit |

Note: *two separate Canvases for social enterprise.

This reveals that there are individuals and organizations that consider Business Model Canvas insufficient to completely capture the business model of social enterprise. Based on the comparisons, these adaptations are likely caused by the difference in the definition of social enterprise itself. Some has a broad take of social enterprise, while others have specific definition of social enterprise, which affect their own definition of who the customer segments are, what are the value propositions, and so forth. This brings the question which adaptation is best used for social enterprise.

4. Business Model Canvas for Social Enterprise

There are two main considerations in selecting the business model canvas for social enterprise, which are the characteristics of business model canvas and social enterprise themselves. The definition of Business Model Canvas is a shared language and a useful tool for stakeholders to talk about business model that allows business model to be simple, relevant and intuitively understandable, while not oversimplifying the complexities of how enterprises function (Osterwalder & Pigneur, 2010). Based on this definition, the Canvas is supposed to be simple, relevant and intuitively understandable, which means that the adaptations that require more adjustments and
learning for those who were familiar with Osterwalder’s Canvas do not fulfil the requirement. They are the adaptations made by Smith (2012), Social Innovation Lab, Yeoman & Moskovitz (2013).

By separating the Canvas into two separate ones, Smith makes it harder to understand the business model in one glance, since there are two of everything. It is also made unclear how the different building blocks interact with each other, specifically the customer segment of donor and beneficiary. Social Innovation Lab goes as far as rearranging the building blocks and changing the sequence. However, Yeoman and Moskovitz makes the most radical change of all the adaptations. They are not merely rearranging the blocks or changing the sequence, they change the blocks itself. Without having an understanding of Lean Canvas, it would be confusing and difficult to understand their adaptation of Canvas.

The definition for social enterprise is an organization or venture (within an organization) that advances a social mission through market-based strategies. These strategies include receiving earned income in direct exchange for a product, service or privilege (Social Enterprise Alliance, 2009). Based on this definition, it is made clear the difference between social enterprise and business enterprise. Social enterprise’s fundamental principles are mission-related impact, not wealth creation. Social enterprise may generate profits, but it is not the enterprise’s focus. Profits are rather a possible means to achieve sustainability in providing a social benefit (Dees, 1998). The definition also doesn’t constrain the source of funding, whether it is through the sales of product, provision of service, or granting of privilege. By selling a product or providing a service, the customer receives the product/service. This customer segment can be defined as customers. By granting a privilege, the customer segment receives the right or the opportunity to help the organization with its mission to make a social change. This customer segment can be defined as donors and volunteers. Donors make the exchange using monetary support, while volunteers make the exchange by providing non-monetary support. Considering these characteristics, there should be no differentiation between third-party funded and 3BL model, removing Osterwalder’s own adaptations for social enterprise and leaving GoGreen Portland and Graves (2011) as the last candidates for best adaptations for social enterprise.

GoGreen Portland adds two additional blocks of Problem and Impacts and Measurements, while Graves changes the labels to expand the scope of the blocks. Both provide good arguments of the adaptations. For GoGreen Portland, by adding a new block for Problem, it would put problem in the forefront. By adding Impacts and Measurements block, for social enterprise that is not profit-driven, it gives the enterprise other means to measure the progress in achieving their social/environmental purpose besides from the profit they generate. However, social enterprise is specifically defined to advance social mission, not to solve social problem, because social mission does not only state the problem but also the customer, the method and the impact in one clear sentence.

For Graves, by changing the labels, he makes it possible to fit all customer segments that in other Canvas are recognized as customers, donors, volunteers and beneficiaries under one label. It stands true to bottom-up approach that social enterprise utilizes to ensure they achieve maximum impact by involving their customer segment, whether by directly empowering them by providing them employment, by receiving their feedback to improve the offering or the business model, by giving them access to the progress of the enterprise, or by allowing them to be involved directly in value creation. He also addresses the non-monetary value and costs that might be missed in Osterwalder’s Canvas that is mainly designed for commercial business organization (Graves, 2011). However, having both monetary and non-monetary value and costs in one block might make the block too crowded which would lead to ambiguity and confusion.
Based on the analysis, both adaptations have their own strength and weakness. However, this can be solved by combining the two adaptations. First, the Problem block from GoGreen Portland is added but changed into Mission block, which clearly states the purpose of the social enterprise, its reason of existing. Second, the Impact and Measurements block is added to describe the benefits for the customers of the social enterprise along with the measurements as the indicators of the success and progress of the social enterprise. Third, by dividing the Customer Segments and Value Proposition block into Co-Creator and Beneficiary.

These changes are based on the consideration of the characteristic of business model, which is the basis of the Canvas. Business model describes how your company creates, delivers and captures value (Osterwalder, Pigneur & Tucci, 2005). Business model is designed to change rapidly to reflect what it is found outside the building in talking to customers. It is dynamic and reflects the iterative reality that start-ups face. Business models allow opportunistic and agile founders to keep score of the pivots in their search for a repeatable business model (Blank, 2012). For commercial business organization or business enterprise, its business model is customer-focused and profit-driven that it bases its whole business model on its customers’ needs and its success on the profit it generates. Regardless, when it conducts its business model innovation, these two building blocks might experience changes alongside the others in order to maximize profit.

For social enterprise, its business model is mission-focused and impact-driven that it bases their whole business model on its social/environmental mission and its success on the social/environmental impact it wants to achieve. Unlike business enterprise, its mission changes little, since mission is explicit and central for social enterprise (Dees, 1998) so is its impact, leaving the business model innovation only on the other building blocks. However, in Osterwalder’s Canvas, there are no blocks for either Mission or Impact. Thus, the additional blocks of Mission and Impact & Measurements for the Canvas of social enterprise.

Social enterprise thrives to achieve social impact, and it can be achieved best by involving as many stakeholders as possible, besides the beneficiary who benefits from the offering. Their roles can vary from the source of funding, such as donors and customers, to the value creation and delivery partners, such as volunteers and professionals. Therefore, for Value Propositions and Customer Segments, inspired by Osterwalder & Pigneur (2010) and Graves (2011), there is a dashed line within the blocks to separate co-creator (donors, customers, volunteers, professionals) and beneficiary (recipient). This is the better option than relying on the colours of post-it notes as given example in the Business Model Generation for multi-sided platform. See the adaptation on Business Model Canvas for social enterprise in Figure 2.

The changes on the Canvas also cause the difference sequence of the building blocks, instead of starting from Customer Segments, it starts from Mission, then continues as suggested by Osterwalder to Customer Segments, and ends with Impact and Measurements right after Cost Structure, because it is mission-focused and impact-driven.
5. Conclusion

Based on the research, it is found that Osterwalder’s Business Model Canvas cannot completely capture the business model of a social enterprise. From literature review and analysis on social enterprise and social entrepreneurship, business model and Business Model Canvas, additional building blocks are necessary to understand how social enterprise creates, delivers and captures value. They are Mission and Impact & Measurements blocks.

In Mission block, it is stated the purpose of the social enterprise, its reason of existing. It does not only state the problem but also the customer, the method and the impact in one clear sentence. It acts as the guidance for the enterprise. The Impact and Measurements block describes the benefits for the customers of the social enterprise along with the measurements as the indicators of the success and progress of the social enterprise. The additional blocks also change the sequence of the building blocks starting from (1) Mission, (2) Customer Segments, (3) Value Propositions, (4) Channels, (5) Customer Relationships, (6) Revenue Streams, (7) Key Resources, (8) Key Activities, (9) Key Partnerships, (10) Cost Structure, and (11) Impact & Measurements.

Further research should be done to see and improve the effectiveness of the adaptation of Business Model Canvas for social enterprise by applying the Canvas to more and diverse social enterprises based on the definition of Social Enterprise Alliance.

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