



## The circular social business model: Towards a visual framework for social enterprises

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**Abstract:** The purpose of this paper is to move deeper from conceptualizing the idea of social enterprises to visualizing the interplay between a social enterprise's commercial and social value propositions using the lens of the business model framework. Much has been written on defining social enterprises and social entrepreneurship (Dees, 2001; Austin, Stevenson, & Wei-Skillern, 2006; Yunus, 2010) while business model writing for social enterprises are still emerging (Yunus, Moingeon, & Lehmann-Ortega, 2010; Michelini, 2012). The paper's objective is to contribute to the emerging business model studies through the context of a Philippine setting by undergoing a two-pronged approach: (1) conceptualizing and proposing the circular social business model framework, and (2) examining the usefulness of the proposed framework through application in a case study analysis of ECHOstore ([www.echostore.ph](http://www.echostore.ph)). The latter (which stands for Environment, Community, Hope, and Organization) is a for-profit social enterprise green retail store that houses products of different artisans, micro, and social entrepreneurs—promoting a sustainable lifestyle to their consumers.

The proposed business model framework aims to lay out the foundations for further studies, in which I invite practitioners and scholars to continue testing and refining my proposed framework. I aim to take a step further in studying the field of managing for-profit social enterprises, particularly in the designing of business models that integrate money and mission.

**Key Words:** social business model, for-profit social enterprise, social entrepreneurship, circular social business model

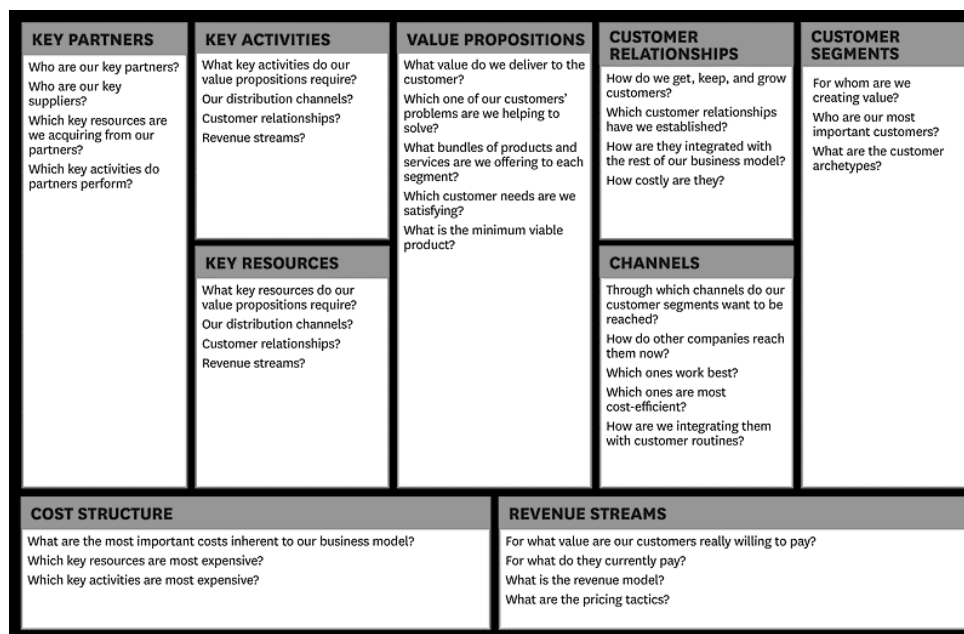


Figure 1. The business model canvas (Osterwalder & Pigneur, 2010)

## 1. CONCEPTUALIZING A BUSINESS MODEL ARCHETYPE FOR SOCIAL ENTERPRISES

### 1.1 Business model canvas

One recent visual framework gaining popularity around the world is Osterwalder and Pigneur's 'Business Model Canvas (BMC)' (2010), officially published in their book 'Business Model Generation'. The BMC has been derived from Osterwalder's dissertation on business model, which was iterated to get to a more practitioner-friendly orientation. This framework is adopted by practitioners and used by some scholars due to its capacity to visually show the following:

- a) Commercial value creation (depicted as the key partners, key activities, and key resources blocks);
- b) Commercial value proposition;

- c) Commercial value delivery and communication (customer relationships, channels, and customer segment blocks); and
- d) Commercial value capture (Revenue streams and cost structure blocks)

Figure 1 shows the Business Model Canvas composed of nine building blocks.

### 1.2 Business model perspective of the renowned social entrepreneur Muhammad Yunus

Clearly, the framework of Osterwalder and Pigneur mainly focus on the commercial aspect of designing business models. A useful perspective is offered by the Grameen Bank founder Muhammad Yunus – a social business model composed of four components (Yunus, Moingeon, & Lehmann-Ortega, 2010). If Osterwalder and Pigneur's value proposition focuses on delivering benefits to customers, Yunus et al.'s social profit and social

value proposition intends on generating positive social impact by catering to the needs of those belonging to the bottom-of-the-pyramid or marginalized stakeholders. Figure 2 shows how Yunus et al.'s depiction (2012) described the general components of a social enterprise's business model.

To synthesize the two frameworks, the table below juxtaposes the concepts explored by Osterwalder and Pigneur's Business Model Canvas and Yunus et al.'s social business model components. This juxtaposition helps form the foundation of a business model archetype I will propose in the next sections.

The juxtaposition above shows the similarities between the models proposed by Osterwalder and Pigneur (2010) and Yunus et al. (2010). This allows flexibility in designing and visualizing how their proposed business model elements can be re-arranged and reconfigured. The business and academic background of Osterwalder fused with the social development acumen of Yunus serves as good indications that their models have the potential to be better grasped by practitioners yet still grounded on theory.

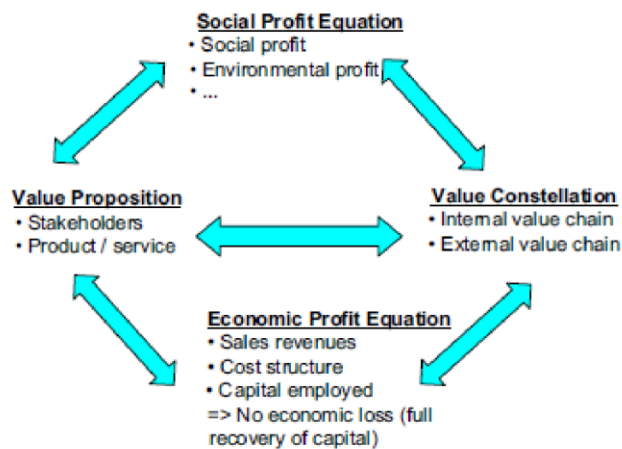


Figure 2. The four components of a social business model (Yunus et al, 2010).

<b>Business Model Canvas (Osterwalder &amp; Pigneur, 2010)</b>	<b>Social Business Model (Yunus et al., 2010)</b>
<b>Commercial value creation (depicted as the key partners, key activities, and key resources blocks)</b>	Commercial and social value constellation
<b>Commercial value proposition</b>	Commercial and social value proposition
<b>Commercial value delivery and communication (customer relationships, channels, and customer segment blocks)</b>	Commercial and social value constellation
<b>Commercial value capture (Revenue streams and cost structure blocks)</b>	Social profit equation Economic profit equation

Table 1. Juxtaposing components of the business model canvas and the social business model

### 1.3 The Circular Social Business Model

In earlier case studies (Aure et al., 2013; Habaradas & Aure, 2014), I have initially observed that for-profit social enterprises we have explored in the Philippines tend to have a different business model when compared to Grameen Bank's microfinancing model. Whereas the consumers of Yunus's services and products are directly the intended social beneficiaries themselves, the consumers (commercial target segment) of social enterprises' products explored in my previous studies are entirely different groups from the beneficiaries (those which the organization intends to solve a social problem). This signals that there is much room for developing business model theories especially in the Philippines, which I intend to call the 'Circular Social Business Model'.

From this crucial point of customers and beneficiaries being entirely separate groups, I find it useful to think of a social enterprise's business model as being composed of two separate yet must-be-aligned value systems. There must be a system that delivers value to a customer willing to pay an economic price for a benefit. On the other hand, there must also be another system that delivers value (or in other words, solving a social problem) for

target beneficiaries. Thus, to visualize these dynamics between two value systems, I introduce the 'circular social business model'. The descriptor 'circular' describes the aspired 'virtuous cycle' dynamics between the commercial and social value systems, founded on two important stakeholders having a mutual and interdependent relationship – customers and beneficiaries. Figure 3 shows the proposed visual framework. The green colors depict the commercial value system side, while the orange colors describe the social value system side of the framework.

The circular social business model is primarily anchored on two important stakeholders – (1) the commercial segment, or the traditional customer; and (2) the social segment, or the intended beneficiaries. For the commercial segment, the enterprise aims to create, communicate, and deliver value (or in marketing speak, solve a customer's needs and wants) and capture economic value for the firm. 'Socializing' this dynamic, social enterprises serve beneficiaries on the other hand by solving a

pressing need, such as livelihood concerns or poverty alleviation.

The circular social business model depicts that as the organization creates, communicates, and delivers value to commercial segments (customers), the capturing of economic value becomes a necessary part of social value creation (e.g. profits sustain livelihood of target beneficiaries). On the other hand, as the organization addresses beneficiary needs through providing them supplier/producer partnerships (social value capture or social impact), this helps commercial value creation, which then addresses the needs of the customers... so on and so forth. This facilitates the circular flow of activities traversing commercial and social value systems, highlighting the inherent virtuous cycle the proposed framework tries to facilitate.

Aside from the circular and interdependent flow of activities, I also want to highlight four key alignments between the commercial and social value systems as shown in Table 2. The fluidity of these key alignments function as indicators of how circular

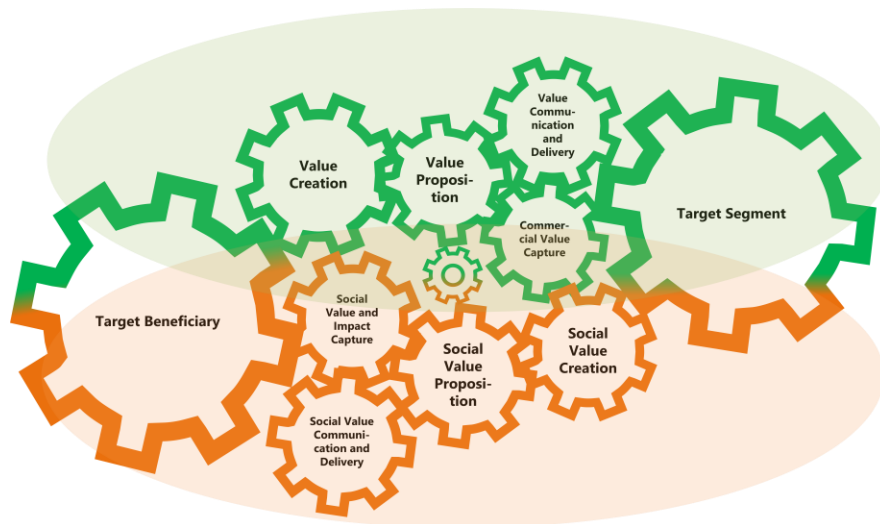


Figure 3. Circular social business model (proposed by the author)



the social business model is.

Key Alignments between the Commercial and Social Value Systems	Rationale
<b>Beneficiaries as key partners in commercial value creation</b>	As the foundation of commercial and social value systems, successfully aligning beneficiaries to commercial value creation and customers to social value creation makes the flow of activities efficient, effective, and systemic. As the counterpart stakeholders are made integral to each other's value systems, the reconciliation of the money-mission goal of the social enterprise is solidified; neither value is compromised or prioritized in the neglect of another.
<b>Customers as key partners in social value creation</b>	
<b>Congruence between the commercial value proposition (needs of customers) and social value proposition (social impact to be achieved or problem of the beneficiary to be addressed)</b>	Aligning the commercial and social value propositions allow both the customers and beneficiaries to <i>deliberately</i> and <i>intently</i> perform their roles as key partners to each other's value creation. The activities of both stakeholders are given a clearer purpose – reconciling one's own needs while simultaneously addressing the needs of the other.
<b>Value capture activities (commercial or social) blending with the counterpart value creation activities</b>	Commercial or economic value capture (financial revenues and meeting the desired behavior change of the consumer) plays a vital role in social value creation and vice-versa. Aligning commercial, social or behavioral 'revenues' to the counterpart value creation helps run the circular social business model and ensures that key resources and activities for commercial and social value systems are ample and sustainable.

Table 2. Key alignments between commercial and social value systems

Now that I have illustrated the circular social business model framework, I intend on building on Osterwalder and Pigneur's Business Model Canvas and iterate it for social enterprises. As a more practical tool for capturing a social enterprise's two value system activities, I am deriving the 'Circular Social Business Model Canvas' from the circular social business model as shown in Figure 4. This iteration of the proposed framework is fundamentally similar to Figure 3, except that it adopts the practitioner-friendly terms used on the Business Model Canvas's building blocks. Given that practitioners around the world are already familiar

with the canvas as evidenced in Osterwalder's website ([www.strategyzer.com](http://www.strategyzer.com)), the canvas version of the circular social business model may be easier to adopt for social enterprise managers and entrepreneurs. The next section introduces ECHOstore, a Philippine social enterprise, which will be the case used to apply the proposed circular social business model framework.

## 2. CASE STUDY METHODOLOGY

The objective of this research paper is to undertake a two-pronged approach: (1) a conceptualization and visualization of the business model as a framework through literature review, and (2) examining the usefulness of the framework through application in a case study analysis.

Yin (2003) states that the case study method is most appropriate if the following conditions exist: (a) "how" and "why" questions are being posed; (b) the investigator has little control over events; and (c) the focus is on a contemporary phenomenon with some real life context. It is also important to note this method can be used to understand complex social phenomena, and allows researchers to retain the holistic and meaningful characteristics of real-life events – such as organizational and managerial processes.

For this research project, I intended to examine a social enterprise that is at least five years old so that they would already have undergone enough experience in dealing with various challenges and decisions faced by businesses. Thus, I chose to use the case of ECHOstore Sustainable Lifestyle. It is a for-profit social enterprise with relatively good amount of data available to analyze and test my proposed business model framework on. Aside from data and information they have published in their website ([www.echostore.ph](http://www.echostore.ph)), there are also other research studies undertaken featuring ECHOstore. These research studies were those of Sebastian (2010), Aure et al. (2013), and recently under the De La Salle University Center for Business Research and Development's (CBRD) case study database led by Dr. Raymund Habaradas, CBRD's director for





academic year 2015-2016. The aforementioned written cases have rich illustrations and descriptions of ECHOstore’s activities, but are yet to apply the rich data in terms of a business model framework.

Consistent with the case study research design of Yin (2003), the case study data tried to utilize as many sources of evidence as practicable so as to achieve data triangulation. Relevant information about ECHOstore (e.g. history, vision-mission, products and services) were gathered from their web sites, published sources, and other available studies previously undertaken about some of these social enterprises, including those by Aure, et. al. (2013) and Sebastian (2010). In terms of other theoretical literature, these were retrieved under reputable academic research databases such as ProQuest, EBSCOhost, and Social Science Research Network which are accessible via De La Salle University’s subscriptions or in some cases via Google Scholar (scholar.google.com).

### 3. KEY ALIGNMENTS IN ECHOSTORE’S CIRCULAR SOCIAL BUSINESS MODEL

ECHOstore provides a rich source of information which can be depicted using the circular business model canvas. Table 3 describes ECHOstore’s key alignments in its circular social business model

It is important to highlight how this social enterprise leveraged various organization entities carrying the ECHO brand to fulfill purposeful objectives. The primary ECHOstore and the off-shoot ECHOvillage stores, ECHOcafes, and ECHOMarket provide opportunities to pursue commercial value and solve their customers’ needs. On the other hand, ECHOSi Foundation and their partnerships with local government units, different non-government organizations, and cooperatives help them create and deliver social value to women and rural entrepreneurs.

Perhaps this is what their founders describe as their ‘ECHOSystem’ – creating interdependent

relationships among commercially and socially inclined activities and organizations to reconcile (not merely prioritize nor balance) money and mission. Their practices provide snapshots of how to navigate through the complexity of managing a for-profit social enterprise and provide clues on how social enterprise startups can design their business models. Table 3 elaborates how the enterprise aligns its commercial and social value systems – providing us clues on how to replicate the ECHOSystem dynamics in other contexts.

<b>Key Alignments between the Commercial and Social Value Systems</b>	<b>ECHOstore’s example</b>
<b>Beneficiaries as key partners in commercial value creation</b>	ECHOSi Foundation embodies the ‘tough love’ kind of relationship in dealing with the ECHOSystem’s intended beneficiaries. As they provide strict training to women and rural entrepreneurs, they expect for these partners to meet quality standards before ECHOstore carries their goods in the stores. Neither pity nor tolerance for sub-par quality is given; their beneficiaries narrate how they would work very hard to meet standards and develop their products until they meet the ECHOstore standard. Although difficult, the beneficiaries find fulfillment in overcoming these challenges. More importantly, they feel a crucial sense of empowerment – knowing that they are not merely receiving charities, but rather, opportunities, to become a co-creator of ECHOstore’s commercial value. The skills beneficiaries gain from co-creating commercial value push them to work harder and inspire their fellow community members to work harder – pulling themselves up from poverty.
<b>Customers as key partners in social value creation</b>	Chit Juan narrates there was a time when a loyal customer or advocate of ECHOstore wished not only to purchase products, but rather, donate to the social initiatives of the ECHOSystem. Aside from patronizing the store’s goods, there are individuals willing to make donations – making the existence of ECHOSi Foundation as crucial receivers of goodwill beyond purchase of ECHOstore’s goods. As key partners of social value creation, these customers pay financial price and



	also pay a 'change in behavior' through being vocal advocates and donors – amplifying their contributions to the social value creating activities of the ECHOsysteM.
<b>Congruence between the commercial value proposition (needs of customers) and social value proposition (social impact to be achieved or problem of the beneficiary to be addressed)</b>	What makes the social business model of ECHOsstore very compelling is the congruence between their commercial and social value propositions. To deliver value to customers, they feature products that embody what it means to have a 'sustainable lifestyle'. This aligns very well with how they train women and rural entrepreneurs to develop the best organic products. A congruence between these two value propositions allow for more efficient use of human and organization time and energy – hitting two objectives with minimal extra activities, compared to organizations that have to plan separate and unaligned social initiatives.
<b>Value capture activities (commercial or social) blending with the counterpart value creation activities</b>	The organizational acumen of the ECHOsstore emanates well in their savvy of interconnecting different organization entities to facilitate their ECHOsysteM. The combined efforts of ECHOsstore and ECHOs Foundation provide avenues in capturing both financial and social value from customers – ECHOsstore gaining profit from sales, while ECHOs Foundation becoming a venue for socially-beneficial behaviors of customers (donations, advocacies). Moreover, ECHOs Foundation serves as the gatekeeper to product development and market access of products to the store, improving the social welfare of the target beneficiaries while ensuring that ECHOsstore only gets the best products for its customers.

#### 4. CONCLUSIONS AND RECOMMENDATIONS

This paper serves as a crucial step in visualizing how social enterprises can better manage its simultaneous pursuit of money and mission through design and visual thinking. The circular social business model aspires to emanate the essence of 'doing well by doing good'; making commercial and social value propositions integral and embedded,

such that the absence of one negatively affects the dynamics of the other.

The case of ECHOsstore seems to be an ideal fit in testing the proposed circular social business model. The case shows how ECHOsstore built an 'ECHOsysteM' that fluidly aligns commercial and social value systems. The canvas version of the circular social business model provides both scholars and practitioners a picture of how social enterprises can strategize and design activities in a systematic order, instead of always thinking 'money versus mission, or mission versus money'.

Given the continued growth and success of ECHOsstore, it seems that in terms of qualitative evidence, the more circular (albeit aligned) the commercial and social value systems are, the greater the chance of successfully managing a social enterprise's business model. Whereas previous academic literature seems to have heavier developmental sector undertones (e.g. enterprising nonprofits by Dees), this paper contends the following:

There is a need for both compelling commercial (albeit customer) and social value propositions. The commercial/customer value proposition must truly address a customer need in the same way a social value proposition truly addresses a social problem of an intended beneficiary. In managing social enterprises, the commercial and social value activities cannot be put into silos; nor is it desirable to merely prioritize one over the other.

Managers and founders of for-profit social enterprises should seek to embed commercial and social value systems with each other; not view them as a business doing CSR or a nonprofit performing enterprising activities. The circular social business model provides a visual framework of how managers and founders can design a more circular social business model.

A key limitation of this framework is it assumes that the beneficiary and commercial segments are different. An example of a social enterprise having the same beneficiary and customer is Grameen Bank by Muhammad Yunus, as this form

of microfinance aims to give access to capital to the bottom of the pyramid (social value) yet still gains fair returns (commercial value). Another example is d.Light ([www.dlight.com](http://www.dlight.com)), wherein the solar powered lamps are designed to be sold to rural households – commercial value being captured from sales while social value being delivered in the form of increased productivity and reduced risks from using kerosene lamps. Thus, I recommend developing a framework treating the social beneficiary and the commercial segment as the same (see: Fortune at the Bottom of the Pyramid, C.K. Prahalad).

I encourage the following recommendations:

For scholars: refine and improve this framework through further synthesis and testing via case study or action research methods. Inspired from Osterwalder and Pigneur's development of their frameworks, the circular social business model can explore being synergized with other cutting edge management theories, such as Eric Ries' The Lean Startup and Kim and Mauborgne's Blue Ocean Strategy, to name a few. The framework can also be further refined by having an explicit visualization of the environmental bottom-line.

For practitioners: given the success of ECHOstore, it would be interesting to discover the applicability of this framework in the startup phase of a social enterprise – determining whether the framework accelerates the founders' design of effective social business models. Also, practitioners can also be consulted through workshops in building on these frameworks to ensure relevance in practice.

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