Successfully creating and scaling a sustainable social enterprise model under uncertainty: The case of ViaVia Travellers Cafés

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ABSTRACT

While the literature on social scaling adopts a linear perspective in which a social enterprise first tests and validates its business model and then scales it up to other settings, this study argues that in uncertain and volatile environments, a more iterative approach may be appropriate. We develop an in-depth case study of ViaVia Travellers Cafés, a social enterprise that has successfully scaled its operations to 16 locations covering four continents. Through document analyses and twelve interviews with internal and external stakeholders, we are able to map and analyze the development process of the ViaVia Travellers Cafés, with information covering a period of more than 25 years. We find that under uncertainty, the social business model does not need to be proven before scaling it up. In fact, ViaVia Travellers had not yet developed a replicable model when scaling activities were undertaken. It regarded each new expansion as an experiment, and developed the business model's economic and social elements by learning from the portfolio of its previous experiments. Overcoming uncertainty hence involved simultaneously developing and scaling the business model. Our study introduces insights from the literature on business model development under uncertainty to the research on sustainable business models and social scaling, while contributing relevant insights for social entrepreneurs trying to scale.

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1. Introduction

"Not all those who wander are lost"

J.R.R Tolkien

A central question in social enterprise research concerns how social enterprises can scale up, i.e. how they can increase their social impact (Dees et al., 2004a), One often-used approach to scaling consists of growing the size of the organization, for example through geographical expansion (Uvin et al., 2000). In this respect, scholars have argued that scaling is straightforward when the object of interest — i.e. the social business model — has proven itself in practice and has replicable core elements (Dees et al., 2004a; Mulgan, 2006; Perrini et al., 2010). Most empirical studies on the scaling of social enterprises start from this perspective, and document the process through which social enterprises try to scale up their proven business model. For example, Perrini et al. (2010) studied how the world’s largest drug rehabilitation community was able to replicate its model to two new branches, while Bocken et al. (2016) investigated how three well-established social businesses increased the number of co-workers and customers by expanding their offerings and maximizing revenues.

In sharp contrast to this premise of a proven business model in the scaling literature, we identified a social enterprise that successfully scaled its operations to 16 locations spanning four continents and embarked on this journey with an immature business model, i.e. a business model of which the core social and economic elements had not been proven in practice. This observation leads to the question addressed by this study: How can social enterprises develop and scale immature business models?

We identify and address this research question through the in-depth qualitative investigation of a purposefully selected, exceptionally rich, and insightful single case study (Siggelkow, 2007) of ViaVia Travellers Cafés. This international chain of cafés, most of which are located in developing countries, has the core purpose to develop sustainable tourism and to increase intercultural tolerance. It is one of the few social enterprises that have expanded...
geographically (i.e. scaling ‘wide’) while at the same time being able to serve more people and improve the outcomes of their operations (i.e. scaling ‘deep’) (Bloom and Chatterji, 2009). We find that the ViaVias’ scaling strategy runs counter to the traditional belief that the social enterprise should have a proven business model before scaling it up. Instead, we find that each new ViaVia expansion functions as an experiment, adapting the core business model to its own context and situation. This adaptation results in a variety of business models operating under the same mission and name, allowing the parent organization to detect interesting business model elements from each of these experiments and then to use these insights to constantly fine-tune the business model for later launches.

This study contributes to our understanding of sustainable business development and scaling by bringing insights on uncertainty and experimentation into the social enterprise literature. It has been stated that existing management theory fails to explain how firms can develop sustainable business models that address local needs (Hart et al., 2016). Our study advances the literature on sustainable business development by proposing a portfolio of experiments, in which sufficient leeway is given to local managers, as a relevant way of generating local knowledge and addressing local needs in uncertain contexts. In addition, it contributes to the social scaling literature, as it depicts scaling not as the replication of a proven business model, but as a learning process that incorporates identifying and fine-tuning the business model. This suggests that for social enterprises facing conditions of uncertainty, a possible scaling strategy consists of business model experimentation and organizational learning. Instead of considering social scaling as the final stage of innovation and development with a proven business model, it highlights the possibility to simultaneously develop and scale the business model. This insight may even have important implications for the literature on scaling in mainstream enterprises.

2. Literature background — scaling social enterprises’ business models

Two literature were used to contextualize the results from this case: work on the scaling of social enterprises, and on (sustainable) business model development under uncertainty. The literature on scaling social enterprises was the starting position for this research, while the relevance of business model development under uncertainty emerged as a result of the case study analysis (Suddaby, 2006). Yet, for reasons of clarity, both literature streams are discussed upfront. As a starting point however, we will first elaborate on the social enterprise and social business model concepts.

2.1. Social enterprises and their business models

In the broadest sense, a social enterprise is an enterprise that, regardless of legal or organizational form, explicitly focuses on the creation of social value (Austin et al., 2006; Peredo and McLean, 2006; Seelos and Mair, 2005; Dorado, 2006). However, although its social mission is a distinctive feature, economic value creation through the production and selling of goods and/or services is also important for the enterprise’s financial sustainability. Mair and Marti (2006) reiterate this point by stating that economic value creation is a necessity to ensure the sustainability and financial independence of an initiative, unless the venture relies on philanthropic support and on-going fundraising as is the case in many not-for-profits. Yunus et al. (2010) echo this distinctive feature of social enterprises as they argue that social businesses have earnings that match or exceed full operational costs, and owners have the right to recover their investments, but the primary driver of the business lies in the cause it serves rather than the profit it can make. In short, there are a variety of social enterprise definitions. However, Dacin et al. (2011), p. 1204 claim that the one that holds the most promise is the one that focuses on “the primary mission of the social entrepreneur being one of creating social value by providing solutions to social problems”.

This distinctive feature of the social enterprise is reflected in its business model. Researchers have defined the business model concept in multiple ways, including the organization’s characteristics and decision variables that determine how value is created and captured by the organization (Zott et al., 2011). Yunus et al. (2010) discuss the differences between a conventional business model and a social business model. A conventional business model generally consists of three predominant elements, (1) a value proposition, (2) a value constellation, and (3) a positive profit equation. The value proposition comprises the identification of the enterprise’s customers and the enterprise’s offer valued by these customers. The value constellation refers to how the business delivers this proposition to its customers. Lastly, the profit equation refers to how value is created and captured from the value proposition while covering the costs and capital structure incorporated in the value constellation. In a social business model, however, all elements emphasize the attempt to resolve social and environmental issues. While in a conventional business model the value proposition and value constellation solely focus on the customer, a social business model pays attention to all stakeholders. Besides, the economic profit equation of a social business model only strives for full recovery of cost and capital instead of financial profit maximization. Moreover, the social profit equation is added as a fourth element, comprising the desired social and environmental profits (Yunus et al., 2010). In the next two sections, we discuss how the literature on social scaling and the literature on decision-making under uncertainty inform us about the development of (social) business models.

2.2. Scaling

In general, existing literature on scaling regards it as a final stage of the innovation process. The starting point of this process involves identifying a need that is not being met and a way to meet that need (Mulgan, 2006; Perrini et al., 2010). For social enterprises, this entails the creation of social and economic value by offering a product or service (Perrini et al., 2010). The next stage involves bringing the idea into practice, often through prototypes or pilot projects, in order to assess the enthusiasm for it (Mulgan, 2006). This is essential for evaluating the product market fit and for assessing whether the existing idea will contribute to a sustainable business and will allow the organization to create and capture both social and economic value. In fact, the social scaling literature assumes that this phase either results in the abandoning of the idea, or in the identification of a sustainable business model; a process of moving from an immature model to one that can be scaled and sustained. Once an appropriate business model and a consistent organizational form have been established, the model may be ready to scale (Perrini et al., 2010).

Scaling a social business model is considered to take place only after a viable social business model has been identified (Perrini et al., 2010; Desa and Koch, 2014). For example, Mulgan (2006) points out that in a social innovation process, an idea can be grown, replicated, adapted or franchised once it has proven itself in practice. This has later been referred to as scalability (Weber et al., 2012; Perrini et al., 2010). In their systematic review of scaling in the social sector, Weber et al. (2012, p. 2) note that although many definitions exist for scalability, there is a general consensus that “replicability, adaptability, and transferability of the operational model are key components of scalability”. Perrini et al. (2010)
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