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Business model innovation in nonprofit social enterprises



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Introduction

Nonprofit social enterprises innovate their business models; however, little is known regarding why they do this, nor what capabilities they need to innovate their revenue-generating activities. In this qualitative exploratory research, we examined five nonprofit social enterprises in South Australia, and found that these organisations consciously innovate their business models for two key reasons: to remain financially viable, and to expand the delivery of important services to the community. In addition, we identified six capabilities that enable nonprofit social enterprises to support their business model innovation.

The nonprofit sector makes a significant contribution to the Australian economy, and performs functions that government and the private sector are either unwilling or unable to provide (Australian Government, 2010; Salamon, 1993). Recognised as an outcome of social entrepreneurship (Mair & Marti, 2006), social enterprises are part of the nonprofit sector, and adopt business models (Austin, Stevenson, & Wei-Skillern, 2006; di Domenico, Haugh, & Tracey, 2010; Zahra, Gedajlovic, Neubaum, & Shulman, 2009).

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Innovation in social entrepreneurship is enacted with the aim of fulfilling a primary social mission to create social value (Weerawardena & Mort, 2006), and also to remain competitive (Weerawardena & Mort, 2012). In response to the growing emergence of social enterprises globally, and the positive social impact these organisations deliver, there are increasing calls for empirical research to investigate the 'business models' of social enterprises (Certo & Miller, 2008; Yunus, Moingeon, & Lehmann-Ortega, 2010; Zahra et al., 2009).

Although the relevance of business models for nonprofit social enterprises has been established (Bagnoli & Megali, 2011; Weerawardena & Mort, 2012), and a business model framework for social business has been proposed (Yunus et al., 2010), the mechanisms employed by such enterprises to innovate their business models have not been clarified. This gap in the literature makes it difficult to ascertain which skills or capabilities nonprofit social enterprises must acquire in order to develop and innovate their business models, and to provide guidance to nascent nonprofit social enterprises to increase their chance of organisational survival.

This exploratory qualitative investigation of five nonprofit social enterprises in South Australia seeks firstly to discover why they innovate their business models, and secondly to identify the specific innovation capabilities that enable them to innovate their business models. We identify two key reasons for business model innovation in this chapter, namely that the adoption of business models helps these social enterprises to achieve financial sustainability, and to generate funds to expand the provision of important services. We also identify six capabilities required to support business model innovation in social enterprises: a clear understanding of the organisation's social mission, access to specialised knowledge, access to external expertise, ability to respond to needs of clients and/or beneficiaries, access to alliances and partnerships, and ability to experiment with pilot programs.

This chapter is structured as follows. First, we outline the theoretical background underpinning nonprofit social enterprises, business models, and business model innovation. Next, we present the research questions, explain the data collection process and analysis method, and provide a description of participant organisations. We then present findings from the empirical fieldwork along with verbatim extracts, and we summarise these in the discussion section. The chapter concludes with recommendations for future research and with final remarks.

Theoretical background

Nonprofit organisations and nonprofit social enterprises

Nonprofit organisations (NPOs) exist to address public needs through the delivery of services or programs that would otherwise be unavailable to those in need (Morris, Webb, & Franklin, 2011). NPOs are defined by two key characteristics: promotion of a social value, and prohibition of profit distribution to shareholders (Considine, 2003). These organisations are predominately created as an outcome of social entrepreneurship activities (Weerawardena & Mort, 2006), and arise when an individual or a group focuses on creating social value to alleviate or remedy social problems (Peredo & McLean, 2006). Caroline Chisholm's activities, which earned her the title of the 'emigrant's friend' (Bogle, 1993), are an early example of social entrepreneurship in Australia. There are over 600 000 nonprofit organisations in Australia, employing over 890 000 people, and accounting for 4.1 per cent of GDP. It is considered that 59 000 of these NPOs are financially significant, and it is estimated that approximately half of the sector's income is self-generated, excluding contracted government services (Australian Government, 2010). These organisations include co-operatives, associations, clubs, charities, trusts, volunteer and grassroots organisations, as well as social enterprises (Lyons, 2001). Although the emphasis on revenue generation is not as prominent as in the for-profit sector, NPOs are still required to be financially viable so that they may continue to operate (Young, Jung, & Aranson, 2010).

Due to reduced access to appropriate and reliable sources of funding, NPOs are becoming increasingly entrepreneurial (Weerawardena, McDonald, & Mort, 2010). Entrepreneurial behaviour requires being innovative, proactive and prepared to take risks (Miller, 1983). This behaviour in nonprofit social enterprises is driven by three key reasons (Dees, 1998):

1. the requirement to be financially viable and grow new revenue streams
2. the need to respond to growing numbers of beneficiaries who require support
3. the desire to address new opportunities for social value creation.

As a result, social entrepreneurship 'encompasses the activities and processes undertaken to discover, define, and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organisations in an innovative

manner', and these activities and processes include 'adopting business models' in order to sustain creative solutions to social problems that are commonly large-scale and difficult to address (Zahra et al., 2009, p. 519).

This research focuses on nonprofit social enterprises as organisations that undertake activities to firstly create social value and secondly generate revenue through the provision of goods and services. The key difference between social enterprises and traditional NPOs is that social enterprises actively engage in trading activities (Lyon & Sepulveda, 2009). These trading activities are a core component of these organisations as they reduce dependence on external funding sources such as government grants, donations and bequests, which may be unreliable and may not continue into the future (Shaw & Carter, 2007). As social enterprises typically provide unique services and products to a specific group of beneficiaries, there would be a significant negative effect should the social enterprise be unable to continue its operations (Weerawardena & Mort, 2012).

Business model and business model innovation

The term 'business model' gained prominence with the internet boom, with one of the first references made in the context of electronic commerce (Timmers, 1998). Despite growing consensus that the term 'business model' describes how an organisation creates and captures value (Teece, 2010) and develops sustainable competitive advantage (Morris, Schindehutte, & Allen, 2005), a clear unifying definition is lacking (George & Bock, 2011). The business model construct has been examined in the e-commerce, innovation and strategy domains (Zott, Amit, & Massa, 2011), and the lack of a consistent definition is partly due to the multivalent nature of the construct (Baden-Fuller, Demil, Lecocq, & MacMillan, 2010). For example, George and Bock (2011) define the business model as 'the design of organizational structures to enact a commercial opportunity' (p. 99), while according to Stewart and Zhao (2000), the business model 'is a statement of how a firm will make money and sustain its profit stream over time' (p. 290). In addition, although various approaches have been made to operationalise the business model (Fritscher & Pigneur, 2010), this area of academic inquiry remains fragmented. In this study we replace the term 'firm' with 'organisation'; however the meaning does not change when applied to social enterprises.

The social enterprise and social entrepreneurship literatures both implicitly and explicitly link the business model construct to the organisation's ability to be financially sustainable, which depends on the organisation's revenue-generating activities (Darby & Jenkins, 2006; Liu & Ko, 2012; Wilson & Post, 2013; Zahra et al., 2009). Although it is generally accepted that social enterprises have business models in place (Bagnoli & Megali, 2011; Short, Moss, & Lumpkin, 2009), the factors that influence social enterprise business model innovation remain unclear and require further investigation (Certo & Miller, 2008; Yunus et al., 2010). Ongoing financial sustainability that allows these organisations to serve beneficiaries now and in the future is critical (Weerawardena & Mort, 2012), so understanding how nonprofit social enterprise business models can be innovated is valuable.

The literature makes it clear that it is not enough for an organisation to have a business model; it is argued that the business model cannot remain static or unchanged, but needs to be the subject of innovation. This is because it is proposed that business model innovation is 'the only way to escape cut-throat competition and sustain competitive advantage' (Matthyssens, Vandenbempt, & Berghman, 2006, p. 752). Further, business model innovation is considered to be among 'the most sustainable forms of innovation' (Sosna, Treviño-Rodríguez, & Velamuri, 2010, p. 384), and is seen as offering business an 'alternative or complement to product or process innovation' (Amit & Zott, 2012, p. 41). Matzler, Bailom, von den Eichen, & Kohler (2013) confirmed the importance of business model innovation by citing IBM's 2009 CEO survey, observing that nearly 100 per cent of CEOs were actively seeking to change their business through business model innovation — an increase from 37 per cent in the IBM 2006 CEO survey (Pohle & Chapman, 2006).

In other studies, businesses that have been considered to be successful in the business model innovation process have been identified as having 'an orientation towards experimenting ... a balanced use of resources' and a 'coherence between leadership, culture and employee commitment' (Achtenhagen, Melin, & Naldi, 2013, p. 427). Successful business model innovation has been found to bring together 'positioning', 'product and service logic', 'value creation logic', 'marketing and sales logic', and 'profit formula' in a fashion that delivers a sustainable and differentiated position in the market (Matzler et al., 2013, p. 33). It is argued that failure to adopt all of these individual aspects in the process of business model innovation will see the organisation either fail to create and/or capture increased value (Teece, 2010).

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Although gaining sustainable competitive advantage may be less prominent for social enterprises, it is critical for these enterprises to ensure ongoing financial sustainability to serve beneficiaries in the future (Ofstedal, 2013; Weerawardena & Mort, 2012). This suggests that, in a changing business environment, social enterprises should innovate their business model to ensure they can meet their goals. Business model innovation is here operationalised as 'the ongoing management process of developing and introducing improvements and replacements' (Mitchell & Coles, 2004, p. 41). This management process comes in the form of new 'product and service offerings to customers and end users that were not previously available' through 'the combination of "who", "what", "when", "where", "why", "how", and "how much" an organisation uses to provide its goods and services' (Mitchell & Coles, 2004, p. 17).

While there has been growing attention given to business model innovation, its theoretical paradigm is unclear (Schneider & Spieth, 2013). This has led to the development of a number of different theoretical perspectives regarding business model innovation, namely the resource-based view of the firm, the dynamic capabilities view of the firm, or the strategic entrepreneurship view (Schneider & Spieth, 2013). In practice, these different perspectives have led to a variety of proposed methods for business model innovation, such as:

- the use of visual tools to encourage creativity and collaboration (Eppler, Hoffmann, & Bresciani, 2011)
- the implementation of a four-stage initiation, ideation, integration and implementation process (Frankenberger, Weiblen, Csik, & Gassmann, 2013)
- designing the organisational structure and workflow (Osterwalder, 2004)
- focusing on alignment with financial, environmental and societal goals (Carayannis, Sindakis, & Walter, 2014)
- the implementation of a 'virtuous Corporate Social Responsibility cycle' (Ofstedal, 2013, p. 272) comprising the articulation of the customer value proposition, analysis of the target market segment, the organisation value chain and the organisation's position in the value network, and the formulation of the competitive strategy.

In summary, discussion of business model innovation in social enterprises has received only limited attention, and this may be on account of the different conceptualisations

and theoretical approaches in the literature. In particular, the enterprise factors or capabilities that influence social enterprise business model innovation remain unclear and require further investigation (Certo & Miller, 2008; Yunus et al., 2010).

In this exploratory qualitative research, we seek to investigate firstly why nonprofit social enterprises need to engage in innovating in their revenue-generating activities, and secondly to explore the capabilities that are required by these enterprises in order to innovate their business models. The research questions we addressed in this study, therefore, are:

1. Why do nonprofit social enterprises innovate their business models?
2. What capabilities do social enterprises require to support innovation in their business models?

Research method

In this chapter, we explore the characteristics of business model innovation undertaken by five South Australian social enterprises. We used a qualitative case study approach, as this is appropriate for investigating an under-explored and complex phenomenon within a specific context (Eisenhardt, 1989; Yin, 1996). Prior case study research in the social entrepreneurship domain indicates the value of this approach to investigate and explain phenomena influencing social enterprises (Haugh, 2007; Kistruck & Beamish, 2010; Weerawardena & Mort, 2006). We undertook purposive sampling to capture a range of industries in which social enterprises operate.

Data collection

We used an Australian database of social enterprises as the sampling frame in this exploratory study, namely the 'Finding Australia's Social Enterprise Sector', or FASES (Barraket, Collyer, O'Connor, & Anderson, 2010). This database of 4900 organisations that consider themselves to be social enterprises was developed by Social Traders, an NPO in Victoria that encourages the establishment of commercially viable social enterprises in Australia, in partnership with the Australian Centre for Philanthropy and Non-Profit Studies, Queensland University of Technology.

For this study, we selected five relatively large social enterprises based in South Australia, based on the following criteria, which are consistent with prior research into nonprofit social enterprises (Chalmers & Balan-Vnuk, 2012):

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1. the explicit statement of a social objective or mission (di Domenico et al., 2010)
2. not operating as a government department (Haugh, 2005)
3. prohibition of profit distribution to shareholders (Considine, 2003)
4. explicit reference to specific revenue-generating activities that involved the sale of goods and/or services to individual paying customers (Lyon & Sepulveda, 2009), either on the website or in the official organisation reports.

Once we had identified organisations based in South Australia, we reviewed the website and publicly available documentation of each organisation to ascertain suitability for this research. If the organisation met the selection criteria, we contacted the Chief Executive Officer by email and invited them to participate. The sample we present in this research is a sub-set of a larger study of sixty-five social enterprises. For this research, we selected five social enterprises based in South Australia from the larger study to represent different areas of national nonprofit social enterprise activity, as presented in Table 7.1.

Data analysis

We conducted in-depth interviews with the Chief Executive Officer of four organisations (Cases A, B, C and D), and the Chief Financial Officer of Case E (all referred to as CEOs from this point). We selected these executives as the key informants due to their seniority and ability to provide an overall perspective of the activities of the organisation (Snow & Hrebiniak, 1980; Zahra & Covin, 1993). In addition, we examined the website of each nonprofit social enterprise, along with available annual reports, to identify the social mission and trading activities. As the focus of the interview was on the activities undertaken by the organisation, and did not require the CEO's personal experiences and motivations, it is the organisation that is the unit of analysis in this study (Blee & Taylor, 2002).

We asked the CEOs to describe the revenue-generating activities undertaken by their organisation, and explain why these specific activities were selected. We then asked them to give an example of a recent innovation that generated revenue for the organisation, and to describe what was required to implement this innovation. Interviews were audio-recorded and transcribed verbatim for analysis using

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Case	FTE(1)	Purpose	Trading activities
A	89	Animal welfare and protection	1) Physical and online retail outlets selling pet accessories 2) Pet cremations 3) Pet adoption and training 4) Lotteries
B	62	Recycling and sustainability	1) Resource Recovery Centres: sales of goods (e.g. in store, on eBay, to recycling centres) 2) Business divisions that employ people with a disability; these included car cleaning services, lawn and garden service, document destruction, firewood sales
C	12	Environmental education	1) Waste audit programs and education 2) Environmental consultancy 3) Retail sales of environmental products
D	110	Disability services	1) Low vision clinics 2) Commercial factory (assembly, packaging) that employs people with a disability 3) Retail sales of products for beneficiaries 4) Property rental income
E	65	Education	1) School fees from domestic students 2) School fees from international students 3) Fees from teaching English to students and adults 4) Study tours for international students 5) Classroom hire outside school hours 6) Fees to allow staff of external firms to use gym facilities outside school hours

(1) Full-time equivalent employees

Table 7.1: Social enterprises participating in this study.

Source: Courtesy of the authors.

NVivo software (QSR International Pty Ltd, 2010). The researchers reviewed the interview transcripts and coded the responses to the open-ended questions into relevant categories (nodes). We then compared the themes that were identified and consolidated the findings. This cross-case analysis was conducted to identify insights not readily available from existing theory and empirical research, and to propose a contextual generalisability (Johns, 2006), applicable to other nonprofit social enterprises in Australia.

Findings

We present the findings in two sections. The first addresses why social enterprises innovate their business models, and the second provides an illustration of the capabilities that social enterprises require in order to innovate their business models. We include verbatim comments from interviews to emphasise the capability requirements identified in this exploratory study.

Research Question 1: Why do nonprofit social enterprises innovate their business models?

We asked CEOs to give details about innovation in their revenue-generating activities, and explain why these were undertaken. Two key reasons emerged. The first was the need to ensure the financial sustainability of the organisation itself so that it could continue to operate, even in the absence of other funding sources. The second was the need to generate surpluses to expand the delivery of services provided to beneficiaries. The distinction between these two reasons is the difference between general survival of the organisation, and the generation of funds for the specific goal of delivering critical services.

1.1 To ensure enterprise sustainability

The CEOs of the five social enterprises in this study emphasised the importance of generating income in order to keep the enterprise operating. Without adequate funds, the organisations would cease to exist, leaving a gap in services important to the community. Four of the CEOs indicated that they were recruited to improve the financial health of their organisations, as the previous CEO and/or senior management team were not equipped or qualified to address these critical issues.

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The board here were looking for somebody with a commercial background, rather than a not-for-profit background, because at the time the organisation was struggling financially, so they needed somebody to actually really have a look at the business and sort of bring it into, I guess, the modern era, as such. (A)

I think not-for-profits at some level need to have somebody with commercial acumen, because in the end it's about paying our bills. If we can't pay our bills, we can't deliver the core business. (A)

The CEO of Case A had been in the position for eight years, and spent the first twelve months in the role restructuring the organisation, from the IT system to hiring appropriate personnel throughout the organisation. Investment in infrastructure was made because the CEO perceived that this was critical to support the survival and growth of the organisation.

This comment was echoed by the CEO of Case C, who took on the role of developing new programs and revenue streams to ensure the financial sustainability of the organisation:

When I first came to this organisation twenty years ago or so, I mentioned that they were in a bit of trouble, and it was financial trouble. And it was financial trouble not because of mismanagement per se but maybe it was trying to do things the old way, and not picking up on what had to be done the new way. (C)

The CEOs of Cases D and E also mentioned this:

Many years ago when I first started, the [organisation] was in a fairly precarious financial situation. (D)

Well, going back quite a few years the school was in a little bit of financial trouble ... and there needed to be alternate income streams. (E)

Overall, the respondents made it clear that even though they operate nonprofit organisations, it is imperative that they innovate in the ways that they generate revenue in order to survive, as stated by the CEO of Case C:

The organisation has changed how it operates; it's a business, even though we're a not-for-profit, or an NGO, non-government organisation. If we don't apply the business principles we simply don't survive. (C)

1.2 To generate surpluses to fund core services

CEOs also mentioned generating surpluses as a key reason for innovating their business model. Respondents made it clear that if their organisation did not find new ways to earn money, then it would not be able to deliver services or its core business:

We're very commercial, have no fear about that. I mean, if we don't make money we don't supply services. And for us to make money we have to do it very well. We're not charity-minded in the sense of warm and fuzzies are the important driver; the important driver is to meet the needs of the clients and to do it to the best of our ability, and to do that and to hire the staff we need, and to have the resources we need, we need to make money; we need surpluses. (B)

Case E established a separate entity as a for-profit venture. The sole aim of this venture is to generate funds to support the activities of the organisation, and to minimise the costs borne by beneficiaries of their services.

It has its own separate board of directors ... [B]ottom line, it's there to make money, okay — it's there to make money so the cash can be released to the [organisation] to build and do certain things. It supplies money so that capital works can be undertaken. (E)

In summary, nonprofit social enterprises seek to capture economic gains by innovating their revenue-generating activities to ensure the continuing operation of the organisation, as well as to provide surplus funds to expand the scope of services provided to beneficiaries. It is evident from the responses from all the CEOs that there was no expectation of ongoing financial support from government contracts or from other philanthropic sources, and they were therefore focused on generating revenue for the organisation.

Research Question 2: What capabilities do social enterprises require to support innovation in their business models?

To address the second research question, we asked the CEOs to give an example of a recent revenue-generating innovation in their organisation, and to respond to the prompt, 'What was required to make this happen?' In the analysis, six themes emerged to describe the capabilities that nonprofit social enterprises require in order to innovate their business models and ensure that these trading activities are appropriate for their organisation. We discuss the six capabilities separately below, with verbatim quotes to illustrate each.

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2.1 Clear understanding of the organisation's social mission

Nonprofit social enterprises in this sample indicated that whatever revenue-generating stream they adopted, these must be consistent with their mission. This suggests that the organisation must be very clear about its purpose, and ensure that it focuses on delivering services that support the core social mission. In effect, a clear understanding of the mission gives guidance and direction for business model innovation by providing a focus which excludes possible directions for innovation that might not support the goals of the enterprise.

So, I went through a complete review of the whole organisation and the services that we offered. We cut some, what I considered to be non-core services. (A)

We run a whole lot of businesses, but they all obviously still need to focus back on what our mission and our role is. (D)

The common denominator — it's got to improve school life — you can't work against school life so if it's going to come with a revenue stream which is going to cause disharmony to school life, you have to balance that ... [O]verall it has to contribute. (E)

2.2 Access to specialised knowledge

Specialised knowledge, or intellectual property, held in the organisation or in a partner organisation, was seen to be a requirement for business model innovation. Intellectual property [IP] is defined as codified knowledge, and is a component of innovation capital (Daniels & Noordhuis, 2005). In this sample, Case B highlighted that they actively swapped some of their codified knowledge, or IP, with another organisation undertaking similar activities, so that they could both benefit. Case C explained that it is through their specialised knowledge that they are able to identify new revenue activities. Other organisations collaborated with a partner who had access to technology, but the specialised knowledge for the idea originally came from the social enterprise (Case D).

We did get a lot of help from other organisations who were doing similar things interstate and in Mount Gambier. For example, [another organisation] was doing something similar but not quite like we were doing. We swapped them some IP on a wood yard, and they gave us some IP on a salvage yard, and the same was done with [a different organisation] in Bendigo; they were very generous with their IP. (B)

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We set a little strategy — I mean, we didn't do it by chance, we recognised there was a niche ... We know our business, we know about waste, we know about litter, we know about recycling, we deliver in to schools, we have great friendships with local government. (C)

The idea of this, the concept, is ours, but the technology is actually owned by a company we work in partnership with. (D)

2.3 Access to external expertise

The CEOs surveyed considered that it was important for their organisations to be able to access expertise from external sources in order to develop their business models and revenue streams. This capability differs from '2.2 Access to specialised knowledge', as discussed above, in that this factor [2.3] refers to expertise brought in from external sources that are typically individuals, as distinct from knowledge embedded in the enterprise (or partner organisation). One way these organisations gain expertise is to hire staff or to work with experts who have specialist knowledge that is critical for success. Organisations can also capitalise on their own knowledge by turning it into expertise that they make available to other enterprises (Case C). Organisations also pointed out how vulnerable they were to key staff leaving the organisation, and that it could subsequently take time to find someone else with a comparable level of expertise (Case E).

The skill sets that I had available to me was not going to get me anywhere. So, the whole management team has changed. So, personnel have changed at the senior level. IT, everything that we do, there was no efficiency; there was no nothing. So, I had to effectively rebuild the whole organisation. (A)

Yeah, we hired new staff and transferred some staff from different parts of the organisation to it as well. But mostly, the majority of staff would be new ... But we did hire some staff that had some experience. (B)

One is that we are, I don't like the term 'experts', but we have expertise in education, in community education engagement. (C)

We had a long-standing manager — he left us — he was really good and then we recruited someone who didn't work out and then we recruited someone new, so we had a full staff and it's working out really well now. (E)

2.4 Ability to respond to the needs of clients and/or beneficiaries

Organisations innovate by responding to the needs of their clients and beneficiaries, as well as to new market opportunities. Identifying a specific niche where there is a lack of available services, or expertise, allows nonprofit social enterprises to innovate new revenue-generating activities.

Because we are able to change quickly and react quickly, we can fill a niche very quickly, and if we're filling a niche that means that we're responding to somebody that's got an issue and they see us as being part of their solution. So sometimes the door opens for us. (C)

So we identify a niche that the councils were struggling in, that they didn't have the resources, and they didn't have the people on the ground. (C)

Nonprofit social enterprises also innovated by acting on feedback from clients. When clients identified a certain need, organisations responded quickly by providing a solution for a fee (Case A). These organisations also innovated new business activities in response to the needs of clients outside their specific geographical area (Case D).

Somebody rang us up and said, 'I'd like to have a small service for our animal that's passed away,' and we said, 'Well, that's not a problem, we've got a memorial garden'. But we thought, well if you're going to have a service you're going to need a celebrant, and it occurred to us very quickly that if we had a relationship with a celebrant, have a relationship with a caterer ... we could say, well, for \$500, 'We'll organise the whole thing, and you just tell us the date that you want, sir'. (A)

I don't have a charter to go outside of my state, but, demand outside of the state is very high, so, and the board have approved me to basically offer this on a fee-for-service basis to blind people in other states. (D)

2.5 Access to alliances and/or partnerships

Collaborating with partners and forming alliances is one capability that nonprofit social enterprises may draw on to innovate their business models. Partnerships are used to gain knowledge and expertise (Case C), help defray costs (Case E), help distribute services to a wider group of beneficiaries (Case D), and they are viewed as essential to an organisation's long-term success (Case B). Therefore, access to alliances and partners supports the ability of the organisation to develop new and creative revenue-generating activities.

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Partnerships are essential to the long-term success of the organisation and the growth of it ... I think partnerships are the way of the future. (B)

If there's space there, and it's part of our business, we'll jump in, but we jumped in with partners, we weren't that silly that we're going to jump in and get the cream pie in the face if everything goes wrong. (C)

One of the great things by working with partnerships and stakeholders is that we can double our money. We go to somebody and say, 'We've got a grant of \$10 000 or we've got an agreement for \$50 000 [and] we could do so much more if you could match it dollar for dollar' — and we're very successful with that. (C)

This partnership acts as a distributor for a service that is valuable for visually impaired people who cannot read a book. (D)

We've got the gym — the new gym now, we've got a corporate relationship with the [fitness company]; they run all our gym equipment and memberships from other organisations which provide us with a little bit of a revenue stream; we wouldn't be able to afford to go and buy that ourselves. (E)

2.6 Ability to experiment with pilot programs

Experimenting with pilot programs provides a way for nonprofit social enterprises to innovate while minimising potential risk. By trying things out on a small scale using existing available resources, the organisation gains knowledge and experience, and can learn from the pilot experience to minimise risk when launching a new revenue-generating program for a larger group of clients or beneficiaries.

We're going to run with it, and benefit from it, learn from it, and then use that as a stepping stone. (C)

We did the first national digital pilot six years ago. (D)

[We] test things out. I mean, I know we've made changes to these structures since we've been here; we're just always looking to make changes every year to do something slightly different. (E)

The findings are summarised in Table 7.2.

Discussion

This exploratory study revealed that the nonprofit social enterprises in this South Australian sample innovate their business models for two key reasons, and identified

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Research Question	Findings
1. Why do non-profit social enterprises innovate their business models?	1.1 To achieve enterprise sustainability
	1.2 To generate surpluses to fund core services
2. What capabilities do social enterprises require to support innovation in their business models?	2.1 Clear understanding of the organisation's social mission
	2.2 Access to specialised knowledge
	2.3 Access to external expertise
	2.4 Ability to respond to the needs of clients and/or beneficiaries
	2.5 Access to alliances and/or partnerships
	2.6 Ability to experiment with pilot programs

Table 7.2: Summary of research findings.

Source: Courtesy of the authors.

six capabilities supporting business model innovation. The consistent responses from these social enterprises indicate the critical role the business model plays to ensure the financial sustainability of the organisation and its ability to deliver core services to its beneficiaries. Several of the CEOs had been recruited specifically to innovate existing business models, or create new ones, to ensure the organisation's continued survival.

With regard to Research Question 1, this exploratory study showed that, without adequate funds to operate, a social enterprise cannot create social value and fill the social gap it was established to address (Weerawardena et al., 2010). This supports prior research that emphasises the importance of business models for the survival and effectiveness of social enterprises (Yunus et al., 2010), as well as the importance of business model innovation for sustainability and competitive advantage (Matthyssens et al., 2006).

The findings for Research Question 2 reflect the importance of knowledge acquisition and management, and relationship management, which characterise innovation in general in service organisations (Castro, Montoro-Sanchez, & Ortiz-De-Urbina-Criado, 2011; den Hertog, van der Aa, & de Jong, 2010). In particular,

having a very clear understanding of the social mission and overall purpose of the organisation was identified as a requirement for business model innovation for the organisations in this sample. This factor is identified in the business model innovation method proposed by Carayannis et al. (2014), and is also consistent with findings that a social enterprise's revenue activities must 'fit' with the social mission (Foster & Bradach, 2005; Wilson & Post, 2013). McDonald (2007) also identifies that nonprofit organisations with clear, motivating missions tend to be more innovative in general. Although some scholars have perceived the social mission as a constraint on a social enterprise's ability to innovate (Weerawardena et al., 2010; Weerawardena & Mort, 2006), in this research we present it as a capability that assists a nonprofit social enterprise's ability to innovate its business model by providing focus and direction.

Having in-house access to specialised knowledge is identified in the business model innovation method proposed by Frankenberger et al. (2013). This factor is implied in several other business model innovation methods, as knowledge is identified as a key resource that is necessary for sustainability and competitiveness in any organisation (Barney, 1991).

Enterprises in this sample either explicitly or implicitly recognised that they were able to innovate more successfully by increasing the level of knowledge and expertise within specific relevant areas in their organisation. In particular, they recognised that they needed to bring in expertise from external sources in order to innovate their business models. This finding supports the business model innovation process suggested by Frankenberger et al. (2013), which relies on implementing an idea-to-implementation process that relies on transforming knowledge or ideas into value.

We found that having a close understanding of the current and future needs of clients and/or beneficiaries was another capability supporting business model innovation in nonprofit social enterprises. Previous research has identified that social enterprises initiate programs or activities in response to community needs (di Domenico et al., 2010), and also adapt services based on the changing needs of their beneficiaries (Weerawardena et al., 2010). This finding supports the business model innovation process proposed by Oftedal (2013), which relies on the articulation of the customer value proposition.

The importance of relationships, partnerships and alliances for nonprofit social enterprises was identified as a strategy to gain additional resources which would otherwise be unavailable or unattainable (Weerawardena et al., 2010), or as a way to scale operations beyond the current capacity of the organisation (Bloom & Smith, 2010). The organisations in this sample actively sought and valued partners, and used these partnerships as a source of business model innovation.

Finally, as social enterprises are generally resource-constrained, they frequently test an idea through a pilot program as a way to learn what does or does not work, while ensuring that the organisation minimises unnecessary risks (di Domenico et al., 2010; Weerawardena & Mort, 2012). By experimenting or improvising with the resources they have at hand, nonprofit social enterprises are able to gain experience and refine their ideas, using bricolage to further drive innovation in their activities (di Domenico et al., 2010). In particular, McDonald (2007) identifies experimenting and testing ideas as an important aspect of innovation for nonprofit organisations, and this is a key aspect of the business model innovation method involving the use of visual tools to encourage creativity (Eppler et al., 2011).

Overall, the capabilities found to be needed for business model innovation in this sample of social nonprofit enterprises can be seen to be aligned with the dynamic capabilities view of the firm (Teece, Pisano, & Shuen, 1997). In particular, the factors 'Clear understanding of the organisation's mission', and 'Access to alliances and/or partnerships' identified in this study can be regarded as elements of the Teece et al. (1997, p. 521) 'position or strategic posture', and the other four factors ('Access to specialised knowledge', 'Access to external expertise', 'Ability to respond to the needs of clients and/or beneficiaries', and 'Ability to experiment with pilot programs') can be identified as aspects of the Teece et al. (1997, p. 518) 'organisation and managerial processes'.

Future research recommendations

This research highlights the importance of social enterprises having a viable business model in place. However, having insight into what these business models look like — and whether any particular type(s) of business model confer(s) a financial advantage — would be beneficial to social enterprises, and this remains an area for further investigation.

Although a range of approaches have been proposed for business model innovation, this study supports those based on the dynamic capabilities view of the firm (Teece et al., 1997). This finding suggests that dynamic capabilities would provide a useful framework for further qualitative and quantitative research with larger samples to confirm the requirements for business model innovation in nonprofit social enterprises. Undertaking industry sector and international comparisons may also help determine whether industry, geographical or cultural differences exist regarding the requirements for business model innovation for nonprofit social enterprises.

Importantly, in this research we found that the enterprise social mission was not perceived as a constraint on business model innovation, as suggested by previous research (Weerawardena et al., 2010; Weerawardena & Mort, 2006) but was seen in a positive manner, its role being to provide clear and helpful direction for business model innovation. This finding suggests the value of further research into this particular aspect of the social enterprise.

We have also highlighted IP as a business model innovation capability for nonprofit social enterprises. Future research may investigate the extent to which IP contributes to the success of these types of organisations. Further studies may investigate the role of organisational learning in the development of the requirements for business model innovation in nonprofit social enterprises, based on the recognition that organisational learning helps organisations innovate (Bingham & Davis, 2012), and that learning styles may influence the types of innovation undertaken by the organisation (Baker & Sinkula, 2007). Additionally, investigating the types of assets or resources required for social enterprises to innovate may also be valuable, particularly at different stages of growth (Greene & Brown, 1997).

Although social enterprises exist in many varied forms, this paper focuses on social enterprises that operate under the nonprofit legal structure (Considine, 2003). Future research may investigate other forms of social enterprises, including for-profit social enterprises, also known as social ventures or social businesses. Future research may investigate the role of strategic balance theory (Deephhouse, 1999) in social enterprises, as they must innovate their business models in order to differentiate themselves while ensuring that these activities complement their primary social mission (Foster & Bradach, 2005; Wilson & Post, 2013).

Conclusion

This research responds to calls from scholars to better understand various aspects of social enterprises, including their business models (Short et al., 2009). We used a small sub-set of South Australian nonprofit social enterprises as the subject of qualitative research to explore why they innovate their business models, and to identify the capabilities required to carry out business model innovation. The findings support those found in other empirical studies of NPOs (McDonald, 2007) and nonprofit social enterprises (Di Domenico et al., 2010; Weerawardena et al., 2010), and contribute to the literature by providing greater understanding of why nonprofit social enterprises seek to innovate their business models, as well as by establishing a preliminary list of capabilities that support this activity.

Nonprofit social enterprise CEOs may use these findings as a framework to examine whether their organisation either implicitly or explicitly uses these six capabilities to support business model innovation. For example, these organisations may review existing alliances and partnerships to identify ways to innovate their business model. Nonprofit social enterprises may also formally catalogue the specialised knowledge they have developed over time and use this, as well as expertise from outside their organisation, as a source of innovative ideas to further innovate their business model. These findings highlight the importance of understanding the needs of clients and/or beneficiaries, as this information can provide useful insights that may lead to future revenue-generating activities. Additionally, in contrast to other studies (Weerawardena & Mort, 2006), the participating CEOs perceived the social mission as a source of business model innovation, rather than as a constraint.

NPOs and nonprofit social enterprises contribute to society by fulfilling unmet needs. These organisations are not just about delivering social services; they also need to be financially sustainable. Continual innovation of their business models is therefore critical to the success of social enterprises, and further exploration and validation of the requirements for business model innovation in nonprofit social enterprises is required.

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