

**How social value is created on markets –
A taxonomy of market-based strategies by social entrepreneurs**

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Abstract

This paper develops a framework of market-based strategies for the creation of social value. Counter to the dominant approach that links market-based solutions to earned-income models, we shift the perspective and use market mechanisms to define strategic pathways in the value creation process itself. We suggest that there are direct and indirect strategies. *Direct* strategies focus on selling products and services beneficial for the target group, while *indirect* strategies focus on creating efficient markets and economic self-sufficiency. Within these two broad strategy categories, twelve concrete market-based strategies are discussed and illustrated with examples of social entrepreneurs from around the world. We suggest a new systematic way of thinking about social value creation in fields where market failure is assumed. By focusing on strategies instead of organizational forms or financial models, our approach is relevant for socially responsible companies, private foundations, or public institutions.

INTRODUCTION

A vivid discussion is going on about approaches to build theory about the important yet nascent research field of social entrepreneurship (Arend, 2013; Dacin, Dacin, & Matear, 2010; Miller, Grimes, McMullen, & Vogus, 2012). Besides personal characteristics of the social entrepreneur or organizational characteristics of the social enterprise (Dacin et al. 2010), a process-oriented perspective has been suggested for definition (Arend, 2013; Hoskisson, Covin, Volberda, & Johnson, 2011). Social entrepreneurship has gained attention for being able to generate economic and social value simultaneously by solving social problems via market-based solutions (Alvord, Brown, & Letts, 2004; Austin, Stevenson, & Wei-Skillern, 2006; Dees, 1998). Such an approach seems to contradict the assumption of market failure typical for social sectors such as poverty alleviation or health care (McMullen 2011).

Generally, economic value creation processes via markets have been at the core of management and organizational literature from different perspectives (Barney, 1991; Eisenhardt & Martin, 2000; Porter, 1980; Priem, 2007; Teece, Pisano, & Shuen, 1997). Although not a new concept (Moore 1995; Schumpeter 1903), public or social value creation has recently been highlighted by the advent of “social entrepreneurship”. For example, business contribution to the provision of public goods (or the reduction of public bads) is discussed in the context of public-private-partnerships (Mahoney et al. 2009; Kivileniece & Quelin, 2012; York, Sarasvathy, & Wicks, 2013) or strategic corporate social responsibility (Margolis & Walsh, 2003; McWilliams & Siegel 2011). Yet, public value and its creation processes often play a subordinated role here; they may be considered a reaction to stakeholder pressure (Spiller 2008), or a means to achieve sustainable competitive advantage for private companies (McWilliams & Siegel 2011). Within the social entrepreneurship literature, social value creation is generally understood as the alleviation or mitigation of issues considered social prob-

lems (in the public discourse) for individuals, communities, and society in general (Mair & Marti, 2006; Miller et al., 2012; Hilgartner & Bosk 1988)². Several typologies have been suggested to systemize these social value creation processes (Alvord et al., 2004; Zahra et al 2009, Alter, 2006). The combination of economic and social value creation has been described in concepts such as “blended value” (Emerson, 2003) or “shared value creation” (Porter & Kramer, 2011). Most authors understand economic value creation as generating earned-income from trading products and services on markets³ (Lasprogata & Cotton, 2003; Miller et al. 2013; Di Domenico, Haugh, & Tracey, 2010; Peredo & McLean, 2006; Pomerantz, 2003). These products and services fulfill the social mission either directly or subsidize it (Peredo & Chrisman 2006). The implications of earned-income creation for the social mission are appraised differently. While some authors argue that social outcomes are integral to economic performance (e.g., Peredo & Chrisman, 2006), others see a tradeoff in linking economic and social value creation (Margolis & Walsh, 2003; Tracey, Phillips, & Jarvis, 2011; Miller et al. 2012). Others do not consider earned-income creation as a characteristic of social entrepreneurship at all (Dees 1998).

To integrate these different understandings within one conceptual frame, we provide a comprehensive framework of the main patterns of social value creation on markets as adapted by social enterprises, and relate these patterns to economic value creation. For doing so, we go beyond the predominant perspective of understanding market-based solutions exclusively in terms of earned-income creation by the social enterprise itself (Austin et al., 2006; Di

² Examples of such problems include poverty, lack of opportunity for economic and personal development, less access to services such as education or healthcare; insufficient inclusion of minorities in society, insecure and fragmented communities as well as environmental damage and resource depletion.

³ Market-based approaches are often seen as a key to more organizational sustainability, higher efficiency and source of innovativeness due to the resultant independence from grants and donations, which often entail restrictive stipulations (Dart 2004; Austin et al. 2006).

Domenico et al., 2010) and shift the perspective to the application of market mechanisms in the whole value creation process.

Drawing on the distinction between value creation and value appropriation res. value capturing (Kivileniece & Quelin, 2012; Lepak, Smith, & Taylor, 2007), we argue that there are direct and indirect market-based strategies (MBS) for social value creation. Direct MBS are earned-income based approaches as outlined above, where the social enterprise enables to sell beneficial products to the target group or third parties. Accordingly, the value creation process is mainly conducted by the social enterprise, but it limits the capturing of economic value to a level that allows organizational sustainability and maximizes the capturing of social value by the beneficiaries. Indirect MBS, however, strongly involve the beneficiaries in the value creation process. They focus on enabling and supporting beneficiaries to produce, sell, or buy beneficial products on markets by improving individual and collective preconditions as well as market efficiency. The target groups then create and capture economic value on markets themselves, and thereby create social value as well, i.e. by poverty alleviation or ecological conservation. For this support, the social enterprise can get paid by the target group, but they can also raise their funds somewhere else.

In total, we distinguish twelve strategies in four sub categories. We argue that direct strategies either follow logics of *increasing benefits* or *lowering costs*, i.e. by shaping products to the needs of vulnerable target groups or by creating additional resource input. Indirect strategies follow logics of *empowering* or *connecting* the beneficiaries, i.e. by enriching human capital or improving the functioning of markets in favor of the target group. We propose that these strategies underlie – either singular or in various combinations - all cases of market-based creation of social value. Innovations, which play a crucial role in the discussion on social en-

trepreneurship (Alvord et al., 2004; Seelos & Mair, 2005), are either new combinations or adaptations of these strategies into different contexts, such as new target groups, geographical regions, fields of activities, etc.

The derived framework will contribute to three different research domains. First, the discussion on social entrepreneurship as a sub domain of entrepreneurship research is still in a nascent status concerning its theoretical fundament (Dacin et al., 2010; Short, Moss, & Lumpkin, 2009) and covers different streams and school of thoughts (Alvord et al., 2004; Austin et al., 2006; Borzaga & Defourny, 2001; Dees & Anderson, 2006; Mair, Robinson, & Hockerts, 2006) A process-oriented strategy can be helpful to consider the phenomenon under a single analytical perspective. As well, it allows systemizing relations to established theoretical concepts from management studies of welfare economics.

Secondly, due to the strategy perspective of social value creation there is a certain independence from organizational forms. Therefore, the framework is relevant for social issues of management as well. Creation of social and public value has been discussed here in the context of public-private-partnerships or corporate social responsibility (Kivileniece & Quelin, 2012; McWilliams & Siegel, 2011). It has been emphasized that a more detailed understanding of value creation processes is needed (Klein, Mahoney, McGahan, & Pitelis, 2012), particularly in the presence of market failures (Dean & McMullen, 2007). This understanding contributes, thirdly, to public and nonprofit management literature in general as well. Since market-based strategies are not necessarily the same as earned-income strategies, this framework extends the perspective on using market mechanisms for creating social value.

The paper proceeds as follows. In the next section we will explain the theoretic groundings on value creation and value capturing in more detail and develop the theoretic basis of our framework. We will then introduce the taxonomy of twelve market-based strategies of social value creation we developed and illustrate the single categories with concrete examples, drawing on fellows from the global social entrepreneurship promotion organization Ashoka. In our discussion we will then reflect some contingencies and limitations of the concept, and make suggestions for further research.

MARKET-BASED STRATEGIES FOR SOCIAL VALUE CREATION

Value creation and value capturing processes in direct and indirect market-based strategies for social value creation

Although it is a central concept in management and organization literature, there is no consensus about what value creation exactly is and how it can be achieved (Lepak et al., 2007). Therefore, distinguishing value creation from value capturing res. value appropriation is crucial when applying the value creation concept (Kivileniece & Quelin, 2012; Lepak et al., 2007). As well, it is important to clarify the *source* as well as the *target level* of value creation (Lepak et al., 2007), which can be in both cases individuals (employee; client or consumer), the organizations themselves or the government/society in general. Social enterprises are characterized as generating value by solving social problems via market-based approaches (Alvord, Brown, & Letts, 2004; Austin et al., 2006; Dees 1998). The generated benefits are distributed primarily to the target group, which is in contrast to commercial ventures where the interest of investors is at the forefront (Alvord, Brown, & Letts, 2004; Austin et al., 2006; Mair & Marti, 2006; Miller et al. 2012). Some authors have suggested to drop the distinction

between social⁴ and economic value, and to adopt a “total wealth standard” instead in this context (Santos, 2012; Zahra, Gedajlovic, Neubaum, & Shulman, 2009). We acknowledge that the distinction is sometimes difficult to maintain. For example, economic value creation understood as generating financial returns for economically vulnerable target groups can be a means of social value creation in poverty alleviation. However, from a conceptual perspective the distinction is important in order to develop a more detailed understanding of social value creation strategies that are market-based.

We suggest that there are two main types of market-based strategies for social value creation (MBS). *Direct MBS* are largely congruent with approaches that rely on earned-income creation by the social enterprises to realize and support their social mission (Di Domenico et al., 2010; Miller et al., 2012; Peredo & McLean, 2006; Pomerantz, 2003). Social enterprises have to find strategies for selling products and services that are beneficial to the target group on markets, such as for example health services. This can happen via selling them directly to the target group, or via selling them to third parties and then linking the generated value to the target group. For doing so, the social enterprise has to overcome market failures that exclude their target groups from consumption and market participation in general, such as low purchasing power or missing motivation to buy a beneficial product or service. An illustrative example for direct MBS is Aravind Eye Care from India. To make adequate supply of ophthalmological medical services possible to poor people, the organization established a cross-subsidizations system in which wealthier people pay for their surgeries and thereby fund the costs for the poor. Also, the organization simplified the operation process to the most im-

⁴ As outlined above, we subsume ecological value in the sense of alleviating and solving ecological problems under social value as well.

portant core functions and used economies of scale by organizing processes in a way that allows a high number of surgeries per medic to cut costs.

Accordingly, the *source of value creation* – both economic and social – in direct MBS is the social enterprise. In terms of the economic value generated via earned-income, the social enterprise is mostly also the *target* of value creation. That economic value is, however, only *captured* to an extent that allows organizational sustainability to assure ongoing operations in favor of the beneficiaries, especially when there is a tradeoff between the economic value and the social value for the target group (Margolis & Walsh, 2003; Tracey, Phillips, & Jarvis, 2011). The main *target level* of the social value created, on the other side, are the beneficiaries, who can be either individuals or the society in general. They are enabled or motivated to consume beneficial products and services that help to solve social problems, or they profit from selling these products and services to third parties.

Indirect strategies of social value creation on markets, however, strongly involve the beneficiaries in the value creation process. The latter even become the main *source of value creation* themselves, particularly in the long run. The social enterprise rather acts as a catalyst in the value creation process by helping to set up capacities and providing framework conditions that enable the target groups to produce, sell or buy beneficial products on markets. This improves sustainability and efficiency on markets, and helps some target groups to achieve economic self-sufficiency. Different strategies can be chosen here, meeting different market failures and imperfections that are prevalent in many fields of social entrepreneurship activity (Peredo & Chrisman 2006; McMullen, 2011). However, the crucial value creation to solve the underlying social problems occurs in market transactions of the target groups with each other or third parties in the long run. A typical example here is the set up of cooperatives to foster

local economic development, such as the Brazilian organization *Projeto Saúde e Alegria* which promotes local ecotourism in rural areas. The social enterprise helps local cooperatives in building and coordinating a comprehensive supply of the necessary services such as hotels, gastronomy, guided tours that creates financial income on markets for them. As well, by sharing knowledge on how to preserve natural resources, livelihood in a sustainable manner is secured. In indirect market-based strategies, accordingly the beneficiaries and their communities are the *target level* of both economic and social value creation. As pointed out above, economic value in the sense of income generation for economic self-sufficiency is then a precondition of social value creation, since it helps to solve problems such as poverty. But as well, environmental issues can be targeted when organizations that sell products and services without negative externalities are promoted. Such approaches have already been discussed in the context of community based enterprises (Haugh, 2007; Peredo & Chrisman, 2006) or for example in intermediary services for vulnerable target groups (Kistruck, Beamish, Qureshi, & Sutter, 2013; Mair, Marti, & Ventresca, 2012). It is also important to state that the social enterprise *can* be the target of economic value creation in indirect MBS when the services outlined above are provided against a fee. However, this is not a necessary precondition, since the organization can as well be funded for example by donations or government money. This illustrates why market-based strategies of social enterprises are not necessarily earned-income strategies.

INSERT TABLE 1 ABOUT HERE

Social value creation and market failure: Strategic questions of market-based approaches

It is assumed that social entrepreneurship typically emerges in contexts of perceived market failure and limited resources (Peredo & Chrisman 2006; McMullen, 2011). Accordingly, ap-

proaching social or ecological problems with market-based solutions is often seen as not appropriate, impossible, or even being part of the problem. Such ‘market failure’ problems (Bator, 1958; McMullen, 2011) can be insufficient purchasing power of poor target groups as well as market imperfections such as negative externalities (Coase, 1960) information asymmetries (Stigler, 1961), searching and transaction costs (Williamson, 1981), lacking property rights (Demsetz, 1967) or the abuse of market power by monopolists or oligopolists (Mas-Colell, Whinston & Green, 1995). All these have been mentioned as reasons for welfare losses carried especially by deprived target groups. However, wealthy middle-class consumers often fail to consume more healthy or socially and environmentally sustainable products due to reasons such as inertia or lack of knowledge, although they might have the best intentions to do so (Kahnemann & Tversky, 1997). On the other hand, it has been argued that market failures provide an opportunity for social entrepreneurship (Austin et al., 2006; Haugh, 2007; Weerawardena & Mort, 2006). Even more, some authors promote entrepreneurship as a means of resolving market failure problems in general (North & Thomas, 1970; Demsetz, 1970). This argument is prominent for example in the field of sustainable entrepreneurship which focuses on environmental issues (Dean & McMullen, 2007b; Hall, Daneke, & Lenox, 2010, Anderson & Leal, 1997). Dean and McMullen (2007) emphasize that a systematic understanding of how market failures can be addressed with entrepreneurial means is important to have a strong impact on economic sustainability. Drawing on the distinction between direct and indirect market-based strategies, two strategic questions emerge that social enterprises have to find solutions for, and the concrete strategies developed to meet this question allow a systematic understanding of how market-based strategies can be applied for solving social problems in the presence of market failures.

INSERT TABLE 2 ABOUT HERE

As shown in Table 2, social enterprise that *directly* try to sell beneficial products and services to the target group faces the strategic question *how the target group or third parties can be enabled or motivated to consume the beneficial products and services while creating sufficient economic value to keep the organization on the market*. They mostly face market failure problems such as low yet existent financial resources of their consumers (Prahalad, 2004) – either beneficiaries or third parties – and negative externalities in the production process (Coase, 1960). For social enterprises applying indirect strategies, the strategic question rather is *how the capacities and the framework conditions on markets can be improved to enable the target group acting sustainable and/or economically self sufficient there*. They rather face problems of market inefficiencies related to market power (Mas-Collel et al., 1995), lack of transparency (Stigler, 1961) or searching and transaction costs (Williamson, 1981), or as low endowments of human and financial capital (Sachs, 2005; Prahalad, 2004). Clearly for social enterprises applying indirect MBS the question of organizational sustainability emerges as well; however, it is not inherently linked to the strategy of social value creation as in direct MBS.

TAXONOMY OF DIRECT AND INDIRECT MARKET BASED-STRATEGIES FOR SOCIAL VALUE CREATION

Two dominant logics of direct MBS: increasing benefits and lowering costs

To answer the strategic question of *how the target group can be enabled or motivated to consume beneficial products and services*, we assume that there are two options or dominant logics. They constitute as well the two sub types of *direct MBS*:

- *Increasing benefits strategies* try to increase the ‘use value’ (Bowman & Ambrosini, 2000), which is defined as the specific quality of products, services or as well jobs perceived by the beneficiaries in relation to their needs. This can be subjectively and individually different. The aim is that the target group or a third party decides to shift the necessary part of its budget to consume the product or service.
- In *lowering cost strategies*, the focus is rather on affordability for the target group (not necessarily third party consumers) by lowering the ‘exchange value’ as the monetary amount realized in the exchange of the product at a certain point in time (Bowman & Ambrosini, 2000). Cost reductions, efficiency gains or new ways of capturing economic value are relevant for organizational sustainability as well.

The relative judgment of use value and exchange value can be assumed to determine consumption decisions in all contexts (Lepak et al., 2007; Priem, 2007; Bowman & Ambrosini, 2000). Research in the context of poverty alleviation has shown that even very poor consumers do have some degrees of freedom in their budget and shift it around according to their perceived benefit-cost ratio (Banarjee & Duflo 2011). The decision might be moderated by some unconscious factors such as attention or presentation of the consumption choices (Bolton & Ockenfels, 2012; Kahneman et al., 1991), which can – however – be captured under a cost-benefit-logic as well. On the social enterprise side, lowering cost strategies are relevant for the cost structure and organizational sustainability, although increased sales due to more attractive products can also have a positive influence here.

In total, we suggest that there are *six direct market-based strategies (MBS)* for social value creation, where three have the dominant logic of increasing benefits and three have the dominant logic of lowering costs. The target group normally is in the role of the consumer that ac-

creates the social value which is produced. However, when thinking for example about work integration social enterprises (Spear & Bidet, 2005), the target group can also be employees, and the produced goods and services are sold to a third party.

Increasing benefit strategies

Increasing benefit strategies aim to increase the ‘use value’ (Bowman & Ambrosini, 2000) of a product, service, or job that creates the social value. Those strategies are applied in fields such as renewable energy consumption, health care, education or work integration. Beneficiaries can be either target groups in western societies or in the development context (George et al., 2012; Prahalad, 2004; Banarjee & Duflo, 2011).

- Customizing products and services

One first opportunity for market-based strategies to create social value is the fact that many products and services often do not meet the specific needs, endowments, skills, or living conditions of vulnerable target groups (Bertrand et al. 2004). Products that need elaborated technological skills in their handling cannot help in harvesting or cooking when the required skills are not prevalent in the target group. Even highly-educated individuals can be overstrained by complex science-based information on energy saving (Christensen, 1997). We label the strategy that tries to overcome this gap *customizing products and services*. The aim is to understand the very specific requirements and preconditions of the target group and to create products or services that precisely meet these. In doing so, the strategy increases the ‘use value’ for the target group. For example, services can be adjusted to fit for ethno-cultural backgrounds, education and skill levels, remote areas, or budget variations over time. An illustrative example is the Brazilian social enterprise *Solar Ear* that uses a solar-powered battery technology instead of regular and expensive zinc batteries for hearing aids. Therefore recharg-

ing becomes much easier even in remote areas, since the dependence from the complementary good vanishes. Ideas following this strategy are often based on deep knowledge of, and close relations to, the target groups (Di Domenico et al., 2010). Such an approach has been mentioned by (Alvord et al. 2004) with a focus on technological opportunities and is inherent as one core element of ‘frugal innovations’ (besides lower costs, see below) that are currently discussed in the context of poverty alleviation and inclusive growth (Bhatti & Ventresca, 2012; Bhatti, 2012; George et al., 2012).

- *Beneficial producing*

Many ecological and social problems are related production processes rather than consumption (Coase, 1960). To address these problems is another opportunity or starting point for market-based creation of social value. We label this strategy *beneficial producing*. It tries to minimize or eliminate negative externalities or even generates positive externalities (Rangan, Samii, & Van Wassenhove, 2006). Activities and operational models that follow this strategy are work integration⁵, alternative energy provision, or recycling and upcycling. Further, market transactions are used sometimes to raise additional funds, e.g. for the producer communities. Mostly, these aspects are communicated to third parties as potential buyers, since sustainable production conditions have been widely shown to increase the ‘use value’ of products. A well known example is the German-based SE *Dialogue in the Dark* that maintains completely dark “museums” which enable experiencing the situation of blind people. Blind individuals are employed as guides there, so the social enterprise creates social value by integrating them into job markets due to framing their work environment to use the specific skills developed from to

⁵ In this case as in some other examples, some economic value is created on the beneficiary side as well. However, it is not the crucial precondition for social value creation, such as in poverty alleviation, since the employees most remain dependent from public transfers. They rather gain social value in the form of inclusion, respect and acknowledgement.

their handicap. Beyond this, the inclusive aspect creates additional social value that accrues on the side of the third parties. The focus on value chain members has been emphasized for example by Porter and Kramer (2011) in their concept of shared value.

- *Incentive engineering*

Even highly beneficial products and services in health care, education, or environmental protection are sometimes not consumed despite a rational willingness to do so. Reasons can be inertia or deeply established habits (Kahneman et al., 1991), but also other aspects that relate to cultural backgrounds, false knowledge, or just ignorance of social and ecological aspects. We label the strategy that tries to overcome these problems on markets *incentive engineering*. Basically, this approach tries to rearrange self- and other-regarding preferences on markets in favor of the beneficial cause. More concrete, beneficial products or services are coupled with an additional incentive. For example, an initiative that primarily tries to reduce energy consumption for its negative impact on the climate might instead rather emphasize the potential economic savings through a lower energy bill. Advocacy might gain more attention with a documentary movie festival than with leaflets. And healthy nutrition might be better promoted in attractive cooking. For example, the German social enterprise *Yesil Cember* teaches women in families of Turkish immigrants in conservation of energy and resources. Door opener for this awareness rising are the monetary gains that can be achieved by such activities. Such approaches have been discussed in different contexts with a focus on psychological arguments (Bolton & Ockenfels, 2012; Datta & Mullainathan, 2012; Marteau, Hollands, & Fletcher, 2012)

Lowering cost strategies

Lowering cost strategies focus on affordability for the target group (not necessarily third party consumers) by lowering the monetary ‘exchange value’ (Bowman & Ambrosini, 2000), but as well on cost reductions in favor of organizational sustainability. Three strategies can be distinguished here:

- Plainness

A first strategy to lower prices and costs is to reduce beneficial products or services to their very core functions so that production costs become as low as possible (Perry, 2006). This strategy of *plainness* often substantially increases the share of potential customers with a lower budget. It is often combined with mass production in order to use economies of scale. In other cases, online services or mobile technologies are used as an instrument of lowering costs. The German SE *CO2online* provides consulting services on energy saving by using online questionnaires and automatic feedback. Thus they lowered the price of consulting services to a fraction of what otherwise would have to be paid for a professional engineer. Another example is the already mentioned *Aravind Eye Care*, whose doctors conduct a high number of eye operations in short period of times by offering only core services in order to reduce overall costs. *Plainness* is often a complement to the *customizing* strategy for increasing benefits. Accordingly, it is the second core element in the discussion about ‘frugal innovations’ for bottom of the pyramid clients (Bhatti & Ventresca, 2012; Bhatti, 2012; George et al., 2012).

- Co-operation and co-creation

A second strategy to lower prices and cut costs is to mobilize resources or infrastructure from outside their organization. This has always been a strategy for organizations with public benefit

orientation, however, recently new forms have emerged such as crowdsourcing (Afuah & Tucci, 2012) or – more on free markets – co-creation (Ramirez, 1999; Wikström, 1996), accelerated by new internet technologies. The strategy of *co-operation and co-creation* is used e.g. by saddling up on the distribution infrastructure of corporate or private partners (George et al 2012), by crowdsourcing or voluntary work for legal inquiries or creative input. Sometimes even the target group itself is involved to lower costs, which additionally increases the sense of ownership. One example is the US-based social enterprise *Project HEALTH* cooperates with hospitals and uses their space, telephone and internet access, postage, and payroll and benefits administration. Beyond these benefits, *Project HEALTH* staff is embedded directly in the clinical sites where they contact their clients.

- *Cross-subsidization and risk reduction*

A third strategy to keep prices and costs low is to generate market incomes from selling additional products or services to market participants besides the actual target group, and to reduce risks. This strategy of *cross-subsidization and risk-reduction* has different facets. By multi-tiered pricing and client portfolio diversification, products and services are sold to financially more potential consumers that can pay higher prices and the surplus can cross-subsidize the prices or conditions for the actual target group. Social enterprises can as well use their existing competencies and infrastructure to develop marketable side services that can be provided at low marginal costs to third parties (including communications services to sponsors) as a source for cross-subsidization⁶. Risk reduction in vulnerable markets improves the cost situation as well. Overcoming information asymmetry and the resulting principal-

⁶ Even more, many social enterprises set up a hybrid financing structure that relies on donations, grants, or membership fees besides the actual market-earned income. In that way, the market fees do not have to cover the complete costs.

agency problems can be achieved by grouping consumers together, so that they serve as guarantor for each other. This grouping can also help selling a product or a service which the individual members could not afford. An example beyond the well known concept of mutual liability in micro credits is the social enterprise *Project Impact*. The organization subsidizes hearing aids for their target group with the higher income from sales to wealthier customers. To prevent that the hearing aids are passed from a lower price market to a higher price market, the organization implemented a technical barrier so that only consumers from the market where the kit is sold can use it.

INSERT TABLE 3 ABOUT HERE

Two dominant logics of indirect MBS: empowering and connecting

The strategic question in indirect MBS is *how the capacities and the framework conditions on markets can be improved to enable the target group acting sustainable and/or economically self-sufficient there*. We argued that in indirect MBS, the target groups are strongly involved in the value creation process. The beneficiaries are rather addressed as producers themselves than as consumers here. Accordingly, while direct MBS related more to activities of immediate value creation in direct exchange with consumers or target groups, indirect market-based strategies move more on a macro or community level. We assume that there are two dominant logics as well that constitute the two sub types of *indirect MBS*:

- *Empowering strategies* focus on improving the individual, local capacities in terms of human capital as well as the general framework conditions, such as access to financial capital and legal protection, of the target groups on markets.

- *Connecting strategies* induce relations and transactions among different market participants to improve their situation by increasing their market positions through joint coordinated activities or improving transparency on social and ecological costs and benefits to promote beneficial products and services on markets.

While empowering strategies rely more to the individual perspective of preconditions, connecting strategies put joint coordinated activities at the forefront. From a theoretical perspective, indirect MBS are closer related to discussion on institutional preconditions and entrepreneurship (Battilana, Leca, & Boxenbaum, 2009; Dorado, 2005; Mair et al., 2012) or community-based enterprises (Haugh, 2007; Peredo & Chrisman, 2006). As outlined above, indirect MBS do not necessarily imply earned-income generation, although it can. In total we found six strategies that fit the approach of indirect market related strategies:

Empowering strategies

Three MBS can be classified as having the dominant logic of *empowering* beneficiaries by improving their individual preconditions as well as framework conditions. All strategies reinforce each other (George et al. 2012; Bradley et al. 2012):

- Conveying skills, technologies and business models

Human capital and knowledge are important preconditions for economic value creation on markets (e.g. Sachs, 2005; Alvord et al. 2004) and thus provide the starting point for the first indirect MBS. By the strategy of *conveying skills, technologies and business models* to beneficiaries of the target group – often micro entrepreneurs themselves – the latter are enabled to manufacture attractive products and services. Thus they can build their own ventures or tweak their existing businesses. This strategy is typically applied in ecotourism, engineering, or production of cloths etc., and in almost any case the production technology or business model has

a sustainability aspect as well. However, skills that are relevant for consumption can be also conveyed, such as financial planning or household coordination. The *Instituto Sertão* for example has devised a strategy for enabling farmers in Brazil's semi-arid north-east to exploit an abundant local plant (carnauba wax) as an alternative crop. The social enterprise offers technical trainings to help the farmers and harvesters to start and manage a (sustainable) production of carnauba wax. This puts them into a different market position, not simply being suppliers of raw material any more.

- *Creating access to financial services*

Besides knowledge and skills, many poor people lack a systematic access to financial capital since they are not considered as creditworthy by financial institutions. Consequently, they lack the money to invest into starting a small business, or just to afford necessary medical treatment which is often a serious threat for economic sufficiency, let alone saving for retirement. Some social enterprises tackle this problem by *creating access to financial services* such as micro credits or micro insurances for their target groups (Copestake, 2007; George & Prabhu, 2000; Kistruck et al., 2013). The social enterprise either sets up an own fund or bank, or it makes sure that other providers of financial capital and services, both public and private, gain enough trust in the target group to lend money. Yet another way is to initiate a network of mutual lending among the target group. This strategy fosters also general economic development (George & Prabhu, 2000). The most prominent example for this strategy surely is Muhammad Yunus' *Grameen Bank* in Bangladesh, a model that is often adapted in different contexts. US-based *First Place Fund for Youth* helps former foster youth to secure affordable apartments. They provide them with micro loans for housing start-up costs they could not afford or finance regularly.

- Ensuring property rights and legal protection

A third problem and thus starting point for indirect MBS for social value creation is that many target groups are in a vulnerable position in terms of legal protection, particularly in the development context where many of them act in informal economies (McGahan, 2012). Property rights (Demsetz, 1967; Furubotn & Pejovich, 2007) are not guaranteed, and they are victims of corruption or market power abuse. The strategy of *ensuring property rights and legal protections* therefore comprises activities such as detecting corruption, offering legal assistance, or helping merchants to be officially registered on crafts markets so that they are better protected by law from extortionists (Mair et al., 2012). One example for this strategy is *Adecon* from Brazil which contacts and informs socially excluded people about their rights and possibilities to get support from current government programs on consumer defense and civil rights.

INSERT FIGURE 1 ABOUT HERE

Connecting strategies

There are also three indirect MBS following the dominant logic of *connecting* to establish beneficial market relations for the beneficiaries or society in general on markets. Those connecting strategies can promote sustainable products and improve the market position of vulnerable target groups to create economic value as an accompaniment of social value at least in the context of poverty alleviation:

- *Connecting consumers or prosumers*

Single consumers on markets often find themselves in a constrained position in terms of social value creation, for example because they face suppliers with very high market power or they perceive their single efforts as not sufficient. The strategy of *connecting consumers or prosumers* motivates consumers to aggregate and coordinate their demand, or jointly increase their motivation and perceived impact. This strategy increases consumers' market or bargaining power, so they can force suppliers to produce more sustainably, or they simply strengthen and reinforce the members' sustainable consumption patterns. For example this turns out in consumer movements, collaborative consumption networks (Bootsman & Rogers, 2010) with peer-to-peer lending, carrot mobs⁷, or consumption boycotts. Further, in this strategy the consumers often turn themselves into producers (*prosumers*) (Ritzer & Jurgenson, 2010) who create the goods they need themselves, such as for example in decentralized energy production networks. An example for this strategy is the German sustainable energy enterprise *Elektrizitätswerke Schönau*. When a local energy supplier monopolist in the 1980s did not agree to provide renewable instead of nuclear energy in her community, the social enterprise organized the protest of local consumers, turning out in buying the local electricity grid to produce sustainable electricity themselves in a decentralized system. Still today the organization incentivizes citizens for sustainable energy consumption by giving them the feeling of belonging to an important citizen movement for climate protection.

⁷ A carrot mob is a collaborative action of consumers to support a company which decides to make its business more sustainable. It creates an incentive for the company to do so by promising high sales through collaborative high consumption in a small time period.

- *Connecting suppliers*

The complement to create consumer networks is the strategy of *connecting suppliers*. Small producers often struggle in competing with larger suppliers on free markets due to disadvantages in preconditions such as resources, knowledge, infrastructure, etc. To meet this situation, a second strategy is *connecting suppliers* within the target group, e.g. for jointly using infrastructure, exchanging knowledge, or benefiting from economies of scale or scope. Complementary offers within a certain region or community can mutually reinforce the attractiveness of each other (e.g. both hotels and guided tours to foster ecotourism). Marketing and distribution efforts can be bundled, and the use of common resources can be coordinated to achieve more sustainability. The typical example here is a cooperative set up to foster local economic development, as they have been discussed for example in the context of community based enterprises (Haugh, 2007; Peredo & Chrisman, 2006), such as the Brazilian organization *Projeto Saúde e Alegria* which promotes local ecotourism in rural areas. It supports local cooperatives in setting up and coordinating a comprehensive supply of the necessary services (such as hotels, gastronomy, guided tours). Connecting producer strategies for environmental conservation and income creation among poor target groups have been applied in wealthy countries (Lyons, 2002; MacLeod, 1986) as well as in the development context (Lyons, 2002; Haugh, 2007; Peredo & Chrisman, 2006).

- *Connecting suppliers and consumers*

Markets do produce welfare losses due to inefficiencies such as information asymmetries (Stigler, 1961) or searching and transaction costs (Williamson, 1981). Accordingly, it might be not enough that there exists both supply of and demand for a product or service that creates social value. Therefore, the last indirect market-based strategy is *connecting suppliers and consumers* in order to catalyze desirable value chains. This can basically be achieved by

transparency creation on the real social and ecological costs of products that are often not internalized in prizes, so that sustainable products become more visible (Alter 2006). One example is *European Rivers Network* in France. The organization does not only engage in preserving the River Loire, the last wild river in Europe, by preventing the French government from constructing a series of large dams, but it also developed a hotel labeling system that certifies the hotel's sustainability of water use on a scale from 1 to 5. This provides easy-to-understand information for customers' when choosing sustainable hotels. Generally, this strategy is realized via certificates, labels, smart phone applications, or sustainability reports based on a range of indicators. Even more, demand and supply can be linked by actively providing intermediary services such as online market platforms for sustainable products, both within the developing context as well as more developed markets or across each other (Kistruck et al., 2013). Local currencies follow the logic of this strategy as well, although they comprise aspects of market segregation to protect the target group against free market forces.

INSERT TABLE 4 ABOUT HERE

DISCUSSION

The aim of this article is to take a process-oriented perspective on social entrepreneurial activities to explain how social value is created on markets. Previous definitions in the discussion about social entrepreneurship have focused as well on personal and mostly on organizational characteristics (Dacin et al. 2010), however, no generally accepted definition has emerged yet, and discussions often seem to be in an impasse, since arguments often are normatively influenced rather than empirically grounded. A process-oriented perspective could provide a prem-

ising alternative here. In this article, a taxonomy of twelve strategies was developed that can be structured in two basic types, *direct* and *indirect*. Direct market-based strategies focus on selling beneficial products and services to the target group or third parties, i.e. to create social value for the target group and some economic value for the organizations itself. They try to overcome market failures such as limited purchasing power by increasing the ‘use value’ or reducing the ‘monetary value’ (Bowman & Ambrosini, 2000) of certain goods and products in favour of the target group. Indirect strategies focus more on improving the capabilities and framework conditions for the target groups to achieve sustainable behavior and economic self-sufficiency on markets, i.e. to enable the target group to create economic and social value themselves. Accordingly, their approach is focused more on the macro or community perspective and therefore rather in line with concepts such as institutional entrepreneurship (Battilana et al., 2009; Dorado, 2005) or community-based enterprises (Haugh, 2007; Peredo & Chrisman, 2006). Both basic types of strategies can be further distinguished into sub types, which are *increasing benefits* and *lowering costs* in direct MBS and *empowering* and *connecting* in indirect MBS. We suggest that these strategies basically underlie all social entrepreneurship activities and that innovations are developed either by new interpretations of these basic strategies, or by specific combinations of them. However, some additional comments are necessary to fully understand the implication of the market based strategies framework.

- First, it is important to notice that the market-based strategies as exhibited here do not equal operational models. The strategies as developed here have to be understood as pure or ideal-type forms that are mostly combined in practice. Ecotourism initiatives for example typically combine the strategies *conveying skills, technologies and business models* and *connecting suppliers*. Even more, in the same activity different strategies can be inherently combined. This shall be illustrated with two examples. For instance, work integration social enterprises

conduct the direct MBS of *beneficial producing* by employing persons with certain handicaps within their companies. However, work integration social enterprises do often formulate the goal to qualify their employees for the first labor market (Spear & Bidet, 2005). Accordingly, the strategy of *conveying skills, technologies and business models* is often simultaneously supplied and cannot be fully separated in practice. Another example is microfinance. Typical microfinance institutions do combine direct and indirect MBS as well. For *creating access to financial services*, the social enterprise often acts as well as a direct supplier here that customizes (necessity for low amounts of capital) the product for the target group, and that often applies the strategy of *cross-subsidization and risk-reduction* as well by demanding mutual liability within communities.

- Second, we developed a framework of market-based strategies whose elements integrate strategies applied in the development context as well as in more developed economies. However, the context factors are still relevant and can cause certain contingencies in the classification of activities into strategies. For example, upcycling – which basically describes the use of rubbish as input factor in the production of certain goods – can be assigned to the strategy of *plainness* in the development context, since the main ratio here is to have cheap raw materials. For example the social enterprise *Marcos* from Brazil produces actually inaccessible and expensive goods that rural populations need but often cannot secure, such as plastic nets and cages, by substituting traditional materials with recycled PET. However, in Western societies upcycled materials have recently become more common in the production of fashion bags. Yet, the aspect of reducing waste is probably more important here than having a raw material. Accordingly, upcycling would be a *beneficial producing* strategy.

Limitation and further research directions

Some limitations have to be mentioned here as well. Most important, the analytical lens in the development of this paper focused on market mechanisms mostly from an economic perspective and did not account for aspects such as social capital, embeddedness, or community cohesion of the social enterprise and its target groups (Di Domenico et al., 2010; Haugh, 2007) that are clearly crucial for the success of social value creation strategies. It has been argued that economic factors are integrated with and inseparable from natural and social capital, particularly in entrepreneurial solutions to community problems (Granovetter, 1985; Peredo & Chrisman, 2006).

Further, market-based strategies shall not be advocated here as solutions for social problems in general. Other approaches that do not rely on market mechanisms might be far more effective and should be afforded by any society where better suitable. Karnani (2007) has pointed out that products that merely increase consumption might actually deepen poverty or have no effect on it at all. Indeed, recent evidence suggests that even products like microfinance can lead to greater consumption including potentially harmful products such as alcohol and tobacco (Banerjee & Duflo, 2011).

As pointed out above, market-based creation of social and economic value creation in our understanding does not necessarily mean earned-income based from the social enterprise perspective (although it can, and is particularly in direct MBS). We suggest to widen the focus and to systemically think about social value creation on markets by including all kinds of strategies where market mechanisms are used to alleviate and solve social problems.

Theoretically this can contribute to the in this respect still nascent field of social entrepreneurship. Discussions on personal and organizational characteristics such as the income or governance structures and legal form require a normative decision on definition criteria at a cer-

tain point. A process perspective might allow developing a definition from empirical groundings. We propose furthermore to understand in detail how economic value creation and social value creation relate to each other, and to reconsider which are the sources and the targets of the value creation process. We think that such a strategy perspective is relevant for a wide field of actors that aim to create social value, such as foundations, classic nonprofit organizations, or socially responsible companies and even governments. It could finally also help social investors (Nicholls, 2010) to better understand where they invest their money most effectively and how the social and ecological value they intend is actually created.

Concerning further research the framework as lined out here has to be verified by both empirical studies and theoretical discussion. As a first step, a quantitative analysis of the *market-based strategies* could provide fruitful insights on interrelations among different strategies, or as well on typical appearances in certain countries of fields of activities and will be provided within a separate paper. Although the strategies outlined here have to be understood in the sense of ideal types and appear in various combinations in reality, an interesting question would be to understand what factors determine the choice of a certain strategy or combination of strategies. We hypothesize that such factors will be the *field of activity*, because in fields such as regional economic development or environmental protection it is reasonable to expect that other strategies are applied compared to fields such as education or social services. Another factor could be the *degree of economic development* in a country or region. In emerging market countries like Brazil other strategies might be prevalent than in economically more saturated countries from Northern America or Western Europe. (This might however, interfere with the field of activity). Another role could play the *biography and personal background of the social entrepreneur*. A chosen strategy approach can as well depend on the previous experiences of the

founder, for example whether he was active in business companies before. Finally, there can as well be assumed certain interdependencies with *other strategies applied*. It seems reasonable to assume that some strategies are regularly combined because they complement or reinforce each other.

Conclusion

The aim of this article is to contribute to the theoretic groundings of the field of social entrepreneurship by talking a process oriented perspective on social value creation mechanisms on markets. We suggest a taxonomy of twelve market-based strategies that goes beyond understanding market-based solely as creating earned-income, but as generally applying market mechanisms in the economic and social value creation process. Accordingly, two basic types of strategies are developed which are labelled *direct* and *indirect*. Direct market-based strategies focus on selling beneficial products and services to the target group or third parties, i.e. to create social value for the target group and some economic value for the organizations itself. Indirect strategies focus more on improving the capabilities and framework conditions for the target groups to achieve sustainable behavior and economic self-sufficiency on markets, i.e. to enable the target group to create economic and social value themselves. Both basic types of strategies can be further distinguished into sub types, which are *increasing benefits* and *lowering costs* in direct MBS and *empowering* and *connecting* in indirect MBS. We suggest that these strategies basically underlie all social entrepreneurship activities and that innovations are developed either by new interpretations of these basic strategies, or by specific combinations of them. This provides strategy implications of a wide range of actors that aim to create social value on markets, as well as research avenues for a more detailed understanding of social value creation on markets.

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Table 1: Sources and targets of value creation in direct and indirect market-based strategies

		<i>source of value creation</i>	<i>target of value creation</i>
direct MBS	<i>economic</i>	social enterprise	social enterprise
	<i>social</i>	social enterprise	beneficiaries
indirect MBS	<i>economic</i>	beneficiaries / social enterprise	beneficiaries / (social enterprise)
	<i>social</i>	beneficiaries / social enterprise	beneficiaries

Table 2: Strategic questions of direct and indirect market-based strategies

	<i>direct MBS</i>	<i>indirect MBS</i>
<i>Approach</i>	SE sells beneficial products and services to target group or third parties	SE prepares or supports the target groups to sell and buy beneficial products and services to each other or third parties
<i>Strategic question</i>	How can the target group be enabled and motivated to consume the beneficial product and services, while the social enterprise generates sufficient economic value to sustain?	How can the capacities and the framework conditions on markets be improved to enable the target group acting sustainable and/or economically self sufficient there?

Table 3: Overview table of direct market-based strategies: economic rationale and social /ecological impact

Strategy	Economic rationale / value creation	Social value creation	Examples
direct; increasing benefits			
Customizing products and services	Adjusting composition or distribution of product to specific preconditions of target group to increase use value	Health and educational improvements, better living conditions in general (i.e. access to energy), etc	Education and health services, job orientation programs, etc
Beneficial producing	Optimizing production factors according to non economic goals; selling products and services for organizational sustainability to maintain beneficial processes for target group	Decreased environmental pollution; improved self confidences and life quality of employees, etc	Alternative energy, ecotourism, work integration, recycling/ upcycling, food banks, etc
Incentive engineering	Coupling other-regarding with self-regarding preferences by adding additional products or emphasizing individually rather than socially attractive product characteristics	Reduced energy consumption, health and educational improvements, awareness rising for inclusion, etc	Energy consultancy, education, documentaries, computer games, educative museums and restaurants, etc
direct; lowering costs			
Plainness	Focusing product or service to core function to lower costs as much as possible, often combined with mass production for economies of scale	Better access to instruments for education (i.e. laptops), health, energy provision, etc	Pure health services, simple technological devices for energy conservation, etc
Co-operation and co-Creation	Finding production factors that do not need remuneration by volunteering, crowdsourcing, cooperation	Better access to education, health, energy provision; ownership, etc	Volunteering, crowd sourcing platforms for knowledge exchange, using distribution networks of corporate partners, etc
Cross-subsidization and risk reduction	Addressing financially more potential consumers to cross-subsidize target group providing at low margin costs; reduce principal agent problems by linking clients	Better access to education, health, energy provision; financial services, ownership, etc	Price discrimination, investment portfolios with higher and lower expected return candidates, sponsoring, consumer communities, collective liability in microcredits, etc

Table 4: Overview table of indirect market-based strategies: economic rationale /value creation and social value creation

Strategy	Economic rationale / value creation	Social value creation	Examples
indirect; empowering			
Conveying skills, technologies and business models	Improving human capital for available technologies for economic self-sufficiency and sustainable behavior	Poverty alleviation, reduced exploitation and waste of resources, diversity, etc	Ecological agriculture, ecotourism, diversity programs for companies; energy or food consumption programs, etc.
Creating access to financial services	Improving financial capital endowment and flexibility for better investments and consumption possibilities	Poverty alleviation, decreased vulnerability towards health problems, etc	Microcredit, microinsurance, mutual lending communities, etc
Ensuring property rights and legal protection	Strengthening legal framework conditions to improve the functioning of markets to secure income and other activities of target group	Poverty alleviation, reduced exploitation or abuse by other actors	Lobbying, legal advisory, registering initiatives, anti-corruption activities, etc
indirect; connecting			
Connecting consumers or producers	Aggregating and channeling consumer demand to increase or oppose market power; reduce atomistic self perception to increase incentive for sustainable consumption	Reduction of social and ecological harms from products with negative externalities, decreased resource use, affiliation, etc	Consumer movements, prosumption (self build houses, decentralized energy provision), collaborative consumption platforms (car sharing, cloth exchanges), carrot mobs, etc
Connecting suppliers	Improving market power, knowledge exchange, coordinated use of common pool resources, and cost structure due to economies of scale for better economic self-sufficiency and sustainability	Poverty alleviation, reduced exploitation and waste of resources	Joint production networks, cooperatives, etc
Connecting suppliers and consumers	Overcoming market failures such as information asymmetries, high searching and transactions costs to connect demand and supply for beneficial transactions for the target group (increase sales etc)	Promoting socially desirable production conditions, poverty alleviation	Certificates, labels, monitoring applications on social and ecological returns, discount systems, local/social currencies, marketing and distribution services inc. platforms, carrot mobs, etc

Figure 1: Direct and indirect market-based strategies - overview

