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Paper Title: Social Business Models in Developing Countries - The relationship between
type of value creation and levels of vertical integration

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A sustainable solution to fight poverty is a more complex task than it seems at a first glance. Poverty and related social problems, like hunger or limited access to basic goods and services like sanitation and medical care, are difficult challenges to master. Over 2.6 billion people live on 2\$ or less per day (Chen & Ravallion, 2010) and have limited access to the most basic goods and services. Many institutions and organizations have been trying to tackle those problems for decades, some even for centuries. NGOs, governments and even individuals try to end extreme poverty throughout the world but even though they help many people, the overarching problem does not seem to have come to a resolution. A new approach in the quest to eradicate extreme poverty is the concept of “social business” (SB). Social business ventures aim at eradicating poverty and other social problems by building financially self-sustainable business models (Yunus & Weber, 2010). Thus, they want to offer sustainable solutions without being dependent on grants or donations as in the case of charities (Yunus & Weber, 2010).

Social businesses in developing countries face two major challenges. Similar to SBs in developed countries, the demands of achieving both social and financial value are often competing (Tracey & Jarvis, 2007; Yunus et al., 2010) and thus all social businesses have to marry two different value creation logics (Battilana & Dorado, 2010). In developing countries SBs additionally face the challenge of operating in markets that usually require both highly efficient low cost production and high levels of adaptation to local conditions, plus they lack infrastructure such as cost efficient local suppliers, knowledge and technological capabilities, and a well-developed institutional environment (Parmigiani & Rivera-Santos, 2011).

Thus, one dilemma that social businesses face in developing countries is the interplay between value and level of integration. To create financial value social businesses in developing countries are forced to achieve a high cost efficiency as the poor are extremely price sensitive and have a very low ability to pay (Karamchandani, Kubzansky & Frandano, 2009; Kubzansky, Cooper, & Barbary, 2011; Prahalad, 2005). Cost efficiency is usually achieved through scale economies and high volumes of standardized inputs. In traditional markets cost efficiency is often achieved through outsourcing to specialized suppliers. However, local value chain partners in developing countries often lack knowledge or capabilities required for cost efficiency or are even non-existent in local markets (Parmigiani & Rivera-Santos, 2011). Additionally, a weak institutional environment may lead to unreliable services from local value chain partners (Parmigiani & Rivera-Santos, 2011). At the same time, a major contribution to social value creation in developing countries is the inclusion of local stakeholder groups into the value creating activities of the business, because it supports the poor’s livelihood (Yunus, Moingeon & Lehmann-Ortega, 2010).

Thus, while efficiency and financial value considerations may suggest lower levels of vertical integration, the inclusion of stakeholders and the lack of efficient external partners suggest or may even enforce higher levels of vertical integration increasing social value (Parmigiani & Rivera-Santos, 2011). Thus, the decision to integrate versus externalize affects how social business models can achieve both social and financial value creation (Yunus et al., 2010). The aim of this study is to explore the relationship and potential trade-offs between the type of value created (social, financial, and blended) and the level of vertical integration (integration, network, transaction) in social business models in developing countries.

We conduct our research by synthesizing multiple case studies by mixing qualitative case study methodology (Eisenhardt, 1989; Eisenhardt, 1991; Eisenhardt & Graebner, 2007) with the quantitative case survey approach (Larsson, 1993). To identify cross-sectional patterns across multiple case studies we rely on quantitative case survey methodology for coding and analyses (Larsson, 1993). To develop theory based on the identified patterns we resort to qualitative case analysis.

SOCIAL BUSINESSES

Social business (SB) is a relatively new phenomenon in the business landscape. The origin of the term can be traced back to Nobel laureate Muhammad Yunus and the Grameen Bank that was

founded in 1983 in Bangladesh (Yunus, 2008). In a SB, the mission to solve a social problem is the purpose of the venture while financial self-sustainability is seen as a necessary condition to realize the mission (Yunus & Weber, 2010). SB can be understood as a subset of social entrepreneurship (SE) (Yunus; 2007). The terms “social entrepreneurship” and “social enterprise” are ambiguously used in literature as both terms cover all kinds of entrepreneurial activities in a social context. For example, Certo and Miller (2008) describe SE as entrepreneurial activities that create social value, Cukier, Trenholm, Carl and Gekas (2011) define the term as activities with an embedded social purpose. Dacin, Dacin and Matear (2010) give a comprehensive overview of different definitions of social entrepreneurship, with some of the definitions being broader and others more distinct. Many of the stated social entrepreneurship definitions even match the definition of a social business (e.g. Harding, 2004; Hartigan, 2006).¹ Dees & Anderson (2006) arrange the social entrepreneurial activities and SE ventures in a continuum that reaches from purely charitable to purely commercial.

While social enterprises can be for-profit or non-profit, social businesses differ from both for-profit businesses and from non-profits or charities. They are different from non-profit organizations in their imperative to employ a viable business model that is financially self sufficient and therefore they are able to pay back initial investments (without dividend). However, they are different from for-profits as generated profits are reinvested in the growth and expansion of the venture and must not be paid out to investors (Yunus, 2007; Yunus & Weber, 2010).

Although similar at first glance, social businesses differ from bottom of the pyramid (BOP) businesses (Prahalad, 2004). BOP ventures, most of which are multinational corporations, operate in developing economies to stimulate and strengthen markets and be profitable at the same time (Prahalad, 2004; Prahalad & Hammond, 2002). The underlying concept is similar to the concept of social business and is, in theory, based on mutual value creation, specifically the creation of both financial and social value. Nonetheless, recent casts doubt about whether BOP venture actually employ a mutual value creation. For example, London and colleagues (2010) revealed that only 11 out of the 64 BOP ventures they studied created value mutually (London, Anupindi & Sheth, 2010). Thus, in case a BOP venture does not extract profit from the business (or at least country) we would see BOP and SB venture as overlapping. In case, however, a BOP venture does extract profit from the business, it differs from a SB. While SBs can be an initiative of or a joint venture with a for-profit company, they do not pay out dividends to shareholders. To sum up, we understand a SB as a venture with a social mission that contributes to the solution of a social problem by employing a self-sustaining business model and by suppressing private profit extraction.

SOCIAL BUSINESS MODELS IN DEVELOPING COUNTRIES

Social businesses in developing countries face two major challenges. Similar to SBs in developed countries, the demands of achieving both social and financial value are often competing (Tracey & Jarvis, 2007; Yunus et al., 2010) and thus all social businesses have to marry two different value creation logics (Battilana & Dorado, 2010). In developing countries SBs additionally face the challenge of operating in markets that usually require both highly efficient low cost production and high levels of adaptation to local conditions, plus they lack infrastructure such as cost efficient local suppliers, knowledge and technological capabilities, and a well-developed institutional environment (Parmigiani & Rivera-Santos, 2011).

To address the first challenge, a considerable amount of research studied the questions of how to combine social and financial value creation. While more traditional views claim that a combination is not necessary because financial or firm value maximization will automatically increase social welfare (Friedman, 1962; Jensen, 2002), more recent research acknowledges that potential trade-offs are not easily solved by maximizing financial value alone (Emerson, 2003; Porter & Kramer, 2011). Although using different terminology – such as shared value (Porter & Kramer, 2011), mutual value (London et al., 2010), or blended value (Emerson, 2003) – the

¹ Dees (1998), Mair and Martí (2006) and Desa (2007) also give excellent overviews on the topic.

contributions agree that both types of value have to be considered and can be maximized (Dees, 1998; Emerson, 2003; Emerson & Cabay, 2000; Husted & Salazar, 2006) and that “it is not a question of either/or but rather of both/and” (Emerson, 2003: 38).

Few studies exist that suggest different classifications and typologies of business models in social ventures (Alter, 2008; Karamchandani, et al., 2009; Kubzansky et al., 2011; Sommerrock, 2010; Yunus et al., 2010). While these typologies are useful as a first step in understanding social business models, the proposed business models have not been broken down into their elements and thus, they do not allow analyzing the characteristics of different business model elements such as offering, business activities, resources, or customer segments and channels. For example, Kubzansky et al. (2011: 9) classify Aravind Eyecare Hospital as a para-skilling model that “combines no frills services with a reengineering of complex services and processes into a set of disaggregated simple standardized tasks that can be undertaken by workers without specialized qualification.” While this offers a precise description of one aspect Aravind’s successful business model it is not detailed enough to allow us understanding that Aravind creates different values by, for example, targeting two customer segments, i.e., solvent patients that pay for surgeries, which creates financial value, and poor patients that get surgeries for free, which creates social value. Furthermore, it does not say anything about, for example, resource or channels of Aravind and what value they create. As part of our first intended contribution, our research closes this gap by analyzing value creation in social business model at the business model element level.

To address the second challenge of operating in developing countries, recent research studying how, for example, BOP ventures configure their value chains in subsistence markets argue that businesses in developing countries need to combine efficient low cost production with adaptation to local conditions and will likely be highly vertically integrated (Parmigiani & Rivera-Santos, 2011). Low cost production is necessary to generate financial value because the target customers usually have extremely low and irregular incomes (Banerjee & Duflo, 2007). As the poor target customers are isolated from mainstream markets and thus may be difficult to reach, not only offerings but also other business model elements such as distribution (channels) and customer segmentation, activities, and resources have to be adapted to suit local conditions (Anderson & Markides, 2007; Arnould & Mohr, 2005; Yunus et al., 2010). Markets in developing countries also usually lack infrastructure, such as cost efficient local suppliers. Local suppliers may not only be inefficient, they may lack completely, as the demands of social businesses are usually highly specific (Rivera-Santos & Rufin, 2010; Rivera-Santos et al., Forthcoming). Moreover, knowledge and technological capabilities are often missing, with local workforce lacking education and training (Kistruck, Webb, Sutter, & Ireland, 2011).

Overall, this reasoning suggests that social businesses in developing countries face a dilemma. On the one hand the lack of efficient suppliers and the SB’s specific demands suggests that social businesses in developing countries should be highly vertically integrated. High levels of integration usually means that SBs include local stakeholders into the business, offer them employment and thereby, generate or contribute to social value creation (Wilson & Post, 2010). On the other hand, operating efficiently and low cost is necessary to create financial value and self-sustainability and firms usually target efficiencies through scale economies and high volumes of standardized inputs or products. In traditional markets firms would outsource standardized activities to focus on their core competencies (Prahalad & Hamel, 1990). If internalized, cost efficiency may be difficult to achieve for multiple inputs or products within one firm and is likely to be further complicated due to the unspecialized local workforce. Table 1 illustrates this trade-off.

Insert Table 1 here

Thus, the aim of our study is to contribute to a better understanding of how SBs in developing countries resolve this dilemma.

RESEARCH DESIGN

We approach the investigation of the relationship of value creation and level of integration in social business models by conducting an exploratory case study analysis synthesizing multiple case studies. To do so we mix qualitative case study methodology (Eisenhardt, 1989; Eisenhardt, 1991; Eisenhardt & Graebner, 2007) with the quantitative case survey approach (Larsson, 1993). Although most procedure steps in both methods are largely overlapping, they differ with respect to coding and analyzing the data. To identify cross-sectional patterns across multiple case studies we rely on quantitative case survey methodology for coding and analyses that is more powerful than qualitative methods in that respect (Larsson, 1993). Based on the cross-sectional patterns, however, we also aim to “create theoretical constructs, propositions and/or mid-range theory from case-based, empirical evidence” (Eisenhardt & Graebner, 2007: 25). Thus, to make sense of quantitative results, we complement the case survey methodology with qualitative case analysis. We chose this approach because it is specifically useful to identify emerging theories and patterns in new research areas (Glaser & Strauss, 2008). Additionally, the case study approach supports the researcher in investigating a phenomenon in its real life context and bridges the gap between theory and practice (Hoon, 2012; Le & Schmid, 2012). We followed the six case study analysis steps: (1) defining the focus of research, (2) case sampling, (3) collecting information, (4) designing a coding scheme and coding the information (measures and procedures), (5) analyzing the data quantitatively and qualitatively and finally (6) shaping hypotheses. We defined the focus of our research as the exploration of the relationship between value creation and the level of integration in social business models in developing countries.

Case Sampling and Information Collection

To capture patterns across cases we used theoretical sampling to select a diverse set of social business models (Eisenhardt, 1989). In a first step, case selection was restricted by the fact that we only included social businesses that operate a financially self-sustainable business model (Yunus & Weber, 2010). Thus, we excluded social businesses or enterprises that operate as non-profit or that depend on grants or donations. In a second step, we selected cases in a way that they represent a variety of different social business model types that have been identified in previous research (Alter, 2004, 2008). Our sample covers (1) entrepreneur support models, (2) market connection models, (3) employment models and (4) fee for service models (in contrast to product models). Furthermore, our sample consists of 50% Grameen and 50% non-Grameen cases, 60% Asian cases and 40% African cases; 40% product and 60% service ventures. Table 2 displays the final sample of 10 social business cases in developing countries. Selecting 10 cases proved to be a good compromise between a sufficiently large number of cases to produce quantitative results but also sufficiently small number of cases to allow for qualitative case analysis.

Insert Table 2 here

The data collection was conducted by analyzing existing case studies, online material (especially websites) and recorded interviews (even though the interviews often did not offer additional information to the written case studies). Each case is documented by at least three sources². Multiple sources enhance the quality of the analysis because they simulate multiple investigators (Eisenhardt, 1989).

Coding Scheme

We used the business model canvas based on Osterwalder (2004) as coding scheme to code the two variables “value creation” and “level of integration”. The concept of the business model is a prominent framework in the literature to explore value creation (Chesbrough, 2007; Shafer et al., 2005; Teece, 2010; Zott, Amit & Massa, 2011) and is also suitable to analyze the level of

² With the exception of KACE Kenya which is only documented by 2 sources.

integration of the different business model elements. We chose the concept by Osterwalder (2004) because it is based on a comprehensive in-depth meta-analysis of existing concepts and is therefore very detailed and elaborated. It is proven and tested by many practitioners (Osterwalder, Pigneur & Clark, 2010), which makes it suitable to extract and analyze information from practice examples. Importantly, Humberg (2011) already applied this framework to successfully investigate SBs. The original model consists of four overarching building blocks with nine more detailed elements as displayed in Figure 2.

Insert Figure 2 here

We adjusted the model by excluding the “Partnership” and the “Cost Structure” elements from our coding scheme as they are intertwined with our two variables value creation type and level of integration. This leaves us with seven elements of value creation: (1) resources serve as the basic ingredients for capabilities of the venture such as human resources, tangible and intangibles, (2) activities depict value creating activities (e.g. operations or logistics), (3) offerings depict the elements of the overall value proposition such as a bundle of goods and services, (4) customer relations depict the relationships with customers and the way they are managed, (5) channels show how a venture reaches its customers, (6) customer segments show which customers are targeted and finally (7) revenue consists of different revenue streams the venture receives and in this case especially the pricing because of the price sensitivity of the customers in developing economies (Karamchandani, Kubzansky & Frandano, 2009; Kubzansky, Cooper, & Barbary, 2011; Osterwalder, 2004; Prahalad, 2005). Even though they can be described isolated from each other they nonetheless build a connected system.

We read thoroughly through the case material identifying different observations for each of the seven business model elements. For example, for Grameen Danone we identified only one “offering”, i.e., nutritious yoghurt, but several “resources” such as milk and date molasses as ingredient or the general manager and the production technology. For each identified observation (ranging between 18 and 44 observations per case) we coded whether this business model element creates social, financial, or blended value and whether it is internalized, externalized or provided by network partners. Overall, we identified 263 observations of business element components across all ten cases.

Measures

We operationalized value creation and level of integration as follows. We conceptualized **social value creation** as products, services, or activities of the business that improved the living conditions of the poor but did not create financial value for the business such as free surgeries for poor people at Aravind Eyecare Hospital (Manikutty & Vohra, 2004; Yunus et al., 2010). We saw **financial value creation** whenever a business model element improved cost efficiency. The low cost strategy is essential in social businesses in developing countries because customers are highly price sensitive due to the lack of income, insufficient cash flow and a resulting low ability to pay (Karamchandani et al., 2009; Kubzansky et al., 2011; Prahalad, 2005). For example, the knowledge and sophisticated technology required to build and efficiently run the Grameen Danone yoghurt production plant was provided by Danone and creates financial value (Humberg, 2011; Rodrigues & Baker Gregory, 2012). However, as Danone also uses this knowledge and technology to design cost efficient production in the for-profit ventures, it does not create social value per se. We coded business model elements that exhibited aspects of both social and financial value creation as **blended value creation**. For example, the Center Chief at Grameen Bank works free of charge and is also involved in the education and training of poor people (Hanley & McMillan, 2003). Thus, the Center Chief’s services provide financial value to the business and at the same time benefit the poor through education and training.

Our coding of the level of integration follows the common distinction in the literature between integration, network, and externalization (CIT). **Integration** means that the venture facilitates the value creation step itself, such as the Marketing Resource Centres of KACE Kenia that are run by regular employed staff (Karugu, 2011). **Network** means that the value creation step is facilitated by the utilization of resources or activities of a long-term partner such as local entrepreneurs who connect investees with the MYC4 online platform on behalf of MyC4.com (Hoff Hoegh-Gulberg, 2012). **Externalization** means that an external supplier facilitates the value creation step such as date molasses (sweetener) that is bought by Grameen Danone on the open market (Humberg, 2011).

We coded the components numerically: value type: social=1, blended=2, financial=3; level of integration: integration=1, network=2, externalization=3. This enabled us to identify descriptive patterns using statistical analyses methods during data analysis and allowed an additional review of the coded information. Further, we wrote down field notes on everything that drew the coder's attention. These notes were used to reflect upon the first round of codings and we adapted some codings based on the experience gained during the coding process (Eisenhardt, 1989). This contributed to a more thorough and precise coding process. The field notes were also used in the data analysis to make sense of the patterns that we identified using statistical analyses with the numerical coding (Larsson, 1993).

Table 3 provides examples for our coding of both value creation and level of integration.

Insert Table 3 here

Coding Procedure

Coding took place in two steps. In a first step, we started coding the cases with three pilot case studies (Larsson, 1993). As this procedure allowed us to analyze and code the cases effectively, we proceeded with this approach and coded the remaining cases in the same manner resulting an initial coding.

The operationalization of value creation and level of integration is crucial for the validity of our findings. To increase the quality of our operationalization we performed a naïve coding with multiple raters as a second step (Larsson, 1993). We allocated each case to a group of 2-3 naïve coders³. The coders were given the case material that was used to code the cases in the first step. Then each coder coded both value creation and level of integration for each business model element component of their case separately. Subsequently, the coders for each case met in groups and were asked to work out a consensus of their different codings and contrast it with the benchmark coding by the authors. The comparison of the different codings led to in-depth discussion and reflection of the codings. According to Larsson (1993) consensus resolution for coding discrepancies is superior to alternative resolution approaches. The naïve coders compiled a report explaining their coding and justifying discrepancies to the initial benchmark coding. As suggested by Larsson (1993) we used an average pairwise percent agreement (APPA) as our measure of interrater reliability to compare naïve and benchmark coding. Interrater reliability was 69 % for the value creation variable and 77 % for the level of integration variable. Both values are above the 67 % reliability, which is considered satisfactory (Larsson, 1993). In a final step, the authors analyzed each discrepancy and decided upon a final coding.

Data Analysis

We analyzed the data both quantitatively and qualitatively. To identify cross-sectional patterns we used descriptive statistics such as frequencies and cross tabulations (Larsson, 1993). We analyzed each case and examined patterns across cases. As we coded only two variables we did not perform any multivariate statistics (similar to Golembiewski, Proehl, & Sink, 1981). We report the

³ The naïve coders were participants of a bachelor seminar on social business models at our university.

findings from our quantitative analyzes in our results section below. Based on the identified patterns we examined the qualitative case studies and field notes to generate propositions (Eisenhardt, 1989) by employing the constant comparative analysis by Glaser and Strauss (2008). This enabled us to spot the locations of interesting patterns and investigate those patterns more thoroughly by examining the underlying qualitative data. The emerging propositions can be tested in future research (Glaser & Strauss, 2008).

FINDINGS AND PROPOSITIONS

The Interplay between Value Creation and Level of Integration

First, we performed frequency analyses of value creation and level of integration. The results are shown in Table 4 and 5.

Insert Tables 4 and 5 here

Table 4 shows that integration is the dominant choice for the level of vertical integration with 49% (129/263) supporting the notion that SBs are highly vertically integrated in developing countries. However, 43% (113/263) of all business model elements are organized through networks. Thus, the dominance of integration is not as strong as the literature may have suggested. Table 5 shows that blended value is the dominant type of value created with approx. 48% (126/263) across all cases and business model elements. This result suggests that SBs effectively combine social and financial value creation. Counter-intuitively, though, financial value creation (38.8%) occurs almost 3 times as often as social value creation (13.3%).

Finding 1: SBs in developing countries is either vertically integrated or organized in networks.

Supply through external suppliers is rare.

Finding 2: SBs in developing countries create mainly blended value. The creation of financial value dominates over the creation of social value.

Next, we calculated cross tabulations of value creation and level of integration across all cases and business model elements. The results are shown in Table 6.

Insert Table 6 here

Table 6 shows that the dominant combinations are blended value creation & network (approx. 26%), financial value creation & integration (approx. 21 %), and blended value creation & integration (approx. 20%). These three combinations account for 67% of all possible nine combinations. We summarize:

Finding 3: SBs in developing countries create blended value through networks and integration.

Finding 4: SBs in developing countries create blended and financial value through integration.

To make sense of our findings we went back to a qualitative analysis of the case material.

Finding 1&3

Our findings 1 and 3 shows that although SB in developing countries are vertically in most cases, almost as often they also cooperated with network partners and that blended value is created through networks and integration. Literature suggests that operating in developing countries is characterized by a lack infrastructure such as cost efficient local suppliers, knowledge and technological capabilities, and a well-developed institutional environment that increases the risk of opportunism while enforceability of contract and property rights is limited (Kistruck et al., 2011; Parmigiani & Rivera-Santos, 2011). In contrast to literature, our finding indicates that these challenges may not be as severe or at least dependent on further variables such as prior ties, cultural similarity or the governance of networks (Gulati, 1995; Kistruck et al., 2011). One reason for this contradiction may be that SBs are more tightly embedded in local communities than BOP ventures which are often subsidiaries of foreign companies and thus thrive despite of the fact that local

businesses may be informal, inefficient or overall competitively weak (Parmigiani & Rivera-Santos, 2011).

Proposition 1: The better a SBs in developing countries is embedded in the local community the weaker are negative effects of the less-developed competitive and institutional infrastructure.

Analyzing the distribution of value types across the different levels of integration (Figure 3), we observed that integration facilitates both blended and financial value creation (see Finding 4), while networks are clearly associated with blended value creation. Thus SBs that operate in networks seem to be better able to combine financial and social aspect into a blended creation within one business model element than integrated SBs. Operating in network is likely to increase a SBs embeddedness in the local community.

Insert Figure 3 here

Proposition 2: The better a SBs in developing countries is embedded in the local community the better it can achieve blended value.

Finding 2

When analyzing blended value creation, we observed that the business model element “customer segment” is underrepresented in blended value creation. The BME “customer segments” mainly facilitates either social (e.g. Aravind Eye Clinics have poor people as a customer segment that they serve for free) or financial (e.g. Aravind Eye Clinics have regular, wealthy customer that pay the market price for surgeries) value creation instead of blended value. One interpretation is that SBs in developing countries use a cross-subsidization strategy where wealthier “customer segments” cross-subsidize products and services for poor customer segments. We found this strategy in 8 of the 10 cases. Remarkably, only Grameen Bank and Star Shea Network have purely social customer segments and thus employ no subsidization strategy. They solely focus on the poorest and most underprivileged customers. In the case of Grameen Bank, customers are not allowed to have too many liabilities (in the beginning none) to get credit and in the Star Shea Network case only small scale poor individual shea nut collecting women are the target customers. These BMs could be anchored stronger on their social mission than others because they are not dependent on wealthier customer segments. The case of Star Shea Network has to be monitored further since it is a rather young venture and has not proven long-term viability yet. However, Grameen Bank is long established and is viable and stable. We develop the following proposition:

Proposition 3: SBs in developing countries rely on cross-subsidization of poor customer segments by also serving solvent customer segments.

We found financial value creation dominated social value creation. One reason for this finding could be that SBs in developing countries have to achieve financial sustainability very early in their life cycle and even on small scale. Early financial sustainability ensures that investments can be repaid quickly when investors reclaim them. As grant and government support may be weaker or non-existent in developing markets the focus on early financial self-sufficiency may be critical for survival (Parmigiani & Rivera-Santos, 2011). Also the collapse of a SB in a developing country is likely to affect beneficiaries more negatively than in developed countries as developing countries usually have weaker governmental social support systems. The SB obtains independency faster and can then further grow internally. This is emphasized by the fact that the creation of financial value is mainly integrated or achieved via networks being closely connected to the venture. It implies a tight internal focus on cost control to ensure financial viability.

Proposition 4: The less developed the institutional environment, the more and the earlier SBs are forced to achieve financial self-sustainability.

Finding 4

We found that SB ventures tend to integrate those BME components that support financial value creation. This is a surprising finding considering financial value associated with cost efficiency may be difficult to achieve in SBs in developing countries due to difficulties in achieving scale economies and high volumes of standardized inputs or products, and unspecialized local workforce. We observe that the financial value creation by integration mainly consists of the business elements “resources” and that mainly human resources and tangible resources rather than intangible resources facilitate the creation of financial value. We observe that almost 60% of the overall human resources facilitate financial value creation (32% blended, 8% social). Often the human resources are white-collar staff with specific, valuable knowledge (e.g. head technician at Grameen Veolia or eye surgeons at Aravind). They do not just provide knowledge and ensure efficient operations but also can pass it onto other, local employees. This can be a source of blended and social value creation in other BME components. For example, training and educating uneducated local stakeholders generates social value but at the same time increases efficiency of operations (e.g. paramedical staff at Aravind Eye Clinics, technicians at Grameen Shakti and blue collar workers for production at Grameen Danone). As hierarchies are better capable of transferring specified knowledge than markets (and networks), it can be explained why this type of financial value creation is integrated (Grant, 1996).

Proposition 5: Transferring specialized knowledge in-house contributes to cost efficiency and thus financial value creation in SBs in developing countries.

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APPENDIX

Table 1: Trade-off relationship between Value Creation and Level of Integration

	<i>Integration</i>	<i>Externalization</i>
Financial Value	–	+
Social Value	+	–

Table 2: Case Sample

Case (Region, Service vs. Product)	SBM Types ⁴				Description & Sources
	(1)	(2)	(3)	(4)	
Grameen Danone (Asia, P)			(x)		GD is a joint venture between GB and Danone. Its goal is to end malnutrition amongst children in Bangladesh by producing and selling nutritious yoghurt. The BM is based on producing and selling yoghurt (Humberg, 2011; Hussain, Chowdhury & Hussain, 2011; Rodriguez & Baker, 2012).
Aravind Eye Care (Asia, S)			x	x	AEC offers eye surgery to eradicate unnecessary blindness. It offers surgery with costs for wealthy customers and free surgery for poor people (N.N., 2011; Manikutty & Vohra, 2004; Prahalad, 2005; Ragnan & Thulasiraj, 2007; Tidd, Bessant & Pavitt, 2005).
Grameen Bank (Asia, S)	x		(x)	x	GB grants credits to poor rural people in Bangladesh who otherwise have no access to banking services. A moderate interest rate is charged for these credits (Dowla, 2006; Grameen communications, 2011, s.d.; Hanley & McMillan, 2003; Yunus, 2008; Yunus & Jolis, 2007).
Grameen Veolia (Asia, P)			x		GV is a joint venture between GB and Veolia. It primarily provides secure drinking water to poor people at affordable prices that live in rural areas with a high degree of arsenic contamination (Humberg, 2011; Tsuboi, 2010; Yunus et al. 2010; Yunus et al, 2012; Yunus & Weber, 2010).
Grameen Village Phone (Asia, S)	x	x		x	GVP is a network of rural entrepreneurs that is supported by Grameen Telecom and Grameen Phone. It provides access to mobile services at affordable prices (Cohen, 2001; Richardson, Ramirez & Haq, 2000; Sebastian, 2004).
Grameen Shakti (Asia, P)			(x)		GS provides rural people with access to affordable, clean energy solutions at affordable prices (Ashden Awards, 2010; The Grameen Creative Lab, 2011; Tsuboi, 2007; Wheldon, 2008).
KACE Kenya (Africa, S)	x	(x)		x	KACE provides small scale farmers with crucial market information at affordable prices and business support to empower their position within the agriculture industry (Karugu, 2011; Mukhebi, 2004).
MYC4 (Africa, S)	x	x		x	MYC4 is an online credit platform connecting worldwide investors with small scale entrepreneurs in Africa. It takes a 3% commission on each trade (Brünings-Hansen, Gammeltoft & Povel, s.d.; Carrick-Cagne & Santos, 2009; Hoff Hoegh-Gulberg, 2012).
Starshea Network (Africa, S)		x	(x)	x	SSN is a network hosted by SAP and local MFIs. It aims to organize and train poor women that collect and process shea nuts. Income is generated by service fees of the women in the network (Maata-N-Tudu Association, 2010; Rammohan, 2010; The Grameen Creative Lab, s.d.).
Peepoople (Africa, P)		x	(x)		PP operates in developing countries to provide poor people with access to clean, affordable sanitation (Hekinnen, 2012; Jachnow, 2009; PeePoople Ltd., 2012)

⁴ The business models types identified by Alter (2008) are not mutually exclusive and thus our real world cases usually comprise more than one business model type. (1) = entrepreneur support model, (2) = market connection model, (3) = employment model, and (4) = fee for service model.

Figure 2: Business Model Canvas based on Osterwalder (2004) as Coding Scheme

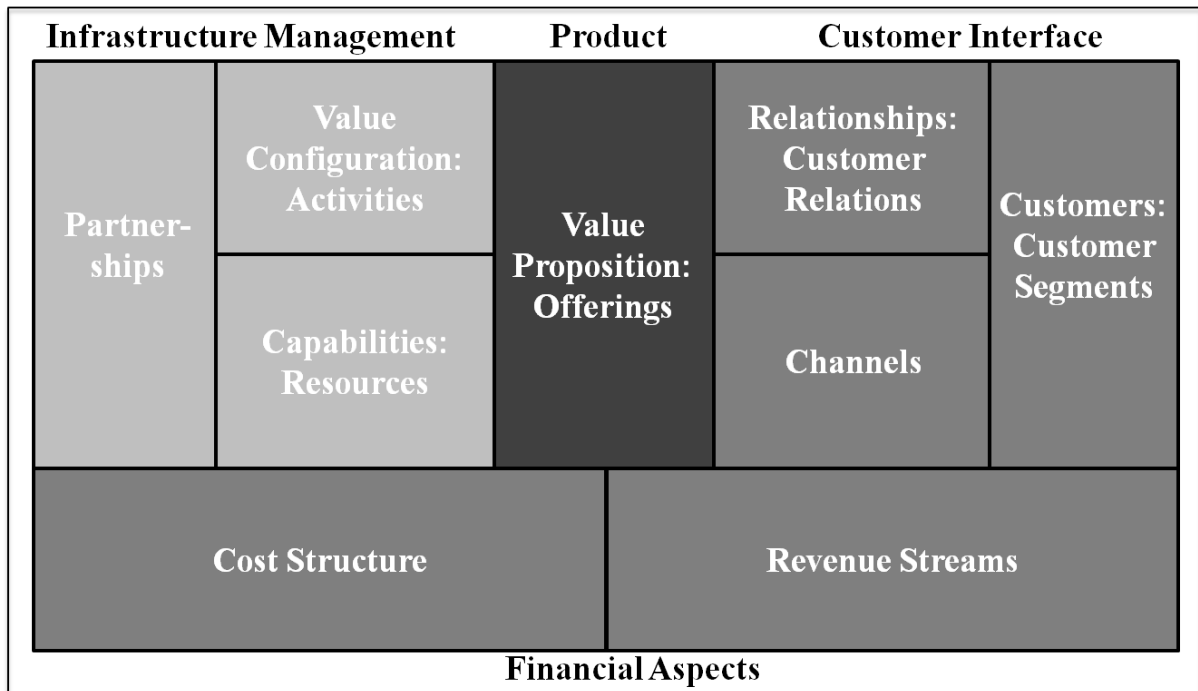


Table 3: Examples of Operationalization

Variable	Example of Operationalization
Social Value	<i>Free surgery for poor people at Aravind Eye Care. Surgeries are conducted free of charge by professional eye surgeons. No revenue is generated for the business.</i>
Blended Value	<i>The Center Chief at Grameen Bank branches works free of charge and is also involved in the education and training of poor people. Thus, a local stakeholder has to work for free, which is cost efficient while this work contributes to benefits for other local stakeholders.</i>
Financial Value	<i>The knowledge to build and run a yoghurt plant is provided by Danone. This ensures efficient processes but has no immediate impact on local stakeholders.</i>
Integration	<i>Marketing Resource Centres of KACE Kenya that are run by regular employed staff.</i>
Network	<i>Local MFI entrepreneurs that connect investees with the MYC4 online platform on behalf of MyC4.com.</i>
External	<i>Date molasses (sweetener) that is bought by Grameen Danone on the open market.</i>

Table 4: Frequencies for Level of Integration Variable

	Frequency	Percent
integrated	129	49,0
network	113	43,0
external	21	8,0
Total	263	100,0

Table 5: Frequencies for Value Creation Variable

	Frequency	Percent
social	35	13,3
blended	126	47,9
financial	102	38,8
Total	263	100,0

Table 6: Level of Integration * Value Type Crosstabulation

		Value Type			Total
		social	blended	financial	
Level of Integration	integrated	23	52	54	129
	network	11	69	33	113
	external	1	5	15	21
Total		35	126	102	263

Figure 3: Distribution of Value Types across different levels of integration

