

## Chapter 3

# Designing Business Models for Creating and Capturing Shared Value: An Activity–System Perspective

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### ABSTRACT

*Business models define configurations of activities that jointly enable a firm to create and capture value. The value paradigm is shifting from sharing created value to creating shared value in which firms and societies jointly create and share value to nurture more benefits for a sustainable business-environment symbiosis. Drawing on this logic, we develop a framework for designing business models that enable creation and capture of shared value. Our model builds on the practice theory and activity system and depicts business models as complex adaptive systems that co-evolve with markets. Using the shared value framework proposed by Porter and Kramer (2011) we propose three design themes namely the Product-Market Design (PMD), the Value Chain Design (VCD) and the Social Cluster Design (SCD). We specify features of each school from the activity perspective. Subsequently, we will discuss implications of our framework for theory, practice and management education and illuminate some directions for future research.*

### INTRODUCTION

Over the last few years there has been a veritable explosion of interest in the concept of social entrepreneurship (Choi & Majumdar, 2014; Dorado & Ventresca, 2013; Felício, Martins Gonçalves, & da Conceição Gonçalves, 2013; Lundstrom, Zhou, Friedrichs, & Sundin, 2014; Nelson, Ingols, Christian-Murtie, & Myers, 2013; Prokesch, 2011; Sakarya, Bodur, Yildirim-Öktem, & Selekler-Göksen, 2012;

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Tobias, Mair, & Barbosa-Leiker, 2013). This surge of research has created a substantial body of knowledge about what social entrepreneurship is generally about and what functions usually social entrepreneurs perform that would differentiate them from traditional entrepreneurs. For instance, it is now widely agreed that social entrepreneurship is about creating business activities to meet the broader needs of the society rather than individuals (Choi & Majumdar, 2014). It is also known that, social entrepreneurs, as individuals or organizations, prioritize socio-environmental gains over economic and financial achievements (Lundstrom et al., 2014).

Social entrepreneurship departs from similar concepts such as corporate social responsibility (CSR)<sup>1</sup> (Aguinis & Glavas, 2012), corporate greening (Post & Altman, 1992), corporate citizenship and philanthropy (Matten & Crane, 2005) in that it transcends social and environmental responsiveness and focusing on the entrepreneurial activities. Those that involve creation of novel goods, services and actions that not only make a difference on how businesses, societies and the nature interact but how industries and markets form, collide and evolve. In this sense, social entrepreneurship promises a fruitful field of research that subscribes to a neo or modern view of capitalism captured by the notion of conscious capitalism (O'Toole & Vogel, 2011).

The rapid growth of this distinct line of thinking implies, on the one hand, that the field of entrepreneurship is evolving rapidly and radically towards a more society-centric view by distancing from the normative capitalistic view of financial profit centrism and on the other hand, there is a growing void in the theoretical understanding of social entrepreneurship. With regard to the former, some scholars have expressed their concerns over the flaws in the shareholder centered profit-maximization dogma of the corporate world (Kanig, 2013) and some other (Porter & Kramer, 2011) have argued that capitalism is under siege and has to be reinvented through a new business mindset. Some even have proposed a conscious capitalist view of the business where leaders are urged to become more cognizant of the social and environmental impacts of their business (O'Toole & Vogel, 2011). With regard to the latter, it has been argued that the complexity surrounding the notion of social entrepreneurship stems mainly from its multifaceted nature that has prevented it from reaching its full potential (Bacq & Janssen, 2011; Lisetchi & Brancu, 2014). What is, however, missing from the social entrepreneurship literature is a synthesis of these two in the form of a parsimonious theoretical view of social entrepreneurship. Such an approach should be able to incorporate changes in the underlying assumptions of the business into a theoretically less-complex and more fined-grained view of social entrepreneurship. In this chapter, we seek to develop a model that is capable of doing so.

Toward this goal, we first borrow the concept of Business Model defined as the logic of business and orchestration of activities developed to realize this logic (Teece, 2010; Zott & Amit, 2010; Zott, Amit, & Massa, 2011) and link it to the Schumpeterian view of entrepreneurship as new organizations of productive activities (Schumpeter, 1934, 1943). Synthesizing these two, we introduce the notion of entrepreneurship as business modelling to develop a theoretical view of business activities for social entrepreneurship. We then connect this view with the model for reinvention of capitalism (Porter & Kramer, 2011) to construct a framework according to which social entrepreneurship is viewed as the design of business models for creating and capturing shared value.

We believe that this framework advances the extant social entrepreneurship literature in, at least, two ways. First, it offers a more practical view of the underlying assumptions and their corresponding activities that form social entrepreneurship by using the concept of business model design. This would not only allow us to go beyond the notion of business models for social businesses (Christian Seelos

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