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SOCIAL ENTREPRENEURSHIP BUSINESS MODELS: HOW FIRMS BALANCE MISSION AND FINANCIAL SUSTAINABILITY

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ABSTRACT:

Social enterprises sit in an awkward but interesting spot. They have to earn money like businesses and deliver social value like charities, and the two goals do not always pull in the same direction. This paper reviews the literature on how social enterprises structure their business models to hold both goals together. Drawing on fourteen core studies from entrepreneurship, organization theory, and microfinance research, the review covers three themes: (a) how business models are structured, (b) how organizations manage the tensions between social and commercial logics, and (c) how they guard against mission drift. The evidence suggests that no single model works everywhere. Enterprises that survive tend to align their revenue engine with their social purpose, build staff and governance systems that keep both goals visible, and treat mission drift as a design problem rather than a moral failing. A reserved section marks where additional studies can be integrated, and the paper closes with gaps and directions for future research.

KEYWORDS:

SOCIAL ENTREPRENEURSHIP, HYBRID ORGANIZATIONS, BUSINESS MODELS, MISSION DRIFT, FINANCIAL SUSTAINABILITY.

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1. INTRODUCTION

Ask ten people what a social enterprise is and you will probably get ten answers. The basic idea, though, is fairly stable: an organization that pursues a social or environmental purpose through market-based activity. The trouble starts when the market and the mission disagree. Serving the poorest customers is rarely the most profitable path, and chasing margins can quietly push the original purpose aside.

Scholars have been circling this problem for decades. Early work framed social entrepreneurship as a blend of commercial and charitable motives (Dees, 1998), while later research recast these organizations as hybrids that combine different institutional logics inside a single entity (Battilana & Lee, 2014; Doherty et al., 2014). The central question of this review follows from that framing: how do social enterprises design themselves so that financial sustainability supports the mission instead of replacing it?

The review is organized as follows. Section 2 explains how the literature was selected. Section 3 reviews conceptual foundations. Section 4 covers business model types. Section 5 looks at managing tensions between mission and money. Section 6 discusses mission drift and governance. Section 7 is reserved for additional studies, and Sections 8 and 9 offer a synthesis, limitations, and future directions.

2. SCOPE AND APPROACH

This is a narrative review rather than a systematic one. The studies were chosen because they are widely cited, address the mission and finance balance directly, and span different methods (conceptual papers, literature reviews, and empirical cases). Priority went to peer-reviewed work in management and entrepreneurship journals, plus a small number of influential practitioner-oriented pieces. Because it is a narrative review, some relevant work has inevitably been left out, a limitation revisited in Section 8.

3. CONCEPTUAL FOUNDATIONS

3.1 FROM ENTERPRISING NONPROFITS TO HYBRID ORGANIZATIONS

Dees (1998) offered one of the earliest and most durable

framings: a spectrum running from purely philanthropic organizations to purely commercial ones, with social enterprises occupying the hybrid middle. The spectrum matters because it treats the mission versus money balance as a matter of degree, not a binary choice.

Austin et al. (2006) pushed the comparison further by asking whether social and commercial entrepreneurship are really different. Their answer was nuanced. The two share the process of spotting and exploiting opportunities, but differ in market failure, mission, resource mobilization, and how performance is measured. In a social venture, social value creation is the central objective, not a by-product, which is what makes financial decisions harder.

Mair and Martí (2006) added that social entrepreneurship is best understood as a process that combines resources in new ways to catalyze social change, a perspective that has made the field more open to business model thinking.

3.2 VALUE CREATION VERSUS VALUE CAPTURE

Santos (2012) gives a useful theoretical lens. Commercial firms are driven by value *capture*, meaning they care about what they can keep. Social entrepreneurs typically focus on value *creation* for society, often in areas where positive externalities are large but market returns are small. This helps explain why social enterprises tend to operate in neglected problem areas, and why their financial models need to be built differently from conventional ones.

3.3 THE HYBRID ORGANIZING PERSPECTIVE

Battilana and Lee (2014) reviewed research on hybrid organizing and proposed that hybrids make choices along several core dimensions: their activities, workforce, organizational design, and inter-organizational relationships. Doherty et al. (2014) reached a similar conclusion in their review of social enterprises as hybrid organizations, identifying the management of tensions, access to resources, and governance as the main research themes. Together these reviews establish that the balancing act is not a side issue; it is the defining feature of the field.

4. BUSINESS MODEL TYPES

4.1 ALTER'S THREE INTEGRATION MODELS

Alter (2007) offers a practical typology built around how closely the social program and the revenue-generating activity are linked:

- **Embedded models**, where the business activity *is* the social program (for example, a job-training enterprise whose products are made by the people being trained).
- **Integrated models**, where the two overlap and share some resources and costs.
- **External models**, where commercial activity exists mainly to fund separate social programs.

The logic is intuitive. When mission and revenue are embedded in the same activity, a profitable year is also a successful social year, so the tension is much lower. In external models, the two goals are separate, and the pressure to cross-subsidize can make trade-offs more visible and more painful.

4.2 SOCIAL BUSINESS AS A DISTINCT DESIGN

Yunus et al. (2010) studied the Grameen experience and proposed a way of designing "social business" models in which the venture seeks to cover its costs, reinvests surpluses rather than distributing dividends, and is judged by social impact. Their analysis emphasizes that these models need deliberate innovation across the value proposition, value constellation, and profit equation, rather than copying a standard commercial template. The takeaway for this review is that financial sustainability can be treated as a *constraint* to be met, not a goal to be maximized.

4.3 WHAT THE TYPOLOGIES MISS

Typologies are neat, but real organizations are messier. Many social enterprises run several models at once or shift between them as they grow. The typologies tell us *where* an organization sits at a point in time; they say less about how it moves, which is where the tension-management literature picks up.

5. MANAGING TENSIONS BETWEEN MISSION AND MONEY

5.1 COMPETING LOGICS

Besharov and Smith (2014) argue that the consequences of combining multiple institutional logics depend on how compatible the logics are and how central each is to the organization's work. When both logics are central and incompatible, conflict is most intense. Social enterprises often fall into this category, since the social and commercial logics both shape core daily decisions.

Smith et al. (2013) mapped the specific tensions social enterprises face (for instance, around performing, organizing, belonging, and learning) and distinguished two broad management approaches: differentiating the two goals into separate units or roles, versus *integrating* them into a shared identity and routines. Neither is automatically better, and the right choice depends on context.

5.2 PEOPLE AND STRUCTURE AS BALANCING TOOLS

Some of the strongest empirical evidence comes from Battilana and Dorado (2010), who examined two commercial microfinance organizations in Bolivia. They found that how the organizations hired and socialized employees was decisive. By recruiting people with neither a pure banking background nor a pure social-work background and then training them into a shared organizational identity, the organization could maintain both logics without one dominating. The lesson is that balance is built through everyday human resource decisions as much as through strategy.

5.3 SELECTIVE COUPLING

Pache and Santos (2013), studying work integration social

enterprises in France, showed that hybrids do not simply adopt both logics wholesale. Instead, they practice *selective coupling*, picking and combining specific practices from each logic and weaving them together in ways that fit their needs. This view is refreshing because it treats hybrids as creative actors, not passive victims of conflicting demands.

5.4 IDENTITY

Wry and York (2017) bring in identity, arguing that the founders' sense of who they are (more social-minded, more business-minded, or both) shapes how a social enterprise pursues opportunities and resolves trade-offs. This helps explain why two organizations with similar models and resources can behave very differently.

6. MISSION DRIFT AND GOVERNANCE

6.1 WHAT MISSION DRIFT IS, AND WHY IT HAPPENS

Mission drift refers to the gradual shift of an organization's attention and resources away from its social purpose toward revenue generation. Ebrahim et al. (2014) argue that it arises particularly when the paying customers differ from the intended beneficiaries, and when pressure to show financial results grows. They stress that governance and accountability systems are the main defense.

Cornforth (2014) takes a closer look at causes and remedies, focusing on how boards and governance structures can either guard the mission or let it slip. His work reinforces the idea that drift is rarely a single decision; it tends to accumulate through many small, reasonable-seeming choices.

6.2 IS COMMERCIALIZATION ALWAYS THE CULPRIT?

The evidence is not as one-sided as popular accounts suggest. Mersland and Strøm (2010) examined microfinance institutions and questioned the assumption that commercialization inevitably leads to drift away from poorer clients. Their results suggest that the relationship depends on how the organization is set up, which fits the broader message of this review.

6.3 STAKEHOLDERS AS A SAFEGUARD

Ramus and Vaccaro (2017), using a multiple case study approach, found that engaging a wide range of stakeholders can help social enterprises detect and correct drift early, because stakeholders act as a continuous check on whether the organization is still honoring its purpose. This links back to Smith et al. (2013): the integrating approach works partly because it keeps the social side visibly present in day-to-day decisions.

7. ADDITIONAL STUDIES PROVIDED FOR INTEGRATION

[Placeholder: this section is reserved for the 8 additional research papers to be supplied by the author. For each paper, a short review (aim, method, key findings, and relevance to the mission and sustainability balance) will be added here and cited in APA style. Suggested alignment: studies on business model types can be added to Section 4, studies on tensions and hybrid management to Section 5, and studies on mission drift, governance, or impact measurement to Section 6. Their full references will then be added to the reference list below.]

8. SYNTHESIS AND DISCUSSION

Reading across the studies, a few patterns stand out.

1. Alignment beats compromise. Models where revenue and mission come from the same activity (Alter's embedded models) reduce the need for constant trade-offs. Where the two are separate, organizations carry the heavier burden of managing the tension (Alter, 2007; Yunus et al., 2010).

2. Tension is managed, not solved. Whether through differentiation or integration (Smith et al., 2013), selective coupling (Pache & Santos, 2013), or deliberate hiring and training (Battilana & Dorado, 2010), successful hybrids appear to treat tension as a permanent feature and build routines around it.

3. Governance is the last line of defense. Boards, accountability structures, and stakeholder engagement determine whether mission drift is caught early or goes unnoticed (Cornforth, 2014; Ebrahim et al., 2014; Ramus & Vaccaro, 2017).

4. Context matters more than formulas. The finding that commercialization does not always produce drift (Mersland & Strøm, 2010) is a reminder that organizational design, more than the mere presence of revenue, shapes outcomes.

Limitations of the literature and of this review. Much of the evidence comes from case studies in a handful of settings (microfinance and work integration are heavily represented), which limits generalizability. Many studies are cross-sectional, so we know less about how balance changes over time. As a narrative review, this paper may also reflect selection bias in the sources chosen.

Future directions. Longitudinal studies tracking how enterprises shift between models as they scale would fill a clear gap. More research is needed on digital and platform-based social enterprises, on non-Western contexts, and on how impact measurement systems influence the mission and money balance.

9. CONCLUSION

Social enterprises do not balance mission and finances by finding a perfect midpoint. They do it by designing models where the two reinforce each other where possible, by building people systems and governance structures that keep both goals alive, and by watching for the slow slide toward drift. The literature reviewed here suggests that financial sustainability is best seen as a means to social impact, and that the organizations most likely to succeed are those that plan for the tension from day one rather than hoping it will disappear.

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