

SOTECIN FACTORY

D2.3 Report with new business models

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D2.3 Report with new business models

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GLOSSARY

Acronym	Description
SEMC	Social Enterprise Model Canvas
BMC	Business Model Canvas
LMC	Lean Model Canvas
IP	Intellectual Property
IPO	Initial Public Offering
NGO	Non-Governmental Organization
SE	Social Enterprise
MVP	Minimum Viable Product

EXECUTIVE SUMMARY

The aim of this deliverable is to support selected tech-savvy innovators of the SoTeIn Factory in their intention to solve a mission-driven challenge with their solution approach. The support here lies in providing them with a chosen business model that reflects their needs and challenges as well as possible, while being simple to use. For this purpose, different existing business models were examined in section 2 for their compatibility with the requirements. In the end, the Social Enterprise Model Canvas (SEMC) was chosen and presented in section 4 with its existing building blocks as well as complemented by existing work within the SoTeIn Factory project to be as exclusive as possible for the innovators when it comes to developing their business model. The special challenges of Social Enterprises and how these can be circumvented or considered in strategic planning by using this model were also discussed within this deliverable in section 3. Like almost every model, this business model also has certain limitations, which have also been transparently explained and suggestions were made as to how they can be avoided. In section 5 it is explained on how this deliverable is desired to be used within the SoTeIn Factory project and which goal is trying to be achieved by this work.

1. INTRODUCTION

Despite widespread criticism, business planning and the respective documentation of the planned business activities are more relevant than ever, especially for innovative ventures. Entrepreneurial teams should regard conceptualizing their business not as a necessary evil, but as a challenge: an opportunity to present the key components of their idea in a structured manner, also for their own purposes. Those entrepreneurial teams who hope to establish an innovation in the market should be able to describe their venture as precisely as possible in different situations.

The first step in this direction is usually the use of a suitable business model, which requires the existing business models to be examined in advance. Initially, an entrepreneurial team uses a business model for its own purposes. It helps them define the business idea in greater detail and identify any initial weaknesses. The business model requires the entrepreneur to closely scrutinise the venture in all business areas. Given that a new business is usually established by an entire team of entrepreneurs, the business model serves as a common interface and an information platform that provides all those involved with the same knowledge and enables them to jointly develop a business.

In addition, the documentation of a business by using a business model is a highly important foundation for an innovative venture upon which investors, potential business partners and management can base their decisions. It is the basis for negotiations between the company and potential shareholders, financial institutions, and strategic partners, as well as for internal planning and strategic concepts.

External parties – mostly potential investors – use the documentation of the business model a source of information and, therefore, as a basis for deciding on a possible investment. In this case, the contents of the processed business model are further processed into a read deck, which helps investors to quickly gain a comprehensive overview of the venture, the proposed business development, and the chances of success. The description in the business model should convince readers of the necessity and feasibility of the project. As regards the entrepreneurs themselves, the documentation forces them to present the various requirements for the new venture development project in a comprehensible manner.

An entrepreneurial team uses a business model to document the development of the venture over time. In general, the documentation of the business model can be seen as a document that illustrates the entrepreneurial project in its entirety, providing a well-balanced review of all central business functions. It reveals who will be responsible for the individual steps involved in setting up the business. It also reveals how the individual components of the business will influence the operational efficiency of the company. Professionally managed companies make long-term, continuous use of business planning to produce target/actual comparisons related to the development of the business.

1.1 Scope of deliverable

The aim of this deliverable is to describe the importance for tech-savvy innovators to use a business model when structuring their venture that solves a specific challenge and guides them on how to use one selected business model, namely the Social Enterprise Model Canvas (SEMC), which was identified to be the most fitting and most easily used for social enterprises, that SoTeIn Factory aims to establish within this project. This deliverable also states the specific needs and challenges that social enterprises tend to face and make them aware of their importance and how to address them when structuring and planning their venture. This deliverable is also intended to illustrate the importance of starting business planning early, while also highlighting the weaknesses of a business model and recommending how to work around them and what they can be used for. Overall, however, the main objective is to highlight the most important aspects of a social enterprise so that they are considered by the founders in good time and included in their planning to ensure a successful and sustainable business development.

1.2 Contribution to other Work packages within SoTeIn Factory

This document should be used within SoTeIn Factory by the selected tech-savvy innovators to support them building their social venture that comes out of developing their solution for the challenge of their choice formed by the SoTeIn Factory Missions. This document will not only help them structure their organization, but also prepare their pitch deck that will allow them to present their developed social project as successfully as possible as foreseen in WP 4¹:

- *SoTeIn Factory will offer an extensive package of capacity building and business support to the social innovators who will choose to respond to SoTeIn Factory's mission-oriented challenges, and to bring their own innovations under the control of the Stewardship Councils. The support will include - alongside funding packages worth up to €100k (€15k+€85k) for the 30 ideas reaching the demo implementation phase - training, mentoring, consulting and peer-to-peer engagement. The 15 teams per call (30 in total) that will successfully make it through to this support stage will have access to multiple resources and to the consortium's in-depth expertise on circular business models, systemic change, social entrepreneurship, funding strategies and industrial value chains, to name but a few. The support package, defined by this blended approach, will adopt an adult learning' methodology and include a close look at the individual venture's exploitations strategy, both in terms of funding requirements/strategy and of IP, and at the entrepreneurs' wellbeing.*

¹ SoTeIn Project Proposal (2021) p.33.

2. METHODOLOGY

To develop this document, secondary research has been done. For this purpose, relevant literature on existing business models was collected, and was critically examined for its alignment with the scope of this deliverable, which is finding the most suitable and practical business model for social innovations. The selected business model was then adapted to the project content and integrated into the project process during the support phase of the selected tech-savvy innovators within the WP 4 framework in structuring their idea to solve a selected challenge in an attempt to turn it into a functioning and sustainable business concept. Empirical research with an own data collection for the selection of a fitting business model for social enterprises can be carried out at a later point of time within the project, if necessary, but is excluded under this deliverable at this time due to time constraints. In addition, these elements will be developed for the most part in WP 4 in the further course of the project.

2.1 Analysis, Comparison & Selection of existing models

When looking at existing business models to be used for structuring and organizing a new business idea, many models can be found that are generally similar to each other, however, specify on different factors. While some models such as the Business Model Canvas² (BMC) or Lean Business Model Canvas³ (LBMC) are based on classic commercial business models, there are also models such as the Social Business Model Canvas⁴ or Sustainable Business Model Canvas⁵, which explicitly take the social and/or sustainability factor into account. Within SoTeIn Factory, both factors are important in the context of circular economy. Another decision criterion for the selection was the usability, i.e. how practical and self-explanatory are the models? This is therefore relevant in order to ensure their acceptance and use by the tech-savvy innovators within the framework of the SoTeIn Factory project.

Starting point of the analysis is the classic Business Model Canvas, as stated in the project proposal. During the analysis, however, it becomes clear relatively quickly that the more common alternative to this is Lean Model Canvas. Both models have advantages and disadvantages, as the following table summarizes:

² Osterwalder, and Pigneur, 2010.

³ Maurya, 2012.

⁴ Social Innovation Lab, 2013

⁵ Faust, and Lotter, 2017.

	Business model canvas	Lean canvas
+	Defines key activities that generate value and revenue for the business.	It focuses on understanding the problem that the business is trying to solve.
+	Encourages strategic relationships with clients and partners.	Proposes key metrics to evaluate whether the business is moving in the right direction
+	Enables testing of an existing business model against the market.	Accounts for uncertain conditions, assumptions, and incomplete data.
-	It doesn't accommodate businesses in very early stages of development.	Overemphasizes the internal focus without accounting for the surrounding ecosystem
-	Enables risky assumptions within the business model, without offering a clear way to verify them.	Limits strategic thinking
-	Focuses on the end-shape of the business without defining the strategy to get there.	Lacks the "Resources" box which may lead to unrealistic product ideas.

Figure 1. Business Model Canvas vs. Lean Model Canvas

At first glance, the Lean Model Canvas seems to be better suited for the project because it takes a problem-solving approach, just like the projects that will emerge in the SoTecIn Factory by solving given challenges. However, it still becomes clear that important core dimensions of SoTecIn Factory are missing, and these models are generally more aimed at commercial businesses. While it is possible that the outcome of SoTecIn Factory are commercial ventures, it is also possible for non-profit or social organizations to emerge from it, which is why the use of a different business model is more appropriate to include other contingencies. In this context, the Social Enterprise Model Canvas⁶ was identified to be the better choice (see chapter 5).

⁶ Sparviero, 2019.

3. SPECIFICATIONS AND CHALLENGES OF SOCIAL ENTERPRISES

But what is a social enterprise (SE) and what specifications and challenges do they require and face when trying to establish themselves in the market? Most startups try to provide value to their customers while staying alive in a fast-moving and competitive marketplace. Purpose ventures however face the following situation:

- “The whole start-up funding system is based on injecting large amounts of capital to grow a business so that it can be sold in a profitable exit or initial public offering (IPO). Due to the high failure rate of startups, these instruments are designed to produce returns of at least 10x and more from successful investments. In addition, the term-sheets used for those investments often give investors far-reaching minority rights. Excessive return expectations lead to unrealistic growth trajectories and leave viable businesses (that cannot become "unicorns") without funding. Selling shares to private equity investors or on the public market strips businesses of their independence and forces them to prioritize shareholder value over their mission.”⁷

Thus, both established businesses and new commercial startups are encouraged to be fundamentally extractive entities that value growth above all else, leaving little to no room for addressing these problems in a transformative way and without creating more problems.

In contrast, non-governmental organizations (NGO) commonly put their mission at the heart of their operations while filling a gap between academia, government action, and activism. Where business models are sparse, regional and international NGOs are often operating in these areas, such as campaigns to use less plastic, and anti-poverty programs. While these efforts don’t have clear business cases or significant political constituencies, they still add important value to society. NGOs usually face two key challenges. First, they’re almost exclusively funded by donations and grants, which makes the resources they rely upon to do their work tenuous at best. Second, NGOs typically don’t have the embedded knowledge or relationships to bring solutions to scale. NGO activities can help people and the environment in the moment while creating a useful sandbox of experimentation for policy-makers, but they rarely lead to market-driven solutions that take root.

This situation showcases the sweet spot for social enterprises, bridging the gap between strictly for-profit businesses and strictly non-profit NGOs lacking the capacities to find scalable solutions to problems outside of existing corporate supply chains.

Therefore, it is in the interest of SoTeIn Factory that such social enterprises result from the project activities providing both a greater societal value and scalable solutions by supporting them with the necessary skill set, initial funding, and network to enable a promising starting point for them.

⁷ Purpose Foundation: Rethinking ownership in the 21st century

4. WHY SOCIAL ENTERPRISE MODEL CANVAS (SEMC) AND HOW TO PERFORM IT

Business models are simplifications of real systems that are used for explaining performance and competitive advantage⁸ or alternatively for rethinking and redesigning an organization's strategy to benefit from innovations and other opportunities⁹. It is argued that they can also be used for framing, understanding and communicating the features and strategies of a social enterprise. Social enterprises are defined as private organizations that are explicitly and primarily working towards one or more social welfare goals while still participating in the marketplace.¹⁰ Social enterprises attempt to create and legitimize new institutional forms by combining market and social values or core aspects of both charity and business.¹¹

The SEMC is presented as a suitable instrument for framing, (re-) designing and explaining the rationale, infrastructure and use of resources that allows an SE and its intended beneficiaries to create value. Such proposal relies on the fact that the SEMC is designed by taking into consideration the specific challenges that SEs face so that it can be used to meet them. These challenges include the difficulties that SE experience in: (1) blending economic and social objectives; (2) effectively communicating the objectives with the use of resources and the strategy; (3) assessing and quantifying its results in terms of output, outcomes, and impact; and (4) adopting the best governance mechanisms that enable the pursuit of mission values and objectives.

Looking at the building blocks of SEMC it reveals that the SEMC is built from the following instrumental principles: (i) first, making mission values and objectives explicit and establishing a priority among them; (ii) second, translating these mission values and objectives into measurable targets; (iii) third, differentiating between non-targeted stakeholders (i.e. partners and affected stakeholders) and targeted stakeholders (i.e. customers and beneficiaries), in order to embrace a systemic approach as well as extend the rationalization of the business model's design to its (social) environment in which this unfolds; (iv) fourth, keeping into accounts the ways in which targeted stakeholders are involved in the co-creation of value; and (v) fifth, considering the main elements of the organization's governance, since these are relevant to the conditions for the achievement of mission values and objectives.

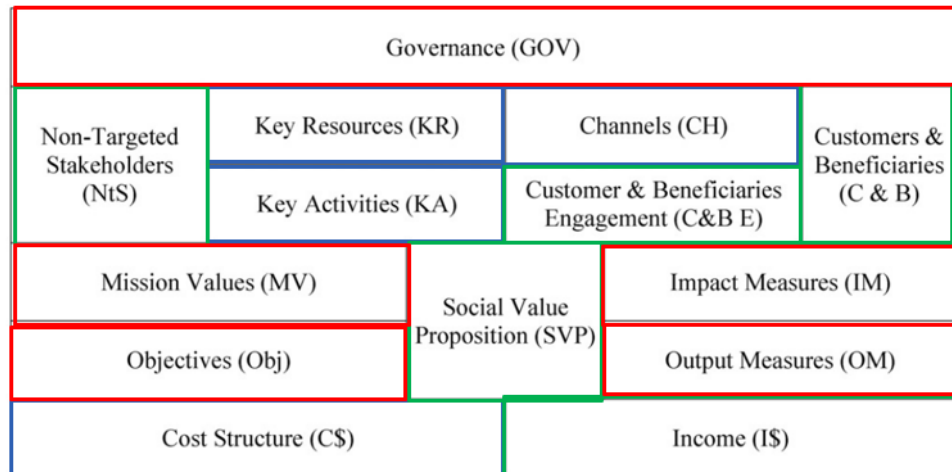
Hence, in order to meet the challenges of SEs by adopting the instrumental principles described, the SEMC is composed of 14 building blocks:

⁸ Zott, Amitt, and Massa, 2011.

⁹ Massa, Tucci, and Afuah, 2017.

¹⁰ Dees, 1998; Galaskiewicz and Barringer 2012; Schaltegger, Hansen, and Lüdeke-Freund, 2016; Micheline and Fiorentino, 2012; Yunus, Moingeon, and Lehmann-Ortega, 2010.

¹¹ Ebrahim, Battilana, and Mair, 2014; Galaskiewicz and Barringer, 2012; Mair, Mayer, and Lutz, 2015.



4 Inherited from the BMC

5 Redefined from BMC to fit SEs

5 Specifically added for SEs

Figure 2. Social Enterprise Model Canvas¹²

4.1 Building blocks of the SEMC

As presented in Figure 2, four of these building blocks are inherited from the BMC and designed to consist of the same type of information; five of them correspond to the remaining building blocks of the BMC, but they have been redefined to fit the analysis and terminology of SEs, and lastly, five building blocks are specific and new to the analysis of SEs. The five building blocks inherited from the BMC are:

- (1) Key Resources (KR), the building block that describes the most important assets required to make a business model work;
- (2) Key Activities (KA), which describes the most important actions a company must do to make its business model work;
- (3) Channels (CH), which describes how an organisation reaches and communicates with its customers to deliver its value proposition (although, in the case of SEs, not only its customers, but also its beneficiaries);
- (4) Cost Structure (CS), which describes all costs incurred to operate a business model.

The redefined building blocks, to make them fit the analysis and terminology of SEs include:

- (5) Social Value Proposition (SVP), which, similar to the Value Proposition in the BMC, describes the bundle of products and services that create value for specific customers and beneficiaries. Alternatively, to the value proposition of the BMC, however, the SVP stresses that value has a social and a multidimensional form of worth.
- (6) Non-targeted Stakeholders (NtS) replaces the Key Partnerships building block of the BMC and focuses on stakeholders that might be likely affected by the activities of the organizations

¹² Sparviero, 2019.

and stakeholders that are partners, but not customers or targeted beneficiaries of the social actions envisaged by the organizations.

- Additionally, the building block (7) Customers and Beneficiaries (C&B) replaces the Customer Segments of the BMC and is used to define groups of people that an organization aims to reach and serve.
- (8) Customers and Beneficiaries Engagement (C&B E) however replaces the Customer Relationships building block of the BMC and suggests a deeper analysis of the relationships established by the organizations with its targeted beneficiaries, which is considered as two-ways, because customers and beneficiaries are involved in the creation of value for the organization. Finally,
- The building block (9) Income (I\$) replaces the Revenue of the BMC and suggest the inclusion of all kinds of financial and in-kind resources that non-profit as well as for-profit organizations are recipients of, such as donations, fees, government funding, investments and gifts.

The last group effectively transforms the SEMC in a different instrument than the BMC, as it includes the building blocks that have been added to specifically address crucial features of SEs. These building blocks are:

- (10) the Mission Values (MV), which defines the higher and long-term goals of the organizations;
- (11) the Objectives (Obj), which defines the short term and more practical targets of the organizations;
- (12) the Impact Measures (IM), which defines the assessment measures of Mission Values;
- (13) the Output Measures (OM), which defines the assessment measures of the Objectives; and
- (14) the Governance (Gov), which defines the main rules and/or boards and committees put in place to manage the organization.

It is advisable to follow the sequence of the building blocks when developing the business model as it can facilitate the process, but it is not mandatory.

4.2 Steward-Ownership in the context of SEMC

While most of the building blocks, their contents and implementation are comprehensible and self-explanatory for SEs to be used with this business model, there are some insights to be shared from other work packages and deliverables within SoTeIn Factory. Especially the stewardship model¹³ provides input for building block (14) the Governance (GoV). The concept is partially addressed below, for further details and information it is recommended to read the corresponding deliverable (D2.2).

¹³ SoTeIn Factory D2.2 Final Guidelines “Principles for mission-oriented social innovation through a stewardship model”.

The aim is for all SoTecln Factory ventures to be purpose-driven, and for as many of the ventures created in this project to be structured as steward-owned (SO) companies. Steward-ownership builds on the principles of stewardship to present an alternative to conventional company ownership (based on shareholder primacy) that permanently secures a company's mission and independence in its legal DNA.¹⁴ In addressing fundamental structural deficiencies of our system, it retools the goals as well as the incentives that guide decision making in companies in the corporate DNA. Steward-ownership is one critical piece – the organisational structure – of a systemic venture. It seeks to protect the purpose of the company from a variety of external factors, moving towards 'purpose primacy'. As there is (still) no specific legal form anywhere in the world, companies are often structured as foundations or trust-owned companies. There are many ways a steward-owned company can be structured based on the two principles, the best choice of which is context-specific.

While steward-ownership is a strong preference, it is not a "hard" criterion for the ventures shaped in this project. Steward-owned companies are committed to two core principles that enable companies to remain independent, purpose-driven, and values-led over the long-term:

1. Self-governance

Control remains inside the company with the people directly connected to stewarding its operation and mission. With the control of the company held in a trust, it can no longer be bought or sold.

2. Profits serve purpose

Wealth generated by these businesses cannot be privatised. Instead, profits serve the mission of the company, and are either reinvested in the company, or donated. Investors and founders are fairly compensated with capped returns/ dividends.

Financing SO ventures

Steward-owned companies may reach stages in their development where they require investment capital to grow and develop their business. The optimal financing depends on the actions of the company and how much money it requires. Investor is not an owner but an enabler. While finding the right investor is always crucial, even for conventional ventures, it is of extra importance for SEs that the investor cares about the purpose and about the company pursuing that purpose. SO structure assures them assets are there for a purpose. Investors need to know essential information like CAP and the payback time frame; they want LIQUIDITY and their RETURN.

4.3 Challenges and points to consider

One main thing to consider when using any business model, is that a business model always only represents the current status of a venture. This means that it must be constantly updated to ensure its currency and relevance. While SEMC, similar to BMC, is a visually appealing instrument, it can lack further details that might not be intuitively understandable for third parties. That's why classic business models might be needed at some point. However, SEMC works perfectly as a starting point and a foundation for an internal brainstorming session for the founders of a venture without getting caught up in details and market up taking roadmap starting point. It also provides an overview of every

¹⁴ Purpose Foundation: Rethinking ownership in the 21st century

crucial aspect, that need to be considered when building a promising and successful social enterprise. It can also act as a basis for the development of a pitch deck, which is the most common way of presenting a business idea to relevant stakeholders (namely investors, key partners, customers etc.) and usually must cover the same points as the building blocks of the chosen business model. To keep the pitch short, some points like impact measures and output measures can be left out during the presentation but should be kept in mind for an ongoing conversation, as especially donors tend to ask questions about these topics.

The younger a venture is and the earlier it is in its development, the less extensive and concrete a business model is likely to be. It serves more to ensure that all relevant points are considered in good time and strategically planned and addressed accordingly to their relevance. Hence, the purpose of a business model is mainly to identify and pay attention to possible challenges and risks ahead of time before they can become a dealbreaker for the longevity of a venture and its success. No prioritization in terms of time or content is set in SEMC, but founders should keep them in mind for the further business planning of their venture, preferably represented in a realization plan with predefined and prioritized milestones. The stages, that a realization plan should contain are:

- Ideation and initial launch (develop business idea into a minimum viable product (MVP) and obtain a market validation).
- Create a go-to-market strategy (development of a marketing strategy that showcases the product-market fit).
- Identify a path toward scaling/ economic preservation of the venture (profitability for commercial ventures/ sustaining the financing of non-profit ventures).

5. IMPLEMENTATION OF SEMC IN SOTECIN

5.1 Adaption to the project (R Strategies)

Within SoTecln Factory, tech-savvy innovators have to suggest a solution to pre-defined challenges from challenge owners, which refer to the regional missions, that have been identified by the regional communities. These challenges address certain value chains and require to be solved by using one of the Circularity R's¹⁵. The R strategies are the following: refuse (R0), rethink (R1), reduce (R2), reuse (R3), repair (R4), refurbish (R5), remanufacture (R6), repurpose (R7), recycle (R8), recover (R9); where the most impactful strategy is “refuse” (R0) and the least desired strategy, with the lowest priority, is “recover” (R9).¹⁶

Whichever R strategies are chosen by the tech-savvy innovator, it can lead the process of filling out the chosen business model. e.g., if “reuse” (R3) is the main strategy of the innovators to solve the challenge, that “reuse” mainly describes their building block (2) Key Activities (KA). It also covers (1) Key Resources (KR), namely the reuse of a certain scarce resource. Other than that, each project will build its combined strategy to deliver (5) Social Value Proposition (SVP) and will describe the social and a multidimensional form of accomplishing the strategy.

¹⁵ Kirchherr, Reike, and Hekkert, 2017.

¹⁶ van Buren et al., 2016; Kirchherr, Reike, and Hekkert, 2017

In this context, it is advisable to read the corresponding deliverable on this topic (D2.1 Report on low-carbon and circular industrial value chains), that breaks down each R Strategy to its core and efficiency.

5.2 Use of SEMC within SoTecln Factory

As stated in 1.2 section on contribution to other work packages, this deliverable is mainly targeted for the beneficiaries of the SoTecln Factory Program, that will receive a funding to execute their proposed approach to address a challenge. It is in the spirit of the program to finance and support projects that not only demonstrate a social and sustainable relevance, but also have the potential to offer their solution to other equivalent problems on the market and thus secure their existence. For this, proper planning of the project is essential, for which this deliverable is intended to provide guidance. For young companies, the main risk is usually not taking important points into account or not doing so in good time and addressing them strategically, because they lack the experience to do so. Therefore, this deliverable recommends a model for the tech-savvy innovators to use for their company's internal planning, and will be used in co-creation processes in WP5 activities, overcoming the weaknesses. By using the SEMC model, tech-savvy innovators should be able to make a successful start to the development of their project.

6. CONCLUSION

This deliverable showcases the importance of having and developing a well-structured business idea and business case in advance so that the founded company can be successful in the market and fulfill its purpose. While there are several business models, that can be used for this purpose, it was important to find the one most suitable for the individual requirements. In SoTecln Factory there is a challenge that different types of enterprises can emerge from the project, which is why the chosen business model allows commercial as well as non-profit ventures to be developed by its use. When talking about social enterprises, it is crucial to distinguish them from traditional enterprises, as they usually not only face different challenges, but often have specific challenges on top of those that traditional enterprises have. This circumstance also explains the relevance of the SoTecln Factory project, which has set itself the task of promoting these enterprises and making them marketable with certain support measures. This is intended to help not only the entrepreneurial side, but also the demand side and, in general, the environment, which is positively influenced as a result. As is common in theory, many models that can be used for simplification have, in addition to their advantages, shortcomings that must be appropriately considered and addressed, which have also been outlined in this document. In addition, this document was able to draw on work already done in the project, such as the R Strategies and the Stewardship Model, which closes the loop and confirms the relevance and interrelatedness of the various project objectives and project deliverables.

If the SEMC business model, along with the additions suggested in this document, is adopted by the selected tech-savvy innovators and used as desired in the further course of the project, it is highly likely that the resulting business ideas will turn into successful enterprises that have the opportunity to establish themselves in the marketplace and also become economically sustainable.

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