Chapter 2
Mission, Finance, and Innovation: The Similarities and Differences Between Social Entrepreneurship and Social Business

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Introduction

"Whether you can observe a thing or not depends on the theory which you use. It is the theory which decides what can be observed." This famous dictum by Albert Einstein (1926) quoted in Salam (2005, p. 99) can inspire a fresh look at social entrepreneurship and social business as a fertile domain for management research. We agree that the study of social entrepreneurship and social business offers an exciting field for management scholarship in general (Mair and Martí 2006). However, as Einstein points out, what we are able to observe in a given field not only depends on the phenomena themselves but even more so on the clarity of the theoretical tools and lenses that help us to carve reality into pieces.

Following Einstein in this regard, definitions matter for the study of social entrepreneurship and social business. Definitions are necessary theoretical lenses to organize our research fields as well as to identify and compare distinguishable phenomena. In the dynamic evolution of social entrepreneurship and social business research over the past decade, management scholars have therefore put substantial effort into elaborating and sharpening our definitional tools (see, for example, Dacin et al. 2010, pp. 39–41, who provide an overview of 39 different definitions of social entrepreneurship).

However, while there are many attempts to define either social entrepreneurship (e.g. the prominent approaches by Dees 1998; Dees and Anderson 2006; Defourney and Nyssens 2010) or social business (e.g. Wilson and Post 2011; Yunus 2007; Yunus and Weber 2010), the boundaries and overlaps of both phenomena often

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remain vague or contested – thus rendering any comparative empirical or conceptual learning more difficult. To resolve these imprecisions, we believe it is essential to take a step back and clearly define the "boundaries" between the two empirical phenomena so that advances in research are possible. A case in point is the comparison between research results, which is only possible if clear systemizations are available.

Against this background, the purpose of this article is to develop a definitional perspective on social entrepreneurship and social business that allows highlighting important differences and similarities between these two phenomena. More specifically, we propose to distinguish three dimensions: mission, origin of finance, and degree of innovation. We use these dimensions to describe two simple "pure forms" of social entrepreneurship and social business. A pivotal similarity of these two ideal types lies in their shared social mission focus. Differences between social entrepreneurship and social business may ensue, however, in how this social mission is achieved. While social business weds the mission with a specific finance approach, we suggest using social entrepreneurship as a concept that focuses on the combination of the social mission with innovation.

Our definitional framework thus does not aim to define what social entrepreneurship or social business "really is". Instead of following such an "essentialist" definitional approach, as criticized by Popper (1944), we propose a more constructivist approach that asks whether a definition is fruitful in order to come to interesting observations.

Our argument proceeds in the following four steps.

First, to discuss the social mission as a common denominator of social business and social entrepreneurship, we compare three alternative approaches to determine what is meant by "social" and propose a definition that can be fruitfully operationalized for management research.

Second, we introduce the financial and the innovation dimension of our definitional perspective and use them to delineate ideal types of social business and social entrepreneurship. Combining both dimensions then serves to derive a two-by-two matrix that illustrates when social entrepreneurship and social business overlap and when they differ. For illustrative reasons, we provide anecdotal examples.

While our framework is useful to distinguish social entrepreneurship and social business in their ideal forms, the dichotomy of the dimensions does not reflect the variety and hybridity of social businesses and social entrepreneurial ventures in reality. Thus, in a third step, we discuss the "shades of gray" of all three dimensions, social, finance, and innovation and suggest that multi-dimensional hybridity is not the exception but rather the empirical rule. We then demonstrate how our framework can be used to map different hybrid types of social ventures on a social entrepreneurship and business landscape.

In a fourth step, we discuss implications for both social entrepreneurship and social business research as well as for management and entrepreneurship research in general.

The chapter closes with some concluding remarks.

The Shared Mission Focus of Social Ventures

The first dimension of our definitional framework looks at the objective function of an organization or venture. It has been argued that compared to non-social ventures, social ventures share a "primacy of social benefit" (Martin and Osberg 2007, p. 35). However, there is a continuous and controversial debate about what the "social" in social entrepreneurship or social business means and whether it differs from traditional ventures (e.g. Tan et al. 2005). While some researchers suggest that all businesses achieve some social objective, either directly or indirectly through their contribution to employment or tax payment (e.g. Mair 2006), others argue that some organizations such as social enterprises and businesses differ from traditional businesses in their mission and motives (e.g. Austin et al. 2006; Hockerts 2006; Murphy and Coombes 2008; Weerawardena and Mort 2006). As both social entrepreneurship and social business pursue a social mission, we do not use this dimension to distinguish between these two. Yet, the question remains as to how these social ventures can be defined to distinguish them from supposedly non-social ventures.

We suggest that there is no "right" definition of what is social. In fact, depending on where a researcher's interests focus, different definitional angles on the social dimension are possible and fruitful. We propose that there are at least three possible paths to determine the "social": a normative, a pragmatic, and a formally descriptive approach. In the following, we briefly introduce each of these approaches and explain why we see the formally descriptive approach as the most fruitful for guiding empirical and conceptual management research.

According to the normative approach, what is "social" ultimately boils down to an ethical question that requires a normative theory to be answered. What we perceive as socially desirable depends on normative value judgments. To justify such value judgments, however, requires an ethical theory. Only if an ethical theory specifies what is socially desirable, we can assess a "social" venture's mission and action with a clear ethical yardstick. One such ethical perspective might be, for instance, a utilitarian perspective that assesses a social mission in terms of its objective to maximize social utility (Bentham 2009; Mill 1998). A different ethical perspective would be Amartya Sen's (1999) capability approach that does not look at the aggregate utility of society but focuses on what individuals are able to do (e.g. in terms of their ability to live to old age, be healthy, engage in education, economic transaction or political participation). The capability approach provides an ethical perspective that Ziegler (2010) uses to clarify how the "social" in social entrepreneurship and social business can be defined. Seen from this perspective, an entrepreneurial venture can qualify as social if its activities aim at improving human capabilities (cf. also Yujuico 2008), i.e. if they improve human abilities with regard to education, health, income or political participation.

A normative approach, thus, interprets the social dimension in terms of an ethical theory to define the normative criteria of what is socially desirable. Given the "fact of reasonable pluralism" (Rawls 1993, p. 144), however, modern society no longer shares a universally agreed upon ethical theory. In fact, ethicists debate a plurality of ethical perspectives including utilitarianism, communitarianism, deontology, consequentialism, discourse ethics, virtue ethics or the capability approach. Since each ethical theory offers a specific normative perspective, they can also differ in what they perceive as "socially" desirable. For example, a venture that relocates people from their village to build a hydroelectric power point might be assessed as socially desirable from a utilitarian perspective, if the project increases the overall happiness in society. A capability perspective, in contrast, might criticize the same project if the venture reduces fundamental capabilities of the relocated people such as their ability to live long, healthy lives, and to engage in political participation.

Using a normative perspective, the meaning of the "social" dimension consequently depends on the particular ethical theory at hand. While such a discussion is a fruitful field for the domain of ethics, highlighting the potential for an interesting ethical debate about competing ethical interpretations of "social", it is less suitable for management research. Management scholars who seek to analyze social ventures empirically and to theorize these phenomena conceptually require an operationalizable definition that can be used inter-subjectively. As a normative definition is not practical for this purpose, we suggest that another approach is needed to allow for empirical, conceptual, and model-based research of social ventures in the field of management.

According to the pragmatic approach, what is "social" can be defined pragmatically in terms of an apparent empirical consensus as to what is socially desirable. The Millennium Development Goals (MDGs) of the United Nations, for example, call among other goals for the eradication of poverty. If there is a widely accepted consensus that this goal is something "social" and if we commonly perceive a venture to work towards that goal as a "social" venture, then all ventures that aim to eradicate poverty would be defined as "social".

The pragmatic approach thus also interprets the social dimension as a normative category but draws on the empirical consensus to define what is normatively desired. One advantage of such a perspective is that it helps to simplify a complex discussion. If, for example, Muhammad Yunus' Grameen bank is widely considered to be a poster case for social business, then authors discussing this case do not need to worry about defining its boundaries. The pragmatic approach therefore provides a useful reduction of complexity when focusing on uncontroversial cases characterized by an empirical consensus of what is socially desirable. Yet, given Rawls' (1993) "fact of reasonable pluralism", there are many instances in which this kind of empirical consensus is absent such as in the case of different value systems across nations, religions, or generations. For example, while some may perceive a venture that seeks to advance inclusion and gender equality in the work place as highly desirable, others might oppose it, preferring a more traditional role of women, and thus perceive this venture as "unsocial". The pragmatic approach is therefore less useful for deriving generalizable definitions. Management scholars interested in examining, comparing, and theorizing multiple and diverse cases therefore need a definition of what is social that does not depend on a case-specific empirical consensus.

In light of the shortcomings of the aforementioned two definitions for the specific research interests of (comparative) empirical and conceptual management research, we suggest a third perspective, the formally descriptive approach. This third approach refrains from searching for a general definition of what is socially desirable, either in terms of a universal ethical theory or in terms of empirical consensus. Instead of importing a normative criterion of the "social" from the organization's outside (e.g. from an ethical theory or from empirical consensus), we suggest looking at the organization's inside. Following this formally descriptive approach, researchers can define a social venture based on the primacy of a mission that is not financially motivated and independent of what the ethical or empirical content of this "social" mission is–be it the inclusion of disabled people, the reduction of carbon-emissions, or the proliferation of certain values or ideologies. To operationalize this idea, researchers can test to what extent a venture follows a financial objective (profit-maximization) and to what extent it follows a non-financial or not-for-profit mission.

The formally descriptive approach allows researchers to be flexible in defining "social" depending on their value system context. Thus, this approach does not interpret the "social" dimension as a normative or even normatively superior quality of a venture but as a descriptive feature. The formal criterion to define a "pure" social mission focus would thus be given if an organization has a strictly non-financial objective function and uses economic resources exclusively to achieve a non-financial organizational goal such as with nonprofit organizations. In contrast, a for-profit organization seeking to maximize nothing but purely financial profit would accordingly not qualify as a social venture.

One advantage of such a formal operationalization is that it can be used across competing normative theories and across diverse empirical contexts. In fact, it allows analyzing highly diverse phenomena through the same lens. Take, for example, the case of the Islamist Hamas in the Gaza strip. This organization has a very entrepreneurial business model that mobilizes economic resources to pursue the non-financial goal of providing welfare services to the community and of pursuing the organization's ideological values. From a normative or pragmatic perspective, many observers would point out that Hamas is a terrorist organization and can therefore hardly qualify as a social venture. Yet, from a management perspective Hamas might face issues such as goal alignment, strategy formation, resource acquisition, managing multiple institutional logics, etc. that make it an interesting extreme case for the study of mission-driven ventures. In this situation, our formal approach allows analyzing Hamas and comparing it with other mission-driven organizations.

Table 2.1 summarizes our comparison of the normative, the pragmatic, and the formal approach to define what is "social" about a social venture. The key

Table 2.1 The social mission

Definitional approach	Normative	Pragmatic	Formal (ex negativo)
What is 'social' is . . .	. . . to be defined in terms of ethical theory	. . . what is commonly agreed to be social	. . . what is not driven by the financial imperatives of economic activities
Reference point	External theoretical perspective	Broader societal empirical consensus	Internal objective function of organization
Heuristic advantage	Fruitful for ethical discourse	Fruitful for selected case-based analysis that leaves out broader context	Fruitful for comparative empirical research and conceptual theorizing

difference between the normative and pragmatic definition on the one hand and the formal definition on the other hand is that the latter refrains from making a normative qualification of the research object. It does not assume that a "social" venture is per se to be considered ethically superior or morally valuable. Instead, the formal approach defines a mission-driven organization ex negativo: a venture is a social venture to the extent that it does not use its economic activities for economic gain but mission-driven for not-for-profit objectives – no matter what these not-for-profit objectives are.

A formal definition of "social ventures" allows focusing on how ventures try to define, achieve, and maintain non-economic ends through entrepreneurial and managerial means. This question points to many phenomena that are of general interest for management scholarship such as a venture's need to manage multiple institutional logics (Thornton and Ocasio 2008), to interact with different stakeholders (Freeman 1984), or to maintain legitimacy (Suchmann 1995). Having a formal definition of the ideal type of a social venture thus provides a tool to guide conceptual and empirical research.

Social Business Versus Social Entrepreneurship

In the previous section, we discussed the social mission as a common denominator of social businesses and social entrepreneurship. This section looks at the question of how we can usefully conceptualize the difference between these two phenomena. We proceed in two steps: First, we introduce the finance and innovation dimensions to define the base concept of social business and social entrepreneurship respectively. Second, we use these two dimensions for a two-by-two matrix depicting when social entrepreneurship and social business overlap and when they differ.

The Dimension "Origin of Finance"

Social entrepreneurship and social businesses can be distinguished based on how they are financed. We choose this distinguishing factor based on the widely accepted three-sector model, consisting of the public sector (government and agencies), the private sector (private business firms), and civil society (non-governmental and nonprofit organizations) (e.g. Weisbrod 1977). Each sector relies on different financing: While civil society organizations use donations and grants, the public sector uses taxes and private sector organizations generate income through the production and sale of goods and services in markets.

As social businesses operate in the realm of the private sector, they need to be financed through self-generated income and must not accept donations or grants. In contrast, social entrepreneurship may operate in a financially self-sustainable way but it does not have to. This definitional focus resonates with current literature on social business. Its probably most well-known representative – Muhammad Yunus – describes social business as businesses with a social mission at their core that are financially self-sustainable (Yunus and Weber 2010; Yunus 2007).

For the purpose of our definitional approach, we can thus define the origin-of-finance dimension as a spectrum marked by the two extremes of pure business financing (market income only) on the one hand and purely non-business income (grants, donations, etc. but no market income.) on the other. The ideal type of a social business then weds a pure social mission (non-financial objectives) with pure business financing (financially self-sustainable through market income only). Any other venture that follows a social mission, yet that does not completely rely on market income but also uses non-market financial inputs (e.g. donations) would thus not qualify as a (pure) social business.

Dimension "Degree of Innovation"

The by far most widely accepted – and, more importantly, for our analytical purposes most fruitful – element to define entrepreneurship is innovation (e.g. Drucker 2006; Lumpkin and Dess 1996). This prominent focus on innovation in the entrepreneurship literature goes back to the conceptual foundations laid by Schumpeter (1911). In his seminal work, Schumpeter brought forward the notion that innovation is what defines the "entrepreneurial function". For Schumpeter (1942), entrepreneurial innovation is the key trigger for the economic process of "creative destruction". In his understanding, innovation encompasses new products, new services, new means of production, access to new procurement sources, and entering new markets. Innovation is thus characterized by the formation of new means, new ends, or new means-ends relationships (Casson 1982; Shane and Venkataraman 2000; Eckhardt and Shane 2003).

This innovation-based notion of entrepreneurship is not confined to the pursuit of profits in capitalist markets (Baumol 1990, 2010). Given the formal definition of innovation as the purposeful recombination of existing resources (Schumpeter 1934), such innovative recombinations are possible in all kinds of social spheres ranging from policy entrepreneurship (Mintrom 2000) to cultural entrepreneurship and the third sector.

Not surprisingly, defining the entrepreneurship dimension in terms of innovation is also a predominant feature in the literature on social entrepreneurship (e.g. Alvord et al. 2003; Austin et al. 2006; Dees 1998; Martin and Osberg 2007; Weerawardena and Mort 2006; Zahra et al. 2009). Dees and Anderson (2006) explicitly introduce the very concept of a "Social Innovation School" to refer to a widespread perspective that defines social entrepreneurship with a specific focus on innovation. While innovativeness is a core feature of (social) entrepreneurship, the means of financing are less relevant.

Against this background, we are closely in line with much of the literature when suggesting innovation as a key dimension to define the concept of social entrepreneurship. Just as in the case of the business dimension, we can define the innovation dimension as a spectrum marked by the two ends of "purely innovative" leading to a new equilibrium (to be discussed below) on the one hand and "no innovation at all" on the other hand. The ideal type of "social entrepreneurship" then weds a pure social mission (non-financial objectives) with a high degree of innovation in its pursuit of this mission. Other ventures that follow a social mission but simply do more of the same in a non-innovative, repetitive, static way would thus not qualify as (pure) social entrepreneurship.

A Two-by-Two Matrix to Distinguish Social Business and Social Entrepreneurship

Using our definitional approach, both social business and social entrepreneurship are two-dimensional constructs, yet focusing on different two dimensions: While the social business idea weds the social mission dimension with the origin-of-finance dimension, the concept of social entrepreneurship combines the social mission with the innovation dimension.

Having identified the origin-of-finance and the degree-of-innovation dimension as two separate and independent dimensions, this section now combines both dimensions in order to discuss how the phenomena of social business and social entrepreneurship may, but need not overlap. For reasons of simplicity, we start by differentiating the two dimensions in a dichotomous way, i.e. financial self-sustainability and innovativeness of a venture can be either yes or no. Figure 2.1 visualizes the distinctions and overlaps between social entrepreneurship and social business in a two-by-two matrix.

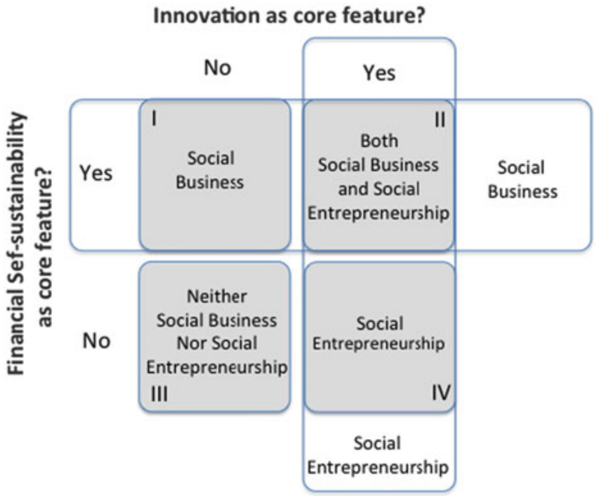

Fig. 2.1 Matrix to distinguish social entrepreneurship and social business

As Fig. 2.1 illustrates, social entrepreneurship and social business are two separate phenomena that partially overlap in case a venture is both innovative and financially self-sustainable (Box II). The Grameen Bank in the time of its inception is an example. Offering microcredits to poor people was extremely innovative and a new-to-the world service provision. While credits are hundreds of years old, offering them through credit rings in very small amounts to the poor was a new means directed towards the eradication of poverty (Yunus 2003). Moreover, Grameen Bank purely relied on generating income by delivering this service and thus was acting as an entrepreneurial social business.

In contrast, Boxes I and IV depict cases where social business and social entrepreneurship differ. Box I describes cases of social businesses that generate their entire income through market interactions but do so in a well-established way – thus with no significant degree of innovation. A case in point would be the Grameen Bank today. As a social business, the Grameen Bank still follows a social mission and finances its operations fully through market income. However, while this approach was radically new and innovative when the Grameen Bank started, it is by now an established approach that has been routinized both within Grameen Bank as well as in hundreds of other microfinance institutions. Running a microcredit organization like Grameen Bank today would thus not present a case of innovative social entrepreneurship but still qualify as a social business.

Another example is a privately run nonprofit (e.g. faith-based) kindergarten. While a nonprofit kindergarten may follow a social mission (looking after children with a faith-based grounding) and generates its income through the daycare payments of the parents (market-income), the idea of a kindergarten is not new anymore. When social entrepreneurs such as Maria Montessori or Friedrich Wilhelm Fröbel first opened kindergartens in the 19th and early 20th, it was something unheard of before. At that time, giving your children to a stranger who is not part of your family to look after them was revolutionary. Running a kindergarten was therefore something very innovative (Box II). Yet, over time, this idea has become a well-established part of modern life and would today hardly be considered innovative, thus moving a self-financed mission-oriented kindergarten from Box II into Box I. Note how time dynamic transforms an entrepreneurial innovation into an established business approach in both examples.

Box IV represents pure social entrepreneurship, i.e., organizations that use innovation to fulfill their social mission, yet are not financially self-sustainable. A well-known example is the case of Ashoka Fellow and social entrepreneur Jimmy Wales who founded Wikipedia. Wikipedia is a highly entrepreneurial and innovative solution to provide democratic access to the vast knowledge of humankind. Yet, as it systematically draws on donations it does not qualify as a social business. Note again the potential time dynamics. If Wikipedia decided to develop a business model that creates market income (e.g. through selling a "Wikipedia App" or by placing advertisements), Wikipedia could become a social business and move from Box IV to Box II. Since Wikipedia wants to safeguard its independence, it has so far purposefully chosen to rely on a donation-based solution.

Figure 2.1 also shows that there are social organizations that neither qualify as social business nor as social entrepreneurship (Box III). Examples are social welfare organizations such as charities that operate donation-based and deliver elementary services in a proven manner such as the Salvation Army, Amnesty International or community soup kitchens.

To summarize, this section has extracted two definitional dimensions (origin of finance and degree of innovation) from the literature on business and entrepreneurship. We then used these two dimensions to derive a two-by-two matrix to illustrate that social entrepreneurship and social business are not mutually exclusive but may overlap. Moreover, we showed that the location of a specific organization in this matrix can change over time.

The Idea of Hybridity

In the previous two sections, we introduced the social, the origin-of-finance, and the degree-of-innovation dimension to define pure types of social business and social entrepreneurship, distinguish them, and relate them to each other. Empirical reality, however, is rarely populated with ideal types of organizations. In this section we therefore elaborate on the idea that each dimension is not reduced to two binary values but actually describes a continuous spectrum between two ideal end points. The space of combinations between these pure types allows us to account for the phenomenon of multi-dimensional hybridity, which is a mix of ideal types. By challenging the strictly binary dichotomy in each dimension, we suggest that hybrid organizations are rather the rule than the exception and give various illustrative examples.

Mission Hybrids

When defining "social" using a formally descriptive approach, we implicitly assumed that mission and economic objectives are located on a continuum with purely mission-driven organizations and purely profit-maximizing organizations being the extremes. Both ideal cases, however, seem to be rare phenomena in real life.

To begin with, take the case of organizations purely driven by no other objective than profit-maximization. One constructed example that comes close to such an ideal type might be a hedge fund that trades highly abstract derivatives in financial markets in which all trading decisions are based on financial indicators only, where trading is anonymous, competition is intense, and traders act under enormous performance pressure and little discretionary leeway. Yet, only under such extreme conditions might we observe a pure profit-maximization behavior that does not try to achieve any other goals including social or environmental objectives.

The moment that we relax these strict conditions, however, and allow, for example, that trading is not anonymous, that organizations (and managers) have a reputation at stake, that companies (and managers) have an identity that flows from their history, their mission statement, and their social embeddedness, or that stakeholders such as employees, investors, and customers care about other aspects than just financial pay-offs, then multiple non-monetary "social" aspects will influence organizational goals – either as part of the corporate objective function (something to be maximized) or as relevant constraints for profit-maximization (a condition under which profits can then be sought).

The assumption that organizations are pure financial profit-maximizers thus hinges on idealized conditions that are useful for formal economic modeling but hardly accurate to describe empirical reality. In fact, various scholars have pointed out that there is an empirical trend towards the increasing hybridization of for-profit ventures. With regard to modern markets, Stehr et al. (2006) refer to "the moralization of the markets" as a process in which non-financial, moral expectations play an increasingly important role for business operations. With regard to the level of organizations, the rise of the Corporate Social Responsibility (CSR) agenda, the Triple Bottom Line (Elkington 1997), or ideas such as Shared Value (Porter and Kramer 2011) reflect that corporations (need to) integrate social and environmental objectives into their business operations. Here, the supposedly clear line between pure for-profit firms and ventures with a social mission is increasingly blurred. Take the example of the United States-based supermarket chain Whole Foods that does not only emphasize environmental and social issues in their purchasing, production, and delivery of products (Alsop 2007). The company also pledges to give a significant share of its net profits to community projects, thereby incorporating elements of the pure social business type (use of market income for social purposes). Whole Foods is thus a social hybrid organization that, interestingly, ranks among the most profitable companies in its sector (Mackey 2006).

On the other end of the spectrum, the idea of a pure social venture – in our terms, a venture that does not pursue any financial profit-objective or self-interests – seems more representative of real-life examples. After all, there are specific legal forms for nonprofit organizations that explicitly exclude that such a social venture issues profits or dividends to its owners or managers. Similarly, Muhammad Yunus' (2007) social business concept not only stipulates that dividends must not be issued directly but also excludes any indirect form of profit distribution such as above-market wages for managers. Yunus' (2007) social business idea therefore explicitly argues that a social business must pay its managers nothing but the normal market wage (Sattar 2012). Yet, obviously, it is far from clear what constitutes "the normal market wage" for a particular manager. This example shows that even in a highly regulated nonprofit legal form, the organization and its managers always enjoy certain discretionary freedoms in their decisions. As a consequence, it would be, again, a highly idealized assumption that managers in a nonprofit venture never ever wish to pursue any kind of "profit" interest such as a vested self-interest in keeping their job, in working in a nice office, or in having a big financial budget. This is why truly pure social ventures might be hard to find in the real world.

Given the relevance of goal hybridity, the past years have seen the advent of new organizational and legal forms. A prominent example for such a social hybrid blueprint is the newly instated US legal form L3C (low-profit Limited Liability Company). L3C organizations are for-profit companies that serve a social mission while maximizing profits within certain constraints (Battilana et al. 2012). This legal form can be interpreted as a response to the increasing demands of organizations that are social hybrids to be able to access both nonprofit and for-profit forms of funding.

Financial Hybrids

To distinguish social entrepreneurship from social business in terms of financing, we argued that social businesses need to be financed through self-generated market income and must not accept donations or grants, while social entrepreneurship may accept non-market income as well.

However, while the distinction between market income and non-market income seems straightforward at first sight, it is less clear-cut upon closer inspection. A simple thought experiment comparing two scenarios may suffice to illustrate this point. In the first scenario, a coffee company sells conventional coffee but cooperates with a nonprofit organization that aims to improve the living conditions for poor coffee farmers. A buyer who wants to consume ethically might buy a cup of coffee for $4 and then give another $1 as a donation to the nonprofit organization. In the second scenario, the coffee company offers a fair-trade coffee product and has its own program to assist poor coffee farmers. If a coffee now costs $5 with $1 being the premium for the social service provided to the farmers, then nothing has changed for the consumer or for the farmer. While the legal difference between sales income and donations still remains clear, the difference might be fuzzier for the actors involved in the transaction. This is not only true for consumers who "donate" a price premium in their purchasing (second scenario) but also for employees who are willing to work for a social business for a lesser wage than in other firms or for social investors who are willing to accept lower interests.

Even if we distinguish market income and donations strictly in legal terms, then financial hybridity is an important phenomenon as many organizations actually use multiple funding sources and thus mix market and non-market dependent income (e.g. Hoffman et al. 2012; Millar 2012). In his book *Enterprising Nonprofits*, Dees (2001) points out that nonprofits (increasingly?) use market income to supplement their charitable income. One such example is Oxfam. Oxfam operates as a conglomerate of almost 20 organizations that try to fight poverty. In many countries, Oxfam also operates shops which sell second-hand clothing, books, DVDs, or other household appliances. These shops serve the purpose of generating market income for the Oxfam charities, thereby eventually reducing the risk of only depending on donations.

While some ventures permanently rely on multiple sources of income, sources of funding may also be transitory and change over time. The Monitor Study of Social Entrepreneurship (GEM 2011) has found that the majority of social businesses need decades to reach financial self-sustainability. As a consequence, they use other forms of funding including crowd funding, government grants, philanthropic investments, or donations in their early stages of operation.

This, however, is not only the case in young social businesses. Rather, new businesses that operate in areas highly desired by governments or foundations – e.g. green-tech or pharmaceuticals – often receive public funding in their early development stages despite the fact that they operate as for-profit market-oriented businesses. Furthermore, for-profit companies sometimes establish corporate foundations or separate nonprofit legal forms that allow the company to collect donations. These examples show that both social and non-social ventures may use a hybrid mix of funding sources.

Innovation Hybrids

To distinguish innovative from non- or less innovative activities, different classifications of innovation have been suggested in the literature such as incremental versus radical, new-to-the-firm versus new-to-the-world, architectural versus modular (Henderson and Clark 1990), or disruptive versus non-disruptive (Christensen 1997) innovations. However, the classification of a specific innovation in any of the above categories highly depends on the context and has to be determined by researchers on a case-by-case basis.

For example, Dialogue Social Enterprises, a German-based social business, aims to de-stigmatize disability, particularly visual impairment. It operates exhibitions, restaurants, and seminars in pitch darkness thereby making the seeing disabled and the blind guides the abled. In order to scale its social mission, Dialogue Social Enterprises uses social franchising to scale (Volery and Hackl 2010). While opening a new franchise outlet is innovative for the franchisee (i.e., new-to-the-firm) and for the region, it is not new to the world, as other outlets already exist in several countries.

As illustrated in the kindergarten and Grameen examples in the previous section, the degree of innovation can change over time. Ideas can move from being disruptive innovations to merely being incremental innovations or not innovative any more. Moreover, some organizations are partially innovative and partially not. They have, for example two projects, one new and innovative and the other "old" and established as in the case of the Grameen Group. The Grameen Group consists of well-established and mature businesses such as Grameen Bank but also includes younger ventures such as the Grameen Danone joint venture that produces Shakti doi, an affordable fortified yogurt that can help prevent malnutrition among the poor. If taken as the unit of analysis, the Grameen Group would thus be an innovation hybrid.

In sum, it is difficult to determine the degree of innovation as it depends on at least three contextual factors: type of innovation, unit of analysis and temporal scope.

Contributions and Implications for Future Research

We believe that our definitional approach has at least four implications for future research.

1. We introduced an analytical approach to distinguish social entrepreneurship and social business. By so doing, we offered a perspective to fruitfully conceptualize when both phenomena overlap and when they differ. We thus brought forward a possible solution to the continuous debate about differences between the two phenomena (e.g. Dees and Anderson 2006; Defourney and Nyssens 2010). Moreover, our approach does not provide yet another definition of which many are already available (e.g. Dacin et al. 2010), rather it offers a framework for analytical systematization. Against this background, we look forward to more cooperative work between social business and social entrepreneurship scholars. In addition, we invite researchers to build upon our definitional approach to generate a more fine-grained understanding of the antecedents, boundary conditions, and the temporal interlinkage between both phenomena.
2. We suggest that future research will benefit from investigating multi-dimensional hybridity more closely in order to better understand how financial, innovation, and social hybrids function because most forms of social entrepreneurship and social business actually are hybrid. Considering hybridity regarding both the similarities and differences of social entrepreneurship and social business will be important: How does an organization deal (a) with potential

conflicts on the dimension of the social mission and (b) with different sources on the origin-of-finance dimension and variations on the degrees-of-innovation dimension?

(a) Dealing with hybridity on the social mission dimension can lead to conflicts (e.g. Kreutzer and Jager 2011; Moss et al. 2010). Research thus needs to develop theories and empirical studies that shed light on potential areas of conflict and their prevention or resolution. Scholars have already begun to investigate how organizations can respond to conflicting institutional logics (Pache and Santos 2010), how new organizational types allow the sustainable management of multiple institutional logics (Battilana and Dorado 2010), or how social entrepreneurs deal with leadership challenges using paradox theory (Smith et al. 2012). Our framework also suggests that more research on organizations with continuous mixed logics or paradoxes is needed. This becomes particularly important if we assume that goal hybridity is a not the exception but rather a widespread reality.

(b) Considering the sources of funding and the degree of innovation, how does an organization deal with different and potentially varying financial sources and varying degrees of innovation and how do these affect management practices? Future research might thus look into how an organization deals with receiving philanthropic funding and market income simultaneously. Does this affect its operation of, e.g., its marketing, strategizing, or service provision, and if so why and how? In terms of innovation hybridity, research could look more into how an organization deals with changes in its degree of innovation moving from being very innovative to less innovative or vice versa. As the newness of an innovation fades away over time, longitudinal studies might dive deeper into the temporal dynamics of the innovation dimension. Moreover, research on organizations that are both innovative and not may generate valuable insights.

3. We believe that our three-dimensional definitional framework can be helpful for empirical scholars wishing to construct and to analyze broader samples in the fields of social business and entrepreneurship. In our chapter, we have limited our discussion of the respective dimensions to a dichotomous yes or no and a continuum approach, respectively. However, future research could benefit from using the spectra to develop scales that, in turn, help to create more accurate samples and to analyze and classify diverse data samples.
4. Additionally, we argue that our framework helps to construct theoretical samples between organizations that might usually not be studied in the same context by emphasizing the similarities rather than differences between organizations. Take the example of social businesses and for-profit businesses operating in the same industry or based on the same organizing principles. Existing studies usually do not investigate both types of businesses simultaneously and consider both types of business as being different. However, if we alter the distinguishing dimension "social" from a dichotomous to a continuous perspective, the differences between both types of businesses blur and they be seen as quite similar in

some aspects. For example, when Dr. G. Venkataswamy founded Aravind Eyecare Hospital, he strongly relied on imitating the highly efficient machine organization principles used by McDonalds (Rangan and Thulasiraj 2007). Thus, from an organizational perspective, Aravind Eyecare Hospital and McDonalds are very similar. Researchers studying social entrepreneurship and social business could thus benefit from studying similarities between seemingly different forms of organizations.

Concluding Remarks

Social business and social entrepreneurship offer an exciting field for empirical and conceptual management research. Yet, while there are many attempts to define either social entrepreneurship or social business, the boundaries and overlap of both phenomena often remain vague or contested – thus rendering empirical or conceptual learning more difficult. We propose a three-dimensional definitional framework to define, to distinguish, and to relate social business and social entrepreneurship. Our framework interprets both concepts as the two-dimensional combination of a pure social mission with either pure financial self-sustainability (social business) or a pure innovation focus (social entrepreneurship). Since the finance and innovation perspective are distinct, yet independent dimensions, we derive and illustrate four cases of how social business and social entrepreneurship may but need not overlap. Challenging the assumption that each dimension is confined to two dichotomous values, we then interpret each dimension as a full continuum and introduce the idea of mission, finance, and innovation hybridity.

In sum, our three-dimensional definitional framework offers at least three contributions. First, our framework allows defining social business and social entrepreneurship as two approaches that are distinct, yet that need not be mutually exclusive. Second, we highlight three organizational dimensions that can be of value for structuring management research also outside the realm of social entrepreneurship and business. Third, we use our constructed ideal types to conjecture that in empirical reality most if not all organizations – not only social entrepreneurship or social business – display multi-dimensional hybridity.

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