A Work Project, presented as part of the requirements for the Award of a Masters Degree in Management from the NOVA – School of Business and Economics

THE CHARACTERISTICS OF SOCIAL ENTREPRENEURSHIP BUSINESS MODELS IN PORTUGAL

Marta Marques Figueiredo

nº 2071

A Project carried out on the Social Entrepreneurship course, under the supervision of:

Professor Miguel Alves Martins

January 8th, 2015

1. Abstract

This work project is based on the MIES (Map of Innovation and Social Entrepreneurship in Portugal) database and it aims to understand the characteristics of social business models in the context of the portuguese market, by determining whether they follow the proposed characteristics by John Elkington and Pamela Hartigan, and then adding to their matrix. Furthermore, it tries to determine success patterns by comparing a group of successful social ventures with a group of less successful ones, with the objective of increasing the knowledge of social entrepreneurship as it applies to Portugal and provide a framework for future study.

Keywords: social entrepreneurship, business model matrix, success patterns, Portugal

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3. Introduction

Social entrepreneurship has been rising in popularity in Portugal since the turn of the century, with the Portuguese third sector showcasing a substantial growth, as evidenced by the increased number of social organizations as well as their level of employment (Carvalho, 2010). The activities developed by social initiatives act as a way of ensuring that the problems and social needs that the State has no capacity to answer to, are being met (Quintão, 2004). One thing that social businesses and financially-driven businesses have in common is the fact that they both present a wide range of possible business models, which showcase different levels of success and characteristics.

With that in mind, the purpose of this paper is to study the characteristics of social business models in Portugal, with hopes of improving the knowledge of the current reality of social entrepreneurship in the country. Furthermore, by trying to map out patterns of success of social ventures it is expected that practical knowledge will be created, by helping social entrepreneurs better choose courses of action pertaining to the functioning of their social venture. From a personal point of view, given that my passion within the management world lies in the social entrepreneurship sphere, increasing the knowledge available within the community as well as leaving a framework that can be used for future research is a personal goal.

The paper's structure is the following: a literature review and the working hypothesis will be presented, followed by the methodology. Afterwards, an analysis of the portuguese social business models and their characteristics will be presented, as well as an analysis of their key success factors. Finally, a conclusion to the analysis will be presented.

4. Literature Review and Hypothesis

Social entrepreneurship has become increasingly popular as a concept in recent years. Though almost absent in academic research until the end of the twentieth century, it has become an important research area since then (Dacin *et al.* 2010; Favolle & Matlay 2010; Short *et al.* 2009), with an increasing number of books and articles dedicated to it.

Johnson states that social entrepreneurship “is emerging as an innovative approach for dealing with complex social needs” (Johnson, 2000: 1), mainly characterized by its focus on problem-solving and social innovation. Over the years, several definitions have been suggested, some encompassing more the entrepreneurial side, some more the social side of the issue. More recently, Santos has defined social entrepreneurship as “the process of finding and implementing innovative and sustainable solutions to important and neglected problems of society which translates in social innovation when more effective solutions (compared to the alternatives in place) are found” (Santos, 2012).

It is important to understand what is in fact a business model. According to Osterwalder (2007), “the business model of a company is a simplified representation of its business logic”. It encompasses how a company reaches its clients, how it relates to them and what it offers, be it products or services. Furthermore, it includes its sustainability strategy, as well as the activities, resources and partnerships it achieves this through. For social ventures, the social mission is key to the business model. A social business model thus consists of a clearly defined social mission guiding the above parameters proposed by Osterwalder ("Social purpose business (SPB) models").

John Elkington and Pamela Hartigan (2008) argue that leading social enterprises seem to be characterized by a reduced number of essential components and that "all pursue social or environmental ends that the markets have largely or totally failed to address, while using different means to do so." This results in three main business models: the leveraged nonprofit, the hybrid nonprofit and the social business. While varying in characteristics and appropriate context, their main distinguishing characteristic is *income generation*. Leveraged nonprofits rely solely on external sources of financial resources (and other) while social businesses derive and support their mission mainly through profits generated by the business itself. Hybrid nonprofits are a mixture of the two.

Despite the growing interest in social entrepreneurship, little research can be found pertaining to critical success factors of social sector organizations. Critical (or key) success factors are the elements in an organization that are a necessary condition for success in a given market, and thus should be afforded special and continual relevance in order to achieve high performance (Boynlon, A.C., and Zmud, 1984).

However, by comparing several literature sources, Martyna Wronka (Wronka, 2013) managed to identify the eight most common critical success factors for social enterprises, although this analysis is only relevant for those operating in the United States or Western Europe. The first identified is the existence of a *strong leadership,* focused on fulfilling the social mission as well as maintaining the motivation and commitment of the employees and volunteers, followed by the *attractiveness and clarity of innovative concept,* making it clear to the target group that the product offered has marketing potential. Also essential is *business planning and marketing,* whether the access to knowledge in these areas comes from within the organization or is outsourced, as well as the quality of the *partnerships* the organization is engaged in, which is directly related to the ability to maintain *local community engagement.* Another critical success factor is *short and long term benefits management,* with the enterprise making sure it is capable of delivering both short and long term benefits to its stakeholders, as well as a focus on *risk management.* The last factor is what Wronka calls *triple bottom line planning,* which means that the organization makes sure to measure its economic benefits and most importantly its impact on people and the environment.

This paper attempts to answer to three main questions. The first one asks how do the initiatives analyzed fit within the three categories of business models as well as within the matrix of variables proposed by Elkington and Hartigan. The second part of the paper attempts to answer the question of whether the analysis made allows the addition of information and knowledge to the already existing model. Finally, the last part of the work project attempts to answer the question of when a group of less successful social ventures is compared with a group of social best practise initiatives, what patterns of success can be found.

5. Methodology

This work project's research utilizes the MIES data base in order to reach the desired conclusions. MIES[1] (Map of Innovation and Social Entrepreneurship in Portugal) - Mapa de Inovação e Empreendedorismo Social - is a research project that attempts to map out social initiatives that showcase a high degree of potential throughout the North, Alentejo and Centre regions of Portugal.

In regards to the first hypothesis, a matrix of Elkington and Hartigan's proposed three social business models characteristics will be developed in order to ascertain if the Portuguese ventures fit within the three different categories. The data central to the work project's research will focus itself in the social initiatives that show the highest potential, according to the scale developed by MIES, comprising 134 in total. Afterwards a distribution of the business models will be computed, taking into account the area of intervention of the initiatives. Elkington and Hartigan's matrix will then be developed using key variables, to propose an expanded guideline for the social business models used within the Portuguese context.

For the second focus of the work project, a group of initiatives from the MIES data base will be selected from a group of early screenings that weren't selected as best cases by the research project. From these two groups of social ventures a comparison will be made by using a T-test for two samples for the mean differences as well as a skewness test for the sample's distribution shape, searching for patterns of success of social ventures in the Portuguese market.

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1 http://www.mies.pt/index.php/pt/

6. Portuguese Social Business Model's Characteristics

6.1. Elkington and Hartigan's Matrix

In order to better analyze the business models within the Portuguese market, the foundation in which the study will rely on is the division of social business models in three categories, as proposed by Elkington and Hartigan. To this end, a matrix with 9 variables was devised based on the information provided by the authors in their book *The Power of Unreasonable People: How Social Entrepreneurs Create Markets that Change the World.* Bellow follows a description of each of the variables.

Income generation, in this context, pertains to the ability of the social initiative to be financially sustainable through the generation of its own revenue streams, as opposed to being dependent on outside sources/donors, whether through an income source related to the mission or not. This variable is very closely related with two others. **Ability to pay** refers to the capability of the mission's target to afford the service or product being provided by the social initiative. **Beneficiaries served** distinguishes between the direct beneficiaries of the mission's service or product being consumers, customers or both.

Type of good provided determines whether the good brought forth is a public or private one. Public goods are defined as non rival and non excludable, where the consumption of the good by one individual does not reduce the amount available for consumption by others, nor is it possible to prevent others to consume the good. Private goods are ones people can own individually and are typically produced by for-profit businesses, thus being rival and excludable. **Market maturity** alludes to the level of development of the market, both in terms of how many players are tackling the social problem within the area of action of the initiative, as well as how effective those might be.

Leadership illustrates the type of role that the founding entrepreneur ends up playing within the initiative's structure, thus being closely related to the governance complexity of the social initiative. Additionally **investors and partners** attempts to convey the expectations in terms of return, be them financial, social or reputation wise, of the latter, as opposed to the type of relationships to be had.

Scaling potential refers to the potential of the initiative to either scale up or scale deep. Scaling up means providing the same service or good in other geographical location, under the same brand and general approach. Scaling deep means investing resources into improving the quality of the service already being provided while possibly adding new features to it, as well as increasing the penetration of the target client population or reaching new client groups. Finally, **Social empowerment** is understood as the process of developing a sense of autonomy and self-confidence in the target group, and acting individually and collectively to change social relationships and the institutions and discourses that exclude poor people and keep them in poverty. Additionally, this variable also alludes to the initiative's ability to inspire society members into caring and participating in its social mission.

The following table showcases how each of these variables differ across the three models.

Variables/Type of model	**Leveraged Nonprofit**	**Hybrid Nonprofit**	**Social Business**
Income generation	fully dependent on external support	the enterprise recovers some of its costs by selling a product or service, that can be or not be related to the mission	financially independent with main income source being related to its social mission; reinvests profits to further the social mission
Ability to pay	low	medium	high
Beneficiaries served	target population are consumers	target population includes both customers and consumers	target population are customers
Type of good provided	public good	mainly public good	private good
Market maturity	very low	low	medium
Leadership	founding entrepreneur is an inspirational leader, morphing into a figurehead as others take the leadership roles	founding entrepreneur starts to direct initiative into a higher organizational managerial complexity	founding entrepreneur must exercise a strong leadership role better resembling the requirements of organizational leadership
Investors/partners	interested in helping the mission with low expectation of returns	interested in helping the mission with higher standards of partnership efficiency	interested in combining financial and social returns
Scaling potential	low	medium	high
Social Empowerment	high	medium	low

Table I. Variable distribution in the three business models, by John Elkington and Pamela Hartigan

6.2. Results in the Portuguese Context and Additions to the Matrix

As previously mentioned, 134 social initiatives were used in order to acquire a snapshot of the distribution of social business models in Portugal. In order to do this, information was taken from the MIES database, as well as from the initiatives themselves.

Given that three business models are being taken into consideration, and as seen above their variables go from a low to high classification or vice-versa in a continuous manner, each of the variable's three possible outcomes were attributed a value from 1 to 3, which match the description in Table I, as can be seen in the Appendix in Table III. Since the final classification of the type of business model are dependent on a conjunction of all the variables, and not all of them fit perfectly inside each of the three proposed models, an initiative was classified as a Leveraged Nonprofit if it had 13 points or less. A Social Business was considered so with 22 points or more. Everything in between was defined as a Hybrid Nonprofit. This results from utilizing the final sum of points for each, which for instance in the Leveraged Nonprofit is 11 points (see table III), and give a margin of 2 points for deviations. Additionally, the Income Generation variable was given more weight, and was thus used as a final deciding factor in situations where the final points of an initiative classified it as a type of model that did not match its income generation practices.

Each of these variables were classified according to the matrix using both qualitative information, as in the example of income generation where there was a description of all income sources for each initiative, as well as quantitative information, as for instance leadership, whose internal competence for each initiative were classified in a scale of one to ten. All other variables followed a similar process. Through this analysis, it was possible to identify 67 (50%) Leveraged Nonprofit initiatives, 52 (39%) Hybrid Nonprofit initiatives and 15 (11%) Social Business initiatives. Their distribution according to the country's region can be seen in the graphics in the Appendix.

Alterations to the classifications in the matrix were observed in several variables across the three business models. To begin with, three variables ended up presenting an overall majority of identical values across the models, as follows: ability to pay, in which most of the 134 initiatives, independently of income generation styles, classify as medium; market maturity, which likewise primarily classifies as low, suggesting that Leveraged Nonprofits are not primarily focused in areas of intervention with very few solutions and Social Businesses, likewise, in areas with more established intervention; and type of good provided, as most initiatives provide public goods to their primary beneficiaries. The variable of ability to pay most especially differs from the expected result, as it is quite perplexing that all the initiates with a Leveraged Nonprofit business model have a portion of their beneficiaries capable of affording their services and yet they are all free of charge. It would be interesting to further investigate this issue, in order to ascertain if it is perhaps a result of a cultural ideology or if the expected results would not stand given a larger sample.

Additionally, for the Leveraged Nonprofit model, the social empowerment variable as well as the leadership one did not match the expected result. In the Hybrid Nonprofit model, two additional variables did not showcase the expected results as well: beneficiaries served and investors/partners. However, for both of these models, despite these changes, most of the initiatives final points were within the range initially predicted. Bearing in mind that the sample used comprises initiatives considered as best practises, some of these changes make sense. However, a puzzling result is that of the social empowerment variable for the Leveraged Nonprofit model, which suggests that the degree in which these organizations manage to develop a sense of autonomy and self-confidence in the target group as well as making sure there is a long term solution to their problem, is low. Although this work project does not have the data to understand the reason behind this, there was a suggestion in the initiative's solution of a reduced focus in long-term change in the lives of their beneficiaries, although unclear as to whether this might be due to a cultural reason or a contextual one. This presents an important topic to investigate further, possibly crossing results with those of other countries, as if it proves that this result stands for a larger group of initiatives, it suggests that there is an area in the way social problems are tackled in Portugal that would benefit from a change of approach.

The Social Business model was the one where the biggest amount of discrepancy in relation to expectations was observed. Of all the variables, only income generation, leadership and scaling potential matched the proposed matrix. Furthermore, the majority of total points was bellow the range allocation, falling within the Hybrid Nonprofit category. This suggests that, excluding the variable of income generation, the difference between the other variables in relation to the other two business models is not as big as proposed by Elkington and Hartigan, and there is in fact considerable cross-over for the Portuguese context.

A subcategory within the variable of income generation in the Leveraged Nonprofit business model presented itself, in the form of initiatives that are either fully or mainly funded by the government, be it specific government programs or by their respective city councils. These comprise 34% of all of these types of initiatives. However, their classification within the matrix fully match that of the Leveraged Nonprofit business model. It would be interesting to see if, given a bigger and broader sample, this result would still be observed. However, this subcategory does raise a validity issue for further studies, especially if the amount of initiatives, percentage wise, remain similar with an analysis involving a bigger sample. Having the State as the main source of funding places the question of whether these initiatives are truly invested in their social mission and are being as efficient as they can be, or are leaning on the certainty of funds to some extent. If so, this can make information about these initiatives invalid for studies of the portuguese third sector market.

After determining the appropriate matrix that suits these portuguese social initiatives, taking into account the original variables, the next step was to see if there were any variables that could be added to the matrix. For this, only variables that differed in result in at least two models were considered.

Out of the 134 initiatives, only 81 of them had appropriate data to be used in order to make a more thorough study: 43 Leveraged Nonprofits, 29 Hybrid Nonprofits and 9 Social Businesses. The method used classified the answers to a multitude of quantitative questions answered, in a range of one to ten in three categories. Bellow follows a description of each of the new variables.

Human resource management, in this context, refers to the internal degree of competence showcased in both managing and extracting the greatest potential out of everyone involved with the initiative's activities, including volunteers. Additionally, **External Communication and Marketing** refers to the internal degree of competence of the initiatives in this area, including both the ability to create the material, the specificity of the marketing materials being aimed at the different groups of beneficiaries and whether this is part of the management tasks of the staff.

Financing applications alludes to the ability and available resources that are used into developing financing applications for various funds. It also classifies whether this activity is incorporated within the initiative's mission and strategy. Finally, **Social Impact Measurement** determines whether the the initiative knows what it means to measure social impact and the instruments and tools available to measure results and impact of their activities, as well as whether it has already chosen the ideal tool to prove that it creates social value.

Social Impact Measurement is the variable in this context that raises some questions, as it would be expected that a Social Business would be at least as invested in measuring social impact as the others. A possible explanation is the fact that both Leveraged Nonprofits and Hybrid Nonprofits are far more dependent of investors, and therefore, social impact measurement becomes a great tool to prove that the funds or resources being provided are not being squandered. The table below showcases the matrix, based on the original one, that better describes how each of the variables differ across the three models in the context of Portugal.

Variables/Type of model	**Leveraged Nonprofit**	**Hybrid Nonprofit**	**Social Business**
Income generation	fully dependent on external support	the enterprise recovers some of its costs by selling a product or service, that can be or not be related to the mission	financially independent with main income source being related to its social mission, reinvests profits to further the social mission
Beneficiaries served	target population are consumers	target population are consumers	target population includes both customers and consumers
Leadership	founding entrepreneur starts to direct initiative into a higher organizational managerial complexity	founding entrepreneur starts to direct initiative into a higher organizational managerial complexity	founding entrepreneur must exercise a strong leadership role better resembling the requirements of organizational leadership
Investors/partners	interested in helping the mission with low expectation of returns	interested in helping the mission with low expectation of returns	interested in helping the mission with higher standards of partnership efficiency
Scaling potential	low	medium	high
Social Empowerment	low	medium	medium
Human Resource Management	medium	high	high
Social Impact Measurement	measuring social impact is seen as essencial and that are already tools in place to measure it	measuring social impact is seen as essencial but measuring it is still in the initial stages	measuring social impact is not a priority

Variables/Type of model	**Leveraged Nonprofit**	**Hybrid Nonprofit**	**Social Business**
External Communication and Marketing	medium	medium	high
Financing Applications	financing applications are not a part of the initiatives main activities, but there are enough resources to develop them while having a significant degree of success	formulation of financing application projects is part of the initiative's activities	financing applications are not a part of the initiatives main activities

Table II. Variable distribution in the three business models, adjusted to Portuguese market

7. Portuguese Social Business Model's Patterns of Success

In order to identify success patterns for portuguese social enterprises, two groups of initiatives were used. The first comprise the previously mentioned 134 best practises initiatives from the MIES database (also called ES+), of which only 81 have enough data to search for more in-dept conclusions. The second group is comprised of 212 initiatives, also from the MIES database, that were voted as not belonging to the ES+ category, and are therefore assumed to be less successful ventures.

The variables used for the comparison were all quantitative answers to questions that broached most organizational topics, rated from one to ten. In order to compare them, the normal mean for each group within each question was calculated. Then, a T-test for two samples was computed, in order to know whether the difference between the sample means was significant enough to be considered valid. For the questions where this was verified, a further screening was made to guarantee that the sample distributions were similar in shape, examining their skewness and only validating those with very little interval differences, thus being viable for comparison.

Through this process, it was possible to identify some patterns of success for social initiatives in Portugal, which are described bellow by organizational sections.

1. Strategy: the initiative’s strategy is defined in terms of vision, mission and goals having been created in collaboration with key stakeholders. There is a business plan for three to five years directly related to the initiative and its strategy in place that guides the initiative short-term activities.

2. Governance: the initiatives have the appropriate legal framework for the development of their activities as well as the relevant legal documentation. The Board meets or receives regular updates from the management team to ensure it is aware of operational and financial challenges that can impact the direction of the organization.

3. Feedback system: there are established feedback mechanisms with stakeholders to see if their interests are being met. Furthermore, the feedback from the mission’s beneficiaries is collected systematically and is taken into account to improve the services or products offered.

4. Social Impact Measurement: it is understood what it means to measure social impact and the instruments and the tools available to measure results and impact of their activities. The process and measurement system of the results of the activities and

resources allocated for their implementation are established. Most importantly, measurement of the performance results is embedded in the operations of the initiative and is carried out by the management team.

5. Risk management: a risk analysis is carried out and strategies are developed to deal with variables that may have a significantly negative effect on the initiative.

6. Systems and Processes: the existing system of information technology and communication responds to the initiative's needs, is reliable and adjusted to its purpose. All users within the initiative are trained and qualified to operate the equipment and software according to their role and responsibilities. There are administrative procedures and filing systems (paper or online) implemented and the employees have enough allocated time to develop them.

7. Finance: there are written financial policies and procedures and employees are aware of them and know how to use them. The financial management information is produced regularly, is presented in a consistent format and it is accessible and easy to understand. The initiative is managed proactively to ensure its financial sustainability (earnings, liquidity and solvency) and the breakeven points of products and services of the initiative are understood.

8. Income Generation: there is a focus in having a diverse set of sources of income and an attempt to have no single donor who contributes more than 20% of the total revenues. Business development plans are made in order to minimize dependence on subsidies and be more self-sustainable. The initiatives are aware of how to identify funding opportunities using a high variety of sources and how to prioritize them, while

in the preparation of applications for funding, the initiative always tries to recover all the costs through their product/service offering.

9. Marketing and Communication: there is a marketing plan in place to promote the products and services, and the initiative has the designated resources (staff, time and money) for sales and marketing activities. Marketing materials are clearly articulated with the products and services of the initiative and are oriented to the user/beneficiary target. Furthermore, there is a mechanism in place to measure the effectiveness of the marketing activities.

10. Human Resources Management: successful initiatives have a document covering all policies and procedures that employees must be aware of and be held accountable for compliance. Additionally, good performance by employees is recognized and rewarded.

To begin with, results of this study showcase clearly that there are practises that more successful initiatives focus on in comparison with less successful ones, and these are in alignment with both Wronka's work, as well as accepted good management practices. Despite the fact that none of these patterns are unexpected, this analysis has a clear limitation, in so far as it does not differentiate between business models. Given the different context for each business model, it is expected that these results would vary between them, and even between areas of intervention of the initiatives. However, they can still serve as a guideline for social entrepreneurs to at least consider whether they can improve or increase their focus in these specific areas of their initiatives.

8. Conclusions

This work project's aim was to understand the characteristics of social business models in the context of the portuguese market. To begin with, all of the initiatives analyzed were successfully characterized as either a Leveraged Nonprofit, an Hybrid Nonprofit or a Social Business. However, the variables of ability to pay, market maturity and type of good provided proved to be ineffective in describing social initiatives in the portuguese market, as opposed to the international context. Furthermore, most of the other variables suffered alterations in their classification for at least one model, leaving income generation and scaling potential as the only ones that are an exact match to the initial model. Additionally human resource management, social impact measurement, external communication and marketing and financing applications were added as variables to the model, leading to a total of ten that can now be used to classify portuguese social ventures. Finally, ten categories of success patterns that correspond to big organizational sections were found when comparing a group of successful social ventures with a group of less successful ones.

This study was however limited by the size of the sample of initiatives used. Given that only initiatives considered as best practises were used to determine the business model's matrix, and in terms of the whole market, they represent a small portion, the conclusions of the study are not altogether unbiased. My suggestion would be to try to collect more data pertaining to the income generation of the other initiatives in the database, in order to further this study by using a broader and less specific range of social ventures.

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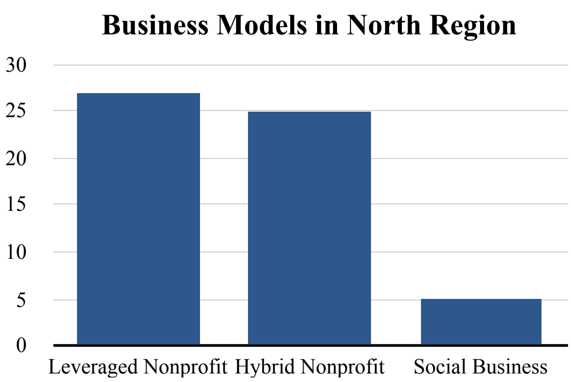
10. Appendix

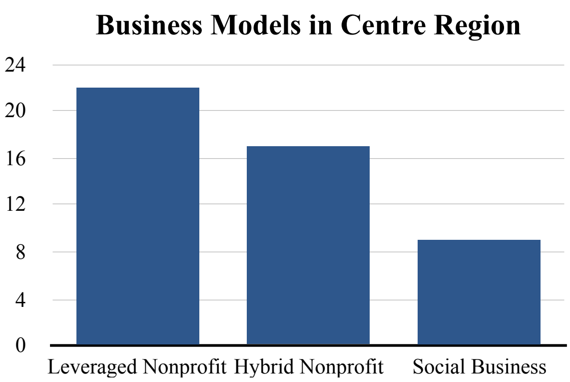
Variables/Type of model	**Leveraged Nonprofit**	**Hybrid Nonprofit**	**Social Business**
Income generation	1	2	3
Ability to pay	1	2	3
Beneficiaries served	1	2	3
Type of good provided	1	1	2
Market maturity	1	2	3
Leadership	1	2	3
Investors/partners	1	2	3
Scaling potential	1	2	3
Social Empowerment	3	2	1
Total points	11	17	24

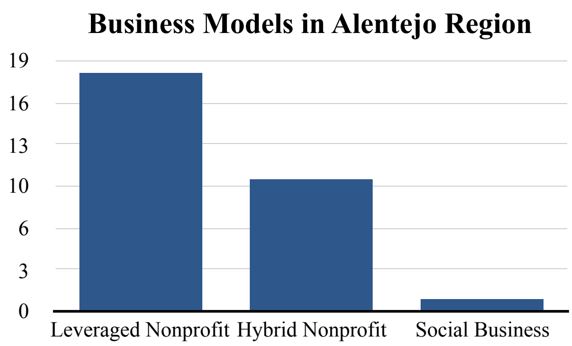
Table III. Matrix point allocation based on Elkington and Hartigan’s book

Variables/Type of model	**Leveraged Nonprofit**	**Hybrid Nonprofit**	**Social Business**
Income generation	1	2	3
Beneficiaries served	1	1	2
Leadership	2	2	3
Investors/partners	1	1	2
Scaling potential	1	2	3
Social Empowerment	1	2	2
Human Resource Management	2	3	3
Financing Applications	2	3	1
External Communication and Marketing	2	2	3
Social Impact Measurement	3	2	1

Table IV. Matrix point allocation for ES+ initiatives with additional variables







Graph I, II and III. Business model distributions by Portuguese Region