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SOCIAL INNOVATION, FINANCIAL SUSTAINABILITY AND COMMUNITY EMPOWERMENT: A CONCEPTUAL FRAMEWORK FOR SOCIAL BUSINESS

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Abstract: *Social businesses are expected to solve social problems while sustaining themselves through commercial activity. Social innovation and financial sustainability are widely treated as defining features of social business, yet how these two elements jointly produce community empowerment has received limited conceptual attention. Existing discussions tend to examine innovation, financial viability, and community outcomes separately, and community empowerment is often assumed rather than explained. This paper develops a conceptual framework that positions social innovation and financial sustainability as antecedents of community empowerment in social business. The framework is grounded in Hybrid Organising Theory, which views social enterprises as organisations that combine a social welfare logic with a commercial logic. Using a theory-synthesis approach, the paper integrates literature on social business, hybrid organising, social innovation, financial sustainability, and community empowerment, informed by concepts taught in a university social business micro-credential. Social innovation and financial sustainability are proposed to be positively related to community empowerment. This paper contributes to the social business literature by treating community empowerment as the central outcome of hybrid organising and by specifying the organisational conditions under which this outcome is strengthened. Implications are offered for social entrepreneurs, policymakers, and educators, together with directions for empirical testing.*

Keywords: *Social innovation; financial sustainability; community empowerment; social business; hybrid organising theory*

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Introduction

Social businesses have emerged in response to persistent social needs that conventional markets and charitable provision do not always address adequately. Popularised by Muhammad Yunus, a social business is a company established to solve a social problem, recover its costs through commercial activity, and reinvest surpluses in its social mission rather than distribute dividends to investors (Yunus, 2010; Yunus et al., 2010). Such organisations combine market-based mechanisms with the pursuit of social value, especially for underserved communities (Yunus, 2017).

Two features are central to how a social business works. The first is social innovation: the development of new products, services, processes, or financing arrangements that address social needs more effectively than existing solutions (Phills *et al*., 2008). The second is financial sustainability: the ability to continue operating and serving beneficiaries without permanent dependence on grants or donations (Yunus *et al*., 2010). A social business that innovates but cannot sustain itself financially will not survive long enough to create lasting change, while one that is financially stable but no longer innovates for its beneficiaries' risks becoming an ordinary commercial firm.

The purpose of combining innovation and financial sustainability is to improve the lives of the communities a social business serves. This paper argues that the most meaningful expression of that improvement is community empowerment, understood as the development of the economic resources, capabilities, and participation that allow communities to improve their own circumstances (Perkins & Zimmerman, 1995). Community empowerment shifts the focus from what a social business delivers to what its beneficiaries become able to do.

Hybrid Organising Theory offers a suitable lens for examining these relationships. It views social enterprises as hybrid organisations that combine a social welfare logic with a commercial logic (Battilana & Lee, 2014). Social innovation and financial sustainability can be understood as expressions of these two logics, and community empowerment as the social value that results when the logics are combined successfully. This paper draws on Hybrid Organising Theory to develop a conceptual framework explaining how social innovation and financial sustainability contribute to community empowerment in social business.

Problem Statement

Social businesses face a lasting tension between their social mission and their commercial activities. They must generate enough revenue to remain viable, but the pursuit of revenue can gradually pull the organisation away from its beneficiaries, a process known as mission drift (Ebrahim *et al*., 2014). Financial sustainability is necessary for survival, but it does not by itself guarantee social impact. Equally, a strong social mission and innovative ideas do not guarantee that an enterprise will last.

Research on social innovation has explained the development and diffusion of solutions to social needs (Mulgan, 2006; Phills et al., 2008), whereas research on social business models has considered how organisations generate revenue while creating social value (Dohrmann et al., 2015; Wilson & Post, 2013). Hybrid organising scholarship has examined how social enterprises reconcile competing social and commercial demands (Battilana & Lee, 2014; Ebrahim et al., 2014). These streams provide important foundations, but their combined implications for community empowerment—as distinct from service delivery or organisational performance—require more explicit conceptual explanation.

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Different business arrangements, including cross-subsidy, beneficiary-funded and third-party-funded models, connect paying customers and beneficiaries in different ways (Alter, 2007; Dohrmann et al., 2015). These differences illustrate why financial viability alone cannot be assumed to produce empowerment. The question is how innovations create meaningful opportunities for beneficiaries and how sustainable revenue allows those opportunities to persist. One-for-one models raise additional questions about who benefits and how (Marquis & Park, 2014); circular models concern resource use (Kirchherr et al., 2017), while pay-as-you-go models may shape access and social change (Rolffs et al., 2015).

Accordingly, this paper addresses a conceptual integration gap: how social innovation and financial sustainability, understood through the social welfare and commercial logics of hybrid organising, can each support the economic resources, capabilities and participation associated with community empowerment. The paper develops two direct propositions; it does not claim to test causal effects or moderation.

Research Objectives

This study aims to develop a conceptual framework based on Hybrid Organising Theory to explain the relationships between social innovation, financial sustainability, and community empowerment in social business. The specific objectives are:

i. RO1: To examine the relationship between social innovation and community empowerment in social business.
ii. RO2: To examine the relationship between financial sustainability and community empowerment in social business.

Research Questions

Guided by Hybrid Organising Theory, this study addresses the identified research gap by exploring the contributions of social innovation and financial sustainability to community empowerment through the following research questions:

i. RQ1: How does social innovation contribute to community empowerment in social business?
ii. RQ2: How does financial sustainability contribute to community empowerment in social business?

Significance of the Study

Theoretical significance – This paper extends the application of hybrid organising to a community-level outcome by distinguishing empowerment from the delivery of social services. It proposes that social innovation and financial sustainability represent complementary pathways through which social and commercial logics may support beneficiaries' resources, capabilities and participation.

Practical significance – The framework helps social entrepreneurs see that innovation and financial sustainability need to be designed together and directed towards building the capabilities and participation of beneficiaries, not only towards delivering products or services. Policy significance – The framework indicates where public support can have the most effect, including funding that strengthens financial sustainability without creating dependence, platforms for cross-sector partnerships, and common standards for impact measurement.

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Educational significance – The framework can inform the design of social business courses and micro-credentials by linking business model design, innovation, financial management, and community engagement within one coherent structure.

Literature Review

Social Business

Yunus (2010) defines a social business as a non-loss, non-dividend company devoted to solving a social problem. Investors may recover their original investment, but they receive no dividends beyond it, and all surpluses are reinvested to expand and improve the social mission. Yunus also describes a second type of social business, a profit-making company owned by poor or disadvantaged people, in which profits flow to the owners themselves. Grameen Bank, which is largely owned by its borrowers, is the best-known example of this second type.

Social business differs from conventional business in its primary objective, which is solving a social problem rather than maximising shareholder returns. It also differs from traditional nonprofit organisations in its reliance on revenue from commercial activities rather than on donations and grants. Yunus *et al*. (2010) describe the social business model as an extension of the conventional business model. In addition to the value proposition, the value constellation, and an economic profit equation aimed at full recovery of capital, a social business specifies a social profit equation that sets out the social and environmental results it intends to achieve. The authors also highlight practices that helped Grameen social businesses succeed, including challenging conventional assumptions, finding complementary partners, continuous experimentation, and clearly specifying social profit objectives.

This dual structure, in which an economic equation and a social equation operate together, makes social business a clear example of a hybrid organisation. The following section introduces Hybrid Organising Theory as the underpinning theory of this paper.

Underpinning Theory: Hybrid Organising Theory

Hybrid organisations combine institutional logics that are conventionally associated with different types of organisations (Battilana & Dorado, 2010). Battilana and Lee (2014) define hybrid organising as the activities, structures, processes, and meanings through which organisations make sense of and combine multiple organisational forms. Social enterprises are considered the ideal type of hybrid organisation because they combine a social welfare logic, which emphasises meeting social needs, with a commercial logic, which emphasises revenue generation, efficiency, and market discipline (Battilana & Lee, 2014; Doherty *et al*., 2014).

The combination of these logics is a source of both value and tension. When the logics are aligned, commercial activity provides the resources needed to sustain and expand social value creation, while the social mission provides purpose and legitimacy. When they are misaligned, the pursuit of revenue can displace the social mission. Ebrahim *et al*. (2014) describe this risk as mission drift and argue that governance and accountability arrangements are needed to protect the social mission over time.

Battilana and Lee (2014) identify five dimensions through which hybrid organising takes place: core organisational activities, workforce composition, organisational design, inter-organisational relationships, and organisational culture. Two of these dimensions are directly relevant to this paper. Organisational design includes performance measurement

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and accountability systems, which determine whether social results are monitored alongside financial results. Inter-organisational relationships with governments, nonprofits, corporations, and communities give hybrid organisations access to resources, knowledge, and legitimacy that neither logic could secure alone.

Hybrid Organising Theory also distinguishes between integrated and differentiated hybrids. In integrated hybrids, the activities that generate revenue are the same activities that create social value, and beneficiaries are often also paying customers. In differentiated hybrids, commercial and social activities are separated, and revenue earned from one group of customers funds services for a different group of beneficiaries (Battilana & Lee, 2014; Santos *et al*., 2015). Santos et al. (2015) argue that the risk of mission drift is lower when value creation for beneficiaries happens automatically through the commercial activity, and higher when serving beneficiaries requires additional, separately funded effort.

Hybrid organisations also manage competing demands actively. Pache and Santos (2013) show that hybrids may selectively combine elements of different institutional logics to maintain stakeholder legitimacy. This suggests that the contribution of innovation and financial viability to empowerment is contingent on continuing attention to beneficiaries. Partnerships and accountability are relevant organisational practices, but they are discussed here as contextual considerations rather than formally modelled moderators. Table 1 links the theory to the three focal constructs.

Table 1: Hybrid Organising Theory and the constructs of the proposed framework

Element of Hybrid Organising Theory	Construct in this paper	Role in the framework
Social welfare logic: developing new solutions to social needs	Social innovation	Independent variable
Commercial logic: revenue generation and self-sufficiency	Financial sustainability	Independent variable
Social value created for beneficiaries when both logics are combined	Community empowerment	Dependent variable

From this perspective, social innovation operationalises the social welfare logic by designing solutions around unmet needs, while financial sustainability operationalises the commercial logic by maintaining resources and continuity. These roles are complementary but not interchangeable: a viable enterprise may fail to empower beneficiaries if its revenue priorities undermine its mission, and a valuable innovation may fail to create lasting change if the organisation cannot sustain delivery. Community empowerment is therefore proposed as a possible community-level outcome of mission-aligned hybrid organising, not an automatic consequence of commercial success.

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Social Innovation

Social innovation refers to new solutions to social problems that are more effective, efficient, sustainable, or just than existing solutions, and whose value accrues mainly to society as a whole rather than to private individuals (Phills et al., 2008). Mulgan (2006) describes social innovation as innovative activities and services motivated by the goal of meeting a social need and diffused mainly through organisations whose primary purposes are social.

In social business, social innovation can take several forms. Product and service innovation creates offerings designed for underserved groups, such as affordable or adapted goods. Process innovation changes how goods are produced or delivered, for example by employing marginalised workers or using discarded materials. Financing innovation changes how beneficiaries pay, for example through small instalments. Relational innovation creates new arrangements with partners and communities. Yunus et al. (2010) emphasise continuous experimentation and the willingness to challenge conventional business assumptions as central to developing such innovations.

From the perspective of Hybrid Organising Theory, social innovation expresses the social welfare logic of a social business. It is the means through which the enterprise translates its social mission into concrete solutions for beneficiaries. Social innovation is particularly important where conventional markets fail to provide affordable or accessible solutions, because it creates the products, services, and processes through which underserved communities gain access to resources and opportunities.

Financial Sustainability

Financial sustainability refers to the ability of a social business to cover its costs, maintain its operations, and pursue its social mission without continuous dependence on donations or grants. In Yunus's model, the economic profit equation aims at full recovery of capital and costs rather than at maximising profit (Yunus *et al*., 2010). Dohrmann et al. (2015) show that social enterprises use a range of mechanisms to convert the social value they create into revenue, including charging beneficiaries directly, charging third parties, and combining several revenue streams.

Several strategies support financial sustainability in social business. These include diversifying revenue sources to reduce dependence on a single income stream, combining social and commercial activities within a hybrid model, managing costs efficiently, using cross-subsidy arrangements in which customers who can pay more support services for those who cannot, and using innovative financing tools (Albukhary International University, n.d.; Alter, 2007).

From the perspective of Hybrid Organising Theory, financial sustainability expresses the commercial logic of a social business. It provides the resources that allow the enterprise to continue serving beneficiaries and to expand its reach. Hybrid organising research also warns that commercial success can become an end in itself. Battilana and Dorado (2010), in their study of commercial microfinance organisations, show that hybrids must actively manage the balance between financial performance and social objectives. Financial sustainability is therefore treated in this paper as an enabling condition for social value creation, not as a goal that competes with it.

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Community Empowement

Empowerment refers to the process by which people, organisations, and communities gain control over the matters that affect them (Perkins & Zimmerman, 1995). Zimmerman (1995) notes that empowerment operates at individual, organisational, and community levels, and that empowering processes are those that help people develop skills, gain access to resources, and participate in decisions.

Building on this literature, this paper conceptualises community empowerment in social business along three related dimensions. The economic dimension refers to improved income, employment, and access to essential goods and services. The capability dimension refers to the development of skills, knowledge, and confidence that allow community members to improve their circumstances. The participatory dimension refers to the extent to which community members have a voice in decisions that affect them, including decisions about the social business itself.

Social business may contribute to community empowerment through employment creation, skills development, affordable access to essential services, support for small producers, and the involvement of beneficiaries as customers, workers, suppliers, or owners. For example, a social business that employs local artisans to produce goods from discarded materials creates income and develops skills, while a social business that supports small-scale farmers may improve their access to training, markets, and business resources.

Within the logic of this paper, community empowerment is the dependent variable. It represents the social value created when a social business successfully combines its social welfare logic, expressed through social innovation, with its commercial logic, expressed through financial sustainability. Empowerment is a more demanding outcome than service delivery, because it requires that beneficiaries gain lasting capabilities and opportunities rather than temporary assistance.

Research Gap

Existing work offers substantial knowledge about social innovation, business-model viability and the internal tensions of hybrid organisations (Phills et al., 2008; Dohrmann et al., 2015; Battilana & Lee, 2014). What remains less explicitly integrated in the literature considered here is an explanation of how these organisational attributes relate to empowerment understood in economic, capability and participatory terms. This is a proposed conceptual gap rather than a claim that no prior research has considered these relationships.

Hybrid organising research, in turn, has focused mainly on how organisations manage tensions between competing logics internally, including governance, workforce composition, and mission drift (Battilana & Lee, 2014; Ebrahim et al., 2014). Less attention has been given to the community-level outcomes that result when the two logics are combined, and to the organisational conditions that strengthen those outcomes.

Drawing on Hybrid Organising Theory, the present paper develops two direct propositions: social innovation is positively related to community empowerment, and financial sustainability is positively related to community empowerment. Stakeholder partnerships and impact measurement are acknowledged as potentially important organisational practices but are not tested or included as moderators in the proposed model.

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Methodology

This study adopts a conceptual research design to clarify constructs and synthesise theoretical relationships rather than to estimate empirical effects (MacInnis, 2011). It follows the logic of theory synthesis described by Jaakkola (2020), bringing together scholarship on social business, hybrid organising, social innovation, financial sustainability and empowerment. The review is interpretive and non-systematic; no exhaustive database search or formal screening protocol is claimed. The framework and propositions should consequently be read as theoretically reasoned arguments requiring subsequent empirical examination.

The synthesis proceeded in four conceptual stages. First, community empowerment was specified as the focal outcome and differentiated from immediate service delivery through economic, capability and participatory dimensions. Second, Hybrid Organising Theory was selected to explain the coexistence of social welfare and commercial logics. Third, foundational literature was compared to identify the distinct contribution of innovation (access and capability-building) and financial sustainability (continuity and scale), alongside the risk of mission drift. Fourth, these arguments were translated into two direct propositions. Selection of literature was guided by conceptual relevance, not by claims of systematic coverage; a future review should document search databases, dates and inclusion criteria.

Proposed Conceptual Framework and Propositions

Overview of the Framework

Figure 1 presents a deliberately parsimonious conceptual framework. Social innovation and financial sustainability are proposed as independent antecedents of community empowerment. The arrows represent theoretically proposed positive relationships, not empirically demonstrated causal effects. Social business models provide the organisational setting but are not specified as an additional variable.

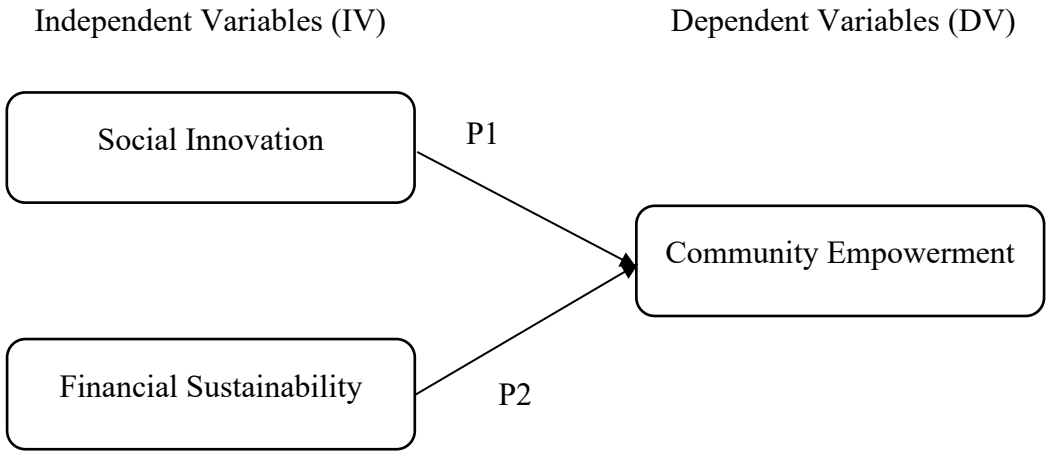


Figure 1: Underpinning Theory: Hybrid Organising Theory (Battilana & Lee, 2014)

Social Innovation and Community Empowerment

Social innovation represents the social welfare logic by creating products, services, processes and financing arrangements designed for unmet needs (Phills et al., 2008). Its relevance to empowerment extends beyond access: when beneficiaries participate in design, production or delivery, they may acquire skills, decision-making opportunities and greater control over resources. Yunus et al. (2010) describe experimentation with business solutions suited to

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disadvantaged communities. Thus, innovation is expected to contribute to empowerment when it increases beneficiaries' economic opportunities, capabilities or voice, rather than merely delivering a novel service. This argument remains a theoretical expectation that may vary by context.

Proposition 1 (P1): Social innovation is positively related to community empowerment in social business.

Financial Sustainability and Community Empowerment

Financial sustainability represents the commercial logic by enabling an organisation to recover costs, maintain operations and continue serving beneficiaries (Yunus et al., 2010; Dohrmann et al., 2015). Community capabilities often develop through repeated access to training, employment, markets or services rather than one-off interventions. Financial continuity may therefore support the time and investment needed for empowerment. Nevertheless, the link is not automatic: an enterprise can be financially sound while drifting from its social mission (Ebrahim et al., 2014). The proposed positive relationship assumes that resources remain directed towards beneficiary-oriented activities.

Proposition 2 (P2): Financial sustainability is positively related to community empowerment in social business.

Table 2 summarises the two propositions and their theoretical basis.

Table 2 Summary of propositions

Proposition	Relationship	Basis in Hybrid Organising Theory
P1	Social innovation → Community empowerment	Social welfare logic creates value for beneficiaries
P2	Financial sustainability → Community empowerment	Commercial logic provides continuity and scale

Discussion and Implications

The first proposed theoretical contribution is to shift the application of hybrid organising from an exclusive focus on internal organisational tensions to a specified community-level outcome. Rather than equating social value with services delivered, the framework defines empowerment through beneficiaries' economic opportunities, capabilities and participation. This provides a more demanding conceptual outcome against which social business activity may be evaluated.

The second contribution is to distinguish two complementary pathways: social innovation may expand opportunities and agency, whereas financial sustainability may preserve the continuity needed for these benefits to accumulate. The framework does not establish that the two variables interact or that innovation causes financial sustainability. It instead proposes separate positive relationships, subject to the broader challenge of maintaining mission alignment.

Practical Implications

For social entrepreneurs, the framework suggests that innovation and revenue generation should

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be designed together from the beginning, and that both should be directed towards building beneficiaries' economic resources, capabilities, and participation. Investing in partnerships with community organisations and in simple but credible impact measurement systems is likely to increase the empowerment effects of a social business.

Policy Implications

For policymakers and development agencies, the framework suggests three areas of support. Funding mechanisms can be designed to help social businesses reach financial sustainability without creating permanent dependence. Platforms that connect social businesses with government agencies, corporations, universities, and communities can strengthen stakeholder partnerships. Common, proportionate impact measurement standards can help social businesses demonstrate their contribution to community empowerment without imposing excessive reporting costs on small enterprises. Impact frameworks can help distinguish organisational outputs from the scale and scope of social performance (Ebrahim & Rangan, 2014). The Sustainable Development Goals provide a broader policy context for inclusive development (United Nations, 2015).

Educational Implications

For universities and training providers, the framework provides a structure for social business education. Courses and micro-credentials can teach business model design, social innovation and financial management as connected elements rather than as separate topics, with community empowerment as the organising goal. Student projects can use the framework to analyse existing social businesses or to design new ones.

Limitations and Future Research

Several limitations qualify the framework. First, the propositions are conceptual and have not been empirically tested. Second, the interpretive literature synthesis is not systematic and may omit relevant contemporary studies. Third, the framework deliberately excludes possible mediators, moderators and reciprocal effects, including partnerships, accountability and mission drift. Fourth, empowerment may be understood and measured differently across communities and cultural contexts. Finally, the micro-credential materials inform the educational context but do not constitute empirical evidence for the propositions.

Future research could test both propositions using data from social businesses and their beneficiaries, while distinguishing organisational measures of innovation and financial sustainability from beneficiary-reported empowerment. Longitudinal studies could investigate whether sustained engagement produces lasting capabilities and participation. Qualitative comparative cases could explore differences between integrated and differentiated hybrids. Subsequent model extensions may investigate mission alignment, stakeholder partnerships and impact measurement as potential boundary conditions, but these require separate theoretical development and explicit propositions.

Conclusion

This paper proposes that social innovation and financial sustainability are distinct yet complementary antecedents of community empowerment in social business. Drawing on Hybrid Organising Theory, it connects social welfare and commercial logics to a community-level outcome encompassing economic opportunity, capability development and participation. Two direct propositions provide a basis for future empirical testing. The framework's contribution is conceptual rather than evidentiary: it clarifies why innovative solutions and

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financial continuity may matter for empowerment while recognising that mission alignment remains essential.

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