

Institutional Voids and Business Model Innovation: How Grassroots Social Businesses Advance Deprived Communities in Emerging Economies

Ana Colovic  and Marion Schruoffeneger

NEOMA Business School, France

ABSTRACT Despite the growing interest in social businesses, knowledge about and theorization of how these businesses change social and institutional conditions in emerging economies is scarce. This research investigates how an innovative social business model acts on institutional voids and creates social value for deprived communities. Building on insights from the literature and a longitudinal case study of a local, grassroots social business venture operating in Brazilian slums and shantytowns (favelas), we uncover and theorize eight mechanisms by which an innovative social business model brings about institutional change and creates social value. These mechanisms are: orchestrating local business networks, developing local business networks, upgrading and building cognitive capacity, legitimizing, assigning multiple roles, empowering, building a positive territorial identity (territorial de-stigmatization), and boundary spanning. Our findings have important implications for social entrepreneurs and organizations supporting social business ventures in transforming economies.

KEYWORDS Brazil, business model innovation, emerging economy, institutional voids, social entrepreneurship

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INTRODUCTION

In emerging economies, business operations are greatly affected by institutional voids, or ‘prevailing institutional conditions that disturb the functioning of markets, enhancing the likelihood of opportunism (including corruption), excessive rents to a few actors (reducing entrepreneurship) and market power (discouraging competition)’ (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017: 294). Institutional voids result from weak or poorly functioning institutions (Khanna & Palepu, 1997), encouraging a number of negative externalities, such as corruption, insecurity, criminality, and unemployment, and preventing those living in deprived, resource-constrained environments from participating in the market

Corresponding author: Ana Colovic (ana.colovic@neoma-bs.fr)

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(Mair & Marti, 2009). A lack of education, resources, and opportunities to participate in the market condemn large numbers of people (particularly women) to marginalized, arduous lives, eking out a precarious living (Thompson & MacMillan, 2010).

Because locally grown entrepreneurial firms directly oppose the very essence of institutional voids – exclusion from market participation (Mair & Marti, 2009) – scholars are increasingly identifying them as key players in improving conditions for deprived population groups in emerging economies (Fernandes, Mason, & Chakrabarti, 2019; Sardana, Bamiatzi, & Zhu, 2019). Specifically, local social businesses operating in resource-constrained, socially challenging environments, which design and develop innovative, even disruptive business models to cater to the needs of the poor and bring about social change (Yunus, Moignon, & Lehman-Ortega, 2010) are recognized as important actors challenging institutional conditions in emerging markets. Yet despite this recognition, we know little about how their innovative business models act on institutional voids. In addition, scholars have insufficiently theorized the mechanisms that such innovative social business models deploy to create social value for deprived communities. To bridge these theoretical gaps, our study aims to uncover these mechanisms by which local social businesses act on institutional voids and create social value. With this in mind, we formulate the following research questions: (i) *how (through which mechanisms) does an innovative social business model act on institutional voids in an emerging economy?* and (ii) *how (through which mechanisms) does an innovative social business model create social value for deprived communities in an emerging economy?*

To respond to these research questions, we investigate a grassroots social business operating in Brazilian shantytowns or slums (favelas) – urban areas marked by poverty, high unemployment, poor infrastructure, crime, and insecurity. Brazil is the leading emerging economy in Latin America, but suffers from institutional weaknesses generating enormous inequality (Lacerda, 2016). This is particularly evident in favelas, where thousands of people build insalubrious dwellings on illegally occupied land (Gay, 2012; Nunes Pereira, Bartholo, Silva, & Proença, 2017) and suffer from a range of social and economic problems as well as being stigmatized by the rest of the population (Imas & Weston, 2012; Nunes Pereira et al., 2017). We conducted a case study of Alpha,^[1] a social business created to fight obesity – a serious social problem caused by poor-quality diet – by offering freshly made salads at affordable prices and employing favela dwellers. Alpha was nurtured by the social incubator Yunus Negócios Sociais, one of a network of organizations created by Muhammad Yunus (the Yunus Group), the founder of the Grameen Bank in Bangladesh and an iconic figure in social business. We began studying Alpha in October 2014, almost immediately after its launch. Having identified gaps in existing theory, our approach combines insights from prior theoretical and empirical research on business models, social entrepreneurship, institutional voids, and inductive theory building. We make use of contextualized explanations (Plakoyiannaki, Wei, & Prashantham, 2019) to develop a model

of the mechanisms through which an innovative social business model acts on institutional voids and brings about social change.

THEORETICAL BACKGROUND

Institutions and Institutional Voids in Emerging Economies

According to institutional theory, dominant (formal and informal) institutions, defined as ‘the rules of the game’ (North, 1990) shape the behavior of people and organizations. When institutions do not function properly, as is frequently the case in emerging economies (Meyer, Estrin, Bhaumik, & Peng, 2009), institutional voids emerge, i.e., competitive and market spaces deprived of strong, efficient (formal) institutions (Khanna & Palepu, 1997; Mair & Marti, 2009). However, as Mair, Marti, and Ventresca (2012) argue, institutional voids should not be regarded as empty of institutions, but rather as spaces of ‘institutional plurality’ (820) where, in the absence or weakness of formal institutions, compensatory structures shape market operations and informal arrangements serve as alternative support systems (Doh et al., 2017). Weak, poorly functioning institutions give rise to complex, entangled economic and social problems, including poverty, criminality, unemployment, and social exclusion (Mair et al., 2012). This notion of entanglement helps explicate institutional voids as spaces of plurality, which are both empty (of formal institutions) and inhabited (with alternative institutional arrangements).

Research has reported on how institutional voids prevent (i) efficient market functioning and (ii) market development (Meyer et al., 2009). Building on this conceptualization, and based on an examination of how institutional voids impact local people in deprived areas, Mair and Marti (2009) extend the concept of institutional voids to include voids that impede market participation. This extended conceptualization is the first theoretical block on which we build our research. Market participation is particularly difficult in deprived, socially excluded, marginalized, or stigmatized areas (Fernandes et al., 2019; Imas & Weston, 2012). In such conditions, women are often the most excluded and least emancipated and, at the same time, depend greatly on male members of their community, because they have little or no personal income (Colovic & Mehrotra, 2020; Mair et al., 2012; Thompson & MacMillan, 2010).

Different kinds of organizations have demonstrated their commitment to tackling deficient institutions in emerging economies. For example, non-governmental organizations and businesses from developed countries that enter so-called Bottom-of-the-Pyramid markets to improve the living conditions of the poor and contribute to social change, are an important force in improving the market participation of marginalized groups (Mair & Marti, 2009; Sanchez & Ricart, 2010). Recent research, however, has highlighted the work of grassroots entrepreneurs, who undoubtedly have the greatest potential to tackle social

problems, as great numbers of people can become entrepreneurs (Fernandes et al., 2019; Nunes Pereira et al., 2017). In particular, academics and governments view local businesses aiming to change society (i.e., social businesses) as having the strength and legitimacy to provide multiple social benefits to all involved parties (Seelos & Mair, 2007). However, despite growing interest in these local businesses, research has developed little knowledge and theorization about how they confront the institutional deficiencies that characterize deprived communities in emerging economies (Sardana et al., 2019).

Social Entrepreneurship in Emerging Economies

Social entrepreneurship is a particular kind of entrepreneurship, where entrepreneurs seek to develop social wealth, alleviate social problems, and facilitate social change (Alvord, Brown, & Letts, 2004; Mair & Marti, 2006) while remaining economically sustainable (Thompson & MacMillan, 2010). This conceptualization of social entrepreneurship as a tool for creating social wealth constitutes the second theoretical insight underpinning our research.

The pursuit of dual objectives – social and economic – makes the existence, prosperity, and growth of social enterprises particularly challenging (Sardana et al., 2019), and the structuring of social entrepreneurship as an area of inquiry difficult. As a result, despite considerable interest in social entrepreneurship, the field is still considered in its infancy, suffering from a lack of theory and definition (Perrini, Vurro, & Conzanzo, 2010). This lack of theorizing contributes to obfuscate the economic/developmental role of social businesses.

In emerging economies, social businesses often actively drive economic and social transformations. Because of their ability to address social and economic problems, offer solutions that traditional organizations fail to supply, and improve society (Yunus et al., 2010), they have spread considerably over the last two decades. Studying seven cases across countries, including two in emerging economies, Alvord et al. (2004) highlight the social outcomes of social businesses: they organize deprived population groups, disseminating innovations that serve their needs, providing them with legitimacy and status, and building movements that challenge existing elites and institutions. With these actions, social businesses improve the living conditions of deprived community members. However, social enterprises vary both in their levels of development and achievement (Mehrotra & Verma, 2015), and in the difficulties they face, such as in establishing strategic and operational capacities, managing their workforce, and upscaling. It is important to analyze the leadership skills, strategies, and actions used by social business ventures in emerging economies at different stages, and their use of social networks, if we are to understand their development and social outcomes (Lan, Zhu, Ness, Xing, & Schneider, 2014). Recently, based on ten case studies of social enterprises in rural areas in India and China, Sardana et al. (2019) developed a model for the process of social and economic value creation. However, the model is limited to

decoding the process of value creation and does not shed light on the mechanisms that allow such social value to be created, pointing to the need for further studies of this phenomenon. Moreover, the mechanisms linking innovative social business models with social value creation remain insufficiently understood.

(Social) Business Model Innovation

A business model defines a business's characteristics and activities concisely, and embodies the essential elements of a business and how they are combined to make them work (Baden-Fuller & Morgan, 2010). Significantly, a business model refers not only to the features creating, delivering, and capturing value, but also to the specific architecture linking (Volberda, Van Den Bosch, & Heij, 2017) and aligning (Khanagha, Volberda, & Oshri, 2014) these features.

Baden-Fuller and Morgan (2010) and Baden-Fuller and Mangematin (2013) view business models as 'models', 'recipes', and 'cognitive instruments', rather than as 'real' objects. The notion of the recipe includes the organization and integration of the main elements of the firm's activity – (i) identifying customers (possibly several customer groups); (ii) customer engagement (value proposition); (iii) monetization; and (iv) value chain and linkages (Baden-Fuller & Mangematin, 2013) – and also provides a set of rules that can lead to specific outcomes. We embrace this conceptualization of business models as the third theoretical block on which we build our research.

In emerging economies, the very needs of the market demand innovative social business solutions. Business model innovation involves designing a new activity system (Amit & Zott, 2010) or 'the discovery of a fundamentally different business model in an existing business' (Markides, 2006: 20). As ventures entering poor markets need to provide benefits for all the parties involved (Hart & Sharma, 2004; Seelos & Mair, 2007), the investigation of business model innovation in low-income countries has underscored the need to reshape business models and business practices in poor, highly uncertain environments (Prahalad & Hammond, 2002).

Research has stressed certain factors that lead to social business success: proactively building value networks of companies sharing a social vision; developing resource strategies as part of the business model; and integrating target groups into the social value network (Mair & Schoen, 2007). Research on a large number of social enterprises has identified the following business model innovation types: cheap sourcing, inclusive production, smart distribution, smart pricing, ecosystem engineering, and opportunity creation (Spiess-Knafl, Mast, & Jensen, 2015). All of these types involve considering deprived groups' needs carefully and shaping the business model to respond to these needs meaningfully. Placing the social mission at the very heart of the social business model is key to its success (Yunus et al., 2010).

In [Table 1](#), we present an overview of theoretical and empirical studies that collectively highlight the need to advance understanding of how social businesses

Table 1. Insights from the theoretical and empirical studies on institutional voids, social entrepreneurship and business model innovation

<i>Authors</i>	<i>Study type</i>	<i>Theme</i>	<i>Method</i>	<i>Findings</i>
Alvord et al. (2004)	Conceptual (theory building), based on secondary data	Analysis of factors of successful social entrepreneurship	Seven case studies of successful social enterprises, including two in emerging economies	The study generates propositions about core innovation, leadership and organization, and scaling up in social entrepreneurship, and how these transform society.
Baden-Fuller & Morgan (2010)	Conceptual	The usefulness of business models	Conceptual discussion of the business model concept, drawing on research in the history and philosophy of science, biology and economics	Business models act as various forms of model: as means to describe and classify businesses; as sites for scientific investigation; and as recipes for creative managers.
Baden-Fuller & Mangematin (2013)	Conceptual	Business models as a set of cognitive configurations that managers and academics can manipulate in their minds.	Conceptual discussion	Business models are seen as comprising four elements: 1) identifying customers; 2) customer engagement; 3) monetization; 4) value chain and linkages. The authors explore how business model configurations can extend current work on cognitive categorization.
Mair & Marti (2006)	Conceptual	The distinctiveness of social entrepreneurship	Conceptual development based on insights from prior research	The authors put forward a view of social entrepreneurship as a process that catalyzes social change and addresses important social needs in a way that is not dominated by direct financial benefits for the entrepreneurs.
Mair & Marti (2009)	Theory building based on a case study	Entrepreneurship in and around institutional voids	Theory building based on a single case study	The authors extend the concept of institutional voids to include voids that prevent market participation. The findings advance understanding of why institutional voids originate, and unpack institutional processes in a setting characterized by extreme resource constraints and a rich institutional fabric, but that is often at odds with market development.

Table 1. Continued

<i>Authors</i>	<i>Study type</i>	<i>Theme</i>	<i>Method</i>	<i>Findings</i>
Thompson & McMillan (2010)	Conceptual, based on action research	Creating new markets and societal wealth with innovative business models	Conceptual discussion based on Wharton Societal Wealth Program - WSWP (action research)	Based on the WSWP action research, the authors propose a framework for designing business models that simultaneously attend to planning and project evaluation and to the needs of businesses that aim at economic sustainability and societal wealth creation.
Mehrotra & Verma (2015)	Empirical, qualitative and quantitative	Exploring several issues relative to the nature and functioning of social enterprises	Stage 1: Five qualitative interviews; Stage 2: Questionnaire survey sent to Indian social businesses	Social enterprises face difficulties in their operations in areas such as establishing strategic and operational capacities, workforce management, and upscaling. Moreover, the authors identified different levels of development and achievement among social enterprises.
Lan et al. (2014)	Empirical, qualitative	The role of leadership and social entrepreneurship in rural development in China	Exploratory qualitative case studies. Interviews conducted in several rural communities in Yunnan and Zhejiang provinces in China	Social entrepreneurs have different characteristics, skills and knowledge. Strategies and actions at different stages of business are identified. The study highlights the importance of social relationships (guanxi) and identifies key challenges in the social entrepreneurship process.
Mair & Schoen (2007)	Empirical, qualitative	Study of factors that allow social enterprises to achieve scale and sustainability in developing economies	Three case studies including two in emerging economies, one in Egypt, and one in Bangladesh	Successful social entrepreneurial organizations proactively create their own value networks of companies that share their social vision, develop resource strategies as an integral part of the business model, and integrate their target groups into the social value network.

Table 1. Continued

<i>Authors</i>	<i>Study type</i>	<i>Theme</i>	<i>Method</i>	<i>Findings</i>
Sardana et al. (2019)	Theory building and empirical, qualitative	Social entrepreneurship process model	Theory building based on ten case studies of social enterprises in rural areas in India and China	The authors propose a model that decodes the social and economic value creation process. The model comprises three stages: commitment to create social value; establishment of pragmatic and contextualized social objectives; realization of social objectives. A number of drivers and contingencies influence the value creation process.
Yunus et al. (2010)	Conceptual	Conceptualization of social business model innovation in low-income markets	Conceptual, based on the Grameen experience	The study identifies five lessons from the Grameen experience: challenging conventional wisdom, finding complementary partners, constantly experimenting, favoring social-profit-oriented shareholders, specifying profit objectives clearly.
Seelos & Mair (2005)	Conceptual	Business models in social entrepreneurship	Essentially conceptual, based on three illustrative cases	The article reveals the characteristics and benefits of social entrepreneurship. It also outlines specific features of business models aiming to serve the poor.
Spiess-Knafl et al. (2015)	Empirical, quantitative	Study of business model innovation types in social organizations	Quantitative analysis of a unique global dataset of 204 social enterprises rewarded for their innovative activities	The authors develop a typology of innovative social business models: cheap sourcing, inclusive production, smart distribution, smart pricing, opportunity creation, and ecosystem engineering.
Sanchez & Ricart (2010)	Empirical, qualitative	Study of business models of Western companies entering low-income markets.	Qualitative/case study approach, 7 case studies, 5 successful and 2 failed	Authors distinguish between isolated and interactive business models. Isolated business models identify and exploit the opportunity as soon as possible. Interactive business models induce a systemic change in the ecosystem by integrating new actors.
Anderson & Kupp (2008)	Empirical, qualitative	Study of business models of mobile phone operators in low-income markets	Qualitative/interviews and field visits in Africa, India, Mexico, and the Philippines	The most successful operators have created new ways of configuring different activities to reach customers. Some collaborate with non-traditional partners, while others build local capacity.

improve conditions for the deprived in emerging economies. Indeed, the underlying mechanisms that allow social businesses to perform their role of social transformation are inadequately understood. In particular, the link between innovative business models and both their social outcomes and their impact on institutional voids is a black box that needs to be opened, decrypted and theorized; and this is our goal in this article. We understand theorizing as a more profound conceptualization of the inner workings of social business model innovation in the context of emerging economies.

METHODS AND DATA

Research Setting

We conducted our empirical study in Brazilian favelas (slums, shantytowns), also known locally as ‘communities’ (comunidades). Brazil is the largest emerging economy in Latin America, with about 200 million inhabitants. Despite its economic progress since the 2000s, Brazil is one of the most unequal countries in the world, with five different economic classes, from A, the richest, to E, the poorest (OECD, 2013). Social inequality is particularly severe in big cities, such as São Paulo, Rio de Janeiro, and Recife, where luxury villas stand alongside favelas.

Favelas are often insalubrious, with dwellings built from waste materials on illegally occupied land. Characterized by poor living conditions, a lack of infrastructure (roads, water, electricity, heating, etc.), and a large informal sector (Imas & Weston, 2012), favelas are usually considered to have developed because of Brazil’s unequal revenue distribution, the migration of rural people searching for employment in urban areas, and inefficient public policies (Nunes Pereira et al., 2017). Because of the difficult social context, the government has often neglected and segregated favelas (Lacerda, 2015), regarding them as lawless places to be feared and avoided (Fernandes et al., 2019). Because of the government’s neglect of these areas and the institutional voids that have arisen, criminal gangs, particularly drug lords, have spread throughout the favelas (Lacerda, 2016) establishing their own rule, that is, institutionalizing parallel arrangements based on violence and insecurity. For these reasons, favela inhabitants are excluded, both socially and from the job market. Female favela dwellers are particularly marginalized, and restricted to secondary social roles in their communities.

Despite these issues, the quality of favela life has improved significantly in the last two decades. More favela inhabitants are in class C, the Brazilian middle class, than in the past, particularly in Rio de Janeiro (Data Popular, 2013). Infrastructure has improved substantially, and more people have access to schools, universities, healthcare institutions, culture, television, telephone, and the Internet (Coordinator, Movement for Favela Rights, personal interview). Favelas are also

known for their local culture, which includes dancing (samba, funk, and hip-hop) and street art. Creativity and entrepreneurial initiatives are very much present in favela life (Nunes Pereira et al., 2017).

Furthermore, in recent years, policies have been introduced to support urban development in favelas, such as Growth Acceleration Programs (Programa de Aceleração do Crescimento). Since 2014, the government has introduced 'Pacifying' units (Lacerda, 2015), to police the favelas. These police units, or UPP (Unidade de Polícia Pacificadora), seek to expel drug lords and pacify the territory; however, their actions have been widely criticized, as some favela residents have reportedly suffered from UPP violence and prejudice (Lacerda, 2016). Lacerda (2016) thus describes favelas as areas with a failed state presence.

Method

To address the theoretical gaps discussed above, and because social business model innovation is still an emerging research field, we chose a single case study approach (Eisenhardt & Grabner, 2007; Siggelkow, 2007). A case study approach allows intensive research of under-investigated phenomena, without limiting the investigation to a narrow set of variables (Eisenhardt & Grabner, 2007). Moreover, to understand social and managerial phenomena in emerging economies, it is essential to account for the context of these economies, and qualitative, case-based research provides appropriate tools to do so (Plakoyiannaki et al., 2019). According to Plakoyiannaki et al. (2019), conducting qualitative research in emerging economies provides opportunities to refine existing theories and develop new, context-bound and indigenous theories, and contextual explanations. Finally, yet importantly, our qualitative approach is consistent with prior studies analyzing entrepreneurial phenomena in poor communities (Fernandes et al., 2019; Mair & Marti, 2009; Nunes Pereira, 2017; Sardana et al., 2019).

We chose to study Alpha, a social business launched in 2014 and nurtured in the Yunus Negócios Sociais business incubator. This social business incubator belongs to the network of affiliates created by Muhammad Yunus, the 2006 Nobel Peace Prize winner, who launched the Grameen bank in Bangladesh in 1976 and the Yunus group in 1983, and has been an icon in the social business sphere ever since. Thanks to personal contacts in Brazil and direct contact with the Yunus incubator, we were introduced to Thiago, the entrepreneur behind Alpha. Alpha was suggested as a relevant case to study, with great potential to generate novel insights that would allow us to contribute to theory.

We designed an interview guide focusing on the entrepreneurial idea, the business project, operations, business model, business model innovation, and the outcomes of the business venture. We also included topics relative to the context in which the venture operates. We started our study in October 2014, conducting semi-structured interviews, in Brazilian Portuguese, with Thiago, the founder of Alpha. We also interviewed people who were familiar with Alpha, in particular

those working for the Yunus Negócios Sociais incubator and members of a non-profit association (NPO) focusing on social business. Over time, we conducted other interviews, with employees of the venture, members of social organizations working in favelas, a cook, and clients. We present the interviews and other data sources in [Table 2](#).

In parallel with the primary data collection, we collected extensive secondary data, through social media. This enabled us to follow the activities of Alpha almost every day. We obtained access to notes, comments, and social media conversations between Alpha and its clients, local associations, friends, and journalists. Beside regular updates on the Alpha project via social media, we spoke to Thiago ten more times, to clarify points or obtain specific information, via Skype, Facebook, and email. Another source of information was Alpha's official website. Furthermore, Alpha has very good media coverage in Brazil (TV shows, press articles, video interviews posted on the Internet, etc.); this was a significant data source for our study. Our research protocol therefore combined primary and secondary data collection and analysis, and involved becoming part of Alpha's virtual community. This allowed us to collect rich data on the Alpha case, from October 2014 to October 2019.

We coded all our data, primary and secondary, including the video transcripts, using software to reduce the substantial quantity of data to those of direct use for our investigation, before manually checking the software coding to gain deep insights into the data and correct some software miscoding. We clustered the codes and sorted them into themes relevant to our research questions. Then we progressively aggregated the codes until we reached final dimensions that we used to build our theoretical model. We present our analytical process in [Table 3](#). Sardana et al. (2019) used a similar approach in their recent study of social value creation by Chinese and Indian social entrepreneurs.

This process allowed us to analyze the data documenting Alpha's business model, following the framework by Baden-Fuller and Mangematin (2013) and to identify its unique, innovative features. Next, we grouped and analyzed the data relative to how Alpha generates social outcomes for favela residents, and how it acts on institutional voids that impede market functioning and development, and prevent market participation. We then focused our analysis on revealing the missing relationships – the theoretical links – between Alpha's innovative social business model and how it creates social value and tackles institutional voids.

Thus, our approach makes use of existing theories and frameworks, in particular the notion of institutional voids as conceptualized by Mair and Marti (2009), the notion of social value creation by social businesses, and the business model framework developed by Baden-Fuller and Mangematin (2013), to guide the empirical investigation, data analysis and subsequent theorizing, but it also involves contextualized, inductive theory building, situating substantial primary and secondary data in its specific context to develop a model that depicts how an innovative social business model acts on institutional voids and creates social value.

Table 2. Data sources

<i>Primary data</i>	<i>Secondary data</i>
<ul style="list-style-type: none"> ● 2 interviews with Thiago ● 2 interviews with other Alpha employees ● 2 interviews with local NPO members ● 2 interviews with members of the social incubator ● 1 interview with a franchisee (a cook) ● 2 interviews with Alpha's clients ● 10 additional discussions with Thiago ● Exchange of emails, Facebook and Skype messages 	<ul style="list-style-type: none"> ● Messages, information, news, comments from Thiago's Facebook account ● Messages, comments, news from Alpha's Facebook page ● Information from the official website ● Newspaper articles and printed interviews ● Video interviews of Alpha management team members (transcribed in Brazilian Portuguese) ● Video interviews of Alpha cooks (franchisees), deliverymen, clients (transcribed in Brazilian Portuguese) ● Video interviews of local NPO officials (transcribed in Brazilian Portuguese) ● Videos of training sessions, discussions about Alpha's activities in favelas and other related issues (transcribed in Brazilian Portuguese) ● Videos about Alpha's suppliers - favela farmers and the organic food gardens (transcribed in Brazilian Portuguese)

FINDINGS

The Origins and Development of Alpha

Thiago, a Brazilian national, grew up in São Gonçalo, a poor suburb of Rio de Janeiro. After obtaining a university degree, he started to work in a co-working office in one of the city's rich neighborhoods. While working there, he noticed that the food his co-workers ate was radically different from what he ate at home, and much healthier. At first, he would escape to eat traditional, fatty food in local bars, but gradually, he started eating like his co-workers and realized that he felt much better. He also realized that Brazilians were extremely unaware of poor diet issues, especially those he grew up with in poor neighborhoods. One night, while hanging out with his friends in his neighborhood, he suggested ordering the type of food he ate at work. Although his friends laughed at him, saying that he had become the 'elite', he tried to order the food online, but learned that nothing of the kind was available in Rio's poor neighborhoods, and the restaurants selling healthy food in richer neighborhoods were unwilling to deliver to favelas.

Staple foods can be very expensive in Brazil, and people in deprived communities have easy access to street shops selling hot dogs and hamburgers, but not to healthy food. The realization that healthy diet options are difficult to access in favelas upset Thiago greatly, and he started thinking about launching a healthy food business. In late 2014, with the idea that 'healthy food is a right, not a privilege' (Thiago), he quit his job and joined with a nutritionist – Maria, from a poor neighborhood – to study how they could develop an economically sustainable,

Table 3. Data analysis progression from initial code clusters to final dimensions included in the theoretical model

<i>Initial code clusters</i>		<i>Final dimensions included in the theoretical model</i>
Business model	Social value	Social business model innovation
<ul style="list-style-type: none"> ● Customer identification <ul style="list-style-type: none"> ○ Favela residents ○ Nurseries, schools in favelas ○ Wealthier customers ○ Customers from deprived groups ● Customer engagement <ul style="list-style-type: none"> ○ High-quality product ○ Product made in favelas ○ Women cooks selected ○ Training provided for cooks ● Value chain and linkages <ul style="list-style-type: none"> ○ Procurement of inputs in favelas ○ Production in favelas ○ Delivery in favelas ○ Franchising system ○ Women cooks as franchisees ● Monetization <ul style="list-style-type: none"> ○ Franchisees share profits ○ Management team shares profits ○ Lower prices for favelas ○ Higher prices for rich areas ○ Subscription options 	<ul style="list-style-type: none"> ● Employment for women cooks ● Employment for deliverymen ● Improved status of Alpha's favela employees ● Resources acquired by favela people ● Improved awareness of healthy diet benefits, sanitation, hygiene ● Improved economic situation of favela people ● Favela identity of Alpha ● Positive image of the business as healthy and high quality ● Association of favela people with positive legal activities ● Use of competencies of favela people ● Targeting customers from outside favelas ● Salads delivered everywhere by favela deliverymen 	<ul style="list-style-type: none"> ● Customer identification <ul style="list-style-type: none"> ○ Applying economic and social rationales to identify customers ○ Targeting deprived customers ● Customer engagement <ul style="list-style-type: none"> ○ Value created by marginalized, socially excluded groups, after training by the venture ● Value chain and linkages <ul style="list-style-type: none"> ○ Value chain and linkages embedded in the local area ● Monetization <ul style="list-style-type: none"> ○ Profit sharing with marginalized, socially excluded groups ○ Affordable prices for deprived areas

Table 3. Continued

<i>Initial code clusters</i>	<i>Final dimensions included in the theoretical model</i>
<p>Impact on institutional voids</p> <ul style="list-style-type: none"> ● Improved services in favelas ● Market relationships established between favela people ● Development of the local business ecosystem ● Investment in favelas ● New services created ● Jobs created in favelas ● Women's entrepreneurship enabled ● Marginalized groups included in the market 	<p>Mechanisms for acting on institutional voids and creating social value</p> <ul style="list-style-type: none"> ● Connecting favela people in market transactions ● Brokering between different market participants ● Expanding business in favelas ● Designing new services in favelas ● Considering favela dwellers as worthy of market participation ● Believing in favela dwellers' capacities and potential ● Training in cooking ● Training in management ● Education in health, sanitation ● Assigning women cooks to run franchising units ● Assigning favela youths to deliver products ● Assigning women cooks to prepare the product ● Giving responsibility to women cooks ● Giving responsibility to deliverymen ● Promoting positive sides of favelas ● Showcasing capacities and potential of favela people ● Bringing favela products to other Brazilians ● Allowing direct contact between deliverymen and people in other areas ● Showcasing favela business in the media
	<p>Mechanisms for acting on institutional voids and creating social value</p> <ul style="list-style-type: none"> ● Orchestrating local business networks ● Developing local business networks ● Legitimizing ● Upgrading and building cognitive capacity ● Assigning multiple roles ● Empowering ● Building (positive) territorial identity (territorial de-stigmatization) ● Boundary spanning <p>Impact on institutional voids</p> <ul style="list-style-type: none"> ● Improved market functioning in deprived communities ● Improved market development in deprived communities ● Market participation enabled for marginalized, socially-excluded groups <p>Social value created</p> <ul style="list-style-type: none"> ● Social inclusion ● Emancipation ● Local community betterment ● Improved image of the local community ● Reduced stigmatization ● Establishment of links with other population groups

socially useful venture. Thiago put his savings from his previous job into the venture and received some money from his family, who were keen to support his idea. The team wanted to develop the venture in favelas, and had three main goals: offer healthy food to favela dwellers at reasonable prices, provide employment for favela people, and become a 100% favela business, meaning that everything needed for the business should be set up in the favelas. Because ‘a varied diet is never really presented as an alternative’ (Thiago) in poor neighborhoods, the team saw a business opportunity in developing a healthy food business.

While developing the project, the team learned about the selection process for incubation and acceleration by the Yunus Negócios Sociais Brasil incubator, and applied successfully. During their incubation, they refined their business project and designed a social business model that would provide healthy, fresh salads at reasonable prices and employ people from the favelas. With the help of the incubator, the team launched Alpha – a salad-based, fast food business. The incubator’s support was essential for the launch; it helped the team reflect on Alpha’s positioning, the market, the business model, and the project’s desired economic, social, and environmental impact. Recognizing strong potential for social value creation in the Alpha project, the Yunus incubator provided strong support, stating that Alpha was ‘the type of model we want to expand throughout Brazil’ (member of the Yunus incubator).

The plan was to first provide the proof of concept and then scale up by opening other units in favelas across Brazil. With the slogan ‘cheaper than fast food’, the first Alpha unit opened in São Gonçalo, followed by another in the Santa Marta favela. Initial results were promising, and new units opened quickly in other favelas in Rio, followed by units in other Brazilian cities, such as Recife, Florianópolis, and São Paulo. Today, Alpha sells a wide variety of salads to local inhabitants, but also to people outside favelas. Five years after its creation, Alpha operates in major cities throughout the country and is even in the process of exporting its business model to African countries. Alpha has become a role model for social businesses in Brazil, and SEBRAE, the Brazilian entrepreneurship agency, awarded it a prize in the category ‘Inclusive in the Value Chain’.

Alpha’s Business Model

To accomplish its social mission while remaining economically sustainable, Alpha designed and implemented an innovative business model, with the help of the Yunus Negócios Sociais Brasil incubator. According to Baden-Fuller and Mangematin (2013), business models are cognitive instruments or recipes comprising different components, or ‘ingredients’: customer segments, customer engagement (value proposition), monetization, and value chain and linkages. These components need to be blended or mixed together appropriately (Baden-Fuller & Morgan, 2010), to attain the project’s goals and pursue the intended strategy. To analyze Alpha’s business model, we build on this idea, distinguishing

between components when possible, but discussing more than one at a time when the components are intertwined, to ensure a meaningful analysis. When explaining Alpha's business model, we will situate it within its context – that of Brazilian slums (favelas).

Alpha is a representative example of a multi-sided business model (Baden-Fuller & Mangematin, 2013), as it targets three types of clients: favela inhabitants, favela nurseries and schools, and people from richer neighborhoods. Alpha was born out of an ambition to bring affordable, healthy food to favelas, as people in these areas need to improve their diet-related habits and health greatly. Poor-diet-related diseases are widespread in the favelas, and, as many favela people have no access to good medical institutions or treatment, it is crucial to deal with the causes of disease through nutrition. Alpha also targets people from richer neighborhoods. Revenues generated from selling salads to these clients maintain the venture's economic sustainability. Selling products to richer parts of the city also helps improve the image of favelas in these areas and combat the stigmatization of favela inhabitants. Moreover, the willingness to reach out to richer clients stems from the fact that Alpha's management team and employees take pride in the venture, and want to display its achievements to Brazilians throughout the country.

'People from communities can make beautiful things, and everyone should know about it'. (cook)

Currently, 60% of clients are in social classes A and B, and 40% are in classes C, D, and E. Alpha's aim is for the proportion of clients in classes C, D, and E to increase significantly. In addition to individual customers, Alpha targets favela nurseries and schools. According to Tania, a member of Alpha's management team, 'for many of those kids, their only decent meal, sometimes their only meal during the day, is the one they get at school. So, it is important that they get the right food'. Moreover, 'eating habits are gained in childhood, and we want the children to learn about healthy eating at school, to etch this knowledge in them, and also to transfer it to their families' (Maria).

What does Alpha offer its different customers? Alpha's main activity is preparing fresh salads with locally grown fruits and vegetables. When designing its salad range, Alpha considers the dietary preferences of the communities where it operates. Before launching operations in a particular favela, Thiago stays in the favela for a month or so to understand local eating habits better and to ensure that the salads offered match local needs. The salads are prepared in kitchens in the favelas, and the cooks are women from these communities. Before starting a unit in a particular favela (community), the Alpha team presents the project to local people, often with the help of local NGOs. The women interested in becoming cooks and franchisees apply for the job and go through a selection process. They need to show strong motivation for joining the project

and a willingness to dedicate considerable time first to job training and then to operating Alpha's units.

'I went to their presentation and decided to apply. Obviously, I applied because I needed a job, and I wanted to earn my own income. But, I also applied because they [Alpha's management team] are like us, and I felt that they would not judge me for who I am, just a simple, uneducated woman from a community'. (cook)

The project is conceived as a means to increase the employability of favela women, by training them to cook fresh salads and run a business. Once selected, the women receive four months' training on food care and preparation, health and safety, and combining salad ingredients. The Alpha nutritionist teaches the cooks how to make salads. Since the start of its operations, Alpha has developed a range of more than twenty different salad recipes for its menu. The offer is made up of refined, original recipes as well as more traditional salad options. Alpha's range demonstrates to its cooks and other employees, and customers that fresh fruit and vegetables can be used in sophisticated recipes, matching those served in good downtown restaurants.

'The secret is precisely the combination of different items and flavors; therefore, if the vegetables that taste a little bitter are blended with a salad dressing that's a little sweeter, they create a perfect combination that pleases the taste'. (Maria)

Speaking about Alpha's value proposition, Thiago contends:

'The key to our project is the product: freshly made, delicious salads, prepared by women in Alpha's kitchens located in favelas'.

A favela client commented on social media:

'I'd known and admired it for a long time before I got the opportunity to try it, and it really was worth the wait'.

Another client tells how he learned about salads from Alpha:

'I was not a big fan of salads, but before, in the favela, we only knew about lettuce and tomato salad. With Alpha I discovered that a salad can carry much more: watercress, cauliflower, broccoli, cheese ... I immediately understood that the project could fit into my community'.

Along with cooking and nutrition, the women are also trained in business and management. This double training prepares them to become entrepreneurs. When they finish their training, they become Alpha franchisees.

'We do not want them to be our employees. We want them to become community entrepreneurs'. (Thiago)

Being a franchisee does not come without challenges. Women cooks and their kitchens are vulnerable to criminals in the favelas and need to find ways

to protect their business. To mitigate the risk of problems with local criminals, Alpha recruits two women to work together in the kitchens and share the franchise. The strong network Alpha builds around the kitchens (with farmers, deliverymen, schools, associations, and clients) helps the women kitchens keep unwelcome people away. Because the women are also mothers, sisters, cousins, and friends of community residents, their personal social networks also provide protection. Nevertheless, being accosted by local criminals and drug dealers is part of the cooks' daily lives.

Franchising is challenging also because it requires skills in both cooking and running a business. Alpha provides the women with vital training in this area. Alpha also provides the franchisees with assistance along the way; they can rely on active support from Alpha's management team.

Alpha procures fruit and vegetables from favela farmers, supporting and aiming to develop partnerships with local organic fruit and vegetable producers. When Alpha launched operations in São Paulo, it partnered with a local farmer:

'We came across Dona Terezinha and her incredible food garden, which had all that we needed. And her food garden is located in a community in the Eastern sub-region of São Paulo, in São Mateus. She is one of a group of urban famers from São Paulo's outskirts that are looking not only to make a profit from their produce, but also to introduce high quality organic food in their own communities'. (Thiago)

Alpha develops similar relationships in favelas across Brazil. This gives local farmers the opportunity to develop food crops and improve their growing techniques, as Alpha works closely with them to improve the quality of their fruit and vegetables, and to establish organic farming in the communities.

Once the salads have been prepared, Alpha employs deliverymen from favelas to deliver salads to customers in the favelas and in other parts of the city. To contribute to preserving the environment, deliverymen travel exclusively by bicycle. Most of them are young people who had been unemployed before Alpha hired them. The deliverymen are Alpha employees who get excellent opportunities to meet clients from city areas, and thus to learn about such people's lifestyles and about job opportunities available in richer parts of the city. Some deliverymen have even found jobs in these areas.

'One of the boys got a job offer downtown. He learned to be polite and dress neatly and a client he used to deliver salads to offered him a job'. (cook)

With regard to the financial aspects of the business model, Thiago invested his personal savings to launch the business. He also obtained money from his family, a bank loan, and additional funding from the Yunus incubator. Revenues come from the sale of salads at affordable prices. The salads are of different sizes and contain different ingredients. Their cost and sale prices also vary. In addition to one-off purchases, customers can purchase a monthly subscription, which provides a

specific number of salads delivered per week at a lower price. Alpha practices differential pricing, selling their salads more cheaply to people from favelas than to those from richer neighborhoods. Alpha's markup is about 120%, which, according to Alpha employees, is much lower than that of high-end, city-center restaurants (500%). Profits from salads are shared between the women franchisees and Alpha head office.

The head office reinvests most of the profits in business development. Thiago and his team oversee all the operations, make investments in favelas, and develop Alpha's activity. The women cooks are Alpha franchisees, and most are registered as micro-entrepreneurs. They earn income (a monthly salary and a share of the profits) from making and selling salads. Deliverymen are paid per delivery. Working as a cook or a deliveryman provides them with a reasonable living.

'I started working very early, when I was 12, and I did not stop. My mother taught us like this: you eat what you have. If you don't have anything, your stomach hurts. Sometimes I would come home and have only water and salt, couscous and water. Today, I am happy with my job, and I am happy that my children are not going through what I had to go through'. (cook)

From the perspective of the Baden-Fuller and Mangematin framework (2013), the Alpha business model includes key innovative features. It is multi-sided in terms of customer segments, or customer identification, because Alpha targets favela dwellers, people from richer neighborhoods, nurseries, and schools. The inclusion of deprived people in its customer segments is also a significant feature of the business model. Concerning customer engagement or value proposition, the key innovative features are the high-quality products made by favela residents, and the training they receive before making these products. With regard to value chain and linkages, the value chain is developed in the favelas and the franchising system uses favela women as franchisees. Lastly, in terms of monetization, Alpha's model is innovative because it involves profit sharing with favela franchisees and because it includes differential pricing, with lower prices practiced for favela clients.

Acting on Institutional Voids and Creating Social Value

Our findings suggest that Alpha's innovative business model acts upon institutional voids and creates social value for favela dwellers.

Alpha's interactions with the community improve local market functioning by establishing market links between favela inhabitants, local farmers, women cooks, deliverymen, and clients, thus connecting them through transaction-based relationships. A great number of these relationships did not exist before Alpha's launch. Alpha's actions also improve the quality of local services, as observed in the quote below.

‘The dynamics of local economies in low income communities makes a very important impact, starting with job generation. When this money circulates within the communities, local services and quality of life improve. When I buy from the local community market, I am giving it a chance to improve, to give me better purchase and product options, to create new services ... everything operates within the community and it all makes sense’. (member of the management team)

Alpha’s activities in favelas also develop local markets by developing the local business ecosystem. It involves local people in its business in different ways and makes substantial investments in the communities. As a management team member argues, this ‘creates ecosystems within communities around Alpha. And the ecosystems grow’. When Alpha expands its business operations, local markets develop and new services are designed and proposed. By developing the market, Alpha creates opportunities for more businesses to increase their market participation, and to develop the market further.

Alpha mitigates institutional voids mainly by enabling market participation. In general, favelas provide few job opportunities (Imas & Weston, 2012), and women in particular find it very difficult to obtain a decently paid job. As it creates jobs and spurs female entrepreneurship, the venture enables people to participate in the market who would otherwise be unable to do so. Dozens of women have thus joined the market and become entrepreneurs and franchisees. Many favela deliverymen have also begun to participate in the market. Some Alpha employees, particularly the deliverymen, had been involved or were on the verge of becoming involved in petty crime or criminal gangs, and had had problems with the police. Alpha thus opens the job market to people who had been excluded from it or who had been involved in illegal activities.

For some, getting a job as a deliveryman was lifesaving, as observed in the quote below.

‘Many young people die every day in communities. Drug gangs fight all the time, and if you have no other choice but to be in one of them because you have to make a living, then you put your life at risk every second, every day. I have lost a lot of my friends like that. They died before turning twenty. So, I thank God that I am still alive. And I thank Alpha too, for it hadn’t been for them, I might have been down there too’. (deliveryman)

In summary, Alpha’s activities influence all three types of institutional voids, and particularly those that impede market participation. Thanks to Alpha, numerous people have obtained employment (women cooks, deliverymen, farmers), enabling them to feed themselves and their families.

Alpha creates social value, because it invests purposefully and systematically in the development of local people. Its action is both social and political, insofar as the venture acts quasi-politically, filling institutional voids that arose because

of the government's neglect of favela communities (Nunes Pereira et al., 2017). By denouncing the government's attitude to favelas, Alpha militates in favor of the favelas. It takes a positive, optimistic view of these areas, and tries to improve them.

A recent post on Alpha's Facebook page illustrates this:

'While the State is getting ready to remove the UPP from favelas, and the police is preparing its numerous operations (...), Alpha, as a 100% Favela business creates its own operation to improve lives and diets... we are launching the operation "Health in the plate". (...). The operation aims to improve attitudes towards healthy eating in the communities ...'

Alpha's actions generate six kinds of social value: *social inclusion, emancipation, social and economic betterment in favelas, improved image of the favelas, reduced stigmatization of favela residents, and the establishment of links with other Brazilians.*

Alpha enables social inclusion and emancipates a number of women cooks and deliverymen from favelas, enabling them to participate in the market as employees and become worthy members of society and providing them with status and resources that they did not previously have. As one cook observed, earning an income liberates women from social constraints, specifically dependence on their husbands or partners. According to a member of a local association, emancipation through employment provides favela women with self-confidence and inner strength.

Alpha contributes to social and economic betterment of favelas. Indeed, Alpha's management team is very much present in the public life of the favelas. They lecture on two main topics: healthy eating and social businesses. They also teach the favela people about the importance of hygiene and sanitation. Women cooks are trained to prepare food under strict sanitary rules. The effect of all this is to make favela people more aware of the importance of sanitation, hygiene, healthy eating, and women's autonomy through work and entrepreneurship. Questioned about Alpha's social role in favelas, Thiago argues:

'Alpha was created as public utility tool. [...] We focus on marginalized people (especially women) by promoting access to healthier food and nutrition education, and by enabling the beneficiaries to develop their own businesses producing and distributing healthy food at affordable prices in their communities. [...] we have taken adolescents out of risk situations, such as organized crime, and given them jobs'.

Alpha also works with local government on helping local people, thus contributing to the betterment of favelas.

'We are also working with the local government to explain to them how they can help people grow, develop, and become part of the economy. There is a lot of untapped potential in the communities [...]'. (member of the management team)

Social organizations working for and in the favelas also view Alpha's action in the communities as positive.

'It is good that people in the community interact with businesses. Of course, educational institutions and the Church are present in the communities, but entrepreneurs also transform lives and change communities. They help educate people about business, about entrepreneurship. I am delighted when I see people like Alpha invest in new projects'. (member of a local NPO)

Alpha contributes to improve the image of the favelas and reduce the stigmatization and prejudice favela communities suffer from (Gay, 2012; Lacerda, 2015). Alpha establishes links between 'the hill' (most favelas are built on hills) and 'the asphalt' (Valladares, 2016), that is, the wealthier urban neighborhoods, bridging the gap between favelas and other parts of the cities, creating links by selling salads in richer city areas. Alpha's products are consumed in co-working spaces and offices in high-end city zones, and the deliverymen from favelas have regular direct contact with other citizens. By consuming favela products and by dealing directly with favela dwellers, people from wealthier neighborhoods learn that they should not stigmatize such people as criminals, as they frequently do. As illustrated above, some favela dwellers have found job opportunities in richer areas thanks to the contact with people from these areas enabled by Alpha. By multiplying opportunities for direct contact with other population groups, Alpha reduces stigmatization, improves the image of the favelas, and builds relationships between favelas and other areas. Alpha also communicates via different media (television, radio, press, social media), drawing attention to favelas and bringing favelas closer to other Brazilians. By using multiple tools to portray favelas as dynamic, entrepreneurial, creative places, Alpha fights prejudice and improves the image of favelas in Brazil and worldwide. Alpha has become a role model for social entrepreneurship in favelas, and its work has been recognized by both Brazilian and international organizations.

DISCUSSION

In the previous section, we showed how Alpha's business model operates and detailed the social value it creates and its impact on institutional voids. In this discussion section we will bring the insights from our findings together and establish the missing links. That is, we will uncover the mechanisms through which the venture's innovative business model creates social value and acts on institutional voids. Building on our empirical findings, we will first model the relationships between Alpha's business model and its action on institutional voids and social value creation. We will then further conceptualize these relationships to generate more abstract, theoretical explanations, theorizing the mechanisms through which innovative social business models generate social and institutional change in local communities in emerging economies.

Mechanisms Linking Alpha's Innovative Business Model, Institutional Voids, and Social Value Creation

To tackle institutional voids, social businesses leverage novel (innovative) configurations of the business model to ensure they are both socially useful and economically sustainable. The case analyzed in this paper provides interesting insights into the unique business model of a social business in an emerging economy. The fact that the Alpha project benefitted from a three-month incubation program with Yunus Negócios Sociais, which has longstanding expertise in building social ventures, is one clear reason for the venture's highly innovative business model. As Yunus et al. (2010) argue, the Yunus group's lengthy experience has given it crucial insights into business model innovation, which certainly helped develop the Alpha business venture.

Several features of Alpha's business model are innovative. The most important of these is undoubtedly its unique *franchising system*, positioning favela inhabitants at the heart of the business model as active participants and the driving force of the business. In their examination of business model innovation, Spiess-Knafl et al. (2015) suggest that *inclusive production* is one type of business model innovation in social business ventures (alongside cheap sourcing, smart distribution, smart pricing, opportunity creation, and ecosystem engineering). Inclusive production involves social business ventures employing marginalized people. Alpha has just this type of innovative business model, as it employs favela dwellers. A close examination of the business model reveals the *connectivity* between the different components and actors. The local, *territorial (favela) dimension* is a salient feature of the business model, giving the business a strong 'favela identity'. The notion of 'favela' or community is an integral part of every component of the business model: many customers are favela residents, the value proposition is based on involving favela people, the value chain and linkages are embedded in the favelas, and the franchisees who earn revenues from the salad sales are also favela residents.

With its innovative business model Alpha impacts all three kinds of institutional voids; it improves the favelas' market functioning (with improved local services and new market links between favela people), it improves market development (with the development of the local business ecosystem, new services, and investment), and, most importantly, it enables market participation (with jobs, women entrepreneurs, and the inclusion of marginalized people in the market).

We argue that Alpha's business model triggers six mechanisms that make these impacts on institutional voids possible: orchestrating business networks, developing business networks, conferring legitimacy, upgrading skills, assigning different roles to favela residents, and empowering them.

Orchestrating business networks in favelas. Alpha's business model involves the development of an entire value chain in favelas. This value chain includes favela farmers, favela product inputs (fruit and vegetables), favela cooks, and favela delivery men.

Thus, the value chain includes favela residents, both those directly involved in the business and those operating around it. Alpha connects these different market participants together and brokers between them. This is exemplified in its value chain, which is entirely embedded in favelas. By orchestrating business networks in favelas, Alpha improves market functioning in favelas.

Developing business networks in favelas. By involving more actors and expanding its business networks with new suppliers (local farmers) for example, by designing new services in favelas – for example, new types of subscription or ways to order salads – Alpha develops business networks in favelas, thus improving market development there.

Alpha enables market participation through different mechanisms. First, it considers favela dwellers worthy of market participation and believes in their capacities and potential, thus *conferring legitimacy* on them as market participants (favela residents feature in every component of Alpha's business model). Second, to improve market participation, Alpha *upgrades the skills* of favela people (training women cooks, educating favela people in nutrition, healthy diet and sanitation). The third mechanism encouraging market participation is *assigning different roles* to favela people (they make the product, deliver it, run the franchises, etc.). Lastly, Alpha enables market participation by *empowering* favela people, that is, by giving them responsibility.

Through these last four mechanisms, Alpha also creates social value, as favela residents are emancipated and socially included, and, more generally, favelas' overall conditions improve. In addition to these four mechanisms, we have identified two additional mechanisms through which Alpha creates social value. The first is *building a positive favela image*, which destigmatizes favela people. The stigmatization of those from deprived, socially challenging environments with entangled social problems such as unemployment, organized crime and insecurity, is a frequent phenomenon in socially unequal economies. This can be observed in urban Brazil, where favelas are often regarded as unsafe (Lacerda, 2015). Rio de Janeiro has thus been described as a 'divided' or 'broken' city (Jovchelovitch & Priego-Hernández, 2013; Lacerda, 2015). As Wacquant (2007) puts it, favela stigmatization can be considered 'territorial stigmatization'. Businesses operating in such areas have the vocation and legitimacy to oppose such phenomena (Fernandes et al., 2019), and this is exactly what Alpha does. Consumers may have a negative image of favelas (with their high crime rates, drug dealing, and insecurity), but because Alpha's positioning is 'healthy, affordable-priced local food', and because it showcases the capacities and potential of favela inhabitants, the firm's positive social aims help to overcome this negative image.

The second additional mechanism through which Alpha's business model creates social value is *connecting favela people with other Brazilians*. Alpha targets customers in rich city areas, actively linking favelas with these city areas, promotes social

favela businesses in the media, all of which results in the establishment of links between favelas and other areas in Brazil.

Theoretical Model Linking Innovative Social Business Models, Institutional Voids, and Social Value Creation

The Alpha case study provides unique insights into how a grassroots innovative social business tackles institutional voids and creates social value. Building on these insights, we can provide a more general conceptualization and develop a theoretical model, theorizing mechanisms that link social business models with institutional voids and social value creation. Our theoretical model is depicted in [Figure 1](#).

An innovative social business model, developed and deployed by grassroots social businesses in deprived areas, includes marginalized, socially excluded groups in all of its facets. With regard to customer identification, an innovative social business model defines its target segments using both economic and social rationales. It targets both marginalized groups and other customer segments, to ensure economic sustainability. It is therefore a double-sided, or even multi-sided business model. Scholars have stressed that targeting socially-excluded groups is a distinctive feature of social businesses (Alvord et al., 2004; Mair & Schoen, 2007; Sanchez & Ricart, 2010), but have not sufficiently explored how business models target both marginalized and well-off customers, and how they manage to target different customer types simultaneously. We argue that targeting both marginalized and wealthier customer segments provides not only economic, but also social benefits – we will come back to this idea later on.

Innovative social business models place marginalized groups at the heart of their value proposition. If needed, they train such groups to generate appropriate customer engagement (or value proposition). Such models embed their value chain and linkages in the local area, enabling the community to propose value to customers without calling on outside actors. As pointed out by Sanchez and Ricart (2010), *local supply chains* are a way of developing innovative business models in low-income markets. Finally, with regard to monetization, marginalized groups should both receive a share of the profits and be able to purchase the product. This entails applying affordable pricing for these customers.

The insights from Alpha case suggest that innovative business models impact all three kinds of institutional voids: those that hamper market functioning, those that hamper market development, and those that impede market participation.

We argue that six mechanisms make such an impact possible. We label the first of these mechanisms, which improves market functioning, *orchestrating local business networks*. When social businesses orchestrate local networks, they smooth out market transactions, increase their speed, and create the services needed to make the market function better. We label the second mechanism, which improves market development, *developing local business networks*. When local business networks

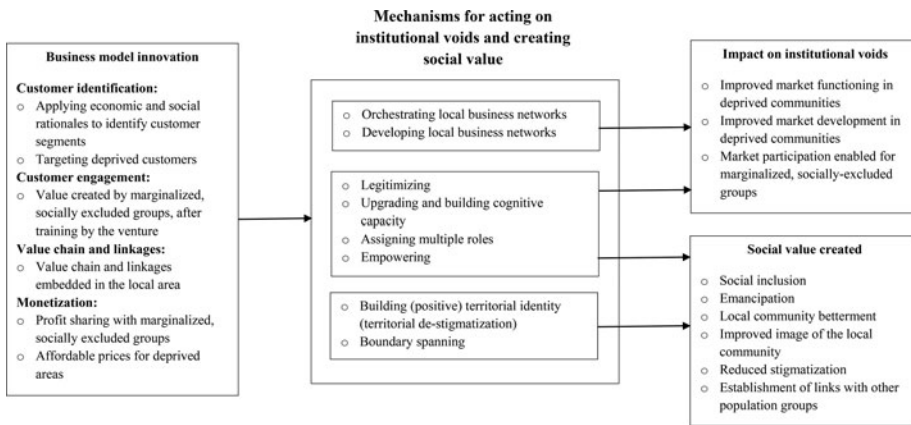


Figure 1. Theoretical model of mechanisms through which the deployment of an innovative business model by a grass-roots social business acts on institutional voids and creates social value in emerging economies

expand, this develops the market significantly; new products and services are offered, and new customers reached. The remaining four mechanisms act on the third type of institutional voids, enabling market participation. First, *legitimizing* marginalized groups leads to social inclusion and facilitates market participation. According to institutional theory, actors can only participate in markets if they are perceived as legitimate. Legitimizing new market actors has been identified as an important way to overcome institutional voids that impede market participation (Mair et al., 2012). By involving marginalized groups in the business model, a social business venture provides them with this much needed legitimacy. Second, *upgrading and building cognitive capacity* of deprived community members prepares and enables them to participate in the market. It provides them with necessary skills and knowledge. Third, *assigning multiple roles* is another way to increase market participation by deprived community members. Marginalized groups become both customers and value-chain actors; they generate and deliver value for the customer, run the business, etc. Last, social business ventures use *empowering* as a mechanism to improve market participation. Empowering means giving responsibility to marginalized groups, and this responsibility makes them proactive market participants.

As in the contextualized model we developed for Alpha, the four mechanisms that improve market participation (*legitimizing*, *upgrading and building cognitive capacity*, *assigning multiple roles*, and *empowering*) also create social value. More precisely, these mechanisms result in the emancipation of local community members (for example, women's emancipation through entrepreneurship), social inclusion, and local community betterment. Alongside these four mechanisms, social business models create social value through two additional mechanisms. The first of these is *building (positive) territorial identity*, or *territorial de-stigmatization* (as opposed to territorial stigmatization as identified by Waquant (2007)). Indeed, de-stigmatization is an

important mechanism that benefits poor, marginalized communities marked by entangled social problems. By de-stigmatizing these communities, innovative social businesses free them from an often stereotypical, negative image. The last mechanism that we theorize is *boundary spanning*. This occurs when a social business venture targets both deprived and ‘ordinary’ customer segments, and when participants in the business model get the opportunity to connect with other citizens. This also means reaching out beyond the boundaries of local, marginalized communities. Boundary spanning results in the establishment of links between the marginalized and other population groups, which creates social value in itself.

Looking closer at the mechanisms through which innovative social business models act – the black box that we have opened and decrypted – we see that four of these mechanisms have dual functions: to tackle institutional voids and to create social value. We can regard these as the core mechanisms enabling a social business venture in an emerging economy to accomplish its mission. In addition to this set of ‘core’ mechanisms, two others act on institutional voids but not on social value creation, while two others create social value but do not act on institutional voids, at least not directly or in the short term. Future research could investigate the eight mechanisms that we have uncovered in greater detail, to establish whether some of them are always present and active, whether there is a hierarchy among them, whether they act in combination, and how.

CONCLUSION

In this research, we have investigated how grassroots social businesses deploy their business models to overcome institutional voids and create social value. We contribute to theory by developing a model and by theorizing the mechanisms that enable social businesses to mitigate the negative impact of institutional voids and to create social value. We also advance understanding of social entrepreneurship in emerging economies. Methodologically, our contribution relies on combining insights from existing research and contextualized explanations to build a theoretical model highlighting the impact of social entrepreneurship.

Despite these contributions, our study has limitations. First, the case examined in this research is unique, as it was nurtured in the Yunus Negócios Sociais incubator. While we chose the Alpha venture for its strong potential to contribute to theory, we realize that our case study might not be representative of all social businesses operating in emerging economies. Future research could investigate social businesses that emerge through effectual (Saravathy, 2001) or bricolage (Baker & Nelson, 2005) approaches, rather than through the planned approach followed by Alpha. Secondly, our empirical investigation is limited to a single emerging economy – Brazil. A comparative approach could generate richer insights.

While we acknowledge the limitations of our study, we also believe that the mechanisms we have identified reveal some of the inner workings of social business innovation in emerging economies. We believe that our findings have significant

managerial and policy implications, both for social entrepreneurs and for organizations that support social entrepreneurship, such as government agencies, NGOs, and incubators. First, we suggest a set of features that make social business models innovative. The insights from our research could serve as a role model providing guidance on how social businesses could design their activities. We also identify potential and desirable outcomes of social ventures, which can guide strategic thinking when developing such ventures. Finally, our findings provide insights for organizations supporting social entrepreneurship, because they indicate how such organizations can help social entrepreneurs design their business models to shape institutions and create social value.

NOTES

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[1] We have changed names to preserve the anonymity of our respondents.

[2] Our favela respondents refer to favelas as communities. To reflect their language, we use the terms community and favela interchangeably.

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Ana Colovic (ana.colovic@neoma-bs.fr) is Professor of Strategy and Entrepreneurship at NEOMA Business School. Her research interests include business models, social entrepreneurship, industrial clusters, and innovation policy. She has held several visiting research positions in the UK, the USA, and Japan. She has published a book *Les réseaux des PME dans les districts industriels au Japon* (L'Harmattan, Paris, 2010) and articles in academic journals, such as *Entrepreneurship & Regional Development*, *Journal of Business Research*, and *Journal of World Business*.

Marion Schruoffeneger (marion.schruoffeneger@gmail.com) holds a Masters in Management (Specialization in Entrepreneurship) from NEOMA Business School. Her various professional experiences in the field of social entrepreneurship in Brazil, Burkina Faso, Senegal, and South Africa have convinced her of the capacity of organizations of all sizes to take concrete action to address social and environmental issues. She is currently the Head of Development & Partnerships at IT4LIFE (Dakar, Senegal), a social enterprise providing digital services to NGOs, community organizations, and social enterprises.

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