Review

Sustainable business models for inclusive growth: Towards a conceptual foundation of inclusive business

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ABSTRACT

The Post-2015 Development Agenda envisions a global economy with enlarged opportunities for low-income groups. Businesses are accordingly challenged to become more inclusive. What this involves in practice is anything but clear, however. This partly stems from weak and inconsistent conceptualizations of ‘inclusive businesses’ and their business models. Because development actors and academics generally offer conflicting and value-laden interpretations of these concepts, an unambiguous and theoretically grounded perspective on business inclusivity is sorely lacking. This article attempts to move the needle on extant inclusive business discourse by delineating, conceptually, what it means to be(come) an inclusive business. By drawing on the rich literature on inclusive growth, sustainable business models, social enterprise and hybrid organizations, it offers revised definitions of inclusive businesses and inclusive business models. The article argues, amongst others, that inclusive businesses necessarily prioritize value creation over value capture and should be judged based on the net value they create for ‘income-constrained’ groups. It furthermore proposes how the boundaries of entrepreneurial responsibility can be delimitated, with implications for how sustainable business models more generally should be designed.

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1. Introduction

Traditional efforts to address the root causes of social and economic marginalization have scarcely disrupted patterns of persistent poverty and inequality (Ranieri and Ramos, 2013; Schoneveld and Zoomers, 2015), with market, government and civil society failures in many developing countries remaining unresolved (Mendoza and Thelen, 2008). Recognizing the limits of what public intervention can achieve in the post-liberalization era, many governments and development agencies are beginning to challenge the private sector to contribute more proactively towards solutions to these failures. This is clearly manifested in the Post-2015 Development Agenda from which the Sustainable Development Goals (SDG) emerged. In this Agenda, businesses, governments and civil society organizations are considered equally responsible for a sustainable path forward (Scheyvens et al., 2016). The reframing of business as a driver of inequality into a development agent is premised on the assumption that (1) businesses can more efficiently and effectively leverage resources and expertise to deliver on their goals and (2) corporate profit and corporate social goals can be complementary (Porter and Kramer, 2011; van Westen et al., 2019). The latter assumption garnered significant attention in the 1990s, germinating into a large body of evidence that suggests there certainly is a viable business case for being socially responsible (Orlitzky et al., 2003; Prahalad and Hart, 2002) went further to suggest that low-income markets can be sources of significant wealth. By suggesting that serving the consumptive needs of the elements of its business model (Schaltegger et al., 2016). For businesses to own their role as development agents and invest in providing durable solutions to the poor, sustainability objectives need to be at the core of how a business does business — like social businesses such as Grameen. In other words, sustainability objectives should permeate all critical elements of its business model (Schaltegger et al., 2016).

Most major bilateral and multilateral organizations have firmly embraced this notion; especially, inclusive business (IB) and its corollary inclusive business models (IBM). In popular use these concepts tend to denote commercially viable businesses that provide low-income groups with opportunities to productively engage in the economy (IFC, 2018; ADB, 2020). Where Prahalad and Hart (2002) largely depicts low-income groups as consumers, in most IBM definitions, low-income groups are also regarded as active participants in economic sectors. This emanates from notions of inclusivity that feature prominently in the agenda for the SDGs and contemporary development discourse more generally (Gupta and Vegelin, 2016). As economic growth in recent decades failed to produce the much-anticipated trickle-down effects, reducing societal inequalities began to be seen as instrumental to sustainable economic growth (Ianchovichina and Lundstrom, 2009). This not only means that modern growth strategies should seek to share benefits more equally, but that opportunities for participating in and contributing to economic growth should also be enlarged (Klasen, 2010; Ranieri and Ramos, 2013). Since IB(M)s seek to provide such opportunities and contribute to resolving especially market failures, theoretically, they are well placed to contribute to inclusive growth and a number of SDGs.

Despite this, there are few concepts in the field of international development (studies) as misused and under-conceptualized as IBMs and IBs. Even though these concepts increasingly feature in development strategies and academic discourse, they are inconsistently defined and ambiguously used. Consequently, research and development policies are generally informed by competing, normative and subjective understandings of what be(com)ing an IB means and involves. This undermines the veracity and comparability of effectiveness studies and results in poorly aligned private sector engagement strategies. What businesses and their partners need to do in order to contribute more meaningfully to inclusive growth is therefore anything but clear. To stimulate the types of business model innovations needed to deliver on the Post-2015 Development Agenda, a consensual and unambiguous perspective on IB(M) needs to first emerge.

This article aims to establish a much-needed conceptual foundation of IBs and their business models. It does this by critically reviewing and positioning IB(M)s within various strands of literature; ranging from inclusive growth and inclusive development to sustainable business models (SBM), social enterprise and hybrid organizations. New definitions of these two concepts are subsequently proposed, along with a more univocal delineation of their conceptual boundaries. In doing so, this conceptual contribution not only hopes to inspire intellectual debate, but also to facilitate methods development and the type of empirical inquiry that can contribute to further theoretical grounding and inform IB(M) development and innovation in practice.

The following section examines the evolution of IB(M) discourse and unresolved conceptual ambiguities. The article proceeds with a brief review of SBM literature, highlighting key constructs and
themes pertinent to an IB(M) conceptualization. The section that follows provides a revised definition of IBM by critically exploring three questions central to inclusive growth and development discourse that are only superficially treated in mainstream conceptualizations, namely (1) inclusiveness towards what? (2) inclusiveness of whom? and (3) inclusiveness in what? The article subsequently builds on social enterprise literature and the putative notion that inclusivity both denotes a process and an outcome to propose a revised definition of IB. It concludes with a reflection on IB(M) research priorities.

2. Background

2.1. The genesis of the inclusive business concept

With its roots in development policy of the early 2000s, inclusiveness began to be used to qualify the pro-poor growth agenda that emerged from rising concerns over the distributional effects of global economic growth dynamics (Kakwani and Pernia, 2000). Resonating with the development community, over the 2010s, inclusive growth quickly developed into a standalone and widely applied development concept that became one of the pillars of the Post-2015 Development Agenda (Scheyvens et al., 2016). Despite ideological differences around the intended distributional outcomes of growth and disagreements on metrics standing in the way of a consensual definition, one commonly shared perspective is that inclusive growth is distinguishable from pro-poor growth by emphasizing both the process and the outcome of growth (Ranieri and Ramos, 2013; Schoneveld and Zoomers, 2015). Where pro-poor growth is focused primarily on reducing poverty and inequality, inclusive growth also explicitly emphasizes productive participation in growth through nondiscriminatory and disadvantage-reducing access to opportunity (Klasen, 2010; Ranieri and Ramos, 2013). While not excluding any particular group, the benefits of inclusive growth accrue especially with disadvantaged groups (Klasen, 2010). Such benefits can materialize through the creation and expansion of economic opportunities for disadvantaged groups, as well as by enabling productivity growth (Bhalla, 2007).

The inclusive development concept emerged largely as a countervailing narrative to the more income-focused inclusive growth discourse. While some view inclusive development as a mere extension of inclusive growth to non-income dimensions (Klasen, 2010; McKinley, 2010), an active epistemic community questioning the ‘neo-liberal capitalist approaches’ underpinning not only inclusive growth but also sustainable development and the SDGs emerged in recent years (Hickey et al., 2015; Gupta and Vegelin, 2016). Inspired by principles of social and environmental justice, the emerging inclusive development discourse is premised on the supposition that in order to effectively balance trade-offs between economic growth and (multi-dimensional) wellbeing and/or the environment, economic growth will need to be de-emphasized (Gupta et al., 2015). While similarly adopting a dual process-outcome perspective of inclusiveness — albeit focused more on participation in decision making and governance processes than in the economy — a more encompassing definition of inclusiveness was proposed, which not only incorporates principles of social inclusiveness, but also ecological and relational inclusiveness (Gupta and Vegelin, 2016).

The genesis of the IB concept is similar to that of inclusive growth. Often inspired by and drawing on the work from Prahalad and Hart, it emerged from a similar notion that underpins inclusive growth, namely that economic and development objectives can be complementary because of the commercial opportunities that can be exploited from actively engaging and/or serving the ‘bottom of the pyramid’ (BoP). While the business community readily embraced a BoP and shared value narrative and associated double/triple bottom line approaches, the development community aligned itself more closely with inclusive growth and the SDGs. This inspired the development of the IB concept, as one of the possible solutions to especially market failures that frustrate meaningful engagement of low-income groups in the economy.

2.2. Mainstream definitions and conceptual ambiguities

A consensual and operationalizable definition of IB is yet to emerge, however. Nevertheless, a review of commonly employed definitions does reveal two differentiating and generally agreed upon principles (see Table 1 for an overview of some of these definitions). Firstly, more recent IB definitions from G20 (2015), IFC (2018) and ADB (2020) emphasize how activities/operations contributing to inclusivity should be part of the core business and be commercially viable. This suggests, as the IFC (2018) also makes explicit, that philanthropic or corporate social responsibility (CSR) activities cannot make a business inclusive if these are not integral to the overall business logic. Secondly, most definitions highlight — in line with inclusive growth — how an IB integrates people and/or communities that are poor, low income, at the BoP and/or disadvantaged into the supply and/or demand-side of the value chain. Although this differs from Prahalad and Hart (2002) more consumer-oriented perspective, some definitions suggest that a business can still be deemed inclusive if it only serves poor consumers.

These principles leave a wide latitude for interpretation. For example, when are activities part of a core business; what is meant precisely by the target groups; is a business still inclusive if it includes some but not all (that wish to be included) into the value chain? Perhaps most significantly, do the outcomes of inclusion matter or is ‘integration’ an ends in itself? Different IB proponents offer different perspectives. For example, UNDP (2010), SNV/WBCSD (2011) and FAO (2015) adopt more outcome-oriented perspectives by suggesting that IBs are those that create ‘mutual benefit’ for the poor and the business. The concept of mutual benefit is however exceedingly ambiguous and based on contested win-win assumptions. It also neglects to consider how risks and costs are to be distributed. The reference by ADB (2020) to ‘high development impacts’ is similarly ambiguous. Definitions from the other organizations listed in Table 1 fail to ascribe any outcome responsibilities to IBs; arguably reflecting the interests of their constituencies and/or their role as IB financiers. When any business that engages the poor can be deemed ‘inclusive’ even when they fail to be socially impactful, the concept arguably risks being deprived of meaning.

Where inclusive development and to a lesser extent inclusive growth discourse is typically framed around delivering improved income, wellbeing and societal equality, many development organizations are clearly avoiding IB definitions with operationalizable outcome targets that could facilitate independent monitoring of IBs and enhance corporate accountability to intended beneficiaries. FAO (2015) — in reference to IBs in agriculture — however does claim that for a business to be “considered inclusive, it ultimately needs to result in moving smallholders out of poverty and improving food security” (p. 4). While more in the spirit of inclusive development discourse, in general few development organizations promoting IB embrace the normative principles of inclusive development. Even though this is unsurprising given the innate tension between business development and anti-growth narratives, in the age of the Anthropocene and the SDGs it is surprising that mainstream definitions systematically ignore issues pertinent to, for example, environmental inclusiveness, supply chain sustainability, climate resilience and sustainable value creation. This is arguably a remnant of IB’s inclusive growth roots.
### Table 1

<table>
<thead>
<tr>
<th>Source</th>
<th>Definition</th>
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<tbody>
<tr>
<td>UNDP (2010)</td>
<td>Inclusive business models include the poor on the demand side as clients and customers, and on the supply side as employees, producers and business owners at various points in the value chain. They build bridges between business and the poor for mutual benefit.</td>
</tr>
<tr>
<td>SNV and WBCSD (2011)</td>
<td>An economically profitable, environmentally and socially responsible entrepreneurial initiative, which integrates low-income communities in its value chain for the mutual benefit of both the company and the community.</td>
</tr>
<tr>
<td>FAO (2015)</td>
<td>Inclusive business models promote the integration of smallholders into markets, with the underlying principle that there are mutual benefits for poor farmers and the business community.</td>
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<tr>
<td>G20 (2015)</td>
<td>Inclusive businesses provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people at the “base of the economic pyramid,” making them part of the value chain of companies’ core business as suppliers, distributors, retailers, or customers.</td>
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<tr>
<td>Chamberlain and Anseeuw (2017)</td>
<td>An IB is a profit-orientated partnership between a commercial agribusiness and low-income communities or individuals, in which the low-income community or individual is integrated in the commercial agricultural supply chain as a supplier of land, produce or value-sharing employment with a particular aim to develop its beneficiaries.</td>
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<tr>
<td>IFC (2018)</td>
<td>Inclusive business models are those which integrate low-income consumers, suppliers, retailers or distributors in their core business operations, on a commercially viable basis. By adopting the models, companies build the capacity of low-income farmers and entrepreneurs; increase access to finance for suppliers and consumers; create or adapt products to meet local needs and requirements; and develop innovative distribution approaches to hard-to-reach communities.</td>
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<td>ADB (2020)</td>
<td>A business entity that generates high development impact by (i) improving access to goods and services for the base-of-the-pyramid population (i.e., low-income people); and/or (ii) providing income and/or employment opportunities to low-income people as producers, suppliers, distributors, employers, and/or employees. An inclusive business must be commercially viable.</td>
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### 2.3. The (sustainable) business model perspective

IB proponents and even academics often equate the business with its business model and/or adopt definitions of IBM that are undifferentiable from IB definitions. Because of this conflation, the previous section and Table 1 drew on both definitions. A clear conceptual and analytical distinction between a business and its business model is however necessary and urgently needed since what constitutes inclusion in the context of a business entity is different from inclusion in the context of a business model, with the latter offering much needed granularity. While Teece (2010) contends that “the concept of a business model has no established theoretical grounding in economics or in business studies” and is similarly subject to inconsistent conceptualization, it has since the 1990s become a topic of considerable critical inquiry and advancement.

A business model is commonly depicted as comprising the building blocks for executing a business strategy and is in itself not a strategy, but rather the product of a strategy (Casadesus-Masanell and Ricart, 2010). Sometimes framed as an intermediary construct between strategy and implementation, a business model can simply be seen as a holistic system-level description, conceptual framework or representation of ‘how a firm does business’ (Richardson, 2008; Beattie and Smith, 2013; Teece, 2010; Geissdoerfer et al., 2018). Value plays a central role in that (Evans et al., 2017; Geissdoerfer et al., 2018). Most definitions draw on Richardson (2008), who posits that a business model can be understood by three key elements, namely (1) value proposition; (2) value creation and delivery; and (3) value capture. Traditionally, the value proposition describes what value is provided to which customers and the basic strategy for attracting these customers and creating a competitive advantage (Richardson, 2008; Bocken et al., 2014). The value creation and delivery element in turn details the organization and architecture of the firm and defines the source of competitive advantage and the activities and partnerships that enable it to deliver the value proposition (Richardson, 2008; Aagaard, 2018). Finally, the value capture element explains how the firm will generate revenues and profits from its value proposition, accounting for its revenue stream, costs structure and growth strategy (Richardson, 2008; Bocken et al., 2014).

Given their strong customer and economic value orientation, frameworks such as these have, however, been widely criticized for their narrow conceptualization of value (Upward and Jones, 2016; Evans et al., 2017). While the concept of IBM did not emerge from this, it did give rise to a dynamic body of literature on SBMs. Most definitions offered in this literature adopt more holistic perspectives on value and the firm stakeholders. This has led to a reframing of value as shareholder-oriented profit maximization into one where the natural environment and society are also considered stakeholders in a firm’s business model and sources and targets of value creation (Hart et al., 2003; Schaltegger et al., 2016; Evans et al., 2017; Aagaard, 2018). Sustainable value principles (e.g. environmental, social and economic value) are thus fully integrated into all three business model elements. This implies that sustainability is at the heart of the business model’s value proposition, sustainable value is created and delivered to stakeholders and is transformed into economic value for the firm and its shareholders (Aagaard, 2018; Geissdoerfer et al., 2018). One well-accepted definition has been proposed by Schaltegger et al. (2016): an SBM “helps describing, analyzing, managing, and communicating (i) a company’s sustainable value proposition to its customers, and all other stakeholders, (ii) how it creates and delivers this value, (iii) and how it captures economic value while maintaining or regenerating natural, social, and economic capital beyond its organizational boundaries” (p. 6).

The business model literature provides a number of critical insights to further guide the development, analysis and interpretation of business models that integrate sustainable value principles. Firstly, business models function as a tool to gain and effectively exploit a sustainable competitive advantage (Richardson, 2008; Teece, 2010). That implies that they articulate how both tangible and intangible resources and capabilities are leveraged within its value creation and delivery system to ensure a superior long-term position over competitors that cannot be eroded or imitated over time. Secondly, sustaining a competitive advantage and maximizing sustainable value creation demands ongoing SBM innovation. While SBMs can be a vehicle for technological, social and organizational innovation (Schaltegger et al., 2012; Boons and Lüdeke-Freund, 2013), SBMs themselves need to be continuously adjusted, improved, redesigned and/or re-created to remain legitimate and relevant as political and economic contexts change, societal and environmental needs and demands evolve and new opportunities for creating (further) sustainable value are identified (Girotra and Netessine, 2013; Evans et al., 2017). This points to the dynamic nature of especially SBMs.
Thirdly, the literature on business models, but especially SBMs, emphasize how business models extend beyond the business entity (Beattie and Smith, 2013). For particularly SBMs, the business typically lacks the necessary resources and/or capabilities to create sustainable value alone (London and Hart, 2004). Impactful SBMs therefore multi-stakeholder management, involving both informal and formal forms of collaboration with parties in and outside the value chain (e.g. government, service providers, civil society) around a common goal (Bocken et al., 2014; Evans et al., 2017; Geissdoerfer et al., 2018). Central to most business model conceptualizations is therefore the concept of the ‘value network’, which can be viewed as the manifestation of the value creation and delivery system. It is often defined as a “set of roles and interactions in which people engage in both tangible and intangible exchanges to achieve economic or social good” (Allee, 2008, p. 6). Value networks are thus composed of activity-focused relations, with structures and processes, that enable it to leverage the resources and capabilities contained in the network to convert these into value for its stakeholders (Richardson, 2008; Den Ouden, 2012).

3. The business model of an inclusive business

3.1. Inclusive business models as sustainable business models

Existing literature on IBMs typically adopt one of the definitions in Table 1, without critically examining actual business models or questioning conceptual ambiguity and inconsistency. As a result, the concept is widely misused and become to denote something else entirely. For example, Sopov et al. (2014) develop a typology of IBMs in agriculture that includes such ‘models’ as the ‘centralized model’. This involves a company providing “support to smallholder production, purchases the crop, and then processes it, closely controlling its quality” (p. 9). Vermeulen and Cotula (2010) similarly present contract farming and business joint ventures with farmers as types of IBMs (see also Kelly, 2015; World Bank and UNCTAD (e.g. using only the latter’s acronyms)). Ostensibly, they conflate the system of production and supply with the business model. Seemingly, much of the IBM literature uses the concept in the same way. The prevalence of this sort of framing has reduced IBM research to the study of production systems involving small-scale producers; thereby neglecting to operationalize and critically interrogate key business model constructs. Undeniably, a business’ value creation and capture system cannot simply be read off from the way it organizes exchanges with small-scale producers. Moreover, in failing to adequately embed and position IBM discourse in the rich body of literature on SBMs, IBM proponents and researchers limit their ability to communicate across and adopt learnings from other disciplines and develop the necessary empirical evidence base that can support actual business model innovation. Because the emerging IBM field is firmly rooted in the field of strategic management, it is better placed to support innovation in the business community. Furthermore, as will be argued in the following sections, firms that organize production through small-scale producers are not necessarily inclusive, nor are their business models. While including small-scale producers is certainly an important component of an IBM, designing an IBM and leveraging that IBM effectively to become an IB is much more involving. What this involves in practice is a field upon itself, but begins with conceptual clarity.

Critical examination of the IBM literature suggests that an IBM can easily be viewed as a type of SBM; albeit one that – as popularly conceptualized - emphasizes social and de-emphasizes environmental value creation. Lüdeke-Freund et al. (2016), drawing on the original conceptualization of Bocken et al. (2014), for example, identified nine SBM archetypes, defined by their dominant innovation orientation. These archetypes are grouped into three core impact areas that are the target of innovation, namely environmental, social and economic (Boons and Lüdeke-Freund, 2013). Depending on the value proposition of the IBM, most if not all IBMs fit within archetypes contained within the latter two groups; specifically, the ‘stewardship’ and ‘repurposing for society and environment’ archetypes. There is therefore a compelling case for consolidating conceptualizations and for the development community and academics to abandon the IBM concept, given its persistent misuse, in favor of SBM or one or more of its archetypes. Since the SBM conceptualization is more encompassing of environmental concerns, doing so is arguably also more in keeping with the demands of the global climate crisis and the SDGs. This is unlikely to gain traction amongst development practitioners and policy makers already fully committed to the IB(M) narrative, however.

Another pathway to deepening the IB(M) discourse and sharpening its analytical focus is by resolving outstanding conceptual ambiguity and building more deliberately on the rich IBM literature. Before offering a new definition, the next three sub-sections first explore three critical questions that should be answered in order to develop a more conceptually delineated definition of IBM. Specifically, we consider: (1) inclusiveness towards what; (2) inclusiveness of whom; and (3) inclusiveness in what? Accepting that inclusivity both denotes an outcome and a process, the first question pertains to the IBM ‘ends’ objective and the latter two to the inclusiveness ‘means’ objective.

3.2. Inclusiveness towards what?

3.2.1. Creating value through solutions to neglected problems

In practice, few businesses engaging low-income groups can reasonably be expected to enhance all types of inclusiveness. Instead, they typically aim to provide an utility-enhancing solution that responds to a specific business opportunity associated with a specific neglected problem affecting a specific stakeholder group. Problems that are primarily within the remit of IBMs are generally market failures. By means of illustration, small farmers producing maize who are unable to produce and market sufficient surplus to monetize on their (labor allocated to) cultivation activities due to poor access to improved seeds and fertilizers and high transportation costs to distant markets are confronted by a neglected problem. A business may, for example, consider this an opportunity for value creation and capture by looking to resolve some of the market failures that impact maize farmers (e.g. inadequate availability and access to inputs and markets and imperfect information on pricing). It then designs a business model that involves creating value by collaborating with a local civil society organization to form farmer groups (thereby, perhaps inadvertently, also helping address civil society failures), which it supplies improved seeds and fertilizers on credit. The farmer groups distribute these to its members and bulk their surplus through local collection centers. The business then agrees to collect the surplus and pay a fair market price, after deducting costs of inputs provided. This fairly run-of-the-mill agricultural value creation system thus seeks to improve the incomes of small maize farmers by helping raise
smallholder productivity and improve market access. It therefore
aims to contribute to some but not all dimensions of social and
relational inclusiveness, but few if any dimensions of environ-
mental inclusiveness.

While this aspect of the business model can be regarded as in-
clusive by providing solutions to neglected problems that generate
utility for marginalized groups, at what point does the value the
business intends to create for its stakeholders constitute inclu-
siveness and at what point does it not? This raises an important, but
very subjective and normative, question about the required depth
and breadth of intended inclusivity outcomes. While the critique
that poverty metrics should account for multi-dimensional well-
being and not be reduced to economic indicators is certainly valid
and important, for the purpose of conceptualizing IBMs, care needs
to be taken not to impose excessively context-specific, normative
and prescriptive boundaries on the concept. This not only inhibits
innovation and subjects the concept to relentless debate and
changing goals posts, but also risks negating the agency of benefi-
ciaries. As others have shown (e.g. Donovan and Poole, 2014;
Schoneveld et al., 2020), the manner in which households build
their capital base and allocate their resources is variegated and
complex. If a business principally aims to create value in the form of
improved household income, that rarely means only financial
wellbeing is enhanced. Additional income can be used to buy
nutritious foods, hire laborers, invest in children’s education and
pay medical bills, just to name a few. Value creation can thus
become a virtuous circle; for example, as improved financial capital
contributes to human capital, which in turn can be transformed
again into social capital or more financial capital. If a business
model seeks to create value in a multitude of different ways, it
could lead to what Garrette and Karnani (2010) term the ‘multiple
objectives trap’, which could compromise the viability of the
business model and force businesses to take on responsibilities
they are incapable of bearing. Being too prescriptive in defining
what type of utility matters to target groups also risks depriving
these groups from choice. Therefore, as long as the IBM intends to
be utility-enhancing for target groups and that utility corresponds
with neglected problems, it should not matter in what form that
utility comes.

3.2.2. Unintended consequences

If we were to conceptualize the IBM as a type of SBM that im-
plies that “natural, social, and economic capital in the least be
maintained beyond organizational boundaries” (Schaltegger et al.,
2016, p. 6). This suggests that an IBM should anticipate and artic-
ulate how it intends to respond to unintended outcomes, including
introducing, where appropriate, safeguards. While unintended
consequences of social actions in complex systems can despite their
inevitability be challenging to anticipate, not all unintended con-
sequences are necessarily unanticipatable (de Zwart, 2015). This is
especially true for direct negative externalities and perverse out-
comes associated with business model implementation; some of
which the business can anticipate ex ante and account for in (initial)
business model design. For instance, in the small maize farmer case,
the business can anticipate that on certain farms, fertilizer run-off
can contribute to pollution of water bodies. This is a direct exter-
nality to solution provisioning, which can be minimized by pro-
moting organic fertilizer use and/or providing targeted trainings on
good fertilizer application practices. Similarly, it can be anticipated
that some farmers are unable to evaluate fully the utility of
participation since they lack the necessary information and fore-
sight to accurately weigh up benefits against risks and opportunity
costs (Wach, 2012). This could result in perverse outcomes as
farmers become locked into debt or marketing commitments they
are unable or unwilling to fulfill. Information provision and
developing appropriate farmer exit options would therefore be
appropriate. More difficult to anticipate are the indirect negative
externalities that may emerge from business model implementa-
tion. For example, households using their additional income to
build their asset base may choose to invest in land, thereby exac-
erbating local land conflicts and pressure on fragile ecosystems, or
alternatively spend it on controlled substances. These reflections
raise an important question about the limits of entrepreneurial
responsibility.

One possible way to differentiate between those unintended
consequences for which a business is and is not accountable is by
applying the theory of change concept of the ‘accountability ceiling’
(Taplin et al., 2013). While typically applied to development pro-
gramming, in articulating how value is created and inputs are
transformed into outputs and outcomes, business models are often
similarly informed by something akin to a theory of change. Within
a theory of change, the accountability ceiling is typically placed at
the juncture between an organization’s sphere of control and in-
fluence and the sphere of interest. Only outcomes arising from
within an organization’s sphere of control and influence are those
it needs to realistically monitor and takes credit for (Tsui et al., 2014).
Direct externalities and perverse outcomes therefore tend to lie
within the sphere of control and influence, while indirect exter-
nalities within the sphere of interest. The business in the above
example can for instance directly control how it provides fertilizers
and seeds to farmers (the inputs in its theory of change) and how
that translates into improved farmer access to and use of these
fertilizers and seeds (the outputs in its theory of change). The
business in turn can influence, but not fully control, how that af-
facts productivity and maize revenues (the intermediate intended
outcome) and the resultant improvements to household income
(the ultimate intended outcome). When unintended consequences
arise within this sphere of control and influence, value is destroyed
‘along the path to value creation’. Conversely, in the case of unin-
tended consequences arising outside the sphere of control and influence,
value is destroyed due to value creation. When value is
destroyed along the path to value creation, the ability of the busi-
ness model to create intended value risks being compromised;
especially in the case of perverse outcomes. Moreover, since a
business can manipulate its activities along the results chain, it can
in the least influence how direct externalities and perverse out-
comes play out. In contrast, the business has little control and in-
fluence over the unintended consequences that arise because it has
created intended value. That is not to say such consequences need
not be monitored or corrective actions need not be taken. A busi-
ness may for example wish to support educational or conservation
initiatives, but it should not be considered non-inclusive for not
playing the role arguably reserved for public agencies and civil
society organizations.

Based on the foregoing reflections, to ensure efficacy and
legitimacy, an IBM should demonstrate how the business intends to
monitor and manage unintended consequences arising along the
path to value creation. This can to varying degrees be established by
the external observer. For example, in situations where a business
model is being implemented and unintended consequences are
observable, the business has had opportunities to respond to both
the anticipated and unanticipated. Therefore, whether the business
model has articulated such mechanisms or has evolved to address
unanticipatables can be ascertained ex post. However, when a
business is in the process of designing an IBM or a business model is
evaluated at conception for its inclusiveness, only those mecha-
nisms for the anticipatable can be identified. While the state of
available evidence should dictate what is realistically anticipatable,
some subjectivity is inevitable in such situations. Regardless, in
articulating how it intends to create value, a business needs to be
informed by a comprehensive theory of change that accounts for anticipatable unintended consequences.

3.3. Inclusiveness of whom?

3.3.1. Low-income, poor, vulnerable and marginalized groups

While productive engagement of low-income, poor, BoP, vulnerable and/or marginalized groups is central to IB, and also inclusive growth and inclusive development, discourse, these concepts tend to be used interchangeably. Since each has a distinctive meaning, the development community generally offers inconsistent perspectives on who IBs should serve. For example, low-income, poor and BoP groups are often defined in simple economic terms. Most countries and development organizations define poor and low-income populations as those with an income below an absolute subsistence minimum. Globally, a poverty line of $1.90 per person day, based on purchasing power parity, is commonly used for low income countries and $3.20 for low to middle income countries. At the national level, governments also often adopt their own national thresholds, using diverse methods. In other countries, relative poverty lines are prioritized; often using a threshold of 50% or 60% the national median income. As a measure of relative deprivation, relative poverty lines are foremost an indicator of equality and social exclusion. In case of the BoP, an absolute threshold of US$ 8.00 per day, also based on purchasing power parity, is commonly employed (IFC, 2007).

Since methods for determining national thresholds differ between and sometimes even within countries, using national or state-specific indicators to identify IB target groups will result in inconsistent targeting. This risks excluding deprived households in certain contexts from opportunity. Moreover, global thresholds in whichever form are widely criticized for being arbitrary, too low and dependent on flawed purchasing power parity calculations that fail to adequately account for differentiated patterns of expenditure and fluctuations over time (Pogge and Reddy, 2006). Consequently, similarly deprived households may be considered poor in one country and non-poor in another.

A consensus definition of vulnerable and marginalized groups has proven to be similarly elusive (Wrigley and Dawson, 2016). These concepts, often used synonymously, roughly refers to groups whose wellbeing is adversely impacted or at risk as a result of their particular status (LeBlanc, 1997; ibid). While different organizations and legal systems define such groups differently, groups with such a status tend to include youth, women, elderly, disabled, racial, ethnic and religious minorities, migrants, unemployed, prisoners, single parents, homeless, farmers and the poor (Chapman and Carbonetti, 2011). Since this list is ever-expanding, “the concept of ‘vulnerability’ ceases to be useful because if everyone is vulnerable, then no one is” (Wrigley and Dawson, 2016, p 204). Even though these concepts are still important (e.g. by not homogenizing the ‘poor’ and reducing poverty merely to monetary indicators), they tend to be too subjectively defined to enable consistent IBM targeting.

3.3.2. The utility of the living income concept

A recent concept, which partly accounts for both the depth of experienced deprivation and vulnerability and marginalization is living income. This is defined as “the net annual income required for a household in a particular place to afford a decent standard of living for all members of that household” (Living Income Community of Practice, 2020). Elements of a decent standard of living are closely aligned with the SDGs, including inter alia water, food, education, healthcare and unexpected events. With emphasis on decency and living comfort, a living income sets the bar significantly higher than most of the traditional poverty measures, which often merely account for subsistence and survival needs. By explicitly considering all members of the household, it also accounts for household-level marginalization and by accounting for unexpected events also vulnerability risks. While the Anker methodology (Anker and Anker, 2017) for assessing living incomes across different contexts has gained widespread acceptance, and the concept is increasingly incorporated into development programming, living income statistics are however yet to become widely available. This limits the applicability of the concept as a targeting device in the short-term. Minos (2018) though suggest that adjusted poverty lines, which use national expenditure data to estimate non-food expenses, can be used as suitable proxies in the meantime. Arguably, if target groups of an IBM are unable to systematically cover education fees, medical bills and unexpected events, they are generally confronted by a living income gap. As such, reframing IBMs as those that target households with a living income gap could be a viable and pragmatic compromise less susceptible to conflicting geographic interpretations and methodologies. For the purpose of concision, from here on, households and groups with a living income gap will be referred to simply as ‘income-constrained’.

3.3.3. Non-discrimination

But is a business model still inclusive if it discriminates between different income-constrained groups? Returning to the maize example, the business may consider imposing eligibility criteria such as a minimum maize acreage to enhance economic viability. Since land poor farmers are likely to be more disadvantaged than land endowed farmers, by exacerbating processes of social exclusion this business model is not in the spirit of inclusive growth. But what if certain income-constrained maize farmers choose not to engage the company on their own accord because they lack the necessary labor resources to devote the additional time that may be required to comply with private standards? Is the business model still inclusive if it fails to develop additional solutions for sub-groups that are confronted by labor constraints? Since engagement barriers can be highly diverse and individually determined, a business is challenged to address these comprehensively the business model risks being rendered unusable. This could then deprive other income-constrained groups from benefitting from the intended solution as insufficient value can be captured to grow or sustain the business. A business may later choose to account for certain structural barriers to participation once sufficient financial bandwidth has been obtained to adapt the business model and re-invest in deepening impacts, but failing to do so should not render the business model non-inclusive. Designing an IBM arguably begins with a value creating solution to a clearly delineated and structurally neglected problem affecting income-constrained groups without sacrificing the ability to capture adequate value or needing to account for voluntary exclusion and differentiated adoption and participation barriers.

3.4. Inclusiveness in what?

Finally, most definitions emphasize that an IB ‘integrates’ their target groups into the value chain. While inclusive growth discourse in contrast tends to emphasize productive employment, participation or engagement, the fundamental principles of both concepts are similar; namely, that income-constrained groups actively participate in and contribute to economic development, 

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3 Since a living income gap constrains the ability to achieve a decent standard of living, the term ‘income-constrained’ captures the instrumental rather than intrinsic value of income.
rather than merely being beneficiaries (Klasen, 2010). Productive engagement typically implies performing activities that contribute to producing a good or service (Morrow-Howell and Wang, 2013). Similarly, integration into (global) value chains suggests active involvement of income-constrained groups in activities performed to bring a specific product from its conception to its end use (Gereffi and Lee, 2012). This includes design, production, marketing, distribution and support to the final consumer. Based on these interpretations, IBMs can be regarded as business models that create value for income-constrained groups by enabling these to perform activities that contribute towards the production of goods or services along one or multiple nodes in a value chain. While largely consistent with cognate IBM conceptualizations, one notable difference deserves to be pointed out. I contend on the basis of the above that productive engagement in value chains does not involve merely targeting income-constrained end consumers, which is not in the spirit of inclusive growth. This is consistent with how Lüdeke-Freund et al. (2016) differentiate between a social business model and an IBM; with the former they assert primarily seeking to provide otherwise unavailable good and services to neglected minorities that need them, while in the case of the latter the business model seeks to involve “social target groups as active providers of workforce and products” (p. 60).

3.5. Definition of inclusive business models

Based on this, the following definition of IBM is proposed: “A type of sustainable business model that seeks to productively engage income-constrained groups in the value chain by providing solutions to neglected problems.” With respect to the three business model building blocks, this implies that:

(1) An IBM’s value proposition captures what value is created for what types of income-constrained groups through what types of solution offerings, as well as how a competitive advantage is derived from doing so.

(2) An IBM’s value creation and delivery system captures how a business intends to create value. Using a theory of change, an IBM articulates the mechanisms through which value will be created and monitored and the types of partnerships and value network needed to do so effectively. This theory of change explicitly accounts for anticipatable unintended consequences arising along the path to value creation. It furthermore details how primary beneficiaries will be targeted and non-discrimination will be ensured.

(3) An IBM’s value capture system details how the business intends to capture economic value for itself from creating value for its stakeholders. Additionally, it articulates how the economic value captured will be invested in deepening and/or broadening value creation.

4. An inclusive business is more than its business model

4.1. Is strategic intent enough?

Intuitively, a readily operationalizable definition of an IB would be a business that has developed and is implementing an IBM. The ‘inclusion’ prefix then alludes to a business’ broader strategic intent (e.g. with the IBM being a means not an ends), but makes no judgment about whether that strategic intent in fact enhances inclusiveness on the ground. This facilitates comparative research since the inclusiveness determination can be more easily ascertained ex ante (e.g. by virtue of the IBM rather than the outcomes of implementing a business model, which can only be identified ex post). This is in line with how, for example, Chamberlain and Anseeuw (2017) operationalize and G20 and IFC define IB.

Whether such a definition of IB aligns with SBM literature is not immediately clear. Much of the literature on SBMs focuses on (innovation in) the business model and not firm-level sustainability performance, with few concerted attempts to define what constitutes a sustainable business. Upward and Jones (2016) do however provide a more outcome-oriented perspective in their definition of ‘strongly’ sustainable businesses, while Dyllick and Muff’s (2016) more processual definition of sustainable businesses alludes to organizational intent. The rich literature on closely related concepts such as social entrepreneurship and its corollary, the social enterprise, is also rife with competing conceptualizations, being the domain of numerous schools of thought and subject to divergent legal interpretations (Dacin et al., 2010; Defourny and Nyssens, 2010). Most definitions nevertheless emphasize that social entrepreneurs and enterprises differentiate themselves from conventional counterparts through the primacy of the social mission over other organizational objectives (Defourny and Nyssens, 2017). Consequently, the concept is principally bounded by agents’ intent. One notable exception is Martin and Osberg (2007), who view social entrepreneurship as an “ex post term, because entrepreneurial activities require a passage of time before their true impact is evident” (p. 30). Defourny and Nyssens (2017) also insinuate that characterizing an enterprise as social ex ante can be problematic. Whether an enterprise complies with the differentiating quality of a social enterprise (e.g. the primacy of the social mission) cannot be established without critically interrogating its practices first (Defourny and Nyssens, 2017), especially in for-profit enterprises without profit distribution restrictions and/or participatory governance structures.

Furthermore, an inclusiveness determination based purely on a firm’s business model does a disservice to the development discourse from which IB(M) emanated. Notwithstanding the disparate ideologies between inclusive development and inclusive growth, both view inclusivity as a process and an outcome. Merely adopting a business model that aims to integrate income-constrained groups into a company’s supply chain does not necessarily translate into positive outcomes. Inclusion may result in adverse incorporation when individual agency is constrained and new dependency structures emerge, thereby not only depriving income-constrained groups from material gain, but potentially exacerbating poverty, vulnerability and indebtedness (McCarthy, 2010; Oya, 2012). In process-oriented framings of IBs, a business that results in adverse incorporation would still be considered inclusive simply by having developed an IBM. Conversely, IB risks becoming the domain of the plenty and deprived of meaning if only an enterprise’s outcomes are considered. Without paying heed to processes and the presence of an IBM, almost every enterprise that helps raise the incomes of income-constrained groups by simply buying from or employing them can be considered inclusive. In sectors such as oil palm and sugarcane, for example, many companies buy produce from smallholders not because they expressly seek to provide utility to smallholders, but because they are mandated by law, confronted by land constraints that inhibit corporate plantation expansion and/or are operating processing facilities below installed capacity. Their primary objective is not to create value for income-constrained groups, but rather to expand their supply base (or access cheap labor). By not having developed an IBM, such companies are unlikely to invest in deepening their

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4 The term ‘integration’ commonly used in IB(M) definitions is however purposefully avoided going forward. In business management, integration is often associated with loss of autonomy (e.g. in the context of horizontal and vertical integration) and subject to different disciplinary interpretations.
societal contributions, adopt fair pricing policies and sacrifice their bottom line when disruptions occur. In case of the latter, associated costs then threaten to be transferred to small-scale producers.

Based on this, there are compelling reasons to consider both processes and outcomes in an IB definition. In the next three subsections, I will explore this further by asking, firstly, if an IB - like a social enterprise — should also prioritize a social mission given the risk of cannibalizing value creation if value capture motives predominate? Secondly, if the outcomes should also be considered, at what point does the value created translate into inclusiveness and should the value destroyed also be considered? Thirdly, seeing how value creation is central to an IB’s IBM, does an IB then necessarily need to be ‘profitable’ as many IB conceptualizations suggest?

4.2. The primacy of value creation

In much of the social entrepreneurship and social enterprise literature the prefix ‘social’ principally refers to prioritization of social value over economic value. Some critics however contend that this dichotomy poses both methodological and theoretical problems since social value is more intangible and not per se in competition with economic value (Santos, 2012; Blount and Nunley, 2014). Santos (2012) argues that “all economic value creation is inherently social in the sense that actions that create economic value also improve society’s welfare through a better allocation of resources” (p. 337). He instead argues that trade-offs are more likely to occur between value creation and value capture (see also Howell et al., 2018). Prioritization of the latter inevitably drives the development of profit-maximizing activities, which over time could erode its capacity to sustain intended value creation (Santos, 2012).

So-called mission drifts amongst social enterprises are also widespread when the organizational mission is insufficiently institutionalized and the organizational mandate is not fully reflected in the business model (Ramus and Vaccaro, 2017). Critical literature on the triple bottom line and hybrid organizations is similarly replete with examples of businesses confronted by a multitude of different tensions and contradictory demands when attempting to equitably balance social, environmental and economic goals (van der Byl and Slawinski, 2015). Goal incompatibility could lead to internal frictions amongst different goal adherents and with different business model stakeholders, thereby not only producing governance and legitimacy challenges, but also threatening the very survival of the organization (Battilana and Lee, 2014; Lashitew et al., 2018). To prevent such risks from playing out, a business entity requires amongst others an indisputable mission-driven identity (Lashitew et al., 2018), which begins with the business model.5 Prioritization of stakeholder over shareholder interests is also widely considered to be a defining characteristic of SBMs (Evans et al., 2017).

This suggests that an IB can only be endogenously inclusive if value creation is maximized by only capturing enough value to sustain itself or if if profits are largely reinvested into deepening or broadening value creation. Because this conceptualization of IB is consistent with most conceptualizations of the social enterprise, an IB can then be positioned within those scholarly debates. This is also consistent with Michelinii and Fiorentino (2012), who similarly conceptualize IBs as types of social enterprises.

4.3. Value created and destroyed along the path to value creation

As discussed in Section 3.2, some form of theory of change should guide how a business entity intends to create value and monitor and manage unintended consequences that arise along the path to value creation. In the case of intended value creation, a business with an IBM deserves — like most development programs and public policies - to be evaluated at a minimum against the outcome indicators detailed in their theory of change. In the maize example, the business may be considered inclusive if it in fact manages to raise the incomes of income-constrained groups on aggregate without producing further direct externalities. While the expectation of Pareto improvement can be considered appropriate to an IB, whether a net gain without causing any losses can realistically be expected of businesses seeking to provide solutions to problems within complex systems is debatable. Care needs to be taken not to measure businesses and development interventions with different yardsticks. Net value creation that is principally achieved by successfully creating intended value for income-constrained groups illustrates that the IBM the business has developed can create the value it envisioned. If no losers are tolerated as the Pareto criterion contends, like public policies and development interventions (Layard and Glaister, 1994; Pearce, 2016), few if any businesses that endeavor to be inclusive can even be justified.

That said, the cost-benefit analyses commonly employed in effectiveness evaluations, do account for (certain) costs. While it is beyond the scope of this article to provide a critical review of cost-benefit analysis (approaches) and their underlying social welfare functions (see instead Pearce, 2016; Palenberg, 2011), cost-benefit analyses can despite their shortcomings provide valuable, albeit not definitive, insights into how the value created by an IB is offset against the value destroyed and whether creation of intended value also translates into net value. Admittedly a topic for further intellectual advancement, for the purpose of determining whether a business is genuinely inclusive, the proposed accountability ceiling discussed in Section 3.2 could help delineate the scope of a cost-benefit analysis by enabling identification of the types of externalities and perverse outcomes that at a minimum need to be accounted for. This implies that the types of costs that need to be considered are those that emanate from within the business model, which includes perverse outcomes and direct negative externalities, but not indirect negative externalities. By implication, benefits should be bounded in a similar way. A business can therefore take credit for positive outcomes arising from outputs and/or intermediate outcomes, but not those outside the sphere of control and influence. An example of the former could be improvements to food security as a result of productivity enhancements, while an example of the latter could be improvement to school attendance rates due to income increases.

Hypothetically, a business with an IBM could create net value without creating intended value. This unintended value may be created for income-unconstrained groups or alternatively within other domains (e.g. environment). When created within other domains, a business cannot be considered an IB, but may be considered a sustainable business instead. This suggests that any type of cost-benefit analysis that seeks to assess whether a business is inclusive needs to consider whether net value is in fact created for intended income-constrained beneficiaries. Where net value created for intended beneficiaries does not come in the form of intended value — for example by improving food security and not household income — the business may need to adapt its IBM and theory of change.

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5 It does not however end with the business model. Whether a business genuinely prioritizes value creation can only realistically be assessed ex post, after interrogating practices (Defourny and Nyssens, 2017). The primacy of value creation cannot be a defining quality of an IBM, but only of the IB.
4.4. Profitability versus self-sustainability

Many IB definitions emphasize the importance of commercial viability and ‘profit-orientation’ in order to distinguish an IB as a business for development from philanthropic organizations that rely on external assistance to sustain operations. Such qualifications do not, however, fully capture those businesses that prioritize value creation over value capture. In common use, commercial viability is often equated to profitability. Yet, social enterprises are not necessarily profitable. Many can also merely be financially self-sustainable (Yunus et al., 2010). Self-sustainability implies that costs are fully recovered and investors are able to recuperate their investment (ibid). If we accept that IBs can also merely be self-sustainable, the IB can – like other types of social enterprises – then take on any organizational form on the business spectrum, from for-profit corporations to non-profit and public sector enterprises and cooperatives (Dees, 1998; Defourny and Nyssens, 2017), provided these are self-sustaining. While non-profit and public sector enterprises are more likely to depend on development or public funding to sustain operations in the long run, there are ample cases where such enterprises have become self-sustainable; often, using seed capital from public or development funding sources to start the business until it becomes self-sustainable and is no longer dependent on grants. In emerging and frontier markets, even for-profit enterprises are increasing making use of development and public financing; for example, through blended finance and catalytic funding facilities that aim to mobilize private investment in high-risk and socially or environmental impactful sectors and geographies.

While for-profit enterprises principally seek to enhance shareholder value, for some enterprises, profits are the means and the social mission the ends (Lüdeke-Freund et al., 2016). Some profit-maximizing corporations are also known to establish separate self-sustainable business entities with a value creation emphasis, which may or may not be part of their CSR strategies. Since such business entities can be(come) self-sustaining and equally impactful, there is little reason to exclude these on the basis of their CSR origins, as some IB proponents contend.

4.5. Definition of inclusive business

Based on this, I propose the following definition of an IB: “Any type of self-sustaining business entity with an IBM that creates net value for income-constrained groups”. In order to become a genuine IB a business has to ensure:

(1) Its value creating activities and partnerships are fully captured and informed by its IBM.

(2) The net value that is created for income-constrained groups is not offset against the value destroyed along the path to value creation.

(3) The value that is captured by the business enables it to sustain operations without charitable contributions.

(4) The majority of economic surplus is reinvested into broadening and/or deepening value creation.

In contrast to previous conceptualizations, this conceptualization places the IBM at the heart of the IB, thus ensuring that the inclusivity mission is part and parcel of how an IB does business. This definition also departs from many existing definitions by emphasizing the primacy of value creation objectives and by adopting a dual process-outcome perspective.

5. Discussion: towards a research agenda

This article sought to develop a clearer distinction between and more readily operationalizable and unambiguous conceptualization of IB and IBM. While seeking to contribute to a conceptual foundation that encourages and channels further theoretical and empirical inquiry, this article has not however treated all relevant IB(M) themes with equal rigor. Grounded theory development is still certainly needed. This discussion proposes a number of themes that could inform the development of an IB(M) research agenda for such purposes. Firstly, the conceptualization of IB(M) did not explore how value can be created in significant detail, beyond productively engaging income-constrained groups in the value chain and creating value by developing solutions to neglecting problems. Businesses and development practitioners challenged to develop and/or promote impactful IBs, however, often lack the knowledge needed to effectively engage in and support business model innovation. An empirical evidence base on the value creation mechanisms commonly employed by successful IBs could particularly inform such efforts. Secondly, as discussed in Section 2.3, partnerships and value networks are integral to SBMs. In order to create value effectively, resources and capabilities beyond the firm often need to be leveraged. Since the IBM and IB conceptualization offered here is firm-centric, the role of partnerships, given their importance to developing and implementing IBMs, deserves to be further problematized. Thirdly, by defining an IBM as a type of SBM, more attention also deserves to be paid to the interplay between social and environmental value creation. Even though this article frames environmental outcomes as externalities that need to be proactively managed, the relationship between social and environmental value is not necessarily antagonistic. An expanded understanding of how IBs can synergistically pursue social and environmental value creation goals can enable the types of business model innovation needed to better leverage IBs transformative potential. The following sub-sections explore these research themes further.

5.1. Value creation mechanisms

Existing IB(M) literature has begun to tentatively explore value creation mechanisms; albeit often implicitly. Vermeulen and Cotula (2010), for example, suggest that “inclusiveness [can be] measured by how ownership, voice, risk and reward are shared between the business partners” (p. 29). German et al. (2018) in turn propose five IB pillars: (1) effective arrangements for voice and representation; (2) inclusive and fair value chain relations; (3) respect for land rights and inclusive tenure arrangements; (4) employment creation and respect for labor rights; and (5) contribution to food security. Even though the taxonomy from Vermeulen and Cotula (2010) intends to help ‘measure’ inclusiveness, both contributions are largely processual rather than outcome perspectives of inclusiveness. For example, if a business ensures income-constrained groups have voice, are business co-owners and are paid fair prices that contributes, but does not automatically equate to, a better standard of living. As such, they are not especially useful metrics for undertaking effectiveness evaluations, which, as argued in previous sections, deserves to be parameterized in accordance with a theory of change and not by prescription. Such principles should instead be viewed as inputs or outputs of a theory of change; in other words, the causal mechanisms or pathways through which outcomes are realized. For example, by having better representation structures in place that improve the collective capacities of income-constrained groups, the business and its partners are better placed to develop adaptive capabilities that can contribute to fine-tuning its business model over time and remain responsive to
beneﬁciary needs and interests. Chamberlain and Anseeuw (2017) highlight a number of other mechanisms employed by IBs to create and capture value such as supply and management contracts, mentorship and equity sharing, while Schoneveld and Weng (2020) in turn demonstrate the importance of intangible exchanges of knowledge and information and credit provisioning (terms). These mechanisms deserve to be more explicitly explored in future research. Where IBs are challenging to replicate since these are constantly evolving and the product of speciﬁc organizational, sectoral, political, social and geographic contexts, and as a source of competitive advantage diﬃcult to unpack comprehensively, mechanisms employed within value networks to create value for income-constrained groups in contrast can be more readily observed, evaluated and reproduced (Schoneveld and Weng, 2020). A better understanding of these mechanisms will not only support grounded theory development (e.g. on viable pathways to value creation and business model innovation), but also enables development of tools and frameworks that can contribute towards more impactful IBs in practice. As a nascent field of theoretical and empirical inquiry, methodological approaches building on pre-deﬁned principles or categories that lack empirical grounding are unlikely to yield many novel insights. Inductive approaches that begin by asking what value is created, how it is captured before interrogating the underlying causal mechanisms and enabling conditions are in contrast better suited to building the type of evidence base that can inform both theory and practice (Schoneveld and Weng, 2020).

5.2. Value co-creation and innovation through partnerships

While partnerships are an important mechanism for creating value for income-constrained groups, preventing or addressing value destruction and capturing value, value also needs to be created for partners (Den Ouden, 2012; Evans et al., 2017) to prevent conﬂict, build legitimacy and safeguard against goal incompatibility. Divergent or competing interests amongst stakeholders in the value networks may produce tensions, especially when accommodating such interests involves compromise, trade-oﬀs and threatens to undermine the business’ ability to deliver on its value proposition. Given the importance of multi-stakeholder management and the risks associated with ineﬀective conﬂict resolution, an improved evidence base on diﬀerent strategies employed and capabilities and resources required to create value for and manage tensions between diﬀerent stakeholders in a value network can contribute towards various IB scaling eﬀorts.

A related research theme may involve interrogating how and under what conditions value creation for partners produces knockon eﬀects. Hypothetically, creating value for public actors or civil society organizations could help ameliorate (or alternatively exacerbate) government and civil society failures, respectively, by building capacity and/or generating supplementary sources of income. In such situations, an IB contributes to addressing other root causes of inequality and poverty, though evidence on this remains scarce. Partnerships also play an important role in developing the type of adaptive capabilities that enable business model innovation; for example, to remain eﬀective, legitimate and relevant within the changing and unstable contexts in which IBs are typically employed. Multi-stakeholder processes can contribute to collaborative learning, joint ideation and problem solving and building the types of reﬂexive attitudes and trust-based relations that facilitate (business model) innovation (Jaakkola and Hakanen, 2013; Reypons et al., 2016). Where much of the SBM literature examines partners through a value creation lens (e.g. as beneﬁciaries of value creation), few SBM scholars to date have characterized and problematized SBM partners and value networks as a locus of innovation; despite signiﬁcant treatment of the topic in literature on value co-creation and innovation networks. Exploring how and under what conditions diﬀerent stakeholders (can) contribute to business model innovation could help generate the type of empirical evidence needed to provide guidance to the development of more impactful and participatory business models.

5.3. Creating social and environmental value

The relationship between environmental value and social/ economic value is often mutual constitutive for, especially rural, income-constrained groups. Livelihoods of income-constrained groups are especially vulnerable to environmental degradation and climate change, for example (Morton, 2007). Since income-constrained producers in primary sectors often adopt environmentally unsustainable practices, they too are also an important part of the solution (Colin et al., 2017). Although SBMs do not necessarily need to create value for society and the environment, as the SBM archetypes of Bocken et al. (2014) and Lüdeke-Friedrich et al. (2016) illustrate, environmental upgrading of the production activities of income-constrained groups could be at the heart of an IB’s theory of change. In particular, environmental value creation can be an important pathway to creating social and economic value. For example, access to new premium markets could be enhanced when IBs facilitate small-scale producer compliance with downstream environmental standards and commitments (e.g. zero-deforestation). Because small-scale producers are increasingly alienated from international markets due to compliance barriers (Schoneveld et al., 2019), IBs can help transform exclusionary regulatory innovations into value capture opportunities for beneﬁciaries. Small-scale producers can also become more resilient to shocks, productive and proﬁtable when IB solutions involve transfer of climate smart or resource-saving technologies and knowledge. IBs that seek to create value in such ways are better placed to respond to myriad SDGs. Furthermore, IBs that also seek to create environmental value are integral to designing durable solutions beneﬁcial to income-constrained households and an important pathway to reducing negative environmental externalities. More empirical evidence on the implementation (challenges) of IBs that incorporate environmental goals into their value proposition could help better leverage IBs as tools for delivering on global and national climate change mitigation and adaptation and conservation objectives.

6. Conclusion

This article responds to a need to critically examine and develop more univocal deﬁnitions for two widely (mis)used concepts in contemporary development discourse: IB and IB. The proposed deﬁnitions depart considerably from those commonly used in the development (studies) community. The IB deﬁnition proposed, for example, focuses on the productive engagement of income-constrained groups instead of the ‘poor’, value creation through solutions to neglected problems and responsibilities towards perverse outcome and direct negative externalities. An IB in turn is deﬁned as a self-sustainable business entity, rather than a proﬁt, that not only needs to have the right intentions, but also needs to demonstrate their ability to create net value for income-constrained groups. This article also argues that IBs necessarily prioritize value creation over value capture. Drawing on theory of change logic, the proposed deﬁnitions furthermore seeks to sketch the contours of entrepreneurial responsibility, placing outcomes that emerge ‘along the path to value creation’ within the so-called accountability ceiling.
As the first concerted attempt to critically examine and delineate the IB and IBM concepts, this article highlights the unchallenged definitional ambiguities that stand in the way of theoretical and empirical advancement. By drawing in particular on literature on SBMs and social enterprise, it sought to establish a conceptual foundation that inspires intellectual debate, informs methods development and facilitates the type of empirical inquiry that can contribute towards improved theoretical grounding. Through these more conceptually bounded definitions, this article offers analytical focus to empirical research on IB(M)s and encourages scholarly and policy discourse that is less susceptible to divergent, normative and subjective readings of the terms. By framing IBMs as types of SBMs and IBs as a type of social enterprise, IB(M)s can also be better positioned within and draw valuable insights from more theoretically advanced fields of knowledge.

In defining an IB by the process employed and the outcomes achieved, this article does challenge and hopefully inspires SBM scholars to address ambiguities around the definition of sustainable business. Furthermore, the proposed delineation of entrepreneurial responsibility is equally pertinent to the design of SBMs. Despite its significant practical relevance, this theme remains surprisingly underexplored in SBM literature. Finally, by proposing clear benchmarks against which businesses can be assessed in order to be deemed inclusive (or sustainable), this conceptualization enables businesses and development stakeholders to articulate and build the theories of change that can inform the design and monitoring of SBMs.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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