Objectives

- At the end of class, you should be able to:
  - Understand the role of theory of change and logic framework
  - Explain the concept of business model.
  - Describe the components of a business model.
  - Distinguish between a business model and operating model.
  - Describe the components of a social impact model
Recap From Last Session

- Have we identified a way to create and sustain social value?
- What did the Demand-Mission Fit tool tell you about your opportunity?
- How did you rank your opportunity in terms of
  - Social value potential –Are you addressing a genuine social need?
  - Market Potential –Do you have an identified market? (users & Beneficiaries)
  - Sustainability potential –Do you have/can you acquire, the required capabilities to sustain the org over time?
  - Competitive advantage potential? –What’s different (and better) regarding your offering. Social innovation?
  - Stakeholder Analysis- who can affect or is affected by the achievement of the organization’s objectives?

Business Model –Social Impact Model

- The business model explains how a firm creates, delivers, and captures value.
- There are three key categories in the business model.
  1. The economic component also known as revenue model of a business model concerns how the firm will generate revenue (and make profits).
     - Decisions made at this level include revenue sources, pricing methodologies, cost structures, potential margins, and expected volumes.
  2. The operational component of the business model focuses on the internal processes and design of infrastructure that enable the firm to create value. Decisions made at this level are related to production and delivery methods, administrative processes, logistical streams, and resource flows.
  3. The strategic component emphasizes the overall direction of the firm. It includes the firm’s market positioning, interactions across organizational boundaries, and growth opportunities. Here, the business model represents the totality of how a company selects its customers, defines and differentiates its offerings, identifies the tasks it will perform itself and those it will outsource, configures its resources, goes to market, creates utility for customers, and captures profit.
Business Model – Social Impact Model

• *Designing a Business Model*
• business model designers must consider: design elements and design themes
• The **design elements** of a business model include:
  1. content (what activities should be performed);
  2. structure (how they should be linked and sequenced); and
  3. governance (who should perform them and where).

• **Design themes include:**
  1. Novelty (new way of conducting economic exchange among various participants)
  2. lock-in (how can we maintain engagement with third parties)
  3. complementarities; and
  4. efficiency

Business Model – Social Impact Model

• *Designing a Business Model - Design Themes*
  1. **Novelty** consists of adopting new activities or new ways of linking the activities or new ways of governing the activities. It implies that the business model should be relatively new compared to previous ones as well as those that are used by competitors.
  2. **Lock-in** refers to the power of a business model to keep third parties attracted as business model participants.
    • For example, LinkedIn, consider the amount of effort it takes to setup a profile so that its 100% completed! That in itself is a switching costs.
  3. **Complementarities** occur whenever bundling activities within a system provides more value than running activities separately
  4. **Efficiency-centered** design refers to how firms use their activity system design in order to achieve greater efficiency through reduction of transaction costs.
Business Model – Social Impact Model

- In the social enterprise space, we talk about our Social Impact model.
- A social impact model documents an organization's intended approach to addressing a particular social problem as well as the validation of the approach as the most viable method. It provides a guiding framework for the organization.
**Big Picture - Social Impact Model**

- A social impact model documents an organization's intended approach to addressing a particular social problem as well as the validation of the approach as the most viable method. It provides a guiding framework for the organization. **It is our business model!**

**Theory of Change (TOC)**

- What underlies your social impact model is the theory of change. Theory of Change is essentially a comprehensive description and illustration of how and why a desired change is expected to happen in a particular context. TOC helps us explain how out “actions” will lead to desired goals being achieved.

- It is the rationale that connects mission to strategy. It does this by first identifying the desired long-term goals and then works back from these to identify all the conditions (outcomes) that must be in place (and how these related to one another causally) for the goals to occur. These are all mapped out in a logic framework.

- **Inputs** → Activities → Output → Outcomes → Impact

- *Are there leaps of faith in the theory that you must defend?*
Big Picture - Social Impact Model

- TOC example: Teach For America
  - We believe that all children deserve an excellent education and that high quality teaching in every classroom is the most important ingredient in ensuring that all students learn at high levels. We also believe that the current education crisis is so urgent that we need a new generation of leaders in all sectors who are willing to take on the challenge, and that direct experience with the problem is the best way for young people to become committed to solving it.
  - Based on these beliefs, our theory of change is that if the brightest college graduates agree to teach in high poverty schools for two years, then: a) the students they teach will receive a high-quality education now, and b) those who teach will become lifelong leaders committed to social change.

- Converting your TOC into action
  - It is the rationale that connects mission to strategy. It does this by first identifying the desired long-term goals and then works back.

- Social impact strategies
  - The major strategies identified in a business plan for enduring social impact, which will be implemented to further the organization's mission and strengthen its operating model, in order to progress toward achieving its vision of success.
  - Examples: Profitability plan, infrastructure to support growth, Quality assurance programs, partnership etc.
  - Data from your opportunity assessment (Social value potential, market potential, sustainability potential and competitive potential) will inform your strategies.
Big Picture - Social Impact Model

- Operating Model - An operating model documents the way in which your organization's activities work together to fulfill its mission.
- An operating model is part of your business model.
- The operating model defines the main work processes that are needed to create and deliver the value proposition (the products or services or benefits that the organization chooses to provide for its “customers” or “beneficiaries”.
- In 2012 Wolfgang Grassi identified 9 operating Models for social enterprises.

Nine operational model of social enterprises

1. The entrepreneur support model that sells business support services directly to the entrepreneurs in its target population
   - Examples: Microfinance organizations, consulting, or tech support
   - Key success factors: Appropriate training for the entrepreneur

2. The market intermediary model that helps their clients by marketing or selling their clients' products or services for them
   - Examples: Supply cooperatives like fair trade, agriculture, and handicraft organizations
   - Key Success Factors: Low start-up costs, allows clients to stay and work in their community.
• **Nine operational model of social enterprises**

3. **The employment model**, in which a social enterprise provides their clients with job opportunities and job training
   
   **Examples**: Disabilities or youth organizations providing work opportunities in landscape, cafes, printing, or other business
   
   **Key Success Factors**: Job training appropriateness and commercial viability

4. **The fee-for-service model** where a social enterprise charges the customer directly for the socially beneficial services it provides
   
   **Examples**: Membership organizations, museums, and clinics
   
   **Key Success Factors**: Establishing the appropriate fee structure vis-a-vis the benefits

5. **The low-income client model** where a social enterprise generally offers social services directly (as in the fee-for-service model) while focusing on low-income clients
   
   **Examples**: Healthcare (prescriptions, eyeglasses), utility programs
   
   **Key Success Factors**: Creative distribution systems, lower production and marketing costs, high operating efficiencies

6. **The cooperative model**, a fee-based membership organization that provides member services to a group that shares a common need or goal
   
   **Examples**: Examples: Bulk purchasing, collective bargaining (union), agricultural coops, credit unions
   
   **Key Success Factors**: Members have common interests/needs, are key stakeholders, and investors

7. **The market linkage model** that focus on building relationships and otherwise connecting their clients with markets for their clients’ products and services
   
   **Examples**: Import-export, market research, and broker services
   
   **Key success factors**: Does not sell clients’ products but connects clients to markets
• Nine operational model of social enterprises

8. The service subsidization model that funds social programs by selling products or services in the marketplace.
   - **Examples:** Consulting, counseling, employment training, leasing, printing services, and so forth
   - **Key Success factors:** Can leverage tangible assets (buildings, land, employees) or intangible.

9. The organization support model also sells products or services to fund social programs (as the service subsidization model). However, the social programs they fund are part of a separate, parent organization.
   - **Examples:** Similar to service subsidization– implement any type of business that leverages its assets
   - **Key Success factors:** Similar to service subsidization.

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**Big Picture - Social Impact Model**

![Social Impact Model Diagram](image-url)
Big Picture - Social Impact Model

- **Social and economic impact indicators**
  - Units of measure that assess your long-term progress towards your vision of success and the overall success of your theory of change

- **Organizational and program performance indicators** - Units of measure that assess the direct short-term results that relate to your capacity to implement social impact strategies. An example of performance indicators are; number of members, number of individuals served, number of volunteers, etc.

- The feedback loop allows for continuous improvement of the operating model
  - The operating model and social impact strategies are evolving portions of the social impact model. As new information is gathered, this sections are adjusted to remain relevant to the need and opportunity.

**Application Questions**
- Do some research on Muhammad Yunus and the Grameen Bank. Identify the social business model of the bank. How does its social business model differ from the business models of traditional banks? Explain.

**Group Activity**
- Complete Business Model Canvas for your social enterprise
- Identity your operational Model
- Come up with a theory of change and logic framework