Building a Successful Social Venture

A Guide For Social Entrepreneurs

Eric D. Carlson & James L. Koch

Paul Locatelli, S. J.

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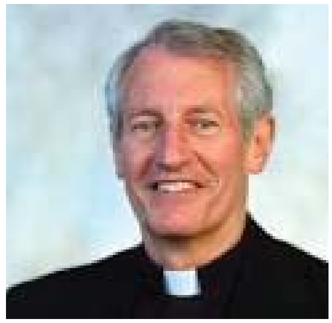

This book is dedicated to Father Paul J. Locatelli, the 27th President of Santa Clara University and the first Secretary of Higher Education of the Society of Jesus—a network of 150 institutions around the world. Paul encouraged questions that open into a search for greater purpose in life and a thirst for justice. Throughout his 20 years as President of Santa Clara he sought to bridge the secular and the sacred—the innovation-driven ethos of Silicon Valley with the traditions of Jesuit education, a Catholic religious order founded half a millennium ago. He inspired the work of centers of distinction in Jesuit education, applied ethics, and technology and society and, through these efforts, he sought to integrate competence, conscience, and compassion as the foundations for transformative education. As President of Santa Clara University he created an environment in which the work described in this book could flourish.

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Preface

In Chapter 2 of his book, Creating a World Without Poverty (Perseus Book Group, 2007), Muhammed Yunus defines a social venture as an enterprise that "creates goods and services that produce social benefits" where any cash "surplus generated is reinvested in the business." He also argues that a social business should operate like a profit making business with positive cash flow (income greater than expenses) and, rather than offering equity to its investors, it should return any invested funds (investment capital) to its investors (in an amount, possibly zero, agreed to by the investors). Thus a social business could be a for-profit or a non-profit organization from a legal (or tax) point-of-view, but would have a "social impact" mission and would reinvest all operating surplus in the business (after repaying the original investors an agreed-upon amount). Yunus cites Bill Drayton of Ashoka as defining a social entrepreneur as "one who applies creative, innovative thinking to a previously intractable social problem." Yunus also posits that a social venture is a form of social entrepreneurship. He argues, however, that it is a new category of business grounded in a focus on social impact that represents an alternative rationality to the private wealth maximizing logic of capitalism. In a sense, a social venture truly seeks to create a "virtuous" cycle—the greater the surplus generated the greater the benefit to society. It should be noted that in recent years, some ventures with social missions have modified the profit-reinvestment strategy to incorporate profit-sharing strategies in order to attract equity investments.

Accepting the premise that social ventures were essentially businesses with social missions and profit-reinvestment financial goals, the Global Social Benefit Incubator (GSBI™) at Santa Clara University was founded to help social entrepreneurs learn to manage their ventures in a way that would improve financial sustainability and the scalability of impact. From 2003 through 2012, the authors were part of the leadership group which assisted more than 170 social entrepreneurs in developing strategic and operating plans for their social ventures through the GSBI. The GSBI leadership group and executive mentors in this period had over 500 years in combined executive experience in the public and private sectors. Mentors were carefully selected based on the depth of relevant start-up and general management experience along with financial and marketing acumen as well as a sensitivity to intangible qualities such as "their ability to listen with humility" to the needs of the poor in diverse cultural and economic settings. Social entrepreneurs were selected from an application process consisting of submitting a value proposition, a target market statement, and a business model description. During the initial 10 year period of its existence, over 1000 organizations submitted these three documents. In the 2003 pilot year, 7 organizations participated with a range of 14-19 organizations participating in subsequent years. During this period the growing group of enthusiastic Silicon Valley mentors (eventually over 100) volunteered thousands of hours of their time to work with social entrepreneurs in the GSBI program and contributed their lessons learned as mentors to support continuous innovation in the program itself. These lessons have been incorporated in this book.

Social entrepreneurs selected from the application process to attend the GSBI each year were assigned 2-3 Silicon Valley executive mentors who "coached" them for a period of about 4 months through a set of foundational, online exercises designed to develop the basic information (product/service definition, market size, go to market plan, etc.) needed to create a business plan. Following this 4 months of distance-based work each year, the entrepreneurs attended a two week "boot camp' at Santa Clara University during which they worked intensely with their mentors and GSBI staff to develop: an elevator pitch; a detailed business model; a PowerPoint presentation about their organization; and, from 2008 onward, a 2-page "investment profile" (key facts sheet) for their organization. The 9-months of work, from application through in-residence, as reflected in these documents was intended to help the entrepreneurs develop a strategy and plan to effectively manage their organizations to achieve financial sustainability (positive cash flow) and scalable impact (growing income and impact at a rate faster than the growth in expenses). While the GSBI framework described in this book is unique and carefully crafted, social entrepreneurs from this early period to today have felt that the extensive Silicon Valley mentoring/coaching they receive is the most valuable feature of the GSBI. This book incorporates the knowledge of mentors and provides a minimum critical specifications checklist which taps their collective intelligence as a guide for each of the business planning elements described in Chapters 4 through 12.

The GSBI has continued and expanded since 2012, although the processes involved have changed somewhat to accommodate the expansion. As of Fall 2016:

- More than 390, plus an additional 327 in a short program, social entrepreneurs have been seved by the GSBI
- Over 140 mentors have worked in pairs or trios with the social entrepreneurs
- GSBI alumni have positively impacted the lives of over 160 million people
- GSBI alumni ventures have generated $197 million in impact capital investment
- Seventy five SCU undergraduates have engaged in in-depth field work with GSBI alumni ventures

Influenced by lessons from his work as a co-founder of the GSBI, in 2005 Professor Koch designed an MBA course — Leadership for Justice and Prosperity. First offered in Winter 2005, by Fall 2016 this course had been taken by 2,590 MBA students. Each of these students was required to identify technological innovations which, in combination with business model innovation, could contribute to the eradication of global poverty. Their projects applied emergent "practice-based" theories from the GSBI to stimulate thinking about the BoP as a new fronteir for technology and business model innovation. About this same time, Professor Carlson designed an MBA course on Social Entrepreneurship based on the paradigm described in this book. The course has been taught in the SCU Leavey School of Business every year since, to a total of over 200 MBA students. In addition the syllabus of the course was published by Ashoka University as a model "practical" course on social entrepreneurship. The authors also have involved MBA students in the Leavey School of Business in screening GSBI candidates and analyzing the viability of their business plans. The analysis of Sankara used in Chapters 4 thruough 10 of this book is an example of an MBA student project. Professor Koch used this book as a resource for teaching social entrepreneurship and enabling students to prepare conceptual business plans in courses at both the undergraduate and MBA levels.

The very practical definition of social entrepreneur and social venture used in the GSBI implies improving capital efficiency, or a lower cost per outcome or impact and a growing capacity to achieve social mission outcomes through the generation of operating surpluses. Both breadth (more clients) and depth scaling (more services per client), more comprehensive or holistic "solutions" (e.g., a model village) as opposed to narrower more focused product/service solutions with a broad geographic reach (e.g., safe drinking water) are observed forms of scaling or increasing impact.

This book is intended to capture the lessons learned from the first 10 years of the GSBI in a guide that will assist managers of social ventures in working with their teams and advisors to develop business plans for their organizations that are financially sustainable and create scalable impact. Each business planning chapter begins with a reference to the basic knowledge of GSBI mentors and ends with a "minimum critical specifications checklist" reflecting the collective intelligence of mentors. In systems thinking, a minimum critical specification is a condition that is critical to the overall viability of system design. While this book perhaps will be most useful for those managing a social business, it is designed to assist any social entrepreneur who seeks to develop an enterprise that intends to use financial, human, and physical resources to create a financially sustainable and beneficial social impact. The book also could be used by potential investors, students or researchers to analyze an existing social business organization's sustainability and scalability. It has been used in both undergraduate and MBA classes as an analytic framework for fostering systems thinking and developing market-based approaches to solving social challenges.

The book consists of a set of lessons and exercises that, when completed, form the basis for a "business" plan that can help social entrepreneurs:

- Raise money
- Maximize the social impact of the enterprise
- Operate the enterprise with a surplus (cash flow positive)
- Grow (scale) the social impact (and income) of the enterprise at a rate faster than the growth of expenses
- Ensure their enterprises provide a needed solution to a real problem in an effective and

efficient manner.

In comparison to other books on developing a plan for a social venture, this book contains 4 unique elements:

1. A discussion in Chapter 5 of the External Environment — the ecosystem in which a social venture operates. In the GSBI, we found that an understanding of this ecosystem was essential for social entrepreneurs.

2. A discussion in Chapter 10 of Metrics for Social Ventures. This topic, suggested by members of the second GSBI class, turned out to be valuable for both managers of and investors in social ventures.

3. A guide in Chapter 11 for developing an operating plan and budget for the social venture. An operating plan and budget are essential management tools for any venture.

4. A review in Chapter 12 of the alternative forms of financing for social ventures, along with a discussion of the factors to consider in determining which alternative is most useful as well as a guide for fundraising.

However, the most unique aspect of this book is the synthesis of the knowledge of the GSBI Silicon Valley mentors with the experiences and needs of social entrepreneurs to create a comprehensive basis for building a successful social venture.

The book consists of 3 parts. Part I provides background that we found useful for all GSBI participants, and describes the basic assumptions on which this management guide is based (i.e., a bottom-up approach, market-based discipline, and the logic of business planning). Chapter 1 covers relevant theories of social change and empirical research on the factors influencing the effectiveness of values or mission-driven organizations. Social entrepreneurs may find this chapter useful in developing/comparing their own theories of social change with others. Chapter 2 describes the “base of the pyramid market” and can be used by social entrepreneurs to understand the overall structure of this vast, underserved market. Chapter 3 provides an overview of alternative business planning paradigms or frameworks and their uses, including the paradigm used in this book. While each of these frameworks have been used by social entrepreneurs to develop business plans, the GSBI paradigm has inherent advantages for ventures seeking to understand and manage all of the elements that are involved in addressing intractable social problems. For those familiar with the topics of Chapters 1-3, any of these three chapters can be skipped.

Part II presents the seven elements of the GSBI Business Plan paradigm with exercises for use in analyzing/developing a business plan for a social venture. Each chapter describes one element of the business plan. It begins with an introduction which includes a summary of the assumptions and knowledge that experienced mentors thought necessary for completing the element of the paradigm described in the chapter and concludes with a minimum critical specifications checklist for assessing the viability of a social mission business. (Note: A companion volume containing a complete set of templates for use in developing a social venture business plan has been developed for this book).

Part III describes the key execution elements that can be derived from a business plan, including financing plans and fund raising goals, budgeting, and the creation of an operating plan. These three execution elements may be the most important reasons for having a business plan. They are the practical "so what, now what" implications of a business plan. They pay particular attention to the unique challenges of a social business which simultaneously seeks to achieve both financial viability and measurable improvements in the well-being of real people.

The cumulative insights and knowledge in this book are derived from GSBI™ participant work products, and the examples in this book are primarily from organizations that attended the GSBI, along with one example from a non-GSBI venture, Grameen Shakti, about which much and been written and which, on its own, created a business plan which can be used to illustrate the paradigm described in this book. Each chapter has 3 examples:

1. The case study of Grameen Shakti as presented in Nancy Wimmer's book, Green Energy for a Billion Poor (MCRE Verlag, 2012). The case study focuses on Grameen Shakti's first ten years. Ms. Wimmer kindly review this example, but any remaining errors or omissions are those of the authors.

2. A Case Study of the Sankara Eye Care system, prepared by Danielle Medeiros, Cathryn Meyer, and Visswapriya Prabakar for Management 548, Social Benefit Entrepreneurship in Winter Term 2015 in Santa Clara University's Leavey School of Business.

3. As a third example, in each chapter we present a different GSBI organization which, while at the GSBI, was thought to be innovative in the business plan element described in that chapter. The example is taken from the materials created by the organization at the GSBI. However, any errors or omissions are those of the authors. All 9 of the examples involve organizations that were innovators in more than one element of their business plan -- one reason they were chosen as examples. For example, Fundacion Paraguaya SSAS (mission, opportunity and strategies innovator) and Digital Divide Data (market innovator) were also business model innovators using job related education as an income driver. All 9 organizations used as examples are still thriving, many for over 10 years after their GSBI experience--another reason they are used as examples. More information on each of this example social ventures can be found on the Internet.

Acknowledgements

The basic business plan paradigm contained in this book drew heavily from Silicon Valley approaches to business model innovation and was initially formulated by Pat Guerra in collaboration with Al Bruno and the authors. It is based on our collective experiences in leading and managing various ventures (both social and profit maximizing). The paradigm was then used as a framework for both curriculum design and desired outcome documentation, first for the GSBI in-residence program and later for the GSBI Online program.

Over the first 10 years of the GSBI, several dozen lecturers have presented on various elements of the paradigm, and the attending social entrepreneurs and their mentors have provided feedback on how to improve the material that was presented. In addition, the material was adapted for an MBA course on social entrepreneurship, which has benefited from the feedback of more than 100 MBA students who have taken this course. While it is not possible to acknowledge the specific lecturers, social entrepreneurs, mentors and MBA students for their specific contributions, this book has benefited from them all.

In addition to GSBI materials created by the authors, the notes from the following GSBI lecturers provided the basis for some of the material contained in this book: Al Bruno, Bob Finnochio, Pat Guerra, Tyzoon Tyebjee, Charly Kleissner, John Kohler, Mike Looney, Brad and Vicky Mattson, Geoffrey Moore, Sara Olsen, Jeff Miller, Kevin Starr, and Jose Flahaux. Thank you to all of these for their valuable insights. However, any oversights or errors in the content of this book are our own.

The authors greatly appreciate the work of Danielle Medeiros, Cathryn Meyer, Visswapriya Prabakar whose Sankara examples, from their final project in Professor Koch's Winter 2015 Management 548 class are used with their permission. As previously mentioned, Nancy Wimmer provided detailed feedback on the Grameen Shakti example. Geoffrey Desa, Al Hammond, and Jean Hazell provided useful feedback on early versions of ths book. In addition, Sherrill Dale, Andy Lieberman, and Cassandra Staff provided immeasurable help in organizing and implementing the GSBI and therefore also contributed to the content of this book. Finally, this book also benefitted greatly from the formatting and graphic design skills of Santa Clara University students Tiffany Lu and Arshi Jujara.

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Chapter 1

Top-Down and Bottom-Up Thories of Social Progress

Our world is awash in urgent environmental, human, and social challenges such as the scourge of global poverty. Many of these issues are seemingly intractable due their interdependent and dynamic nature and our incomplete knowledge about the requirements for their resolution. Moreover, the scale of global challenges is growing at rates that appear to be accelerating beyond the adaptive capacity of our institutions to solve them. Are governments, philanthropic groups, large companies, and the independent sector equipped to do the job in tackling these problems?

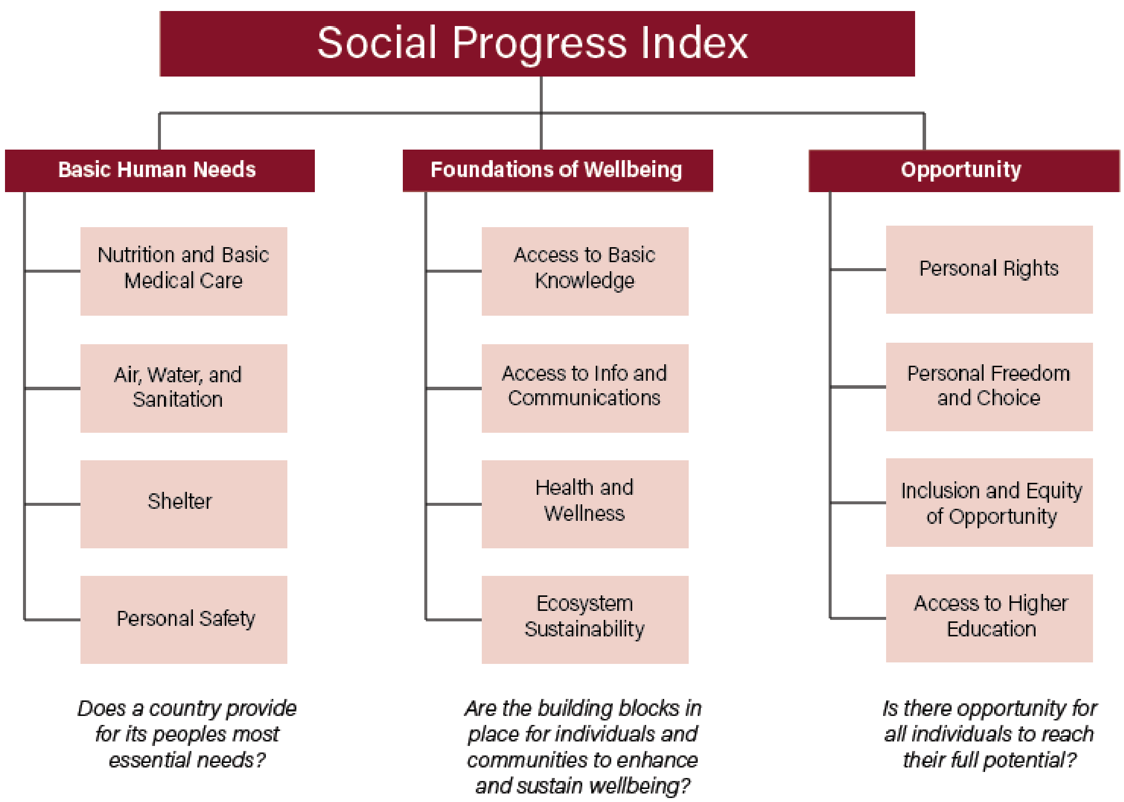
The late Pamela Hartigan began the 2012 Skoll World Forum with the eloquent recasting of a favorite childhood story to our contemporary world:

> *"Currently we are living in a Humpty Dumpty world where a good many of the king's men are struggling to put Humpty back together again, while a growing movement of men and women with imagination, commitment, persistence, and strong ethical fiber is working furiously to ensure that Humpty Dumpty's model is transformed and replaced with pathways that achieve economic and social justice and arrest the destruction of our planet. We are at an interesting new phase of new thinking and experimentation and we must seize this hugely important opportunity."*
>
> Pamela concluded with a provocative question: "*How do we rewire our systems, our practices, and our mindsets so our story reflects a greater convergence rather than fragmentation of effort? That for me is the great challenge before us no matter where our life journey takes us. In that sense the global movement of outrage on the part of ordinary citizens against an increasingly unfair and unsustainable society joined up with practical, creative, and committed social entrepreneurs will ensure that Humpty Dumpty is not recreated and that when our story is told, when my story is told, when your story, our collective story is told, it will be about depicting the time that occurred when human ingenuity, empathy, and integrity rises to dominance together to address unprecedented threats."*

The conceptual foundations for this book are rooted in contexts of deep global poverty where scale matters. In the fifty years from 1962 to 2013, the world population grew from 3.2 billion to 7.1 billion, on a growth trajectory to reach 9.2 billion by 2050 (London, Ted *The Base of the Pyramid Promise—Building Business with Impact and Scale, Ted London*, Stanford University Press, 2016). Imagine—our increasingly fragile planet tripling in population over the course of a single 87-year life expectancy from 1962 to 2050. Now visualize more than 95 percent of this growth concentrated at the bottom of the pyramid, in poor countries with accelerating rural to urban migrations to cities like Beijing, Kolkata, and Mexico City where populations of 20-plus million people are already choking in traffic congestion and air pollution, and where the combination of infrastructure and fiscal deficits render governments incapable of accommodating the basic life supporting necessities of safe water, sanitation, housing, education, and public safety. In these contexts, the ability to develop solutions that can be replicated at scale is urgent.

GDP growth alone does not ensure social progress or improved well-being of citizens (both of which often depend on the shifting priorities of governmental bodies). Reflecting Amartya Sen's "development as freedom" philosophy, the Social Progress Index (SPI) in Figure 1 below posits a more complete assessment of national wealth, one that encompasses the capacity of a society to meet the basic human needs of its citizens and communities to enhance and sustain the quality of their lives, and create the conditions for all individuals to reach their full potential.

Figure 1.1 Social Progress Index Model



In search of greater income opportunities, it is little wonder that the world is experiencing unprecedented population migration from destitute rural areas to cities, and from the global south to the global north—especially amongst refugees and youth trapped in generational poverty. However, the 2016 Social Progress Index, a major study of the social well-being across 133 nations, illuminates what these migrating populations will discover—geographic advantages in per capita income are not synonymous with human well-being. For evidence of this, one needs to look no further than the United States. Ranked 5th in the world in GDP per capita, the U.S. ranks 27th out of 133 nations on the Social Progress Index for personal safety; 40th out of 133 nations in access to basic knowledge because too many kids are not in school; 36th in environmental quality due to greenhouse gas emissions, poor water quality, and threats to biodiversity; and 68th out of 133 nations on health and wellness, despite outspending every nation in the world on its health care system. Moreover, over the past 25 years, US gains in per capita income have become increasingly concentrated in the top one to five percent of the population. Median household incomes have stagnated, income inequality has grown, and the majority of citizens have not experienced improvements in the quality of life. This contributes to nationalist instincts and "push back" from citizens who see waves of immigrants as a source of downward pressure on working class wages and competition for increasingly scarce opportunities to join the middle class.

In the US, the poverty threshold for a family of four in 2015 was $24,257 per year, approximately $16.50 a day per person. In richer parts of the developing world, it's $4.00 a day per person. And, when purchasing power parity is taken into account, in extremely poor nations, it's $2.00 a day. At these income levels, the poor exist in a precarious state. Above these minimum thresholds they may not appear in poverty counts, but they do not live in world where, to paraphrase Noble economist Amartya Sen, they have the freedom to make life choices which can significantly improve their hopes of a better future. With respect to the hope of achieving a middle class standard of living, the work of Thomas Picketty on global capitalism paints a pessimistic picture (Picketty, 2014). It documents unprecedented increases in income inequality and declining upward mobility over the last thirty years.

While in 2013 the world's top 115 income earners made more money than the combined income of the bottom 3.9 billion people on the planet, increasing wealth disparity is not unique to developing countries. PEW research finds income inequality in the US at the highest level since 1928. After accounting for taxes and income transfers like social security, the US has the 2nd highest level of inequality in the world, after Chile. Moreover, wealth inequality is even greater than income inequality. The highest earning fifth of US families earned 59.1 of all income in 2013. They held 88.9 percent of all wealth. Similarly, in China and India, inequality—as measured by the Gini coefficient (which measures the statistical distribution of incomes)—grew substantially between 1990 and 2015, from 45 to 51 in India and from 33 to 53 in China (http://www.livemint.com/Politics/mTf8d5oOqzMwavzaGy4yMN/IMF-warns-of-growing-inequality-in-India-and-China.html). A Gini coefficient of 0 would indicate that citizens shared equally in national income, while a coefficient of 1.0 indicates perfect inequality, with the wealthiest 1 percent receiving 100 percent of all income. As elsewhere, the inability of India and China to develop and sustain a rising middle class imperils future growth and social stability.

While an in-depth examination of poverty is beyond the scope of this book, overall evidence of effective top down solutions to fostering a more just world—be it in the form of government programs to alleviate poverty or trickle down economic prosperity—is weak. We turn next to a brief examination of this evidence through a review of alternative approaches for eliminating poverty. In Chapter 2, we provide much more detail on the nature of global poverty.

Comparing Approaches to Poverty Reduction

Since the end of World War II and the formation of the United Nations, several efforts have been mounted worldwide to help eliminate or reduce poverty. These efforts can be divided into five categories:

1. Government Programs: National governments use tax revenues or subsidies and, in some instances, foreign aid to fund or operate programs.

2. Philanthropy: Wealthy individuals create private foundations, charities raise money to fund or operate programs, and Corporate Social Responsibility (CSR) funds support community initiatives.

3. Multi-National Corporations: Large corporations use their resources and organization to enter and serve markets with unmet need.

4. The informal economy: Operates in a parallel system of economic exchange and, in some instances, uses illegal methods to address problems.

5. Social ventures: Small organizations (both non-profit and for-profit) focus on reducing poverty in a specific market segment.

Although each of these categories of effort has helped to alleviate the effects of global poverty, the premise of this book is that the fifth category, social ventures, is the most efficient and effective approach to poverty *reduction*. As shown in Table 1, social ventures have four comparative advantages:

1. Mission focus, or what Prahalad originally described in The Fortune at the Base of the Pyramid (Pearson Education, 2010) as an alternative logic—distinct from dominant top-down, profit motivated, or outside-in market-entry logic.

2. Understanding of the problem (market) and therefore ability to create useful solutions.

3. Economic efficiency: essentially the ability to achieve a lower cost per successful outcome than other programs.

4. Ability to grow resources based on successful implementation.

Government and Philanthropy

While some consider government programs or aid and philanthropy as distinct approaches to economic development, they are grouped together here because each is based on the theories top-down and/or trickle-down economics, i.e. that welfare or charity programs designed at

Table 1.1 Approaches to Poverty Reduction

Factor/Approach	Mission/Focus or Dominant Logic	Economic Efficiency	Understanding of the Problem	Resources
Government Programs or Aid	Multiple missions; often co-opted to strengthen power/ political base; often changing	Usually high overhead, with multiple levels of bureaucracy	Many levels removed from actual clients; lack of empowerment	Finite, often changing
Philanthropic Programs	Charity or wealth transfer	Usually high overhead, with at least two levels of bureaucracy	At least one level removed from clients; lack of empowerment	Finite and not often repeatable
Multi-national Corporations	Profitable revenue growth	Often well developed and efficient operations, but which may not work for reaching low income customers	Often very limited knowledge of the problems of the poor and state of market development; marketing programs do not work in fractured markets	Amounts based on short term priorities
Informal Economy	Workaround poverty solution	Highly inefficient; may be corrupt	Personal, direct understanding	Limited
Social Ventures	Impact on specific poverty problems	Can develop efficient solutions	Personal, direct understanding	Can grow with success of venture

higher institutional levels and funded through the benevolence of governments or the wealthy will "trickle down" to lower levels and raise the level of the economy as a whole, including the well-being of those at the lowest rungs of society (Thomas Sowell, Trickle Down Theory, Hoover Institution Press, 2012). Trickle-down economics has been criticized as inefficient by many economists and politicians from J.K. Galbraith to Ross Perot (see Appendix A for specifics on inefficiencies of government approaches in the US). The problems with government aid and philanthropy often include: lack of accountability, failure to foster innovation, mindless pursuit of "scale" or size in the presence of inefficiency, economic waste via bureaucratic intermediaries, and no measurement of impact or return on investment (Bugg-Llevine and Emerson, *Impact Investing: Transforming How We Make Money While Making a Difference*). Government aid often is complicated by the desire for private political influence. In a similar vein, through the mechanism of tax breaks philanthropy can substitute the particular idiosyncratic notions of cause-related giving on the part of the wealthy, for the sustaining levels of funding required to maintain essential public goods. Trickle-down economics, as implemented via government aid or philanthropy, assumes that macro-policy and top-down or outside-in programs will stimulate economic development and micro-level social progress, yet there are few examples to validate this assumption. Neither government aid nor philanthropy can create the sense of

empowerment or collective self-efficacy that is needed for poor to significantly improve their life choices.
In a more positive vein, when the government invests directly in creating businesses (e.g., manufacturing in China) or accelerating the development of industry clusters in concentrated urban regions, the impact on economic development can be substantial. In China, the poverty level has dropped from around 80% under communism to around 40% under government sponsored capitalism. This still represents around 500M people (*The Economist*, October 20, 2014). Where the government acts to stimulate capital formation in emergent technologies as in the United States (e.g., DARPA and advances in computer networking), significant economic development can occur. Still, in the U.S. about 25% of the population (about 45M people) live below the poverty level (www.census.gov). Interestingly, the socialist approach to economic development in countries like Sweden still leaves about 25% of the population below the poverty line (*Forbes*, Sept 12, 2012). Nevertheless, the developed economies, now including China, do indicate that government-regulated (or controlled), capitalist economics can substantially reduce poverty.

Social entrepreneurship places a major emphasis on human agency. In this regard, it is essentially the opposite of government aid or philanthropy via trickle-down economics, charity, or top-down solutions. Investments in innovative capacity are from the bottom-up rather than the top-down. Where the government invests directly in social ventures (World Bank Development Marketplace) or where philanthropic aid goes directly to social ventures (e.g., Gates and Ashoka Foundations), significant direct and indirect benefits can result—the former in improved lives, the latter in increased agency or human empowerment (Bornstein, *How to Change the World*). Of course, government or philanthropic aid must come without excessive overhead requirements and the social ventures must be able to use the funding efficiently (which is what this book is about). The challenge for government or philanthropic aid to social ventures is to avoid the high overheads and lack of empowerment associated with grant-based funding.

The Role of Multi-National Corporations: C.K. Prahalad's Thesis

In the presence of global capitalism, business has a vital role to play in creating a more sustainable, just, and prosperous world for all people. Here, the record is mixed. The UN Millennium Development goals set a target of reducing the number of people living in extreme poverty by half between 1990 and 2015. Thanks in large measure to free trade, by 2015, the number of the world's 7 billion inhabitants subsisting on less than $1.25 a day (the internationally accepted poverty threshold in 1990) had been reduced by half to 1.1 billion. This definition of poverty, however, is socially constructed, and these subsistence levels of income are associated with fundamental gaps in access to the basic necessities of life—safe water and sanitation, nutrition, quality education, affordable healthcare, transportation, housing, and community safety. To paraphrase Thomas Hobbs, at these subsistence levels life remains nasty, brutish, and short.

C.K. Prahalad's "Fortune at the Base of the Pyramid" thesis in 2004 posited a more optimistic and hopeful view—one in which multi-national companies, envisioning the bottom 4 billion of the world's population as a market opportunity, would become a well-spring of innovation for serving the urgent unmet needs of humanity and eradicating global poverty. His thesis was challenged in a rebuttal by Bill Davidow, Founder and Partner of Mohr, Davidow Ventures, at the 2003 Santa Clara University Conference, "Networked World--Information Technology and Globalization." This conference coincided with the launch of a pilot program involving seven ventures from network partners of the Center for Science, Technology, and Society. As described previously, from this modest beginning in 2003, by 2016 the Global Social Benefit Incubator had grown to serve more than 650 ventures from around the world. This book is a direct result of 10 years of continuous learning through our work with these ventures and subsequently in applying these concepts with both MBA students and undergraduates at Santa Clara University and elsewhere.

The following 2003 Davidow rebuttal to Prahalad's thesis was one of many intellectual spurs to our thinking about bottom-up social innovation as a new domain for entrepreneurial ventures:

> *"One of my concerns has always been whether our corporations or our multi-national corporations can do much to help solve these problems, and I think some of them can. But, in general I've concluded that for the most part our corporate infrastructure is not equipped to do the job.*
>
> *I've thought about the discussion that would take place at a General Electric or Mitsubishi and whether the groups that were there would have the imagination to figure out how to capitalize on these opportunities. I've concluded that they're pretty good followers once somebody else sets the pattern and defined the opportunities, and shown that it can be done. But, they're not innovative leaders for the most part.*
>
> *The (BoP) markets are extremely risky and these big corporations don't like to take risks. And, the markets in these countries are very fragmented and the needs are very, very different. You can't take the same product that you sell in the United States or Europe and just provide it to these markets. The social customs are different. The politics are different. And these unique markets require special attention and special understanding. Above all, they are not homogeneous and our large corporations like to do things that are homogeneous. That's the way we think.*
>
> *I believe the opportunity is to create lots of entrepreneurs and investment incentives. I have a tremendous amount of faith in that messy process of entrepreneurship and would love to see us create a million Henry Ford's or hundreds of million Henry Fords who in a very disorganized fashion would do the things that are right to serve local markets because they understand the needs of the country. So I think the key is to find the technologies that are going to stimulate the entrepreneurship."*

In the intervening years since 2003, to what extent have major businesses contributed to innovation in serving base of the pyramid needs? What's the evidence? Ted London's recent book (London, 2016) suggests it is scant. He finds lots of pilots, but few scalable enterprises; case studies and reports, but few best practices; and, examples of ventures that scaled, but then struggled to become sustainable or replicate success across geographies. He posits that big companies have significant *advantages* in low cost production and distribution as well as in capital efficiency due to their ability to achieve economies of scale. However, they have significant *disadvantages* when it comes to close-to-the ground empathy with the life circumstances of the poor, their needs, how to co-invent solutions *with* the poor, and how to overcome the daunting challenges of last-mile distribution in fragmented markets. He suggests that social entrepreneurs are better equipped to fill these gaps.

Al Hammond describes Prahalad as a brilliant, passionate thinker and speaker whose influence among major companies and other stakeholders in the BoP domain was profound. However, in a 2015 retrospective for NextBillion Hammond concludes:

> *"It turned out to be harder for large companies to really focus on how BoP markets were different and – especially for public companies with quarterly profit reports to file – to sustain activities that had little hope of quick profits or high margins. And when hard times came in 2008, most shelved or postponed BoP projects. Even before then, however, there was growing evidence that the real innovators in the BoP would be social entrepreneurs of both the for-profit and the nonprofit kinds (at least those that aim to be sustainable). And in my view, at least, that's how it turned out.*
>
> *A thousand flowers and more did bloom, and many of those novel approaches did work, even though relatively few have achieved scale. Nonetheless, coherent strategies began to gel in sectors such as low-income housing, off-grid energy, small-scale agriculture and artisan handicraft support services, healthcare, water and sanitation."*
> *http://nextbillion.net/nexthought-monday-the-next-billion-the-next-decade-launching-nextbillions-10-year-anniversary-series-what-wellness-means-for-enterprises/*

In chapters 4 through 12, we trace the emergence of scaled and replicable models in two such sectors—off-grid energy and affordable healthcare—with in-depth examples from Grameen Shakti and Sankara, respectively. Through the Miller Center for Social Entrepreneurship and its cohort of Silicon Valley mentors, over 600 organizations have now utilized the business planning framework we describe in these chapters. Nearly all of these ventures evidence positive social impact, a majority have positive operating cash flows, often as hybrid organizations from a combination of earned and contributed income. Our purpose in writing this book is to address the challenge of scaling success or, more precisely, the challenge of creating social impact organizations that can become sustainable at scale.

It's still the case that the vast majority of social ventures, as with start-ups in Silicon Valley, will not scale. In the social sector, Al Hammond posits:

> *"The lack of scale more generally seems to have a different cause: Social entrepreneurs lack what corporations have, which is access to finance, ability to attract and retain middle management, good accounting systems and the skills appropriate for scale. And now that corporations are again showing more interest in the BoP, it suggests that maybe the real route to success is to marry social entrepreneur*

innovation skills and ability to operate on the ground with corporations, to create hybrid models and unconventional partnerships, to build new kinds of business ecosystems."
http://nextbillion.net/nexthought-monday-the-next-billion-the-next-decade-launching-nextbillions-10-year-anniversary-series-what-wellness-means-for-enterprises/

We address business ecosystems and partnerships in chapters 5, 7, and 9—Environment Analysis, Operations and Value Chain, and Business Model and Unit Economics, respectively.

Growth of social entrepreneurship as a field coincides with the emergence of a "fourth sector" that bridges the rationalities of public, private, and non-profit or philanthropic organizations. This sector places a major emphasis on continuous organizational innovation, developing public-private partnerships, and forming other cross-sector alliances. At the nexus of this convergence, social entrepreneurship is unleashing creativity and becoming a potential well-spring of ideas for disruptive innovation. In contrast to big companies that are driven by short-term profits and often viewed as extractive, or distrusted governments widely viewed as offering bureaucratic solutions gamed by incumbent actors for private gain—social entrepreneurs are rooted in local contexts and perceived as empowering local communities. They are a vital source of R and D because they are addressing the challenges of market creation in the context of resource constraints and market imperfections.

The Informal Economy and Market Failures

In the 1980s, a project begun at the University of California at Berkeley defined the "informal economy" as the production and distribution of legal goods and services occurring beyond the purview of formal institutions and posited that it resulted from the cost of operating a business within the legal rules of an economy being greater that the costs of operating the same business illegally (Portes, Castells and Benton, 1989). This project also documented the the size of the informal economy in several countries. About the same time, Hernando DeSoto, using the same definition of informal economy, documented the informal economy in three market sectors (housing, retail and transport) in Peru (DeSoto, 1989). DeSoto posited that the informal economy was still inefficient in providing goods and services because of the high costs of being "outside" the system, and argued that to help the informal economy become both more efficient and part of the formal economy simple laws governing business formation and operation were necessary.

Twenty years later, Prahalad defined "transaction governance capacity" as the system of rules which regulates and supports business formation (Prahalad, 2010). Prahalad, like DeSoto, felt that the informal economy would prevail unless government could assure that transaction governance costs (the costs of formal rule-based transactions) in the formal economy were less than those costs in the informal economy.

The informal economy dwarfs the formal economy and it exists as a social institution to fill a void. It is relationship based, and has its own norms centered largely on trust and reciprocity.

It involves exchange relationships that encompass barter and flexible payment arrangements that accommodate the minimal savings and uneven cash flows of the poor. Unfortunately, there is no evidence that the informal economy actually reduces the poverty of the participants. Rather, it seems as an economic system that accommodates poverty.

The relevance of theories of the informal economy to social entrepreneurs is that in many countries, social ventures still operate in the informal economy. In some cases, they may create a sustainable, scalable business in contexts where transaction governance capacity is low by focusing on how to reduce transaction costs (for example, through m-commerce or electronically mediated access to government services). Efforts such as these can transform previously unstructured and inefficient markets, including those discussed in a paper by Jain and Koch describing informal markets as “subsistence economies” with numerous impediments, such as lack of infrastructure and the absence of rule of law for ventures that operate in these economies (Jain and Koch, 2009).

Market Imperfections and Approaches to Poverty Reduction

As we will discuss in chapter 2, Prahalad’s thesis of market-based solutions to poverty as an alternative to top down government solutions or welfare assumed that markets, as we comprehend them existed at the base of the economic pyramid. In reality, these markets were large—for essential products and services estimated to be $5 trillion (Hammond et al, 2007)—but they were extremely fragmented. They existed in contexts where the rule of law and the enforceability of contracts were weak, corruption was prevalent, literacy and skill levels were low, and civil engineering deficits were extremely high. In these contexts, market intelligence as well as awareness of customer needs and knowledge of the way markets worked often was extremely weak especially among governmental, philanthropic, and multi-national corporations. How barter systems, the absence of fixed pricing, and the conventions of one-to-one sales channels might influence market entry and growth was unknown. Neither were the implications of serving a customer base comprised primarily of people working in the informal economy understood. In India, for example, 90 percent of the population is supported by the informal economy with irregular and unpredictable subsistence wages.

In economics, the term “institutional voids” refers to an absence of the institutional arrangements and actors required to enable their smooth functioning of markets. (Khanna & Palepu, 1997). These voids can be reflected in the weak enforcement of formal regulation or contracts, as well as a lack of intermediaries and public infrastructure—factors that raise transaction costs and as a consequence, significantly hinder market-type activity. From a transaction cost economics perspective (Coase, 1960; Williamson, 1985), the absence of a fully developed institutional context—including well-defined property rights, rules of exchange and legal recourse—undermines the emergence of well-functioning capital, labor and product markets (Jain and Koch, 2016). Where such formal institutional arrangements are lacking, they are frequently supplemented by local norms and traditions that are poorly understood by major companies. This makes an understanding of the landscape of potential partners in local operating environments crucial to enterprise success. In chapter 5, we address the issue of transaction governance capacity in BoP communities where the rules of exchange are likely to be opaque to outsiders and specifying trusted partners with local knowledge is critically important to market creation.

Innovation requires deep empathy with user needs and the specific constraints that exist at the base of the pyramid. The poor are not an undifferentiated mass. For example, in her study of Grameen Shakti's approach to energy markets in Bangladesh, Nancy Wimmer discovered different design requirements for addressing various BoP income and occupational segments (e.g. farmer, fisherman, merchants, craftsmen, teachers, clinics, schools). While the scale of Shakti's off-grid lighting solutions for the poor were miniscule in comparison to offerings in developed economies, the unit size and configuration of offerings still varied substantially. At Shakti and elsewhere, distribution modalities also vary substantially depending on BoP income segments (Wimmer, 2012).

Rangan and his colleagues (2011) suggest it is only at the "top of the bottom of the pyramid," for the 1.4 billion people with incomes between $3 and $5, that it becomes feasible to provide appropriate and affordable products *directly* to the poor. Here, products may be derivative in nature—below this income level constraints and design challenges become more onerous. At subsistence income levels, the 1.6 billion people living on $1-3 per day, market creation requires that *individuals or small businesses* be enlisted to provide efficient reach and coverage. In addition, communities are often engaged as part of the supply chain, especially where personal agency and empowerment stand to increase. As with Henry Ford's factory workers, job creation and growing community wealth is key to evolving markets that can flourish. According to Rangan et al (2011), to serve the extremely poor, the roughly 1 billion people living on less than a dollar a day, requires commercial partnerships with government and collaborating with NGOs.

How to segment nascent markets and other practical lessons for serving the poor has evolved from bottom-up experimentation and entrepreneurial adaptation to overcome institutional voids. For example, research by James Koch and his colleagues identifies indigenizing technology or locally focused innovation, the micro-provisioning of products and services, and socially anchored distribution systems as key elements to developing markets for these communities (Desa & Koch, 2014; Jain & Koch, 2015). What's missing in top-down government and big company perspectives on BoP markets is a more proximate understanding of the lives of individuals within these communities. "Banerjee and Duflo's (2011) pioneering work significantly details – through the use of household surveys—the lives of the extremely poor, in terms of the choices they face, the constraints they grapple with and the challenges they address" (Jain and Koch, 2016). This and related work on the social construction of markets by Viswanathan and his colleagues (Viswanathan, 2007; Viswanathan & Sridharan, 2012) provides critically important insight on transaction or exchange relationships and how markets work in BoP communities. From a review of Viswanathan's research, Jain and Koch (2016) conclude:

> *Word of mouth and one-to-one relationships between the individual and the neighborhood retail storeowner take center stage in these situations. The nature of transactions is often fluid, with price and quantity being negotiated, installments not being paid and prices being adjusted for personal circumstances to both the buyer's and seller's advantage. In summary, "subsistence markets" are characterized by a complex web of interdependencies and interactions between buyers and sellers, and functioning in these conditions requires developing trusting relationships and norms of reciprocity that have a medium-to-long term perspective.*

Clearly, BoP markets must be viewed on their own terms, with their own logic. Their characteristics are quite different from the well-articulated markets served by multi-national and major companies in advanced economies. In some instances, the latter may be mature markets approaching saturation—a circumstance that Prahalad hypothesized would stimulate interest in serving nascent BoP markets. Still, big companies understand these well-defined markets and it's where their cost structures and operating styles fit most comfortably.

Advantages of Bottom-Up Innovation through Social Ventures: A More Proximate View of Markets

Taking a more proximate or bottom-up view involves migrating from a vision of "serving markets" to one of "developing these markets." This entails a process of co-creation in environments with unique traditions, customs, and ground-level dynamics (London, 2016). For the most part, big companies have either ignored or been ineffective in these settings, while startups are beginning to chart a path to market creation. Their underlying rationales are often quite different than a classic for-profit firm (Grimes, McMullen, Vogus & Miller, 2013). Frequently they assume a hybrid orientation, intending to be economically viable while making a societal impact (Battilana & Lee, 2014). In this regard, they represent a more humanistic logic than the impersonal forms of market exchange that characterize advanced economies (Ansari, Munir & Gregg, 2012).

In working with social entrepreneurs from developing countries, we realized that we had more to learn than we had to teach. Their proximate view as bottom-up innovators provides economies of interaction and learning which are inaccessible to big company strategists and government technocrats, or to us in the hallways of our bucolic and munificent university setting. They are in continuous dialogue with those they serve and listen to voices we may never hear. In contexts of extreme resource scarcity, they work with underserved populations to co-invent product and service solutions to some of the most difficult problems in the world.

In *The Base of the Pyramid Promise—Building Businesses with Impact and Scale* (2016) Ted London distills the creative advantages of bottom-up innovators for both enterprise development and market creation. Developing a BoP enterprise requires market intelligence and market access as well as access to financial, human, and social capital. In subsistence settings, bottom-up innovators have the advantage of cultural and linguistic capital. They understand local contexts and competitor landscapes from the proximate vantage point of customers and can bridge their intimate sense of customer needs with knowledge of supplier capabilities. Through deep listening they can also discern how to translate customer needs into product or service preferences and latent demand into early adoption and subsequent market penetration. They are well positioned to adopt enterprise development strategies—including skill development, local assembly, women empowerment, and network tie-ups—that create shared value and strengthen local alliances. Finally, as hybrid ventures, they can overcome resource constraints by attracting grants and pursuing low cost prototyping in field settings as an alternative to expensive research and development in distant corporate laboratories.

In underserved settings, markets must be created. Here bottom-up approaches to social innovation and market creation have advantages in:

- Adapting the best practices in social marketing and behavioral change to local contexts
- Utilizing existing supply chain infrastructure to complement organizational capabilities
- Tapping local customer financing through regional banks or established micro-finance institutions
- Leveraging social capital and local network acumen to access stakeholder resources
- Combining technology advances with bottom-up innovation requirements on the basis of deep empathy with local needs

Grameen Shakti leveraged these advantages to become the world's largest solar home provider. Sankara did so to become the world's largest provider of affordable eye care. We develop both of these examples to illustrate how our business planning process works in chapters 4 through 10. From our work with organizations like Shakti and Sankara, we believe that social entrepreneurs who can integrate their bottom-up perspectives with the knowledge of seasoned entrepreneurs about how to grow a business hold great promise for successful ventures to serve the poor.

Building a successful venture to serve marginalized populations in settings with low trust in government and outsiders requires a deep appreciation of the local customs, socio-political structures and norms which form the basis for local systems of economic exchange. The "bottom-up" and participatory approach to enterprise development and market creation in this guide for social entrepreneurs contrasts with top-down methods that have dominated government policy and the BoP market entry strategies of multi-national companies. It is consistent with research by Jain and Koch (2015) which underscores the importance of embedding solutions in local ecosystems. Based on their in-depth case analysis of off-grid BoP enterprises they conclude:

> *"Solutions involve mixing and matching state of the art technologies with indigenous knowledge, as well as an appreciation of resident absorptive capacity, a process we term indigenization. Similarly, customer affordability constraints and economic viability tradeoffs can be addressed through the development of micro-provisioning mechanisms that involve understanding unit economics across improvised value*

chains; developing efficient micro-payment schemes; and, partnering with community finance institutions. Finally co-producing and embedding solutions within these environments involves designing logistics and incentive plans for last mile agent-based sales and service. Through these ecosystem-level arrangements, organizations can increase capital efficiency, align solutions with the informal rules of exchange, and tap into extant trust-based social structures thereby securing legitimacy for their endeavors."

Clearly, these markets are distinct. Social entrepreneurs are leading the way in discovering how to serve them. Unlike multi-national companies who enter base of the pyramid markets from the outside, social entrepreneurs build enterprises and markets from an inside or bottom-up perspective. In settings where word of mouth is critical, they understand the bases of trust and how specific elements of brand identity influence early adoption and wider market penetration. They:

- Have superior knowledge of customer needs and practical knowledge of how to create compelling value equation through cost reduction or enhancing customer value.
- Possess knowledge about how culture, language, symbols, and opinion leaders shape attitudes. This enhances their ability to make effective use of local media (e.g., through imaginative soap operas for educating customers or mobile platform applications in local language).
- Understand local distribution and how existing channels might be appropriated to reach customers.
- Understand local stakeholders and, as we address in chapter 5, how they might be enlisted to mitigate risks or leveraged through value chain innovation.

Summary

We began with Humpty Dumpty as a metaphor for the futility of solving complex social challenges through extant mental models. In this chapter we have examined top down and bottom up approaches to serving unmet human needs. For those interested in government approaches to poverty alleviation, Appendix A reviews the efficacy of a variety of policy related frameworks aimed at reducing poverty—ranging from the direct provision of public services, to welfare reform, vouchers, and supply-side or trickle-down economics. Here the arc of policy bends in the direction of a reduced role for government and an increased emphasis on market-based solutions, public-private partnerships, and "pay for success" efforts to replicate cost-effective bottom-up solutions.

In the context of market-based solutions, we've revisited the "eradicating poverty through profits" thesis of the late C.K. Prahalad and the BoP innovation leadership role he envisioned for major companies. While there is growing evidence of innovation, it is being led by the work of thousands of social entrepreneurs, rather than the major companies. Their proximate view of these un-served markets holds particular promise for producing transformative change in base of the pyramid communities. By applying the practical theories and tools in this book we believe these entrepreneurs can significantly increase their odds of success and tapping into the rapidly growing source of "impact capital," a topic we examine in chapter 12. Within the U.S. economy, top-down macro approaches to the alleviation of poverty—like "trickle-down" economics—fail to address challenges the poor must overcome to enter the middle class. These challenges are not primarily national considerations, but factors that arise from the immediate environment. Landmark studies by Raj Chetty, Nathaniel Hendren, Patrick Kline, Emmanuel Saez (2014), and by Robert Putnam (2015) have documented the factors that contribute to intergenerational mobility, including:

- Neighborhood characteristics that enhance middle class entry
- Low levels of income inequality
- High levels of social capital
- Racially integrated communities
- Strong families and effective parenting
- Good schools

A combination of effective top-down macro-policy, infrastructure investment, and bottom-up social innovation is required to effectively address these issues. In fact, the best roles for government and philanthropy in alleviating poverty may be to create the environment and infrastructure which enables social venture innovation to thrive.

On a cautionary note, at an international development level, the notion of business entrepreneurship as a solution to poverty is not without its detractors. In the context of global capitalism, poor countries often perceive wealthy nations benefiting from extractive industries or in other ways *extracting* wealth through the ownership of intellectual property, protective agricultural tariffs, the commercial flow of value added products, and the ownership of global capital. They are apprehensive of external players who they perceive as leaving little behind in the form of sustainable enterprises with good paying jobs, knowledge transfers, and positive prospects for sustainable community wealth. This pessimistic view gives added weight to inherent tensions in attempts to extend Western or Silicon Valley models of entrepreneurial capitalism. It underscores the need to acknowledge the importance of local trust, and cultural differences; distinctions between informal and formal markets; and divergent perspectives about the role of capital—from Wall Street to Islamic capital and from Silicon Valley to micro-finance. Major companies can help to catalyze entrepreneurship at the base of the economic pyramid and perhaps play a greater role in bridging cultural divides, but in fostering a more inclusive prosperity they may be in a supporting role—one that strengthens and helps to diffuse the bottom up work of social entrepreneurs.

Pamela Hartigan's 2012 speech at the Skoll World Forum described as outrage the response of "ordinary citizens against an increasingly unfair and unsustainable society." This outrage was reflected in a July 26, 2013 in the editorial in the NY Times by Peter Buffet:

> *"It's time for a new operating system. Not a 2.0 or a 3.0, but something built from the ground up—a*

> *new code. What we have is a crisis of imagination. Albert Einstein said that you cannot solve a problem with the same mind-set that created it. Foundation dollars should be the best "risk capital" out there. There are people working hard at showing examples of other ways to live in a functioning society that truly creates greater prosperity for all (and I don't mean more people getting to have more stuff).*
>
> *Money should be spent trying out concepts that shatter current structures and systems that have turned much of the world into one vast market. Is progress really Wi-Fi on every street corner? No. It's when no 13-year-old girl on the planet gets sold for sex. But as long as most folks are patting themselves on the back for charitable acts, we've got a perpetual poverty machine. It's an old story; we really need a new one."*

As many will recall from childhood memories of Humpty Dumpty, all the king's horses and all the king's men couldn't put humpty together again. The top-down, macro economy approaches of governments to eradicating poverty reflect the orthodoxies of political majorities that float above the realities of impoverished communities. As with the outside-in efforts of major companies to develop market based solutions to poverty, often they suffer from a lack of connectedness with the lives of real people. This empathy deficit undermines an appreciation of market failure and deep thinking about the factors that hold unjust equilibriums in place. In this context, macro measures of economic well-being such as GDP per capita mask the realities of inequality, wide-spread poverty, and the systemic barriers to social progress. In this chapter we have tried to show why existing approaches (governmental, philanthropic and corporate) have fallen short. In chapters 4 through 12, as we will illustrate through concepts and numerous examples, we believe the work of social entrepreneurs holds particular hope for a better world. In addition to describing these concepts and illustrating best practices, we offer current and future social entrepreneurs a guide for developing successful social ventures.

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Chapter 2

The Market at the Base of the Pyramid

Chapter 1 developed the case for social entrepreneurship as a lever for poverty eradication and social progress. It identified distinct advantages of bottom-up innovation relative to the more bureaucratic top-down solutions of governments and the less locally rooted efforts of major companies. The latter may see serving the poor as a market opportunity, but how systems of exchange operate in these settings is opaque to outsiders and market creation requires a steep "unlearning curve" for multi-national companies. This chapter examines the size of BoP markets and areas of unmet human need, as well as the challenges in addressing these needs. While much of the discussion in this chapter is about countries where much of the entire country can be classified as a "base of the pyramid market," such markets can also be found in "developed countries" (such as the US) where the majority of the market is not "base of the pyramid.

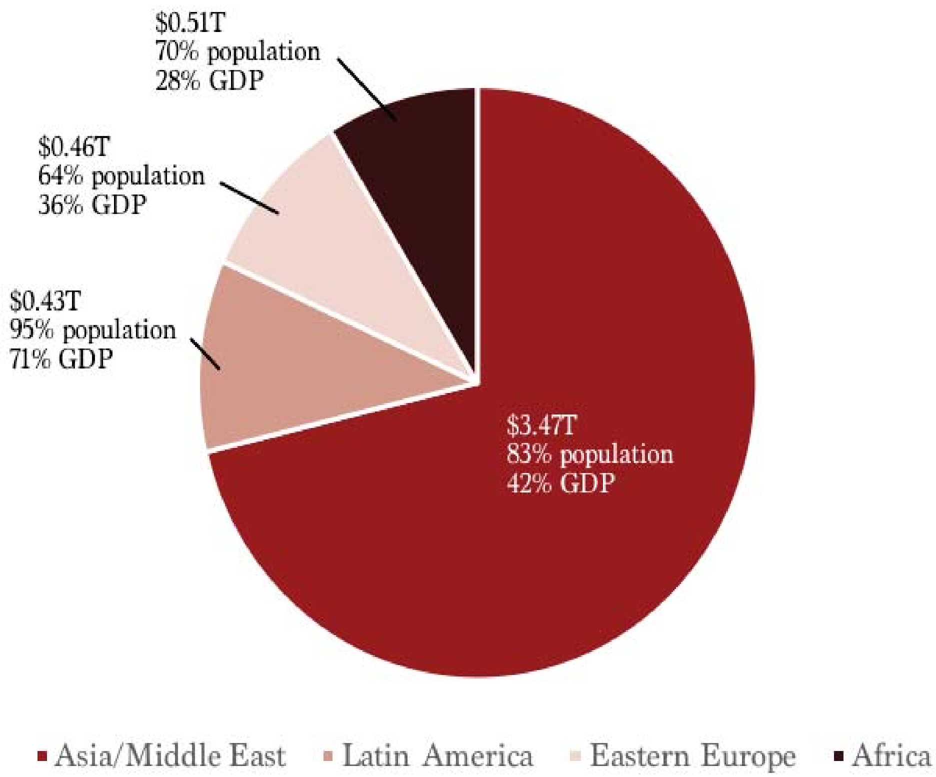
In his 2004 book, the Fortune at the Base of the Pyramid, C. K. Prahalad posited that the problems of the poor should be treated as a market of potential customers with money and needs. He described this market as both urban and rural and, of course, very price-conscious, but also value-conscious—with a counter intuitive preference for brands. Without giving much detail on the size of this market, he described the market as a profit opportunity for those companies that can overcome two major challenges: (1) how to provide affordable, easy to use solutions for the significant problems of the poor; and, (2) how to provide ease of access to such solutions. Before examining this claim in greater detail, let's shed some light on the size and structure of the BoP as a market.

The Size of the BoP Market

In 2007, a couple of years after Prahalad's book was first published, the World Resources Institute and International Finance Corporation commissioned a study, under the leadership of Al Hammond, to try to quantify this market at the base of the economic pyramid (Hammond, 2007). This study was based on 2000 census data from household surveys so the data are over 15 years old at this time. Although the world's population has since expanded from 6 billion to over 7.2 billion with the number of poor people from 4 to 4.5 billion and the total market has grown from $4.5T to over $5T (IFC and World Bank, 2016), the WRI study remains an accurate quantitative analysis of how the poor spend their money across geographies.

The WRI study estimated that the 4 billion poor people in the world had about $5 trillion in spending power, distributed geographically as shown in Figure 2.1:

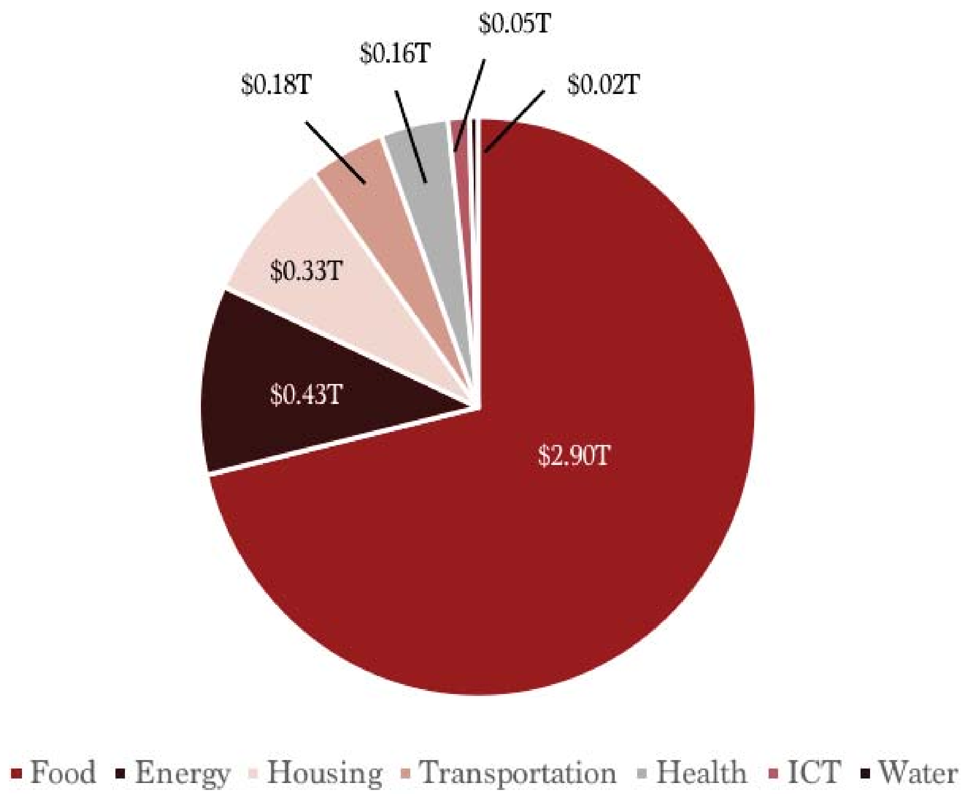
Figure 2.1 Global Poverty



Asia/Middle East, containing both China and India, was by far the largest geographic segment. In this segment the poor constituted about 83% of the total population and their $3.47T in spending represented 42% of the segment's total GDP. In Latin America the poor represented a slightly smaller percentage (70%) of the population, but a much smaller (28%) of the GDP. This smaller percentage of GDP may be because the informal economy is much larger in Latin America than in Asia. Eastern Europe, was slightly smaller that Latin America in terms of total spending and of the percentage of the population that was poor, and slightly more of the total GDP spent by the poor. But it was in Africa that the poor represented the largest percentage of the population (95%) and spent the largest percentage of the GDP (71%). These numbers indicate that the poor do represent a potentially large market, both in terms of total spending and of the percentage of the GDP that such spending presents.

The WRI study also reported on vertical market segments, or particular categories of spending. While there was some variation by geography, in general the study found that the poor spent their money as shown in Figure 2.2:

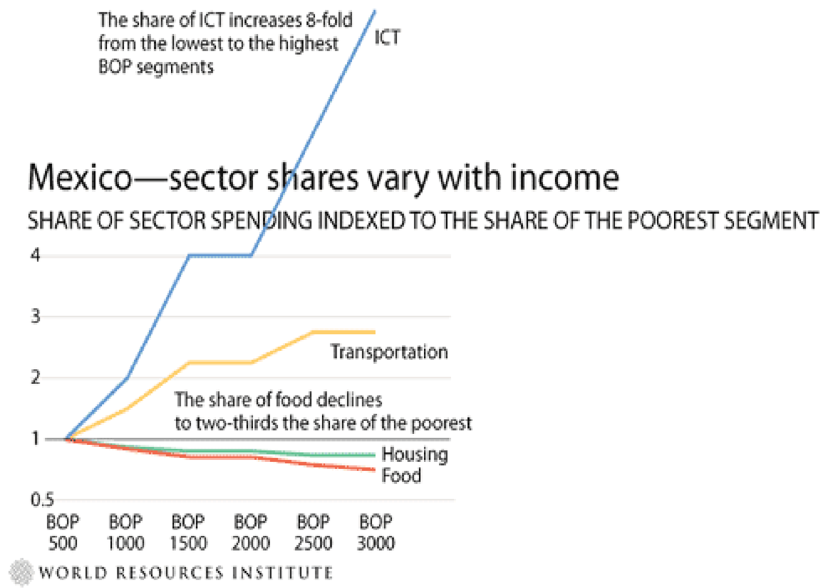
Figure 2.2 BOP Spending



Of no surprise is that food represented over half of spending. More surprising is the fact that energy (for lighting and cooking) was the second largest area of spending – ahead of housing and transportation. In the area of Information and Communication Technology, a significant amount of ICT spending is for cell-phones or cell phone time. Cell phone penetration in Africa now approaches ninety percent. This has enabled the market for mobile banking to explode and accelerated the diffusion of household solar solutions through pay-as-you-go business models. Here and elsewhere, as individuals move from the poorest of the poor to mid-and higher segments of the BoP, spending on ICT grows dramatically. A similar pattern exists in energy consumption where simple solar lanterns represent an entry-level product and the poor are seen migrating to more expensive solar home systems as they move from the BoP 1000 to the BoP 3000. The economic benefits of access to energy are well documented, so it comes as little surprise that a rapidly growing market exists for the targeted use case solutions of organizations like Grameen Shakti in a wide variety of occupations—from farmers, to fisherman, merchants, craftsmen, and nurses in rural health clinics. In these and many other contexts, access to energy increases productivity and incomes. The correlation between energy access and income suggests that the BoP market for energy may be much greater than the estimate of $433 billion derived from year 2000 household expenditures for kerosene and other inferior sources of energy. With the discovery of a host of specific energy load market segments by social entrepreneurs and rising incomes in developing countries we believe that this energy market now exceeds $1 trillion. (Koch and Hammond, 2014).

In chapters 4 through 10, we illustrate the parallel processes of enterprise development and market creation through Grameen Shakti's business plan for selling solar home systems in Bangladesh.

Figure 2.3 ICT Spending Growth



Source: Hammond et. al., The Next 4 Billion, Market Size and Size and Business Strategy at the Base of the Pyramid, World Resources Institute, 2007, p. 14.

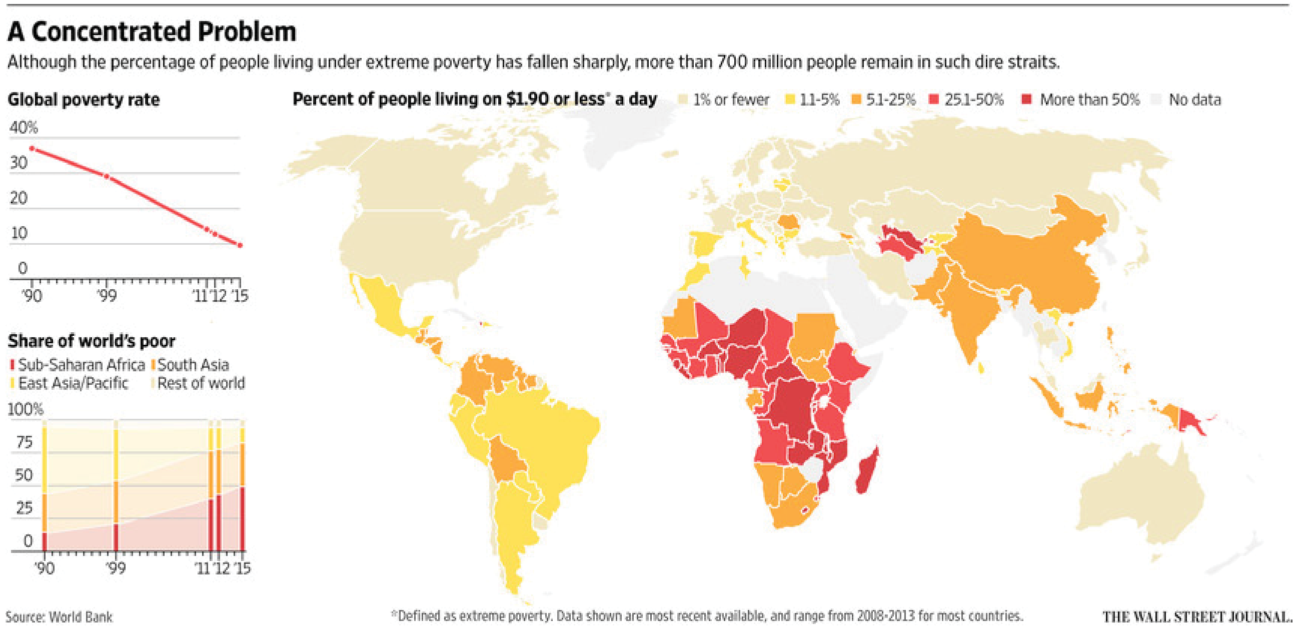
Poverty as a Concentrated Problem

Figure 2 shows the distribution of extreme poverty across the globe. As noted above Asia, Latin America and Africa have the greatest concentrations of extreme poverty. Within these countries the percentage of people living in extreme poverty is substantially greater in rural areas—a factor that is driving migrations to major cities and peri-urban areas lacking in essential water, sanitation, housing, and transportation services. Similarly, high percentages of poverty in the global south and civil war are driving migration to the global north. Figure 2 comes from an article in the Wall Street Journal which carried the following headline:

> *Unprecedented global economic growth over the past quarter century has lifted an estimated 1.25 billion people out of poverty, in one of the greatest recent achievements in human history (Wall Street Journal,* January 19, 2016*).*

Virtually, all of the progress noted in this WSJ article stems from globalization—manufacturing in China and elsewhere and the outsourcing of IT services to a wide range of countries in the global south, most notably India. If you believe that living on $1.90 a day is social progress, then it's time to declare victory. If you look behind this Wall Street Journal headline to the daily lives of the poor and the work of social entrepreneurs who seek to empower them you will see another reality. This reality sees huge unmet human needs and opportunities to improve life choices of the poor through efforts to develop market-based solutions to poverty.

Figure 2.4 Global Distribution of Poverty



The Millennium Development Goals (Improving Life Choices)

As a way of understanding the BOP market, and as an overview of significant possible market opportunities for social ventures, it is useful to try to understand the key problems of those who make up the population of this market. Two efforts at the United Nations are of note: the Millennium Development Goals (MDG) and the Sustainable Development Goals (SDG). They are discussed here to provide insight into salient problems in markets of interest to social ventures. In *Development as Freedom*, Noble Prize winning economist Amarty Sen argues eloquently that what the poor really want is *improving life choices* (See Amarty Sen, *Development as Freedom*, Anchor Books a Division of Random House, New York, 1999). His thinking and that of other development economists were a significant influence on the 2000 Millennium Development Goals of the United Nations which sought by 2015 to:

1. Eradicate extreme poverty
2. Achieve universal education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability, and
8. Develop a global partnership for development

It is through the empowerment of individuals and communities that high-minded aspirations such as the MDGs and human agency come together. By 2015, significant progress was made on each of these goals. As referenced above, for example, the number of people living in extreme poverty (defined in MDGs as having an income of less than $1.25 a day) was reduced by half. In addition, between 2000 and 2015 significant progress was made in the proportion of undernourished people, the number of children attending primary school, maternal and childhood mortality, and the rate of new HIV infections. Progress in achieving these Millennium Goals was driven by national, international, and multilateral agencies, as well as the work of foundations and on-the-ground innovators—including the work of social entrepreneurs. While there is much to celebrate in the Millennium Development Goals Report of 2015 (www.undp.org/content/undp/en/home/librarypage/mdg/the-millennium-development-goals-report-2015.html), in the final analysis social progress cannot be measured by counting the number of people above a socially defined subsistence level of income. Its essence must be reflected in transformative change that truly improves life choices. Chapters 4 through 12 offer a well-worn guide for such efforts—tested through work in the Miller Center for Social Entrepreneurship with hundreds of ventures.

The Sustainable Development Goals

The 2016 Sustainable Development Goals of the United Nations sought to capture what had been learned from the Millennium Goals and to reflect the increasing scale and complexity of the work to be done in a world that had grown by more than a billion people since the MDGs were created in 2000. The SDGs posed 17 new goals, which like the MDG indicate marlet opportunities for social ventures:

Goal 1: End poverty in all its forms everywhere.
Unlike the original MDGs, goal 1 acknowledges the systemic nature of poverty and its relationship to malnutrition; access to education and basic services; social discrimination; and barriers to participation in decision making. In each of these instances poverty is both a cause and outcome of systemic factors. (http://www.un.org/sustainabledevelopment/poverty/)

Goal 2: End hunger in all its forms everywhere.
Here the SDGs can be differentiated from the MDGs in underscoring the interdependence between people-centered rural development in agriculture, forestry, and fisheries and the need to protect fragile environmental ecosystems. The SDGs place a greater emphasis on the influence of environmental degradation and climate change on urban migration and risks to food security. (http://www.un.org/sustainabledevelopment/hunger/)

Goal 3: Ensure healthy lives and promote well-being for all at all ages.
This goal integrates elements from MDGs 4, 5, and 6 on child mortality, maternal health, and combating disease. It takes a more systemic and comprehensive stance relative to the challenges of ensuring healthy lives and promoting well-being for all ages. (http://www.un.org/sustainabledevelopment/health/)

Goal 4: Ensuring inclusive and quality education for all and promoting lifelong learning.
This goal recognizes the inextricable link between education, the quality of life, and econom-

ic development. In so doing it encourages a more systemic perspective on development than MDG 2 which counted kids in primary school as a proxy for success. (http://www.un.org/sustainabledevelopment/education/)

Goal 5: Achieving gender equality and empowering all women and girls.
This goal frames the issue of gender equality in a more holistic manner than original MDG 3. It extends well beyond equal access to primary education to aspirations for gender equality in healthcare, decent work, and representation in economic and political decision making as foundations for a more peaceful, prosperous, and sustainable world. Here the SDG of gender equality posits a systemic link between gender equality and social transformation. (http://www.un.org/sustainabledevelopment/gender-equality/)

Goal 6: Ensure access to water and sanitation for all.
Despite progress in the 2000-2015 period—most notably in access to improved drinking water through the work of bottom-up innovators—the systemic challenges of addressing needs for access to safe water and sanitation have become more onerous due to growing water scarcity and human wastewater discharge into rivers and seas, as well as more severe droughts, floods and water-related disasters attributed to climate change. Goal 6 acknowledges the embedded nature of water and sanitation challenges in a more complex ecological context. (http://www.un.org/sustainabledevelopment/water-and-sanitation/)

Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all.
Given the pivotal role of access to affordable clean energy in meeting the global challenges of job creation, essential productivity gains to ensure food security, increasing incomes, and mitigating climate change risks, it's surprising that this goal was not central to the original 8 MDGs. Here, as we will illustrate in chapters 4 through 10 with the example of Grameen Shakti, social entrepreneurs are combining local know-how with technological advances in distributed energy access to accelerate the deployment of solar energy at the base of the economic pyramid. In some instances, bottom-up innovators are leap frogging rates of solar energy deployment in developed countries. (http://www.un.org/sustainabledevelopment/energy/)

Goal 8: Promote inclusive and sustainable economic growth, employment, and decent work for all.
Across the world, the inability to create quality jobs in proportion to the size and growth of populations has led to erosion of the social contract and, in many instances, political instability. Many social entrepreneurs and impact investors count the number of jobs created as an "outcome" or measure of success. But, having a meager job doesn't guarantee an escape from poverty. With half the world's population still living on the equivalent of less than $2.00 a day, Goal 8 calls for a retooling of economic and social policies aimed at poverty eradication. What's needed here is a combination of sound macro policy and bottom-up innovation. (http://www.un.org/sustainabledevelopment/economic-growth/)

Goal 9: Build resilient infrastructure, promote sustainable industrialization, and foster innovation.
Up until now, virtually all of the bottom-up work of social entrepreneurs has assumed that major civil engineering deficits were a given. Goal 9 recognizes the vital importance of investments in infrastructure—transport, irrigation, energy, and information and communication technology—to productivity, achieving sustainable development, and empowering communities. Improvements in infrastructure and access to technology advances are critical complements to bottom-up innovation not previously acknowledged in the MDGs.

Goal 9 recognizes that technology and industrial scale innovation are critical to raising incomes and extending the horizons for social change beyond what is achievable through bottom-up innovation alone. This perspective reframes the possibilities for eradicating poverty, but it calls for public-private partnerships and cross-sector collaborations seldom evidenced to date. (http://www.un.org/sustainabledevelopment/infrastructure-industrialization/)

Goal 10: Reduce inequality within and among countries.
This goal tackles an issue not previously addressed in the MDGs, but of growing concern in the global economy—rising inequality. As we noted in our discussion of the Social Progress Index in chapter 1, growth as measured in GDP is not sufficient to ameliorate poverty or provide access to quality healthcare and education services for disadvantaged and marginalized populations.
(http://www.un.org/sustainabledevelopment/inequality/)

Goal 11: Make cities inclusive, safe, resilient and sustainable.
This goal acknowledges unprecedented urban migration and the challenges it poses for livable cities:

- Half of humanity—3.5 billion people—lives in cities today, but by 2030, this number will rise to 60 percent of the world's population
- 95 percent of urban expansion in the next decades will take place in developing world
- 828 million people live in slums today and the number keeps rising

Cities are the frontline for a livable world. They occupy just 3 percent of the Earth's land, but account for 60-80 percent of energy consumption and 75 percent of carbon emissions. In addition, rapid urbanization is exerting pressure on fresh water supplies, sewage, the living environment, and public health.

Despite these alarming statistics, high density cities are still viewed as bringing efficiency gains and technological innovation while reducing resource and energy consumption. A combination of top down and bottom up innovation is needed to achieve SDG targets for affordable housing, sustainable environment, transport, inclusive planning, natural disaster preparedness and a number of other objectives. (http://www.undp.org/content/undp/en/home/librarypage/mdg/the-millennium-development-goals-report-2015.html)

Goal 12: Ensure sustainable consumption and production patterns.
The challenges here requires reframing the concept of economic value to account for externalities and foster business engagement in new forms of collaboration with government and across value chains as noted in this SDG quote (italics added):

"Sustainable consumption and production aims at 'doing more and better with less', increasing *net welfare gains from economic activities* by reducing resource use, degradation and pollution along the whole lifecycle, while increasing quality of life. It *involves different stakeholders*, including business, consumers, policy makers, researchers, scientists, retailers, media, and development cooperation agencies, among others.

It also requires a *systemic approach* and cooperation among actors operating in the supply chain, from producer to final consumer. It involves engaging consumers through *awareness-raising and education on sustainable consumption and lifestyles*, providing consumers with adequate information through standards and labels and engaging in sustainable public procurement, among others."

Value chain innovation is a significant driver of entrepreneurial ventures at the base of the pyramid and a consideration across virtually every element in the business planning process described in chapters 4 through 10. As we noted in chapter 1, by 2050, global population will have tripled in the course of a single 87 year life span. Given the existential threats of climate change, the SDGs posit that issues related to economic development must be reframed to encompass sustainability if we are to act as stewards for the quality of life for future generations. (www.un.org/sustainabledevelopment/sustainable-consumption-production/)

Goal 13: Take urgent action to combat climate change and its impacts.
This goal acknowledges the clear evidence of a causal link between greenhouse gas emissions from human activities and the urgent threats to our collective lives posed by climate change. Its achievement requires solutions coordinated at international levels and effectively implemented locally. Affordable and scalable solutions are now available to enable leapfrogging to cleaner, more resilient economies. In poor countries, social enterprises like Grameen Shakti are leveraging the declining unit costs of technology and business model innovation to accelerate progress. Their efforts are benefiting from work in industry clusters to accelerate innovation in solar and other clean technologies—including the areas of efficient lighting, energy storage, and distribution. In some instances, they are also benefiting from policy incentives. The recently ratified Paris Agreement and quickening pace of grass roots efforts to turn to renewable energy illustrates the critical importance of combining top down and bottom up innovation to mitigate the existential risks of climate change.
(http://www.un.org/sustainabledevelopment/climate-change-2/)

Goal 14: Conserve and sustainably use the oceans, seas and marine resources. This goal, together with SDGs 12, 13, and 15, reflects the more comprehensive environmental ecosystem emphasis taken by the Sustainable Development Goals compared to the narrower and less systemic approach to sustainability in the 2000 MDGs. Goal 14 recognizes the interdependence of life on earth with the three-fourths of its surface comprised of oceans. Its targets temperature, chemistry, currents, ocean life and other factors that drive global systems and "make the Earth habitable for humankind." (http://www.un.org/sustainabledevelopment/oceans/)

Goal 15: Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss.
Managing and combating desertification have been elevated to a specific SDG goal due to the urgent risks posed by human activities. This goal references the loss of 13 million hectares of forests every year and arable land losses at 30-35 times historic rates. Globally, 74 percent of the poor are directly affected by land degradation, 2.6 billion people depend directly on agriculture, and 1.6 billion depend on forests for livelihoods. Here, as with other Sustainable Development Goals, there is an emphasis on viewing poverty from a larger systems perspective. In chapter 5, we stress the importance of a systems perspective in identifying partners and alliances. (http://www.un.org/sustainabledevelopment/biodiversity/)

Goal 16: Promote just, peaceful and inclusive societies.
Anyone who has worked with social entrepreneurs at the base of the pyramid quickly learns to appreciate the pervasiveness of corruption and its impact of venture development. "Corruption, bribery, theft and tax evasion cost some US $1.26 trillion for developing countries per year." Those charged with enforcement of contracts and rule of law—the judiciary and police—are themselves frequently active participants in corrupt practices. In a similar vein, in 2011, the unraveling of social order in conflict regions contributed to a 50 percent rate of children leaving school. Goal 16 posits that development and the rule of law are interrelated. Formal markets reduce transaction costs and can make corruption more transparent—potential benefits of market-based solutions to poverty. (http://www.un.org/sustainabledevelopment/peace-justice/)

Goal 17: Revitalize the global partnership for sustainable development.
Goal 17 posits that successful sustainable development agenda requires partnerships between governments, the private sector, and civil society. As with the Miller Center's efforts though its global network, these inclusive partnerships are "built upon principles and values, a shared vision, and shared goals that place people and the planet at the center."
(http://www.un.org/sustainabledevelopment/globalpartnerships/)

Santa Clara University's Miller Center and Silicon Valley

In comparison to the $135.2 billion in official development assistance in 2014—much of it focused on debt reduction—the work of social entrepreneurs may seem like a drop in the bucket, but the pace of bottom up innovation is accelerating. Moreover, it is spreading around the world to places where top-down solutions that float above the daily lives of the poor seldom reach. This movement is critical to success in meeting the Sustainable Development Goals because it is situated at the nexus of technology, social change, and human agency.

Our work in the field of social entrepreneurship at Santa Clara University began through partnerships with private sector companies as co-founders of the Tech Museum Awards and international agencies—most notably the World Bank Development Marketplace. It was catalyzed by our realization that technological innovation could not bridge from Silicon Valley to the needs of the poor in developing countries without the efforts of on the ground entrepreneurs to increase the capacity to absorb and effectively deploy technological advances. In vetting thousands of Tech Awards nominees we also recognized that the creative imaginations and courageous work of those intimately connected with the poor had little chance of becoming sustainable or scaling to serve the lives of countless millions without access to the enterprise building know-how of successful entrepreneurs in places like Silicon Valley.

While institutional arrangements focus on collaborations across global, regional, and national levels, Santa Clara University's Miller Center's work has primarily been centered on the work of social entrepreneurs rooted in regional geographies or local communities. Collectively, their work represents the largest R and D labaratory in the world for understanding from the ground up how we might live more justly and sustainably on our planet. For example, we've seen first-hand how social entrepreneurs are combining information and communications technology with micro-finance to dramatically increase access to banking services for the unbanked; how distributed solar energy is accelerating access to energy where centralized solutions are uneconomic; and, how information technology is enabling social entrepreneurs to increase traceability as a force for changing production and consumption practices across global value chains. We've also seen how social entrepreneurs are empowering one acre farmers with access to regional markets, improved agricultural inputs and financing; how they are providing access to affordable safe water and sanitation through community organizing and efficient distributed solutions; and, how they are empowering marginalized populations through public policy advocacy.

Large Scale Systems Thinking

As we have noted, the Sustainable Development Goals (SDGs) differ in important ways from the original Millennium Development Goals. While the latter were narrowly defined and more easily measured, the SDGs are defined in a way that requires systems thinking, greater accountability for outcomes, and a deeper understanding of causality in the presence of counterfactual evidence. For example, what would have happened in the absence of globalization to the number of people rising above the $1.25 threshold of extreme poverty since the Millennium Development Goals were announced in 2000. In reality, this goal was met largely through the migration of manufacturing to regions with cheap labor—often with deplorable working conditions and poor environmental standards.

The SDGs acknowledge the complex web of interdependent actors that hold unjust and unsustainable equilibria in place. They call for greater local accountability and an emphasis on systems thinking to:

- Integrate people-centered development with an increased priority for protecting fragile ecosystems.

- Acknowledge interdependence between growing water scarcity and the goals of providing access to water and sanitation for all.

- Emphasize the financing of infrastructure that is critical to support innovation and inclusive growth. (Note: Civil engineering deficits were largely ignored in the MDGs).

In several instances the Sustainable Development Goals extend the narrower focus of earlier Millennium Development Goals. For example, they:

- Emphasize health and well-being for all life stages—as opposed to the narrower Millennium Development Goals focus on maternal health and more readily measured child mortality.

- Emphasize inclusive life-long quality education—beyond the MDG focus on primary school education—as a driver of economic growth.

- Extend the emphasis on gender equality to the contexts of healthcare, decent work, and political decision making as a critical antecedent to a more just and prosperous world.

- Elevate the growing issue of economic inequality as a politically destabilizing concern.

In addition, the SDGs define new priority areas:

- The need to develop resilient and sustainable cities in the context of mass urban migrations—a priority largely ignored in the Millennium Development Goals.

- The increasingly urgent need for a comprehensive emphasis on environmental sustainability in all its forms—from systems of production and con sumption to conserving water, land, and air ecosystems—now reflected across fully 4 new goals.

- The salience of justice, peace, and corruption as significant potential barriers to be overcome in any effort to support sustainable progress.

Our world has changed since the year 2000. The Sustainable Development Goals place a renewed emphasis on the need for collaboration between government, the private sector, and civil society. It is here—where top down goals and the bottom-up aspirations of communities meet—that social entrepreneurs have the greatest potential for catalyzing social progress. They bring a depth of empathy for human needs and an ability to build the regional networks of trust and reciprocity needed for system solutions to find fertile ground. chapters 4 through 10 provide a guide for their efforts. In chapter 3, we describe how our approach to developing successful ventures differs from conventional approaches to business planning. Before turning to this overview, we will briefly describe how the learning from nearly 15 years of work with social ventures working at the base of the pyramid has influenced our thinking about market-based approaches to addressing unmet human needs.

Market Creation Requirements for Serving Marginalized Populations

We began this chapter with C.K. Prahalad's assertion that unmet human needs at the base of the pyramid are a profit opportunity for companies that can overcome two major challenges: (1) how to provide affordable, easy to use solutions for the significant problems of the poor; and, (2) how to provide ease of access to such solutions. While this assertion has catalyzed a great deal of activity, it oversimplifies value equation requirements for serving the poor, the challenges of market creation, and degree of innovation required in enterprise development. Affordability, ease of use, and access are necessary but not sufficient conditions for serving the poor.

Value Creation

Martin and Osberg (2015) suggest two broad categories of change mechanisms for improving the value equations of products and service to marginalized populations: *value increasing mechanisms* which increase the value of products or services with no increase in cost to beneficiaries, and, *cost lowering mechanisms* which lower costs with no decrease in benefits or the value of products and services. They illustrate the former with three examples:

1. Leveraging information transparency standards (e.g., Fair Trade, Marine Stew ardship Council, http://skoll.org/organization/marine-stewardship-council/)

2. Adding value to existing assets through new methodologies (e.g., One Acre Fund, ESOKO https://www.youtube.com/watch?v=AeLXEpg6lig&authuser=0)

3. Developing measurement rubrics to reframe government concepts of value and accountability in such areas as clean air, education, and global supply chains.

In addition to value increasing mechanics, Martin and Osberg identify four *cost lowering mechanisms*:

1. Substituting lower cost labor: We will illustrate this strategy through the examples of deskilling from Sankara in chapters 4 through 10. Living Goods also provides an excellent example of leveraging lower cost labor with enabling ICT (http://skoll.org/organization/liv-

ing-goods/).

2. Lowering the total cost of product ownership or services: Medical Technology Transfer Systems is an example of this. (https://www.youtube.com/watch?v=9VGpR-vxqto&authuser=0).

3. Lowering capital costs (CAPEX) by borrowing technology from one context for use in another: We illustrate this strategy through the Grameen Shakti example in chapters 4 through 10. (Another excellent example is IDEI—International Development Enterprises India's treadle pumps and low cost drip irrigation solutions). (http://skoll.org/organization/international-development-enterprises-india/).

4. Developing platform technologies with inherent economies of scale: Kiva accomplished this (http://skoll.org/organization/kiva/) as did Medic Mobile (http://skoll.org/organization/medic-mobile/).

These value increasing and cost lowering examples extend Prahalad's earlier "affordable, easy to use, and ease of access" value equation for serving the poor. In particular, they suggest that significant points of leverage for large scale change exist through innovative applications of information and communications technology (ICT) to humanize global supply chains and increase their environmental sustainability.

These value equation examples suggest that serving unmet human needs at the bottom of the pyramid requires both technology and business model innovation. An empirical study of five off-grid energy companies by Jain and Koch (2015) found that serving those in extreme poverty requires companies to develop innovation capability in: (1) indigenizing technology (e.g. pay-as-you-go solar lanterns), (2) micro-provisioning (e.g. 30-watt solar home systems), and, (3) embedding (e.g. integrating assembly, customer finance, and after-sales solutions in local geographies). In a similar vein, Desa and Koch (2014) posit that locally embedded social entrepreneurs may pursue more comprehensive and transformative missions or depth scaling as opposed to the common emphasis on breadth scaling or the goal of penetrating wider geographic markets with a specific product or service solution to a narrowly defined problem and customer need among entrepreneurs who enter BoP markets from the oustide.

The range of value equation examples we've described above suggest that BoP innovation is reframing the conventional concepts of customer value, commonly stated as:

Value = Benefits/Cost, *where benefit can be stated in the form of an economic surplus*

In BoP contexts, the following statement more fully elaborates processes for designing, delivering, and embedding solutions with customers and partners across innovative value chains:

Value = (Benefits + Value Chain Cost Reduction)/(Costs of Production + Costs of Acces

This value equation reflects the structural parameters and constraints that exist in BoP markets and the tradeoffs involved in serving these markets through market creation and enterprise development.

Market Creation

Market creation in BoP setting requires value chain innovation to overcome physical infrastructure deficits, the absence of quality assurance norms or verifiable certification standards, and asymmetries in market intelligence due to the informal nature of markets. In addition, the absence of transparent regulatory provisions, contract law, property rights institutional voids in banking all contribute to the challenges of market creation.

In *The Base of the Pyramid Promise—Building Businesses for Impact and Scale*, Ted London (2016) summarizes BoP challenges in both demand creation and supply enhancement. The former entails competing against non-consumption in previously underserved or unserved markets. This requires awareness raising, trust building, and—in many instances—overcoming cultural engrained behaviors. In addition, to create economic buyers may require customer financing or cross-subsidized pricing schemes as we illustrate in chapters 4 through 10 in the Grameen Shakti and Sankara examples. In some instances, market creation may also involve advocacy for smart government subsidies to stimulate demand or mitigate perverse incentives.

Supply enhancement takes many forms in BoP markets. Technology solutions need to be designed for settings with minimal infrastructure—including the lack of access to reliable energy and after-sales service capacities. Technologies must be durable and easy to use. Products also need to be affordable and provided in micro-units for households with extremely limited and frequently irregular cash flows. On the flip side of supplier enhancement, the poor must also be considered as suppliers in need of better inputs to increase productivity and the value of their outputs in agriculture and other areas. They are also in need of aggregation mechanisms to increase bargaining power in distant markets.

Enterprise Development

Our approach to developing successful social ventures evolved out of more than a decade of work in challenging market creation environments such as those we've described. It acknowledges gaps in formal market intelligence and the need to ground solutions in a deep appreciation of cultural contexts that are distinct from the reality of better defined markets (chapters 5 and 6). As a guide, it requires social entrepreneurs to assess competitive landscapes and the specific parameters that influence customer demand (chapter 6). It also addresses the critical challenges of educating the market and distribution, the need to specify how value chains must be designed to serve the poor or other unmet needs (chapter 7), as well as the antecedent condition of talent development in executing business plans (chapter 8). In addition, our approach to developing successful social ventures underscores the importance of accountability for outcomes through metrics (chapter 10) and the unique challenges and opportunities for innovation in the legal structure of social business (chapter 8) and their financing (chapter 12). In the following chapter we describe our framework and contrast our approach to conventional business plan development paradigms.

Base of the Pyramid Markets within Developed Countries

There are important distinctions for Base of the Pyramid markets which are subsets of much larger markets in developed countries. The first major distinction is that the "External Environment" (chapter 5) is much different within developed countries because there are many more externalities to leverage (expertise, funding sources, distribution channels, ITC resources). Also BOP markets may be less geographically dispersed in developed countries, and less segmented in terms of needs. Finally BOP markets within developed countries often are less informal.

Background Resources

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Chapter 3

Paradigms for Social Venture Business Plans

To address a problem or opportunity in a market, the most common approach in places like the Silicon Valley is to develop a business plan for a venture to attack the opportunity with laser-like focus. Our earliest experience with social ventures trying to address problems in the base of the pyramid markets was with laureates of the San Jose Tech Museum of Innovation's "Technology Benefiting Humanity Awards." Laureates told us that their biggest need was not money but help in using financial and other resources they could marshal to develop sustainable scenarios for addressing an unmet need or market opportunity. The problems they were addressing were often urgent, but their solutions were not connected to market channels or effectively supported by governments. If they envisioned themselves as entrepreneurial start-ups, they were often living hand-to-mouth supported by grants, donations, and volunteers and with minimal prospects for becoming financially viable. Their presenting challenge of how to use money (investment) to become sustainable guided our early engagement with these social entrepreneurs and our focus on developing sustainable business plans.

There are many different paradigms to assist in developing a business plan. The paradigm used in Part II of this book (the GSBI Paradigm) will provide relevant information for whatever paradigm you choose. Some foundations and venture firms have particular frameworks they prefer entrepreneurs to use in funding presentations. If this is the case, or you have another approach you prefer, use it! Again, the GSBI paradigm we develop in chapters 4 through 12 will provide critical information for developing a successful social venture regardless of the final presentation framework you adopt.

The Purpose of Business Planning

In this chapter we consider business planning paradigms which have been successfully used by social entrepreneurs. These approaches have served a variety of purposes:

- To gain venture capital funding
- To develop an operational business plan
- To generate a business model
- To help ventures formulate business strategies

The GSBI paradigm incorporates these objectives and has been refined by extensive feedback from over 600 entrepreneurs.

1. Gaining Venture Capital Funding

Written for entrepreneurs, the intention of venture capitalist William Sahlman's framework was expressed in the title of his Harvard Business Review Article, "How to Write A Great Business Plan." His paradigm included just four elements:

1. People
2. Opportunity
3. Context
4. Risks and Rewards

This simple framework captures factors of particular interest to an investor. In the Silicon Valley, it is often said that venture capitalists are concerned about three risks: technology risk, market risk, and people risk. Does the technology or solution work? Do proven channels exist to create market demand of sufficient size? Is there a strong leadership team in place? VCs draw on in-depth industry knowledge along with their assessment of management teams and the size of the opportunities they present to assess risks relative to potential returns. Their strong sector-specific acumen enables them to home in on critical success factors. As "active investors" in familiar sectors, the omission of financials, metrics, and clearly defined operating processes in the Sahlman framework is not likely to derail otherwise attractive commercial investment opportunities. In contrast, the omission of these factors is more likely to be a "red flag" in assessing opportunities in the unchartered markets of social mission ventures.

2. Developing an Operational Business Plan

A very complete guide for small business entrepreneurs is contained in a book by DeThomas and Grensing-Pophal (2001), titled *Writing a Convincing Business Plan*. This paradigm contains 7 elements:

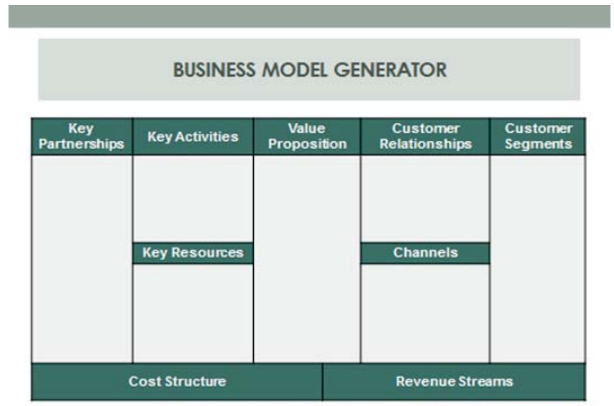
1. Financing Proposal
2. Business Description
3. Market Analysis
4. Operating Plan
5. Organization Plan
6. Financial Plan
7. Financial Model

For social ventures, there are two critically important missing elements in this framework: the organization's mission and metrics—especially measures of social outcomes and impact. While profit-motivated businesses focus on financial objectives in target markets, social ventures require deep empathy with the unmet needs of underserved populations in areas where rigorous market intelligence is limited or missing altogether. Their efforts require a focused mission and strategies grounded in a well-defined theory of change, systems thinking regarding equilibria that are unjust or unsustainable, and metrics for assessing social outcomes. These metrics extend beyond measures of financial performance and take precedence over profits. With these two additions—mission and social outcome metrics—this paradigm could be used both for fund raising and managing a social venture.

3. Business Model Generation

This graphical approach provides a "shared language for describing, visualizing, accessing and changing business models." Its nine basic building blocks provide a cognitive map or logic for how a company intends to create and capture value:

1. Customer Segments
2. Value Propositions
3. Channels
4. Customer Relationships
5. Revenue Streams
6. Key Resources
7. Key Activities
8. Key Partnerships
9. Cost Structure



Alexander Osterwalder and Yves Pigneur, *Business Model Generation* 2010

The placing of "post-its" into 2D outlines for each of these nine elements is recommended as a process for graphically developing and iterating on a business model. This paradigm has been tested by over 450 entrepreneurs in a variety of markets, and Osterwalder's book *Business Model Generation* (2010) describes the paradigm and methodology through numerous examples. *Business Model Generation* seems an excellent approach to developing a visual representation of how an organization could work, yet it omits five important elements:

- How the venture gets funded—initially and over time
- An analysis of factors in the external environment which will affect the success of a venture (e.g. macro economy, demographic and socio-cultural factors, technology, and public policy)
- Metrics or how the venture is to be measured
- An assessment of the alternatives/competition
- How the venture is to be organized

Each of these considerations encompasses critically important and distinguishing characteristics of social businesses and strategic decisions critical to their success. Moreover, in the absence of good metrics and an explicit methodology for focusing on cash flow, business model generation is a difficult paradigm to use in managing a venture.

4. Social Entrepreneur's Playbook

The fourth paradigm is based on a very practical book by Ian MacMillan and James Thompson (2013). It presents a 14-step approach with accompanying templates to "pressure test, plan, launch, and scale a venture." The 14 steps begin with the articulation of a target problem and proposed solution:

1. Articulate your Targeted Problem and Substantiate your Proposed Solution
2. Specify Performance Criteria

3. Define and Segment Your Target Population
4. Understand the Beneficiary Experience
5. Understand the Most Competitive Alternative
6. Identify Operations Realities
7. Address the Inevitable Socio-politics
8. Develop a Concept Statement
9. Frame and Scope Venture
10. Specify Deliverables
11. Establish Assumptions and Checkpoints
12. Launch the Enterprise
13. Manage the Upside and Downside
14. Scale up the Enterprise

The Social Entrepreneur's Playbook was developed with an advisory group of almost 300 social entrepreneurs. It represents a very useful approach for conceptualizing a social venture. Except for the missing elements of funding and metrics, this paradigm overcomes key omissions in the Business Model Generation paradigm referenced above. Unfortunately, lack of discussion of metrics and funding are critical shortcomings.

Steps 13 and 14—Manage the Upside and Downside and Scale up the Enterprise—offer only very general guidelines. Without an explicit financial plan or revenue and expense model, and carefully constructed metrics, it would be difficult to use the Playbook as a framework for developing and managing a social venture. As with *Business Model Generator*, these missing elements are especially salient factors in social ventures. They provided explicit benchmarks for tracking results—both financial and social—and making entrepreneurial adjustments to increase the likelihood of developing a venture that becomes sustainable at scale.

The GSBI Paradigm: An Alternative for Building Better Social Ventures

The paradigm we use in this book was developed as a synthesis of several different frameworks, including: the Barron's paradigm discussed previously, the business plan frameworks used inside Hewlett Packard and IBM, and the technology evaluation criteria used to judge the San Jose Tech Museum's Tech Awards, "Technology Benefiting Humanity." Interestingly, our work in assessing hundreds of Tech Laureate candidates led us to the rediscovery of a Silicon Valley axiom—invention and innovation are not synonymous. Even in contexts where values and deep empathy with the poorest of the poor were the driving motivation for invention, the human benefits of technological advances could not be realized at scale without a plan for gathering and organizing resources to attack the opportunity—in effect, a business plan.

Our synthesized paradigm combines the best practices from a variety of business planning frameworks and Silicon Valley acumen. It is based on more than a decade of work in testing and refining "what works" with more than 170 social entrepreneurs, nearly 100 Santa Clara University MBA students and a similar number of Santa Clara University undergraduates. It consists of nine elements, all of which have evolved significantly through work with ventures across the sectors referenced in chapter 2. In fact, two of the elements in our paradigm—external environment analysis and metrics—were added at the suggestion of the first three GSBI cohorts involving 40 social entrepreneurs.

Our paradigm is truly a "practice theory" for building better social ventures. It reflects the knowledge and collective intelligence of Silicon Valley mentors in the form of minimum critical specifications. Each of the following elements in this paradigm includes specific processes and recommended mechanisms for strengthening venture performance.

Paradigm Element	Why Salient
1. Mission/Opportunity/Strategies	Focused theory of change
2. External Environment	Local Context
3. Beneficiary Needs ("Market") Analysis	Customer Identification
4. Operations and Key Processes	Customer Engagement
5. Organization and Human Resources	Value Chain Innovation
6. Business Model	Monetization and Cash Flow
7. Metrics	Performance Monitoring and Measurement
8. Operating Plan and Budget	Cash Flow
9. Financing	Capitalizing the Venture

The GSBI paradigm is more comprehensive than other business planning frameworks. It addresses all of the elements in other frameworks in addition to metrics and venture financing—two considerations of particular salience to social ventures. Financing considerations play a pivotal role in the choice of legal structure. Here, social ventures have a range of options—from for profit to limited profit (L3C), for-benefit (B-Corp), hybrid, and non-profit forms, as well as co-ops. Each of these options comes with tradeoffs for raising money and on-going operations (e.g., eligibility for grants, equity investments, government contracts, etc). Including financing as an element in our framework acknowledges the need for business plans to specify the amount and timing of fundraising required for a start-up to get to cash flow breakeven as well as tradeoffs between various sources of financing for early and subsequent growth stages. The inclusion of financing as an element in a comprehensive social venture business planning framework also facilitates an assessment of investment readiness, a topic we address in chapter 12.

The other element missing in alternative business plan paradigms is metrics. Given the emphasis on accountability for social outcomes and impact this is a critical shortcoming. Our paradigm addresses social outcome and financial metrics as well as balance scorecard metrics for monitoring internal process and organizational effectiveness. As discussed in chapter 2, creating sustainable social impact in base of the pyramid contexts presents unique strategic and operating challenges. The GSBI paradigm places a particular focus on these challenges in the context of resource constrained environments. In our model, metrics are seen as a mechanism for strengthening accountability and for supporting continuous innovation and entrepreneurial adaptation.

What's Unique about Social Ventures?

Many years ago, Guclu, Dees, and Anderson (2002) described social entrepreneurs as innovative, opportunity oriented, value creating, change agents who:

- Adopt a mission to create and sustain social value—not just private value
- Recognize and relentlessly pursue new opportunities to serve that mission
- Engage in a process of continuous innovation, adaptation and learning
- Act boldly without being limited by resources currently in hand
- Exhibit a heightened sense of accountability to constituents served and for the outcomes created

Accountability for social outcomes in the presence of high degrees of ambiguity distinguishes the work of social entrepreneurs from their counterparts in purely commercial ventures. Their mission to disrupt an unjust or unsustainable equilibrium can take many forms—from creating a scalable enterprise to cross sector alliances for attacking social issues and public-private partnerships. The GSBI business planning paradigm evolved out of efforts to help the social entrepreneurs who lead such efforts integrate financial and other resources to develop financially sustainable and scalable social ventures. Our paradigm has been tested and refined through work with social entrepreneurs across dozens of countries.

GSBI Paradigm Examples

Part II of this book describes our paradigm in detail, with examples and exercises for generating a social venture business plan or for analyzing how to strengthen an existing one. The examples we use are taken from exemplary social businesses: Sankara, Grameen Shakti, and a GSBI innovator. A brief profile of Sankara and Grameen Shakti follow bellow. Profiles of the GSBI Innovator examples will be included with each example. Each of these profiles uses our GSBI paradigm as a way of demonstrating its content by example.

Example 1: *Grameen Shakti*

Background

Grameen Shakti is a renewable energy social enterprise established in 1996 to promote, develop and popularize renewable energy technologies in remote, rural areas of Bangladesh. It is a part of the Grameen Bank family of companies founded to tackle the objective of alleviating poverty for the extremely poor through microcredit. Grameen Shakti is one of the largest and fastest-growing renewable energy companies in the world. Grameen Shakati trains its engineers to be "social engineers" who go from door-to-door to demonstrate the effectiveness of renewable energy, and train local youth as technicians to ensure efficient and free after-sales service. Grameen Shakti is the leading company in renewable energy in Bangladesh and one of the fastest growing solar energy companies in the world. The example in this book is based on the Grameen Shakti's first ten years (1996-2006) during which its business was developed and expanded.

Mission, Opportunity, Strategy

Grameen Shakti's mission is to bring affordable, renewable energy to rural communities in Bangladesh. In

Bangladesh in 1996 over 100M people in rural communities were not connected to the grid and none of these potential beneficiaries used renewable energy for light or cooking. Instead, they used candles and oil or kerosene lamps for lighting, dry cell batteries for radios and cell phone recharging, 12V car batteries for televisions, and wood or coal for cooking. Lighting sources are insufficient for working at night, and both lighting and cooking fuel sources cause health problems. Grameen has five key strategies: (1) acquire, assemble, sell and service three product lines: solar home systems, cooking stoves, and bio-gas generation systems; (2) maximize impact on rural poverty through market penetration as opposed to an emphasis on profits—operationally, this may require a willingness to accept growth where marginal costs are greater than marginal revenues; (3) operate with a financially sustainable business model that does not negatively impact the environment; (4) investors get only their investment capital returned (with no interest); (5) hire, train, and promote employees (including women) from/in Bangladesh, pay themcompetitive salaries, and provide safe working conditions.

External Environment

Most of Grameen Shakti beneficiaries live in areas that are difficult to reach and separated from each other by waterways or wetlands. The extreme climate of Bangladesh often includes monsoons and floods which make beneficiaries difficult to reach and can damage solar lighting products. Grameen benefits from: a supply of young, energetic and technically savvy work force; the Grameen Brand; and a supply of low cost products from China.

Target Market

In 1996, approximately 77M (64% of the 120M rural poor, and about 14M households) were without access to the grid. This market can be segmented based on location/geography, annual income, occupation (farmer, fisherman, teacher, etc.), and needs (size of system).

Operations and Value Chain

Grameen Shakti's value chain consists of 6 key processes: (1) product definition, partner identification, acquisition and pricing, (2) product supply, (3) distribution/delivery, (4) marketing, sales, and collection, (5) micro-financing, and (6) service/repair. For these processes, there are key partnerships with several suppliers, Grameen Bank (for branding and business processes), and, until 2010, local microentrepreneurs (for sales).

Organization and Human Resources

Grameen Shakti refers to itself as a "rural energy (social) business," and its legal for of organization is as a non-profit company with limited liability. It has a well-developed, strong organizational structure and provides training and competitive pay for all employees.

Business Model

Grameen Shakti derives revenue from: (1) product sales, (2) interest on micro-loans, and (3) service contracts. Its main expenses include: (1) product costs, (2) sales and marketing, and (3) costs of training and services. Since 2000, Grameen Shakti has been cash flow positive or breakeven. Figure 3.1 illustrates the Shakti business model using Osterwalder's Business Model Generation framework.

Metrics

Grameen Shakti uses a Balanced Scorecard, which consists of 19 metrics.

Operating Plan and Budget

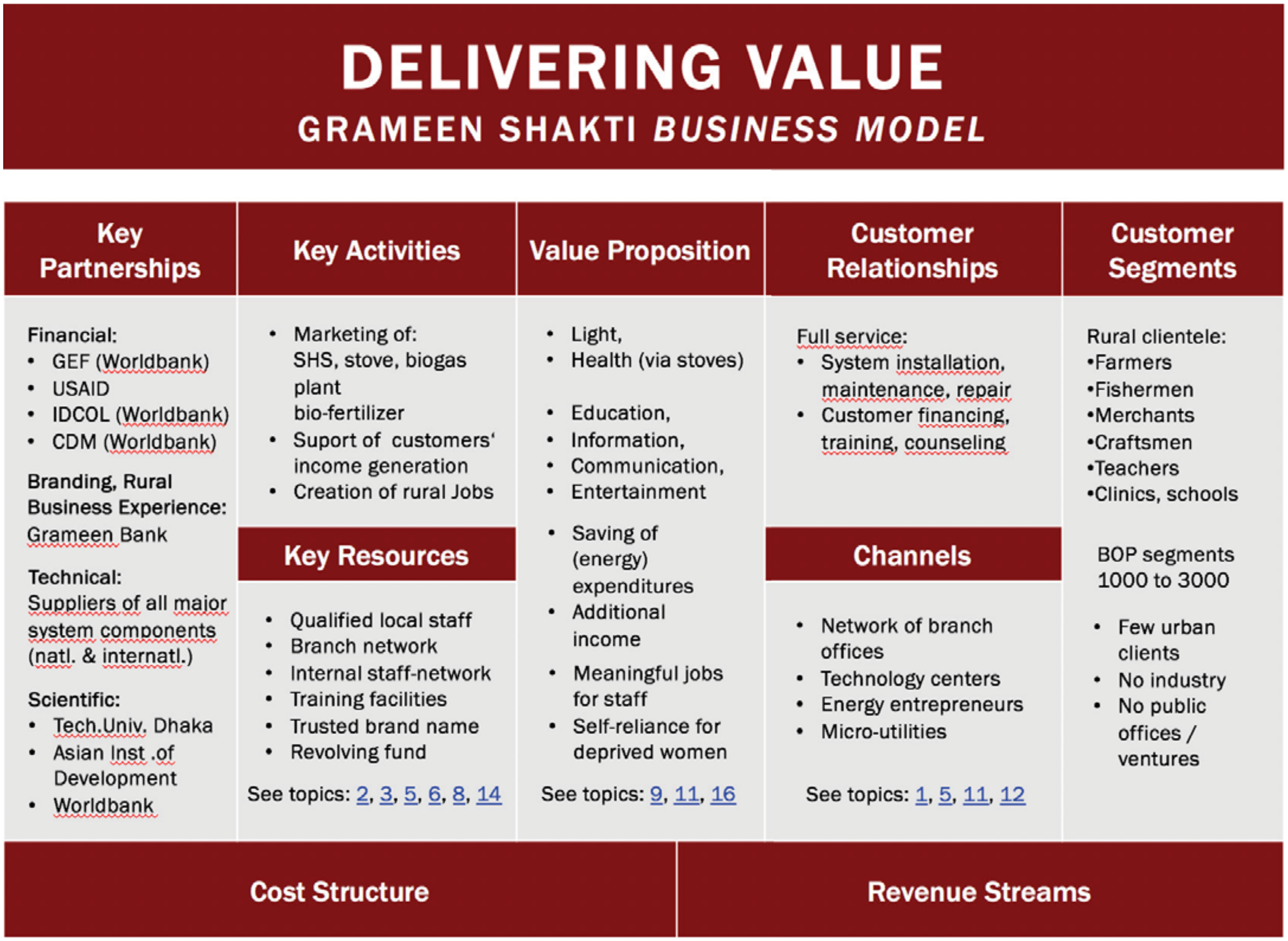
Grameen Shakti has an annual operating plan and budget for the company and for each branch office.

Financing

Since 1996, Grameen Shakti has had 5 rounds of financing totaling around $15M, with about 60% coming from grants and 40% from loans.

Finally, as a comparison, Figure 3.1 summarizes the Grameen Shakti business plan ("model") using the Business Model Generation Paradigm format.

Figure 3.1 Grameen Shakti Business Model



Example 2: *Sankara Eye Care Institutions*

Background

Sankara Eye Care Institutions (SECI) is a "movement" founded by Dr. R.V. Ramani and Dr. Radha in 1977. This movement has now grown to 14 specialty eye care hospitals across 10 states in India. This cumulatively totals to over 1,000 beds dedicated to providing quality eye care to the rural poor in India. Since the beginning of the movement, the Sankara network has performed over 1 million sight restoring surgeries and is among the largest providers of eye care in India. A highly qualified team of 300 medical professionals combines state of the art medical technologies and practices in community eye care with empathy to provide top-tier eye care to patients. Sankara is committed to providing clinical excellence while serving the poor with dignity and respect. Sankara has several key eye care programs in addition to their existing hospitals that serve the rural poor in India. Through these programs, Sankara offers total eye care including preventive, curative and rehabilitative medical care.

Mission, Opportunity, Strategy

Sankara's Mission is to provide unmatched eye care through a strong service oriented team. The Sankara opportunity is the large number of needlessly blind people in India. According to a statistic provided in 2010 by the WHO, an estimated 63 million people in India are visually impaired, and approximately 8-12 million are blind. 54% of the blindness is caused by cataract and uncorrected refractive errors - both of which are curable. The Sankara Strategy is based on an integrated process of recruitment, treatment, and continuing care.

External Environment

The key external environmental factors affecting Sankara are: lack of skilled talent for providing skilled eye care, difficulty in reaching patients in need of cataract surgery due to geographic dispersion, and lack of awareness and financial resources among potential patients.

Target Market

Sankara's target market consists of direct, indirect, and related beneficiaries. The direct beneficiaries (those that use Sankara's services) are the patients requiring eye care, including patients who receive eye screenings, eye exams, and medical procedures such as eye surgeries. The indirect beneficiaries are those that deliver the product/service (the medical staff) as well as the Sankara Academy of vision that trains the staff. Sankara's partners, who contribute funding to the organization, are also indirect beneficiaries. These include Sankara Eye Foundation (USA), Sankara Eye Foundation (Europe), and Mission for Vision Trust. Related beneficiaries include the female hospital staff and field workers who are empowered via job opportunities, the families of individuals receiving eye care treatment (who may benefit from the patient's ability to return to work and earn income), and the villages and communities in which Sankara conducts their eye camps. The economies of these communities benefit from the increase in earning power once the treated patients are able to return to work.

Operations and Value Chain

Sankara's value chain consists of a network of 10 key processes and relationships that creates value for the customer (paying and non-paying patients of Sankara's eye hospitals). While normally support functions such as administration and HR are not included in the value chain, the recruitment and training of hospital staff is also a key process.

Organization and Human Resources

The Sri Kanchi Kamakoti Medical Trust, which is a registered public charitable trust in India, manages Sankara eye hospitals. Overall, Sankara exhibits a functional structure, along with some minor elements of a divisional structure owing to its geographic spread in India. A functional structure is the most ideal choice for Sankara's low-cost strategy as it is simple in form and allows centralized decision making. The board oversees a six-member leadership team. Each leader is assigned to a specific vertical such as: paid hospitals, non-paid hospital and medical administration. Each functional head at the unit (hospital) level reports to a dedicated President of the leadership team. Each unit head manages a functional team within the unit, such as medical administration, HR, operations, etc.

Business Model and Financials

Sankara is the leading provider of free eye surgeries in India, operating specialty eye care hospitals that offer comprehensive eye care services to two distinct markets: free services for the rural poor and affordable premium eye care for the urban middle class. Unlike government run hospitals in India, Sankara is able to provide high-quality affordable eye care keeping in mind patients' dignity while improving the overall welfare of its customers. Sankara's income comes primarily from the 20% of paid surgeries which provide about 70% of the income, with 15% from donatons, 10% from grants, and 5% from interest on investments. The key expenses are hospital staff and operations (85%), eye operations (10%), and administration.

Metrics and Accountability

Sankara currently makes use of Balanced Scorecards to track and evaluate its various metrics. Automated daily reports are generated from the Hospital Information Management system highlighting the KPI (Key Performance Indicators) for the various daily activities for the different divisions.

Operating Plan and Budget

Sankara has reported profitable operations for the past 10 years. Given their legal structure as a charitable trust, these profits are reinvested into the business to expand and grow operations. There is an annual budget and operating plan with goals for the year.

Financing

The sources of capital funding for new hospitals are primarily contributed (donated) through partners including Sankara Eye Foundation (USA & Europe) and Mission for Vision trust. Recurring funding is primarily covered by hospital collections via paying patients. The goal is to increase hospital collections in order to decrease the reliance on external donors and help each hospital become fully self-sufficient in 5 years.

Background Resources

DeThomas, Arthur R. and Grensing-Pophal, *Writing a Convincing Business Plan*, Barron's Educational Services, 2001.

Guclu, Ayse, Dees, J. Gregory and Anderson, Beth Battle, *The Process of Social Entrepreneurship: Creating Opportunities Worthy of Serious Pursuit*, Duke University Fuqua School of Business, Center for the Advancement of Social Entrepreneurship, 2002.

MacMillan, Ian and Thompson, James, *The Social Entreprener's Playbook*, Wharton Digital Press, 2013.

Osterwalder, Alexander, *Business Model Generation*, John Wiley and Sons, 2010.

Sahlman, William, "How to Write A Great Business Plan," *Harvard Business Review, July-August, 1997, pp: 99-108.*

Chapter 4

Mission, Opportunity, Strategies

Basic Knowledge:

A focused mission with a clearly defined theory of change that logically links strategies to a specific outcome measure strengthens discipline in value creation *and* capital efficiency (cost/outcome).

In this chapter you will consider the first element of the business plan. You might want to call this section your "strategic plan" because you will define the mission (the social change your venture is striving to create), the opportunity (the size and nature of the desired social change), and strategies (the key activities that your venture will undertake in order to create the change). Note also that a "theory of change" usually integrates these three elements.

Each of this and the following chapters will start with a list of "basic knowledge" that is needed for the chapter, and which during the GSBI often needed mentors' help to formulate. Each chapter will end with a set of minimum critical specifications needed to complete the business plan element described in the chapter.

Process

Not surprisingly, this task will consist of three parts.

1. Create a Mission Statement which is a short (less than 10 words) sentence describing the social change to be made. At the same time, find a single metric which will measure the change.

2. Create an Opportunity Statement which will describe the size and nature of the social change to be made, the local context in which this change is to take place, and how to identify (and count) the potential beneficiaries of the change. It may be helpful to illustrate the opportunity with a "story" about the problem area using a typical beneficiary.

3. Create a list of the Strategies (major programs or initiatives) to be undertaken in order to create the change.

A mission statement describes what is to be changed for whom. A good mission statement can be expressed in fewer than 10 words, for example: *Eliminate needless cataract blindness in India, or provide electricity for households in Bangladesh.*

A mission statement is not a vision, although it may be a more focused statement of the vision.

Vision statements are more general and ambitious. As high level aspirations they often are unlikely to be achieved or measurable. A mission statement - comprised of a noun, a verb, and a target - is, by comparison, more focused. It specifies the customer population to be served (a topic we address in Chapter 6), and the outcome or benefit that is sought. The difference between a vision and mission statement is illustrated in the example below:

Vision: *Eliminate needless blindness*
Mission: *Eliminate needless cataract blindness in India*

A mission statement is not a statement of values of the entrepreneurs. Values (e.g., we treat our employees well, or we believe in the dignity of those we serve) are attributes of the organization and its leaders that support the mission. A mission statement also is not the specific objectives or key innovations of the organization. Objectives can be derived from the *key strategies.*

In addition to being short, a good mission statement is: about what and for whom, not how. It is able to focus/guide the organization. It is shared by all stakeholders, can be articulated by anyone, and motivates the actions of everyone in the enterprise. It can be achievable in a foreseeable amount of time and is measureable. A mission statement needs a single metric or measurable unit of benefit for "counting" successful outcomes directly attributable to the strategies that your enterprise uses to achieve the mission; for example: number of successful sight-restoring surgeries.

The *opportunity* is a statement of the total available market for the mission. It describes the size and attributes of the population or issue being addressed and the change that could result from the mission. The opportunity for change may be in the number of beneficiaries who could (measurably) be affected (9M people in India with cataract blindness), or it may be in the measurable economic, environmental or other outcomes that could result from the mission (e.g. 50% reduction in welfare payments to blind people).

The opportunity should also describe the key characteristics of the opportunity in terms of problem symptoms, beneficiary location, beneficiary characteristics, beneficiary ability/willingness to change and ability/willingness to pay for change, and the alternatives available. Essentially the opportunity statement should describe those attributes of the beneficiaries and their needs that are necessary to understand in order to deliver a successful solution to the problem (i.e. to achieve the Mission).

For example: 75% of the needless cataract blindness in India is in rural areas, 60% of those in India with needless cataract blindness cannot afford to pay, and most of the 60% will not travel far to get treatment. In addition, they may not be comfortable in a hospital setting. The alternatives are non-consumption (no surgery) or traditional surgery which is very expensive and requires a "sponsor" for those who cannot pay themselves.

The *key strategies* identify the key programs - activities, innovations, processes, and possibly skill or capability development initiatives the enterprise must undertake to achieve the mission. Logic models (which make explicit a theory of change) often are useful in clarifying how desired outcomes and social impact will be achieved. They clarify the resources, activities, and capabilities needed to achieve social innovation outcomes and impact at a cost that is affordable to underserved markets, and at a scale that is aligned with the size of the opportunity.

Figure 4.1 Logic Models

Logic models work backwards from outcomes and impact to the resources/inputs and activities required to achieve these benefits.

In the business planning process logic models must be translated into specific strategies. Each of these strategies must have metrics that indicate the target impact of the strategy, the time frame in which the strategy is to be implemented, and the forecasted annual expenses and income for the strategy (if appropriate). Specific strategies also must take into account cause and effect linkages relative to acitivites, outputs, ourcomes and impacts, as well as the size of the opportunity.

For a typical social venture there generally will be fewer than 10 key strategies. If there are more the mission is likely to be too broad or too complex and difficult to manage successfully. Generally there need to be strategies for: beneficiary (problem) identification and location, "convincing" the beneficiaries to consume or buy the product or service (marketing), developing/refining the product/service (research and development), creating the product/service (manufacturing), delivering/distributing the product/service (logistics), understanding the beneficiaries' ability to pay and providing any needed financing, beneficiary follow-up (customer service/support), and measurement of outcomes or impact. Included in one or more of these 10 strategies may be elements of the Business Model (Chapter 9) specifying revenue and/or expense drivers, or even a short summary of the business model. For example, a mission statement to increase women's incomes might have as a key strategy: help women set up businesses to sell solar lighting systems.

An example of a set of key strategies is:

1. Partners to create rural "camps" to locate blind people in rural areas and convince them that they can be cured.

2. Develop a hospital "mass surgery" process that:

- admits patients and determines their ability to pay

- prepares patients for eye surgery
- uses modern procedures and equipment with skilled eye surgeons to do high volume surgery
- teaches unskilled women to do admissions and patient preparation
- provides surgeons with the opportunities to for skill renewal/enhancement
- uses tiered or sliding pricing to charge those that can pay enough to allow “free” surgeries for all who cannot pay.

3. Use a family-business approach to establish a strong culture and ensure control, build trust, and strengthen efficiency.

4. Motivate through mission, work-environment, and “adequate wages” to improve employee performance and reduce turnover.

Each of the key strategies must be focused, measurable, and achievable. It is also useful if the key strategies can be easily documented so they can be replicated. The costs of the key strategies should decline with volume (economies of scale) and over time through economies of learning. Together, compared to the alternatives, the Strategies must be more cost effective than alternatives and provide the intended beneficiaries with a more compelling reason to consume (use/buy).

Example 1: *Mission, Opportunities and Strategies for Grameen Shakti*

Mission Statement

Bring affordable, renewable energy to rural communities in Bangladesh.

Opportunity Statement

In Bangladesh in 1996 over 100M people in rural communities are not connected to the grid and none of these potential beneficiaries use renewable energy for light or cooking. Most of these people live in areas that are difficult to reach and separated from each other by waterways or wetlands. They use candles and oil or kerosene lamps for lighting, dry cell batteries for radios and cell phone recharging, 12V car batteries for televisions, and wood or coal for cooking. Lighting sources are insufficient for working at night, and both lighting and cooking fuel sources cause health problems. 90% of the rural population is considered “poor’ making less than $5 per day. Rural families spend about 7% ($0.35 per day) of their income on energy.

Strategies

1. Acquire, assemble, sell and service three product lines: solar home systems, cooking stoves, and bio-gas generation systems.

2. Maximize impact on rural poverty through market penetration as opposed to an emphasis on profits. Operationally, this may require a willingness to accept growth where marginal costs are greater than marginal revenues.

3. Operate with a financially sustainable business model that does not negatively impact the environment.

4. Investors get only their investment amount in return (no dividends, no ownership).

5. Hire, train, and promote employees (including women) from/in Bangladesh. Pay competitive salaries and provide safe working conditions.

Example 2: *Mission, Opportunities and Key Strategies for Sankara*

Mission and Vision Statements

Vision — To work towards freedom from preventable and curable blindness.
Mission — To provide affordable, high-quality, equitable eye care in India.

Figure 4.2 Sankara Logic Model

Inputs	Activities	Outputs	Outcomes	Impact
Funding People (training doctors and nurses) Hospitals, land, and facilities Partnerships for camps	Eye camps Eye screenings Comprehensive eye care services and specialty services School partner-ships (Rainbow program) Programs like Maithri, Swagath-am, etc. Sankara Eye Bank	Treatment of various eye diseases Number of surgeries	Restoration of vision Revenues for continued expansion	Eliminate needless blindness Allow individuals to live better, more productive lives Women empowerment Increase in jobs within the community

The Opportunity

India is home to the largest population of curable blind worldwide. According to a statistic provided in 2010 by the WHO, an estimated 63 million people in India are visually impaired, and approximately 8-12 million are blind. 54% of the blindness is caused by cataract and uncorrected refractive errors - both of which are curable.

Blindness and poverty are closely related. Adults and children living in poverty are more likely to suffer from malnutrition, poor water quality and inadequate sanitation making them much more susceptible to contracting and developing eye diseases. The majority of blind people in India live in remote rural areas where eye care facilities are less accessible. In the majority of instances, they are unable to travel to receive treatment. Government-run hospitals are often unclean and the wait times are far too long. Moreover, the poor cannot afford to pay for treatment at most of the private hospitals. As a result, most of the rural poor in India resort to non-consumption and do not receive treatment for curable eye ailments.

In addition to the rural poor, Sankara also has the opportunity to serve the urban middle class ($3 billion market according to Sankara). This market is deemed their "paying customer" segment and is absolutely essential to operating their business. Sankara must maintain their paying customer segment to subsidize the cost of the non-paying customers.

Strategies

Financial

Cross-Subsidy/Hybrid-Revenue Model: In order for Sankara to achieve their mission they must maintain their key financial model ratio of 80/20. That is, income from the 20% of paying customers must cover the costs of the 80% of free customers. This metric is directly related to the output and outcome factors in their Theory of Change. Without maintaining this key financial ratio both the elimination of needless blindness and financial viability outcomes of Sankara's theory of change would be adversely affected. They would not be able to reach as many rural customers (See also Partnerships.)

Partnership

Fundraising (Sankara Eye Foundation): This key partnership initiates and drives community eye care activities by working directly with Sankara Eye Care Institutions in India. They host events and work with major donors in order to generate a healthy source of contributed income for Sankara. Without this essential partnership, Sankara's inputs (number of hospitals and staffing) could potentially be threatened, and they would need to cut down on the number and scale of activities undertaken.

Marketing

Targeting two key markets: Sankara operates "base" hospitals in urban areas and "community" hospitals in Rural Areas. Although Sankara provides the same care and quality of service to all of their consumers they are targeting in two separate markets—rural and urban—and two segments within each of these markets—paying and nonpaying. Because of this segmentation scheme, it is essential they maintain a different marketing strategy based on the essential needs of each specific customer group. A universal marketing plan in no way would adequately address and reach the individuals in both rural and urban areas. Maintaining a dual segmentation marketing plan is essential in customer acquisition and maintaining an 80/20 financial model.

Customer Outreach

Outreach/Eye Camps: The outreach camps are crucial in spreading awareness and reaching and gaining new rural customers. By going directly to the remote communities in need, these camps allow Sankara to provide quality care and a level of intimacy to consumers who may be unaware of the services they offer. Additionally, it provides an opportunity for the rural poor to have access to care and screenings they normally would have to travel significant distances in order to receive (which is unrealistic for the vast majority). Outreach is an essential activity in Sankara's theory of change (and scaling) model.

Training

Sankara Academy of Vision: Sankara's educational training program attracts top talent throughout the country. By employing top talent in their hospitals, Sankara is able to maintain a strong staff that is passionate about the organization's mission of delivering quality service in a manner that can eliminate needless blindness for all. Another benefit in having a top-tier staff is that it attracts patients, who are willing to pay. Continuing to value education and training is a critical success factor for retaining top talent and, in return, for Sankara's ability to maintain its paying customer base.

Measure of Success

For its vision of eliminating curable blindness, the single most logical measure of success for Sankara is the number of successful sight-restoring surgeries performed. In order to provide high quality and unmatched eye care, Sankara would need to measure their success not just in the breadth of its market reach, or the number of individuals they are able to serve, but in the quality of service they are providing to those individuals. Successful eye care will be measured by restored vision and quality of life improvement for those served. For instance, because of an improvement in their sight Sankara patients are generally able to work and earn income for their families, improving the overall quality of life for individuals and their families alike.

Example 3: GSBI Innovator: *Fundacion Paraguaya Self Sustaining Agriculture Schools (SSAS)*

Profile (GSBI 2005)

Fundacion Paraguaya Self Sustaining Agricultural Schools educates and trains local youth to become successful farmers.

Mission, Opportunity and Strategies

When Martin Burt attended the GSBI in 2005 his organization, the Fundacion Paraguaya Self Sustaining Agricultural School (SSAS) was the first GSBI participant whose mission included the financial success of its clients, and was among the first GSBI participants to create a business plan which showed positive cash flow for the organization itself within two years, along with a plan for replication (which was successful).

The mission statement was: Provide practical and entrepreneurial education that enables graduates to achieve financial success.

In a video created for SSAS, Martin Burt argued that local farmers already knew how to farm, and that what they didn't know was how to make money farming. Burt pointed out that land reform, aid and subsidies (the traditional government approaches to aiding poor farmers) had not worked and that local schools taught courses that were not connected to the life success of the students. The essence of the SSAS mission statement, a GSBI first, was to solve this problem, by teaching children of local farmers how to make money farming while providing them a high-school level education that was relevant to success in farming.

The main metric for the mission was: income of graduates.

The opportunity was: in the first phase, create the potential for sustainable farming income for a few thousand children of poor local farmers in Paraguay who were destined to become structurally unemployed, and in the second phase to replicate SSAS in other countries with hundreds of thousands of children of poor local farmers.

The key strategies of the SSAS were:
1. Create a high-school level curriculum where the basic topics (reading, writing, math, science) were all aimed at using the knowledge taught to create a successful local farmer.

2. Convince the state to provide the teachers for this school.

3. Use the school as an "example" farm.

4. Use the school as both a micro-financing mechanism for the graduates' farming business and as a coop-marketing organization for their products, with both these activities providing financing for the schools (hence the schools as well as the farmers become self-sustaining).

External Environment
SSAS' external environment was one of rural poverty with population decline as people moved to cities to find jobs, with failed land government land reform and education ("debt-ridden schools"), and with no infrastructure capacity to support the growth and success of local farmers.

Market
The market for students was focused on children who came from chronically unemployed families and poor communities (direct beneficiaries). The "product" was the school and the agricultural products created and sold by the school. SSAS charged a nominal tuition to students and the students had to work on the school's farm for free. Micro-financing and products sold bay the school's farm were at market prices. The school did the product placement and promotion using student-faculty teams. Indirect beneficiaries included the families of the students, and related beneficiaries were the communities in which the students lived.

Operations and Value Chain
The key processes of SSAS were: (1) education (training), (2) agricultural production, (3) marketing of products produced by the school and its graduates, and (4) micro-financing. The value chain combined a high-school level of education with a farming supply chain.

Organization and Human Resources
Fundacion Paraguaya is a non-profit. The organization has a CEO, 3 key directors (Production Chief, Academic Director, Finance and Admin Director), and Board of Directors with farming experience, and 3 groups of employees: the agricultural high school (for 120 students/year), the junior achievement marketing organization, and the micro-finance organization. There were 120 employees in 2005.

Business Model and Unit Economics
The key revenue drivers for the school were: tuition (5%), road side store (10%), vegetable and fruit sales (20%), livestock sales (25%), micro-financing and community education (40%). The main expense drivers were: staff and facilities. The break-even revenue amount was: $175,000.

<u>Unit Economics:</u>
Although GSBI did not teach unit economics in 2005, using a unit of "1 student" and expenses of $175,000 (break-even revenue number), the unit cost per student was $175,000/120 = $1,458 per student per year.

Metrics
Metrics for each SSAS included: (1) number of students, (2) revenues, (3) expenses, (4) annual incomes of graduates.

Operating Plan
In 2005, GSBI did not include creating an operating plan, but SSAS clearly had one.

Financing
The first SSAS was financed by Fundacion Paraguaya with an estimated cost of $500K to set up the school, plus revenue subsidies of about $120,000 for the first two years. There was also contributed income in the form of salaries for teachers paid by government.

Minimum Critical Specifications Checklist

Mission, Opportunity, and Strategies

- States mission in 10 words or less.
- Specifies single measure of success.
- Defines opportunity and key strategies that will enable the venture to meet the opportunity.
- Together the mission, opportunity and strategies define a logic model that implements a theory of change.

Exercises

4.1 Mission Statement
Create a short (less than 10 words) mission statement for your organization and select a single metric to measure the success of the venture in achieving this mission.

4.2 Opportunity
Provide a quantitative description of the opportunity for the venture and the key characteristics of the opportunity.

4.3 Key Strategies
List no more than 10 key strategies (programs) used to create the change specified in the mission statement for the beneficiaries described in the opportunity. Taken together, these strategies should reflect your logic model for your theory of change, or the activities that will drive your success measure.

Background Resources

C.K. Prahalad, The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits, Philadelphia: Wharton School Publishing, 2010), Chapter 2.

J. Gregory Dees, Jed Emerson, and Peter Economy, Strategic Tools for Social Entrepreneurs: Enhancing the Performance of Your Enterprising Nonprofit, New York, John Wiley, 2002, Chapter 1.

Arthur DeThomas Ph.D. and Stephanie Derammelaere, How to Write a Convincing Business Plan, Third Edition, New York: Barron's Educational Services, 2008, Chapters, 4 and 5.

Thompson, J. and MacMillan, I. 2010. Making Social Ventures Work, Harvard Business Review, September 2010, 67-73.

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Chapter 5

External Environment

The external environment includes factors that affect a social venture but that it cannot control. If they pose a risk to the venture, they must be mitigated. Conversely, they can be leveraged if they are potentially helpful for your business. While all businesses (not just social businesses) are affected (positively and/or negatively) by their external environments, a social business—particularly one operating in "underdeveloped/emerging" countries or an impoverished area in a developed country like the United States—will face significant "challenges" from the external environment.

> Basic Knowledge:
>
> In severely resource constrained environments ventures must understand stakeholder interests and enlist partners to create shared value and leverage their strengths. Care in environment analysis can translate uncertainty into clearly identified risk mitigation and partner strategies.

In less developed countries these challenges can be due to situations such as: lack of transportation or communications infrastructure, difficulty in creating and enforcing contracts, lack of banking or other financial systems, lack of ability to protect intellectual property, complicated tax or business regulation laws, governments or cultural groups that may be hostile or exceedingly bureaucratic, extreme climate or geography, and corruption. The external environment will vary significantly among countries, even those that are geographic neighbors such as the United States and Mexico. There can also be substantial variations in the ease of doing business within a country, such as India. From our work with hundreds of ventures we have concluded that differences across geographic boundaries pose significant challenges in scaling a social business into more than one country, and often within a single country.

Institutional Voids

A number of the criticisms of Prahalad's market-based approach for the BOP relate to the complexities of the external environment and market-related institutional voids. The transaction cost economics perspective (Coase, 1960; Williamson, 1985) suggests that advanced economies (such as the United States) possess an elaborately developed institutional context which includes such facets as well defined property rights, rules of exchange and legal recourse that enable the emergence of well-functioning capital, labor and product markets. By contrast, these equivalent structures in emerging economies (such as India) are plagued by information and implementation problems, resulting in a host of market imperfections. Khanna & Palepu (2002) site a number of examples – inadequate disclosure, weak corporate governance, and the erratic enforcement of securities regulation which characterizes financial markets in these countries.

Markets, in these contexts, are characterized by "institutional voids" – i.e., the absence of the requisite institutional arrangements and/or actors required to enable their smooth functioning (Khanna & Palepu, 1997).

These voids—which manifest themselves in terms of such elements as the feeble enforcement of formal regulations as well as the lack of intermediaries and public infrastructure—raise transaction costs and as a consequence, significantly hinder market-type activity. This stream of research, then, highlights the lack of underlying institutional structures in these economies and emphasizes the considerable challenges that actors confront while operating in such spaces (Mair and Marti, 2009). Put differently, the imagery that this work conjures is one of barely functioning markets given the pervasiveness of institutional voids in the context of underserved communities. De Soto (2000) evocatively captures this dynamic in describing how the absence of legal structures around property significantly hinders capitalism-related activity in emerging economies.

Research in the underserved communities context has indicated that given the uncertainty that weak institutions engender, developing relationships with local actors such as non-government organizations can offset the impact of such voids (Webb, Kistruck, Ireland & Ketchen, 2009). A more recent strand of scholarship on informal economies emphasizes the significant amount of business activity that occurs outside of formal institutional boundaries but within the realm of informal institutions (Webb, Ireland & Ketchen, 2014), suggesting that markets exist at the interstices of these two domains. Taken together, these studies highlight the nature and effects of institutional voids as well as the structures and mechanisms via which actors navigate such spaces.

C.K. Prahalad's original "fortune at the base of the pyramid" thesis posited that there is a market waiting to be tapped. While "institutional voids" research challenges this thesis, both perspectives share a few crucial similarities. Both reflect an outsider's perspective of the key features characterizing markets in these communities and providing prescriptions that reflect these worldviews. Their predominant focus is on the producer side, i.e., on the firms and entrepreneurs that attempt to engage with these markets. Missing from these perspectives is a more in-depth understanding of the lives that individuals within these communities lead and how this translates into the exchange systems that have evolved within these contexts. Related to this, there is little or no consideration of the nature of consumption (or consumers per se) in these situations. For these reasons the external environment element of our business plan paradigm is extremely important for social ventures. The bottom-up perspective of these ventures provides a more detailed or "grounded" appreciation of economic interactions and consumption experiences within these communities than top-down perspectives.

In our business planning framework external environment analysis is examined through five dimensions:

1. Economic environment (market-oriented ecosystem)

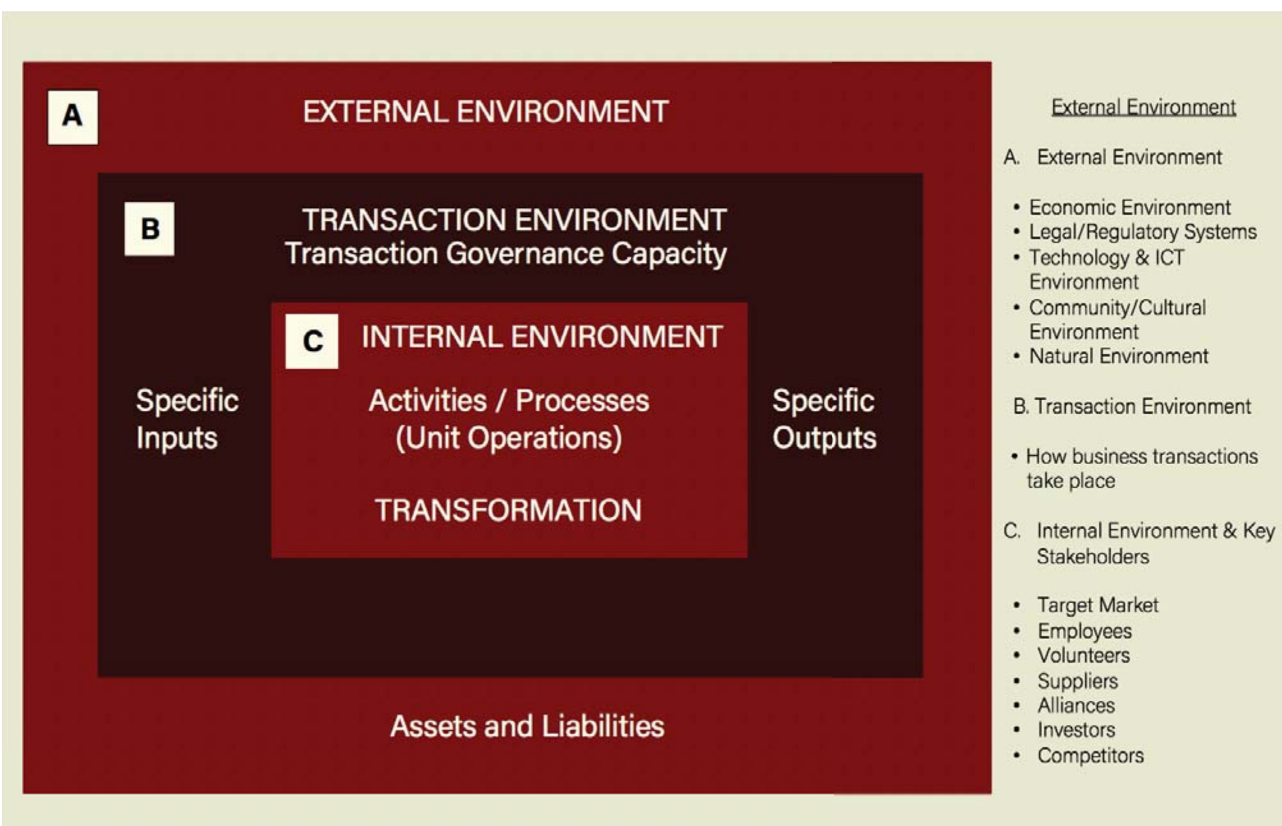
2. Legal/regulatory environment
3. Information and communication technology (ICT) environment
4. Community/cultural environment
5. Natural (climate, geography) environment.

For each of these dimensions of the external environment a list of conditions that affect the social venture can be created, along with a list of the techniques/methods that can be used to mitigate negative or adverse factors and to leverage positives or potential sources of momentum for your venture.

Process

The purpose of this chapter is to identify the key elements of the external environment that affect the economic viability or change making capacity of a social venture and to create a set of actions to mitigate negative elements and leverage positive elements. Feedback from GSBI participants was that the external environments in which social ventures operate have a significant effect on all elements of a social venture's business plan. Figure 5.1 illustrates how social ventures are embedded in external environments. In settings of extreme poverty institutional voids limit the capacity to do business (Transaction Governance Capacity). External Environment Analysis is essential to identifying assets and liabilities in external environments.

Figure 5.1 Embedded Systems View of External Environment



The External Environment can be analyzed in 5 dimensions or categories.

5.1 The Economic Environment

The economic environment consists of organizations, infrastructure, and ways of doing business. Organizations in the economic environment are potential suppliers, partners, competitors, customers, or influencers. They can be small or medium enterprises (SMEs), multi-national corporations (MNCs), Governments or NGO's, political groups (e.g., political parties), trade groups or unions, micro-firms (e.g., sole proprietorships, mom and pop stores) and even extra-legal organizations (e.g., gangs, black market players).

Infrastructure includes physical elements such as roads, communication systems, energy systems, and distribution networks for moving goods and services efficiently. Different ways of doing business also play an important role in the economic environment, including: organization and tax laws, banking and unique financial transaction methods (e.g., micro-financing), accounting and financial reporting systems, payment conventions in one-to-one local cash or even barter systems, and even bribes.

Ways of doing business include formal and informal mechanisms (e.g., contracts, barter, payment systems, etc.) for conducting business transactions.

5.2 The Legal / Regulatory Systems

Regulatory and legal systems represent elements of social structure and constraints within which your organization must address tradeoffs in how it will operate. Prahalad (2010) posits that these considerations shape the "Transaction Governance Capacity (TGC) of an enterprise."

TGC includes: regulations for ownership and transfer of property, intellectual property rights and laws (if any), contracts or other methods of documenting business agreements and regulating business transactions, and processes (and institutions) for fairly implementing, enforcing, and changing laws and regulations that affect business conduct. For example, in Bangladesh, enforcing contracts and sales agreements is very difficult, so if some of Grameen Shakti's solar home system customers felt that they didn't need to pay because other customers weren't paying, the Shakti team had to figure out how to make not paying seem like a behavior that discredited the customer and undermined community norms essential to maintaining energy access for everyone. Similar group norm mechanisms in lending circles or self-help groups account for high micro-finance repayment rates.

5.3 Technology and ICT Environment

The ICT (information and communications technology) environment is based on computer, network communication, and media technologies such as: print media (e.g., newspapers), radio, telephone (land line and cell phone), networking (Internet), social media, television, and perhaps even movies. ICT environments may be underdeveloped or quite primitive in developing markets. This can mean that the costs of search, information, and transactions are high. The ICT environment affects communication with clients (customers, beneficiaries, and partners), marketing, business transaction processing, and supply chain management. For organizations that seek to scale, a very important element of the ICT environment includes the "back office" systems (accounting and financial reporting, payroll, employee records, etc). Also, for social ventures whose products and services involve use of cell phones or personal computers for transactions, the ICT external environment must be reliable. The good news here is that cell phone technology is leap frogging land lines and penetration has skyrocketed in many developing countries. Across some geographies, mobile banking is taking root and rapidly expanding. In these and other contexts, smartphone technology is also taking off. Still, the deployment of advanced communications technologies lags developed country realities and radio remains an important vehicle for educating many new markets.

For social ventures, technology and ICT, especially cell-phone ICT, represent a substantial opportunity to reduce costs of transactions, to dis-intermediate (eliminate middlemen), to reach markets, and to simplify supply chains. Cloud-based IT platforms have the potential to lower costs of transactions and to build communities of customers and partners for a social venture. Technology advances, such as solar systems or new medical devices, can lead to low-cost, effective solutions that social ventures can employ. As an example of the "power" of ITC to grow markets, the first GSBI social venture to effectively employ web technology was the on-line lending company Kiva. From 7 loans made in 2005, Kiva grew to over 33,000 loans, in 40 countries, with 148,000 lenders in just 4 years.

5.4 The Community/Cultural Environment

The Community/Cultural Environment consists of: social norms and the belief systems of various groups (family, religious, ethnic, interest and gender), formal institutions (e.g., schools), politics/political parties, and historically-rooted practices or ways of doing business. In India, for example, more than 85 percent of jobs are in the informal economy, barter systems remain a prevalent form of exchange, and the elders in local governing councils, or panchayats, play a large role in determining how new market entrants are accepted across more than 600 thousand villages. Community and cultural contexts must be taken into account in a social business, especially when the mission of the social business, such as the empowerment of women, may be adversely influenced by community norms such as discrimination or exploitation of women. In some instances safety or the threat of physical violence in a community may prevent a social business from even starting, threaten its strategies, or cause it to have to relocate.

The Community/Cultural Environment can be leveraged to benefit a social business. For example, several GSBI ventures used women's groups to provide services (e.g., cell phone rental, community health workers) or to distribute products (e.g., home solar-powered lamps). Moreover, the Community/Cultural Environment can be a resource by providing volunteers, employees, influential early adoption customers, and partners.

5.5 The Natural Environment

The elements of the natural environment often create the motivation or amplify the need for a social business. Floods, hurricanes, air and water pollution, and earthquakes create problems for which a social business may be the most effective (and timely) way of responding. Geographic elements of the natural environment can influence costs of doing business and methods of accessing beneficiaries. For example, rising sea levels attributed to climate change and frequent typhoons and flooding are major problems in Bangladesh that Grameen Shakti has had to mitigate by developing a resilient supply chain for scaling its solar home system venture. And GSBI venture Build Change created low-cost housing designs that reduce losses from earthquakes (Example 3 below).

External Environment Analysis Examples

An External Environment analysis for each of three organizations—, Grameen Shakti, Sankara, and GSBI Innovator, Build Change—is provided in the following examples. Each uses a slightly different version of the 5-factor model suggested above. All three illustrate the potential for embedding solutions in local contexts through attention to driving and constraining forces in the external environment.

The external environment analysis in each example uses a matrix with four quadrants.

Figure 5.2 External Environment Analysis Matrix

Environmental Factors	Actions
Assets	Leverage
Impediments	Mitigate

Example 1, Figure 5.3: *External Environment Analysis for Grameen Shakti (Solar Home Lighting)*

Environmental Factors	Actions
Assets:	**Leverage:**
Low cost solar home systems (from Kyocera, Chinese, and other suppliers	Use existing systems
Grameen Brand	Use Grameen name to legitimize and help funding
Young people with technical degrees	Hire as staff, bootstrap training
Community: Leaders generally have more money	Sell to leaders first and get endorsements
Young women who want to work	Train as repair or sales staff
Impediments:	**Mitigate:**
Extremely poor customers	Offer micro-financing; Sell solar lights as income and cash flow inhancing
Competition for skilled employees	Competitive pay, benefits, and promote from within
Cash economy, no IT support for transactions	Have lock boxes for money; Develop manual journaling; Develop rigorous aduti system
Informal markets instead of retail stores	Use markets for demos
Largely island communities, bad roads, expensive transport	Local offices, bicycle, or jitney delivery
Expect solar to work forever	Provide full service and warranty plans
If one community doesn't pay, others may not pay as well	Gentle but firm insistence on payments; may need to involve wives
Difficult geography - islands	Develop network of district offices
Heavy rain and monsoons	Include replacement warranty

Example 2: *The External Environment for Sankara*

(Affordable eye care provider in India, but with different strategies for mitigating impediments and leveraging assets)

A. Figure 5.4 The Economic Environment (Market-Oriented Ecosystem)

Organizations and Infrastructure

External Environment Elements (EEE)	Impediment (I) or Asset (A)	Sankara's Strategy for Leveraging Assets (L) or Mitigating Risk Factors (M)
Suppliers	A: Low-cost suppliers of medicines and medical equipment	L: Cost is kept down through economies of scale.
Partners	I: Limited resources for conducting screening camps A: Partner Foundations (SEF US and SEF UK) A: Mission for Vision Trust A: Others - Recurring grant providers	M: Local community sponsors collaborate to fund camps L: Donations for equipment, surgeries, new hospitals, and post-operative impact measurement. L: Contributed Income ▪ Govt. of India - for the Eye Bank ▪ Sri Ratan Tata Trust - Support to Sankara Academy of Vision ▪ District Blindness Control Society ▪ Indian Council for Medical Research (ICMR)
Competitors	A: Aravind Eye Care A: Small eye clinics (private practitioners/sole proprietors) I: Vasan Eye Institute (100+ eye hospitals, part of Vasan Health Care network), Apollo Hospitals, Max Health Care and other regional private hospitals	L: Follow similar, proven cross-subsidy business model L: Get referrals for surgeries and other procedures beyond the capabilities of these small enterprises M: Offer comparable value at better rates than large private eye hospitals
Customers	I: Blindness and poverty	M: Offer convenient on-site screening eye camps at remote villages followed by transportation of patients to the base hospital for free treatment
Influencers	A: Aravind Eye Care popularized the subsidized high-efficiency low-cost model for delivery of health care.	L: Adopt the same model and strive for self-sufficiency
Roads	A: Well connected network of National and State Highways	L: Establish a network of Base Hospitals in urban areas and free community hospitals in rural areas. Conduct eye camps in remote rural villages.

B. Figure 5.5 The Legal / Regulatory Environment

Social Structure and Constraints:		
External Environment Elements (EEE)	**Impediment (I) or Asset (A)**	**Sankara's Strategy for Leveraging Assets (L) or Mitigitating Risk Factors (M)**
Organization and Tax Laws	A: Sri Kanchi Kamakoti Medical Trust is a registered public charitable Trust that manages the Sankara Eye Care Institutions	L: Exemption from payment of tax, donors pay tax-deductible donations. Focus on mission and re-invest surplus in growth
Regulations	A: Multiple surgeries can be performed in the same Operating Room I: Lack of efficient public health care initiative targeting rural poor	L: Attain high efficiency in the process by optimizing the time taken for each medical procedure. M: Provide low-cost eye care to rural poor
Equivalent of HIPAA Rights in India	I: The Government of India has created guidelines for Electronic Health Records (EHR) standards so that medical data becomes portable and easily transferable. However, India has no law on the lines of HIPAA or patient privacy provisions and data protection laws don't exist.[1]	M: Promising Digital India[2] initiative by the Gov't of India's Department of Electronics and Information Technology that focuses on e-healthcare and its privacy needs
Health Insurance	A: Purchasers of health insurance can avail an annual deduction from their taxable income for payment of health insurance premium.[3]	L: Incorporate in Business Model to enhance patient experience/convenience

C. Figure 5.6 The Information & Communication Technology Environment

Computer, Network, and Media Technologies:		
External Environment Elements (EEE)	**Impediment (I) or Asset (A)**	**Sankara's Strategy for Leveraging Assets (L) or Mitigitating Risk Factors (M)**
Telephone	A: As a result of India's Universal Service Policy,[4] 98.3% of the villages have telephone services. Mobile Subscribers - 919.2 million *Penetration* - 76.0% Fixed Subscribers - 32.2 million *Penetration* - 2.7%	L: Potentially leverage for communication with clients (customers, beneficiaries, and partners), marketing, business transaction processing, and supply chain management.

Internet	I: Internet users[6] (2011) - 125 million Internet penetration - 10% Internet subscribers - 22.9 million Number of PCs (e) - 60 million PC penetration - 5% A: Use of smartphone retinoscope	M: *The Fletcher School-MasterCard Digital Evolution Index* places India as a "break out" country in terms of digital evolution, meaning that the country has the potential to develop a strong digital economy.[5] Future opportunity lies in being able to leverage digital evolution for patient online registration, appointment scheduling, online health records management and other mobile and web-based transactions (long term opportunity). L: Screen on-site at the rural camps.
Media Technology (Print media, radio, television, and movies)	I: Advertising of medical services by hospitals on TV and radio is considered unethical and is prohibited under the guidelines by the Indian Medical Association.	M: Sankara adheres to very high ethical standards and follows the guidance of the Indian Medical Association. Uses other marketing strategies (print and social media)
Bankers	A: Central bank of India, Canara Bank and Axis Bank	L: Trusted partnerships, gives credibility to the organization

[1] http://en.wikipedia.org/wiki/Electronic_health_record#India, [2] http://deity.gov.in/sites/upload_files/dit/files/Digital%20India.pdf, [3] http://www.policyholder.gov.in/uploads/CEDocuments/Health%20Insurance%20Handbook.pdf, [4] http://www.budde.com.au/Research/India-Key-Statistics-Telecommunications-Market-and-Regulatory-Overview.html
[5] http://fletcher.tufts.edu/eBiz/Index#Insights

D. Figure 5.7 The Community / Cultural Environment

Institutions, Beliefs, and Practices

External Environment Elements (EEE)	Impediment (I) or Asset (A)	Sankara's Strategy for Leveraging Assets (L) or Mitigitating Risk Factors (M)
Social Bias	I: Mindset from paying customers that "free or subsidized service may be associated with compromised quality" I: "If the others are not paying, why should I pay?" I: Educated rural women may not have the freedom to leave their communities in search of job opportunities	M: Patient trust gained by value based service and brand reputation as leading provider; focus on customer satisfaction. Emphasize the social good provided by 1 paying surgery. M: Paying and non-paying centers are generally not receiving services under the same roof (separate hospitals) M: Rural women are empowered by the training provided for ophthalmological care and the job opportunities to work in camps/community hospitals
Community	A: Common practice of consulting a 'Family Doctor' in India (equivalent to that of a primary care physician, but not necessarily connected to a Hospital). Often a private practitioner, who might provide referrals for specialists.	L: Referral Programs for eye care services through Word-of-Mouth Marketing

Generational Differences	A: Younger generation more in touch with digital/social media	L: Incorporate web-based marketing approaches
Customers	I: Blindness, and a number of disabilities have associated social taboos; Marginalized communities ignored.	M: Improve quality of life by providing affordable eye care M: Vision screening for poor children in rural schools (Rainbow Program); integrated child development centers and orphanages (Maithri); outreach to other marginalized communities.
Volunteers	I: Lack of funding for programs and operations I: Lack of manpower to conduct the rural camps	M: Non-Resident Indians (NRIs) contribute to the SECI by volunteering for and donating to the SEF in USA. M: Volunteers for the eye camps
Employees	I: Shortage of well qualified and trained staff I: Huge health care job market with ever-growing demand	M: Sankara Academy of Vision provides in-house training for doctors M: Offer competitive salary and benefits to retain employees, focus on employee satisfaction and rewarding work culture

Example 3: GSBI Innovator: *Build Change*

Profile (GSBI 2007)

Build Change created a successful model for building low-cost, earthquake resistant housing for low-income populations in earthquake-prone locales.

Mission, Opportunity and Strategies

Mission	Reduce deaths, injuries, and economic losses due to housing collapses caused by earthquakes
Key Metric	Number of earthquake resistant houses built
Opportunity	1 million homeless per year due to earthquakes for past 7 years
Strategies	(1) create design for low-cost, earthquake-resistant houses (2) create bills of materials using local resources (3) train local builders to construct houses

External Environment

The natural environment, particularly the geology of earthquakes and the lack of building codes and technology in poor countries, are the defining elements for Build Change's mission.

Environmental Factors	Actions
Assets:	**Leverage:**
Government Agencies for earthquake relief	Partnerships, Awards
Community awareness of problem	Demonstrate success
Local community design preferences	Adapt std. design to local preferences
Impediments:	**Mitigate:**
Lack of building codes/regulations in poor countries	Develop/advocate standards
Lack of low-cost designs for earthquake-resistant homes	Develop/prove own designs
Lack of skilled professionals to build	Training
Severe damage caused by earthquakes	Target post-disaster locales

Market

130M people live in areas with constant threat of earthquakes (2004), government agencies have money to pay for earthquake resistant housing, potential homeowners lack money and training but want to be involved in building process. Direct beneficiaries are those who receive new housing, indirect beneficiaries are the communities in which they live, and the related beneficiaries are the governments, economies, and emergency relief organizations. Competitive advantages: product (housing designs), process (local involvement), lower cost.

Operations and Value Change

Key processes: (1) create standard design(s), adapt for local preferences and materials, (2) train local builders, (3) build and test houses, (4) gain support from locals (women) and implementing agencies, (5) propose changes to local building codes

Organization and Human Resources

Build Change is a US non-profit (501c(3))
Board of Directors (3): SE experience, Funding, Business experience + structural and geotech nical engineer volunteer advisors
Founder and CEO (with building experience and civil engineering degree)
Director of Operations and Building
Local Staff per project

Business Model and Unit Economics

Key revenue drivers: 50% → 70% Earned income (consulting and construction), 50% → 30% Contributed Income (Grants and Donations)
Key expenses drivers: Staff (70%), Marketing (8%), Materials (2%), Facilities (10%), Admins (10%)

<u>Unit Economics</u>
Unit = house. Goal is to drive cost/house to less than $100 local materials + local labor.

Metrics

(1) Number of houses built, (2) cost per house, (3) revenue, (4) expenses (burn rate), (5) building codes adopted

Operating Plan

Within one year of leaving GSBI, Build Change adopted an operating plan which lead to cash flow breakeven within two years, and self-funding in 5 years.

Financing

Start-up funding in first and second year (negative cash flow) from grants and contributions.

Minimum Critical Specifications Checklist

External Environment

- Clarifies what holds current undesirable state in place
- Identifies pivotal ecosystem actors with influence on outcomes
- Specifies ideal partners for leveraging venture strengths
- Defines strategies for mitigating ecosystem risks

Exercises

5.1 External Environment Elements

As in the three examples, create a “table” (matrix or spreadsheet) that lists all the external environment elements (EEE’s) that influence social venture success. To develop your list of external environment elements (EEE’s) start with the five dimensions or categories in the Process section of this chapter. You need not be constrained by or include dimensions that do not apply. Identify whether each EEE is an impediment (problem) or asset (benefit) for the venture. For each impediment identify an action to mitigate the impediment and for each asset identify an action to leverage the asset.

Background Resources

C.K. Prahalad, The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits, Philadelphia: Wharton School Publishing, 2010), Chapters 4, 5, and 6.

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See also www.doingbusiness.org and search on country of interest and business topic of interest. This website is very useful in understanding key elements of the external environment (such as ability to sign and enforce contracts) in each country.

Chapter 6

The Target Market Statement

The *Target Market Statement* describes the size and characteristics of the customers/beneficiaries of the social venture (those individuals or groups that the organization is intended to serve). The target market statement has four parts:

1. A definition of total available market—all the potential beneficiaries who could possibly use your product/services.

2. A definition of the total addressable market (those beneficiaries you are currently targeting and could reach within a few years).

3. A market segmentation table which identifies the characteristics of your beneficiaries which are relevant to their decisions to use your product/services.

4. A marketing plan which includes sales channels or how you will reach your intended beneficiaries.

Basic Knowledge:

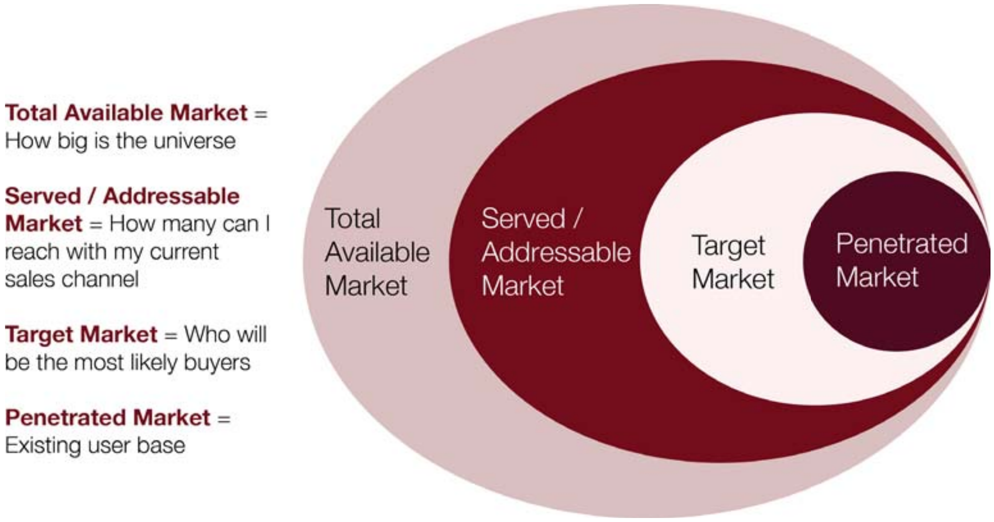
BoP market intelligence is generally poor. Many ventures flounder by making gross extrapolations from macro-data. Need is not demand and the poor are not an undifferentiated mass. The poor often exist in informal markets that are opaque to outsiders.

Segmentation is key to understanding human needs, cultural influences, how to adapt solutions to perceptions of value across geographies, and ability to pay. Investors favor "big" markets but the 4Ps of "go-to-market" strategies must be adapted to heterogeneous contexts where market channels and last mile distribution are underdeveloped or major voids.

Process

The concept of a "target market" borrows from traditional business terminology. A target market statement identifies the precise group of beneficiaries you want to serve. For a social venture the target market statement identifies the beneficiaries ("customers") in the target market for whom the venture's products/services create value. It's important to note that there may be a distinction between those who will use the product or service (direct beneficiaries) and those who will pay-for or assist-with creating or delivering the product or service (indirect beneficiaries). For example, early on Grameen Shakti received grants to install specific numbers of household solar systems in particular geographic markets. There are numerous other examples of third party payers: organizations helping children in the BOP get sponsors for each child being helped (Save the Children); paying customers cross-subsidize those who cannot pay; and, network operators pay for mobile banking infrastructure to increase the "stickiness" of cell phone users. Similarly,

Figure 6.1: *The Total Available Market and Target Market*



in two-sided platforms suppliers of agricultural inputs pay for ICT platforms that provide small holders with market information paid for by advertising.

The target market statement should identify the attributes (needs) of your beneficiaries that make your product or service valuable to them. These attributes, if specific and descriptive, will identify a category of potential beneficiaries (customers) that view your product as compelling relative to their needs and alternatives for meeting their needs.

In Figure 6.1, the *Served / Addressable Market* includes both your *Target Market* and those that could be reached with your sales channels.

To develop a target market statement, proceed with four steps:

Step 1: Total Available Market

Estimate the size of the "market," that is how many people could your enterprise reach if it were completely successful. This estimation is usually a subset of the Opportunity (Total Available Market) identified as part of Mission/Opportunity/Strategies. Identify the source of your estimates. You can use geographic boundaries (e.g. continent, nation, state) and demographics (e.g. age, gender, social groups) to further segment this number. Specify the key needs/problems in each segment your strategies are intended to address (impact). This is the Total Addressable Market.

There are two approaches for estimating market size: top-down and bottom-up. In a top-down approach data from summary sources (e.g. a census

> Two-Sided Platforms:
>
> Historically, users almost always have paid, albeit in many different ways usually at time of purchase or subsequently through usage charges. But with newspapers, television, and finally the internet, technology has created the possibility that users may not pay for the services they received; payment instead being made by others such as advertisers. Two-sided platforms of this type are hybrid business models because they incorporate two value delivery systems, one for the user (such as a consumer that wants to search) and another for the customer who pays, such as a small firm that wants to place an advertisement where it can be seen by a particular kind of consumer (Baden-Fuller and Haefliger, 2013).

or government survey) is used as the base and the market size estimate is estimated as a percentage of the base (e.g., we estimate we can reach 75% of the 1 million homes without electricity). A bottoms-up approach uses local data (possibly from a census or government survey) to aggregate the market size (e.g., there are 100,000 villages each with an average of 400 homes, and if we reach 50% of the homes in 50% of the villages we will reach 1 million homes). Other possible data sources for market size include the World Bank, the International Monetary Fund, United Nations groups such as the World Health Organization, and market research firms such as International Data Corporation (IDC). An internet search on "emerging markets" will produce several additional sources of data to help estimate total available market for your venture.

Step 2: Addressable Market

Identify the segments within the Total Addressable Market you are currently targeting, or could reach within a few years. This is the group of potential beneficiaries that could be reached with the organizational resources (financial and human) that are available (or can realistically be marshalled). Identify why these potential beneficiaries will "consume" the product or service, rather than an alternative (including "non-consumption"). This is the Total Addressable Market Positioning Statement. Reasons to consume are closely related to the Value Proposition for your venture—the pivotal dimension of your business model and a topic addressed in Chapter 9.

Step 3: Target Market

Segment, or divide, the customers into different categories. These categories should be based on factors that will help to understand specific characteristics of your beneficiaries, how to reach them, and what kind of communication and messaging will convince them to buy your organization's product or adopt its services. Both demographic and psychographic factors are relevant here. Examples of the former include age, education level, income level, location, and size of family. Pyschographic factors may include group affiliation (such as an industry or village organization), cultural, religious, linguistic, and peer influence factors as well as personal aspirations. This is your target addressable market segmentation.

There are two methods for estimating the size of your target market. The first is a top-down method where you estimate what percentage of the available market you could reach in a defined time period (e.g., five years). The second is a bottoms-up method in which you survey units in a subset of the addressable market (e.g. two villages) and then multiply the average estimated market per unit in the subset by the total number of units you expect to reach in a defined time period.

Once the segments that exist in the market are identified, you can begin developing a more in-depth characterization of differentiating attributes and needs of beneficiaries. One approach to developing a deeper understanding of these segments is to interview potential beneficiaries to more fully appreciate individual needs and the attributes that influence their day-to-day life choices. You may elect to focus your "marketing" efforts on a single or multiple segments. Segmentation may also lead to developing multiple marketing messages with different (or slightly different) products or services for each target market segment.

Market segmentation is important because:

- It identifies relevant characteristics of intended beneficiaries and helps to determine their adoption and consumption patterns.
- It can be used for beneficiary analysis in product pricing, refining channel strategies, and building customer relationships through customer education, product or brand advertising, and other marketing processes.
- It can be used to enhance the effectiveness of communication and tailor marketing to the various groups or segments.

Step 4: Bases for Market Segmentation

Categorize and estimate the size of segments of your Total Market using the variables show in Table 6.1.

Table 6.1 Variables for Market Segmentation

Type of Variable	Attributes
Descriptor Variables	▪ Demographics ▪ Socio-Economics
Psychological Variables	▪ Attitudes ▪ Interests ▪ Culture ▪ Opinions ▪ Life Style ▪ Personality ▪ Aspirations
Product / Patronage Characteristics (Situation Specificity)	▪ Purchase Occasion ▪ Use Occasion ▪ Usage Rate ▪ Brand Loyalty ▪ Benefits Sought

Developing a Marketing Plan

The final step in creating the Target Market Statement is to develop a Marketing Plan. We will use a common framework for a marketing plan called the "Four P's:" 1) Product, 2) Price, 3) Promotion, and 4) Placement. Product defines the product(s) or services (s) that you will deliver to your beneficiaries (clients, customers). Price defines the amount (possibly nothing, or possibly different prices for different market segments) that you will charge them for the product(s) or service(s). In a social business there are five ways to create a price:

1. Subsidized (free): The costs will be born by "third party" on either a total volume or per

unit basis.
2. Cost-based: The price is based on recovering the all the costs of each product or service (fully-loaded cost basis) or based on recovering the marginal (incremental) costs of each product or service (marginal cost basis). You get fully loaded cost basis by dividing the total expenses of the organization for a time period by the number of units to be "sold" during that same period. Marginal costs basis is determined by dividing the (total) costs of goods sold (COGS) for all units sold in a time period by the number of units sold in that same period.
3. Market-based: You set your price—below, the same, or above the price of alternative products—based on what you think a beneficiary will pay for your product and its perceived value compared to alternatives.
4. Value-based: You set your price based on a percentage of the monetary value of your product/service to the customer (e.g. a % of increased income or savings due to use of your product).
5. Ability to pay: You set the price of the product based on the ability to pay for each beneficiary category.

For many product(s) or service(s) in a social business, the price may not entirely cover the costs (expenses). However, in chapter 9 the "business model" you develop for your enterprise must still provide enough income to cover all your expenses.

Promotion describes what is to be done to make sure the beneficiaries are aware of your product(s) and service(s). Placement describes the methods (channels) used to deliver your product(s)/service(s) to the beneficiaries. As the Word of Mouth box insert indicates, marketing to the poor requires a deep appreciation of local context.

Word of Mouth:

Employing observations and in-depth interviews of a variety of buyers and sellers in rural and urban South India, Viswanathan (Viswanathan, 2007; Viswanathan & Sridharan, 2012) has documented how marketplaces in resource-poor contexts are typically network rich in face-to-face interactions and exchanges that stand in contrast to the largely anonymous interactions typical of advanced economies.

Word of mouth and one-to-one relationships between the individual and the neighborhood retail storeowner take center stage in these situations. The nature of transactions is often fluid, with price and quantity being negotiated, installments not being paid and prices being adjusted for personal circumstances to both the buyers and sellers advantage. Functioning in "subsistence markets" requires developing trusting relationships and norms of reciprocity in exchange transactions that have a medium-to-long term perspective (Jain and Koch, 2016)

Example 1: *Marketing Plan for Grameen Shakti (Home Solar Lighting)*

Beneficiary Analysis and Marketing

Direct, Indirect, and Related Beneficiaries (Solar Lighting Systems)
Direct: Rural poor income earners and their families
Indirect: Grameen Trust and Foundation, USAID, and other funding sources, solar lighting system suppliers, and stove/biogas partner
Related: Families in rural communities, Bangladesh economy, and politicians seeking political stability

The "Total Addressable Market" Size for Direct Beneficiaries
In 1996 approximately 77M (64% of the 120M rural poor) were without access to the grid. This is about 14M families.

The Key Market Segmentation Bases for the Direct Beneficiaries (Geographic, Demographic, Product/Service Needs)
Segmented based on location/geography (64 districts and 40,000 villages), annual in come (50% 8K Taka-10K Taka, 40% 5K Taka-8K Taka, 10%<5K Taka), occupation (farmer, fisherman, teacher, etc.), and needs (10W home system: 1-2 5W lamps, 18Ah battery and 5/10 Amp charger; through 130 W "micro-utility" system: (11 7W lamps, 100 Ah battery, 15 Amp charger, 17"-20" B/W TV).

Competition, Differentiation/Compelling Reason to Consume (may be the same)
Candles and kerosene lamps and non-consumption (no lights) are main competition, also solar system "giveaways." Main differentiation/reasons to consume are: brighter lights (can work after dark yielding 20%-25% more income), great customer service and fewer health problems: and saves 324 Taka per month (kerosene plus battery recharging and replacement costs). Extra income plus cost savings pays for solar system in 2-3 years.

Go-To-Market Plan (4 P's) to Identify/Attract Direct Beneficiaries
Products: 10 solar systems (with solar panel, battery, charger and lights) to match needs
Pricing: Solar Home Systems: 8.8K Taka ($128) to 64.5K Taka ($935), financed at 25% down and 4% interest over 2 years, or 15% down and 6% over 3 years
Promotion: Demos in markets and community leader homes, customer testimonials
Placement: Developed own sales and service system

Example 2: *Target Market for Sankara*

Direct, Indirect, and Related Beneficiaries

Sankara's target market consists of direct, indirect, and related beneficiaries. The direct beneficiaries (those that use Sankara's services) are the patients requiring eye care, including patients who receive eye screenings, eye exams, and medical procedures such as eye surgeries. The indirect beneficiaries are those that deliver the product/service (the medical staff) as well as the Sankara Academy of vision that trains the staff. Sankara's partners, who contribute funding to the organization, are also indirect beneficiaries. These include Sankara Eye Foundation (USA), Sankara Eye Foundation (Europe), and Mission for Vision Trust.

Related beneficiaries include the female hospital staff and field workers who are empowered via job opportunities, the families of individuals receiving eye care treatment (who may benefit from the patient's ability to return to work and earn income), and the villages and communities in which Sankara conducts their eye camps. The economies of these communities benefit from the increase in earning power once the treated patients are able to return to work.

Target Market Size and Key Market Segmentation Bases

There are an estimated 30 million people suffering from blindness (mostly cataract blindness) across the world . This is the total available market for direct beneficiaries. As previously mentioned, within India, there are 8-12 million needlessly blind. This is the addressable market for Sankara.

Sankara targets both the rural poor and the urban middle class in India. Given the cross-subsidy model, the middle class is key to Sankara's success. Best estimates indicate that the middle class in India comprises, at most, only 30% of the population. However, the middle class is the most rapidly growing segment of the population. While very limited data exists on the middle class in India, this population segment can be further divided into two income level groups, as noted in a 2007 McKinsey study:

1) Annual income of 200,000 to 500,000 Rs
Description of consumer: the lower end of the middle class - primarily consists of young graduates, government workers, traders, and business people. Generally own simple consumer goods such as a TV, refrigerator, mobile phone, and perhaps a mode of transportation. They do not have a lot of disposable income, but strive to save for educational expenses and retirement.

2) Annual income of 500,000 to 1 million Rs
Description of consumer: the upper end of the middle class - this segment is successful in the workforce and primarily consists of senior government officials, high-level business people, working professionals and well-off farmers. Generally own many consumer goods beyond the basics, including air conditioning, cars, and electronics. Have disposable income to indulge in some splurges.

Sankara segments their customers in several distinct ways:

1) Ability to Pay:
- Affordable premium eye care for urban middle class ($3B market, further described above) - 20% of their customers.
- Free eye care for rural poor - 80% of their customers

2) Geographic:
- City hospitals (for urban customers) - 20% of their customers
- Community hospitals (for rural, non-paying customers - 80% of their customers)
- Note: Sankara aims to target the needlessly blind who are within a 200 km radius of each of their hospitals

3) Demographics:
- Women
- Men
- Children
- Marginalized Groups (ex. Transgender individuals)

4) Types of Eye Care Services:
- Basic Comprehensive Care (eye screenings, fittings for lenses/glasses, etc) vs. Specialty Services (cataract surgery, glaucoma treatment, ocular oncology, etc)
- Inpatient vs. Outpatient treatments

Table 6.2 Sankara's Competition and Influencers

Competitor	Differentation from Sankara	Compelling Reason to Consume
Aravind Eye Care Systems	65/35 ratio (paying vs. non-paying customers) Quality of care (different level of service for paying vs. non-paying customers) Geography (locations restricted to south India)	Affordable, quality eye care Trusted brand
Goverment Health Centers	Low quality of care	Free services
Private Eye Clinics	Higher prices No free services	Eye care expertise High quality services
Multi-Specialty Hospitals	Offer full medical services (beyond eye care)	Convenience

Marketing Plan (4 P's)

Sankara's marketing plan addresses the 4 P's (Product, Price, Placement, & Promotion):

Product: Sankara provides comprehensive and specialized eye care services.

Table 6.3 Sankara's Service Offerings

Comprehensive Eye Care Services	Specialty Services
• Cataract & IOL Clinic • Corneal & External Eye disease • Pediatric Care • Glaucoma Services • Vitreo Retinal Services • Occuloplasty & Aesthetics • Low Vision • LASIK • Contact Lens Clinic • Computer Vision Clinic • Ocular Oncology	• Cataract • Glaucoma • Diabetic Retinopathy • Ocular Oncology • Cornea and Refractive Surgery • Pediatric Ophthalmology • Eye Banking

Price: Sankara's pricing model differs based on the customer's ability to pay and the city within India where the services are being performed. Rural poor customers receive their treatment (along with lodging, transportation, and food) for free. City customers receive treatment at affordable prices. Sankara has committed that the cost of services will always be equal or less than comparable hospitals. This is a key part of their strategy and ability to build trust within their communities. Below is a sampling of prices for two common eye procedures at three different Sankara hospital locations.

Note: Our student team gathered these price points by calling the hospitals directly to obtain pricing information.

Table 6.4 Sankara Competition Pricing

Hospital Location	Eye Exam Price (Rs)	Cataract Surgery Price (Rs)
Anand	200	11,950
Bangalore	300	21,000 - 30,000*
Coimbatore	100	12,000 - 34,000*

*Price range is dependent on type of lens chosen (locally made versus imported)

Placement (Channels): Sankara currently has a network of 14 city and rural community hospitals at which treatments and services are performed. In addition, eye camps in rural communities are a critical channel for conducting initial screenings of customers, who are then transported by Sankara to one of their community hospitals for further treatment. The Rainbow Program provides an additional channel for delivering services to school-age children. Teachers are trained to conduct initial eye screenings of their students, and then Sankara doctors conduct follow-up examinations and treatments as needed.

Promotion: Sankara is a well-known brand in India for providing high-quality affordable eye care. Much of their promotional activities are done via word-of-mouth. Promotional activities for the non-paying segment are done via the eye camps and spreading awareness in rural communities with the help of partners. For the paying segment, Sankara's promotional strategy has focused on spreading awareness within 5-7 km radius of their city hospital locations. Promotional activities for the paying segment include billboards, flyers, and newspaper inserts in the target area, as well as screening events in apartment complexes, malls, etc. Additional promotional programs include:

Corporate Programs: Sankara has corporate relationships with large and small companies in India such as Philips India and Cognizant Technological Solutions. Sankara periodically conducts visual screenings of corporate employees on the company campuses. This strategy has been very effective on multiple levels – employees love the convenience and it is a great way to increase awareness about Sankara's high quality and affordable eye care services among the middle class urban corporate employees. Many of these employees and their families end up becoming lifelong Sankara patients.

Health Insurance Programs: Sankara has tie-ups with health insurance companies such as United India Insurance, Star Health Insurance, etc.

TPA Programs: Sankara has tie-ups with health insurance third party administrators (TPAs) and offers cashless transactions which is very convenient to the patients.

Education/Conferences: Sankara conducts periodic conferences and talks on the latest eye care treatments and technology; and invites external local doctors to participate. These external doctors many times end up referring their patients with eye ailments to Sankara.

Social Media Marketing and Online Reputation Management: Sankara has hired a third party agency for social media marketing (key word search ads) and for online reputation management such as closing the loop on any concerns posted online such as long wait times.

It is important to note that Sankara does not implement TV or radio ads. In India, advertising of medical services by hospitals on TV and radio is considered unethical under the guidelines by the Indian Medical Association. However, this does not stop many private providers from continuing to advertise via this medium. Sankara always adheres to very high ethical standards and has chosen to follow the guidance of the Indian Medical Association.

Example 3: GSBI Innovator: *Digital Divide Data*

Profile (GSBI 2004)

Digital Divide Data targets multiple countries with education/training sites that use students as staff in IT outsourcing, creating income for sites and jobs for the graduates.

Mission, Opportunity and Strategies

Mission	Provide education/growth for students via high-quality technology services to customers
Key Metric	Average salaries for graduates
Opportunity	Hundreds of thousands of disadvantaged youth in developing world
Strategies	(1) provide high-school level education and IT training (2) offer low-cost, high-quality, IT services to customers (e.g., data entry) using students as staff (3) place graduates in IT jobs

External Environment

Lack of education/training and predominance of low-paying jobs in developing world; low confidence, self-esteem and skills among disadvantaged youth (especially girls), high unemployment rates and low economic growth rates in targeted countries, opportunity for employment in outsourcing IT tasks (e.g., data entry) from developed world, access to IT technology and training courses.

Market

Total Available Market:

Direct Beneficiaries: millions of disadvantaged, unemployed youth
Indirect Beneficiaries: hundreds of companies needing outsourced IT services
Related Beneficiaries: families of students, economies in target markets

Total Addressable Market: in 2004, target market was two countries (in 2015, 4 countries on 3 continents)

Target Market Segmentation:

Country	Population	Unemployment Rate	Student Gender/Age	# Students
Laos	6M	5.7%	teenage girls	50
Cambodia	11M	7%	teenage girls	100

Competition: A few out-sourcing companies (compete on price, quality), no-IT training schools

Product: high-school level education including IT training
Price: Education/training is free, but students are staff for IT outsourcing business
Placement: create local schools=IT outsourcing businesses
Promotion: Partners, out-sourcing client references

Operations and Value Chain

The key processes for Digital Divide Data are: (1) create education centers for IT outsourcing business, (2) recruit students, (3) train students, (4) recruit IT out-sourcing clients (5) complete outsourcing contracts with high-quality, (6) job placement for student graduates

The Value Chain is to educate/train/job placement for disadvantaged youth by providing high-quality IT outsourcing services using student as staff.

Organization and Human Resources

DDD has a U.S. non-profit (501c(3)) for fund-raising and executive management, and local DDD centers are for-profit IT outsourcing businesses.
Board of Directors: in North America Chairman, BA Yale, MBA Stanford, CEO BA Harvard, MBA MIT, CMO, BS Michigan, MA Tufts, MSc London School of Economics, employed by McKinsey, VP Business Development, BA Oberlin, MA Central European University in each of Laos and Cambodia: General Manager and Operations Manager, locales

Business Model and Unit Economics

Key Income Drivers: Grants (20%), Outsourcing Contracts (80%)
Key Expenses Drivers: Staff (50%), Capital (30%), Marketing/recruiting/job placement (20%)

Unit Economics

Unit = student, cost per student about $1,870

Metrics

(1) Number of students, (2) outsourcing revenue, (3) expenses, (4) net profit, (5) number of student jobs, (6) average salary per student placed

Operating Plan

Annual operating plans are created by each site

Financing

Started in 2001 with donor financing, by 2004: 80% earned income financing; 20% donor financing

A Minimum Critical Specifications Checklist

The Target Market Statement

- Specifies target market (direct beneficiaries, bases for segmentation, market size)
- Clarifies who will pay (direct, indirect, or related beneficiaries)
- Defines competition, differentiation, compelling reason to consume and influencers
- Specifies marketing plan (4 P's) and how to engage direct beneficiaries
- Provides evidence of a sufficient size of market to support a business

Exercises

6.1 Total Available Market

Create an estimate of the Total Available Market which: 1) Divides the potential beneficiaries for your product into major categories (segments) using geography (or other major categorization); 2) Estimates the size (number of beneficiaries in each major segment; and, 3) Specifies the key product/service needs of major segments. Cite the source (basis) for your estimation of market size.

6.2 Total Addressable (Target) Market Positioning Statement

Create a Total Addressable Market Positioning Statement which identifies the characteristics and size of that segment of the Total Available Market that you currently are targeting, and compares the venture's products/services with key alternatives including non-consumption.

- Characteristics: Key characteristics that define potential beneficiaries for the products/services
- Size: Number of beneficiaries that currently use each alternative
- The positioning of the product/service compared to alternatives, including "non-consumption." You may wish to prepare a Competitive Alternative Table which lists Benefits/Cost/Beneficiary Experience Factors in the first column; Advantages of your Venture in column 2; Advantages of Competitor 1 in column 3; and Advantages of Competitor 2 in column 4.

6.3 Market Segmentation Table

Create a Market Segmentation Table identifying different addressable market sub groups, by distinctive attributes. For each segment describe why the venture's offering will gain adoption.

6.4 Create a 4 P's Marketing Plan

P1. Product/Service: Write a short description of each product or service the venture provides, including what it does and the benefits it provides the user ("the reason to buy").

P2. Price: Specify a price for each product or service.

Often pricing is set using a combination of 2 or more of these pricing methods, for example, a subsidized price based on a third party buyer paying all or part of the cost-based pricing.

P3: Promotion: Describe the methods you will use to inform beneficiaries about your products and/or services. Typical methods of promotion (in order of increasing costs) include: word-of-mouth, partnering (the partner promotes), and advertising (print, radio, web, TV).

P4: Placement: Describe how products/services are delivered to customers (your "channels"). Typical channels (in order of increasing costs) include: use of an existing channel (coordination), use of an existing social group to create a new channel (collaboration), or creation of a completely new vertically integrated channel.

Background Resources:

Charles Baden-Fuller and Stefan Haefliger, Business Models and Technological Innovation, Long Range Planning, 46 (2013) 419–426

J. Gregory Dees, Jed Emerson, and Peter Economy, Strategic Tools for Social Entrepreneurs: Enhancing the Performance of Your Enterprising Nonprofit, New York, John Wiley, 2002, Chapter 2.

Arthur DeThomas Ph.D. and Stephanie Derammelaere, How to Write a Convincing Business Plan, Third Edition, New York: Barron's Educational Services, 2008, Chapters 6 and 7.

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M. Viswanathan, Understanding product and market interactions in subsistence marketplaces: A study in South India. Advances in International Management, 20 (2006) 21-57.

M. Viswanathan and S. Sridharan, Product development for the BoP: Insights on concept and prototype Development from university-based student projects in India. Journal of Product Innovation Management, 29 (1) (2012), 52-69.

Wikipedia: http://en.wikipedia.org/wiki/Marketing_mix.

Chapter 7

Operations and Value Chain

The Operations and Value Chain of a social venture describe the key processes that are implemented to create value for the beneficiaries.

Within the boundaries of an organization, where inputs are transformed into outputs, value creation is reflected in both direct and indirect operating routines that contribute to the quality of outputs and organizational productivity as well as the motivation of people and the change making capacity of an organization. These routines are shaped by the experience, values, and organizational philosophy of founders. Their influence extends beyond rational mechanisms for the control and coordination of work to the shaping of organizational culture, the intrinsic or motivating nature or work, and organizational learning. These features often persist long after the departure of founders and become institutionalized or taken for granted characteristics of "how things are done" within the organization.

Basic Knowledge:

Operational excellence starts with repeatable processes. Specifying value chains enables ventures to identify internal capabilities and skills needed to achieve social impact and financial viability. Identifying and developing core competencies facilitates growth and differentiation. Value chains also specify where external partners are key to success and shared value must be created (including aligned financial incentives).

In building better ventures, as a *rule of thumb* there should be at least one core process for each of the Key Strategies identified in Chapter 4. If marketing is not explicit as a key strategy, there will still need to be at least one process for marketing (e.g. executing the Marketing Plan from Chapter 6). The organization plan (Chapter 8) should assign an individual in the organization to have primary responsibility for each process (even if that processes is carried out by a partner). In small organizations one individual may have responsibility for more than one process, but more than one person should never have responsibility for one process (even if there are multiple people that carry out the process, only one should be "in charge"). When the financial plan for the venture is created, each process should have a budget (specified financial allocations), including those processes that produce income for your organization.

In the transactional and contextual environment of the organization, value chains encompass a range of actors—from customers to suppliers and channel partners, to community-based stakeholder groups and political entities. In some instances, value creation is reflected in the flow of products or services and monetized in the flow of money. In other instances it is reflected in the flows of information, in-kind services, and formal or informal collaborations. Together with the Business Model (Chapter 9), Operations and Value Chains describe "how the business works." to create value for the beneficiaries—and to capture value to sustain and grow future organizational capacity.

The Operations and Value Chain element of a business plan is the basis for creating the internal organization (work flow, job design, and accountability structure), external partnerships, and formal procedures or operating routines to implement the mission. It is the mechanism through which the organization creates the impact (value and desired change) called for in its Mission Statement.

- *Operations* are the key internal processes that are implemented to create value for beneficiaries and to capture sufficient resources to sustain and scale impact.
- *Value Chains* show the relationships among these processes and key people or entities both within and external to the organization.

Process

The Operations of an organization are the processes that you use to carry out or execute the Key Strategies for achieving your Mission (Chapter 4). These processes can be classified as primary (directly create value for the beneficiaries), and support (necessary to maintain and strengthen the primary processes).

Examples of primary processes include:

- Developing new products (or product life cycle)
- Purchasing/inventory management
- Manufacturing products
- Distribution/delivery of products and services
- Locating beneficiaries
- Recruiting beneficiaries
- Quality Control/Assurance
- Arranging financing for beneficiaries

Support processes are those that are needed to fund or enable the *primary processes.*
Examples of *support processes* include:

- Fund-raising and report preparation for funders
- Hiring and training employees
- Setting prices and collecting fees
- Evaluating and rewarding employees
- Information technology, administrative and accounting services

Note that an organization probably will not have all of these (primary and support) processes and may have others not listed here. Most organizations can define their value creation with fewer than 10 primary and support processes (combined).

Many of the key innovations required for creating and delivering affordable, quality products or services for Base of the Pyramid (BOP) or other underserved markets are process innovations, for example, using local raw materials such as rice husks, or repurposed animal waste and locally developed skills to generate electricity through a gasification or bio-digester process.

A good way to identify key processes is to review Chapter 4 and identify the specific tasks that need to be accomplished to implement each of your *strategies*. As you will recall *strategies* for your social venture were specified on the bases of their relationship to the change/impact you seek to achieve through your *mission*.

For example, for the Sankara Eye Care System mission of "Curing needless cataract blindness in India," a *key strategy* was to develop a "high volume surgery process." This strategy actually requires 5 processes.

P1. Identify and recruit patients (Community Outreach)
P2. Assess and admit patients to the hospital and decide on their "fee" (Hospital Admissions)
P3. Prepare them for surgery (Pre-surgery care)
    a. Free patients
    b. Paying patients
P4. Perform surgery
P5. Perform post surgery care and analysis

In addition, there is one important Support Process:
S1. Employee Recruiting and Training

High performing organizations are explicit about "variances" that affect quality or costs, as well as accountabilities for their control (see box insert, System Variances). They are also mindful of the need to select the right people and create a positive, empowering organizational culture (a topic we address in chapter 8, Organization and Human Resources). The delineation of "key variances" for each process can help in developing effective process metrics (chapter 10).

Socio-Technical Mechanisms:

Operations can be analyzed by examining key process as though each of these steps is an operating unit subject to variances that drive organizational effectiveness and the quality of working life. Overall operating systems can be broken down into these unit operations.

In high performing systems variances that effect quality or cost as well as customer satisfaction, market penetration, and employee well-being are identified and mechanisms for their control are specified. Specifying process variances, where they occur, where they are observed, and where they are controlled is critical to effective systems design. Variance control should occur as close to where the variance occurs as possible as opposed to being "passed down the line." This requires careful attention to the design of jobs and the empowerment of those who perform them.

In social ventures the values and mission of the enterprise can be a powerful motivator, especially if combined with the selection of people for "fit" with mission and ability to learn, a high performance culture, and an empowering work system. Controlling variances as close to where they occur as possible is a core tenet of socio-technical systems design thinking.

Partnerships

Key processes, such as manufacturing or distribution and marketing (attracting customers or beneficiaries) may be carried out by partners. There should be a written agreement with each partner specifying what the partner will do for you and what you will do for the partner (e.g. payment processing, product design and manufacturing, providing metrics or assessing impact, etc). Because different types of partnerships involve different degrees of interdependence, they can be characterized by the type of written agreement needed to formalize the value exchange relationship (see Table 7.1 below).

Table 7.1 Partnership Types

Type of Partnership	What Is Exchanged	Written Agreement
Network	Information (e.g. client names)	Memorandum of Understanding (MOU)
Coordination	Common/shared processes for serving different beneficiary groups; or, separate but interdependent processes for serving the same beneficiaries	Memorandum of Understanding (MOU)
Cooperation	One partner "outsources" and pays another partner for products and services	Contract (service agreements that specify what, for how much, and by when)
Collaboration	Partners work together to implement processes (each partner pays their own expenses)	Contract (specifying complementary processes and how they are to be implemented to achieve impact)

It is useful to create a table showing key partnerships, specifying the nature of relationship interdependencies, and the value being exchanged as part of the partnership as illustrated in Tables 7.2 below for Grameen Shakti. In the example, all three partnering relationships require more formalized or contractual agreements.

Table 7.2 Example: Grameen Shakti Partnerships

Partner	Type of Partnership	Value Exchanged
Grameen Telecom	Coordination	Knowledge of process for rural sales
Suppliers for solar home systems	Cooperation	Provides products and components in exchange for money
Grameen Bank	Collaboration	Office space in exchange for value to Grameen customers

Value Chain

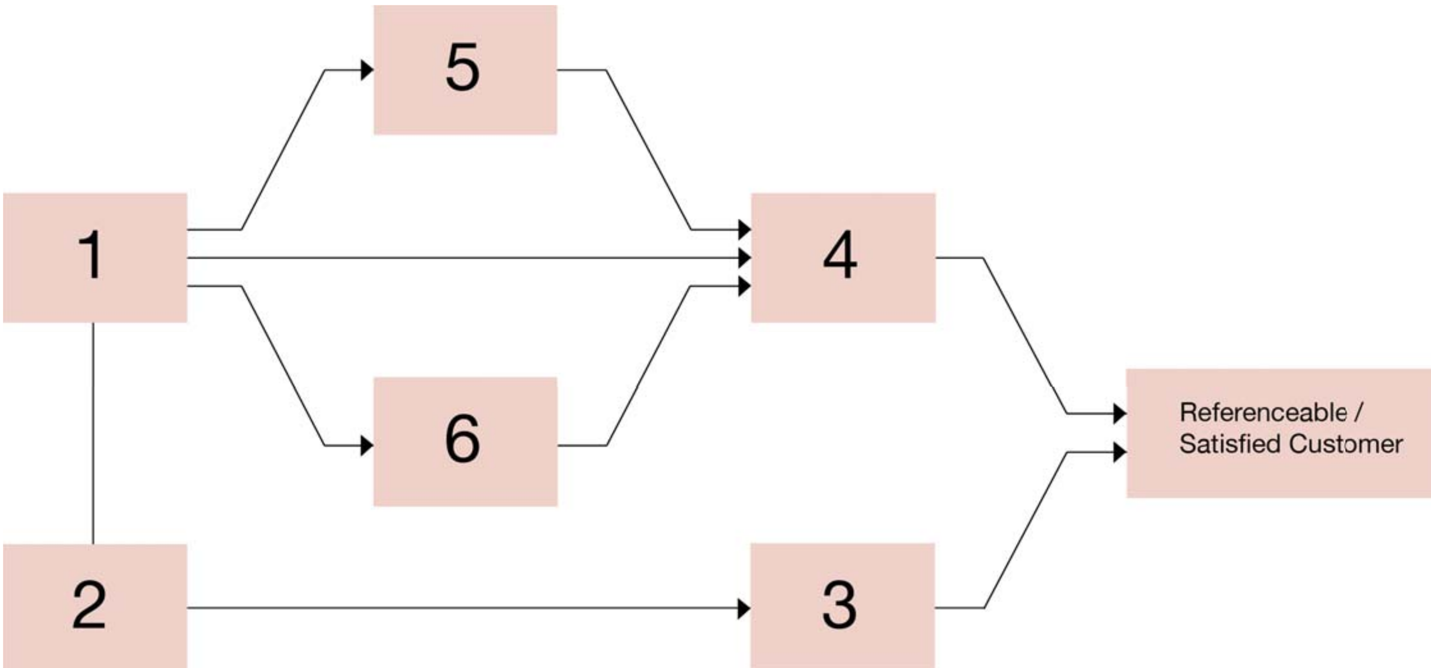
The *Value Chain* identifies the flow of information, products, and possibly money among processes both within the enterprise and with partners or others in its enabling ecosystem. A Value Chain showing the flow of goods among partner organizations needed to create a final product/service for a beneficiary often is called a "Supply Chain." Value chains and supply chains can be drawn as flow diagrams (see Examples 1 and 2 below). If there are multiple value chain or supply chain partners involved in implementing your mission it is important to specify the monetary or other benefits they receive for each unit of value they provide in the value chain.

Example 1: *Operations and Value Chain for Grameen Shakti (Solar Home Lighting Systems)*

Omitting fundraising, administration, and other support or "overhead" factors, the key operating processes that create product/service value for Grameen Shakti customers include:

1. Product definition, partner Solar Home System supplier selection, acquisition and pricing
2. Product supply
3. Distribution/Delivery
4. Marketing, Sales, and Collection
5. Micro-financing
6. Service/Repair

Figure 7.1 Grameen Shakti: Value Chain Diagram



Example 2: *Operations and Value Chain for Sankara*

Processes in the Value Chain

In transaction economic theory there are three primary organizational forms—integrated, hierarchical, and networked. In integrated forms all of the factors required to create and deliver value are controlled by a single organization. This is referred to as a vertically integrated organization. Hierarchical forms exercise control through formal rules within hierarchically structured accountabilities and financial controls—archetype examples include franchise and holding company forms. Most organizations and the vast majority of social businesses are network forms. They must depend on a number of other actors to create, deliver, and capture value. Table 7.1 describes the nature of interdependencies and mechanisms such as MOUs or contracts for governing relationships where operations are not vertically integrated.

Sankara's value chain consists of a network of processes and relationships that create value for the customer (paying and non-paying patients of Sankara's eye hospitals). While normally support functions such as administration and HR are not included in the value chain, we believe in Sankara's case the recruitment and training of hospital staff is also a key process. Through their efforts to attract and retain talented staff, Sankara is able to ensure successful operation of their facilities, high-quality patient care, and economic betterment for the many women that they employ. The value chain for Sankara consists of the following processes:

1. Customer Acquisition: Sankara must acquire customers for eye care treatment. These customers are segmented into two groups: paying and non-paying customers, which are respectively served at the Base (city) and Community (rural) hospitals.

2. Community Outreach (rural eye camps): For the non-paying customer segment, Sankara educates people in rural communities about Sankara via eye camps, where they spread awareness about their offerings and conduct on-site screenings.

3. Marketing/Education (city customers): For the paying customer segment, Sankara conducts marketing efforts to spread awareness and gain customers for their base hospitals in major urban centers. These marketing efforts include traditional promotional methods like billboards, flyers, and newspaper inserts, as well as partnerships with corporations, health insurance companies, etc, and external paid engagements for social media management and online reputation.

4. Transportation: For the non-paying customer segment, Sankara transports patients from rural villages to their community hospitals via bus.

5. Eye Care Preparation and Treatment (free hospitals): Sankara provides comprehensive and specialty eye care services to non-paying customers at community hospitals in rural locations.

6. Eye Care Preparation and Treatment (paying hospitals): Sankara provides comprehensive and specialty eye care services to paying customers at base hospitals in city locations.

7. Transportation: Sankara transports patients from free hospitals back to the villages after treatment is complete.

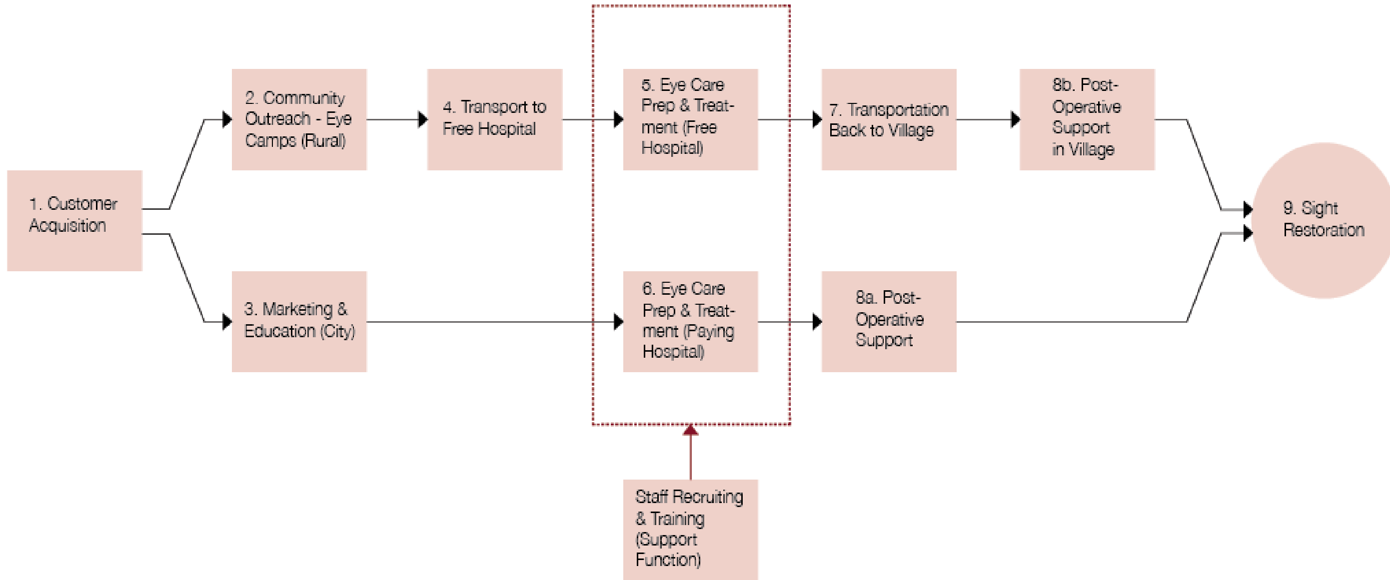
8a. Post-Operative Support (paying hospitals): Post-operative support is provided to paying patients at city hospitals after treatment is complete.

8b. Post-Operative Support (free hospitals): Post-operative support is provided to non-paying patients in their respective villages.

9. Sight Restoration: both the paying and non-paying customers complete treatment at Sankara and depart with restored sight, poised to live healthier, more productive lives.

Sankara's network of processes and relationships involves working with local partners (steps 1-4 and 7-9), while the supply and maintenance of its technical operating infrastructure (steps 5-6) involves work with international suppliers of advanced medical technologies.

Figure 7.2 Sankara's Value Chain



Key internal operating processes that create product/service value

Primary processes that directly create value for the beneficiaries, are namely:

- Identify and Recruit Patients
- Community Hospital (Free patients) - through community outreach efforts like camps and awareness programs
- Base/City Hospital - through marketing (Paying Patients)
- Patient screening and diagnosis
- Patient treatment (clinical or specialty services)
- Post-treatment follow up care and evaluation

Support processes that are needed to enable the Primary Processes are as follows:

- Recruiting, education, training, and management of the medical and administrative staff
- Fund-raising through SEF (US, UK) and Mission for Vision
- Acquiring more paying patients to maintain the 80-20 (unpaid vs paid) ratio
- Construction of new hospitals and maintenance of existing hospitals
- Information technology, administrative and accounting services
- Acquire low cost supplies and equipment (diagnostic and surgical)

Key variances that can impact cost or social value—quality, affordability to customers, and penetration

- Insufficient number of paying patients to maintain a 80-20 (unpaid vs. paid) ratio
- High setup and operating costs for the hospitals (both in rural and urban areas)
- Unavailability of sponsors for eye camps
- Reduced efficiency in treatment process
- Lack of community support for camps

- Lack of competitive pricing for services
- Lack of eligible personnel to undergo training

Key external operating partnerships

Without the following partnerships Sankara would not be able to achieve its mission:

Sankara Eye Foundation, USA: SEF USA has more than 200 volunteers working from different parts of America. Through various innovative and appealing programs & events, funds are being raised to support Sankara in conducting eye surgeries, procuring/modernizing equipment and constructing new hospitals. SEF USA is a huge supporter of Sankara and a driving force of their Vision 20/20 goal. Over the past 10 years, SEF USA has provided on average more than 50% of all donations that Sankara has received.
Sankara Eye Foundation, Europe: Aims to support the free eye surgeries at Sankara by raising funds through events, booths and donors.

Mission for Vision Trust: Participates not only in the establishment of new hospitals but also in supporting the deficits in recurring expenditure. Shares a common goal with Sankara: "No one should be needlessly blind." Stresses both community eye care service and overall quality of services provided. Mission for Vision has also put in place a regular ongoing audit on the post-operative patients. This helps in assessing the quality of care, overall well-being of patients, and in evaluating the socioeconomic benefit that they have gained from better vision.

Gift of Vision Program - Eye Camps: Sankara reaches out to patients through its network of field workers, doctors and paramedics. Screening is done on-site at eye camps in the village.

Screening programs: As part of the Rainbow School Screening program, teacher volunteers are identified and trained to do preliminary eye screenings for students. Based on these screenings, the eye care team from Sankara visits the schools and screens the children for any disease, and those found with eye problems are moved to the base hospital. Those requiring glasses are given spectacles free of charge.

Sankara Academy of Vision: The Academy of Vision is recognized among the leading eye care organizations in the country. Through the Academy, in 2013-14 Sankara trained and developed 190 personnel to become ophthalmologists, optometrists, paramedics, technicians, eye care managers and support personnel. Training through the academy also enables socioeconomic empowerment of students, with enrolled attendees coming from India, Nepal, Nigeria, Iran, and Azerbaijan. In a recent study, 85% of vision care technicians in the program were found to come from marginalized communities. 72% of them reported more respect from their communities & families upon completion of the program at Sankara Academy of Vision. These individuals are now providing approximately 30% of their family's monthly income.

Government of India & NGO's: Key partnerships with the government of India and NGOs provide recurring grant funding to Sankara. NGO partners include Indian Council for Medical Research, Sri Ratan Tata Trust, and District Blindness Control Society. The government specifically supports the eye bank through their grants, and Sri Ratan Tata supports the Academy of Vision. The other

NGOs provide grants for general use. Sankara's key partners are identified in Table 7.3 below. As noted in Table 7.1, these partnerships may involve formal/informal MOUs or contractual agreements as mechanisms for ensuring accountability.

Table 7.3: Sankara's Key Partners

Partner	Type of Partnership	Value Exchanged
Sankara Eye Foundation - USA	Collaboration	*Fundraising*: Funds for surgeries, equipment, and hospitals
Sankara Eye Foundation - Europe	Collaboration	*Capital*: Funds for new hospitals, running existing ones
Mission for Vision	Coordination	*Audit and Fundraising*: Establishing new hospitals, supporting deficits in recurring expenditures, audit on the post-operative patients
Eye Camps (Gift of Vision Program)	Coordination	*Coordination*: Raising awareness, screening and detection of defects/ailments, eye treatment
Student Screening (Rainbow Program)	Coordination (training of ophthamologists)	*Training*: Primary screening to detect early onset issues and treat before problems worsen
Sankara Academy of Vision	Collaboration (training of ophthamologists)	*Training*: Training initiative, enables socioeconomic empowerment of students from marginalized communities
Govt. of India and NGO parternships	Cooperation	*Grants*: Funds for Surgeries, Equipment, Hospitals

Example 3: GSBI Innovator: *Equal Access*

Profile (GSBI 2004)

Equal Access was the first GSBI attendee to be primarily operated by women and creates informational and education media content for women.

Mission, Opportunity and Strategies

Mission	Provide information and education access to millions of underserved women
Key Metric	Number of beneficiaries
Opportunity	Millions of women in the developing world who lack information and education on topics related to: health, protection against violence, and job opportunities
Strategies	(1) use local women to create and target appropriate content (2) teach these women how to effectively use technology (web and radio) to reach those in need (3) develop partnerships for local implementations and community engagement

External Environment

Widespread lack of information and education for women in developing countries. Leverage existence of radio and internet technology, local women know information and educational needs. Leverage local partnerships for community engagement.

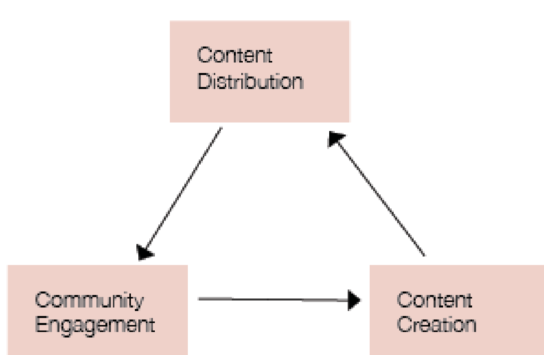
Market

Initial target market was Southeast Asia where education and need and availability of ICT were high. Selected countries with large numbers of poor women (Afghanistan: over 6M, Nepal: over 4M, India: over 300M, Laos: over 700,000. Use local talent to develop content (products), distribute for free (pricing), use local organizations to promote and place. Product: information content, price: free, promotion: local media, placement: local partnerships.

Operations and Value Chain

The key processes for Equal Access are: (1) content development, (2) content distribution, and (3) community engagement. They area inter-related and need to be tailored for each market with a Value Chain as shown in Figure 7.3:

Figure 7.3 Equal Access Value Chain



In some markets the value chain needed to include provision/distribution of low-cost, solar-battery-powered radios.

Key partnerships in each market were needed for each process as shown in Table 7.3.

Table 7.3 Equal Access Key Partnerships

Partner	Type of Partnership	Value Exchanged
Community Engagement	Collaboration	Listening groups, facilitated learning, multi-media hubs, audience development and feedback
Content Development	Cooperation	Develop content in local language
Content Distribution	Cooperation	Radio broadcasting (satellite and radio), internet data broadcasting

Organization and Human Resources

Equal Access is a non-profit (501c(3)) in the US for fund-raising and executive management, and a non-profit media company in each country where they operate.

Small Board of Directors: (CTO of Global Tele-systems Group, AOL Director of Product Strategy
- Equal Access President and Equal Access CFO)
- Small Advisory Board: Intel (VP of Business Development), Monterey Institute of International Studies (Professor of Translation and Interpretation)

Executive Director
- Project Director
- CFO
- Country Directors
  - 1 - 15 local employees

Business Model and Unit Economics

Key Income Drivers: earned income from contracts (60% → 80%), contributed income from grants (40% → 20%)

Key Expenses Drivers: Personnel (20%-30% of revenue), Local Content Development and Distribution (70% of revenues)

Unit Economics

Unit = Beneficiary. 2004 cost/beneficiary = $0.25, 2008: $0.10, now: $0.01.

Equal Access was first GSBI participant to use unit economics as a key metric.

Metrics

(1) revenues, (2) expenses and expenses as % of revenue, (3) number of beneficiaries, (4) cost/beneficiary

Operating Plan

For 2004/2005 Equal Access had an operating plan with quarterly milestones for 7 key tactics.

Financing

Equal Access was initially funded with 60% grants vs 40% earned income, and in 2004 was financed with 75% earned income and 25% grants.

A Minimum Critical Specifications Checklist

Operations and Value Chain

- Specifies value chain from product / service creation to delivery and after-market support
- Identifies potential process variances and socio-technical mechanism for their control
- Identifies partnerships for enhancing quality, cost reduction, and market penetration
- Clarifies how value chain supports scalability

Exercises

7.1 Identify Your Key Processes

List the (10 or fewer) key primary and support processes to implement your Key Strategies. For each process, specify the person responsible for the process.

7.2 Create a List of Your Operations Partners

Create a table which lists your key partners, the operations they support, the type of partnership agreement you have (network, coordination, cooperation, or collaboration), and what value is exchanged" (financial or other) in the partnership.

7.3 Create a Value Chain Diagram

The Value Chain Diagram shows the relationships among processes—both internally and external to the venture—in terms of the "flow" of value from one process to another and eventually to the beneficiaries. The flow arrows among the processes show how value flows to beneficiaries and how information and or money flow to partners and back to the organization. Processes may be shown "parallel" to indicate that they occur roughly at the same time. Figure 7.2 in this chapter provides an example from Grameen Shakti. Since there is not a single or commonly used format or style for a Value Chain Diagram, you can use whatever format or style of diagram best conveys your value chain.

A Prolog to Chapter 8

In preparation for identifying the organization and human resource requirements for your venture in Chapter 8, you may find it useful to summarize each value creating step in your operations and the organizational capabilities (knowledge, skills, abilities) required for effective execution.

Operations (Value Creating Processes) and Human Resources (Capabilities)

Step	Value Creating Process	Capabilities Needed
1		
2		
3		
4		
5		
6		
7		

Background Resources

Arthur DeThomas Ph.D. and Stephanie Derammelaere, How to Write a Convincing Business Plan, Third Edition, New York: Barron's Educational Services, 2008, Chapter 8.

C. K. Prahalad, The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits, Philadelphia: Wharton School Publishing, 2010), Part IV: Jaipur Rugs.

Ian C. MacMillan and James D. Thompson, The Social Entrepreneur's Playbook—Pressure Test, Plan, Launch and Scale Your Enterprise, Philadelphia, Wharton Digital Press, 2013.

J. Gregory Dees, Jed Emerson, and Peter Economy, Strategic Tools for Social Entrepreneurs: Enhancing the Performance of Your Enterprising Nonprofit, New York, John Wiley, 2002, Chapter 3.

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Chapter 8

Organization and Human Resouces

By identifying the key processes for your organization in Chapter 7 you have created the "operations element" for your enterprise plan and are ready to create the organization and human resources element of the plan. This element includes the legal form of your organization, the board structure and its composition, the key leaders who will comprise your top management team, and a staffing plan. In a social business the latter may include volunteers in addition to paid employees.

Basic Knowledge:

The best technology doesn't win. Without the right team, none of the other elements of the business plan matter. Social businesses can leverage:

- Legal structures to attract different forms of capital (grants, equity, etc.)
- A compelling vision to attract talent and align behavior with an ethos of continuous learning
- Governing boards for effective oversight of strategic and operational plans and "bridging" social capital

In social mission organizations entrepreneurs face a number of unique challenges. For example, it is unlikely you can compete for talent at market rates and it is likely you will need to supplement paid employees with volunteers (particularly in early stages). In addition, you will need to consider the possibility of turnover in key positions, the eventual need for a successor to the founder/leader, the importance of choosing the right board, and the potential reality of needing to turn over control of the enterprise to a professional manager who must have similar passion and share common values in order to succeed. As a result the need for a good organization and human resource plan is as important, if not more so for a social venture, than it is for a profit-maximizing venture.

Process

In How to Write a Great Business Plan, William Solomon posits that "without the right team, none of the other parts of the business plan really matter." The converse of his statement may also be a good guide "without a good business plan, it doesn't really matter who's on the team." Regardless of which way you see it, you will not get the right team without an organization plan. While social ventures are driven by values, they still require a disciplined approach to organizational planning (see Figure 8.1, Organization Plan: Balancing Conventional Models with Values). This plan should reflect a clear understanding of how your organization will operate, critical functions, key leadership roles, and how best to ensure that a structure of accountability is staffed by individuals with the right skills and "fit" with the organization's mission and culture. The task for Chapter 8 is to develop this organization plan. To do so, 4 Exercises need to be completed:

1. Define the legal form of your organization
2. Create the specifications for your board
3. Define the key management roles (positions) for your enterprise
4. Create a staffing plan including both employees and volunteers

First, however, we need to acknowledge the unique characteristics of social ventures and their founders. Founder values influence organization routines and are important in shaping norms that will attract people who "fit" with a culture that strives for continuous improvement in serving society's needs better. The creative tension that exists between the affirming human values of social venture founders and traditional approaches to organizational planning can stimulate the design of jobs and work systems that are intrinsically motivating and attractive to both paid employees and volunteers.

Figure 8.1 Organization Plan: Balancing Conventional Models with Values

The values-based view of organization must be balanced with the discipline of a conventional organization plan required in designing organizations with the ability to execute strategy.

Organization Plan: Conventional Model	Values-Based View of Organization
Strategy: ▪ What business are we in? ▪ How will we compete?	Fundamental Values and Beliefs: ▪ What are our basic values? ▪ What do we believe in?
Functional Strategies: ▪ Marketing, manufacturing, finance, HR, etc.	Practices embody values: ▪ What policies and practices are consistent with our values?
Key Success Factors: ▪ What are the critical tasks to execute strategy?	Practices (routines) build core capabilities: ▪ What can we do to serve society's needs better?
Organizational Alignment: ▪ Systems, practices, staff, rewards	Invent strategy that fits values: ▪ Capabilities serve unmet needs
Senior Management's Role: ▪ Monitor alignment / compliance	Senior Management's Role: ▪ "Manage" values and culture

As Figure 8.1 indicates, founder values influence a wide range of organizational processes and practices. Generally speaking, they seek to align structure, processes, and roles with the mission of stimulating positive social change. In this way, values foster new ways of doing things, such as the employment of marginalized individuals in product or service markets and other value chain innovations that embed social change in local contexts. Founder values must be balanced with the discipline required in developing a formal organization, including specific decisions regarding formal structure, governance processes, leadership team composition, and staffing. These decisions will determine the ability to execute strategy.

Form of Organization

Depending on the country or countries in which the social venture will be doing business there are several choices for how to organize. The answer to several questions will help you determine the best form of organization for your venture:

1. Are founders or employees to "own" or have shares in the venture, or are there to be no individual owners?

2. Does your mission encompass a return of surplus income to the owners as opposed to reinvesting the entire surplus in the enterprise?

3. What are the tax and regulatory reporting requirements that will affect your enterprise?

In most countries the first decision on the form of organization will be to choose between for-profit or non-profit status. In general if a business intends to have profits that are returned to the owners, or to increase the value of "ownership shares," then a for-profit model is required. Even if there is no intention to provide a financial return to the owners, a for-profit form of organization may be chosen either because country laws or regulations require it (e.g., this may be the case if your enterprise is selling goods and or services), or because the founders feel that a "for-profit" form of organization creates the right incentives and alignment between those who will provide capital and the motivations of employees.

The usual reasons for picking a for-profit form of organization are: (1) a desire to attract investors and employees who are motivated by the potential for increases in the value of their shares of ownership over time; and, (2) the desire to return all or part of enterprise profits to owner/investors is an integral part of the mission. In most regions there are several alternative, legal forms of for-profit organizations. For example, in the United States these include: sole proprietorship, general or joint partnerships, and corporations (LLC, B-Corp, C Corp, S Corp, L3C Corp, and—in a few states—the flexible purpose corporation). Which one of these you pick determines what you do with your profits and who bears the risk of losses, how you are taxed, and how you are regulated. The LLC (profits paid out to owners at least annually) and C Corporations (profits may be paid in dividends or kept in retained earnings) are used most frequently. A brief comparison of the organizational alternatives (in the U.S.) is given in Figure 8.2. For a more detailed discussion, see Dennis Young (2001). Note also that the legal bases for choice of organizational form may be very different in countries other than the United States. For specific legal advice on which form to pick, consult an attorney and/or a certified tax accountant.

Figure 8.2 Legal Form of Organization (U.S.)

Form of Organization	Advantages	Disadvantages
Sole Proprietorship	Ease of formation, cost, control, reporting	Liability, financing, ownership, longevity
General Partnership, S-Corp, and LLC	Ease, cost, pooling resources, reporting	Liability, financing, ownership, longevity, retained earnings
Corporation, C-Corp (also B-Corp, L3C)	Liability, financing, ownership, longevity, retained earnings	Cost, multiple taxation, regulation, reporting
Flexible Purpose Corporation (31 states) UK: CIC	Same as corporation, don't need to try to maximize profits	Same as corporation, plus must be engaged in a "charitable activity" ("special purpose mission") = beneficiaries are not charged
Non-Profit (501C3, NGO)	Fund raising alternatives, longevity, retained earnings	Bureaucracy, financing, ownership

In the United States a recent form of corporate organization, called the B Corp., is being used by social ventures which want to operate like for-profit organizations but without a profit maximizing mission/strategy or tax implications. In most states, a B-Corp must define a "social purpose" that could be carried out by a non-profit, which is not a profit-maximizing mission but does include some financial return (i.e. a profit) as part of the mission. A B-Corp can sell equity shares (to raise money) but can also accept grants or contributions (unlike contributions to a non-profit, these contributions are not tax deductible to the donors). Taxation of a B-Corp is usually like an LLC, where any distributed profits are taxed to the recipients. Reporting requirements are less stringent for a B Corp than for other forms of corporation but usually an annual "Special Purpose Impact" report is required.

There are fewer organizational forms for a non-profit. In the United States the most common non-profit organizational form is a 501C(3) corporation, which can accept donations. Gifts and donations (including in-kind donations) are tax deductions for the donors. Governments and government sanctioned NGOs (e.g., school districts in the United Sates and BRAC—a Bangladesh development organization) are other forms of non-profit organization. The reasons for choosing to operate as a non-profit organization are straight forward and may vary across stages of the organizational life cycle. Contributed income may be essential for early stage proof-of-concept, training low skill employees, or to fund capital expenditures. In later stages contributed income may be needed to support on-going operating expense that exceeds earned income potential, or to subsidize a subset of customers. A common rationale for electing to be a non-profit is the desire for profits or operating surpluses to be reinvested in the business as a means of lowering the cost of services to customers or beneficiaries with limited capacity to pay. Rather than returning profits to the owners, this enables a non-profit to penetrate its target market by increasing the ability to serve the poorest of the poor.

A mixed organizational form, called a "hybrid," combines the characteristics of for-profit and non-profit organizations through separate legal entities, independent but overlapping Boards of Directors, and possibly shared management. A hybrid form of organization should be chosen when there is clear separation between activities related to earned income (e.g. sales of products) and activities driven by contributed income (e.g. training). In general hybrid organizations are more complex to manage and have higher total expenses than non-hybrid forms, so a hybrid organization should be chosen only if there are clear advantages (e.g. increased income, greater capacity for growth, or lower operating expenses can be realized).

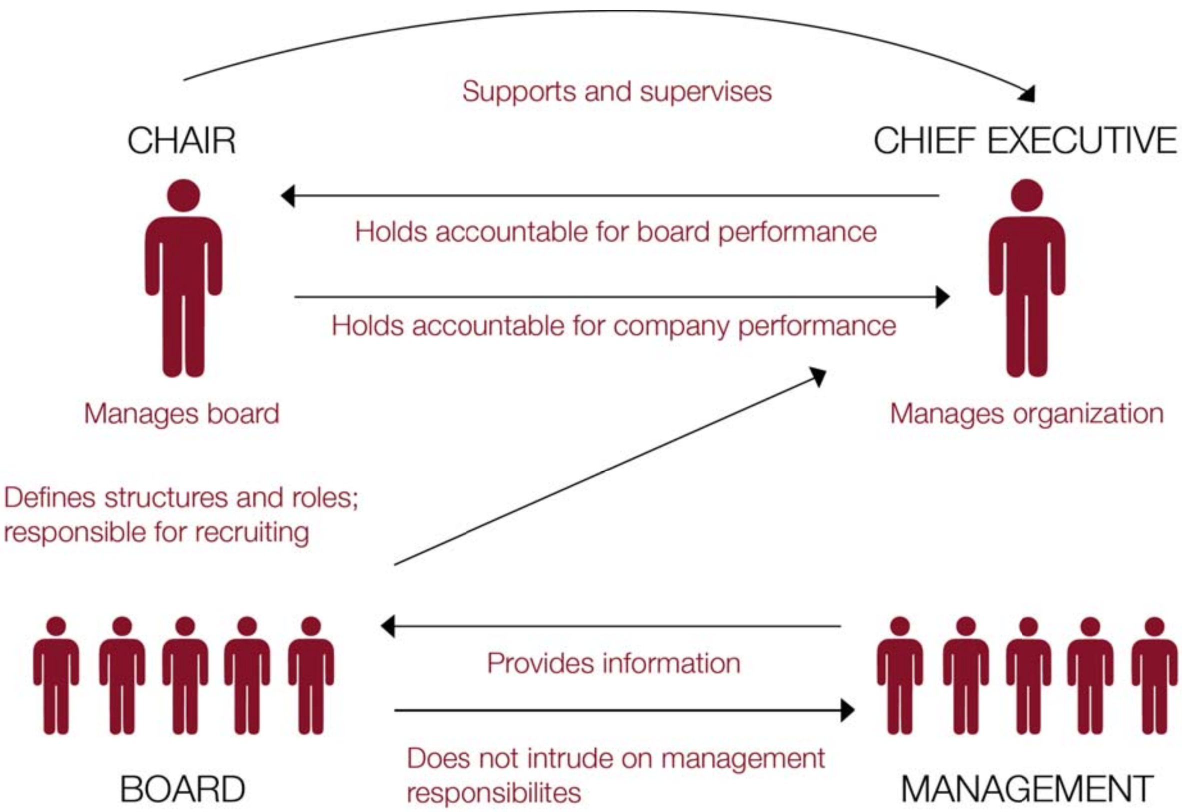
Governance and Boards

Regardless of the form of organization it is always helpful and often legally required to have a Board of Directors. Some organizations also choose to have Advisory Boards that provide unique expertise and broaden or deepen access to relevant resources or capabilities.

The Board of Directors provides governance for the enterprise. In most cases it hires the CEO and it is often involved in hiring others in the top management team. It has a fiduciary responsibility to third party stakeholders—the owners, investors, employees, and customers of the enterprise. This includes the responsibility to see that the financial and other decisions comply with legal and ethical standards and are informed by the interests of these third parties as opposed to self-interests. The members of the Board of Directors have various roles and responsibilities (areas of expertise) and often serve on committees (e.g. audit or compensation) to carry out these roles. The size of the Board depends on many factors, but for most social ventures an odd number (to avoid tie votes) of Board members and a small (7 or fewer) number of Board Members is preferable. (Note: Boards with fundraising responsibility may be considerably larger, but in such instances a smaller Executive Board is, effectively, the governing body.) Board membership should include the following areas of expertise: financing (e.g. donors, foundations, and or investors), financial management, deep knowledge of beneficiaries, access or links to essential network partners, and relevant expertise for guiding the top executive. Figure 8.3 illustrates the important roles of Boards.

Figure 8.3 Board and Management Roles

The following diagram shows how boards can contribute to venture success.



Board		Management
Approves annual budget	⟷	Establishes annual budget
Oversees management	⟷	Manages an organization
Provides network	⟷	Negotiates with partners
Creates mission and vision	⟷	Implements mission and vision

Source: The Governance of Social Enterprises: Managing Your Organization for Success. June 2012.

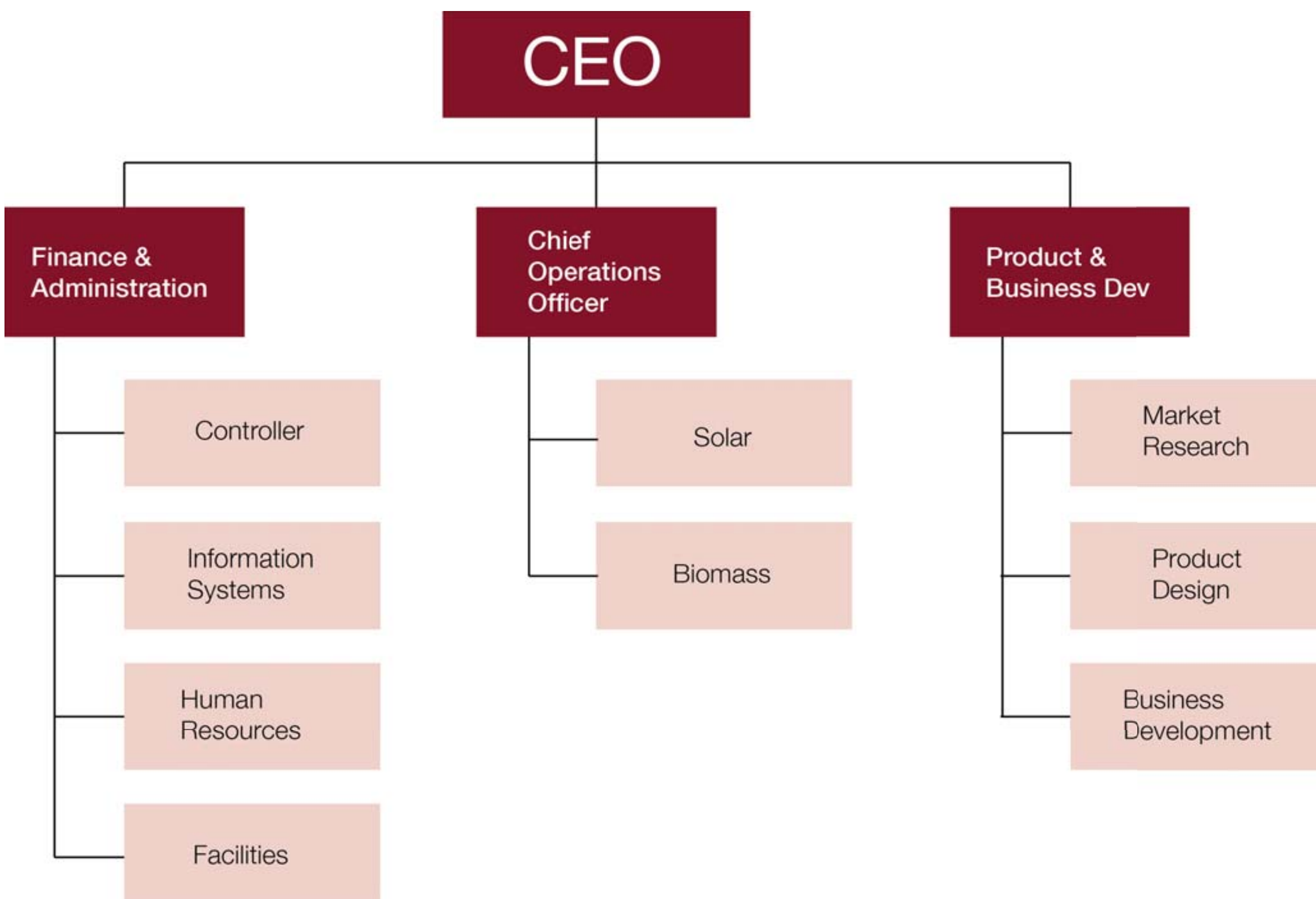
Advisory boards are often used to help with specific operations, such as product or service development, financing, or distribution. If you already have a large board, or have many people you want to engage as possible advisors, the best approach is to move in the direction of creating a smaller board focused on your business model and its execution. This board may include one or more advisory board members with specialized knowledge in technology, fundraising, or other areas where your business requires expertise.

Key Employees (Management)

The key employees of an organization include all those who are responsible for managing the strategies identified in Chapter 4 and the key processes of the enterprise, including those identified in Chapter 7. These key employees typically have management or leadership roles encompassing: CEO (or Managing/Executive Director), Product/Service Development, Operations (manufacturing and distribution), Finance, Marketing and Business Development, Sales (in non-profits this may primarily involve fund raising), and Human Resources. In small organizations there may be one key employee for more than one of these roles (e.g. a person who serves as both the chief finance officer and controller; a chief operations officer who is also responsible for product sales and distribution; or, a person responsible for both product and business development), but in no organization should there be multiple employees with the same role (see Figure 8.4).

Figure 8.4 Key Management Employees

Organizations can be structured by function, product line, geography or a combination. In small organizations, key managers may serve more than one role.



Leadership teams must include both visionary and operational leadership capabilities. In instances where the CEO is a visionary, but lacking in operational acumen, role definitions should acknowledge that the individual with operation expertise always has the "final say" when it comes to operational decisions such as spending and cash flow management. Of three risk factors—technology risk, market risk, and leadership team risk—there is wide agreement amongst venture capitalists that the credibility, competencies, and the effective functioning of leadership teams is the most important of these factor in firm performance.

Staffing Plan (Employees and Volunteers)

A social business may not have sufficient resources or cash flow to pay all employees, so may need to rely on volunteers for important roles. Except for monetary compensation, all elements of the staffing plan for both paid employees and volunteer employees should be the same. The elements of the staffing plan include: job descriptions (responsibilities, qualifications), reporting structures (and evaluation periods), work place and time expectations, and compensation—both direct and indirect as well as career development opportunities and opportunities for intrinsic gratification.

Volunteers are human resources that often are critical to social mission ventures. They may outnumber paid staff and are often critical to the outcomes and impact of a venture—through their contributed time they make products and services more affordable. They bring deep empathy for the poor and identify with the organization's mission and the populations it serves, and they provide access to unique knowledge and skills. The Miller Center for Social Entrepreneurship is an excellent example of the value of volunteers. The authors of this book played pivotal roles in the founding and development of the Global Social Benefit Incubator—an incubator program that has grown from serving one small cohort of 15 to 16 ventures annually through and in-residence offering to a broad-based program combining online, in-residence, and short-course offerings for addressing social venture needs across the organization life cycle. This growth has been made possible by carefully selected volunteer mentors with proven entrepreneurial acumen—an abundant resource in Silicon Valley and one that is widely regarded by GSBI alumni as the "secret sauce" of the Miller Center's success. (See Figure 8.6, Mentoring and the Global Social Benefit Incubator). The "Basic Knowledge" box insert at the start of each chapter in this book and the "Minimum Critical Specifications Checklist" at the end of each chapter reflect the collective intelligence or practice-based theories of Silicon Valley mentors in the Miller Center. This group has grown to more than 100 actively engaged volunteers.

Company paid support for volunteering is a widely growing best practice in corporate social responsibility (CSR) programs. Many organizations regard such efforts as critical to their ability to attract and retain employees seeking a higher level of meaning and purpose. Accenture, for example, was an early partner in creating access to technical expertise for ventures in Santa Clara University's Global Social Benefit Incubator, sending paid professional staff in 2006 to serve as consulting interns to three GSBI alumni ventures in India. Many other companies have become GSBI supporters along the way. Across the demographic continuum—from millennials to baby boomers—a large pool of volunteer entrepreneurial talent exists to be tapped, especially in places like Silicon Valley.

Organization SWOT (Strengths, Weaknesses, Opportunities and Threats)

Many organizations find it useful to do analysis of their organization using a SWOT table as defined in Figure 8.5.

Figure 8.5 Organization/HR SWOT Analysis

STRENGTHS	WEAKNESSES
Organization/HR elements that help it sustain/scale, (e.g., experience of key people)	Organization/HR factors that will hinder sustaining/scaling (e.g., lack of finance officer)
OPPORTUNITIES	**THREATS**
Organization/HR factors that could improve sustainability or scalability (e.g., switch to hybrid organization, hire marketing director, use ad partnerships)	Organization/HR factors that could cause organization to fail (e.g., loss of key people, lack of expertise in key element of value chain)

Figure 8.6 Mentoring and the Global Social Benefit Incubator

This document reflects early efforts to formally define the roles of mentor volunteers in the GSBI. It illustrates the importance of job descriptions and setting of clear expectations for employees and volunteers alike.

Mentoring and the Global Social Benefit Incubator
Center for Science, Technology, and Society
Santa Clara University

Mission and Vision

The Global Social Benefit Incubator at Santa Clara University contributes to the sustainability and scaling up of technology-based social benefit innovations identified through prestigious recognition programs like the Tech Awards—Technology Benefiting Humanity, and the World Bank's Development Marketplace. It envisions a better world through the conscious striving of social benefit entrepreneurs and the accelerated development and diffusion of technologies that serve the urgent needs of humanity.

A Hands-On Learning Laboratory

This residential program combines the work of leading business school faculty in entrepreneurship and organizational innovation with a network of technologists and successful entrepreneurs from Silicon Valley who serve as mentors to provide social entrepreneurs with the knowledge and skills that they need to serve a larger number of beneficiaries in an economically sustainable way. Attendance is limited to highly select projects following a rigorous screening process. GSBI porfolio organizations form a dynamic learning community for accelerating social change through the development of business plans for proof of concept projects that have already demonstrated an impact in achieving progress in such areas as economic development, health, education, equality, and the environment.

Mentor Roles

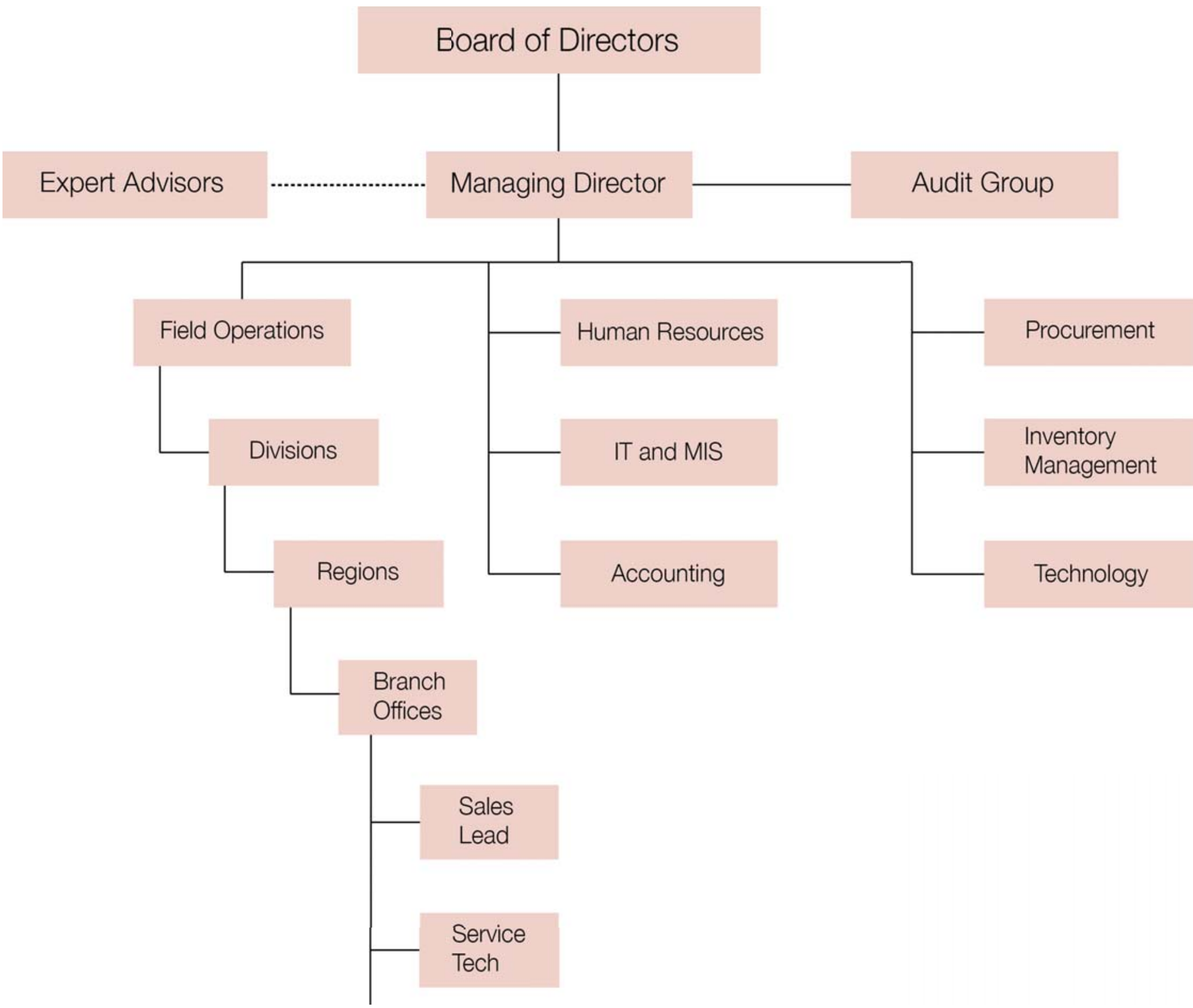
Mentors play a critical role in this transformational learning experience. During the two week period of the residential program, they will meet with individual program participants at Santa Clara University on six or more occasions to review work in progress on business plans. They serve as coaches on such topics as marketing and market creation, business models, organizational development, and on strategies for achieving sustainability at scale. To help bridge the conceptual leaps—for example, from charity or welfare models to sustainability through earned revenues—mentors work with developing country social entrepreneurs prior to their arrival to complete online exercises designed to stimulate thinking about the importance of a compelling value proposition and understanding earned income strategies for achieving sustainability. Through the GSBI's distance learning platform, mentors also provide their social entrepreneur advisees with follow-up coaching as they work to refine and implement their business plans back home. A select number of promising social ventures in the 2007 GSBI will be targeted for services to accelerate the implementation of their business plans and become case studies.

Example 1: *Organization and Human Resources Planning for Grameen Shakti*

Legal Form and Structure

Although Grameen Shakti refers to itself as a "rural energy (social) business," its legal form of organization was chartered as Grameen Shakti Ltd,-a non-profit company of Limited Liability. As Grameen Shakti grew it was organized into Grameen Shakti Social Business (GSSB) which was owned by Grameen Shakti Ltd.

Figure 8.7 Grameen Shakti Organization Chart



Key Employees and Their Roles

In addition to the Managing Director, each major function shown in the organization chart has a general manager.

Early Board Members and Their Roles

Muhammed Yunus, Chairman of the Board
Director, represents Grameen Trust (financing)
Director, represents C.M.E.S (financing)
Director, represents Grameen Shikkha (women's training)
Director, represents Grameen Bank (financing)
Director, represents Grameen Knitwear (management of similar company)
Director, and Managing Director of Grameen Shakti (represents the organization)

Figure 8.8 Grameen Shakti Organization/Human Resources SWOT (circa 2008)

Organizational Strengths	Organizational Weaknesses
▪ Strong Board of Directors ▪ Good organizational structure ▪ Well defined jobs ▪ Excellent training for staff ▪ Opportunities for advancement ▪ Opportunities for women ▪ Adequate compensation ▪ SMS based sales information system ▪ Comprehensive audit process	▪ Some staff have to work in remote, potentially dangerous areas ▪ Competition for key employees ▪ Some staff may not be trustworthy
Organizational Opportunities	**Organizational Threats**
▪ Promote from within ▪ Profit Sharing ▪ Separate and thorough audits	▪ Loss of support from Grameen Organization ▪ New entrants ▪ Accelerating change in technology

Example 2: *Organization and Human Resource Planning for Sankara*

Legal Form and Structure

The Sri Kanchi Kamakoti Medical Trust manages Sankara eye hospitals, which is a registered public charitable trust. (An Indian Charitable Trust is an obligation annexed to the ownership of property, and arising out of a confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another, or of another and the owner).

As per Section 2(15), India Income Tax Act, 1961, activities including "relief of the poor, education, medical relief, preserving monuments and environment and the advancement of any other object of general public utility" are recognized as charitable purposes. As per Section 2(15) along with Sections 11 and 12, India's Income Tax Act, 1961, "trusts set up for social causes and approved by the Income Tax Department, get not only exemption from payment of tax but also the donors to such trusts can deduct the amount of donation to the trust from their taxable income".

Sankara was founded with the primary mission to eliminate needless blindness in India. A vast majority (90%) of Sankara's beneficiaries are poor, living in rural India. Given this mission and opportunity, Sankara's key strategy was to provide affordable (mostly free) and accessible eye care to its beneficiaries. Thus Sankara's legal form (public charitable trust) is a fitting choice that enables the organization to fully focus on its mission, while allowing it to raise funds/seek donations, reinvest any earnings back into the business and utilize its resources efficiently for scaling activities. Its cross-subsidy business model further complements the legal form helping the organization become self-sufficient and less dependent on donations. The added advantage of Sankara's legal form is the tax exemption for both the organization as well as its donors.

Organizational Structure

Overall, Sankara exhibits a functional structure, along with some minor elements of a divisional structure owing to its geographic spread in India. A functional structure is the most ideal choice for Sankara's low-cost strategy as it is simple in form and allows centralized decision making. The board oversees a six-member leadership team. Each leader is assigned to a specific vertical, namely:

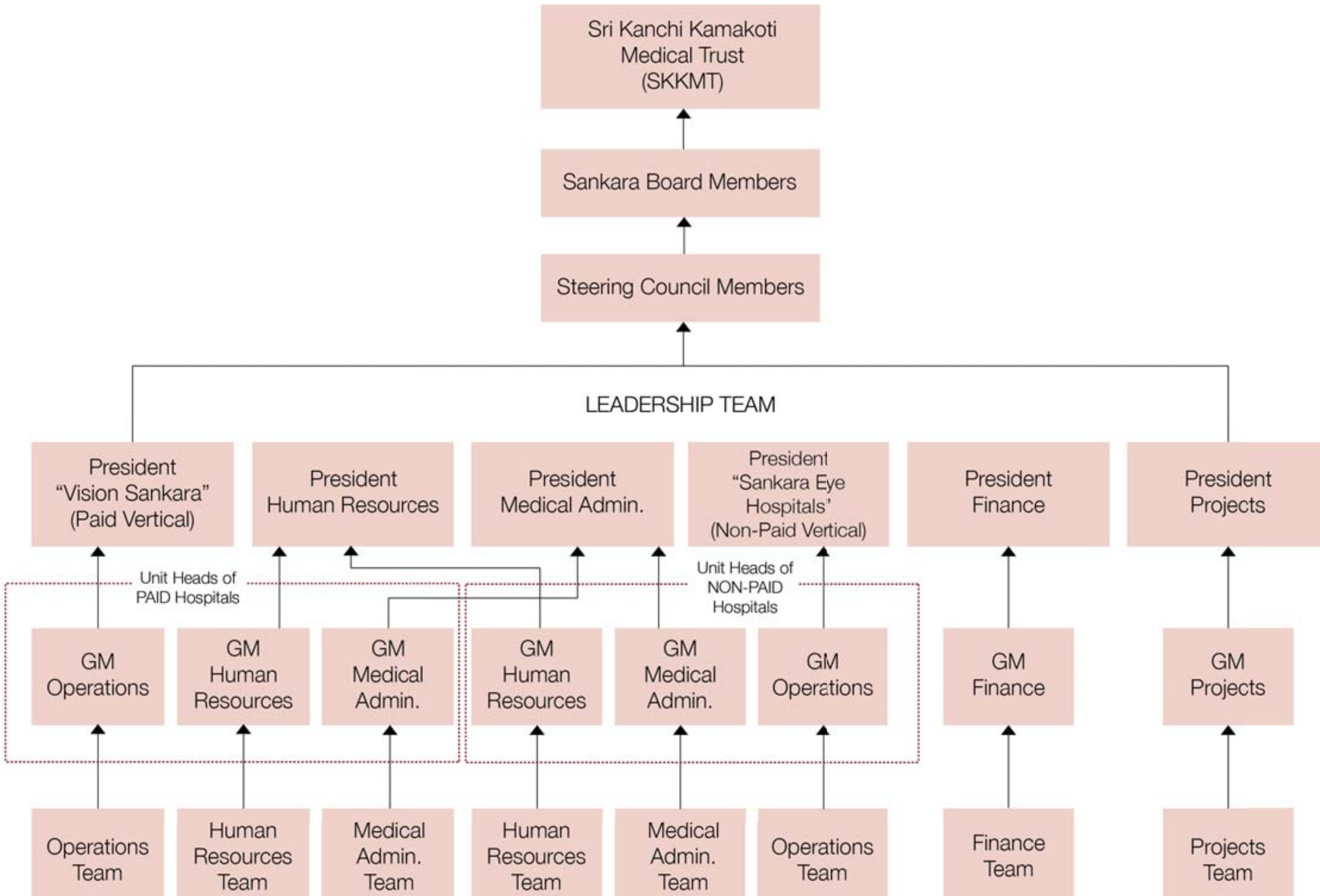
1. Paid hospitals (branded as "Vision Sankara")
2. Non-paid Hospitals (branded as "Sankara Eye Hospitals")
3. Human Resources
4. Medical Administration
5. Finance
6. Projects

Each functional head at the unit (hospital) level reports to a dedicated person on the six-member executive leadership team, or Office of the President. Each unit head manages a functional team within the unit, such as medical administration, HR, operations, etc.
A Functional structure has the following advantages:

- Enables teams to focus on and accomplish functional goals (HR goals, Operational Goals, etc.)
- Simplified mechanisms for control
- Clear definition of responsibilities

Although the structure is functional overall, the divisional nature is exhibited where the various functions are grouped into a unit (hospital). The units are geographically spread around the country, with each unit focused on a specific city (target market). Each hospital is also individually measured for its performance: social impact and financial sustainability.

Figure 8.9 Sankara's Organizational (Reporting) Structure



Knowledge & Talent Requirements Critical for Executing Strategy

Sankara has a number of critical knowledge and talent requirements for executing against their mission and strategy, including medical (ophthalmology) expertise, operational expertise, partnership development and management, marketing expertise, and human resources expertise.

1. *Medical expertise* is certainly one of the most important talent requirements for Sankara. Their core business revolves around their ability to provide comprehensive high-quality eye care treatment to patients with various types of needs. Knowledgeable and experienced medical staff, including ophthalmologists, optometrists, surgeons, doctors, and nurses are critical to Sankara's reputation and continued success.

2. *Operational excellence* is a key talent requirement as Sankara's scalability and sustainability is dependent on their ability to screen and treat patients in an efficient way through streamlined processes and procedures. Having effective training programs for their medical staff is also key to achieving operational excellence in each Sankara hospital.

3. *Partner management* is another key knowledge area. Sankara partners with a number of entities which

serve critical roles in their operations, such as providing funding/grants, helping with community outreach (such as the eye camps co-sponsored with Gift of Vision), assistance screening students at schools (through the Rainbow Program), and training their medical staff (through partnership with the Academy of Vision). Given the importance of Sankara's many partners in their success, having talented staff who are dedicated to Partner relations is crucial to ensure the relationships are strong, mutually beneficial and aligned to the same overall goals.

4. *Marketing expertise* is another key area of knowledge for Sankara. Their biggest obstacle in achieving scalability and sustainability is their ability to continue to grow their paying customer segment, which will offset a growing non-paying customer segment. Without a strong marketing department to drive customer acquisition (both paying and non-paying), Sankara will struggle to continue to expand and become financially self-sufficient. For the paying segment, effective marketing that emphasizes the quality of care is most important, while for the non-paying segment, marketing in the form of general education and awareness of eye treatment is the goal.

5. Lastly, *Human Resources* is a critical knowledge area for Sankara. Sankara believes their most valuable assets are their people, and that valuable people create a valuable organization. The productivity and performance of their staff directly impacts their success as an organization. Therefore it is critical that the human resources function is focused on continually attracting, developing, and retaining talented team members that are aligned with the mission of Sankara.

Based on these talent requirements, *pivotal jobs* for Sankara include: the leadership team (to champion and drive the social mission of the company as well as their individual functions); Hospital/Medical Staff, Field Workers (for Eye Camps and other outreach activities); Head of Operations, Head of Partner Relations, Head of Marketing, and Head of Human Resources. These roles drive affordability of Sankara's services and penetration into new markets. For example, operational excellence and well-trained medical staff allow Sankara to achieve the economies of scale which drive down costs, thereby increasing affordability. Marketing staff and field workers strive to acquire new customers through traditional marketing channels as well as through outreach programs to increase penetration in both the paying and non-paying segments. In addition, Human Resources plays an important role in ensuring the proper staff are hired for both skills and ability to grow with Sankara's mission as well as fit with the organization's culture and long-term retention.

Board Member Roles and Expertise

Sankara has an eight-member board, chaired by Dr. S.V. Balasubramaniam. Its Board Members include:

Dr. S.V. Balasubramaniam (Chairman): Joined the board of Trustees in 1984 and has been a pivotal force of support for the Sankara movement; Dr.Balasubramaniam is a key advocate and leader in steering Sankara towards its vision. As noted on the website, Balasubramaniam has played the role of mentor, friend, guide and visionary at Sankara. A qualified chartered accountant, Balasubramaniam heads up a diverse group of industrial establishments.

Key Expertise: Finance & Accounting

Dr. R.V. Ramani (Founder & Trustee): Along with his wife, Dr. Ramani started a private practice in 1972. His passion for service later led him to found the Sri Kanchi Kamakoti Medical Centre in 1977 (a clinic that provided health care to the poor). His drive continued him to push further and in 1985, Sankara Eye Hospital was born. His commitment to the cause and his devotion to Sankara has helped to continue the movement.

Key Expertise: Founder

Dr. P.G. Visvanathan: Renowned ENT surgeon and the founder of Vikram ENT hospitals. He has pioneered several techniques in the auditory surgery and specializes in microsurgery. Visvanathan is deeply passionate about social service and care. He runs a school for the hearing impaired. His passion and kind nature have drawn people from all walks of life to his work.

Key Expertise: Auditory surgery (Medical Expertise) and Hospital Administration

Dr. M. Leela Meenakshi: A former director of the Cancer institute at G. Kuppuswamy Naidu Memorial Hospital Leela Meenakshi is a pioneer in oncology care. She is a social activist and is on the advisory panel to several hospitals all of which specialize in oncology. She is a friend and philosophic guide to the Sankara family. She has strong ideals, integrity and high standards of ethics.

Key Expertise: Oncology (Medical Expertise) & Ethics

Dr. S.R. Rao: Rao heads Rao hospitals and specializes in laparoscopic surgery and is actively involved in a host of social activities. It was at the Rao hospitals that the surgical activities of the Sankara Movement and Eye Bank were functioning in the earlier years.

Key Expertise: Laparoscopic Surgery & Pioneer of the Eye Bank (Medical Expertise), and Hospital Administration

Shri. N. Natraj: Natraj donated over 5.26 acres of land in Sivanandapuram, Saravanampatti for one of the first hospitals.

Key Expertise: Land and Capital

Dr. S. Balasubramaniam: One of India's top eye surgeons, Balasubramaniam looks at serving people as a divine calling. He was instrumental in Sankara's decisions to branch into the field of Ophthalmology. In fact, Balasubramaniam was the one who persuaded Dr. Ramani to initiate eye banking activities.

Key Expertise: Ophthalmology and Pioneer of Eye Bank (Medical Expertise)

Shri. Jagdish M Chanrai: A strong friendship and shared vision between Chanrai and Dr. Ramani led Chanrai to provide support for Sankara's vision and its efforts to catalyze affordable eye care as a social movement.

Key Expertise: Support and Community Advocate

Shri. Murali Krishnamurthy: Along with Sridharan, Krishnamurthy initiated Sankara Eye Foundation in 1988. SEF is currently run entirely by volunteers and works in multiple ways to make Sankara's mission possible through fundraising and donations.

Key Expertise: Fundraising and Pioneer of Sankara Eye Foundation

Strengths of Board: Members of the Sankara board include the following areas of expertise: financing, financial management, needs of beneficiaries and associated guidance, experience founding private hospitals.

[3] http://www.sankaraeye.com/Aboutus.aspx?id=1

Weaknesses of Board: No key individual in charge of making connections with partners; board may be a bit large and somewhat overemphasize technical/medical expertise, an issue addressed in composition of Steering Council.

Steering Council: In addition to the Board Members, Sankara has a 5-member Steering Council. Each Steering Council member brings an important area of expertise to Sankara, including 1) Finance, 2) Internal Audit, 3) Media & Communications, 4) IT, and 5) Ophthalmology. The specific skills of the Steering Council help to complement the wider expertise of the Board. Additionally, the Steering Council reviews the Board's performance on a quarterly basis, providing another check and balance.

Figure 8.10 Sankara Organization and Human Resources SWOT Analysis

Organizational Strengths

- Employees hired from communities where hospitals are built, creating economic betterment
- Excellent training for clinical and administrative staff
- Empowerment opportunities for marginalized women
- Automated performance management system
- Competitive benefits for employees
- Rewarding work culture

Organizational Weaknesses

- Sub-optimal board member expertise
- Even number of board members
- Cross-cultural management - replication of model in each new state is unique and challenging (per client interview)
- Cross-Functional integration is a challenge in functional structures
- Dissatisfaction of corporate employees due to workload and stress level (per client interview)

Organizational Opportunities

- Collaboration/knowledge sharing opportunities with similar organizations
- Further penetration in new markets (still immense unmet demand)

Organizational Threats

- Competition for paying patients and employee talent from Vasan Eye Care, other Eye and Multi-specialty hospitals
- Succession planning - gaps in key roles (per client interview)

Example 3: GSBI Innovator: *Industree Crafts*

Profile (GSBI 2008)

Industree Crafts connects retail demand with artisan products created by poor women in India. Its innovation is its vertical integration with both production and retail sales companies.

Mission, Opportunity and Strategies

Mission Connect retail demand with artisan products created by poor women in India

Key Metric	Artisan net income
Opportunity	Income for thousands of rural Indian women artisans averages about $1 per day
Strategies	(1) create artisan production company (2) organize production by product theme (3) provide training and management support to artisans (4) produce high quality products (5) market directly to urban consumers in India (6) provide product feedback to artisans

External Environment
Low income potential in rural environment leads youth to move to cities were unemployment is high. Skilled rural artisans unorganized and unaware of market demand, technology, and best practices. Artisans have over-reliance on middlemen.

Market
Direct: thousands of rural artisans
Indirect: urban consumers $22.5B rupee market (2008), 9% annual growth rate
Related: families and local economy of rural artisans

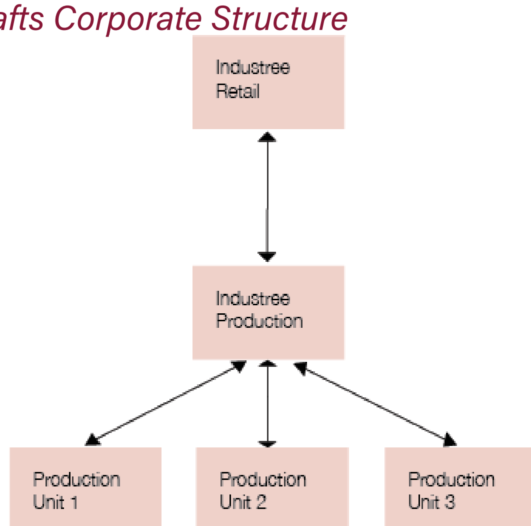
Industree differentiates from competition by being integrated end-to-end and by matching products to market.

Operations and Value Chain
Key processes: (1) artisan organization and training, (2) product definition, (3) product production, (4) product marketing and sales, (5) consumer feedback.

In addition to their own stores, Industree partners with government stores. Industree also partners with Fabindia on marketing.

Organization and Human Resources
Industree Crafts is organized as three companies: Industree Retail, Industree Production Aggregator and Industree Production (community owned enterprises) which are related as shown in Figure 8.11.

Figure 8.11 Industree Crafts Corporate Structure



All three companies have a common board and senior management.
Board: Mr. Kishore Biyani, Future Group (India Leading Relailer), Mr. Shankar Datta, Executive of IRMA and BASIX, India's most prestigious MFI and rural livelihoods programs
Management Team: Managing Director, Neelam Chiber, Industrial Designer; RS Rekhi, Operations MBA, and former IRMA employee, Gita Ram, Investor

Business Model and Unit Economics

Key Income Drivers: Product sales (60%), contributed: grants (20%), fundraising (20%)
Key Expenses Drivers: Product infrastructure (16%) production staff (16%), working capital (24%), training and capacity building (24%), business planning (20%)

Unit Economics:
Unit = artisan, investment of $2.5M produces $18M artisan net income for 10,000 artisans = $1800/artisan revenue for $250/artisan cost.

Metrics

(1) revenue, (2) revenue per artisan, (3) expenses, (4) net income/artisan, (5) number of artisans

Operating Plan

In 2008, Industree had an annual operating plan.

Financing

Investment of $2.5M came from debt (40%). Artisan equity (40%), grant (20%).

A Minimum Critical Specifications Checklist

Organization and Human Resources Plan

- Provides clear evidence of senior leadership strengths
- Specifies board expertise and how it will contribute to success
- Provides strategic rationale for choice of legal structure
- Specifies risk factors through an organization SWOT analysis identifying capability gaps
- Clarifies how organization culture will drive extraordinary results through ordinary people

Exercises

8.1 Define the Form of Organization

Specify legal form of organization for the enterprise.

8.2 Board Structure

Specify the number of Board members and the role (responsibilities for each of member). Specify the names and qualifications (or potential names and desired qualifications) of each Board position. If there is an Advisory Board(s), identify the functions it (they) will perform. Specify the names and/or the key skills of members of Advisory Boards.

8.3 Management (Key Employees)

Create organization chart (or table) showing the key employees, their roles, and their qualifications.

8.4 Staffing Plan

Create an organization chart (or table) listing all employees and volunteers, their roles (job descriptions), desired qualifications, compensation, and the date they are to be hired (if not already in the enterprise).

Note: The "Deliverables Table with Required Capabilities" reverenced at the end of Chapter 7—Operations and Value Chain can be used as a basis for determining key employee and volunteer positions, their roles, qualifications, and compensation requirements.

8.5 Organization/HR SWOT

Create SWOT table for your (actual or proposed) organization.

Background Resources

Arthur DeThomas Ph.D. and Stephanie Derammelaere, *How to Write a Convincing Business Plan*, Third Edition, New York: Barron's Educational Services, 2008, Chapter 9.

C.K. Prahalad, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*, Philadelphia: Wharton School Publishing, 2010), Part IV.

J. Gregory Dees, Jed Emerson, and Peter Economy, *Strategic Tools for Social Entrepreneurs: Enhancing the Performance of Your Enterprising Nonprofit*, New York, John Wiley, 2002, Chapters 4, 5, and 11.

Schonig, M., Noble, A., Heinecke, A., Achleiter, A., & Meyer, K. 2012, *The Governance of Social Entreprises: Managing Your Organization for Success*. Schwab Foundation for Social Entrepreneurship. June 2012.

Dennis R. Young. "Social Enterprise in the United States: Alternate Identities and Forms," Prepared for: The EMES Conference, The Social Enterprise: A Comparative Perspective Trento, Italy, December 13-15, 2001,
http://community-wealth.org/sites/clone.community-wealth.org/files/downloads/paper-you.

Chapter 9

Business Model

While your general business model may be offered as a key strategy (Chapter 4), in order to construct this business model, you will need to use the marketing plan (Chapter 6), the operations plan (Chapter 7) and the organization and human resources plan (Chapter 8). The business model defines what value you create and how the venture gets money (income), spends money (expenses) to create that value, and captures a sufficient surplus to sustain venture viability and growth. Essentially the business model describes the financing of your theory of change. The business model helps focus the organization on the effectiveness of key processes used to create value. It also focuses decision making on the importance of managing the cash or working capital needed to sustain business operations. Finally, the business model is critically important in raising funds for your organization.

Basic Knowledge:

The organization's theory of change and strategy must be translated into the resource requirements and expense drivers in business models. Understanding unit economics—the revenue and expenses associated with a unit of output or benefit—is fundamental to the viability of a business model. Market channels will be revenue drivers only if financial models include adequate margins up and down value chains. Cash flow and revenue growth rates exceeding expense growth are indicators of scalability.

Process: The 4 Elements of a Business Model

This chapter uses a definition of business model adapted for social businesses from a definition first described by R.G. Hamermesh and his colleagues in a Harvard Business School Report (2002). The adapted definition consists of the following 4 elements:

1. Value Proposition	What value do you create for whom?
2. Income (Value) Drivers	How do you obtain money to create value?
3. Expense (Cost) Drivers	How do you spend money to create value?
4. Critical Success Factors	What are the key assumptions needed for your business model to create value and be financially sustainable (cash flow positive)?

Value Propositions are brief descriptions of what the organization does, for whom, and the value it provides. They articulate why the target customer/beneficiary will "choose to buy" or "use" the organization's product or service offering(s) rather than other alternatives. In underserved markets, where customer education is needed, "non-consumption" may be an alternative. The value proposition should be derivable from the mission, opportunity and key strategies (Exercises 4.1-4.3). While a mission statement describes a desired change in the well-being of individuals in a particular market (e.g. "eliminate needless blindness"), the value proposition describes what the organization does, for whom, and why it is the best alternative. For example, "We provide low-cost, safe, cataract-surgery in India at much lower-cost (60% of patients are free), and with fewer adverse events than alternatives." Characteristics of a useful value proposition include:

- Targeted beneficiaries recognize that this message is for them (face validity)
- Understandable (by beneficiaries, as well as employees, investors and donors)
- Important: relevant to socio-cultural and economic realities of the beneficiaries
- Credible: can be supported by evidence (proof of concept and benefit)
- Deliverable by the organization through repeatable processes and effective use by beneficiaries
- Differentiated: "competitors" cannot easily make the same claim
- Clear why it is better than alternatives (including non-consumption)
- Sustainable advantage: "competitors" cannot catch-up quickly
- Less than 25 words

Income (Revenue) Drivers "monetize" (fund) the value proposition. Income drivers may be based on sales of products, licenses, or services (earned income), or income from capacity building grants, donors, or subsidies (contributed income). In any case, value creation, revenues, and mission are envisioned as mutually aligned in the value proposition. It is often easier to sustain income if at least a portion of the funds that are needed to operate or scale are from earned income, because earned income reduces the dependence on contributions (grants, donations, or third party "sponsors") which are not directly tied to operations of the social venture. The emphasis on market-based solutions to the alleviation of poverty in the BoP literature assumes that social mission enterprises can become economically viable through earned income (see, Ted London and Stuart L. Hart, 2011).

It is imperative that the earned income be a by-product of producing the products and/or services for the beneficiaries and not be an additional defocusing initiative that would distract from the primary purpose. In some instances earned income may not come from the direct beneficiaries. Third party beneficiaries (e.g., governments, NGO's, businesses, advertisers, or others) may pay for the products or services based on their effective delivery, or because they stand to benefit from the opening of a new market or channel for reaching underserved populations. For example, Safaricom in Kenya financed the cell tower infrastructure and vast network of agent based kiosks to support the phenomenal growth of M-Pesa (mobile banking), because more people joined their network resulting in over $200 million in Safaricom profits

Table 9.1 Examples of Income Drivers (Sources)

Contributed Income Drivers

- Donors make (regular) contributions to fund product/service delivery (e.g. annual fund drive or web-based solicitation of contributions)
- Cause-related contributions which a third-party (generally a large corporation) contributes from their sales or profits or marketing expenses.
- Grants: While generally considered to be contributed income, or one-time "investments" to build organizational capacity, in instances where they are tied to specific deliverables and long-standing partnerships, they may become sources of sustainable income as contracted product or service revenues
- Social media enabled incomes such as Kickstarter or other crowd-funding campaigns

Sales of Products or Services

- A direct, indirect, or electronic sales channel for products or services
- Direct sales channels can facilitate income from additional products/services (e.g., a multi-product channel).

Third-party Earned Income Drivers

- Indirect beneficiaries (those who benefit from the market creation or the impacts of the products or services) provide the income (e.g. a government agency or NGO pays to rebuild houses after an earthquake
- Third parties with interest in reaching a market pay through an advertising platform for content and services provided to direct beneficiaries

Fee-based / Licensing Income Drivers

- Fee per use or transaction
- License to use your intellectual property

Subscription Income Drivers

- Fees to join service
- Fee to receive service

Ability to Pay (Tiered-pricing) Income Drivers

- Those that can afford to pay subsidize service delivery those that cannot
- Different prices (and possibly products/services) for different market segments

Franchising

- Enable other organizations to provide your services in different markets or regions
- Franchising involves getting paid to use or replicate exactly your product/service and the corresponding marketing and supply chain

Advertising

- Corporate sponsor pays you for advertising their products or services to your beneficiaries.

Network Models

- "In-kind" and/or financial resources accessed through alliances with shared values affinity groups or social movement entities united by a common purpose each year (http://www.cbsnews.com/videos/the-future-of-money/). Similarly, in its intermediary business model Esoko's revenues are driven by supplier advertising and paid programing that enables Esoko to deliver on its value proposition of providing smallholder African farmers with access to higher quality agricultural inputs, expanded market access, and better prices for their crops (see, https://www.youtube.com/watch?v=AeLXEpg6lig&authuser=0).

Table 9.1 provides a list of potential income drivers. It is very common for social business to have both contributed and earned income. This is a "hybrid income model," which is different than a hybrid organization in a legal sense alone. Any form of social mission organization can have a hybrid—both earned and contributed—income model. For example, Grameen Shakti is a for-profit organization with both earned and contributed income. Generally speaking, earned income growth can become more predictable as operating routines and processes become formalized and, with organizational growth, improving organizational capabilities contribute to greater efficiency.

For each income driver in your business model you need to specify the source of the income and the basis for estimating amounts. The basis may be per time-period (e.g. annually—for donations), per unit of benefit (e.g. for each product or service delivered), per use (e.g. of a license), or per transaction. For example, the income from cataract surgeries depends on the number of paying beneficiaries (the revenue source) and the amount each pays for a unit of benefit such as a corrective surgery (the basis).

Income drivers need to be managed to achieve specified target amounts in defined time frames (from your budget, created in Chapter 11). Income drivers should be reviewed at least annually for possible additions or exclusions.

Expense Drivers: In addition to the key income drivers, it is also essential to identify the key expense (cost) drivers (uses of funds) that are necessary to create the described benefits in the value proposition, including any fundraising or sales and administrative expenses necessary to create income streams. Expense drivers can be categorized by major programs (e.g. the strategies identified in Exercise 4.3) or by type as in line item budgets, or both (e.g. line item expense drivers such as product development, marketing, sales or beneficiary recruiting, distribution, service, and overhead might be categorized by program. Expense drivers categorized by line item would be: salaries and benefits, commissions, fees, materials, rent, utilities, transportation, and depreciation.

Expenses drivers, like income drivers have a source (the category or line item) and a basis (per time period, per unit, per transaction, or per use). It is often useful to know whether the expense drivers are fixed (do not change with volume or time), variable (with volume or time), semi-variable (fixed plus variable), or one-time (non-recurring). For each expense driver you should identify the stream (line item type) of expense (e.g. employee salaries,) and the basis (sum of salaries of each employee).

Expense Drivers must be managed to specified target amounts and defined dates (from your budget, Chapter 11). It is useful to review expense projections for possible savings more than once per year.

Critical Success Factors: A Critical Success Factor (CSF) is an assumption, capability or operational competency that must be true for Income and/or Expense Drivers to be a reliable base of support for delivering the value proposition, meeting financial projections, and achieving specific growth objectives in the number of beneficiaries served. The success of the Business Model in supporting the Value Proposition for the target market depends on the critical success factors remaining true. CSFs are the primary concern of the top management team and changes in any CSF may require adapting/modifying elements of the Business Model. An example of a Critical Success Factor is: clients can be convinced to use micro-financing to buy home solar lighting systems.

Unit Economics capture income-expense ratios per unit over a specified period of time (e.g. 1 year). For an organization to be financially sustainable the unit economics must be greater than 1 (i.e., the income per unit must be greater than the expenses per unit). The "unit" should be the unit of impact identified in the Mission Statement. It can be a product (solar home lighting system) sold, or a customer/beneficiary (e.g., household), or an event (e.g., surgery). A simple calculation of unit economics would take total income minus the total expenses divided by the total number of units to arrive at average "profit" per unit (average unit economics). You can also calculate marginal income per incremental unit of impact minus marginal expense per incremental unit (marginal unit economics). Similar calculations can be done at each link in the supply chain to assess whether incentives are sufficient to motivate performance for each organization in the supply chain. In economic theory, when suppliers or intervening levels in distribution channels are effectively incentivized the social venture's risk is reduced.

Example 1: *Grameen Shakti Business Model*

Value Proposition and the Key Differentiators

Grameen Shakti provides home solar home lighting systems. These systems provide brighter light and more healthy lighting than kerosene or candles. They are also less costly than kerosene and increase household income by allowing for increased work hours. Unlike other solar lighting providers, Grameen Shakti provides a range of product offerings tailored to individual needs, plus micro-financing to cover upfront costs, and after sales service.

Key Income Driver Categories (Budget Data Unavailable)

1. Product sales
2. Interest on microloans (in early years, prior to RERED)

3. Service contracts

Key Expense Driver Categories (Budget Data Unavailable)

1. Costs of products sold (product purchase, inventory, delivery)
2. Sales and marketing
3. Micro-lending
4. Costs of service
5. Audit
6. Training

Cash Flow Calculations (Budget Data Unavailable)

The company reported cash flow breakeven as of 2000. As of 2007, although all branch offices were cash flow positive, branch office surpluses did not cover all company "overhead" costs. By 2010, increased sales volume, plus service contract revenues led to the solar lighting operations being cash flow positive, including coverage of all overheads.

Critical Success Factors

1. Ability to find, train and retain employees
2. Branch staff becomes embedded and accepted as part of community served
3. Good quality products that last
4. Sales of service contracts after warranty expires (and loan is paid off)
5. Ability to adapt to natural "disasters" (rains and floods)

Unit Economics

Unit = Branch office
Computation: Operating sustainability ratio = Income/Expenses x 100*
* Ratio needs to be about 115% to cover company overheads. In 2007 the range for branches was 103.57% to 118.50%, with average around 109%.

Example 2: *Sankara Business Model*

Value Proposition and Key Differentiators

Sankara is the leading provider of free eye surgeries in India, operating specialty eye care hospitals that offer comprehensive eye care services to two distinct markets: free services for the rural poor and affordable premium eye care for the urban middle class; unlike government run hospitals in India, Sankara is able to provide high-quality affordable eye care keeping in mind patients' dignity while improving the overall welfare of its customers.

Key Differentiators

1. Financial model of 80/20 cross-subsidy: 20% of Sankara's customers "pay" for the remaining 80% of customers that are non-paying. (Note: Aravind Eye Care Systems, which also operates on a similar cross-subsidized model, uses a 40/60 ratio for paying vs. non-paying.)

2. Quality of care: Sankara truly values and believes in the dignity of their non-paying customers and therefore the services offered for their non paying customers are of higher quality than other providers (for example, they provide beds for non-paying customers versus mats on floor).

3. Trusted brand value: Leading provider of free eye surgeries in India (140,804 vs. Aravind 85,935 during fiscal year 2013-14)

Key Income Drivers

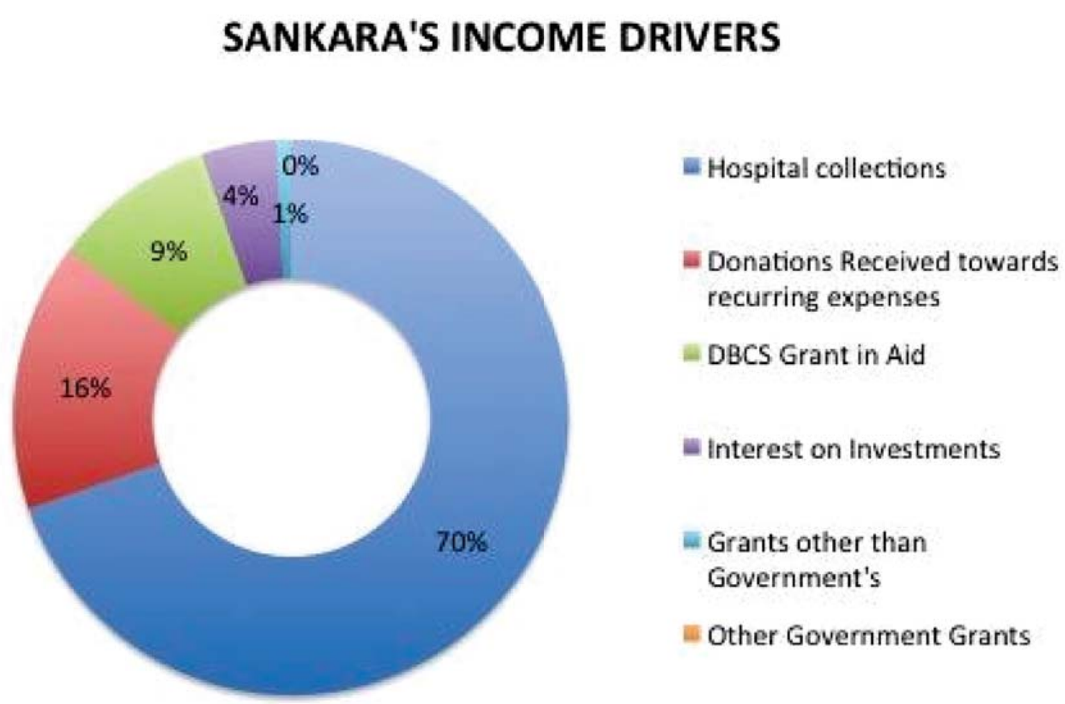
Based on the 'Consolidated Income and Expenditure Account for the year ended 31st March 2014', Sankara's key income drivers are:

- Hospital Collections (Reliance Ratio* = 69.3%)
    Source - Earned
    Base - Consultation/treatment fee
- Donations (Reliance Ratio* = 15.6%)
    Source - Contributed
    Base - Individual contributions (number of donors multiplied by average size of donation)
- District Blindness Control Society Grant (Reliance Ratio* = 9.5%)
    Source - Contributed
    Base - Recurring grant

(*Reliance Ratio = Single largest type of income / Total income)

Figure 9.1 Sankara's Key Income Drivers

Source: Income Statement and Budget vs. Actuals Statement, Annual Report 2014



The recurring grant from the District Blindness Control Society (DBCS) contributes to close to 10% of the total income. However, based on a client interview, we learnt that there is considerable risk associated with this grant. This grant is essentially a form of reimbursement from the Government of India (Rs. 1000 provided for every verified and successful eye surgery performed) that involves a laborious reporting and claim effort from Sankara's side. The risk lies in the fact that the government often randomly reassigns funds to other programs leading to fluctuation in available grant money for Sankara, which in turn directly impacts the organization's income and financial sustainability.

Key Expense Drivers

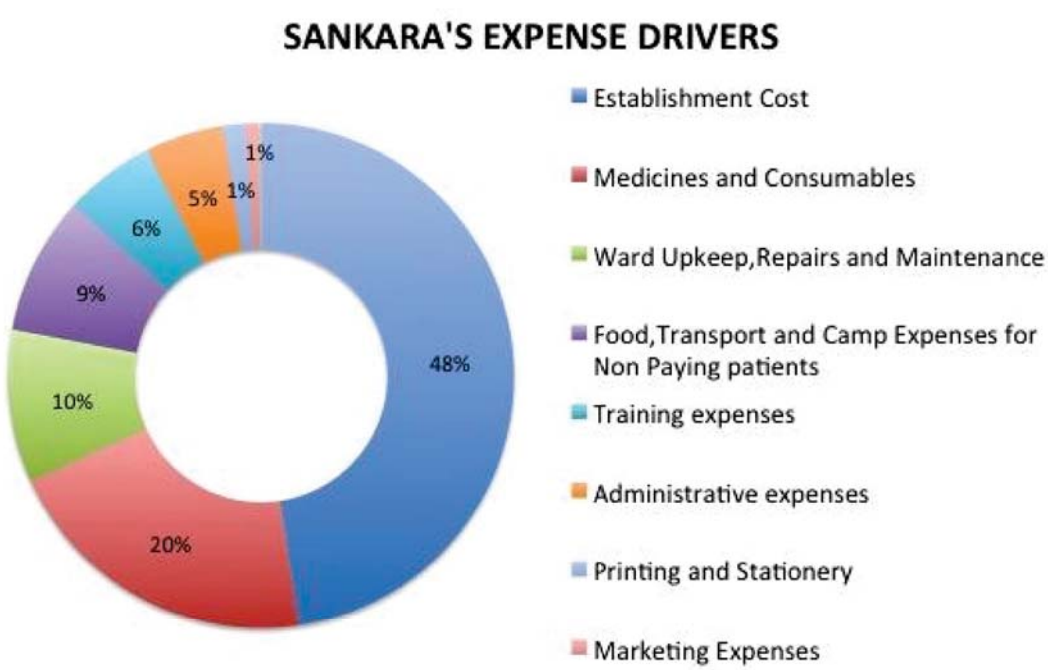
Based on the 'Consolidated Income and Expenditure Account for the year ended 31st March 2014,' Sankara's key expense drivers are:

- Establishment charges (47.6%) - includes employee salaries/wages and benefits
- Medicines and Lens (20.5%)
- Ward Upkeep, Repairs and Maintenance (9.8%)
  - Ward Up Keep 5.94%
  - Repairs And Maintenance 3.86%
- Food, Transport and Camp Expenses for Non Paying patients (8.8%)
  - Cafeteria Expenses 3.11%
  - Transportation Expenses 4.53%
  - Camp Expenses 1.19%
- Administrative expenses - less than 5% of total expenditure

These expense factors are summarized graphically in Figure 9.2.

Figure 9.2 Sankara's Key Expense Drivers

Source: Income Statement and Budget vs. Actuals Statement, Annual Report 2014



One potential expense reduction that could help improve Sankara's sustainability and decrease reliance on donations/grants is the manufacturing of Intraocular Lenses. However, Sankara prefers to keep its focus primarily on providing quality eye care, training and capacity building, and has chosen to stay away from lens manufacturing (based on client interview). We believe that it is a valid strategic decision aligned to the organization's mission. Moreover, dependence on in-house manufacturing also restricts the flexibility to scale to different states in India. Instead, Sankara maintains highly competitive rate contracts with its suppliers, made possible by its large volume demands.

Critical Success Factors

- Low-cost procedures for eye care system, materials, and supplies
- Successful training of all medical staff
- Maintain 80/20 model (free vs. paying customers)
- Camps remain effective way for locating beneficiaries (for free treatment)
- Re-invest surplus in staff training, improved processes, and new technology
- Motivate staff through work environment/culture and competitive compensation/benefits
- Use partnerships for funds generation, in-field screening and for raising awareness

Cash Flow Analysis

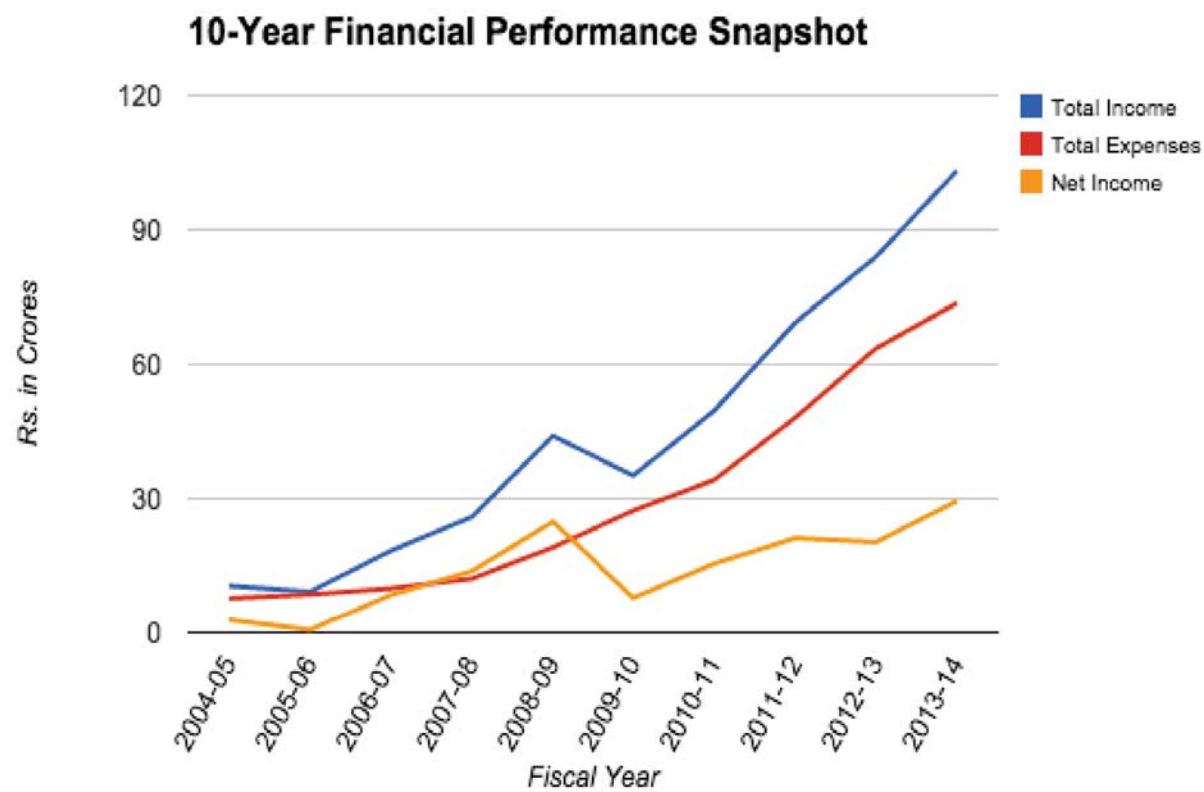
Sankara's sources and amounts of cash are larger than their current uses, leading to positive cash flow of 165,490,601 Rs. at the end of fiscal year 2013-14. Their primary sources of cash intake include funds from operations, donations, and loans, while their biggest uses of cash include salaries, benefits and other operating costs, fixed assets (hospitals and machinery), current assets (medical supplies, medicines, etc.), and investments. As Sankara looks to open an additional 6 hospitals by 2020 (a significant source of cash outflows), they must ensure that their sources of intake continue to increase at a rate to cover these expenditures. While the costs to open each hospital can vary based on geographic location, size of the facility, and market conditions, there are two types of funding needed for every new hospital: 1) capital funding, which covers land, infrastructure, equipment, & training; and, 2) recurring funding, which covers ongoing operations and maintenance of each facility. The sources of capital funding for new hospitals are primarily contributed (donated) through partners including Sankara Eye Foundation (USA & Europe) and Mission for Vision trust. Recurring funding is primarily covered by hospital collections via paying patients. The goal is to increase hospital collections in order to decrease the reliance on external donors and help each hospital become fully self-sufficient in 5 years.

Sankara has reported profitable operations for the past 10 years for which we have data (Figure 3). Given their legal structure as a charitable trust, these profits are reinvested into the business to expand and grow operations.

- Total income, which consists primarily of earned income from patients, donations, and grants, has shown a positive average growth rate of 33.67% over the past ten years, with only one of those years (2005-06 fiscal year) showing negative year-over-year income growth.
- Total expenses, which consists primarily of establishment (hospital) charges and medical products/ medicines/lenses, has show a positive average growth rate of 29.34% over the same period, with expense growth declining steadily since the 2011-12 fiscal year.
- Sankara's income growth rates exceed their expense growth rates, leading to profitable operations. Optimizing this financial structure is critical to Sankara's ability to scale. Given the relatively small gap in the average growth rates of income versus expenses (33.67% vs. 29.34%), Sankara will need to continue to look for ways to increase income and decrease expenses to maintain profitable operations in the presence of its growth aspirations.

Figure 9.3 Sankara's 10-Year Trend in Income and Expenses

Source: Financial Performance Snapshot, Sankara Annual Report 2014



Additionally, while currently operating in the black, the ultimate goal is to become fully sustainable based solely on earned income (without the reliance on donations). Sankara's facilities as a whole are currently 91% sustainable, meaning there is additional work to be done in terms of increasing hospital income (via paying patients) in order to reach 100% sustainability. Over the past 10 years, the average year-over-year growth rate of hospital income was 34.9%, but this rate has been decreasing since 2011. This is concerning; if earned income via hospitals does not increase proportionally, Sankara will have no hope of sustaining their operations and scaling to 20 hospitals by 2020.

Ratio Analysis

Working Capital = Current Assets - Current Liabilities
286,937,220 Rs. = 513,704,942 - 226,767,722

Current Ratio = Current Assets / Current Liabilities
2.26 = 513,704,942 / 226,767,722

These ratios indicate good short-term (1-year) financial strength.

Unit Economics

We use an 'Eye Surgery' as our main unit because collections from surgery is a key income driver (70% of total income). Sankara has unique unit economics due to their 80/20 model: treatment for free customers (80% of the volume of total surgeries) is paid for by the paying customers (20% of the volume of total surgeries). Sankara needs to have high marginal revenue (income) per unit due to this model - paying customers need to cover the costs of free customers.

All data below is from the year 2013-2014.

Unit = 1 Eye Surgery

- Number of free surgeries performed: 140,804
- Number of paying surgeries performed: 29,886
- Total surgeries performed: 170,690 units

Average Income, Expenses, Surplus (Deficit) Per Unit

- Income (Hospital): 667.7 Million Rs.
  Revenue per unit = 667.7 Mil Rs. / 170690 = 3911.77 Rs.

- Expenses: 736.6 Million Rs.
  Expenses per unit = 736.6 / 170690 = 4315.42 Rs.

- Deficit per Unit = 3911.77 - 4315.42 = (403.65) Rs.

- Unit Economics = Income / Expenses = 3911.77 / 4315.42 = .91

Currently Sankara is 91% sustainable with earned (hospital) income. We have chosen not to include donations within this analysis because Sankara is focused on becoming 100% sustainable. On the other hand, if we include operational donations within this analysis, Sankara is operating at a surplus per unit.

- Donations (Operations only): 123.8 Million Rs.
  Donation Revenue per unit = 123.8 Mil Rs. / 170690 = 725.29 Rs.
  Surplus per Unit = (403.65) + 725.29 Rs. = 321.64 Rs.

Example 3: GSBI Innovator: *Kiva*

Profile (GSBI 2006)

Kiva was GSBI's (and probably the world's) first online "crowd-lending" platform, and the first GSBI venture to use contributions by lenders as a primary income driver.

Mission, Opportunity and Strategies

Mission	Connect lenders (in the US) with small entrepreneurs in developing countries to help alleviate poverty.
Key Metric	Number ($ value) of loans
Opportunity	80% of the MFI market is unserved. Over 500M people in need of MFI, only 100M being served
Strategies	(1) develop online platform where small entrepreneurs can request funding from lenders (in the US). (2) develop network of MFI partners in developing countries that deliver loans to entrepreneurs and repayments to lenders (3) use online platform to report results to lenders (4) facilitate lenders using repayments to make new loans (5) ask lenders to pay fees to sustain Kiva

External Environment

Many potential lenders in the US willing to make small loans ($25-$100) to entrepreneurs in developing countries. Many more entrepreneurs want loans than can be supplied by current MFI. Current MFI constrained by ability to find money and qualify recipients. Internet widely available in US homes and widely accessible (through centers) in the developing world.

Market

Direct beneficiaries: 500M people in developing countries who need micro-loans
Indirect beneficiaries: millions of US citizen with access to internet willing to make small loans; thousands of MFI who need access to money to lend
Related beneficiaries: families of entrepreneurs and lenders, economies in developing countries

Competition: none in 2006, future competitive advantages: first mover, lower costs of loans

Market plan received major promotional assistance from media coverage (Business Week, BBC Wall Street Journal, Oprah Show).

Operations and Value Chain

Key processes: (1) develop and maintain, easy to use, on-line lending platform, (2) recruit entrepreneurs in developing countries, (3) recruit lenders in the U.S., (4) develop network of MFI partners in developing countries, (5) provide feedback and repayment to lenders.

Partners: MFI in developing countries, Office services in the US, Paypal for loans and repayments, Starbucks, MySpace, Google to recruit lenders.

Organization and Human Resources

Kiva is a US non-profit (501c(3)) corporation.
Board of Directors: 4, 4 Advisory Boards: (Micro-finance, Website, Legal, Financial)
CEO and 7 staff in US HQ.
Out-source: legal, finance, field audits.
30 MFI partners in 2006.

Business Model and Unit Economics

Key income drivers: request lender fees of 2% (50% of income) 1%-2% MFI partner fee (30% of income). 2% interest on float (20% of income).

Key expense drivers: staff (80%), operations (20%).

Critical Success Factors: (1) lenders are willing to voluntarily pay fees, (2) local MFI partners organizations are honest in distributing loans, (3) local borrowers repay loans, (4) lender enthusiasm (amounts loaned, re-lend rates, (5) favorable regulatory stats.

Unit Economics
Unit = $ loan, cost per $ loan = $0.05.

Metrics

(1) amount loaned, (2) loan repayment rate, (3) lending client retention rate, (4) revenue and profitability, (5) lender conversion and repeat loan rates.

Operating Plan

Kiva's first year operating plan incurred significantly more expenses than planned because of the need to visit/audit all MFI partners.

Financing

Grants.

A Minimum Critical Specifications Checklist

Business Model

- Defines a credible value proposition with compelling differentiators and a reason to pay
- Specifies income drivers and potential future revenue streams to strengthen scalability
- Specifies expense drivers with possible means of future cost reductions
- Provides credible financial data indicating path to positive cash flow and revenue growth rates greater than expense growth rates
- Clarifies unit economics (and if possible, the unit economics for each link in the supply chain)

Exercises:

9.1 Create a value proposition and provide validating evidence for your value proposition (especially evidence based on your organization's experience in delivering this value proposition).

The easiest way to write a Value Proposition is to follow the two-sentence format below:

[Name of organization] provides [products/services], which are [statement of key differentiators], for [target beneficiaries], and thereby creates [statement of social value/impact], unlike [competition]. Over the past [xx} years, we have helped [xxxx] beneficiaries, creating [list of] benefits for each, compared to [the alternative].

However, as long as the value proposition and evidence statements are reasonably succinct (within plus or minus 100 words combined) and contain information specifying the value you create, for whom, and how it is better than the alternative, you can use any sentence structure you like.

9.2 Identify the key income drivers for your organization

List the major sources and basis (e.g., ___paid surgeries at ____average revenue per surgery) for each of your planned income drivers. From these create "fishbone diagram" that shows the total income (in dollars or other currency) and the percent of total income and/or amounts for each of the Income Drivers).

9.3 Identify the key expense drivers that will be required to obtain this income

List the categories and basis (e.g., ___cost per surgery x ___surgeries) for your key expense drivers. Use this list to create a "fishbone diagram" that shows the total expenses (in dollars or other currency) and the percent (or amounts) for each category.

9.4 List the (3-7) critical success factors (or key assumptions) that will influence your income and expense drivers

For each success factor, identify the results, actions, internal initiatives, or conditions in the external environment that you will need to monitor because of their potential influence on your Income and Expense Drivers, and therefore your cash flow. These are success factor conditions that you need to manage, or at least track on a continuing basis.

9.5 Develop a unit economics analysis

Select the unit, and then compute either average or marginal income-expenses per unit.

Note:

Determining total expenses requires that you be able to identify costs by category or type for each step or process in your operations. In the "socio-technical" systems design of work flows these process or operating steps are referred to as "unit operations," each with its own costs. *The Worksheet Companion* to *The Social Entrepreneurs Playbook* includes two worksheets that can be helpful in developing costs for each "unit operation."

- "Deliverables Table Identifying Cost Types" (page 14 of Worksheet Companion)
- "Deliverables Table Estimating Costs" (page 23 of Worksheet Companion)

Together, these tables can enable you to breakdown per unit costs for each step or process (unit operation) as well as total costs for targeted output and impact levels. These worksheets are available through:

http://wdp.wharton.upenn.edu/worksheet-companion-the-social-entrepreneurs-playbook/

Background Resources

J. Gregory Dees, Jed Emerson, and Peter Economy, *Strategic Tools for Social Entrepreneurs: Enhancing the Performance of Your Enterprising Nonprofit*, New York, John Wiley, 2002, Chapters 6 and 9.

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Chapter 10

Metrics & Accountability

For a social entrepreneur, there are two reasons to keep metrics for your enterprise. The first is to help manage your business: to measure progress in achieving the mission; to assess the efficiency and effectiveness of your operations (value chain) and organization; and, to validate whether your business model is working as planned. The second reason relates to raising money, as those providing financing for your enterprise will want to know what "return/impact" they are enabling with their funds. In some countries, social businesses will also need metrics to comply with auditing and regulatory requirements.

Basic Knowledge:

Social ventures must be learning organizations that are operated like a real business. A balanced scorecard for a social business includes metrics for:

- Financial resources
- Organizational resources
- Key processes or activities
- Outcomes or impact

Effective operating routines use these metrics to drive continuous improvement and adaptive capacity in the presence of constrained and contingent environments.

In this chapter you will create a metrics "dashboard." If the dashboard is developed with involvement from the venture's management team and employees it can contribute to accountability by increasing commitment to the use of metrics for assessing progress, efficiency and effectiveness in ongoing operations. If the funding sources are involved in creating metrics, then outcome or impact metrics can also be agreed upon for measuring "social return on investment."

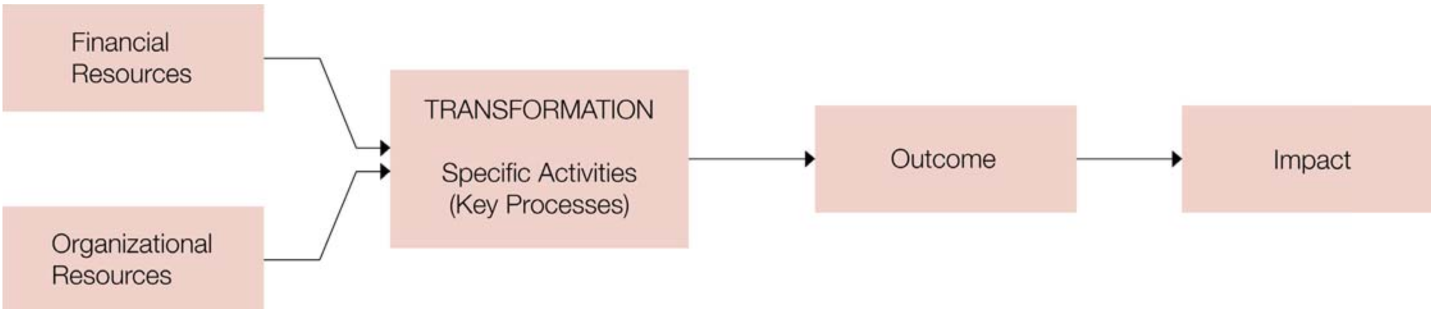
You will create your dashboard using metrics in each of the following categories:

- Resource/input metrics capture *financial and organizational* resources.
- Transformation metrics capture *activities or key processes that drive desired outcomes.*
- Outcome metrics capture the results of activities or key processes.
- Impact metrics capture the intended social changes resulting from outcomes.

As illustrated in Figure 10.1, this linear framework of metrics represents the operational measurements for your theory of change. As depicted on the following page, it is the *social transformation* that you seek to catalyze. For employees, this transformation extends to operational measures of excellence that will stimulate continuous learning and foster personal identity with a shared purpose.

Figure 10.1 What to Measure: Social Transformation

Transformation of financial and human (organizational) resources into social impact (benefit for a disadvantaged group)



Process

Useful metrics for driving continuous improvement and entrepreneurial adaptation capacity have the following characteristics:

- Can be linked directly to your mission, strategies, and key processes
- Are easy to quantify (or specify if qualitative in nature)
- Are easy to collect and not an administrative burden
- Can be related to a specific time period for benchmarking
- Are agreed upon (by employees and "investors")

In selecting the metrics for your dashboard you should consider each of these elements shown in Figure 10.1.

Financial Resource Metrics

Financial resources include both investment capital as well as financial resources generated from ongoing operations. The latter are obtained from profit/loss statements and balance sheets. They typically include income, operating and capital expenses, and cash balances, but may also include assets (inventory, or accounts receivable or payable), gross margins on sales, and liabilities. Sometimes ratios (such as current ratio—the ratio of current assets to current liabilities) are used, but such ratios are less frequently used in a social business than in profit-maximizing businesses.

Organizational Resource Metrics

These metrics attempt to measure the human resources involved in carrying out the mission of the organization. Number and qualification of employees and volunteers, number of unfilled positions (especially in the leadership team or other pivotal jobs), and employee as well as volunteer turnover are common organizational resource metrics. If there is substantial dependence on partners for achieving organizational goals, then metrics often include measures of the number and performance or quality of partners. Organizational metrics usually are collected and monitored by management (or a human resources department in larger organizations).

Transformation (Activity/Process) Metrics

These processes metrics can be used to assess efficiency and effectiveness of operating routines across the value chain. Activity metrics may include number of beneficiaries served or hours of service provided, milestones (target dates for achieving specific objectives), productivity (output per unit of time or cost), and quality. It is useful for metrics to enable a comparison of actual results with objectives or benchmarks (e.g. baselines, previous time periods, or alternatives). Ideally, the collection and use of operating metrics should be incorporated into ongoing operations and be a basis for improving key processes.

Outcome Metrics

These metrics measure the results of activities or processes to transform specific resources into specific outputs and outcomes of benefit to your target customers. In systems terms, you can think of each of the activities or processes that comprise your operation as a "unit operation" with standards or specific targets for quality and productivity. Together, these "unit operations" are part of a larger transformation process purposefully designed to produce outputs that will benefit those you serve—your target market (see Figure 10.1). Number of outputs and quality of outputs are common output metrics. In some instances these metrics may be used as a proxy for social benefit outcomes (e.g., number of solar home systems installed, number of successful site-restoring surgeries). Transformation metrics for specific processes may also be used (e.g., time or costs associated marketing, sales, or service; qualified lead-to-sales ratios, etc). While some of these metrics may be captured as the result of operations, others may need to be collected by a survey of beneficiaries. Survey questions should be designed carefully so that collection is not an imposition on beneficiaries or customers and so that the questions don't bias the answers (e.g. how did you like our service on a scale from 1-5 versus how likely would you be to recommend our service to someone you know). In user surveys, it is best to stick to a small range of choices such as easily interpreted five-point scales. Acumen's Lean Data Impact Measurement is a potentially useful approach for gathering Output metrics as well (Acumen, 2015). The Lean Data approach, which can use a variety of survey methodologies, is designed to enable efficient data collection for client-centric metrics.

Impact (and Return on Investment) Metrics

Impact metrics measure the changes in economic or social well-being that result from the outcomes of the enterprise. These metrics are the most difficult to collect because they may need to be collected over time (e.g. changes in health or income). While "systems change" may be the overarching objective of a social mission enterprise it is often difficult to determine whether it was the outcomes of your enterprise that created the impact (e.g., does the use of affordable computer aided classes improve learning). Impact metrics may also require "before and after" or "control group" comparisons. Randomized Control Trials that follow a protocol similar to those used by the FDA in assessing the impact of a new disease treatment are considered the "gold standard" for assessing impact, but are often costly or impractical to conduct because of the difficulty of identifying a suitable control group. Therefore for the dashboard you create in this chapter, the best impact metric may simply be a" successful outcome" (e.g. an unemployed person who is trained gets a job). Note that a "successful outcome" is very likely the single metric you created for your mission in Exercise 4.1.

Measuring social return on investment (SROI) generally is complicated because of the effort required to measure impact in a way that can be directly linked to investment. SROI metrics therefore often require special and often costly studies as opposed to measures that can be readily collected as a part of on-going operations. For more information on SROI, please see the monograph by Scholten et. al. (2006). For your dashboard, a simple return on investment measure you can use is: Cost per successful outcome (for a given time period divide the total capital and operating expenses needed to create successful outcomes by the number of successful outcomes). In the examples below, this is referred to as SROI Lite.

SROI Lite = Total investment/Number of successful outcomes

As an organization grows and/or changes, the set of metrics are likely to change as well. The following examples illustrate how the metrics guidelines in this chapter apply to three organizations. Note each example uses a different set of metrics but that the metrics can be categorized using the Balanced Scorecard defined in Figure 10.1.

Example 1: *Metrics Dashboard for Grameen Shakti*

Financial Resources

1. Income
2. Expenses
3. Branch office operating sustainability ratio
4. Capital Investment (total and per branch)
5. Breakeven sales

Organizational Resources

1. Number of branch offices
2. Number of staff (total, by job, by office and at headquarters, by gender)
3. Number of technicians trained
4. Retention

Process / Activity

1. Number of villages served
2. Number of customers and # of customers trained
3. Number of system owners
4. Number of maintenance agreements
5. Green jobs created

Outcome / Impact

1. Number of solar installations
2. Number of people impacted
3. Installed power capacity and energy generation per day
4. Increase in customer income
5. Carbon dioxide reductions

Alternative 1 Impact: SROI Lite based on number of solar systems installed

- Successful outcome: Number of solar system installations (539,000 through 2005)
- Measure of investment: Total capital invested, about $5M (estimated through 2005)
- Investment per system installed = $57M/539K = $9.27 per system

Dividing the total revenue for the 539K systems would give revenue per system installed (An alternative SROI Lite, would be the difference between the cost and revenues per unit installed—a measure of profit and/or subsidy per unit)

Alternative 2 Impact: SROI Lite (based on number of beneficiaries in 2010):

- Successful Outcome: a beneficiary using solar lighting
- Measure of Investment: Total capital invested = about $5M (estimated)
- SROI Lite = $5M/3.5M = $1.43 invested per beneficiary.

Example 2: *Sankara Metrics Dashboard*

Financial Metrics

1. Annual earned income (via hospital collections) and year-over-year growth
   - Company-wide and per hospital
2. Annual contributed income
   - Sankara Eye Foundation
   - Recurring grants from District Blindness Control Society, Govt. of India
   - Company-wide and per hospital
3. Annual Expenses and year-over-year growth
   - Functional, Program related (Gift of Vision, Rainbow, Eye bank), etc
   - Company-wide and per hospital
4. Sustainability % (ratio of income to expenses)
5. Comparison of Actual expenses to monthly budget; year-over-year comparison

Organizational Resources (Physical and Human Assets)

1. Number of hospitals (city and rural)
2. Number of employees to staffing plan (doctors, optometrists, field workers)
3. Staff to patient ratio (ties directly to quality of care)
4. Staff satisfaction survey (periodic feedback given to supervisors, exit interviews if/when they leave Sankara)
5. Graduation rate from Academy of Vision
6. Employee male to female ratio (41% male and 59% female)
7. Employee turnover rate

Transformation (Process) Metrics

1. Number of surgeries per year (paid vs unpaid) to maintain 80/20
2. Number of camps and productivity per camp i.e., patients screened at a given site/month/year
3. Yield per camp (outreach surgery cases)
4. Time per medical procedure
5. Patient wait time

Outcome Metrics

1. Number of successful sight-restoring surgeries
2. Overall customer experience (via survey)
3. Cost per surgery (to ensure the surplus from 1 paid surgery is enough to cover 4 free surgeries)
4. Number of villages/states reached across India
5. Number of schools screened
6. Recovery time after surgery
7. Postoperative satisfaction rate (internal and 3rd party evaluations)
    a. Paying patients - patient's responsibility to avail optional follow-up 1 month after surgery (reason: urban population, higher awareness)
    b. Non-paying - Sankara takes up responsibility to follow-up with patient 1 month after surgery (reason: rural population, low awareness, limited resources)
    c. 6 months after surgery - Mission for Vision randomly selects patients from the list of those operated to check the outcome of surgery. A questionnaire consisting of quality of life indicators is used for the purpose.

Source: Appendix 2--Snapshot of Sankara's Outcome Metrics (2013-14 Annual Report)

Impact Metrics

1. Improvement in household income
2. Improvement in productivity at work (less time for a task)
3. Empowerment of rural women (74% of the paramedics are women)

Example 3: GSBI Innovator: *Vision Spring (formerly Scojo)*

Profile (GSBI 2006)

When attending the GSBI in 2006, Vision Spring was known as Scojo, and was in the fifth year of implementing its mission to provide affordable reading glasses and other eye care products in India (and South America). In addition to its innovative approach for low-cost distribution methods, Scojo was an early advocate for including metrics in the GSBI curriculum, helped pioneer the concept of "balanced scorecard" metrics for social ventures, and was the first to use employee and partner turnover as a metric.

Mission, Opportunity and Strategies

Mission	Vision Spring's original mission statement was to broaden access to reading glasses and other eye care products in India (and South America, from which they eventually withdrew).
Opportunity	Millions of people in India were unable to work because of poor eye sight due to conditions (e.g., presbyopia) that could be corrected by reading glasses. The key problem to be solved was providing access to low-cost reading glasses.
Strategies	(1) create partnerships with low cost manufacturers of reading glasses (2) microfranchise a distribution channel to deliver reading glasses to villages in India (3) help the channel succeed with a "business in a bag" solution kit.

External Environment

Those with poor eyesight in rural areas of developing countries are unaware of the cause (presbyopia) and there is no access to affordable reading glasses which can improve eyesight. The are low cost manufacturers of reading glasses and potential customers can pay up to $3, but distribution channels do not exist for rural areas.

Market

Direct Beneficiaries: over 1B people in rural areas (over 200M in India) need access to reading glasses to be able to work
Indirect Beneficiaries: family and local employers
Related beneficiaries: rural economies
Competition: retail stores, free from charities
Competitive advantage: low cost product, distribution channel

Operations and Value Chain

Key processes: (1) manufacturing partner selection and management, (2) microfranchise partners for distribution, (3) provide "business in a box" to channel partners, (4) set up "spoke and hub" distribution system with partners

Organization and Human Resources

Vision Spring is a US non-profit operating globally.
Board of Directors

Executive Director
Director of Programs
Partner Franchises Local Subsidiaries

Business Model and Unit Economics

Key revenue drivers: operations (80%); contributions (20%)
Key expense drivers: staffing (35%); cost of products/franchise kits (30%); marketing (20%), G&A (15%)

<u>Unit Economics</u>
Unit = pair of reading glasses
2008: number of units: 862,980
Total revenue: $2,402,983 (per unit = $2.78)
Total expenses = $2,345,187 (per unit=$2.71)
Per unit net margin = $.07
Over time Vision Spring developed a metric called Philanthropic Investment per Pair (PIPP) because of the need to subsidize distribution. PIPP ranged from $2.40 (Bangladesh) to over $15 (in Central America).

Metrics

Financial
1. Net Margin
2. Burn Rate (expenses)

Units Sold
3. Number (per year, cumulative)

Turn Over
4. Employees
5. Partners

Economic Impact
6. Wages earned by reading glass customers

Unit Economics
7. (post GSBI) Philanthropic Investment per Pair

Operating Plan

No operating plan presented at GSBI, but an operating plan was developed in the following year.

Financing

Initial financing ($1.5M grant pre-GSBI)
Subsequent financing (sought $400,000 per year for 5 years, primarily from grants or loans, for use in expanding distribution)

A Minimum Critical Specifications Checklist

Metrics and Accountability

- Metrics dashboards should include financial, organizational, and transformation or process metrics, as well as outcome and, ideally, impact metrics
- Cost per outcome can serve as a proxy for capital efficiency or social return on investment, especially for public goods or where best available charitable option (BACO) is a benchmark
- Metrics are added or eliminated on the basis of only one criteria - contribution to managing the enterprise as a social business

Exercises

Exercise 10.1 Create a metrics dashboard with no more than 12 metrics (total) divided into these five groups:

1. Financial Resources
2. Organizational Resources
3. Transformation (Process/Activity)
4. Outcomes
5. Impact (return on investment)

Background Resources

Acumen Foundation, The Lean Data Field Guide, November 2015.

J. Gregory Dees, Jed Emerson, and Peter Economy, Strategic Tools for Social Entrepreneurs: Enhancing the Performance of Your Enterprising Nonprofit, New York, John Wiley, 2002, Chapter 8.

Robert Kaplan, "Strategic Performance Measurement and Management in Nonprofit Organizations," Nonprofit Management and Leadership, (Spring 2001), 11 (3): 353-370.

A. Ebrahim and V. Rangan, "What Impact: A Framework for Measuring the Scale and Scope of Social Performance," California Management Review, (2014), 56 (3): 118-141.

J. Sawhill, J. and D. Williamson, "Mission Impossible? Measuring Success in Nonprofit Organizations," Nonprofit Management in and Leadership, (2001) 11 (3): 371-386.

Peter Scholten, Jeremy Nichols, Sara Olsen, and Bert Galimidi, Social Return on Investment (A Guide to SROI Anlaysis), FM State of the Art Series, 2006.

Chapter 11

Operating Plan

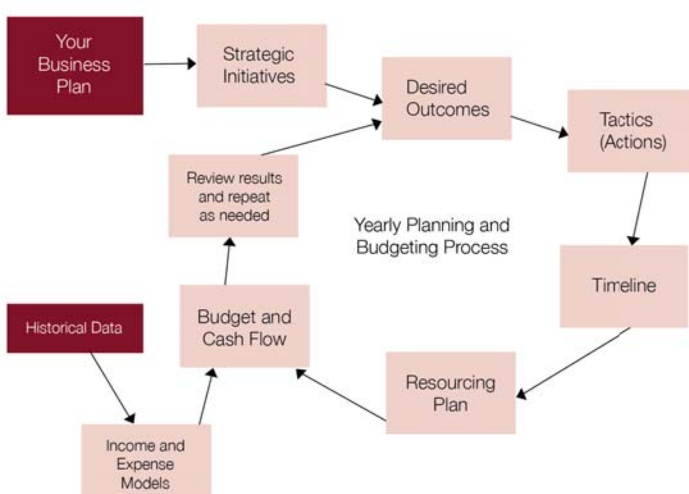
An operating plan translates a business plan into milestones with associated actions for achieving program or project specifications, resource requirements, due dates and, most importantly, "owners." Operating plans also include a budget (income and expense targets) and a cash flow statement that presents the financial viability of the plan. Each of these three elements—income, expense targets and cash flow—will be for a specific time period. In this chapter, we will use a quarterly basis for a year (4 quarters), although you may use a more frequent basis (e.g. monthly) if you want shorter interval insight into the status of your plan.

Basic Knowledge:
Operating plans translate conceptual business plans into budgets for both day-to-day operations and strategic initiatives with milestones and specified accountabilities. Integrated operating plans are critical for budgeting and efficient resource utilization, managing cash flow, and achieving priority objectives.

The operating plan is an essential management tool used to: focus the enterprise; match resources with specific plans; track progress and do "course corrections" if needed; and hold people accountable for performance. An operating plan appears to be an essential element of scaling (growing) a social venture (or conversely not having a good operating plan is a frequent reason for failing to be able to scale/grow a social venture).

The diagram below shows the key steps in a process you can use to develop your operating plan from the business plan created using the guidelines and exercises in chapter 4 through 10. This is an iterative process that calls for revisions to the operating plan on the basis of actual results relative to plan milestones as well as changing conditions in operating environments. In general, an operating plan is going to change at least annually, and sometimes more frequently.

Figure 11.1 Operational Planning & Budgeting Process



Description of Steps in Developing an Operating Plan

Strategic Initiatives and Measureable Outcomes

The process for creating an operating plan begins with reviewing strategic initiatives (with the management team). For each strategic initiative, create a measurable outcome, which the management team can review at least annually to assess progress in achieving your mission. For each measurable outcome, create a target completion date and an "owner" or person on the team responsible for a specific outcome.

Strategic Initiative Example: Implement a process for recruiting rural patients with cataract blindness.
Outcome/Due Date/Owner Example: Recruiting Manager to create collaborative partnership with NGOs to set up 20 eye camps (5 per quarter).

Tactics

For each strategic initiative and associated outcome, the "owner" should create one or more tactics to achieve the outcome. Each tactic will have resource requirements (staffing and other costs) for the year.

Example Tactic: Contact 1 NGO/week as possible partners (and sign at least 5 per quarter).
Budget: 1 staff member including budget for salary, office space, cell phone, and travel.

Timeline and Resource Requirements

A timeline is a chart or a table that lists each tactic (in order of completion dates). If a tactic has several completion dates, each one is listed. If one tactic depends on another being completed, this dependency should be shown. Each tactic/milestone should show the resource requirements for that tactic during the relevant planning period. The resource requirements should include the key expense drivers as described in Chapter 9 as well as other expenses specific to particular tactics of milestones.

There are several techniques (e.g. Gantt charts) and a few Internet based tools (e.g. BaseCamp) that you can use to build a Timeline and Resource Requirements. A simplified Timeline Table is illustrated below:

Table 11.1 Timeline Table

Tactic	Owner	Q1 Due Date	Q2 Due Date	Q3 Due Date	Q4 Due Date
Contact NGOs	Ms. X	2 per week	2 per week	2 per week	2 per week
Sign NGO to base camp contract	Ms. X	5 by end of quarter	10 (5 new) by end of quarter	15 (5 new) by end of quarter	20 (5 new) by end of quarter

With the timeline table, one can then build a resource requirements table showing all the resources needed by type for all tactics as illustrated in the following table:

Table 11.2 Resource Requirements Table

Tactic	Owner	Staffing	Salary $	Travel $	Office and Other Expense $
One line per tactics					
+ One for management FTE and other overhead					

Budget

From the resource requirements for strategic initiatives, the expenses and income associated with ongoing operations, and the plans for cash infusion from fundraising, one can build a budget. There are several good budgeting tools for small enterprises (e.g. Mint, and Quicken QuickBooks), some of which can also be used to create your financial reports (including actuals versus budget and cash flow). At a minimum, a simple table or spreadsheet is all you need. Be sure to include the income from all the income drivers (Chapter 9), costs by category or type for each step or process in the value chain for your ongoing operations value chain, and expenses associated with the resource requirements for your strategic initiatives from the above table.

Figure 11.2 Example: *Four Quarter Operating Budget*

	Q1	Q2	Q3	Q4
BALANCE FORWARD	$10,000	$51,100	$42,800	$699,400
Friends and Family	$100,000	$25,000	0	0
Investors	0	0	$800,000	0
Loan	0	$100,000	0	0
Product Revenue	0	0	$10,000	$500,000
TOTAL INCOME	$100,000	$125,000	$810,000	$500,000
Headcount	3	4	4	6
Headcount $	$56,000	$76,000	$76,000	$84,000
General/Admin.	$500	$2,500	$5,000	$5,000
Sales/Marketing	$2,400	$4,800	$2,400	$4,800
Program $	0	$50,000	$50,000	$175,000
TOTAL EXPENSES	$58,900	$133,300	$133,400	$268,800
NET	$51,100	$42,800	$719,400	$500,600

Recently the GSBI has begun to use an Operating Plan Summary Table, such as the one below, to combine the Strategic Initiatives/Desired Outcome/Tactics/Timeline/Resource Requirements and Budget info into one table.

Figure 11.3 2014 Operating Plan Summary

Enterprise Name:
Date:

Strategic Initiative	Desired Outcome	Strategic Initiative Owner	Key Tactics/ Actions	Owner	Resources	Budget	Planned Start Date	Actual Start Date	Planned End Date	Actual End Date	Comments

Cashflow

From the budget, you can create a cash flow statement by time period (usually a month, a quarter, and a year) showing the starting cash position, the income drivers (sources times bases), expense drivers (categories times bases) and ending cash (which becomes starting cash for the next period. This cash flow statement is useful for making sure that there is adequate cash on hand to fund the enterprise.

Create and fill-in a table with a column for each time period (e.g. quarterly for a year, or yearly for 4 years) with rows for starting cash position, cash inflow (from income drivers), cash outflow (from expense drivers) and ending cash position.

Figure 11.4 Cash Flow Statement Template

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Starting cash				
+ Cash inflows (operating income plus financing recieved)				
- Cash outflows (operating expenses plus cost of fundraising recieved)				
= Ending cash				

Figure 11.5 Cashflow Management Example (4 years)

	2007	2008	2009	2010
STARTING CASH	$40,000	$37,533	$25,408	$17,938
CASH IN	$107,213	$332,500	$516,500	$744,000
Earned	$19,000	$232,500	$466,500	$744,000
Contributed	$88,213	$100,000	$50,000	
CASH OUT	$109,660	$344,645	$523,970	$655,895
Operation	$60,700	$206,045	$278,270	$307,895
Cost of Goods	$48,960	$138,600	$245,700	$348,000
ENDING CASH	$37,553	$25,408	$17,938	$106,043

The available documentation for Grameen Shakti does not include the Operating Plan, although it is clear from the documentation than there must have been one. Therefore in this Chapter there are only two examples: Sankara, and GSBI Innovator" Video Volunteers.

Example 1: *Operating Plan for Sankara*

A Strategic Initiative for Sankara is to increase paying customer acquisition. The following table summarizes the desired outcomes for this strategy, and the tactics required to implement them. The outcomes and associated tactics have been prioritized and the prioritization legend is as follows:

(1) Highest Priority
(2) Medium Priority
(3) Lowest Priority

Priority	Outcome	Tactic	Owner	Completion Date
1	Offer financing (credit) to paying patients	Research and choose a financing institution to partner with	Head of Finance	June 1, 2015
		Determine different financing options	Head of Finance and Billing Dept.	July 1, 2015
		Set up financing plans in billing systems	Billing Coordinator/ System Admin	August 1, 2015
		Train billing staff on financing mechanics	Head of Billing Dept.	September 1, 2015

3	Implement Tiered Pricing Strategy	Determine new price tiers for each procedure in each city hospital	Heads of Marketing & Finance	July 1, 2015
		Setting up new pricing structures in billing systems	Billing Coordinator/ System Admin	August 1, 2015
		Training billing staff on new pricing tiers	Head of Billing Dept.	September 1, 2015
2	Vision wellness for students	*Schools:* Establish a partnership with SHARP (School Health Annual Report Program) to shortlist the schools to reach out to in each city Sankara has a hospital. *Higher Education Institutions:* Create a list of institutions to reach out to in each city where Sankara has a hospital.	Head of Business Development/ Partnerships	June 1, 2015
		Reach out to each and evaluate interest for on-site screening camp. If interested, create a contract for a screening camp and payment terms for participating schools/institutions. (first batch - 5)	Business Development/ Partnerships Manager	July 1, 2015
		Screen students and identify those that need procedures in the hospital. (1 camp).	Camp Coordinators, Outreach team of doctors and optometrists	August 1, 2015
		Add new patients to hospital database and maintain relationships thorugh annual follow-ups	System Admin and Outreach team	September 1, 2015
		Assess the program's yield per school camp and update goals/modify pricing for the following year	Head of Outreach and President of "Vision Sankara"	December 1, 2015
3	Vision wellness for seniors	Create a list of retirement home communities to reach out to in the cities in which Sankara has hospitals	Head of Business Development/ Partnerships	June 1, 2015
		Reach out to each and evaluate the needs of the occupants; establish paying capacities, insurance availability, etc. Decide if convenient on-site screening camp can be held.	Business Development/ Partnerships Manager	July 1, 2015
		Screen patients and identify those that need procedures in the hospital	Camp Coordinators, Outreach team of doctors and optometrists	August 1, 2015
		Add new patients to hospital database and maintain relationships through annual follow-ups	System Admin and Outreach team	September 1, 2015
2	Doctor Referral Program	Create a list of physicians to reach out to in each of the cities Sankara has hospitals in	Business Development/ Partnerships Manager	June 1, 2015
		Subdivide according to distance from hospital (5km radius, 10km radius, etc.)	Marketing/Sales	July 1, 2015

2	Doctor Referral Program	Reach out to physicians through phone calls, visits, email campaigns (multi-touch marketing)	Head of Business Development/ Partnerships	August 1, 2015
		Provide a point of contact for communication in order to form a trusted relationship	Business Development/ Partnerships Manager	September 1, 2015
		Set up an internal Referring Physician Database and maintain marketing communications by sending them newsletters, etc.	System Admin/ Marketing Manager	Ongoing
		Maintain periodic contact to get feedback and maintain relationship	Business Development/ Partnerships Manager	Ongoing
2	Patient Referral Program	Develop process/database for maintaining referrals; develop coupons and flyers for customers	Head of Marketing	May 2015
		Train Employees on Referral Process	HR/Admin Team	June 2015
		Implement Referral Program	HR/Admin Team	July 2015
1	Educational Tools	Develop web-based tools/ lecture materials	Head of PR/ Medical Staff/ Customer Relations	May 2015
		Train necessary staff involved in running lectures/maintaining online resources	PR/Medical Staff	June 2015
		Launch web-based tools/develop lecture schedule/coupons	Head of PR/ Medical Staff/ Customer Relations	July 2015
1	Advertising Campaign Improvements	Develop new ad campaign with social benefit emphasis	PR team/ Marketing Team	May 2015
		Roll out new ad campaign	Marketing/Sales	June 2015
		SEO	PR team/ Marketing Team	July 2015

Example 2: GSBI Innovator: *Video Volunteers*

Profile (GSBI 2011)

Video Volunteers trains and equips local community video producers to provide a voice for the rural poor in India. In 2011, after completing the GSBI, Video Volunteers, with the help of 4 mentors, became the first GSBI venture to implement the process for creating an operating plan described in Chapter 11.

Mission, Opportunity and Strategies

Mission	Enable local community video producers to provide a voice for India's poor
Key metric	# videos in national media
Opportunity	625 million people in rural India are not covered national media
Strategies	(1) recruit, train, and equip locals in poor communities to be video producers (2) manage community video producers to create stories about local problems (3) edit video raw footage for use in TV and internet news (4) use partners to place stories on cable TV and internet news sites (5) use video stories to create community campaigns to solve problems (e.g. violence against women) (6) create and distributed additional videos about impact of campaigns

External Environment

Local problems in most of India do not receive coverage by national media, and therefore 625M people to not have a voice. National cable TV and internet broadcast coverage in India is extensive. Young people In local communities anxious are able to learn to use video to document local problems. National news media need content; too expensive for national media to have coverage in rural areas.

Market

Direct Beneficiaries: people in rural areas in India who get training (100's) and a voice (millions) in national media
Indirect Beneficiaries: news media that get content and create interest rural communities
Related beneficiaries: communities that benefit from local stories
Competition: local stringers from national media (competitive advantages: cost and local knowledge)

Product: local video new stories from rural areas
Price: sold to national media for less than their own video creation costs
Placement: partners
Promotion: partners and via internet

Operations and Value Chain

Key processes: (1) local video producer recruitment and training, (2) create raw footage and scripts for local news stories, (3) edit stories and scripts, (4) use partners to distribute edit stories to national media, (5) create community campaigns with stories, (6) document impact with additional videos for distribution.

Key partners: (1) video suppliers for low-cost equipment. (2) NGOs, Cable TV companies, and internet news sites for local stories.

Organization and Human Resources
Video Volunteers is a US non-profit (for fund-raising) and a media company in India.

- CEO
  - Head of Training and Production
    - Local video trainers and managers
      - Local video producers

Business Model and Unit Economics
Key income drivers: Contributed: grants (50% → 20%); Earned: NGO (50% - 30%), TV (0% → 50%)
Key expense drivers: Training (33%, Video Production (33%), SG&A (335)

Unit Economics

Unit = videos placed. In 2011, the unit economics (cost per video placed) was $479.

Metrics
(1) number of community video producers, (2) # of videos placed, (3) millions of viewers for videos, (4) # recorded instances of local action taken as result of videos, (5) revenue, (6) expenses

Operating Plan
As described in Chapter 11, Video Volunteers (VV) completed a 9 step process to create an operating plan.

Step 1: Confirm Mission and Key Strategies

- Came back from GSBI to difficult situation (low morale). Used a PowerPoint presentation to create excitement and ownership.
- Went over to somebody's house – spent 3 days coming up with strategies

Step 2: Develop Strategic Initiatives

- Distribute content to mainstream media
- Training and production
- Retention, recruitment and impact
- Fundraising and earned income
- Documentation, communications, and campaigns

Step 3: For each strategic initiative, define desired outcomes (with person(s) responsible dates)

Strategic Initiative 1: Distribute Content to Mainstream Media

Lead: Jessica
Team: Sarah (Head VVFS)
Tara (Design)
Intern (AIF intern for TV pilot and distribution)
Stalin (meeting MM, finalizing content for presentations to MM)
Measurable Outcome 1: Contracts worth $100k in place with station/s by EQ1
Measurable Outcome 2: 10 newspapers subscribing to VVFS by EQ1. Minimum ten media pick ups per quarter, incl. Q1.

Strategic Initiative 4: Fundraising and earned income

Measurable Outcome 1: bring in 30K in contributed income per quarter
Measurable Outcome 2: bring in 20K in earned income per quarter
Lead: Jessica
Team: Naomi (Head Earned Income sub group)
Stalin (meeting funders and partners)

Research and Communications Intern (full time, to be recruited)
Sid (providing content to be used in donor/partner communication)

Step 4: Develop Tactics for each Strategic Initiative

- Set up a spreadsheet for each Strategic Initiative

Step 5: Develop a timeline for each tactic

- Set up a Word Document for each tactic, updated every quarter with progress

Step 6: Create a resourcing plan

- To start didn't limit resources in developing strategies/tactics
- Strategy leaders submitted resource requirements which got incorporated into the budgeting spreadsheet
- Resource requirements couldn't be met immediately – so team had to 'make do' with resources available
- Need to do job descriptions and fit available staff fit with strategic areas. Should 'strategic areas' be the actual job description?

Step 7: Develop income and expense models

- Set up a budget spreadsheet, used to record targets and actuals by month.

Step 8: Load income and expense models into a budgeting tool

- Use spreadsheet set up in Step 7

Step 9: Review and repeat if necessary

Guess what? Not all the strategies worked.

What worked:	Strategies (except for income)
	Expense model (kept expenses in control)
	Learned how to talk about earned income and learned that first year would still require contributed income (so not to waste time with investors who are interested primarily in earned income)
	Learned how to understand market and the business principles of their market
What didn't work:	Income Strategy – weren't able to get large buyers – decided to give content to one TV station, one website, one magazine – on a "per campaign" (did not set precedence of giving all content) – created a lot of interest from other media outlets)
	Got income from large donor – did not solve long term income problem – still expect to eventually charge for content

Financing

Grants and large donations.

A Minimum Critical Specifications Checklist

Operating Plan

- Strategic initiatives specify outcomes, milestones, resource requirements, and accountabilities
- Budgets combine both on-going revenue/expense targets and project-specific expense projections
- Operating plan includes budget and cash flow statements.

Exercises

11.1 Milestones (Timeline and Resource Requirements)

For the specific tactics for each strategy and associated outcome, create a timeline (schedule) and list the resource requirements (people and money).

11.2 Budget

Using the timeline and resource requirements for each tactic, you can create a budget as follows. First, for all the income producing tactics, estimate the expected income (per quarter). If useful, itemize the income by category (donations, sales, fund raising). Second, for all tactics combine the costs per quarter to create an expense budget per quarter. If useful, itemize the expenses by function or tactic (program budget). Your budget should then be able to be summarized in a table such as the Example Four Quarter Operating budget shown above.

11.3 Cashflow

Using the budget, create a four quarter cash flow statement consisting for four items for each quarter:
Starting cash position (= ending cash position from the previous quarter);
+ Income
- Expenses
= Ending cash position
Your simplified cash flow summary should look like the Cash Management Example above.

Background Resources

J. Gregory Dees, Jed Emerson, and Peter Economy, *Enterprising Non-Profits: A Toolkit for Social Entrepreneurs*, New York, John Wiley, 2001, Chapter 9.

Arthur DeThomas Ph.D. and Stephanie Derammelaere, *How to Write a Convincing Business Plan*, Third Edition, New York: Barron's Educational Services, 2008, Chapter 3, 10 and 11.

Chapter 12

Financing

To grow a social venture and its impact requires financing, often at multiple stages of growth. Chapter 12 reviews the main alternatives for financing and describes four documents that will help you in fund raising.

The alternative types of financing that will be discussed are:

- Personal funds and funds from friends and family
- Grants
- Loans ("soft," "conventional", demand dividend, and "Program Related")
- Convertible Debt
- Equity Investment (angel investors, impact investors, financial first investors)

Basic Knowledge:

The choice legal structure (e.g. for-profit or not for profit) is a strategic decision with tradeoffs that will determine the range of funding sources available and the nature of investor expectations in addition to conditioning organizational routines and culture.

Funding sources and amounts vary at different stages of a venture's organization life cycle. Success in accessing capital across life cycle stages is dependent on the ability to achieve venture development milestones and the "investment readiness" criteria of alternative funding sources.

In recent years the amount of capital devoted to impact investing has been increasing and impact investors have been able to document both impact and financial returns. However, despite the increased understanding and investment knowledge among impact investors, there is not yet a clear delineation of the timing and uses for the different impact investment alternatives, often termed "asset classes" (Bannick, et; al. "Frontier Capital," 2015, Faiz et. al. 'Total Portfolio Activation," 2016, GIIN,"Impact Investing Trends," 2015).

A social venture seeking funding should also be aware of the funding preferences of possible sources. Some sources focus on particular market sectors (e.g. energy), and/or particular consumer focus (e.g. lower/middle income), and/or how much funding is needed to purchase assets, and/or specific timing and percentage returns (see Bannick, et. al. "Frontier Capital," 2015, and Faiz et. al. Total Portfolio Activation," 2016).

This chapter also describes four documents that will help in fund raising, regardless of the sources of funding:

1. A target list of potential funding sources by category or alternative for the amounts of financing you are seeking, and the uses to which the funding will be put;
2. An “Elevator Pitch” to create interest;
3. A Business Plan Summary Presentation for those who are interested;
4. An Investment Profile to “leave behind” for potential funding sources.

Finally, we cover due diligence and investment readiness.

Funding Sources and Amounts

Most social ventures will seek funding from one or more of the ten sources or “types” listed below in increasing order of the difficulty of obtaining, amounts that can be obtained, and formal financial reporting accountabilities.

1. Personal, friends, and/or family

Funding provided by the entrepreneurs, and/or their family and friends.

2. Grants

Funding is provided by an organization, such as a foundation, governmental organization, non-governmental (non-profit) organization, corporation, or wealthy individuals. Grants usually require completing a grant form or a response to an RFP (Request for Proposals).

3. Soft Loans

Funding is provided by an organization, such as those listed for grants, as well as banks or on-line lenders (such as Kiva.org), which will have “soft” or concessionary terms for repayment.

4. Conventional Loans

Conventional loans are provided by banks or other regulated financial organizations, which will have specific terms for repayment (generally tied to predictable cash flows). Conventional loans may have phased, structured exit (repayment) terms.

5. Program Related Investment:

Usually a loan, but occasionally a grant for a specific program (e.g. adding a new product or service) in a social venture.

6. Demand Dividend

A demand dividend investment is like a loan in that the investor provides funds, but it is like equity in that the investor receives (is paid back by) dividends which can be “demanded’ (based on an agreement at the time of funding) once the organization has positive cash flow.

7. **Convertible Debt**
Funding is provided from a grant-making organization, bank, venture capital firm, or high net worth individual with specific terms for debt or loan to equity conversion (e.g. a loan with interest at 6% for five years convertible to equity at a 25 percent discount to venture valuation.)

8. **Angel Equity**
Funding is provided by wealthy individuals or groups of wealthy individuals, in return for shares of the company (usually less than a controlling interest).

9. **Impact-First Equity**
Funding is provided by organizations such as those listed for grants, or by social venture capital firms that aggregate individual "impact-first" investments; in return for their investments investors receive shares of portfolio companies (usually less than a controlling interest).

10. **Financial-First Equity**
Funding is provided by venture capital firms or corporations with funds, which are aggregated from individuals or other organizational investors, tied to shares of the company (usually a controlling interest). Note that if there are several rounds of equity financing, more than one class of stock, with different valuations, may be needed (e.g. one for each round of financing).

In comparing/selecting one or more alternative sources of financing you will need to consider several variables:

1. What is the "life cycle stage" (start-up, early results or proof of concept, beginning growth, rapid expansion, maturity)?
2. How much "due diligence" (effort) is required to obtain a term sheet (an outline of the terms of the financing agreement) and what will be the costs of managing reporting relationships with the financing source?
3. What are the funding sources' expected returns?
4. How long does the engagement (contract) with the funding source last and what is the "exit strategy" (i.e., when does the engagement end)?
5. How much control/involvement with the enterprise does the financing source require?
6. Is the organization "investment ready"—can its valuation be calculated and does it have cash flow to support the investors expected returns?
7. The organizational structure you are anticipating (e.g., to get equity financing in the U.S. may be easier with a for-profit organization).

In planning your funding strategy it may be useful to plan for "blended financing," using more than one type of funding source for different stages of growth.

A good discussion of the difference types of funding (asset classes) is given in "Total Portfolio Activation for Impact" (Faiz, et. al. 2015), which also discusses and gives examples of the rates of return often required by different funding sources.

Table 12.1 below may help in evaluating the desirability of funding source alternative(s).

Table 12.1 Comparison of Social Venture Funding Sources

Source/Type	Appropriate Stage	Due Diligence and Effort to Manage	Expected Return	Duration and Exit	Expected Involvement
Personal, Friends and Family	Start-up and early results, occasionally beginning growth	Low	Impact first, possibly financial	Flexible (patient capital), also flexible exit	Should be low, occasionally is high
Grants	Early results, beginning growth	High initially, then moderate	Impact, may expect some repayment of capital	Generally short term (grant is for a specific period), exit is time based	Should be low, occasionally is moderate
"Soft Loans"	Early results, beginning growth, rapid expansion, maturity	High initially, then low	Impact, and payback of principal (at some time) and possibly below market interest rate	Flexible (patient capital), exit is repayment of all or part	Low
Conventional Loans	Beginning growth, rapid expansion, maturity	High initially, then low, will require assets as security and verification of financials	Payback of principal and market interest rate	Fixed time period, exit is payback	Low
Program Directed Investment	Growth, rapid expansion	Moderate, will need status reports on program progress	May not require payback, or only repayment of principal	Fixed time period, exit is completion of program	Low
Demand Dividend	Beginning growth, rapid expansion	High initially then low once demand conditions and amounts are agreed to	Dividends paid in amounts and timing agreed upon at time of financing	Agreed upon conditions and amounts of dividends which are payback	Low/Moderate
Convertible Debt	Beginning growth, rapid expansion, maturity	High initially, then moderate, will require organization to have *valuation* and proposed *capital structure*	Payback of principal plus below market rate interest and/or appreciation through conversion to equity	Flexible (patient capital), exit is payback or conversion to equity	Moderate

Angel Equity	Start-up, early results, beginning growth	Moderate to high, will require valuation and capital structure	Appreciation through buy-out or public offering.	Flexible (patient capital), exit is payback, buy-out, sale of company, or public offering	Low to Moderate, may want to be on Board or provide advice
Impact-First Equity	Any	Moderate to high, will require valuation and capital structure	Impact, possibly below market rate of payback, exit through buy-out or sale of company	Flexible (patient capital), exit is payback, buy-out, sale of company, or public offering	Moderate to High – are owners of the company
Financial First Equity	Beginning growth, rapid expansion	High, will require valuation, capital structure and complete verification (e.g. more than just financials)	Market rate of appreciate, exit through sale of company or public offering	Short to medium term, exit is through sale of company or public offering	High – are owners and expect financial returns

Once the funding source alternatives are selected, it will help to do some investigation to create a list of possible sources to contact and to obtain sample "term sheets" with details about the information and terms required for each source. Note that "term sheets," which are agreed to by both the sources and recipients of funding, specify all the details of the funding, including timing of payments, payment terms, amounts and equity (if any) exchanged, and timing of paybacks. An example of a comprehensive term sheet is given in "Total Portfolio Activation for Impact" (Faiz, et. al. 2015).

To determine the amounts of financing needed, use the Budget and Cash Flow statements from Chapter 11. The amount funding needed in any year is determined by adding:

+ Any grant funding income you included in your budget, i.e. income that was not earned (from sales) or contributed (by donors)
+ Any Cash Flow shortfall (expenses in excess of income)
+ A "contingency" (usually around 10% of the total) for unforeseen circumstances

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= TOTAL AMOUNT OF FUNDING NEEDED IN A SPECIFIC YEAR(S)

When seeking funding, more than one year's worth of funding is usually requested.

Valuation

In equity funding, and occasionally in loan financing, it is necessary to create a company valuation (i.e., what is the company worth). There are many books and articles about valuation (e.g. McKinsey, 2015) and many investors have their own algorithms for establishing valuation. In general, valuation can be based on one or a combination of the following:

- Replacement costs of assets (e.g. the costs of creating products and/or processes)
- Revenue (present value over several years--how much you would need to invest now at market rates to create the revenue stream)
- Earnings (present value over several years—how much you would need to invest now at market rates to create the earning stream)
- Opportunity Costs: how much it would cost to create a revenue stream equal to that of the business

Thus an initial evaluation might be set at the (expected) cost of developing a venture's product/services and later evaluation might be set based on the initial evaluation plus a multiple of the expected annual revenues or earnings.

Documents Used in Fund Raising

From our experiences with hundreds of ventures in the GSBI, we recommend that you create four documents to be used in fund raising.

1. Possible sources

Create a list of organizations that are to be contacted for funding, including the name of the person to be contacted, why this organization is an appropriate source of funding, and other ventures the funding organization has funded in the past.

2. Elevator Pitch

In contacting potential funding sources, and perhaps partners and others who may be interested in helping, it is valuable to have an Elevator Pitch. An "Elevator Pitch" is a 2-3 minute verbal summary of:

- Why the organization is the best at what it does. (Why are you a better choice than the alternatives?)
- How the organization measures what it does (What metrics do you use to know if you are successful?)

The intended audience for an elevator pitch is someone who is interested in potentially helping the organization (financially) and therefore is interested in what the organization does, but is generally unfamiliar with the organization and its intended beneficiaries.

3. Business Plan Summary Presentation

Once there is interest indicated from a funding source, the next step is probably a meeting to present the social venture and to justify your financing needs. For these meetings, it is useful to have a summary of the business plan, usually in a formal presentation format (e.g. in PowerPoint). There are many different outlines for business plans. For Exercise 12.3 below, the information from Chapters 4 through 10 can be used to create such a summary presentation. A social venture will need a presentation that is tailored to the specific requirements for each potential funder, with requirements varying depending on the funding source. So, before making a presentation, ask the funding source if they have an outline of the information they would like presented, and then create a presentation designed specifically for them.

Some funding sources may require submitting a written business plan and/or financial statements and projections. The exercises in Chapter 4 through 10 can be used as a starting point for this document.

4. Investment Profile

As a "handout" to go along with the elevator pitch or business plan summary PowerPoint, it is useful to have an investment profile for your organization. The investment profile is a "leave behind" reference document for use following a business plan summary presentation. It may also serve as a document to be sent to potential funding sources before making a business plan summary presentation. Exercise 12.4 below poses a set of questions that can be used to create an investment profile.

Due Diligence

Once funding sources have identified and tentatively agreed to provide funding, a due diligence step is usually required before funding is actually granted. During due diligence the funding source(s) will check to be sure that the claims made in the business plan are accurate and may also examine claims of product acceptance and financial results. The table below, created recently for the GSBI, provides a prioritized (by importance) checklist for documents that can be used during due diligence for the 3 basic investment types (equity, loan, and grant). Note however, that each funding source may have its own due diligence checklist.

An example of due diligence is given in: "Total Portfolio Activation for Impact" (Faiz, et. al. 2015), and a due diligence checklist is given below.

Table 12.2 Due Diligence Checklist

Within 1 week
Within 2-4 weeks
Other

Document	Investment Type			Notes
	Equity	Loan	Grant	
A. Organizational Information (company and any subsidiaries)				
State government organizational filings (including articles of incorporation/organization/formation, certificate of limited partnership, etc.) and all amendments.	x	x	x	
Internal constitutional documents (including bylaws, operating agreement, partnership agreement, etc.) and all amendments.	x	x	x	
Minutes of meetings of the board of directors, advisory board, board committees and shareholders and all consents to actions without a meeting.	x			

Schedule of jurisdictions (states, countries) where the company is qualified to do business, has offices, holds property (including inventory) or conducts business.	x	x		
Most recently obtained good standing certificates for jurisdictions (states, countries) where the company is qualified to do business.	x	x		
Federal and state tax exemption qualification (if applicable).	x	x	x	
B. Securities Issuances				
Sample copy of security certificates (stock, interests, others), warrants, and option agreements.	x			
Schedule of security holders, contact information, the number of securities held by each (including common and preferred stock, membership interests, partnership interests or equivalents), dates of issuance, consideration paid, and percent ownership (capitalization table).	x	x		
All outstanding options, warrants or convertible securities, including convertible debt instruments (capitalization table).	x	x		
Any voting rights agreements, buy/sell agreements, stockholder agreements, warrant agreements, proxies or right of first refusal agreements.	x	x		
Any debt arrangements, guarantees or indemnification between officers, directors or security holders of the company.	x	x		
Any other contracts, arrangements, or public or private documents or commitments relating to company securities.	x			
C. Financial Information				
Audited financial statements since inception (unaudited if audited are not available).	x	x	x	
Quarterly income statements, balance sheets and cash flow statements for the last two years and the current year (to date).	x	x		
Description of accounting methods and practices, including any changes in the last three years.	x	x		
A three year operating budget and financial projections.	x	x		
A complete and current business plan, including material marketing or consulting studies or reports prepared by the company.	x	x		
Accounts receivable aging and accounts payable aging schedules for the last year.	x	x		
Product or service pricing plans and policies.	x	x		
Revenue, gross margin and average selling price by product or service.	x	x		
Extraordinary income or expense details.	x	x		
Explanation of any material write-downs or write-offs.	x	x		
A summary of all bad debt experiences.	x	x		

Details of any outstanding contingent liabilities.	x	x		
Accountant report on the company's financial condition.	x	x		
D. Tax Information				
Federal, state, local and foreign tax returns for the last three years.	x			
Details of any tax audits.	x			
Evidence that current on sales tax, unemployment, social security, excise and other tax payments.	x			
E. Contracts and Agreements				
Schedule of all subsidiary, partnership, joint venture, or strategic alliance relationships and obligations, with copies of related agreements.	x	x		
License agreements (inbound and outbound).	x			
Purchase agreements.	x			
Schedule of all bank and non-bank lenders holding outstanding company indebtedness within the past two years, including a brief description of the material terms of the relationship and copies of related agreements, including credit agreements, debt instruments, security agreements, mortgages, installment sale agreements, and any liens, equipment leases, or financial performance guarantees.	x	x		
Schedule of insurance arrangements (and copies of related agreements) covering property, liabilities and operations, including product liabilities and a description of any other relevant arrangements pertaining to the company's liability exposure, including special reserve funds and accounts.	x	x		
Schedule of major suppliers, vendors and customers, with copies of material agreements with each.	x	x		
Any additional material agreements or contracts.	x			
F. Government Regulation				
Copies of all permits and licenses.	x	x		
Copies of reports made to government agencies.	x			
Details of inquiries made by local, state or federal agencies.	x			
G. Litigation				
Description of any current and known potential litigation, including potential damages.	x	x		
Settle documentation.	x			
Summaries of disputes with suppliers, competitors or customers.	x			

H. Products and Services				
Schedule of all existing products or services and products or services that are under development, each showing offerings by product or service line, including market share where possible.	x			
Inventory analysis including turnover, obsolescence and valuation policies.	x	x		
Backlog analysis by product line including analysis of seasonal issues.	x			
Schedule of major suppliers including dollar amount purchased per year, with copies of related agreements.	x			
I. Marketing				
List of competitors by market share.	x	x		
List of the company's twelve largest clients, including sales information and any unfilled orders for the last two years.	x	x		
Analysis of pricing strategy.	x	x		
Current advertising programs, marketing plans, budget and printed brochures and marketing materials.	x			
Sales commission structure.	x			
Sales projections by product line.	x	x		
Any pertinent marketing studies conducted by outside parties.	x	x		
J. Management and Personnel				
Management organizational chart and list of company directors, with bios of senior personnel.	x	x	x	
Schedule of compensation paid to officers, directors and key employees, showing salary, bonuses and non-cash compensation (i.e. use of cars, property, etc.) with copies of related agreements.	x			
Employment and consulting agreements, confidentiality agreements, nondisclosure and noncompetition agreements, loan agreements and documents relating to transactions with officers, directors and key employees.	x	x		
K. Property and Equipment				
Schedule of all real property owned by the company, including details of any easements or other encumbrances, and copies of titles, mortgages and deeds of trust.	x	x		
Schedule of company leases and sub-leases, including a description of company space expansion plans, with copies of related agreements.	x	x		
Patents, copyrights, trademarks, any trade secrets, any licenses to or from the company and any other intangible assets developed/owned/licensed by the company.	x	x		

L. Impact and Mission				
Schedule of social, economic, environmental or other impact objectives, with copies of related program, mission, impact or sustainability policies and guidelines (as applicable).	x	x	x	
Describe the intended use of the funds, including whether any will be used (directly or indirectly) for lobbying or political purposes.			x	
Schedule of personal financial capital committed by founders and principal investors, including copies of related documents.	x	x	x	
Schedule of the nature and scale of expected impact (e.g. year 1, year 3 and long term) and the metrics used to evaluate / report impact, including reporting intervals and required documentation.	x	x	x	
Schedule of existing impact investments, including date of investment, material terms, and mission/program target of investor.	x	x	x	
"Other" – please provide any impact metrics specific to your enterprise not otherwise addressed above.	x	x	x	
M. Miscellaneous				
Detail of in-progress research and development efforts, including commercial analysis and documentation policies.	x			
Copies of past and present press releases, existing articles related to the company and its industry, company newsletters and investor relations material.	x			

Investment Readiness

In recent years the GSBI has attempted to help social ventures develop the ability to demonstrate "investment readiness," which will mean different capabilities at different stages. For early stage ventures, for which grants, friends and family, soft loans and possible angel investors are the appropriate sources of funding, "investment readiness' generally means that the product or services of the social venture can be demonstrated to be viable, that the potential market can be quantified and that there is some evidence of market acceptance. For an early growth venture, investment readiness (for loans, PRI, or equity investors) means that the product or service can be replicated and that there has been a successful market trial of the venture's product or service. And for a venture seeking funding for rapid growth, "investment readiness" means that the venture's processes can be scaled to volume and that there is evidence of a significant market, where the product/service can be delivered to market with positive cash flow.

Example 1.1: *Grameen Shakti*

Table 12.3 Summary of Funding Sources and Uses

Timing	Source	Type	Amount	Use	Return
1996-1997	Rockefeller Brothers	Grant	$75,000	Start-up	No
1996-1997	Stichting Gilles	Grant	$75,000	Start-up	No
1996-1997	Grameen Fund	Loan	6M Taka (about $150K)	Start-up	No interest, indefinite repayment
1996-1997	Grameen Trust	Grant	2.5M Taka (about $61K)	Grant to experiment with wind enery	No
1996-1997	Grameen companies	In-kind	Office space and other pro-bono services	Start-up	No
1998	IFC/GEF	Loan at 2.5%	$750,000	Install 32,400 solar systems	10 years, with 10% reduction for each year in which compa-ny was pretax positive cash flow—1st year was 2000
2001	USAID	Revolving Fund	$4M	Growth—offices, staff and inventory	Revenue returned to revolving fund
8 year summary	**Multiple Sources**	**Grants, revolving funds, and loans**	**Approximately $5M**	**Used to grow staff, and to purchase and store inventory**	**Minimal financial returns to investors**

Example 1.2: *Grameen Shakti*

Elevator Pitch *(90 second description of Grameen Shakti Solar Home System business)*

Grameen Shakti provides 11 models of solar home (and solar mini-grid) lighting systems to over 40,000 rural villages in Bangladesh, These systems:

- Provide brighter lighting than alternatives (increasing working hours which increases family income 15%-25% and allows children to study 2-3 hours more per night)
- Provide healthier lighting than kerosene or candles
- Are less costly (over their lifetime) than kerosene lighting

Unlike other solar lighting providers, Grameen Shakti provides a complete product offering, including the choice of multiple product configurations, plus micro-financing and product service. From its inception in 1996 through 2010, Grameen Shakti installed over 500,000 solar lighting systems benefiting over 3.5M people and reducing carbon dioxide emissions by over 120 tons per year. In addition, Grameen Shakti achieved a cash flow break-even operation, while employing over 100,000 Bangladeshi men and women.

Example 1.3: *Grameen Shakti*

Business Plan Summary Presentation

A Business Plan Summary Presentation for Grameen Shakti could be created from the Grameen Shakti examples in Chapters 4 through 12 (Chapter 3 provides a summary description and Exercise 12.3 provides an outline).

Example 2: *Sankara*

Sankara Investment Profile

An example investment profile for Sankara can be seen on the following pages.

Eliminating curable blindness across India

Impact to Date

1.1 Million + free eye surgeries for the rural poor

3 Million + rural inhabitants screened for eye care

4.5 Million + children screened

100,000 + free eyeglasses to poor children

55% of surgeries on women

74% of the paramedics are women, recruited and trained from economically poor families

Milestones Achieved

2013 Performed one milionth free eye surgery at Coimbatore

2013 Opened two exclusively paid hospitals in Mumbai and Kanpur

2013 Sankara performed 140,800 free eye surgeries and 29,800 paid surgeries.

2013 Received $700,000 in debt funding from Calvert Foundation

Growth Plan

2014 Inauguration of Kanpur Community Eye Hospital for the rural poor in October

2015-2016 Expansion to Rajasthan (Jodhpur), Madhya Pradesh (Indore) and Chattisgarh (Raipur)

Key Awards

2012 S.R. Jindal Award for Rural Development and Poverty Alleviation

2012 Dharamsey Nansey Oman Award for Outstanding High Quality High Volume Eye Care Service Delivery instituted by VISION2020: The Right to Sight – INDIA

2014 IMC Ramkrishna Bajaj National Quality Performance Excellence in Health Care

On March 4, 2013, Sankara doctors successfully removed the cataract from Shanthi's left eye, marking the millionth free surgery for Sankara. Shanti is back at her weaving loom supporting her disabled husband and four young children.

"When it is hard to find care and love amongst family and friends, Sankara has given me all that and much more, in fact a bright future for me and my family."

SHANTHI, *SANKARA PATIENT, AGE 35*

THIS PROFILE WAS DEVELOPED DURING THE 2014 GSBI® ACCELERATOR AT SANTA CLARA UNIVERSITY.

Santa Clara University
Center for Science, Technology, and Society

SANKARA
EYE CARE INSTITUTIONS INDIA
EYE CARE BEYOND COMPARE

Eliminating curable blindness across India

Investment Required

Sankara is looking for $ 1.25 M in soft loans and $ 1.25 M in grants to fund our upcoming hospital in Rajasthan.

Description

Sankara currently operates 13 eye hospitals in India. Our mission is to eliminate curable blindness across India by scaling to 20 Sankara Community Eye Hospitals serving over a million rural poor every year.

Headquarters Coimbatore, India
Established 1977
Impact Areas India
Type Non-Profit
Sector Health
Staff Size 1,184
Annual Budget $ 12.4 M
Major Funders Sankara Eye Foundation, Mission for Vision Trust, Calvert Foundation
Stage Revenue

Management Team

CEO Dr R.V. Ramani

President Community Eye Care Bharath Balasubramaniam

President Medical Administration and Training Dr Kaushik Murali

CONTACT US
+91 97 50 98 6645
BHARATH@SANKARAEYE.COM
WWW.SANKARAEYE.COM/
FACEBOOK: /GIFTOFVISION
TWITTER: @SANKARAEYE

Sankara Eye Care Institutions (SECI)

Target Market

India is home to the largest population of 'curable blind' worldwide. According to WHO (2010), an estimated 63 million people in India are visually impaired, and of these, approximately 8 -12 million are blind.

Value Proposition

Sankara operates super specialty eye care hospitals with most modern infrastructure and comprehensive range of eye care services. Sankara serves and provides value to two distinct markets:

Free eye care for the rural poor through outreach: Sankara caters to villages located within 200 km radius of the base hospital. The rural poor are screened by Sankara staff at the villages and those requiring surgery are taken to the hospital for treatment. The entire treatment including surgery, stay, food and transportation (to and from the village) is provided for free.

Affordable premium eye care for the urban middle class (a $ 3 billion market): Sankara's paying section offers highest quality eye care with highly experienced medical staff for the urban middle class – premium services at affordable prices.

Surplus from 1 paid surgery allows for 4 free surgeries for the rural poor, and ensures financial sustainability in its mission to eliminate curable blindness across India.

"Vision is the Gift of God and to be blind is unfair if it can be cured with quality eye care."

BHARATH BALASUBRAMANIAM,
PRESIDENT COMMUNITY EYE CARE

GSBI®

SANKARA EYE EYE CARE INSTITUTIONS
WWW.SANKARAEYE.COM/ BHARATH@SANKARAEYE.COM

Example 3: GSBI Innovator: *Ziqitza Health Care Limited (ZHL)*

Profile (GSBI 2007)

Ziqitza Health Care provides ambulance services in cities of over 1 million population in India. When Ziqitza was started, there was no ambulance service in 35 of 37 such cities. The significant funding that ZHL received after the GSBI, which is described below, helped ZHL grow rapidly to provide ambulance services in multiple cities as well as providing ambulance service medical training and staff, and mobile medical units. Please see the William Davidson Institute case study of the Acumen funding of Ziqitza for further details.

Mission, Opportunity and Strategies

Mission	Provide the best Emergency Medical Services in cities of over 1 million in population
Key metric	# persons transported
Opportunity	No organized Emergency Medical Services in 35 of 37 cities of over 1M population, affecting over 100M people
Strategies	(1) organize EMS teams (2) acquire state of the art equipped ambulances (3) partner with EMS call services (e.g. 1298) (4) provide EMS using ability to pay business model

External Environment

No ambulance services in 35 of 37 cities of 1 million or greater populations. 80,000 deaths and 1.2M serious injuries from auto accidents each year. India has the fastest growing number heart attacks/year in the world. Heavy traffic in major cities. Increasing healthcare centers and awareness of EMS. Shortage of training EMS personnel. Widespread use of land lines and cell phones and availability of "911-like" services in major cities. Some resistance from local governments and some hospitals to EMS. Need to educate market about EMS.

Market

Direct Beneficiaries: over 100M people who live in cities with over 1M population; 72% have ability to pay; 80,000 deaths and 1.2M serious injuries from auto accidents each year; India has the fastest growing number of heart attacks/year in the world

Indirect Beneficiaries: families of those affected by serious auto accidents or heart attacks

Related beneficiaries: health and economies in affected cities

Product: EMS ambulance services

Price: ability to pay as determined by hospital of choice: those transported to full-service pay full price, those transported to government hospitals pay subsidized price (about 50% of full), those who can not pay are free

Promotion: advertising (media and on ambulances)

Placement: partner with hospitals and "911-like" services.

Competitive Advantage: response time, price, quality of service

Operations and Value Chain
Key processes: (1) call service for emergency calls, (2) dispatch service for ambulances, (3) ambulance operations, (4) ambulance staff training, (5) billing

Key partners: (1) emergency phone service companies (cooperation)

Organization and Human Resources
Organized as Limited Liability Corporation in India. Key management positions held by 5 founders. 25 employees in 2007.

Business Model and Unit Economics
Income Drivers: ambulance sponsorships (20%), operations (80%)
Expense Drivers: costs of services (25%), payroll (35%), facilities (40%)

<u>Unit Economics</u>
Unit = person transported. 2007/2008: 52,195 persons transported, $4.5M in expenses = $82.38 per person

Metrics
Key Metrics: (1) income, (2) expenses, (3) # persons transported (% emergencies), (4) # ambulances in service, (5) driver attrition

Operating Plan
ZHL has a monthly operating plan which was cash flow positive in April 2007.

Financing
Equity: Initial funding (2005): $120,000 each from 4 founders: = $480,000
Grant: Ambulance Access for All (AAA) Foundation: (2005): 6 ambulances at $45K each = $270K
5 year loan: $5.94M (2006)
Equity: Acumen Fund (2006): $600,000
Equity: Acumen Fund (2007): $900,000

The due diligence process for the two Equity investments made by Acumen fund is documented in a case study done by the William Davidson Institute at the University of Michigan (case 1-428-788, May 2009). As part of the due diligence, in addition to the business plan, ZHL submitted four documents: (1) projected income statements, (2) balance sheets, (3) cash flows, and (4) operating metrics. As stated in the case study:

> *"The founders anticipated that ZHL's marketing campaign and quality service would lead to an increase in the number of trips a day per ambulance and a higher proportion of cardiac emergency calls. Additionally, the founders expected the percentage of advertising revenues to total revenues to fall over time, as EMS operations improved and market share increased. For a discount rate, the founders calculated a cost of equity of 15%. In a memo to Acumen Fund, the founders justified the 15% by the following:*
>
> *The annual interest yield on government bonds for maturities between 5 to 10 years is in the range of 7.9% to 8.05%. We have assumed a risk premium of nearly 100% over the risk-free rate to adjust for the risk that an investor takes to invest in a business. In addition, the long-term return (~10 years) of equity listed on the NYSE (US) and BSE Sensex (India) is in the range of 15%. The return that we have assumed excluded dividend returns, which the company is confident to delivering over a period of time."*

Though ZHL did not have any debt at the end of its first year, the company expected to borrow funds in its second year to acquire more ambulances. When the debt was included, ZHL calculated a weighted average cost of capital (WACC) of 12%.

When using comparables, the founders valued their company assuming a P/E ratio of 15x as of March 2012. This ratio was considered to be conservative because the average P/E ratio of the Bombay Stock Exchange Sensex index (top 30 companies) was about 19x. Unfortunately, there was no direct company comparison available in India to determine if this P/E ratio was reasonable.

One comparison that ZH did have was Rural Metro, a US-based EMS company that was listed on the NASDAQ. The P/E ratio of Rural Metro was 2.3x as of March 31, 2006. The market capitalization/revenue ratio was 0.3x. However, there were reasons to use a higher P/E for ZHL. In the United States, the EMS market was mature, making it difficult for a single EMS provider to record high growth rates. The market in India, however, was nascent and highly fragmented. This provided great growth potential for a professional service such as ZHL.

Further, the case study states:

> *"To get the investment approved, 'the recommenders' needed to provide the Investment Committee with a reasonable valuation of the company, a description of the different valuation methodologies used, a proposed term sheet, and a clear rationale for why the investment would fit into Acumen Fund's portfolio."*

The Acumen Investment Committee made the decision to make a $1.5M equity investment in ZHL to support: (1) capital expenditures ($.39M in 2006, $.9M in 2007), and marketing expenses ($.16M in 2006) and working capital ($.05M in 2007). The term sheet taken from the case study and shown below was created and signed by both parties.

ZHL Term Sheet

For Issuance of and Subscription for Series A Preference Shares and Equity Shares

Nature of this document

This term sheet (the "Term Sheet") is non-binding and is subject to, among other things, fulfillment of the conditions set forth in the "Conditions Precedent" section below.

Issuer

Ziqitza Healthcare Limited, a public limited company organized under the laws of India ("ZHL" or the "Company")

Investor

Acumen Fund, Inc., a not-for-profit corporation organized under the laws of New York, United States of America ("Acumen Fund")

Issue Amount

The value of the Offering will be INR 69 million (the "Issue Amount")

Date of Issue

The share issuance contemplated by this Term Sheet (the "Offering") is anticipated to occur on or before Jan. 15, 2007

Amount of Offering

The Offering will consist of [5,982,638] Series A senior cumulative compulsorily convertible participating preference shares (the "Series A Preference Shares") with a par value of INR 10 per share and a subscription price of INR 10 per share, and 10,000 equity shares with a subscription price of INR 917.36 per share (with a par value of INR 10 and a premium of INR 907.36 per share).

Existing Shareholding
The existing shareholding of the Company consists of the following:
- 50,000 equity shares issued and paid up at face value of INR 10 per share; and
- 175,647 equity shares issued and paid up at INR 100 (with a face value of INR 10 plus a premium of INR 90 per share), as further described in Appendix A attached hereto.

Valuation of the Company
INR < > million prior to the investment contemplated by this Term Sheet and INR < > million after the conversion of the investment contemplated by this Term Sheet.

Use of Issue Amount
The Issue Amount will be utilized by the Company to:
- Acquire 31 Advanced Life Support Ambulances (including prefabrication work and medicinal equipment) and 1 call center at an aggregate estimated cost of INR 61.50 million; and
- Fund marketing expenses in the amount of INR 7.50 million.

Or in any manner that the Board deems appropriate subject to prior written approval (which shall not be unreasonably withheld) of Acumen Fund

Conditions Precedent
Acumen Fund's investment in the Company pursuant to this Term Sheet will be subject to customary conditions, including, without limitation, the following:
(a) The completion of legal due diligence by Acumen Fund and the resolution of any issues arising therefrom in a manner satisfactory to Acumen Fund;
(b) The approval of such investment by the Investment Committee of Acumen Fund;
(c) The execution of a Shareholders' Agreement by and among the existing shareholders of the Company and Acumen Fund (the "Shareholders' Agreement"); and d) Government of India regulations and norms, as applicable.

Preference
Dividends for Series A Preference Shares will be declared and paid, or suf cient monies set aside for such payment, before payment of dividends to any other shareholders or class of shareholder, including, without limitation, all equity shares. Series A Preference Shares will have a liquidation preference over all other shares of the Company, including, without limitation, all equity shares, with respect to payment or distribution of assets upon liquidation in the amount of the Liquidation Value per share. For the purposes hereof, "Liquidation Value" means the amount for which the relevant shares were issued plus accrued dividends plus declared but unpaid dividends.

Series A Preference Shares and Policy
A dividend of < %> per annum, payable half-yearly in arrears on October 15 and April 15 of each year (each, a "Dividend Payment Date"), will be paid on the Series A Preference Shares. Dividends will accrue on shares of the Company from the date on which such shares were issued. Any dividends accrued but remaining unpaid on any Dividend Payment Date will be cumulated with, and become payable along with, dividends payable on subsequent Dividend Payment Dates.

Merger, Consolidation or Sale of Substantially All of the Assets of the Company
Unless waived by the holders of Series A Preference Shares, the following events will be deemed a liquidation of the Company for the purposes of determining such holders' liquidation preference:
(i) Any consolidation or merger of the Company with or into any other corporation or other entity, or any other corporate reorganization, in which the shareholders of the Company immediately prior to such consolidation, merger or reorganization, own less than fifty percent (50%) of the Company's voting power immediately after such consolidation, merger or reorganization, or any transaction or series of related transactions in which in excess of fifty percent (50%) of the Company's voting power is transferred or in which management control is transferred; and/or
(ii) Any sale, lease or other disposition of all or substantially all of the property, assets and/or business of the Company.

Conversion
At any time prior to the fourth anniversary of the date of issue thereof, Acumen Fund will have the right but not the obligation to convert all or part of its Series A Preference Shares into fully paid equity shares based on a conversion rate that would, if applied to all Series A Preference Shares issued pursuant to this Offering, result in Acumen Fund holding the number of equity shares equal to <X%> of all equity shares in the Company. On the fourth anniversary of the date of issue thereof, any and all Series A Preference Shares not converted into equity shares by Acumen Fund will be compulsorily converted into the number of fully paid equity shares that would result in Acumen Fund holding the number

of equity shares equal to <X%> of all equity shares in the Company.

Governance

Except as otherwise required by applicable law, the overall management and operational control of the Company shall be exercised exclusively by the Board of Directors or similar governing body of the Company (the "Board"). The maximum size of the Board will be seven (7) directors. Any increase in the number of directors on the Board will require the prior written approval (which shall not be unreasonably withheld) of Acumen Fund.

The shareholders agree that the Board will at all times include at least one (1) director appointed by Acumen Fund; such director shall be non-retiring.

Voting

Holders of equity shares will be entitled to one vote per equity share.

Holders of Series A Preference Shares will be entitled to one vote for each equity share issuable upon conversion of its Series A Preference Shares. Holders of Series A Preference Shares will be entitled to vote on any matter which the holders of equity shares are entitled to vote and the holders of Series A Preference Shares and the holders of equity shares will vote as a single class.

Except as otherwise required by applicable law or agreed by the shareholders of the Company, all decisions of the shareholders of the Company will require the affirmative vote of shareholders holding not less than 51% of the equity shares of the Company, including the equity shares issuable upon conversion of the Series A Preference Shares.

Voting for Certain Actions

An affirmative vote of the Investor will be required for the Company to:

(a) Liquidate, dissolve or wind up the affairs of the Company;
(b) Alter or change the rights of the Series A Preference Shares in any way;
(c) Increase or decrease the authorized number of equity shares or preference shares;
(d) Create any new class of shares;
(e) Redeem/buy back equity shares;
(f) Effect any merger, other corporate reorganization, sale of control, or any transaction in which all or substantially all of the assets of the Company are sold;
(g) Amend or waive any provision of the Company's Memorandum or Articles of Association;
(h) Appoint any statutory or internal auditor; or
(i) Make any decision or take any action that may adversely affect the rights or voting power of the Series A Preference Shares.

Affirmative Covenants

The Company will:

- Maintain at its registered office complete and accurate corporate, financial and tax books and records in accordance with Indian GAAP. The Company will provide Acumen Fund with documents that it may reasonably request in order for it to prepare its financial statements or tax filings with regulatory authorities;
- Provide access to its premises, books of account and other corporate, financial and tax books and records to each of its shareholders during normal business hours;
- Maintain adequate insurance, including, without limitation, customary directors' and officers' indemnification insurance;
- Comply with applicable law;
- Take actions to preserve (i) its corporate existence, (ii) its rights, franchises, and privileges, and (iii) all properties necessary or useful to the proper conduct of its business; and
- Reimburse all reasonable Company-related expenses of its Directors within India.

Initial Public Offering

(a) The Company and the Promoter Group will perform all such acts and deeds and do all such things as may be necessary to ensure that an initial public offering of the Company's shares (the "IPO") is made and that such shares are listed on the Bombay Stock Exchange or National Stock Exchange on or before June 30, 2012 (or such later date as Acumen Fund may, in its sole discretion, approve in writing, such approval not being unreasonably withheld);

(b) In completing the IPO, the Company will seek out and utilize the advice of a reputed investment banker unanimously approved by the Board; and

(c) The shares of the Company offered to the public pursuant to the IPO may be new shares, existing shares or any combination of the foregoing, as Acumen Fund may approve in writing (such approval not being unreasonably withheld). Acumen Fund will have the right (but not the obligation), at its sole discretion, to FIRST offer to sell all or any portion of the equity shares held by it as part of the IPO, subject to a limit of 50% of the IPO dilution.

Strategic sale:
If the Company does not effect an IPO by June 30, 2012, Acumen Fund will have the right to sell all of its equity shares in the Company to any person, after granting the right of rst refusal to the promoter group. If, however, the company has not affected the IPO by June 30, 2014, Acumen Fund will, based upon its sole discretion, have the right to cause each other equity shareholder to sell 100% of its equity shares in the Company to any such person purchasing 100% of Acumen Fund's equity shares in the Company.

Anti-Dilution
In the event that the Company issues any equity shares, or any rights, options, warrants or instruments entitling the holder to receive any equity shares of the Company, including, without limitation, share splits, share dividends and recapitalizations (each, a "Dilution Instrument"), Acumen Fund will be entitled to acquire such number of Dilution Instruments as would enable it to maintain its proportion of shareholding in the Company after all such equity shares are issued and all Dilution Instruments and all Series A Preference Shares are converted into equity shares. Acumen Fund will be entitled to acquire any such Dilution Instruments on terms no less favorable than those offered by the Company to any other person.

Management Lock-In
The Promoter Group will not be entitled to, and will not, transfer or create any lien or encumbrance over or dispose of any equity shares or other securities in the Company or any interest in such securities save and except with the prior written approval (which shall not be unreasonably withheld) of Acumen Fund and on such terms and conditions as Acumen Fund may specify.
Until the fourth anniversary of the date of the Offering, the Promoter Group will not be entitled to, and will not, transfer or create any lien or encumbrance over or dispose of any equity shares or other securities in the Company or any interest in such securities save and except with Acumen Fund's prior written approval (which shall not be unreasonably withheld), and on such terms and conditions, including a valuation not less than INR < >.

Representations and Warranties
The Shareholders Agreement will contain a detailed section on representations and warranties to be provided by the Company and the Promoters.

External Auditor
The shareholders of the Company will select and appoint an external auditor based on an arm's-length commercial considerations. The external auditor will perform such functions as the Board may direct.

Governing Law
The Shareholders Agreement will be governed by, and construed in accordance with, the laws of the Republic of India.

Disputes
In the event of any dispute arising out of the Shareholders' Agreement or any subsequent agreement related to the Company, the shareholders of the Company will attempt in good faith to resolve the dispute amicably. Any dispute which cannot be resolved within sixty (60) days from the date such dispute has arisen shall, at the option of any party to the dispute, be finally settled under the Rules of Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules. The status of the arbitration will be Mumbai (unless the parties agree otherwise) and the arbitration proceeding will be conducted in the English language only. The shareholders of the Company agree that arbitration will be the exclusive method for resolution of disputes between the parties hereto arising out of or in connection with the Offering and the Shareholders' Agreement. The arbitrators will have the power to grant any remedy or relief that they deem just and equitable, including but not limited to injunctive relief, whether interim and/or final, and any provisional measures ordered by the arbitrators may be specifically enforced by any court of competent jurisdiction. The award rendered in connection with such arbitration will be final and binding upon the shareholders of the Company and may be entered in any court having jurisdiction thereof.

Confidentiality
Each of the shareholders of the Company will keep all non-public information received in the course of the negotiation or conclusion of the present transaction, or any subsequent agreement related to the Company, confidential in accordance with customary confidentiality arrangements.

A Minimum Critical Specifications Checklist

Financing

- Financing sources and amounts are specified for the venture's " life cycle" stages
- Focused and disciplined use of funds in operating plans ensures that milestones are achieved
- Venture and investor outcomes, social impact, and financial return objectives are specified and aligned

Exercises

12.1 Funding Sources and Amount(s)

Use your budget and cash flow statements from Chapter 11 to calculate the amounts of money needed and at what the timing of when it will be needed.

Create a list of funding sources to be approached each time funding is needed. In general, it is better to approach only one type of source at each stage, and to make sure that if you need additional funding, earlier stage funders understands how their investments will be treated relative to the new funding sources.

12.2 Elevator Pitch

Although there are many ways to go about creating an elevator pitch, we suggest proceeding in three steps. First, create a one page PowerPoint slide that addresses the following:

- What an organization does (What are your products or services?)
- Who the intended beneficiaries are (Who benefits from your products or services?)
- If different than the beneficiary, the economic buyer is specified. (Who pays for the products or services?)
- Why your organization's product or service is important to the beneficiaries (How, specifically, are the beneficiaries' situations improved?)
- Why the organization is the best at what it does. Why are you a better choice than the alternatives?
- How the organization measures what it does (What metrics do you use to know if you are successful?)

Second, turn the PowerPoint slide that you just created into a written (Microsoft Word) document that "tells a story" about the organization. This is the "elevator pitch." The elevator pitch does not have to use the same order of elements as in the PowerPoint slide. For example, you could begin with a compelling story about the needs of one or more of your beneficiaries and how the organization fills the needs, and then generalize to describe the number of such beneficiaries and how the organization works to help them.

Third, memorize the elevator pitch and make sure to practice it "slowly out loud" so that it can be given in less than 3 minutes. There will be many opportunities to share the elevator pitch when encountering someone new who may be interested in possibly investing time or money in your enterprise. So, it is worth the time and effort to develop a compelling elevator pitch and memorize it so that it can be easily and comfortably delivered.

For more information on elevator pitches see: Chris O'Leary Elevator Pitch Essentials, The Limb Press, 2008 (http://www.elevatorpitchessentials.com)

12.3 Develop a PowerPoint Business Plan Summary Presentation

As a template for presentations to potential funding sources (and to other interested parties), use the outline in this Exercise to create 10-15 PowerPoint slides capturing the results of the Exercises in Chapters 4-10. It is not necessary to follow the outline exactly, but make sure all the suggested information is included. The outline is:

- Title Slide with your Mission Statement (1 slide)
- Value Proposition (1 slide)
- External Environment (1 slide)
- Market/Beneficiary Analysis (1-3 slides)—possibly including a "story" about a beneficiary
- Key Strategies (1 slide)
- Value Chain and Business Model (2-5 slides)
- Metrics Dashboard (1 slide)
- Financing: Needs and Uses (1 slide)
- Summary (1 Slide)

You should be able to modify or add to the PowerPoint charts in this outline in order to create a presentation tailored to each funding source. Selected information from the worksheet in Exercise 12.4 may also be of value in producing a "PowerPoint Deck" for use in business plan presentations.

12.4 Develop an "Investment Profile"

Use the results of the Exercises in Chapters 4-11 to provide the following worksheet with information for use in creating an investment profile.

1. Provide the full name (and abbreviation/acronym if you use one) for your organization. If you are representing a single project or department in your organization please identify that project or department.

2. List the name and position title(s) of the social entrepreneur(s) representing the organization. If this person is not the founder(s) or chief executive, please list these as well.

3. Provide your:
   a. email address
   b. website URL (if any)
   c. phone number
   d. Twitter, Facebook, YouTube, or other URLs (if any)

4. In what year was this organization established?

5. What is your organization (legal) form of doing business?

___Non-profit/NGO
___For-Profit
___Hybrid (you have both for-profit and non-profit organizations)
___Government
___Other (please specify): ______________________________

6. Copy your 10 word mission statement from Exercise 4.1.

7. Please list the city (cities) and country (countries) where you "do business" (have beneficiaries). If one of these is your headquarters, please identify it. If there are no cities, just list the countries and regions.

8. In which "sectors" do you have impact? (choose a maximum of two)

____ Agriculture & Fishing	____ Equality & Social Justice
____ Clean Tech & Energy	____ Housing
____ Economic Development	____ Info & Communications Technology (ICT)
____ Education	____ Microfinance
____ Environment	____ Transportation
____ Fair Trade	____ Water & Sanitation
____ Health	____ Other :______________________________

9. How many employees do you have (full time equivalents)? How many volunteers (full or part time) do you have at any one time?

10. What is your annual budget (total of all expense drivers) for this year?

11. What are your major income (funding) sources (contributed and/or earned income driv-

ers for this year), and what will be your total income?

12. What were the major sources of your initial funding? If you have investors please list them and the percentages of investment for each. If you have loans, please list the lenders and the percentages of your loans held by each.

13. List major awards you have received and give the year in which you received the award.

14. What is your value proposition? (you can copy or revise Exercise 9.1)

15. Describe the target market for your organization (you can copy or revise Exercise 6.2 and 6.3). If you have pictures of your beneficiaries please include it. Be sure to include the size of the total available market.

16. Provide a short description that illustrates your product or service. If you have a technical innovation, please describe it as well.

17. Give a one-sentence statement that quantifies the impact of your organization in terms of one quantitative metric (e.g., "we have provided jobs for 1,000 youth," or "we provide health care products to over 100,000 women," or we have "built 10,000 earthquake resistant homes which house over 60,000 people").

18. List the 3–5 most significant growth milestones you have achieved (funding, income, impact, or growth of beneficiaries). Provide the dates and values (e.g. amounts, numbers) for each milestone (e.g. 2008: obtained $250K funding; 2009: opened 3 regional training centers, 2010: trained 500 youth).

19. List your 3-5 most significant, quantitative, growth goals for the next 3 years (e.g. 2012, Build 12 village power systems; 2013, build 18 village power systems; 2014, build 24 village power systems).

20. Provide 1-3 quantitative metrics of the impact of your organization/project since its inception (i.e. what has been the total impact). One of these metrics should be the total number of people who have benefited from your organization/project and an explanation of how you calculate that number.

21. Provide a quote from one of your beneficiaries that illustrates the impact of your organization on the beneficiaries' lives.

22. Briefly describe the type of investments the organization is seeking (grants, public-private partnership subsidy, debt, convertible debt, and equity), the required amounts, and investment timeframe. If a monetary investment is not being sought at this time, describe other types of support that are being sought, such as partnerships and technical assistance.

23. Provide as many of the following images as possible. List URLs or attach files in .jpg, .jpeg, gif, or .png formats:
    a. Logo
    b. Headshot photo of you
    c. Photo or diagram that illustrates your Value Proposition
    d. Photo of some of your beneficiaries
    e. Diagram or picture that illustrates your product or service, and if applicable, the technical innovation
    f. Up to 5 additional photos or diagrams that illustrate the organization's work and the local context

Background Resources

Matt Bannick, Paula Goldman, and Michael Kubzansky, "Frontier Capital: Early Stage Investing for Financial Returns and Social Impact in Emerging Markets," Omidyar Network Research Report, October, 2015.

J. Gregory Dees, Jed Emerson, and Peter Economy, Strategic Tools for Social Entrepreneurs: Enhancing the Performance of Your Enterprising Nonprofit, New York, John Wiley, 2002, Chapter 6.

Global Impact Investing Network (GIIN), "Impact Investing Trends," December 2015.

Lala Faiz, Charly Kleissner, John Kohler, Nancy Y. Lin, "Total Portfolio Activation for Impact: A Strategy to move beyond ESG," Report from Miller Center for Entrepreneurship, SAeptember 2016.

McKinsey and Company and Time Koller, Valuation: Measuring and Managing the Value of a Company, Wiley Finance, 2015.

Chris O'Leary, Elevator Pitch Essentials, The Limb Press, 2008.

SOCAP11: Impact Investing Special Edition, Cambridge, MA, MIT Press, 2011, especially Ann-Kristin Achleitner, et. al. "Unlocking the Mystery: An Introduction to Social Investment," pp.41-50.

Arthur DeThomas Ph.D. and Stephanie Derammelaere, How to Write a Convincing Business Plan, Third Edition, New York: Barron's Educational Services, 2008, Chapters 1,2,3 and 11.

William Davidson Institute at the University of Michigan, "Acumen Fund Valuing a Social Venture," Case 48-428-788, May 2009.

Chapter 13

The Path Forward

In chapter 3, we described a variety of conventional business planning paradigms and suggested an alternative model, one we believe is better suited to the unique challenges of building successful social ventures. Our framework intends to contribute to the gradual elaboration of a new model of socio-economic development, a bottom-ups, market-based approach that is better fit for solving social problems than the current approaches to economic growth.

Chapters 4 through 12 deconstruct our business planning framework into nine modules, each with checklist criteria for assessing the strength of venture plans. These modules have evolved through iterative refinements in work with the founders of more than 500 social ventures through the Miller Center for Social Entrepreneurship at Santa Clara University. In addition, our overall model has been tested and refined as a paradigm for teaching the fundamental building blocks of successful social venture creation with both MBA students and undergraduates—many of whom we hope will become next generation social entrepreneurs. Through our efforts we seek to foster the spread of social entrepreneurship as an adaptive process for overcoming instances of market and government failure in the provision of essential products and services—from access to safe water, to quality education, affordable health care, housing, and clean energy access, and from livelihood opportunities, to food security, and thriving communities.

The ingenuity of social entrepreneurs is opening up new pathways for social progress. It is a highly adaptive, self-organizing phenomenon built around more networked and collaborative models of organizing and innovative strategies for market creation. It encompasses a variety of legal forms and new approaches to governance. They also enable access to the wider array of financing alternatives across stages of organizational life cycles.

Consistent with the conceptual foundations of this emergent field (e.g., Austin, Stevenson & Wei-Skillern, 2006), our approach places organization's mission—its social value proposition—at the center of the business planning process. It addresses the social entrepreneurship process systematically and in a more comprehensive and rigorous manner than other business planning frameworks. It encourages social entrepreneurs to think of their organizations as *real businesses* subject to the same scrutiny for the robustness of their plans and competitive position as businesses rated by Gartner—the industry research and advisory company. Gartner rates organizations on the basis of *completeness of vison* and the *ability to execute*—with the "magic quadrant" cell in a 2 x 2 matrix where both of these dimensions are high (Gartner Group, 2016). We will use these broad categories as a framework for summarizing the elements of our model and identifying important distinctions between the logics of social and commercial venture businesses.

A Comprehensive Guide for Building Successful Social Ventures

Completeness of Vision

There are three elements in our paradigm which, taken together, can be used to assess the completeness of a social venture's vision and its logic model for its theory of change:

- Mission, opportunity, and strategy
- Environment analysis
- Target market

Mission, Opportunity, and Strategy (Theory of Change): Social ventures address complex problems and are held accountable for outcomes in settings where resources are scarce and there are multiple sources of potential causality. In these settings we posit that a 10-word mission statement and a tight *resources-activities-outputs-outcomes-impact logic model* is extremely useful in marshalling resources around a shared vision. In numerous instances we've seen how the absence of a clear focus and specific outcome measures dilute resources and undermines organizational effectiveness. A clear theory of change with a disciplined approach to resource alignment is an imperative that distinguishes social from commercial venture business planning. Commercial venture strategies are defined in relation to financial measures such as profits or shareholder value. In contrast, social businesses exist to achieve measurable changes in individual well-being or social progress and *stakeholder* value while, at the same time, becoming financially viable and increasing market penetration relative to the size of unmet needs. Moreover, Castells and Koch (2010) posit "the outcome of the activity of the social enterprise is not only a product, but a process, such as the process of economic empowerment and psychological self-esteem of those involved in the social enterprise."

External Environment: To succeed in their mission social entrepreneurs must understand the environmental conditions that hold an unjust or undesirable situation in place before they can intervene with the hope of creating an equilibrium change (Martin and Osberg, 2007). Martin and Osberg (2015) suggest this requires humility that is grounded in the paradox of *abhorrence* and *appreciation* for the "current state." It requires deep thinking, an understanding of ecosystems, and an appreciation of the needs of actors with influence on desired outcomes. These actors can be sources of resistance or drivers of positive change. They are repositories of local knowledge and gateways to potential resources. As allies and partners they can reduce market frictions, foster value chain innovations for serving previously underserved populations, and lower costs. Our business planning framework places an emphasis on the identification of ideal partners as sources of legitimacy, resource leverage, and means of fostering lasting social change. In contrast to commercial entrepreneurship where *capital* generally refers to financial considerations, in a social business it is *social capital*, or networks of trust, reciprocity, and shared purpose that are essential to embedding lasting change in local contexts. Financial capital is critical, but without social capital money can be burned through very quickly without achieving a sustainable enterprise—let alone significant impact. Conversely, with strong social capital, social entrepreneurs can achieve significant impact with limited financial resources, and create a network of alliances for attracting and effectively utilizing financial resources.

Beneficiary (Market) Analysis: The size of market needs in contexts of extreme poverty is frequently measured in millions, and often hundreds of millions or even billions, but the composition of these markets is typically opaque to outsiders. In our framework the process of creating the blueprint for a successful social venture and validating its business model begins with deep empathy and an appreciation of local market realities. How you sell clean cook stoves in village economies, for example, varies incredibly depending on family dynamics (who manages the money), availability of fuelwood, cooking habits, social dynamics, etc. Social entrepreneurs who develop local models will find they may or may not scale to other geographies with the same need, and often need to be reached through a totally different marketing approach. As with business planning for commercial ventures, discerning the demographic and psychographic attributes of potential early adopters is an essential outcome in target market segmentation. Our framework goes beyond this in the added emphasis it places on distinguishing direct and indirect "customers" as well as related beneficiaries and the motivations of "economic buyers" or "paying" customers. As direct customers the default option for the poor is simply to do without (i.e., non-consumption). Economic exchange in settings of deep poverty is often a precarious proposition. It occurs in the context of trust-based personal relationships among unbanked populations with low literacy levels and low levels of trust in government or outsiders. This requires common elements of a marketing plan (product, price, placement, and promotion) to be reframed as challenges in overcoming market failure. Our business planning paradigm posits that a fruitful approach to creating a sustainable enterprise and engendering transformative change is to develop solutions based on a deep appreciation of the local customs, socio-political structures, and norms that collectively form the basis for resident systems of economic exchange. It underscores the significance of incorporating a more "bottom-up" and participatory approach to market development—a position that contrasts with top-down methods that have dominated the market entry thinking of large companies and government programs for serving the poor.

Ability to Execute

Our paradigm includes specific process for developing three elements in a social venture business plan with direct relationships to the *ability to execute* strategies and achieve organizational goals:

- Operations and value chain innovation
- Organization and human talent
- Business model

Operations and Value Chain Innovation: During our years in leading the Global Social Benefit Incubator the biggest gaps that existed in the knowledge of social entrepreneurs were in the areas of operations. They often had inspiring visions, deep knowledge of the problem they were trying to solve, and an intuitive feel for the markets they sought to serve. This was enough for them to get a pilot social enterprise off the ground, but not enough to make that enterprise sustainable and scalable. It was here where their knowledge and skills tailed off—leaving great leaps of faith to define expense and revenue drivers and how they would actually deliver and capture value to become financially viable. Business models are derivative. They must be grounded in *empirically-based* estimates of the size of markets as well as *realistic estimates* of potential market penetration based on the effectiveness of specific strategies for customer or beneficiary engagement. Market penetration requires value chain innovation in cost reduction and disciplined use of *unit economics* for quantifying units of business and units of benefit for all links in the supply (value) chain in order for the cost per outcome to be known and effectively managed. We've observed that social ventures seldom have chief operations officers. In our view, once key processes and scaling strategies are defined they are often more important to the viability of a social business than CEOs. A solid COO and operations team won't necessarily be able to attract the capital and partnerships to scale rapidly, but if the strategy is sound they can ensure steady organic growth. In the social entrepreneurship world, resources tend to follow great stories and charismatic leaders who can build relationships and mobilize resources. If you look under the hood, however, you will always find strong operations leadership in successful social ventures.

Organization and Human Talent: Social ventures can be distinguished from commercial businesses by the centrality of values associated with resource mobilization. This is especially evident in decisions regarding organizational design—from the choice of legal form and board composition to organization structure. It is also evident in the identification of critical skills at each level of the organization—from the need for complementary skills in executive leadership teams to the specifying of knowledge, skills, and abilities for pivotal front-line jobs. Next to distribution challenges in underdeveloped infrastructure settings the shortage of individuals with critical skills is often the most difficult hurdle to overcome. Successful ventures address this hurdle by developing expertise in hiring for fit with organizational mission and ability to learn, and by formalizing training processes. Moreover, they create an organizational culture that allows mission-aligned employees to reach their highest potential and, in this way, retain talented staff that could earn a better salary elsewhere. Their leaders place a major emphasis on strengthening the organization's capacity for continuous learning and innovation. In the high tech region of Silicon Valley which gave birth to the Global Social Benefit Incubator it is common knowledge that the best technology is a benefit, but doesn't win. In our nine-element business planning framework the consensus of seasoned mentors is straightforward: "Without the right team, none of the other elements of the business plan matter." In addition to insisting on clear evidence of senior leadership strengths, our seasoned Silicon Valley entrepreneurial mentors encourage their social venture mentees to:

- Specify the board expertise needed for members to contribute to success
- Develop a strategic rationale for choice of legal structure (for profit, non-profit, hybrid, etc.)
- Specify organizational risk factors and identify potential gaps in critical skills, and
- Clarify mechanisms for creating an organization culture that can drive extraordinary

results through ordinary people

Business Model: While a business model describes the rationale for how an organization creates, delivers, and captures value (Alex Osterwalder, 2010), there are important distinctions between the rationality of commercial and social ventures. The most notable distinctions stem from social mission and investor priorities. While commercial investors seek to maximize risk-adjusted financial returns, social investors care about a venture's impact model and are willing to make financial return tradeoffs. All of the elements in a business model must evolve around the ability to create and deliver on a compelling value proposition—in the case of a social business, a social value proposition (SVP). The expense drivers associated with SVPs are strongly influenced by activities in logic models designed to produce measurable social outcomes and impact. These activities require resource mobilization through the engagement of stakeholders with a variety of interests in outcomes as opposed to stockholders with a narrow interest in financial returns. In a similar vein, the revenue drivers of social ventures often require major efforts to develop channels and educate direct and indirect customers, or others who stand to benefit from social outcomes.

From our work with social ventures we've concluded that *unit economics*—the revenues and expenses associated with a unit of benefit—have been a missing consideration in social venture plans for growth (scale). Ideally, with increasing volume unit economics become more favorable. This is often not the case as the marginal cost of serving the poorest of the poor may actually increase. There can also be significant tensions for social entrepreneurs between their desire to serve poorer customers and economic or government policy considerations pointing them to less poor customers. For example, one venture we've worked with started out to serve off-grid rural customers and pivoted toward selling to grid-connected households because that's where the government subsidies had moved. Value chain innovation is a critical factor in addressing complex social issues, achieving unit cost reductions, and increasing market penetration. Our nine-element business planning process provides a useful guide for identifying disruptive innovation opportunities and building more inclusive markets.

Entrepreneurial Adaptation

The business planning framework in this book places a major emphasis on the enterprise development and market creation challenges posed by Ted London in *The Base of the Pyramid Promise* (2016) as illustrated in Figure 13.1. In practice, we have found that the business models for adapting to these challenges continuously evolve thorough processes of incremental and discontinuous change. Incremental adjustments occur in periods of the organizational life cycle when ventures are able to exploit desirable equilibria in their internal and external environment. These may be characterized as periods with predictable cycles of value creation, delivery, and capture. They allow business models to be honed to improve efficiency and optimize impact. In contrast, intense periods of organizational learning and business model adaptation are required when critical success factors in operating plans prove to be invalid, essential alliances fail to materialize or falter, the unit economics across innovative value chains are insufficient to incentivize stakeholders, or opportunities and threats in the external environment call fundamental business plan assumptions into question. Periods of discontinuous change in organization strategy and business plans are commonly referred to as pivots. Both Angaza and Husk Power Systems provide excellent examples of entrepreneurial business model adaptation. We describe each of these examples below.

Figure 13.1 Venture Development and Market Creation

	Enterprise Development	Market Creation
Action Enabling	*Facilitate Enterprise Activities* **Market Intelligence** ▪ Cultural context, competitive landscape ▪ Consumer demand, supplier preferences **Market Access** ▪ Connection to distributors, other platforms **Value Creation** ▪ Assess poverty impacts	*Facilitate Market Transactions* **Demand Creation** ▪ Awarness raising, behavior change ▪ Micro-credit, other sources of financing ▪ Vouchers/subsidies **Supply Enhancement** ▪ Advisory services for producers ▪ Improved inputs ▪ Aggregation of outputs
Capacity Building	*Enhance Enterprise Resources* **Financial Capital** ▪ Grants, equity, debt, loan guarantee **Human Capital** ▪ Talent development, technical assistance **Knowledge Capital** ▪ Processes, tools, and frameworks **Social Capital** ▪ Legitimacy, access to networks	*Enhance Market Environment* **Value Chain Infrastructure** ▪ Physical infrastructure development ▪ Quality assurance and certification ▪ Market transparency **Legal Infrastructure** ▪ Policy changes and regulation enforcement **Institutional Infrastructure** ▪ Banking, legal, property sector enhancement

Robust and Evolving Portfolio

Discontinuous Change in the Angaza Business Model

Over 1 billion people who don't have access to grid electricity burn kerosene as a source of light. Angaza's product solution uses solar energy—a cleaner, more reliable, and less expensive energy source. Its original business model was based on a vertically integrated value chain with Angaza designing, manufacturing, and distributing solar products to end user customers. Realizing that these products were prohibitively expensive for those who needed them presented Angaza with an option, according founder and CEO Lesley Marincola, "we could strip out functionality and quality, or we could actually find a way to make these products financially affordable to off-grid consumers" (https://www.youtube.com/watch?v=BM49xEshtFs&index=7&list=PLy9Z_P3t7XMA7618-gDl7CI9UrSSvu7a6). Angaza took inspiration for the diffusion of cell phone technology in Sub-Saharan Africa where, Marincola noted, "in the past ten-years mobile deployment went from no connectivity to where everyone is connected through their mobile phone." The leapfrogging of land lines was made possible by inexpensive handsets and the ability to buy airtime in tiny increments. This enabled Angaza to create a business model where energy could be purchased in the same way as prepaid airtime. Its pay-as-you-go, rent-to-own financing technology overcame the up-front cost hurdle, and its value proposition enabled customers who are spending up to 20% of their income on kerosene to have a free solution once solar payments are finished.

Marincola says "we just realized that if we wanted to impact a hundred million people, a billion people, we needed to transition from a business-to-consumer (B2C) model to a business-to-business (B2B) model and focus directly on designing and developing the pay-as-you-go technology platform" and then offer this software to distributors. In contrast to their B2C model, distributors would then become the channel for getting to customers. This, in turn, empowered the field agents of distributors to earn more money. Marincola believes "pay-as-you-go has completely transformed the off-grid energy industry. There's a whole new market emerging. And it's amazing to see how many jobs have been created from solar distribution. We are growing exponentially. Right now we're working in over 10 countries" (https://www.youtube.com/watch?v=BM49xEshtFs&index=7&list=PLy9Z_P3t7XMA7618-gDl7CI-9UrSSvu7a6).

In addition to its seed round financing of $1.5 million in 2013, Angaza raised $4 million of Series A funding in 2014. The decision to change from a B2C to a B2B business model has enabled it to build a technology platform for addressing needs on a global scale through partner distributors. By 2016 it had 30 such partners. In addition to licensing and royalty revenues from manufacturers, Angaza receives royalties and small transaction fees for each unit of energy sales tracked through its software in distributor energy hubs. These energy hubs produce data analytics for distributors to monitor battery capacity, solar panel efficiency, and payments. Payment data can also be monetized through MFIs and other financial institutions as well as big companies interested in pursuing the markets for their goods among customers with more cash.

In summary, the transition from a B2C to a B2B business model has involved a change in the identification of paying customers; a change in how end user customer needs are met; a change from a vertically integrated to a network value chain; and, significantly different monetization strategies.

Entrepreneurial Adaptation at Husk Power Systems

Husk Power Systems ("HUSK") is a global leader in the de-centralized off-grid rural electrification sector. In 2008, HUSK started its journey with biomass gasification powered mini-grid operations in India and provided 6-8 hours of AC power to rural customers. By 2013, customer feedback indicated that they were not content with only 6-8 hours of power. Customers were showing aspirations to own appliances like TVs, fans and refrigerators and wanted to have access to "on-demand" power. So, in 2013 Husk embarked on a journey to find a new energy solution for providing a reliable 24/7 power 365 days a year. By understanding how rural customers aspired to use power and working relentlessly to address their needs HPS developed an energy solution that gave them the freedom and flexibility they desired.

Between 2008 and 2013 solar PV prices had declined by more than 80%. So, HUSK partnered with U.S. based First Solar Inc., the largest publicly traded solar panel manufacturing company, to develop a proprietary Solar-Biomass Hybrid system. In Oct 2015, it deployed the first hybrid system that could generate 24/7 power by synchronizing solar and biomass gasification power plants. With this innovation, it was able to reduce battery cost and provide 100% renewable and "on-demand" power (24/7) through a smart pre-paid metering system as a "pay-as-you-go" service. In a sense, HUSK had re-positioned itself from a provider of 6-8 hours of bio-mass AC power to a mini-utility. Its solar-biomass hybrid power plants are the lowest cost off grid solution that can deliver 24/7 alternative current (AC) power to households and commercial customers such as welding machine shops, telecom towers, rice and flour mills. By bringing AC power to rural communities HPS provides customers the opportunity to plug in any off-the-shelf appliances like TVs, refrigerators, and industrial machinery.

By January 2017, less than 15 months after deploying its first system, HUSK owned and operated seventy proprietary solar PV–biomass gasification sites in India and five in Tanzania with services to 15,000 customers across 400 villages in India and 200 customers in Tanzania. In addition to providing the lowest cost of delivered energy in the mini-grid sector, its costs are at least 50% cheaper than solar home systems. In addition, it also generates and distributes three phase AC power necessary for commercial customers and has the ability to set differential tariffs for residential and commercial customers as well as time of the day discounts for daytime energy consumption.

HUSK's analysis of the off-grid sector indicates that micro-grids solutions have significant economic advantages over grid extensions for serving villages of less than 300 customers at distances greater than 7 km from national grids. Even in developed countries, like the United States and Germany there is a proliferation of decentralized power generation. In India and Tanzania, HUSK has a chance to leapfrog grid extension solutions and provide 24/7, highly reliable and renewable power to villages in the most sustainable and economical way. This is very similar to telecom revolution in India and Africa a few decades ago wherein landline connection extension was not used to connect everyone. Instead, cell phone technology enabled more than 90% of people to have a reliable phone and data connectivity. In this context, the Husk Solar-Biomass-Battery option is approximately 33% cheaper than Solar-Diesel-Battery mini-grids.

"We bring good things to life" was the jingle for a post-WWII General Electric commercial. So it is in developing countries today—when people have power, incredible things happen. Studies show that access to reliable energy promotes economic activity and improves the human development index across a variety of areas—from education and food safety to more productive livelihoods. Making this possible in every village is at the heart of everything HUSK does. It pro-actively works with its customers to promote productive uses of power for commercial activities that provide economic possibilities in rural areas—from opening of appliance shops, to lathe machine shops, restaurants selling cold drinks, etc.

In summary, the transition from a business model based on bio-mass mini-grids to a business model based on proprietary solar-biomass hybrid mini-grids has involved a change in how end user customer needs are met; the development of a partnership with First Solar to offer an integrated 24/7 solution; and, a significantly different monetization strategy through a pay-as-you go service. Looking back over the HUSK Board Chairman Brad Mattson quotes Darwin, "It is NOT the fastest, strongest, or even smartest species that survive; it is the one most quickly to adapt." He adds, "The first business model you develop may not work—adapt!"

Metrics, Accountability in Operating Plans, and Financing

> *Social entrepreneurship is a specific form of entrepreneurship because it relies on specific capital, specific labor, specific knowledge, and specific processes of production. Furthermore, when we consider the societal dimension of entrepreneurship (introducing values such as environmental preservation and social justice), social entrepreneurship is also specific in its outcome.*
> Manuel Castells and James Koch, *On Analyzing Social Entrepreneurship: A Methodological Note*, (May 2010, Santa Clara University)

Metrics: The problems that social ventures seek to solve are complex and often growing in scale. If there were easy solutions they would have already been implemented and the problems would no longer exist. In contrast, the proximate relationship of bottom-up innovation to the problems that social entrepreneurs are addressing can facilitate organizational learning and the potential for breakthrough solutions. Our paradigm utilizes a balanced scorecard framework to strengthen accountability for continuous improvement and innovation. It stresses the importance of identifying "owners" with accountability for each of the following metrics:

1. Financial Performance
2. Key processes
3. Organization and foundational capabilities
4. Customer/beneficiary outcomes

Effective operating routines incorporate metrics in each of these areas to control variances in performance, for real-time entrepreneurial adaptation in strategy execution and, in some instances, to identify when strategic pivots are needed.

Operating Plans: As with "metrics" the "operating plan" element was added to our business planning paradigm after several years of work with social entrepreneurs. In this instance our realization that resourcing for strategic initiatives was often poorly integrated with operating budgets and organizational accountabilities was the impetus for this additional element. In our paradigm an operating plan translates strategic initiatives in the business plan into *milestones* with associated actions for achieving program specifications, resource requirements, due dates, and "owners." Most importantly, operating plans specify a *budget* that combines strategic initiative funding needs with the monthly income and expense targets from ongoing operations. This enables the organization to develop a *cash flow* statement that clarifies the financial viability of operating plans. In our paradigm operating plans are an essential management tool used to focus the enterprise and match resources with specific plans, as well as to track progress and do "course corrections" if needed. Moreover, they are a mechanism to hold people accountable for performance.

Financing: To grow a social venture and its impact requires financing, often at multiple times. Drawing on *cash flow* statements in Operating Plans this element of our paradigm enables social entrepreneurs to specify the amount and timing of funding needs. It also clarifies alternative types of funding and their appropriateness for various stages of the organizational life cycle (e.g., grants for R&D or product and service innovation, debt for working capital or to finance customers, and equity for building the organization and management team as well as systems for scaling). In addition, the financing element of our paradigm identifies important factors in due diligence and criteria that can be used in valuation—or determining the value of a social business to investors. At a practical level, our financing guidelines for social entrepreneurs incorporate templates for investor presentations and investment profiles. While recognizing that overcoming institutional level barriers to mainstream financial markets and institutions remains a work in progress, our focus is on building ventures that can meet the criteria for accessing the growing availability of *impact financing.* This investment capital is being provided by a different calculus than the one prevailing in financial markets or financial institutions. It supports economic empowerment, efforts to extend production and market creation to poor communities, and includes certain values (e.g., environmental preservation) in the criteria for funded economic activity. For these social impact markets to flourish ventures must be sustainable in financial terms and provide evidence of pathways to replication.

Overcoming Market Failure

As Figure 13.1 above suggests, creating solutions to complex problems in diverse local cultures is likely to meet with extremely limited success without deep local connections. The original C. K. Prahalad thesis posited that leadership in addressing the unmet needs of the 4 billion people at the base of the economic pyramid would be driven by the enlightened self-interest of major companies that could leverage vast resources to create more inclusive markets. In *The Base of the Pyramid Promise—Building Businesses with Impact and Scale (2016)*, Ted London acknowledges the flaws in top-down approaches to creating BoP markets. His prescription for developing scalable BoP businesses offers an insightful conceptual framework for co-creating, innovating, and embedding solutions to poverty in local communities. To overcome market failure he posits that ecosystem partnerships must be developed across a broad web of stakeholders—from multi-national and host country companies to impact investors, non-profit organizations (NGOs), development agencies, governments, and community leaders. In addition to collaborative interdependence, his framework places a major emphasis on assessing impact on poverty alleviation as a feedback loop to accelerate learning.

Our book aligns well with Ted London's thesis regarding the inherent strengths of bottom-up innovation as well as the importance of eco-systems to the sustainability and scaling up of solutions. The concepts and exercises in our paradigm provide a practical guide for social entrepreneurs to use in generating a comprehensive business plan for their venture. Each of the nine elements in our plan includes a minimum critical specifications checklist for assessing that element's contribution to building a social business that can become sustainable at scale. While our approach has been validated as a robust framework for business planning by over 600 ventures from more than sixty countries, as in any complex endeavor there is much more to learn. Addressing complex or intractable problems cautions humility. We encourage others to adapt our framework to their unique needs, to improve upon it, and to share their learning with us and others. This is a *guide* and not a *prescription*. As entrepreneurs ourselves, we are inspired by the incomplete nature of this work. Our experience with organizations like Angaza and HUSK indicates that resilience and entrepreneurial adaptation are essential in building successful social ventures.

Combinatorial Innovation

Combinatorial Innovation consists in (knowing) what is likely not to work, what methods to use, whom to talk to, what theories to look to, and above all of how to manipulate phenomena that may be freshly discovered and poorly understood.

Brian Arthur (2009)

Both the concepts and exercises in our approach to business planning and the emphasis of our paradigm on social change have been strongly influenced by work with hundreds of social entrepreneurs in the laboratory-like atmosphere of the Global Social Benefit Incubator (GSBI) at Santa Clara University. Through this "laboratory" we have learned from social entrepreneurs—more than we have taught. From the collective intelligence of seasoned Silicon Valley mentors—the "secret sauce" in the GSBI accelerator we have honed the insights in this book. As the above quote from Brian Arthur suggest these mentors practice "deep craft," knowing intimately the various functionalities of a successful venture and how to effectively combine them.

In *Getting Beyond Better—How Social Entrepreneurship Works* Roger Martin and Sally Osberg (2015) describe the following four stage process to illuminate how social entrepreneurs architect lasting solutions to complex problems:

- Understanding our world
- Envisioning a better future
- Building a model for change
- Scaling the solution

Understanding our world in this instance requires deep thinking and the willingness to embrace the paradox of *abhorrence* and *appreciation*. To make the world a better place, you must first appreciate the forces that hold an undesirable or unjust situation in place. Acts of *appre-*

ciation involve the ability to perceive and value issues on their own terms, and from a systems perspective, at the same time as you may *abhor* the current reality and strive to change it. Social entrepreneurs also live with the paradox of being both *expert* and *apprentice*—while they bring specialized expertise to a complex social issue, the gaps in their knowledge and the capabilities needed for systems change are, in every instance, huge. This entails living with yet another paradox—the need to *experiment* and the need to *commit*. The modularity of our paradigm separates the process of analyzing complex issues, people, and environments from business model generation. We believe this is critical to accommodating the tensions associated with paradox in social entrepreneurship and fostering the deep thinking required to develop a compelling vision.

Envisioning a better future for Martin and Osberg entails having a clear idea of what you seek to achieve; understanding how dynamics of a system will change; and, being clear about who will benefit. The three elements which comprise *completeness of vision* in our business planning paradigm—mission, opportunity and strategy; environment analysis; and, target market—address these systems factors. Taken together these elements call for an explicit mission with a specific measure of social impact in a specific environment and with needs of direct and indirect beneficiaries clearly specified.

Building a model for change can be viewed as either a conceptual or operational task. In our paradigm it is both. Martin and Osberg place a major emphasis on the *value equation* and, implicitly, on business models with a particular emphasis on disruptive innovations that increase value with no increase in cost or significantly reduce cost with no tradeoffs in value. Similarly, the concepts and practical exercises in our paradigm place a major emphasis on *value chain innovation*.

Scaling the solution is the logical fourth stage in Martin and Osberg's framework for creating large scale systems change. They suggest a variety of conceptual mechanisms for scaling—from the opportunity to capture declining unit costs through economies of scale, to leveraging key actors; the use of open models and methodologies of discovery; and, opportunities to expand impact by inviting imitation. In our paradigm, we take the concept of scaling a few steps further through exercises for specifying revenue and expense drivers in business models that are derived from an analysis of the activities and processes called for in theories of change. We also address the critical roles of governance, leadership teams (having the right people on the bus), staffing and other resource requirements, as well as the nitty gritty details of understanding cash flow and financing requirements.

As with Ted London's *The Base of the Pyramid Promise*, our book—*Building Successful Social Ventures: A Guide for Social Entrepreneurs* appears to be a complementary handbook or guide for readers of Martin and Osberg's *Getting Beyond Better—How Social Entrepreneurship Works* (2015). For those who wish to develop a sustainable and scalable social venture neither London nor Martin and Osberg offer a robust business planning process for practitioners. Hopefully, *Building Successful Social Ventures* can fill the need for such a guide.

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