



Putting your money where your mission is

Toolkit for social enterprise models
that combine profit and impact

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Opening thoughts

It was in my first Director role that I was challenged to make my big ideas practical.

I was in yet another intense discussion with my CEO, debating the detail of the strategy I was presenting to the Board. I had a well-researched three year plan that I was confident would transform the organisation. He said I needed to scale it back to be more realistic. Neither of us wanted to budge.

He sighed (clearly at his limit of consultation on the topic), and said, “you’re just too idealistic”.

I took that as both a badge of honour and a personal challenge. I set out not to prove him wrong, but to prove him right.

I will always be an idealist. Of course, the problem with idealists is that they don’t always know how to translate their big ideas into the real world.

My big idea, and my greatest hope, is that we can build a global economy that puts purpose before profit. Where profit is the means to the end, not the end in itself. And that by putting purpose before profit, we can create a fairer society for everyone. Where the environment is protected and no one has to choose between putting food on the table or turning on their heating.

It was during my MBA studies, where I was continually confronted with the suggestion that the only goal of business was to make profit, that I set myself the challenge of finding out how to achieve the dual goals of purpose and profit *in practice*. I wanted to know how to make social enterprise models work in reality. This toolkit is the result of my research so far.

Just maybe, introducing more social enterprise models into the capitalist system may save the system altogether. It might give us the frameworks and inspiration for addressing the overwhelming global concerns that still remain outside traditional business thinking.

I will never give up on the belief that we can create an economy that values more than GDP. I will spend the rest of my career working towards it.

The more social enterprise models in operation, and the more social enterprise models operating effectively, the closer we’ll get to creating an economy that doesn’t only create profit, but builds a fairer and more just world.

For all of us.

Tara Anderson - The Dragonfly Collective, Co-Founder & Director

Executive summary

There is growing consensus that businesses must have a purpose beyond just profit. Similarly, there is growing interest from the charity sector in generating income beyond traditional fundraising and grants.

We need a mash-up. Organisations with the heart of a charity and the head of a corporate. Organisations that deliver profit and purpose at the same time. Organisations known as social enterprises.

There are already thousands of social enterprises around the world. To understand what makes them work, we need to go right to the heart of strategy – to business model design.

This toolkit explores how to build a social enterprise model in practice. It's for the leaders of businesses that want to build purpose into their work, the leaders of charities that want to generate more sustainable sources of income, and the leaders of social enterprises that want to extend or strengthen their model.

It is based on the social enterprise toolkit developed in collaboration with Cass Business School in London. It draws on a review of 92 international journal articles on social enterprise models, and interviews with 18 leaders of social enterprise peak bodies in the UK that collectively support over ten thousand social enterprises.

The toolkit is structured in five parts:

- The context and drivers for social enterprise models.
- An introduction and outline of social enterprise models.
- An overview of the unique complexities in social enterprise models.
- The 16 social enterprise model types.
- The seven step social enterprise model toolkit:
 - Step one: what social impact will you create for which beneficiaries?
 - Step two: who are your customers and what do they want?
 - Step three: what products and services will you offer?
 - Step four: which social enterprise models are best for you?
 - Step five: how will you finance the model?
 - Step six: what is your operating model?
 - Step seven: is your product/service portfolio balanced?

The toolkit can be used to refresh an existing business model portfolio, or design new social enterprise models from scratch. It is hoped it will not only help strengthen existing social enterprise models, but influence the traditional charity and corporate sectors to consider using a social enterprise model for some of their products and services.

The more social enterprise models in operation, and the more social enterprise models operating effectively, the closer we'll get to creating an economy that doesn't only create profit, but also builds a fairer and more just world.

Introduction: why care about social enterprise models?

While globally there has been massive improvement in human wellbeing the last 200 years, we are still facing environmental crisis and too many people around the world still live in poverty. We can do better.

When the likes of the Economist and the Financial Times start running headlines including ‘How Capitalism is Damaging Democracy’ (Wolf, 2019) and ‘Capitalism Needs Saving From Itself’ (Tett, 2019), then call for a ‘rethink of capitalism’ (Jenkins, 2019), it’s clear there’s a major shift going on.

Just last August 180 of the world’s biggest companies ‘overturned three decades of orthodoxy’ to pledge that their firms’ purpose was no longer to serve their owners alone, but customers, suppliers and communities too (The Economist, 2019). This is ‘a big, transitional moment’ (Henderson, 2018) where the conversation about ethical and sustainable business is shifting from ‘why’ to ‘how’.

Companies are now ‘expected’ to invest in issues that matter to their employees, customers and communities (McPherson, 2018). The number of companies directing their CSR activities from the C-Suite has increased nearly 75 percent compared to five years ago (McPherson, 2018). More than half of global asset owners are currently implementing or evaluating environmental, social and governance (ESG) considerations in their investment strategy (Eccles and Klimenko, 2019). Many big corporations are acquiring social enterprises¹ in the belief that products with a high ‘social content’ are becoming a key feature of the future marketplace (Austin and Leonard, 2008).

Similarly, there is a shift in the charity sector towards more sustainable sources of income. Reliance on grants and fundraising has been the bread and butter of most charities for decades. The charity sector has tended to shun more ‘commercial’ methods of generating income to fund their work. But more are now looking to explore ways to generate earned income streams.

As the Financial Times stated, ‘this is certainly a moment’. But the key question is, what comes next?

The answer lies in the grey space in between the two sides of the ideological argument – the corporate capitalist model and the traditional charity model. It’s both/and. And it’s called social enterprise.

This toolkit is for executive teams wanting to work in the grey space in between the charity and corporate worlds. Taking principles from each and creating a mash-up – a profitable business that delivers social impact.

¹ For example, Unilever’s purchase of Ben and Jerry’s, Colgate’s acquisition of Tom’s of Maine, Danone’s purchase of Stonyfield Farm Yoghurt, Schweppes’ purchase of Green and Black, and Coca-Cola’s acquisition of Innocent.

Why we need to talk about social enterprise models

If you're a leader who wants to deliver both profit and social impact simultaneously, what do you actually *do* in practice?

Lots of new ideas are starting to emerge about what type of organisations and what type of leadership is needed. Doughnut Economics tells us about seven 'ways to think' to build a new economy². Conscious Capitalism gives us four 'tenants' that businesses should adopt to become 'conscious capitalists'³. A Blueprint for Better Business has developed five 'principles' of a purpose-driven business⁴.

There are also different theories about the type of leadership and culture needed for purpose organisations. Everything from the seven transformations of leadership (Rooke & Torbert, 2005)⁵, to 'teal organisations' that operate as 'living organisms' (Laloux, 2014)⁶, to the 'management shift' towards leadership that focusses on people, purpose and knowledge sharing (Hulpic, 2014).

Each of these models talks about the need to put purpose before profit. And they're all needed. But to answer the question of how to achieve profit and purpose, we

² The 7 ways to think like a 21st century economist are:

1. Change the goal - from GDP to the Doughnut (a system that supports people within the means of the planet).
2. See the big picture - from a self-contained market to an embedded economy.
3. Nurture human nature - from rational economic man to social adaptable humans.
4. Get savvy with systems - from mechanical equilibrium to dynamic complexity.
5. Design to distribute - from 'growth will even it up again' to distributive by design.
6. Create to regenerate - from 'growth will clean it up again' to regenerative by design.
7. Be agnostic about growth - from growth addicted to growth agnostic.

See: <https://www.kateraworth.com/doughnut/>

³ The four tenants of conscious capitalism are:

1. Conscious leadership – leaders that inspire loyalty and performance.
2. Stakeholder orientation – take *all* stakeholders into account.
3. Conscious culture – a values-based culture.
4. Higher purpose – be in business to do more than make money.

See: <https://www.consciouscapitalism.org>

⁴ The five principles of a purpose-driven business are:

1. Have a purpose that delivers long-term sustainable performance.
2. Be honest and fair with customers and suppliers.
3. Be a good citizen.
4. Be a responsible and responsive employer.
5. Be a guardian for future generations.

See: <http://www.blueprintforbusiness.org/principles/>

⁵ The seven transformations move from the 'opportunist' leader that wants to win at any cost, to the 'alchemist' leader that leads society wide change.

⁶ This theory suggests that humanity is at a threshold, and a new form of organisation along an evolutionary spectrum, toward self-management, wholeness, and a deeper sense of purpose. The model has five levels, moving from red 'wolf pack' organisation, through to a teal 'living organism' organisation.

need to go one step further – right to the heart of strategy. We need to look at business model design.

Porter (1996) told us that the essence of strategy is choosing a unique and valuable position rooted in systems of activities that are difficult to match. It's the business model that answers the question of 'how?'. The business model is the architecture that drives (and sustains) all business activity.

So what kind of business models deliver both profit and purpose? That's where *social enterprise* models come in. Social enterprise models blend the commercial logic of the corporate sector with the social impact logic of the third sector. They are the practical vehicle for building an organisation that can deliver both profit and purpose.

Social enterprises face unique challenges and tensions, that arguably make strategy and business model development more complex (Dees, 2012; Yunas et. al., 2010) – in particular the tension between financial and social objectives. Yet while the complexities are greater, there is an absence of 'ready-to-wear' business models for reconciling tensions between social and commercial goals (Evans et al., 2017; Loorbach and Wijsman, 2013; Van Bommel, 2018; Giudici et. al, 2018; Davies and Chambers, 2018; Hahn et. al., 2018).

Developing the right business model and implementing it effectively is fundamental for social enterprises to deliver their mission sustainably (Zahra et. al., 2009). A business model is the 'lynch pin between strategy and operational activities' (Rauter et al., 2017) and is crucial in establishing the financial sustainability of an organisation and delivering social impact (Dohrmann et. al., 2015; Bocken et. al., 2016). Selecting the right business model is critical to ensure that neither the social or financial objectives are compromised (Giudici et. al., 2018).

The research behind this toolkit

Social enterprise model theory is in its infancy (Dentchev, et. al., 2018; Wolfgang et. al. 2015). There is limited research into the financing structures behind social enterprise models (Dohrmann et. al., 2015), and even less research on the interplay between a theory of change and profit generation.

The analysis in this toolkit is based on a literature review and interviews with the leaders of UK peak bodies:

- Literature review of 92 journal articles and reports on social enterprise models.
- Interviews with 18 leaders in the nine leading social enterprise peak bodies operating in the community sector in the UK (anonymised using the coding system below). These peak bodies collectively support over 10,000 social enterprises across the UK.

Table 1 - list of organisations interviewed

	Turnover (last full set of accounts)	Profit/loss (last full set of accounts)	Members	Staff	Years in operation	Coverage
Groundwork	£94m	£136,000	18 federations	50	34 years	UK
National Council for Voluntary Organisations (NCVO)	£8.4m	£132,000	14,000	95	100 years	England
Locality	£6.1m	£96,000	720	50	100 years	England
Co-operatives UK	£3.2m	£55,000	770	38	149 years	UK
Action with Communities in Rural England (ACRE)	£2.2m	(£27,000)	38	6	22 years	England
Plunkett Foundation	£1.6m	£133,000	300	15	100 years	UK
Social Enterprise UK (SEUK)	£1.5m	£65,000	2,500	20	17 years	UK
Semble	£0.95m	£80,000	3,500 (groups) 14,000 (individuals)	16	7 years	UK
National Association for Voluntary and Community Action (NACVA)	£0.2m	(£237,000)	180	5	28 years	England

Table 2 - list of interviewees

Interviewee code	Role
Interview 1	CEO
Interview 2	Head of Marketing and Development
Interview 3	CEO
Interview 4	CEO
Interview 5	Business and Communications Lead
Interview 6	Head of Services
Interview 7	Director of Enterprise
Interview 8	CEO
Interview 9	CEO
Interview 10	Head of Enterprise
Interview 11	Head of Services
Interview 12	Director of Finance
Interview 13	Head of Services
Interview 14	Director of Development
Interview 15	Director of Services
Interview 16	Head of Policy
Interview 17	Board Chair
Interview 18	Treasurer

The space between the corporate and charity worlds: social enterprise models

“How wonderful that we have met with a paradox. Now we have some hope of making progress”.

- Danish physicist Niels Bohr (Van Bommel, 2018)

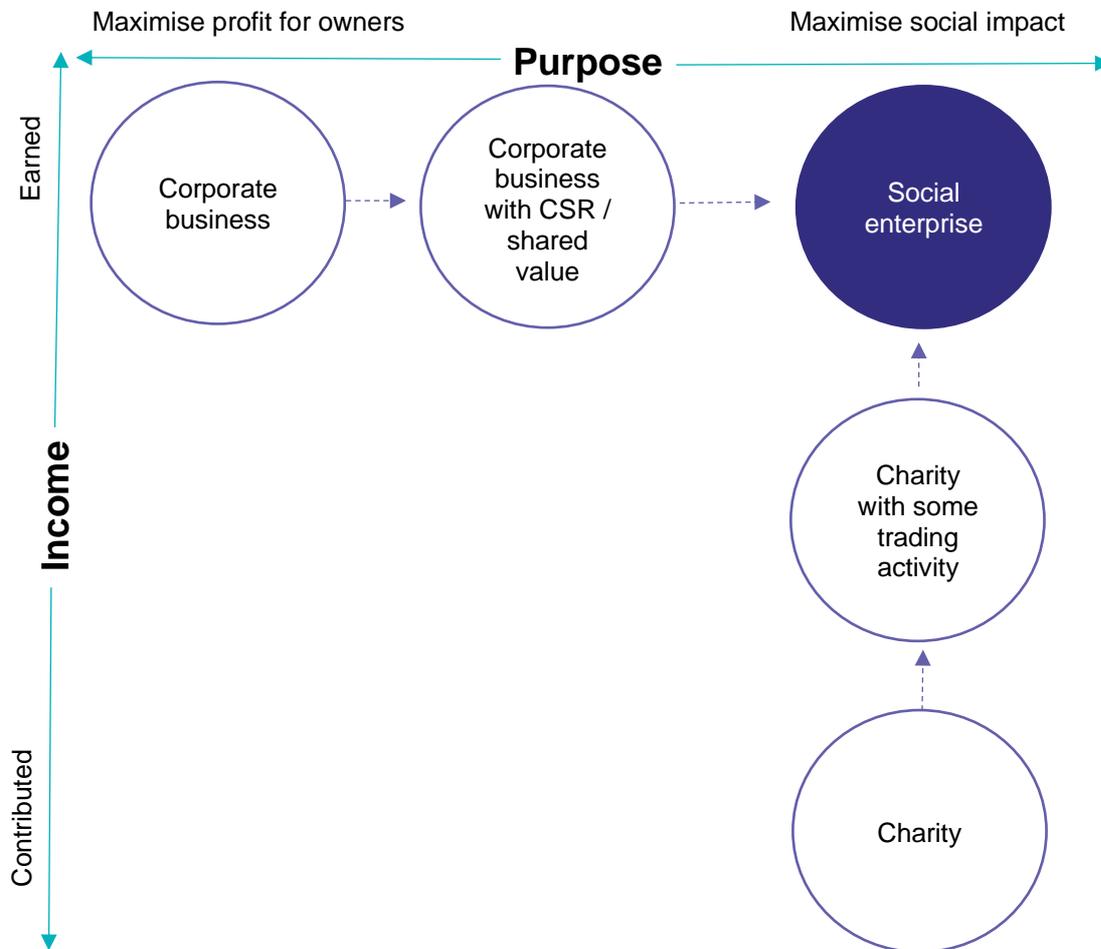
What is a social enterprise? A shift from making profit the mission to making the (social) mission profitable

Traditionally there were three sectors in society: the private sector, the government sector and the third sector (also known as the charity sector, non-profit sector or NGO sector). However, there is a new sector emerging, which some have called the ‘fourth sector’ (Fourth Sector, 2019), for a new breed of ‘social enterprises’ that sit at the interface of economic markets and civil societies.

Social enterprises seek to ‘re-embed the social into the economic’ (Banerjee, 2014) by consciously cross-breeding the previously incompatible profit-making logic of the private sector with the social impact logic of the third sector (Dohrmann et. al., 2015; Hockerts, 2015). While they need to apply a market rationale to obtain resources, a social rationale is needed to realise their mission (Jäger, 2010). The model deliberately harnesses market dynamics, but only in order to address deeply rooted social issues (Wilson and Post, 2013; Austin et. al. 2006; Hahn et. al., 2018). They ‘creatively synthesise competing paradigms (economic and social purpose)’ (Wilson and Post, 2013) and are often referred to as ‘hybrids’ (Fernando and Mario, 2017) or ‘uncomfortable hybrids’ (Stott, 2007).

They operate both within and between three spheres: civil society, markets and the state. Surpluses are paid to beneficiaries, not shareholders, by reinvesting profit into the business. These are businesses that combine a high proportion of earned income (rather than grants) with a high social benefit (fiduciary duty is tied to social impact). In other words, social enterprises are a no-loss, no-dividend, self-sustaining company that sell goods or services and repay investments to owners, but whose primary purpose is to serve society (Yunus et. al., 2010).

Figure 1 - the place of social enterprises in the economy



Adapted from fourthsector.org

Some have suggested that the historical division between ‘social’ and ‘non-social’ business and ‘purpose’ vs. ‘profits’ is artificial and antiquated, because ‘shared value’⁷ has unified this ‘false choice’ (Mills-Scofield, 2013). However, a key distinction remains – their strategic intent. Rather than making profit the mission, social enterprises seek to make the mission profitable. They have a clear intentionality around a social purpose (Wilson and Post, 2011). For social enterprise, profitability is an enabler for social impact, whereas for corporate businesses social impact (if any) is an enabler of profit. This fundamentally impacts the way strategic choices are made, and business models are designed.

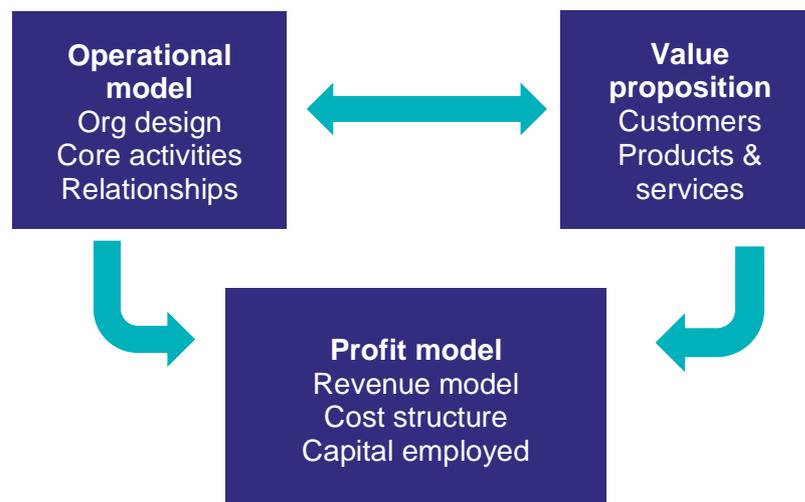
⁷ Shared value is defined as policies and practices that enhance the competitiveness of companies while improving social and environmental conditions in the regions where they operate. It focusses on the value chain and the possible negative externalities (e.g., misuse of natural resources, pollution, waste creation) and seeks to generate win-win scenarios where negative externalities are minimised and/or positive externalities are generated in a way that intersects with company objectives and enhances profitability (Porter and Kramer, 2011).

Traditional corporate business models – the road well-travelled

‘The essence of strategy is choosing a unique and valuable position rooted in systems of activities that are difficult to match’ (Porter, 1996). It is the business model that enables successful delivery of strategy as the system that ‘solves the problem of identifying who is (or are) the customer(s), engaging with their needs, delivering satisfaction and monetising the value’ (Baden-Fuller and Haefliger, 2013).

A business model is ‘the manner by which the business delivers value to customers, entices customers to pay for value, and converts those payments to profit’ (Teece, 2010). In other words, it’s how a business creates, delivers and captures value (Zott et al., 2011; Richardson, 2008). Three elements are usually present: the product/service offered to customers (value proposition), the way the company is organised to deliver this product and service to its customers (operational model), and the revenue model to generate a profit (profit model) (Yunus et. al., 2010; Bocken et. al., 2014). The business model is the architecture linking these three elements (Foss & Saebi, 2016).

Figure 2 - the components of a corporate business model



Adapted from Yunas et. al. 2010

Corporate business models are designed around a commercial capitalist market logic of customer-driven market exchange, dominated by financial value creation and shareholder-driven profit maximisation (Laasch, 2018). A corporate business model is the ‘money earning logic of the business’ driven by cost-benefit considerations and the need to acquire and defend (Laasch, 2018). The only bottom line that matters is profit (Yunus et. al., 2010).

In order to generate profit from customers, corporate business models are led by a ‘deep truth’ about the fundamental needs of customers and how competitors are or are not satisfying those needs (Teece, 2010). A successful corporate business model must be honed to meet particular customer needs and be non-imitable in certain respects by being hard to replicate, or unpalatable for competitors to

replicate. It involves sensing, seizing, and reconfiguring skills that the business needs to stay in synch with changing markets (Teece, 2010).

There are four basic business model types that explain the different ways that value is created and captured at the interface with the customer (Business Model Zoo, 2019; Baden-Fuller et. al., 2017):

- **Product model:** a standardised product or service sold to customers. The value proposition is transactional, and the ‘use value’ occurs after purchase.
- **Solutions model:** a customised solution developed with a customer. The value proposition is relational and the ‘use value’ is co-created.
- **Matchmaking model:** brokerage that connects buyers and sellers in a marketplace. The value proposition is transactional. Value is created by reducing the search effort for buyers and offering an immediate marketplace to sellers.
- **Multi-sided model:** brokerage, with three parties involved. The firm establishes a set of relationships between previously disconnected but complementary customers. The beneficiary group that receives a set of products or services at below cost that is paid for by the customer group who gains from the consumption of the beneficiary group. The mechanism connecting the two groups is central to this model.

However, when shareholder value maximisation is foregrounded, and a business ‘can do good only to help itself do well, there is a profound limit on just how much good it can do’ (Bakan, 2004). To generate the level of social value required to solve our biggest social challenges, a different type of business model is required.

The road less travelled: social enterprise models

‘Any fool can make money if you don’t care about values or ethics.’

- Interview 7

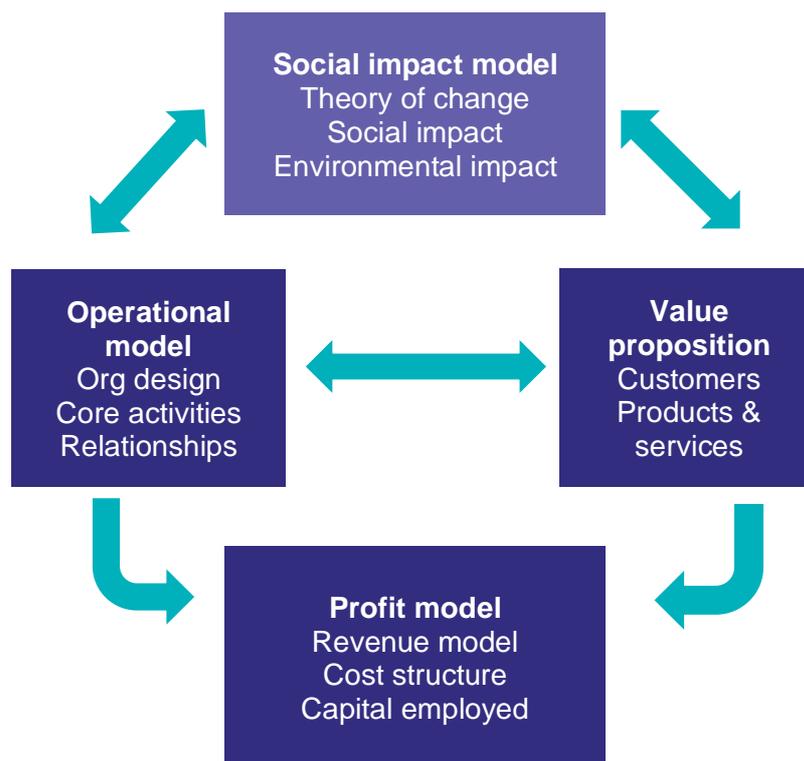
Social enterprise models have a fundamentally different starting point to their corporate business model cousins. Rather than a focus on the *customer* to generate profit and maximise value for the business owners, they have a clear intentionality around a social purpose for a *beneficiary*. They seek to generate value outside the business rather than capture it internally (Wilson and Post, 2013; Santos et. al., 2015; Fernando and Mario, 2017; Dentchev et. al., 2018; Laasch, 2018; Emerson, 2003).

Rather than the purpose of strategy being to create and sustain competitive advantage (in order to make higher profits), the primary purpose of strategy for a social enterprise is to deliver social impact (Davies and Chambers, 2018; Hahn et. al., 2018). The social mission is embedded right across the businesses into production processes, products, culture, and relationships with employees, suppliers and customers (Austin and Leonard, 2008).

Social enterprise models have four components. The first three are the same as for corporate businesses: a value proposition for customers; an operational model that describes activities and organisational design; and, a profit model that describes how profit is generated. However, unlike corporate businesses, social enterprise models include a 'social impact model' which describes how social impact is generated for beneficiaries.

In order to deliver the social impact model, social enterprises commonly utilise a tool not found in the corporate sector: a theory of change (a logic map explaining the causal links between an organisation's activities and its social impact)⁸.

Figure 3 - the components of a social enterprise model



Adapted from Yunas et. al. 2010

⁸ A theory of change is a causal framework that articulates the links between a social enterprise' long-term goals (outcomes) and the activities that will generate those outcomes. Each activity is tied to an outcome in the causal framework, revealing the often complex web of activity required to bring about change. The framework provides a working model against which to test hypotheses and assumptions about what actions will best produce the outcomes in the model (Clark and Taplin, 2012).

While some suggest there are more similarities than differences between ‘social’ and ‘corporate’ businesses (Weis, 2015; Grassl, 2012), others suggest that social enterprises stretch beyond the ‘typical business model ontology’ (Dentchev et. al., 2018) and that the inherent tensions in social enterprises mean corporate models cannot be applied (Jäger, 2010).

While the commercial logic of a corporate business model places the customer at the centre, in order to capture as much *economic value* for the company owners as possible (Laasch, 2018), for a social enterprise the beneficiary is at the centre in order to create (but not capture) as much *social value* as possible. This creates clear differences in the business model elements for social enterprises: the value proposition must be designed for both beneficiaries and customers; value creation must include both social and economic value; and the value capture mechanism must create social value firstly (not captured internally) and economic value secondly only as a means to the end (Laasch, 2018).

These differences lead to inherently greater complexity in social enterprise governance, operations, management, stakeholder management and strategic decision making (Alter, 2006; Weerawardena et al., 2010; Davies and Chambers, 2018) and impact on all aspects of strategy development and management (Stott, 2007).

Some believe that social enterprise is doomed to fail for a range of reasons. Firstly, a departure from shareholder wealth creation will jeopardise the achievement of scale (Garrette and Karnani, 2010). Secondly, because social enterprises reinvest profit, they can’t generate (significant enough) equity funding through shares⁹ (Agafonow and Donaldson, 2015). Thirdly, that reinvesting profits in the business creates a cultural bias against profits (Dees and Anderson, 2003). Fourthly, that strategic actions to resolve the tensions in the social enterprise model are more limited than traditional business (Sandeep et. al., 2015). Finally, it takes too much effort to integrate the different forms of value capture (social and economic) (Baumgartner and Ebner, 2010).

However, others argue that it is the very tensions in the social enterprises model that can generate a ‘fountain of innovation’ (Fernando and Mario, 2017) where the social mission itself becomes the source of business model innovation (Giudici et. al., 2018; Yunas et. al., 2010; Hahn et. al., 2018; Wilson and Post, 2013).

The juxtaposition of conflicting demands between social impact and profit can create a ‘discretionary space’ for innovation beyond existing institutional arrangements (Laasch, 2018; Tracey et al, 2011) through an ‘invitation to act in novel ways’ (Smith et. al., 2013) and modify the rules of the competitive game in an industry (Yunas et. al., 2010). Traditional strategy assumes that to generate competitive advantages, businesses need to bundle and leverage complementary resources, whereas social enterprise models employ the ‘dynamic capability’ of ‘deliberate resource misfit’ (Hockerts, 2015) by combining assets that are antagonistic to a traditional business strategy (Fernando and Mario, 2017).

⁹ This of course ignores the emerging Community Shares model – see <http://communityshares.org.uk>.

Social enterprise models must generate new sources of profit by finding novel value proposition/value creation combinations and creating unfamiliar combinations of activities (Yunus et. al., 2010; Fernando and Mario, 2017). These value propositions are so new and different that they resemble business model innovation (Yunus et. al., 2010; Evans et al., 2017; Schaltegger et al., 2012). This innovation requires re-conceptualising the purpose of the business and the value creation logic, and rethinking perceptions of value (Bocken et al. 2014; Laasch, 2018) ranging from incremental change, to parallel business models to entirely new approaches (Khanagha, Volberda & Oshri, 2014).

Why social enterprise is more complex

In many ways, social enterprises are more complicated to run than traditional corporate businesses.

Tensions & trade-offs: the paradox in social enterprise that requires a different approach

As a result of their nature as hybrid organisations, social enterprises face a range of inherent tensions that make business model design complicated. The tensions are summarised in Table 3 below, and described in detail in the following section.

Table 3 - social enterprise tensions and trade-offs

Tension	What it means in practice
Mission versus money	All decisions must be weighed according to two goals (profit and social impact) that are often conflicting.
Customers versus beneficiaries	Social enterprises are committed to supporting their beneficiary group, and can't simply switch to more profitable markets.
Social impact metrics versus profitability metrics	Social enterprises must measure <i>total</i> value including the social impact generated (not just the more straightforward financial metrics).
The broad social portfolio versus the deep social portfolio	Social enterprises must make tough choices about how to distribute services amongst different beneficiary groups that may all need support.
Stakeholders with social priorities versus stakeholders with commercial priorities	Marketing messages and the value proposition must be manipulated depending on the audience.
Competitors versus partners	Social enterprises with a shared vision should never stop their competitors from succeeding.
A profit driven culture versus a social mission culture	A balance between commercial and social priorities must be struck in decisions about who to hire, organisational legal structure and culture.
Short-term versus long-term thinking	One eye must be kept on long-term social impact (potentially decades), while the other must be kept on short-term financial sustainability.
Small and local versus big and global	Social enterprises must understand when growth and scale will threaten social impact, and avoid growth if necessary.
Personal goals versus organisational goals	Social enterprise executives must keep any personal motivations or personal connection to their cause in check.
Low cost versus ethical supply chains	Social enterprises must be as ethical as possible in their supply chains, but also remain affordable for beneficiaries.

Mission versus money

The primary challenge for all social enterprises is the mission/money trade-off. Social enterprises by nature have conflicting social impact and commercial logics (Battilana & Dorado, 2010; Battilana et al., 2012). This creates a tension between activities that generate economic profit and activities that generate social impact (Smith et. al., 2013; Yunas et. al., 2010; Laasch, 2018). While commercial organisations are expected to prioritise value capture for their owners (subject to a set of societal constraints), and charities are expected to prioritise value creation for their beneficiaries (subject to mobilising enough resources to continue operating) (Santos et al, 2015), social enterprises are expected to do both.

Some believe that these opposing views are incongruous. On the one hand there is a risk that overemphasis on profitable and competitive market models could lead to reduced services for beneficiaries that are most in need but are costly to serve – known as ‘mission drift’ (Zahra et. al., 2009; Eikenberry and Kluver, 2004; Alexander and Weiner, 2003; Ebrahim et. al., 2014). On the other hand, there is a risk that overemphasis on social impact will lead to unsustainable budget deficits. This inherent and ongoing tension is a ‘fact of life’ for social enterprises (Yunas et. al., 2010).

Customers versus beneficiaries

Social enterprises must grapple with the degree of overlap between ‘customers’ (those who pay for the product or service) and ‘beneficiaries’ (the target groups in the theory of change that are the focus of the social mission). Unlike corporate businesses, social enterprises must meet the needs of both – generating income from customers while meeting the needs of beneficiaries (Laasch, 2018). Social enterprises exist in response to a need, rather than a commercial demand, often operating in areas of deprivation or delivering services to beneficiaries with no ability to pay for them. Unlike corporate businesses that can choose their market, social enterprises are constrained by the beneficiary group identified in their theory of change. While corporate businesses can shift focus to target new customer groups if their initial customer group is not profitable, social enterprises would be required to revisit their mission (and articles of association where relevant) in order to change their beneficiary group (regardless of how tricky they made be to serve).

A key driver of success for commercial companies is increasing their customer’s willingness to pay - it is generally assumed that if customers are willing to pay, they are able to pay. However, beneficiaries of social enterprises may be unable to pay or physically unable to access the offering (Santos et al, 2015). When the customer (payer) is not the direct beneficiary, a fundamental market discipline disappears which leads to more complex business models that are harder to manage and scale (Santos et al, 2015). Social enterprises must grapple with the tension of focussing on serving the needs of their paying customers (who provide them with resources) as well as the needs of their beneficiaries (which may not generate income) (Santos et al, 2015).

Social impact metrics versus profitability metrics

While corporate businesses can rely on straightforward profitability metrics, social enterprises must focus on the total value created, not just for customers, but also for beneficiaries: positive value spill overs for society, minus any negative spill overs that may occur (Santos et al, 2015). There is not an objective framework for evaluating 'social impact' to measure and compare social mission success (Smith et. al., 2013; Wolfgang et. al., 2015). Many 'social' products and services are non-quantifiable (Sandeep et. al., 2015; Zahra et. al., 2009; Dentchev et. al, 2018) so evaluating progress toward social goals frequently involves qualitative, ambiguous, and non-standardised metrics (Ebrahim & Rangan, 2010; Epstein, 2008) such as 'total wealth'¹⁰.

The time and resource to measure such complex metrics is often not available in social enterprises. In addition, relevant indicators often suffer from time lags (unlike profitability metrics the impact of a social intervention may not be visible for many years) (Yunas et. al., 2010). On the one hand, overemphasis on quantifiable metrics can lead commercial objectives to become dominant (Smith et. al., 2013) and there is a danger that programmes that are hard to measure will be abandoned (Zahra et. al., 2009). On the other hand, an overemphasis on social impact metrics can lead to prioritisation of programmes with limited financial viability.

The broad social portfolio versus the deep social portfolio

Social enterprises face 'portfolio and distribution problems' (Reyes et. al., 2017): how should a company best select among the variety of potential social impact opportunities it could create and how should it determine an appropriate distribution of value across beneficiary groups? While corporate executives can compare alternative strategies in terms of profit or well-tested tools such as NPV or WACC, how should social enterprise executives compare one social impact strategy with another, if both promise similar contribution to profitability and competitive advantage? How should a social enterprise decide whether to provide a benefit to one community if that would mean withholding benefits - or even creating negative issues - for another? There is also the pressure of the real costs of doing nothing in deprived neighbourhoods (Stott, 2007).

Stakeholders with social priorities versus stakeholders with commercial priorities

Social enterprise success depends on bringing together stakeholders with divergent backgrounds and values (Smith et. al. 2013). A performance tension lies in the

¹⁰ Total Wealth (TW) = Economic Wealth (EW) + Social Wealth (SW). Further, $TW = EW + SW$, where $EW = \text{Economic Value (EV)} - \text{Economic Costs (EC)} - \text{Opportunity Costs (OC)}$; $SW = \text{Social Value (SV)} - \text{Social Costs (SC)}$. As a result, $TW = EV + SV - (EC + OC + SC)$ (Zahra et. al., 2009). Evaluation of total wealth should also account for opportunity costs — the social and economic value forgone if these resources had been applied to other productive endeavours.

typically broad and diverse stakeholder community of a social enterprise and their competing strategies and goals (Smith and Lewis, 2011; Dohrmann et. al., 2015; Van Bommel, 2018). Some stakeholders will align with the social mission (e.g. donors, partners) and some with the business venture (e.g. suppliers, some customers, investors), leading to tensions about whether and when to emphasise the social mission or commercial outcomes (Smith et. al., 2013). Social enterprises must strategically manipulate their value propositions for different stakeholders, due to the complexity of messages causing confusion (Davies and Chambers, 2018).

Competitors versus partners

In a free market, traditional corporate businesses serving the same customer group are competitors. Their goal is clear – knock the competition out of the market to increase market share. This competitive logic does not translate to the social enterprise context – they seek social profit rather than economic profit (Yunas et. al., 2010). Social enterprises serving the same beneficiary group have a shared interest in their peer social enterprises doing well – if the mission is to fight poverty, it's good news if progress is made (whether by your social enterprise or another). Hence social enterprises working in the same sector are seen as 'coopetition', where each may compete for funding and customers but still retain mutual benefit from working together by pooling resources and knowledge (Yuans et. al., 2010). Social enterprise models are dependent on 'an inclusive network of partners', hence complementarity 'becomes a necessity' (Hahn et. al. 2018)

A profit driven culture versus a social mission culture

Combining social and profit logics can trigger tensions among organisational structures, cultures, practices and processes (Smith and Lewis, 2011). Typically, organisational design, employee profiles and culture differ among businesses depending on whether they follow a more commercial or social oriented logic (Van Bommel, 2018). This informs decisions such as who to hire (social or business background) (Battilana and Lee, 2014), organisational structure (to separate or integrate social and business activity), and a for-profit or a not-for-profit legal form (Smith et. al., 2013).

Short-term versus long-term thinking

Delivering social impact requires a long-term view – solving issues such as poverty will not happen overnight, or even in one decade - whereas managerial reality is related often to the next quarter's results (Van Bommel, 2018). Short-term goals often conflict with the long-term goals of delivering social impact or systemic change (Smith et. al., 2013). In social enterprises multiple time horizons must be juxtaposed to allow for social value creation in the future while maintaining commercial stability in the present (Smith and Lewis, 2011; Davies and Chambers, 2018; Laasch, 2018).

Small and local versus big and global

While corporate businesses must grow to ensure continuously increasing value capture, social enterprises may need to maintain or shrink to deliver a level of quality to beneficiaries (Laasch, 2018). Specifically, for place-based social enterprises,

purpose and context (place) create a 'dominant tension' (Stott, 2007). Growth can threaten social impact if impact is founded on local relationships with beneficiaries and links with local communities (Smith et. al., 2013).

Personal goals versus organisational goals

The goals of social enterprises are often deeply rooted in the values of their founders and directors, and include a diverse set of personal objectives and individual motivations (Wesselink et. al., 2017). Social enterprises executives tend to conceive, build and operate organisations that address personally important issues (Zahra et. al., 2009). This creates greater opportunity for 'framing traps' (Furnari, 2015). Our preferred lenses can be blinding (Lewis & White, 2018) because they create a particular way of seeing, which of course is also a way of 'not seeing' (Burke, 1935). The 'egoism' (Zahra et. al., 2009) that ties the personal identify of founders and directors to the social enterprise often leads to 'narrow framing pitfalls' (Garrette, et. al., 2018), and can lead leaders to put personal needs above their business and justify potentially questionable ethical behaviour (Zahra et. al., 2009).

Low cost versus ethical supply chains

While corporate businesses will look for suppliers that meet their low cost (and quality) thresholds, social enterprises require suppliers that don't compromise their social mission. Value creation cannot be achieved through unsustainable activities (Laasch, 2018). Social enterprises often struggle with availability of suppliers that meet their sustainability criteria, and sourcing from ethical suppliers often leads to higher costs which then need to be offset by higher prices that may not be competitive (Short et. al., 2009). This requires customers who are willing to absorb the price premium, and may make ethical products unaffordable for beneficiaries (Davies and Chambers, 2018).

Summary of the tensions

Working as a director of a social enterprise is quite a tall order. Social enterprise executives must deliver both social impact and financial impact. They must understand the difference between customers and beneficiaries and meet the needs of both, while making hard choices about which beneficiary needs *not* to meet. They must measure financial performance as well as social performance. They must hold the short-term and long-term horizons in balance simultaneously. They must work collaboratively with their competitors. They must create a culture and team that values the social mission first and foremost, but includes a commercial profit logic. They must manage the needs of many stakeholders who may have divergent values. They must grow, but not too much if local relationships will be damaged. They must contain costs but use more expensive ethical suppliers. Alongside all that, they must keep their personal values and motivations (most likely their primary source of energy in the face of the above complexities) in clear perspective.

These tensions are not only contradictory, but reinforcing (Smith et. al, 2013). Hence managing paradox becomes a crucial skill-set for social enterprise executives. This is compounded by an extra level of risk - getting it wrong doesn't just hurt shareholder's wallets, it impacts the very people a social enterprise exists to support.

The 16 social enterprise model types

The good news is that while social enterprise is an emerging field of research, academics and practitioners have begun to develop social enterprise model typologies. There are a selection of social enterprise business models that have been shown to work.

The review of 92 international journal articles on social enterprise models identified 12 different attempts to create social enterprise model typologies (Warrell, 2008; Grassl, 2012; Byerly, 2014; Weiss, 2015; Hockerts, 2015; Santos et. al., 2015; Dohrmann et. al., 2015; Wolfgang et. al., 2015; Fernando and Mario, 2017; Design Council, 2018; Stumbitz et. al., 2018; Hahn et. al., 2018). A summary of the 12 social enterprise model typologies studied for this research is included in Appendix 1.

Each of these typologies are attempts to describe and explain the way social enterprises merge the creation of social impact and profit simultaneously. The 12 typologies were mapped against each other and grouped according to the four standard business model types (product, solutions, matchmaker and multisided) (Business Model Zoo, 2019), shown in Appendix 2. There were 16 social enterprise model types, shown below.

Table 4 - the 16 social enterprise model types

Product social enterprise model	Solutions social enterprise models	Matchmaker social enterprise models	Multi-sided social enterprise models
Beneficiary as customer model	Beneficiary as business owner model	Market linking model	Cross-subsidy (customer) model
	Beneficiary as member or owner model	Market creating model	Cross-subsidy (parent company) model
		Service linking model	Campaigning beneficiary model
		Platform as intermediary model	Multiple beneficiary model
		Ecosystem model	Beneficiary as contributor model
			Donation model
			Beneficiary as producer model
			Beneficiary as employee model

'Product' social enterprise models

Product social enterprise models involve a standardised product sold to customers, who are also beneficiaries. In this model the value proposition is integrated – social impact and profit are delivered simultaneously. The value proposition is transactional, and the 'use value' for customers occurs after purchase.

Figure 4 – 'product' social enterprise models



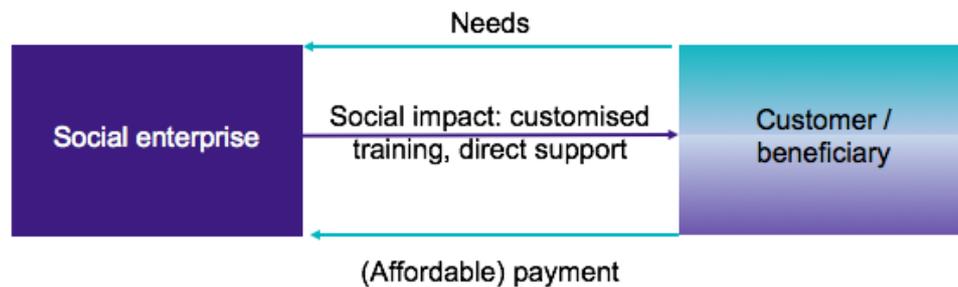
Product social enterprise model types

Model	Description	Example
Beneficiary as customer model	Social enterprise offers product to a low-income beneficiary who pays an affordable price. Products are produced cheaply (e.g. smaller packages or basic quality) and sold at a low price. Social impact is generated in direct proportion to commercial activity (the more product sold, the higher the social impact).	Ruby Cup in Africa - addresses the lack of menstrual hygiene among low-income women through an affordable menstruation cup made of silicon. The beneficiary is a customer that pays an affordable price.

'Solutions' social enterprise models

Solutions social enterprise models involve a customised solution developed *with* a customer. In this model the beneficiary is also the customer (paying a standard or reduced rate). It differs from the product model because the social enterprise engages with the customer/beneficiary about their needs and then provides an integrated solution. The value proposition is relational and the 'use value' is co-created.

Figure 5 – 'solutions' social enterprise models



Solutions social enterprise model types

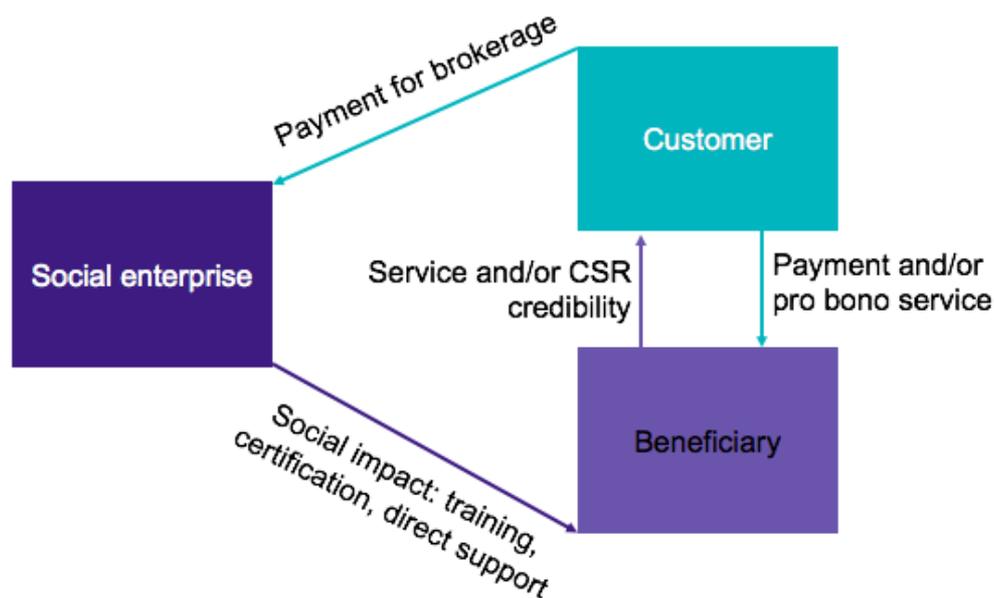
Model	Description	Example
Beneficiary as business owner model	Social enterprise sells business support and financial services to beneficiaries to start/run their own business. This model could include any consultancy or financial services specifically for social enterprises.	Pro Mujer in Bolivia, Nicaragua, Peru and Mexico – offers microfinance and training in business development. The financial model is similar to a bank's: interest is charged on each loan and savings deposits are leveraged for on-lending.
Beneficiary as member or owner model	Beneficiaries are either members, or own and run the social enterprise in a cooperative structure. Members receive services such as market information, technical assistance, collective bargaining power or economies of bulk purchase. Members invest in the cooperative through their time, money or labour. Income is generated through membership fees or sale of products and service to separate customers.	Equal Exchange in the US - a fair trade coffee company legally structured as an employee-owned cooperative. It purchases coffee beans and cocoa directly from its membership of small democratically-run farmer cooperatives in developing countries. It uses educational marketing campaigns to sell the product at a premium and return the above market premiums to members and provides affordable pre-harvest credit.

‘Matchmaker’ social enterprise models

Matchmaker social enterprise models involve brokerage that connect customers and beneficiaries. Income is usually created through a fee based on ‘trades’ between the two groups. The model relies on generating trust. Value is created by reducing the search effort for customers and offering a marketplace to beneficiaries or subsidised access to support services from the brokering social enterprise.

These types of ‘matchmaker models’ generate profit by reducing the search effort of customers, particularly when the service offering is far from the originating firm’s usual territory and the market is hard to reach (Baden-Fuller et. al., 2017) (for example, corporates seeking to work with their local community but without a route in to access the market). There is profit to be made by facilitating the flow of benefits between a paying customer and the beneficiary group (Baden-Fuller et. al., 2017). For example, when the paying customer receives benefits because of the activity of the beneficiaries, such as data collection, advertising exposure or tangible evidence of meeting CSR goals by supporting a local community.

Figure 6 - matchmaker social enterprise models



Matchmaker social enterprise model types

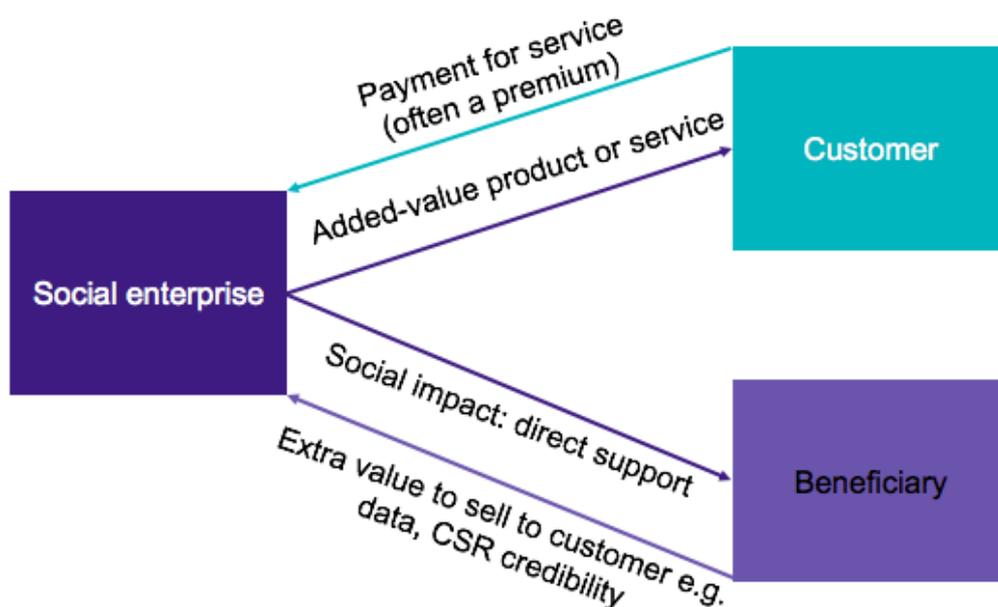
Model	Description	Example
Market linking model	Social enterprise acts as an intermediary to connect beneficiaries with markets for their products or services e.g. as part of a sustainable supply chain. Income streams are linked to revenue sharing agreements through contracts or payments for matching/support.	Social Traders Australia – certifies and supports social enterprises with capacity building, then links them with corporate and government customers wanting to add social enterprises into their supply chains.

Market creating model	Social enterprise sells the beneficiary's product or service for them. The social enterprise adds value to beneficiary-made products through product development, production and marketing assistance. The market intermediary either purchases the beneficiary-made products outright or takes them on consignment, and then sells the products in high margin markets at a mark-up.	TOPLA in Haiti – manages the marketing, sales and distribution functions for food products produced by local women. It adds value by improving quality, productivity and enhancing product standardisation with basic, semi-industrial processing equipment. It creates economies of bulk purchase for raw materials, bringing down manufacturing costs and increasing profit margins, which are passed on to beneficiaries.
Service linking model	Social enterprise integrates previously disconnected beneficiaries and customers in the same intervention e.g. complementary needs matching. The high profit margin customer subsidises the offer for the beneficiary.	Auticon in Germany - trains people with autism and matches them with qualified job opportunities in the IT sector.
Platform as intermediary model	Use of an online platform to connect two previously disconnected sides (e.g. a donor and a fundraiser, or a lender and a borrower). There are two main types - crowd-funding platforms and peer-lending platforms.	JustGiving – connecting donors (customers) and social enterprises (beneficiaries). Kiva – peer to peer lending platform connecting lenders (customers) and borrowers (beneficiaries).
Ecosystem model	Social enterprise facilitates collaboration between related social enterprise products and services to create a more valuable ecosystem. For example, ski resorts are not successful until the complete infrastructure consisting of ski lifts, restaurants, hotels, shops, transport or entertainment is established. This social enterprise plays a coordinating role in the ecosystem & takes a percentage of sales.	Cristalino Lodge in the Amazonas region - coordinates an ecolodge, an environmentally-friendly tour operator employing mostly local people, and biodiversity research to improve conservation measures. Every additional participant in the ecosystem adds value by increasing the attractiveness for tourists.

‘Multi-sided’ social enterprise models

This is the most common social enterprise model type, given that often the beneficiary group has limited ability or willingness to pay for services. Multi-sided models involve brokerage with three parties involved. Beneficiaries and customers are separate, meaning that separate value propositions are required for each group. The social enterprise establishes a set of relationships between previously disconnected but complementary customers and beneficiaries. The beneficiaries receive products or services at below cost, paid for by customers who gain from the ‘consumption’ of the beneficiary group (for example, delivery of social impact or enhanced CSR credentials). The model generally relies on ‘conscious’ customers paying a premium for services that include delivery of social impact. The mechanism connecting the two groups is central to this model.

Figure 7 – ‘multi-sided’ social enterprise models



Multi-sided social enterprise model types

Model	Description	Example
Cross-subsidy (customer) model	Social enterprise serves a customer group and uses revenues to support a beneficiary group. Interventions for beneficiaries are separate to core commercial activity, but activities use the same organisational assets. This model relies on adding ‘social elements’ to a product or service to generate a price premium to enable cross-subsidy.	Associaçao Nacional de Cooperaçao Agricola in Brazil – runs literacy training and creates educational materials for beneficiaries. It sells similar services to community activists who pay a fee to subsidise the costs for beneficiaries.

<p>Cross-subsidy (parent company) model</p>	<p>Social enterprise generates revenue from customers for a parent company to serve a beneficiary group. The social enterprise is used as a funding mechanism for the parent company, often structured as a subsidiary of the parent company.</p>	<p>Para la Salud in Guatemala - a chain of village pharmacies that generate profit to cover the operational costs of rural clinics for a national health organisation (as well as functioning as a distribution channel for medicines).</p>
<p>Campaigning beneficiary model</p>	<p>This model is focussed on justice issues, building movements and community outreach. It involves two beneficiary groups - one that needs support to access their rights (students, citizens, immigrants or local communities) and one that needs support to campaign for disadvantaged groups access their rights (volunteering mentors, campaign groups, politicians or individuals of the same social group as the beneficiaries). Beneficiaries pay a small fee, subsidised by donors.</p>	<p>Avaaz (global) - empowers millions of people from all walks of life to take action on pressing global, regional and national issues, from corruption and poverty to conflict and climate change. Avaaz coordinates petitions, funding media campaigns and direct actions (emailing, calling and lobbying governments), and organising "offline" protests and events. The goals are to ensure that the views and values of the world's people inform the decisions that affect us all. It's funded by member fees.</p>
<p>Multiple beneficiary model</p>	<p>Social enterprise serves one beneficiary group, engages a second beneficiary group who volunteers, funded by corporate relationships.</p>	<p>Wheelmap – a crowd-sourced online map of wheelchair-accessible places around the world. Wheelchair users (beneficiary one) work pro bono to create data for the map. People/businesses wanting to support wheelchair users (beneficiary two) get free information. Revenue is generated from alliances with wheelchair manufacturers, city authorities and event managers.</p>
<p>Beneficiary as contributor model</p>	<p>Social enterprise engages beneficiaries to provide inputs (e.g. data) that are sold to customers.</p>	<p>co2online in Germany - free online tools to enable users to track and reduce CO2 emissions and costs through comparison with national trends. The beneficiary group input their data and use the tool free. Information and statistics from users are marketed to companies.</p>
<p>Donation model</p>	<p>Social enterprise does not generate social impact itself, but buys social impact elsewhere by giving its profits to another social enterprise.</p>	<p>Belu Water in the UK – sells environmentally friendly bottled water and gives all profit to WaterAid.</p>

Beneficiary as producer model	Social enterprise manipulates trade relations to increase income for poor producers by charging premiums to conscious consumers.	Fairtrade International - works with businesses, consumers and campaigners to secure better deals for farmers and workers. Just Business in Denmark – works to change the perception of fair trade products in Denmark.
Beneficiary as employee model	Social enterprise employs and trains beneficiaries and sells products or services to a separate customer group.	Fifteen in London - top class restaurant giving disadvantaged young people (homeless and unemployed, overcoming drug or alcohol problems) the chance to gain professional training and to start a career in the restaurant industry.

The 16 social enterprise model types – full overview

	Model	Description	Example
Product models	Beneficiary as customer model	Social enterprise offers product or service to a beneficiary who pays an affordable price. Products are produced cheaply (e.g. smaller packages or basic quality) and sold at a low price. Social impact is generated in direct proportion to commercial activity (the more product sold, the higher the social impact).	Ruby Cup in Africa - addresses the lack of menstrual hygiene among low-income women through an affordable menstruation cup made of silicon. The beneficiary is a customer that pays an affordable price.
Solutions models	Beneficiary as business owner model	Social enterprise sells business support and financial services to beneficiaries to start/run their own business. This model could include any consultancy or financial services specifically for social enterprises.	Pro Mujer in Bolivia, Nicaragua, Peru and Mexico – offers microfinance and training in business development. The financial model is similar to a bank's: interest is charged on each loan and savings deposits are leveraged for on-lending.
	Beneficiary as member or owner model	Beneficiaries are either members, or own and run the social enterprise in a formal cooperative structure. Members receive services such as market information, technical assistance, collective bargaining power or economies of bulk purchase. Members invest in the cooperative through their time, money or labour. Income is generated through membership fees or sale of products and service to separate customers.	Equal Exchange in the US - a fair trade coffee company legally structured as an employee-owned cooperative. It purchases coffee beans and cocoa directly from its membership of small democratically-run farmer cooperatives in developing countries. It uses educational marketing campaigns to sell the product at a premium and return the above market premiums to members and provides affordable pre-harvest credit.
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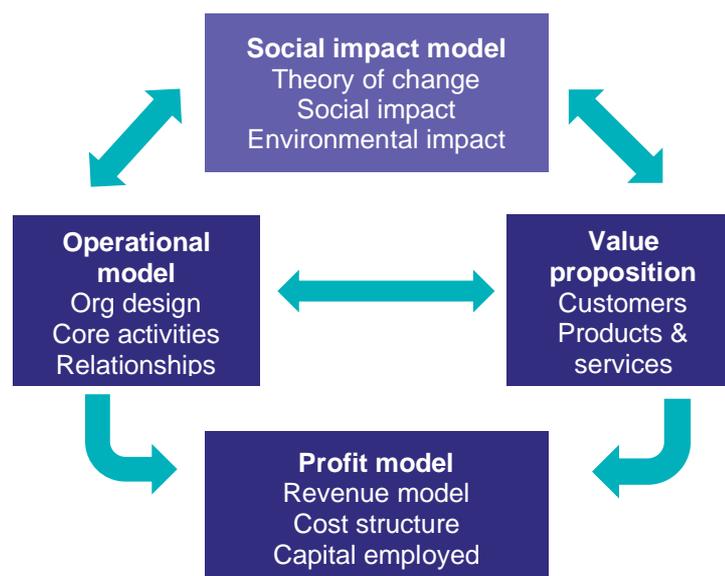
How do you build a social enterprise model?

The seven step guide to social enterprise model design

'There's no award-winning business model ... but you can't succeed if you stand still.'

- Interview 18

This seven step guide offers a process and tools for designing a social enterprise model. The guide can be used for a start-up social enterprise, or to make adjustments to an existing social enterprise model as beneficiary and customer needs shift. It works through the four components of a social enterprise model, with particular focus on the social impact model and the value proposition.



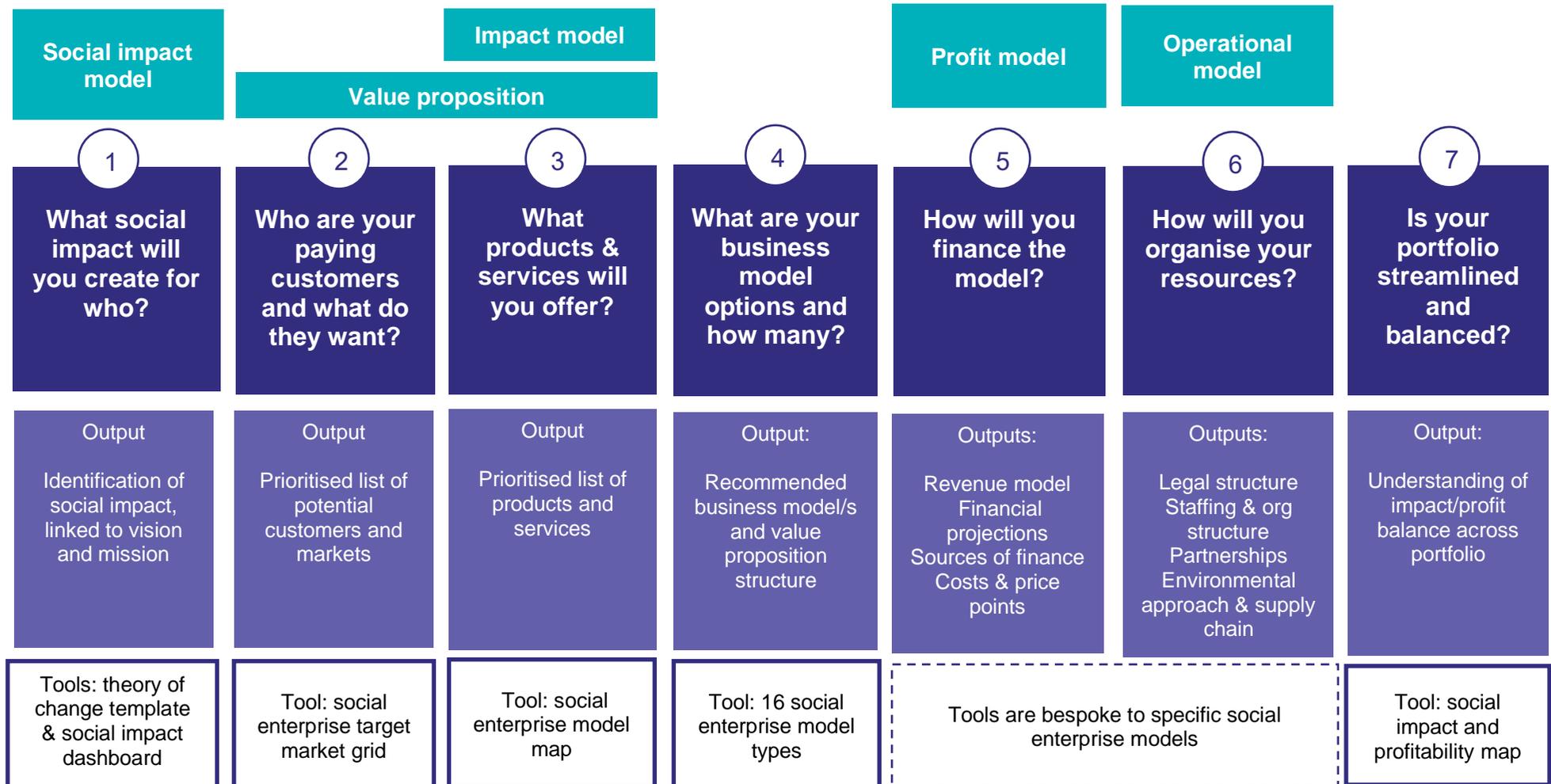
Using the seven step guide in practice

Every social enterprise executive should be able to answer the seven core questions relating to each of the seven steps:

1. What social impact will you create for which beneficiaries?
2. Who are your customers, what do they want, and how should you structure the value proposition?
3. What products and services can you offer that achieve the best balance of profit and social impact?
4. What are your business model options, and how many should you run?
5. How will you finance the model?
6. How will you organise your resources and design your operating model?
7. Is your product/service portfolio balanced?

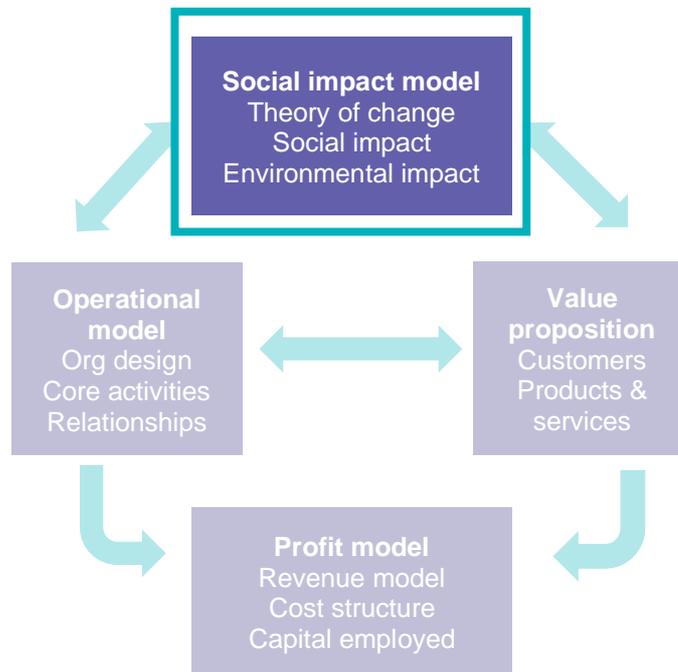
It is recommended that each of these steps be completed on a regular basis, built into the organisational strategic planning cycle.

The seven steps to social enterprise model design



Step one: what social impact will you create, for which beneficiaries?

The first step (and it must come first), is to identify the social impact you hope to create – the change you want to see in the world. This step relates to the social impact component of your social enterprise model.



This is the key area where a social enterprise model differs from a corporate business model. The intent (or purpose) of a social enterprise model must focus on social impact, and have identified beneficiaries. ‘Beneficiary’ is a broad term referring to who or what you want to impact. That could include the environment, and it could be businesses (B2B) as well as individuals.

The tool for articulating your purpose and identifying your beneficiaries is a theory of change. A theory of change forces you to articulate your hypothesis of how your activity will lead to the social impact that you want achieve.

The importance of a clear theory of change can’t be underestimated. It should be the key strategic framework for the organisation, and guide all decision-making across the business. It must be organisation-wide, rather than having separate theories of change for separate products or services.

Often a theory of change is developed in isolation of the mission and vision. This is a mistake. The mission and vision should be *fundamental* to the model. If the impact you’re aiming for isn’t your vision statement, and your mission isn’t designed to directly influence the impact areas that need to change to realise your vision, something doesn’t add up. At worst, this will lead to mission drift where you won’t be directing your resources into activities that will achieve your vision. The template below has been designed to bridge that gap.

Tool 1.1: theory of change template (integrating mission and vision)



This theory of change template is more like a 'strategic framework' for the organisation. It should become the core tool used for strategic planning, business planning, and everyday decision-making.

Your theory of change should be completed from the top down (rather than starting with the activities you deliver or think you need to deliver – that's the last step).

Step one - vision:

- What is your purpose? What change do you want to see in the world?

Step two - impact areas:

- What needs to happen to bring about your vision?

Step three - mission:

- What unique role do *you* play in influencing the impact areas you identified?
- Who do you need to reach to influence the impact areas (your beneficiaries)?

Step four - outcomes:

- What needs to happen for you to deliver your mission?

Step five – strategic goals & activities:

- What will you do to generate the outcomes that will lead to your mission (these should be your strategic goals)?
- Note the activities here may change as you work through development of your business model, and may also change over time.

Tool 1.2: social impact metrics dashboard

Following the design of the theory of change, a set of social impact metrics should be developed that link directly to the outputs and outcomes in the theory of change. It is crucial for a social enterprise to monitor its social impact so changes can be made as needed. Tool 2 below provides a tool for identifying your impact measures.

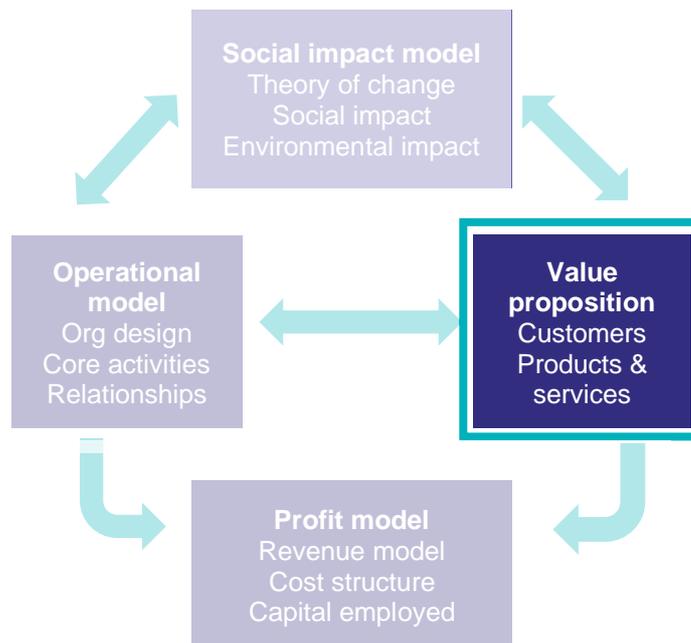
		Measure	Indicator	Data sources	Baseline - Yes/No?	Target	Follow-up - when?	Responsibility	Purpose/ Reporting
<i>Area in the theory of change</i>	<i>What changes are you trying to bring about?</i>	<i>What are you measuring to assess whether the change occurred?</i>	<i>What indicators are you using?</i>	<i>How will the indicator be measured and recorded?</i>	<i>Are you measuring the indicator at the start of the project?</i>	<i>What is the target you are trying to achieve?</i>	<i>When are you measuring the indicator?</i>	<i>Who will collect the information? Where will it be stored?</i>	<i>How will the information be used and by whom?</i>

STRATEGIC METRICS	Theory of change impact areas	Copy from theory of change							xxx
		Copy from theory of change							
		Copy from theory of change							
	Theory of change outcome areas	Copy from theory of change							xxx
		Copy from theory of change							
		Copy from theory of change							

OPERATIONAL METRICS	Theory of change input areas	Copy from theory of change							xxx
		Copy from theory of change							
		Copy from theory of change							

Step two: who are your paying customers and what do they want?

This section relates to the value proposition element of a social enterprise model. This is about finding markets that will pay for the value you create, to generate sustainable income streams.



Every social enterprise model must have a customer group that can pay. A clear understanding of what customers want and how they want it is fundamental to a successful businesses model. Without creating value for customers there is no profit to generate social impact. In some cases the customers will be the beneficiaries. In other cases where beneficiaries have limited ability or willingness to pay, a separate customer group is needed.

This step starts by brainstorming a list of potential customers. To identify potential customers, ask yourself:

- What unique resources and capabilities do you have, and who might pay to access them? What job is your customer trying to get done, and how can you help?
- Who has a business need to access your audience or network?
- Who has a reason to pay for the social impact you have or create? Who already pays the financial cost of the social problem you're addressing?

Once you have identified a long list of potential customers, they should be evaluated for their potential according to the criteria in the social enterprise target market grid below.

Tool 2: social enterprise target market grid

Rank all potential markets on the social enterprise target market grid¹¹. Note this could include your beneficiary group, if they are willing and able to pay.

	Identifiable	Reachable	Stable	Actionable	Significant	Beneficiary impact potential	Mission alignment	Goal fulfilment potential	Total score
	Able to be defined and recognised	Can be accessed through promotion and distribution	Strong forecasted future revenues	Likely to buy your products or services	Size and growth potential	Will help create social impact for beneficiaries	Does not contradict your values	Ability to use core competencies to deliver their goal	High = 3 Med = 2 Low = 1
Market 1	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	XX
Market 2	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	XX
Market 3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	XX
Market 4	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	XX
Market 5	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	XX
Market 6	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	XX
Market 7	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3	XX

¹¹ The grid includes the traditional market segmentation characteristics (identifiable, reachable, stable, actionable, and significant) (Gavett, 2014). It includes two additional characteristics to customise it for use in social enterprise models: mission alignment and beneficiary impact potential. It adds one final characteristic – goal fulfilment potential – based on the work of Barden (2013) who used neuroscience to show that customers are more likely to “buy” ‘goal fulfilment’ than ‘benefits’ because it activates the reward centre of the brain.

Step three: what products and services could you deliver that achieve the best balance of social impact and profit?

Once you have identified the social impact you want to create, the beneficiaries you need to reach and the highest potential customers, the next step is to explore which products and services you could offer.

The Social enterprise Model framework below has been adapted from the Business Model Zoo Framework developed by Cass Business School¹². The framework is designed to evaluate the potential of different product and service options against a range of social impact and profitability criteria.

The framework has four steps:

1. Brainstorm a long list of potential products and services that meet the needs of beneficiaries and/or customers. Consider the core capabilities and resources you could draw on to meet those needs.
2. Map all options in the operational and profit potential map.

The operational and profit potential map has three criteria:

- Customer benefits: degree of potential benefit to customers.
- Implementation effort: degree of effort/difficulty to implement.
- Revenue potential: anticipated level of income and profit.

3. Map your brainstormed list of options in the social ecosystem potential map.

The social ecosystem potential map draws on three criteria:

- Beneficiary impact: anticipated impact on beneficiaries (according to criteria in the theory of change).
- Synergies: extent it complements existing services/capabilities.
- Wider system potential: level of complementarity with existing sector products/services, and partnership opportunities.

4. Take the results from the two maps above and overlay them on the final social enterprise model potential map.

The social enterprise model potential map will show which products and services have the highest potential. It categorises the options into three areas:

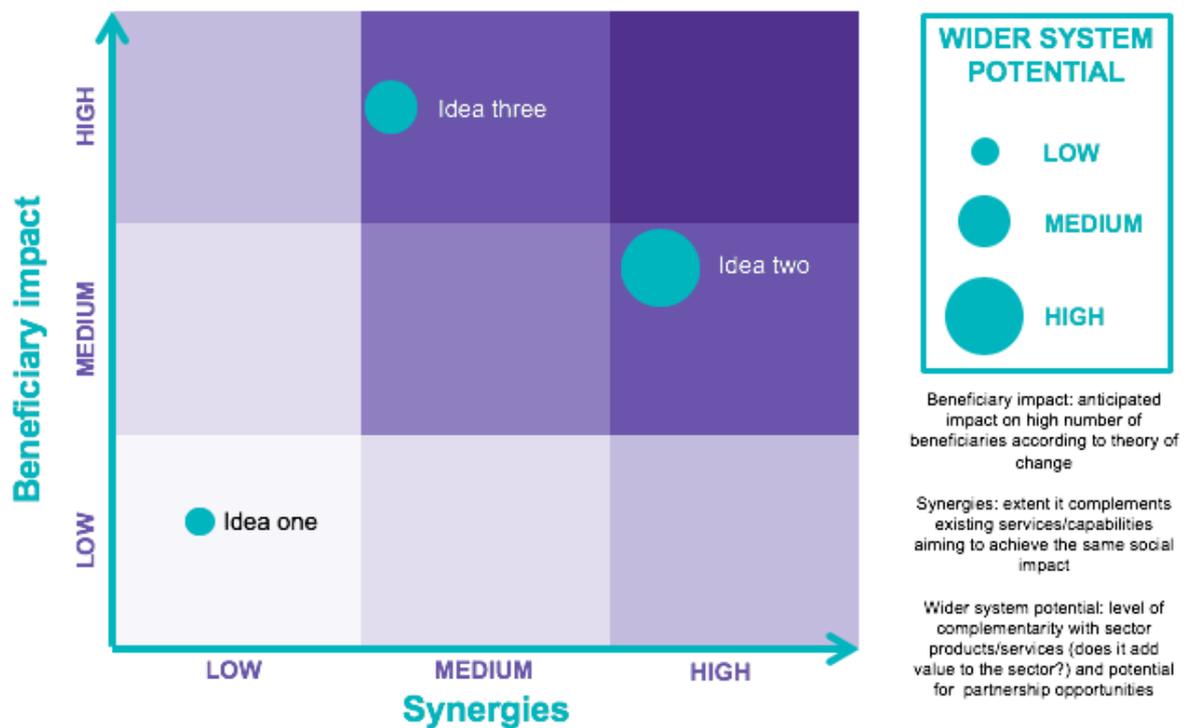
- Future proof: should effectively generate profit and social impact.
- Revenue generation spin-out: could be developed as a discrete project for revenue generation, but would require a discrete team to manage it to ensure it didn't distract from wider social impact.
- Sandbox: has social impact potential, but requires further exploration through small pilots to determine whether it is financially viable.

¹² See: <http://www.businessmodelzoo.com>

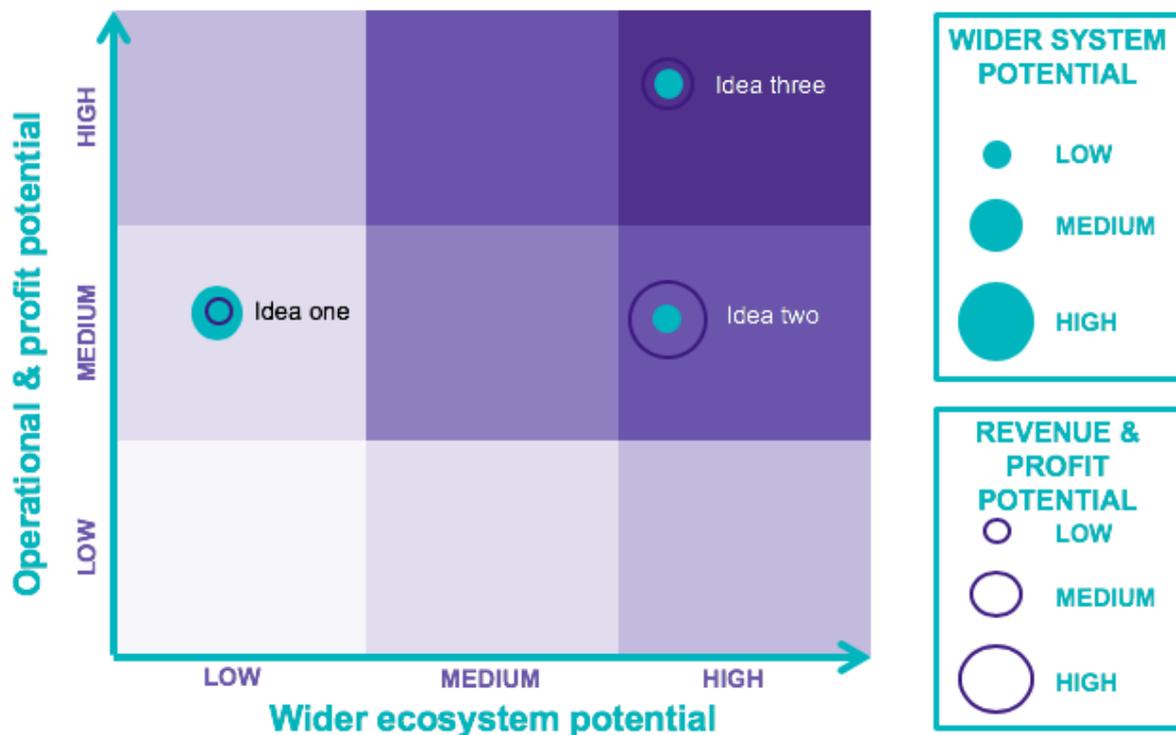
Tool 3.1: operational and profit potential map



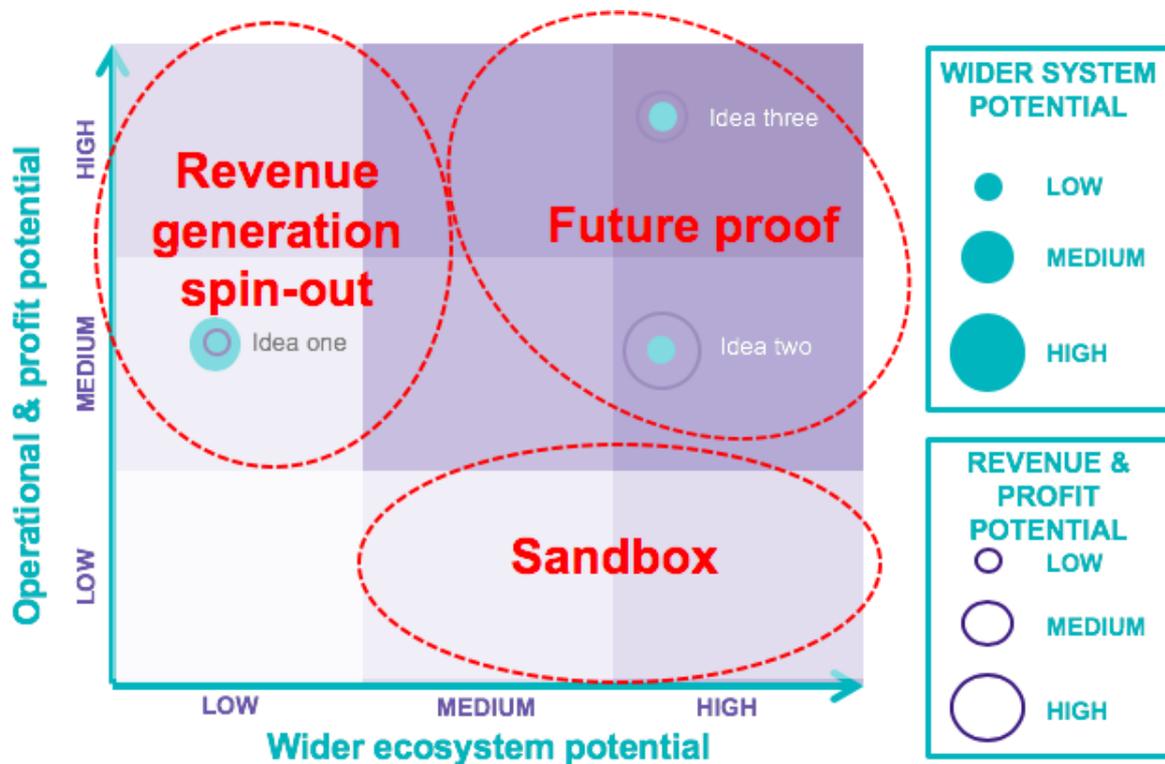
Tool 3.2: ecosystem potential map



Tool 3.3: social enterprise model potential map

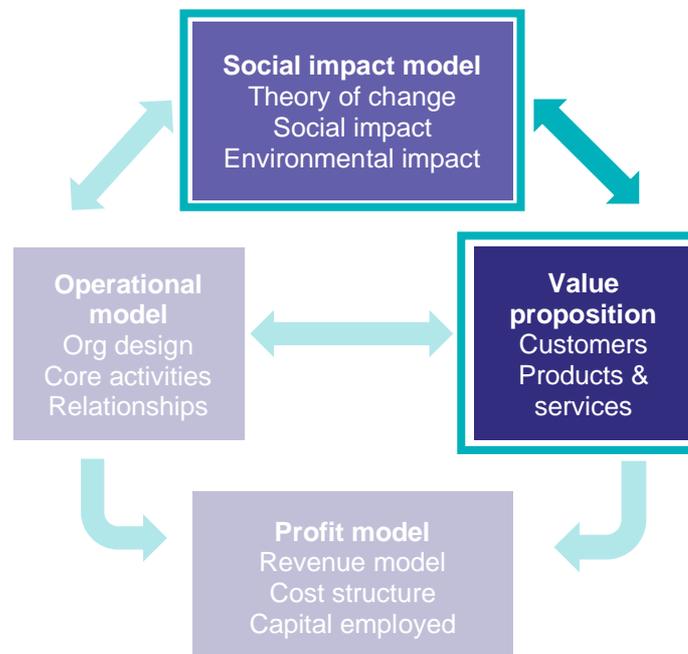


Products in the top right should be future proof, and development should proceed. Products in the top left could work as discrete projects for revenue generation, however would need to be managed separately to usual operations to avoid distraction from social impact activity. Products in the bottom right have social impact potential, but require further testing for financial viability.



Step four: which social enterprise models could bring everything together?

Step four looks at how you can organise and combine the products or services you want to offer to your beneficiaries and customers. This step is about creating the balance between impact and profit in your business model.



There are 16 social enterprise model types¹³. For each social enterprise model, ask yourself: what would it look like for us if we were to implement this model? How could it help us meeting the needs of beneficiaries and customers, and deliver the products and services we identified in step three?

¹³ Sourced from a social enterprise literature review that uncovered 12 different attempts to create social enterprise model typologies (Warrell, 2008; Grassl, 2012; Byerly, 2014; Weiss, 2015; Hockerts, 2015; Santos et. al., 2015; Dohrmann et. al., 2015; Wolfgang et. al., 2015; Fernando and Mario, 2017; Design Council, 2018; Stumbitz et. al., 2018; Hahn et. al., 2018).

Tool 4: the 16 social enterprise model types

	Model	Description
Product models	Beneficiary as customer model	Social enterprise offers product or service to a beneficiary who pays an affordable price. Products are produced cheaply (e.g. smaller packages or basic quality) and sold at a low price. Social impact is generated in direct proportion to commercial activity (the more product sold, the higher the social impact).
Solutions models	Beneficiary as business owner model	Social enterprise sells business support and financial services to beneficiaries to start/run their own business. This model could include any consultancy or financial services specifically for social enterprises.
	Beneficiary as member or owner model	Beneficiaries are either members, or own and run the social enterprise in a cooperative structure. Members receive services such as market information, technical assistance, collective bargaining power or economies of bulk purchase. Income is generated through membership fees or sale of products and service to separate customers.
Matchmaker models	Market linking model	Social enterprise acts as an intermediary to connect beneficiaries with markets for their products or services. This could be as part of a sustainable supply chain, or on a one-off basis. Income streams are linked to revenue sharing agreements as part of new contracts.
	Market creating model	Social enterprise sells the beneficiary's product or service for them. The social enterprise adds value to beneficiary-made products through product development, production and marketing assistance. The market intermediary either purchases the beneficiary-made products outright or takes them on consignment, and then sells the products in high margin markets at a mark-up.
	Service linking model	Social enterprise integrates previously disconnected beneficiaries and customers in the same intervention e.g. complementary needs matching. The high profit margin customer subsidises the offer for the beneficiary.
	Platform as intermediary model	Use of an online platform to connect two previously disconnected sides (e.g. a donor and a fundraiser, or a lender and a borrower). There are three types - crowd-funding platforms, peer-lending platforms and 'reward' platforms that give cash for sharing digital content.
	Ecosystem model	Social enterprise facilitates collaboration between related social enterprise products and services to create a more valuable ecosystem. This social enterprise plays a coordinating role in the ecosystem.

Multisided models	Cross-subsidy (customer) model	Social enterprise serves a customer group and uses revenues to support a beneficiary group. Interventions for beneficiaries are separate to core commercial activity, but activities use the same organisational assets. This model relies on adding 'social elements' to a product or service to generate a price premium to enable cross-subsidy.
	Cross-subsidy (parent company) model	Social enterprise generates revenue from customers for a parent company to serve a beneficiary group. The social enterprise is used as a funding mechanism for the parent company, often structured as a subsidiary of the parent company.
	Campaigning beneficiary model	One beneficiary group that needs support to access their rights (students, citizens, immigrants or local communities) is linked with one that needs support to campaign (individuals trained as volunteering mentors, campaign groups, politicians or individuals of the same social group as the beneficiaries).
	Multiple beneficiary model	Social enterprise serves one beneficiary group, engages a second beneficiary group who volunteers, funded by corporate relationships.
	Beneficiary as contributor model	Social enterprise engages beneficiaries to provide inputs (e.g. data) that are sold to customers.
	Donation model	Social enterprise that does not generate social impact itself, but buys social impact elsewhere by giving its profits to another social enterprise.
	Beneficiary as producer model	Social enterprise manipulates trade relations to increase income for poor producers by charging premiums to conscious consumers.
	Beneficiary as employee model	Social enterprise employs and trains beneficiaries and sells products or services to a separate customer group. The model relies on attracting conscious customers that will pay a premium for the social impact generated.

Structuring the value proposition

Given that a social enterprise must balance the needs of both customers and beneficiaries, a decision must be made about how far these needs can be combined in one value proposition.

Unlike corporate businesses, social enterprises demand multiple forms of value creation (economic and social) simultaneously (Davies and Chambers, 2018; Bocken, 2016; Boons and Ludeke-Freund, 2013; Jäger, 2010; Jay, 2013; Hahn et. al., 2018). This requires paradoxical thinking to reconcile the tensions, using both/and approaches which seek to embrace and engage competing demands simultaneously (Van Bommel, 2018; Laasch, 2018).

The levels of possible combination form a continuum (Alter, 2009; Hahn et. al., 2018) and understanding where social enterprise model elements can complement each other is key (Laasch, 2018). A useful starting point is the first question a social enterprise must ask: what social value do we seek to create (who are the

beneficiaries and what is dictated in our theory of change)? The second question then becomes: how can we generate revenue to cover the costs of delivering the social value?

These questions lead to different structures for the value proposition:

- Parallel value propositions using a match-maker or multisided business model (two separate value propositions for two separate markets).
- Integrated value proposition using a product or solutions business model (one value proposition for all markets).

Parallel value propositions: separating social impact and profit activity (matchmaker or multisided business model)

Some suggest the paradox is best managed through parallel business models that avoid conflict between different types of value creation (Joyce and Paquin, 2016; Gebauer et. al., 2017). This involves engaging with the market (customers) to cross-subsidise social activity (for beneficiaries) through two (or more) discrete sets of activities that are not connected. This can be achieved through structural separation, for example by splitting a social enterprise into a charity and a trading company (Stott, 2007; Davies and Chambers, 2018).

This is a complex model (Santos et. al. 2015). It requires delivery of two (or more) separate sets of activities for different target groups, and results in each business unit competing for shared resources. Treating the different forms of value creation and capture as disparate is more susceptible to tensions and mission drift (Battilana et. al., 2012; Austin et. al., 2006).

Integrated value propositions: combining social impact and profit activity (solutions or product business model)

Others suggest that economic and social value creation should be integrated in mutually reinforcing ways, where a commercial orientation is directly linked to the social mission (Hahn et. al., 2018; Bocken et. al, 2014; Grassl, 2012; Moss et. al., 2011; Stott, 2007; Porter and Kramer, 2011; Laasch, 2018).

Profitability can rise significantly by shifting the model from acquiring funds *for* the social mission to generating revenues *with* the social mission. This involves finding a way to build beneficiaries into the offers for customers, so that social impact and profit are generated simultaneously. In this situation the beneficiaries become 'resource inputs' for new customer value propositions (Dohrmann et. al., 2015).

Some go as far as to say that an integrated business model is 'essential' for social enterprise success as trade-offs are avoided when the customers and beneficiaries are integrated in the same solution (Davies and Chambers, 2018).

Deciding how many models to run

While business model types offer a recipe, there are ‘different ways to make and bake the cake’ (Baden-Fuller and Morgan, 2010). When deciding which models to run, you can select multiple models or combine models. As a rule of thumb, fewer is simpler.

On the one hand, it is ‘devilishly difficult’ to operate multiple business models because it creates greater complexity, requires broader organisational skills and greater employee flexibility (Casadesus-Masanell and Tarzijan, 2012). Many social enterprises usually don’t combine models (Wolfgang et. al., 2015) and the social enterprise models characterised by a relatively simple value chain increase the likelihood of being sustainable (Porter and Kramer, 2011).

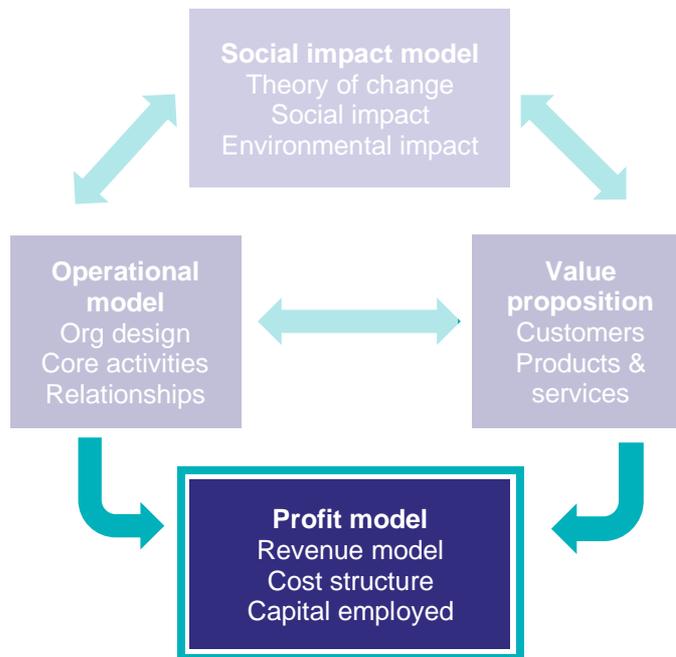
However, there are situations when a business may need to address multiple customer groups in different ways (Casadesus-Masanell and Tarzijan, 2012). Social enterprises may need to target multiple beneficiary groups or generate revenue in a variety of different ways to balance the trade-offs faced by every social enterprise. For example, this could include using one high-end business model to generate surplus in order to deliver a more basic level of service to drive down costs and reach a larger pool of beneficiaries. Parallel business models such as this work well when they are mutually reinforcing (when the models are complements not substitutes) and turn otherwise unviable possibilities into profitable opportunities (Casadesus-Masanell and Tarzijan, 2012).

Two questions will help social enterprise executives to decide when to operate multiple business models (Casadesus-Masanell and Tarzijan, 2012):

- How many critical assets do the models share (the more, the better the chance of success)?
- How many shared capabilities and resources will result from the operation of the models (the more, the better the chance of success)?

Step five: how will you finance the model?

Once you have decided on your beneficiaries and identified customers, you'll need to work on your financial model.



This step should include your revenue model, financial projections, sources of finance, costs and price points. It's about determining how to generate enough revenue to cover the costs of delivering social impact.

These will all be bespoke to the social enterprise and have not been explored in detail here.

As a starting point for the financial model, there are a range of financing options available to social enterprises:

Debt finance

- **Charity bonds:** a loan from a group of social investors to a charity or social enterprise over a fixed period of time with a fixed rate of interest.
- **Crowdfunding:** investment that is raised in small amounts from individuals via an online platform that is repaid on an agreed basis, usually with interest on top.
- **Secured loan:** a loan against an asset as collateral (often a building or equipment, or alternatively a parent company's shares), repaid in instalments with interest.

- Unsecured loan (including overdrafts): a loan not secured against an asset, repaid in instalments with interest.

Equity finance

- Traditional shares: equity finance where profits are distributed to shareholders.
- Community shares: equity finance – a withdrawable, non-transferrable equity investment into a cooperative business.

Grant funding

- Grants: funding to deliver a specific project (restricted grant) or to generally support an organisation's work (unrestricted grant).

Social impact bonds

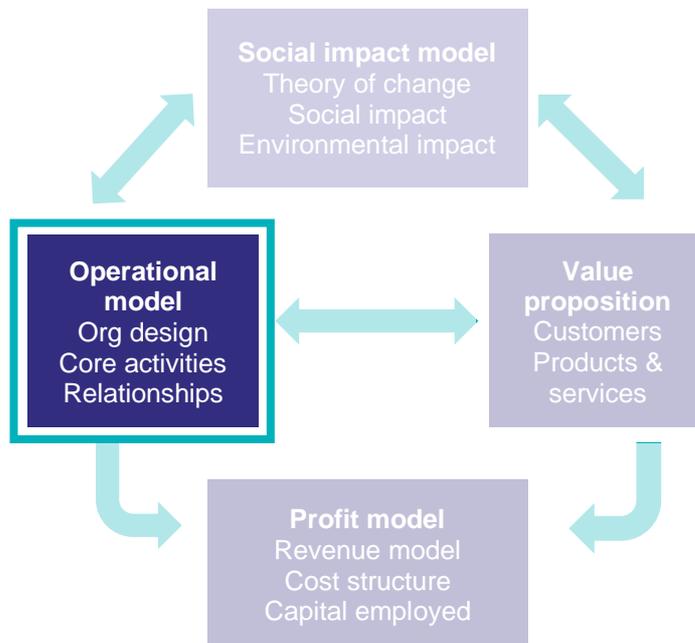
- Social impact bonds: a payment-by-results contract where social investors pay for the organisation to deliver a service and the government repays the investors with interest if the service is successful.

Trade

- Sales: income from customers from selling your products and services.

Step six: how will you organise your resources?

The final component of the social enterprise model is your operational model.



This step involves deciding on your legal structure, staffing, partnerships, environmental approach and your supply chain. As in step five, these elements are also bespoke to different social enterprise models so have not been explored in detail here.

As a starting point, there are a range of legal structures available for social enterprises. The structure must complement the social enterprise purpose, growth strategy and the sources of finance it will pursue. Options vary between countries. In Australia (for example) the below structures are the main options available.

Pty Ltd Company

This is the most common business structure under which most normal profit-driven businesses operate. Dividends are paid to shareholders. There are restrictions on the company's ability to raise funding from the public, however a company structure is useful for raising capital because most investors are familiar with the structure. Companies are regulated by the Australian Securities & Investments Commission (ASIC) under the *Corporations Act*.

Company Limited by Guarantee (CLG)

This is a common option as it's able to operate anywhere in Australia. There are no shareholders or dividends. Instead, there are "members" of the association who come together for a purpose that's not profit-driven. A CLG structure is attractive for government grants and philanthropic donations. CLGs are also regulated by ASIC.

Incorporated Association (IA)

This is a separate legal identity, and its “members” have rights. It’s run by an elected management committee and secretary. Therefore, this structure also helps attract grants and donations. Incorporated associations are subject to state or territory incorporation laws and are administered to by a government body within the relevant state and territory.

Registered charity

To meet the statutory definition of charity, you must have charitable purposes (defined in the legislation) and operate for the public benefit. This is a useful structure to attract philanthropic funding. It has a requirement to report to the Australian Charities and Not-for-profits Commission (ACNC).

Indigenous corporation

An Indigenous corporation is an incorporated legal structure only available for Aboriginal and Torres Strait Islander organisations. Like companies limited by guarantee, Indigenous corporations are incorporated under Commonwealth law and are able to operate anywhere in Australia. Members of an Indigenous corporation can choose to have limited liability.

Cooperative

This model is based on voluntary, democratic participation from the members that form the organisation. They are part of a movement of co-operatives, and in jurisdictions that have adopted the harmonised Cooperative National Law, the ‘cooperative principles’ are included in the laws. Many of the ‘original’ social enterprises, such as mutual societies, were set up as co-operatives. There are two main types of co-operatives: those with share capital that can pay returns to members, and those that do not pay returns to members and may or may not have share capital.

Hybrid structure

This involves setting up a not-for-profit (CLG or IA structure) and a Pty Ltd company separately. The entities are managed using a web of legal documents to ensure strong governance. This is complicated, but means the social enterprise can raise capital from investors and also attract grants.

Step seven: is your portfolio streamlined and balanced?

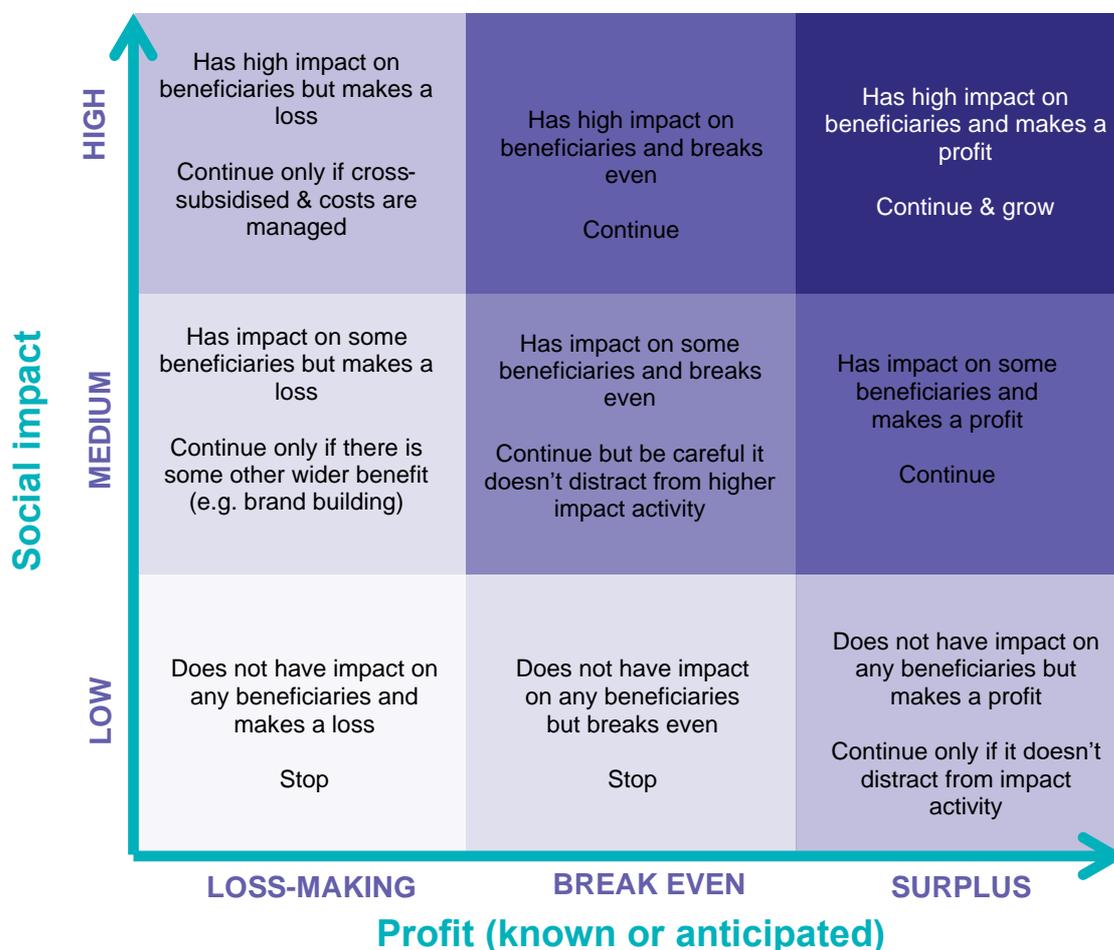
The final step is to look at your social enterprise model portfolio in the round as a total package. This step is only for social enterprises running multiple business models or products/services.

Of the models you want to operate, check that you will end up with a financially and socially balanced portfolio using the social enterprise model impact and profitability map.

The map was developed using the GE-McKinsey nine box framework (Coyne, 2008). Its purpose is to visualise the interplay between different business models and show the trade-offs between the two most important elements of a social enterprise model (profit and social impact).

Business models above the diagonal line justify investment and growth, and those on the line should be considered carefully. There should be a balance at either end of the line so loss-making business units are supported by profit-making units – the cross-subsidy model. Those below the line should be assessed for opportunities to move them above the line. The portfolio needs to be flexible to respond to changing external context - not a fixed five year strategic plan.

Tool 7: social impact and profitability map



What next?

The tools provided here offer a guide to developing a viable social enterprise model, to help executive teams wanting to build a purpose-driven business.

The original motivation for creating this toolkit arose from the bigger question of how to create a more sustainable and fairer economy – one where profit is an enabler of social impact, rather than profit being an end in itself. Social enterprise models are one way to step towards that reality.

Social enterprises are already altering long-held business norms and conceptions of the role of businesses in society (Fernando and Mario, 2017) and driving entire sectors towards sustainability (Dentchev et. al., 2018; Olofsson et. al., 2018). When there is no money to throw at a problem (an easy shortcut for corporate sector executives), social enterprises have to be more creative and more innovative to find a solution. Social enterprises successfully embrace multiple and competing yet potentially synergistic goals – a challenge for many modern corporates (Santos et. al., 2015).

There is a growing suggestion that corporate businesses should not only look to social enterprises as examples of how to successfully manage tensions and innovate to achieve long-term competitive advantage, but also to partner with them to absorb their unique competencies (Fernando and Mario, 2017). Corporate businesses driven by innovation and performance improvement may want to keep a close eye on the expanding social enterprise sector for entrepreneurial opportunities (Fernando and Mario, 2017; Furr and Snow, 2015).

Your part in the mosaic

Building a fairer and more just world will take all of us. Changing our economic system is a result of work that is greater than the sum of its parts. No one business, industry, or sector can do it on their own. It's a mosaic, and all the pieces of the mosaic are crucial (with no gaps, and no overlapping pieces).

The question to answer is - what piece of the mosaic of a fairer world will you build?

Your role in the bigger picture starts with checking what other pieces of the mosaic are already in place and looking for the gaps. Where can you complement what's already there? Use the steps in this guide to spark your thinking.

Then spread the message that there's a new way to do business. Call it conscious capitalism, social enterprise, social innovation, ethical business - it doesn't matter. Just get started. There's no time to lose.

Designing a social enterprise model is never “finished”. It requires constant monitoring, review and tweaking as the environment and markets change. Social enterprise models are inherently tricky to design well, particularly striking the right balance between social impact and profitability. But therein lies the immensely rewarding opportunity: to create business models that not only balance the books, but effectively build a fairer and more just world. For all of us.

If you need a hand – get in touch with us

The Dragonfly Collective is an international social enterprise consultancy, supporting for-purpose organisations to be strong and successful.

We work with social enterprises and charities, small and large, across Australia, the UK and Europe.

We offer strategic planning, business modelling, feasibility studies, research and marketing support.

Find out more at www.dragonflycollective.com.au

Get in touch with one of the Co-Founders if we can help you with the design of your social enterprise business model:

- Tara Anderson: tanderson@dragonflycollective.com.au
- Andrew Curtis: acurtis@dragonflycollective.com.au

Appendix 1: the 12 social enterprise model typologies

Below are the 12 social enterprise model typologies identified in a literature review of social enterprise and business model research. The 41 social enterprise model types identified in these 12 typologies were aggregated to create the 16 social enterprise model types in this toolkit.

Warrell (2008) and the Design Council (2018)

Separate research by social investor CAF Venturesome (Warrell, 2008) and the Design Council (2018) identified the same three models:

- *Donation models*: a profit-making trading activity that has no direct social impact but gives some or all of its profits to charity. This generates net profit to 'buy' social impact elsewhere.
- *Social operator models*: a trading activity that has a direct social impact, but has a trade-off between financial return and social impact. these ventures deliver social impact through the process of their operations, rather than through the product or service purchased by the customer. The most common forms involve the employment or engagement of disadvantaged and excluded people in the delivery process through employment or training programmes. The cost of social impact delivery is taken from the operating margin – it may or may not be possible to pass these increased costs onto the customer.
- *Aligned models*: a trading activity that generates a direct social return in correlation to the financial return created. In this case the social need and the market need are aligned, so selling the product or service generates both social return and revenues. With some of these companies, prices may be held low to ensure as many people as possible can access the social impact. In some cases, a 'robin hood' pricing structure is developed to charge those who can afford it more. Some are locking a certain amount of profits to be reinvested into the social mission.

Grassl (2012)

Grassl (2012) suggests nine social enterprise model types, based on the combination of mission-orientation, integration between not-for-profit and for-profit activities, and types of target markets:

- *Entrepreneur support model*: selling business support services directly to the entrepreneurs in the target population so they can start and run their own business.
- *Market intermediary model*: marketing or selling the target population's products or services for them.

- *Employment model*: providing employment or training for the target population.
- *Fee-for-service model*: charging the target population directly for the service.
- *Low-income client as market*: charging a low-income target population directly for the service.
- *Cooperative model*: a fee-based membership organisation, owned and run by members.
- *Market linkage model*: connecting the target population with markets for their products and services.
- *Service subsidisation model*: generating revenue from one market to fund their own support for the target population.
- *Organisational support model*: generating revenue from one market to fund a parent organisation to support the target population.

Byerly (2014)

Byerly (2014) identified the One for One business model – for every item purchased, one is given away, pioneered by TOMS Shoes.

Weis (2015)

Weis (2015) used two dimensions to explore social enterprise models:

- **Financing**: how the company finances itself and its social mission, ranging from financing for the social mission to financing from the social mission through market-based revenue.
- **Value creation**: the dominant mode of value that is created by the business, ranging from social value creation to economic value creation.

From these two dimensions, four models were identified:

- *Social capital*: the social mission is the central value proposition, tackles a social problem by satisfying a social target group's consumption need, paid for by customers that are donors and funders. Both customers and beneficiaries 'consume' the social mission of a company.
- *Political capital*: value proposition is to satisfy a social target group's consumption need (campaigning for their rights, law and justice issues), while satisfying a social target group's production need (supporting groups to access their rights). Explicitly generates value for the social target group on

the production side, while they provide free, but valuable production support to the consuming social target group. Beneficiaries are on both production and consumption side, and model is funded by donors and grants.

- *Human capital*: value proposition is to satisfy a production need of a social target group positioned on the production side (for example employment and training for disadvantaged people). Generates revenue by satisfying a consumption need of a market target group.
- *Economic capital*: value proposition is characterised by a consumption need of a social target group that is located on the consumption side. The beneficiaries are clients like a market target group, which pay for the goods and services they consume.

Santos et. al. (2015) and Fernando and Mario (2017)

Santos et. al. (2015) propose four hybrid business model types, based on their contingent value spill-overs and the degree of overlap between clients and beneficiaries:

- *Market hybrids*: beneficiaries are clients that pay for a product or service for which the value spill-overs happen automatically without requiring additional interventions. The social enterprise provides a product or service at low cost directly to beneficiaries, so all revenue is directly linked to social purpose.
- *Blending hybrids*: organisations that serve paying clients who are also the beneficiaries of their societal mission, however the beneficiaries require additional interventions for social value to be achieved (such as training or community outreach).
- *Bridging hybrids*: attend to clients and beneficiaries who are from different groups, but that integrate clients and beneficiaries in the same intervention. The social enterprise acts as a 'bridge' to integrate the different needs of beneficiaries and customers (for example complementary needs matching).
- *Coupling hybrids*: have customers and beneficiaries that are different but most value spill-overs do not happen automatically, requiring distinct social interventions alongside commercial operations i.e. customers and beneficiaries are treated differently and receive different services. This is more complex than other models because of the need to serve two very different groups and deliver additional social impact activities that are separate to commercial operations.

Fernando and Mario (2017) propose a fifth model, with three sub-components:

- *Platform hybrid*: a new IT enabled social enterprise form that connects previously disconnected actors. There are three forms identified:

- Crowd-funding platforms that facilitate individual donations - a platform owner connects 'fundraisers' and 'backers or supporters' who give funds for a cause.
- Peer-lending platforms that facilitate small loans - a platform owner connects a lender with a borrower (usually grassroots entrepreneurs).
- 'Reward' platforms – based on the growing importance of digital marketing, these platforms give rewards either in cash or perks to individuals for viewing or sharing videos.

Dohrmann et. al. (2015)

Dohrmann et. al. (2015) identify four social enterprise model types:

- *One-sided social mission*: aimed at a social target group on the consumption side that can't afford to pay. The model is funded by social investors or donors, or supplemented by a small fee from target users.
- *Two-sided social mission*: aimed at two social target groups, one on the consumption side and one on the production side. The model is funded by social investors and donors, and free production input from the social target group on the production side (because it satisfies a need). (For example, an online map showing disabled access, where the social target group of wheelchair users inputs data for free to the second social target group of topic-interested internet users.)
- *Market-oriented social mission*: aimed at a social target group on the production side that is paid for their input. The model is funded by paying customers in the market. The more sophisticated models increase willingness to pay by offering more innovative or effective options than the general market.
- *Commercially utilised social mission*: aimed at a social target group on the consumption side, that generates inputs for free that are sold to a separate paying customer group in the market. (For example, an online tool to help customers manage their energy usage where data they generate through free use of the tool is sold to others.)

Hockerts (2015)

Hockerts (2015) identifies three 'hybrid' business model types:

- *Work integration social enterprise hybrids*: provide employment and training, earning income through trade.
- *Base-of-the-pyramid hybrids*: provide essential products at an affordable price to poor customers who would otherwise not have access.

- *Fair trade hybrids*: manipulate trade relations by creating income for poor or marginalised producers by charging premiums to conscious consumers.

Wolfgang et. al. (2015)

Wolfgang et. al. (2015) identify six social enterprise model types, focussing in particular on social enterprise model innovation:

- *Cheap sourcing*: the social enterprise embeds cost-effective sourcing as the central element of its business model through volunteering, reusing goods destined for waste and/or using underutilised infrastructure. This creates a reduced purchase price for beneficiaries.
- *Inclusive production*: integrates beneficiaries with minimal or special qualifications in the delivery of the business model. This is used as part of the marketing strategy to justify a price premium, but requires supporting measures for beneficiaries.
- *Smart distribution*: makes products or services easily available to beneficiaries in remote areas or hard to reach populations. This model requires outreach.
- *Smart pricing*: makes social products or services affordable for beneficiaries through pricing mechanisms such as pay-per-use or pay-what-you-want. Beneficiaries are able to afford a lower price based on the higher price paid by other customers. Social norms such as fairness act as a control mechanism.
- *Opportunity creation*: creates opportunities for the target group through orchestration of support for beneficiaries to access new markets or sales channels. Income streams are linked to revenue sharing agreements.
- *Ecosystem engineering*: brings social enterprise products and services together in an ecosystem to create a more valuable system as a whole (for example linking social enterprises in a supply chain). This involves coordinating the system to improve collaboration. It's difficult to appropriate profit in this model.

Stumbitz et al. (2018)

Stumbitz et al. (2018) propose two strategies for balancing social and commercial objectives, and suggest that clarity about which strategy is being pursued is vital:

- *The 'mission integrated' model*: involves a combined social and commercial strategy. Trading activity meets the organisation's social objectives.
- *The 'cash cow' model*: uses commercial activity to generate a surplus that is reinvested to support the social mission.

Hahn et. al. (2018)

Hahn et. al. (2018) identify four social enterprise model types, along two dimensions: 'novelty' (adopting innovative content, structure or governance), and 'efficiency' (reorganising activities to reduce transaction costs).

- *The 'niche novelty' model:* involves a social enterprise adding non-financial value to products by adding inputs from sources that are more socially or ecologically sustainable. The sustainability elements are an 'add on' to the product features.
- *The 'integrated novelty' model:* involves integrating sustainability deeply into operations through vertical integration of sustainable resources from many partners in a way that is unique to the social enterprise and therefore difficult to replicate. The social value is integrated into the social enterprise' core activities.
- *The 'intermediary' model:* the social enterprise is a direct intermediary in a supply chain connecting upstream and downstream actors (directly and personally) to create more sustainable products. This relies on high process knowledge in the supply chain, to act as a bridge between suppliers that lacked access to markets that were previously unaware of their sustainable products or services. The social enterprise provides efficiency gains for both sides by reducing transaction costs and connecting previously unconnected actors.
- *The 'platform approach' model:* an indirect method of connecting previously unconnected actors. This is an online marketplace for sustainable or fair-trade products and services, in a similar way to an e-commerce website. The two 'sides' of the platform (sellers of sustainable products or services, and sustainability-conscious buyers) are provided with a technical solution to contact each other. This model allows greater reach.

Appendix 2: the social enterprise model menu

The 12 social enterprise model typologies identified were mapped against each other and grouped according to the four standard business model types (product, solutions, matchmaker and multisided) (Business Model Zoo, 2019) in Table 5 below. This yielded a combined total of 16 social enterprise model types, as shown in the far-right column of Table 5 below.

Table 5 - social enterprise model typologies

	CAF Venturesome (Warrell, 2008) & Design Council (2018)	Grassl (2012)	(Byerly, 2014)	Weis (2015)	Dohrmann et. al. (2015)	Hockerts (2015)	Wolfgang et. al., 2015	Santos et al (2015) Fernando & Mario (2017)	Stumbitz et al. (2018)	Hahn et. al. (2018)	Aggregated type
Product models	Aligned model: trading generates social impact (could include robin hood model)	Fee-for-service model: charging the target population directly for the service Low-income client as market: charging a low-income target population directly for the service		Economic capital: beneficiaries are clients who pay for goods and services		Base-of-the-pyramid hybrids: provide essential products at an affordable price to poor customers	Smart distribution: making products & services easily accessible to beneficiaries Cheap sourcing: sourcing to reduce price. Smart pricing: make products affordable	Market Hybrids: beneficiaries are customers that pay for a product or service Blending Hybrids: beneficiaries are customers but need additional support	Mission integrated model: trading meets social objective (customer is beneficiary)		Beneficiary as customer model
Solutions models		Entrepreneur support model: selling business support services to beneficiaries to run own business									Beneficiary as business owner
		Cooperative model: beneficiaries are members or owners, and help run the organisation									Beneficiary as member or owner model

Matchmaker models		Market linkage: connecting the target population with markets for their products and services					Opportunity creation: enables beneficiary to access markets or sales channels		Intermediary model: acting as a bridge to connect beneficiaries with new customers in a supply chain	→	Market linking model
		Market intermediary: marketing or selling the target population's products or services for them								→	Market creating model
								Bridging hybrids: separate customer & beneficiary integrated in same intervention		→	Service linking model
								Platform hybrid: three types - crowd-funding platforms, peer-lending platforms and 'reward' platforms	Platform approach: site connecting buyers & sellers of sustainable products	→	Platform as intermediary model
							Ecosystem engineering: enabling collaboration to create a more valuable ecosystem			→	Ecosystem model

Multi-sided models		Service subsidisation model: generating revenue from one market to fund organisation's own support for beneficiaries	One for One model: for every item purchased, one is given to a beneficiary	Social capital: satisfies beneficiary consumption need, paid for by donors/funders	One-sided social mission: service for beneficiary that can't afford to pay, funded by social investors /donors			Coupling Hybrids: clients and beneficiaries are different – separate social interventions	Cash cow model: surplus from commercial activity reinvested into mission	Niche novelty / integrated novelty model: add sustainable elements to a product (ranging from light touch to deeply in supply chain) as a USP	→ Cross-subsidy (customer) model	
		Organisational support model: earn revenue to fund a parent organisation to support beneficiaries									→ Cross-subsidy (parent company) model	
				Political capital: one beneficiary that wants to 'produce' info & one that wants to consume it, donor funded								→ Campaigning beneficiary model
					Two-sided social mission: two beneficiaries, one on consumption side, one on production side (volunteer), funded by social investors							→ Multiple beneficiary model
					Commercially utilised social mission: beneficiary inputs (free), sold to a separate customer							→ Beneficiary as contributor model
		Donation model: give profit to another charity										→ Donation model

Appendix 3: about the creators

About The Dragonfly Collective

The Dragonfly Collective is an international social enterprise consultancy, supporting for-purpose organisations to be strong and successful.

We work with social enterprises and charities, small and large, across Australia, the UK and Europe.

We offer strategic planning, business modelling, feasibility studies, research and marketing support.

Find out more at www.dragonflycollective.com.au

Tara Anderson – Co-Founder & Director

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Tara is one of the Co-Founders & Directors of The Dragonfly Collective. She specialises in strategy, business development, marketing and multi-partner collaboration.

Her experience spans small and large charities and social enterprises in Australia and the UK. She is particularly interested in the intersection between business and social change through social enterprise models. She is passionate about catalysing large-scale collaborations that join up solutions at a systems level.

Tara is part of the executive team and leads on marketing at Social Traders in Australia. She has worked as the Director of Strategy and Engagement at England's membership network for 750 local social enterprises, was a Board Member at a European social enterprise leadership development organisation, was the Head of Marketing and Communications at the UK's largest early years social enterprise, and was the Director of Marketing and Communications for a large charity in Australia. Alongside these roles Tara has lectured on social enterprise and collective impact at universities in London and Mexico.

Tara has an MBA from Cass Business School in the UK, a Masters in Social Innovation from Danube University in Austria, and a degree in Media and Communications from Melbourne University in Australia.

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