6 Business Models in Social Entrepreneurship

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Learning goals
Upon completing this chapter, you should be able to accomplish the following:

- Explain what a business model is.
- Explain the differences between business models of commercial enterprises and business models of social enterprises.
- Describe typical areas in which social entrepreneurs find and create opportunities.
- Recognize opportunities of social enterprises.
- Describe examples of business models which were successfully implemented by social entrepreneurs.
- Explain the main characteristics of different scaling and replication strategies.

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6.1 Introduction

Why the social entrepreneur's business model is different
Social entrepreneurs develop and implement effective solutions for societal problems. They fight unemployment, provide basic medical care, enhance the integration of disabled people, alleviate poverty, and fight climate change. Severe societal problems are reasons why social entrepreneurs start to develop solutions and create business models to solve them; where others might see insolvable problems, social entrepreneurs are able to envision solutions. For sure, social entrepreneurship is not a cure-it-all. Social entrepreneurs will not solve the most challenging problems of humanity on their own. This will require meaningful interactions of different economic actors including commercial and social entrepreneurs, NGOs, governments, and international organizations. But social entrepreneurs can play an important part in developing and implementing decentralized solutions to address societal problems.

Social entrepreneurs have one thing in common: They create value for society. Value creation, in turn, is delivered by an organization's business model. Peter Drucker once said a business model needs to answer the following basic questions: What is the customer value provided by the company? How does the company create that value? How does the company make money? The same questions need to be answered by the social entrepreneur's business model. Just like commercial entrepreneurs their business models have to explain how value is created for their customers or beneficiaries, how they deliver the product and service, and how they generate revenues. However, there are a couple of reasons why business models of social enterprises are distinct from those of commercial enterprises:

- **Social entrepreneurs pursue different objectives.** While commercial entrepreneurs focus on value *appropriation* social entrepreneurs focus on value *creation* (Santos, 2009). This means that commercial entrepreneurs want to create value for themselves and/or their stakeholders while social entrepreneurs want to create value for their beneficiaries and for society. For social entrepreneurs, profits are a facilitator but not the primary purpose of the organization.
- **Social entrepreneurs pursue different entrepreneurial opportunities:** Social entrepreneurs often discover and create opportunities related to the social, the so-called "third sector". Often markets in the social sector are informal, not regulated, not predictable, and characterized by the idiosyncrasies of personal relationships (Robinson, 2006).
- **Social entrepreneurs take different approaches to enact opportunities.** The different objectives for starting a social business result in different approaches of how opportunities are enacted. For example, social entrepreneurs are not interested in building up a sustainable competitive advantage; instead they want to provide sustainable solutions (Santos, 2009). Thus, they are not interested in protecting their ideas or their intellectual property. Quite the contrary, they want the idea to be spread to other geographic regions or target groups.

The reasons mentioned above indicate that business models implemented by social entrepreneurs are, to some extent, distinct from business models implemented by commercial entrepreneurs. If the business model is the key vehicle for social value creation and if social value creation is at the heart of social entrepreneurship it becomes crucial to understand the mechanisms of the social entrepreneur`s business model.

6.2 Opportunities for Social Entrepreneurs

Educational achievements of children often depend on their social background, even in industrialized countries. CO_2 emissions heat up the atmosphere of the planet, cause extreme weather situations and put large areas under water. Each day 29,000 children die from preventable and treatable illnesses. Worldwide, there are 144 million undernourished children under the age of five. 2.1 billion people live on less than 2 USD a day. Inequality of educational opportunities, climate change, lack of basic medical care, undernourishment, poverty—the facts are alarming and can have a paralyzing effect. However, for social entrepreneurs, all these problems are potential opportunities to start a social venture. The following chapters describe the nature of these opportunities and show how social entrepreneurs turn challenges into opportunities.

6.2.1 The Nature of Social Entrepreneurial Opportunities

Since 1998 the Schwab Foundation for Social Entrepreneurs tries to find the most advanced social entrepreneurs who are then provided access to a network of people which can potentially be beneficial for their work. **Figure 6.1** shows the fields of application of the 195 social entrepreneurs distinguished by the Schwab Foundation for Social Entrepreneurs.

Figure 6.1 Fields of activity of distinguished entrepreneurs

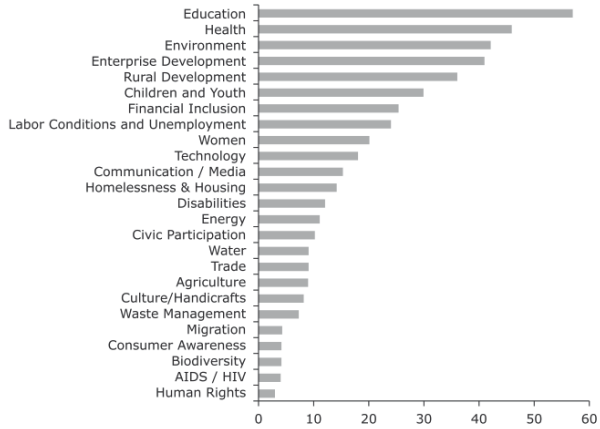


Illustration based on Schwab Foundation for Social Entrepreneurs (2011)

The figure shows that social entrepreneurs are active in a variety of fields, reaching from education to health topics such as AIDS/HIV to challenges related to migration or human rights. How is the nature of opportunities discovered or created by social entrepreneurs different from opportunities for commercial entrepreneurs? As indicated above, opportunities for social entrepreneurs are special because they are often embedded in the social sector market, which provides social services and products that benefit society. The specifics of this market are twofold. First, social sector markets are "social", which means they have an impact on society. Second, they are highly influenced by formal and informal factors, by social and institutional factors. Thus, social entrepreneurs often operate in environments characterized with little governance and oversight (Zahra et al., 2009).

In informal, hardly regulated markets, personal partnerships become important. A social entrepreneur who is not anchored in the community he wants to help (and does not manage to compensate this with partnerships) might fail, even if he could potentially help the beneficiaries (Robinson, 2009). With regard to the discovery and creation of entrepreneurial opportunities for social entrepreneurship Robinson (2009) identified the following recurring patterns:

- Successful social entrepreneurs identify opportunities in social and institutional contexts they believe they understand.
- Successful social entrepreneurs take into consideration the social and institutional factors when evaluating an opportunity.
- Social Entrepreneurs directly address social and institutional problems and their organizational goals often address social and institutional barriers to communities or markets.

6.2.2 Opportunity Recognition in Social Entrepreneurship

Opportunity recognition is the starting point for all entrepreneurial activities. But why do social entrepreneurs see problems and start to act while others don't? Zahra et al. (2009) identify three types of social entrepreneurs which vary with regard to how they discover social opportunities, how they pursue social opportunities, and how they impact the social system on a broader level. Building on the works of Hayek (1945), Kirzner (1973) and Schumpeter (1934), Zahra et al. (2009) develop a typology that identifies three types of social entrepreneurs that differ in how they address social needs, how they acquire resources and how they recognize opportunities.

- The first type of social entrepreneurs is called **Social Bricoleurs.** The name refers to the work of Hayek (1945) who proposed that opportunities can only be discovered and acted upon at a local level. Social Bricoleurs use whatever resources are available to solve the problem he or she is confronted with (Weick, 1993). Think of MacGyver using commonplace items around him to come up with ingenious solutions to escape a seemingly inescapable situation. In the same sense, Social Bricoleurs use readily available resources to address small-scale local social needs.

Their scope might be restricted and they might not aim to scale up their ventures and expand geographically. Nevertheless, they play an important role in society. Many social needs might otherwise be not fulfilled or interpreted incorrectly from afar (Zahra et al., 2009).

How do Social Bricoleurs identify and address opportunities? They have intimate knowledge about the local environment and the locally available resources. Outsiders might not recognize these opportunities because they lack the tacit knowledge needed to see and tackle the problem. Social Bricoleurs draw on local experiences and connections to the community. However, they might not see opportunities outside their realm of knowledge and might have no interest in increasing the scope of their activities.

- **Social Constructionists** typically address market failures. They address social needs that are currently not addressed adequately. They want to introduce reforms and innovations to a broader social system. Zahra et al. (2009) mention the Acumen Fund as an example, a non-profit venture fund that supports entrepreneurs of systemized and scalable solutions that work on problems with a direct influence on poverty. The Acumen Fund changes the landscape of supporting systems for social entrepreneurs. In contrast to Social Bricoleurs, Social Constructionists look at broader problems, follow a more structured path and aim for scalable solutions. They fulfill an important role in society because for-profit-businesses might not see the incentive to address the respective problem.

  The concept of the Social Constructionist is based on Kirzner's work. He emphasized that an opportunity does not necessarily occur to the entrepreneur due to a specialized knowledge but rather due a general alertness towards opportunities. The Social Constructionist could even be an outsider to the specific industry who realized that existing economic actors (businesses, institutions, NGOs) inadequately address a social need.

- The **Social Engineer** is the one creating the highest level of change. He aims to mitigate systemic problems by revolutionary change. Social engineers identify complex problems that can be caused by inadequate institutions and try to change the system by establishing different social structures.

  The theoretical foundation can be found in Schumpeter's work about "creative destruction". Muhammad Yunus, founder of the Grameen Bank, can be called a Social Engineer. He recognized that the underlying problem of poor people in Bangladesh was that they were trapped in owing debts to moneylenders demanding usurious interest rates. The situation was caused by the fact that the poor had no access to regular financial institutions since these would require collaterals they do not possess. Yunus changed this situation by founding a new financial institution that provided poor people access to micro-credits. Thus, he changed the institutional landscape in the financial industry.

  Social Engineers can have an immense social significance on a national or even international level. They replace existing underlying structures that cause problems with new and better ones. Thus, they are an important force causing social change.

6.2.3 Examples: How Social Entrepreneurs Translate Problems into Opportunities

As stated above social challenges are opportunities for social entrepreneurs. This chapter provides examples of how social entrepreneurs translate problems into opportunities.

- **Bringing unemployed teenagers into the job market: Job Factory** (www.jobfactory.ch)

  Problem: Youth unemployment prevents young people from acquiring the necessary qualifications to find employment later on. It is also a burden to the Swiss government. Job Factory calculated that each unemployed young person costs about 47,000 USD per year.

  Opportunity Recognition: Robert Roth, the founder of Job Factory, was working in a related field before. He founded a company called Weizenkorn that has grown to be the largest Swiss employer for young people with psychological problems. Over the years, he recognized that it was not only young people with psychological problems who could not find a job and had lost hope, but at-risk youth in general. This is why he started the Job Factory.

  Business Model: Each year, 300 young people get the chance to work in the Job Factory during a six-month internship. During that time they can acquire marketable job skills. The Job Factory has 15 shops where the participants can work, including stores for clothing, musical instruments, and a carpenter´s shop. The shops of The Job Factory are working break-even as an incorporated company (annual sales: 12 million Euros). The internship is accompanied by a targeted coaching program that addresses the capabilities and the weaknesses of the young people and is financed through donations and the public sector. By working in The Job Factory young people can get prepared for several apprenticeships.

  Impact: 2000 unemployment teenagers participated in the programs since the company´s foundation in 2000. Eight out of ten participants were able to find a regular apprenticeship afterwards (Schwab Foundation for Social Entrepreneurs, 2011).

- **Eradicating poverty: Grameen Bank** (www.grameen-info.org)

  Problem: In Bangladesh, 78 % of the people live underneath the poverty line of 2 USD per day. Poor people are often trapped in the vicious cycle of owing money to moneylenders who demand usurious interest rates. Since poor people have no collaterals they are lacking access to conventional financial services.

  Opportunity recognition: Muhammad Yunus talked to a poor woman in Bangladesh trying to find out what it was that kept her in poverty. The woman produced bamboo stools. It turned out that the dependency of the money lender and the high interest rates prevented her from escaping poverty. Yunus gave her money to pay back the money lender. She paid off her debt, bought raw material from his private credit and was able to pay back the micro-credit after a while. Yunus tried the same model again with other people in the same village and again it worked out. In this case, opportunity recognition

was not based on someone's own experiences with poverty but rather on observation and experimentation.

Business model: Muhammad Yunus has build up a financial institution that provides micro credits to poor women in Bangladesh without collaterals. Key success factors are self-selected borrower-groups of five women who are jointly responsible for the loan. If one member cannot pay back the weekly installment the peers in the group have to jump in. Thus, the group serves as a "social collateral" increasing pay back rates.

Impact: In 2009 the number of active borrowers was 6.43 million (Grameen Bank, 2011). The initiative of Muhammad Yunus has spread across the globe.

- **Fighting climate change: atmosfair gGmbH** (www.atmosfair.org)

  Problem: Climate change is one of the many symptoms of our ailing environment. Travelling by plane contributes to the greenhouse effect. atmosfair, a non-profit limited liability company and registered charity located in Bonn, allows customers to offset their emissions caused by their individual flights.

  Opportunity recognition: The founder of atmosfair, Dr. Dietrich Brockhagen, is a physicist and an environmental economist. He estimates that air travels are responsible for an estimated 10 % of global warming. The idea resulted from the frustration about the lack of compulsory environmental regulation that would bring the ever rising CO_2 emissions of the industry towards a pathway compatible with emission reduction targets. In order to prepare the ground for policy makers and to raise awareness among consumers for the true climate costs of air travel, atmosfair was launched as a second best voluntary approach.

  atmosfair was developed from a research project financed by the *German Federal Environment Agency*, the environment and development organization *Germanwatch*, and the *forum anders reisen*, an association of German travel agencies promoting environmentally-sustainable tourism. When the results of the research project demonstrated that it was feasible to devise a voluntary offset system without compromising environmental integrity, the atmosfair company was founded by means of donations and equity provision of the founder.

  Business model: atmosfair provides voluntary CO_2 compensations. Travelers can offset the greenhouse gases they create by flying. They can calculate the amount of greenhouse gas emissions created by their flight using an "emissions calculator" provided at the company's website. The calculator also shows the amount of money necessary to offset the respective emissions. Donations are made through the website or travel agencies. The donations are invested in projects in developing countries, that save a comparable amount of greenhouse gas emissions (e.g., implementation of solar or hydropower). atmosfair uses a percentage of the donations to cover administrative costs. However, administrative costs are low. According to the 2009 annual report of the company over 90 % of the revenues from donations are invested in climate protection projects. atmosfair does not receive public funding.

Impact: In 2009, customers donated about 2.2 million Euros in offset fees. The operating climate protection projects should reduce CO_2 emissions by 760,000 tons by the year 2020.

- **Integrating mentally ill persons: Pegasus GmbH** (www.pegasusgmbh.de)

  Problem: Often, mentally ill persons are not able to find a "normal" job. Instead they work in social programs, that are expensive to the government and do not allow the person to build up self-confidence.

  Opportunity recognition: The founder Friedrich Kiesinger is a psychologist. Before he became a social entrepreneur he initiated an integration project aiming to prepare people suffering from depressive disorders, schizophrenia or other mental illnesses for the first labor market. The project was financed by the European Social Fund. The project failed because companies did not want to hire mentally ill people. Instead of giving up Friedrich Kiesinger founded a company himself where people with mental illnesses where integrated (brand eins, 2008).

  Business model: Friedrich Kiesinger, the founder of Pegasus GmbH, provides jobs to people who are mentally ill. His company engages 100 employees of which 14 % are mentally ill. The company offers services such as facility management, catering, administrative services, services related to senior citizens. The variety of jobs allows the company to find jobs for people with different skill sets. People with mental illnesses are hired due their personal skills (Pegasus, 2011).

  Impact: Mentally ill people get the chance to build up self-confidence, since they are not working in a "protected" environment but in a regular company. On the other side employees with no diseases learn how to support the others. The company generates a turnover of 3 million Euros and can sustain itself. Profits are reinvested into the company's development and growth (Pegasus, 2011).

Table 6.1 summarizes how the above mentioned social enterprises solved the respective challenges.

Table 6.1 Examples of how social entrepreneurs recognize and tackle problems

Company	Problem	Opportunity recognition	Solution
Job Factory, Switzerland	Youth unemployment	Own experiences: the social entrepreneur worked in a related field before	Engage at-risk youth in internships at the Job Factory and offer accompanying coaching
Grameen Bank, Bangladesh	Lack to regular financial institutions. People trapped in the vicious cycle of owing debt to moneylenders and paying usurious interest rates	Triggered by conversations with poor people. By experimenting with micro-credits provided by himself he saw that this was a successful intervention for escaping poverty	Provide micro-credits to self-selected borrower groups of women without collaterals
atmosfair, Germany	Climate change caused through CO2 emissions	Developed from a research project aiming to work out an approach for implementing voluntary CO2 compensations	Provide voluntary CO2 compensation for flights. Donations are invested in projects saving a comparable amount of CO2
Pegasus, Germany	Difficulty for mentally ill persons to find a regular job	An EU-sponsored project to prepare mentally ill people for the job market failed because companies did not want to hire mentally ill people. The founder eventually established a company himself where people with mental disabilities can work	Provide a variety of jobs in which mentally ill people can utilize their strengths. Work closely together with psychiatrists

Own table

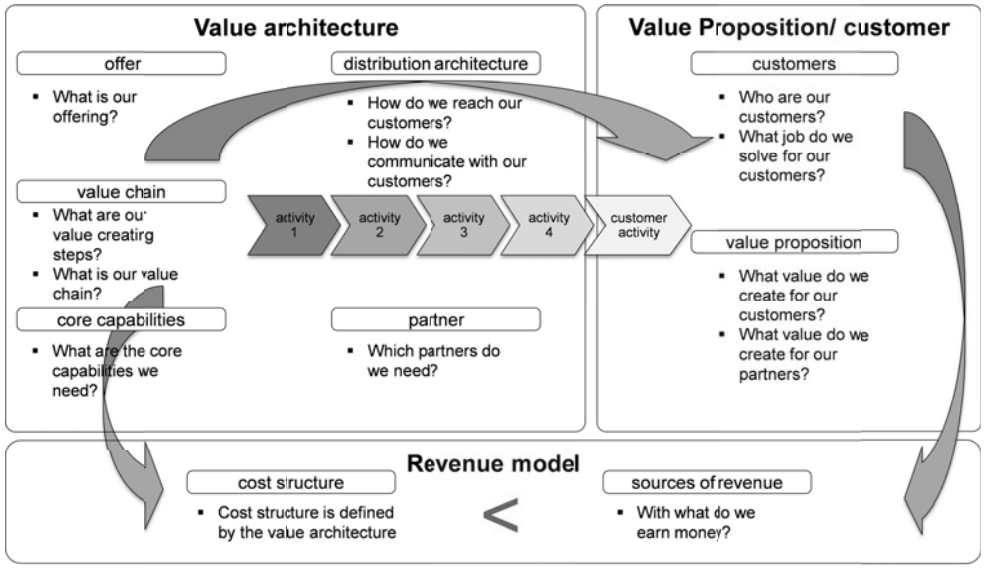
6.3 Distinct Features of Business Models for Social Enterprises

The business model literature does not fully agree on the definition of a business model. Different definitions list different components of what constitutes a business model. Nevertheless, the following three elements are typically mentioned as building blocks of business models (Stähler, 2001):

- The **value proposition** describes the value that the company creates for its customers and partners. A clear value proposition needs to answer the following questions: Who are our customers? What job do we solve for our customers? What kind of value do we create for our customers and partners?
- The **value architecture** describes *how* the products and services are produced, and thus, how the value is created. This includes the value chain, the core capabilities and partners, and finally the distribution architecture used to reach and communicate to customers.
- The **revenue model** describes the sources of revenue as well as the enterprise's cost structure which depends on the value architecture.

The business model canvas in **Figure 6.2** shows the building blocks of the business model. It is important that the elements fit together. Aravind Eye Care, an organization mentioned later on in this chapter, is a good example for an organization with a coherent business model where all elements enforce each other. All three elements and the interaction between them also need to be explained in a business plan.

Figure 6.2 Business Model Canvas



Own illustration based on Stähler (2001)

Just as commercial entrepreneurs, social entrepreneurs need to define the three main elements of a business model. They need to be clear about their value proposition, define how they create and deliver the product or service and build a sustaining revenue model. However, due to the differences of social and commercial entrepreneurship mentioned in chapter 6.1 there are a couple of differences with regard to the design and implementation of the social enterprise's business model. **Table 6.2** provides an overview of some characteristics that are specific for business models of social enterprises.

Table 6.2 Specifics and principles of social enterprises' business models

Business model components	Business models of social entrepreneurs	Business models of commercial entrepreneurs	Business models of traditional non-profit organizations
Value proposition	– Create social value – Cater to basic humanitarian and environmental problems – Solving the root cause of a problem – Provide systemic solutions for complex social problems – Induce social change	– Various value propositions aiming to fulfill or create an unmet market need that promises financial gains	– Comparable value propositions than social entrepreneurs – However, the value propositions might aim to provide an instant relief instead of solving the root cause
Value architecture	– Apply innovative resource mobilization strategies (partnerships, co-creation, volunteer support) – Active participation of the beneficiaries to design or create the product	– Depends on the company's objective	– Often project-based interventions. If the project is finished employees might turn towards the next project
Revenue model	– Employing various sources of money – Revenue-generating business models that benefit social value creation – Price differentiation	– Revenue model aiming to maximize profits	– Often dependent on donations, state, or philanthropic money

Own table

In the following, the differences between the social, commercial and charity business models are being described in more detail.

- **Value proposition:** The social entrepreneur's value proposition is typically linked to mitigating social or environmental problems. Social entrepreneurs start their company to serve basic humanitarian needs, distribute scarce resources more fairly or take care of the needs of future generations by promoting environmental behavior (Seelos and Mair, 2005). Successful social entrepreneurs are not satisfied with treating the symptoms; they want to eliminate the root cause of the problem.

  Traditional entrepreneurs, in contrast, look at market opportunities with a different angle. The question is which markets promise interesting target groups and lucrative margins. Financial objectives are often an important driver. However, most entrepreneurs start their companies not solely for financial reasons. Instead, commercial entrepreneurs often start companies that allow them to follow their passion, create something by themselves, and enjoy the freedom of being their own boss.

Traditional non-profit organizations potentially work on the same problem areas as social entrepreneurs. However, there are many organizations that are providing instant relief but do not solve the core problem. For example, a non-profit organization that provides communities with used clothes, money, or food offers an instant relief but does not solve the underlying problem. In emergency situations this is surely the right thing to do! But if the support comes regularly it might cause dependencies and prevent self-initiatives. This type of aid does not help to develop internal structures allowing communities to support themselves.

- **Value architecture:** The social entrepreneur's value architecture often engages partners and beneficiaries in the creation of the product. This can serve two purposes: First, the engagement of partners and beneficiaries can help overcome restrictions caused by resource limitations. More than commercial entrepreneurs, social entrepreneurs have to deal with severe resource limitations, a hurdle which they can overcome by building networks (Grichnik, et al., 2010) and bringing together volunteers, commercial, and non-commercial partners. Thus, innovative resource mobilization strategies are an important tool for social entrepreneurs. Second, participation of partners and beneficiaries can evoke a sense of responsibility. For example, if the social entrepreneur uses the principle of co-creation to conjointly design or create the product with the beneficiaries the chance that the product or service will fulfill the needs of the beneficiaries and will be applied is much higher. The principle of co-creation is further explained in chapter 6.4.3.

  Of course, commercial entrepreneurs build complex relationships as well. However, the nature of these relationships is different. In general, partners of commercial entrepreneurs have clearly defined roles which are often regulated by legal contracts. Social entrepreneurs, on contrary, might build their relationships on a shared vision. To reach this commitment the social entrepreneur needs to be an inspirational leader with the ability to engage other parties and share leadership.

- **Revenue model:** The social entrepreneur's revenue model might be complex and funded by different sources. The Schwab Foundation for Social Entrepreneurs distinguishes between three different types of social enterprises based on their financial model (Schwab Foundation for Social Entrepreneurs, 2011):

  – **Leveraged Nonprofit:** The entrepreneur drives an innovation that addresses a market or government failure. Private and public organizations are engaged to help drive and multiply the innovation. The venture continuously depends on outside philanthropic money. However their longer term sustainability is often supported by partners with an interest in the long term existence of the business.

  – **Hybrid Nonprofit:** The entrepreneur also follows a non-profit approach. However, the organization includes some degree of cost-recovery by selling goods and services. Other sources of funding can include public and philanthropic money, grants, loans, or equity.

  – **Social Business:** The venture generates turnover and profits and is thus self-

sustaining. Financial surpluses are reinvested in the venture and used to grow the solutions. Maximizing profits and wealth accumulation is not a priority.

Even though there are social entrepreneurs using donations, state, or philanthropy money as (part of) their income, they usually prefer earned income strategies in order to reduce dependency of outside funding. This is also a major difference to traditional non-profits that often use donations, philanthropy money, or state money as a major source of income.

Since increasing social value is at the core of a social entrepreneur's business model, they might use price differentiation to provide access to customers who could otherwise not pay for the product or service offered.

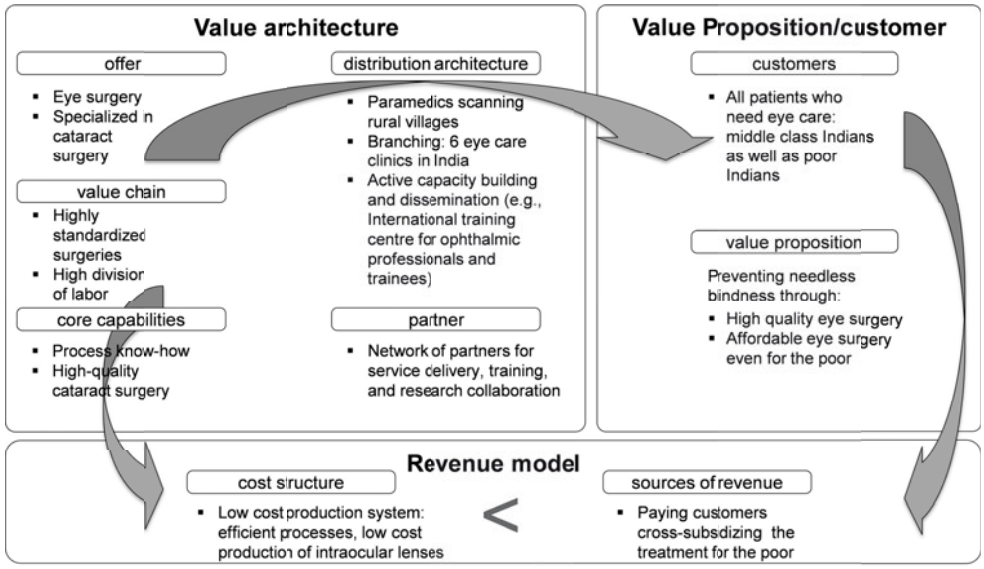
Compared to commercial businesses aiming to increase the profit for their shareholders, social entrepreneurs try to generate profit in order to develop and grow their businesses.

The business model of the Aravind Eye Clinics is a good example for a coherent business model of a social enterprise. Aravind is a social enterprise that aims to "eradicate needless blindness". The founder, Dr. Venkataswamy, had the idea of applying McDonald's principles of providing the same service in a standardized manner to cataract surgery. A cataract surgery is a relative small operation in which the natural, clouded eye lens is removed and replaced by an artificial lens. Left untreated cataract causes blindness. In 2006 an estimated 20 million people were blind from cataracts worldwide, more than 80 % of them live in developing countries. Dr. Venkataswamy, a specialist in cataract surgery, thought that if McDonald's could ensure that hamburgers all over the world are delivered in the same manner and in an efficient way, why should that not be possible for performing eye surgery. What started as an idea and an 11-bed hospital has now evolved into a self-sustaining organization conducting more than 300,000 eye surgeries in six hospitals per year.

One key success factor of Aravind is its standardized processes. Patients from remote villages are screened in eye camps and brought to the hospital in case they need an operation. Highly trained staff takes care and prepares patients for the operation while the doctor concentrates on performing the operation. Since the hospital specializes on cataract surgeries each doctor performs about 2,000 operations a year, ten times more than an ophthalmologist working in a traditional medical practice or hospital would normally encounter per year.

The streamlined procedures give Aravind the financial leeway to employ price differentiations according to the ability of the customers to afford the treatment. If patients cannot afford to pay they are still being treated. Roughly 40 % of Aravind's patients pay for the service. They provide enough to cover the costs for all patients being treated. Aravind even generate a surplus. However, profits are not distributed to the owners but used to develop and grow the company. The quality of treatment doesn't differ between paying and non-paying patients. The business model of Aravind is described in **Table 6.3**.

Figure 6.3 Business Model Canvas for Aravind Eye Care



Own illustration based on Stähler (2011)

6.4 Design Principles of Social Entrepreneurship Business Models

Social entrepreneurs build very diverse and innovative business models. However, there seem to be a couple of principles that fit the idea of creating social value with entrepreneurial approaches. In the following four sub-chapters these principles are introduced and illustrated with an example.

6.4.1 Addressing the Root Cause of a Societal Problem

Social entrepreneurs are interested in addressing the root cause of a problem in order to create systemic and durable change and thus have impact. Addressing the root cause of a problem requires social entrepreneurs to understand rather complex social problems otherwise they will have difficulties reaching the core of the problem they aim to solve.

One organization that clearly targets a root cause of a problem is Agua Par La Vida, an organization providing access to safe drinking water in rural communities in Nicaragua.

The organization's value proposition is to give every home in a village access to safe drinking water. Unsafe drinking water causes serious diseases and is probably the single largest health problem in the world. By providing the villagers with access to safe drinking water, the health of the villagers improves immediately.

Marche Seibel, the founder of Health Rock, an organization based in Boston, also wants to get to the core of the problem. By increasing health literacy he aims to prevent illnesses instead of curing them. Mache Seibel, a medical doctor by profession, writes and performs health songs for children to increase health literacy. But the songs about diabetes, about brushing teeth, or H1N1 would not have any impact without changes in the children's behavior. Therefore, in order to increase the effectiveness of his music Marche Seibel tries to produce the songs in a way his target audience can relate to. Anorexia, for example, is mainly eminent in young women and therefore sung by a young woman. That makes it more credible for the target group and the likelihood that listeners act upon the song increases.

6.4.2 Empowerment of Beneficiaries

Empowering the beneficiaries is often a key element to reach the social ventures objective. Muhammad Yunus founded the Grameen Bank to eradicate poverty. To do so he does not collect donations and distribute them among the poor. Instead, he aims to empower the beneficiaries. By giving micro-credits to poor people without collaterals he gives them the opportunity to free themselves from poverty. With the success of the Grameen Bank, Muhammad Yunus showed that the poor have the ideas, motivation, and skills to secure their livelihood by themselves (Mohan and Potnis, 2010). So far, they just lacked access to the resources necessary for starting off.

6.4.3 Co-Creation

Co-creation, the integration of the target group in the design, the production or the distribution of the product or service, is often utilized as a valuable resource by social entrepreneurs. Co-creation offers two advantages. First, the social entrepreneur can leverage scarce resources. Second, the involvement of the target group can be a precondition to guarantee the sustainability of the value proposition.

For example, The Hub Zurich, a co-working space for social entrepreneurs, was built in 2010. The founders employed the principle of co-creation for financing and building the office space. Part of the money needed for building and furnishing the office space was covered by small loans provided by people who believed in the purpose and the success of the Hub. The lenders, or crowd-funders, will get their money back on an agreed upon date. Also, to crowd-build the Hub the founders organized events and invited people to build or enhance the office space.

Another social entrepreneurial venture applying the principle of co-creation is the above mentioned organization Agua Par La Vida. The value architecture works as following: Agua Par La Vida goes into villages and helps the community to build their own gravity flow pipe water systems that provides all homes in that village with access to safe drinking water. The building of the water system is only started when all families in the community agreed that they actively help in building the system. Even if it takes three or four years to reach commitment in the community, the project is not started without a prior and written commitment of the villagers.

While Agua Par La Vida provides the material, the villagers help to build the system. This approach serves multiple purposes: The organization can bootstrap scarce resources and the beneficiaries take ownership of the project and are able to maintain and repair the system. Also, the co-creation process increases acceptance of the intervention in general which is important since the water system is not only a technical intervention but requires changes in behavior to be effective. Access to fresh water has more impact if hygiene measures are taken up. Otherwise, the impact of the intervention is limited.

Bill McQueeney an American who supports Agua Par La Vida through his own US-based organization Rural Water Venture reports another important effect caused through the co-creation process. The successful completion of a project helps the villagers to gain trust in their own abilities and skills. Often the village community starts with other projects such as building streets or improving school buildings. Thus, co-creation has an impact on multiple levels.

6.4.4 Price-Differentiation and Cross-Subsidization

Social entrepreneurs want to increase social value. Often that means that they try to cater to the needs of people who are not able to afford the regular price of the product or service. Price differentiation and cross-subsidization are two principles to deal with that challenge. The Aravind Eye Clinic is one example of a social enterprise applying these principles. As described in chapter 6.3 it is Aravind's vision to eliminate needless blindness. The organization focuses on standardized eye surgeries. About 40 % of the patients can afford to pay for the service. These 40 % cover the costs for all patients being treated. If the clinic would provide the eye surgery for free to everybody, the company could not deliver its service in a sustainable manner and would depend on outside money. Also, if Aravind would not treat patients who can't afford the treatment, the social venture could not fulfill its vision which is the eradication of needless blindness—regardless of the person's ability to pay for the service. Thus, the idea that patients only have to pay if they can afford to and to use the money of paying customers to cross-subsidize the service for the poor allows the social venture to reach its mission.

6.5 Replication and Scaling-Up

In order to address social problems on a large scale, social entrepreneurs need to replicate or scale their solutions. Mostly, social entrepreneurs use the term "replication" to refer to the diffusion and adoption of their model in different settings. The term "scaling-up" is mostly utilized when the social entrepreneurs refer to a more significant organizational growth and central coordination (Dees et al, 2004). Both options, replication and scaling-up strategies, can help social entrepreneur to increase their geographic scope or reach out to a new target group.

According to Dees et al. (2004) social entrepreneurs often find it hard to scale. In many cases, the process is slow, particularly if compared to the magnitude of the addressed problem. The authors recommend that social entrepreneurs firstly define their innovation to make sure it is clear what they want to scale and whether the innovation is transferable and ask the following questions:

"What makes their approach distinctive? What is essential to their success? What internal or external factors play critical supporting roles? And what could possibly be changed without jeopardizing impact? […] Will the core elements be as effective in different contexts? Are these elements easily communicated and understood? Are they reliant on rare skills or conditions?" (Dees et al., 2004, p.26)

If the social entrepreneurs found that they are ready to replicate they have to decide which scaling or replication strategy is good for them. Possible ways to scale include the following concepts which are explained in more detail in chapter 10:

- **Dissemination:** The dissemination of the principles is probably the most easy strategy. It means that the social entrepreneur spreads the word about his innovation and thus serves as a role model or catalyst for others (Dees et al., 2002, p.246). It can be compared to an open source strategy where an approach is made available to the public. That is in line with the thought that social entrepreneur are not interested in protecting their idea but in spreading the word so that as many people as possible will apply it.

  One social entrepreneur who successfully followed this strategy is Takao Furuno, a Japanese farmer, who started the „Duck Revolution". In the 1970s he turned his farm organic. After years of tearing out weeds by hand, he rediscovered the traditional practice of using Aigamo ducks to protect rice. Instead of using chemicals, the ducks paddling in the rice not only eat insects but also use their feet to dig up weeds. Furuno improved the method by experimentation. For example, he determined the optimal age and number of ducklings released to the field by experimentation. To disseminate knowledge about his methods he published the book „The Power of Duck: Integrated Rice and Duck Farming". Also, he holds lectures and cooperates with agricultural organizations and governments. His Impact: More than 75,000 farmers in Japan and other Asian countries already apply the method.

- **Affiliation:** The parent company works together with one or more partners on a permanent basis. The partner organization is responsible for the implementation on a local level. Three types of affiliation can be differentiated: Joint Venture, Licensing, and Social Franchising.
  - **Joint Venture:** In a Joint Venture two or more partners found a new company together. The different partners can bring different things to the table, including know-how or intangible resources. The joint venture allows putting together the strengths of the partners and sharing associated risks. If things go well partners can reach economies of scale and synergies. A potential disadvantage is that centralized controls might have a negative impact to the entrepreneurial behavior of the firm.
  - **Licensing**: Licensing means that the license holder acquires the right to use the intellectual property of the social entrepreneur. The licensing agreement could allow the licensee to use a technical innovation, a program package, or the brand name of the company.
  - **Social Franchise:** Social franchises use the idea and the logic of commercial franchises to achieve social goals. A contract between franchisor and franchisee is the basis for the partnership. The franchisor is responsible for the franchise package, which might include the brand, key processes, the education of the franchisee, and the further development of the concept. An example for a successful social franchise is the exhibition "Dialogue in the Dark". In the exhibition blind or partially-sighted guides lead visitors through a completely dark environment. The visitors learn to rely on other senses and develop an understanding of how blind people experience their environment. "Dialogue in the dark" was started in 1988 and has been presented to more than 30 countries and over 160 sites in Europe, Asia and America. Six million visitors have experiences the exhibitions and 6,000 employees, most of them blind or partially sighted found a job (Schwab Foundation for Social Entrepreneurs, 2011).
- **Branching:** The operative work is done on a branch level. Normally, all branches together build a legal entity. Branching allows for central coordination and local responsiveness. Generally, the strategy requires a lot of resources from the social entrepreneur. If the success is highly dependent on specific processes and quality standards branching can be the preferable strategy (Dees et al, 2004). An example is the Grameen Bank. Throughout the years the bank has lent money to more than 8 million customers. One success factor of the bank is that the money is given to the people through local branches of the bank. This ensures process quality and allows the organization's employees to get close to the customers.

It is important to notice that all efforts to scale or replicate a business model requires resources in terms of time and cost, even disseminating an idea takes up time and resources. What is the right strategy depends on the underlying idea and the business model. For example, if the success of a business model depends on some key factors that are easy to understand disseminating the idea might be the best option.

If on the other side, it is important that certain key processes are followed in detail a social franchise with strict quality control processes might be the better choice. **Table 6.3** provides an overview of the advantages and disadvantages of the different options.

Table 6.3 Advantages and disadvantages of scaling strategies

Table	Advantages	Disadvantages
Dissemination	– Low costs – The idea can spread quickly to other geographic regions – Idea might be adapted to local conditions	– Low control
Joint Venture	– Different partners with different strengths might achieve better results – Risk sharing – Reach economies of scale and synergies	– Centralized controls might decrease entrepreneurial behavior
Licensing	– No large financial requirements – Revenue generation through licensing	– Loss of control over the production and delivery of the product – Difficulty to enforce the licensing agreement
Social Franchising	– Brand consistency – No large financial resources required, franchisee invests own money – Encourages entrepreneurial spirit at the level of the franchisee	– Difficult to control whether the social mission is really followed
Branching	– Quality control – Possibility to enforce standards – Improve organizational learning – Get close to the target group	– Often requires large investments

Own table

6.6 Case Study

May 2010. Murat Vural, co-founder of ChancenWerk, and Erkan Budak (head of the Cologne branch office) are sitting in their office in Cologne discussing the future of ChancenWerk. The number of participants increased during the last months and both of them are satisfied with the impact of the program. Participation in the program allowed the school students to see how one could succeed in school and life. More than half of the program's participants already improved their grades.

The concept of ChancenWerk passed the field test. Murat and Erkan now want to implement their program in schools throughout Germany. However, they are not sure how they should organize the expansion. They do not have a lot of resources at hand and they are aware that the revenue model and the organization's structure needed to be changed, before they could scale or replicate their program.

They know that a lot of work is waiting ahead of them. On the other side, the thought that they could provide each and every child participating in their program with the chance to change his or her own life kept them going.

The Problem
The likelihood to finish school with the "Abitur", the German university-entrance diploma, is much higher for children whose parents graduated from university. Thus, in Germany, the social background largely determines whether or not a child will have a successful school career. Having experienced educational injustice himself, Murat Vural, Ph.D. candidate at the Ruhr-Universität Bochum, decided to empower immigrant children to escape the situation of underperforming in school and failing in life. Later on, he explicitly enlarged the group of beneficiaries from immigrant children to children from difficult social backgrounds.

The Idea
In June 2004 Murat and ten fellow students founded the „Intercultural Association for Education and Student Support", later renamed "IBFS ChancenWerk". To increase the educational opportunities for immigrant children Murat developed an "education chain" which draws on positive role models. The program offers an after school program that allows children to acquire the tools necessary to succeed in school and life.

The education chain called "Students helping Students" (SHS^2) works as follows:

- A volunteer **school coordinator** is supervising the project at one school. The school coordinator is responsible for coordination, member support, and team leadership.
- One **university student** supports eight older school students with exam preparation. The student is hired and paid by ChancenWerk.

- The **older school students** do not have to pay for the supervision but have to support younger school students with their homework. Two teams, each comprised of four older school students and one university student, supervise 16 younger school students once a week. Each team conducts one session à 90 minutes per week. That means that the 16 younger school students receive two sessions per week, one provided by the first, one provided by the second team.
- The **younger school students** have to pay 10 Euros per month to participate. The fee of 10 Euros is much cheaper than commercial offers for home tutoring and can also be afforded by parents with a low-income.
- The **impact of the model:** Even though only three university students are paid, 24 school students (16 younger students and 8 older school students) benefit from the model.

Figure 6.4 provides an overview of the education chain.

Figure 6.4 Education chain of the SHS2 Model (shows one week of provided support)

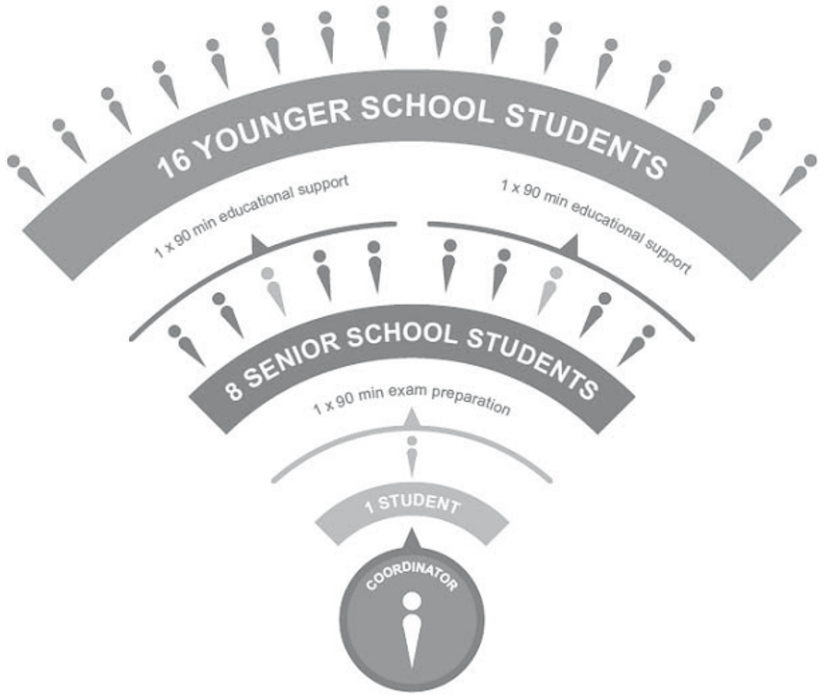


Illustration based on ChancenWerk

The idea of using role models is an important factor of the model's success. Partly, ChancenWerk hires university students who come from difficult family backgrounds themselves and who have proven that you can successfully finish school even if your starting conditions were not promising. The idea works: If you can identify yourself with somebody you are more likely to ascribe his attributes to yourself: "If he could do it, I can do it as well". Difficult family situations are then not an excuse anymore. Also, the older school students who support the younger school students not only benefit from the training they receive but also from helping the younger ones. The study groups provide the participating children with the needed appreciation, recognition, and opportunities to prove themselves.

Implementation

The first cooperation with a school was initiated in August 2004 with a comprehensive school in Castrop-Rauxel. Today, ChancenWerk is active in eight schools. In total, three salaried employees of ChancenWerk and about 50 university students reach about 400 school students.

Up to six SHS² models can be implemented at one school. If four SHS² models are offered at a school 32 older and 64 younger school students can be reached. A volunteer school coordinator is responsible for the project management and the implementation of the model at the respective school. The school coordinator is, in turn, supported by a city coordinator. One city coordinator is responsible for the introduction, implementation and further development of the model at six schools. He supports the school coordinators, hires qualified students and is in touch with local organizations and associations.

In order to be successful, ChancenWerk not only focuses on the children but bridges between schools, students, and parents. For example, Murat realized severe communication problems between schools and parents. Often parents did not come to parents' evenings. To improve the situation the employees of ChancenWerk call the parents at home and personally invite them. This might take 10 to 15 minutes per call, but the increased participation of parents shows the importance of the initiative. Since the language is often another communication barrier the employees of ChancenWerk address the parents in their respective mother tongue which could be Arab or Turkish or whatever is required. The key is to convince the parents to allow their children to participate in the program.

Before the organization's business model can be replicated and scaled the organization needs to rethink its revenue model. At the moment, the organization depends on donations. **Table 6.4** shows expenses and revenues of the model per month.

Table 6.4 Revenues and expenses of one implemented SHS[2] model

Supervisor	Beneficiary	Received monthly supervision	Compensation of students per 90-minutes-course	Expenses per month	Revenues per month
1 student	8 senior school students	4 x 90 min. intensive exam preparation	30 Euros	120 Euros[1]	
2 teams comprised of 1 university student and 4 older school students (each team offers 4 sessions per month)	16 younger students	8 x 90 min. homework supervision	15 Euros	120 Euros[2]	160 Euros[3]
Sum				**240 Euros**	**160 Euros**

Own table

[1] 30 Euros x 4 ninety-minutes-courses = 120 Euros

[2] 15 Euros x 8 ninety-minutes-courses = 120 Euros

[3] 16 younger students x 10 Euros membership fee = 160 Euros

However, loses occurring during schooldays are, to some degree, compensated during holidays: Membership fees are being paid throughout the year (12 months/year), while courses are only offered during school days (9 months/year). Thus, no salaries have to be paid during holiday time. Additionally, the demand at the schools is quite high. In almost all of the schools the groups reach maximum size.

The yearly revenues for each SHS[2] can thus be calculated with the following formula:

- Number of SHS2 models x 16 school students x 10 Euros x 12 months

ChancenWerk is a charity and is therefore tax exempted. Currently the association employs three employees and 19 volunteers. Besides the variable costs mentioned above there are a couple of other costs, that occur independent of the number of implemented SHS² models (e.g., overhead costs for personnel, administrative costs, coaching for the students).

Next Steps
The model is now supposed to be implemented in other schools. Murat wants more children with difficult family backgrounds to have the chance to benefit from ChancenWerk, no matter if it is children with a migration background or not. For that purpose the revenue model and the organization structure of ChancenWerk needs to be changed. The co-founder is thinking about different options to change the model so that each SHS² covers its cost.

- **Option 1:** Increase the fee for each participant to 15 Euros per month
- **Option 2:** Change the ratio between older and younger school students
- **Option 3:** Changes with regard to both options

Both increasing the fees and changing the ratio between supervisor and learners bring about disadvantages. Since ChancenWerk targets its services to children from socially deprived backgrounds an increase in fees might prevent children from participating in the program since their parents might not be able to afford the fees anymore. In any case, Murat and Erkan want to avoid this situation. Also, they do not want to endanger the high quality of homework supervision that might be in danger if the supervisor-learner-ratio would be changed. Murat and Erkan are also discussing alternative options for organizational structure, such as a social franchising system, build up branches, or pursuing a strategy based on partnerships.

Questions
1. Use the Business Model Canvas (see **Figure 6.2** and **Figure 6.3**) to describe the current business model of ChancenWerk.

If you were in the situation of Murat and Erkan:

2. How would you change the SHS² model? What are the advantages and disadvantages of your suggestions?
3. How would you change the business model in general in order to increase the organization's effectiveness?
4. What type of replication or scaling strategy would you follow? Also use the information provided in chapter 5 to answer that question.

Justify your recommendations.

6.7 Further Reading

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