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**Categorising Social Enterprise Business Models:  
The First Step Towards Predicting Value Creation**

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## Abstract

Business model literature predominantly tackles one issue or moment at a time. It has not aggregated issues like performance, hybridity and development theory to enable practitioners to make better decisions when faced with choices that challenge the organisation. This research categorises an organisation's business model and simultaneously reveals tensions by using multiple academic frameworks to reveal patterns towards optimal decision making, instead of exploring one academic model which alone may prove suboptimal for senior managers. The research lays out the routes to create superior value in a world where the demands on strategic choices are increasingly pluralistic in nature.

**Keywords:** Business model, social enterprise, value creation, dynamic stage theory, paradox theory, value-based strategy.

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## **Introduction: Confronting Failure and Finding a route to Success**

Data from the U.S. Bureau of Labour statistics, U.S. Small Business Administration and similar organisations globally show that “more than 90% of start-ups fail” (Marmer 2011). Two thirds of start-ups, “never deliver a positive return to investors” (Eisenmann 2021). Even when isolated to different types of organisations like family businesses, “only 1 out of 10... reaches the third generation” and even once failed these organisations are not necessarily closed, they continue to persist in a failed state (Scheffold 2015).

The business model provides an appropriate backdrop to explore this high level of failure because, “truly transformative businesses are never exclusively about the discovery and commercialization of a great technology. Their success comes from enveloping the new technology in an appropriate, powerful business model” (Johnson, Christensen and Kagermann 2008). Therefore, taking a snapshot of an organisation’s current business model and then observing the direction in which senior management is developing the business model will enable organisations to combat business failure and instead achieve success.

Looking specifically at social enterprises or hybrid organisations, (which are organisations that simultaneously pursue both a social mission and profitability) the problem of failure is exacerbated because the usual pitfalls for managers of new and established ventures are magnified by the dual purpose of the organisation. The tensions that exist in such organisations are usually complicated and not merely complex. This means that the business models of these organisations are chaotic and “there is no system to be worked (out)” (Kurtz and Snowden 2003). In more challenging and complicated spaces Kurtz and Snowden suggest, taking steps to either “control the space and make it knowable or known” or utilising “multiple interventions to create new patterns and thereby move the situation into the complex space” from the chaotic.

This research ventures to do just that by finding patterns that can be exploited to create superior value creation, which is defined as the highest possible realisation of the social mission in lock step with the highest possible financial return.

### **Importance and Relevance of the Research**

Using a typological approach, the M.EOS model considers management, “a theory about collective performance in the presence of a manager” (Santos 2013). This model classifies performance factors according to Environment, Organisation and Strategy. Such a business model can be considered to “consists of four interlocking elements that, taken together, create and deliver value according to the model put forward by (Johnson, Christensen and Kagermann 2008). The four elements are key resources, key processes, customer value proposition and the profit formula. Concentrating on social enterprises there are three different types of organisations as stated by the model presented by (Elkington and Hartigan 2008). The three models are leveraged non-profit, hybrid non-profit and social business. Additionally, the behaviour of an organisation can be said to be “determined primarily by previous events and experiences, not by what lies ahead” according to the development stage theory proposed by (Greiner 1972). All these models taken together provide a real-world foundation for practitioners in social enterprises to navigate the complicated journey towards success and away from failure. The desired outcome of considering these model’s together in this research is to significantly decrease the instances of failure in organisations which opt to use the model presented in this research. ([Annexure i](#))

This research provides a method to take an accurate snapshot of the business model within the context of the M.EOS model plus Johnson, Christensen and Kagermann model and have that snapshot categorised according to both, the level of hybridity under Elkington and Hartigan and

the developmental stage model under Greiner. The result of this research is a new and reliable graphical representation of the business model and the interaction of its complex elements. As such senior managers of social enterprises will be more knowledgeable about the pressing tensions, they need to manage to achieve superior value.

The long-term implication is that complicated real world business models have been simplified to enable organisations to better see the present and future of their organisation, which will improve decision making.

This would mean every dollar invested or donated to a social enterprise goes further or more ventures under a program such as Horizon Europe succeed and create more value worth tens of billions of dollars. The International Finance Corporation states that global assets under management in impact investing amount to USD2,281 trillion with USD138 billion being invested in Sub-Saharan Africa (Volk 2021). Having significantly more that 1 out of 10 of these investments perform better would be a substantial positive impact on the customers and beneficiaries that are targeted by these social enterprises. As such it is incumbent on those who can support founders and senior management within social enterprises to help them creating superior value by bolstering their business models.

### **Problem Statement**

Social enterprises rely, “on markets instead of donations or grants to sustain themselves and to scale their operations. (Ebrahim 2014)” This introduces tension between social ends and profit seeking. Tensions born of dualities are not peculiar to social enterprises however they are more poignantly experienced by social enterprises, more than other organisations. The problem for senior managers of social enterprises is deciding where the organisation should sit on the

continuum between profit and social welfare (Smith and Lankoski 2018). Smith and Lankoski point out that social enterprises risk, “losing sight of their social missions in their efforts to generate revenue, a risk referred to as mission drift (Fowler, 2000; Jones, 2007; Weisbrod, 2004).” This echoes another risk noted by Smith and Lankoski, of losing purpose and values in a quest for survival and efficiency (Selznick, 1949; Weber, 1952). Smith and Lankoski developed a range of potential relationships organisations can have, from profit maximisation to social maximisation; where the organisation decides to settle is up to them and this research aims to help organisations make this decision consciously in a value accretive manner. The underlying problem on selecting where to sit between social ends and profit seeking is that this choice surfaces several paradoxical tensions that become more salient as management acts. Furthermore, these paradoxical tensions are nestled within the choice of business model which entails considering the organisation’s environment, strategy, and the organisation itself as well as going deeper into the key resources, key processes, and the value chain participants.

### **Research Questions**

This research answers the question how can the categorisation of a social enterprises business model be leveraged to create superior value? This question is reframed from an initial question which asked how may we use machine learning to predict success or failure in social enterprises? Through research it became clear that a typological framing of the business model was first needed before machine learning could be used as a tool. The typological framing would rely on collecting data about business models through a M.EOS influenced survey which is by the very nature of M.EOS a value creation lens.

The choice to focus on the business model was made because it’s the business model that, “describes the rationale of how an organization creates, delivers, and captures value”

(Osterwalder 2010). According to (Magretta 2002) the basic test for a business model is divided into two parts, (1) does the narrative make sense and (2) do the numbers add up. This accurate depiction of the essence of the business model connects well with its basic two functions which are on one side to (1) make something and (2) to sell something. In dealing with social enterprises, we can phrase the same point of view as (1) making something, be it a product or service and (2) serving beneficiaries and selling.

## **Literature Review**

Recent business model literature boldly states that, “the business model is rapidly replacing strategy as the most significant source of competitive advantage” (Snihur and Eisenhardt 2022). The authors say this on the back of noting that, “the significance of business models is now widely accepted (e.g. Shepherd et al., 2021; Snihur and Zott, 2020).”

By defining “a business model as a system of interconnected activities performed by a focal firm... that creates value, and a profit logic that captures at least some of that value,” Snihur and Eisenhardt incorporate the interconnected approach presented by (Santos 2013). The “definition (also) highlights the significant role of the profit logic.... for high-performing business models,” which we have seen referred to before by (Johnson, Christensen and Kagermann 2008) when they include Profit Formula as one of the key four elements necessary to “create and deliver value”. The “definition also makes the critical point that business models often involve actors beyond the focal firm,” which to me is an ode to (Brandenburger and Harborne 1996) who clearly argue for the importance of the value chain, whose participants are key players in how value gets distributed.

(Snihur and Eisenhardt 2022) argue that the business model concept moves us “beyond the simpler, firm-centric views of traditional strategy like positioning and the resource-based view

to an ecosystem perspective.” This in my opinion has always been the nature of business models, perhaps seeing the firm as the centre of value creation is a historic relic much like thinking that the sun revolves around the world.

This research uses three foundational models. The first is the M.EOS model by (Santos 2013). Santos takes primacy because he provides a contextual framework to consider the entire business model. Senior management in this model have the duty to shift the Environment, Organisation and Strategy (“EOS”) to influence the organisations performance. By doing this, senior managers can achieve superior performance to what would otherwise occur without intervention. EOS considers the organisations positioning, its structure and what the organisation does. The 3 elements of EOS interrelate in complex ways to deliver superior performance. Santos views management as centred on collective performance in the presence of the manager and correctly argues that EOS is not static. It is dynamic in nature. Changes are always occurring even without the hand of management. He uses the example of staff aging and inevitably gaining experience over time, as an illustration of unavoidable constant change. In such a setting high performance comes from establishing a harmonious EOS however this is a state that is unknowable in advance and can only be approximated by management from time to time. As such there is no perfectly predictable EOS however, this research proposes that an adequate approximation of EOS can be made from time to time and that can help guide senior management in decision making.

The second foundational model is provided by (Johnson, Christensen and Kagermann 2008). Their model moves the perspective from the broad context to a position where there are clear areas where senior management can take specific action to influence value creation. (Johnson, Christensen and Kagermann 2008) argue that there are 4 elements on the road towards success which in essence involve satisfying a real customer’s needs at a profit. The elements are (1) key

resources, (2) key processes, (3) customer value proposition and (4) the profit formula. Reminiscent of (Santos 2013) the authors state that the “major changes to any of these four elements affects the others and the whole,” and that “successful businesses devise a more or less stable system” where there is consistency and complementarity. These concepts are similar to those of (Santos 2013) who speaks of the interrelated nature of EOS and a fleeting equilibrium that the organisation pursues from time to time.

Multiple connection points between (Santos 2013) and (Johnson, Christensen and Kagermann 2008) allow us to merge EOS and the four elements by collapsing Key processes and Profit Formula into Organisation and Key resources and Customer value into Strategy, while Environment stands alone however aspects of the Environment touch on both Organisation and Strategy ([Annexure ii](#)). For example, from an environmental perspective when considering customers, we look at the customer persona. Here the emphasis is on descriptive attributes about the persona whereas under Strategy the customer is looked at more from the perspective of their unmet need and how that gap presents an opportunity for the organisation. The merged models therefore contain all the necessary components that drive value creation with an organisation.

The Third foundational framework is that of (Elkington and Hartigan 2008) which categorises organisations by their level of hybridity from leveraged non-profit to hybrid non-profit then to social business. This categorisation helps in narrowing down the business model in operation for any given social enterprise and it provides a starting point to understand the associated latent tensions that become salient as senior management in social enterprises act on their mandate. In this research social business is replaced by hybrid for-profit and an additional category of for-profit is added. This is done to capture a broader range of operations since organisations are usually more fluid across the spectrum from social ends to profit seeking.

Other important academic literature includes (Greiner 1972) who describes five developmental stages in which a business progresses noting that as an organisation progresses through the phases each phase, “contains a relatively calm period of growth that ends with a management crisis”. Greiner’s development stage model has commonality with (Elkington and Hartigan 2008)’s hybrid model. The two models have overlap that make the models complementary while remaining distinct. They both operate on the progression of an organisation through time and rely on the same important aspects such as customers, product and people. Following on from there (Smith and Lewis 2011) provides a overarching framework to understand the tensions faced by social enterprises, this framework helps in understanding (Lankoski and Smith 2018) who also explore the challenge of duality when engaging in hybridity. Other frameworks also bolster the proposed model such as the value-based strategy presented by (Brandenburger and Harborne 1996) which focuses on the key participants in the value chain; being the Firm, the Supplier and the Customer. This again focuses attention on the pivotal areas where senior management will act and where the research can ultimately recommend action be taken on the business model to drive superior value creation. The Integrated Reporting Framework (IFRS 2022) is another framework that was explored and it was determined that it serves the same purpose as (Johnson, Christensen and Kagermann 2008) because it too has a direct focus on key resources which it refers to as Capitals.

The main challenge with the academic literature is that an exhaustive and universally agreed definition of all the elements that go into the merged M.EOS model such as what is a customer, a stakeholder, a key resource, a business process or a market cannot exist. The understanding will change from time to time as well as based on the organisation and its environment. Furthermore, a comprehensive list of developmental stages as presented by (Greiner 1972) does

not exist. There is no agreed maximum or minimum number of stages (Levie and Lichtenstein 2010). Additionally, Levie & Lichtenstein argue that the developmental stages proposed by Greiner are dynamic in nature and are states that are non-sequential making them distinct from evolution. I share this view and therefore refer to developmental states in this research and not developmental stages.

These differing opinions by academics and lack of uniformity in understanding shows that the literature on business models is still developing (Gupta, Guha and Krishnaswami 2013) and this is also a function of how difficult it is to find the delimitation between one developmental state and another as the authors suggest by quote Bridge et al. (2003) who likens, “separating the development process into stages is rather like dividing the spectrum of visible light into colors.”

### **Research Setting**

The research is focused on social enterprises. Five of the six participants in this research are based in Sub-Saharan Africa. The participants of the research include three non-governmental organisations (NGO's) and three private companies. The learnings from the organisations culminated in two reports from one participant based in France and the other in Zimbabwe ([Annexure iii](#)).

All the organisations that enabled this research have a declared social purpose and are profit seeking or desirous to become profit seeking organisations. Four of the organisations are in the social justice space and seek to uplift disadvantaged groups through the empowerment of their beneficiaries. The other two organisations are concerned with the broad empowerment of society through improving access to healthy and nutritious foods. What's common across the organisations is the desire to make a social impact while making profit. Their starting positions

differ in that some are private sector initiatives while the others are non-governmental organisations.

Based on an initial interview with the entrepreneurs and senior managers. The organisations were vetted and approved to take part in this research where it was observed that their organisations had elements of hybridity.

Three of the organisations are based in Zimbabwe, the others being based in South Africa, Uganda and France.

### **Survey Participants**

It was important to have senior management complete the survey because it's the general manager as highlighted by (Santos 2013) that has, "the ability to shape E, O and S in pursuit of collective performance." In future studies the perspective of employees, users and payers will need to be captured as well because the diversity would provide new insights. This would validate senior management's perspective or provide points of divergence that could indicate areas of opportunity or tension.

The research was conducted through a survey and in-depth interviews. The survey captured qualitative and quantitative descriptive data about the organisation, the environment and strategy. The in-depth interview was used to collect insight around value proposition and strategic positioning. It was decided that strategic information is best captured in a one-on-one setting where the interviewer can leverage the power of the long form interview as "a systematic way to un-cover factors or issues whose identity they don't yet know.... including questions they don't even know they should ask" (Mullins 2007). This was achieved by limiting the in-depth

interview to only four questions that are referred to by Mullins as “interview-driver questions” ([Annexure iv](#)).

### **Survey Design**

The survey questions were designed by analysing the merged (Santos 2013) and (Johnson, Christensen and Kagermann 2008) models then creating questions that were derived from the merged elements. From here the questions and associated answers given by survey participants were mapped onto the (Elkington and Hartigan 2008) and (Greiner 1972) Models. Each academic model’s elements were given a code ([Annexure ii](#)). This approach enables answers provided by survey participants to be better analysed and attributed to for example, customers under strategy which can be found in the merged model. From there the same answer would be mapped onto both (Elkington and Hartigan 2008)’s model as well as Greiner’s model, respectively disclosing the level of hybridity and the applicable developmental state. Finally, the same answer would be mapped onto the to the ability to pay. Depending on how the organisation answers are mapped there are probable tensions that are associated with being in a particular area of the graph as further explained in the research reports ([Annexure iii](#)). When the social enterprises business model through the survey is juxtaposed with the organisations Endgame, which is defined as, “the specific role that an organization intends to play in confronting the total addressable challenge in a certain issue,” (Gugelev and Stern 2015) the relevant tensions become salient and the tensions are more readily available to senior management to be addressed as they represent the organisations principal threat.

### **In-depth Interviews**

The detailed survey has 74 questions divided across 3 surveys to counter fatigue the senior managers would experience by complete one survey. On the other hand, the in-depth interview was designed to explore the value statement and Endgame associated with the social enterprise.

The value statement would be looked at with a focus on value creation and not merely articulating a mission and vision for the organisation. Secondly the in-depth interview enables the mapping of tensions, which then lays the foundation to thirdly help the organisation to effect system change based on what has been discovered in the review and analysis of survey and in-depth interview responses. For the purposes of this research each participant only took part in one in-depth interview due to limited time. In future it is envisioned that three separate interviews will be conducted to get as much detailed information as possible and to share knowledge with the participants. For this research the one interview gathered information about the types of tensions experienced by the organisations and system change suggestions were made in the final report ([Annexure iii](#)).

### **Procedures and Data analysis**

The survey incorporates both qualitative and quantitative questions. Where possible qualitative questions were phrased in the format of Likert scale, multiple choice or ranked questions. This was done to facilitate future quantitative analysis of the results. The survey made use of Qualtrics to take advantage of the platforms reports and to be able to take the data and convert it into other formats for further analysis.

### **The Hypothesis and data collection**

This research uses the hypothetic deductive method. The initial hypothesis was, “It is possible to use machine learning to predict success or failure in social enterprises?” Through the five why’s approach the hypothesis was reframed to, “the categorisation of a social enterprises business model can be used to create superior value.” ([Annexure iv](#)).

For this research the use of primary data was necessary because published financials from listed companies and public disclosures from social enterprises such as B corps do not provide the

descriptive information about target organisations in detail and the disclosed information fails to reveal the underlying reasons for the strategic choices made by senior management. It was therefore necessary to utilise exploratory and discovery orientated surveys and in-depth interviews with the research participants.

Secondary data was utilised for the foundational understanding of the leading theories and models in business model development.

The population for this research is based on social enterprises. For this research reliance was placed on purposive non-probability sampling of participants, with a focus on organisations that are concerned both with meeting social ends and profit ends. A threshold of a minimum of two participants was chosen. This decision was driven by the limited time frame in which to conduct the research as well as the ability to interact at the required depth with each participant. It must be noted that a further four participants were interviewed to ensure that the survey questions generated were robust enough to meet the needs of a broad base of social enterprises and to remove biased questions and questions that had an excessively narrow focus on any one participant.

The survey answers were reviewed paying particular attention to their utility and relationship to the merged model. The second step involved determining if the survey responses pointed to expected tensions. The existence or absence of these tensions was then compared to the tensions mentioned by participants in the in-depth interviews. This process of using both the survey and in-depth interview also performed the task of triangulation to assess participant responses for coherence.

## Latent and Salient Tensions

The possible tensions in an organisation are countless however, “one is (usually) more important than others – and that’s the one to manage” (Dodd and Favaro 2006). For this research 3 important business model tension were selected because these have the capacity to result in value erosion that could threaten a social enterprise as a going concern and secondly these tensions are common, major and persistent tensions in social enterprises. The expectation was that these tensions had become salient in the research participants and were managed or remained unmanaged. Alternatively, it was anticipated that these tensions were emergent and observably starting to cause turbulence within the business model. The three key tensions can be described as strategic, organisational and environmental. Having these tensions observable from the responses to the survey is a step towards being able to predict possible avenues and patterns in relation to tension management and eventual superior value creation.

**Strategic Tensions** are those that are about the endgame. What is meant here, is that the tension is between the pursuit of social ends and profit ends. This tension can be observed in challenges that impact various decisions such as whether to orient the organisation to revenue or to grants. This tension cuts to the heart of what people think and feel about their organisations, making it an area that produces deep rooted conflict based on each individual senior manager’s theoretical belief about what a business or social enterprise ought to be. On this subject, there exists an ingrained institutionalised view that, “economic theory suggests that the objective of firms is to maximize profit” (Lankoski and Smith 2018). Other’s push back on this view in differing ways.

**Organisational Tensions** are those that are about the configuration and use of processes and resources. This can manifest in questions concerning, to what degree the organisation should

operate as a new venture or an established venture. This tension can be observed in challenges that impact the choice of exploiting a product or resource or exploring new use cases or even new products or resources. (Johnson, Christensen and Kagermann 2008) point out that “it’s not the individual resources and processes that make the difference but their relationship to one another.” As such the unique integration of key resources and key processes is superior as highlighted by the authors as they explain through the case study of “National Jewish Health in Denver,” which leverages its specialisation to treat pulmonary system diseases. In this example the hospital does not find superior value creation from being a generalist, instead success is found in determining the appropriate exploitation of resources and in which direction exploration is relevant. A related case study was carried out looking at the response of Swiss Hospital’s to the Covid-19 pandemic. In this case study, how hospitals prioritised the use of resources at a time of high scarcity and employee fatigue showed how the hospitals balanced normal operations and the emergency cases of Covid-19 (Tuckerman 2022). In his presentation Tuckerman points out that the question he seeks to answer is whether paradox’s, and / or approach enables better resource use or worse.

**Environment Tensions** are those that are about the short-term and long-term time preference of value chain participants. These tensions can be observed in challenges that impact areas such as beneficiary and stakeholder value as well as profitability and growth. (Battilana, Metin, et al. 2015) point out that, “Organization theorists have long argued that organizations that serve multiple constituencies on whom they depend for access to key resources,” more readily neglect their beneficiaries resulting in their “raison d’etre” being questioned. Once questioned this can have catastrophic results such as an organisation focused on protecting children purchasing goods from an organisation that has been found to use child labour. Such an error may be

occasioned by pressure to meet short-term targets set by a stakeholder over beneficiary needs and over the social endgame.

## Research Results

Six organisations enabled this research ([Annexure v](#)). Of the six participants two were chosen to create a detailed report that would demonstrate the utility and function of the model offered by this research. All interactions with participants were conducted using online video calls due to the participants being in different countries. The two final reports from participants are available in the appendix ([Annexure iii](#)). The other participants provided highly relevant information that assisted in building the survey and the model that graphically presents an organisation’s business model in a format that enables senior managers to objectively view their business model and take steps to create superior value from a position of knowledge steeped in academic rigor.

From the two reports the key results are provided in the Figures i and Figure ii below. These graphs illustrate how an organisation’s business model is distributed and mapped onto the models proposed by (Elkington and Hartigan 2008) and (Greiner 1972).

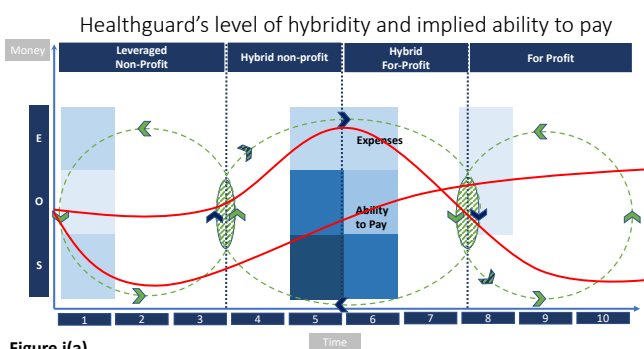


Figure i(a)

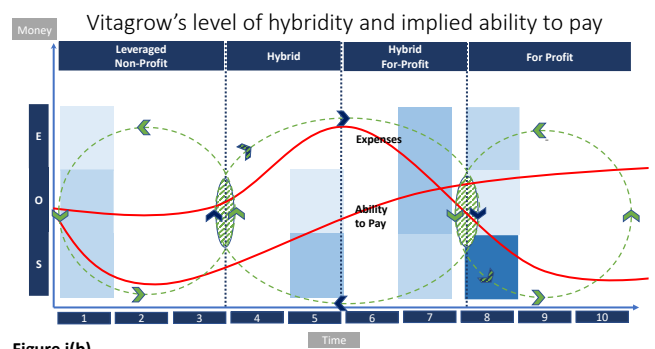
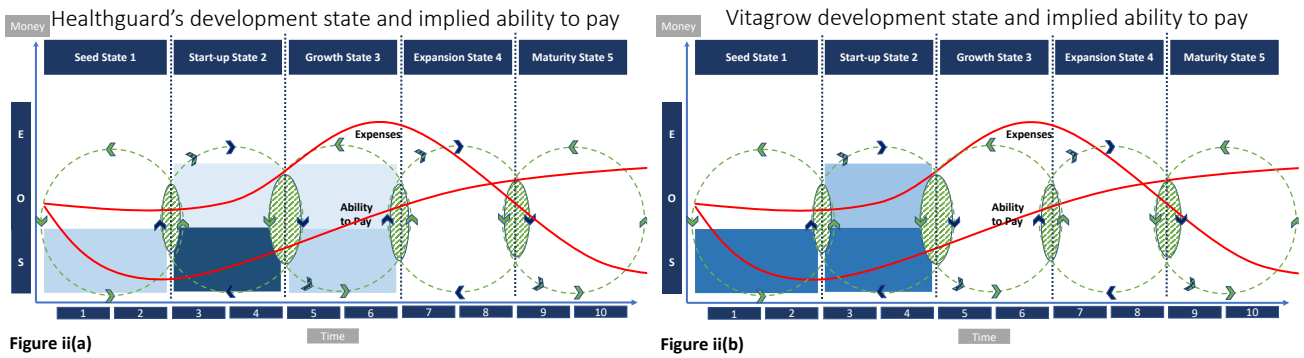


Figure i(b)



Each graph is an amalgamation of three elements. Figure i measures the level of hybridity of the organisation as per Elkington and Hartigan. Overlaid is the probable ability to pay of customers at a given level of hybridity. Finally, where the circles intersect represents the point at which a given business model faces tension that demands changes in the organisations EOS. Figure ii measures the developmental state of the organisation as per Greiner’s model, with the probable ability to pay overlaid. Again, the circles represent business model tension which necessitates the organisation to elect whether to move to the next business model or remain in the exiting business model loop.

The y axis captures monetary flow, as well as the weight and location of each element of EOS in the business model. On the x axis time is represented as a snapshot of the organisation’s history. As such, time 1 may represent year one or more simply a point in time in the existence of a business model. The x axis also separates the level of hybridity for Figure i and the development state for Figure ii.

Figure i(a) shows that the business model is one that is hybrid in nature while Figure i(b) shows that the business model is for-profit orientated. As such the key tension’s experienced will emanate from different points. The organisation in Figure i(a) more readily experiences organisational tensions around resource and process allocation between social and profit ends,

whereas the organisation in Figure i(b) is more likely to be concerned with environmental tensions surrounding meeting the expectations of shareholders.

For Figure i(b) to experience the social welfare and profit tension this only occurs where senior management acts to move the business model towards hybrid for-profit. The point being that the direction of the organisation has a high influence on which tensions become salient. This is because tension is caused by the inescapable and continuous movement of an organisation through time. This can be understood as an organisation currently occupying any given position which we will call position A on the graph presented in Figure i, however the actions or inaction of senior management push or pull the organisation to a new position which we will call position B, this new state may be superior to the previous position. By analysing the present position A we can reasonably determine which combination of position B, C or D is most likely to provide superior performance in line with the chosen Endgame being pursued by senior management.

The results are in line with the main tenants of how the organisations described their Endgame in interviews. The model gives a visual structure to both the disclosed and inherent features of each organisations business model. By further analysing these results it is possible to find new avenues to superior value creation. By contemplating the consequences of adjusting E, O or S to a new desired area, the organisation must then ask itself the question, how would that change impact the other two elements and how will we achieve harmony between E, O and S.

The feedback received from the senior management of Vitagrow on the report was as follows:

1. “For me you deduced the key things well into succinct areas of focus. Of the areas all of them were on my radar but not necessarily at company level because of the resource and time....”

2. “1/ loved you distilled it very simply 2/ hit all the key points 3/ still didn’t get the graphical representations (might need a bit more explaining....”

## Limitations

The complexity within value creation means that this research is merely the first step in having one model where several leading academic models can be plugged into the business model of organisations to provide useful and timely insights about value creation. The research does not go into granular detail about how the results from Figure i and Figure ii are interrelated and interdependent or how the specific elements that the research placed in the merged EOS framework are connected and influence one another. The research only begins to cover paradoxical tensions which are best articulated by Smith and Lewis. These paradoxical tensions are present within the multitude of choices made by senior management across the various elements of the business model. As explained by Smith and Lewis our bounded rationality stresses the business model to breaking point as *plurality* expands uncertainty, *change* spurs opportunity and competition, while *scarcity* invokes resource limits.

Secondly the survey needs to better separate current and future decisions of management because this has a bearing on the accuracy of the snapshot taken of the business model. The past is instrumental and influential however needs to be isolated for better analysis.

Third the survey questions need further refinement to provide greater accuracy. In this research the inaccuracies of the survey were remedied by the responses provided in the in-depth interview which allowed for minor adjustments where respondents for example selected that their service was for users and not payers when they meant to answer payers. The detailed answers in the interviews explained to greater depth how the organisation operates.

In discussions with participants about the findings of the research it was clear that more than one senior manager needs to complete the survey and be interviewed. This is because each senior manager brings their own perspectives about the business model which is grounded in their expertise and the tasks they oversee. In one in-depth interview this was apparent when one of the managers interjected to correct the other manager on more than one occasion which showed a difference in opinion on how the business model was structured.

Future research needs to include more variables in the business model snapshot such as greater scrutiny of financial data as well as independent macro-economic data about the market and environment in which the social enterprises operate. This would strengthen the predictive abilities of the model. Finally, the model must be matched with an appropriate machine learning model so that social enterprises can receive instantaneous feedback from completing the survey. The in-depth interview will however remain separate and need to be done on a one-on-one basis because of its focus on teasing out a greater amount of detail from participants.

## **Conclusion**

In 1993 when considering strategy (Richard and Ramirez 1993) explained that value has a new logic. The assertion is that value has become dense and in this the authors challenge us to “think of density as a measure of the amount of information, knowledge, and other resources that an economic actor has at hand at any moment in time to leverage his or her own value creation.” As such “more and more opportunities for value creation are packed into any particular offering.” The authors use the example of an ATM because unlike the teller, it provides more convenience to get cash anywhere and at any time. Today it further allows you to make deposits and use other banking services in a self-service manner. I think that if the authors were to update

the article today, they would discuss how mobile has blurred the lines of product and service further and how this adds even more complexity and density to value. When navigating this density in today's world, the "focus of strategic analysis is not the company or even the industry but the value-creating system itself." This is true and this is why I believe in 2013 Santos went further and showed us that strategy is one of the key components that drives the value-creating system. Now in 2022 we are developing the models that allow us to better navigate the complexity and density of the value creation ecosystem in all organisations and in particular social enterprises in a way that helps senior managers take immediate and appropriate action.

This research answers the question, how can the categorisation of a social enterprises business model be leveraged to create superior value, by showing that a detailed snapshot of an organisation's business model can be taken in a manner that clarifies the areas where action by senior management is needed and where the action is most beneficial in reaching the Endgame.

By providing a graphical representation to senior management using a heatmap, they get to see and better understand the nature of their organisation. In doing this the steps that can be taken to get the organisation to a point of superior value creation become easier to detect. Knowing that there exists a level of "path-dependency" (Santos 2013) in addition to the levers of E, O and S to achieve higher performance an organisation through the model presented in this research has at its disposal the tools to select and solve for business model tensions even though elements of the business model are "interacting in a complex dynamic fashion" (Santos 2013).

In support of the position that managers can find an appropriate path within the complex and at times complicated labyrinth that is the business model (Lankoski and Smith 2018) state that, “It is entirely possible to build objective functions that do contain both profit and social welfare if the relationships between those variables are clearly specified...”, meaning both profit and social welfare can be pursued for the same Endgame. The model in this research provides social enterprises with what (W. Smith 2022) regards as “guard-rails” and “structured flexibility” so that the social enterprises do not go too far in one direction or another when managing tensions and in this case, they do not go too far in business model selection.

### **Implications**

By using typology to classify social enterprises by level of hybridity and developmental state senior managers have a common language and launch pad to critically think about what and why the organisation exists. The key difference here is that the survey’s used to determine hybridity and the developmental state are based on the merged (Santos 2013) and (Johnson, Christensen and Kagermann 2008) model. The implication of this is that not only do we get to understand the level of hybridity and developmental state of the social enterprise, but we can graphically map how the social enterprise’s Environment, Organisation and Strategy are spread across the level of hybridity and developmental states. This new detail highlights the areas where practitioners must prioritise action to create superior value.

A further implication is that the innovation horizon model created by McKinsey or several other model’s that have not been contemplated in this research can also use the survey answers to typographically categorise social or other enterprises in line with the merged (Santos 2013) and (Johnson, Christensen and Kagermann 2008) model. The effect of this is that the value drivers of those other models will be visible to senior management for better decision making, with the

added benefit that the more the survey is utilised the more it will mature and have greater applicability to senior managers.

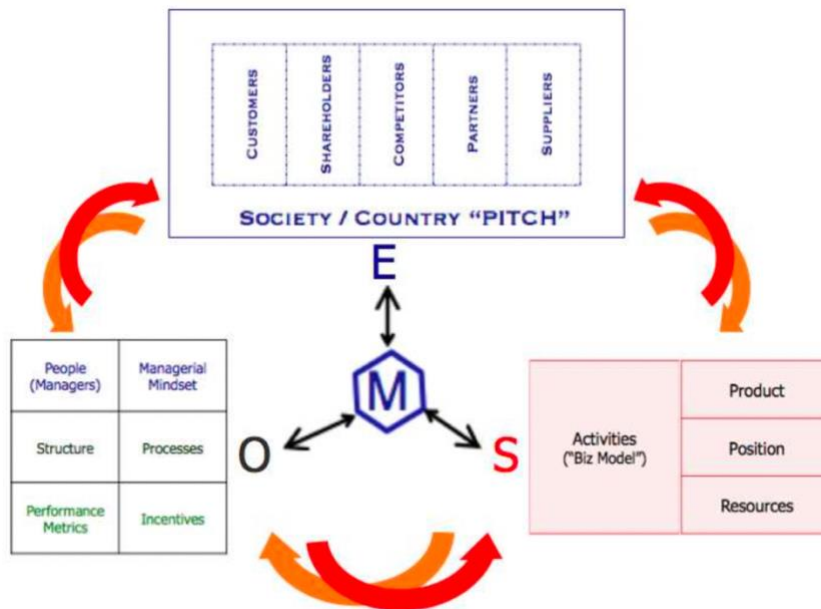
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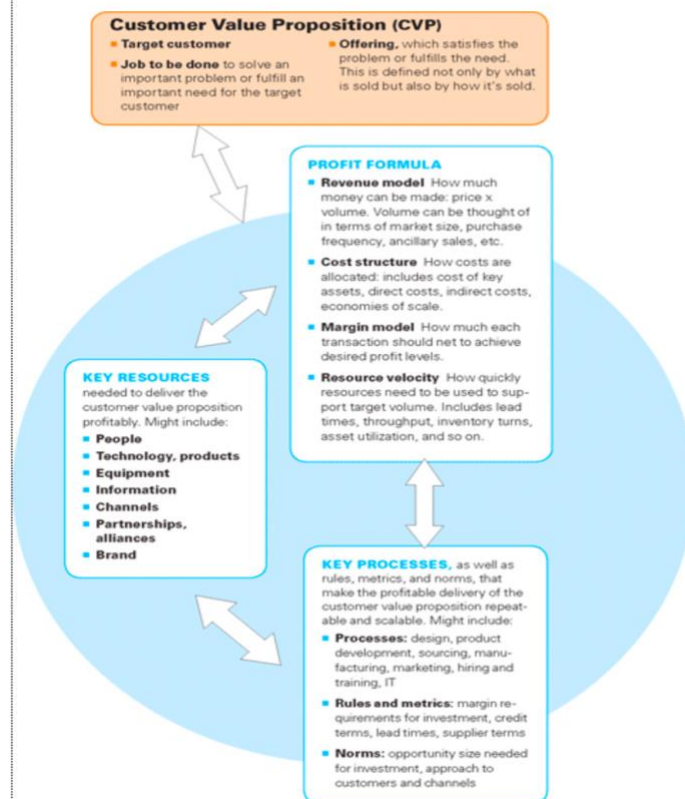
## ANNEXURE

Annexure i: Models Relied On  
(Santos 2013)



(Johnson, Christensen and Kagermann 2008).

### The Elements of a Successful Business Model



(Elkington and Hartigan 2008)

Variables/Type of Model	Leveraged Nonprofit	Hybrid Nonprofit	Hybrid for profit
<b>Income generation</b>	Fully dependent on external support	Recovers some of its costs by selling a product or service, that can be or not related to the mission	Financially independent with main income source being related to its social mission; reinvests profits to further the social mission
<b>Ability to pay</b>	Low	Medium	High
<b>Beneficiaries served</b>	Target population are consumers	Target population includes both customers and consumers	Target population are customers
<b>Type of good provided</b>	Public good	Mainly public good	Private good
<b>Market maturity</b>	Very low	Low	Medium
<b>Leadership</b>	Inspirational leader, morphing into a figurehead as other take the leadership roles	Starts to direct initiative into a higher organizational managerial complexity	Must exercise a strong leadership role better resembling the requirements of organizational leadership
<b>Investors/partners</b>	Interested in helping the mission with low expectation of returns	Interested in helping the mission with higher standards of partnership efficiency	Interested in combining financial and social returns
<b>Scaling potential</b>	Low	Medium	High
<b>Social empowerment</b>	High	Medium	Low

(Greiner 1972)

Category	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Management Focus	Make & Sell	Efficiency of Operations	Expansion of Market	Consolidation of Organization	Problem Solving & Innovation
Organization Structure	Informal	Centralized & Functional	Decentralized & Geographical	Line-staff & Product Groups	Matrix of Teams
Top Management Style	Individualistic & Entrepreneurial	Directive	Delegative	Watchdog	Participative
Control Systems	Market Results	Standards & Cost Centers	Reports & Profit Centers	Plans & Investment Centers	Mutual Goal Setting
Management Reward Emphasis	Ownership	Salary & Merit Increases	Individual Bonus	Profit Sharing & Stock Options	Team Bonus

## Annexure ii: Work Project Survey Framework

### [Work Project Survey Framework.xlsx](#)

The link above contains the excel document with the full spreadsheet data of the extract example data below:

#### 1. The merged Santos and Johnson, Christensen and Kagermann Models

Merged Santos and Johnson, Christensen Kagermann							
CODE: 1	CODE: 2	CODE: 2.1	CODE: 2.2	CODE: 3	CODE: 3.1	CODE: 3.2	CODE: 3.3
Santos: Environment	Santos: Organisation	Johnson, Christensen Kagermann: Key Processes	Johnson, Christensen Kagermann: Firm Value	Santos: Strategy	Johnson, Christensen Kagermann: Key Resources	Integrated Reporting Framework: Capitals	Johnson, Christensen Kagermann: Customer Value
1 Customer	6 People			36 Activities			
2 Shareholder	7 Structure			37 Product			
3 Competition	8 Metrics		24 Price	38 Position			55 Target customer
4 Partner	9 Mindset		25 Market size	39 Resources	40 People	49 Financial	56 Offering
5 Supplier	10 Processes	12 Design	26 frequency		41 Technology	50 Manufactured	57 Job to be done
	11 Incentives	13 development	27 Ancillary sales		42 products	51 Intellectual	
		14 Sourcing	28 Cost of key assets		43 Equipment	52 Human	
		15 Manufacturing	29 Direct costs		44 Information	53 Relationships	
		16 Marketing	30 Indirect costs		45 Channels	54 Natural	
		17 Hiring	31 scale		46 Partnerships		
		18 Training	32 Margin		47 Alliances		
		19 IT	33 Lead times		48 Brand		
		20 investment	34 Inventory turns				
		21 Credit terms	35 Asset utilisation				
		22 Lead times					
		23 Supplier terms					

2. Key Processes and Firm Value get merged with Santos' Organisation.  
 3. Key Resources, Capitals and Customer Value get merged with Santos' Strategy.  
 4 Each survey question will be directly linked to at least one of the numbered elements of the merged model. This allows us to know whether a survey participants answer relates to Environment, Organisation or Strategy ("E,O or S").

#### 2. The qualitative and quantitative survey questions.

Question Type	Question Block	Survey questions developed to match the merged Santos & Johnson, Christensen & Kagermann models	Relevant merged model code	Question #
Qualitative - Demographic	Personal & Company Details	<ul style="list-style-type: none"> <li>First Name</li> <li>Last Name</li> <li>Position in Organisation</li> <li>How does your role help the Organisation meet the users needs</li> <li>Email Address</li> <li>Social Media</li> <li>Mobile</li> </ul>	Code: 2(6)	Q1
Qualitative - Multiple choice	Personal & Company Details	<ul style="list-style-type: none"> <li>What is your highest level of Education?</li> <li>No formal education</li> <li>High school or lower</li> <li>Diploma</li> <li>Bachelor Degree</li> <li>Masters Degree</li> <li>PhD or higher</li> </ul>	Code: 2(6)	Q2
Qualitative - Multiple choice	Personal & Company Details	<ul style="list-style-type: none"> <li>How would you describe your management style?</li> <li>Inspirational</li> <li>Directive</li> <li>Delegative</li> <li>Collaborative</li> </ul>	Code: 3.1(40)	Q3
Qualitative - Open-ended	Personal & Company Details	<ul style="list-style-type: none"> <li>Purpose of Completing Survey</li> <li>1. What is the reason for you wanting to complete this survey?</li> <li>2. What result do you want from completing this survey?</li> <li>Please provide your organisations details:</li> <li>1. Name of Organisation</li> <li>2. Industry</li> <li>3. Regulatory status (e.g. NGO, Private company)</li> </ul>	Code: 2(9)	Q4
Qualitative - Demographic	Personal & Company Details	<ul style="list-style-type: none"> <li>4. List countries of operation</li> <li>5. Organisations website</li> <li>How would the organisations operations be categorised:</li> <li>1. Informal</li> <li>2. Formal</li> <li>3. Centralised</li> <li>4. Decentralised</li> </ul>	Code: 2(7)	Q5
Qualitative - Multiple choice	Personal & Company Details	<ul style="list-style-type: none"> <li>Please provide further details about the organisation</li> <li>1. How many countries does the organisation operate in?</li> <li>2. How many regions does the organisation operate in?</li> </ul>	Code: 2(7)	Q6

### 3. Responses from research participants.

Question Type	Question Block	Survey questions developed to match the merged Santos & Johnson, Christensen & Kagermann models	Relevant merged model code	Question #	Answers	Elkington & Hartigan	Greiner	Innovation Horizon	Smith & Lankoski	Result Elkington & Hartigan	Result Greiner	Result Innovation Horizon	Result Smith & Lankoski
Qualitative - Demographic	Personal & Company Details	First Name Last Name Position in Organisation How does your role help the Organisation meet the users needs Email Address Social Media Mobile	Code: 2(6)	Q1	Petro Bot, Director. Manages the available resources (people, cash, assets), plan and track activities to support the organisation								
Qualitative - Multiple choice	Personal & Company Details	What is your highest level of Education? - No formal education - High school or lower - Diploma - Bachelor Degree - Masters Degree - PhD or higher	Code: 2(6)	Q2	Bachelor Degree								
Qualitative - Multiple choice	Personal & Company Details	How would you describe your management style? - Directive - Delegative - Collaborative	Code: 3.3(40)	Q3	Delegative	Leadership Code: 4.5	Management Style Code: 5.2			Leadership Code: 4.5(74)	Management Style Code: 5.2(96)		
Qualitative - Open-ended	Personal & Company Details	Purpose of Completing Survey 1. What is the reason for you wanting to complete this survey? 2. What result do you want from completing this survey? Please provide your organisations details: 1. Name of Organisation 2. Industry 3. Regulatory status (e.g. NGO, Private company) 4. List countries of operation 5. Organisations website	Code: 2(9)	Q4	any outcome that will improve the way I manage and consequently my organization								
Qualitative - Demographic	Personal & Company Details	How would the organisations operations be categorised: 1. Informal 2. Formal 3. Centralised 4. Decentralised	Code: 2(7)	Q5	Healthguard Healthcare and social welfare, NGO, France								
Qualitative - Multiple choice	Personal & Company Details	1. How many countries does the organisation operate in? 2. How many regions does the organisation operate in? 3. How many offices does the organisation have? 4. For how many years has the organisation operated? 5. For how many years does the organisation have financial statements 6. For how many years does the organisation have Management accounts? 7. Is the organisation audited?	Code: 2(7)	Q6	Centralised	Organisational Structure Code: 5.1				Organisational Structure Code: 5.1(91)			
Quantitative - Closed-ended	Personal & Company Details	Who pay's for the product or service? 1. User 2. interested third party Payer (e.g. family, friend, parent, guardian, employer) 3. Donor 4. Government	Code: 1(3) Code: 2(7)	Q7	1 country, 2 regions 3 offices 20 years of Financials 20 years of operation Audited			Market horizon Code: 6				Market horizon Code: 6(110)	
Qualitative - Multiple choice	Users Payers and Suppliers		Code: 3.3(55)	Q8	User	Beneficiaries served Code: 4.2				Beneficiaries served Code: 4.2(66)			

### 4. Coded Elkington & Hartigan Model and Coded Greiner Model. The two are vital to create the graphical representation of the survey responses.

Hybridity (Elkington & Hartigan)		Leveraged non Profit	hybrid	Hybrid for Prprofit	For Profit
Code: 4	Income Generation	58 Donor led	59 Partially Donor led	60 Independent	60a Independent
Code: 4.1	Ability to Pay	61 Low	62 Medium	63 High	63a High
Code: 4.2	Beneficiaries served	64 Users	65 Partial payers	66 Payers	66a Payers
Code: 4.3	Types of Goods Provided	67 Public good	68 part public good	69 Private good	69a Private Good
Code: 4.4	Market Maturity	70 Very Low	71 Low	72 Medium	72a High
Code: 4.5	Leadership	73 Inspirational	74 Directive some financial	75 Watchdog definite financial	75a Participative high return
Code: 4.6	Investors/Partners	76 no financial return	77 return	78 return	78a expectation
Code: 4.7	Scaling Potential	79 Low	80 Medium	81 High	81a very high
Code: 4.8	Social empowerment	82 High	83 Medium	84 Low	84a very low

1. The answers to each survey question where applicable will be related to a hybridity label and depending on the exact answer will receive the corresponding number code.  
Notes: 2. At this point each survey answer is linked to E, O or S and is now also linked to a given hybridity level. The survey answer can therefore be mapped onto a graph.

Developmental State (Greiner)		STATE 1	STATE 2	STATE 3	STATE 4	STATE 5
Code: 5	Management Focus Organisation structure	85 Make & sell (deliver)	86 operational efficiency Centralised &	87 Market Expansion Decentralised &	88 Consolidate organisation Line-Staff & Product	89 Innovate
Code: 5.1	Management style	90 Informal	91 Functional	92 Geographical	93 Groups	94 Matrix of Teams
Code: 5.2	Control Systems Management	95 Inspirational	96 Directive Standards & Cost	97 Delegative Report & Profit	98 Watchdog Plans & Investment	99 Participative
Code: 5.3	Reward emphasis	100 Market Results	101 Centres	102 Centres	103 Centres Profit Sharing &	104 Mutual Goal Setting
Code: 5.4		105 Ownership	106 Salary & Merit	107 Individual Bonus	108 Stock Options	109 Team Bonus

1. The answers to each survey question where applicable will be related to a developmental state label and depending on the exact answer will receive the corresponding number code.  
Notes: 2. At this point each survey answer is linked to E, O or S and is now also linked to a given developmental state. The survey answer can therefore be mapped onto a graph.

## Annexure iii: Research Reports

### **Report 1: Healthguard's State of Value Creation**

Business models are not static, they are forever in motion and we can take a snapshot of an organisations business model at a given point in time. In this collaborative exercise we took a snapshot of Healthguard's business model as it existed in November 2022. The snapshot is influenced by past key moments in time, with some having greater influence than others. The initial state of the organisation is one such key factor. For example, organisations that are started with social imprinting (i.e. social welfare as a key end goal) have that decision, "play(ing) a critical role in enabling these hybrids to maintain their focus on serving their beneficiaries and achieving their social mission" (Battilana, Metin, et al. 2015). Another factor is the state of the environment in which the organisation was founded. Ikea illustrates this because it was founded as, "a flat, egalitarian organisation, in which subordinates often question superiors and tangible symbols of power are rare.... IKEA is in this respect, naturally Swedish" (Santos 2013). This has had a long-term influence on the IKEA we know today even though it has gone on to operate globally. The myriad of past decisions made by senior management continue to influence the make-up of the current organisation and provides some path-dependency for what could come next.

Since the past is imprinted in the organisation's memory, we can use this information to manage current and emerging tension on the organisations path to success.

The Survey completed allows us to first build 4 heatmaps. These maps reveal the position of the organisations current business model.

Together the survey responses and the in-depth interview session allows us to:

- (1) review and compare the organisation's value statement to the heatmap,
- (2) identify resolved, existing or emergent key tensions, and
- (3) suggest systematic changes that will drive superior value creation.

### Survey Generated Business Model Snapshots (Heatmaps)

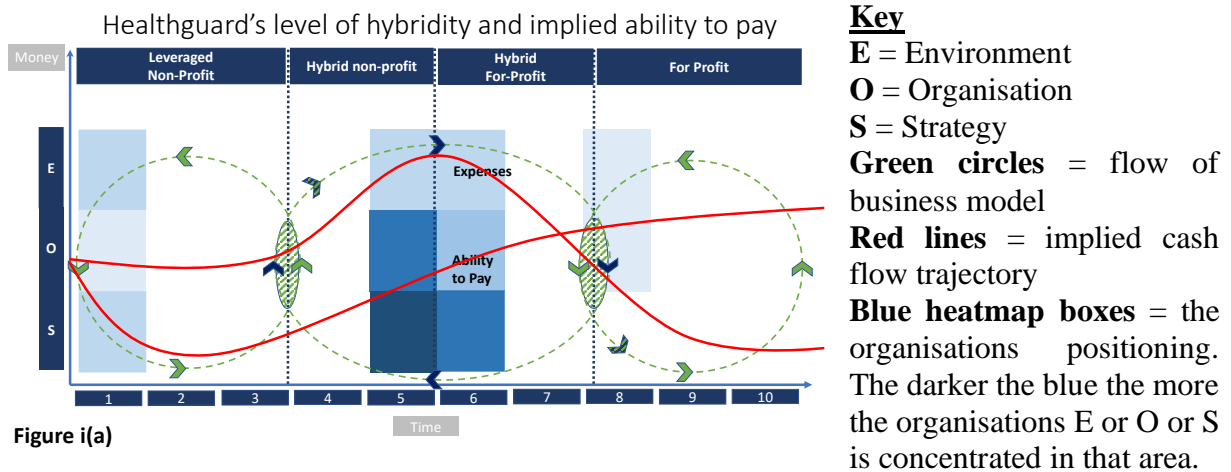


Figure i(a) shows that the Strategy is firmly hybrid in nature. The Organisation's structure, processes and resource allocation are firmly hybrid with a strong bias towards the non-profit form of hybridity. The mapped survey results also show that the Environment is hybrid in nature which is expected from medical services because they are inherently considered to serve social welfare ends even in cases where profit is present. The consequence of providing medical services is that beneficiaries are accustomed to paying for services regardless of their ability to pay.

Figure i(a) shows that the current business model is comfortably entrenched as a hybrid business model. This therefore means that considerable energy needs to be expended if senior management desire to shift the organisation's business model towards for-profit or non-profit activities. Any changes by senior management would occur by adjusting E, O and S. It is important to recognise that organisations exist on a spectrum and being too far on one end

leaves the organisation without the benefits of the other end of the spectrum which is suboptimal as observed in the choice between exploitation or exploration of an organisation (W. Smith 2022). Put another way if the organisation exclusively focuses on its current capabilities, it will miss out on the benefits of new capabilities it could have developed. It is therefore important to find the organisations optimal value blend. In this instance Healthguard is not on either end but firmly in the middle of the hybridity spectrum. In this position the demands on senior management are higher because to make further progress as a hybrid organisation management is required to stretch its activities in both non-profit and profit pursuits. At first sight it might seem counter-intuitive to maintain the balance between profit and social welfare, especially when the organisation is focused on increasing its independence through greater revenue generation. Nevertheless, pursuing and maintaining growth on both sides of the spectrum will ensure that superior and differentiated value creation is generated for the benefit of beneficiaries in ways for-profit organisation will not be able to replicate.

If the organisation for example wishes to extend its reach as a reference point for neurological disorders in children, it can shift its environment by targeting new partners or supplier such as insurance providers or consultants with expertise it has not previously interacted with. The insurer will reduce their lifetime spend on a patient if these patients receive early diagnosis and ongoing care, whereas seeking out other consultants might reveal untapped synergies. A change in Environment necessitates a change to the Organisation because new processes might be needed to accommodate new services that work better with insured patients or the new consultants, which in turn would require changes in Strategy in areas like how to apportion office hours between consultants and catering for the insured and uninsured or using revenue from one activity to support the other.

Another alternatively avenue for Healthguard to explore can be to move in the direction of offering some of its services as a differentiated hybrid. Currently the organisation is what is considered an integrated hybrid meaning that it's source of revenue is derived from the social good it's doing, as a differentiated hybrid organisation its revenue sources could also include activities that are no directly attached to the social good. Additionally, it is possible to complement these services by making better use of office space and office hours by allowing consulting partners and physicians to use the premises for outside work not related to Healthguard. Earning revenue from doing this unrelated work may result in strengthening relationships with suppliers and produce unexpected knock-on benefits for Healthguard's beneficiaries.

Moving from the current business model to an open structure with suppliers, where they have the ability to take part in helping expand the service offering of the organisation will result in tensions that must be managed. These points of tension are seen when management makes shifts in E, O or S from one business model type to another.

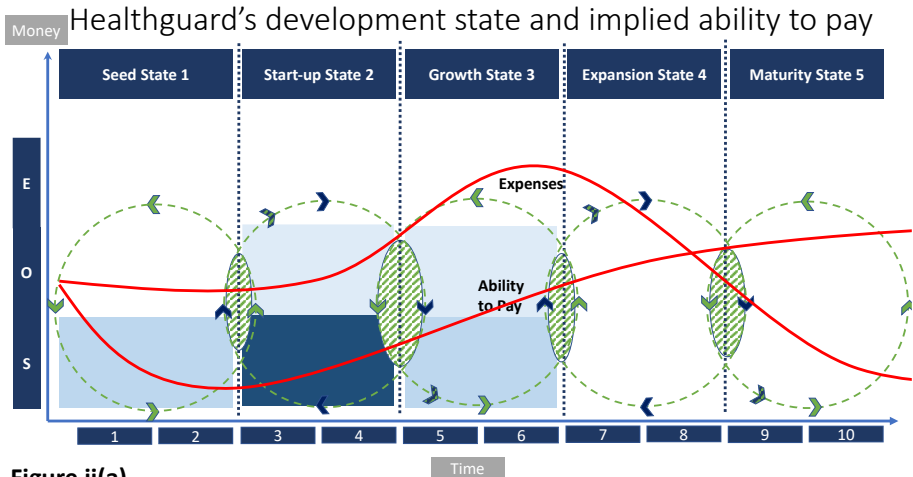


Figure ii(a)

Figure ii(a) shows that the current developmental state of the organisation largely sits within the second state and third state. This second state can be referred to as one in which the

organisation is experiencing start-up conditions. The organisations strategy is underpinned by being in state two and to a meaningful degree the organisation is also in state three and one which means the organisation is experiencing strategic tension between these states. This may point to a need to decisively settle strategy into a given direction to spur clarity and growth. In state two the mindset of management is that composed of directive leadership that acts in a centralised manner while seeking efficiency. In state three the leadership style is more delegative and the organisational structure becomes more decentralised. Moving further towards state three may make the most sense for Healthguard in its desire to generate more revenue and become independent of donors. This is because if the organisation can settle on an appropriate strategy to be more collaborative with its suppliers of services through some form of differentiated hybrid operations, both the suppliers (consultants) and the organisation can earn more money.

The benefit of moving further towards state three is that the customer’s ability to pay is enhanced.

Healthguard’s business activity focus

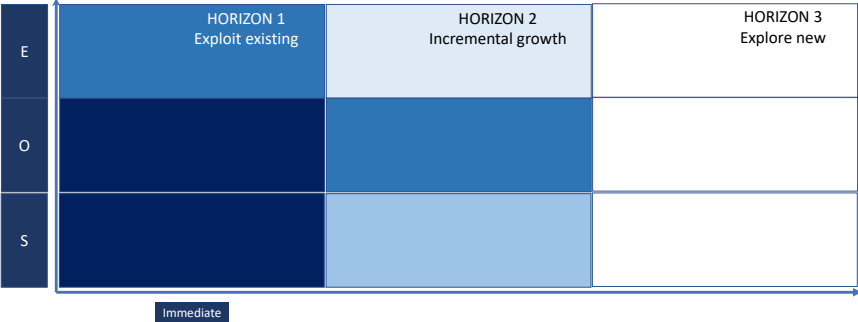


Figure iii(a)

In Figure iii(a) the organisations activities are firmly focused on exploiting current capabilities with some organisational activities that are geared towards incremental growth. The organisation may benefit from stretching itself by increasing its exploration in innovation. This

could be done by leaning on the non-profit side of the organisation and asking patients and parents in what other ways their needs are remaining unmet or by including them in the decentralisation efforts mentioned above in relation to consultants. The idea here being using the social welfare mandate of the organisation to offer an increasingly unique service that a pure for-profit organisation would not or cannot replicate.

Healthguard’s positioning on the social welfare vs profit spectrum

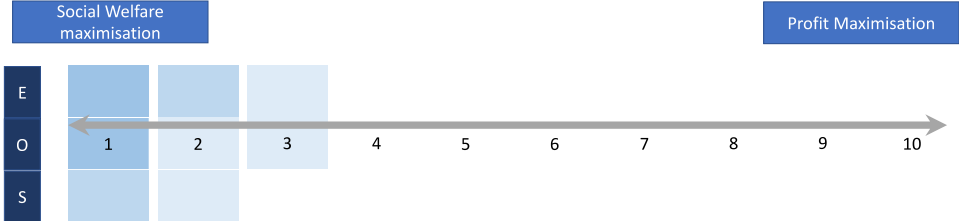


Figure iv(a)

Figure iv(a) demonstrates that the Environment is social welfare orientated with the organisation and strategy being similarly orientated toward social activities, which is in line with the disclosed mission of the organisation. *Stretching towards profit should not be shied away from as long as the primacy of the social mission is preserved such that the impact occasioned by profit does not unacceptably diminish the service delivered to beneficiaries.* Such a test or questionnaire could be implemented whenever someone in the firm suggests an avenue to generate more revenue to ensure the social mission is also advanced. It is however curious that the activities are not more centrally aligned since the organisation is firmly a hybrid in Figure i(a). This misalignment maybe worth looking into further.

## **Value Statement**

Healthguard's value statement can roughly be described as, to be a reference point, accessible to all in the early diagnosis, treatment and study of neurodevelopment disorders in children in France. With the aim of promoting the social integration and improvement of children's future opportunities and independence.

This value statement shows that there is close coherence between the value statement and the current business model. Where the organisation might benefit is in leaning into its uniqueness as a hybrid organisation. The organisation has more flexibility than it is allowing itself. Comparing the organisation too closely with private sector for-profit competitors will result in the organisation gravitating too close to those business models instead of being different while providing its patients a superior level of satisfaction.

## **Tensions**

Three significant tensions were expected to be observed at Healthguard which include tension between (1) social welfare and profit, (2) processes and resources and (3) short-term and long-term time preferences.

The data from the generated heatmap's alone is insufficient to clearly highlight tensions. This is because as (Magretta 2002) points out the narrative is key in addition to the numbers which in this case are represented in the heat map. The narrative created by senior management provides a directional flow for the business model which can be towards leveraged non-profit or for-profit. The direction senior management pursues determines the tensions that become salient for the organisation.

For Healthguard the first tension seems to have become salient and entrenched because any adjustment of the mix between social and profit activities is approached cautiously due to the

social mission being so clearly articulated and highly valued by both management and key donors. The effect is that profit initiatives get even less attention. Instead by giving social welfare clear precedence and not primacy profit initiatives could be acceptable where they are complementarities to the business model and where they have paradoxical but aligned benefit.

The second tension was evident in the in-depth interview where processes and resource used by the organisation are clearly driven by medical standards. It's beyond the author's expertise how the balance between standardised medical processes and resources can be adjusted, however the experts at Healthguard can find avenues to introduce flexibility in their operations without compromising medical standards. One way to think about this is that the organisation operates in development state two as observed in Figure ii(a) which is akin to a new venture. These types of organisations are typically more flexible however operating with medical standards and procedures usually results in an organisation behaving as if it is in developmental state five and this level of rigidity may hamper service delivery to beneficiaries and reduce the organisation's ability to create superior value. This in essence is a further nested tension that cannot be overlooked. As such initiatives to harness the advantages of flexibility are needed.

The third tension was evident in the expectations of stakeholders who are long-term orientated. This long-term preference is a good thing except where it overly hinders senior management's ability to introduce short and medium-term adjustments to E, O and S that deliver the long-term end goal. It may be useful to use this report to advocate for the steps senior management needs to take to create superior value for the value chain which consists of the beneficiaries, the suppliers and the firm. All three are vital and changes that impact them are the ones that create new value. As highlighted earlier giving suppliers, beneficiaries and parents more room to

contribute to the firms direction can unlock new revenue sources that enable the long-term success of the organisation in servicing beneficiaries.

### **Feedback to Healthguard from Value Creation Survey**

1. It's important to separate the needs of your users and the needs of the payers. Parents can be surveyed while children can be asked one-on-one for their thoughts. The two might reveal nuanced differences that are useful in developing the value delivered.
  - a. Steps taken to maximise the use of the office space can be interpreted differently by children and parents, so if for example service providers start conducting other activities on the premises the steps taken to make the children more comfortable vs the parents might not be the same.
  - b. The survey points to parents having a high willingness for the service but a lower ability to pay. These parents can be alerted to the fact that the organisation has programs to supplement costs for parents since their ability to pay is lower than their willingness. As such there exists elasticity in what parents are willing to allow the organisation to do on the premises.
2. The need met by the organisation for payers & users is not homogenous.
  - a. It's important to separate the needs of users and payers. It may provide new perspectives on how the organisation can advance value creation. Parents may be driven to secure healthier children that are easier to manage at home and who have improved grades and job prospects.
  - b. Children may be motivated more by social acceptance, friendships formed through Healthguard and whether time at Healthguard is fun or not. Meeting the users and payers at their separate needs will deepen value creation.

### 3. Suppliers

- a. Most suppliers are consultants meaning they are somewhat entrepreneurial and independent in their approach. It may be worthwhile engaging the various consultants and finding out where they work and the type of work they do when they are no engaged by Healthguard. Enabling the consultants to do more from one place might provide another revenue source for the organisation which could be more convenient for consultants and they would be more likely to ensure that standards are uniform across the board and that one service does not compromise another. They may also have ideas on improvements that they are yet to share with management.
4. There is a difference between the knowhow of the organisation and that of the consultants. Creating a list of the differences might reveal product offerings that consultants tap into to increase customers value.
5. The organisation does not have a theory of change in place. Setting up a theory of change is critical in driving greater value creation. So much so because Healthguard's social mission is pivotal to its mission.
  - a. The purpose of a theory of change is that it explains how the interventions taken by the organisation are expected to lead to specific developmental change in the lives of the children. This will help track and map the impact being created. This document will be powerful in showing funders the impact being created and how the interventions are achieving the impact. This can be used to incentivise donors and to pinpoint areas where further value can be delivered.
6. It's important not to compete on price. Such a strategy is a race to the bottom and unlikely create superior value. It is harder but better to tap into the needs of the parents and children by finding a need Healthguard can do better than the competition and

building on that. Consider things Healthguard can do that are not covered by insurance providers or things competitors will overlook. Since the competitor focus is primarily financial there could be opportunities that are more social orientated. It could be beneficial to reaching out to insurers to learn what are the needs that are sought after by patients but excluded from insurance.

7. The insurance industry if not already a partner could be open to new opportunities.
  - a. If Healthguard shows the insurers that early diagnosis and treatment are a superior service that reduces the insurers lifetime spend per client this might drive more business. This way of thinking is not only good for insurer's its good for the employers of parents who also suffer when parents must dedicate more time to the treatment of children.
8. The organisation has indicated that it has more than one endgame. Research shows that organisations that pursue multiple endgames at the same time struggle more and are more likely not to reach their goals. Those that have one clear endgame are more successful. The challenge of stretching the team across multiple endgames strains the organisation's processes and resources to breaking point. It may be prudent to refine the endgame. By endgame we mean, "the specific role that an organization intends to play in confronting the total addressable challenge in a certain issue."

Finally, the advice of Thulasiraj Ravilla of Aravind Eye Care System is instructive. When discussing how to run a hybrid organisation he suggests focusing on driving the market rather than reacting. This may at many times seem like the direction of the unreasonable person however he says, "the market-driving approach potentially gives invaluable insight into the design and development of products or services, their pricing, and delivery mechanisms." (Elkington and Hartigan 2008) By this Ravilla is challenging organisations

to take charge of their destiny and travel the path of finding their own unique value proposition rather than being caught up in conventional thinking about a given industry.

## **Report 2: Vitagrow's State of Value Creation**

Business models are not static, they are forever in motion and we can take a snapshot of a business model at a given point in time. In this collaborative exercise we took a snapshot of Vitagrow Urban Farm's business model as it existed in November 2022. The snapshot is influenced by past key moments in time, with some having greater influence than others. The initial state of the organisation is one such key factor. For example, organisations that are started with social imprinting (i.e. social welfare as a key end goal) have that decision, "play(ing) a critical role in enabling these hybrids to maintain their focus on serving their beneficiaries and achieving their social mission" (Battilana, Metin, et al. 2015). Another factor is the state of the environment in which the organisation was founded. Ikea illustrates this because it was founded as, "a flat, egalitarian organisation, in which subordinates often question superiors and tangible symbols of power are rare.... IKEA is in this respect, naturally Swedish" (Santos 2013). This has had a long-term influence on the IKEA we know today, even though it has gone on to operate globally. The myriad of past decisions made by senior management continue to influence the make-up of the current organisation and provides some path-dependency for what could come next.

Since the past is imprinted in the organisation's memory, we can use this information to manage current and emerging tension on the organisations path to success.

The Survey completed allows us to first build 4 heatmaps. These maps reveal the position of the organisations current business model.

Together the survey responses and the in-depth interview session allows us to:

- (1) review and compare the organisation’s value statement to the heatmap,
- (2) identify resolved, existing or emergent key tensions, and
- (3) suggest systematic changes that will drive superior value creation.

**Survey Generated Business Model Snapshots (Heatmaps)**

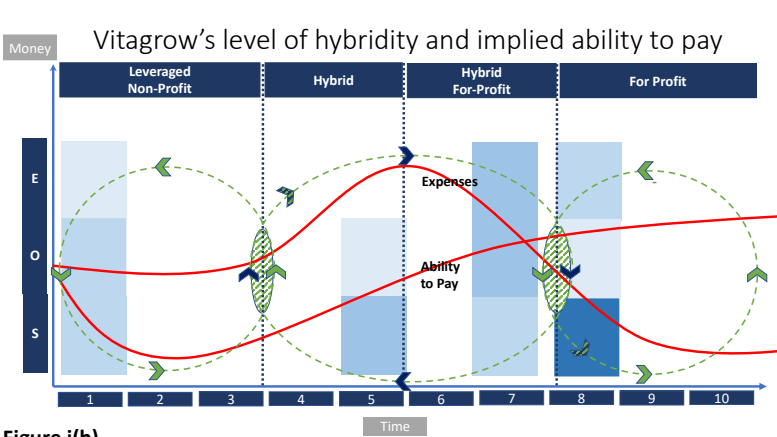


Figure i(b)

**Key**  
**E** = Environment  
**O** = Organisation  
**S** = Strategy  
**Green circles** = flow of business model  
**Red lines** = implied cash flow trajectory  
**Blue heatmap boxes** = the organisations positioning. The darker the blue the more the organisations E or O or S is concentrated in that area.

Figure i(b) shows that Vitagrow is strategically making decisions that firmly establish the organisation as a for-profit organisation with some decisions that lean towards hybridity. Organisationally the structure of the firm and its processes are geared towards hybrid for-profit activities. The environment in which Vitagrow operates is hybrid for-profit. The implication of

this is that customers can pay for products while not fully financially independent in their ability to pay.

Management can shift the organisation's business model from for-profit to hybrid for-profit or it can move deeper into for-profit activities. These changes are done by adjusting E, O and S. It is important to recognise that organisations exist on a spectrum and being too far on one end leaves the organisation without the benefits of the other end of the spectrum which is suboptimal as observed when an organisation only focuses on exploitation and not exploration or vice versa (W. Smith, Navigating Paradox is Paradoxical 2022). Put another way if the organisation exclusively focuses on its for-profit capabilities, it will miss out on the benefits of non-profit capabilities it could develop. It is therefore important to find the organisations optimal value blend.

If the organisation wishes to shift its environment by targeting new customers such as low-income customers, which is one of the long-term goals. Vitagrow would have to make changes to its organisational processes because the ability to pay for those customers will be lower. At the same time changes in strategy in areas like product mix would also be necessary. The reason for this knock-on effect is multi-layered and due to factors such as low-income customers needing the cost of the hydroponics farming to be cheaper or subsidised, which could impact the placement of each urban farm in locations where these customers buy products directly from the farm with limited to no delivery or transportation cost for both customer and Vitagrow. Strategically these low-income customers may be limited to only certain products and not the full range sold to restaurants and supermarkets.

The example above illustrates how moving from one business model to another will result in tensions that must be managed. These points of tension are seen when management makes shifts in E, O or S from one business model type to another.

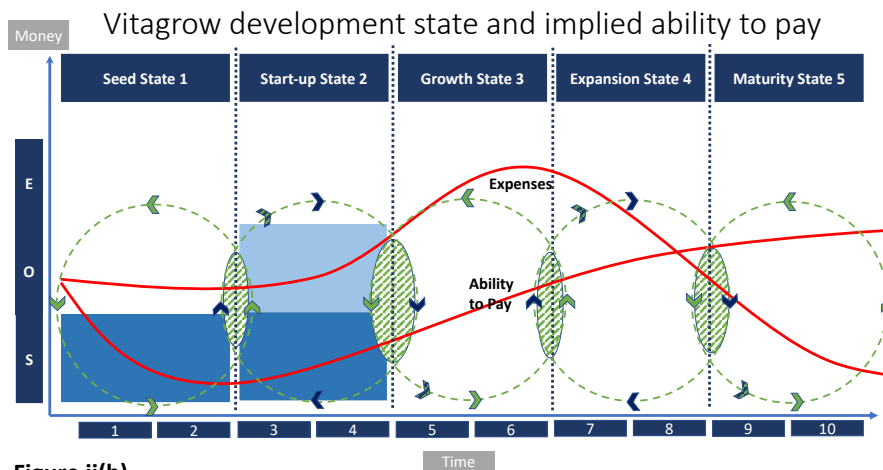


Figure ii(b)

Figure ii(b) shows that the current developmental state of the organisation largely sits within the second state and first state. This second state can be referred to as one in which the organisation is experiencing start-up conditions. The organisations strategy is underpinned by being in state one and state two which means the organisation is experiencing tension between the two states. In state one the mindset of management is composed of inspirational leadership that acts in an agile and flexible manner to champion the idea and production. In state two leadership is required to be more directive and concerned with introducing some centralisation and efficiency in business activities.

One challenge here is that the customer's willingness to pay is low for a factor of reasons such as the newness of the product. The organisations emphasis on delivering a quality product vs providing novelty to the market drives the organisation to be more rigid in its process and less exploratory in trying plant growing techniques which could provide future market differentiation.

### Vitagrow's business activity focus

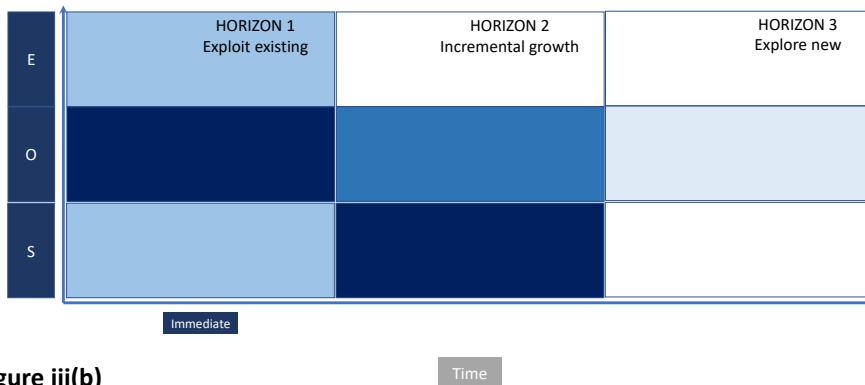


Figure iii(b)

In Figure iii(b) we observe that Vitagrow's activities are largely engaged with exploiting current capabilities with a strong emphasis on incremental growth. In contrast to where the organisations activities are, management is strategically focused on driving incremental growth on the back of the existing organisational infrastructure. The customers are however concerned with current product and not looking towards the future. Senior managements choice on the level of aggression for innovation could build future competitive advantage to Vitagrow and drive superior value creation for its value chain.

### Vitagrow's positioning on the social welfare vs profit spectrum

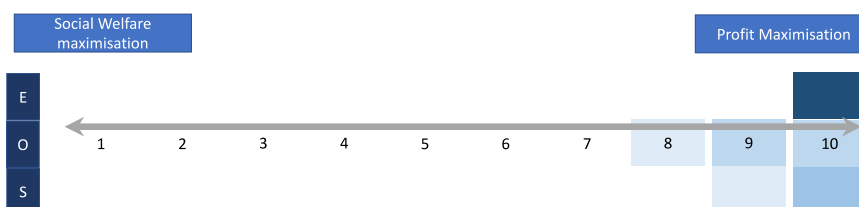


Figure iv(b)

Figure iv(b) shows that the environment of Vitagrow's business model is highly profit orientated with the organisation and strategy being similarly orientated toward profit activities. This is not reflective of the interviews with founders. The organisation's hydroponics training program with school children, which educates them on healthy eating and partnerships with NGO's are not reflected in the business model. The reason for this might be due to the stated approach by management that "survival" is key at the moment. What must be considered is that sacrificing the social end goal for stability could result in continued mission drift whereas the organisation could be leaning on both social and profit ends as a means of competitive advantage and superior value creation.

### **Value Statement**

The declared value statement of the organisation states that "We grow great tasting and nutritious produce for leading restaurants and supermarkets in the heart of the city using sustainable methods," as well as "our Vision @ Vitagrow Urban Farms is to democratise access to nutritious and flavourful produce at affordable prices."

There exists some dislocation between the first and second parts of the statement. This could possibly be bridged by making use of a hybrid mindset. The organisation can opt to stop making a trade-off between pursuing profit and its work with NGO's and schools. This can be implemented using a both/and approach. It is paradoxical but superior to the either/or approach and gets the organisation to achieve its end goal now rather than pursuing one end goal now only to attempt a switch to another end goal later.

### **Tensions**

Three significant tensions were expected to be observed at Vitagrow which include friction between (1) social welfare and profit, (2) processes and resources and (3) short-term and long-term time preferences.

The data from the generated heatmap's alone is insufficient to clearly highlight tensions. This is because as (Magretta 2002) points out the narrative is key in addition to the numbers which in this case are represented in the heat map. The narrative created by senior management provides a directional flow for the business model which can be towards leveraged non-profit or profit activities. This direction will determine the tensions that are salient for the organisation.

For Vitagrow the first tension had clearly become salient and senior management took the decision to make a trade-off and pursue profit. Alternative to a text book trade-off, Vitagrow could give profit precedence whereupon certain thresholds being reached the social ends are actioned which would introduce a more harmonious approach.

The second tension was evident when a site visit was carried out in mid 2022. Here it was observed that the organisation was worried about its capacity to both grow and market the produce itself as well as manage the cost to test out alternative hydroponic methods which do not require a greenhouse, this latter initiative being specifically for low-income customers. In the first instance management could attempt to incorporate its marketing into its social ends. For example, by expanding training to include people who are not at school, training events could double up as farmers markets. The solution to test low-cost hydroponics techniques on the organisations unutilised land next to the existing hydroponics systems is a great instance of how the same resources have been leveraged to conduct slow, low intensity incremental

exploration that will eventually help low-income customers and provide an additional revenue source for the organisation.

The third tension was evident in the expectations of shareholders who are primarily for-profit orientated. Management is managing this tension by reiterating the long-term vision of the organisation. It may be useful to use this report to also support the assertion that both social activities and profit activities can be pursued in one value statement for a competitive advantage.

### **Feedback to Vitagrow on Value Creation Survey**

1. From talking to the founders, the social mission is important to the organisation but the execution of the social mission is not evident in the current business model. This might be because the founders rely on their strengths and training that are commercial. On the founding team no one is coming from a social welfare background. As such social imprinting might be a useful step to have the social mission move in lockstep with the commercial developments.
2. The organisation is specialising in delivering its product for quality and quantity. Talking to the customers to find out how important this is to them will help deepen the value delivered. In discussions with the customers, it will be important to ask them what quality and quantity mean to them instead of looking at this from the organisation's perspective. Taste or beauty may rank higher than nutritional content for the customer.
  - a. Furthermore, talking to customers and getting to know what's important to them is vital because the current focus is on making and selling a product but when asked about pricing and the payer these questions were unanswered. This might

indicate a need to better understand the link between the product and the customer need.

- b. Questions on product offering were also omitted. Again, pointing to the need to talk to customers more to get a deeper understanding of what products to offer them. This must go beyond quality and quantity. Get an understand of things like, does working with Vitagrow make sourcing easier and more reliable for restaurants. Is the product's taste profile different from competitors. If shelf life better than competitors, etc;
3. Questions about the suppliers were not answered. It might be beneficial to spend time talking to key suppliers to get an understanding of their incentives. These are critical to how the organisation will grow and which suppliers are key on that journey.
4. On hiring management's focus is on adaptability. It may be useful to include some requirements that tie into the mission of the organisation because employees who buy-in, will more readily adapt when the changes are positive for them and the organisation. For example, if the desired positioning of the organisation is to have more low-income customers this requires a change in the operating environment, as such management will need to consider the adaptations that will have to happen within the organisation and strategy and hire for the skills and personalities that can help in light of the coming changes.
5. Management highlighted that it has a challenge with providing its customers with consistent supply.
  - a. One solution is to pick smaller customers to which you can guarantee consistency and build from there rather than having large customers you cannot be consistent with. The ultimate risk in these smaller customers will rest on getting to know them and how important your products are for them.

6. Management stated that the market does not having an unmet need the organisation is meeting. This may point to a high degree of competition and warrant revisiting the customers need and getting a better handle on what the organisation can do better or different from the competition.
- a. For example, since Vitagrow uses greenhouses could operating an out of season line of produce provide customers a benefit they do not get elsewhere? They are then assured of constant supply of hard to procure items.
  - b. Another opportunity to pursue with restaurants may be to ask them what menu items they would love to have but fail to due to a lack of ingredients? This can help build out a differentiated service.

#### Annexure iv: Five Why's analysis

Why do 9 out of 10 start-ups fail?	Because organisations run out of cash, there is no market need, organisations get outcompeted... (The Top 12 Reasons Startups Fail 2021)
Why?	Because there is limited competency in organisations
Why?	Because management's past experience and education do not perfectly map onto the circumstance encountered in daily operations like Covid-19
Why?	Because running organisations is unpredictable, complex and at times complicated
Why?	Because focus on the value proposition for customers is not clear

#### Annexure v: List of Research participants

<b>Research Report #</b>	<b>Organisation Name</b>	<b>Website</b>	<b>Survey</b>	<b>In-depth Interview</b>
1	Healthguard	<a href="https://Healthguard.net/">https://Healthguard.net/</a>	Completed	Completed
2	Vitagrow Urban Farms	<a href="https://www.myvitagrow.com/">https://www.myvitagrow.com/</a>	Completed	Completed
3	Albinism Umbrella	<a href="https://albinismumbrella.org/">https://albinismumbrella.org/</a>	Completed	Completed
4	King George VI Centre	<a href="https://www.kgvi.org/">https://www.kgvi.org/</a>	In progress (50%)	Completed
5	LUMA	<a href="https://www.lumalaw.co.za/">https://www.lumalaw.co.za/</a>	In progress (0%)	Completed
6	Guzzies	None	In-progress (66%)	Completed
Each organisation's confidentiality and privacy were taken into account in the manner in which their information is presented.				

#### Annexure vi: In-depth interview Driver Questions

##### Question 1

*What value are you bringing to which problem?*

Reason for asking this question was to understand “What is your business?”

### Question 2

*What capabilities do you have and what activities are you doing with those capabilities to deliver value?*

Reason for asking this question was to understand “What is your business model?”

### Question 3

*How have you organised your activities to deliver value better than others?*

Reason for asking this question was to understand “What is your competitive Strategy?”

### Question 4

*Describe the desired change you expect your best efforts will bring?*

Reason for asking this question was to understand “What is your Theory of Change?”

## **Example Value Creation Summaries Developed from In-depth interviews**

### Example 1

Through the in-depth interview we learnt that Albinism Umbrella is primarily about *organising initiatives and advocating* for people who have Albinism. The organisations model is principally about operating *network mobilisation* activities, and the competitive edge lies in the organisations ability to launch and run national campaigns for those we have Albinism.

The organisation’s intention is to enable, “people with Albinism to be empowered and normal participants in society.”

### Example 2

Through the in-depth interview we learnt that King George VI Centre is primarily about eradicating stigma towards people with disabilities and ensuring the inclusion of children with disabilities in all areas of life. The organisations model is principally about providing upskilling activities for independent living, and the organisations competitive edge lies in its ability to offer full service on-site and off-site care.

The organisation's intention is to ensure that, "every disabled child is marketable and has independent skills".

### Example 3

Through the in-depth interview we learnt that LUMA is primarily about disseminating legal knowledge to people who are in desperate need. The business model is principally about curating legal content, and the organisations competitive advantage lies in its ability to instantaneously answer legal questions through mobile channels.

The organisation's intention is to, "minimize distress by having justice served through timely definite outcomes."