

Business Models for Research Institutions

By:
Universalialia



August 2013

Executive Summary

With core funding for non-profit organizations becoming increasingly scarce and competition for grants rising, non-profit organizations are having to look at new ways of remaining relevant and ensuring sustainability. The International Development Research Centre (IDRC) has been exploring ways for non-profit organizations to become more sustainable and has invested in research on resource mobilization. This exploratory study is designed as a complement to this prior research and constitutes an effort to grasp how the concept of business models could be applicable and relevant to non-profit research institutions.

The overall purpose of this exploratory research study is twofold: to gain a better understanding of the applicability of a business model conceptual framework to non-profit research institutions, and to assess the extent to which the concept of business models supports or complements existing theory on organizational assessment (OA).

Methodology

Research questions for this paper have been identified and developed in collaboration with IDRC. Answers to these questions were found through a comprehensive literature review conducted mainly on the concept of business models for the private sector (since this is where most of the work on the concept has been carried out to-date). To ground the paper in concrete cases, a sample of three research institutions¹ was suggested by IDRC. Interviews and a review of documents pertaining to these three institutions were carried out to understand how applicable business models are to non-profit organizations.

Definitions

The concept of business models has been defined by several authors and adapted to the needs of different fields. There are however certain common threads among these definitions. Most authors emphasize the value created for customers, i.e. a value proposition, and the need to generate revenue streams, or a way to create economic value. This exploratory paper's definition applies to both private sector and non-profit organizations, and has two components: a business model refers to the way a research institution achieves its mission, and describes how an organization obtains its funding and resources.

Business Model Framework

The framework proposed by Osterwalder and Pigneur (2012) was used to guide this exploratory study. Their business model framework is composed of nine main elements, namely: 1) Customer Segments, 2) Value Proposition, 3) Channels, 4) Customer Relationships, 5) Revenues, 6) Key resources, 7) Key Activities, 8) Key Partners, and 9) Costs. The Osterwalder and Pigneur framework was found to be comprehensive and makes it possible to describe the business model of an organization in great detail. Their model has also been widely used by both some of the largest corporations and small start-ups. One might argue that the Osterwalder & Pigneur framework is not entirely compatible with non-profit organizations such as research institutions. Terms such as revenue streams, customer segments or value proposition may make little apparent sense for non-profits. Thus there may be a need to adapt the framework slightly to non-profits, for example by acknowledging that non-profits have to respond to the needs of at least two different constituencies: donors and beneficiaries. This may indicate that non-profits need to have two different yet complementary value propositions. The value proposition targeted at donors should focus on what benefits, value or incentive donors will receive in return for donating, while

¹ The selected research institutions were Institut africain de gestion urbaine (IAGU) in Senegal, Initiative Prospective Agricole et Rurale (IPAR), also in Senegal, and Jembi in South Africa.

a value proposition targeted at beneficiaries could define the collection of products and services that are designed to help them.

Applicability of Business Models to Research Institutions

We applied the Osterwalder and Pigneur framework to the three sampled African research institutions and found that they all use a model that combines a mix of private and non-profit sector components. This means that they are hybrid organizations, i.e. organizations that have started thinking about the monetization of their products and services. For instance, some have developed a consulting practice parallel to their regular work with beneficiaries. This hybrid model has several advantages for research institutions since they can use outputs of their consulting practice to support beneficiaries. Even though they are adopting private sector practices, they remain focused on the social impact that they seek to achieve and their outputs are still linked to their mission.

The fact that all three African research institutions studied have started thinking about monetizing their products and services shows their interest in becoming more sustainable in the long run. It also shows that they have started thinking in terms of market value and are becoming more comfortable with the use of business terminology. Speaking in terms of markets, value for money, and being able to describe the benefits of investing in their organization are important tools that researchers now need to excel in to attract new donors, clients and funders to their institution. The hybrid business model seems to constitute a promising vehicle for the creation of economic value and also yield positive social impacts.

Overall, the business model is a useful tool in conceptualizing how an organization goes about achieving its mission and getting its revenue. We see value for non-profit organizations in understanding these concepts and being able to articulate them. It provides a clear picture of how products and services can be monetized and who is willing to pay for those goods. The three research institutions sampled for this exploratory study probably have an *implicit* business model, but none has yet had a chance to think thoroughly about its formal business model, nor did they have a clear understanding of what their value propositions were.

Business Models as a Tool to Improve Performance

This exploratory paper also sought to understand the extent to which the business model concept complements the organizational assessment framework developed by IDRC and Universalialia. Thanks to this research, we were able to pinpoint a major shortcoming of the OA framework: its lack of clear linkages between products, users, value, fundraising, etc. The business model may therefore constitute a tool that allows an organization to quickly assess the alignment between the underlying social value it wants to bring to society and the way it acquires funding. Put in simple terms, the business model may be a way of getting fuller organizational self-awareness and being able to institute shifts in the organization when necessary.

Concluding Remarks

This research project has brought attention to two main conclusions: the business model approach could be usefully applicable to non-profit organizations, albeit with some adaptations, and it constitutes a valuable complement to the OA framework as it allows for linkages that are not made in the current static version of the OA framework. In a context in which resources for non-profit research institutions are not as widely available as they were a few years ago, non-profits should start positioning themselves to attract further funding; adopting a hybrid business model is a solution that allows them to gain a better understanding of who is willing to pay for their outputs. Doing so also allows research institutions to become more conscious of the full costs of what they do, the outputs that their investments generate, and the values that they create for end users (e.g. beneficiaries, researchers, policy analysts, etc.). In short, the business model approach allows organizations to ask themselves the right questions and puts them in a logic of sustainability.

A c r o n y m s

| | |
|------|---|
| IAGU | Institut africain de gestion urbaine |
| IDRC | International Development Research Centre |
| INGO | International Non Governmental Organization |
| IPAR | Initiative Prospective Agricole et Rurale |
| NGO | Non-Governmental Organization |
| OA | Organizational Assessment |
| RFP | Request for Proposal |

Contents

| | |
|---|----|
| 1. Introduction | 1 |
| 2. Methodology | 2 |
| 2.1 Research Questions | 2 |
| 2.2 Data Collection | 3 |
| 3. Context | 4 |
| 3.1 Usefulness and Definitions | 4 |
| 3.2 Our Definition | 5 |
| 3.3 Research Institutions and Business Models | 6 |
| 3.4 Components of Business Models | 6 |
| 4. Illustrative Cases | 8 |
| 4.1 Jembi: A Research Institution Run as a Business | 9 |
| 4.2 IAGU: A Research Institution becoming a Service Provider | 12 |
| 4.3 IPAR: A Think Tank Wanting to Preserve its Independence | 15 |
| 5. Implications | 18 |
| 5.1 Applicability of a Business Model Statement for Research Institutions | 18 |
| 5.2 Business model statements as a tool to improve performance | 23 |
| 6. Concluding Remarks | 25 |

Exhibits

| | |
|--|----|
| Exhibit 2.1 Research Framework | 2 |
| Exhibit 3.1 Business Model Framework as Proposed by Osterwalder & Pigneur | 8 |
| Exhibit 4.1 Jembi's Business Model | 11 |
| Exhibit 4.2 IAGU's Business Model | 13 |
| Exhibit 4.3 IPAR's Business Model | 16 |
| Figure 5.1 Business Model 1: Private Sector Model - Customers pay for the organization to achieve its mission | 18 |
| Figure 5.2 Business Model 2: Conventional Model of Non-Profit Organization: Donors pay for products and services | 19 |
| Exhibit 5.3 Business Model 3: Hybrid Model – Mix of Private Sector and Non-Profit Components | 20 |
| Exhibit 5.4 OA and Business Model Components | 23 |

Appendices

| | |
|---------------------------------|----|
| Appendix I OA Framework | 27 |
| Appendix II Bibliography | 29 |
| Appendix III Interview Protocol | 31 |

1. Introduction

Universalialia received a grant from the International Development Research Centre (IDRC) to build a community of people interested in learning about and using organizational assessments (OA) to improve the performance of their organizations. This project included the development and maintenance of a website dedicated to OA (www.reflectlearn.org), as well as a community of practice. An additional component that was integrated into the scope of Reflect & Learn was a research project on the concept of “business models”. The purpose of this research project was to gain a better understanding of how business models apply to non-profit organizations, and in particular to research institutions. A second objective was to assess the extent to which the business model concept supports or complements existing theories on OA. This latter objective was particularly interesting as Universalialia has never made formal linkages between products, services, programs and funding in its previous work and research on organizational assessment. The business model concept provides an opportunity to make those linkages.

Generally speaking, the application of private sector terminology and concepts to non-profit sector organizations is gaining in popularity in the management literature. As core funding for non-profit organizations seems to be increasingly difficult to secure and competition for grants increases, non-profit organizations are looking into new ways to remain relevant and to be sustainable. IDRC has become interested in gaining a better understanding of what makes a non-profit organization sustainable. After having invested in resource mobilization for a number of years, this exploratory study is an effort to grasp if and how the concept of business models could be applicable and relevant to non-profit research institutions.

Up until very recently, people from the non-profit sector (also known as the third sector) tended to look at fund raising or resource mobilization as a capacity separate and distinct from an organization’s products and services. This research project explores the assumption that resource mobilization should not be dissociated from products and services for these organizations, and that private sector experience could provide the missing link between them.

The business model concept is a quick way to assess the alignment between the underlying social value an organization wants to bring to society and the way that it acquires funding. In many cases, products and services of research institutions are distributed free of charge to users, who are different from donors. We see a need to reconcile these various elements, namely the beneficiaries, clients, sources of revenue, products and services, etc., and understand how they fit together in a conceptual framework.

It is worth noting that there is little academic research on the subject of business models for non-profit organizations, and that much of what has been published is conceptual in nature. Indeed, research on business models for the private sector is still in its early stages, while research on their use for the public sector, particularly for non-profit organizations, is still in its infancy. This paper is thus intended as an exploratory attempt at providing a rationale for the use of business models by research institutions.

The remainder of this paper is organized into seven sections. First, the methodology and contextual information are presented, along with definitions of the concepts used in the study. Next, those concepts are applied to three case studies: three research organizations based in Africa. Finally, the implications for the use of business models for nonprofits are presented along with their applicability to organizational assessment, followed by suggestions for more research and reflection.

2. Methodology

The overall approach to this research project was iterative, i.e. while following an agreed upon workplan, research foci, methods of data collection and analysis, the approach was slightly modified in light of emerging insights, as well as based on evolving understanding.

2.1 Research Questions

As stated in the introduction, the purpose of this exploratory research study was twofold: to gain a better understanding of the applicability of a business model conceptual framework to non-profit research institutions, and to assess the extent to which the concept of business models supports or complements existing theory on organizational assessment. To carry out this research, the following research questions were identified in collaboration with IDRC:

Exhibit 2.1 Research Framework

| Major Questions | Examples of sub-questions | Data collection methods |
|---|--|-------------------------------|
| How is the concept of business models defined? | What is a business model? What defines a good business model? How is the concept of business model understood from the perspective of research organizations, private sector, non for profit sector, etc.? What are the different types of business models? | Document review Interviews |
| What should be included in the business model of a research institution? | What are the most important components to include in the business model of a research institution? How does the business model link products services? Does the business model lend itself to resource generation? | Document review Interviews |
| How is the concept of business models used/applied? | How useful is a business model for a research institution? Does the application of a business model differ depending on the type of organization? Should business models be continually updated? Do business models do what they were set out to do? | Document review Interviews |
| How can business models be evaluated? | What methods have been used to assess the quality of business models? What specific tools exist to assess business models? How are these tools used in different contexts or in different types of organizations? | Document review Interviews |
| How does the IDRC OA framework relate to the assessment of business models? | How is a business model implemented into organizational structures and systems? How does a business model contribute to motivate an organization? How is organizational capacity reflected in a business model? | Document review Interviews |

| Major Questions | Examples of sub-questions | Data collection methods |
|-----------------|--|-------------------------|
| | <p>How does the external environment impact the (re)formulation of a business model?</p> <p>How can a business model be used to assess the performance or sustainability of an organization?</p> | |

2.2 Data Collection

To answer these questions, a comprehensive literature review was conducted, mainly on the concept of business models for private sector. Then, a sample of research institutions was suggested by IDRC, to conduct interviews with and to explore the applicability of business models for non-profit organizations.

Literature Review

Documents and files related to business models were reviewed. The documents came from periodicals with a specific focus on management as well as books on non-profit organizational management. Other sources of information included online blogs and documents that share innovative ideas on the use of business models, as well as IDRC’s existing documentation on resource mobilization. Documents provided by IDRC related to prior research on business models, in addition to relevant documents from workshops or research on sustainability etc., were also considered.

Interviews with Selected Research Organizations

A sample of three research institutions were selected, with the aim of understanding to what degree their mandate or business model is aligned with the actual work they do. IDRC suggested a short list of organizations involved in the Think Tank Initiative and the Resource Mobilization for Research Program. From this list, a number of organizations were contacted and three research organizations agreed to participate in this research:

- Institut africain de gestion urbaine (IAGU) in Senegal;
- Initiative Prospective Agricole et Rurale (IPAR) in Senegal; and
- Jembi in South Africa

All relevant documents pertaining to the three sampled organizations were reviewed and analyzed. A complete list of documents reviewed is presented in Appendix II. In particular, the following documents were requested from the three research institutions and were reviewed when available:

- Description of the mission statement;
- Most recent annual reports (or any other document that would describe the core activities of the organization, e.g. type of products and services provided);
- Documents describing sources of revenue;
- Strategic planning documents;
- Explicit business model (if any);
- Other relevant documents.

Finally, interviews were carried out with an executive from each of the three organizations. Generic interview protocols used are presented in Appendix III. IDRC and sampled organizations were also asked to provide comments on the first draft of this research paper.

3. Context

The concept of business models first emerged in the strategy literature, as a response to Peter Drucker's questions: Who is the customer and what does the customer value? And, what is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost? It was largely absent from the important books on organizational design, business strategy or business theory until the mid- to late 1990s. Since then, interest in business models has grown significantly – indeed, in the last 15 years alone, over 2,000 articles have been written on the topic.² Despite this, we are still far from having a clear and agreed upon understanding of what the concept means. Instead, authors tend to adapt their definition to their particular needs. One reason for this confusion is that the concept of business models draws from a variety of disciplines, with none claiming exclusive authority over its meaning. Thus while the concept was first used within the context of analysis of e-businesses, it has more recently been applied to the innovation sector and to high-tech enterprises, with growing interest from the non-profit sector.

The growing interest in business models from the non-profit sector can be seen in the increasing use of business terminology and concepts by non-profit organizations. Organizations involved in social entrepreneurship are particularly interested in it. This is because social entrepreneurs in general have a mission, and seek to create and sustain social value. In doing so, they draw from both the business and non-profit worlds since performance is not only measured in terms of financial profits and returns, but also takes into account a positive return for society. Social innovation is another concept that non-profit organizations are increasingly adopting that draws from the private sector. It refers to innovations that have a social purpose, such as microcredit or distance learning. Finally, the concept of hybridity is also gaining in popularity thanks to social entrepreneurs' desire to be less dependent on donations and subsidies. Hybrid organizations combine aspects of non-profits and for-profits, and their business models can incorporate products and services to fund a social mission. These various emerging interests underline that the non-profit sector is increasingly looking for new models and ways of carrying out their missions, with concerns regarding financial and social sustainability playing a key role in driving this move.

The concepts “business model” and “business strategy” are two components of a business plan; yet according to Keen and Qureshi (2006), the two are often confused. A business strategy is designed to determine the long term course of action that will lead to the goals sought, while a business model is a conceptual tool for describing how an organization plans to reach those goals. It is important to dissociate the concept of strategy from the business model; the business model puts emphasis on the revenue generation processes and their consequences in terms of profit, and also tells a story about how an organization works rather than focusing on competitive advantage. Several organizations may have the same business model, but what will differentiate them is the effectiveness of their strategy.

3.1 Usefulness and Definitions

A number of authors have tried to demonstrate the usefulness of a business model to an organization. Morris (2006) has highlighted the following five reasons for why a business model could be useful:

- 1- A business model ensures that the organization has a fairly logical and internally consistent approach to its operations and this approach is clearly communicated to its stakeholders;
- 2- It provides an architecture for identifying key variables that can be combined in unique ways, hence a platform for innovation;
- 3- A business model can become a vehicle for demonstrating the economic attractiveness of the organization, thereby attracting donors and other resource providers;

² Zott (2010).

- 4- It provides a guide to ongoing organizational operations, including parameters for determining the appropriateness of various strategic or tactical actions that management might be considering;
- 5- Once in place, it can facilitate necessary modifications as conditions change.

Several typologies of business models have been developed over the years. The number of typologies varies between authors, from as few as five to as many as 30.³ This variation is also found in the definitions and qualifiers used to describe business models: as a blueprint, an abstraction, a description, a conceptual tool, a structural template, a method, a framework, and as a hypothesis, to list just a few. That being said, there are some common threads among these definitions. Thus most authors emphasise the value created for customers, i.e. a value proposition, and the need to generate revenue streams, or a way to create economic value. Other authors add on elements to these two main components, such as relationships, information, governance, etc. According to Magretta (2002), a business model should be able to tell a logical story explaining who customers are, what they value and how an organization will make money providing value to their customers.

3.2 Our Definition

The definition used as part of this research project aims to be applicable to both private sector and non-profit organizations. The definition has two components: a business model refers to the way a research institution achieves its **mission**, and describes how an organization obtains its **funding and resources**. In other words, it captures the logic of the organization, the way it provides value or perceived value to the market place and how that value proposition is translated into obtaining resources.

There is a fundamental difference between the business model of a non-profit institution such as a research institution and the business model of a for-profit company. In most cases, a for-profit company has a product to **monetize**, and that product is part of a market where supply and demand together determine prices. This is not the case for most non-profit organizations. In a majority of cases, the work of a non-profit organization is not monetized and goes beyond purely market-driven objectives. In short, the value of a product or service from a non-profit organization is not defined by traditional markets, and putting a value on a specific product may be impossible because often, the client (or beneficiary) is separate from the source of revenue (or donor).

In the past, the value of non-profit organizations was recognized by donors providing core or institutional funding. This type of funding allowed non-profit organizations to develop their own products and services without having to be concerned that their products and services had a market value. There was thus no need to think about selling or marketing products and services, since all the spending of the non-profit was covered by core funding.

In the current economic context, this type of core funding is less common. Thus while some research institutions can rely on their credibility or the loyalty of their donors to get continued funding, not all enjoy such an enviable relationship and reputation. As a consequence, non-profits in general must look to other sources of funding and doing so involves broadening their resource base and finding substitutes for government funds. At the same time as non-profits are putting greater efforts into resource mobilization, authors and funders – including IDRC – have started to do research on resource mobilization for non-profits. Part of this research is predicated on the notion that increased resource mobilization based on the methods that worked in the past may not prove sufficient to ensure the sustainability of an organization. Thus there is growing interest in the possibility of monetizing products and services in domains that are difficult to monetize, based on usage of the business model concept.

³ Zott (2010).

The business model concept is applicable to non-profits in terms of a strategy which would allow them to think about monetizing products and services and linking them to markets. Such linkages are key, particularly when beneficiaries and donors are not the same (as is the case for most if not all non-profits). This observation highlights the fact that the elements needed to be sustainable not only include a resource mobilization strategy, but also a business model that links that strategy to the mission of the organization, or the underlying social value the organization wants to bring to society. Overall, this represents an evolution in non-profit resource mobilization thinking/research.

3.3 Research Institutions and Business Models

Publically-owned and funded research institutions are endowed to do basic or applied research. There are also third sector organizations that are not endowed, but that still do research as part of their mission. The business model of these latter organizations must clearly be very different from that of public research institutions, which can rely on more steady sources of funding. To get funding, third sector research institutions must apply for grants covering both core and research costs. Yet as was noted in the previous section, this paradigm may be shifting as core funding becomes scarcer. Research organizations are now working on innovative ways to attract donors while still satisfying their beneficiaries.

It is important to acknowledge however that the application of private sector terminology and ways of “doing business” to the non-profit sector may be controversial, in particular in research institutions that are seeking to achieve what are often perceived as more pure, higher objectives such as achieving a social good for a set of beneficiaries. This paper argues however that even though some organizations may not have a formally articulated business model, if they have a viable way to create, deliver and capture value, they in fact have a business model (even if it is implicit rather than explicit).

According to Bell (2010), financial information and information about mission are seldom discussed in an integrated way in the non-profit sector. She emphasizes that programmatic impact and financial viability are what make a non-profit organization sustainable, since the financial goal of a non-profit is to ensure that it has adequate capital to do its work in the long-term and is thus sustainable. To be sustainable, we believe that research institutions need a set of products and services they can charge for, thereby turning their constituents into customers. An additional challenge for non-profit research institutions is that they must meet the needs of at least two constituencies: their beneficiaries and donors, two very different groups that interact in sometimes unexpected ways. These interactions can be better observed, mapped and analyzed through a business model approach in an effort to discern how such interactions could be used to build (donor) loyalty by making them aware of the needs of beneficiaries. The main issue here is that very few organizations have the ability to undertake multiple unrelated strategies to create a variety of different kinds of value for many constituencies. The solution then is to develop a single overarching strategy to meet the needs of all stakeholders in a way that is both internally consistent and mutually reinforcing.

3.4 Components of Business Models

Business models can be understood as being conceptually similar to the scientific method: to develop one, you first need a hypothesis, that is then tested and revised if necessary to create a cohesive whole.

As was noted previously, there is no agreement on what are the main components that should be included in a business model. For this research paper, we have use a framework proposed by Osterwalder and Pigneur (2012), which is composed of nine main elements:⁴

- 1) **Users or customers (or customer segments)** served by the organization. There can be one or multiple customer groups. In research institutions, these groups are composed of users/beneficiaries of the research, regardless of whether they pay or not for the products and

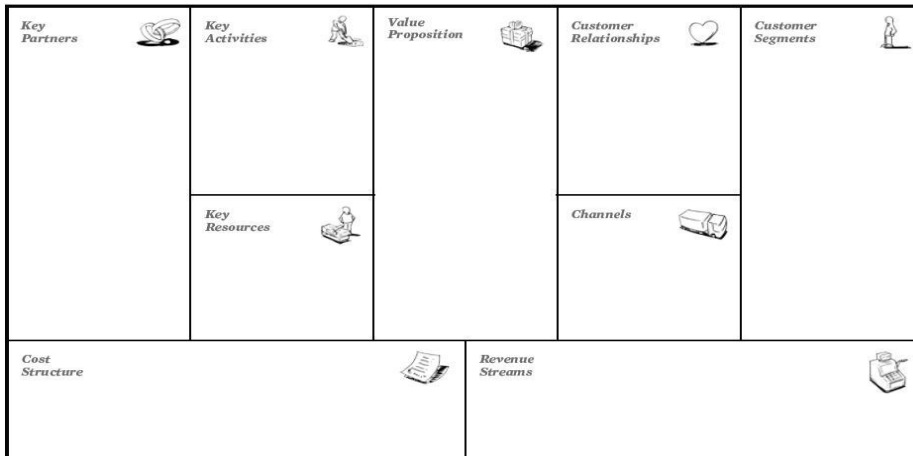
⁴ Usage of this framework is justified later in the section.

services offered by the organization. It is important to know who exactly the users/beneficiaries are, since there is often one particular group that will bring more revenues than the others.

- 2) **A Value proposition** is the bundle of products and services offered by an organization. The value proposition aims to satisfy users, and should in theory meet the needs of users/beneficiaries with good value for money. To do so, the benefits created by an organization's products and services must be more effective, simple and affordable than alternatives.
- 3) **Channels** are used by an organization to communicate and deliver value in different ways to the market. Channels perform five key functions: 1) they help create awareness of services and products; 2) they help potential customers to evaluate products and services; 3) they enable customers to purchase; 4) they deliver value to customers; and 5) they also ensure customer satisfaction through support or customer service.
- 4) **Customer relationships** are established with customers. These relationships can be personal, automated or self-service. Customer relationships serve the purposes of acquiring new customers, retaining existing customers or getting more value from existing customers.
- 5) **Revenues** are received from users in return for the value (products and services) provided by the organization. There are several types of revenues outlined by Osterwalder and Pigneur; these include: outright sale, lease or rent, service or usage fee, subscription fee, licensing, and brokerage fees.
- 6) **Key resources** are the assets needed to create and deliver products and services. Key resources can be human, physical, intellectual, or financial.
- 7) **Key activities** are the tasks required to make a business model work. For research organizations, these activities may include designing/developing and delivering a research report, selling and distributing this report, and supporting users/beneficiaries in using the results of the report, for example through training sessions.
- 8) **Key partners** are an essential part of every business model since it would not be cost-effective for an organization to own every resource or perform every activity by itself. For instance, research institutions may outsource administrative tasks such as payroll preparation to specialized companies.
- 9) **Costs** are expenses incurred in acquiring key resources, performing key activities, and working with key partners. "Scalability" is an important concept that relates to cost; once developed, a report or software can be reproduced and distributed at a lower cost to other users.

These nine elements come together in the framework outlined in exhibit 4.1:

Exhibit 3.1 Business Model Framework as Proposed by Osterwalder & Pigneur⁵



The Osterwalder and Pigneur framework was chosen because it is very comprehensive, including as it does the essential components of business models described by multiple authors. The framework’s incorporation of all of these elements also makes it possible to describe the business model of an organization in great detail, helping to impart greater confidence in the analysis of the organization. Finally, the fact that the Osterwalder and Pigneur framework is widely used by some of the largest corporations as well as small start-ups underlines that it has already been proven comprehensive and useful in practice.

Nonetheless, some might argue that the Osterwalder & Pigneur framework is not very compatible with non-profit organizations such as research institutions.⁶ In particular, terms such as revenue streams, customer segments and value proposition may make little apparent sense for non-profits. This criticism may point to the need to adapt the framework slightly to non-profits – for example, it seems clear that non-profits have to respond to the needs of at least two different constituencies, donors and beneficiaries. These two audiences may have competing interests and may indicate that non-profits in fact require two different yet complementary and mutually compatible business models. If this were the case, non-profits’ business models would also require two distinct value propositions: one targeted at donors and another one targeted at beneficiaries. The value proposition targeted at donors should focus on what benefits, value or incentive donors would receive in return for donating, while a value proposition targeted at beneficiaries could define the collection of products and services that help beneficiaries. Another potential reason for developing two distinct business models may be the need to show the distinction between the revenue side and the social impact that is sought.

4. Illustrative Cases

The business models of the following three Africa-based non-profit research institutions will be examined through the lens of the Osterwalder and Pigneur framework. Only one business model is presented per organization, though an effort was made to present two possible value propositions, one targeted at donors and the other aimed at beneficiaries.

These case studies describe the selected research institutions based upon the best information available to us. An effort was made to develop relevant value propositions for each of them, though these may still require refinement. A good value proposition should be able to summarize in a few words what makes a cause unique and worthy of support for a donor, and should describe why a beneficiary would need the

⁵ Osterwalder and Pigneur (2012), *Business Model You*, John Wiley & Sons, Hoboken, 257 p.

⁶ See for instance the website on Innovative Non-Profits: <http://www.innovativenonprofit.com/>

products and services of an organization. It should convincingly describe why one particular product or service will add more value or better solve a problem than other similar offerings. To be convincing, this description should be backed up with evidence. All of these observations point to the fact that the value proposition is arguably one of the most complex elements in a business model.

4.1 Jembi: A Research Institution Run as a Business

Jembi is a South African NGO that started its operations with an IDRC grant in 2009. Its mission is to contribute to improving global health by developing information systems, growing partnerships and building local capacity, with a focus on developing countries. Jembi's mission statement addresses both beneficiaries and donors by saying that it seeks to improve the living conditions of people in developing countries and also to develop local capacities, a goal that many donors are trying to achieve. Jembi's program activities focus on developing long-term solutions to health issues in Africa.

Jembi has three types of programs: 1) country programs, 2) a Research & Innovation program, and 3) internal programs. Country programs are ongoing in South Africa, Mozambique, Rwanda and Zimbabwe. To focus on one example, the Mozambican Open Architecture Standards and Information Systems (MOASIS) is one of Jembi's largest country programs, comprising more than 20 active projects and offices as well as a living lab in Maputo. MOASIS aims to improve and provide more efficient health care to beneficiaries in Mozambique through e-Health solutions. Jembi's Research & Innovation program aims at providing solutions to health systems challenges in developing countries. The NGO's internal programs seek to strengthen the organization as a whole, and look towards the future by addressing the strategic direction of the company (i.e. internal training needs, corporate branding and image, and communications).

Jembi's social impact goal is to provide better care for people living in developing countries with low resource levels. As the organization is a non-profit, it works closely with both donors and partners to improve the quality of health care in Africa. Jembi receives funding from a wide range of international funders (including CDC, Rockefeller Foundation, WHO, etc), which is likely a good indicator of the credibility that the organization has been able to establish. Recently, Jembi received a grant from IDRC to develop the Open Architecture Standards and Information Systems (OASIS II), which involves developing capacity as well as sharing knowledge and good principles about eHealth in Africa.

Although Jembi is a non-profit organization, it functions very much like a for-profit business all while remaining committed to the values of most development-oriented non-profit organizations, by aiming to help create a better world. Thus for example, Jembi's software solutions are not developed for resale – rather, 95% of them are open-source, with the remaining 5% classified as business intelligence and thus not distributed freely. More generally, Jembi is a service-based agency, with no products for sale on its website. The core of its activities is composed of training and capacity building. This model points to the need to ensure the support of donors (and thus revenues) in order to be able to reach beneficiaries through trainings and capacity building interventions.

To ensure its sustainability, Jembi is always looking for new funding opportunities. Two approaches are taken to getting revenues: 1) responding to requests for proposals; and 2) searching for open research grants. Each new business opportunity is evaluated against the organization's vision and mission. Jembi prides itself on not taking on assignments that are not directly related to its areas of work: according to its strategic plan, a new project or contract must be aligned with several of the organization's objectives in order to be pursued.

According to Jembi's executives, one of its comparative advantages is that the organization is Africa-based. This allows the NGO to provide solutions for African countries based on an informed understanding of the local context while simultaneously benefiting from its engagement with international organizations and the international context, something that no other organization is able to do. Being Africa-based also adds to the credibility of Jembi in the eyes of donors.

Very much like for-profit small business owners, Jembi's founders have invested everything they had in the NGO and live on year to year funding. The founders describe the NGO as a social enterprise whose aim is to have a positive impact on the future. According to one of the founders, "Jembi does business for change, not for shareholders".

Jembi's approach has allowed it to become a recognized leader in the field of e-Health in the developing world, though this does not mean that the NGO is unaffected by external events such as the recent global financial crisis, declining funding by certain long-standing donors, or the political situation in certain African countries in which it works. To offset these risks as well as to guard against unexpected impacts arising from the donor-driven aspect of its model, Jembi is beginning to consider commercial joint ventures related to their field of work that would draw upon its financial reserves as well as on venture capital.

At this point, Jembi does not have a formal business model. Although its executives recognize the potential value of such a tool, they have not set aside time to reflect on the organization's business model and value proposition. Exhibit 5.1 details these concepts for Jembi, to the extent possible based upon the information available.

Exhibit 4.1 Jembi's Business Model

| | | | | |
|---|--|---|---|---|
| <p>Key Partners</p> <p>Jembi has three types of partners:</p> <ol style="list-style-type: none"> 1) International funders & donors 2) NGOs, INGOs, Universities with whom Jembi partners on projects and proposals. 3) Ministries of Health | <p>Key Activities</p> <p>Jembi has two types of activities:</p> <ol style="list-style-type: none"> 1) Program activities based on services provided such as training and capacity building interventions, as well as development of intellectual property products and software. 2) Non-program activities such as business development activities (submitting proposals and submitting applications for research grants) | <p>Value Proposition</p> <p>Jembi's mission caters to both donors and beneficiaries.</p> <p>Through Jembi's programs, Ministries of Health have the ability to get access to Health Information Systems, Processes, Tools, Resources and Capacity Building that would not otherwise be accessible. Ultimately, people with low levels of resources (beneficiaries) will get better health care. As these solutions are designed by and for Africans, this gives Jembi a value-added.</p> | <p>Customer Relationships</p> <p>Personal relationship with beneficiaries and donors. Jembi sees itself as an honest broker between health and IT.</p> | <p>Customer Segments</p> <p>Beneficiaries are mostly Ministries of Health in Africa and NGOs.</p> <p>Jembi also serves the interest of several international donors.</p> |
| | <p>Key Resources</p> <p>Approximately 50 staff with specific expertise in research, Information Technology, health, etc.</p> <p>Board of directors.</p> <p>Head office in Cape Town, a research laboratory with the UKZN in Durban and satellite offices in three other countries.</p> <p>Equipment.</p> | <p>Donors contribute to activities they could probably not afford to do on their own.</p> | <p>Channels</p> <p>Use of existing channels within national Ministries of Health to reach beneficiaries.</p> <p>Use of public channels to reach donors through open calls for proposals.</p> | |
| <p>Cost Structure</p> <p>Jembi's main costs are linked to its buildings (rented) and staff (administration, salaries and travel).</p> <p>Salaries are usually not very high, but working conditions are kept attractive by providing a fun and family-like environment.</p> | | <p>Revenue Streams</p> <p>Jembi is not exclusive in terms of funding and the organization is donor-driven. Jembi has two type of revenue generating mechanisms:</p> <ol style="list-style-type: none"> 1) Response to RFPs 2) New ideas generated by Jembi and searches for funding <p>Beneficiaries do not have to pay to gain access to Jembi's products and services. Nearly all of the tools, training and capacity building interventions offered by Jembi are paid for by donors.</p> <p>Jembi's main funders include: IDRC, the Rockefeller Foundation, the United States Centers for Disease Control and Prevention, the United States President's Emergency Plan for AIDS Relief.</p> <p>To ensure sustainability, Jembi relies on a diversified set of donors.</p> | | |

4.2 IAGU: A Research Institution becoming a Service Provider

The Institut africain de gestion urbaine (IAGU) was created in 1987 in Dakar, Senegal. The mission of the Senegalese research institution is threefold: 1) it seeks to strengthen capacities of municipalities in West and Central Africa to plan and manage in order to improve local governance; 2) it promotes sustainable management of the environment; and 3) it seeks to fight against poverty in Africa. Much like Jembi, IAGU's mission caters to both a set of national and international donors as well as beneficiaries (e.g. professionals from governments and local communities). Funding from donors allows the organization to get access to revenues, which in turn is used to carry out the following activities: conduct research (including M&E and feasibility studies), provide technical support, disseminate information and conduct training sessions.

IAGU has been involved in multiple major projects that relate to strategic planning and environmental management. For instance, with IDRC support, IAGU led a project whose objective was to better understand the environmental impacts of the Mbeubeuss landfill on poor populations. The project has in turn led to training sessions, workshops and reports that are available free of charge at IAGU's documentation center. Programming activities have also focused upon the field of urban agriculture, for instance through the PROFAUP project (Promotion des filières agricoles urbaines porteuses). This project was carried out in two municipalities (Bobo-Dioulasso and Porto-Novo) and had several objectives, including capacity building of farmers and increasing the revenues of urban farmers. IAGU's specific contributions included carrying out a diagnostic study on urban farming and training sessions. Finally, IAGU's research themes focus upon management of hazardous municipal solid waste, urban planning, strategic planning and local governance, developing social policies to reduce poverty and environmental health.

To carry out its programming activities, IAGU seeks support from donors. Revenues are acquired through two main channels:

- IAGU pitches potential research projects/ideas to partners and donors; if there seems to be interest, they develop detailed research proposals and present these, with the aim of securing funding. These research projects usually have a lifespan of three to four years. Beneficiaries of the research are mostly municipalities and governments, and access to all of IAGU's research is available free of charge.
- IAGU responds to RFPs to provide technical assistance (service delivery). This is a new area of work in which IAGU is trying to develop its reputation and ultimately gain credibility. Service delivery is seen as a way to become less dependent on research funding and donors for revenues. It also has the added value of providing opportunities for developing new, applied insights in the field for IAGU's researchers, who would then be able to apply that new knowledge in their research work. IAGU is keen to take on technical assistance contracts even when they are not totally linked to its mission. In such cases, it seeks to partner with another organization to bring the required expertise onboard. This shift to providing technical assistance required a change in the culture of the organization, which was used to focusing solely on comprehensive research projects for relatively long periods of time. But the shift was deemed necessary because traditional sources of funding are decreasing and IAGU wants to ensure that it has more permanent and stable revenue streams.

The strategic advisory firm, Dalberg, carried out a mission in early 2012 that focused on the sustainability of IAGU. It found that the main challenge for IAGU is the creation of revenue generating activities. To meet this challenge, IAGU has developed two new areas of work under its technical assistance approach: 1) IAGU Training and 2) IAGU consulting. These two areas are meant to help the organization diversify its sources of financing while also maintaining its ability to keep performing research. The training

component includes working on a partnership with universities to develop a master’s degree as well as putting together training programs for professionals from government, local communities, etc. The consulting business practice is presently under development.

As IAGU is turning more and more to the provision of services with its two new branches (IAGU Training and IAGU Consulting), it may also shift its focus from having a social impact on poverty alleviation and environment to profitability and private sector concerns. It is too early to tell how this new approach will impact the business model of IAGU, and how it will continue to serve the interests of its beneficiaries and its donors simultaneously.

Even though IAGU has made efforts to become sustainable and mobilize resources in the past two years, it has not formally developed a business model and it has not worked on a value proposition statement. Coming up with a relevant value proposition for IAGU may prove difficult since the organization caters to three different types of audiences: donors, beneficiaries and clients. It is unlikely that one value proposition statement will fit all three audiences.

Exhibit 4.2 IAGU’s Business Model

| | | | | |
|--|---|---|--|---|
| <p>Key Partners</p> <p>IAGU has partners at the international, national and municipal level. At the international level, it works with donors and organizations such as IDRC, UN-Habitat, UNEP, UNDP, and FAO.</p> <p>At the national level, it works with NGOs such as ENDA.</p> <p>At the local level, it partners with municipalities, associations of mayors, and other institutions working on urban issues.</p> | <p>Key Activities</p> <p>IAGU’s activities are aimed at three main audiences: Beneficiaries are provided with training and capacity building opportunities as well as research reports.</p> <p>Revenue generating activities are targeted at the organization’s main donors in order to obtain research grants.</p> <p>Clients that contacts IAGU Consulting require technical support and monitoring & evaluation services, as well as feasibility studies.</p> | <p>Value Proposition</p> <p>The value proposition of IAGU should be adapted for each of its three audiences: donors, beneficiaries and clients.</p> <p>For donors, IAGU provides products and services that individual donors could not provide themselves due to lack of field knowledge and/or time and resources.</p> <p>Beneficiaries get access to free materials on environmental management and urban planning. This type of information could probably not be accessed by them if it was not freely available.</p> | <p>Customer Relationships</p> <p>IAGU engages in personal relationships with its clients, beneficiaries and donors. It offers products and services adapted to their needs.</p> | <p>Customer Segments</p> <p>Beneficiaries are professionals from government and local communities and universities.</p> <p>Clients can be multilateral or bilateral organizations which hire IAGU for specific services.</p> <p>Donors provide revenues through research grants.</p> |
| | <p>Key Resources</p> <p>Diversity of skills of experts and associates</p> <p>Equipment & resource center</p> <p>Offices</p> | <p>Clients get access to economic services and advice (action plans, diagnostic studies, impact studies) based on the knowledge and expertise of the staff.</p> | <p>Channels</p> <p>IAGU disseminates information through the Internet and the publication of its reports. It also has a documentation center where hardcopies of reports are available.</p> | |
| <p>Cost Structure</p> <p>IAGU has eight full-time staff at its</p> | | <p>Revenue Streams</p> <p>IAGU does not solicit donations, but receives funding from two main</p> | | |

headquarters and one staff person in its landfill office. It also hires consultants on an as needed basis. Finally, it has an office in Burkina Faso.

Salaries and administration are the main budgetary items.

Other recurrent costs include money spent on dissemination of results and operations.

sources:

- Response to donors and clients' RFPs to conduct research or carry out consulting mandates.
- Training sessions it provides based on the research it conducts.

4.3 IPAR: A Think Tank Wanting to Preserve its Independence

The Initiative Prospective Agricole et Rurale (IPAR) is a Senegalese organization that was established in 2005 with the merger of four existing institutions. In August 2008, IPAR's status evolved into a non-profit association with the oversight of a board, so as to ensure its independence from other organizations or donors. Its mission is to contribute to the social and economic development of Senegal with the creation of spaces for discussion and debate about the various concerns of policy makers and grassroots organizations, backed up by strategic research. This mission is articulated around three axes: research, capacity development and debate opportunities.

The activities of IPAR are centered on a handful of themes such as: demography, productivity of family farms, land tenure and natural resources management and the provision of support to producer organizations. IPAR has developed an independent research agenda with a focus on rural development, agriculture, migration, employment, and food security policies, which are key issues in the current development policy debate in Senegal. In regard to that policy debate, IPAR has positioned itself as a think tank, one of the few of its kind in Africa. IPAR's model thus aims to cater to the needs of donors, clients and beneficiaries of its research work. The beneficiaries of IPAR's work are multiple: policy makers, farmers, civil society groups, journalists, etc. IPAR's vision is to be an institution that does strategic and prospective analysis, with the capacity to influence public policy in the agricultural and rural sectors at the national and sub-regional levels. As a think tank, it has the ability to reach multiple beneficiaries through its workshops and public debates; it also seeks to carry out practical research that will be of direct use to policy makers. To ensure that its work focuses on research priorities and themes that are in line with the needs of the country, it organizes consultations with decision makers, government representatives, media, and researchers.

IPAR places great importance on being perceived as independent from other organizations or donors. Being seen as independent gives the organization the ability to say and write what it wants without being seen as serving the interests of others. This independence in turn has an impact on its ability to get funding since IPAR sometimes has to refuse contracts that could affect its credibility. More particularly, the organization has to pay particular attention to the consulting contracts it accepts, particularly from bilateral donors, in order to avoid any appearance of conflict of interest. It has also had to diversify its partnerships and donors to avoid perceptions of bias towards certain donors' priorities.

Beneficiaries get access to IPAR's products and services free of charge. Research outputs such as policy briefs or training sessions for journalists or civil society can be offered for free thanks to the support of donors. These products and services could most likely not be afforded by beneficiaries otherwise. To get funding, IPAR uses the following methods:

- Monetization of the expertise of its researchers (e.g. to support the work of bilateral donors in Senegal).
- Responding to RFPs for research projects that are linked to the organization's mission and scientific interests. IPAR's donors have to agree to IPAR's terms for usage of the research once a project is completed.
- Institutional funding, such as that provided by IDRC.

Think tanks are relatively new in West Africa, and IPAR must fight for recognition. Right now, think tanks do not benefit from government recognition or funding. This represents a challenge for the sustainability of IPAR since it constantly has to demonstrate and advocate for the importance of think tanks in general, in addition to underlining the value of its own work as a think tank. IPAR's main challenges are the fact that patronage/sponsorship is relatively underdeveloped in Senegal, as well as recruiting and retaining qualified researchers.

Recently, IPAR has made efforts to increase its sustainability. For instance, its Board has been trained by IDRC on sustainability, and is now looking into ways of finding non-earmarked funding. IPAR has not formally started thinking about its business model or value proposition. Much like IAGU, IPAR's value proposition has to be targeted at three different audiences: donors, clients and beneficiaries. It is rather unlikely that one single value proposition statement will satisfy the needs of all three groups. The following table highlights some of the concepts illustrating a business model, but it also recognizes the need for further thinking on some of these components.

Exhibit 4.3 IPAR's Business Model

| | | | | |
|---|--|--|---|---|
| <p>Key Partners</p> <p>The main partners of IPAR are : Producer organizations (e.g. FONGS, CNCR, ROPPA)</p> <p>National governments and ministries (e.g. DAPS, BFPA, DRDR) are also important contact points.</p> <p>IPAR also works with technical partners (e.g. FPH, Oxfam, SODEFITEX, ISRA, ENDA GRAF, GRET, CIRAD, SOS Faim Belgique, Inter-Réseaux)</p> <p>Financial partners and donors are also important (e.g. IDRC, Swiss Cooperation, World Bank, AFD).</p> | <p>Key Activities</p> <p>IPAR's activities are designed for three main audiences.</p> <p>Beneficiaries get access to research, case studies, analyses, workshops, training, policy briefs, etc.</p> <p>Donors can also benefit from IPAR's research and through their funding, they contribute to activities and programs that they could not afford to carry out on their own.</p> <p>Clients of IPAR hire the organization to conduct specific research or consultancy.</p> | <p>Value Proposition</p> <p>The value proposition of IPAR should be adapted for each of its three audiences: donors, beneficiaries and clients.</p> <p>For donors, IPAR provides products and services that individual donors could not provide themselves due to lack of field knowledge and/or time and resources.</p> <p>Beneficiaries get access to practical research free of charge on agriculture, demography, etc.</p> <p>This type of information could probably not be afforded otherwise.</p> <p>Clients get access to the expertise of IPAR's staff when needed in consultancies.</p> | <p>Customer Relationships</p> <p>IPAR has personal relationships with its beneficiaries, donors and clients.</p> | <p>Customer Segments</p> <p>Beneficiaries of IPAR's research include policymakers, farmer organizations, journalists, and civil society groups.</p> <p>Donors consist of financial partners.</p> <p>Clients are technical partners and bilateral agencies.</p> |
| | <p>Key Resources</p> <p>Multidisciplinary team composed of sociologists, economists, agronomists, etc.</p> <p>Scientific committee and Board of directors</p> <p>Interns, volunteers.</p> <p>Equipment.</p> <p>Office space.</p> | | <p>Channels</p> <p>IPAR has a communications strategy to promote its research reports.</p> <p>It also uses its Internet website, hardcopies of reports, and it is very active with social media.</p> | |
| <p>Cost Structure</p> <p>The nature of the organization is primarily based on volunteerism and IPAR only has ten paid staff.</p> <p>Salaries are not competitive, but the job comes with the satisfaction of contributing to the advancement of the country and the continent as well as the capacity to have an impact on decision-makers.</p> | | <p>Revenue Streams</p> <p>IPAR gets revenue from:</p> <ul style="list-style-type: none"> - Development of funding requests, direct solicitation of financial partners, response to tender. - Monetization of the expertise of its staff - Non-earmarked resources from selected donors. <p>To remain independent, IPAR must diversify its funding sources and avoid depending too heavily on any one group.</p> | | |

| | |
|---|--|
| <p>Other staff are mobilized on an as needed basis.</p> | |
|---|--|

Travel and fees incurred to organize workshops and debates are another important budget item.

5. Implications

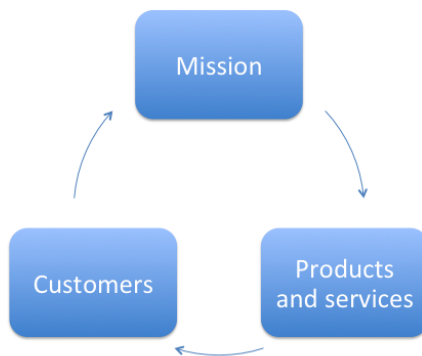
5.1 Applicability of a Business Model Statement for Research Institutions

As noted earlier, research institutions now face a much greater burden in mobilizing resources especially because the core funding on which most of them have been relying for years is now becoming more scarce. Research organizations are increasingly having to be user and market focused. To add to this funding challenge, much of the funding that is available to research organizations to finance research products and services does not cover fixed costs. Thus research institutions have to find new ways to pay for such administrative costs. Their success or failure at doing so will ultimately loom large in the calculation of the financial viability of such institutions. The business model concept may help to provide solutions to these various emerging challenges.

Three Types of Business Models for Research Institutions

Following are three conventional forms of business models for private and non-profit organizations. While these depictions are not exhaustive – since several different forms of business models exist and are applicable to non-profit organizations – the intent here is to focus on simplified versions of the main models as a means of understanding how the different components of a business model interact with each other. In general, the depiction of business models is challenging since a model should not be static – as such, the exhibits presented below are a simplified way of grasping the dynamic interaction between the key elements in a model.

Figure 5.1 Business Model 1: Private Sector Model - Customers pay for the organization to achieve its mission

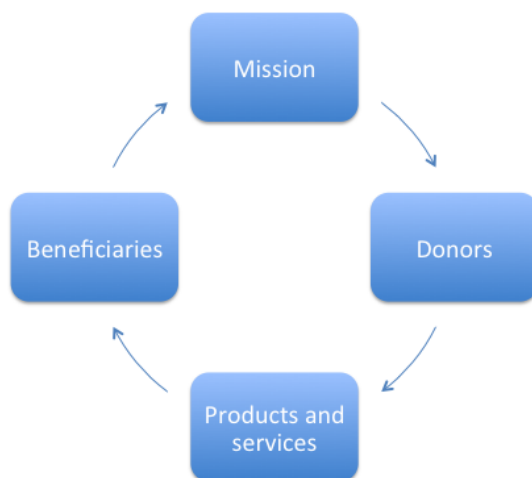


In this model, the key objective of the organization is to make a profit, though there might be underlying missions based on the values of the organization that also exist. The foundation of this model is to get customers to pay a fair market price for products and services – thus the key activities of the organization are to bring its products and services to the market place and offer them to customers at a fair market price. The value proposition in such a model has to do with satisfying customers, i.e. providing quality products and services at as competitive a price as possible. Results can be measured in terms of revenue streams and may also benefit key partners.

This model mostly applies to private sector organizations and is not pertinent to any of the three case studies considered in this exploratory study. The goal in depicting a private sector business model is to have it as a basis for comparing non-profit organizations. All three of the African research institutions focused upon offering their products and services free of charge to their users/customers, which means that they have to find alternate sources of funding. In most cases, the beneficiaries of non-profit organizations do not have the capacity to pay for the products and services that they benefit from. If research institutions

had to act like private sector organizations, they would need a clearly defined strategy to find a market for their products and services. This gives rise to the question of the extent to which financial profit can be made in marketing research products and services and how monetizable public goods such as basic research products really are.

Figure 5.2 Business Model 2: Conventional Model of Non-Profit Organization: Donors pay for products and services

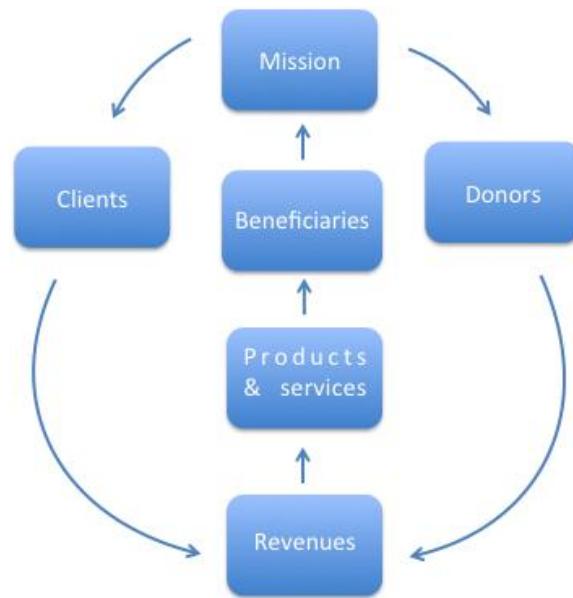


In this business model, donors pay for products and services that are meant for beneficiaries who cannot afford to pay for them. Donors in this model have an interest in seeing beneficiaries capacities being developed and enhanced through products and services such as training sessions, research papers or expertise being provided free of charge. The value proposition in this model has to satisfy both the donors and the beneficiaries, and both constituencies have different needs. Donors are attracted by the mission of the non-profit organization, and contribute to the development of its products and services through different forms of funding (including grants, core funding, funded competitions, etc.). These products and services in turn support beneficiaries to improve their conditions, which helps to fulfil the social impact goals of the non-profit organization.

Donors might not only be providing a source of revenue in this model, but could also be users of the non-profit's products and services; for example, IDRC also benefits from the research products of its grantees. Yet because those products and services are not monetized, a majority of beneficiaries are expected to be granted access to them for free. An important point is that when beneficiaries do not pay, they do not get a sense of the real market value of the research good. This lacuna of the non-profit business model is likely to persist as beneficiaries' willingness and capacity to pay is very limited, particularly in developing countries.

In addition to not putting a monetary value on research products and services, this model raises the question of the extent of utility to beneficiaries, i.e. is the research product as useful as it could have been had it been shaped in such a way as to make them willing to pay for it? That is, beneficiaries might be more willing to accept an imperfect product because it is free, but would have demanded an improved product if they had to pay.

Exhibit 5.3 Business Model 3: Hybrid Model – Mix of Private Sector and Non-Profit Components



In this last model, the organization has a mix of private and non-profit sector components. This is the model that would best represent the three African research institutions that are case studies in this exploratory paper. Such hybrid organizations have started thinking about the monetization of their products and services for example through the development of a consulting practice, or have found clients who are willing to pay for their expertise. This model forces the organizations to offer different product lines through distinct channels. It has several advantages for research institutions, one being that they are able to use the products of their consulting practice to help their beneficiaries. Even though they are turning to private sector practices, they still have the ability to achieve a social impact if goods produced by the consulting practice are linked to the mission of the organization.

The hybrid model uses two different channels to get revenues: donors and clients. Beneficiaries are still not expected to pay to access research products and services. Under this model, organizations need to somewhat rethink their value proposition in order to feed the three distinct channels it wants to reach: donors, clients and beneficiaries. As with the second model, donors in this model can also be considered as users of the research products and services. This model is somewhat similar to that found in the technology sector, where several companies provide products and services free of charge, e.g. Facebook, Twitter, etc., though have also found a way to get resources to cover their costs, i.e. through advertising.

The fact that all three African research institutions profiled have started thinking about monetizing their products and services is a sign that they have started adjusting creatively to the new funding challenges that they face, and indicates that they could very well achieve greater sustainability in the long run. It also shows that they have started thinking in terms of market value and are becoming more comfortable with the use of business terminology. Speaking in terms of markets, value for money, and being able to describe the benefits of investing in their organization are important tools that researchers now need to master if they are to attract new donors and clients to fund their institution. Ultimately, finding innovative ways to generate revenue to fund their outputs is crucial for these institutions, and lessons can undoubtedly be drawn from the private sector.

Applicability of Business Models for Research Institutions

It is significant that all three research institutions profiled in this exploratory paper use a similar business model, one that is a hybrid between the private and non-profit sectors. This hybrid model seems to be a promising vehicle for creating economic value while also yielding positive social impacts. The model breaks the exclusive donor-beneficiary binary by providing research products and services that can be monetized and sold to clients such as governments or bilateral organizations. The main risks associated with this model are a reduced ability to focus purely upon the achievement of social impacts, and raises the possibility of organizations splitting into a consulting practice that does not work on issues that can impact beneficiaries and a beneficiary-focused section. The challenge is therefore to remain focused on the core mission of the research institution, which seems to be a concern of all three African organizations profiled.

The business model is a useful tool for conceptualizing how an organization goes about achieving its mission and getting its revenue. We think it is worthwhile for a non-profit organization to understand the main concepts involved in business models and to be able to articulate them. A business model provides a clear picture of how products and services can be monetized and who is willing to pay for those goods. As noted earlier, it also forces an organization to think in terms of business terminology or private sector concepts, which may give them added credibility with certain donors and clients. We found that all three research organizations interviewed showed willingness to think in those terms and did not hesitate to talk about “clients” for their research products and services. However, none of them had had a chance to think thoroughly about its business model, nor did they have a clear understanding of what their value propositions were. We also found that some of the research institutions have a tendency to carry out many different revenue generating activities, and that some of these seem to distract from the main mission of the organization. This situation could have been clearer to them had a business model statement been developed.

We understand that applying a profitability logic to research institutions that are not looking to accumulate a surplus may not be easy. The Osterwalder & Pigneur business model framework applied in this paper aggregates most of the components described by several authors as essential to a comprehensive business model. It may however not be a perfect fit for non-profit or hybrid organizations. It may therefore be necessary to adapt some of the components of the framework, e.g. by developing more than one value proposition that could serve both donors and beneficiaries. In addition, economic value or income generation may be given too much weight, and concepts such as social impact or innovation may need to be added to complement the information focused upon in the Osterwalter & Pigneur framework.

One might argue that the three research institutions sampled here probably have an *implicit* business model. Making visible that which is assumed, or having a more explicit business model statement, would most likely allow them to do the following:

- It would show a definite interest in being sustainable and remaining relevant;
- It would allow them to isolate their comparative advantage/value proposition, and find a unique niche which complements/fits with research and interest in a certain field;
- It would give research institutions a better grasp on who their clients, donors and beneficiaries are, as well as who is willing to pay for their research products and services;
- It could demonstrate that research institutions are serious about financial sustainability; and
- It could also be a tool to help the leadership focus its attention on what keeps an organization sustainable and pertinent, as well as “[...] serve as a reference point for the staff and board when making choices [...]”⁷

⁷ IDRC first paper on business models.

Financially speaking, it does not seem likely that the three research institutions profiled will become completely independent of institutional support provided by donors, at least in the short-term. During interviews, they all stated that core support was still necessary for their survival and they all argued that many functions could not be performed without that type of support. Thus the hybrid model that they have all adopted is probably the right one for them to adopt, especially as we cannot expect beneficiaries to afford all of their products and services.

To sum up, research institutions face several challenges on the road to sustainability, and more specifically in thinking about business models:

- Some research institutions may not have a strong incentive to look for alternative funding models, as their reputation alone is enough to get the support of multiple donors. Others work in high priority sectors for donors and have not yet been affected by declining or scarce resources;
- Research institutions have to understand markets and need to think about monetization of their skills, as opposed to understanding funding mechanisms alone;
- Business products have life cycles, and over time, they tend to become less valuable as others innovate and provide newer, improved products. The same thing happens with research – at some point it is perceived as very useful, but this perception of usefulness usually declines. This is readily observable with the Organizational Assessment framework developed by IDRC and Universalialia: its utility may now be decreasing since it does not include such newer elements as technology, social corporate responsibility or gender;
- Johnson and Christensen (2008) state that successful businesses typically revise their business models about four times in an effort to attain profitability. Trial and error naturally accompanies the creation or updating of a business model. Donors may need to be willing to accompany research institutions throughout this process as some options will pay off and other will not;
- According to McGrath (2011), “organizations have powerful inertia”, i.e. they do not respond immediately to challenges. When organizations are absorbed in day to day tasks, they may not readily perceive the issues affecting their sustainability.

5.2 Business model statements as a tool to improve performance

As stated in the introduction, one of the purposes of this paper was to understand the extent to which the business model concept complements the organizational assessment framework developed by IDRC and Universalia. Through this exploratory study on business models, we have gained a deeper understanding of organizations, which has served to underline a major shortcoming of the OA framework: it does not make clear linkages between services, users, value, fundraising, etc. The business model may constitute a tool that allows an organization to quickly assess the alignment between the underlying social value it wants to promote in society and the way that it acquires funding. Quite simply, the business model may be a way of ensuring fuller organizational self-awareness and being able to institute the organizational shifts that are necessary to adapt to changing contexts. Those factors affecting performance that were assessed in the past through OA may now be looked at through a simpler business model lens.

We went back to the OA framework (shown in Appendix I) to understand where the concept of business models might fit within it. It quickly became apparent that a number of components relating to business models were missing in the analysis of the performance of an organization, for example the evolution of funding, the linkages between products and clients and the connections between activities and sources of revenues. The OA framework was developed when core funding from public organizations was widely available. It thus does not show the increased need to find alternative sources of funding such as by monetizing the products and services of non-profit organizations. To survive and prosper in this new context, an organization needs a deeper understanding of what it does and how to be socially and financially sustainable, all things that are highlighted by the business model framework.

The organizational assessment framework developed by IDRC and Universalia is based on the hypothesis that the performance of an organization flows from its capacities, motivation and environment. Even though there may be an assumption that with these elements, there is in fact a business model present, this assumption has never been formalized before. This paper has made clear the link between organizational assessment and the business model approach.

Another fundamental assumption of organizational assessment is that organizations are the key unit of analysis. Not all organizations need to have the same level of performance and some are at different stages of their evolution. We believe that business models, similar to OA, can serve as a diagnostic tool for evaluating the implications of raising or lowering performance margins or converting certain fixed costs to variable costs.⁸

The table below highlights how some of the other OA framework components relate to business model statements.

Exhibit 5.4 OA and Business Model Components

| OA Framework Components | Implications for business model |
|-----------------------------------|---|
| Organizational performance | <p>In research institutions, performance is not always used as a criterion for decision-making. Evaluation of the performance of the organization is implicit within the awarding of new contracts by donors. There is often no formal system to measure performance.</p> <p>The business model is a critical element in explaining how an organization is performing, in other words it helps to explain how an organization attracts funding and resources based on its mission and values.</p> <p>The business model concept is central to an understanding of organizational performance, especially if we take a balanced scorecard approach –</p> |

⁸ Morris (2006).

| OA Framework Components | Implications for business model |
|----------------------------------|---|
| | effectiveness, efficiency, relevance, and sustainability. A sound business model helps an organization be relevant, efficient, and financially viable. Here, we mean being relevant with respect to providing the products and services that are associated with revenues and financially viable by ensuring the cost structures are aligned with needed revenues. |
| External environment | <p>“[...] leaders assess the external environment, decide which agenda to favour, and then build a business model to implement this single focused strategy. According to this view, success depends on proper alignment both of the business model’s internal aspects, and between it and the external environment.” (Smith, 2010)</p> <p>Also linked to external environment, business models relate to markets, and in the case of research institutions, the markets are often split between beneficiaries and donors.</p> |
| Organizational capacity | <p>Research organizations often have limited capacity in terms of fund raising and resource mobilization. They have limited understanding of procurement procedures and in most cases, there is no unit or team dedicated to fund raising/responding to RFPs.</p> <p>To implement a new business model, new capacities (such as market analyses, etc.) are often required. In addition, the business model highlights that capacities such as fundraising must not be looked at in silos. They must be characterized by a clear understanding of the mission and make linkages between products, services and programs.</p> |
| Organizational motivation | <p>Organizational culture is based on the expertise of the research center in key areas. Incentives to work in research institutions may be limited as salaries are not competitive.</p> <p>Motivation needs to be better understood because of the split in the market. Knowing the business model of an organization could provide some comfort to those researchers who do not think about nor like to think about the link between their work and funding. It is this link that is crucial in the pursuit of a business model.</p> |

6. Concluding Remarks

As the Bob Dylan song goes “the times are a changing”. Research institutions and other non-profit organizations in our society are increasingly being asked to “justify their worth” if they are to get funding. To some this has meant simply better articulating and reporting on results. To others, the change means creating a new way of thinking about and operationalizing how resources are obtained and used. This paper suggests that a new direction could prove interesting for these latter organizations: a business model approach.

This paper has particularly brought attention to two main conclusions. The first is that the business model approach could be applicable to research institutions and non-profit organizations, but will require some adaptations. Even though it has not been formally applied in the three case studies examined, we sensed some openness from interviewees regarding integrating these new ideas to ensure the sustainability of their organization. It is worth noting that the approach of all three research institutions has recently been updated to include new approaches to earning revenue. Clients have been integrated into their models with the aim of getting additional revenues to serve beneficiaries. Even though this hybrid model seems promising, all three organizations still rely heavily on external donors to provide funding either for core support or for the development of products and services. This probably indicates that full monetization of research institutions’ products and services is not yet possible and/or desirable.

We argue that in a context in which resources for non-profit research institutions are not as widely available as they were a few years ago, these organizations must start positioning themselves to attract further funding. Adopting a hybrid model is one solution, particularly because it allows them to gain a better understanding of who is willing to pay for their products and services and how they can best appeal to those clients while still focusing on their core mission. This exploratory paper and the Osterwalder & Pigneur framework highlighted the fact that to be successful, an organization needs to think about more than simply mobilizing additional resources. Indeed, the success of an organization depends upon a sort of chemistry based on multiple components: people, values, incentives, products, services, etc. This is a new way of thinking about the sustainability of an organization, one that demands consideration and understanding of all of its components if searches for funding are to be successful. With the knowledge gained from the business model concept, research institutions can become more conscious of the full costs of what they do, the outputs and the investments that they generate, and the values that they create for end users (e.g. beneficiaries, researchers, policy analysts, etc.). The business model approach allows organizations to ask themselves the right questions and puts them in a logic of sustainability.

Several questions were raised throughout this paper relating to the use of private sector concepts in relation to non-profit research institutions. Non-profit organizations are facing increasing pressure by donors to act and report like businesses. The use of a business model by non-profit organizations does not necessarily mean that they would have to sell their products and services to demonstrate their relevance and value to donors. Business models can help non-profit research institutions to talk the same language as their donors and clients. Nowadays, it seems critical for non-profits to be able to speak in terms of value for money or to have the capacity to describe the benefits of investing in a product or an organization. The business model can do that. Researchers are the key unit of change in this equation, and they must have the capacity to sell themselves (and their organizations) to potential donors and clients in order to keep providing free products and services to beneficiaries and to achieve their social mission. IDRC can be a useful intermediary between donors and research institutions by developing capacities of research organizations to speak this language.

The second conclusion arising from this exploratory paper relates to a shortcoming of the organizational assessment framework developed by IDRC and Universalia. We are convinced that the business model approach is a valuable complement to the OA framework as it provides the necessary linkages between products, services, fundraising, etc. These linkages are not made in the current and more static version of the OA framework. In fact, we think it is a cluster of capacities that an organization needs to properly

market the specific products and services that it offers. Few research institutions and non-profits organizations have these skills.

This paper and these ideas are a small contribution to the thinking on business models and their applicability to research organizations and the non-profit sector. This research has furthermore sparked an interest in gaining a better understanding of organizations and how to link fundraising capacities to the organization's mission, products and services. A number of questions were raised at the beginning of this paper and some have remained unanswered: what defines a good/ideal business model for a research institution? What skills and capacities need to be developed in order to understand and apply business model concepts? What should the value proposition of a research institution include to attract funding? What are the tools available to research institutions and non-profit organizations as they think about how to monetize their products and services? These questions highlight that more research and analysis is required regarding the use of business models by research institutions and non-profits. IDRC can support this and partner with existing groups that have done work in this area.

Appendix I OA Framework



Appendix II Bibliography

- Battilana, J., Lee, M., Walker, J., Dorsey, C. (2012), "In Search of the Hybrid Ideal", *Stanford Social Innovation*, http://www.ssireview.org/articles/entry/in_search_of_the_hybrid_ideal
- Bell, J., Masaoka, J. & Zimmerman, S. (2010), *Non-Profit Sustainability: Making Strategic Decisions for Financial Viability*, Jossey-Bass, San Francisco, 190 p.
- Casadesus-Masanell, R. And Enric Ricart, J. (2010), "From Strategy to Business Models and onto Tactics", *Long Range Planning* 43, pp.195-215.
- Chesbrough, H. And Rosenbloom, R.S. (2002), "The Role of the Business Model in Capturing Value from Innovation: Evidence from Xerox Corporation's Technology Spin-off Companies", *Industrial and Corporate Change*, Vol. 11, No. 3, pp. 529-555.
- Dubosson-Torbay, M., Osterwalder, A. & Pigneur, Y. (2002), "E-Business Model Design, Classification, and Measurements", *Thunderbird International Business Review*, Vol. 44 No. 1, pp. 5-23.
- Itami, H., Nishino, K. (2010), "Killing Two Birds with One Stone: Profit for Now and Learning for the Future", *Long Range Planning*, No. 43, pp.364-369.
- Johnson, M.W., Christensen, C.M., & Kagermann, H. (2008), "Reinventing your Business Model", *Harvard Business Review*, December, pp. 50-59.
- Magretta, J. (2002), "Why Business Models Matter", *Harvard Business Review*, May 2002, pp. 86-92.
- McGrath, R.G. (2011), "When your Business Model is In Trouble", *Harvard Business Review*, January-February 2011, pp.96-98.
- McGrath, R. G. (2010), "Business Models: A Discovery Driven Approach", *Long Range Planning*, Vol. 43, pp.274-261.
- Morris, M., Schindehutte, M. & Allen, J. (2005), "The Entrepreneur's Business Model: Toward a Unified Perspective", *Journal of Business Research*, 58, pp. 726-735.
- Morris, M., Schindehutte, M., Richardson, J., Allen, J., (2006), "Is the Business Model a Useful Strategic Concept? Conceptual, Theoretical, and Empirical Insights", *Journal of Small Business Strategy*, Vol. 17, No. 1, pp. 27-50.
- Osterwalder, A., Pigneur, Y, & Tucci, C. L. (2005), "Clarifying Business Models: Origins, Present, and Future of the Concept", *Communication of the Association for Information System*, Vol. 16, pp.1-25.
- Osterwalder and Pigneur (2012), *Business Model You*, John Wiley & Sons, Hoboken, 257 p.
- Keen, P., Qureshi, S. (2006), "Organizational Transformation through Business Models: A Framework for Business Model Design", *Proceedings of the 39th Hawaii International Conference on System Sciences*, 10 p.
- Sargeant, A. (2008), "Donors Retention: What do we know and what can we do about it?", Indiana University.
- Smith, G. (2012), *The NonProfit Business Model Canvas*, on the Innovative Nonprofit Website, <http://www.innovativenonprofit.com/>
- Smith, W. K., Binns, A., Trushman, M. L. (2010), "Complex Business Models: Managing Strategic Paradoxes Simultaneously", *Long Range Planning*, Vol. 43, pp. 448-461.
- Sosna, M., Trevinyo-Rodriguez, R.N., & Velamuri, R. (2010), "Business Model Innovation through Trial-and-Error Learning", *Long Range Planning*, No. 43, pp.383-407.

Tash, W. R. (2006), Evaluating Research Centers & Institutes for Success!, WR & Associates, Fredericksburg, VA, 227 pages.

Teece, D. J. (2010), “Business Models, Business Strategy and Innovation”, *Long Range Planning*, Vol. 43, pp.172-194.

Teulon, F. Arlotto, J., Sahut, J.-M. (2011), “Le Concept de Business Model au travers de la littérature”, *Gestion 2000*, vol. 4, pp. 33-47, Special issue, july-august 2011.

Venture for Fund Raising (2010), *Resource Mobilization: A Practical Guide for Research and Community-Based Organization*, IDRC, 62 pages.

Weill, P., Vitale, M., (2001), Place to Space: Migrating to Ebusiness Models, Boston: Harvard Business School Press.

Zott, C., Amit, R., Massa, L. (2010), “The Business Model: Theoretical Roots, Recent Developments, and Future Research”, Working Paper, IESE Business School, University of Navarra, 43 p.

Appendix III Interview Protocol

Research Description

Universalialia, a Canadian consulting firm, has been awarded a grant by the International Development Research Centre (IDRC) to conduct a short research piece on the concept of “business model” and how it applies to nonprofits research institutions.⁹The concept could be relevant to research centres as these types of institutions are looking into ways to become more sustainable. In many countries, government funding sources for social and economic research has been, and remains scarce. Science and technology have often done better in terms of government funding, but still often not at same level as that obtained from international donors. Research institutions need to look for new revenue opportunities and the development of a business model is one way that could be explored to increase the sustainability of an organization.

The term “business model” is relatively new to the management literature and emerged with the growing popularity of e-businesses in the mid-1990s. More recently, the concept has broadened and is now discussed in relations to innovation, high-tech enterprises, strategy formulation, etc. More and more, we see that the nonprofits sector is also interested in the application of the concept to its field. The purpose of this research is to gain a better understanding of the different ways the “business model” concept has been applied to research institutions and how a business model allows an organization to do what is required to be sustainable.

Our definition of a business model is twofold: 1) it refers to the way in which a research institution goes about achieving its mission, and 2) it describes how an organization gets its funding and resources. With this research, we would like to test how well these two ideas are aligned or separated in research institutions. We also hope to understand better how different organizations understand and describe this concept themselves, in order to move beyond narrow use of terminology that may limit our collective knowledge of this issue.

The overall approach to this research will first consist in conducting an in-depth literature review. Following this thorough review, our intention is to produce short case studies or vignettes on specific research institutions to be identified by IDRC. With participating organizations, we would like to review a few internal documents (sample of documents listed below) and have a short interview with a person knowledgeable about the strategy and mission of the research institutions. Following data collection and analysis, we will prepare a summary of our findings.

The participating organizations will have their own case study as a source of information and reflection on how they have shaped their business model, and how they might further develop it to support their efforts towards sustainability. With their approval, the case study could be shared with a wider audience through appropriate channels (for example on the Reflect and Learn website (www.reflectlearn.org), an electronic platform presenting various organizational development models).

⁹ The funding of this research project comes from the Resource Mobilization for Research Program at IDRC’ Donor Partnership Division,

Documents

In order to develop case studies, we will review strategic documents that research organizations have produced. These documents are:

- Description of the mission statement of the research institution;
- Most recent annual reports (or any other document that would describe the core activities of the organization, e.g. type of products and services provided by your institution);
- Financial documents and/or documents describing sources of revenue;
- Strategic planning documents;
- Description of explicit business model (if any);
- Other relevant documents.

Sample of Questions for Interviews

Specific interview protocols will be developed for each organization based on the documentation provided. Conversations with research institutions should last between 45-60 minutes. A sample of questions that could be discussed with research institutions is listed below.

Mission:

- What does your organization want to achieve?

Products and services:

- What are the core activities of your organization? (i.e. products and services that can generate revenue)
- Where does the demand for your products and services come from? Who are the users of your research?
- How do you retain existing users and generate new demand for your research products?
- What factors do you take into consideration before entering a new partnership or conducting research for specific users?
- What are the characteristics of your organization that makes funding your products and services desirable? What can you provide that another research institution cannot?

Funding sources:

- What are the methods used to generate funds? (grants, donations, fundraising, etc.)
- Have you explored new/other ways to increase your revenues? How successful was it?
- Do you have other ways of raising funds through the use of capital assets?

Linking products with funding model:

- How do you link your products and services with your funding sources?
- How is your programmatic strategy linked to a fundraising strategy?
- Do your governors help you link your products and services with your revenues?

Sustainability:

- How would you characterize the financial sustainability of your organization? (e.g. optimistic, survival oriented, cyclical oriented, pessimistic)

- What are the strengths and weaknesses of your financial viability?

Organizational components:

- How many staff work for your organization?
- What channels are used to promote your organization or your research work?
- How does your external environment impact your organization?