



## Stanford eCorner

### A Theory of Change = Business Model + Strategy

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Video URL: <http://ecorner.stanford.edu/videos/607/A-Theory-of-Change-Business-Model-Strategy>

Smith explains that a theory of change in the social sector is roughly equivalent to a combination of the business model and strategy in the for-profit world. You need to identify a change and have a hypothesis about how to make it happen, she says. This is more complex in the social sector because, in addition to market forces, you have to deal with regulatory forces, emotional forces, social forces, and political forces, she adds. A set of core beliefs are usually taken for granted in the business world, but in the social sector they need to be established. She believes the core beliefs are the basis of the theory of change and help you decide what to do--otherwise you could end up trying to change too much. Though there is always a need elsewhere, a social venture can only take on what falls into its focused mission.



#### Transcript

If you're going to get into the social sector, you better have a clear theory of change. And the theory of change in the social sector is roughly equivalent to a combination of your business model and strategy in the for-profit world. You need to know what is the change you're trying to create in the world and you need to have clear hypothesis about how that change is going to take place. It sounds simple but it is very complex in the social sector because you're dealing with more than just market forces. You have market forces and regulatory forces and emotional forces and social forces and political forces, so it's very complicated. That simple little bullet point up there takes an awful lot of time. I'll explain ours to you. Part of ours has to do with really understanding where the leverage is for changing K-12 education. So we are not investing in any venture anyone wanted to create in K-12 education. We're investing incredibly strategically in a small number of areas in order to have the biggest impact.

Of course, fundamentally, this entire thing is based on the power of entrepreneurs. I'll tell you a little bit more about them as we go. So again, our purpose is to transform public education. We're focused particularly on underserved children so we are trying to bring up in achievement and performance and access the kids who currently do not have access to a high quality education. So this is our theory of change. You must begin with a series of core beliefs. Most people don't even think about this because in the business world, it's a little simpler. There's a common set of core beliefs around market forces and people's willingness to buy new products if it makes their life better. So the kind of core beliefs in business are usually taken for granted. In the social sector, you need to establish your core beliefs because from those core beliefs close your theory of change and it helps you figure out what to do and what not to do which is a really vexing problem for leaders in the social sector because absent this discipline, there's always an argument that you should be doing everything because there's always a need.

There's always someone who has a need and every solution that comes to you is important. You have to be able to figure

out which ones of those fit into your theory of change. Otherwise, you'll be destroyed by taking on everything that comes your way.