Strategy for Social Enterprises

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How Leaders Think About Competition

- The worst error in strategy is to compete with rivals on the same dimensions.
Flawed Concepts of Strategy

• Strategy as **aspiration**
  – “Our strategy is to have one million visitors…”
  – “…double our endowment…”
  – “…grow revenue…”

• Strategy as **action**
  – “Our strategy is to expand the collection…”
  – “…build a new building…”
  – “…mount ten special exhibitions per year…”

• Strategy as **vision / mission**
  – “Our strategy is to serve the homeless…”
  – “…to close the education gap…”
Mission Statements
Selected Museums

Guggenheim Museum, New York
The mission of the Solomon R. Guggenheim Foundation is to promote understanding and appreciation of art, architecture, and other manifestations of modern and contemporary visual culture; to collect, preserve, and research art objects; and to make them accessible to scholars and an increasingly diverse audience through its network of museums, programs, educational initiatives, and publications.

Metropolitan Museum of Art, New York
The mission of The Metropolitan Museum of Art is to collect, preserve, study, exhibit, and stimulate appreciation for and advance knowledge of works of art that collectively represent the broadest spectrum of human achievement at the highest level of quality, all in the service of the public and in accordance with the highest professional standards.

American Museum of Natural History, New York
To discover, interpret, and disseminate - through scientific research and education - knowledge about human cultures, the natural world, and the universe.

Smithsonian Institution, Washington, DC
The Smithsonian is committed to enlarging our shared understanding of the mosaic that is our national identity by providing authoritative experiences that connect us to our history and our heritage as Americans and to promoting innovation, research and discovery in science.
Strategy For Social Enterprise
Defining the “Product” or “Business

• Who is the customer(s)?

• What service(s) are being provided?

• Funders are not customers, but suppliers
Setting the Right Goals
For-Profit Corporations

• Good strategy for any organization starts with **defining appropriate goals**

• The fundamental goal of a for-profit company is **superior long-term return on investment**

• Growth is good only if superiority in ROIC is **achieved and sustained**

• Profitability must be measured realistically, capturing the **actual profit** for each business compared to the full investment
The Goals of Social Enterprise

- The fundamental purpose of a social enterprise or any other organization is **value creation**

\[
\text{Value} = \frac{\text{Social Benefits}}{\text{Cost of Delivering Them}}
\]

- For social enterprises, there are often **multiple social benefits**, which can lead to **multiple goals**
- Measuring full costs is essential to insure that true value is being created
  - Cost on a per recipient basis should always be estimated
Defining value depends on choosing, specifying, and weighting goals.
Defining Value for Museums
Specifying Goals

E.g.,
- Comprehensiveness
- Rarity
- Sophistication
- Popular appeal
- Restoration

E.g.,
- Number of visits
- Repeat visits
- Types of visitors (sophistication, age, etc.)
- Time spent per visit

• Collecting
• Visitation

Education

Visitor Experience / Engagement

Research / Scholarship

- Comprehensiveness
- Rarity
- Sophistication
- Popular appeal

- Level of interactivity
- Amenities provided
- Extent of ancillary services
- Spending per visit

- Original vs. applied
- Scholarly vs. popular
- Conferences vs. publications

E.g.,
- Whom to educate
  - Children
  - Enthusiasts
  - Educators
  - As many people as possible

- Means of education
  - Didactic
  - Experimental

- Attempting to quantify benefits and costs is indispensable to value creation
Defining Social Benefits
Considerations

• Costs avoided by society
• Intrinsic value of the social service
• Filling gaps left by government or business
• Uniqueness of service versus other institutions
• Cost of achieving the service versus alternative means
• Willingness to pay by users, government, or other organizations

• But, donor / funder interest *per se* is a dangerous indicator of social benefit
Measuring Costs of Delivery

• Many social enterprises do a poor job of understanding the costs of delivering each type of social benefit

• Benefits are not compared to the true costs
  – Is there real value being created?

• Social benefits are not delivered efficiently

• A balanced budget does not mean that social value has been created
Competing in any business involves performing a set of discrete **activities**, in which **competitive advantage resides**.

The value chain is **unique** to each business and can be unique to each company.
Strategy Foundations
The Museum Value Chain

Firm Infrastructure
(e.g., governance, planning, budgeting, information tech., facilities)

Fundraising
(e.g., earned revenues, proposals, solicitations, events, donor relations)

Human Resource Management
(e.g., recruiting, training, compensation system)

Program and Content Development
(e.g., scholarship, exhibit design, market research)

Educational Programs
(e.g., local school outreach, adult classes, special tours)

Assembly and Preservation
(e.g., acquisition, authentication, cataloguing)

Exhibition
(e.g., curating, display, support materials)

Hospitality Services
(e.g., shops, restaurants, maintenance)

Marketing & Sales
(e.g., promotion, advertising, catalogs)

Visitor / Constituency Services
(e.g., member outreach, special events)

Social Benefits

Surplus
Strategy Foundations
Operational Effectiveness Versus Strategy

Operational Effectiveness

- Assimilating, attaining, and extending **best practices**

Do the **same thing better**

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Strategic Positioning

- Creating a **unique** and **sustainable** competitive position

Do things **differently** to achieve a **different purpose**
Five Tests of a Good Strategy

- A **unique value proposition** compared to other organizations
- A **different**, tailored value chain
- Clear tradeoffs, and choosing what **not** to do
- Activities that **fit** together and reinforce each other
- **Continuity** of strategy with continual improvement in realization
### Defining a Strategic Position

**Whole Foods Markets**

#### Value Proposition

- Natural, fresh, organic, and prepared foods and health items with excellent service at premium prices
- Educated, middle class, and affluent customers passionate about food as a part of a healthy lifestyle

#### Distinctive Activities

- Well-lit, inviting supermarket store formats with appealing displays and extensive prepared foods sections
- Produce section as “theater”
- Café-style seating areas with wireless internet for meetings and meals
- Each store carries local produce and has the authority to contract with the local farmers
- Information and education provided to shoppers along with products
- High touch in-store customer service via knowledgeable, non-unionized, highly motivated personnel
- Egalitarian compensation structure
- Own seafood procurement and processing facilities to control quality (and price) from the boat to the counter
- Donates 5% of profits to non-profits
- Each store has “green projects,” directed by employees to improve environmental performance
Translating Goals into a Value Proposition

What Customers?
- Adults vs. children
- Enthusiasts vs. less knowledgeable patrons
- Tourists vs. locals
- Current vs. future generations

Which Needs?
- Appreciation
- Experience
- Participation

What Price?
- Free
- Membership
- Fee per admission
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Strategic Tradeoffs
IKEA, Sweden

IKEA

Product
• Low-priced, modular, ready-to-assemble designs
• No custom options
• Furniture design driven by cost, manufacturing simplicity, and style

Value Chain
• Centralized, in-house design of all products
• All styles on display in huge warehouse stores
• Large on-site inventories
• Limited sales help, but extensive customer information
• Long hours of operation

Typical Furniture Retailer

Product
• Higher priced, fully assembled products
• Customization of fabrics, colors, finishes, and sizes
• Design driven by image, materials, varieties

Value Chain
• Source some or all lines from outside suppliers
• Medium sized showrooms with limited portion of available models on display
• Limited inventories / order with lead time
• Extensive sales assistance
• Traditional retail hours
Mission Statement
Museum of Modern Art

MoMA (Museum of Modern Art), New York

The Museum of Modern Art is dedicated to being the foremost museum of modern art in the world… The Museum of Modern Art seeks to create a dialogue between the established and the experimental… in an environment that is responsive to the issues of modern and contemporary art, while being accessible to a public that ranges from scholars to young children. The ultimate purpose of the Museum was to acquire the best modern works of art. While quality remains the primary criterion, the Museum acknowledges and pursues a broader educational purpose: to build a collection which is more than an assemblage of masterworks, which provides a uniquely comprehensive survey of the unfolding modern movement in all visual media.
Mutually Reinforcing Activities

Zara

- Word-of-mouth marketing and repeat buying
- Cutting-edge fashion at moderate price and quality
- Little media advertising
- Customers chic but cost-conscious
- Global team of trend-spotters
- Advanced production machinery
- Prime store locations in high traffic areas
- Very frequent product changes
- Extensive use of store sales data
- Production in Europe
- Tight coordination with 20 wholly-owned factories
- JIT delivery
- Very flexible production system

- Fit is leveraging what is different to be more different

Source: Draws on research by Jorge Lopez Ramon (IESE) at the Institute for Strategy and Competitiveness, HBS 20080923 – HBSNY Social Enterprise Summit.ppt
Continuity of Strategy

• Allows the board and the staff to understand and embrace the strategy

• Builds truly unique skills and assets related to the strategy

• Establishes a clear identity with patrons, funders, and other outside entities

• Strengthens alignment of activities across the value chain

• Successful organizations continuously improve in realizing their strategy

• Reinvention and frequent shifts in direction are costly and confuse everyone
Barriers to Strategy in Social Enterprises

- Tactical problems consume managerial attention
- Multiple, conflicting, or unclear goals
- Lack of board consensus on goals
- No agreement on measuring performance
- Poor cost information at the activity, program, and per recipient levels
- Funding model leads to program proliferation or short-term focus
- Legacy attitudes, activities, and facilities severely constrain future direction
- Inability to make tradeoffs

- Severe risk of agenda / program proliferation
- Funding drives strategy instead of strategy driving funding
Strategy Should Drive Other Choices

Goal Definition

Strategy Definition

Funding Model
The Role of Leaders in Strategy

• Lead the **process of choosing** the organization’s unique position
  – The choice of strategy **cannot** be entirely democratic

• Clearly **distinguish** strategy from operational effectiveness

• **Communicate** the strategy relentlessly to all constituencies

• Maintain **discipline** around the strategy, in the face of many distractions.

• Decide **which** changes, technologies, and customer trends to respond to, and how the response can be **tailored** to the organization’s unique position

• Measure **value** and **progress** against the strategy rigorously

• Commitment to strategy is **tested every day**, especially in non-profit organizations