

# Strategy for Social Enterprises

Professor Michael E. Porter  
Harvard Business School

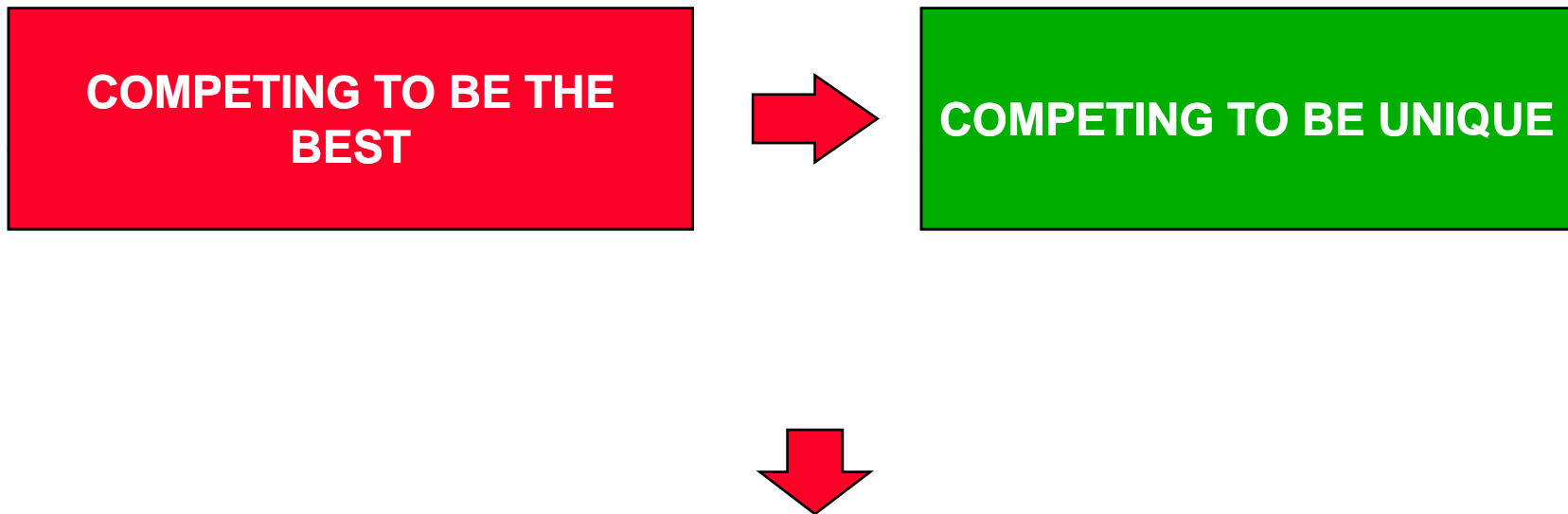
*HBSCNY Social Enterprise Summit*  
*September 23, 2008*

---

This presentation draws on ideas from Professor Porter's books and articles, in particular, *Competitive Strategy* (The Free Press, 1980); *Competitive Advantage* (The Free Press, 1985); "What is Strategy?" (*Harvard Business Review*, Nov/Dec 1996); "Strategy and the Internet" (*Harvard Business Review*, March 2001); and a forthcoming book. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Michael E. Porter. Additional information may be found at the website of the Institute for Strategy and Competitiveness, [www.isc.hbs.edu](http://www.isc.hbs.edu). Version: September 22, 2008

---

# 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

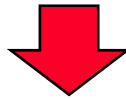
## Defining the “Product” or “Business

- 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

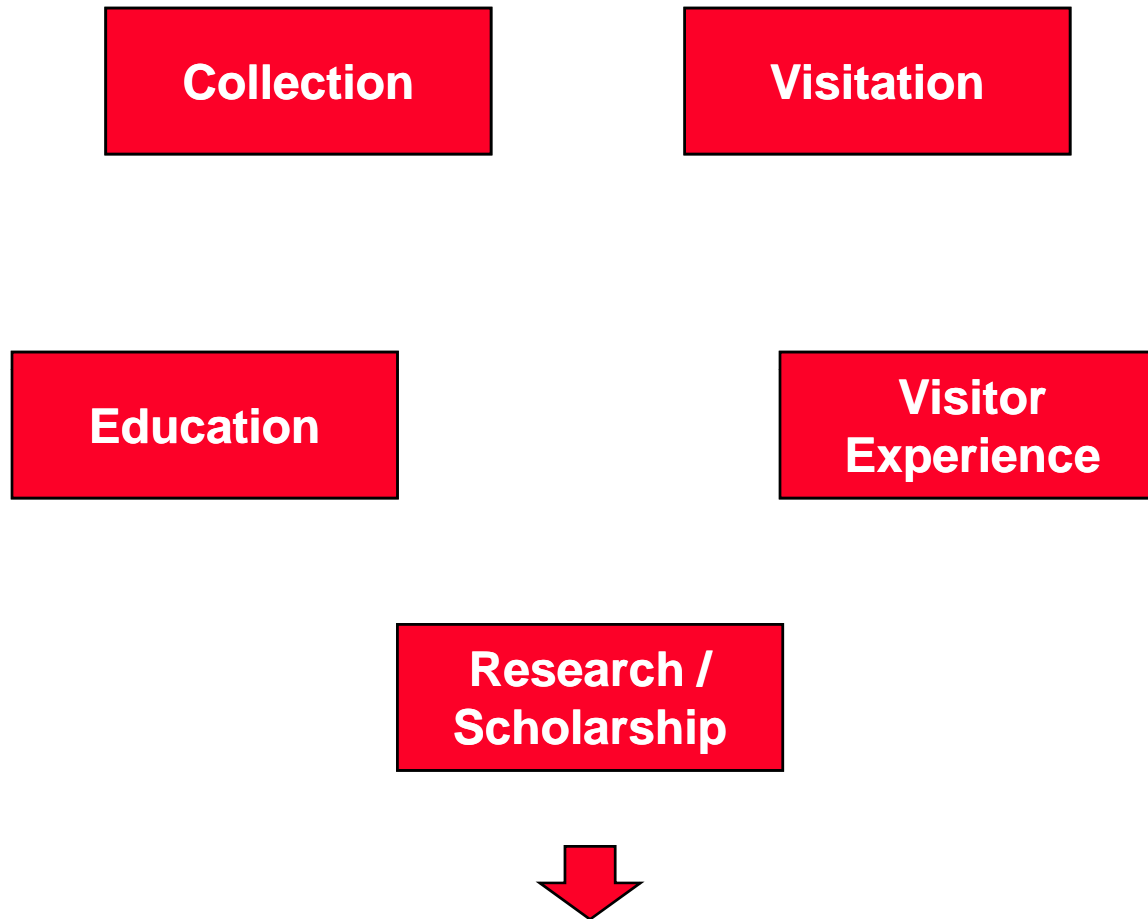
- The fundamental purpose of a social enterprise or any other organization is **value creation**

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



- 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 for Museums

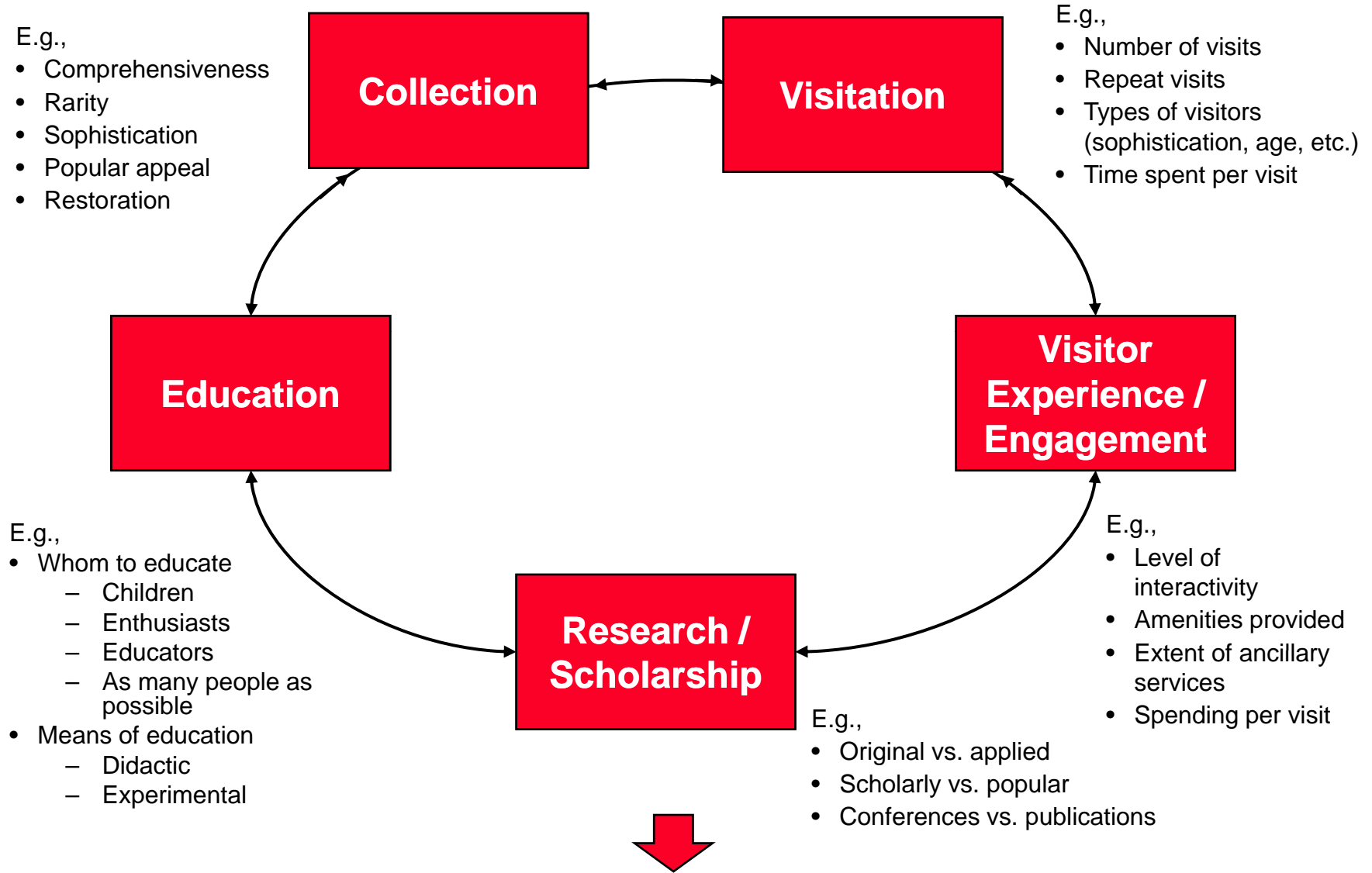


- **Defining value** depends on **choosing, specifying, and weighting goals**



# Defining Value for Museums

## Specifying Goals



• 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

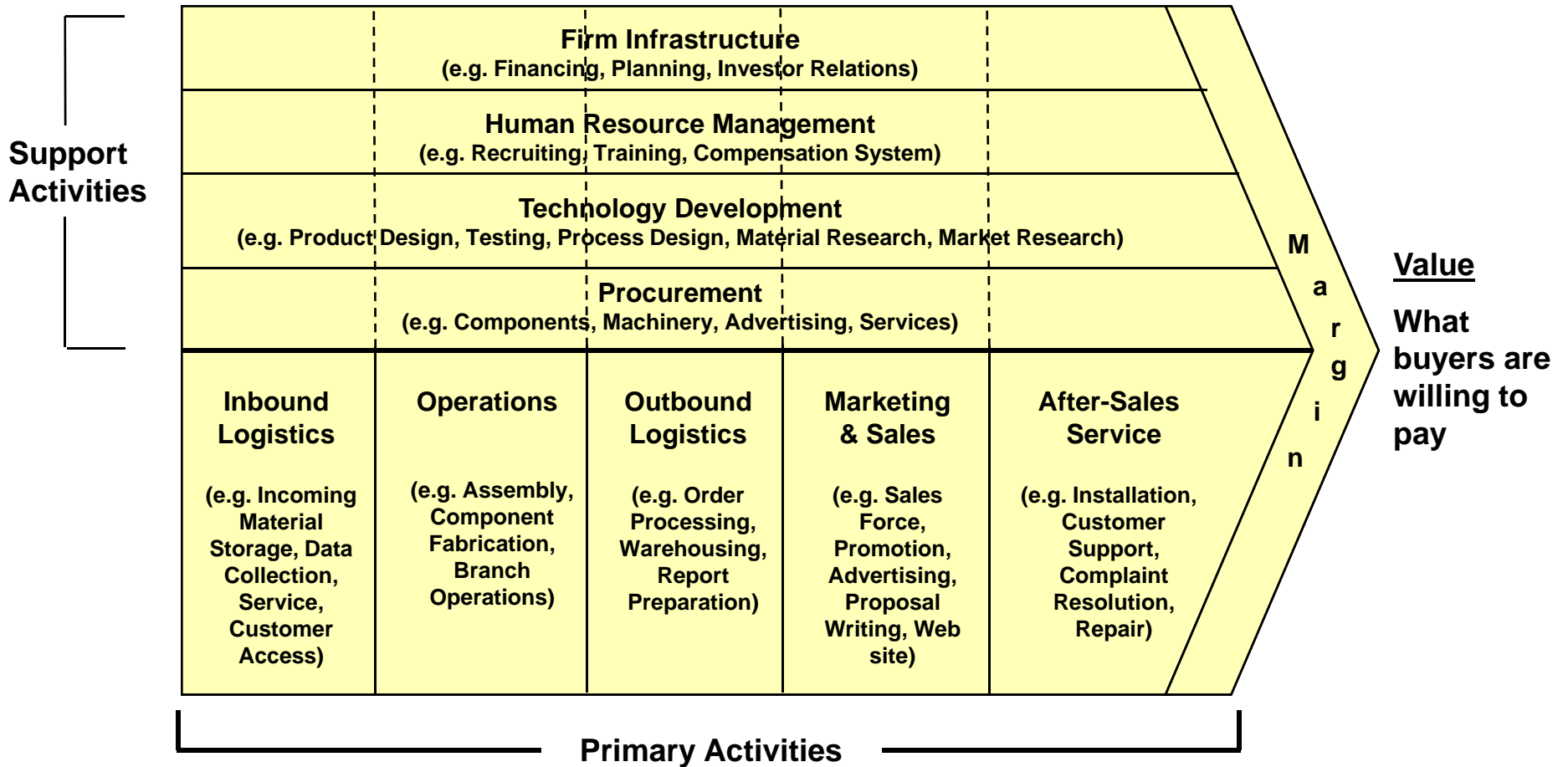
- Many social enterprises do a poor job of understanding the costs of delivering each type of social benefit



- 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

# Strategy Fundamentals

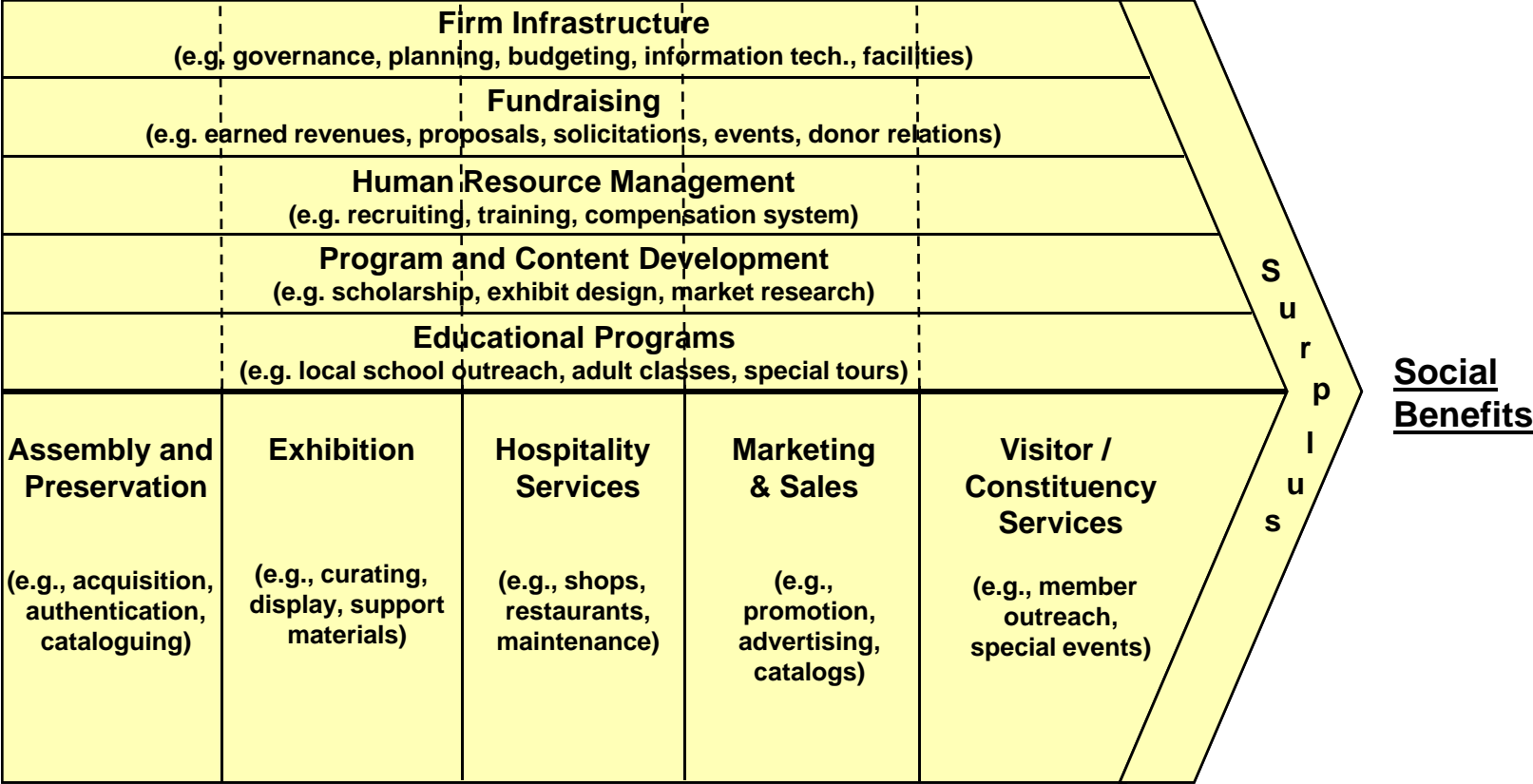
## Defining the Value Chain



- 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

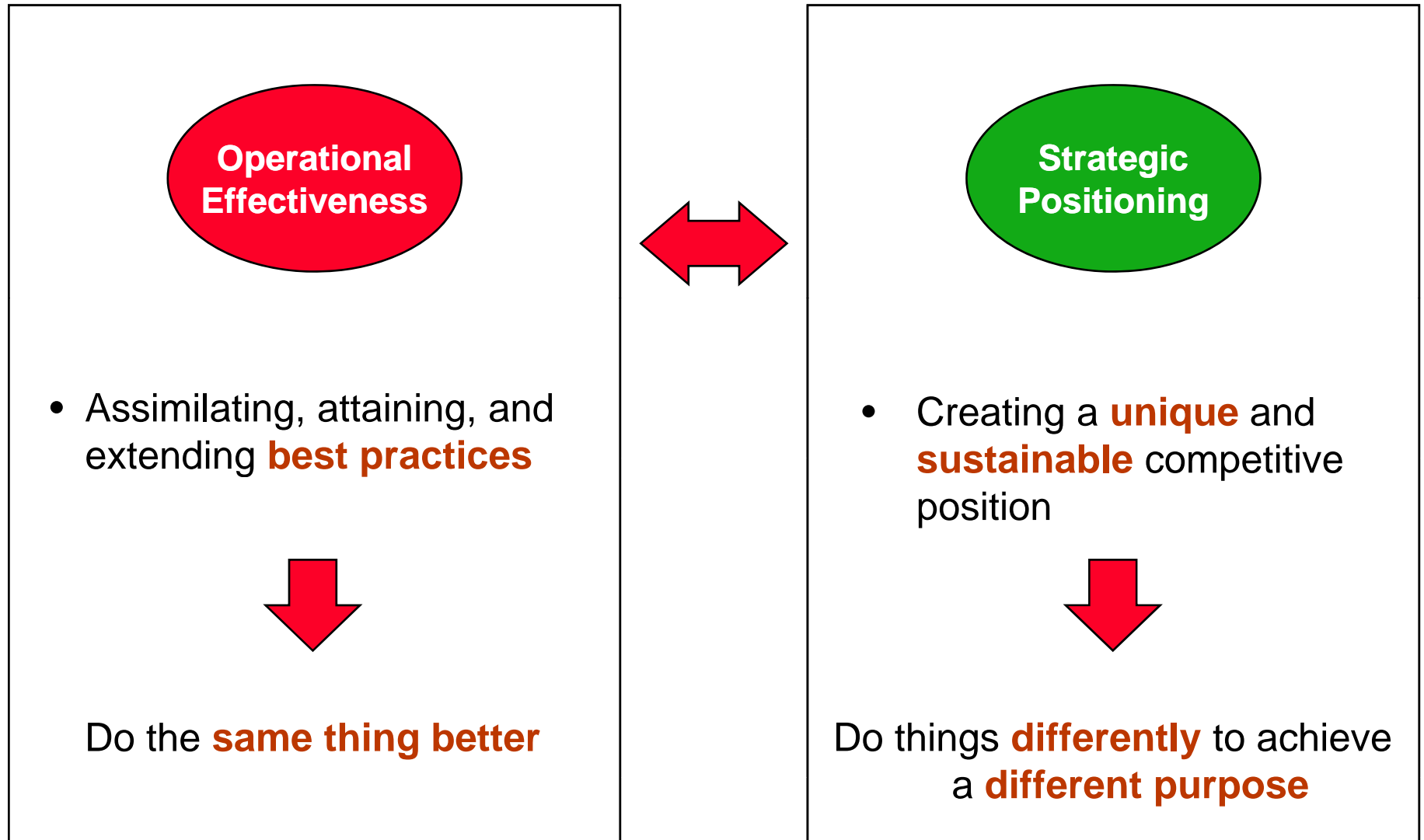
# Strategy Foundations

## The Museum Value Chain



# Strategy Foundations

## Operational Effectiveness Versus Strategy



# 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

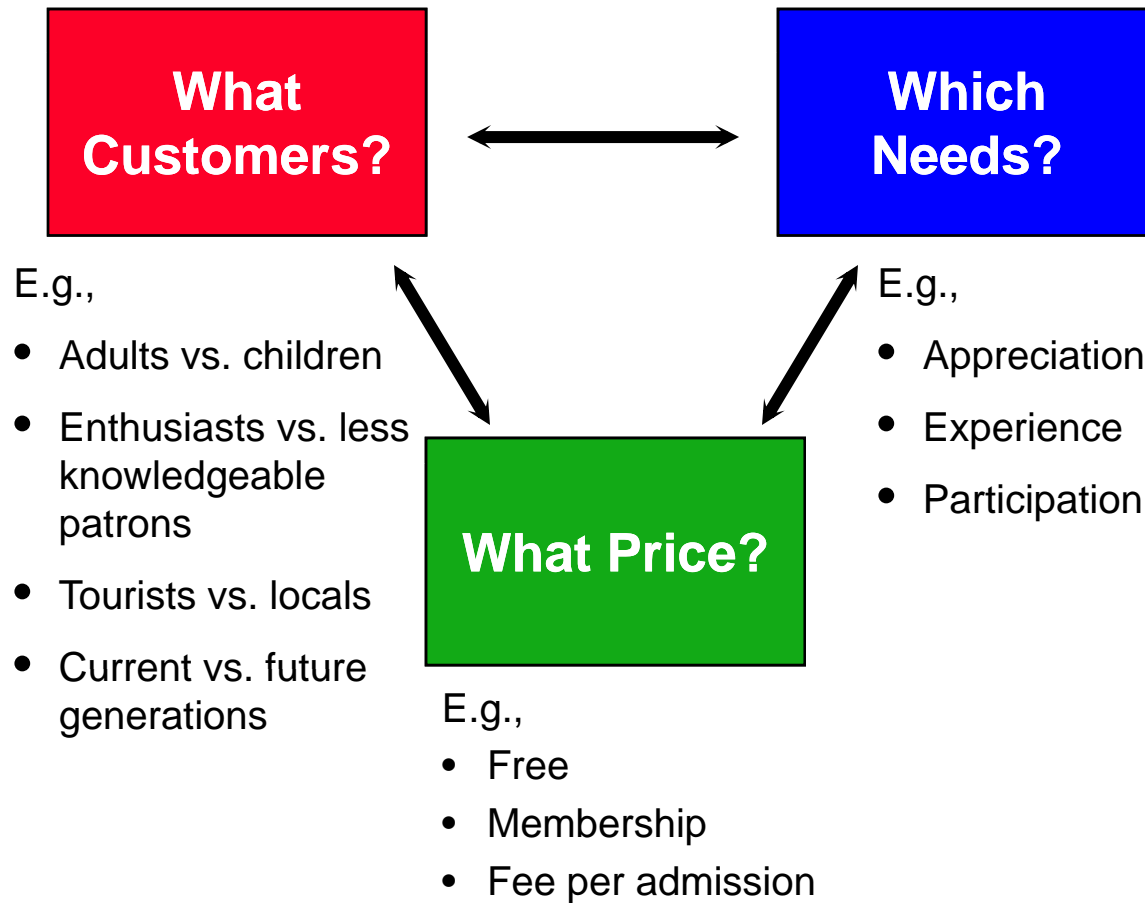
- Natural, fresh, organic, and prepared foods and health items with excellent service at premium prices
- Educated, middle class, and affluent customers passionate about food as a part of a healthy lifestyle

### 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

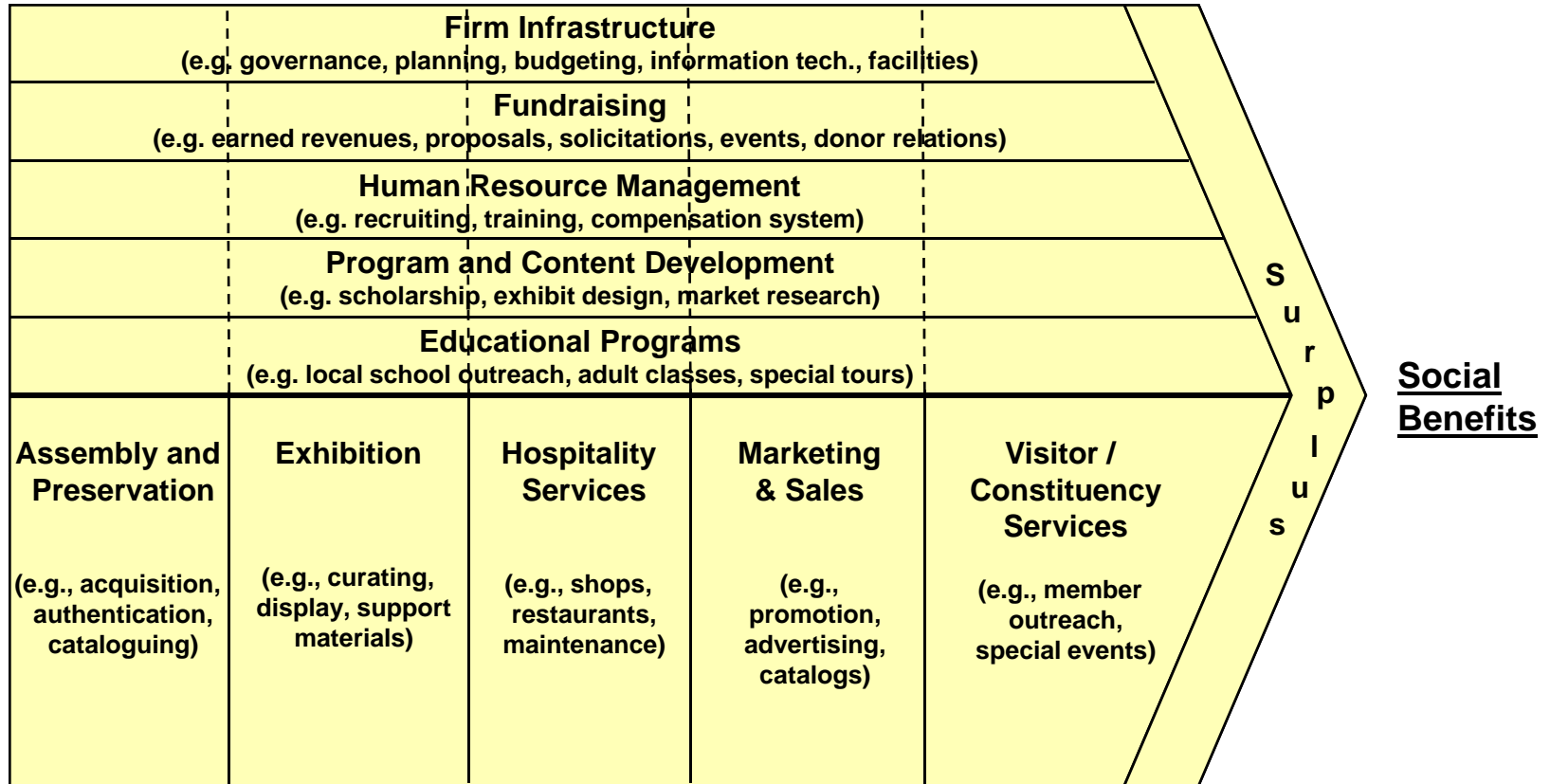


# Translating Goals into a Value Proposition



# Strategy Foundations

## The Museum Value Chain



# 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
- **Strategic continuity** with continual improvement in realization

# 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

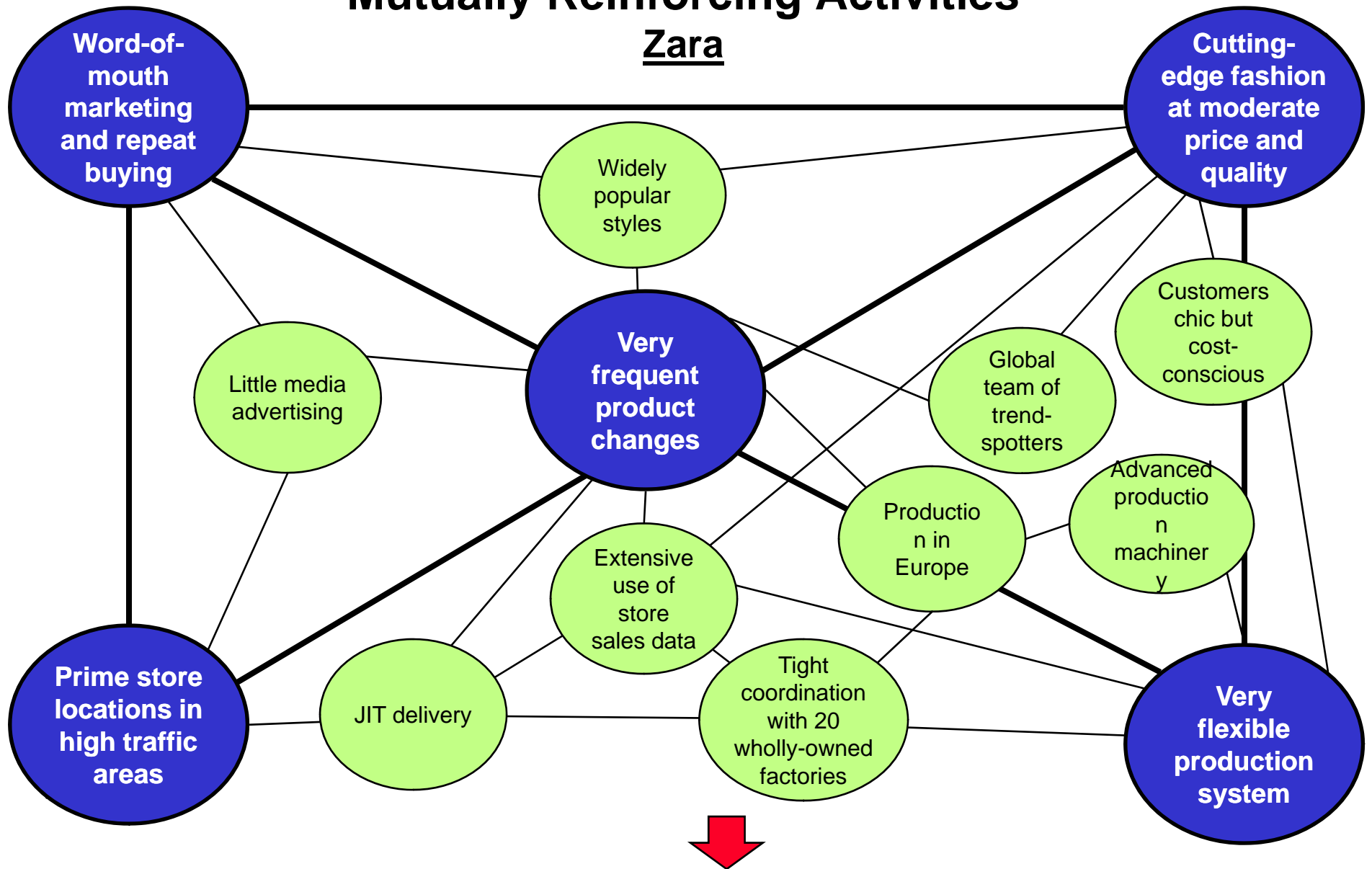
## Museum of Modern Art

### *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



- Fit is leveraging what is different to be **more** different

# 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

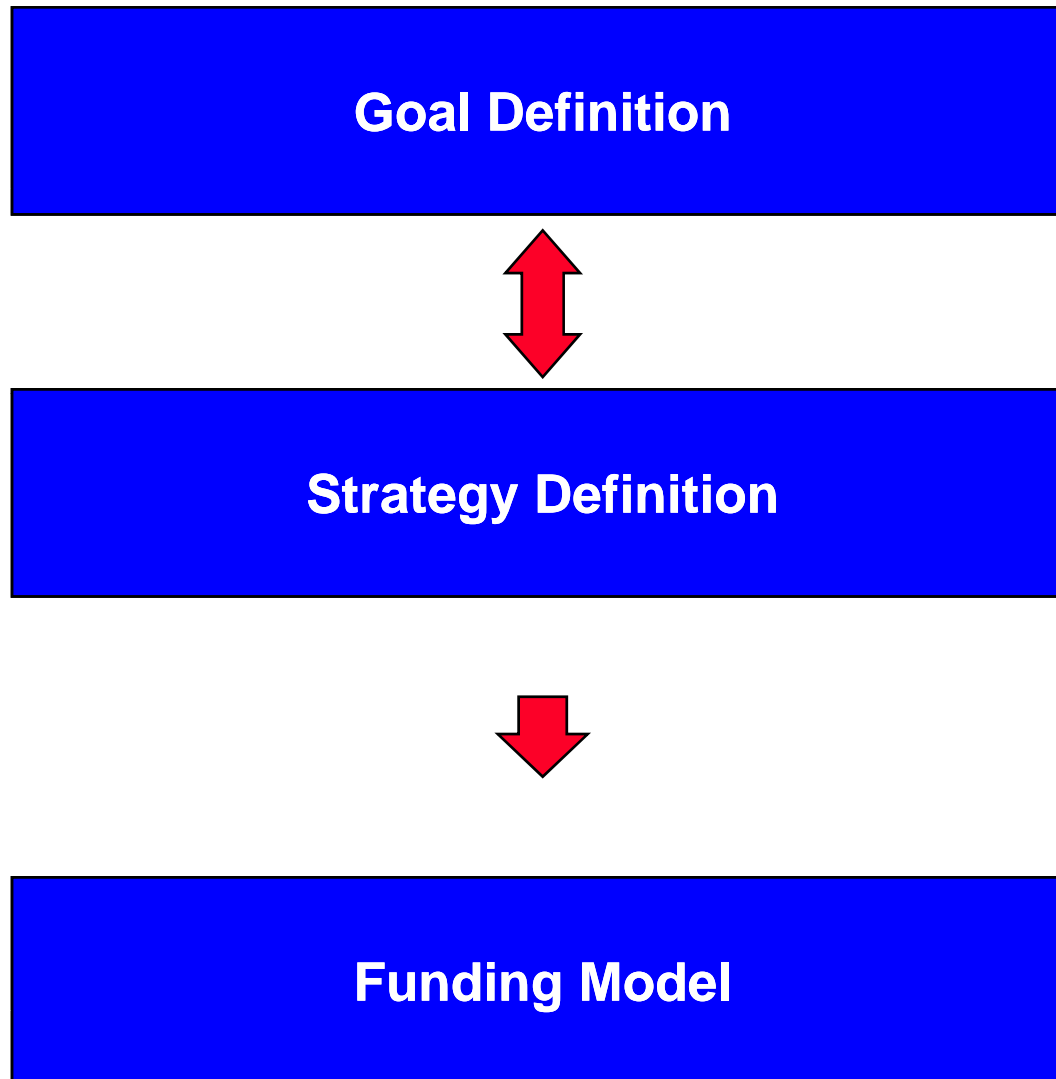
- Tactical problems consume managerial attention
- Multiple, conflicting, or unclear goals
- Lack of board consensus on goals
- No agreement on measuring performance
- Poor cost information at the activity, program, and per recipient levels
- Funding model leads to program proliferation or short-term 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



# 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