

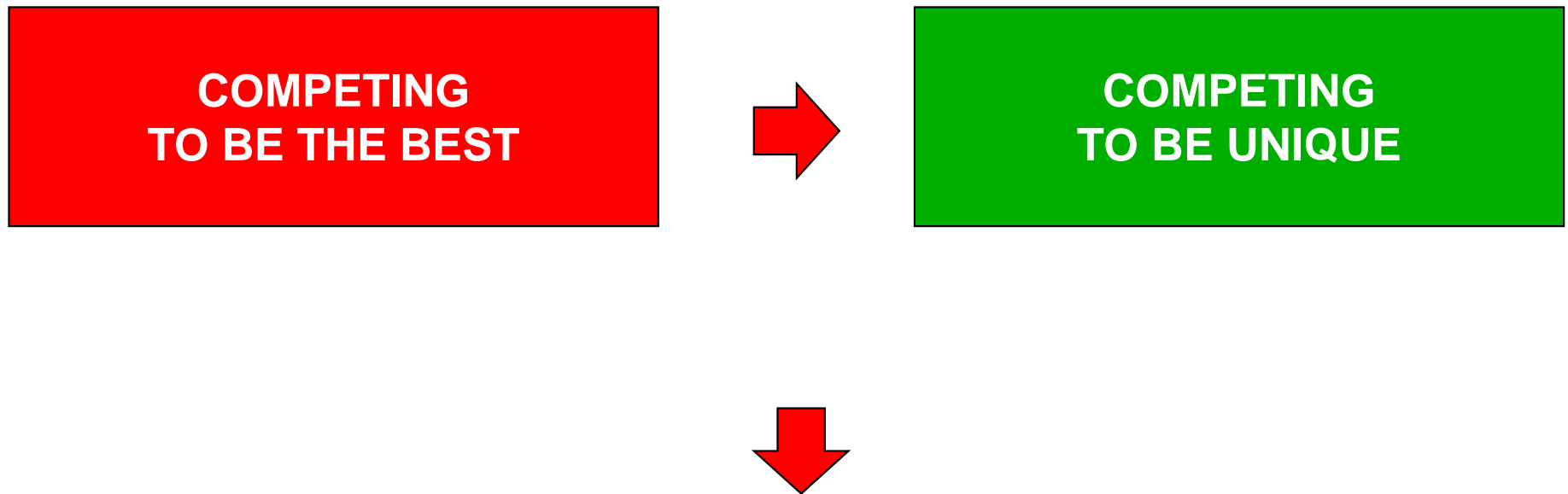
What is Strategy: Issues for the World Bank

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Harvard Business School

World Bank Strategy Discussion
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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); and *On Competition* (*Harvard Business Review*, 2008). 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.

Thinking Strategically



Strategy is about making **choices** on *what* an organization will seek to achieve and *how* it will deliver value

Defining a Strategy

- Strategy is different than **aspirations**
 - “Our strategy is to be #1 or #2...”
 - “Our strategy is to be the world leader...”
 - “Our strategy is to grow...”
 - “Our strategy is to provide superior returns to our shareholders...”
 - Strategy is more than a **particular action**
 - “Our strategy is to merge...”
 - “... internationalize...”
 - “... consolidate the industry...”
 - “... outsource...”
 - “...double our R&D budget...”
 - Strategy is not the same as **vision / values**
 - “Our strategy is to advance technology for mankind ...”
 - “...to be ethical...”
- 
- Strategy defines the organization’s **distinctive approach** to competing and the **competitive advantages** on which it will be based

The Goals of Social Organizations

- In business, the unifying goal is **long term profitability**
 - Profitability measures **economic** value creation
- The fundamental purpose of a social enterprise is **societal value creation**

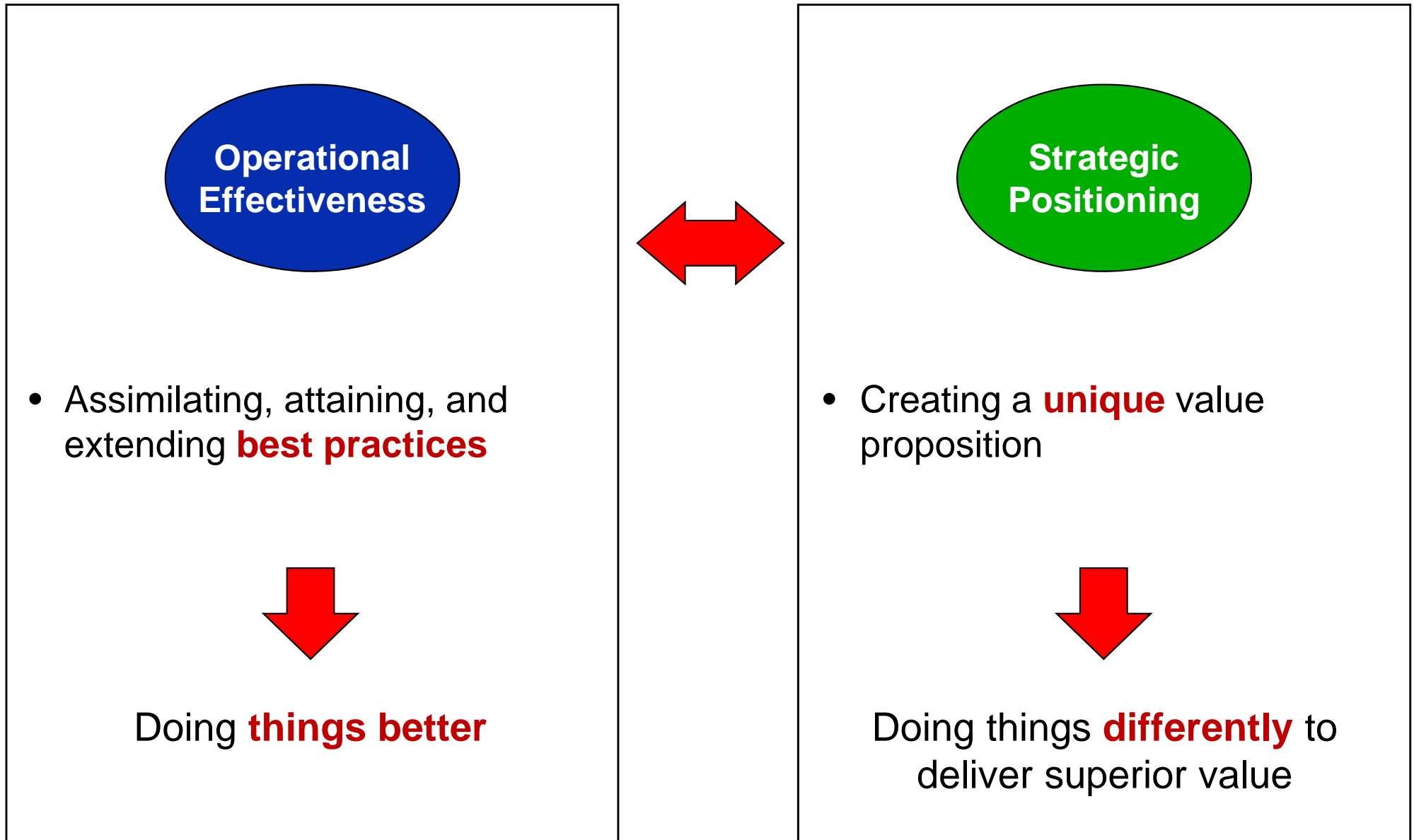
$$\text{Value} = \frac{\text{Societal Outcomes Achieved}}{\text{Cost of Delivering Those Outcomes}}$$



- Social organizations must define their **customer** or **customers**
- The desired societal outcome for these customers must be **quantified** and **measured**
- Social organizations often pursue **multiple societal outcomes**, which requires **multiple measured goals**
- Understanding the **full costs** of delivering outcomes is essential to ensure that true value is being created, e.g. cost per recipient

Achieving Superior Performance

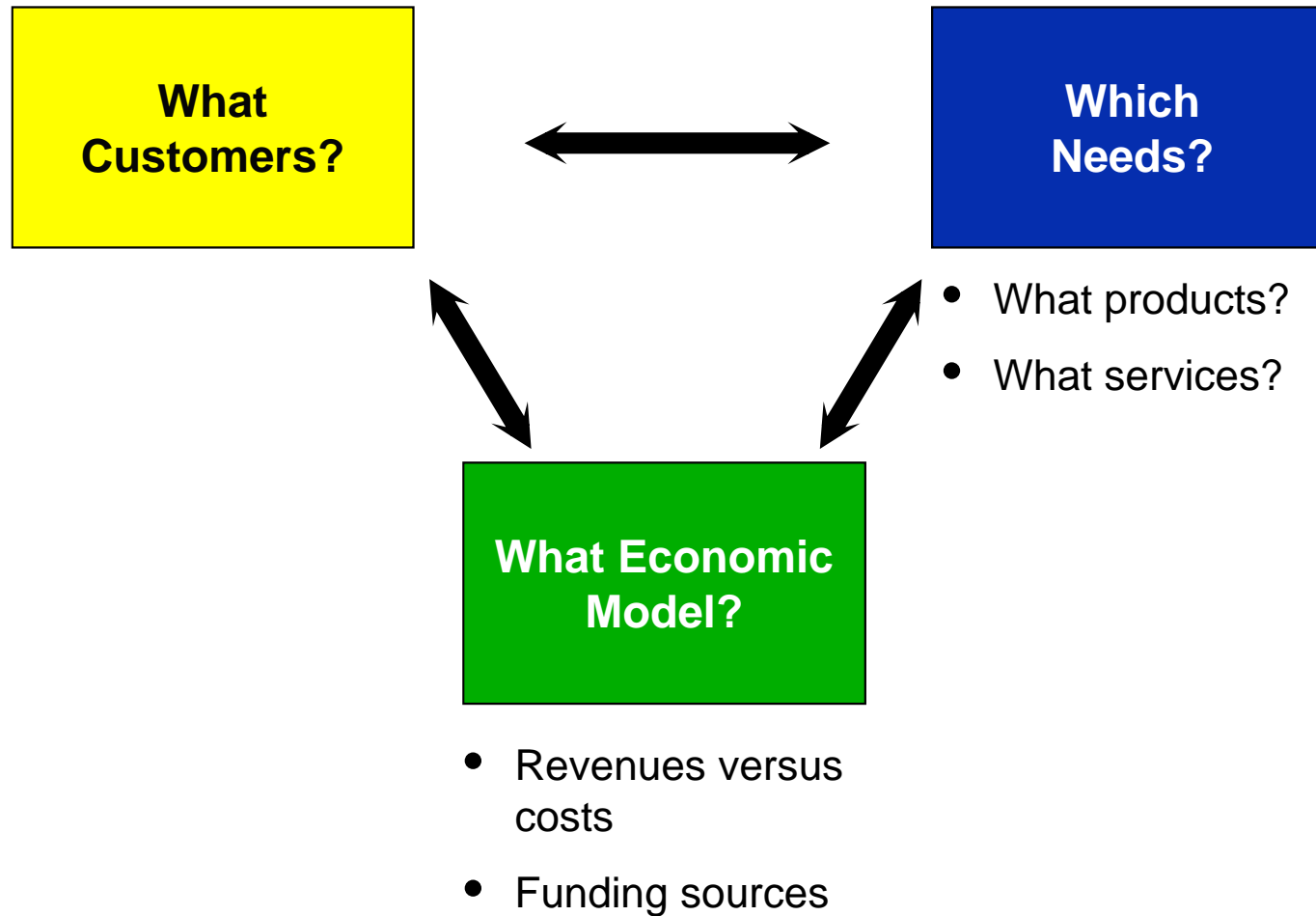
Operational Effectiveness Is Not Strategy



What Creates a Successful Strategy?

- A **unique value proposition** compared to other organizations

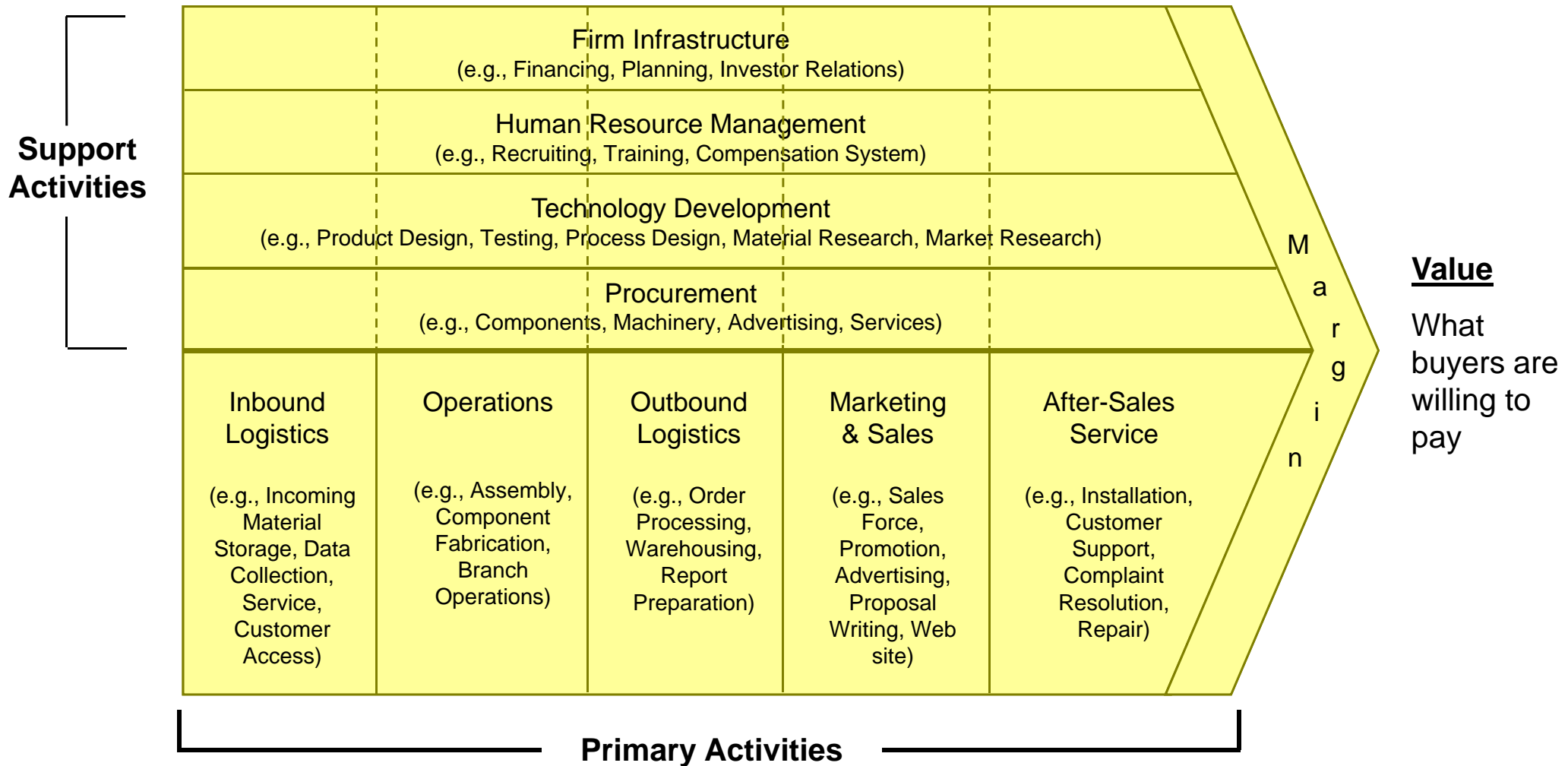
Defining the Value Proposition



What Creates a Successful Strategy?

- A **unique value proposition** compared to other organizations
- A **distinctive value chain** embodying choices about how the organization will operate differently

Competitive Advantage and the Value Chain



- The value chain is the **set of activities** involved in delivering value to customers
- All competitive advantage **resides** in the value chain. Strategy is manifested in **choices** about how activities in the value chain are configured and linked together

Strategic Positioning

IKEA, Sweden

Value Proposition

- Young, first time, or price-sensitive buyers with design sophistication
- Stylish, space efficient and compatible furniture lines and accessories at very low price points

Distinctive Activities

- Modular, ready-to-assemble, easy to ship furniture designs
- In-house design of all products
- Wide range of styles which are all displayed in huge warehouse stores with large on-site inventories
- Self-selection by the customer
- Extensive customer information in the form of catalogs, explanatory ticketing, do-it-yourself videos, and assembly instructions
- IKEA designer names attached to related products to inform coordinated purchases
- Suburban locations with large parking lots
- Long hours of operation
- On-site, low-cost, restaurants
- Child care provided in the store
- Self-delivery by most customers

What Creates a Successful Strategy?

- A **unique value proposition** compared to other organizations
- A **distinctive value chain** embodying choices about how the organization will operate differently
- Making clear tradeoffs, and choosing what **not to do**

Making 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

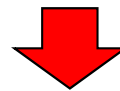
Typical Furniture Retailer

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



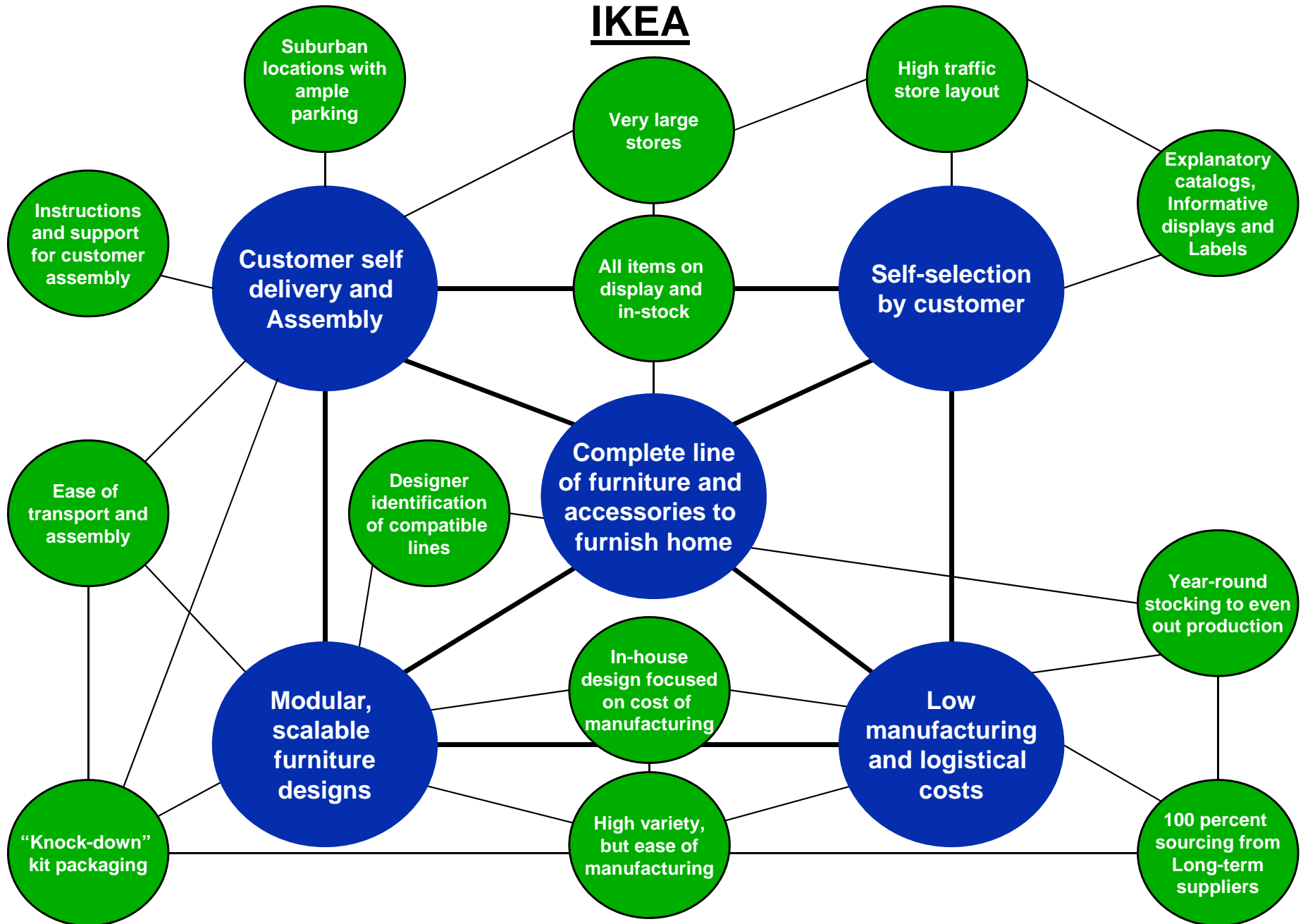
- Tradeoffs create the need for **choice**
- Tradeoffs make a strategy **sustainable** against imitation by established rivals
- An essential part of strategy is choosing what **not** to do

What Creates a Successful Strategy?

- A **unique value proposition** compared to other organizations
- A **distinctive value chain** embodying choices about how the organization will operate differently
- Making clear tradeoffs, and choosing what **not to do**
- Choices of activities across the organization that **fit together and reinforce each other**

Mutually Reinforcing Activity Choices

IKEA



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

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- Making clear tradeoffs, and choosing what **not to do**
- Choices of activities across the organization that **fit together and reinforce each other**
- **Continuity** of strategic direction

Strategic Questions for the World Bank

1. What is the **purpose** and **measurable goals** of the World Bank?
2. What is **unique** about the World Bank versus other stakeholders?
3. Who are the Bank's **customers** and how should they be **segmented**?
4. How should the World Bank **create value** for its chosen customer groups?
5. What are the World Bank Group's "**products**" and how should they be **integrated and leveraged** across the entire organization to serve customers?
6. What **organizational structure** and **culture** will enable the World Bank to best achieve this goal?



- What underlying **development model** informs and integrates the activities of the World Bank in its engagement with clients?