

Strategy and Society

LEARNING OBJECTIVES

Studying this chapter should provide you with the knowledge to:

1. Explain the difference between economic and social value.
2. Use the value net to identify a social-value organization's key stakeholders and use that model to discuss opportunities for and threats to value creation.
3. Explain how economic-value organizations can create value through activities known as corporate social responsibility.
4. Categorize the major focus areas of social entrepreneurship and the challenges unique to each focus.

Fundacion Paraguaya: Fighting Poverty in Latin America

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A Paraguayan's annual average income is \$3,020, or a little more than \$8 per day.¹ Education for Paraguayan children proves particularly problematic. Although 91 percent of children in the country complete elementary school, only 60 percent enter secondary school, equivalent to middle schools and high schools in the United States. Just more than half of those students, or about 35 percent of the total, will pursue some education beyond high school. For many Paraguayans, the lack of advanced education consigns them to scratch out a meager living in the country's agricultural sector, or its informal economy. Informal businesses operate without a formal business license and do not enjoy many other legal protections, such as police and fire protection, utility

hook-ups and power, or access to services that can help a business expand.

Entrepreneur Martin Burt, who grew up in the capital city of Asuncion, is working to change that. He explains:

It quickly became apparent to my brothers and sisters that we were among the very privileged in Paraguay, a poor country, and so we always heard from my parents and my grandparents that we had to take advantage of the opportunities we had but to also give back. I had an early sense of wanting there to be social justice in Paraguay . . . not from a position of resentment, but with joy; how can we amplify what "the haves" have, and extend it to the poor? How can we give back? How can we expand prosperity to everybody?²

After completing his graduate education at George Washington University in 1985, Martin returned to Asuncion and founded a micro-credit organization, Fundacion Paraguaya. Today Fundacion Paraguaya operates in more than 130 towns in 10 of the country's 17 provinces. Martin's group provides small loans to Paraguayan entrepreneurs so they can start small businesses to support their families. Fundacion Paraguaya also provides training in entrepreneurship for adults, and a Junior Achievement program for youth.

In 2002, a group of Franciscan missionaries approached Martin about taking control of the San Francisco Agricultural School

(SFAS), which they had run for more than 100 years.³ Located about 40 miles north of the capital city of Paraguay on the edge of the Chaco forest, the school provided a much-needed education for the children of the poor, rural residents. In Paraguay, the government subsidized private schools, but political instability led to funding cuts that left the missionaries unable to operate the school. After watching Martin's organization work tirelessly to improve the lives of Paraguayan youth through Junior Achievement and other programs, the missionaries approached Martin about running the school.

Fundacion Paraguaya took control of the school on New Year's Day, 2003. The organization purchased 48 hectares of agricultural land, the school buildings and dormitories, and agreed to invest another \$500,000 to upgrade the school's facilities and pay its teachers. Martin decided to try a new model, and rather than relying on government subsidies and following its mandated curriculum, SFAS would fund itself. The curriculum would focus on teaching students the practical skills of entrepreneurship in addition to their academic studies, and the students would use the land and other agricultural assets of the school to create a

number of income-generating businesses. Profits from Fundacion Paraguaya's other businesses, primarily micro-credit, would support the school for five years, after which time the school's agricultural operations would provide the income needed to sustain the school.

Martin transformed the school into a number of business units, from a creamery and dairy operation to livestock businesses, including pigs, chickens, and goats. The students sold products in local markets and the school opened its own retail store on the main highway from the Chaco to Asuncion. With an investment of \$50,000, Martin and his group remodeled the missionaries' retreat building into a rural hotel. The hotel attracts local businesses looking for a quiet meeting space, international visitors to the school, and others who choose to stay at the hotel where their room rates support the school. This new, business-oriented school became cash flow positive at the end of 2007, right on schedule. As of 2016, Martin's group operated three other schools in South America, had transplanted the model to 20 other countries, and had trained more than 70,000 students and 2000 teachers.⁴

This chapter discusses how strategy applies to social-value organizations. You'll see that the tools of strategy, from industry and environmental analysis to the methods firms use to effectively implement strategy, can help social-value organizations understand their operating environment. Models such as the Five Forces and the 7 S model can help a diverse set of organizations formulate and implement effective strategies even when an economic competitive advantage is not the main goal of the organization. The second section of the chapter introduces you to the emerging field of social entrepreneurship. Social entrepreneurs have a passion and clear mission to create social value and often combine the logic of business, sustainable profit making, and efficient operations with that passion to create new and innovative approaches to benefiting society.

Strategy and Social-Value Organizations

Martin Burt represents a new type of individual working to fight poverty in Paraguay and around the world: the **social entrepreneur**. Social entrepreneurs use free-market principles and create for-profit businesses with the goal of creating **shared value**, which is **economic value** for the business and social value for the larger community in which the business operates.⁵ Economic value focuses on the creation of income, wealth, and other economic outcomes for individuals and organizations. **Social value**, by contrast, concerns improvements in the noneconomic elements of individuals' lives and community well-being. Social value includes minimizing negative conditions such as blight, oppression, pollution, and violence, as well as enabling positive outcomes such as education and literacy, mental and physical health, political voice and inclusion, and recreation and opportunities for self-expression.⁶

The notion of shared value means that organizations, and the communities in which they operate, can gain both types of value: improvements in both economic and social welfare. Profit and social welfare are not substitutes that managers have to trade off, but complements that reinforce each other. Business firms must bring in more revenue than they spend in costs; otherwise, they won't survive. Political leaders and other social actors must improve the living conditions of their constituents, otherwise the politicians might not survive.

social entrepreneur An individual or organization that uses free-market principles and creates for-profit businesses with the goal of creating shared value.

shared value The simultaneous creation of economic value (for the business) and social value (for the larger community).

economic value The creation of income, wealth, and other economic outcomes for individuals and organizations.

social value Improvements in the noneconomic elements of individuals' lives and community well-being.

Creating economic value is critical, because the business of business is to make a profit. Smart managers, however, realize that creating social value may be a way to bring in more revenue or spend less on costs. Creating social value may increase revenue through increased customer loyalty, brand equity, and willingness to pay, or it may reduce costs through efficient supply chains and engaged, productive employees. Social value may be a source of strategic advantage.

Martin Burt and other social entrepreneurs use the tools of strategy to help them make a difference in the world. Indeed, a deeper look at Fundacion Paraguaya reveals an organization that intimately understands its markets, environment, and customer needs. The organization operates with a clear set of values and principles that underlie a unique set of valuable and difficult-to-imitate resources and capabilities to fight poverty. Even though Fundacion Paraguaya doesn't focus on creating a sustainable competitive advantage to benefit financial investors, the organization uses all the tools of strategy you've learned about in this book.

While social entrepreneurs such as Burt attempt to blend for-profit business principles and a social mission, many other organizations focus exclusively on creating social value. For example, the Bill & Melinda Gates Foundation "focuses on improving people's health and giving them the chance to lift themselves out of hunger and extreme poverty."⁷ The Gates Foundation works to give away money, not to earn it. Other social value organizations include the not-for-profit healthcare sector: hospitals, nursing homes, hospice care, or other community-based health agencies. Social value organizations would also include public and private universities and colleges, secondary schools, faith-based organizations, many arts and community development organizations, and museums. A recent study found that more than 1 in 10 US workers are employed in the not-for-profit sector, and that this sector of the economy continues to grow.⁸ As the social-value sector of the economy continues to develop, and as more for-profit organizations become concerned with the creation of social value, it makes sense to ask about the role of strategy in this sector.

The Tools of Strategy and the Creation of Social Value

You might think that a private university, a not-for-profit hospital, or a corporate foundation represents an organization so radically different from businesses such as Google, General Electric, or Disney that the tools that help these companies create competitive advantages just don't apply. In one sense, you're right: social-value organizations don't try to create unique and sustainable economic advantages. Social-value organizations work to create **sustainable stakeholder advantage**. That is, they hope to create organizations that consistently garner resources from or provide services to key stakeholders (e.g., donors, volunteers, students, or clients) that allow them to fulfill their social mission over time.⁹

Sometimes, these sustainable advantages result in a unique and different organization with inimitable resources, but other times this means becoming part of a sustainable and successful ecosystem, or group of related organizations targeting the same set of clients or social problems. Let's consider how some of the tools we've discussed in previous chapters, and a new one, can help social value organizations create sustainable institutional advantages.

sustainable stakeholder advantage The ability of an organization to consistently gather resources from, or provide services to, key stakeholders such as donors, volunteers, students, or clients.