

How to Survive Economic Crises in Social Purpose Organizations

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Social Purpose Organizations (SPOs) strive for a **dual purpose**: they aim to fulfill a **social mission**, and simultaneously, must achieve **economic goals** (Weerawardena, Salunke, Haigh, & Sullivan, 2021, p. 762), which marks the major difference from commercial business models. **Non-profit organizations** (e.g., *Amnesty International*), **charities** (e.g., *Gesellschaft der Freunde von Bayreuth e.V.*) and **social enterprises** (e.g., *Das Geld hängt an den Bäumen*) can be subsumed under SPOs (Alter, 2007, p. 14). Such organisations often have **financial bottlenecks** because public funding is limited, cascading a **shortage of permanent employees** (Royce, 2007, p. 10). Hence, SPOs tend to be fragile in the face of crises.

Faced with this resource shortage, SPOs must find ways how to efficiently structure and enhance value creation processes within their SPO-business model (Kullak, Baker, & Woratschek, 2021, p. 630). Value creation processes refer to activities (e.g., creating an attractive service for its customers, enabling its employees to strive and perform well or catering to the expectations of sponsors) by a firm alone or in conjunction with other stakeholders. Existing literature in this field often **emphasizes a key actor** (e.g., a social entrepreneur) (Howaldt, Domanski, & Schwarz, 2015, p. 93) or a **'heroic' figure** (Seelos & Mair, 2005, p. 244) in driving value creation. Hlady-Rispal and Servantie (2017, p. 444) identified that **value is created within community-based networks** of which the personal network of the social entrepreneur is of special importance. Broadening this approach, Kullak et al. (2021) argue that **value is co-created best by multiple people and organizations within and beyond an SPO network**.

But how should managers of offline SPOs align their business model to come off as a winner out of crises?

In their article, Kullak et al. (2021) approach this question by drawing on the SPO **Festival of Young Artists Bayreuth (FoYA)**, which is an international cultural music festival in Bayreuth (Germany) since 1950. It was introduced by the German City of Bayreuth to improve its image after World War II. Until today young musicians from all over the world come together to co-create unique music performances. However, throughout its existence, FoYA was hit by a

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couple of crises. Interestingly, each crisis caused a change for the better. These business model innovations, the processual change to an existing or creation of a new business model, can be summed up in three phases:

1. Creating value within FoYA: logic of the value chain

In the first phase (1950 until 1989), management activities were mainly managed and controlled by a general manager and music conductor with centralized decision-making. FoYA's music repertoire was exclusively on Western classical music performances. The network consisted of a small number of actors: public funders, classical musicians, conductors, managers, and concertgoers. Its business model showed the primary activities of Porter's **value chain** (Porter, 1980) creating **value within the organization**. The primary activities "are directly involved in creating and bringing value to the customer" (Stabell & Fjeldstad, 1998: 417). Examples include:

- **inbound logistics** (e.g., organizing the arrival of artists, providing food and accommodation for them)
- **music production** (e.g., ensuring rehearsals, adequate locations, and infrastructure)
- **outbound logistics** (e.g., departure of artists and dismantling and transportation of beds)

However, in 1989 the festival was **hit by the first crisis**: commercial sponsors scaled back.

2. Broadening and mediating FoYA's network: logic of the value network

This period (1990 until 2006) was marked by a new, ever since, managing director who had to find solutions to ensure the survival of the festival caused by the financial bottleneck: inspired by the Marlboro Festival in the US, which **additionally offered a cultural management education program**, the later so-called *Stepping Stone* of FoYA was born. *Stepping Stone* offers young people training in cultural management facilitated by volunteer mentors. In return, these young people take over responsibility under the guidance of senior partners (experienced managers). By linking different people and organizations, the **manager's mindset** changed and the business model evolved into a **value network**, which shows three areas of primary activities (Stabell & Fjeldstad, 1998, p. 429; video: "value configurations"):

- **network promotion**: acquiring and selecting suitable network members like sponsors, senior partners, interns, and mentors.
- **service provisioning**: connecting network members, for example, to bring together artists, spectators, senior partners, mentors, and sponsors at specific music events.

- **network infrastructure operation:** providing and maintaining physical operations like accommodation and catering for artists or providing event facilities, as well as financial infrastructure like sponsors and public funders.

Hence, **FoYA's network opened and broadened**, and **the festival overcame resource constraints** by attracting and linking more actors. Still, by the end of this period, the **festival was hit by another unexpected three steps financial bottleneck** caused by decreasing public funding.

3. FoYA as a platform to enable social interactions in and outside of FoYA's network: engagement platform

To counteract financial constraints, further innovation was necessary. Therefore, the third period (2006 until 2019) was characterized by the **founding of the Sponsorship Association** brought into being by a group of FoYA's stakeholders. The Sponsorship Association was mostly successful enough to offset financial losses. By then, the musical program was as varied as from folk or classical music towards **spontaneously** created performances. Thereby, with the establishment of the Sponsorship Association, more and more people and organizations joined the attractive network of FoYA and volunteered. **Organizations and people outside of the network actively approached the festival and offered pro-bono services**, such as redesigning the festival website or creating an image film. In doing so, the management allowed them to contribute their skills and knowledge in a self-determined manner without specific guidelines from management. Thus, the manager's mindset changed again, and the business model of the festival developed into an **engagement platform**. Engagement platforms are "physical or virtual touchpoints designed to provide structural support for exchange and integration of resources" (Breidbach, Brodie, & Hollebeek, 2014, p.594). An engagement platform is characterised above all by its social interactions, many of which are voluntary and provided for free (Buser, Woratschek, & Schönberner, 2022). This means:

- Value is not solely created by the festival but is **co-created by many different organizations and people**.
- **The festival coordinates its networks** (e.g., music industry, managerial interns, volunteers, Sponsorship Association, mentors, senior partners, sponsors, and public authorities).
- **Engagement platforms require a new managerial mindset**. This means understanding that value is always co-created and consequently, acknowledging the necessity to partially hand over control to others, leading to a non-hierarchical structure.

- **People and organizations engage voluntarily by integrating their specific knowledge, skills, and competencies.** This leads to 80 instead of 20 concerts organized by only three instead of six full-time employees.
- **High engagement is driven by the social purpose,** which in this case is the promotion of intercultural relations.

Video:

Please also watch the following SMAB CLIP:

“Value Configurations”

<https://www.youtube.com/watch?v=ZoAyF6t5eno>



“Business Model Innovation of Social Purpose Organizations”

<https://www.youtube.com/watch?v=6FiyBpWqW5E>



To put it in a nutshell:

1. **Financial bottlenecks** of SPOs **can trigger business model innovations.**
2. Good Managers of SPOs search for **a change to the business model.**
3. The winners of crises develop their business model into an **engagement platform by opening attractive networks.**
4. **Organisations** whose primary activities correspond to a value chain **link social actors** and thus offer more opportunities **to overcome financial bottlenecks.**
5. This works even better with activities that correspond to an **engagement platform** because these rely more heavily on the **voluntary commitment** of the actors for the purposes of the SPO.
6. The **manager’s mindset is important for the successful survival of the SPO.**
7. **Therefore, good managers of SPOs**
 - a. **understand that they** cannot alone control **value creation,**
 - b. grant **actors access to the EP,**
 - c. facilitate and enable **their participation in events,**
 - d. give all stakeholders **sufficient freedom to participate in a creative and self-determined manner** within agreed limits.

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