The Role of Sports in Society: Creating Shared Value

Professor Michael E. Porter
Harvard Business School

ICSS Conference
Boston, MA / Doha, Qatar
March 14, 2012
The Role of Business in Society

• Only business can **create prosperity**
• Healthy businesses need a **healthy community**

**BUT**

• There is a **growing awareness** of major societal challenges. Concern with **societal issues** will be a defining characteristic of the post-crisis era
• Companies are increasingly perceived to be prospering **at the expense of the broader community**
• Business increasingly is seen as **a major cause of social, environmental, and economic problems**
• Government and civil society often attempt to address societal issues **at the expense of business**

• Despite growing corporate citizenship activities, the **legitimacy of business** has fallen
The Role of a Company in Its Communities

- Philanthropy

- Donations to worthy social causes
The Role of a Company in Its Communities

- Philanthropy
  - Donations to worthy social causes

- Corporate Social Responsibility (CSR)
  - Good corporate citizenship and compliance with community standards
  - “Sustainability”
The Role of a Company in Its Communities

Philanthropy

- Donations to worthy social causes

Corporate Social Responsibility (CSR)

- Good corporate citizenship and compliance with community standards
- “Sustainability”

Creating Shared Value (CSV)

- Integrating societal improvement into economic value creation itself
The Concept of Shared Value

**Shared Value**: Corporate policies and practices that **enhance the competitiveness** of the company while simultaneously **advancing social and economic conditions** in the communities in which it sells and operates.

- **Shared Value is**:  
  - Creating **economic value** by creating **societal value**  
  - Using **capitalism** to address social problems

- **Shared Value is NOT**:  
  - Sharing the value already created (philanthropy)  
  - Personal values  
  - Balancing stakeholder interests
The Concept of Shared Value

**Shared Value**: Corporate policies and practices that **enhance the competitiveness** of the company while simultaneously **advancing social and economic conditions** in the communities in which it sells and operates.

- **Shared Value is**:
  - Creating **economic value** by creating **societal value**
  - Using **capitalism** to address social problems

- **Shared Value is NOT**:
  - Sharing the value already created (philanthropy)
  - Personal values
  - Balancing stakeholder interests

- **All profit is not equal**. Profit involving shared value enables society to advance and companies to grow faster

- Incorporating societal issues into strategy and operations is **the next major transformation** in management thinking

- Shared value thinking represents the next evolution of **capitalism itself**
Levels of Shared Value

• Reconceiving customer *needs*, *products*, and *markets*

• **Redefining productivity** in the value chain
  – How the organization conducts its business

• Enabling *local cluster development*
SnapTax provides low-income consumers with access to tax preparation services over the phone and enables rapid refunds

- **15 minutes for $15**, electronic filing included
- Data extracted from **mobile phone photos** of W-2s via optical character recognition
- **Debit card** option for direct deposit of refunds for unbanked households
- **Simple IRA option** to enable use of refund for retirement savings
Discovering Product and Market Opportunities to Create Shared Value

• Redefine the business around unsolved customer problems or concerns, not traditional product definitions
  – Or the customer’s customer

• Think in terms of improving lives, not just meeting consumer needs

• Identify customer groups that have been poorly served or overlooked by the industry’s products

• Start with no preconceived constraints about product attributes, channel configuration, or the economic model of the business (e.g., small loans are unprofitable)

• Opens up new opportunities to customer segmentation and marketing
Identifying Opportunities for Shared Value in Food Services

The Value Chain

- Research on nutritional value
- Less or more biodegradable packaging
- Enhancing research partnerships with colleges and universities

- Value adding procurement practices with farmers and other vendors
- Vendor education and training

- Recruiting from disadvantaged communities
- Diversity
- Employee education and job training
- Employee health
- Compensation and benefits that provide sustainable wage for low income workers

- Energy and water use
- Worker safety
- Limiting emissions and waste
- Minimizing use of hazardous materials

- Minimizing logistical impacts

- Inbound Logistics (e.g., Manufacturer Relations, Incoming Material Storage & Quality Control, Data Collection)
- Operations (e.g., Warehouse Management, Order Processing, Inventory Reporting)
- Outbound Logistics (e.g., Loading, Transportation, Delivery)
- Marketing & Sales (e.g., Sales Force, Service Delivery, Customer Profitability Management, Customer Credit Management)
- After-Sales Service (e.g., Online Order Tracking, Customer Support, Complaint Resolution)

- Firm Infrastructure (e.g., Financing, Planning, Investor Relations)
- Human Resource Management (e.g., Recruiting, Training, Compensation System)
- Technology Development (e.g., Service Design, Process Design, Market Research)
- Procurement (e.g., Food Procurement, Fleet, Warehouses, Services)
State of Cluster Development
Tourism Cluster in Cairns, Australia

Public Relations & Market Research Services

Travel Agents

Tour Operators

Local Retail, Health Care, and Other Services

Local Transportation

Souvenirs, Duty Free

Banks, Foreign Exchange

Food Suppliers

Restaurants

Attractions and Activities
e.g., theme parks, casinos, sports

Government Agencies
e.g., Australian Tourism Commission, Great Barrier Reef Authority

Educational Institutions
e.g., James Cook University, Cairns College of TAFE

Industry Groups
e.g., Queensland Tourism Industry Council

Property Services

Hotels

Airlines, Cruise Ships

Local Retail, Health Care, and Other Services

Tour Operators

Travel Agents

Restaurant

Hotels

Attractions and Activities

e.g., theme parks, casinos, sports

Government Agencies

e.g., Australian Tourism Commission, Great Barrier Reef Authority

Sources: HBS student team research (2003) - Peter Tynan, Chai McConnell, Alexandra West, Jean Hayden
Cluster Development in the Company’s Major Locations

• A strong local cluster improves company growth and productivity
  – Local suppliers
  – Supporting institutions and infrastructure
  – Related businesses

• Companies, working collaboratively, can catalyze major improvements in the local cluster and business environment

• Local cluster development strengthens the link between a company’s success and community success

  • Real estate development
  • Supplier development
  • Institutional development
  • Anchor for related businesses
Creating Shared Value
Opportunities for Professional Sports Organizations

• Reconceiving customer needs, products, and markets
  – Wider participation in the sport
  – Fitness, health, wellness, and personal development

• Redefining productivity in the value chain
  – Energy efficiency and waste reduction
  – Workforce development and recruiting
    • Teams and vendors
  – Value-added local procurement

• Enabling local cluster development
  – Spur economic development in the areas surrounding stadiums and other team facilities
  – Create a local supplier base for concessions, souvenirs, etc.
  – Anchor other entertainment and real estate developments
Adding a Social Dimension to Strategy

• Shared value opens up new **needs**, new **markets**, and new **value chain configurations**

• This creates **new strategic positions**, and new opportunities for **extending existing positioning**

• Companies should incorporate a **social dimension** to their value proposition

• Shared value can **reinforce** and even **anchor** a company’s strategy

• The social dimension of strategy can be more **sustainable vs. competitors** than conventional cost and quality advantages
**Shared Value and Strategic Positioning**

**Intrepid Travel**

**Value Proposition**

- Sustainable small-group travel
- Unique real-life experiences involving significant interaction with the local communities
- Cost-conscious, adventurous, socially aware travellers looking for authentic experiences

**Mission**

“Intrepid’s core purpose is to enrich people’s lives by creating unique, interactive travel experiences. We provide fun, affordable and sustainable travel that is profitable for Intrepid and beneficial to local communities.”

**Distinctive Activities**

- Smaller groups allows for frequent use of local public transport, supporting local infrastructure and reducing environmental impact
- Smaller groups allow stays at local hotels and homestay opportunities as well as dining at local restaurants
- Some trips involve community volunteer projects where travellers help build local infrastructure
- Significant training of local tour guides and other local businesses such as hotels to improve quality and efficiency
- Projects such as Kilimanjaro Porters Assistance Project outfits 300+ porters per month with climbing gear and has trained 10,000 porters in first aid, conversational English, money management, and HIV/AIDS awareness since 2004
- Cooperation with Victoria University to study the impact of small group travel on sensitive rural communities

• Successful strategies in the future will embody a significant shared value dimension
The Purpose of the Sports Business

• There is an opportunity to transform thinking and practice about the role of the corporation in society

• Shared value gives rise to far broader approaches to economic value creation

• Shared value thinking will drive the next wave of innovation, productivity growth, and economic growth

• Businesses acting as businesses, not as charitable givers, are arguably the most powerful force for addressing many of the pressing issues facing our society

• A transformation of business practice around shared value will give purpose to the corporation and represents our best chance to legitimize business again