The Role of Business in Social and Economic Development: Creating Shared Value

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The Role of Business in Society

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

• There is an ever **growing awareness** of major societal challenges
• Government and NGO’s **lack sufficient resources and capabilities** to fully meet these challenges
• Business is sometimes seen as prospering **at the expense** of the society
• Despite growing corporate citizenship activities, the **legitimacy of business** has fallen
The Role of a Company in Its Communities
Evolving Approaches

Philanthropy
- Donations to worthy social causes
- Volunteering

Corporate Social Responsibility (CSR)
- Compliance with community standards
- Good corporate citizenship
- “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
  - Solutions to social problems that are *scalable* and *self-sustaining*

- **Shared Value is NOT:**
  - Sharing the value *already created* (philanthropy)
  - Acting based on strong *personal values* and *ethical standards*
  - *Balancing* stakeholder interests
  - The same as *sustainability*
Societal Needs and Economic Value Creation

- **Social** deficits create **economic** cost
- **External** conditions shape **internal** company productivity
- Social needs represent the **largest market opportunities**
Levels of Shared Value

- Reconceiving **products**, **needs**, and **customers**
  - Meeting **societal needs** and reaching **unserved** or **underserved customers**

- **Redefining productivity** in the value chain
  - How the organization **better uses resources** in value chain, including employees, to improve fundamental productivity

- Enabling **local cluster development**
  - Improving available **skills**, **suppliers**, and **supporting institutions** in the region
Creating Shared Value in Products

**Intuit SnapTax**

**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
Creating Shared Value in Products and Markets
Novo Nordisk in China

• **Diabetes training programs for physicians** in partnership with government, NGOs, and opinion leaders to promote the latest thinking on diabetes prevention, screening, treatment, and patient communication
  – The program has trained 55,000 physicians to date, each treating approximately 230 patients

• New types of **diabetes education programs for patients** focusing on prevention, lifestyle changes, and effective use of insulin products

• **Product design** that reflects Chinese patient demographics and culture

• Since 1994, Novo Nordisk market share in China increased from 0% to 63%, and China became the third largest market with revenues of $935 million in 2011

• Company efforts saved 140,000 life years in China by 2010, and $2,317 of total lifetime costs per patient
Redefining Productivity in the Value Chain

- Shared value purchasing
- Energy use
- Resource use

- Location of facilities / supply chain
- Logistical efficiency
- Lower income employee productivity
Identifying Opportunities for Shared Value in Mining

The Value Chain

- Enhancing skill training and technology partnerships with colleges and universities
- Value added purchasing practices with suppliers
- Local supplier development
- Energy and water use
- Limiting emissions and waste
- Biodiversity and low ecological impacts
- Minimizing effects of hazardous materials
- Recovering additional materials from “exhausted” mines
- Worker safety practices
- Recruiting from disadvantaged surrounding communities
- Diversity in workforce
- Employee education and job training
- Onsite housing for miners
- Employee health investments
- Compensation and benefits to support a living wage
- Staff retraining and rehabilitation after mine closures
Cluster Development in the Company’s Major Locations

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

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

• Local cluster development strengthens the link between a company’s success and community success
State of Cluster Development
Kenya’s Cut Flower Cluster

Horticultural Agencies, NGOs & Industry
- Horticultural Crops Development Authority (HCDA)
  Government Export Policies Targeting Horticulture
- Non-Government Organizations
  (e.g., The Rural Enterprise Agri-Business Promotion Project)
- Trade & Industry Associations
  (e.g., Kenya Flower Council)

Education, Research & Quality Standards
- Research Institutions
  (e.g., Kenya Agricultural Research Institute)
- Public Universities with Post Graduate Degrees in Horticulture
  (e.g., University of Nairobi)
- Quality & Standards
  (e.g., EUREGAP Standard, Kenya Plant Health Inspectorate Services)

Agricultural Cluster
- Plantstock
- Greenhouse; Shading Structures
- Irrigation Technology
- Pre-Cooling Technology
- Fertilizers, Pesticides, Herbicides

Horticultural Cluster
- Post-Harvest Cooling Technology
- Grading / Packaging Sheds
- Packaging & Labeling Materials
- Refrigerated Trucks
- Freight Forwarders
- Clearing and Forwarding Agents
- Air Carriers (Commercial / Charters)

Tourism Cluster
- Flower Farming
- Post-Harvest Handling; Transport to Market
- Horticultural Agencies, NGOs & Industry

Sources: MOC student team research by Kusi Hornberger, Nick Ndiritu, Lalo Ponce-Brito, Melesse Tashu, Tijan Watt, Harvard Business School, 2007
Local Cluster Development
Anglo-American

- Anglo American has established Anglo Zimele, a South African enterprise investment fund, for mining-related small and medium-sized businesses in South Africa.

- As of 2010, the fund had invested in 509 businesses, which collectively employed 9,514 people with annual revenues of $215 million.

**Economic value**
- Anglo-American has created reliable, high-quality local suppliers.

- Local suppliers reduce transaction costs and improve service levels and quality.

**Community value**
- 10,000 new jobs created.

- Significant increase in income for SME employees and owners.

- Spillover effects of these new businesses on their communities.
Creating Shared Value: Deciding Where to Concentrate

Nestlé

- Opportunities to create shared value are inevitably tied closely to a company’s particular businesses
Leveraging Shared Value Across Levels
Pharma and Medical Devices

Reconceiving Products and Markets
- R&D for drugs, vaccines, and devices that **fill unmet health needs**
- Modification of **existing products** to reduce complexity and cost
- **Tailored product offerings** to meet local market conditions

Redefining Productivity in Value Chains
- **Efficient, local supply chains** and **manufacturing** to reduce production costs
- **Locally-adapted sales and distribution** to reduce cost, access new markets, and better meet patient needs

Enabling Local Cluster Development
- **Behavior-change campaigns** to create more sophisticated consumer demand for health care
- **Strengthening of health systems** to enable the delivery of needed products and services
- **Advocacy and capacity building** to strengthen the policy and the regulatory environment
## Transforming Strategic Positioning

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<thead>
<tr>
<th>Traditional Positioning</th>
<th>New Positioning</th>
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<tbody>
<tr>
<td>Nestlé • Food</td>
<td>• Nutrition</td>
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<tr>
<td>Nike • Shoes</td>
<td>• Health and Wellness</td>
</tr>
<tr>
<td>IBM • Computing / Technology</td>
<td>• Smarter Planet / Smarter Cities</td>
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<tr>
<td>Thermo Fisher • Leader in Serving Science</td>
<td>• Making the World Healthier, Cleaner, and Safer</td>
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- A **broader sense of purpose** motivates and attracts employees, business partners, shareholders, and the public.
Shared Value and Strategic Positioning
Whole Foods Markets

Value Proposition

- Natural, fresh, organic, and prepared foods and health items with excellent service at premium prices
- Cater to specialized nutritional requirements (gluten allergies, vegan, etc.)
- Educated, middle class, and affluent customers who are passionate about food and 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 meals and meetings
- Each store carries local produce and has the authority to contract with the local farmers. Company provides low-interest loans if needed
- Nutrition information and education provided to shoppers along with products
- High touch in-store customer service via knowledgeable, flexible, and highly motivated personnel
- Flat compensation structure
- Own seafood procurement and processing facilities to control quality, sustainability and price from the boat to the counter
- Heavy emphasis on environmental sustainability in all activities
- Emphasis on supporting community development

- Whole Foods is the most economically successful food retailer in North America
- Successful strategies in the future will embody a significant shared value dimension
Creating Shared Value
Implications for Government and Civil Society

• Government and NGOs often assume that trade-offs between economic and social benefits are inevitable
• Government and NGOs will be most effective if they enable shared value by business

Implications for NGOs
• NGOs bring unique expertise, implementation capacity, and relationships of trust with communities

A New Type of NGO

- TechnoServe Promotes the development of agricultural clusters in more than 30 countries
- Root Capital Provides financing to more than 400,000 farmers and businesses
- Bill & Melinda Gates Foundation Forms partnerships with global corporations to foster agricultural clusters

Implications for Governments
• Governments should make platform investments in public assets and infrastructure to enable shared value by business
• Governments should regulate in a way that reinforces and rewards shared value in business, rather than working against it
New Stakeholder Roles and Relationships

- Shared value thinking is driving **new relationships** between companies, philanthropists, NGOs, and government in addressing social issues

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<td><strong>Companies</strong></td>
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<td>Donate to charitable causes</td>
<td>Initiate and scale shared value strategies</td>
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<tr>
<td><strong>Philanthropists</strong></td>
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<td>Donate to charitable causes</td>
<td>Partner with companies and NGOs to catalyze shared value initiatives</td>
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<tr>
<td><strong>NGOs</strong></td>
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<tr>
<td>Receive grants to provide social services</td>
<td>Enable implementation of new shared value business models</td>
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<tr>
<td><strong>Governments</strong></td>
<td></td>
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<tr>
<td>Regulate business practices; operate social programs</td>
<td>Partner with companies and NGOs to make platform investments and support shared value strategies</td>
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The Purpose of 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 opportunities** for economic value creation

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

• Shared value will reignite a whole new generation of **management** thinking

• 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**