New Opportunities for Company Performance and Purpose: Creating Shared Value

Professor Michael E. Porter
Harvard Business School

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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
- More of the public sees business 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 competitive advantage and profitability 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**
Moving to Shared Value

Novartis

CSR

- **Donate drugs** to lower-income populations
- **Same products**, but free or at a discounted price
- Reach patients through **existing** health systems
- Reduced revenue at the same cost

CSV

- Arogya Parivar: Implementing a new drug distribution channel for low-income populations
- New quantity, packaging, patient education, and distribution
- Improvement in local healthcare delivery infrastructure
- Learning about customer behavior and new business models
- Expanded revenue and profitable business model
Business and Society: Why the Disconnect?

- Many companies (and investors) adopted a **narrow model** of economic value creation
  - Meeting **conventional** needs of **conventional** customers
  - Optimizing within **traditional company boundaries**
  - Profit improvement through **restructuring, outsourcing, and globalizing**
  - Driving revenue through **acquisitions** instead of new business creation
  - Societal issues are treated as **outside the scope of the business**

- **Huge societal needs** go unmet
- **Growth** and **innovation** suffer
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

I: Reconceiving products, needs, and customers
   – Meeting societal needs and reaching unserved or underserved customers

II: Redefining productivity in the value chain
   – How the organization better uses resources across value chain, including employees, to improve fundamental productivity

III: 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

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

• **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

• Market share in China increased from **0% to 63%**, and China became Novo’s 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
Discovering Product and Market Opportunities to Create Shared Value

• Redefine the business around **unsolved customer problems or concerns**, not traditional product definitions

• Think in terms of **improving lives**, not just meeting customer 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** for customer segmentation and marketing
Redefining Productivity in the Value Chain

- Shared value purchasing
- Energy use
- Resource use
- Location of facilities / supply chain
- Logistical efficiency
- Productivity of lower income employees
Value Chain Transformation
Unilever

Project Shakti in India provides microcredit and training to empower underprivileged women to become direct-to-home distributors of Unilever products in Indian villages of less than 2,000 people

- Reconfiguring the value chain
  - Reconceiving distribution

- Partnering with stakeholders
  - Microcredit
  - Training

<table>
<thead>
<tr>
<th>Shakti entrepreneurs</th>
<th>Community</th>
<th>Unilever</th>
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<tbody>
<tr>
<td>Earnings for women</td>
<td>Needed hygiene products</td>
<td>Expanded customer reach</td>
</tr>
<tr>
<td>Business skills training</td>
<td>Economic development</td>
<td>Brand communication</td>
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</table>
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
- 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
- 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
- Minimizing logistical impacts
Cluster and Business Environment 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

**Plantstock**

**Irrigation Technology**

**Pre-Cooling Technology**

**Fertilizers, Pesticides, Herbicides**

**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 & IndustryAssociations
  - (e.g., Kenya Flower Council)

**Post-Harvest Handling; Transport to Market**

**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)

**Post-Harvest Cooling Technology**

**Grading / Packaging Sheds**

**Packaging & Labeling Materials**

**Refrigerated Trucks**

**Freight Forwarders**

**Clearing and Forwarding Agents**

**Air Carriers**

(e.g., Commercial / Charters)

**Tourism Cluster**

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

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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
New Stakeholder Roles and Relationships

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

<table>
<thead>
<tr>
<th>Traditional Roles</th>
<th>New Roles</th>
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<tbody>
<tr>
<td>Companies</td>
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<tr>
<td>• Donate to charitable causes</td>
<td>• Initiate and scale shared value strategies</td>
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<tr>
<td>Philanthropists</td>
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<td>• Donate to charitable causes</td>
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<tr>
<td>NGOs</td>
<td></td>
</tr>
<tr>
<td>• Receive grants to provide social services</td>
<td>• Enable implementation of new shared value business models</td>
</tr>
<tr>
<td>Governments</td>
<td></td>
</tr>
<tr>
<td>• Tax business and 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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Adding a Social Dimension to Strategy

• Shared value opens up new **needs**, new **markets**, new **value chain configurations**, and new **ways of thinking** about the business

• This creates new opportunities for **strategic positioning** and new **competitive advantages**

• Companies can incorporate a **social dimension** in their value proposition

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

• Adding social dimensions makes strategy more **sustainable vs. competitors** than conventional cost and quality advantages
**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**
Transforming Strategic Positioning

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<tr>
<td>Nestlé</td>
<td>• Food</td>
</tr>
<tr>
<td>Nike</td>
<td>• Shoes</td>
</tr>
<tr>
<td>IBM</td>
<td>• Computing / Technology</td>
</tr>
<tr>
<td>Thermo Fisher</td>
<td>• Leader in Serving Science</td>
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</table>

- A **broader sense of purpose** motivates and attracts employees, consumers, business partners, shareholders, and the public.
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