The New Competitive Advantage: 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

- 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 Business in Society
Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering
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Corporate Social Responsibility (CSR)

- Compliance with community standards
- Good corporate citizenship
- “Sustainability”
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Corporate Social Responsibility (CSR)
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- “Sustainability”

Creating Shared Value (CSV)
- Integrating societal improvement into economic value creation itself
  - Driving social improvement with a business model
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
- Lower revenue at the same cost

CSV

- Implementing a new drug business model for low-income populations (Arogya Parivar)
- New quantity, packaging, patient education, and distribution
- Improvement in local healthcare delivery infrastructure
- Learning about non-traditional customer behavior and new business models
- Higher revenue and profitability
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 **narrow company boundaries**
  – Profit improvement through **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
- “**Externalities**” shape **internal** company productivity
- Social needs represent the **largest market opportunities**
Levels of Shared Value

I: Reconceiving **products, needs, and customers**
   – Meeting **societal needs** through products, and reaching **unserved or underserved customers** with these products

II: **Redefining productivity** in the value chain
   – **Using resources better** across the value chain to improve fundamental productivity

III: Enabling **local cluster development**
   – Improving **available skills, suppliers, and supporting institutions** in the communities in which a company operates to increase productivity, innovation, and growth
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

• Novo’s market share in China increased from **0% to 63%**, and China became the company’s third largest market with revenues of $935 million in 2011
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**

<table>
<thead>
<tr>
<th>Firm Infrastructure</th>
<th>(e.g., Financing, Planning, Investor Relations)</th>
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</thead>
<tbody>
<tr>
<td>Human Resource Management</td>
<td>(e.g., Recruiting, Training, Compensation System)</td>
</tr>
<tr>
<td>Technology Development</td>
<td>(e.g., Product Design, Testing, Process Design, Material Research, Market Research)</td>
</tr>
<tr>
<td>Procurement</td>
<td>(e.g., Components, Machinery, Advertising, Services)</td>
</tr>
<tr>
<td>Inbound Logistics</td>
<td>(e.g., Incoming Material Storage, Data Collection, Service, Customer Access)</td>
</tr>
<tr>
<td>Operations</td>
<td>(e.g., Assembly, Component Fabrication, Branch Operations)</td>
</tr>
<tr>
<td>Outbound Logistics</td>
<td>(e.g., Order Processing, Warehousing, Report Preparation)</td>
</tr>
<tr>
<td>Marketing &amp; Sales</td>
<td>(e.g., Sales Force, Promotion, Advertising, Proposal Writing, Web site)</td>
</tr>
<tr>
<td>After-Sales Service</td>
<td>(e.g., Installation, Customer Support, Complaint Resolution, Repair)</td>
</tr>
</tbody>
</table>

- Shared value purchasing
- Energy use
- Resource use
- Location of facilities / supply chain
- Logistical efficiency
- Training to enhance the productivity and wage opportunities of employees, especially lower income employees
Identifying Opportunities for Shared Value in the Value Chain

Mining

- Enhancing skill training and technology partnerships with local colleges and universities
- Value added purchasing practices with suppliers
- Local supplier development

- Energy and water use
- Limiting emissions and waste
- Low ecological and biodiversity impacts
- Minimizing use and effects of hazardous materials
- Recovering additional materials from “exhausted” mines
- Worker safety practices

- Recruiting from disadvantaged surrounding communities
- Diversity in the workforce
- Employee education and job training
- Onsite housing
- Employee health initiatives
- Compensation and benefit models to support a living wage
- Staff retraining and rehabilitation after mine closures

- Minimizing logistical and handling impacts
Improving the Business Environment in the Company’s Major Locations

• A strong local cluster improves *company productivity and growth*
  – Local suppliers and service providers
  – 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
What is a Cluster?
Tourism Cluster in Cairns, Australia

- Public Relations & Market Research Services
- Food Suppliers
- Property Services
- Maintenance Services
- Travel Agents
- Tour Operators
- Hotels
- Attractions and Activities e.g., theme parks, casinos, sports
- Restaurants
- Airlines, Cruise Ships
- Local Retail, Health Care, and Other Services
- Local Transportation
- Souvenirs, Duty Free
- Banks, Foreign Exchange
- 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

Sources: HBS student team research (2003) - Peter Tynan, Chai McConnell, Alexandra West, Jean Hayden
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 costs and can improve service levels and product tailoring

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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<tr>
<td><strong>Philanthropists</strong></td>
<td>• Donate to charitable causes</td>
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<tr>
<td></td>
<td>• Partner with companies and NGOs to catalyze shared value initiatives</td>
</tr>
<tr>
<td><strong>NGOs</strong></td>
<td>• Receive grants to provide social services</td>
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<tr>
<td></td>
<td>• Enable implementation of new shared value business models</td>
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<tr>
<td><strong>Governments</strong></td>
<td>• Tax business and regulate business practices; operate social programs</td>
</tr>
<tr>
<td></td>
<td>• Partner with companies and NGOs to make platform investments and support shared value strategies</td>
</tr>
<tr>
<td><strong>Companies</strong></td>
<td>• Donate to charitable causes or operate ESG programs</td>
</tr>
<tr>
<td></td>
<td>• Partner with NGOs and government to initiate and scale 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 should incorporate a **social dimension** in their value proposition

- Adding social dimensions makes strategy more **sustainable vs. competitors** than conventional cost and quality advantages
Shared Value and Strategy
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
Purpose Based Strategic Positioning

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<tr>
<td>Nestlé • Food</td>
<td>• Nutrition</td>
</tr>
<tr>
<td>Nike • Shoes</td>
<td>• Health and Wellness</td>
</tr>
<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 not only opens up new opportunities for growth and profitability, but also 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 than conventional management thinking.

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

- Shared value will give rise to a 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.