The New Competitive Advantage: Creating Shared Value

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The ideas drawn from “Creating Shared Value” (Harvard Business Review, Jan 2011) and “Competing by Saving Lives” (FSG, 2012). No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Michael E. Porter. For further materials, see the website of the Institute for Strategy and Competitiveness, www.isc.hbs.edu, and FSG website, www.fsg.org.
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

BUT

• More of the public perceives business as prospering **at the expense** of the society
• Despite growing corporate citizenship activities, the **legitimacy of business** has fallen

• We need a **new model**
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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Creating Shared Value (CSV)
- Integrating societal improvement into economic value creation itself
  - Driving social improvement with a business model
The Concept of Shared Value

What Shared Value IS

• Using **capitalism** to address social problems

• Addressing social problems tied **directly** to the business

• Creating solutions that are **scalable** and **self-sustaining**

What Shared Value is **NOT**

• Sharing the value **already created** (philanthropy)

• Acting based on strong **personal values** and **ethical standards**

• **Balancing** stakeholder interests

• Avoiding **harm** and protecting **reputation**
Moving to Shared Value
Fair Trade

Fair Trade
• Paying a higher price to farmers for the same products
• Certification as a fair trade company

Transforming Procurement
• Collaborate with farmers to improve quality and yield
• Supporting investments in technology and inputs
• Higher prices for better quality
• Higher yield increases quantity produced
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 needs, products, and customers
   – Meeting societal needs through products
   – Addressing unserved or underserved customers in your industry

II: Redefining productivity in the value chain
   – Change practices in the value chain to drive productivity by better utilizing resources, employees, and business partners

III: Enabling local cluster development
   – Improving the available skills, suppliers base, and supporting institutions in the communities in which a company operates to boost productivity, innovation, and growth
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
Creating Shared Value in Products and Markets

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

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

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

• 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, marketing, innovation, and growth

• Businesses have the potential to be more effective than governments and NGOs in creating and marketing solutions to community problems
Redefining Productivity in the Value Chain

- Shared value purchasing
- Energy and resource efficiency
- Location of facilities
- Minimizing logistical content

- Strengthening local distribution channels
- Enhancing the productivity of lower income employees and improving their wages
- Improving employee health and safety
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

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

• Building a strong local cluster improves company productivity and growth
  – Local suppliers and service providers
  – Supporting institutions and infrastructure
  – Related businesses

• 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
- 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)
- Travel Agents
- Tour Operators
- Hotels
- Restaurants
- Attractions and Activities (e.g., theme parks, casinos, sports)
- Airlines, Cruise Ships
- Local Retail, Health Care, and Other Services
- Local Transportation
- Souvenirs, Duty Free
- Banks, Foreign Exchange

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.
Coca-Cola Brazil’s Coletivo Program

• Coca Cola Brazil has established **Coca-Cola Coletivo**, a program designed to **increase the employability** of low income youth in Brazilian Favelas

• Through partnerships with local NGOs, Coca-Cola Brazil’s Coletivo initiative trains local youth for eight weeks in **retailing, business development, and entrepreneurship**

• Coca-Cola Coletivo also **pairs youth with a local retailer** to get their first job experience, which, in turn, enables retailers to improve their operations with trainee assistance

**Economic value**

• Through improved retailer operations, Coca-Cola Brazil **increased sales of its products**

• The program also **increased Coca-Cola’s market penetration** among the emerging lower-middle income segment

**Community value**

• Coca-Cola Coletivo graduates gain employment that **raises household income** by 50% on average

• The program operates **160 Coletivos**, training **65,000 youth** per year
Creating Shared Value: Deciding Where to Concentrate

Nestlé

- Opportunities to create shared value are *inevitably tied closely* to a company’s particular businesses.
Creating Shared Value in Banking

• Reconceiving customer needs, products, and markets
  – Serve unbanked and under-banked consumers
  – SME lending and business services
  – Real estate lending with community multipliers
  – Financing affordable housing
  – Other financial instruments that advance environmental and social progress (e.g., Social Impact Bonds)

• Redefining productivity in the value chain
  – Local / value-added procurement
  – Hiring and training
  – Energy and resource efficiency

• Enabling local cluster development
  – Financial literacy education
  – Leveraging facility locations as anchors
  – Skills development programs with universities and community colleges
  – Leadership in regional competitiveness improvement
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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<tr>
<th>Traditional Roles</th>
<th>New Roles</th>
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<tr>
<td><strong>Philanthropists</strong> • 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> • 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> • 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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<tr>
<td><strong>Companies</strong> • Donate to charitable causes or operate ESG programs</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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<td>• Shoes</td>
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<tr>
<td>Thermo Fisher</td>
<td>• Making the World Healthier, Cleaner, and Safer</td>
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<td>• Leader in Serving Science</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

• Our purpose in business is to create shared value for society, not economic value for its own sake

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

• Shared value will give rise to far broader opportunities for economic value creation

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

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