The Role of Business in Society: Creating Shared Value

Professor Michael E. Porter
Harvard Business School

Chevron / ICIC California Partnerships Event
San Francisco, CA
November 20, 2012

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 alone **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
The Role of Business in Society
Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering

Corporate Social Responsibility (CSR)

- Compliance with community standards
- Good corporate citizenship
- “Sustainability”
The Role of Business in Society
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
  − Driving social improvement with a business model
Moving to Shared Value
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
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 the industry

II: Redefining productivity in the value chain
   – Changing practices in the value chain to drive productivity through 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
Dow Chemical Insect Control

The Spinetoram™ Family of insect control products are derived from a biological organism that provides control of a broad spectrum of insect pests in a variety of crops

• Natural degradation through UV light and soil microbes
• Low solubility in water
• Favorable toxological profile
• Carries lowest human hazard label

• Applied in lower quantities than conventional insecticides
• Low impact on beneficial insects
• Double-digit revenue growth since launch in 2010
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

• 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
- Minimizing logistical content

- Strengthening local distribution channels
- Improving employee health and safety
- Enhancing the productivity of lower income employees and improving their wages
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
  – E.g., Supporting institutions and infrastructure
  – Related businesses

• Local cluster development strengthens the link between a company’s success and community success
Strengthening the Local Business Environment
Roles of Business

Improving skills
- Create or expand an apprentice program
- Create or expand a training program
- Partner with a community college, technical school, or university

Collaborating on regional business environment improvement
- Participate in a regional competitiveness initiative in your region

Upgrading supporting industries
- Identify and increase sourcing from capable local suppliers
- Mentor local suppliers to upgrade their capabilities

Bolstering regional cluster development
- Participate in a cluster competitiveness initiative in your field

Supporting innovation and entrepreneurship
- Participate in research collaboratives in company’s field
- Invest in or incubate promising startups related to company’s business

Locating in the U.S.
- Move activities back to the U.S. that can be productive here

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 Professional Sports

I: Reconceiving customer **needs, products, and markets**
   – Catalyzing wider participation in the sport
   – Fitness, health, wellness, and personal development

II: **Redefining productivity** in the value chain
   – Recruiting and workforce development
     • By the teams, stadiums, and vendors
   – Value-added local procurement
   – Energy efficiency and waste reduction

III: Enabling **local cluster development**
   – Spur economic development in the **areas surrounding stadiums and other team facilities**
   – Create a **local supplier base** for concessions, souvenirs, services, etc.
   – **Anchor** other entertainment and real estate developments
Creating Shared Value in Banking

I: Reconceiving customer needs, products, and markets
   - Serve unbanked and under-banked consumers
   - SME lending and business services
   - Real estate lending with community multiplier effects
   - Financing affordable housing
   - Financial instruments that advance environmental and social progress (e.g., loans repaid with energy savings)

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

III: Enabling local cluster development
   - Financial literacy education
   - Leveraging facility locations as anchors
   - Skills development programs for employees and prospective employees 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

<table>
<thead>
<tr>
<th>Traditional Roles</th>
<th>New Roles</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Philanthropists</strong></td>
<td>• Partner with companies and NGOs to catalyze shared value initiatives</td>
</tr>
<tr>
<td>• Donate to charitable causes</td>
<td></td>
</tr>
<tr>
<td><strong>NGOs</strong></td>
<td>• Enable implementation of new shared value business models</td>
</tr>
<tr>
<td>• Receive grants to provide social services</td>
<td></td>
</tr>
<tr>
<td><strong>Governments</strong></td>
<td>• Partner with companies and NGOs to make platform investments and support shared value strategies</td>
</tr>
<tr>
<td>• Tax business and regulate business practices; operate social programs</td>
<td></td>
</tr>
<tr>
<td><strong>Companies</strong></td>
<td>• Partner with NGOs and government to initiate and scale shared value strategies</td>
</tr>
<tr>
<td>• Donate to charitable causes or operate ESG programs</td>
<td></td>
</tr>
</tbody>
</table>
**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

<table>
<thead>
<tr>
<th>Traditional Positioning</th>
<th>New Positioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nestlé</td>
<td>Nestlé</td>
</tr>
<tr>
<td>• Food</td>
<td>• Nutrition</td>
</tr>
<tr>
<td>Nike</td>
<td>Nike</td>
</tr>
<tr>
<td>• Shoes</td>
<td>• Health and Wellness</td>
</tr>
<tr>
<td>Thermo Fisher</td>
<td>Thermo Fisher</td>
</tr>
<tr>
<td>• Leader in Serving</td>
<td>• Making the World Healthier, Cleaner, and Safer</td>
</tr>
</tbody>
</table>

- 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**

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