The New Competitive Advantage: Creating Shared Value

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CSV Forum:
Practical Wisdom for Creating Innovation
Tokyo, Japan
December 4, 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

- Donations to worthy social causes
- Volunteering

- 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
The Concept of Shared Value

**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**

**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**
Moving to Shared Value in Pharmaceuticals

Novartis

- **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

- 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
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, supplier 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 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
- 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

Local Cluster Development
Coca-Cola Brazil

• 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

Source: FSG
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

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**
   - **Skill development** programs in partnership with universities, technical schools or community colleges
     to improve the pipeline of prospective employees in shortage areas
   - 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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<thead>
<tr>
<th>Traditional Roles</th>
<th>New Roles</th>
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<tbody>
<tr>
<td><strong>Philanthropists</strong></td>
<td>Donate to charitable causes</td>
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<td><strong>NGOs</strong></td>
<td>Receive grants to provide social services</td>
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<td><strong>Governments</strong></td>
<td>Tax business and regulate business practices; operate social programs</td>
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<tr>
<td><strong>Companies</strong></td>
<td>Donate to charitable causes or operate ESG programs</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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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.