New Opportunities for Company Performance and Purpose: Creating Shared Value

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Shared Value Executive Education for Becton Dickinson & Company
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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 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”
Philanthropy

- Donations to worthy social causes
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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
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 in Pharmaceuticals

CSR

- Donate drugs to lower-income populations
- Same products, but free or at a discounted price
- Reach patients through existing health systems

 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

- Lower revenue at the same cost
- 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 needs, products, and customers
   – Meeting societal needs through products
   – Addressing unserved or underserved customers

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
I. Reconceiving Products and Markets

• Design products and services to **address societal needs**
  – E.g., environmental impact, safety, health, education, nutrition, living with disability, housing, financial security

• Open **new markets** by serving unmet needs in underserved communities
  – Often requires **redesigned products** or different **distribution methods**

• Businesses have the potential to be more effective than governments and NGOs in **creating** and **marketing** solutions to community problems

• New needs and new markets open up opportunities to **differentiate, innovate**, and **grow**

• A new generation of **social entrepreneurs** is capturing these opportunities, often faster than mainstream businesses
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
Becton Dickinson Health Worker Safety

Becton Dickinson pioneered the global effort to protect health workers from needle stick injuries, which could spread HIV/AIDS, hepatitis B and C

- Redesigned syringes to prevent accidental sharps injuries
- Invested ~$1 billion in product design and manufacturing capacity

- Achieved substantial reduction in injuries to health workers
- Largest source of BD growth over past 30 years
- Annual revenues of ~$2 billion, representing 25% of total company revenues
Unlocking 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)
II. Redefining Productivity in the Value Chain

<table>
<thead>
<tr>
<th>Firm Infrastructure</th>
<th>Human Resource Management</th>
<th>Technology Development</th>
<th>Procurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>(e.g., Financing, Planning, Investor Relations)</td>
<td>(e.g., Recruiting, Training, Compensation System)</td>
<td>(e.g., Product Design, Testing, Process Design, Material Research, Market Research)</td>
<td>(e.g., Components, Machinery, Advertising, Services)</td>
</tr>
</tbody>
</table>

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<tr>
<th>Inbound Logistics</th>
<th>Operations</th>
<th>Outbound Logistics</th>
<th>Marketing &amp; Sales</th>
<th>After-Sales Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>(e.g., Incoming Material Storage, Data Collection, Service, Customer Access)</td>
<td>(e.g., Assembly, Component Fabrication, Branch Operations)</td>
<td>(e.g., Order Processing, Warehousing, Report Preparation)</td>
<td>(e.g., Sales Force, Promotion, Advertising, Proposal Writing, Website)</td>
<td>(e.g., Installation, Customer Support, Complaint Resolution, Repair)</td>
</tr>
</tbody>
</table>

- 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
Redefining Productivity in the Value Chain
Grupo Bimbo, Leading Mexican Baking Company

- Enhancing knowledge and expecting adherence to high environmental standards among suppliers of wood, palm tree oil and other raw materials

- Recruiting from local communities
- Diversity in the workforce
- Employee health initiatives in line with company focus on nutrition

- Reducing electrical power consumption in company facilities by using more efficient lighting technologies
- Reducing heat consumption by improving insulation of radiant surfaces used as part of cookie ovens, irons, and fryers
- Water savings during the preparation process

- Optimization of the distribution network to reduce distance traveled by each truck
- Redesign of company fleet to achieve greater fuel efficiency and maximize use of shipping capacity
- Addition of hybrid and electric technology vehicles to the fleet
III. Improving the Business Environment in the Company’s Major Locations

• Companies, working individually and collaboratively, can catalyze major improvements in the local business environment in the regions in which they have major operations.

• 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.
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

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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, the Brazil initiative trains local youth for eight weeks in retailing, business development, and entrepreneurship

• Coca-Cola Coletivo 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 has 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 in Brazil, training 65,000 youth per year

Source: FSG
Leveraging Shared Value Across Levels
Pharmaceuticals and Medical Devices

- **Reconceiving Products and Markets**
  - R&D for drugs, vaccines, and devices that **fill unmet health needs**
  - Modification of **existing products** to reduce complexity and cost
  - **Tailored product offerings** to meet local market conditions

- **Redefining Productivity in Value Chains**
  - Efficient, local supply chains and **manufacturing** to reduce production costs
  - **Locally-adapted sales and distribution** to reduce cost, access new markets, and better meet patient needs

- **Enabling Local Cluster Development**
  - **Behavior-change campaigns** to create more sophisticated consumer demand for health care
  - **Strengthening of health systems** to enable the delivery of needed products and services
  - **Advocacy and capacity building** to strengthen the policy and the regulatory environment
Leveraging Shared Value Across Levels
Efforts in the Pharmaceuticals Industry are Mutually Reinforcing

**Reconceived Products and Markets**
- Meet underserved patient needs
- Improve affordability
- Tailor to local conditions

**Redefining Productivity in Value Chains**
- Improve reliability
- Reduce costs
- Leverage local expertise

**Strong Local Health Clusters**
- Enable delivery of products and services to new populations
- Improve the ability to pay
- Promote health-seeking behavior

- Leading firms are beginning to design **multi-level approaches** to harness this **multiplier effect**
Mutual Reinforcement Across Levels
Becton Dickinson Health Worker Safety

Reconceiving Products and Markets

- Redesigned syringes to prevent accidental sharps injuries
- Invested ~$1 billion in product design and manufacturing capacity

Enabling Local Cluster Development

- Engaged with leading experts and advocates
- Funded training of health workers in hospitals and clinics
- Developed a surveillance system to monitor accidents of needle pricks in the U.S.
- Advocated to policy changes to require safe devices
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>
</tr>
<tr>
<td><strong>NGOs</strong></td>
<td>• Receive grants to provide social services</td>
</tr>
<tr>
<td><strong>Governments</strong></td>
<td>• Tax business and regulate business practices; operate social programs</td>
</tr>
<tr>
<td><strong>Companies</strong></td>
<td>• Donate to charitable causes or operate ESG programs</td>
</tr>
</tbody>
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Measuring Shared Value

• Measure the **direct link** between social impact and economic impact
  – Line of sight

• Measures **unique** to the type of shared value being created

• **Intentional** and **focused**

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**Shared Value Measurement in Action**

• **Intel** measured the impact of its technology on student performance in its **Education Transformation Strategy**

• The company achieved **market leadership** in the growing global market for mobile computing for K-12 education
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**
A broader sense of purpose not only opens up new opportunities for growth and profitability, but also motivates and attracts employees, customers, 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**