Creating Shared Value as Business Strategy

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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.
Shared Value Continues to Gain Global Momentum

- In the last 2 years, we have been involved in shared value projects, events, and workshops in 44 countries
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 issues and challenges into economic value creation
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
   – Using resources, suppliers, logistics, and employees more productively

III: Improving the local business environment
   – Improving the skills, supplier base, regulatory environment, and supporting institutions in the communities in which a company operates
Measuring Shared Value

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

- Measures are **unique** to the type of shared value being created

- The shared value is **intentional** and **focused**

- Some stakeholders still believe economic success is **inconsistent** with social benefit
Adding a Social Dimension to Strategy by Creating Shared Value

• 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 freshly prepared foods and health items with excellent service at premium prices
• Cater to specialized nutritional requirements (gluten allergies, vegan, etc.)
• Educated 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
### From Product to Purpose

<table>
<thead>
<tr>
<th>Traditional Positioning</th>
<th>New Positioning</th>
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<tbody>
<tr>
<td><strong>Nestlé</strong></td>
<td>• Food and Beverage Company</td>
</tr>
<tr>
<td><strong>Nike</strong></td>
<td>• Footwear Company</td>
</tr>
<tr>
<td><strong>Thermo Fisher</strong></td>
<td>• Scientific and Laboratory Instruments Company</td>
</tr>
</tbody>
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- A **broader sense of social purpose** opens up **new opportunities** for growth and profitability, while **motivating** and **attracting** employees, consumers, business partners, shareholders, and the public.
New Stakeholder Roles and Relationships

- The focus on social impact **unites the goals** of companies, NGOs, and government
- Shared value fosters **new relationships** between companies, philanthropists, NGOs, and government in addressing social issues

<table>
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<tr>
<td><strong>Philanthropists</strong></td>
<td>• Donate to charitable causes</td>
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<tr>
<td><strong>NGOs</strong></td>
<td>• Receive grants to deliver social services</td>
</tr>
<tr>
<td><strong>Governments</strong></td>
<td>• Tax and regulate business; operate social programs</td>
</tr>
<tr>
<td><strong>Companies</strong></td>
<td>• Donate to charitable causes or ESG programs</td>
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The Role of Investors in Creating Shared Value

Maximize Shareholder Value

- The fiduciary duty of investors is to focus on economic return

Socially Responsible Investing (SRI)

- Desire to invest in “good” companies
- Good social and environmental performance signals good management and mitigates risk
- Introduces a negative screen into investment analysis

Impact Investing

- Business can have both economic and social purpose
- Invest in entities that generate social returns along with economic returns

Shared Value Investing

- Opportunity to drive economic value through social impact
- All companies can create shared value
- Shared value expands the opportunity set
- A natural extension of traditional investment analysis
Creating Shared Value: Moving to Action

• Become a champion for shared value at your organization

• Join the community of practice on sharedvalue.org

• Share your successes and challenges through the Shared Value Initiative

• Contribute to shared value research

• Serve as an ambassador to advance the global shared value momentum