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.
Linking Strategy to Society

• There is an ever **growing awareness** of major societal challenges

• Business is facing **growing scrutiny** as the cause or a contributor to many of these problems

• Corporate social responsibility efforts are greater than ever, but the **legitimacy of business has fallen**

• Government and NGO’s alone **lack sufficient resources and capabilities** to fully meet social challenges

We need a **new model**
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”
- Mitigate risk and harm
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”
  - Mitigate risk and harm

- Creating Shared Value (CSV)
  - Integrating social needs and challenges into economic value creation itself
What is Shared Value?

Creating Shared Value:
Addressing a **social issue** with a **business model**
What is Shared Value?

Creating Shared Value:
Social value + Economic value
CSR versus 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
What Shared Value is NOT

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

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

• **Balancing** stakeholder interests

• Avoiding **harm** or **risk**

• Protecting **reputation**
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, energy 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
Creating Shared Value in Products
Becton Dickinson Health Worker Safety

• A pressing need to protect health workers from needle stick injuries that spread HIV and other infections

• BD engineered syringes to prevent accidental sticks

• Achieved substantial reduction in health worker injuries

• $2 billion in revenues in 2012, representing 25% of the company’s revenues

• Largest source of company growth in the past two decades
Creating Shared Value in Products
Regions Bank

• Regions product suite, called Regions Now Banking, is designed to meet the needs of unbanked and under-banked customers
  – An estimated 25% of all consumers

• Now Banking is a line of user-friendly banking solutions targeted at unbanked and under-banked customers:
  – Lower cost check cashing
  – Regions Now card, a pre-paid debit card
  – Money transfers and expedited bill pay services
  – Includes web-based financial education

• Now Banking provides customers with reasonable fees, security, and a path to a fuller banking relationship

• Now Banking services are profitable and grow demand for Regions’ more traditional banking products and services

Source: Regions Bank company information, June 2012.
Discovering the Shared Value in Products

• Rethink 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

• 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)
Redefining Productivity in the Value Chain

- Purchasing that **enhances supplier capabilities** and **efficiency**
- Improving **energy** and **resource efficiency**
- Minimizing **logistical intensity**
- Improving employee **health** and **safety**

- Enhancing the productivity and wages of **lower income** employees
- Recruiting that represents the **diversity of customers** and the **communities** where a company operates
Shared Value in the Value Chain
Intercontinental Hotels Group

- **Energy** represents the *second highest cost* in a hotel, with water and waste also significant

- IHG introduced the **GreenEngage program** in 2009 to address its environmental footprint as an efficiency improvement opportunity
  - A wide array of options for improvement and tools for franchisees to assess return

- More than 1,900 IHG hotels are using the Green Engage **online tool** to enhance performance

- IHG hotels have achieved **energy savings of up to 25%** so far

- The effort has **improved engagement** with consumers and corporate clients
Shared Value in the Value Chain
Fibria Brazil

- Fibria, a large manufacturer of pulp for paper, utilizes planted eucalyptus trees rather than native and old growth forests
- The company also encourages small-scale producers near its mills to plant eucalyptus, in conjunction with other crops, assisting them with technical training and inputs
  - 4000 households have significantly increased their income
- Fibria achieves far greater efficiency versus old growth forest production, with eucalyptus yielding 30 times higher yield per acre of wood pulp
- Small scale producers contribute 27% of the raw material volume utilized in Fibria mills, improving efficiency
Improving the Local Business Environment  
Cisco Networking Academy

• Cisco established the **Networking Academy** to train network operators

• The company has trained **4 million** young people from all backgrounds in **165 countries** in ICT skills

• 70% of graduates have attained a **new job** or a **better job**

• The program **strengthens relationships** with key suppliers, local businesses and government

• The Networking Academy has alleviated a **key workforce constraint** for Cisco customers and the company, increasing industry growth
Improving the Business Environment: Cluster Development

What is a Cluster?

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
Improving the Business Environment: Upgrading Channels

**Arca Continental**

- Arca Continental is the *second largest bottling company* in Latin America, and *one of the largest Coca-Cola bottlers* in the world

- Arca Continental established a program to train and invest in the *micro-entrepreneur retailers* who sell more than 60% of the Company’s products, including *management, sales and marketing* and *merchandising*

- Invests in *low energy use coolers* and *fixture improvements*

- Participating retailers register *sales increases of 25%* or more, with improved customer satisfaction, leading to similar *increases in the sales of Arca’s products*

- Arca Continental *recovers its investment* in 6 months or less

- Beginning in *Mexico*, the program is being extended to *Argentina* and *Ecuador*
Creating Shared Value in Banking: Examples

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

II: Redefining productivity in the value chain
   - Local 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
Creating Shared Value: Deciding Where to Concentrate

Nestlé

- Opportunities to create shared value are inevitably tied closely to a company’s particular businesses
Putting Shared Value Into Practice

Dow Chemical

• Legacy of **innovation to solve problems** ("solutionism")
• Recognition that global social issues represent **huge market opportunities**
• Dow created the **“Breakthroughs to World Challenges”** Program
  – Each business unit is challenged to apply "solutionism" to a **range of global problems** inspired by the MDGs

• Dow developed **Omega-9 canola and sunflower seeds** that produce cooking oil with no trans fats and low saturated fats
• The technology yields **twice** the oil per hectare for farmers than soybeans
• The oils have **longer** shelf life and usage life for food processors

• One of Dow’s biggest selling product lines with total **revenues of approximately $700 million**
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
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>
<thead>
<tr>
<th>Traditional Roles</th>
<th>New Roles</th>
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<tbody>
<tr>
<td>Philanthropists</td>
<td>• Donate to charitable causes</td>
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<tr>
<td>NGOs</td>
<td>• Receive grants to deliver social services</td>
</tr>
<tr>
<td>Governments</td>
<td>• Tax and regulate business; operate social programs</td>
</tr>
<tr>
<td>Companies</td>
<td>• Donate to charitable causes or ESG programs</td>
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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.)
- Serve 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
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
# From Product to Purpose

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<tr>
<td>Food and Beverage Company</td>
<td>Nutrition Company</td>
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<tr>
<td>Nike</td>
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<tr>
<td>Footwear Company</td>
<td>Health and Fitness Company</td>
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<tr>
<td>Thermo Fisher</td>
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</tr>
<tr>
<td>Scientific and Laboratory Instruments Company</td>
<td>Making the World Healthier, Cleaner, and Safer</td>
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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.
Redefining Corporate Purpose

Danone

- Danone realized that it had drifted away from its origins as a manufacturer of **healthy foods**
- Sold off its beer, meat and cheese units
- Refocused the company on **dairy** and **water**
- Acquired **medical nutrition** and **baby foods** businesses
- Created **Innovation Committees** in business units to provide “healthy food for as many people as possible”

**Vision**

*The ‘dual economic and social’ project, creating economic value by creating social value*

**Mission**

*Bringing health through food to as many people as possible by refocusing on four complementary business lines and expanding into fast-growing new regions*
Creating Shared Value

Questions for the CEO

• Has the company’s community and social engagement model moved beyond CSR and philanthropy?

• What are the societal problems related to the business?
  – At all three levels of shared value

• Is the shared value concept and opportunity broadly understood in the organization?

• Is there a program in place to identify and incubate shared value initiatives in each business unit?

• Is shared value being measured?

• Has shared value been embedded in corporate purpose and mission?
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