The Business Imperative for Shared Value

Professor Michael E. Porter
Harvard Business School

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The Role of Business in 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
The Role of Business in Society
Evolving Approaches

- Donations to worthy social causes
- Volunteering
Philanthropy

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- Volunteering

Corporate Social Responsibility (CSR)

- Compliance with community standards
- Good corporate citizenship
- “Sustainability”
- Mitigate risk and harm

The Role of Business in Society
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Evolving Approaches

- Philanthropy
  - Donations to worthy social causes
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- 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:

Addressing a social issue with a business model

Social value + Economic value
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**
Moving to Shared Value in Pharmaceuticals
Novartis in Rural India

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**

- **Zero sum** competition
- **Growth** and **innovation** suffer
Social Needs and Economic Value Creation

- Social deficits create **economic** costs
- "Externalities" affect **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
    – 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
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

**Jain Irrigation Systems**

- **Drip irrigation equipment** for small farmers in Africa and India
- Serves **4 million farmers** worldwide as of 2012

- Reduces **water use** by over 40%
- Enables **higher crop yields** that improve food security while raising farmers’ income
- Jain has built a **$820 million** business that is rapidly growing
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
Unlocking Shared Value in Products and Markets

• 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 differentiation* 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 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
  – E.g., supplier availability, supporting institutions, infrastructure, and regulating framework

• Building a **strong local cluster** improves company productivity and growth while raising regional competitiveness
  – This **strengthens the link** between a company’s success and community success
Improving the Business Environment: Cluster Development

What is a Cluster?

- Travel Agents
- Tour Operators
- Hotels
- Restaurants
- Attractions and Activities e.g., theme parks, casinos, sports
- Airlines, Cruise Ships
- Local Retail, Health Care, and Other Services
- Local Transportation
- Souvenirs, Duty Free
- Banks, Foreign Exchange
- Public Relations & Market Research Services
- Food Suppliers
- Property Services
- Maintenance Services
- 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 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: 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
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 Chain
• 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 local health systems to enable the delivery of needed products and services
• Advocacy and capacity building to improve the regulatory environment

• Leading firms are beginning to design multi-level approaches to harness this multiplier effect
Novartis Arogya Parivar Initiative
Rural India

**Reconceiving Products and Markets**
- Portfolio of the **appropriate and affordable medicines** from its originals, generics, and over-the-counter (OTC) businesses
- Adapted packs of some OTC medicines (appeal and size) to address limited consumers’ ability to spend out-of-pocket on healthcare

**Redefining Productivity in Value Chain**
- **Local sales teams** that know the culture and speak the dialect, which provided access to crucial market intelligence and reduced mistrust
- Dense network of local distributors to reduce stock-outs

**Enabling Local Cluster Development**
- Community health education program to address lack of health-seeking behavior
- **Frequent health camps** with physicians brought into rural areas
- Microfinance partners to improve healthcare infrastructure and access to working capital
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
Putting Shared Value Into Practice

Dow Chemical

• Dow has a legacy of **innovation to solve problems** ("solutionism")
• The Company recognized that global social issues represent **huge market opportunities**
• It 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

**Example**

• 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 being created is **intentional** and **focused**

• Some stakeholders still believe economic success is **inconsistent** with social benefit
Partnering for Shared Value

**NGOs**
- Hold business accountable
- Seek donations
- Partner with business to **implement** and **scale** shared value solutions

**Government**
- Regulate how businesses operate
- Operate social programs
- Regulate to **encourage** market solutions
- **Partner** to deliver shared value solutions to social services
- **Jumpstart market solutions** through purchase commitments or subsidies
- Invest in **infrastructure** to enable shared value approaches (e.g. roads, skills)

**Foundations**
- Donate to charitable causes
- Invest **with** companies, NGOs and government to enable shared value solutions

**Competitors**
- Donate to charitable causes
- “Brand” social initiatives
- **Partner** on business environment improvements
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 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**
# From Product to Purpose

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<thead>
<tr>
<th>Traditional Positioning</th>
<th>New Positioning</th>
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<tr>
<td><strong>Nestlé</strong></td>
<td>• Food and Beverage Company</td>
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<td>• Nutrition Company</td>
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<td><strong>Nike</strong></td>
<td>• Footwear Company</td>
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<td>• Health and Fitness Company</td>
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<tr>
<td><strong>Thermo Fisher</strong></td>
<td>• Scientific and Laboratory Instruments Company</td>
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<td></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”

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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
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**
Some Roles of Government in Creating Shared Value

• **Spur innovation** through regulatory design and co-investment in research and development

• **Jumpstart markets** by committing to purchase or subsidize a minimum volume of products

• Create **supporting infrastructure** (e.g., roads, training, property rights)

• **Provide bridge capital** by financing the private sector and NGOs to develop shared value solutions