Defining Corporate Purpose: Creating Shared Value

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The Role of Business in Society

• Only business can **create wealth** and **prosperity**

• Business is facing **growing scrutiny** as the cause or a contributor to many of today’s societal challenges

• 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 approach**
The Role of Business in Society
Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering
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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
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**Corporate Social Responsibility (CSR)**
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**Creating Shared Value (CSV)**
- Address societal needs and challenges with a business model

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**Corporate Social Responsibility (CSR)**
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
• **Social** deficits and **environmental** impact create **economic** costs for companies
• **Community** weaknesses affect company productivity
• Social needs represent the **largest market opportunities**
Levels of Shared Value

I. Reconceiving needs, products, and customers
   - Meeting societal needs through products
   - Serving unserved or underserved customers

II. Redefining productivity in the value chain
    - Utilizing resources, energy, suppliers, logistics, and employees differently

III. Improving the local business environment
    - Improving workforce skills, the supplier base, the regulatory environment, and supporting institutions in the communities and regions in which a company operates
    - Strengthening the cluster in which the company operates while improving company productivity

• Strengthening the link between company success and community success
Creating Shared Value in Products and Markets

Becton Dickinson Health Worker Safety

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

• BD redesigned syringes to prevent accidental sticks

• Substantial reduction in health worker injuries

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

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

- Introduced the **Regions Now Banking** product suite designed to meet the needs of unbanked and under-banked customers
  - An estimated **25% of all consumers**

- Low cost, user-friendly solutions including:
  - Low cost check cashing
  - Money transfers and expedited bill pay services
  - The Regions Now card, a pre-paid debit card
  - Embedded web-based financial education

- Customers pay **lower fees**, with better personal and financial **security**, and get on a **path** to a fuller banking relationship

- Now Banking services are **profitable** and **growing**, while **expanding demand** for Regions’ more traditional banking products and services
## Shared Value in the Value Chain

<table>
<thead>
<tr>
<th>Firm Infrastructure (e.g., Financing, Planning, Investor Relations)</th>
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<tbody>
<tr>
<td><strong>Human Resource Management</strong> (e.g., Recruiting, Training, Compensation System)</td>
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<tr>
<td><strong>Technology Development</strong> (e.g., Product Design, Testing, Process Design, Material Research, Market Research)</td>
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<tr>
<td><strong>Procurement</strong> (e.g., Components, Machinery, Advertising, Services)</td>
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<tr>
<td><strong>Inbound Logistics</strong> (e.g., Incoming Material Storage, Data Collection, Service, Customer Access)</td>
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<tr>
<td><strong>Operations</strong> (e.g., Assembly, Component Fabrication, Branch Operations)</td>
</tr>
<tr>
<td><strong>Outbound Logistics</strong> (e.g., Order Processing, Warehousing, Report Preparation)</td>
</tr>
<tr>
<td><strong>Marketing &amp; Sales</strong> (e.g., Sales Force, Promotion, Advertising, Proposal Writing, Website)</td>
</tr>
<tr>
<td><strong>After-Sales Service</strong> (e.g., Installation, Customer Support, Complaint Resolution, Repair)</td>
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</tbody>
</table>

- Procurement that enhances **supplier capabilities** and **efficiency**
- Improving **energy, water** and **resource efficiency** across the value chain
- 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
- Others
Redefining Productivity in the Value Chain
Intercontinental Hotels Group

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

• IHG introduced the **GreenEngage program** in 2009 to address its environmental footprint as an efficiency improvement opportunity
  – The program led to a *wide array of options* for improvement, and tools for franchisees to assess the ROI in each area

• More than 1,900 IHG hotels are using the Green Engage **tools** to enhance environmental and economic performance. IHG is tracking results

  ![Image](image.png)

• IHG hotels have achieved energy savings of **up to 25%** to date

• **Differentiates** IHG hotels with consumers and corporate clients
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** at their existing employer

- The program strengthens Cisco’s **relationships** with suppliers, customers and government

- The Networking Academy has alleviated a **key workforce constraint** for not only the company but for Cisco customers, increasing industry growth
Connecting the Dots

• **Platform investments** to enable shared value approaches:
  - Educate
  - Invest in enabling assets
  - Incubate
  - Accelerate

• **Engaging stakeholders** to collaborate on societal problems

• **Address societal needs and challenges with a business model**

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**Strategic Philanthropy**

**Strategic Corporate Social Responsibility (CSR)**

**Creating Shared Value (CSV)**
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")
- It recognized that global social issues represent **huge market opportunities**
- 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**
Shared Value and Company 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***
## Purpose Based Strategic Positioning

<table>
<thead>
<tr>
<th>Traditional Positioning</th>
<th>New Positioning</th>
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<tbody>
<tr>
<td>Nestlé</td>
<td>• Food and Beverage Company</td>
</tr>
<tr>
<td>Nike</td>
<td>• Footwear and Apparel Company</td>
</tr>
<tr>
<td>Thermo Fisher</td>
<td>• Scientific and Laboratory Instruments Company</td>
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- A **clear social purpose** opens up new opportunities for growth and profitability, while motivating and attracting consumers, business partners, employees, shareholders, and the public.
Redefining Corporate Purpose
Danone

- In the late 1990’s, 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**