The New Competitive Advantage: Creating Shared Value

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The Role of Business in Society

• Only business can **create economic prosperity**

• Societies are facing significant **social and environmental** challenges

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

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

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

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We need a **new approach**
The Role of Business in Society

Evolving Approaches

- 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
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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
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

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

Jain Irrigation Systems

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

![Arrow]

• Reduces **water use** by over 40%
• Enables **higher crop yields** that improve food security while raising farmers’ income
• Jain is now a **$820 million** company that is rapidly growing
Creating Shared Value in Products and Markets

Novo Nordisk in China

• **Product design** that reflects Chinese patient demographics and culture

• **Diabetes training programs for physicians** in partnership with government, NGOs, and opinion leaders to promote the latest thinking on diabetes prevention, screening and treatment
  – The program has **trained 55,000 physicians** to date

• New types of **diabetes education programs for patients** focusing on prevention, lifestyle changes, and effective use of insulin products

• Novo’s market share in China increased from **0% to 63%**, and China has become the company’s third largest market with revenues of $935 million in 2011
Shared Value in the Value Chain

- 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
Shared Value in the Value Chain
Fibria, Brazil

• Fibria, the world’s leading manufacturer of chemical pulp, utilizes planted eucalyptus trees rather than harvesting native and old growth forests, and cultivation methods that incorporate partial native habitat on Fibria land.

• 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.

• Fibria achieves far greater land and water efficiency versus old growth forest production and traditional plantation methods.

• Small scale producers currently contribute 27% of the raw materials utilized in Fibria mills, improving efficiency.

• 4000 households have significantly increased their income.
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

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

• **Differentiates** IHG hotels with consumers and corporate clients
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
Skill and Supplier Development  
**Rio Tinto, Canada**

Rio Tinto’s Diavik Diamond mine has helped create a variety of *community based training partnerships* with communities, contractors, governments and educational institutions in remote Northern Canada.

- **Education:** Promotes careers in diamond mining. Offers apprenticeships that employ and train students.

- **Worker training:** Partners with communities, colleges and government to train workers in mining related activities.

- **Supplier development:** Sources local inputs and capacity building for local providers of goods and services.

- Rio Tinto hires *62% of its employees locally*.

- The company sources *71% of goods and services locally*. 
### Integrating Strategy Across Levels

#### Novartis in Rural India

<table>
<thead>
<tr>
<th>Reconceiving Products and Markets</th>
<th>Redefining Productivity in Value Chain</th>
<th>Enabling Local Cluster Development</th>
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<tbody>
<tr>
<td>• Portfolio of the <strong>appropriate and affordable medicines</strong> drawn from the company’s patented, generics, and over-the-counter (OTC) businesses</td>
<td>• Localized sales teams that know the culture and speak the dialect, understand needs and reduce mistrust</td>
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<td></td>
<td>• A dense <strong>network of local distributors</strong> to reduce stock-outs</td>
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<tr>
<td>• Packaging of OTC medicines to reflect consumers’ limited spending power</td>
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<td>• <strong>Community health education</strong> programs to address lack of health-seeking behavior</td>
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<td>• <strong>Frequent health camps</strong> for physicians in rural areas</td>
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<td>• <strong>Microfinance partners</strong> to improve healthcare delivery infrastructure and access to working capital</td>
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- Microfinance partners to improve healthcare delivery infrastructure and access to working capital
Connecting the Dots

**Philanthropy**

- **Platform investments** to enable shared value approaches:
  - Educate
  - Research
  - Invest in enabling assets and infrastructure
  - Incubate

**Corporate Social Responsibility (CSR)**

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

**Creating Shared Value (CSV)**

- Address societal needs and challenges with a **business model**
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
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 Company Strategy
### Whole Foods Markets

<table>
<thead>
<tr>
<th>Value Proposition</th>
<th>Distinctive Activities</th>
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| • 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 | • 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

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<thead>
<tr>
<th>Traditional Positioning</th>
<th>New Positioning</th>
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<tbody>
<tr>
<td>Nestlé</td>
<td>• Nutrition Company</td>
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<tr>
<td>• Food and Beverage Company</td>
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<tr>
<td>Nike</td>
<td>• Health and Fitness Company</td>
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<td>• Footwear and Apparel Company</td>
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<tr>
<td>Thermo Fisher</td>
<td>• Making the World Healthier, Cleaner, and Safer</td>
</tr>
<tr>
<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