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

We need a new approach
The Role of Business in Social and Environmental Issues

Evolving Approaches

- Donations to worthy social causes
- Volunteering

Philanthropy
The Role of Business in Social and Environmental Issues
Evolving Approaches

**Philanthropy**
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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 Social and Environmental Issues
Evolving Approaches

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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

Philanthropy
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
- Environmental impact also improved
Social deficits and environmental impact create economic costs for companies.

- **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 and regional business environment
   – Improving skills, the supplier base, the regulatory environment, and supporting institutions
   – Strengthening the cluster on which the company depends

• 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
- 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
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 business in 2012, representing 25% of the company’s revenues

• Largest source of company growth over the past two decades
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 and integration of native habitat to dramatically reduce the land required in cultivation

• 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 traditional plantation methods

• Small scale producers currently contribute 27% of the raw materials utilized in Fibria mills, improving efficiency while 4000 households have significantly increased their income
Shared Value 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
Identifying Opportunities for Shared Value in the Value Chain

**Mining**

- Enhancing skill training partnerships with local colleges and universities
- Qualifying local suppliers
- Value added purchasing practices with suppliers

**Firm Infrastructure**
(e.g., Financing, Planning, Investor Relations)

- Human Resource Management
(e.g., Recruiting, Training, Compensation System)

- Technology Development
(e.g., Product Design, Testing, Process Design, Material Research, Market Research)

- Procurement
(e.g., Components, Machinery, Advertising, Services)

**Exploration**

- Mine Acquisition & Development

- Mine Operations

- Processing

- Outbound Logistics

- Sales & Marketing

- After-Sales Customer Support

**Margins**

- Recruiting from disadvantaged surrounding communities
- Employee education and job training
- Enabling nearby family housing
- Employee health initiatives

- Energy and water use
- Limiting emissions and waste
- Minimizing use and effects of hazardous materials
- Recovering additional materials from “exhausted” mines
- Worker safety practices

- Minimizing logistical and handling impacts
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

Reconceiving Products and Markets
• Portfolio of the appropriate and affordable medicines drawn from the company’s patented, generics, and over-the-counter (OTC) businesses
• Packaging of OTC medicines to reflect consumers’ limited spending power

Redefining Productivity in Value Chain
• Localized sales teams that know the culture and speak the dialect, understand needs and reduce mistrust
• A dense network of local distributors to reduce stock-outs

Enabling Local Cluster Development
• Community health education programs to address lack of health-seeking behavior
• Frequent health camps for physicians in rural areas
• Microfinance partners to improve healthcare delivery infrastructure and access to working capital
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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<tr>
<td><strong>Philanthropists</strong></td>
<td>• Donate to charitable causes</td>
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<td><strong>NGOs</strong></td>
<td>• Receive grants to deliver social services</td>
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<tr>
<td><strong>Governments</strong></td>
<td>• Tax and regulate business; operate social programs</td>
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<tr>
<td><strong>Companies</strong></td>
<td>• Donate to charitable causes or ESG programs</td>
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Connecting the Dots Within the Company

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

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

- 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**
**Shared Value and Company Strategy**  
**Whole Foods Markets**

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<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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<tr>
<td><strong>Nestlé</strong></td>
<td>• Food and Beverage Company</td>
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<tr>
<td><strong>Thermo Fisher Scientific</strong></td>
<td>• Scientific and Laboratory Instruments Company</td>
</tr>
<tr>
<td><strong>Nike</strong></td>
<td>• Footwear and Apparel 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”

**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 economic value while creating shared value for society.

- 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 strategy and economic value creation and 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.