Creating Shared Value: The Path to Economic and Social Prosperity for Birmingham

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The Role of Business in Society

• Only business can create economic prosperity, through meeting needs at a profit

• Societies everywhere are facing significant social, environmental and economic development challenges

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

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

We need a new approach
The Role of Business in Social and Economic Development

Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering
The Role of Business in Social and Economic Development
Evolving Approaches

**Philanthropy**
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- Volunteering

**Corporate Social Responsibility (CSR)**
- Compliance with community standards
- Good corporate citizenship
- “Sustainability”
- Mitigating risk and harm
- Improving trust and reputation
The Role of Business in Social and Economic Development
Evolving Approaches

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Creating Shared Value (CSV)

- Addressing societal needs and challenges with a business model
- Social deficits and environmental impact create economic costs for companies.
- Community weaknesses affect company productivity.
- Social needs represent the largest unserved market opportunity.
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 that affect the business
   – Strengthening the cluster on which the company depends

• Strengthens the link between company success and community success
Shared Value in Products
Dow Chemical

- Dow recognized that global social issues represent its largest market opportunities
- Created the “Breakthroughs to World Challenges” Program
  - Each business unit was challenged to apply Dow’s tradition of “solutionism” through innovation to a range of global problems inspired by the Millennium Development Goals

- One of Dow’s business units 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, raising farmer and farmland productivity
- The oils have longer shelf life and usage life for food processors

- Has become one of Dow’s largest selling product lines, with 2012 total revenues of approximately $700 million
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

• Over 1,900 IHG hotels are using the Green Engage **tools** to enhance environmental and economic performance

• IHG hotels have achieved energy savings of **up to 25%** to date, and other improvements are following

• Environmental performance also **differentiates** IHG hotels with consumers and corporate clients
Improving the Local Business Environment

• Companies, working individually and collaboratively, can catalyze major improvements in the local business environment in the regions where they have major operations
  – E.g., skills availability, supplier availability, supporting institutions, infrastructure, and regulatory framework

• Building a strong local cluster in its field improves company productivity while raising regional competitiveness
  – This strengthens the link between a company’s success and community success
Shared Value in 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 **165 countries** in ICT skills
- 70% of graduates have attained a **new job**, or a **better job** at their existing employer
- The Networking Academy has alleviated a **key workforce constraint** for not only the company but for Cisco customers, increasing industry growth
- The program strengthens Cisco’s **relationships** with suppliers, customers and government
Driving Economic Development: The Role of Anchors

- **Core Product / Service Provider**
  - Tailor core products / services to serve the community

- **Purchaser**
  - Direct institutional purchasing toward local businesses

- **Community Infrastructure Developer**
  - Build local community capacity

- **Real Estate Developer**
  - Use real estate development for local economic growth

- **Cluster Anchor**
  - Stimulate growth of related businesses and institutions

- **Employer**
  - Offer employment opportunities to local residents

- **Workforce Developer**
  - Address local workforce needs

- **Economic & Community Vitality**
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 delivering 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**
- “Brand” solo social initiatives
- **Partner** on business environment improvements
Creating Shared Value: Where is the Opportunity?

Nestlé

- Opportunities to create shared value are **inevitably tied closely** to a company’s particular businesses
### 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 Markets

- 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>• Nutrition, Health and Wellness Company</td>
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<tr>
<td>Food and Beverage Company</td>
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<tr>
<td>Thermo Fisher Scientific</td>
<td>• Making the World Healthier, Cleaner, and Safer</td>
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<tr>
<td>Scientific and Laboratory Instruments 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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- **A clear social purpose** opens up new opportunities for growth and profitability, while motivating and attracting consumers, business partners, employees, shareholders, and the public.
Comparative U.S. Metro Area Prosperity Performance
2001 to 2012

Real Growth in Gross Domestic Product per Capita, 2001 to 2012

Gross Domestic Product per Capita, 2012

-1.5% -1.0% -0.5% 0.0% 0.5% 1.0% 1.5% 2.0%

High but declining prosperity versus U.S.

High and rising prosperity versus U.S.

Low and declining prosperity versus U.S.

Low but rising prosperity versus U.S.

Source: Bureau of Economic Analysis
Notes: Data in 2005 constant dollars; compound annual growth rate on real values. 50 largest of 363 U.S. MSAs are displayed.
Cluster Composition of the Birmingham Economy, 2011

Change in Birmingham Share of National Employment, 2001 to 2011


Employees 2,000 = 0.5%

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Developing a Regional Economic Strategy

Regional Value Proposition

- What is the \textit{distinctive competitive position} of a geographic area given its location, legacy, existing strengths, and potential strengths?
  - What unique advantages as a business location?
  - For what types of activities and clusters?
  - What roles with the surrounding regions, countries, and the global economy?

Developing Unique Strengths

- What \textit{elements of the business environment} can be unique strengths relative to peers/neighbors?
- What \textit{existing} and \textit{emerging clusters} can be built upon?

Achieving and Maintaining Parity with Peers

- What \textit{weaknesses} must be addressed to remove key constraints and achieve parity with peer locations?

- \textbf{Priorities} and \textbf{sequencing} are a necessity in economic development
The Purpose of Business

• The 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