The New Competitive Advantage: Creating Shared Value

Professor Michael E. Porter
Harvard Business School

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The ideas drawn from "Creating Shared Value" (Harvard Business Review, Jan 2011) and "Competing by Saving Lives" (FSG, 2012). No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Michael E. Porter. For further materials, see the website of the Institute for Strategy and Competitiveness, www.isc.hbs.edu, and FSG website, www.fsg.org.
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, technology 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 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” initiatives
- Mitigating risk and harm
- Improving trust and reputation
The Role of Business in Society

Evolving Approaches

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Creating Shared Value (CSV)

- Addressing societal needs and challenges with a *business model*
  - While making a profit
• **Social deficits** and **environmental impact** create **economic costs** for companies
• **Community weaknesses** affect company productivity
• Social needs represent the **largest unserved market opportunities**
Levels of Shared Value

I. Reconceiving needs, products, and customers
   – Meeting societal needs through products and services
   – Serving unserved or underserved communities and customers

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

III. Improving the local and regional business environment
    – Improving skills, infrastructure, the supplier base, the regulatory environment, and the supporting institutions that affect the business
    – Strengthening the cluster on which the company depends
    – Improving consumer education in social areas affected by the company

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

• Dow recognized that a series of global social issues represented its largest market opportunities

• Dow created the “Breakthroughs to World Challenges” Program
  – Each business unit was challenged to apply Dow innovation to a range of global problems inspired by the Millennium Development Goals

• Dow’s agriculture business unit developed Omega-9 canola and sunflower seeds that produce cooking oil with no trans fats and low saturated fats, requires less land to grow, and has longer shelf life and usage life for food processors. Became one of Dow’s largest selling product lines, with 2012 revenues of $700 million

• Dow’s water business developed the ECO Membrane, which desalinates water with 40% greater salt reduction and 30% less energy. Sales are growing rapidly.
Shared Value in Products and Markets
Korea Telecom (KT) GiGA Island Project

• KT, Korea’s second largest mobile carrier, created the GiGA Island Project to bring the world’s fastest internet and advanced technology to Korea’s less developed remote islands

• KT is installing its GiGA internet and an extensive array of smart, connected products and systems on the Islands, focusing on solutions to improve education, culture, the economy, health care, energy, and the environment

• Meeting the needs of the Islands has stimulated innovation in KT’s integrated technology solutions that improve quality of life, while building new markets
Discovering the Shared Value in Products

- Rethink the business around **unsolved customer and societal problems or needs**, 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)
### Shared Value in the Value Chain

<table>
<thead>
<tr>
<th>Firm Infrastructure</th>
<th>Human Resource Management</th>
<th>Technology Development</th>
<th>Procurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>(e.g., Financing, Planning, Investor Relations)</td>
<td>(e.g., Recruiting, Training, Compensation System)</td>
<td>(e.g., Product Design, Testing, Process Design, Material Research, Market Research)</td>
<td>(e.g., Components, Machinery, Advertising, Services)</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Inbound Logistics</th>
<th>Operations</th>
<th>Outbound Logistics</th>
<th>Marketing &amp; Sales</th>
<th>After-Sales Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>(e.g., Incoming Material Storage, Data Collection, Service, Customer Access)</td>
<td>(e.g., Assembly, Component Fabrication, Branch Operations)</td>
<td>(e.g., Order Processing, Warehousing, Report Preparation)</td>
<td>(e.g., Sales Force, Promotion, Advertising, Proposal Writing, Website)</td>
<td>(e.g., Installation, Customer Support, Complaint Resolution, Repair)</td>
</tr>
</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 through this wages) of **lower income** employees
- Recruiting to reflect the **diversity of customers** and the **communities** where a company operates
- Others…
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%** or more, and other improvements are following

• Environmental performance **differentiates** IHG hotels with consumers and corporate clients
Shared Value in the Value Chain
Employee Health, Johnson & Johnson

• J&J introduced a corporate employee health program to improve the health of employees, increase employee productivity and decrease healthcare costs for the company

• With a focus on prevention and disease management, the redesigned health program offers:
  – Health assessment & counseling services
  – 100% coverage of preventative screenings
  – On-site fitness centers and personal training
  – Incentives and programs to encourage employees and their families to make healthy choices, and improve health literacy

• J&J has achieved substantial health improvements – in smoking, blood pressure, cholesterol control

• Medical costs have decreased by $225 per participating employee per year

• So far J&J has saved over $250M in healthcare costs, or a 270% ROI for every dollar the company has spent on the program

• Employee productivity and retention have improved
Shared Value in the Value Chain

CJ Corporation

• CJ’s food and foodservice business unit has established a joint project with government and private sector partners to enhance the capabilities of rural farmers in Vietnam that supply the company with red chili peppers.

• The project offers training in farming practices and technology, and invests in improved water infrastructure for both residential and agricultural use.

• Through the program, CJ was able to secure a stable supply of chili peppers, ensuring product quality and safety.

• The program has raised farmer incomes through improved crop quality and yield and access to a steady market.

• CJ is developing programs across all four businesses.
Shared Value Through Cluster Development

ITO EN, Japanese Tea Cluster

• ITO EN is the world's leading producer and marketer of loose leaf and bottled green tea, based on 100% locally-grown green tea leaves

• The company partners with farmers and other stakeholders to utilize abandoned agricultural land, purchasing the entire crop to lower selling costs

• The company provides assistance in modern farm management practices to growers to raise tea quality to meet ITO EN standards

• The program motivates and trains young people to take over tea growing when older farmers retire

• Farmer incomes have risen due to increased quality and efficiency

• Abandoned land by retiring farmers has been restored to production, creating jobs and attracting young people into tea farming

• Tea volume has expanded by 13% to date, providing ITO EN with adequate volume, consistent quality, and reduced production costs
Shared Value in the Local Business Environment

Hyundai-KOICA Dream Centers

• Hyundai Motor Company, in cooperation with government and NGO partners, created the Dream Center program to train auto repair technicians in developing countries.

• The first Dream Center opened in Ghana in 2013, with additional centers planned in Indonesia, Cambodia and Vietnam.

• The program is creating jobs and economic growth, as well as developing the local skills and supporting industries necessary for Hyundai to enter and grow new markets.

• The first class of 80 students will graduate in Ghana in 2015, qualified to fill jobs or open their own auto repair businesses.

• The company lowers cost because of less need for dispatching Korean repair technicians.
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, speak the dialect, and understand needs to 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 bring physicians to rural areas
- Microfinance partners to improve healthcare delivery infrastructure and access to working capital
Partnering for Shared Value

**Old Model**

**NGOs**
- Hold business accountable
- Seek donations

**Government**
- Regulate how businesses operate
- Tax businesses to pay for social services
- Operate social programs

**Foundations**
- Donate to charitable causes

**Competitors**
- “Brand” solo CSR initiatives

**New Model**

- Partner with business to **implement and scale** shared value solutions

- **Regulations** that encourage and support market solutions
- Government **purchase commitments** or incentives to jumpstart market solutions
- **Partner** on shared value solutions to delivering social services
- Invest in **infrastructure** to enable shared value approaches (e.g. roads)
- Invest **with** companies, NGOs and government in shared value solutions
- **Partner** on business environment improvements
Connecting a Company’s Social Roles

- Foundational investments to create the potential for shared value:
  - Education
  - Basic research
  - Investments in enabling assets and infrastructure

- Engaging stakeholders to collaborate on shared value solutions

- Address societal needs and challenges with a business model

Philanthropy

Corporate Social Responsibility (CSR)

Creating Shared Value (CSV)
• 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

### Shared Value and Company Strategy

**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**
## From Product to Purpose Based Strategic Positioning

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<tr>
<th>Traditional Positioning</th>
<th>New Positioning</th>
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<tbody>
<tr>
<td><strong>Nestlé</strong></td>
<td></td>
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<tr>
<td>• Food and Beverage Company</td>
<td>• Nutrition, Health and Wellness Company</td>
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<tr>
<td><strong>IBM</strong></td>
<td></td>
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<tr>
<td>• Computers and technology</td>
<td>• “Smarter Planet”</td>
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<tr>
<td><strong>Pearson</strong></td>
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<tr>
<td>• Textbook Publishing</td>
<td>• Improving Educational Outcomes</td>
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<tr>
<td><strong>Discovery Health Insurance</strong></td>
<td></td>
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<tr>
<td>• Health Insurance</td>
<td>• “Making People Healthier and Enhancing Their Lives”</td>
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- Defining the social purpose underlying a company’s products and activities opens **new opportunities** for growth and profitability, while **motivating and attracting** consumers, business partners, employees, shareholders, and the public.
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

• Realigning business practice around shared value gives greater purpose to the corporation and to capitalism itself