The Role of Business in Society: Creating Shared Value

Professor Michael E. Porter
Harvard Business School

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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 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”

- Mitigating risk and harm
- Improving trust and reputation
The Role of Business in Society
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Creating Shared Value (CSV)

- Addressing 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
- **Environmental** impact also improved
The Opportunity for Shared Value

- 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 and services
   – 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 the 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
Unlocking Shared Value in Products and Markets

• Rethink the business around unsolved customer problems or concerns, 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

**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)

**Inbound Logistics**
(e.g., Incoming Material Storage, Data Collection, Service, Customer Access)

**Operations**
(e.g., Assembly, Component Fabrication, Branch Operations)

**Outbound Logistics**
(e.g., Order Processing, Warehousing, Report Preparation)

**Marketing & Sales**
(e.g., Sales Force, Promotion, Advertising, Proposal Writing, Website)

**After-Sales Service**
(e.g., Installation, Customer Support, Complaint Resolution, Repair)

- 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
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
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
Shared Value in the Local Business Environment  
**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**.
Leveraging Shared Value Across Levels
Pharmaceuticals and Medical Devices

Reconceiving Products and Markets

• R&D for drugs, vaccines, and devices that fill unmet health needs
• Modification of existing products to reduce complexity and cost for lower income consumers and emerging markets
• Tailored product offerings to meet local market conditions

Redefining Productivity in Value Chain

• New, local supply chains and manufacturing approaches to reduce product costs
• Locally-adapted sales and distribution models to reduce cost, access new markets, and better meet patient needs

Enabling Local Cluster Development

• Behavior-change campaigns to create more educated consumer demand for health care
• Strengthening local health systems to enable the delivery of needed products and services
• Advocacy and capacity building to improve the regulatory environment

• Leading firms are beginning to design multi-level approaches to shared value that are mutually reinforcing
Partnering for Shared Value

NGOs
• Hold business accountable
• Seek donations

Government
• Regulate how businesses operate
• Operate social programs
• Tax businesses

Foundations
• Donate to charitable causes

Competitors
• “Brand” solo social initiatives

- Partner with business to implement and scale shared value solutions
- 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)
- Invest with companies, NGOs and government to enable shared value solutions
- 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.
Shared Value Opportunities in Banking: Regions Financial

I: Reconceiving customer needs, products, and markets
   – Serve unbanked and under-banked consumers
   – SME lending and business services
   – Real estate lending with a focus on community projects with broader effects
   – Financing affordable housing
   – Offering financial instruments that advance environmental and social progress (e.g., loans repaid with energy savings)

II: Redefining productivity in the value chain
   – Local procurement
   – Hiring and training
   – Energy and resource efficiency

III: Improving the local and regional business environment
   – Financial literacy education
   – Leveraging facility locations as anchors
   – Skill development programs in partnership with universities, technical schools or community colleges to improve the pipeline of prospective employees in shortage areas
   – Leadership in regional competitiveness improvement
## 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

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<th>Traditional Positioning</th>
<th>New Positioning</th>
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<td><strong>Nestlé</strong></td>
<td>• Nutrition, Health and Wellness Company</td>
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<tr>
<td>• Food and Beverage Company</td>
<td>• Making the World Healthier, Cleaner, and Safer</td>
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<tr>
<td><strong>Thermo Fisher Scientific</strong></td>
<td>• Health and Fitness Company</td>
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<td>• Scientific and Laboratory Instruments Company</td>
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<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

• 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